



<b>1. Project Data:</b>		<b>Date Posted :</b> 03/10/2004	
<b>PROJ ID:</b> P044324		<b>Appraisal</b>	<b>Actual</b>
<b>Project Name:</b> Enterprise Development	<b>Project Costs (US\$M)</b>	52.25	42.11
<b>Country:</b> Zambia	<b>Loan/Credit (US\$M)</b>	45.00	42.06
<b>Sector(s):</b> Board: FSP - General industry and trade sector (96%), Banking (3%), Other domestic and international trade (1%)	<b>Cofinancing (US\$M)</b>	7.25	n.a.
<b>L/C Number:</b> C2955			
	<b>Board Approval (FY)</b>		97
<b>Partners involved :</b>	<b>Closing Date</b>	06/30/2002	06/30/2003
<b>Prepared by :</b>	<b>Reviewed by :</b>	<b>Group Manager :</b>	<b>Group:</b>
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<b>2. Project Objectives and Components</b>			
<b>a. Objectives</b>			
The overall objective was to aid and facilitate investment in internationally competitive economic activities, specifically:			
1) to enhance local firms' technical know-how by providing demand-driven technical assistance (TA) in the form of matching grants;			
2) to enhance local firms' access to finance by providing a long-term facility for investments and a short-term credit line for exporters; and			
3) to strengthen the financial system and availability of information resources by providing TA : (i) to help strengthen the institutional underpinnings of the financial system - wholesale, retail, and regulatory - ; and (ii) to create a common and easily accessible information and data base with modern tools for entrepreneurs, through the Export Board of Zambia (EBZ).			
<b>b. Components</b>			
There were three components:			
1) A Matching Grant Scheme (MGS) to stimulate the use of support services to assist firms in their reorientation towards international markets by injecting technical and managerial know-how (US\$2.8 million).			
2) A Multipurpose Credit Facility (MCF), including an Investment Credit Facility (ICF) for long- and medium-term loans to finance investments (US\$30.0 million), and an Export pre-shipment Credit Facility (EPF) for short-term loans to finance production for exports (US\$10.0 million).			
3) Institutional development supported by TA to financial institutions and the EBZ . The TA component comprised seven sub-components: (i) training to commercial banks for project evaluation and export transactions; (ii) matching grants to commercial banks to modernize their operations; (iii) TA to the State-owned Zambia National Commercial Bank (ZNCB) to help restructure its operations; (iv) TA to the Apex entity; (v) TA for the implementation of MGS; (vi) TA to the Bank of Zambia (BOZ) to enhance its supervision capabilities; and (vii) TA to EBZ to establish a global information data base with modern tools (US\$1.95 million). [US\$0.25 million was unallocated]			
<b>c. Comments on Project Cost, Financing and Dates</b>			
The closing date was extended by one year, to June 30, 2003, because project's effectiveness was delayed by 10 months and because of slow use of funds under the MCF during the first 2-3 years of operation due to 3 reasons: (i) uncertain macro situation; (ii) Participating Financial Intermediaries (PFI) hesitation to communicate information to Citibank, which was acting as temporary apex; and (iii) private firms and PFIs were hoping that GOZ and the Bank would agree on improved lending terms by assuming the credit risk . However, the credit line component was fully disbursed 6 months prior to closing.			
<b>3. Achievement of Relevant Objectives:</b>			
The first objective was only partially achieved because of limited interest by local firms due to a poor macro situation at the beginning of the operation, to the relative complexity of the scheme for small businesses, and a lack of			

corporate depth in Zambia.

The second objective was achieved with about 15% of total private sector lending in the country being funded by the MCF.

The third objective was substantially achieved with institutional capacity raised at BOZ and at commercial banks, but not at EBZ.

#### 4. Significant Outcomes/Impacts:

The MCF facilities led to the following: (i) the establishment of a sustainable mechanism to channel investment funds to small firms - now used by other donors; (ii) creation of 6,000 direct jobs; and (iii) diversification from traditional mining activities, notably in agriculture and agro-processing where small firms dominate. A measure of success of the credit lines is the substantial portion of credit to the private sector that continues to be channelled via the MCF facilities.

Gross domestic investment as percentage of GDP has consistently increased during the project period; although it is not known to what extent the success of the MCF is responsible for this, it certainly contributed.

Strengthening of the regulatory functions of the Central Bank and of its capacity to perform Apex functions effectively for lines of credit from different donors.

Strengthening of commercial banks' capacity to extend term finance, including their capacity to evaluate projects and risks.

#### 5. Significant Shortcomings (including non-compliance with safeguard policies):

The lack of a full understanding of the conditions required for MGS to be successful partly explains the limited success of the scheme in this case. This is all the more regrettable that this component and its corresponding objective were the ones with a true reform content, by seeking to reorient Zambian firms toward international markets and strengthen both their technical and managerial know-how. Also, the scheme lacked a strong M&E mechanism. It was unfortunate that circumstances dictated the choice of a commercial bank (Citibank) as temporary Apex entity.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
<b>Outcome:</b>	Satisfactory	Satisfactory	
<b>Institutional Dev.:</b>	Substantial	Substantial	
<b>Sustainability:</b>	Likely	Likely	
<b>Bank Performance:</b>	Satisfactory	Satisfactory	
<b>Borrower Perf.:</b>	Satisfactory	Satisfactory	
<b>Quality of ICR:</b>		Satisfactory	

**NOTE:** ICR rating values flagged with '\*' don't comply with OP/BP 13.55, but are listed for completeness.

#### 7. Lessons of Broad Applicability:

The success of MGS depends on solid ESW and market investigation prior to appraisal and on continuous advice during supervision. In addition, MGS must be accompanied by well planned M&E mechanisms.

The success of lines of credit depends largely on solid ESW and a thorough analysis of the conditions prevailing in the private sector.

#### 8. Assessment Recommended? ☒ Yes ☐ No

**Why?** To evaluate the relative merits and successes of the MGS and MCF facilities of the project in order to derive lessons of broad applicability regarding the design of support and credit components in similar operations.

#### 9. Comments on Quality of ICR:

The ICR is of good quality but would have benefitted from editing.