



MILLENNIUM
CHALLENGE CORPORATION

UNITED STATES OF AMERICA

**Electricity Irrigation & Logistics Project
Zambia Compact**
Oct 25, 2023



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Zambia Country Context



Government: Stable democracy with successful elections every five years, including 2021. High debt levels of 120% GDP-to-debt ratio.



Economy: Lack of diversification but resource rich. Since 2011, economy consistently declined. Over 50% poverty rate and high-income inequality.



Young and growing: Median age of 16.9 and growth rate of 6 children per woman.



Population Density: High rates of urbanization but low population density.

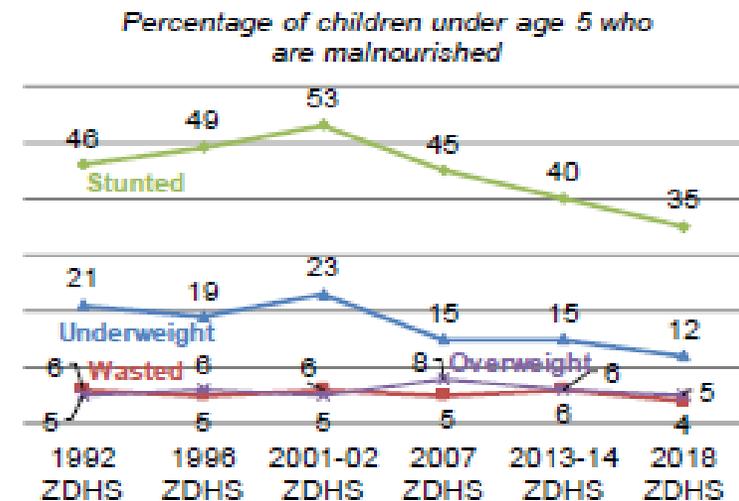
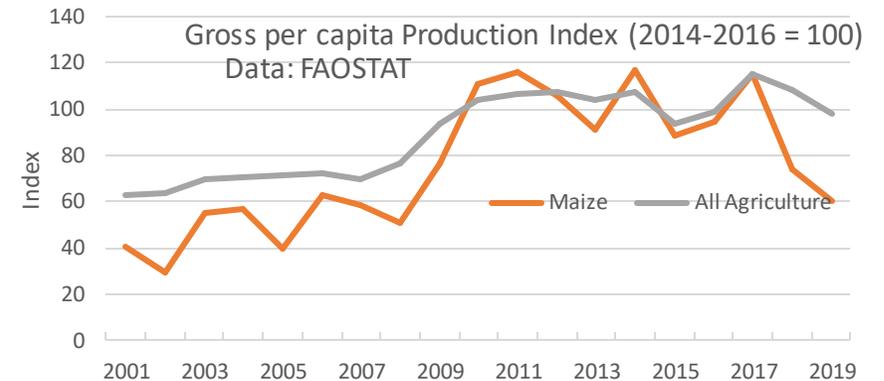


1st Compact 2013-2018: \$355M on WASH, 2.1M benefitted.



Zambia Growth, Productivity and Poverty

- Poverty is concentrated among rural, agricultural households because farm productivity is low and stagnant.
 - Maize yields half of South Africa's, only 15% of local field trial potential (FAOSTAT, IAPRI consultations)
 - Per capita productivity flat or falling over the past decade.
- Food insecurity remains persistently high.
 - 50% moderate + 25% severe (FAOSTAT)
 - Nearly half the population reportedly malnourished ([IAPRI](#)), over one-third of children stunted.
 - Food share of household budgets exceeds 50% in rural areas, raising sensitivity to high food prices. ([LCMS, 2015](#))



Malnutrition indicators in children.

Source: [Zambia DHS](#)

Agriculture and Agro-Processing (AAP):

A promising and feasible inclusive growth pathway



- Utilizes Zambia's vast endowment of land and water resources
- Exploits explosive regional growth of demand for food and ag-related manufacturing products
- Inclusive path with strong poverty reduction potential
- Diversifies the economy

Summary of constraints to growth

		Inclusive AAP Growth Path	Economy Wide
	Inadequate agriculture inputs & policies <ul style="list-style-type: none"> • Low yields and limited growing season owing to inadequate irrigation. • Distortive and uncertain policy environment for inputs, output and exports. 	<input checked="" type="checkbox"/>	
	Poor roads and transport <ul style="list-style-type: none"> • Secondary and tertiary roads are poor or non-existent, reducing market access. • Poor regional connectivity with neighboring country markets. 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Low access to credit <ul style="list-style-type: none"> • Prohibitively high interest rates discourage borrowing. • Banks rarely lend to SMEs, do not cater to agribusiness needs and timelines. 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
	Lack of skilled labor in agriculture and ag-processing <ul style="list-style-type: none"> • Mismatch between workers' skills and firm needs in ag-processing. • Weak TVET curriculum does not address employers' demand. 	<input checked="" type="checkbox"/>	
	Low power access and reliability <ul style="list-style-type: none"> • Rural population is mostly not connected to grid. • Hydropower dependence leads to greater climate change risks, e.g. droughts. 	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>

Zambia Compact - Overview

The agriculture and agro-processing (AAP) value chain, including on-farm production, processing & logistics services, offers Zambia the best opportunity to grow its economy equitably and sustainably, create jobs, increase incomes and reduce poverty.

Projects

Objectives

Strategic Approaches

Roads & Borders

Decrease transportation costs on domestic and regional road segments

- Border crossing logistics and infrastructure
- Border and rural road infrastructure
- Improving road planning & maintenance

Electricity, Irrigation & Logistics (EIL)

Increase production of crops and processing for AAP high-value chains

Grants and technical assistance to catalyze private investment in energy, irrigation & logistics capital inputs for the AAP value chain

Agriculture Policy & Institutional Strengthening

Increase the share of agricultural input supply and participation of grain reserves provided by the private sector

Agricultural policy and institutional reforms to change the role of the public sector to one of facilitator and strengthen the role of the private sector

Deep gender & social inequalities & limited access to affordable finance across constraints & projects

EIL Project - Overview



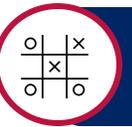
Problem

Low access to competitive finance for EIL capital inputs constrains production in AAP value chains.



Objective

Increase production of crops and agro-processing in AAP high-value chains.



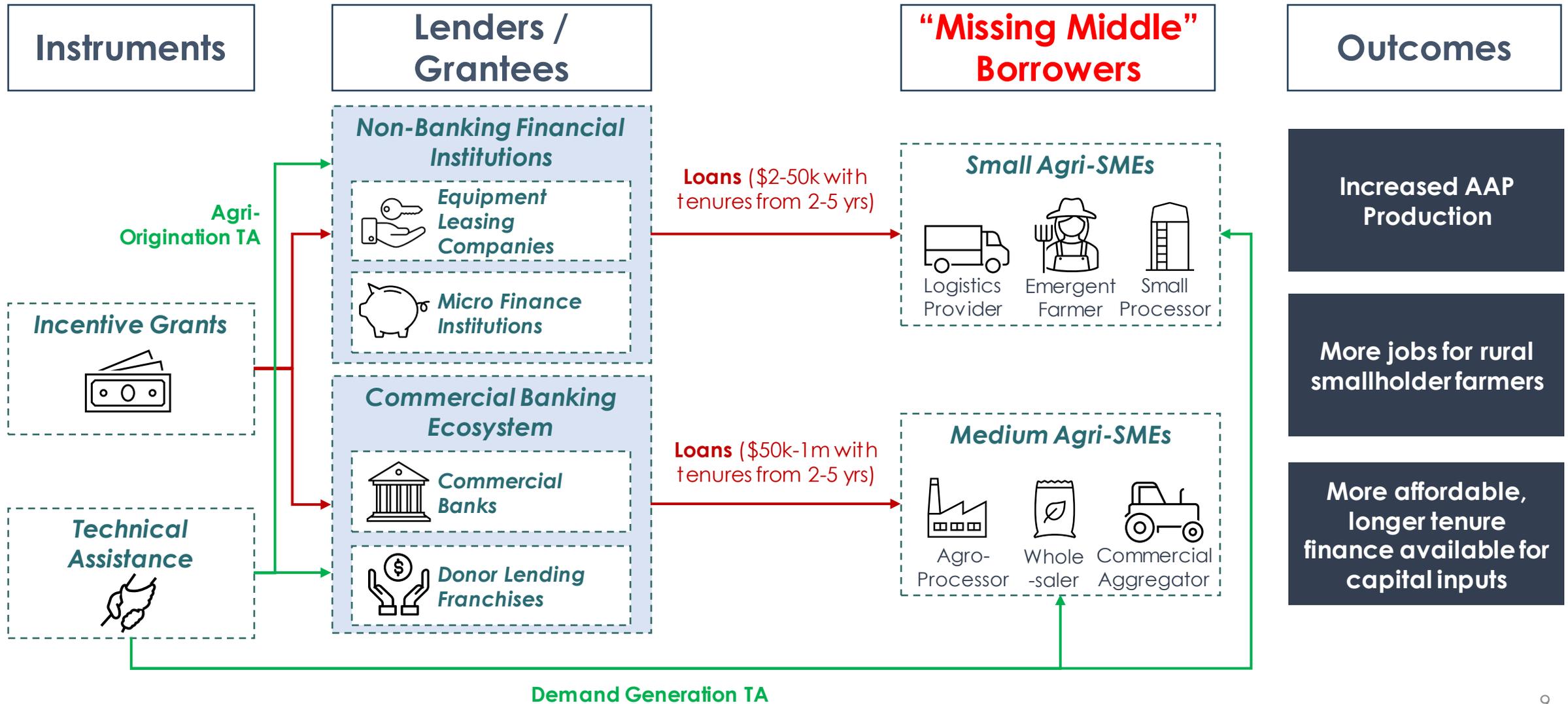
Approach

- Incentivize lenders to supply **agri-SMEs** with medium term loans (2-5 years) to affordably finance production-boosting EIL equipment.
- Enable **project developers** to prepare & finance bankable EIL infrastructure to increase production in **AAP communities**.

EIL Project		
Activities	Agri-SME Asset Finance Activity Finance EIL Equipment for more agri-SMEs to increase AAP production	MIA Project Preparation Activity Finance EIL infrastructure for more communities to increase AAP production
Examples	Farm Level Solar Irrigation Kits	Commercial on- & off-grid renewable energy
	Cold Storage, Warehouses, Silos	Border crossing PPP
	Processing Equipment	Community level irrigation infrastructure

Who's Who?

Agri-SME Asset Finance Activity



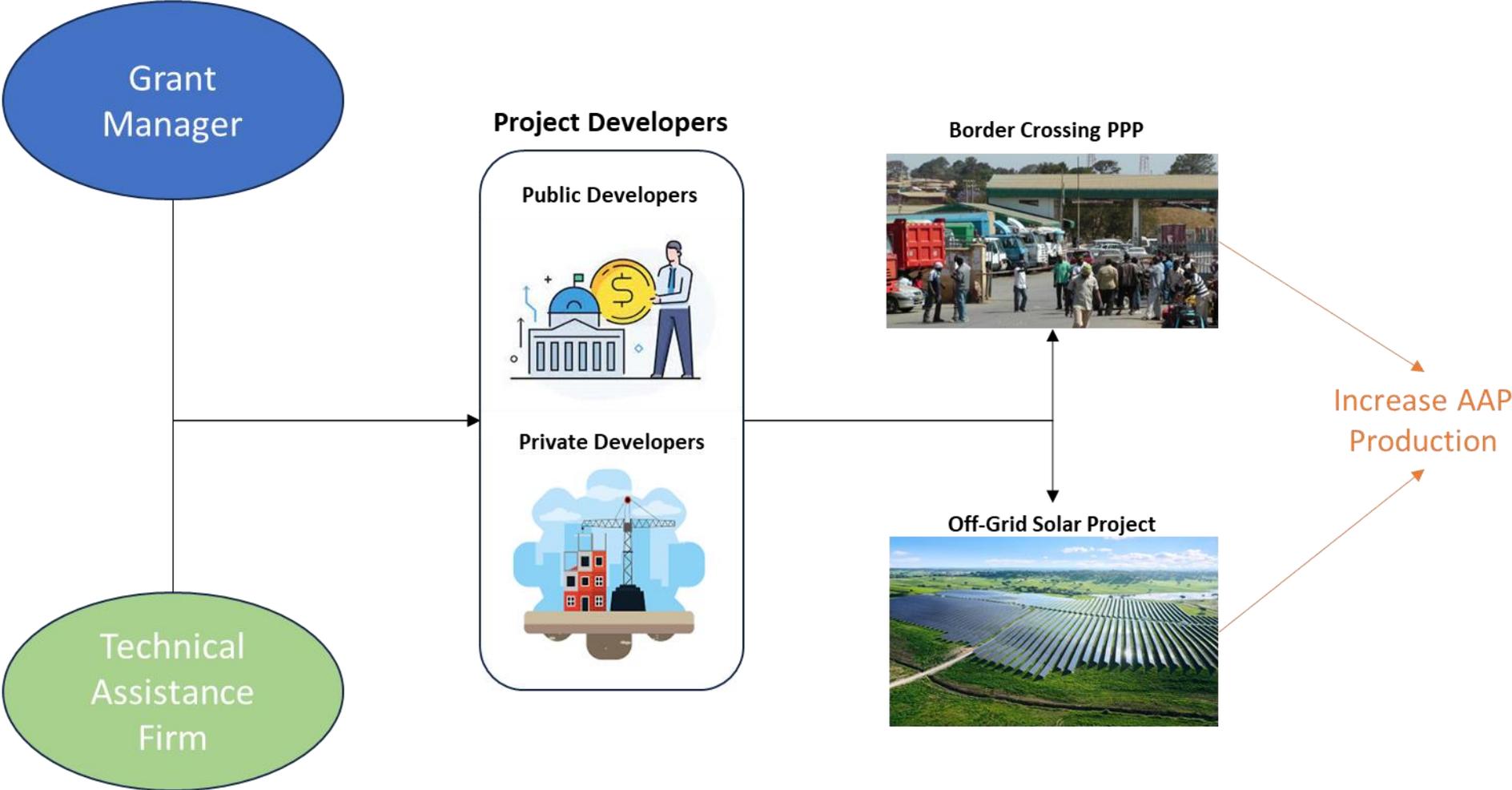
Key Due Diligence Findings

Agri-SME Asset Finance Activity

- **Agriculture Finance in Zambia**
 - Agricultural lending is primarily short term (< 1 year).
 - But agri-SMEs need affordable, longer-term financing matched to their cash-flows to buy equipment
 - Longer-term asset-based lending is scarce for the agricultural sector, although latent demand appears strong
 - USD \$20m - \$40m: Estimated annual demand for asset-based lending in Zambia
 - Financial sector capacity to lend to ag sector has eroded and requires support
 - Bank lending to government & corporates (which offer high returns & less risk) largely crowds out agri-SME lending
 - Lenders require increased risk/return incentives to participate
- **Commercial banks & NBFIs appear willing to lend to more agri-SME with certain donor support:**
 - Technical Assistance (e.g., strengthen agri-SME capacity to borrow + lender capacity to lend to agri-SMEs)
 - Grants to cover:
 - Higher origination/servicing costs of agri-SME loans
 - Expected losses on agri-SME loans (e.g., 2-8% of loan portfolio)
 - NBFIs also need grant capital to lower cost of capital that they need to finance more agri-SMEs more inexpensively.

Who's Who

MIIA Project Preparation Activity



Key Due Diligence Findings

MIA Project Preparation Activity

- Public & private investors (e.g., pension & private funds, commercial banks, DFIs) confirm:
 - Having lots of EIL infrastructure projects in their deal pipeline that need project preparation support to reach financial close
 - Willingness to share pipeline for screening.
- Under MIA, prefeasibility studies completed on the following 3 projects in Zambia, which could receive further support under the Compact to reach financial close:
 - Jimbe border crossing PPP project
 - Sanergy waste-to-energy project
 - Virunga run-of-river mini-hydro projects (BII-funded company)

Discussion Questions:

1.Overcoming Credit Rating Challenges: Recognizing that Zambia has a low credit rating according to Fitch and Moody's and has faced instances of default, what innovative mechanisms and risk mitigation strategies can the EIL Project employ to make investments in EIL Project more attractive to private sector investors and lenders from the region and internationally?

2.Scaling Up Successful Models: In light of the interest expressed by various stakeholders, how can successful models and strategies from the Small Ticket EIL Activity be scaled up and replicated to reach a larger number of agri-SMEs and AAP communities, and what role can the private sector advisory council play in this process?

3.Risk Mitigation for Financial Service Providers (FSPs): Given that NBFIs and commercial banks are willing to lend to agri-SMEs for EIL equipment with certain conditions, what additional *risk mitigation strategies* can be put in place to encourage greater participation from these financial institutions and donors, ensuring that agri-SMEs have access to the necessary financing?

Discussion Questions:

- 4. International Best Practices:** What lessons can we draw from successful experiences in other countries that have faced similar challenges in attracting private sector capital for projects in sectors like agriculture and agro-processing (AAP)? How can we adapt and apply these **international best practices to ensure the effectiveness and sustainability** of the EIL Project in Zambia, taking into account local conditions and requirements?
- 5. Lowering the Cost of Capital:** What strategies can be effectively employed to **lower the cost of capital** for AAP borrowers?
- 6. Timeline and Project Pipeline:** Considering the extended project preparation periods (3+ years) and MCC's 5-year model, how can MCC optimize project preparation support and identify a robust project pipeline? What type of support project prep would be most valued by project sponsors? What type of project sponsor capacity building would be needed? How could the local MIAs sustainably raise revenue to continue operating post compact?



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