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PROJECT COMPLETION REPORT

ZAMBIA

AGRICULTURAL REHABILITATION PROJECT
(CREDIT 1545-ZA: A5-ZA)

FEBRUARY 19, 1992

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Agriculture Operations Division
Country Department VI
Africa Regional Office

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CURRENCY EQUIVALENTS

Currency Unit = Zambia Kwacha (ZK)

| | <u>ZK/US\$ 1/</u> |
|------|--------------------------|
| 1984 | 1.7 |
| 1985 | 2.0 |
| 1986 | 7.5 |
| 1987 | 8.0 |
| 1988 | 8.0 |

1/ Annual averages

ABBREVIATIONS AND ACRONYMS

| | |
|----------|--|
| AfDB | African Development Bank |
| BOZ | Bank of Zambia |
| CIDA | Canadian International Development Agency |
| GRZ | Government of the Republic of Zambia |
| MOA | Ministry of Agriculture |
| MOF | Ministry of Finance |
| Namboard | National Agricultural Marketing Board |
| PIC | Project Implementation Committee |
| PIU | Project Implementation Unit |
| USAID | United States Agency for International Development |
| ZCF | Zambia's Cooperatives Federation |

GOVERNMENT FISCAL YEAR

January 1 - December 31

Office of Director-General
Operations Evaluation

February 19, 1992

MEMORANDUM TO THE EXECUTIVE DIRECTORS AND THE PRESIDENT

SUBJECT: Project Completion Report on ZAMBIA - Agricultural
Rehabilitation Project (Credit 1545-ZA; A5-ZA)

Attached, for information, is a copy of a report entitled "Project Completion Report on Zambia: Agricultural Rehabilitation Project (Credit 1545-ZA; A5-ZA)" prepared by the Africa Regional Office. No audit of this project has been made by the Operations Evaluation Department at this time.

Attachment

A handwritten signature in black ink, appearing to be 'L. Appa', is written over the word 'Attachment'.

PROJECT COMPLETION REPORT

ZAMBIA

AGRICULTURAL REHABILITATION PROJECT
(CR 1545-ZA; A5-ZA)

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PROJECT COMPLETION REPORT
ZAMBIA
AGRICULTURAL REHABILITATION PROJECT
(CR 1545-ZA; A5-ZA)

PREFACE

This is a Project Completion Report (PCR) for the Agricultural Rehabilitation Project in Zambia, as modified in February 1986, for which Credit 1545-ZA in the amount of SDR 24.7 million was approved on March 8, 1985. It became effective on August 10, 1985. On November 1, 1985 a supplementary credit A5-ZA in the amount of SDR 9.7 million from the Special Facility for Sub-Saharan Africa (the African Facility) was approved. It became effective on December 9, 1985. The project objectives were modified substantially in February 1986 when, at Government's request, the Bank agreed project funds to be used to support exchange rate reform through foreign exchange auctions. Both Credits closed on June 30, 1988, with undisbursed amount of SDR 0.84 million for the IDA Credit and SDR 0.15 million for the African Facility. These balances were canceled.

The first draft of Parts I and III of this PCR was prepared by staff of the FAO/World Bank Cooperative Program. The final version was prepared by the staff of the Africa Region, Southern Africa Department, Agriculture Operation Division. The PCR is based, *inter alia*, on the Staff Appraisal Report; the Credit, Guarantee, and Project agreements; supervision reports; correspondence between the Bank and the Borrower; and internal Bank memoranda.

Part II of the PCR was prepared by the Borrower. The PCR was sent to all co-financiers but only the African Development Bank, USAID, and the Government of the Netherlands responded. The co-financiers' comments are contained in Attachment 1 hereto.

PROJECT COMPLETION REPORT

ZAMBIA

AGRICULTURAL REHABILITATION PROJECT
(CR 1545-ZA; A5-ZA)

EVALUATION SUMMARY

Project Objectives and Description

1. The primary objectives of the project originally were to stimulate agricultural growth in order to increase rural incomes and diversify the economy from the heavy dependence on mining. The project sought to achieve these objectives through: (a) supporting policy reforms related to prices and marketing of agricultural commodities, notably maize, and inputs, notably fertilizers; and (b) improving availability of key imported inputs, notably farm machinery and implements, so as to enable farmers to respond to policy reforms (para 5). The project objectives were consistent with the main constraints on the sector and the design was appropriate relative to the objectives. The objectives and design were changed substantially soon after the project got underway when it was decided to use the project funds to support exchange rate reforms, through a weekly auction of foreign exchange, and to allow project funds to be used for all imports subject to a short negative list (para 7). From then on, the project ceased to be an agricultural operation except with regard to the sectoral policy reforms.

Implementation Experience

2. The implementation arrangements as envisaged at appraisal were sound and realistic, given the project objectives at the time. They too were changed substantially after the decision to channel project funds through the foreign exchange auctions (paras 8 and 9). This created major difficulties in documenting the end-use of the project funds and preparing accounts and audit reports (para 32).

3. Disbursement progress was initially slow. The demand for and disbursement of project funds increased substantially after the decision to use the project funds for all imports and, by the closing date, only a negligible amounts of IDA and African Facility funds remained undisbursed (para 10). However, it is estimated that only about a third of the project funds went to agriculture. A fundamental reason for this outcome is that maize constitutes the overwhelming part of Zambia's agriculture and, since maize prices continued to be controlled, the bulk of the agricultural sector, unlike the other sectors, could not freely pass on to consumers the high cost of imported inputs resulting from depreciation of the Kwacha; therefore, compared to the other sectors, agriculture was ill placed to compete for project funds at the foreign exchange auctions (para 17).

4. A significant amount of the Swiss and Japanese funds, which were administered by IDA, remained undischursed (para 2). The low disbursement of the Swiss funds was entirely due to the curtailment of the project period by about a year, following the abandonment of the reform program in May 1987. The low disbursement of the Japanese funds was mainly due to the fact that the use of these funds was restricted to agricultural transport items the effective demand of which was seriously depressed by the sharp depreciation of the Kwacha while maize prices continued to be controlled (para 11). The closing dates of the agreements for these funds have been extended; the Swiss funds are expected to be fully disbursed by June 1992 and the Japanese funds by October 1992.

5. Before the Government abandoned the reform program in mid-1987, good progress had been made in implementing the policy changes envisaged under the project (para 12), and in complying with various covenants stipulated in the Development Credit and Project Agreements (Table 8). The abandonment of the program was precipitated by a major social unrest, following announcement of policy to decontrol prices of the "breakfast" maize meal, consumed mostly by the high-income groups, and to shift subsidies for the "roller" maize meal, consumed mostly by the poor, from the marketing parastatal and cooperatives to millers. The unrest was exacerbated by Government's failure to ensure that firm implementation arrangements regarding payment of roller meal subsidies to millers were in place before announcing the policy change. Faced with the uncertainties on the issue, many of the millers stopped producing roller meal. The result was a socially explosive situation as the prices of breakfast meal more than doubled overnight while at the same time serious shortages of roller meal became wide-spread (para 13).

6. The abandonment of the program was accompanied by a general reversal of previous policy reforms and de-privatization of all except the small maize mills, and suspension of Zambia's withdrawal rights after the country stopped servicing Bank loans (para 14).

Project Results and Impact

7. The project helped to finance imports of capital goods and spare parts, thus enhancing the country's production capacity for all sectors. During the period when the reform program was in full swing, agriculture recorded a growth rate above the normal level; and production of export and import-substitution crops increased substantially, thus helping to slow down deterioration of the country's balance of payments (para 18). Also, maize production shifted according to comparative advantages between the large commercial farmers and smallholders and between geographical areas (para 19). Reduction of subsidies helped to slow down deterioration of the country's fiscal position (para 21). Reforms to decontrol maize marketing and prices were just starting to be implemented when the Government abandoned the entire reform program. Had the reforms been allowed to run their full course, the project impact would have been much more positive.

8. It has not been considered meaningful to attempt a calculation of an ex-post economic rate of return, given the difficulties in determining accurately the end-use of the project funds and the fact that the decision to use the project funds for general imports transformed the project into virtually a balance of payments support operation. It is, however, reasonable to expect that farmers took advantage of the inputs financed by the project to undertake investments which yielded good financial rates of return; and that, by eliminating distortions

due to currency over-valuation, the market-determined exchange rate helped to ensure that the economic rates of return were correspondingly good.

Project Sustainability

9. The project's achievements are sustainable provided that the reforms envisaged under the project are resumed and allowed to run their full course. With Bank support through the Economic Recovery Credit approved by the Bank's Board in March 1991, the Government has resumed implementation of all the policy reforms envisaged under the project (para 24). The Government's commitment now appears sufficiently strong to give reasonable expectations that the resumed reforms will be allowed to run their full course. Continued commitment to the resumed reforms has been enhanced by the fact that the reform program has incorporated measures to address the main factors which led to the abandonment of the reforms under the project. These measures include a coupon system to target maize meal subsidies to the poor and other vulnerable groups, actions to ensure that adequate maize stocks are in place before decontrolling maize prices so as to avoid sharp increases in consumer prices, and a program to expand availability of hammer mills in rural areas in order to reduce the cost of maize meal.

Findings and Lessons Learnt

10. There are three important lessons from the project. One, if socio-economic conditions under which the reforms were conceived deteriorate drastically, as it happened under this project in terms of the general cost of living, at least a crash program should be put in place to alleviate the negative impact on the affected groups (paras 25 and 33). Two, equal attention needs to be paid to implementation process as to the policy reforms per se. Had implementation mechanisms for reimbursing roller meal subsidies to millers been firmly in place before the reforms were announced, millers would not have stopped producing roller meal and the extent of the riots which led to the abandonment of the reform program would have been minimized (para 29). Three, partial liberalization among sectors may lead to allocation of resources in a manner which is inconsistent with the long-term comparative importance of the main economic sectors. Due to continued control of maize prices, agriculture could not compete successfully with the other sectors for the project funds at the foreign exchange auctions. As a result, the amount of project funds going to agriculture was proportionately less than implied by the sector's long-term importance in the economy. This was an undesirable outcome, given the urgency to accelerate agricultural development which is the main sector with long-term potential to diversifying the economy from the heavy dependence on the dwindling mining sector (paras 16, 17 and 34).

PROJECT COMPLETION REPORT

ZAMBIA

AGRICULTURAL REHABILITATION PROJECT
(CR 1545-ZA A5-ZA)**PART I: PROJECT REVIEW FROM THE BANK'S PERSPECTIVE****Project Identity**

Name : Agricultural Rehabilitation Project
Credit No. : 1545-ZA; A5-ZA
RVP Unit : Africa
Country : Zambia
Sector : Agriculture (later all sectors)

Background

1. General: The project originated from discussions between Zambian officials and an IDA mission which visited Zambia in March 1983 in connection with agricultural sector work. A follow-up IDA mission visited Zambia in August 1983 to assist the Ministry of Agriculture (MOA) with project preparation. The project was subsequently appraised in November/December 1983, negotiated in August 1984, and presented to the IDA Board in January 1985. The Development Credit and Project Agreements were signed in March 1985 and became effective in August 1985. In November 1985, IDA approved an additional credit of US\$ 10 million equivalent from the Special Facility for Sub-Saharan Africa (the African Facility). This credit became effective in December 1985. Both credits closed in June 1988 as scheduled.

2. As indicated in Table 6, other co-financiers were expected to support the project. The African Development Bank (AfDB) was expected to provide US\$ 23.4 million; the Canadian International Development Agency (CIDA), US\$ 6.8 million; the United States Agency for International Development (USAID), US\$ 5.0 million; the Swiss Government, Sfr 10 million; the Dutch Government, US\$ 3.0 million; and the Japanese Government, Yen 600 million. At the end of the project, the USAID and Dutch funds had been fully disbursed; US\$ 12 million had been disbursed from the AfDB loan, Sfr 8.3 million from the Swiss funds, only Yen 90 million from the Japanese funds, and nothing from the CIDA funds.^{1/} The Swiss and Japanese funds were administered by IDA and the reasons why they were not fully disbursed are given in para 11 below.

^{1/} AfDB funds were fully disbursed in 1991 and amounted to US\$30.5 million

3. **Sectoral Context:** A major concern at appraisal was that, for many years, the growth of Zambia's agriculture remained far below its potential. Despite a climate generally favorable for the cultivation of a wide range of crops, only about 12 million hectares or 20% of total arable land was cultivated. Total agricultural output was growing at only 1% per annum compared to annual population growth of 3%. The country was becoming increasingly dependent on imported food. The contribution of agriculture to real GDP had declined to about 11% from 14% at Independence twenty years earlier. The economy depended overwhelmingly on the mining sector which faced a grim future in view of declining volume of copper deposits and quality of copper ore. The Government's overall objectives for agriculture sought to accelerate the development of the sector in order to increase rural incomes and diversify the economy from the heavy dependence on mining. The sector's contribution to these objectives remained disappointing due to several constraints.

4. These constraints included inappropriate pricing policy, particularly for maize which is by far the most important crop; over-valued currency; inefficiencies in output marketing and input distribution system; heavy maize and fertilizer subsidies; and shortage of farm machinery, implements, and other imported inputs. Maize producer prices were kept low while consumer prices were heavily subsidized to provide cheap food for the urban population. The level of subsidies, combined with pan-territorial prices, distorted the cropping patterns, reduced efficiency of resource use, and strained the fiscal position to the extent that left essential agricultural services with little budgetary funds especially for recurrent expenditures. The marketing of the major crops and distribution of inputs, notably fertilizers, were monopolized by a parastatal, the National Agricultural Marketing Board (Namboard), and co-operatives, thus stifling competition and efficiency. Due to a severe strain on the budgetary resources, the operations of both Namboard and cooperatives were seriously hampered by increasing delays in the release of subsidies and by the fact that, when they were eventually released, subsidies were frequently inadequate to cover output marketing and input distribution costs. With the collapse of copper prices in 1975 and subsequent escalation of oil prices, the country faced a persistent deterioration in the balance of payments. Foreign exchange constraint inhibited importation of critical agricultural inputs, notably farm machinery, implements, crop-protection chemicals, and packaging materials. The Agricultural Rehabilitation Project was designed to address some of the above constraints.

Project Objectives and Description

5. The primary objectives of the project originally were to stimulate agricultural growth in order to increase rural incomes and diversify the economy from the heavy dependence on mining. The project was to achieve these objectives through measures to improve the policy framework for the agricultural sector; and to ensure availability of key imported inputs so as to enable farmers to respond positively to the improved policy framework. The policy reforms centered on enhancing efficiency of the output marketing and input distribution system through: (a) developing and adopting a methodology for relating producer prices to the border-price equivalents, regionally differentiated to reflect varying regional comparative advantages; (b) decontrolling wheat prices immediately; (c) phasing out maize and fertilizer subsidies over a period of three years after which full private sector's participation would be allowed in the marketing of all agricultural commodities and fertilizer distribution trade; (d) improving efficiency of Namboard and cooperative; and (e) adjusting charges for the Government tractor hire services to full-cost recovery. To ensure availability of key imported inputs, the project funds were to finance mainly tractors, farm machinery and implements,

spare parts, and animal drawn implements. Other items to be financed by the project comprised small-scale irrigation pumps and fittings, farm trucks and trailers, hand tools, various crop protection chemicals and herbicides, and packaging bags for fertilizers and grains.

6. The project also financed consultant services to carry out studies on maize marketing and fertilizer distribution, and ways and means to improve the efficiency of Namboard and cooperatives. Given the extraordinarily high consumption of fertilizers in the country, the project was also to finance a study to identify the factors underlying the situation and how to address them. It also supported establishment of a fund, the Swiss Kwacha Fund (SKF), from the local currency generated by the Swiss contribution to the project and intended to finance local costs of selected agricultural projects.

7. The project objectives and design were based on the understanding that the project was solely an agricultural operation and would be disbursed over a three-year period. The project objectives and design were substantially changed within six months when, to ensure adequate funds for the weekly foreign exchange auctions, the Bank in February 1986 agreed to a Government request to channel the project funds through the auctions and to allow the funds to be used for all imports. The objectives of the project were thus changed to support the exchange rate reform which was the central goal of the Industrial Reorientation Project (Cr 1630-ZA) and which sought to achieve market-determined exchange rate through a weekly auction of foreign exchange. From there on the project funds were channelled through the foreign exchange auctions, pooled with funds from the Industrial Reorientation Project and several other sources, and, except the Japanese funds (para 11), used to finance all imports subject to a short negative list. These changes, which had not been foreseen at appraisal, fundamentally altered the project design and objectives to the extent that, from then on, the project ceased to be an agricultural operation except with regard to the sectoral policy reforms. The project became essentially a balance of payments support operation.

Project Organization

8. The organization and management arrangements as envisaged at appraisal were intended to ensure that the project funds will be used only for agreed agricultural inputs and adequate documentation will be maintained to show the end-use of the project funds. The primary responsibility for allocating foreign exchange funds and ensuring proper documentation of the end-use of the project funds rested with the Bank of Zambia (BOZ) where a Project Implementation Unit (PIU) was set up specifically for the project. The Ministry of Agriculture (MOA) was responsible for implementing the policy reforms and related studies. A Project Implementation Committee (PIC), composed of representatives from the relevant agencies, was set up as required. The most important function of PIC was to ensure that the project funds were used for the intended goods. To this end, PIC was to screen and approve applications for foreign exchange from interested importers. To qualify for allocation of foreign exchange, applications were to include only the goods specified under the project and provide sufficient information to facilitate, among other things, accurate documentation of the end-use of project funds. Importers were required to submit to PIU reports on the type of goods eventually delivered into the country.

9. Since a cardinal objective of the foreign exchange auction was to make it function as closely as possible to a free market system, the above implementation arrangements were

discarded or proved impossible to comply with after the decision to channel the project funds through auctions. From there on, attention focussed on ensuring that enough funds were available to meet the amounts needed at the weekly auctions, items in the negative list were excluded, and bidders deposited the required Kwacha amounts and paid to BOZ the Kwacha equivalent of the involved foreign exchange. PIU's main task became simply to maintain a record of the auction proceedings, notably the amounts of funds sold, the market clearing exchange rate, and amounts of foreign exchange to be credited to the accounts of the winning bidders. One of the results from these changes was major difficulties in documenting the end-use of the project funds, the only ascertainable fact being that US\$ 10 million was used to finance oil imports and about US\$ 300,000 was used for studies (para 32).

Project Implementation

10. General: The project effectiveness was behind schedule by two months. This delay was due to problems in finalizing the staffing of the Project Implementation Unit and the terms of reference for the maize marketing and fertilizer distribution study. The studies were completed after a short delay. Because inputs financed by the project were to be procured by a wide range of private trading houses, the normal Bank's procurement procedures were not required and importers were free to procure goods through normal commercial channels. Disbursement progress was initially slow partly because the project funds became available late in the planting season. Following the changes to allow the project funds to finance general import, the demand for and disbursement of project funds increased to the extent that by the time Zambia's withdrawal rights were suspended in May 1987 virtually all IDA funds had been fully committed. By the time the project closed in June 1988, only SDR 0.84 million from the IDA Credit and SDR 0.15 million from the African Facility remained undisbursed and were therefore canceled.

11. As indicated in para 2 above, about 17% of the Swiss and 85% of the Japanese funds, which were administered by IDA under the Special Facility for Africa, remained undisbursed. The low disbursement of the Swiss funds was entirely due to the curtailment of the project period by about a year, following the abandonment of the reform program in May 1987. While the curtailment of the project period was a contributing factor, the low disbursement of the Japanese funds was mainly due to the fact that their use, as specified in Schedule 1 to the Grant Agreement, was restricted to agricultural transport items. This impacted negatively on the use of these funds as the sharp depreciation of the Kwacha, combined with controlled producer maize prices, severely depressed the effective demand for imported agricultural inputs relative to other imports (para 17). Following the resumption of the reform program by the Government of Zambia early in 1991, the closing dates of the respective agreements for the Swiss and Japanese funds have been extended. The Swiss funds are expected to be fully used by June 1992 on mining equipment. With decontrol of agricultural producer prices under the recent Economic Recovery Credit, the demand for imported agricultural inputs is expected to increase and the Japanese funds are expected to be fully used by October 1992 in accordance with the Grant Agreement.

12. Policy Reforms: Table 4 summarizes implementation progress of policy reforms and related actions as set out in the Development Credit Agreement. Before the Government abandoned the reform program in mid-1987, good progress was being made in implementing the policy changes envisaged under the project. Maize subsidies were reduced as agreed in 1985 and 1986; official producer prices for other crops became floor prices and private

traders were allowed to deal in the marketing of these crops. A methodology relating prices to the border-price equivalents was developed and adopted but its application was rendered impossible by the sharp and frequent changes in exchange rates under the weekly auctions. Fertilizer subsidies were reduced as agreed in 1985 but less than agreed in 1986. Charges for the Government tractor hire services were adjusted during the first two year but continued to fall below the agreed levels in the face of sharply increasing fuel and other operating expenditures as a result of the depreciation of the Kwacha. Implementation of the recommendations of the study aimed at facilitating private sector's participation in maize marketing and fertilizer distribution was just starting when the entire reform program was abandoned.

13. The abandonment of the reform program was precipitated by major social unrest and riots, following a simultaneous announcement of two reforms. One of these reforms involved immediate decontrol of consumer prices of the premium quality maize meal, known in Zambia as breakfast meal, which is consumed mostly by the high-income groups. The second involved shifting the subsidies on the lower-quality type of maize meal, known as roller meal and consumed mostly by the poor, from Namboard and cooperatives to millers. These changes were consistent with the recommendations of the maize marketing study. Unfortunately, the Government announced these policy changes before firm arrangements were in place as to how, when and by whom millers would be reimbursed subsidies related to roller meal. Faced with these uncertainties, most of the private millers stopped producing roller meal. The result was a socially explosive situation as the prices of breakfast meal more than doubled overnight while at the same time serious shortages of roller meal became widespread.

14. The abandonment of the reforms was accompanied by a general reversal of previous policy reforms, including the abandoning of foreign exchange auctions, with the exchange rate fixed at about a third of the level attained in the last auction; rescinding decontrol of breakfast meal prices; and de-privatizing all except the small maize mills. However, measures concerning the marketing and pricing of crops other than maize were maintained. In addition, Zambia's withdrawal rights were suspended in May 1987 because the country stopped servicing bank loans and credits.

15. The Swiss Kwacha Fund (SKF): SKF was to be administered by a Kwacha Fund Committee under the chairmanship of the Permanent Secretary of MOA. It was to be used to support agricultural projects and programs, including credits, as may be proposed by MOA for the benefit of the relatively smaller smallholders. Due to documentation problems, it was not until towards the end of 1986 that the Fund was funded with some K 33 million. Only K 6 million was utilized, all for credit, by the time the Government abandoned the reform program. As a result, the balance of some K 27 million has since been lying in an interest-free account at BOZ. Largely because of frequent staff changes, the officials concerned with the use of the Fund have not been aware of its existence.

Project Results and Impact

16. Availability of Imported Inputs: Project funds enabled the country to finance imports of capital goods, including essential spare parts, as well as raw materials for all sectors. This helped to enhance the country's production capacity. Due to lack of documentation, it is not possible to accurately ascertain the end-use of most of the project funds among various sectors. General indications suggest that only about a third of the project funds went to agriculture. Consequently, the project impact on improving availability of imported inputs in agriculture fell far below appraisal expectations. This is attributed to two factors. Based on estimated annual demand for inputs to be financed by the project, appraisal envisaged a three-year disbursement period whereas the decision to use the project funds to support the foreign exchange auctions transformed the project into a quick-disbursing operation. A more fundamental factor, conveyed by commercial farmers' representatives and importers of agricultural inputs, is that the bulk of agriculture could not successfully compete for funds with the other sectors at the foreign exchange auctions for the reasons indicated in the following paragraph.

17. The bulk of agriculture consists of maize production which uses most of the imported capital and recurrent inputs in agriculture. To ease the negative effects of the policy reforms on the poor, the Development Credit Agreement provided for elimination of maize subsidies over a period of three years after which maize prices and marketing would be decontrolled. Meanwhile, between the introduction of the foreign exchange auctions in October 1985 and the next cropping season in 1986, the Kwacha depreciated by more than fivefold; before the following cropping season in 1987, it had depreciated by tenfold. Since maize prices continued to be controlled at levels determined long before the cropping season, the bulk of agricultural producers, unlike the suppliers of the industrial and other commodities, could not freely pass on to consumers the higher costs of inputs arising from the sharp depreciation of the Kwacha. The result was a depressed effective demand for imported agricultural inputs relative to other imports.

18. Agricultural Production: During 1986 when the reforms under the project were in full swing, the sector grew at rate well above the normal level. In real terms, the sector grew by about 8.7% between 1985 and 1986, compared to about 3.5% between 1983 and 1985. General observations and information from farmers and importers suggest that most of the project funds going to agriculture were used to expand the production of export and import substitution crops whose domestic prices were not controlled. These included wheat, groundnuts, sorghum and horticultural products. Import substitution crops such as wheat and sorghum benefitted significantly from both the decontrol of domestic prices and the sharp depreciation of the Kwacha. They recorded sharp increases during the project period, with wheat production increasing by about 250% and sorghum by 300% between 1985 and 1987. Mainly due to technical constraints in the form of poor seeds, the production of one of the other major import-substitution crop, sunflower, continued to decline. Export crops, notably groundnuts, tobacco and horticultural products similarly benefitted from price decontrol and depreciation of the Kwacha. Groundnut production rose by about 330% while tobacco rose by 40% between 1985 and 1987. However, primarily due to depressed world prices and high costs of agro-chemicals, production of one of the major export crops, seed cotton, did not increase significantly.

19. With regard to maize, production remained heavily dependent on weather conditions. Compared to the year before the project, maize production increased by 10% in 1986 but

declined by 6% in 1987. The reforms under the project brought about two important structural changes. First, the high cost of imported inputs as a result of the depreciation of the Kwacha reinforced a shift from the large commercial farmers to smallholders who use much less imported inputs in maize production compared to commercial farmers. It is estimated that smallholders' share of the total maize production increased by about 7% during the project period. This shift was in line with comparative efficiency between the two farming systems in terms of domestic resource cost. Second, reduction of subsidies and prevalence of some regional differentiation of maize consumer prices changed relative costs and benefits, leading to shifts in maize production towards the maize-deficit provinces. For example, as a proportion of total production, maize output in the Copperbelt rose threefold and in the Western Province by about 30% between 1985 and 1987; other maize-deficit provinces which recorded a favorable shift in maize production during the period included Northern, Northwestern and Luapula. The shifts were accompanied by increase in the production of other grains, notably millet, better suited to some of the maize-deficit areas.

20. Had the reforms been allowed to run their full course, leading to complete decontrol of maize and fertilizer prices, with full participation by the private sector in maize and fertilizer trade, distortions and inefficiencies in the use of resources would have been eliminated. The above structural changes would have been advanced further and aggregate agricultural production increased much more.

21. Reduction of Subsidies and Budgetary Impact: Although consumer maize and producer fertilizer prices were increased appreciably, the gap between costs incurred and prices received by Namboard/cooperatives continued to widen as inflation rose. Consequently, total subsidies did not decline as envisaged at appraisal. However, the situation would have been worse in the absence of the actions taken under the project to reduce subsidies in 1985 and 1986. This conclusion is vindicated by the facts that whereas, as a percentage of Government expenditures, subsidies rose from an average of 7.2% during the two years before the project to 8.2% during the two years under the project (1986-86), they rose sharply to 14.5% during the two years following the abandonment of the reform program (1987-88). The project thus helped to slow down the deterioration of the country's fiscal position.

22. Economic Rate of Return: It has not been considered meaningful to compute an ex-post economic rate of return for the project. At appraisal the economic rate of return was estimated at 59% under the assumption that about 75% of the project funds would be used for tractors and other farm implements. Apart from the lack of accurate documentation of the end-use of the project funds, calculation of a meaningful rate of return is rendered difficult by the fact that the decision to channel project funds through the foreign exchange auctions and to finance all imports changed the project into virtually a balance of payments support operation. It is however, reasonable to expect that farmers took advantage of the inputs financed by the project to undertake investments which yielded good financial rates of return; and that, by eliminating distortions due to currency over-valuation, the market-determined exchange rate helped to ensure that the economic rates of return were correspondingly good.

Project Sustainability

23. Imported Inputs and Production Capacity: As noted above, the project funds enabled the country to finance imports of some capital goods and spare parts badly needed to improve

production capacity in all sectors. The project thus achieve an impact on production capacity which can be sustained for some years until the time comes for replacements. With regard to agriculture, the project contributed towards the long-term sustainability of this capacity by beginning to shift production in favor of export and import substitution crops (para 18). To that extent, the project helped towards increased earnings and savings of foreign exchange resources to finance future needs for spare parts and eventual replacements of capital inputs.

24. Policy Reforms: The project's achievements were largely truncated by the abandonment of the reform program in mid-1987. These achievements are, however, sustainable provided that the reform program is resumed and allowed to run its full course. Under the Economic Recovery Credit approved by the Bank's Board in March 1991, the Government has resumed implementation of all the policy reforms originally envisaged under the project. Actions taken recently include: substantial devaluation of the Kwacha and adjustment of maize meal prices; introduction of a floor-price system for maize producer prices; dismantling of Namboard; and allowing private sector's participation in the marketing of all crops, including maize, and in importation and distribution of fertilizers. The resumed reform program also provides for full decontrol of maize prices and re-privatization of the maize mills taken over by the Government in 1987. The Government's commitment now appears sufficiently strong to give reasonable expectations that the resumed reforms will be allowed to run their full course^{2/}. While it will remain difficult to sustain these reforms unless they show significantly positive results within a reasonable period, their sustainability has been enhanced by the fact that the reform program has incorporated measures to address the main factors which led to the abandonment of the reforms under the project. These measures include a coupon system to target maize meal subsidies to the poor and other vulnerable groups; actions to ensure that adequate maize stocks are in place before decontrolling maize prices so as to avoid sharp increases in consumer prices; and a program to make hammer mills available in all parts of the country in order to ensure supply of low-cost maize meal throughout the country.

Bank Performance

25. The Bank ensured that the Government was fully involved in project identification and preparation work. The decision by the Bank to support the project was appropriate and well-timed to complement the Industrial Reorientation Project and an IMF standby arrangement. The Bank's flexibility in agreeing to Government's request to use the project funds for general imports was sound. This enabled the country to sustain the exchange rate reforms for a longer period than would otherwise have been possible. At negotiations, the Bank was accommodating to the Government's concerns to the extent they were well founded. Thus, the Bank agreed to a three-year phasing out of maize and fertilizer subsidies in order to minimize the negative impact on the poor. The Bank was justified in insisting on immediate elimination of wheat subsidies, considering that wheat subsidies benefitted mostly the high-income groups in urban center. On the other hand, as a result of factors which could not be foreseen at appraisal, the project implementation period was marked by sharp increases in the cost of living^{3/}. At appraisal, the low-income price index was rising by about 18%

^{2/} There has been a slippage in decontrolling maize prices but this is expected to be rectified after the general election in October 1991.

^{3/} This was largely due to Government's failure to implement sound stabilization and demand management policies.

annually. Compared to the appraisal period, the index rose by 50% in 1985, by 215% in 1986, and by 325% in 1987. Whatever the causes, the fact is that the steep rise in the cost of living substantially altered the appraisal assumptions underlying the phasing of the subsidy removal and the expected impact on the poor. In retrospect, once the sharp rise in the cost of living became a reality, action should have been taken to ensure that at least a crash program was put in place to alleviate the negative impact on the poor.

26. As shown in Table 9, six supervision missions visited Zambia during the project life to monitor implementation progress. Their input was found useful by the PIU and, before the abandonment of the program, the missions contributed substantially in ensuring that the agreed reform measures were taken. They also played a key role in initiating the use of the Swiss Kwacha Fund by the cooperatives for credit to the smaller smallholders.

Borrower Performance

27. There were initial delays in staffing the PIU and finalizing the terms of reference for the marketing study. These setbacks were eventually resolved; the PIU was well-staffed during most of the project life and the marketing study was eventually carried out. The PIU, however, continued to experience serious documentation and accounting problems after it was decided to channel project funds through the foreign exchange auction. As a result, audit reports were not submitted to IDA on time. MOA was unable to come up with sufficient and acceptable proposals on how to utilize the Swiss Kwacha Fund. The Swiss Kwacha Fund Committee never became operational. Too frequent staff changes, especially in BOZ and Ministries of Finance and Agriculture, caused some problems in project implementation as new staff were generally unaware of the project objectives and required actions.

28. Up to the time the program was abandoned, the borrower complied with most of the covenants stipulated in the Development Credit and Project Agreements as amended (Table 8). There were delays in preparing project accounts and audit reports but these were primarily due to documentation problems arising from changes in project implementation arrangements.

29. By hind-sight, the borrower performance was less than satisfactory in connection with the maize price reforms that led to social unrest and riots (para 13). The borrower should have ensured that implementation mechanisms and processes for reimbursing roller meal subsidies to millers were firmly in place before the reforms were announced. This would have removed the uncertainties which led many of the millers to halt production of roller meal and would have, in turn, at least minimized the extent of the riots, thus giving little cause for the abandonment of the reform program.

Project Relationships

30. The project provided a vehicle for Bank-Government dialogue on sectoral policy issues. Before mid-1987, relationships between the Bank and Government were agreeable, with both sides prepared to accommodate each other's views on how to make the project achieve the desired objectives. The relationship became severely strained and dialogue between the two parties virtually collapsed when the Government abandoned the reform program and simultaneously stopped servicing Bank loans and credits. The suspension of Zambia's withdrawal rights, however, did not affect the project much. By then virtually all

the IDA funds allocated to the project under the Credit and the African Facility had been committed and disbursed. Relations between the two parties has recently improved and the country is now current on servicing Bank's loans and credits.

Studies and Consulting Services

31. Table 7 shows the three studies which were expected to be carried out under the project, and their impact. One of the studies, the Fertilizer Consumption Study, was found unnecessary since USAID had carried out a study which covered all the major aspects envisaged under the project. The other two studies were carried out well, with assistance from consultants, and were considered satisfactory. The maize marketing and fertilizer distribution study has continued to serve as a useful basis for the recent resumption of the reform program as indicated in para 24 above.

Project Documentation and Data

32. The Staff Appraisal Report (SAR) together with the project files and supervision reports were well documented. The Development Credit and Project Agreements were well-understood by all the concerned parties. These agreements were amended twice to reflect changes in project objectives and to facilitate the channelling of project funds through the foreign exchange auctions. These changes, which naturally had not been foreseen at appraisal, rendered the SAR of little use as a document to guide the monitoring and evaluation of the project progress except with regard to the sectoral policy reforms. The project lost its identity completely and, as a result, the PIU found it extremely difficult to maintain accurate documents on the use of the project funds. Apart from the US\$10 million used for oil and about US\$ 0.3 million for studies, the only accurate information that could be generated by the auction system was how much of the funds from various sources was sold at the auction and the resultant Kwacha proceeds. There was no way to readily ascertain the actual end-use for most of the project funds. This led to serious difficulties in preparing project accounts and audit reports. It was with major efforts that accounts were eventually prepared and audit report submitted to IDA. Apart from the funds used for oil and studies, the audit report was able to verify only that the project funds was sold to bidders at the auctions.

Findings and Lessons Learnt

33. There are three important lessons from the project. One of them is that it is essential to pay sufficient attention not only to the reforms per se but also to the implementation process. Had implementation mechanisms for reimbursing roller meal subsidies to millers been firmly in place before the reforms were announced, millers would not have stopped producing roller meal and the extent of the riots which led to the abandonment of the reform program would have been minimized (para 13 and 29). The second lesson is that should conditions under which the reforms were conceived deteriorate drastically, as it happened in the case of this project in terms of the cost of living, action should be taken to at least put in place a crash program to alleviate the negative impact on the affected groups (para 25).

34. The third lesson is that partial liberalization may create new distortions, thus frustrating achievements of some of the desired results. Following liberalization of the exchange rate while prices and marketing of maize continued to be controlled, the bulk of the agricultural sector could not compete successfully with the other sectors for the project funds

at the foreign exchange auctions (paras 16 and 17). As a result, the amount of project funds going to agriculture was proportionately less than implied by the sector's long-term importance in the economy. This was an undesirable outcome, given the urgency to accelerate agricultural development which is the main sector with long-term potential to diversifying the economy from the heavy dependence on the dwindling mining sector.

PART II: PROJECT REVIEW FROM THE BORROWER'S PERSPECTIVE

The following are the borrower's comments on the Project Completion Report as prepared by the FAO/World Bank Cooperative Programme:

- 1) The objectives and design of the project were consistent with the major development constraints and potential of the agricultural sector. The project financed imports of capital goods and spare parts, thus enhancing the country's production capacity.
- 2) Project results and impact were complementary to national efforts designed to stimulate accelerated production growth, farm incomes and diversification of the agricultural economy.
- 3) The report suggests that only up to one third of total project funds disbursed were availed to the agricultural sector. This is rather unfortunate as the agricultural sector was the primary target beneficiary as envisaged at appraisal. This could be attributable to general inability of the agricultural sector to compete with other sectors due to fixed agricultural commodity prices while foreign exchange auctioning resulted in sharp increases in the cost of imported inputs. In recognition of similar situations, future projects should allocate targeted funds exclusively for the agricultural sector.
- 4) Economic diversification during project implementation was hindered by insufficient producer incentives for non-traditional exports, price controls, subsidies and reliance on foreign exchange and trade restrictions. However, it is noted that the project contributed significantly to long-term sustainability in production capacity resulting from a shift in production in favour of export and import substitution crops. This diversification of the agricultural production base has generated foreign exchange earnings and savings needed to finance imported inputs in agriculture.
- 5) The timing of project start up was not appropriate with respect to agricultural crop seasons and hence the slow initial disbursement process.
- 6) The implementation arrangements appear not to have facilitated efficient information flow between policy makers and target beneficiaries. Documentation was a fundamental problem in this regard. Implementation arrangements should have provided for explicit accountability in foreign exchange allocations at Bank of Zambia. Similarly, coordination in policy implementation must have been inadequate on procedures for accessing project funds by the commercial banks and target beneficiaries.
- 7) The Swiss Kwacha Fund (SKF) resulted in a net balance of ZK 27 million unutilised for credit by the time GRZ abandoned the reform programme. This amount, which has been lying in the interest-free account at Bank of Zambia, has been committed to Nutrition and Social Action Programme (SAP). The Government of the Republic of Zambia has no objections to this effect. However, it is expected that the agricultural sector will benefit sufficiently under SAP appropriations.
- 8) With outstanding debt repayment to the Bank now cleared, the Zambian Government expects the World Bank to resume its assistance in resource mobilisation from other donors to ensure adequate support to the Government's reform programme.

PART III: STATISTICAL INFORMATION

Table 1 - Related Bank Loans and Credits

| Loan/Credit Title | Year of Approval | Purpose | Status |
|---------------------------------|------------------|---|-----------|
| Industrial Reorientation Credit | 1985 | Industrial policy and institutional reforms to raise capacity utilization and exports; and technical assistance to restructure INDECO's enterprises and public investments in industry. | Completed |
| Recovery Credit Program | 1986 | Providing support to macro-economic and sectoral policy reforms. | Completed |
| Economic Recovery Credit | 1991 | Providing support to macro-economic and sectoral policy reforms, including continuation of agricultural sector reforms initiated under the Agricultural Rehabilitation Project. | Ongoing |

Table 2 - Project Timetable

| Item | Date Planned | | Revised Date | | Actual Date | |
|----------------------|--------------|------|--------------|--------------|-------------|------|
| | Month | Year | Month | Year | Month | Year |
| Identification | - | - | - | - | 3 | 83 |
| Preparation | 8 | 83 | - | - | 8 | 83 |
| Appraisal | 11 | 83 | 1 | 84 | 11 | 83 |
| Credit Negotiations | 3 | 84 | 7 | 84 | 8 | 84 |
| Board Presentation | 5 | 84 | 9] 1] | 84] 85] | 1 | 85 |
| Credit Signature | - | - | - | - | 3 | 85 |
| Credit Effectiveness | 6 | 85 | 8 | 85 | 8 | 85 |
| Credit Completion | 12 | 87 | | | 12 | 87 |
| Credit Closing | 6 | 88 | | | 6 | 88 |

Source: Project Files.

**Table 3 - Estimated and Actual IDA Disbursements
(US million)**

| IDA Fiscal Year | Semester |SAR Estimate..... | |Revised Estimate ^{1/} | |Actual ^{2/} | | Cumulative Actual as % of Revised Estimate |
|-----------------|----------|--------------------------|--------------------------|---|--------------------------|---------------------------------|--------------------------|--|
| | | Semesterly Disbursements | Cumulative Disbursements | Semesterly Disbursements | Cumulative Disbursements | Semesterly Disbursements | Cumulative Disbursements | |
| 1985/86 | First | - | - | 5.9 | 5.9 | - | - | - |
| | Second | 4.2 | 4.2 | 6.7 | 11.6 | 13.3 | 13.3 | 115 |
| 1986/87 | First | 4.8 | 9.0 | 8.1 | 19.7 | 15.5 | 28.8 | 146 |
| | Second | 5.8 | 14.8 | 7.3 | 27.0 | 8.5 | 37.3 | 138 |
| 1987/88 | First | 5.2 | 20.0 | 3.6 | 30.6 | 1.0 | 38.3 | 125 |
| | Second | 2.5 | 22.5 | 3.4 | 35.0 | - | 38.3 | 109 |
| 1988/89 | First | 2.5 | 25.0 | - | - | - | 38.3 | |

Source: World Bank.

^{1/} Includes US\$ 10.0 million additional financing under the African Facility approved in November 1985.

Table 4 - Implementation of Policy Reforms and Related Actions 1/

| Measures to be Adopted under the Credit | Actual Course of Action |
|---|---|
| <p>Adjusting prices of maize and fertilizers to reduce subsidies according to the following timetable:</p> <ul style="list-style-type: none"> - to not more than two-thirds of full costs by May 1985; - to not more than one-third of full costs by May 1986; - completely by May 1987. | <p>Maize and fertilizer subsidies were reduced as agreed in 1985; maize subsidies were again reduced as agreed but fertilizer subsidies were reduced slightly less than agreed in 1986. The reforms were abandoned in May 1987.</p> |
| <p>Adopting (within 6 months after the date of effectiveness) a new price setting methodology so that producer prices be determined in relation to border prices.</p> | <p>The new price setting methodology was adopted but actual implementation, especially for maize, was made difficult by sharp weekly changes in exchange rate at the auctions.</p> |
| <p>Adjusting charges for Government's tractor hire services to achieve full cost recovery by August 1986.</p> | <p>Tractor charges were increased in 1985-86 but never to a level sufficient to ensure full cost recovery. The reforms were abandoned in May 1987.</p> |
| <p>Undertaking (within 6 months after the date of effectiveness) an assessment of the factors underlying the high consumption of fertilizers and implementing (within the following 6-months) an action program agreed upon with the Association.</p> | <p>The study was abandoned because USAID had carried out a similar study covering all the relevant aspects.</p> |
| <p>Undertaking studies to improve efficiency of maize marketing and fertilizer distribution systems and efficiency of Namboard and cooperatives; and implementing studies' recommendations.</p> | <p>The studies were completed with only minor slippage. One of its main recommendations (i.e. transferring subsidies from maize marketing agencies to the millers) was implemented in 1986 but was rescinded later when the reform program was abandoned.</p> |

Table 5 - Project Costs

| Item | Appraisal Estimate | | | Actual | | | Total Actual as % of Appraisal |
|-------------------------------------|--------------------------------|------------------------------|-------|--------------------|------------------------------|-------|-----------------------------------|
| | Local Costs | Foreign Exchange Costs | Total | Local Costs | Foreign Exchange Costs | Total | |
| Farm Machinery Replacements: | | | | | | | |
| - Tractors | 2.8 | 26.4 | 29.2 | N.A. | N.A. | N.A. | N.A. |
| - Tractor Implements | 1 | 8.2 | 9.2 | N.A. | N.A. | N.A. | N.A. |
| - Ox-drawn Implements | 0.1 | 1.4 | 1.5 | N.A. | N.A. | N.A. | N.A. |
| Sub-total: | 3.9 | 36 | 39.9 | N.A. | 7.0 | N.A. | N.A. |
| Spare Parts: | | | | | | | |
| - Tyres | 0.2 | 1.8 | 2 | | | | |
| - General Spare Parts | 1 | 8.4 | 9.4 | | | | |
| Sub-total: | 1.2 | 10.2 | 11.4 | N.A. | 10.0 | N.A. | N.A. |
| - Agro-chemicals | 2 | 17.4 | 19.4 | N.A. | 3.0 | N.A. | N.A. |
| - Miscellaneous | 0.2 | 1.2 | 1.4 | N.A. | | | |
| - Petroleum Products | 8 | 0 | 0 | N.A. | 18.2 | N.A. | N.A. |
| - Other Imports | 0 | 0 | 0 | N.A. | 26.4 | N.A. | N.A. |
| - Consultancy | 0 | 0.2 | 0.2 | 0 | 0.3 | 0.3 | 150 |
| TOTAL COSTS: | 7.3 | 65 | 72.3 | N.A. | 64.9 | N.A. | N.A. |

N/A = Data not available because when the project funds were channelled through foreign exchange auctions and opened up to all eligible, including non-agricultural, imports, the project completely lost its identity.

**Table 6 - Project Financing
(US\$ million)**

| | Planned (Credit Agreement) | (%) | Revised | (%) | Disbursed at Closing Date | (%) |
|-------------------------------------|----------------------------------|-----|--------------------|-----|------------------------------|------|
| A. IDA: | | | | | | |
| Expenditure Category | | | | | | |
| - Farm Implements and Inputs | 24.8 | | 39.1 ^{1/} | | 38.0 | |
| - Consultants' Services | 0.2 | | 0.3 | | 0.3 | |
| | | | — | | — | |
| Sub-total: | 25.0 | 35 | 39.4 | 39 | 38.3 ^{2/} | 60 |
| B. Co-financing Institutions | | | | | | |
| - Swiss Government | 4.8 | | 5.3 ^{3/} | | 4.4 ^{4/} | |
| - AfDB | 23.4 | | 30.5 ^{3/} | | 12.0 ^{5/} | |
| - USAID | 5.0 | | 5.0 | | 5.0 | |
| - CIDA | 6.8 | | 7.6 ^{3/} | | - ^{6/} | |
| - Netherlands | - | | 3.0 | | 3.7 ^{7/} | |
| - Japan | - | | 4.6 ^{3/} | | 0.7 | |
| Sub-total: | 40.0 | 55 | 56.0 | 54 | 25.8 | 40 |
| C. Domestic Sources: | | | | | | |
| - Trading Houses | 7.4 | | 7.4 | | N.A. ^{8/} | |
| Sub-total: | 7.4 | 10 | 7.4 | 7 | N.A. | N.A. |
| TOTAL: (A+B+C) | 72.4 | 100 | 102.8 | 100 | 64.1 ^{9/} | 100 |

Source: World Bank and Bank of Zambia.

- ^{1/} Difference due to additional US\$ 10 million from African Facility and exchange rate movement.
- ^{2/} SDR 0.84 million and 0.15 million were canceled from credits 1545-ZA and AS-ZA respectively.
- ^{3/} Difference due to exchange rate movement.
- ^{4/} SwFr 1.7 million or 17% of the total grant were not disbursed at the close of the project.
- ^{5/} Remainder of the loan was disbursed early in 1991.
- ^{6/} Disbursements of this grant started only in September 1990.
- ^{7/} Fully disbursed. Difference due to exchange rate variations.
- ^{8/} Data not available but presumably very little since only a fraction of the funds were disbursed under the original arrangements before the foreign exchange auction system was started.
- ^{9/} Foreign exchange financing only. Data for local currency financing not available.

Table 7 - Studies

| Title | Purpose | Status | Impact |
|--|--|---|--|
| 1. Study of Agricultural Marketing and Inputs Distribution | To improve marketing efficiency of maize and distribution of fertilizers through improving cost-effectiveness of Namboard and facilitating participation by the private sector | Completed | Prices of breakfast meal were decontrolled and subsidies on roller meal were transferred from Namboard and Cooperatives to the millers in 1986 in order to enable private sector's participation in maize marketing. These reforms were short-lived as they were soon abandoned. The studies have provided a sound basis for the recently resumed reforms. |
| 2. Study of Cooperatives | To improve marketing efficiency of maize and distribution of fertilizers through improving cost-effectiveness of Cooperatives and facilitating participation by the private sector | Completed | Actions were taken to improve operation and financial management of some of the Provincial Cooperative Unions |
| 3. Fertilizer Consumption Study | To analyze causes of the high fertilizer consumption major aspects relating to the use of fertilizers in Zambia. | Was found unnecessary because USAID had done a fairly similar exercise. | No discernible impact |

Table 8 - Status of Covenants

| Development Credit Agreements | | |
|-------------------------------|--|--|
| Section | Short Description | Compliance |
| 3.01 (a) | ... Carry out Part B <u>1</u> /of the Project through its Ministry of Agriculture and Water Development ... , provide, promptly as needed, the funds, facilities, services and other resources required for the purpose. | Full compliance |
| 3.01 (b) | ... Cause the Bank of Zambia to carry out its responsibilities under the Project Agreement ... , take and cause to be taken all action, including the provision of funds, services and other resources, necessary or appropriate to enable the Bank of Zambia to perform such obligations, ... , not take or permit to be taken any action which would prevent or interfere with such performance. | Full compliance |
| 3.02 | ... Establish and thereafter maintain a Project Implementation Committee ... to provide coordination and policy guidance ... (for the execution of Part A of the Project). | Superseded with the introduction of the auction system. |
| 3.03 (a) | ... In carrying out Part B of the Project ... employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association, such consultants to be selected in accordance with principles and procedures satisfactory to the Association. | Full compliance |
| 3.03 (b) | ... Cause all goods and services for Part A of the Project financed out of the proceeds of the Credit to be used exclusively for the purposes of the Project <u>2</u> /. | Full compliance |
| 3.03 (c) (i) | Maintain records and procedures adequate to record and monitor the progress of Part A of the Project ... to identify the goods and services financed out of the proceeds of the Credit, and to disclose their use in the Project. | Could not be complied with fully due to documentation problems in identifying end-use of project funds after decision to channel funds through foreign exchange auction. |

1/ Part B of the Project refers to the carrying out of a study on maize and fertilizer's marketing and distribution systems. Part A of the Project refers to the provision of foreign exchange for imports of agricultural inputs and, since the Amendments of February 28, 1986, to general imports for productive sectors (see also footnote 2 below).

2/ Based on the Amendments of February 28, 1986 the Borrower was allowed to utilize the uncommitted balances of the credits for the financing of general imports for the productive sectors. Consumer and luxury goods, military equipment and specific items included in a negative list were ineligible.

| | | |
|--------------------------|--|--|
| 3.03 (c) (ii) | Furnish to the Association at regular intervals all such information the Association shall reasonably request concerning Part A of the Project. | Complied with up to the time when the reform program was abandoned. |
| 3.04 | From time to time ... exchange views with the Association on the progress achieved in carrying out project implementation. | Full compliance |
| 3.05 | ... Publicize ... the amount of foreign exchange which has been allocated by the Bank of Zambia to the specific trading houses and the types of goods to be imported by them. | Superseded with the introduction of the auction system. |
| 4.01 (a) | Maintain or cause to be maintained records adequate to reflect in accordance with consistently maintained sound accounting practices the operations, resources and expenditures, in respect of Part B of the Project. | Full compliance |
| 4.01 (b) (i) | Have the (above mentioned) accounts for each fiscal year audited ... by independent auditors acceptable to the Association. | Full compliance with delays |
| 4.01 (b) (ii & iii) | Furnish to the Association ... not later than four months after the end of each such year, a certified copy of the report of such audit ... and ... furnish such other information concerning said accounts, records and expenditures and the audit thereof as the Association shall from time to time reasonably request. | Full compliance with delays |
| Project Agreement | | |
| 2.02 (a) | The Bank of Zambia will: Establish and maintain Project Implementation Unit (PIU) headed by an executive officer whose qualification and experience are satisfactory to the Association | Full compliance |
| 2.02 (b) | Provide PIU with adequate facilities and support | Full compliance |
| 2.04 (b) | Cause goods and services ... financed out of the proceeds of the Credit to be used exclusively for the purpose of the Project | Full compliance |
| 2.05 (b) | Maintain records ... to identify the goods and services financed out of the proceeds of the Credit and disclose their end-use | Could not be complied with due to documentation problems after the decision to channel project funds through foreign exchange auctions |

| | | |
|----------|--|---|
| 4.01 (a) | Maintain records and accounts adequate to reflect .. revenues and expenditures in respect of Part A of the Project, including ... all expenditures for which withdrawals are requested on the basis of Statement of Expenditures | Complied with. For the most part after the decision to channel project funds through foreign exchange auctions, records could only show revenues in terms of the Kwacha generated from the auctions and expenditures in terms of foreign exchange funds sold at the auctions. |
| 4.02 (a) | Have (the above) accounts ... audited .. by independent auditors | Full compliance but with delays |
| 4.02 (b) | Furnish to the Association .., not later than four months after the end of each year, the report of the auditors | Full compliance but with delays |

Table 9 - Staff Inputs and Mission Data

| Stage of Project Cycle | Sent by | Month/year | No. of persons | Period in Field (weeks) | Specialization Represented | Overall Performance Rating | Types of Problems |
|------------------------|---------|------------|----------------|-------------------------|----------------------------|----------------------------|-------------------|
| - Identification | IDA | 3/83 | - | - | AE, P, M | | |
| - Preparation | IDA | 8/83 | 5 | 4 | FP, I | | |
| - Appraisal | IDA | 11/83 | 2 | 2 | AE, A | | |
| - Post-appraisal | IDA | 2/84 | 1 | 2 | AE | | |
| - Post-negotiations | IDA | 10/84 | 1 | 1 | AE | | |
| - Supervision 1 | IDA | 10/85 | 2 | 2 | AE, A | 2 | P |
| - Supervision 2 | IDA | 2/86 | 1 | 2 | AE | N.A. | N.A. |
| - Supervision 3 | IDA | 6/86 | 1 | 3 | AE | 2 | P; D |
| - Supervision 4 | IDA | 11/86 | 2 | 3 | AE, A | 2 | P; A |
| - Supervision 5 | IDA | 3/87 | 1 | 1 | AE | 2 | P; D, A |
| - Supervision 6 | IDA | 7/87 | 1 | 1 | AE | 2 | P; A |
| - Project Completion | FAO/CP | 9/90 | 2 | 2 | E, F | | |

Source: Project Files.

Expertise: A = Agriculturist; AE = Agro-economist; P = Agro-processing Expert; M = Farm Mechanization; FP = Fertilizer Production Expert; I = Institution Expert; E = Economist; F = Financial

Types of Problems: P = Policy related; D = Documentation; A = Accounting/Audit

COMMENTS FROM CO-FINANCIERS

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON, D C 20523

OCT 3 1991

Mr. F.I.H. Moreithi
Acting Chief
Agriculture Division
Southern Africa Department
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433

ZAMBIA: Agriculatural Rehabilitation Project
(Cr.1545-ZA) Project Completion Report
(PCR)

Dear Mr. Moreithi:

Thank you for sending us a copy of the subject PCR. We appreciate the opportunity to comment on this report.

Based on a quick review of the PCR, we are in general agreement with the findings and conclusions of the PCR. Nevertheless, there are two points which I would like to make which might merit minor revisions in the report. These are as follows:

- 1) The rapid increase in the cost of living cited in paragraph 24 and other places was largely due to the failure of the Zambian authorities to adhere to their agreements with the IMF concerning stabilization and demand management policies; and
- 2) The discussion in paragraph 23 that Zambia is once again back on the reform track has clearly been overtaken by events.

If you have any questions, please feel free to contact me.

Yours sincerely,



Richard Harber
Economist
Office of Southern African Affairs

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BANQUE AFRICAINE DE DÉVELOPPEMENT AFRICAN DEVELOPMENT BANK

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RÉFÉRENCE.

DATE:

912189
14 OCT. 1991

Mr F.I.H. Moreithi
Acting Chief, Agricultural Division
Southern Africa Department
World Bank
1818 H Street, N.W.
Washington D.C. 20433
U.S.A.

Dear Mr Moreithi,

ZAMBIA: Agricultural Rehabilitation Project

Thank you for sending us a copy of the project completion report for the Agricultural Rehabilitation Project in Zambia. As cofinanciers of the project we were interested to have the opportunity to review the PCR, and to compare the experiences of the World Bank's with our own.

As you know, an ADF PCR mission was recently in Zambia, and we have now prepared our report on the project. Our PCR touches upon many of the same issues and shares some of the observations of your own; although it is probably a more critical document, reflecting the particular problems that ADF experienced with regard to its loan. However, as one of the ADB Group's first such operations, the project has provided us with a number of useful lessons for the future. I have enclosed a copy of our report, which I hope you may find of relevance to your own. Regarding your PCR, we have the following comments.

First, the statement that the project "ceased to be an agricultural operation except with regard to the sectoral policy reforms" (para. 7.) does not do justice to the central role that should be played by the policy reforms. It is common practice today for agricultural sector adjustment loans to focus almost exclusively on policy and institutional reform measures, and to permit the funds to be utilised for the importation of all goods and services, subject only to a negative list of prohibited items. We do not consider such loans any less "agricultural operations"

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for that. It might therefore be a more fair statement to indicate that what started out as an agricultural project with policy-based conditions gradually became a type of sectoral adjustment loan.

Second, it is true that Government failed to give sufficient consideration to the immediate impact of shifting the subsidies from breakfast meal to roller meal, and that it was this lack of attention that led to the riots which precipitated the abandoning of the reform measures. However, with a weak institutional capacity within Government and only lukewarm political support for the reform process, this should not have been surprising. As is mentioned in the last section of your report, more attention should have been paid to the issues of implementation, and more support provided to Government in this respect. The provision of institutional support, ie technical assistance, to the Ministry of Agriculture might have helped Government to plan the measures better, and so avoid such problems.

Third, the experience of the World Bank in administering the Swiss Government's counterpart Kwacha Fund is similar to ADF's own: the funds remained unutilised, gradually losing their value over time (see our report, sections 3.3 and 6.1.5). We concluded - with the benefit of hindsight - that it would probably have been more advantageous to have simply made the local counterpart funds directly available to Government, rather than requiring that they be tied to specific projects.

Fourth, we do not wholly agree with the conclusions drawn regarding the sustainability of the policy reforms (para. 23). Certainly, the achievements would have been sustainable provided that the reform programme had run its full course. But the fact is that it did not; and the agricultural sector today remains in a precarious state. For the maize sub-sector particularly, the momentum of the reform years has been completely lost, and the problems of production, marketing and subsidies are greater than ever.

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Fifth, the ADB Group concluded that tying loan funds to the agricultural sector, as suggested in the Borrower's section (para. 3) was not helpful to the reform process. This issue is discussed in detail in our PCR section 6.1.3.

Lastly, we would point out that the entire ADF loan was finally disbursed, although not until early 1991; and that in US Dollar terms the value of the funds disbursed finally amounted to US\$ 30.5 million.

We hope that these comments and the PCR prove useful to your exercise of finalising the report.

Yours sincerely,



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