

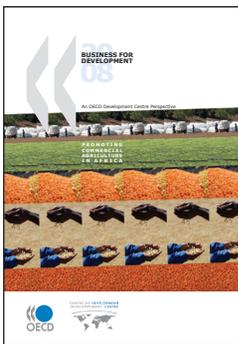
**BUSINESS FOR
DEVELOPMENT**
20
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ZAMBIA

**Sustaining Agricultural
Diversification**

Federico Bonaglia



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ACKNOWLEDGEMENTS

Acknowledgements

The Zambia country study would not have been possible without the help and valuable information provided by many dedicated colleagues working in the field whom we met during our missions in December 2005 and October 2007.

The Zambia study benefited from input provided by Dennis Chiwele (RuralNet, Lusaka), Eddy Delaunay-Belleville (EC Delegation to Zambia, Lusaka), Mike Field (PROFIT, Lusaka), John Fynn (Zambia National Farmers Union), Henny Gerner (Royal Embassy of the Netherlands, Lusaka), Oskar Kass (Embassy of Finland, Lusaka), Alex Mwanakasale (World Bank, Lusaka), Olle Otteby (Agricultural Support Programme, Lusaka), Dick Siame (IFAD/SHEMP, Lusaka), Jens Sorensen (IFAD), Julius Shawa (Ministry of Agriculture and Co-operatives, Lusaka), Gerrit Struyf (IFAD/SHEMP, Lusaka), Wilma Viljanmaa (Embassy of Finland, Lusaka).

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PREFACE

Preface

Since the beginning of the new millennium, African governments, donors and the private sector have all stepped up their efforts to revitalise the agricultural sector by mobilising additional resources and putting new business initiatives to work. Through the approval of NEPAD's Comprehensive Africa Agriculture Development Programme (CAADP) in 2003, African leaders agreed to governmental responsibility for providing technical and financial support to the agricultural sector and the development of the agro-based private sector. In addition, trade issues have been increasingly seen as intrinsic to agricultural development strategies.

Governments and business actors agree on the need for better co-ordination of each other's strategies and interventions in the agricultural sector. This places public-private dialogue at centre stage of Africa's agricultural development process. More emphasis should therefore be placed on policies in favour of market expansion and improved regulatory conditions to underpin private-sector development and redefine the roles of government, donors and business.

Africa is daily facing new challenges caused by market transformations on a global scale. Technological advances, changes in food consumption patterns, the demands of private retail companies and stricter quality and health standards imposed by OECD importing countries have been at the root of some of this change. Meanwhile, African agro-food companies are faced with rising demand for food in Africa due to rapid urbanisation and increased industrial activity. In addition, China and India have provided new outlets for African agricultural exports but have also increased competitive pressures.

To address these challenges, a change of perspective is needed to promote commercial agriculture and the development of rural non-farm activities. More emphasis should be placed on policies that raise agricultural productivity and expand market opportunities at the international, regional and national levels. Private investment in appropriate technology and scientific expertise to support the agricultural sector in Africa requires adequate policies and regulations.

This edition of *Business for Development: Promoting Commercial Agriculture in Africa* looks at recent trends in trade and aid in African agriculture, including an overview of the corporate landscape of the agro-food sector, and takes stock of donor activities aimed at supporting commercial agriculture in the continent. This new publication will make a substantial contribution to what we know and need to do to support private-sector development in Africa.

Javier Santiso,
Director, OECD Development Centre
March 2008

ACRONYMS ABBR.

Acronyms and Abbreviations

ACF	Agricultural Consultative Forum
ACP	Agriculture Commercialisation Programme (2002-05)
ADC	Agribusiness Development Component
ADFSP	Agricultural Diversification and Food Security Project
ADSP	Agriculture Development Support Programme
AfDB	African Development Bank
Ag-SAG	Agricultural Sector Advisory Group
AIMP	Agricultural Inputs Marketing Plan
AMDP	Agricultural Market Development Plan
ASIP	Agricultural Sector Investment Programme
ASP	Agricultural Support Programme
BDS	Business Development Services
CAADP	Comprehensive Africa Agriculture Development Programme
CAP	Commercial Agricultural Project
CFU	Conservation Farming Unit
CLUSA	Cooperative League of the USA
COMESA	Common Market for Eastern and Southern Africa
DFID	Department For International Development
DRC	Democratic Republic of Congo
EC	European Community
EDF	European Development Fund
EPA	European Partnership Agreement
EPOPA	Export Promotion of Organic Products from Africa
FAO	Food and Agricultural Organisation
FINNIDA	Finnish International Development Agency
FNDP	Fifth National Development Plan (2006-2010)

FRA	Food Reserve Agency
FSP	Fertiliser Support Programmes
FSRP	Food Security Research Project
GRZ	Government of the Republic of Zambia
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IGAD	Inter-Governmental Authority on Development
ILO	International Labour Organisation
JASZ	Joint Assistance Strategy for Zambia
LLSP	Luapula Livelihood and Food Security Programme
MACO	Ministry of Agriculture and Co-operatives
MATEP	Market Access, Trade and Enabling Policies
MCC	Millennium Challenge Corporation
MoFNP	Ministry of Finance and National Planning
MSE	Micro and Small Enterprises
MTCI	Ministry of Trade, Commerce and Industry
NAP	National Agricultural Policy (2004-2015)
NEPAD	New Partnership for Africa's Development
NGO	Non-Governmental Organisation
NIP	National Irrigation Plan
NORAD	Norwegian Agency for Development Co-operation
NTE	Non-traditional Exports
OGS	Outgrower Scheme
OPEC	Organisation of the Petroleum Exporting Countries
PLARD	Programme for Luapula Agriculture and Rural Development
PRINT	Promotion of Regional INTegration
PROFIT	Production, Finance and Improved Technologies
PRSP	Poverty Reduction Strategy Paper
PSD	Private Sector Development
REFORM	REgional FOod Security and Risk Management Programme
RFP	Rural Finance Programme
RGB	Rural Group Business

ROADSIP	Road Sector Investment Programme
RRMP	Road Rehabilitation and Maintenance Project
SADC	Southern African Development Community
SAPMSP	Smallholder Agricultural Production and Marketing Support Project
SHEMP	Smallholder Enterprise and Marketing Programme
SIDA	Swedish International Development Co-operation Agency
SIP	Small-scale Irrigation Project
SLIP	Smallholder Livestock Investment Project
SME	Small and Medium Enterprises
SPS	Sanitary and Phytosanitary
UNCTAD	United Conference on Trade And Development
USAID	United States Agency for International Development
WB	World Bank
ZACA	Zambia Agricultural Commodity Agency
ZAMPIP	Zambia Agricultural and Processing Infrastructure Project
ZATAC	Zambia Agribusiness Technical Assistance Centre
ZCSMBA	Zambia Chamber of Small and Medium Business Associations
ZDA	Zambia Development Agency
ZEGA	Zambia Export Growers Association
ZNFU	Zambia National Farmers Union

ZAMBTA

Sustaining Agricultural Diversification

ABSTRACT

Zambia has a huge agricultural potential, which is still largely untapped, and could play a key role in growth and poverty eradication. Since the early 2000s, the government has implemented important reforms to promote privatisation and trade reforms, leading to higher investment and a strong growth in export crops such as cotton and horticulture. Despite this success, agricultural productivity, especially for food crops, remains low.

The study shows that public resources to the agricultural sector have drastically decreased since the early 1990s, while private sector providers have not stepped in to fill the void left by the government disengagement from input supply and marketing. Despite a strong government commitment to reverse this trend, budget figures show that the share in total allocations dropped again in the 2008 budget.

The study also argues that evaluations of past donor interventions in agriculture are not very positive, especially in terms of their sustainability. Projects often paid little attention to local absorptive and implementing capacity, had too narrow a focus on production and food security, and lacked an adequate understanding of the socio-economic conditions and behaviour of the target groups. Lack of co-ordination resulted in duplications and insufficient scale.

A new generation of donor projects emerged in the early 2000s, with a strong focus on commercialisation and the development of market linkages, especially via contract farming. These projects have borne good results in terms of production volumes, quality standards and access to international commodity chains, as well as farmers' income. The key challenge for donors is to scale up these success cases and ensure sustainability. The implementation of the Joint Assistance Strategy for Zambia 2007-2010 is an opportunity to achieve a better division of labour, strengthen synergies on the ground and reduce transaction costs for government.

INTRODUCTION

The Zambia country study focuses on the contribution of aid donors in supporting the development of the private sector in Zambia's agriculture. Agriculture plays a key role in the economy and could be a major driver of growth and poverty reduction. The study starts by taking a fresh look at the status of agriculture and agribusiness, highlighting progress towards commercialisation, the emergence of export-oriented crops and the difficulties hampering the expansion of domestic production of food crops. Inadequate market infrastructure and access to inputs continue to be a major burden on farmers. The following section reviews changes in the policy environment that should help tackle those problems and promote agricultural development. The national development strategy assigns a pivotal role to agriculture and calls on donors to support government's efforts by providing financial and technical assistance. In fact, agriculture has received substantial support in recent years, although aid flows have been quite volatile. The third section analyses major donor-supported programmes in agriculture, with a special focus on those programmes promoting the development of the private sector. The final section concludes by summarising the main lessons learned and suggesting areas where Government and donors could further improve their actions.

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STATUS OF AGRICULTURE AND AGRIBUSINESS

Zambia has a huge agricultural potential, which is still largely untapped and is the key priority in the government growth and poverty reduction programme. The country has one of the best land and water endowments in Africa, but only 15 per cent of total arable land is cultivated and a similar share of irrigable land is actually irrigated (Mooney, 2002).

Major reforms implemented since the mid-1990s have sprung agricultural growth, averaging about 4.5 per cent per annum, and have contributed to a marked reduction in rural poverty. However, compared with its potential, agriculture has under-performed when seen from variables such as growth, cultivated area and main crop yields. This is of particular concern because agricultural performance has been the fundamental determinant of poverty for the majority of households over the last decade, and poverty still affects about two of every three rural households (Thurlow and Wobst, 2006; Siegel and Alwang, 2005)¹.

A combination of policy distortions and structural characteristics, such as Zambia's land-locked situation and vulnerability to droughts and flooding, has hindered the further development and diversification of the sector (Jayne *et al.*, 2007; Wichern *et al.*, 1999). The sector is characterised by a dual structure, where a small number of large commercial farms, concentrated along the railway line, co-exist with scattered subsistence smallholders and few small commercial farmers who face severe difficulties accessing input and output markets. It is estimated that about 40 per cent of rural households are engaged solely in subsistence agriculture.

Food Production: Low Productivity Leads to Continuing Food Insecurity

Despite progress, agricultural growth remains volatile and most rural households have engaged in it only marginally. Crop diversification and productivity are low, and food security continues to be a problem. Reduced state support in the 1990s has led to a revival of traditional crops, particularly cassava and other tubers, but maize still dominates Zambia's agriculture. Reliance on rain-fed agriculture implies extremely volatile harvests; although the area under maize cultivation almost doubled between 2000 and 2006, in one year out of three crop production fails to satisfy national consumption needs (Dorosh *et al.*, 2007).

The livestock and dairy sub-sector, which accounts for 35 per cent of total agricultural production, could provide an additional source of income and food security. Production is on the rise but it remains far below potential owing to poor quality and disease control.

Export Crops: Strong Growth, but on Fragile Grounds

Since the early 2000s, with the implementation of privatisation and trade reforms, production of export crops rose significantly and there has been a sharp rise in exports of cotton, tobacco, spices, horticultural products and, more recently, honey. Agricultural exports registered the strongest growth amongst non-mineral exports in most recent years.

Since privatisation in 1999, cotton production has steadily grown by about 15 per cent a year. More recently, horticulture and floriculture have also emerged as important sources of export revenue. Contract farming involving small-scale growers has been the most important route to achieving sustained expansion of production. In the cotton sector, private companies were active in setting up outgrower schemes (OGS) — such as Dunavant’s “distributor model” — which now involve some 220 000 small farmers. Donor support was instrumental in establishing OGS in horticulture and paprika.

Despite such a remarkable performance, export-oriented agriculture is still fragile and involves only emergent commercial farmers concentrated in a few areas. OGS face increasing challenges to sustain their competitiveness. First, there is a problem of low productivity. Second, the agribusiness companies managing the schemes denounce high rates of loan non-repayment and widespread side-selling from farmers, in breach of their contracts. Third, the sudden and strong appreciation of the local currency in 2005–06 has badly affected exporters, especially in the cotton sector, who bore the costs in local currency and saw their margins squeezed. Fourth, corporate governance problems have put at risk the horticulture and spice sectors². Faced with these risks, agribusiness companies have preferred to achieve increases in volume of production through expanding the area and number of contracted smallholders, rather than investing in extension services and rural agents to increase growers’ productivity (World Bank, 2007).

WHAT IS THE GOVERNMENT DOING?

Promote Sectors with High Job-creation Potential

The Government of the Republic of Zambia (GRZ) has articulated its long-term development objectives in the National Vision 2030, whose main goals include: *i*) reaching middle-income status; *ii*) significantly reducing hunger and poverty; and *iii*) fostering a competitive and outwardly oriented economy. To this end, under the Fifth National Development Plan (FNDP) 2006–2010, the country’s second generation Poverty Reduction Strategy Paper (PRSP) focuses on “economic infrastructure and human resources development” to promote sectors with high job-creation potential. Accordingly, infrastructure (roads, schools and hospitals) and agriculture are priority areas for public spending.

The FNDP sets ambitious objectives for agriculture: *i*) attain food security for the majority of households, guaranteeing sufficient food for at least 90 per cent of the population; *ii*) increase the contribution of the sector to total foreign exchange earnings from the current 3–5 per cent to 10–20 per cent; *iii*) boost the sector’s growth to 10 per cent per annum from 2006 onwards; *iv*) increase the sector’s contribution to GDP from 18–20 per cent to 25 per cent; and, *v*) raise incomes for those involved in the agricultural sector.

The Agricultural Sector Strategy

Agricultural policy has undergone a major change since the early 1990s. Before the 1990s, “agricultural policies were restrictive, distortionary and counterproductive due to heavy government intervention ... and not sustainable because of their high reliance on subsidies” (GRZ, 2006, p. 46). Liberalisation started in the mid-1990s and aimed at bolstering private sector participation in input supply, marketing and processing. As part of this disengagement process, many functions previously carried out by the Ministry of Agriculture, Fisheries and Forest were dismissed or transferred to agricultural trusts. These trusts, often linked to specific commodities, are public-private partnerships managing public assets on a commercial basis and providing research, advisory and training services³.

The 1996-2001 Agricultural Sector Investment Programme (ASIP) was the first, ambitious response designed by GRZ and donors to facilitate the transition to a market economy in agriculture. The programme endorsed the principle of private sector-led agriculture, with private actors in charge of implementing its various sub-components. However, it did not live up to expectations. An unsupportive and unpredictable business environment contributed to reducing the incentives for the private sector to fill the void left by public intervention. ASIP quickly developed into a government-led programme, ran into implementation problems and lost support (World Bank, 2002; Chiwele, 2004; van Donge, 2007).

The disappointment with ASIP impacted on the fate of its less ambitious successor, the Agriculture Commercialisation Programme (ACP) 2002-05, which never really took off. However, ACP contributed to laying the ground that put emphasis on market linkages and the recognition of the importance of emerging OGS as a viable approach to promoting agricultural exports and enhancing the participation of small farmers in exports.

These elements feature prominently in the new National Agricultural Policy (NAP) 2004-2015. The NAP, which now constitutes the agricultural chapter of the FNDP, provides the overall vision and policy framework for the sector and assigns a pivotal role to the private sector, which is expected to engage increasingly in service provision. The Ministry of Agriculture and Co-operatives (MACO) is expected to focus on its core functions (policy formulation, enforcement of legislation and regulation) while developing partnerships with other stakeholders in the sector to ensure adequate provision of extension services, agricultural research, and monitoring and evaluation. Donors are encouraged to provide financial, technical and other support in the implementation of agricultural policies and programmes and capacity building for stakeholders.

The NAP’s goals and priorities are to be achieved through specific implementation strategies, to be drafted in consultation with the private sector. These include the Agricultural Market Development Plan (AMDP), the Agricultural Inputs Marketing Plan (AIMP) and the National Irrigation Plan (NIP). However, implementation is lagging behind schedule and several stakeholders point to some inconsistencies between objectives stated in the NAP/FNDP (e.g. promoting the development of private input suppliers) and actual policy implementation.

Private Sector Development and Trade Strategy

The creation of an enabling environment, supportive of private sector growth, is one of the key FNDP targets to promote labour-intensive sectors and strengthen linkages between the capital-intensive sectors and the rest of the economy. Although several reforms have been prepared to improve the business climate, progress is uneven as most of them have not been implemented, often because of inconsistencies or problems in the legal provisions⁴.

The Ministry of Trade, Commerce and Industry (MTCI) plays a co-ordinating role in the implementation of the Private Sector Development (PSD) Action Plan, approved in a large consultative forum in Livingstone in 2004. The newly created Zambia Development Agency, bringing together five pre-existing agencies (Export Board, Export Processing Zones Authority, Small Enterprises Development Board, Investment Centre and Privatisation Agency) will act

as a one-stop shop for PSD activities. High priority is given to agricultural exports, and several value-chain analyses have been conducted to identify obstacles and necessary policy remedies, especially in conjunction with donor supported initiatives such as the Joint Integrated Technical Assistance Programme and the Integrated Framework for Trade-Related Technical Assistance. However, the current trade policy provides only general guidelines, with no specific reference to the development of agricultural exports.

To achieve its agricultural goals, the FNDP calls for scaling up funding to agriculture and related industries since, in the recent past, they have not received resources commensurate to their pivotal role in promoting broad based growth (GRZ, 2006, p. 23). In fact, resources to the agricultural sector have sharply declined since liberalisation started in 1992. In real terms, 2006 figures were only 20 per cent of their 1986 level (Govere *et al.*, 2006).

The GRZ envisages doubling the resources allocated to the sector, reaching 2.3 per cent of GDP by 2010, while the share of agriculture in budget allocations should increase from the current 6 to 10 per cent, in accordance with the NEPAD Comprehensive Africa Agriculture Development Programme (CAADP). These resources should primarily finance interventions to improve agricultural productivity, especially of smallholders, by reviving and strengthening extension services.

The resource envelope needed to achieve the FNDP's agricultural goals over the 2006-2010 implementation period is estimated at ZMK4 436 billion (\$1.1 billion). This represents some 12 per cent of total core FNDP expenditures (which are estimated at ZMK 38 645.4 billion or \$9.4 billion at 2006 exchange rates)⁵. Given the current assumptions on domestic and external financing, GRZ will have to fill a ZMK807 billion (\$196 million) financing gap in agriculture. Aid should average between \$700–750 million per year over 2007-2010, which is significantly above the average of the previous five years (\$570 million). Assuming economic growth and domestic revenue targets are met, the Joint Assistance Strategy for Zambia (JASZ) concludes that resources would be enough to meet the current financing gap.

FNDP's priorities can be gauged by looking at planned expenses by sub-sector (Table 1). Irrigation development and agricultural infrastructure come first, accounting together for about one-third of the total, followed by livestock development. The combined Fertiliser Support Programme (FSP) and Food Reserve Agency (FRA) account for some 13 per cent of the total, and are to be entirely financed by government. Overall, co-operating partners are requested to contribute some ZMK1 685 billion (about \$418 million) to finance agriculture. This chapter accounts for 12.5 per cent of total donor contributions, following education and health (33.7 per cent) and infrastructure (25.3 per cent). One-third of these resources would finance the completion of ongoing projects, while "irrigation development", "agricultural infrastructure and land development", "livestock development" and "agricultural service and technology development" should receive between \$50 and 60 million each.

Table 1. FNDP's Agriculture Expenses (2006-10)

Priority area	Total Cost (ZMK billion)	Total Cost (\$ million)	GRZ Contribution (ZMK billion)	Donors' Contribution (ZMK billion)	Share in Core Expenses (%)	Share in GRZ (%)	Share in Donors (%)
1. Irrigation development and support	465	113	227	239	10.7	8.2	14.2
2. Agric. infrastructure and land development	444	108	210	234	10.2	7.6	13.9
3. Livestock development	722	176	493	229	16.6	17.9	13.6
4. Agric. services and technology development	530	129	326	204	12.2	11.9	12.1
5. Fisheries development	227	55	179	48	5.2	6.5	2.9
6. Policy formulation and co-ordination	137	33	74	64	3.1	2.7	3.8
7. Agric. marketing and agri-business development	214	52	118	96	4.9	4.3	5.7
8. Co-operatives development	41	10	26	15	0.9	0.9	0.9
9. Human resources mgt. and development	80	19	60	20	1.8	2.2	1.2
10. Fertiliser Support Programme (FSP)	498	121	498	0	11.4	18.1	0
11. Food Reserve Agency (FRA)	130	32	130	0	3	4.7	0
12. Salaries extension officers	412	100	412	0	9.4	15.0	0
13. Others (ongoing projects)	537	131		537	12.3	0	31.9
Core expenses total	4 436	1 079	2 751	1 685	100	100	100
Personal emoluments	131	32	131	0			
Grants and other payments	14	3	14	0			
Support to MACO operations	287	70	287	0			
Agricultural shows	14	3	14	0			
Non-core expenses total	445	108	445	0			
Grand total	4 881	1 187	3 196	1 685			

Note: Conversions into \$ are based on an average exchange rate for 2006 of ZMK 4111.2 to \$1.

Source: Author's presentation based on GRZ (2006, p. 53).

Budget figures show that allocations to MACO have increased since 2006 and the share of agriculture in the overall government expenses rose from 3.9 per cent in 2005 to 8.8 per cent in 2007, although the share drops to 5.8 in the 2008 budget (Annex Table A.1)⁶. The trend has bottomed out since 2001, but mainly because of increased resources for maize imports and fertiliser subsidies under the FRA/FSP, while productivity-enhancing expenses such as capital equipment, extension and research have dramatically declined (Droppelmann, 2005)⁷. Despite a commitment to reduce and gradually phase out the FSP by 2009, actual budget allocations to FSP/FRA absorbed over half of total allocations and actually increased in real terms by 14 per cent between 2005 and 2006 (Govereh *et al.*, 2006).

WHAT ARE DONORS DOING?

Aid commitments to the agricultural sector, including rural development, averaged \$38 million per year over 2001-05, a figure which is projected to increase substantially over 2006-2010. In 2006 donors committed \$79 million for the sector. According to GRZ estimates, aid to agriculture should amount to at least \$214 million, representing 9 per cent of total project aid (European Community, 2007)⁸. Of this latter amount, \$78.3 million would come as loans from the African Development Bank (AfDB) and the World Bank (WB), the remaining being grants from bilateral and multilateral donors.

Agriculture has long been a favourite sector of intervention for many donors in Zambia, especially Finland, Norway and Sweden, the World Bank and the UN system. However, evaluations of these interventions are not very positive, especially in terms of their sustainability. An unsupportive policy environment, unpredictable local counterpart financing and weak capacity of local institutions, combined with the excessive reliance on stand-alone projects heavily dependent on external funding and expatriate personnel, are the main determinants of this poor record.

The proliferation of projects and the need to tackle many interrelated constraints in a more coherent manner led GRZ and donors to devise the aforementioned ASIP in 1996. Although it met some success in realigning the policy and institutional setup with the new priorities of an agriculture led by the market and private sector, notably by redefining the competencies of the Ministry of Agriculture, ASIP is considered largely unsuccessful. While the government disengaged from input and service delivery, the bottlenecks plaguing private sector provision persisted. Private providers were reluctant to step in and many smallholders found themselves cut off. This led to the reintroduction of government subsidised fertiliser and seed distribution under the FRA. The disappointment with ASIP and the lack of a clear agricultural policy and implementation strategy led some donors to scale down or delay their interventions in agriculture in the early 2000s.

A new generation of projects emerged towards the end of the ASIP, with a strong focus on reorienting smallholders to take a more business-minded approach and facilitating their access to markets. The development of market linkages, especially via outgrower schemes (OGS) and other forms of contract farming, has borne good results in helping farmers to increase production, raise quality standards and even enter into international commodity chains. The new projects include: the Agriculture Support Programme (ASP) funded by Sweden; the Smallholder Enterprise and Marketing Programme (SHEMP) funded by the International Fund for Agricultural Development (IFAD); various USAID-funded projects, such as the Co-operative League of the USA (CLUSA), the Zambia Agribusiness Technical Assistance Centre (ZATAC) and Land o'Lakes.

Agriculture became attractive again for donor funding in the mid-2000s. The adoption of the NAP and of the PSD agenda favoured the approval of a new breed of projects that incorporate the lessons from past interventions. Donors and GRZ acknowledge the need to complement sector-specific interventions with programmes aimed at improving the overall business and investment climate. Moreover, inadequacies observed in past interventions, which mainly focused on production improvements while ignoring the role of markets, convinced many donors to adopt different approaches. This resulted in more attention being paid to the whole agricultural value chain, acknowledging the key role played by input suppliers and agribusiness firms. These new programmes include USAID's Production, Finance and Improved Technologies (PROFIT) and Market Access, Trade and Enabling Policies (MATEP) projects, the Finnish Programme for Luapula Agriculture and Rural Development (PLARD), the World Bank Agriculture Development Support Programme (ADSP) and the AfDB's Smallholder Agricultural Production and Marketing Support Project (SAPMSP)⁹. The European Community (EC) has also launched a major new project in agriculture, which has, however, a narrower food-security focus.

Donor co-ordination in agriculture

In 2004, the UK's Department for International Development (DFID)'s Country Assistance Plan for Zambia noted that, although significant project funding was available to support economic sectors, including agriculture, it lacked a widely agreed policy framework and was "poorly co-ordinated, often outside of Government and difficult to predict" (DFID, 2004, p. 9). The situation has significantly improved since then, especially in terms of harmonisation (OECD, 2007). In April 2007, the GRZ and 16 donors signed the Joint Assistance Strategy for Zambia (JASZ) 2007-2010¹⁰. This is a medium-term framework to manage development co-operation in alignment with the FNDP and improve aid effectiveness. The JASZ includes a division of labour amongst donors around the 17 sectors of the FNDP, including agriculture and PSD.

Three lead donors, SIDA, USAID and the WB, currently ensure co-ordination in agriculture, where five other donors are active: Finland, Japan, AfDB, EC and the UN system (IFAD and FAO). The lead donors participate in the MACO-led Agriculture Sector Advisory Group (Ag-SAG), which meets quarterly and involves stakeholders from both the public and private sectors. Some donors which were involved in agriculture in the past are phasing out from the sector (the Netherlands), while others provide background support, financing other donors' projects (NORAD financing SIDA and FINNIDA)¹¹. Seven donors are active in the PSD group, which is cross-cutting and has strong implications for agriculture as well. The EC, WB and the Netherlands are the lead donors; the UN system, Finland, Japan and the US are active donors; the UK provides background support while Norway is gradually phasing out. Since July 2006, the US MCC has been implementing a \$22.7 million threshold programme focusing on good governance and trade facilitation.

Mapping Donor Support to Private Sector Development in Agriculture

Donor support to agriculture includes a wide range of activities ranging from rural infrastructure development to facilitation of smallholders' access to credit, extension services and markets, capacity building to farmers' organisations, and institutional capacity building. None of the donors covers all areas. However, the most recent and larger projects attempt to adopt a holistic approach, both in terms of activities and actors within the value chain to be involved (e.g. ASP, PLARD and ADSP).

A few donors support advocacy activities, namely through the Agricultural Consultative Forum (ACF) funded by Ireland, Japan, the Netherlands, Norway and USAID, the Food Security Research Project (FSRP) funded by USAID, and the Zambia National Farmers Union (ZNFU), whose activities receive support from the Netherlands, Norway, Sweden and IFAD.

Several projects work to improve smallholders' access to term capital through targeted lines of credit, such as the WB, ADSP and IFAD's Rural Finance Program. Access to finance is also facilitated by the USAID-funded Zambia Agricultural Commodity Agency (ZACA), which has developed a warehouse receipt system, and the Zambia Agribusiness Technical Assistance Centre (ZATAC), which provides technical advice for production, marketing and financial/business planning for groups of smallholders. Several donors (WB, EC, Finland and the Netherlands) support small and medium enterprises' (SME) access to credit and business development services (BDS), including in agribusiness.

The AfDB, Kuwait Fund, OPEC, WB, Denmark and Japan are active in the transport infrastructure group, which is led by the EC. Some of them contribute to the sector investment programme (ROADSIP) with basket funding. Specific interventions to improve rural infrastructure include the ADSP's rehabilitation of rural road networks in high potential agriculture areas and the Road Rehabilitation and Maintenance Project (RRMP), which is part of ROADSIP. The AfDB is implementing a \$8.3 million Small-scale Irrigation Project (SIP) and negotiating a new loan for irrigation. The WB and IFAD are preparing a joint commercial agricultural project (CAP) which would have a focus on irrigation¹².

Lessons from past interventions in the agriculture sector

Evaluations of past interventions concur on several important lessons¹³. Among them, the need to ensure sustainability emerges as the key issue. Meanwhile, there is a general agreement that volatile counterpart financing from GRZ and an unsupportive policy environment played a major role in determining the outcome of these projects. Interventions in the early years “were designed in support of GRZ policies and development schemes which in themselves were unsustainable” (Ministry for Foreign Affairs of Finland, 2001). For instance, the government’s strong emphasis on maize to ensure food self-sufficiency failed to take properly into account the comparative advantage of the different agro-ecological regions.

Several aspects contribute to determine sustainability. First, target groups need the capacity and incentives to continue their business once external support is phased out. This objective can only be achieved if farmers develop their own capacity to identify economic opportunities, exploit them and adapt to changing conditions. Donor support will contribute to sustainable capacity building only if technology and service provision is truly demand driven, aligned with farmers’ preferences and reflects local management capabilities. Farmers must be able to assess their situation in order better to identify solutions and articulate their requests for assistance. An explicit strategy for farmers’ training must be formulated early on and adequate resources earmarked, since these aspects have been “rarely sufficiently emphasised at time of design” (IFAD, 1997).

Second, and closely related, is the need to conduct a thorough assessment of the initial conditions and behaviour of the target groups. Projects have too often been based on an insufficient analysis and understanding of local socio-economic conditions, of the prevailing farming system and of the policy and institutional setting in which they would have to operate¹⁴. Objectives and expected outputs were not always clear and the reporting and monitoring procedures were not always adequate to facilitate corrective action (IFAD, 1997; Ministry for Foreign Affairs of Finland, 2001). Moreover, the establishment of farmer groups has not always been based on a proper assessment of farmers’ willingness to collaborate. In many cases, farmers joined a group simply because that gave access to free or subsidised inputs. Project design and planning should then be done in a “thorough and fully participatory manner” (James *et al.*, 2001) and adequate resources should be devoted to “ensure farmers’ participation and to carry out needed assessment exercises” (IFAD, 1997). Some basic selection criteria for growers should be agreed, to ensure that they meet minimum standards and, in due course, they contribute to the value of inputs and services they receive within the OGS.

Third, the institutional structures that are set up during the project must be capable of surviving and ensuring “technical and allocative efficiency of interventions” (IFAD, 1997). As one of the evaluations noted, “assistance was out of proportion to the carrying capacity of the institutions receiving the support” (Ministry for Foreign Affairs of Finland, 2001). Too often the local counterparts initiated activities which were beyond their long-term capacity. When the external support finished, these institutions collapsed. Projects should then incorporate a sound exit strategy, to ensure that the services provided to farmers continue to be supplied in a sustainable manner when assistance is over.

Fourth, interventions must take into consideration the whole agricultural value chain and ensure that all key actors are involved, especially agribusiness companies and traders. Many past interventions have too often paid little attention to the support actors (input suppliers, middlemen, buyers and processors), focusing too much on the farmer/production side. Projects that failed to establish adequate links to market intermediaries and agribusiness companies proved to be unsustainable (World Bank, 2006, pp. 11-12).

Lastly, donor-funded NGOs implementing these projects should remain facilitators and not become competitors to the private sector or distort market incentives, otherwise they risk undermining the viability of private-sector operations.

Major Donor Projects to Private Sector Development in Agriculture

Table 2 summarises the main donor-funded programmes in agriculture and rural development, which are discussed in detail below. Table A.2 in the Annex provides a more detailed description of ongoing and planned donor projects in the sector.

Table 2. Major Donor-funded Projects in Agriculture

	Project	Commitment	Main objectives
Finland	Programme for Luapula Agricultural and Rural Development, PLARD (2007-2010)	EUR10 million	Promote sustainable commercialisation and development of fisheries, agriculture and agribusiness and foster a supportive policy, regulatory and institutional environment.
Sweden	Agriculture Support programme, ASP (2003-2008)	\$43 m (SEK331.5 m) including a SEK20 m contribution from Norway	Promote smallholder commercialisation through entrepreneurship and business development, improved land, seed, crops and livestock productivity and improved service delivery of support entities
United States	Production, Finance and Improved Technologies, PROFIT (2005-2010)	\$15 m	Improve the competitiveness of selected agro-industries with large numbers of micro and small enterprises through: <i>i)</i> better inter-firm co-operation <i>ii)</i> more developed support markets <i>iii)</i> building credibility and confidence in market mechanisms.
IFAD	Smallholder Enterprise and Marketing Programme, SHEMP (2000-2008)	IFAD loan: \$15.9 m (Total cost: \$18.4 m)	Strengthen smallholder enterprise groups, improve access to suppliers and markets, including rehabilitation of feeder roads, and support the development of the agribusiness sector and trading enterprises serving small-scale farmers.
World Bank	Agricultural Development Support Project, ADSP (2006-2010)	\$37.2 m (IDA loan)	Promote sustainable smallholders' commercialisation, through improved productivity, quality and efficiency of export-oriented value chains where they participate.

Source: Donor project documents.

Bilateral donors' experience: Sweden, Finland and USA

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SIDA's Agriculture Support Programme (ASP)

ASP is a SEK331.5 million (approximately \$ 43 million) five-year programme launched in 2003 under the auspices of MACO and managed by a consortium of three consulting companies¹⁵. This figure includes a NOK18.2 million (approximately \$3.1 million) contribution from Norway in 2007, which allowed expansion of the project's coverage. ASP builds on and integrates previous SIDA programmes such as the Conservation Farming Unit (CFU), Economic Expansion in Outlying Areas (EEOA), Land Management and Conservation Farming, Multiplication and Distribution of Improved Seed and Planting Materials Project (MDSP), and Small Holder Farmer Access to Processing, Extension and Seeds¹⁶.

ASP's objective is to improve food and nutritional security of small-scale farmer households through the development of rural entrepreneurship. Overall, the programme targets 44 000 poor smallholder households, selected on the basis of their ability and willingness to undertake "farming as business". The programme has three main components: "entrepreneurship and

business development”, which aims at enhancing the household’s capacity to identify and sustainably exploit business opportunities; “land, seed, crops and livestock”, providing technical advice to improve land and livestock productivity; and “improved service delivery of support entities”, facilitating market linkages with the agribusiness sector and improving the latter’s ability to provide services. The programme also sets up a management information and learning system to facilitate monitoring and evaluation and dissemination of lessons and experiences.

The programme promotes the establishment of OGS at village level where smallholders are connected to an outgrower manager via lead farmers. These lead farmers are trained to act as a link between the government extension officer and smallholder households. Demands or needs for services are identified through the so-called “facilitation cycle”. This is a participatory process involving farmers and service providers that aims at improving stakeholders’ awareness and capacity to identify their own needs. Capacity building is not limited to smallholders, but extended to agribusiness companies and local authorities. The contractual arrangements between providers, clients and other actors are mostly informal, with formal arrangements usually limited to contract farming (Neuchâtel Initiative, 2006).

During the first years of implementation, ASP focused primarily on developing farmers’ groups and the OGS at village level and facilitating the non-commercial support entities (local authorities, farmer organisations, savings groups and NGOs). The mid-term review encouraged a revision to put more emphasis on the development of the agribusiness sector and a sustainable market for agricultural advisory services.

The 2006 impact assessment survey shows that ASP is making a difference for beneficiary households¹⁷. In terms of food security, ASP households were more secure than the control group in the 2005-06 agricultural season. Some 68 per cent of ASP households earned sufficient income to cover their food costs compared with 49 per cent for the control group. The potential cost savings in terms of a reduced need to provide food relief as a result of this were estimated at ZMK1.6 billion (\$0.4 million) for 2006 alone (ASP, 2007). Moreover, ASP has helped to reduce the gender gap in household incomes and assets and had a positive impact on the professional development of MACO staff. New service providers have emerged and evolved thanks to capacity building and facilitation, without direct financial support.

A post-ASP consultative process has been set up to help formulate practical strategies for the ASP phase-out and its phase into MACO. Within this process, a cost-benefits analysis was undertaken in 2006-07 to assess the net benefits accruing to the programme beneficiaries and the costs that MACO would have to bear to maintain the current structures once the programme is over in 2009. The analysis finds that “under a pessimistic scenario, where all benefits from ASP cease within three years of facilitation finishing (i.e. incomes revert to those of the control group)” the internal rate of return for the project would be just under 12 per cent and the benefit/cost ratio would be one. Assuming that benefits are maintained, the internal rate of return would be as high as 34 per cent and the benefit/cost ratio would be two.

In order to maintain the ASP structure, MACO will have to bear an annual cost of ZMK2.6 billion (\$0.63 million) from 2009. However, the benefits generated during the implementation period should cover extra costs until 2015. These resources would come from the additional revenues generated through direct taxes — estimated to average at least ZMK2.5 billion per year — and savings on food relief expenses.

Despite these positive results, there remains a major risk, related to the still very low income level — below the “absolute poverty” level of \$1 per capita per day — of the majority of ASP beneficiary farmers. The cost-benefit analysis notes that “... while ASP has been successful in cost benefit terms, it will not have lifted many households out of absolute poverty” (ASP, 2007, p. 25). The main risk is that with the withdrawal of ASP support, the benefits achieved may not be sustained at the farm level. Therefore, the key objective for the remaining implementation period is to ensure that as many beneficiaries as possible increase their business assets and income, to reach the status of “emerging” farmers. Two additional problems concern the possibility that the contribution to tax revenue is lower than expected owing to high levels of

informality, and the persisting weakness in MACO, which could make it difficult to hand over implementation once external support ends.

FINLAND'S Programme for Luapula Agricultural and Rural Development (PLARD)

The PLARD is a four-year programme, building on the lessons learned over more than 20 years of Finnish support to agriculture in the region, and in particular on the outcomes of the 1994-2000 Luapula Livelihood and Food Security Programme (LLSP). Its objective is to contribute to the development of an efficient, competitive and sustainable agricultural and rural sector in Luapula province. The project design was elaborated through an inception phase in 2006, and implementation started in 2007 (this should be a first phase within a longer term intervention over 12 years). Finland has provided a EUR10 million grant which covers 97 per cent of the total project costs, while the remainder is GRZ counterpart financing to be allocated to MACO (Ministry of Foreign Affairs of Finland, 2007).

The project has two main purposes: *i)* improved and sustainable income and food security in the province through fisheries, agriculture and agribusiness development; and *ii)* more supportive policy, regulatory and institutional environment. The main focus of intervention is on sustainable commercialisation of the agriculture and fisheries sub-sectors. Since commercialisation requires financing, PLARD will also explore the possibility of establishing a matching grant facility for viable enterprises to be placed outside the programme structure.

The project design was guided by the sustainable livelihood approach, using value chain analysis and seeking comparative advantages of specific commodity clusters. During the inception phase, major consultations with relevant stakeholders were conducted, as well as a situational update of the livelihood and farming systems in the province to identify opportunities and constraints and select appropriate interventions.

The project adopts a holistic approach that covers the entire production-marketing chain and selects commodities which have a comparative advantage and are compatible with the six farming systems identified in the province. It also aims at creating a network involving all value-chain actors, so that farmers and agribusiness companies operating profitably will have sufficient incentives to continue their operations once the programme is phased out. Given the high rate of natural resource depletion in the province — which is due to high population pressure as well as an inadequate legal framework and its poor implementation — PLARD has a strong focus on sustainable use of natural resources.

Similarly to the ASP, PLARD adopts a facilitation cycle to assess farmers' needs and a participatory monitoring and evaluation approach. Implementation is to be carried out through public-private partnerships, in accordance with the NAP. This is a major departure from previous interventions, which were traditionally implemented through ministries or through GRZ-controlled co-operatives.

An exit strategy is to be developed during the last year of intervention. This strategy's guiding principle should be that PLARD is a temporary, facilitation agency, whose role is to build the capacity of public and private partners to perform their functions, and not to execute them itself.

The programmes should also benefit from the spillovers generated by a ZMK20. 7 billion (\$5 million) project, funded by Finland, the Netherlands and the International Labour Organisation (ILO), to promote the development of BDS for SMEs through a voucher system. Agribusiness is a priority sector for developing this scheme. Vouchers will be distributed to SMEs through relevant Zambian business associations, such as the Zambia Chamber of Small and Medium Business Associations (ZCSMBA) and ZNFU. Entrepreneurs will determine which type of BDS they need and pay with vouchers.

USAID: Production, Finance and Improved Technology (PROFIT)

Since the implementation of CLUSA in the mid-1990s, USAID-funded projects have pioneered new approaches to strengthening market linkages for export-oriented commodities. These projects are directly implemented by international NGOs, sometimes in collaboration with local ones. The CLUSA Rural Group Business (RGB) Programme implemented a model for OGS managed by members of the farmer organisation themselves and serving as intermediary between the agribusiness buyer and the farmer (Parker, 2003). Lessons learned through this experience have significantly influenced the more recent projects.

PROFIT, which was launched in 2005, has a strong focus on micro and small enterprise (MSE) development, through strengthening vertical and horizontal market linkages in specific niche commodity chains.

The project reflects USAID's new approach to promoting enterprise development and pro-poor PSD interventions. The approach has evolved from facilitating markets for business services to a broader value-chain perspective. Within this framework, projects aim at linking large numbers of MSEs to local, national and international value chains where there is comparative advantage. To succeed, they pay attention to all the factors that determine MSEs' capacity to link to relevant markets: end markets, input suppliers and buyers (vertical linkages), other firms in the same cluster (horizontal linkages), supporting markets (finance, BDS, technical assistance) as well as the overall business environment. Learning and innovation are central to this approach (Downing *et al.*, 2006).

By working with all relevant stakeholders in the value chain, PROFIT aims to induce behavioural change at multiple levels within the industry, including in key supporting markets, and establish an effective system of benchmarks for keeping track of these changes. Though it is still early to assess its impact, there are some encouraging signs of changing relationships between farmers and input providers. The most remarkable is probably in the beef value chain, where villagers have started to look at their cattle with a more commercial mindset. PROFIT trains community livestock workers to educate smallholders about the importance of cattle disease prevention. These workers act, on a commission basis, as intermediaries with private veterinarians to apply preventive treatments. This approach builds trust between smallholders and veterinarians, creates a demand for their services and reduces veterinary transaction costs. According to a survey undertaken in July 2007, veterinarians who are working with this scheme have earned about \$40 000 in extra revenue through serving smallholders, while the number of farmers who sought medical treatment from veterinarians rose from 15 to 55 per cent and the incidence of death from disease fell by about 60 per cent.

PROFIT closely co-ordinates with the Market Access, Trade and Enabling Policies (MATEP). This is another USAID project that facilitates linkages to export markets for agribusiness and tourism companies. Although MATEP collaborates with the Zambia Development Agency (ZDA), the project does not finance institutional capacity building.

Multilateral programmes: IFAD and WB

IFAD's Smallholder Enterprise and Marketing Programme (SHEMP)

SHEMP is a seven-year programme launched in 2000 and financed through a \$15.9 million loan. SHEMP aims to improve smallholders' access to input and output markets and to promote diversification with the overall goal of realising increased incomes and food security. The programme was designed during the liberalisation phase, at a time when farmers were not yet familiar with the market economy and the retreat of government support from input provision and marketing was not filled by the emergence of private providers.

The project diagnostic analysis highlighted that smallholders' lack of knowledge, combined with a narrow range of production possibilities, distance and poor accessibility, heavily constrained their ability to interact with the market. Therefore, SHEMP focused on establishing the pre-

conditions for trade and market development. In order to promote market linkages, SHEMP facilitates the formation and strengthening of farmer groups, finances access road improvements and the development of marketing infrastructure, promotes diversification in the production and marketing of smallholder crop and other enterprises, and helps to create a more efficient and competitive network of traders and service providers serving smallholder farmers (IFAD, 1999).

SHEMP was one of the largest interventions to support the transition and promote farming as a business rather than as a way of life. SHEMP is not a handout programme distributing goods; rather, it organised smallholders into groups, exposed them to market forces and provided them with market information and training on farming and processing. The target group consists of smallholders who live below the poverty line in the more densely populated parts of the country and have the potential to produce marketable surpluses. The project was implemented in five geographical areas, selected on the basis of their potential for agriculture and the existing infrastructure.

The programme has three main components: Smallholder Enterprise Group Development, where two NGOs, CLUSA and Africare, support group formation and provide training; Market Access Improvement through feeder road construction; and Agribusiness Development to promote SME in agribusiness. The programme falls under MACO, but is managed by a UK-based firm which sub-contracts implementation work to several NGOs.

Although the project design called for targeting all the key stakeholders along the value chain, it proved difficult to engage effectively with market intermediaries, such as small-scale traders. The programme did not pay enough attention to strengthening these market intermediaries, which play a key role in linking farmers to buyers and processors, but also face severe constraints in terms of transportation, procuring equipment and accessing credit. As highlighted in an IFAD stock-taking exercise, "[...] in the diagnostic phase the selection of geographical areas has been driven more by the development priorities for alleviating rural poverty and by the potential of agricultural production rather than by first focusing on marketing opportunities and on the interest of the private sector for both production and marketing", while the implementation seems to address marketing issues "more on an *ad hoc* basis rather than in a holistic manner" (Canigiani, 2004).

Some of these shortcomings are being addressed by the agribusiness development component, which was launched in January 2006. This component promotes seller-buyer linkages to foster domestic and cross-border trade. In a short period of time it put in place a cell phone-based SMS Market Information Service in co-operation with the ZNFU to provide up-to-date market prices, listing buyers on main marketplaces for 12 major commodities. The SMS Service was launched in August 2006 and has proved very successful, recording over 1 000 hits per week. Information on prices is collected directly from buyers by the ZNFU which manages and regularly updates the database that farmers can simply access through their cell phones. ZNFU is now exploring getting support from the cell phone service provider to expand the scheme to more commodities and add new services.

This component has also promoted some commodity-specific interventions for cassava, cotton, goats, honey and other bee products. A third area of intervention has been trade facilitation between Zambia and the Katanga region in the Democratic Republic of Congo (DRC), a potentially very important market for Zambian agricultural products. SHEMP is working with the cross-border trade association to expand the SMS market information system across the two countries and set up a common language for trading between the two regions¹⁸.

Two other sizeable IFAD projects were approved in late 2007 and are starting up: the Rural Finance Programme (RFP) and the Smallholder Livestock Investment Project (SLIP). The RFP will tackle rural credit reform through supporting the National Savings and Credit Bank, which is expected to become a major credit provider in rural areas. The SLIP will work to strengthen national capacities for disease control and restock poor smallholder farmers who lost their cattle through disease.

WB Agricultural Development Support Programme (ADSP)

The ADSP is a five-year programme to promote sustainable commercialisation of smallholder farmers through improved productivity, quality and efficiency of export-oriented value chains. The project focuses on high-potential agricultural areas and adopts a value-chain approach to make sure that all segments are operating efficiently and increasing value-added. A key objective is to increase the sustainability of existing OGS by improving farmers' productivity and strengthening the capacity of agribusiness intermediaries such as service providers, traders and processors.

The programme, launched in 2007 and financed by a \$37.2 million loan from the International Development Association (IDA) and counterpart financing of \$2.4 million, has two components: support to farmers and agro-enterprises (\$33.2 million) and institutional development (\$3 million). The largest component includes *i)* a supply chain credit facility to finance capital investment, input provision and export activities; *ii)* a matching grant facility for extension, technology services and developing business linkages; and *iii)* a rural roads improvement facility. The institutional development component will support public sector capacity building in sanitary and phytosanitary (SPS) and certification as well as providing better planting material to the cotton sector. Project management and co-ordination would largely rely on existing MACO structures (World Bank, 2006).

The ADSP incorporates significant elements of selectivity. First, it targets viable smallholder producer groups in export-oriented agricultural value chains which are already linked to markets, either directly or through various OGS, and who have benefited from capacity building and technical advisory services work carried out by other donors¹⁹. Second, it focuses on high agricultural potential areas where rapid growth in output can be generated by a strong "market pull" and the project can rapidly strengthen an existing supply response capacity. The project seeks to concentrate resources in a few districts, with a critical mass of commercialising smallholders and farmer organisations, to scale up ongoing processes and minimise transaction costs in service delivery. The selection of project provinces takes into consideration the presence of other donor-funded projects such as the ASP, SHEMP, and the AfDB Rural Credit Facility.

CONCLUSIONS

Zambia has benefited from substantial assistance to promote its agricultural sector, but results have not lived up to expectations so far. An unsupportive policy framework played a major role in determining the observed results. However, significant shortcomings did affect project design and implementation. Projects often paid little attention to local absorptive and implementing capacity, had too narrow a focus on production and food security, and lacked an adequate understanding of the socio-economic conditions and behaviour of the target groups. Lack of co-ordination resulted in duplications and insufficient scale.

Since the early 2000s there has been an important shift in policy, with greater focus on promoting PSD, including in agriculture. On the other hand, the most recent donor interventions have tried to address the shortcomings of the past and sought better co-ordination, though reliance on foreign NGOs and expatriate technical assistance staff for project management and implementation remains widespread. Although this might facilitate the achievement of short-term objectives, it does not always contribute to building institutional capacity.

Government Policies

The overall policy framework has significantly improved in recent years. However, there are apparent inconsistencies between policy statements and actual implementation. Agricultural diversification and the development of private-led marketing systems are major objectives in the FNDP, the NAP and its implementing strategies. At the same time, the biggest share of MACO's

budget finances the provision of subsidised fertilisers and buying of maize from farmers, while spending on research and extension services is inadequate.

This expenditure pattern has three negative and incoherent impacts. First, it keeps farmers in maize production, irrespective of their comparative advantage, and this is not consistent with the stated goal of promoting agricultural diversification. Second, it distorts the market for fertilisers, in contrast with the goal of promoting the development of private suppliers. Third, it reduces to almost zero the resources available to MACO to finance productivity-enhancing investment. Since ASIP ended, almost no funding has been allocated to the recruitment of extension staff or renovation of equipment.

The GRZ opposes that the FRA/FSP are necessary to support poor farmers in remote areas, where private suppliers are reluctant to operate. While there is general agreement that poor households need support, it is at best controversial that agricultural policy is the most efficient tool to provide such support. First, these interventions create distortions; and second, available evidence suggests they are not achieving their stated goals. As shown by research at the FSRP, the FSP has had little capacity to target relatively poor farmers (wealthier households benefited more) and to induce increases in fertiliser use and yields (also because of delayed deliveries). While there might be political economic reasons explaining the difficulty of phasing out these programmes, GRZ and relevant stakeholders should discuss ways to ensure support to the poorest households is delivered in a more cost-effective way and without diverting resources from much needed investments and crowding out private suppliers.

Impact and Sustainability

The new generation of projects focused on market linkages has borne good results in helping small farmers to increase production and better integrate into markets. These projects have also been at the forefront in promoting techniques that have boosted production, particularly conservation farming, and have shown that, by using facilitation techniques with a business focus, small producers are able to adapt quickly to a business-focused enterprise management.

If it is undeniable that most projects achieved their specific (short-term) objectives, it remains difficult to prove whether these results are sustained over time. On the one hand, some results, such as building trust between farmers, private sector and government, strengthening the voice of farmers' organisations or changing farmers' mindset, are intangible and difficult to measure. On the other, there are very few impact assessments conducted beyond the project cycle. Post-evaluation of the Economic Expansion in Outlying Areas, the forerunner to the ASP, found little evidence that the good results seen at the end of the programme had endured beyond five years. This is partly due to the low multiplier effect of the projects restricting results mostly to the direct beneficiaries. In the case of CLUSA, the dropout rate among beneficiaries was reportedly very high while the credit scheme that went along with the project collapsed because of low repayments. There are also questions concerning the cost-effectiveness of the projects and whether the services provided could be replicated by agribusiness once the project is wound up²⁰. In fact, very few of the reviewed projects incorporated specific provisions for preparing an exit strategy.

Even where projects are cost-effective and successful, as in the case of ASP, there are still concerns regarding their longer-term impact on farmers' income security and on the ability of the partner institutions to take over effectively executive responsibility. However, these more successful examples point to important lessons for project design, implementation and monitoring, which are being incorporated in the new projects.

Project Design and Content

The late 1990s have witnessed a significant change in perspective in project design and content: from food security and co-operatives, to sizeable commercialisation programmes. Past

interventions focused almost exclusively on boosting production related to food security, with little or no attention to marketing and demand conditions. Donors and government now agree that promoting entrepreneurship and private sector development in rural areas is a necessary condition for fighting poverty. Pioneered by USAID, the recognition of the need to support market linkages has become more established and now characterises most donor programmes.

Donors acknowledge that the problems affecting agriculture need to be addressed in a holistic manner and projects increasingly adopt a value chain approach. However, only a few have managed to engage adequately with market intermediaries, which are the primary and often more important source of market access, credit and advice to smallholders. Thus far, there has been an over-concentration on teaching farmers business skills in the hope that this would lead them to participate better in markets. Evidence shows that access to markets must be strongly facilitated for its own sake and that the development of demand-driven support structures is a complex and slow process. There are some promising experiences, for example in demand-driven agricultural advisory services (ASP, PROFIT), export promotion (MATEP) and establishing a commodity trading system (SHEMP/ADC). While these projects are important sources of experimentation and innovation, their impact remains limited. The challenge is to scale them up, while taking into account local implementing capacities and ensuring that the donor does not crowd out private providers.

Overall, there has also been a move from general support to raising production towards supporting a cluster of crops identified for their potential. The next logical step has been to identify crops targeted for exports. A focus on commodity clusters has led to a more rigorous application of the value chain analysis to identify the constraints faced at all levels, and support is now being retooled to meet these needs. The downside to this approach is that domestic and international developments could negatively affect competitiveness of export commodities very quickly, as shown by the rapid appreciation of the Kwacha in 2005-06. Where producers have been given few alternatives to switch because only a small cluster of products have been promoted, the adverse impact on trade and producers' wellbeing will not be corrected within the short to medium term.

While there has been an increasing involvement of donors in promoting export-oriented commodities (e.g. horticulture, spices and honey), sectors such as dairy and livestock, which have a high potential for poverty reduction, have not received adequate attention and resources. A major constraint for donor involvement has been the lack of a clear sector policy, strategy and standards. The promising results of some recent interventions, such as Land O'Lakes in dairy, and PROFIT, ASP and SHEMP/ADC in livestock, have brought renewed attention to the sector.

Donor Co-ordination & Donor-Government Relations

Donor co-ordination has significantly progressed, but there are still major obstacles to setting up a sector programme in agriculture. With the adoption of the JASZ, there is an emerging division of labour, with fewer donors active in agriculture. The creation of the Ag-SAG and the regular meetings of the donor co-ordination group have improved the dialogue with government on agricultural policies and contributed to reaching a common understanding on the sector within the donor community²¹. However, there remain some controversial issues, especially regarding the scale of GRZ funding to the FSP/FRA programmes versus productivity-enhancing investments.

Despite progress, co-ordination remains at the central level and focused on general policy issues, while there is no common platform for operational co-ordination, either at the centre, or on the ground where this is at best left to managers who might not necessarily have incentives to collaborate²². From now on, different donor projects are being implemented in the same area, sometimes with the same farmers participating in more than one project. Co-ordination on the ground should be ensured by MACO staff at the district level, but they have neither real power, nor resources. In general, implementing NGOs have more information and resources than MACO staff.

GRZ and donors should also better exploit synergies between the agricultural and PSD agendas, to ensure coherent policies and approaches. Despite the establishment of several working groups, the implementation of the PSD reform agenda is lagging behind schedule.

Government Capacity

MACO's weak capacity to co-ordinate donors and ensure project integration remains a major problem. The situation is further complicated because, on the one hand, most donors operate through structures outside the Ministry, directly supporting projects in the field — making it sometimes difficult even to track the exact amount of donor resources to the sector; while on the other, MACO officials have an incentive to secure projects, which bring with them project management responsibilities and higher salaries.

Capacity problems also persist in terms of research and extensions, areas which have long been neglected and underfinanced, and even more so at the district level. Although the FNDP assigns resources to strengthen government capacity, its implementation “appears as being limited to MACO activities and (quasi-) public sector actors, which are mostly co-ordinated at national level, with a few additional programme components implemented through the provincial administration” (Droppelmann, 2005). This is particularly worrisome, given the need to tailor interventions to the specific conditions and needs of local communities, and monitor them. Capacity at the district level is insufficient and there are no monitoring indicators to assess results at the local level²³. The GRZ Decentralisation Implementation Plan has not yet been approved and financing for this process is considered to be insufficient. GRZ and donors have reached consensus to support decentralisation through a Programme Based Approach — currently under design.

Table A.1. Budget Allocations to the Ministry of Agriculture and Co-operatives, 2005-10 (Kwacha billion)

Source	MTEF 2006-2008		Budget 2005		MTEF 2006-2008 ceiling		Budget 2006		MTEF 2006-2008 projection		Budget 2007		MTEF 2008-2010 Projections		
	2005	2006	2005 allocation	2005 execution	2006	2006	2006 allocation	2006 execution	2007	2007	2007 allocation	2008 allocation	2008	2009	2010
MACO of which	345.5	359.8	352.3	346.3	359.8	580	597.2	396.48	1 062.8	800.5	868.5	1060	1182		
FSP	140	150	140	140	150	198.8	193.1	150	150	185	150	150	150		
FRA	59.1	50	59.1	59.1	50	50	140	50	205	90	80	80	80		
Total government expenses	9 316	7 792	9 395	8 846	7 792	9 942	8 618	8 412	12 034	13 761	12 810	13 882	14 925		
Share of MACO in total	3.7	4.6	3.7	3.9	4.6	5.8	6.9	4.7	8.8	5.8	6.8	7.6	7.9		
Share of FSP/FRA in MACO	57.6	55.6	56.5	57.5	55.6	42.9	55.8	50.4	33.4	34.2	26.5	21.7	19.5		

Note: FSP: Fertiliser Support Programme; FRA: Food Reserve Agency. Allocations do not include donor funding or other resources for the agricultural sector which are channelled through other ministries or agencies.

Source: Zambia Ministry of Finance and Planning (MoFNP) (2006a, 2006b, 2007a, 2007b, 2008).

Table A.2. Major Ongoing and Planned Donor Projects in Agriculture

Donor	Project	Amount	Duration	Objectives
AfDB (*)	Agricultural Sector Investment Programme (ASIP)//ZAMPPIP	\$21.9 million (UA 15.0 m)	1998-08	The AfDB support to ASIP has four main components: Agricultural Development, Livestock Development, Infrastructure and Technical Assistance. It is directly implemented by the MACO. ZAMPPIP aimed at stimulating private sector participation in agricultural production and marketing in three provinces by improving access to credit and investment financing for rural infrastructure. The Zambia National Commercial Bank administers the project's Rural Credit Facility and Rural Investment Fund. An international NGO manages the scheme.
	Small-scale Irrigation Project (SIP)	\$8.83 million (UA 6.05 m)	2002-09	To increase food security and generate income of households in Lusaka and Southern Provinces through six small-scale irrigation schemes.
	Smallholder Agricultural Productivity and Marketing Support Project (SAPMSP)	\$29.6 million	2008-13 (not approved yet)	Improve smallholders' production and marketing capacity in food and cash products for domestic and export markets through: (i) support to existing OGS; (ii) formation of new farmer groups and training (especially in Integrated Pest Management and compliance with EurepGAP); (iii) support to seed growers and distributors through supply of improved seeds and planting material; (iv) dairy development activities.
	Smallholder Irrigation and Marketing Infrastructure Support Project (SIMISP)	\$56.0 million	2008-14 (not approved yet)	Contribute to increased agricultural productivity through the development of rural irrigation and marketing facilities (especially for dairy and livestock) and targeted institutional capacity building.
IFAD	Smallholder Enterprise and Marketing Programme (SHEMP)	IFAD loan: \$15.9 million (Total cost: \$18.4 m)	2000-08	Strengthening smallholder enterprise groups; Improved access to suppliers and markets, including rehabilitation of feeder roads; Development of agribusiness sector and trading enterprises serving small-scale farmers.
	Smallholder Livestock Investment Project (SLIP)	IFAD loan: \$10.1 million (Total cost: \$15.0 m)	2007-14	Improve livestock disease control and to re-establish and restock poor smallholder farmers who lost their cattle to disease; Improve related policy formulation and implementation.
	Rural Finance Programme (RFP)	IFAD loan: \$13.8 million (Co-financing: SIDA US\$4.5 million)	2007-14	Support the development of long-term rural financial services for rural poor people through sustainable community-based financial institutions.

World Bank	Agricultural Development Support Project (ADSP)	\$37.2 million (IDA loan)	2006-2012	To support increased commercialisation of smallholder agriculture through improved productivity, quality and efficiency of selected value chains by <i>i)</i> providing resources for working capital and term lending for capital investments in agricultural production and marketing; <i>ii)</i> developing innovative business linkages between smallholders and other actors in the supply chains; and <i>iii)</i> targeting investments in public goods and in key public sector functions.
	Commercial Agriculture Project (CAP)	\$30 million (IDA loan)	Under discussion	Promote the development of commercial agriculture through: <i>i)</i> Irrigation Development; <i>ii)</i> Land administration and land use planning; and <i>iii)</i> Market development and information.
EC (**)	Agricultural Diversification and Food Security Project (ADFSP) - under 9th European Development Fund (EDF)	EUR15 million	2006-08	Assisted in the design of a national food security strategy; support small scale farmers and vulnerable households Western and North Western Provinces; Support to Ministry of Agriculture extension staff
	Food security and agriculture diversification (under 10th European Development Fund (EDF)	EUR30 million	2008-13 (disbursements in 2010-212)	Continue and extend the implementation of the food security plans; Supporting new public initiatives and investments planned under FNDP to promote agriculture production, diversification, marketing and local-value addition.
	Promotion of Conservation Farming and Crop Diversity for Increased Rural Household Food Security	EUR1.97 million	2005 – 07	Promoting conservation farming practices in Southern, Central and Eastern provinces
	10th EDF EPA/Trade related support	EUR2 million	2008-13	Capacity building for policy, regulatory and marketing interventions to enhance SPS standards, certification and marketing conditions.
Finland	PLARD	EUR10 million	2007-10	Promoting sustainable commercialisation and development of fisheries, agriculture and agribusiness; Fostering a supportive policy, regulatory and institutional environment.
Netherlands	BDS Voucher projects	ZMK20 732 billion Co-financed by The Netherlands (12.5 bn), Finland (7.5 bn) and ILO (0.732 bn) + GRZ ZMK 4 bn counterpart financing	2007-10	Promote the development of demand-drive BDS for SME, including in agribusiness, through a voucher system.
Sweden	ASP	\$42-44 million (SEK331.5 m) including a SEK20 m contribution from Norway	2003-08	Entrepreneurship and Business Development; Improved Land, Seed, Crops and Livestock productivity; Improved Service Delivery of Support Entities

United States (***)	Production, Finance and Improved Technologies (PROFIT) Project	\$15 million	2005-10	Improve the competitiveness of selected agro-industries with large numbers of micro and small enterprises (MSE) through: <i>i</i>) better inter-firm co-operation; <i>ii</i>) more developed support markets; <i>iii</i>) building credibility and confidence in market mechanisms.
	Market Access, Trade and Enabling Policies (MATEP) Project	\$10 million	2005-10	Increase agriculture exports and tourism revenue by working to overcome barriers to trade and forging trade linkages.
	Land O'Lakes	\$13 million	2004-09	Enhancing the productivity of smallholder dairy farmers and dairy processors through: <i>i</i>) improved quality of dairy cattle; <i>ii</i>) development of reliable milk marketing channels; <i>iii</i>) adoption of new processing technologies and better safety and quality management systems; <i>iv</i>) marketing and promotional campaigns; <i>v</i>) development of warehouse receipt system.

Note: exchange rate Currency Equivalents: UA1 = \$1.45949 (October 2006 Exchange Rates).

(*) No detailed information was available on the cost of the SAPMSP project. The reported amount was deducted from its Environmental and Social Management Plan Summary. The AfDB also supports two multi-country projects. The African Development Fund provided a \$4.5 million grant to COMESA for an Agricultural Marketing Promotion and Regional Integration Project (2004-2007) to enhance safe intra- and extra-regional agricultural marketing. The AfDB provided a loan to Burundi, DRC, Tanzania and Zambia for the Lake Tanganyika Integrated Regional Management Programme (2005-2011) where Zambia's share amounts to \$4.76 m (UA3.26 m).

(**) The EC also finances a EUR7.9 million project for the Promotion of Regional Integration (PRINT) in the SADC Livestock Sector and a EUR10 million Regional Food Security and Risk Management Programme (REFORM) for Eastern and Southern Africa, to be implemented by IGAD and COMESA. Under the 10th EDF the EC will also fund a EUR465 million regional support programme for the Eastern and Southern Africa-Indian Ocean Region to promote regional integration, management of natural resources and food security. See European Community (2007).

(***) USAID also finances the Southern Africa Regional Competitiveness Hub which provides technical assistance in areas such as sanitary and phytosanitary (SPS) capacity, business linkages, transport/energy sector activities.

Source: Donor agencies.

NOTES

1. Some 92 per cent of rural households lived under the poverty line in 1993. The situation improved steadily afterwards, and rural poverty has declined to 74 per cent in 2003 (Jayne *et al.*, 2007).
2. The horticulture sector has only started to recover from the bankruptcy in 2004 of the major buyer and exporter contractor, Agriflora, which had set up a modern logistic chain and contracted numerous outgrowers. Heightened competition, resulting in pirate buying from competitor suppliers, has brought the paprika sector to the verge of collapse.
3. They include the Golden Valley Agricultural Research Trust (GVART), the Livestock Development Trust (LDT), the Cotton Development Trust (CDT) and the Zambia Export-Crop Growers Association Training Trust (ZEGATT).
4. As identified in the latest UNCTAD Investment Policy Review, “there remain significant legal and administrative impediments to investment” (p. 15) and the 2006 Zambia Development Agency Act “has in many ways made the environment more restrictive for investors” with the introduction of compulsory licensing and screening of new investors (UNCTAD, 2007, p. 19).
5. The core FNDP costs exclude the general administration, running expenses and personnel-related expenditures in the implementing sectors – except for health and education. The core FNDP cost estimates also exclude very large capital programmes, which are expected to be financed through private capital flows, although they appear in their respective sector chapters. The total cost amounts to ZMK55 287.45 billion (\$13.4 billion). GRZ is committed to financing 65 per cent of the core expenses, while relying on external financing for the rest.
6. These data should be interpreted with caution since only part of the approved allocations in the budget are effectively disbursed and there are funds accruing to the agricultural sector which are not channelled through MACO, but through other ministries and agencies (e.g. for rural infrastructure). Donors provide substantive funding to the sector, but only part of these funds is channelled through government structures.
7. The inclusion of maize imports under the MACO budget can significantly distort the true resource envelope available to the sector. In 2003, out of the total ZMK499 billion allocation, ZMK240 billion was for grain imports (Govere *et al.*, 2006).
8. The resource envelope to the sector is in fact higher, since it includes part of the \$108 million commitments to environmental protection and natural resources. For instance, Norway committed \$30 million to this area, mainly to support conservation farming, which has a significant potential to increase agricultural productivity and in a sustainable manner.
9. The SAPMS project was appraised in 2006 but the Ministry of Finance has not yet given its approval for contracting the new loan from the AfDB. So the project is not operational.
10. Signatories include 12 bilateral donors (Canada, Denmark, Finland, Germany, Ireland, Italy, Japan, The Netherlands, Norway, Sweden, the United Kingdom and the United States) and 4 multilateral ones (African Development Bank, European Commission, UNDP, World Bank)
11. NORAD is a major donor in the area of natural resource management, with a strong focus on biodiversity and sustainable management of these resources. Through its assistance to the ZNFU Conservation Farming Unit, it supports the development of environmentally and climatically adapted agriculture for small-scale farmers.

12. The GRZ has set up an Irrigation Development Fund, to be managed by a commercial bank. There are different views in government on the ideal structure to manage the project. MACO has proposed hosting the management unit, while donors would prefer an independent structure, outside the Ministry, replicating the successful experience of the National Road Authority.
13. Evaluations include: IFAD (1997), Ministry for Foreign Affairs of Finland (2001), James *et al.* (2001), World Bank (2006), Ramboll Natura AB (2005), Oxford Policy Management (2007).
14. A telling example is the unsuccessful attempt of several projects in the Northern region to change farming practices away from slash-and-burn shifting cultivation (so called "chitemene") to more permanent farming systems, on grounds of its negative environmental consequences. As a recent evaluation (Oxford Policy Management, 2007) shows, the programme designers failed to understand the sociological and political dimensions of chitemene. They only emphasised its negative aspects, while ignoring the advantages that it conferred on the cultivators in terms of flexibility and food security. The programme did not offer a viable alternative providing all the advantages of slash-and-burn farming. Therefore, farmers felt that the programme was aligned against them.
15. The bilateral agreement signed in 2003 also included a project to support the Policy and Planning Department of MACO and a pilot project on export of organic agricultural product as part of the regional programme on Export Promotion of Organic Products from Africa (EPOPA). In 2007 a decision was taken not to continue EPOPA owing to limitations in the contract arrangements, while support to MACO Policy and Planning had not yet started. SIDA also finances the ACF and the ZNFU/CFU, and will co-finance IFAD's Rural Finance Programme.
16. See James *et al.* (2001) for a review of these programmes and Ramboll Natura AB (2005) for how their experiences have been incorporated into ASP.
17. The survey used a sample of 2 150 ASP Phase I households together with a matching control group sample of about 400 non-ASP households, from ASP Districts but outside ASP camps. The sampled ASP households had been exposed to the programme for a full three-year period.
18. The cross-border SMS market information service would provide farmers and traders with daily information on stock availability, indicative market prices and sales trends. Congolese traders will access the information in French via Vodacom DRC, and Zambian traders and farmers will receive data in English via AfriConnect/Celtel. (www.ifad.org/newsletter/pf/5.htm#3).
19. The original project formulation proposed to support productivity enhancement of subsistence farmers and had a string emphasis on supporting public extension. The project was reformulated to take into account the new government agricultural policy which focuses on smallholders' commercialisation. It is estimated that some 65 000 commercialising smallholders would directly benefit from ADSP, while up to 55 000 could indirectly benefit, also thanks to the rehabilitation of feeder roads. See World Bank (2006), pp. 12-13.
20. An example is the collapse of CLUSA groups involved in paprika production which were taken over by Cheetah Zambia. It was quickly discovered that the services provided to farmers were expensive and Cheetah could therefore not afford to pay a similar price to that which farmers received while with CLUSA. Both sides felt disgruntled and discontinued the arrangement.
21. For instance, the WB is committed to co-ordinating the implementation of the ADSP with USAID's MATEP and IFAD's RFP. The Bank has also agreed with the AfDB on a common harmonisation framework to co-ordinate their support for smallholder commercialisation.

22. There are few examples of co-operation. For instance, ASP contracted from time to time co-operatives ZATAC and SHEMA to undertake specific assignments such as developing training or extension material or undertaking studies related to programme implementation.
23. The ACF is currently developing some food security indicators at the district level thanks to the EC-funded food security and agricultural diversification project.

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