

<b>Template D - Investment Plan Update - Coversheet</b>			
1. Country/Region: <b>Republic of Zambia / Africa region</b>			
2. Source of Funding:	FIP	PPCR X	SREP
3. Investment Plan Title: <b>Strategic Programme for Climate Resilience for Zambia</b>			
4. Initial IP Endorsed amount (million, USD equivalent): US 15million	<i>Grant: 1.5million</i>	<i>Non-Grant: US\$ 13.5million<sup>1</sup></i>	
5. Revised IP amount (million, USD equivalent): <b>US 14.6million</b>	<i>Grant: 1.1million</i>	<i>Non-Grant: US\$13.5 million<sup>2</sup></i>	
6. Date of IP Approval <b>June 29, 2011</b>			
7. Implementing MDB(s): <b>IBRD</b>			
8. National Implementing Agency: <b>Ministry of National Development Planning, Government of Zambia (Executing and Coordinating Agency)</b>			
9. MDB Focal Point and Project/Program Task Team Leader (TTL): <b>Iretomiwa Olatunji</b>	<i>Headquarters- Focal Point:</i> <b>Kanta Kumari</b> <i>(<a href="mailto:kkumari@worldbank.org">kkumari@worldbank.org</a>)</i>	<i>TTL: Iretomiwa Olatunji</i> <i>(<a href="mailto:iolatunji@worldbank.org">iolatunji@worldbank.org</a>)</i>	
10. Proposed changes to Investment Plan			
<p><b>10.a. Status of the implementation of the original Zambia SPCR</b></p> <p>Under the IFC component of the Zambia SPCR program, “Private Sector Support to Climate Resilience”, four in-depth market studies were undertaken. These comprised comprehensive literature reviews as well as interviews with over 300 individual farmers and 75 other agricultural stakeholders from more than 50 farmer organizations. Interviews were also conducted with SMEs and numerous private sector players supplying agricultural inputs and information technology services. These studies investigated the feasibility of and barriers to a) establishing a commercially viable mobile phone platform for small farmers, b) implementation of a commercially sustainable weather index-based insurance product for flood and drought risks, c) business opportunities in the agricultural sector and in the management of natural resources, and d) promotion of microfinance to build climate resilience in rural areas.</p> <p><b>10.b. Explanation of the circumstances and rationale for revising the SPCR and making changes to the projects or programs included to the SPCR</b></p> <p>While the feasibility studies had a good impact on informing stakeholders of the potential of climate resilience work in Zambia, it was IFC’s assessment that bankable private sector projects that meet both PPCR objectives and IFC’s investment, financial and E&amp;S requirements will take further time to fully develop. In the interest</p>			

<sup>1</sup> Through IFC

<sup>2</sup> Through IBRD

of not delaying the use of the funds further and to ensure that Zambia is able to get the full benefit of its PPCR resources, IFC, in coordination with programme MDB counterparts and the National Coordinator, proposed to the Government of Zambia a potential re-allocation of its remaining USD 14.6 million concessional finance resources towards a public sector project that could be implemented and led by IBRD. Below are the key challenges identified under the four components of IFC's program:

-Mobile phone platform: The Program aimed to increase access to information to farmers in order to promote economic growth and enable them to implement climate resilience plans and investments, as well as for managing risks. Challenges identified through the in-depth study included: language barriers for reaching small scale farmers (Zambia has 75 ethnic languages); translation of weather forecast information into useful agricultural extension advice; limited infrastructure and capacity within government to produce localized weather reports; insufficient market price information being collected by the Ministry of Agriculture for developing 'real time trades'; decentralized agricultural extension information which would require significant work to package into electronic format for dissemination; small scale farmers had minimal disposable income for paying for information (inputs such as seeds and fertilizers take greater priority).

-Weather index-based insurance: The in-depth market study on the opportunity for developing a weather index-based insurance product in the agriculture sector in Zambia revealed a number of major risks: (i) limited availability of localized weather data because of minimal meteorological infrastructure across the country; (ii) limited historical weather data; (iii) insufficient availability of the financial skillsets for developing complex weather index-based insurance products; (iv) uncertainty as to whether a private sector operator would be legally entitled to collect widespread weather data to sell in their private capacity; (v) uncertainty with regards to the legal framework and support of the insurance regulator; (vi) reinsurance constraints because of the small size of the market; (vii) the need for a government subsidy to support this insurance product; and (viii) uncertainty with regards to the willingness to pay of small scale farmers. In conjunction with the PPCR team, IFC's Global Index Insurance Facility (GIIF) has also investigated the potential for undertaking pilot activities on weather index-based insurance in Zambia. The overall conclusion based on the findings of the extensive analysis and GIIF investigations was that at this time a business case for developing a weather index-based insurance product in Zambia does not exist.

-Natural Resource Management: IFC conducted an in-depth market study on the business opportunities in agriculture and management of natural resources in the priority sub-basins. The program preparation phase took longer than anticipated because of a variety of challenges including: (i) regulations that are perceived by private sector players as hindering business; (ii) land tenure restrictions because of a customary tenure system; (iii) short timeframes for leases over natural resources; (iv) most banks perceive engagement with small scale farmers as a form of corporate social responsibility rather than a commercial investment; (v) small scale farmers have minimal access to start-up finance and insurance; (vi) uncertainty around the government's REDD+ long-term strategy; and (v) highly constrained capacities of government departments involved in natural resource management. Despite these challenges, IFC did attempt to engage with potential private sector investors to develop business plans but did not find much traction.

-Microfinance: The IFC team undertook an in-depth market study on micro-insurance opportunities in the agricultural sector in the two priority sub-basins. Challenges encountered in the microfinance sector in Zambia included: (i) poor infrastructure which constrains expansion of existing microfinance services; (ii) low population densities which make it difficult to build up a critical mass of customers for a viable business and greatly increases the cost of providing services; (iii) insufficient data for assessing the demand for microfinance services and the ability of stakeholders to repay loans; (iv) insufficient financial skillsets and management skillsets within the microfinance institutions for sustained expansion; (v) insufficient technical capacity (plus high costs) constraining the use of IT infrastructure/services for promoting an expansion of microfinance services; (vi) security concerns with regards to handling large sums of cash; (vii) ineffective communication (because of technology constraints) between MFI offices and small scale farmers taking out loans; and (viii) limited education of potential clients. After analyzing the study's findings, it was concluded there is not a business case for investing in a microfinance product in Zambia in the short term that focusses solely on climate-resilience activities.

### **10.c. Description of the proposed changes**

IFC has been unable to develop a private sector investment that meets PPCR objectives and meets IFC's financial, credit, and environmental sustainability requirements. In light of the fact that appropriate investment opportunities were not been identified, IFC initiated a discussion with IBRD counterparts and the National Coordinator to solicit the Zambian government's agreement regarding the transfer of IFC's allocation to the World Bank PPCR program. This proposal was agreed to by the government and steps were initiated to re-allocate the funds following the necessary clearances and protocols. A timeline of key agreements and corresponding discussions do date is below:

December, 2016: IFC and IBRD teams update National Coordinator on IFC's intent to reallocate PPCR resources to IBRD. Next steps regarding confirmation of government decision and communication to CIF AU are agreed.

Mid-January, 2017: National Coordinator notifies CIF AU of government agreement and requests the initiation of formal procedures to reallocate IFC PPCR resources to IBRD.

Late-January, 2017: CIF AU determines and communicates next steps and formalities to be conducted before changes to SPCR are submitted to PPCR Sub-Committee. It is determined that once the reallocation of funds 'from private sector to public sector' is approved, IBRD will request an extension for the project. The request for extension of the newly reallocated funds are expected to be discussed at the June 2017 PPCR Sub-Committee meeting.

March, 2017: IBRD team initiates process for reallocation of funds in collaboration with IFC team.

### **10.d. Potential impact of the proposed changes on achieving the objectives and targets of the original investment plan**

The proposed IBRD-led Zambia PPCR Investment will focus on private sector support to the priority sub-basins of Barotse and Kafue, with a focus on micro-finance, established access to markets and information support. The program will aim to build climate resilience in the sub-basins by mobilizing/catalyzing private sector investments in economic sectors such as agriculture and natural capital and by providing technical support to relevant private sector players. It is envisioned that the program will comprise the following main components:

1. Strengthening the capacity of the private sector to build climate resilience in agri-business, establish access to market and value chain, water resource and natural capital use/ management.
2. Providing microfinance services and a line of credit to support livelihood diversification
3. Developing a mobile phone platform to facilitate the dissemination of market and climate information to farmers.

The proposed changes are aligned to the objectives and targets of the original investment plan and will leverage work already done under the IFC component. The proposed IBRD-led Zambia PPCR Investment will build on initial assessment carried out by IFC on private sector led opportunities and barriers; supplement this with additional assessment and translate this into a new project design. Also, several pipeline, ongoing and implemented projects address some of the barriers identified in the initial IFC assessment. Information gathered will be used to inform the design and implementation of the private sector led investments in the Zambia SPCR.

It is important to note that as par to leveraging a fast track approach to a public private sector implementation of the new investment, the Zambia PPCR Phase II led by IBRD will build and learn from the Tajikistan CLIMADAPT initiatives which eschew a private sector model.

These will include opportunities to support investments in improved climate resilient technologies through contribution of funding for technical cooperation activities, offering loans to private businesses, farmers and households via local Financial Institutions (FIs) which will sign agreements and receive credit lines in order to participate in the private sector led investment, will be identified. The overall concept is to build a national widespread presence and network in the country of FIs that will facilitate widespread diffusion of climate

resilient technologies and farming practices in order to improve yields and sustain livelihoods. In addition, capacity building for organizations and farmers on climate-resilient technologies and new agricultural practices to counter increasing climate risks and impacts, will be part of the investment design and implementation.

#### 11. Revised project timelines and implementation arrangements

The proposed timeline for the new project design is December 2018.

The Coordinating and Executing Agency will be the Ministry National Development Planning. Various line ministries and departments led by Ministry of National Development Planning (Ministry of Trade and Commerce, Ministry of Lands, Natural Resources, Ministry of Water, Sanitation and Environmental Protection, Department of Forestry, Ministry of Agriculture, Ministry of Fisheries and Livestock, Ministry of Energy, Ministry of Community Development, Provincial administrations) and Private Sector will be involved in the identification and design of the proposed private sector driven project investment.