

Evaluation Report 4.83

Rural Development Fund —
Zambia



The views and interpretations expressed in this report are those of the authors and should not be attributed to the Norwegian Agency for International Development (NORAD).

EVALUATION REPORT

ON

THE SPECIAL FUND FOR RURAL DEVELOPMENT,
DEVELOPMENT BANK OF ZAMBIA

DESEMBER, 1983

C O N T E N T S :

	Page:
1. SUMMARY OF THE MISSIONS FINDINGS	1
2. RECOMMENDATIONS	3
3. OBJECTIVES AND IMPLEMENTATION OF THE EVALUATION	4
4. THE SPECIAL FUND FOR RURAL DEVELOPMENT, THE SFRD	5
4.1. Background	5
4.2. Objectives of the SFRD	6
4.3. Loan conditions	7
4.4. The SFRD in the Zambian rural development context	8
4.5. The SFRD performance vis-à-vis NORAD's principles of development cooperation and assistance to Zambia in particular	12
5. MANAGMENT OF THE SFRD BY DBZ (1977-81)	14
5.1. DBZ Organisation	14
5.2. Project promotion and identification	19
5.3. Project appraisal, selection and assistance to project promoters for project design within the Development Bank of Zambia, and adequacy of loans.	20
5.4. Extension services, supervision, control of repayment, interest and arrears	23
5.5. Cooperation between DBZ and NCDP	27
5.6. Cooperation between DBZ and NORAD	28
5.7. Size and structure of the SFRD vis-à-vis effective rural development	30
5.8. Experiences from the CIDA financed part of the SFRD	32

	Page:	
6.	THE IMPACT OF THE SFRD FUNDED PROJECTS ON THE ECONOMIC AND SOCIAL SITUATION OF THE RURAL POPULATION	33
6.1.	Profitability and viability	34
6.2.	Choice of technology	35
6.3.	Employment cost/employee	37
6.4.	Employment effect on men and women	38
6.5.	Integration	39
6.6.	Effect of the SFRD on Zambia's balance of payments situation	40
6.7.	Effects of the SFRD projects on Zambia's food situation	41
6.8.	Environmental effects of the SFRD projects	42
6.9.	Effects on patterns of ownership and income distribution	43
6.10.	Regional distribution and location of the projects	44
6.11.	Distribution of Projects between categories	45
6.12.	Provision of basic goods and services for local population by projects	45
7.	RECOMMENDED GUIDELINES FOR FURTHER ASSISTANCE FROM NORWAY	47
7.1.	Objectives of rural development	47
7.2.	Recommended guidelines for further assistance to the SFRD	48
7.3.	Recommended assistance to small scale agriculture	51
7.4.	Recommended assistance to institutions promoting small scale production	53
7.5.	Recommended assistance to Gwembe District	54

A P P E N D I C E S

1. Terms of reference.
2. Agreement between Norway and Zambia regarding assistance to SFRD.
3. Organization chart of DBZ.
4. Description of SFRD projects visited.
5. List of pipeline projects for SFRD funding.
6. Map of Zambia with Regional Distribution of SFRD projects.
7. Programme for the SFRD Evaluation Team.
8. Persons met by the Evaluation Team.
9. Special fund for rural development (SFRD) - Rules of operation.

IV

A b b r e v i a t i o n s

ADB	- African Development Bank
AFC	- Agricultural Finance Company
ARPT	- Adaptive Research Planning Team
CCS	- Cooperative Credit Scheme
CDC	- Commonwealth Development Corporation
CFC	- Cattle Finance Company
CIDA	- Canadian International Development Agency
CP	- Central Province
DBZ	- Development Bank of Zambia
ECU	- Eastern Province Cooperative Union
EP	- Eastern Province
FAO	- Food and Agriculture Organization, U.N.
GRZ	- Government of the Republic of Zambia
IBRD	- Int. Bank for Reconstuction and Development
IRDP	- Integrated Rural Development Programmes
K	- Kwacha
LIMA	- Government Programme for intensive small-scale farming
LP	- Luapula Province
NAMBOARD	- National Agricultural Marketing Board
NCDP	- National Commission for Development Planning
NORAD	- Norwegian Agency for International Development
NP	- Northern Province
NWP	- North-Western Province
PIC	- Prices and Incomes Commission
PPU	- Provincial Planning Unit
RDC	- Rural Development Corporation
SFRD	- Special Fund for Rural Development
SIDO	- Small Industries Development Organisation
SP	- Southern Province
TNDP	- Third National Development Plan
UNZA	- University of Zambia
VAP	- Village Agricultural Programme
VIS	Village Industry Service
WP	Western Province
ZADB	Zambia Agricultural Development Bank
ZCF	Zambia Cooperative Federation

1. SUMMARY OF THE MISSIONS FINDINGS

- * The fact that the Zambian economy is still under pressure due to prolonged drought, falling copper prices and general world recession, has made it necessary for the government to set strict development priorities.
- * The split Zambian economy with a modern/urban and a rural/poor sector seems to have become further entrenched, despite commendable efforts from the government, for instance to increase agricultural producer prices.
- * Many government institutions fail to provide adequate services for a sustained development of especially remote rural areas.
- * The focus of the Third National Development Plan on the Small Scale farmer as the most important group for the restructuring of the Zambian agriculture has not been maintained in resource allocation.
- * The Zambian Government has repeatedly committed itself to increase food production and attain selfsufficiency not later than 1990, through for example the "Operation Food Production Programme", announced in 1980.
- * A more detailed Food Strategy has recently been adopted aiming at a more optimal production pattern, minimizing subsidies and stressing income generation for the rural poor.
- * The mission found that the Development Bank of Zambia (DBZ) had managed the Special Fund for Rural Development (SFRD) efficiently from a banking point of view, and according to the Rules of Procedure of the Bank.

- * The Bank has followed the SFRD Agreement between Norway and the Government of the Republic of Zambia in respect of the wide terms of reference stated therein.
- * Due to the structure and the lending terms of the Bank, the projects financed by the SFRD are of a large-scale and high-technology nature, in a majority of cases.
- * The emphasis on large-scale agricultural projects blunted the SFRD as an effective tool for sustained rural development.
- * A number of the borrowers and projects were found to have a financial strength that would make lending on concessionary terms seem unwarranted.
- * Due to the lack of clearly defined objectives in the agreement, projects with foreign ownership, large scale agricultural projects and urban based projects have also been funded.
- * There is a conspicuous lack of credit facilities, short-medium- and longterm, for the majority of small scale producers. The situation is particularly difficult for women farmers.
- * The DBZ has not made any major effort to promote the SFRD.
- * The projects funded by the SFRD have not contributed towards a more even distribution of income between the socioeconomic groups in Zambia.
- * The technology which have been employed have made little impact on development of local skills and techniques.
- * The projects have provided few permanent employment opportunities and the cost of jobcreation has been very high.

2. Recommendations

The following recommendations should apply both to new funds made available by NORAD to the SFRD or any other institution, and to the funds already revolving in the SFRD supplied by NORAD 1977-1981.

1. New funds from NORAD for credit should be managed with a strong emphasis on rural small-scale production. Credit should be available for short, medium and long term lending.
2. Credit for rural industrial projects should continue to be managed by the DBZ, with amendments being made in the "Rules of Operation" for the Special Fund for Rural Development.
3. Credit for small scale agriculture in rural areas should be managed by institutions with a structure for providing credit to small scale farmers, like the ZCF Finance Services Ltd.
4. The mission recommends that NORAD make a more detailed study of institutions that provide credit to small scale farmers (short - medium - long term).
5. Special consideration should be given to the provision of credit for female small scale farmers and entrepreneurs.
6. Credit should be supplemented by funds for management support, extension services and training of borrowers.
7. Technical assistance through provision of scholarship and expatriate staff should be considered for rural development institutions such as VIS and SIDO.
8. The cooperation between institutions dealing with small scale industries promotion and DBZ should be developed and strengthened further.
9. The DBZ should have a more pronounced development approach particularly in its orientation towards rural development.
10. Agreements should be precise and concise with regard to target groups and objectives and if possible with quantifiable subgoals.

Lusaka 10 November 1983


Jackson Banda


Hugo Berch


Gunilla Hesselmark


Irene Hoel


Robert Malama Kafwembe

3. OBJECTIVES AND IMPLEMENTATION OF THE EVALUATION

The present agreement between NORAD and the Government of the Republic of Zambia on the Special Fund for Rural Development was prolonged in April 1982, up to the end of 1984. It was agreed at the country programme negotiations between GRZ and NORAD in 1982 that the activities of the fund (hereafter SFRD) administered by the Development Bank of Zambia (DBZ) should be evaluated.

The purpose of the evaluation is spelled out in detail in the Terms of Reference, see Appendix 1. The main objectives are:

1. Evaluate the impact of the projects funded by the SFRD, using a number of socio-economic criteria.
2. Evaluate the DBZ management of the SFRD and advise on possible amendments in the SFRD.
3. Indicate possible future alternative channels for funds to rural development, considering the development policy of Zambia and the principles of development cooperation of Norway.

The evaluation was carried out during the period 18th October-11th November 1983 by the following team:

Mr. Jackson Banda	Economist, Village Industries Services, Lusaka
Mr. Hugo Berch	Team leader. Economist and Rural Development Consultant
Ms. Gunilla Hesselmark	Economist, Development Consultant
Ms. Irene Hoel	Social Scientist, NORAD, Oslo
Mr. Robert Malama Kafwembe	Economist, Small Industries Development Organization (SIDO)

The team held introductory meetings in Lusaka on October 18th and had to start early fieldtrips October 19-22th, in two groups, to the Western and Northern Provinces, respectively. Short trips were also made to Eastern and Southern Provinces in the beginning of the third week. Follow-up meetings and report writing took place in Lusaka during the period November 2-10th. A draft report was presented at a round-up meeting held on 10 November at the National Commission for Development Planning, NCDP.

For the itinerary and a list of persons interviewed, see Annexes 6 and 7.

4. THE SPECIAL FUND FOR RURAL DEVELOPMENT, SFRD

4.1. Background

The Development Bank of Zambia, DBZ, was established by an act of Parliament in December 1972; its main objective being to provide medium and long-term credit to projects in industry, construction, transport, power, tourism, mining and large-scale agriculture. Since the Bank began its operations in 1974 a total of 119 m Kwacha have been granted up to 1982, for 220 projects, of which 16% of the amount has gone to predominantly large-scale agricultural projects. According to its charter the Bank shall also promote new projects and take part in the national plans for the development of Zambia.

Already in 1975 the bank decided to establish a separate fund for rural development since projects in this field would often be unprofitable unless funded on more concessionary terms. The Bank expected the donor agencies and the GRZ to contribute to the fund.

An agreement on NORAD assistance to the Fund was signed in 1976 providing 15 mill. NKR. The agreement was prolonged in April 1982 with an additional amount of 6,8 mill NKR, and it expires by the end of 1984. The Fund has increased its activities, particularly the last years, and has very limited resources available for the rest of the agreement period. A request for an additional NORAD contribution to the Fund has been forwarded.

The Canadian International Development Agency (CIDA) is the only other contributor to the Fund.

4.2. Objectives of the SFRD

The purpose of the fund according to its "Rules of Operation", is to make available long term and medium term loans on concessionary terms, for projects contributing to the economic development of the rural areas.

Within the framework of the SFRD, projects eligible for this fund are co-operatives, settlement schemes, parastatal organisations and other productive enterprises. Due to the fact that most of these projects are considered to be very risky, and would not be able to meet normal interest rates and obligations; soft conditions and terms, such as long grace and repayment periods and low interest rates, have been applied. This is a way to boost and enlarge productive investments in the rural areas.

4.3. Loan conditions

The projects are supposed to be located in "rural areas", but the Agreement does not contain any clear definition of where this is. Projects in urban areas can be funded if they have clearly defined benefits for the rural areas. The NCDP has defined the urban area in Zambia as the area within 50 km of the traditional line-of-rail. In preparation of the Agreement "rural" was taken to be 10-15 km or more outside the traditional line-of-rail, and provincial head-quarters were included in the term "rural".

Among the potential clients a priority was to be given to cooperatives. It was also stipulated that the projects should be 100% owned by Zambians.

The size of the loans can vary from the minimum of K 25.000 up to a maximum of K 3.000.000. The limits are set according to the DBZ act. Loans above K 200.000 should be submitted to NORAD for approval. The Bank expects a minimum equity contribution in cash or kind of 20-25% from the promoter of the project.

The lending rate varies between 3 and 6%. The maturity period shall not exceed 20 years including a grace period of up to five years.

4.4. The SFRD in the Zambian rural development context

When the agreement between Norway and the GRZ on the SFRD, was entered upon in 1977, the fiscal and foreign exchange constraints in the economy had not yet fully developed, and the world recession was still in the future.

With its lack of defined targets or target group of beneficiaries, the SFRD could be used flexibly in a wide scope of rural development strategies. The growth-oriented approach of the Bank was naturally going to influence the management of the SFRD. The benefit to the donor and GRZ of the programme assistance was the low administrative cost involved.

The Third National Development Plan (TNDP), launched in 1979, meant a recognition of agriculture and rural development as the major sector in the restructuring of the economy; with an emphasis on the small scale producer. The gradual decline of the foreign exchange situation would later make an optimal use of foreign exchange all important. But the incentives for the most cost effective producers have been slow in emerging, due to traditional policies of subsidies to large scale agriculture and low producer prices. The Bank has not succeeded in reflecting the TNDP priorities in its lending through the SFRD.

In the beginning the SFRD may not have attracted sufficient attention, nor been regarded as a very important part of the operations of the Bank, since the Fund only accounts for less than 2% of the total lending. A sign of this is that implementation was very slow in the beginning and only picked up speed after outside pressure.

In relation to the total investment of K 565 mill envisaged by TNDP for the agricultural sector, 1979-83, the SFRD with around K 6 mill. (CIDA and NORAD) is of course

marginal. But compared to the major capital expenditure by the Ministry of Agriculture and its departments of K 31 mill. 1983, the Fund is still of some significance. (See table below.)

Major rural development projects in the GRZ Capital Expenditure Budget 1983

(Source Estimates of Revenue and Expenditure 1983)

	(K000)		(K000)
Rural feeder roads	835	NW Prov. Area Dev. Proj.	1.000
SIDO	200	Work Oxen Dev. programme	75
VIS	61	LIMA extension	820
Adult Literacy Programme	70	Womens Programme	96
Rural Health Centres	2.500	Womens Village Techn. project	100
Primary Health Care	250	Soil Survey Unit	500
Fisheries feeder roads	1.500	Nyangombi/Jiwundu Dev. prog.	170
NW Province feeder roads	900	Village Agr. Programme	390
Cooperative Credit Scheme	500	Gwembe South Dev. Programme	50
IRDP EP/NP/LP/NWP/CP	7.600	Adaptive Research Plann. team	144
EP Agricultural Dev. Proj.	3.800	Western Prov. Water Supply	3.270
WP Agricultural Dev. proj.	1.350	Rural Development funds in	
SP Agricultural Dev. Proj.	1.000	Prov. Cap. estimates	4.321
		<u>TOTAL</u>	<u>31.349</u>

(Total GRZ Capital Exp. 250.000.000)

The major nationwide programme for rural development is the Integrated Rural Development Programme (IRDP) operating in five provinces with a budget of K 7,6 mill 1983. This programme tries to tackle a number of constraints for small-scale agricultural production with a predominantly district level approach. The achievements have been encouraging when the whole chain of operation from production to marketing of the end product has been given attention. The IRDP has also promoted the LIMA-concept in small-scale farming extension which has had some success despite adverse weather conditions.

Another potential agent for effective rural development is the cooperative movement with a present membership of about 100.000 rural households organized in 778 primary societies and 9 marketing cooperative unions with the apex organization of Zambia Cooperative Federation.

(The second largest loan from SFRD was given to the Northern Cooperative Union). The movement has been in a phase of reconstruction since the almost complete takeover of marketing functions from Namboard in 1981. The movement has recently adopted a fiveyear plan to strengthen the movement especially at the multipurpose primary society level. The plan requires the mobilisation of K 16,5 mill over five years.

The ZCF operates one of the few credit institutions with a focus on the small-scale farmer. The Cooperative Credit Scheme (CCS) channelled seasonal credit amounting to K 1,5 mill to 5,700 borrowers in the range of 1 - 6 hectares in 1982.

Another agricultural credit institutions with some small scale farming credits is the Agricultural Finance Company (AFC). The AFC concentrates mainly on farmers cultivating more than 10 hectares. The low recovery rates have been a problem for the AFC which is an affiliate of the parastatal Rural Development Corporation.

The Cattle Finance Company is another RDC affiliate of the Rural Development Corporation (RDC), granting credits for cattle financing. Approved loans in 1982 were close to K 1,5 mill.

Zambia Agricultural Development Bank (ZADB) established in 1981, has got no lending capacity so far. The ZADB is supposed to take over the functions of the AFC.

Barclays Bank operates a LIMA Credit Scheme for farmers with 5 hectares and above. In the 1983/84 season they will be lending K 5 mill., to more than 2.500 borrowers.

The commercial banks have outstanding agricultural credits, in mid 1983, amounting to more than K 100 mill.

4.5. SFRD performance vis-à-vis NORAD's principles of development cooperation and assistance to Zambia in particular

The Norwegian Government's policy for development cooperation is to support the developing countries to exercise full sovereignty over their own resources, including external aid. As a rule, NORAD, the Norwegian Agency for International Development, tries to follow the priorities of the recipient country in their development efforts.

However, Norway's imperative objective for development cooperation is to contribute towards a more even and equitable distribution of wealth among nations as well as individuals. Efforts should be made to benefit the common man and woman, in particular the poorer part of the population. The Norwegian Government acknowledges the fact that the majority of the poor people are living in rural areas, and that the least privileged among them are women. Since 1981 the objective of increasing food production, especially in Africa, south of the Sahara, has become an important objective.

The development efforts supported by NORAD in Zambia are chiefly water development in the Western Province, and agriculture and rural development in the Northern and North-Western Provinces, along with some nationwide programs such as the SFRD and the Soil Survey Unit. Agriculture and rural development aid, including the water program, amounted to approximately K 10 mill or NOK 55 mill in 1982, of which 32% went into agriculture.

In addition, NORAD made provisions for technical assistance amounting to 50 manyears in the agricultural sector.

TABLE 1

NORAD ASSISTANCE TO ZAMBIA 1977 - 1982.

Project	Area of activity	Disbursed in 1982 mill. NOK	Techn.assistance no. of people em- ployed at the end of 1982	Total amount disbursed 1977-1982 mill. NOK
Settlement Schemes NW Province	Rural Development	2,9	3	6,2
Development Bank of Zambia	Rural Development + Feasibility studies	6,9	1	23,1
Water Development, Western Province	Rural Development	33,6	7	87,7
Soil Survey Unit Commodity Assist- ance	Agriculture Construction mater- ials paper+fertilizer	4,1 10,6	8 0	10,4 35,2
Housing	Agriculture	0	0	2,0
Village Agricultu- ral Programme	Rural Development	3,0	4	5,5
Water Supply	President Citizen- ship College	0	0	1,5
Soil Productivity research project	Agriculture, small scale farming manage- ment	2,3	2	2,3
		63,4	26	173,90

NOK 6,7 mill or K 1,2 mill were released to DBZ in 1982 for projects to be supported within the SFRD. DBZ has approved loans from the SFRD to nineteen projects, of which one is funded entirely by funds from CIDA.

The projects can roughly be divided into three main categories; commercial farms, service industries and processing industries; which all create some local employment, and have other social and economic effects which we will return to in section 6.

5. MANAGEMENT OF THE SFRD BY DBZ (1977-81)

5.1. DBZ Organisation

The Development Bank of Zambia was established by an act of Parliament in 1972. The Government and Government-controlled financial institutions are majority shareholders with around 60% of the shares. The remaining 40% is owned by other financial institutions. The main objective when founding the Bank was to provide medium and long-term loan and equity financing to projects in industry, construction, transport, power, tourism, mining and large-scale agriculture. The DBZ started operations in January 1974. The DBZ is governed in its activities by the Development Bank of Zambia Act, but also by government policies, such as the Industrial Development Act of 1977 and the National Development Plans.

The Development Bank of Zambia has a Board of Directors which approves all loan applications. The day to day management is the responsibility of the Managing Director and the General Manager (see Appendix for Organization chart).

The Bank has five divisions: The Projects Promotions, Projects Appraisal, Projects Supervision, Finance and Administration and Personnel. There are also two units; the Internal Audit and the Legal Counsel. A Small Scale Enterprises Unit was also established to look into the possibilities of helping small scale enterprises, but this unit concentrated on industrial rather than agricultural enterprises. The unit will be dissolved in December 1983. It is government policy that the new Small Scale Industries Development Organization (SIDO) will provide services to project promoters in small industries, and the Bank will primarily be a financing institution.

Even though it has only one branch, which is in the capital city, Lusaka, the Bank, seen as a development finance institution, has a comprehensive and well-formalised operating policy and procedures; which the World Bank Report ¹⁾ has observed.

The SFRD Loan Conditions are different from the Normal and Small Scale Enterprises Loans (e.g. emphasis on rural areas, lower interest rate, longer repayment period, etc.).

1) I BRD, Project Completion Report No. 4515.

Comparison of lending terms under Normal, SFRD and Small Enterprises schedules:

	Normal:	SFRD:	Small Enterprises:
Eligible borrowers	Private limited companies, Parastatals Co-operatives	Private limited companies, Parastatals Co-operatives	Cooperatives, Limited Companies, Partnerships Sole proprietorships (see SIDO definition)
Purpose of loan	Medium and long-term No loans for working capital nor for seasonal loans	Medium and long-term No loans for working capital nor for seasonal loans	Medium and long-term No loans for working capital nor for seasonal loans
Loan amount	Minimum K25.000 Max 75% of total fixed cost (25% to come from the promoters) transport/tourism different: Max K 3 million	Minimum K25.000 Max 80% of total fixed cost	Minimum K5.000 Max 90% of total fixed costs
Interest rate	13,5% (agriculture) 14,0% (industry)	3-6%	12%
Commitment fee	2% on local loan component 3% on forex loan component	Not applicable	Not applicable
Repayment period	Max 12-15 years 2-3 years grace	Max 20 years 5 years grace	Not specified Max 3 years
Application fee	1% of loan amount	Not applicable	Not applicable
Security	Necessary (such as title deeds)	Necessary	Necessary

Sources: Development Bank of Zambia.

The distribution of all loans approved by the Bank as of 30th of June 1981 ¹⁾ and an analysis of the SFRD loans funded by NORAD, as of July 1983 is as follows:

Loan amount (K)	Number of loans approved	Number of SFRD loans approved	Amount approved (K.000)	Amount SFRD approved (K.000)	% of total amount	% of SFRD total amount
> 250.000	101	14	11.915	1.536	13	45
250.000-500.000	48	3	17.449	908	19	26
500.000-1.000.000	29	0	21.032	-	23	-
>1.000.000	22	1	42.811	1.000	45	29
TOTAL	200	18	93.205	3.444	100	100
<u>ACTIVITY</u>						
Industry	105	6	63.468	1.042	68	30
Agriculture	65	11	13.717	2.042	15	59
Transport	15	0	7.621	0	8	0
Mining and quarrying	8	0	6.052	0	6	0
Tourism	7	1	2.347	360	3	11
TOTAL	200	18	93.205	3.444	100	100
<u>PROVINCE</u>						
Lusaka	75	0	32.624	0	35	0
Copperbelt	50	0	31.385	0	34	0
Central	25	2	10.562	178	11	5
Southern	23	2	10.013	1.112	11	32
Eastern	14	2	5.940	100	6	3
North-Western	} 13	3	} 2.681	2.052	3	60
Northern		6				
Luapula		0				
Western		3				
TOTAL	200	18	93.205	3.444	100	100

Source: World Bank, Project Completion Report No. 4515, 1983

It will be noted from the table above that the SFRD has created a different loan pattern in terms of loan amount, activity and regional distributions. For instance DBZ normal lending emphasizes very large scale projects (45% of loan amount is for projects of more than K 1 million). Also emphasis is on industry (68% of projects approved) and 91% of total amount approved for projects were in the four traditional line-of-rail provinces.

So far the SFRD loans approved are different from the above. For instance 71% of total SFRD loan amount has been for projects of less than K 500.000 and emphasis has been on agricultural production (accounting for 59% of loan amount). Also more than 60% of the SFRD loan amount has gone to provinces outside the traditional line-of-rail as compared to 3% of DBZ total lending.

This new pattern could have been one reason for the initial slow utilisation of the SFRD by the Bank, as it had to adjust to the new pattern.

5.2. Project promotion and identification

The project promotion and identification falls under the Projects Promotions Division in the Bank. This Division's main functions are the identification of projects and project promoting, preparation of pre-feasibility studies and commissioning of feasibility studies, and general planning matters.

The Division is presently processing some 20 project ideas. In some cases projects have been initiated with equity contributions from DBZ. The Division, however, does not help entrepreneurs, who have identified projects, with feasibility studies.

Information about the existence of the Bank and the facilities therein, including the SFRD, is not spread to the public. The general public does not know that there are soft loans (SFRD) which they can apply for.

Those who have been given loans from the SFRD came to know about the Fund through other sources than the Bank. The Mission came across cases in which the project promoters came to know about the SFRD by virtue of their work in responsible positions.

The Agreement expected borrowers to be cooperatives, settlement schemes and parastatal organisations, as well as medium-scale farmers. Priority was to be given to cooperatives. Apart from two loans given to a milling company owned by a provincial cooperative union, the bulk of the borrowers are family owned companies.

There have been no conscious effort by the Bank to promote the Bank, nor the SFRD in particular. Loan distribution among different categories of clients, leaves much to be desired.

5.3.

Project appraisal, selection and assistance to project promoters for project design within the Development Bank of Zambia, adequacy of loans

These activities fall under the Projects Appraisal Division in the Bank, which is divided into agricultural and industrial departments.

The Bank has developed a method for screening and appraising projects. The investment policies and project appraisal procedures have been worked out in close collaboration with the World Bank.

The Mission has noted that the World Bank in its report on DBZ gives little consideration to the present Zambian Government's priority of agricultural development.

Project selection criteria is based on National Social and Economic priorities as reflected in the National Development Plans. Priority is given to projects which contribute towards:

- a) Foreign exchange saving and/or earning
- b) Development of local technology and of manpower skills.
- c) Creations of permanent employment
- d) Use of local raw materials
- e) Development of related industries
- f) Zambian ownership and management.

The project should also be technically feasible, economically viable, and capable of yielding an acceptable rate of return on investment. In addition, the borrowers should provide 25% (for normal loans), 20% (for SFRD) or 10% (for small scale enterprises) equity contributions.

The appraisal of projects is done by Bank staff (project officers) who go out and visit project sites. This is done after the prospective borrowers have submitted the initial relevant information. Other information is collected from various government ministries and departments, statistical publications, developments plans etc. However, borrowers are expected to find markets for their products. Very few projects have been initiated in the promotions division.

The Appraisal Division prepares a Board Paper for each project, which is then scrutinized by a loans committee consisting of some 20 senior staff from various divisions of the Bank. The report is then presented to the Board for approval/rejection/deferral.

The project design is done by the prospective borrowers themselves, who have to specify the kinds of machinery/equipment required, buildings etc. However, if the cost of these is unreasonable, the Bank will advise accordingly. The project is discussed in detail with the prospective borrowers. It is the policy of the Bank to make the entrepreneur really involved in the project design. Most of the SFRD projects are in the implementation stage. Hence it is difficult to make general conclusions on the quality of project design.

However, from one milling project visited, the Mission found that the choice of the milling equipment was such that the loan became inadequate for the project.

Project appraisal encounters some problems, in that advice obtained from different professional staff in one field may be conflicting. For instance; soils may be classified differently by two experts in the same field, and the appraisal may be based on crop productions which will not be grown by the borrowers.

Very few projects have been rejected. Most of those not granted loans are simply deferred, for instance because the prospective borrower cannot raise the equity contribution, and it is hoped that when they do, the project can go ahead.

Utilization of the SFRD was very slow initially both in agricultural and industrial projects.

The agricultural projects selected are mainly large scale farmers. The medium sized agricultural projects or the settlement schemes, identified in the Agreement, have not been reached. The "rural area" criteria for SFRD projects has been a problem for DBZ - they find it difficult to find projects which fulfill this criteria. Furthermore, the medium and large scale industrial projects which are located in rural areas have not been commercially viable. Some of the reasons given are: the long distance from urban markets, lack of local inputs, underdeveloped infrastructure in rural areas etc.

It is, however, expected that the Bank's new credit line, financing small scale enterprises where the minimum loan is reduced to K 5.000 (as compared to K 25.000), and with equity contributions of 10% rather than 25%, will stimulate industrial activity in rural areas.

Another reason for the slow start of the SFRD can be attributed to lack of promotion of the SFRD by the Bank.

The bank's judgement at the viability of a project is based on the project's first 10-12 years only, (normal loan repayment period), even for investments such as land clearance and stumping.

The criteria used will thus discriminate against projects with a large proportion of long term investments. In this respect investments in newly cleared farms with good soils and great expansion opportunities are regarded as only marginally viable.

5.4. Extension services, supervision, control of repayment, interest and arrears

These activities fall under the Project Supervision Division.

Being situated in Lusaka and having no branch offices the supervision of projects is done by staff from Lusaka.

The division comes into action once the loan agreement has been signed, and monitors the project from the pre-implementation to implementation stage. They check whether the original completion date is achieved or not. In the implementation stage the outstanding loan amount, arrears (interest and principle) and available security margin etc are looked into.

Anticipated problems are also considered. These include management, finance, technical matters, marketing, and imported inputs.

The procedures for supervision are well worked out. Each of the loan officers look after some 50-60 projects.

Since most of the projects with the Bank are in the beginning of the implementation stage there is too much work for the division, which is understaffed. There are plans to recruit and train staff for the division.

The loans officer goes through all his/her projects on a monthly basis, according to certain criteria. Every quarter the projects are scrutinized more thoroughly with respect to any anticipated problems.

The projects are classified as:

- A (good - running smoothly)
- B (satisfactory - with some difficulties), and
- C (sick projects - need supervision)

Since DBZ opened 3 projects have been cut off from further financing.

Extension services in management, training etc. are not provided by the Bank. However, once a project falls into group C, with the major indicator being failure to pay interest, the Bank will make a vigorous study of the project and make recommendations.

Each project is visited at least once a year.

The positions of the NORAD funded part of the SFRD loans as of the Third Quarter of 1983 were as follows:

THE POSITION OF THE NORAD FUNDED PART OF THE SFRD LOANS AS OF THIRD QUARTER 1983:

(Amounts in Kwacha)				
	Name of borrower	Economy activity	Loan amount	Amount disbursed
1	Northern Milling (1st loan)	Maize milling	216,000	261,000
2.	Northern Milling (2nd loan)	Maize milling	287,000	287,000
3.	Chilenga Farm Ltd.	Agriculture	520,000	47,585
4.	Namatuta Bakery Ltd. (sold)	Baking	111,800	111,417
5.	Senanga Bakery Ltd.	Baking	110,000	105,393
6.	Nimwanalume Farm Ltd.	Agriculture	46,900	46,900
7.	Nengy Trading Co. Ltd.	Baking	132,000	93,573
8.	Northern Ranching Ltd.	Agriculture	106,200	104,281
9.	Kaziwe Estates Ltd.	Agriculture	96,400	99,073
10.	Chikambwe Dairy Ltd.	Agriculture	90,600	90,600
11.	Changa Changa Motel Ltd.	Tourism	360,000	220,708
12.	Kasempa Saw Mills Ltd.	Forestry	163,000	0
13.	Mulowezi Farm Ltd.	Agriculture	99,000	0
14.	Kaleya Smallholders	Agriculture	650,000	650,000
15.	Kabompo Honey Bees Ltd.	Agriculture	107,000	82,813
16.	Saise Estates Ltd.	Agriculture	107,000	82,813
17.	Mukola Farm Ltd.	Agriculture	87,600	80,945
18.	Muyakasi	Agriculture	109,000	0

The delay in disbursements is mainly due to borrowers not being able to raise their equity contributions, or to delays in completing security documentation. In several cases the time between loan approval date and first disbursement have been 1-2 years.

The Mission found one project in which the project promoters did not seem able to plan properly: and the Bank had to put great amounts of energy into a very prolonged planning process, currently facing a third round of appraisals.

When a loan is committed and not disbursed it results in idle capital.

The Projects Supervision Division liases with the Projects Appraisal Division through the loans committee, so that the Appraisal Division gets some feedback for future appraisals of similar projects.

5.5. Cooperation between DBZ and NCDP

NCDP in their preparation and production of the National Development Plan make extensive consultations with various parastatal organizations (including DBZ) etc. Even though the bank is autonomous with regard to administration and investment policies, the selection of projects is based on National priorities, as reflected in the Development Plans.

Previously meetings were held, on a monthly basis, between Ministry of Commerce, Finance, NCDP and DBZ. These meetings, however, discussed general matters and not the administration of the Bank nor the SFRD, These meetings died a natural death.

At the annual consultations between NCDP and NORAD the DBZ presents progress reports on the SFRD-utilization, and the annual allocations to the SFRD within the country programme, are set. No detailed discussion on individual projects (loans) take place and neither NCDP nor NORAD has used this opportunity to control the SFRD in detail.

5.6. Cooperation between DBZ and NORAD

As has been pointed out earlier the SFRD was a slow starter. NORAD insisted that the projects should be in rural areas, "rural" was defined as outside the traditional line-of-rail. DBZ had (and still has) the major part of their clients along the line-of-rail.

However, the number of projects and the amounts disbursed under SFRD has picked up, and it is only NOK 5,1 million (Kvacha 0,88 million), which has not been disbursed from NORAD. Most of these funds are committed.

The pace of identifying projects has picked up considerably and there are now 15 projects in the pipeline for SFRD loans (NORAD and CIDA), with a total loan amount of K 2,952,200. The list of projects in the SFRD pipeline as of 31.7.83 is found in appendix 5.

In accordance with the agreement DBZ provides NORAD with quarterly reports on the SFRD loans.

Disbursements from NORAD to the Bank have run smoothly and no problems have been encountered.

In accordance with the agreement, proposals for loans over K 200,000 are to be approved by NORAD. Of the present 18 projects, 4 have received SFRD loans over K 200,000, (two loans to a milling company, one loan to a sugar scheme and one to a motel). The approvals for the two latter projects were preceded by intensive discussions within NORAD, on whether these projects were in harmony with the objectives of the SFRD and Norway's external aid objectives. NORAD has turned down SFRD funding to one large-scale mixed farm.

Criticism of the SFRD was voiced at the time of extending the loan agreement. It is particularly the SFRD loans to large scale commercial farms which have been questioned, but other parties within NORAD have seen the SFRD as complementary to NORADs assistance to settlement schemes and Village Agricultural Programme (VAP).

In connection with procurement of a mill, NORAD posed some questions on the technical aspects of the project, such as availability of spare parts, capacity and type of products. These questions were never satisfactorily answered. Presently the mill is facing serious problems, mainly financial, but also of technical nature.

This is an instance where Norwegian technological know-how could have been utilized to improve the project design of the SFRD projects.

5.7. Size and structure of SFRD vis-à-vis effective rural development

The scope for development of the rural areas in Zambia is considerable. It has also widened during the few years the SFRD has existed.

The absorption capacity of rural development aiming at the subsistence sector is by nature limited, with the exception of infrastructure development such as roads. Since the Bank is limited to giving out credits on soft commercial terms this excludes many of the more socially or macro-economically desirable projects from funding. The unsatisfied demand of small scale farmers for seasonal and medium term credit alone, amounts to double or treble the SFRD funds, in a normal year. Only through an intermediary like the cooperative movement would it be possible to reach a greater number of rural beneficiaries, and at the same time minimize the risk of financial losses.

The projects eligible for SFRD support is further limited by the Development Bank of Zambia Act which deliberately points out large scale corporate agriculture and industries processing products of agriculture, forestry and ranching as areas of Bank activity; hence the loan limit downwards of K 25,000. There is an inherent contradiction in that the SFRD emphasizes rural development which according to the Third National Development Plan (TNDP) should focus on the small scale commercial (emergent) farmer, whereas the Bank when managing the SFRD is bound to the Rules of Operation outlined above with its large scale bias. The conditions for the second IBRD loan to the Bank in 1980 indicates a change of direction in requesting a priority on e.g. labour intensive projects in agriculture and the setting up of a unit to assist small-scale enterprises. This direction

seems not, however, to have been followed in the management of the SFRD. A recent IBRD evaluation of the Bank criticized the Bank for not assisting the small scale enterprises well enough. The Bank has lowered its loan limit for small scale industries to K 5,000, but no such amendment has been made regarding loans for agriculture.

Another obstacle to effective rural development is the condition of a 20% minimum matching contribution from any prospective borrower. This will be a too high a hurdle for most small scale rural promoters as well as the condition that DBZ only lends to incorporated enterprises.

The Bank has been quite dedicated in keeping the SFRD on a profitmaking basis in contrast to the more long-term promotion oriented approach of the Barclays Bank LIMA Loan Scheme. A further discussion on a revised SFRD structure is to be found in chapter 7.

5.8. Experience from the CIDA financed part of the SFRD

The only other source of finance for the SFRD is forthcoming from CIDA (Canada). The agreement between GRZ/CIDA covers a loan of C\$ 2,000,000 on soft terms (free of interest, commitment and service charges, repayable in 80 semi-annual instalments commencing March 1989) for relending through the DBZ. The conditions for the loans to the clients (and borrowers) differ from the NORAD/SFRD in that the interest rate is to be 3% and that private limited companies with fewer than five (originally ten shareholders) will not be eligible to borrow funds from the SFRD. The CIDA funded SFRD has been a slow starter. The agreement was signed in December 1978 and up to now only half of the loan has been drawn by the DBZ. In particular the earlier condition of at least 10 shareholders made it difficult for DBZ to identify suitable projects. The CIDA funds have been utilized for two projects, one sugar project co-financed with NORAD, CDC, DBZ, and one large scale, family owned mixed farm. CIDA plans - according to their agreement - an evaluation of SFRD/CIDA early next year.

6. THE IMPACT OF SFRD FUNDED PROJECTS ON THE ECONOMIC AND SOCIAL SITUATION OF THE RURAL POPULATION

Zambia has not yet developed an industrial potential, neither in commodity nor in capital goods production. The country is still relying on foreign products and inputs (especially capital goods from European countries). The primary sector is the least developed, especially in the rural areas. A substantial amount of food is imported, like wheat, maize, rice and edible oils. Though the country has been self-sufficient in some commodities like sugar since 1979, goods such as soap, industrial chemicals, spare parts and other industrial inputs for development of economic activities both in the rural and urban areas have been limited.

The government policies in the Third National Development Plan have emphasized the importance of the manufacturing sector and agricultural production. Focus has also been put on the need to link the rural and the urban sector, and integrate small industrial enterprises in the rural economy.

Both private initiative and cooperative activities have been encouraged, so as to put scarce resources to optimum use. In order to control and guide industrial establishment (to avoid overcapacity, continual foreign dependency and to ensure that well conceived projects are set up), the Industrial Development Act of 1977 has laid down concessions and incentives regarding applications for industrial licences, import licences, price control, tax relief etc.

The government has given priority to

- a) essential commodity production (e.g. food)
- b) inputs for agriculture (machinery, spareparts etc.)
- c) utilization of local raw materials
(agricultural crops and minerals)
- d) export potential and foreign exchange
- e) employment generation (to reduce the
rural/urban migration)
- f) geographical spread and diversification of
industrial production.

Through various efforts and aid programmes sponsored both by foreign and local agencies, the government of Zambia attempts to make the rural areas economically viable and self-sufficient in basic commodities. This, they hope, will cut down the migration from rural to urban areas, which has averaged 125.000 a year. An example of these efforts is found in the plans made by the Provincial Planning Unit in the Western Province.

6.1. Profitability and viability

The projects are generally profitable, a few experience a marginal loss in the initial stages, but may pick up in the long run. The projects are viable from a commercial point of view, though they are capital intensive. But this has created continual dependence of foreign imports of machinery and inputs. High technology investment is not compatible with the skills and technology level of the local people. The projects are large, but reach very few people in these areas in terms of employment opportunities and job creation.

6.2. Choice of technology

Nearly all projects have a heavy foreign exchange component for machinery and spares. Being relatively highly capital intensive they defeat the national objective of utilising local technological skills and techniques. The SFRD was intended to aid development of local technology skills and manpower, and increase productivity in rural areas; but the technology used in these projects make the country still more dependent on foreign machinery, spare parts and technical expertise.

In view of the fact that the country faces foreign exchange constraints, such projects will run into serious operational problems over lack of spare parts. Such is the case with the bakeries in the Western Province.

Considering the fact that these projects are located in the rural areas, they will not receive adequate service and technical assistance when breakdowns occur. Promoters will have to travel long distances to urban areas, either for spare parts or technical assistance.

The choice of technology and its effects have been given little consideration. The rural areas have traditional skills which, if improved upon, could make funding of projects through the SFRD meaningful and beneficial to the rural areas in a very real way. The promoters of the current projects have not given due consideration to the prevailing production systems in their areas, but have opted for investments in machinery and equipment which will create problems for their projects in the long run.

The technologies which have been employed, have a negative impact on development of local skills and technique. The technologies are not easy to adapt to the rural situation, and will perpetuate the gap and disparities between traditional skills and so-called modern techniques.

In some projects, e.g. the SFRD-funded bakeries, production has been below full capacity due to scarcity of raw materials. In the rural areas small projects such as bakeries and timber sawing units should utilize traditional methods. In bakeries wood fired ovens are common, and they are compatible with local skills and technological knowhow. The same goes for the timber processing units where there are traditional pit sawers using relatively simple equipment. Such projects have been promoted by the IRDP in North-Western Province.

The average hectarage cultivated on large-scale commercial farms in Zambia is 80 hectares, and it is this category of agricultural projects that have been funded by the SFRD. Looking at the loans given (see the table on p. 27), they vary between K 47,000 and K 520,000.

According to the Resource Guide for Agriculture, to cultivate 80 ha of land with high technology management, 1 tractor (80 HP), one set of necessary tractor equipment is needed, and 8 permanent jobs are created.

On the other hand the cultivation of 10 ha of land with a combination of hand tools and ox-drawn equipment requires approximately 3 pairs of oxen, two sets of ploughs, harrows and cultivators. The number of plants, carts and handshellers needed is one to every 20 ha of cultivated land. This farm management demands 7 persons per 15 hectars. Total investment cost amounts to approx K 3,000 for the cultivation of 10 hectares.

The problem is that hardly any medium or long term credit facilities are available to farmers at this technological level. They are not classified as commercial farmers and do not have any security (title deeds) since most of them live on and cultivate traditional lands. Importation of animal drawn equipment or locally produced ones instead of high-technology equipment would save Zambia millions of Kwacha every year in foreign exchange.

6.3. Employment cost/employee

The projects have a relatively high cost per employee, in one project reaching K 34,000 (the Kaleya Smallholders Company).

This is due to high capital intensity and high total investment per project. There is little permanent employment created among the people with generally traditional skills of agriculture since relatively high formal education and technological knowledge is required.

The unemployment and underemployment situation has not been substantially reversed considering the amount of investment put into these rural projects.

Generally agricultural projects provide relatively more employment opportunities than industrial ones (though seasonal, especially for casual workers).

6.4 Employment effects on men and women

Women constitute a high proportion of the target group for integration into the economic development of Zambia. Women are the largest food producers, and a substantial part of households in rural areas are headed by women. Out of a total of 959.000 households in Zambia, 254.000 were permanently headed by women in 1974 (Source: National Food and Nutrition Commission). In addition to these are the households headed temporarily by women, while their husbands are away working in the urban areas. In other words, more than 50% of households are headed by women at any one time. Regionally, there are great differences, the largest proportion of female headed households is found in the Eastern, Northern and Western provinces (1974). The lack of labour in all these households has brought about a change in the crops women grow. They turn to less labour intensive crops like cassava and maize, inter-planted with vegetables to preserve soil fertility.

This development has led to the degradation of the status of women. Some women, as a result of partial or permanent separation from their husbands, became forced to join work parties in order to have a share of the harvest; or forced into polygamous marriages or concubinage.

Along with a loss in status, women in rural areas, have become far more important in the production process. But very few efforts have been made in improving the production techniques employed by women. Nor have they had the opportunity to learn new farming methods, or had access to employment in rural areas.

The SFRD has not changed the imbalances between men and women in relation to employment opportunities. In nearly all industrial and agricultural projects, men have been employed for skilled jobs, and women as casual workers. This is true both in bakery units, milling plants and crop production. At Kaleya Smallholders Project men will mostly be engaged productive activities, and women in subsistence (food crops) production.

The fact that men are drawn away by large farming enterprises, increases the labour constraints in rural areas. And without any financial assistance this creates a problem of low productivity and eventual poverty in the small-scale farming sector.

The women do not have the opportunities for employment because of the skills and technical competence required in such investment and projects. Such skills are not found among rural workers in general.

The SFRD funded projects have not been concerned, nor designed, with due consideration to the social, economical and technological situation in these areas. The choice of technologies and production systems has had a negative impact on the employment situation.

6.5.

Integration

The projects sanctioned by the SFRD have been integrated in the local economy in the broad sense, in that they have been set up to increase production in the rural areas. In case of the agricultural projects, they conformed to the nation's priority of increased food production. None the less the projects have not had positive effects on local related activities, they generate little real positive impact on development of local skills concerning improved methods of either industrial or agricultural production. The bakeries still rely on

inputs and raw materials from urban areas, and the equipment on the farms still need spare parts and maintenance from urban areas.

Thus they give relatively little scope for interlinkage within and between agricultural and industrial projects in the areas.

6.6. Effect of the SFRD on Zambia's balance of payments situation

The development of rural-based projects, especially agricultural ones, should lead to a reduction in the country's food imports, and have a positive impact on the balance of payments.

But most of the SFRD-funded projects are relatively capital intensive; they keep up the need for foreign imports (machinery and spares) and prevent an improvement in the balance of payment situation.

6.7.

Effects of the SFRD projects on Zambia's food situation

The ten large scale commercial farms funded by the SFRD will have a direct impact on food production. The total new acreage brought under cultivation is approximately 600 hectares. With an average yield of 30-40 bags of maize per hectare this represents a potential production increase of 24,000 bags per year, given that the inputs needed are available and not acquired in competition with existing small scale farming.

The three bakeries do not increase the amount of food available in Zambia. The effect is rather to increase the urban consumption pattern of white bread in rural areas, and making the rural areas more dependant on imported wheat and the National Milling Company in Lusaka. On the other hand the availability of bread can offer an incentive to increased cash production by potential consumers. No study has been undertaken in Zambia to look into the overall effects of this trend.

The two milling plants for maize and rice in Kasama should, when efficiently managed, have a direct positive effect on the availability of mealie meal and rice in the Northern Province. The consumer price for mealie meal is lower for locally produced meal.

The Kaleya Small Holders Company scheme will cultivate 1850 hectares of sugar cane, of which 1200 will be cultivated by smallholders. The estimated production is 12,000 tons of sugar. In addition the farmers will cultivate 150 hectares as food plots. An alternative use of the 1.850 hectares could have been to grow maize, which would have given a more positive effect on food production from a nutrition point of view. In that case the heavy investment in irrigation equipment, mainly imported, could have been saved.

A beekeeping project in Kabompo will have a positive effect on the availability of honey, and increase incomes of beekeepers in North-Western Province enabling them to buy more food. Honey is also a valuable supplementary food for children, it contains important minerals and vitamins, and it makes the porridge more digestible.

6.8. Environmental effects of the SFRD projects

Of the 19 projects funded, the landclearing on the commercial farms has a potential for negative ecological effects, but the cleared fields inspected by the mission gave no reason to fear erosion if they are managed with normal care. However, the considerable size of the commercial farms funded by the SFRD and located on the best soil will in many cases increase the pressure on the more marginal farmland. The result will be erosion or soil degradation, a tendency that has already been felt in parts of Eastern Province for instance.

The plantation cultivation of sugar, as well as large scale production of maize, is hardly possible without reliance on the whole battery of agricultural chemicals and pesticides which always implies a potential danger for man and wildlife. The irrigation system increases the occurrence of bilharzia and malaria.

The bakeries and mills can have virtually no environmental impact given their limited size. The sawmill could speed up the local depletion of forest resources in the Kasempa area if the felling of timber is done indiscriminantly.

6.9 Effects on patterns of ownership and income distribution

Most of the projects are family units, one is owned by a Cooperative Union, and there is one Small Holders Company. All SFRD-funded projects are supposed to be owned by Zambian entrepreneurs. The Small Holders Company in the Southern Province, however, is neither wholly Zambian, nor is it owned by the smallholders. It is owned jointly by the Zambia Sugar Company, the DBZ, the African Development Bank, and the Commonwealth Development Corporation. One of the foreign investors, the CDC, owns 50% of the stock. The smallholders will only be allowed to rent land, 4 ha. for sugar cane and 0,5 ha. for their house and subsistence crops. They will have to sign a contract with the company every year, and renewal is at the discretion of the company. Since the scheme is not yet in operation one cannot qualitatively analyse its success and possible benefits to the smallholders.

Some of the borrowers in the SFRD-funded projects are already in formal employment and hold senior positions in government and in the parastatal sector, and in some cases they are urban based.

The Mission found only four promoters who originate from the agricultural sector and have knowledge of agriculture and are able to manage and supervise the farming projects themselves.

No projects under the SFRD have been set up in Settlement Schemes or by Cooperative Societies in the rural areas. These are target groups which the SFRD should have tried to reach, they would then have made a meaningful contribution to the development and increased productivity among the rural people.

The projects are owned by the few who are able to meet the lending terms. The fund has been of little relevance to the rural people, who do not have access to soft term credit facilities.

Thus credit and incomes are still concentrated in the hands of few families and groups of people with little real benefit to the majority of the people. Most of the people are still dependant on subsistence production on one hand and casual employment on large estates on the other,

Such investments perpetuate rural imbalances which leave the majority on the verge of poverty and with a lack of real incomes. The SFRD scheme has not offered the people living in the rural areas opportunities to develop their productive capacities through provision of credit and finance. Most of those who have had access to this fund have been urban based affluent people.

6.10. Regional distribution and location of the projects

The projects have been fairly distributed across the provinces of the country, though the Northern Province has a higher number than other provinces. The number of projects that have been funded under the SFRD are rather few, which makes serious comparison and judgment difficult.

Provincial distribution of Projects 1978-83

<u>Province:</u>	<u>No. of projects:</u>
Southern	2
Central	2
Copperbelt	NIL
North-Western	3
Western	4
Northern	7
Luapula	NIL
Eastern	2
Lusaka	NIL

In the Western Province three of the projects are similar (bakeries), and they all face serious operational problems. They are situated far from the supply centers and are constrained by the shortage of supplies of raw materials. The Smallholders Company project, and a dairy project in Chicumbi are based in urban areas. All except two of the projects are located in rural areas, and should therefore be a valuable contribution to the rural economy. The nature of the projects, however, reverse this effect because they belong to the urban sector of economy, especially the bakeries.

6.11. Distribution of Projects between categories

There is little assistance from the SFRD to cooperatives, even though development of cooperatives is a government policy for increased production and better distribution of incomes among the rural people. The major categories in which the credit facility would have made great impact have not been reached by SFRD; these are Settlement Schemes and Primary Societies in the Cooperative Movement.

6.12. Provision of basic goods and services for local population by projects

We will try to show how the SFRD scheme has had some positive impact on the provision of goods and services to the local people; in addition the agricultural projects have a potential for increasing the food production. There are, however, few agroprocessing projects promoted; manufacture of edible oils, fruit processing and canning, processing of skins and hides, etc.

With a programme of processing local agricultural produce, more services and goods would be provided to the rural areas, leading to self-sufficiency, provision of employment opportunities and interlinked development of industries.

Neither has the manufacture of farm implements, furniture, clothing and building materials, in order to satisfy local demand, been promoted and assisted under the SFRD.

In the rural areas, there is a need for improved household equipment, such as hand-operated grinding machines, shellers, crushers, storage, and processing equipment for food-conservation and preparation. The SFRD has not encouraged development of industries that could manufacture such equipment and simple rural devices.

Milling units that have been set up in the country have been positive for the surrounding farmers since they are encouraged to produce more grain, but lack of general commodity production and accessories for their farming enterprises provides little incentive for increased production.

There has been some discussion as to whether a motel was a suitable infrastructural development in a remote rural area. In most rural centres there is an acute shortage of accommodation making it difficult for civil servants, technical advisors, credit supervisors and projects promoters to travel to rural areas. Government resthouses are few and with small capacity, and at times not properly maintained. There are few motels that cater for the general public for provision of recreation services and accommodation. The SFRD-funded motel will fulfill several necessary functions in its area, consume local products, and attract other investors.

7. RECOMMENDED GUIDELINES FOR FURTHER ASSISTANCE FROM
NORWAY

7.1. Objectives of Rural development

Zambia's major objective in the development of the rural areas, is to improve the welfare of the lower income groups, among whom the majority are women.

The main concern in rural areas is to:

- a) increase and diversify food production
- b) encourage local marketing of goods and services
- c) increase productivity.

This can be achieved through:

- I) development and promotion of income generating activities.
- II) provision of improved farming tools and implements (animal traction).
- III) improved household and food processing equipment and devices (hand shellers, crushing machines and storage facilities).
- IV) provision of tractor and land clearing services.
- V) improved soil conservation.

There should also be provision of support services e.g.:

- 1) Infrastructure (roads, feeder roads, storage facilities).
- 2) Credit (seasonal, medium and longterm).

- 3) Communication (Transport system).
- 4) Extension services (training, consultancy, management services)
- 5) Input supply (implements, chemicals, tools, seeds).
- 6) Technical services (Multipurpose work shops for repairs and maintenance).
- 7) Small scale enterprises (production of simple tools and processing of agroproducts).
- 8) Animal Traction (Training and breeding of oxen).

The mission has found credit to small scale producers to be one of the major bottlenecks in achieving effective rural development and recommends NORAD to continue its support according to the guidelines stated below.

7.2.

Recommended guidelines for further assistance to SFRD

The mission finds that the DBZ is well-equipped to handle industrial projects, but regarding agricultural projects, where small scale farmers are the target group, other institutions are suggested as more suitable.

Funds should continue to be contributed to the SFRD for small scale industry projects under the following conditions:

Purpose: Increase the welfare of the rural lower income groups through employment, income generation and the strengthening of local skills.

Project location: The project should be located outside the traditional line-of-rail provinces.

Project type: The projects should fall within the following categories:

1. Agrobased or foodprocessing
2. Farm input production and household equipment.
3. Production of basic goods.
4. Wood and wood processing.

Potential clients

The clients should be individuals or enterprises engaged in small-scale industries, and parastatal, private or cooperative organizations, as well as district Councils. Part of the fund should be earmarked for female borrowers.

Project and loan size

Projects should not exceed K 250,000 in capital assets (to be adjusted according to SIDO definitions).

The mission recommends a lower limit of K 1,000 and an upper limit of K 250,000. In exceptional cases this upper limit could be exceeded with prior agreement from NORAD.

Project appraisal

This function could be carried out in collaboration with SIDO or VIS. The financial and economic criteria should be supplemented by rural development/socioeconomic criteria taking into account the benefits for the target group, employment effect, income distribution etc.

Lending terms

The present terms could continue to apply with the exception that the security should be deemphasized, taking into account the future management of Bank of Zambia guarantees that are awaiting Parliamentary approval and enactment.

7.3. Recommended assistance to small scale agriculture

DBZ is structured for lending to large scale agriculture, and thus has limited resources for supervision, and no extension services. DBZ is situated in Lusaka and has no local branches. Thus DBZ has no administrative capacity to lend to small scale farmers.

In providing credit to small scale farmers some conditions have to be met:

- low interest rate
- both short and medium term credit
- supervision and extension services

The mission has found that very few of the agricultural credit institutions have a structure and capacity that make them good instruments for rural development. Either the focus is too large-scale and commercial, or the management and repayment performance too poor. The ZCF Finance Services Ltd. seems, to the Mission, to come closest to the ideal. The Cooperative Credit Scheme (CCS), one of its schemes for seasonal credit, dramatically improved its repayment rate and is aiming at 95% repayment by 1984. The scheme channels K 1,5 mill. to 5,700 loanees in the range of 1-6 hectares of cultivated land.

CCS has developed a nationwide network of credit management and supervision within the Cooperative Movement and has the following policy:

- to provide credit facilities to members/farmers of primary societies with special attention to small scale farmers.

- to provide credit which is supposed to increase farm production, improve standards of living and make farmers become more self-reliant.
- to provide members with agricultural advisory services.
- to give credit to reliable societies and unions with high economic repayment rates to maintain the flow of funds to relending.
- to provide an effective, well functioning credit machinery to assist in giving comprehensive credit service.
- to create an incentive to save part of the income in order to become self-supporting.

The scheme has a capacity to handle 2-3 times the present volume of credits and the demand from the small-scale farmers has risen even further due to recent sharp price increases for inputs.

ZCF Financial Services Ltd. plans to provide medium term loans. The Mission recommends that an appraisal is made of other ways of providing medium term credit to small scale farmers. The whole area of medium term credit is in the process of being restructured, and the mission recommends NORAD to follow up the development of for example the newly established Zambia Agricultural Development Bank (ZADB).

In particular, it is necessary to explore the need for, and the availability of, seasonal and medium term loans to female small-scale farmers. They constitute a major labour

force in the rural areas and must be given opportunities to engage in viable income generating activities so that they can move from traditional subsistence production toward a greater degree of market oriented production. As NORAD is already involved in several projects in the Northern Province, the Mission recommends that the need for and availability of credit for women in that Province is specifically looked into. Possible channels for credit could be the cooperatives, the VAP and the IRDP.

7.4.

Recommended assistance to institutions promoting small scale production

The Village Industry Service (VIS), established in 1974 under the Ministry of Commerce, is mainly concerned with rural development through the promotion of labour intensive agro-based cottage and village enterprises. VIS has been hampered by scarcity of funds, and has no credit facilities of its own. A fund for promotion of small scale projects, and for assisting project promoters in meeting the matching contribution in order to obtain credit from other institutions, is a proposal that the Mission would recommend. A parallel strengthening of the VIS' advisory and promotional capacity on the staff side should also be considered.

Small Industries Development Organization (SIDO) was established in 1981, also under the Ministry of Commerce. SIDO has adopted a strategy for Development of Small Industries in rural areas, and will for instance assist project promoters with feasibility studies, provide training, and give marketing, management and financial advice.

SIDO has not yet reached the implementation capacity intended, and additional staff is in the process of being recruited. SIDO has proposed a Training Fund as a means to increase its extension and training capacity, and the Mission would recommend this proposal to be further explored.

7.5.

Recommended assistance to Gwembe District

One example of a rural development project in great need of funds has become known to the Mission. It is the Gwembe South Development Programme operating in the disadvantaged Gwembe District which still suffers from the double effects of the Kariba translocation and the Zimbabwean liberation war. The project operates under a similar strategy to the Integrated Rural Development Programme, and has the advantage of being well staffed at the moment, but constrained by lack of funds. A number of proposals on how to increase the food production in Gwembe District (one of the worst food deficit areas in Zambia) have been worked out by resource persons related to the project.

T E R M S O F R E F E R E N C E

FOR THE EVALUATION OF THE SPECIAL FUND FOR RURAL DEVELOPMENT,
ADMINISTERED BY THE DEVELOPMENT BANK OF ZAMBIA.

I BACKGROUND

An agreement concerning Norwegian assistance to establish a Special Fund for Rural Development (SFRD) within the Development Bank of Zambia (DBZ), was signed in April 1977. The aim of the Fund is to increase economic activities in rural areas, by means of loans on concessionary terms. NOK 15 mill. was initially allocated to SFRD.

The first agreement expired by the end of 1979. In the beginning there were problems to identify acceptable projects. This led to the prolongation of the agreement period both in 1980 and again in 1981. At the request of Zambia, a new agreement was signed in August 1982 and an additional NOK 6.8 mill. was granted. The present agreement expires at the end of 1984. A condition for negotiating a new agreement is that the SFRD is evaluated.

II PARTICIPANTS - MODE OF WORK

The evaluation is to be carried out by the following persons:

Hugo Berch	Team leader. Economist and Rural Development Consultant
Jackson Banda	Economist, Village Industries Services, Lusaka
Gunilla Hesselmark	Economist, Development Consultant
Robert Malama Kafwembe	Economist, Small Industries Development Organization (SIDO)
Irene Hoel	Social Scientist, NORAD, Oslo

The evaluation shall be based on written material concerning the SFRD and individual projects to be made available by the DBZ, NORAD and other institutions.

The evaluation shall further be based on talks and interviews with:

- representatives of the DBZ
- the National Commission for Development Planning
- the Canadian International Development Agency
- representatives of other institutions.

In addition, the evaluation shall be based on information gathered during visits to a sample of projects financed by the SFRD and interviews with promoters/managers of the projects and others affected by the projects.

The evaluation shall be undertaken in close contact with the relevant Zambian authorities and NORAD's Resident Representative.

The evaluation work in Zambia shall be carried out from August 29 to September 27 1983.

III TASKS OF THE EVALUATION TEAM

1. SFRD's function in general

The team shall assess the function and significance of the SFRD, its fields of operation and type of projects which have been financed or which are eligible for support. Particular attention shall be paid to:

- 1.1 the Zambian rural development policies,
- 1.2 other efforts for promoting projects in rural areas,
- 1.3 the total flow of funds to projects in rural areas,
- 1.4 Norway's principles for development cooperation in general and assistance to SFRD in particular, as well as the part played by SFRD in Norway's overall assistance to Zambia.
- 1.5 SFRD's role within the DBZ's overall activity as well as DBZ's interpretation of SFRD's objectives.

2. Management of the fund

The team shall assess the administrative resources employed and the effectiveness of the DBZ in managing the Fund, especially with regard to the following:

- 2.1 DBZ's efforts for project promotion and identification (Ref. Special Fund for Technical Assistance),
- 2.2 project appraisal, selection and assistance to loanees for project design,
- 2.3 the adequacy of the loans in various projects,
- 2.4 extension services and supervision in the stages of implementation and operation, including control of repayment and handling of interest and principal arrears,
- 2.5 the cooperation between the DBZ and the National Commission for Development Planning,
- 2.6 the cooperation between the DBZ and NORAD, especially concerning allocation of funds,
- 2.7 the required size and administrative structure of the SFRD in order to be an effective vehicle for rural development.

3. Economic impact

The team shall assess to what extent the Fund has facilitated the financing of projects different from those financed through ordinary DBZ loans, and to what extent this has contributed to economic development for the areas concerned. Of particular interest are questions concerning the:

- 3.1 viability and profitability of the projects financed by SFRD, and the significance of funds on concessionary terms for rural development,
- 3.2 choice of adequate technology, investment cost per employee and the projects' employment effect on men and women,

- 3.3 integration of the projects in the local economy and their effects on other activities,
- 3.4 effects of the projects on Zambia's balance of payments situation,
- 3.5 possible negative environmental effects of the projects.

4. Social and other effects

The team shall assess:

- 4.1 the effects of projects on ownership pattern and on the distribution of incomes and other benefits between various social groups (income groups, regional distribution, men and women),
- 4.2 the adequacy of the existing distribution of loans between various categories of clients (co-operatives, settlement schemes, para-statal organizations and private farmers),
- 4.3 the effects of projects financed on provision of goods and services needed by the local population (Conf. Annex to the Agreement, Para 2.1).

5. Further assistance from Norway

The team shall make an overall assessment of SFRD as a vehicle to channel funds for rural development, considering among other things the effectiveness of SFRD, the socio-economic impact of projects, Zambia's development policy and Norway's principles for development co-operation.

Particular emphasis shall be put on the following questions:

- 5.1 whether the rules of operation of the SFRD are adequate,
- 5.2 whether the SFRD has the required size and administrative structure in order to be an effective vehicle for rural development,
- 5.3 whether there is a need for strengthening of the DBZ in its operation of the SFRD,
- 5.4 whether the co-operation between SFRD and NORAD is adequate,

5.5 whether there are alternative institutions which may channel funds for rural development more effectively.

IV REPORTING

A report, containing the main conclusions and recommendations of the evaluation team shall be written while the whole team are together, and presented and discussed with representatives of the DBZ and other Zambian authorities and NORAD's Resident Representative.

The final report, to be written in the English language, comprising all findings and recommendations is to be submitted to the Zambian authorities and NORAD within one month after the completion of the field work.

Nils Vogt

Ass. Director General

NORAD

A G R E E M E N T

Jur. kontor's
avtalesamling

between

THE GOVERNMENT OF THE KINGDOM OF NORWAY

and

THE GOVERNMENT OF THE REPUBLIC OF ZAMBIA

regarding

Norwegian Financial Assistance
to the Development Bank of Zambia -
the Special Fund for Rural Development

The Government of the Kingdom of Norway (hereinafter referred to as "Norway") and the Government of the Republic of Zambia (hereinafter referred to as "Zambia"), desiring to continue their co-operation in promoting economic and social development in Zambia and thereby strengthen the friendly relations that exist between Norway and Zambia,

in pursuance of the Agreement between the Government of the Kingdom of Norway and the Government of the Republic of Zambia regarding economic and technical co-operation, dated 20 February 1976,

and with reference to the provisions therein relating to Specific Agreements,

have reached the following understanding which shall constitute a Specific Agreement:

Article I

Obligations of Norway

Norway shall, subject to Parliamentary appropriations, make available to Zambia on grant terms an amount not

exceeding Nkr 15 000 000 (Norwegian kroner fifteen millions) (hereinafter referred to as "the Grant") to be transferred to a Special Fund for Rural Development (hereinafter referred to as "the SFRD") in the Development Bank of Zambia (hereinafter referred to as "the Bank"), on conditions further described in Rules of Operation, attached to this Agreement as Annex I.

Article II Obligations of Zambia

Zambia shall:

1. Cause the Bank to utilize the Grant in accordance with the rules set forth and referred to in Annex I;
2. promptly inform Norway of any condition which interferes with the accomplishment of the purpose of this Agreement;
3. furnish Norway with evidence of the authority of persons who will, on behalf of Zambia, take any action or execute any document under the Agreement, including authenticated specimen signatures of such persons;
4. permit representatives of Norway to visit any part of Zambia for purposes related to this Agreement and to examine any relevant records and documents.

Article III Disbursements - Reports

1. The Grant will be disbursed to Zambia in accordance with Annex I, Section 5.1.
2. Zambia shall submit to Norway:
 - (i) A duly signed receipt voucher immediately upon receipt of each disbursement,

- (ii) quarterly progress reports on the SFRD Operation,
- (iii) annual audited accounts in respect of the Grant, at the end of each financial year.

Article IV

Co-operation - Representation - Disputes

1. Norway and Zambia shall co-operate fully to ensure that the purpose of this Agreement is accomplished in an efficient manner. To that end each Party shall furnish the other with all such information as it shall reasonably request pertaining to the Grant.
2. In matters relating to the implementation of this Agreement the Norwegian Agency for International Development (NORAD) and the Ministry of Economic and Technical Co-operation shall be competent authorities to represent Norway and Zambia respectively.
3. If any dispute arises relating to the implementation or interpretation of this Agreement, there shall be mutual consultations between the Parties with a view to securing a successful realization of the purpose of this Agreement.

Article V

Entry into force - Termination

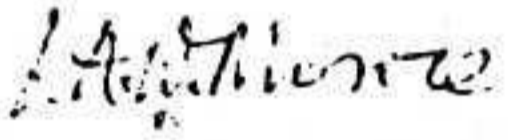
1. This Agreement shall enter into force on the date of its signature. Unless extended by mutual agreement between the Parties or terminated earlier in accordance with paragraph 2 of this Article, it shall remain valid until 31 December 1979.
2. Either of the Parties may, by giving written notice to the other at least six months before the end of any Zambian financial year, terminate this Agreement with effect

from the end of that financial year. Such written notice, however, shall not be served until consultations to that effect have taken place between the Parties.

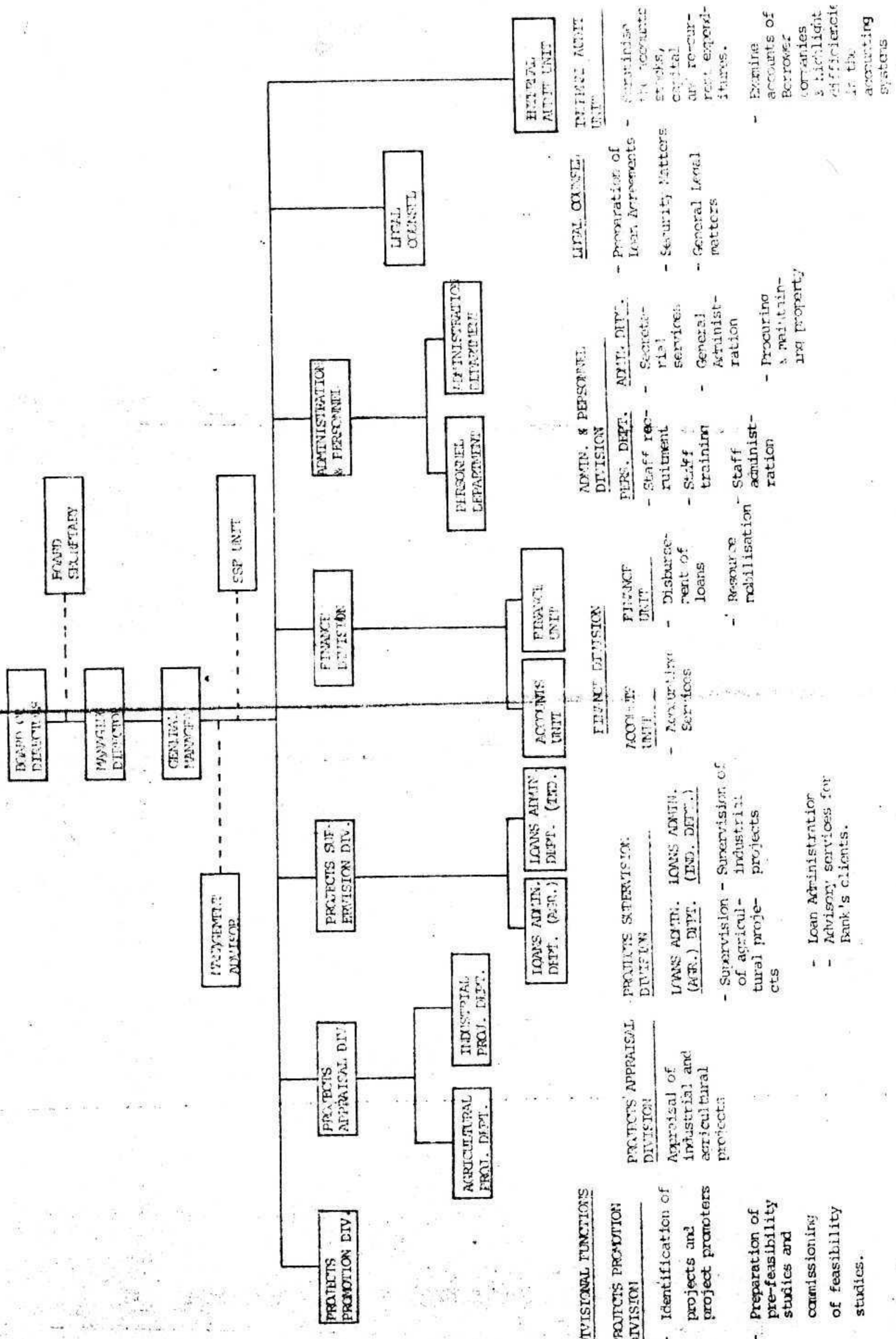
In Witness whereof, the undersigned, being duly authorized thereto by their respective Governments, have signed the present Agreement in two originals in the English language.

Done at *Lusaka* this *11th* day of *April* 1977


For the Government of
the Kingdom of Norway


For the Government of
the Republic of Zambia

THE DEVELOPMENT BANK OF ZAMBIA
ORGANISATION CHART



- DIVISIONAL FUNCTIONS**
- PROJECTS PROMOTION DIVISION**
- Identification of projects and project promoters
 - Preparation of pre-feasibility studies and commissioning of feasibility studies.
 - General planning
- PROJECTS APPRAISAL DIVISION**
- Appraisal of industrial and agricultural projects
- PROJECTS SUPERVISION DIVISION**
- LOANS ADMIN. DEPT. (AGR.)
 - LOANS ADMIN. DEPT. (IND.)
 - Supervision of agricultural projects
 - Supervision of industrial projects
 - Loan Administration
 - Advisory services for Bank's clients.
- FINANCE DIVISION**
- ACCOUNTS UNIT
 - FINANCE UNIT
 - Accounting Services
 - Disbursement of loans
 - Resource mobilisation
- ADMIN. & PERSONNEL DIVISION**
- PERSONNEL DEPT.
 - ADMIN. DEPT.
 - Staff recruitment
 - Staff training
 - Staff administration
 - Preparation of Loan Agreements
 - Security Matters
 - General Legal matters
 - Procuring & maintaining property
- LEGAL COUNSEL**
- LEGAL AUDIT UNIT
 - Examination of accounts of Borrower
 - Examination of accounts of stocks, capital and re-currency expenditure figures.
 - Examination of accounts of Borrower
 - Highlighting of inefficiencies in the accounting systems

APPENDIX 4

DESCRIPTION OF THE SFRD PROJECTS VISITED

Kaleya Small Holders Co. Ltd. (Mazabuka)

1. The project is owned by the Commonwealth Development Corporation (50%), DBZ, Zambia Sugar Company and the African Development Bank.
2. The project is situated in the Mazabuka town. The soil is classified as 1 and 2. Out of the 1850 ha 1300 ha have been planted with sugar cane, some of it is harvested this year. By next year the rest of the land will be planted. The smallholders will be selected during 1984. They will be allocated 4 ha each of the sugar plantation. 300 small holders are to do all the farming on 1260 ha, while the Company is providing water for irrigation 1 day in eight. Harvesting will also be done by the Kaleya Small Holders Company who charges the farmer for both water and harvesting. The farmers (smallholders) will be allocated a 0,5 ha plot to build a house and grow food for their own subsistence. They will only be allowed to rent the land for as long as they grow sugar. They have to sign a contract with the company every year. The farmers are to build their own houses with a loan in kind (bricks) from the Kaleya S.H.Co. When a farmer wants to leave the Kaleya, the house is to be sold to the Company at their price.
3. The initial plans for the Kaleya Small Holders Co. stated "Kaleya Small holders Company was to be formed with a limited equity base of K 1 million to be contributed in the form of cumulative redeemable preference shares with a fixed dividend coup. These shares will be eventually redeemed out of the proceeds of an issue

of ordinary shares to be subscribed for by the small holders and paid-up partly by the small holders out of their net income and partly by capitalization of the reserves of the company. The smallholders are thus to gradually participate in the equity, and controlling rights will be so arranged that ultimately they can hold 50% of the voting control of the company.

A small number of founder shares are to be held by each of the initial equity investors, through which they exercise voting control of the company".

4. The Kaleya Small Holders Company Ltd. abandoned the original plan and does not intend to let the smallholders become shareholders. The Company has not worked out any plan on how the smallholders could participate in the management of the Company. Selection of farmers will be done by a Selection Committee composed of District Governor, District Agricultural Officer, GM-Kaleya Smallholders Company and the District Lands Officer. The Applicants have to work for the Company 8-12 months as part of screening, but also as training.

Among the selection criterias maturity, reputation, ability to work and marital status rate higher than education and literacy.

Northern Milling Ltd. Kasama

Total investment K 816,000. Loan K 261,000 + 287,000 = K 539,000. The loans were for a new maize-mill, rice-mill and renewal of another maize-mill. The company is owned by the Northern Province Cooperative Union. Additional 20 jobs were created from the loans.

Due to some delays in delivery of equipment from foreign suppliers, the mills were not operational till 1980.

The company is grouped as C (sick projects) by the DBZ which implies that the company needs close supervision. Some of the problems with the company include management problems, machinery breakdowns, insufficient maize supply (with plant operating at 50% capacity) lack of proper storage facilities etc.

The company has perpetually been making losses on its operations.

Chilanga Farm Ltd., Chipata

Total investment K 110,000, loan K 53,000 for mixed farming project which is owned by the farmer. The project was delayed because the Land Use Department did not clear land as expected. Some part of the farm has been cleared out, but this was done in the dry season when the soil was still hard. It is hoped that this will be completed after the rains have come. The promotor has later been appointed District Governor and this may cause problems in supervising and managing the farm. There was no intention to hire a competent farm manager. The company was in interest arrear of K 2,750. Originally 8 full time jobs and seasonal work amounting to 25 man-years was planned.

Namututa Bakery - Siavonga

The project commenced production in July 1982. The unit operated smoothly til 1983 when the promoter decided to sell his business due to poor health. The business has

been sold and the whole outstanding loan amount and arrears have been redeemed.

The project was set up in a place where supplies of raw materials would have been a problem due to the long distance from source of supply. The area does not produce the raw materials technical and maintenance assistance could not be readily available.

Senanga Bakery - Western Province

The project commenced production in July 1983, with a production capacity of about 2,000 loaves of bread per day, against a predicted capacity of about 3,000.

The project is a family unit employing 12 people, mainly relatives of the owner.

The bakery faces a supply problem of raw materials. There is a shortage of flour in the Western Province and in the country in general. This has led to the reduced production.

The machinery used gives the promoter some problems, especially the firing system. The unit has already installed the only spare burner, after the first one broke down. They will face further problems if the present burner breaks down, since Zambia does not have spares. Technical assistance and maintenance is not easily available for the type of machinery installed. The workers do not have proper training on the use and maintenance of the machinery.

Nengu Trading Company Ltd.

This project is a bakery unit in Kalabo district, Western Province. It became operational in June 1983. The project has faced problems with the machinery. The machinery is the same as that at Senanga and uses diesel firing for its ovens. Thus the anticipated problem is replacement of the firing unit once it breaks down.

Raw material supply is inadequate and not readily available in the area. The promoter has to travel very long distances (Lusaka) to purchase flour, yeast, diesel etc.

Kalabo is not easily accessible either by road or water, thus making transportation of raw materials difficult.

Technical assistance and maintenance would not be easy available for the project. Workers do not have required training on use and maintenance of the project.

Kasempa Sawmills Limited - Kasempa

The project is located in Kasempa district, North-Western Province. The loan was sanctioned in september 1982. The project has not started production due to increases in the cost of some items, neither has the promoter not finalized the security documents.

The project is ideal for the area and would provide timber products locally and for other towns.

The cost for the project could be reduced through use of improved traditional pit-sawing as under IRDP. More people could participate if assistance could be made available to them to set up smaller units. Equipment for such units could be aquired locally.

Tukubakebo Enterprises Limited

Tukubakebo Enterprises Ltd. has been promoted by the Barotse Royal Establishment (BRE) in Western Province, and is a mixed farming enterprise.

The project aims at developing a 2,000 hectare farm in Luena flats. Proposed enterprises:

- Phase I - (1) Ranching and fishing
- Phase II - (1) Cropping (maize, rice)
(2) Cashew nuts.

The purpose of the project is to generate funds for the Royal Establishment. The funds generated from the project will be used to cover administrative expenses and provision of services which the Royal Establishment provides for the people.

These services consist mainly of allocating "chief land" to the people and settling disputes arising on "chief land".

The chiefs play an important part in the cultural life in Zambia, especially in keeping traditions alive, and they organize certain ceremonies. The Government of Zambia do allocate some funds towards this end, but in the present economic situation funds are getting more scarce. Another, equally important aim of the project, is to serve as pilot project for subsequent agricultural development projects to be undertaken by the BRE, in its efforts to carry out an integrated economic development of the area for the welfare of its members.

The loan has not yet been disbursed due to lack of title deeds, but these are expected to be issued soon. Another constraint has been the equity contribution, which will

be in kind (120 breeding cows, and 11 bulls). The cattle is about to be collected from the entire community of the BRE. The members of the BRE will also provide the necessary labour for preparation of bricks, construction of workers houses and making holes for the cashew plants.

There is no doubt that the BRE will be able to raise their equity contribution, and other necessary capital and labour contributions, as the entire population of the Barotse Community show extreme loyalty and respect towards their king, the Litunga. The population have been ranching and fishing for many generations, and have the necessary skills concerning the new crops like cashew and cereals, the skills have to be aquired either by learning, or by hiring a farm manager experienced in cereals and cashew growing. The project is meant for the common benefit of farmers in the area and is expected to act as catalyst for undertaking similar development projects in the area in the future. Skills do already exist in the area and need to be developed further. The Crop Enterprise is relatively modest and only designed to supplement the ranching. The choice of technology, however, raise the cost of the project considerably. The impact on the economy of the project could become the inverse of what is intended. Ecologically the use of tractor and heavy equipment often lead to erosion and destruction of the soil structure. This is an extremely serious problem in tropical areas where the soil is thin and fragile, and on the Luena Flats there are additional problems because of the regular floods. This management method will act as a catalyst only for a small fraction of the population, if of any but the BRE.

It did not become very clair to the mission exactly in what way, if any, the BRE project will benefit the community as a whole. The juridical and cultural importance

of the Royal Establishment is however very real, and to the extent the profit from the project reaches the whole population, a positive impact will occur.

A project however, that mainly strengthen the power of the Royal Family, is not compatible with the aims of benefitting the common man and woman.

Nimwanalume Farm Ltd.

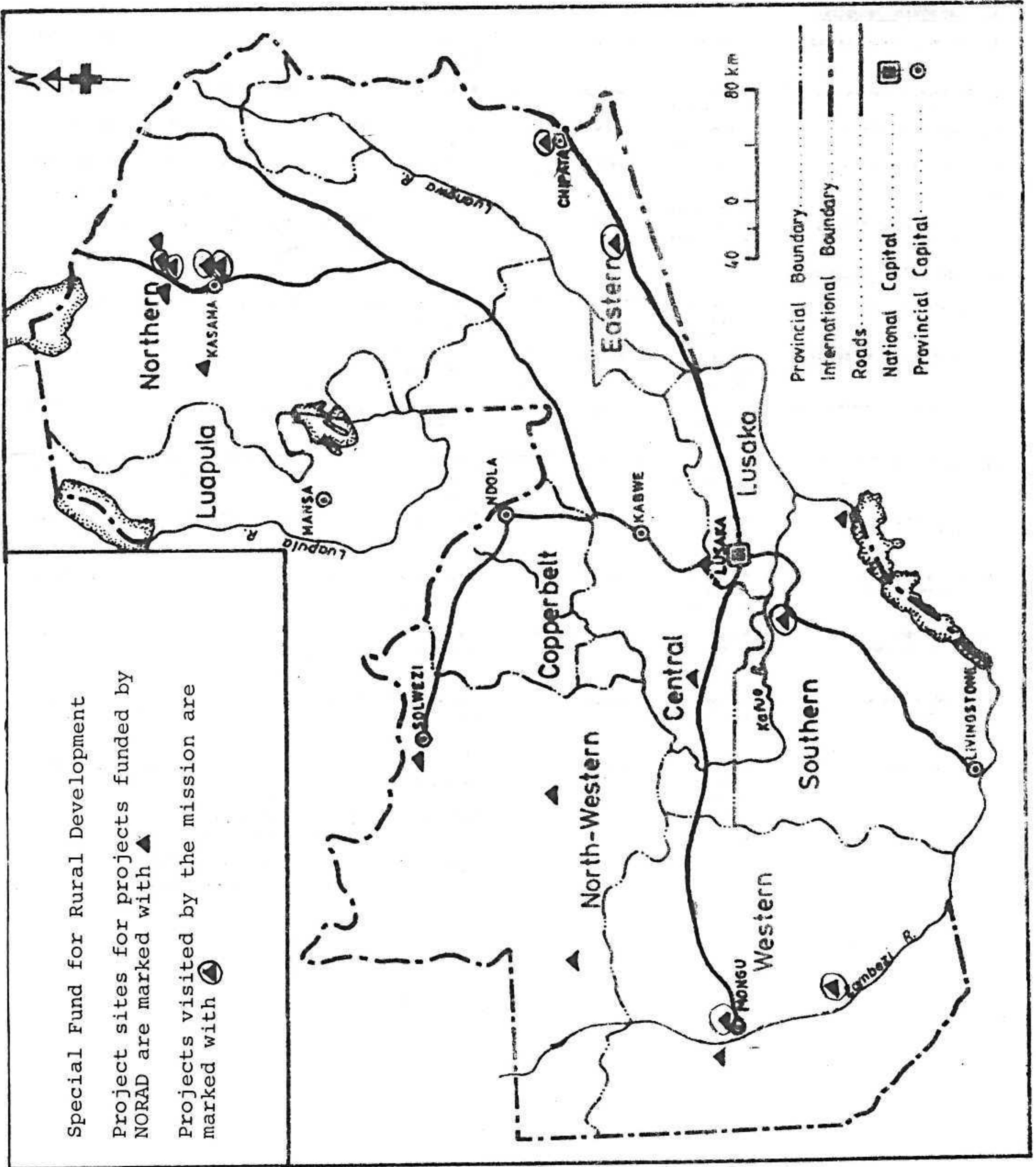
The borrower, a former MP, has one farm of 50 hectares and in a different location one of 5.400 hectares close to the tse-tse control line in Petauke District. On the latter farm less than 100 hectares have been cleared so far and no qualified farm manager was yet in position. Most of the soil on the farm is of good quality but the proximity to the tse-tse areas makes oxcultivation difficult. The farm had adequate tractor power but the maintenance of equipment was quite poor. This farm will be very slowly developed under the present management and ownership structure.

DEVELOPMENT BANK OF ZAMBIA

PROJECTS APPRAISAL DIVISION

SFRC PIPELINE AS AT 31/7/83

APPLICATION/PROMOTER	LOCATION	OWNERSHIP	NO. OF SHARE-HOLDERS	NATURE OF PROJ.	TOTAL PROJ. CCST (K'000)	DEZ TERM LOAN (K'000)			EXPECTED DATE OF APPROVAL
						LOCAL	FOREX	TOTAL	
A. INDUSTRIAL PROJECTS:									
1. Mofwa Investments Ltd	Luapula Province	Zambian	5	Water Transport (new)	396	102	200	302	January 1983
2. Zambezi Co-operative	Zambezi N.W. Province	Zambian	6	Bakery (new)	190	48	80	128	January 1984
3. Sesheke Bakery	Sesheke W. Province	Zambian	5	Bakery (new)	374	118	132	250	January 1984
4. Sifunisc Press Ltd	Mongu	Zambian	5	Printing	283	66	142	208	January 1984
5. Salt Project	Mpika W. Province	Zambian	11	Salt (new)	120	30	50	80	January 1984
6. Rice & Wheat Milling Project	Kalabo W. Province	Zambian	5	Rice/Wheat	515	80	300	380	March 1984
				Sub-Total	1878	444	904	1348	
B. AGRICULTURAL PROJECTS:									
1. Chaba Limited	Mansa Luapula Province	Zambian	5	Mixed Farming	470.9	231.2	41.5	272.7	September 1983
2. Muyakasi Holdings Ltd	Mbala Northern Province	Zambian	5	Mixed Farming	182.5	108.5	-	108.5	September 1983
3. Elianto Enterprises Ltd	Mwense Luapula Province	Zambian	5	Crop Production	365.0	240.0	-	240.0	January 1984
4. Mukuyuli Farm Limited	Kasasa W. Province	Zambian	5	Mixed Farming (new)	152	62	18	80.0	January 1983
5. Atuswangare Farm Limited	Mumbwa Central Province	Zambian	5	Field Crop	150.5	66	20	86	March 1984
6. Mayuni Farmers Co-operative	Mumbwa Central Province	Zambian	7	Field Crops	300.0	200.0	40.0	240.0	March 1984
7. Chelekumbi Farm Limited	Mwense Luapula Province	Zambian	5	Mixed Farming	337.2	150.0	70.0	220.0	January 1984
8. Mookandu Honey Bee Project	Kasempa K.W. Province	Zambian	15	Honey Bees Wax	287.3	115.0	70.0	185	January 1984
9. Lingalonga	Kasasa Northern Province	Zambian	5	Mixed Farming	215	172.0	-	172.0	March 1983
				Sub Total	2470.4	1344.7	259.8	1604.2	
				GRAND TOTAL	4348.4	1788.7	1163.5	2952.2	



Programme for the Evaluation of the Special Fund for
Rural Development

Tuesday 18 October

Introduction of team members. Meeting with DBZ

Wednesday 19 October - Saturday 22 October

Field trips to Northern and Western Provinces by
split parties of the team.

Visits to SFRD projects (3 farms, 2 bakeries, 1 mill).

Monday 24 October

Independence Day.

Tuesday 25 October - Friday 28 October

Meetings in Lusaka with DBZ, NCDP, VIS, SIDO,
Bank of Zambia, FAO, Ministry of Agriculture and
Water Development, NORAD, Rural Development Studies
Bureau, The Cooperative Credit Scheme
The Zambian Cooperative Federation.

Sunday 30 October - Tuesday 1 November

Fieldtrips to Eastern and Southern Provinces
by split parties of the team

(2 farms, 1 smallholders project).

Visits to SFRD projects.

Wednesday 2 November - Friday 4 November

Follow up meetings in Lusaka with World Bank mission,
EEC mission, Survey Department, AFC and IRDP.

Saturday 5 November - Wednesday 9 November

Write up of the report.

Thursday 10 November

Round up meeting organized by NCDP.

PERSONS MET BY THE EVALUATION TEAM

Development Bank of Zambia

Mr. O.B. Chilembo	General Manager
Mr. A.M. Mundia	
Mr. J.D.K. Mtumbi	Director of Projects Supervision
Mr. R.G.T. Eich	Management Adviser
Mr. A.M. Muchanga	Agricultural Projects Manager
Mr. O.L.D. Kapijimpanga	Industrial Projects Manager
Mr. R.K. Situmbeko	
Mr. F.S. Aongola	
Mr. O.H. Mutale	
Mr. L.M. Likulunga	
Dr. N.D. Joshi	
Mr. P. Kalaluka	Loans Officer

NORAD

Mr. Arnfinn Sørensen
Ms. Agnete Eriksen

CIDA

Mr. Bruce Wilson Councillor

NCDF

Mr. Chundu Economist
Mr. Nkathe
Mr. Libulunga

Barclays Bank

Mr. Terry Mwamba Head of LIMA LOAN SECTION

SIDO

Dr. C. Ng'andwe	Director
Mr. Kokewe	
Mr. Chapawa	
Mr. Motya	
Mr. Mugandila	Cooperative Adviser

Ministry of Agriculture and Water Development

Mr. F. Mbewe	Director of Planning
--------------	----------------------

UNZA - Rural Development Studies

Dr. Millimo	Director
Dr. A. Wood	Senior Research Fellow
Mr. Sichula	

Cooperative Credit Scheme

Mr. Birger Larsson	Manager
Mr. Tor Lindholm	Credit adviser

Zambia Cooperative Federation

Mr. Mukumbuta	General Manager
---------------	-----------------

VIS

T.V. Varaghese	Project Director
M. Kapaipi	Chief Field Officer
R.N. Mwanza	Projects Officer
S. Kapaku	Information Officer

Bank of Zambia

Mr. S. Lal	Director Small Scale Industries
Mr. F.C. Kani	Economist

Projects and Promoters Visited

1. Kaziwe Estates Ltd. - Mr. Silavwe
2. Northern Milling - Mr. Sichelwe L. M.
3. Nimwanalume - Mr. Saindani Phiri
4. Chilenga Farm Ltd. - Mr. Zongani Banda
5. Kaleya Small holders Co. Ltd. - Mr. M. D. Taylor
6. Mwambezi Estates Ltd. - Mr. Kaliwanda
7. Tukubakebo Enterprises Ltd. - H. R. H. Iluta Yeta IV
8. Senanga Bakery - Mr G. Mwala

SPECIAL FUND FOR RURAL DEVELOPMENT (SFRD) - RULES OF OPERATION

1. Purpose

The business of the SFRD shall be to make available long and medium term loans on concessionary terms for projects contributing to the economic development in rural areas. The fund shall not be used to acquire equity participation in a project. Only such projects will be financed which are in principle eligible for Bank financing as far as the projects' nature and size is concerned, but which cannot be financed under the Bank's normal lending terms either, because a particular risk is identified as too great for the Bank to take, or because normal interest and repayment obligations cannot be expected to be met.

2. Limitations on Activities

2.1. Areas of Activity

As stipulated in the Development Bank of Zambia Act, 1972, the Bank has been set up to contribute towards the development of the following sectors:

- (a) Manufacturing, assembly and processing industries including industries engaged in the processing of products of agriculture, forestry and ranching;
- (b) engineering, construction, transport, power, tourism and mining industries; and
- (c) large scale corporate agriculture and ranching.

2.2. Project Location

The location of the projects will normally be in the rural areas. Projects in urban centres along the traditional line of rail will only be considered if they have clearly identified benefits for the rural areas but for some reason cannot be located there.

2.3. Project Type and Nature

The nature and type of projects are determined by

- (a) the Development Bank of Zambia Act, 1972, which deliberately limits the scope of activities; and
- (b) the purpose of the SFRD as outlined under 2.2.

2.4. Potential Clients

The group of clients will to a large degree be determined by the type and nature of projects and the possible size of projects and loans. The clients are expected to be mainly co-operatives, settlement schemes and para-statal organizations or other productive enterprises operating in the rural areas as well as medium scale farmers. However, among potential clients priority will be given to co-operatives. Normally the Bank will only finance projects which are 100 per cent owned by Zambians.

2.5. Project Size

The size of projects will be determined by the minimum/maximum size of the loans to be financed by the fund and the fact that the Bank normally expects a minimum contribution of 20-25 per cent in cash or kind from the promoter. On the other hand the promoter's contribution will normally not exceed 50-60 per cent of the total project cost. In addition to the loan from the SFRD the promoter may obtain loans from other sources. No loans from SFRD will be given to projects which have been or are also being financed with commercial loans from the Bank.

2.6. Size of Loans

By statute no project can be considered where the Bank's contribution is less than K 25 000. This principle will also apply for loans financed by the SFRD because

- (a) Any expansion of areas of activity would require a corresponding increase in the Bank's planning, appraisal and supervision capacity which at the moment is not possible;
- (b) the Bank would not be in a position to provide the extension service which is vital for the success of any loan to the small scale farmer.

The loans will normally not exceed K 200 000 for any single project. Any loan from the Grant, exceeding K 200 000 is subject to prior approval of Norway.

3. Project Appraisal

3.1. Procedures

The procedures regarding project appraisal are outlined in the document "Procedures for Processing of Projects" December, 1974.

3.2. Financial Criteria

The projects to be financed by the SFRD must be technically feasible and should be financially sound provided they are financed with a soft-term loan.

3.3. Economic Criteria

The economic analyses of projects will be done in accordance with the "Guidelines for Calculation of Economic Rates of Return on DFC Sub-Projects", prepared by the Central Projects Staff, Development Finance Companies Department of the World Bank in June, 1974.

4. Lending Terms

The Bank shall apply the following lending terms:

4.1. Lending Rate

The lending rate shall vary between 3 and 6 per cent. A margin of 3 per cent between borrowing and lending rates is considered as necessary to cover the expenses connected with project appraisal, disbursement and supervision since the projects will normally be located in rural areas. Any revenue resulting from an interest rate beyond 3 per cent will be channelled back into the SFRD, i.e. the Bank shall not make any profit from the operations of the SFRD but only cover its administrative costs. Consequently the Bank will not charge a commitment fee.

4.2. Maturity Period

The maturity period will depend on the nature of each individual project but shall not exceed 20 years including a grace period of up to five years.

4.3. Security

The Bank will always try to get adequate security for its loans although lack of adequate security will not be sufficient reason to reject a project.

5. Disbursements

5.1. From the Grant

Funds for loans up to K 200 000 will be transferred into an Account in the Bank when Norway is advised by the Bank that a loan has been sanctioned.

Funds for loans above K 200 000 will be transferred into an Account in the Bank after sanction of the loan by the Bank and approved by Norway.

5.2. From the Bank to Borrower

Loans will be disbursed as stipulated in the respective Loan Agreements.

6. Follow-up of Loans

The normal follow-up expenses, such as regular project visits and preparation of project reports are covered by the administrative cost charged to each project as per paragraph 4.1 "Lending Terms" above.

In addition, the Bank shall be allowed to recover its expenses in connection with rescue operations for projects in difficulties and/or in connection with extraordinary supervisory activities for loans which have gone into default. The funds for these reimbursements will come from the interest and/or repayments of other loans financed with the Grant, which normally will be rechannelled into the SFRD as explained in paragraph 7.2. "Administration of the Grant" below.

7. Administration of the SFRD

7.1. General Administration

All funds contributed to the SFRD shall be administered under special conditions in line with the Development Bank of Zambia Act, 1972, provisions for Special Funds. The Bank will keep separate accounts for each donor contributing to the Fund for auditing purposes.

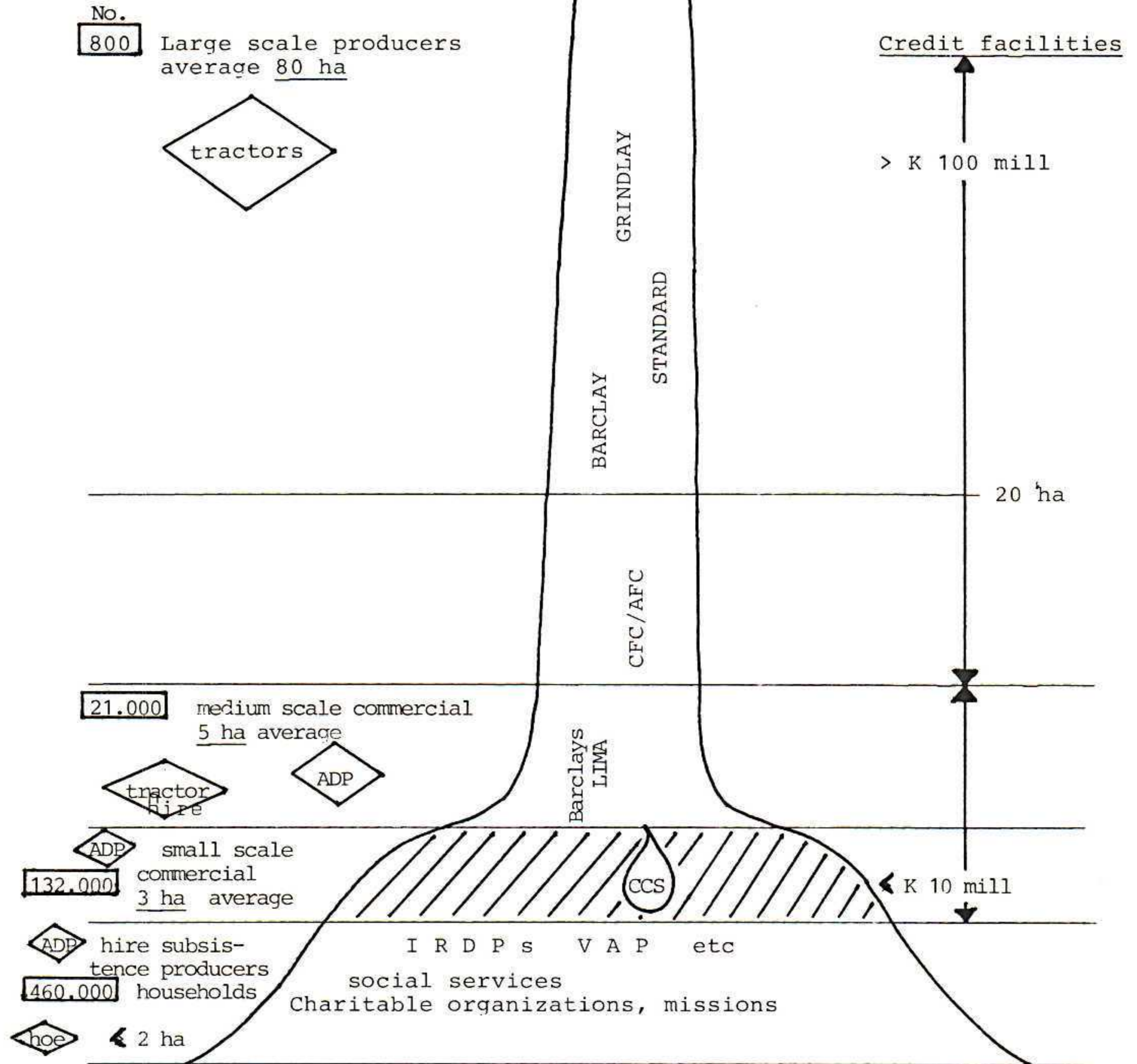
7.2. Administration of the Grant

The Grant will be used on a Revolving Fund System Basis. Consequently, all reimbursements and revenue from interest differential will be rechannelled into the SFRD, a separate account, administered by the Bank. The use of these funds is also governed by the rules and regulations outlined in this Agreement except that Zambia or the Bank will not be required to submit:

- (a) Loans above K 200 000 to Norway for approval, and
- (b) quarterly progress reports and annual audited accounts to Norway.

AGRICULTURAL PRODUCERS IN ZAMBIA

A graphic representation of agricultural producers in Zambia according to hectarage. The figure is only indicative of the stratification since no firm statistical data are available.



Source: Food strategy study
 Ministry of Agriculture and Water Development, February 1983

Notes ADP = Animal Draught Power
 AFC/CFC = Agriculture Finance Company / Cattle Finance Company
 CCS = Cooperative Credit Scheme

