



1. Project Data :
OEDID: L3063
Project ID: P003305
Project Name: Agricultural Credit and Export Promotion Project
Country: Zimbabwe
Sector: Agricultural Credit
L/C Number: L3063-ZW
Partners involved : IFAD, BADEA, Japan
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2. Project Objectives, Financing, Costs and Components :

Objectives : To increase the production of food, cash and export crops among smallholders and, through diversification, increase the output of export and import substitution products by commercial farmers .

Components : (i) agricultural credit for smallholders and commercial farmers; (ii) institutional development of the Agricultural Finance Corporation (AFC); (iii) pilot a group lending scheme; (iv) expansion and improvement of the cotton processing and storage facilities; (v) strengthening of horticultural post-harvest research; (vi) sub-sector studies on horticultural export marketing and cotton . During implementation, a further component was added, the cotton input credit scheme .

Project costs and financing : Appraisal estimate US\$116.9 million; actual US\$ 100.3 million; IBRD loan US\$ 35.9 million.

3. Achievement of Relevant Objectives :

The project failed to reach its major objectives of increasing access to credit for smallholders or to make AFC sustainable. AFC's portfolio quality deteriorated, largely as a result of government interference in AFC operations, despite assurances given at appraisal to follow sound policies . The project, however, did help in AFC's institutional development efforts through staff training and upgrading its management information systems . Towards the end, the project provided support to the restructuring of AFC in an effort to convert it into a viable commercial bank . The group lending pilot scheme experienced the same problems as AFC's credit operations, with a declining portfolio and high arrears. On the other hand, the autonomously run cotton inputs credit scheme fared much better . Following the structural adjustment program, the project helped in the development of the cotton sub -sector. It assisted the Cotton Marketing Board transform into a commercial company and helped improve market access (and incomes) for smallholder farmers. The outcome of the horticultural component cannot be assessed as the physical facilities provided by the project are not operational as yet . The project did provide critical technical assistance and staff training, and successfully piloted a field trials program with smallholder farmers .

4. Significant Achievements :

The project played a significant role in the liberalization of the cotton sub -sector, ending the monopoly of the Cotton Marketing Board and commercializing its activities . The developments have stimulated cotton production by smallholders as the large farmers have diversified out of cotton into higher value export crops, both of which were assisted by the project. On the credit front, the project contributed to AFC's institutional development and restructuring plans.

5. Significant Shortcomings :

The project failed to encourage financial discipline among smallholder borrowers and it failed to reverse, or even stop, the decline in AFC's outreach and increasing smallholder access to formal credit, a major project objective .

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6. Ratings :	ICR	OED Review	Reason for Disagreement /Comments
Outcome :	Unsatisfactory	Marginally Unsatisfactory	The ICR rates outcome as marginally unsatisfactory .
Institutional Dev .:	Partial	Modest	Same rating.
Sustainability :	Uncertain	Uncertain	
Bank Performance :	Satisfactory	Satisfactory	The ICR rating is marginally satisfactory . OED agrees, but does not have the option of a marginal qualifier .
Borrower Perf .:	Satisfactory	Unsatisfactory	The ICR rating is marginally satisfactory . OED disagrees on the grounds that borrower policies and actions adversely affected the main component of the project - credit operations of AFC - despite assurances given by the government to the contrary at appraisal .
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

1. The need to appropriately sequence project interventions, particularly in relation to policy reforms and institutional capacity building before implementing major expansion programs .
2. Familiar lessons on agricultural credit: need to ensure autonomy of financial institutions to create a sustainable financial institution; diversification of client base; and the need for cautious expansion of group lending programs if they are to succeed .

8. Audit Recommended? ☒ Yes ☐ No

Why? The project offers potentially important lessons for rural finance operations by identifying the factors that led the government to realize the failure of its past credit policies, as well as lessons from the transition of an unsustainable traditional credit institution towards a viable commercial entity .

9. Comments on Quality of ICR :