



**REPUBLIC OF ZAMBIA**

**THE RURAL FINANCE POLICY  
AND STRATEGY**

Ministry of Finance  
P. O. Box 50062, Lusaka  
Zambia

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## TABLE OF CONTENTS

List of Acronyms .....	ii
Foreword.....	v
Acknowledgements .....	vii
Working Definations .....	viii
Macro Level .....	viii
Meso Level .....	viii
Micro Level.....	viii
1.0 Introduction .....	1
1.1 Situation Analysis .....	2
1.2 Vision .....	4
1.3 Rationale .....	4
1.4 Guiding Principles .....	5
1.4.1 Developmental Objectives .....	7
1.5 Policy Focus Areas and Strategies .....	8
1.5.1 Macro Level .....	8
1.5.2 Meso Level .....	8
1.5.3 Micro Level .....	9
1.6 Rural Finance Strategies.....	9
1.6.1 Strategies at the macro level .....	9
1.6.2 Strategies at the meso level .....	12
1.6.3 Strategies at the micro level .....	14
1.7 Implementation Framework.....	19
1.7.1 Institutional Arrangement .....	19
1.7.2 Legal Framework .....	19
1.7.3 Monitoring and Evaluation .....	20
1.7.4 Information Dissemination .....	20
1.7.5 Resource Mobilisation .....	21

## LIST OF ACRONYMS

AADFI	African Association of Development Finance Institutions
ALFZ	Association of Leasing Companies in Zambia
AMIZ	Association of Microfinance Institutions of Zambia
AML/CFT	Anti-Money Laundering/Combating the Financing of Terrorism
ASNAPP	Agribusiness in Sustainable Natural African Plant Products
ATM	Automated Teller Machine
BAZ	Bankers Association of Zambia
BoZ	Bank of Zambia
CEEC	Citizens Economic Empowerment Commission
CRB	Credit Reference Bureau
CUSA	Credit Union and Savings Association
DAPP	Development Aid from People to People
DBZ	Development Bank of Zambia
DFID	UK Department for International Development
FECU	Financial Education Coordinating Unit (proposed)
FINNIDA	Finnish International Development Agency
FISP	Farmer Input Support Programme
FNDP	Fifth National Development Plan
FRA	Food Reserve Agency
FSDP	Financial Sector Development Plan
FSDP II	Financial Sector Development Plan Phase II
G2P	Government-to-Person
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
IAZ	Insurance Association of Zambia

IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
ILO	International Labour Organisation
KYC	Know Your Customer
M4P	Making Markets work for the poor
MAL	Ministry of Agriculture and Livestock
MCTI	Ministry of Commerce Trade and Industry
MDG	Millennium Development Goals
MFI	Microfinance Finance Institution
MoF	Ministry of Finance (formerly the Ministry of Finance and National Planning)
MSME	Micro, Small and Medium Enterprises
MTZ	Mobile Transactions Zambia
NSCB	National Saving and Credit Bank
NBFIs	Non-Bank Financial Institutions
OPM	Oxford Policy Management
PACRA	Patents and Companies Registration Agency
PIA	Pensions and Insurance Authority
PoS	Point of Sale
PRG	Programme Reference Group
RFD	Rural Finance Department (proposed), Ministry of Finance
RFP	Rural Finance Programme
RFPS	Rural Finance Policy and Strategy
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
SEC	Securities and Exchange Commission
TAG	Technical Advisory Group on Microinsurance

TEVETA	Technical Education, Vocational & Entrepreneurship Training Authority
UNZA	University of Zambia
USAID	United States Agency for International Development
VSLA	Village Savings and Loan Associations
WFP	World Food Programme
WLA	Warehouse Licensing Authority
ZACCI	Zambia Association of Chambers of Commerce and Industry
ZAMACE	Zambia Agricultural Marketing and Commodities Exchange
ZATAC	Zambia Agribusiness Technical Assistance Centre
ZCSMBA	Zambia Chamber of Small and Medium Business Associations
ZDA	Zambia Development Agency
ZIBFS	Zambia Institute of Banking and Financial Services
ZICAS	Zambia Institute of Accountancy Studies
ZMK	Zambian Kwacha
ZNFU	Zambia National Farmers Union



## FOREWORD

Increasing access to financial services by rural households in Zambia is cardinal to reducing poverty, creation of employment and wealth and attracting meaningful industrial development in rural areas that can lead to sustainable economic growth for the country at large.

Rural financial services in Zambia are underdeveloped. There are few rural financial service providers. Most microfinance institutions operate in urban or peri-urban settings only, while cooperatives ceased to play their erstwhile predominant role in rural financing and commercial banks have closed many rural branch offices claiming they were costly to operate. Financial services in rural areas are mostly provided by a variety of private sector organisations such as: non-bank financial institutions which include few microfinance institutions, out-grower schemes and marketing companies, savings and credit cooperatives, village savings and loan associations, payment service providers, and small informal operators. Different parts of the Government steer, regulate, monitor and support these organisations. Although several commercial banks have started returning to larger provincial centres, the services provided are limited, both in scope and in the number of clients that can access them.

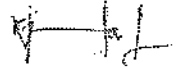
The Government of the Republic of Zambia (GRZ) recognizes that the lack of access to financial services in rural areas severely restricts the development potential of Zambia's rural areas and population, its agricultural sector and its economy at large. GRZ is committed to reducing poverty in rural areas and achieving the national ambitions articulated in the Vision 2030. The majority of rural residents are currently poor and most of the individuals and businesses lack access to even basic financial services.

The Poverty Reduction Strategy Paper (PRSP) first identified this aspect as one of the constraints to economic growth and poverty reduction and the government included provision of rural financial services as an aspect under the Fifth National Development Plan (FNDP) and the Sixth National Development Plan (SNDP). Other policy statements are spelt out in different sectoral policy papers. Besides the Financial Sector Development Plan (FSDP) 2004-2009, there are five major existing policies that make reference to rural finance. These are the Fifth National Development Plan (FNDP) 2006-2010 and the current Sixth National Development Plan (SNDP) 2011-2015, the National Agriculture and Cooperatives Policy (NACP) 2003-2015, Poverty Reduction Strategy Paper (PRSP) 2002-2004, and the Agriculture

Commercialisation Programme (ACP) 2002-2005. It is against this background that the Rural Finance Policy and Strategy has been formulated to revitalize the rural finance sector.

To reduce vulnerability and promote prosperity in rural areas, it is vitally important to ensure that the GRZ works with various providers with a clear Policy and Strategy that is commonly understood, widely accepted and applied across all Government agencies. Through the Policy and Strategy, the Government will seek to ensure that access to financial services for rural individuals and businesses is rapidly expanded while furthering the long term interests and sustainability of both the providers and users of financial services. Without a clear Policy and strategy on rural finance, the rural areas will remain under developed.

The successful implementation of this policy will require concerted efforts and commitment of stakeholders at all levels.



HON. FELIX MUTATI, MP  
*Minister of Finance*

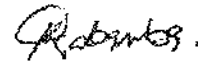
## ACKNOWLEDGEMENTS

In formulating the Rural Finance Policy and Strategy, comprehensive consultations with various stakeholders were held in order to build consensus and create a sense of ownership. Due appreciation is accordingly being extended to all stakeholders who participated in the formulation and preparation of this policy document.

Special mention goes to the Rural Finance Programme in particular, the Programme Reference Group, Rural Finance Unit and the Programme Management Unit for providing guidance in the development of this policy document. Acknowledgements also go to the Access to Finance Working Group of the Financial Sector Development Plan for facilitating submission of the policy document to the Steering Committee of the FSDP.

Special thanks also go to the consultants/advisors who conducted various studies such as the Scooping Study by Rural Finance Unit, Rural Financial Services in Zambia by Ms. Veronica Phiri, Key Issues and Research into adequacy of Existing Policies for Rural Finance by Ruralnet Associates Limited as well as the Report of the Rural Finance Forum and the Report on the Development of Rural Finance Policy and Strategy in Zambia by Oxford Policy Management.

Lastly, the unwavering commitment of Senior Officials from the Ministry of Finance in ensuring that the Policy and Strategy development process comes to fruition is highly commended.



PAMELA C. KABAMBA  
*Permanent Secretary (Budget and Economic Affairs)*  
*Ministry of Finance*

## WORKING DEFINITIONS

**Agricultural finance:** Financial services that focus on on-farm activities and agricultural businesses, without necessarily targeting poor people. Fresh thinking has identified some of the key features of successful agricultural microfinance, replacing the heavily subsidized, unsustainable and unsuccessful approaches of the past.

### **Financial Service**

**Providers (FSPs):** Institutions and community groups that offer financial services, including commercial and development banks, non-bank financial institutions, cooperatives, savings and credit cooperative organizations (SACCOs), postal savings banks, self-help groups (SHGs), village savings and loan associations (VSLAs), financial service associations (FSAs), and even telecommunications providers (particularly in providing remittance services). Input suppliers, traders and agro processing companies can also provide financial services, such as credit for inputs and insurance to farmers through the value chain.

### **Macro Level**

**Considerations:** Considerations that focus on the National level, Large Scale or the overall picture of the country for example, the enabling environment of laws, regulations, policies and norms in a country.

### **Meso Level**

**Considerations:** Considerations that focus on large corporations or institutions and their interactions for example, the development of the infrastructure of the financial sector with a view to broadening outreach in rural areas including a focus on, inter alia, the creation of effective payment systems, credit reference bureau(s), warehouse receipts and collateral management, weather index insurance to mention a few.

**Microfinance:** Financial services that focus on low-income households and small-scale businesses in both rural and urban areas. Growing beyond microcredit, microfinance has blossomed since the early 2000s to include a range of financial services targeted to low-income clients, including savings, money transfer and insurance products.

### **Micro Level**

**Considerations:** Considerations that focus on small groups or individual institutions and their interactions for example, the core of the financial services sector, where suppliers and consumers meet.

**Policy:** Refers to a statement of goals, objectives and courses of action by the Government to provide to provide guidance for its actions.

**Rural finance:** Financial services that focus on households and businesses in rural areas, encompassing both agricultural and non-agricultural activities, and targeting poor and non-poor women and men. Rural finance encompasses the full range of financial services that farmers and rural households require.

**Rural microfinance:** Financial services that focus on relatively small-scale products and services targeted to poor clients in rural areas.

**Strategy:** Refers to the course of action taken in order to achieve the desired objective.

**Value chain finance:** Financial products and services that flow to or through any point in a value chain in order to increase the returns on investment, growth and competitiveness of that value chain. Value chain finance has a long history in many rural areas (often referred to more specifically as 'agricultural value chain finance'), given that food processors, input suppliers and large commercial farms may be the only source of credit available to their clients and suppliers.



## 1.0 INTRODUCTION

The 2003 financial sector assessment undertaken by the World Bank and the International Monetary Fund through the Financial Sector Assessment Programme (FSAP) identified a number of weaknesses in the Zambian financial sector. The study revealed access to financial services is very limited particularly for low-income groups despite there being a few micro finance institutions that are expected to fill in the gap in the provision of financial services. According to the FinMark 2007 supply – side study of the inclusiveness of Zambia’s Financial System, the situation was glaringly more so in rural areas. Taking into account that 66% of the Zambian population reside in the rural areas, the need to address this matter becomes more paramount.

In its attempt to address the above problem, the Government of the Republic of Zambia (GRZ) and the International Fund for Agricultural Development (IFAD) jointly designed and established a Rural Finance Programme (RFP) in September 2007, that is managed by the Ministry of Finance (MoF) and works within the country’s framework of the Financial Sector Development Plan (FSDP). The objective of RFP is to increase the use of sustainable financial services in rural areas. One of the components of the Programme is policy, institutional and management support. The component has two sub-components: (a) support to rural finance and (b) programme management. The focus of the first sub-component is to develop a strategic and operational framework for rural finance and to promote policy dialogue and institutional strengthening. A well-founded rural finance policy and strategy will support GRZ’s efforts to promote greater financial inclusion and deeper access to financial services by rural customers. It is recognised that an enabling policy environment is essential for the achievement of these aims. A well-tailored legal and regulatory framework can support the strategy that needs to be crafted to operationalise the policy.

It is in recognition of the above and recognising the problem of constrained financial access especially in rural areas of Zambia, that Ministry of Finance contracted several stakeholders to undertake a strategic review of the state of rural finance in the country and recommend strategies and policies for improving the situation. In light of the above, the objective of the studies was twofold, namely, (a) to develop an effective and coherent strategic framework to enhance the provision of both broader and deeper financial services across

all parts of the country; and (b) to develop a national policy and strategy on rural finance that will create a conducive environment for accommodating formal banks, microfinance institutions, out-grower schemes and marketing companies, savings and credit cooperatives, and small informal operators.

Government recognised the fact that there were several ad hoc, uncoordinated policies on rural finance hence the need for a well-founded stand-alone rural finance Policy and Strategy in Zambia.

In view of the above Section (1.1) of this document shades some light on the Situation Analysis, Section (1.2) outlines the Vision and Rationale, Section (1.3) covers the Policy Focus Areas and Strategy, while Section (1.4) explains the Rural Finance Strategies and Section (1.5) describes the Implementation Framework.

## 1.1 SITUATION ANALYSIS

In recent years Zambia has recorded economic growth on average of 6% per annum. However, this achievement has not resulted in significant poverty reduction and job creation especially in rural areas. It is estimated that about 83% of the rural population are poor, 71% of whom are classified as extremely poor. The rural population faces a number of bottlenecks that constrain their fuller, more positive integration into the productive sector. The majority of rural dwellers are small scale farmers who depend on land for their livelihoods. Small-scale farmers face specific constraints that hinder their productivity, thus perpetuating low incomes and contributing to persistent rural poverty. One of the short comings in the development of the rural sector is the lack of access to rural financial services. According to the FinScope of (2009) estimates that about 80% of adults in rural areas are unbanked or have no access to financial services. Most microfinance institutions operate in urban or peri-urban settings only, while cooperatives ceased to play their erstwhile predominant role in rural financing and commercial banks have closed many rural branch offices claiming they were costly to operate. Financial services in rural areas are mostly provided by a variety of private sector organisations such as: non-bank financial institutions which include microfinance institutions, out-grower schemes and marketing companies, savings and credit cooperatives, village savings and loan associations, payment service providers and small informal operators. Different parts of the Government steer, regulate, monitor and support these organisations. Although several commercial banks have started returning to larger provincial centres, the services provided are limited, both in scope and in the number of clients that can access them.



The Government of the Republic of Zambia (GRZ) recognizes that the lack of access to financial services in rural areas severely restricts the development potential of Zambia's rural areas and population, its agricultural sector and its economy at large.

One of the issues in addressing the weaknesses in the financial sector is the need for Government to provide a conducive environment for all stakeholders. There is currently no focussed rural finance policy in Zambia. In general, Government highlights the importance of rural finance through a number of policy statements. The policy statements are spelt out in different sectoral policy papers.

The Poverty Reduction Strategy Paper (PRSP) 2002-2004 first identified this aspect as one of the constraints to economic growth and poverty reduction and the government included provision of rural financial services as an aspect under the Fifth National Development Plan (FNDP) and the current Sixth National Development Plan (SNDP). The focus of both the FNDP and SNDP is on pro-poor growth oriented sectors that create employment and income opportunities of the poor. These policies include rural development, agriculture and manufacturing, which provide a greater opportunity for creating wealth and jobs with the aim of rapidly reducing poverty. Besides the Financial Sector Development Plan (FSDP) 2004-2009, there are other existing policies that make reference to rural finance. These are the National Agriculture and Cooperatives Policy (NACP) 2003-2015, Poverty Reduction Strategy Paper (PRSP) 2002-2004, and the Agriculture Commercialisation Programme (ACP) 2002-2005.

While the above policy interventions have been made by Government, financial inclusion for the rural areas remains a challenge. Access to basic financial services by the rural households still possesses a challenge to Government. Very limited progress has been made to operationalise the various existing ad hoc and uncoordinated policies and strategies and translate them into an action plan that would define the mechanism, institutional arrangements and support interventions required to improve the rural finance service delivery.

The various policy documents on rural finance that have been highlighted above are uncoordinated and have had limited impact on rural development and poverty reduction in Zambia. As long as the various existing policies and strategies remain uncoordinated and there is no comprehensive stand alone policy and strategy on rural finance rural areas in Zambia will continue to be undeveloped and the significant reduction of rural poverty will continue to be a pipe dream.

It is against this background that the Rural Finance Policy and Strategy has been formulated to revitalize the development of rural areas by facilitating the provision of adequate rural financial services. It is envisaged that once the Policy and Strategy have become operational, mechanisms and institutional arrangements are in place, the rural financial service provision in Zambia shall improve and contribute to the socio-economic development of the country.

## 1.2 VISION

The vision of the Policy and Strategy is to have vibrant and well-resourced rural communities that enjoy prospects of sustained socio-economic development.

## 1.3 RATIONALE

The Government of Zambia (GRZ) is committed to reducing poverty in rural areas and achieving the national ambitions articulated in the Vision 2030. The majority of rural residents are currently poor and most of the individuals and businesses lack access to even basic financial services.

Financial services are mostly provided by a variety of private sector organisations operating in rural areas, such as: commercial banks, non-bank financial institutions/microfinance institutions, out-grower schemes and marketing companies, savings and credit cooperatives, village savings and loan associations, payment service providers, and small informal operators. Different parts of the government steer, regulate, monitor and support these organisations. To reduce vulnerability and promote prosperity in rural areas, it is vitally important to ensure that the GRZ works with various providers with a clear strategy that is commonly understood, widely accepted and applied across all Government agencies. Through this strategy, the Government will seek to ensure that access to financial services for rural individuals and businesses is rapidly expanded while furthering the long term interests and sustainability of both the providers and users of financial services.

## 1.4 GUIDING PRINCIPLES

The following shall constitute the primary frame of reference regarding Rural Finance in Zambia:

- (a) Encourage market-based approaches: The Government's main role in rural finance is to facilitate the provision of financial services by the private sector, rather than providing them directly. It will do this through a Making Markets Work for the Poor approach that creates a favourable environment for private sector financial services by helping to tackle market constraints at the micro, meso and, especially, macro level.<sup>1</sup>
- (b) Support access to a variety of financial services: Rural households and businesses need access not only to various types of credit but also to a range of other financial services including savings, transaction services and insurance. As recent research has demonstrated, this need for a variety of financial services to support their financial portfolios applies at least as much to poor men and women as it does to higher income people and enterprises.
- (c) Promote a wide range of financial organisations, models and delivery channels, including those relevant to the needs of poor women and men: The variety of financial services needed by rural households and businesses requires a range of institutions and channels to deliver those services in the rural economy, including commercial banks, microfinance institutions (MFIs), informal financial institutions and market institutions that are not primarily financial service providers, such as agricultural traders and other participants in agricultural value chains. These organisations, and linkages between/ amongst them, will be promoted through the Making Markets Work for the Poor approach. Promote these financial services in a context that takes full account of cross cutting issues such as gender and climate change.

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<sup>1</sup> This approach (M4P) aims to stimulate pro-poor growth by making markets function better and, especially, in a way that is more inclusive of the poor. The approach's primary focus is to bring about systemic change – changing the incentives that the market system provides to participants so that markets grow and work better and fairly for the poor. To this extent M4P plays primarily the role of a catalyst for change, and prioritises facilitation over direct intervention and subsidising unsustainable practices. See [www.m4phub.org/m4p-in-practice/](http://www.m4phub.org/m4p-in-practice/).

- (d) Promote consumer protection: The Government will develop policies, initiatives and mechanisms to offer consumer protection, and to build the financial capacity of the consumers as well as the capacity of financial service providers and relevant civil society organisations. In consultation with stakeholders, government will improve mechanisms for redressal of grievances of financial services consumers.
- (e) Support demand-driven and innovative approaches of the private sector: The Government will adopt a nimble and flexible strategy, responding quickly and appropriately to the demand for Government action created by private sector innovations in products and services or in ways of scaling up the delivery of products and services. Government efforts to run ahead of the private sector by anticipating innovation, or by attempting to force it, generally lead to perverse incentives and negative unanticipated consequences.
- (f) Develop and support long-term strategies focusing on the sustainability of financial service providers: The primary aim of market development strategies such as subsidies and guarantees is to lower the risk that financial service providers incur in experimenting with new services and/or delivery mechanisms. Such strategies can, however, also produce perverse incentives unless they are carefully designed to create a long term change in the financial service providers that will enable the subsidies and guarantees to be phased out over time, without having adverse effect on the continued provision of financial services.
- (g) Improve policy certainty and financial sector infrastructure to reduce risks and costs for financial service providers: The Government will avoid sudden and arbitrary initiatives and changes of policy that create uncertainty for financial service providers, and will work to create a stable and reliable financial sector infrastructure. Greater certainty means lower risk and, in the financial sector, there is an inseparable link between risks and costs.
- (h) Encourage evidence based policy making: The Government will draw upon the lessons from local, regional and international experience to ensure that rural financial service policies and strategies are based on sound evidence. The Government will also ensure that

its policies and strategies are fully informed by the available evidence of surveys and research in Zambia, and will commission appropriate studies where there is insufficient evidence for sound policy formulation. A lot of useful evidence is available for what works and what does not work in financial sector development in Zambia, in other SADC countries and throughout the world.

- (i) Foster effective policy dialogue mechanisms to develop, monitor and improve government policies: Policy dialogue ensures a strong signal to the private sector that rural finance is a policy priority that Government will drive forward in an appropriate and predictable manner. It also allows the private sector, which tends to be closer to their customers and potential customers, to offer advice for on-going and planned policies and strategies. Finally, it provides a forum for the Government to promote its own interests, such as new financial sector codes under the Citizens Economic Empowerment Commission agenda.

#### 1.4.1 DEVELOPMENTAL OBJECTIVES

The following are the Government's key objectives for facilitating Rural Finance:

- To develop and maintain an enabling, predictable and coherent policy, legislative and regulatory environment for rural finance that supports national developmental priorities.
- To ensure a soundly based regulatory and supervisory system for all financial services.
- To facilitate the provision of affordable and easily accessible rural finance products and services.
- To ensure policy coherence with regard to rural finance across the Government.
- To facilitate effective and sustainable partnership with the private sector and other non-state actors in the provision of rural finance.
- To ensure that there is equity in access to rural finance focusing on bridging existing geographical, social and gender gaps in access to resources.

## 1.5 POLICY FOCUS AREAS AND STRATEGIES

In the context of the principles and objectives stated above, the following specific policies shall guide both Government and services providers in rural finance at the macro, meso and micro levels:

### 1.5.1 MACRO LEVEL

- (i) Encouragement of market-based approaches to rural finance provision: Working in partnership with the private sector and other non-state actors, GRZ shall encourage market-based approaches to rural finance provision. This shall entail extension of support towards the strengthening of rural financial markets.
- (ii) A supportive institutional environment that promotes rural financial services: GRZ shall put in place enhanced financial oversight and accountability systems and structures that will secure the confidence of all rural financial services providers. This shall include the strengthening of the supervisory function of the Bank of Zambia over rural finance operators with a view to protecting the interests of both the suppliers and consumers of the financial services offered.
- (iii) Appropriate regulatory and legislative framework: GRZ shall promote the creation of a supportive institutional environment that promotes the provision of a variety of rural financial services that are tailored to meet the peculiar requirements of rural people.

### 1.5.2 MESO LEVEL

- (i) Development of financial sector infrastructure: GRZ shall facilitate the development of financial sector infrastructure with a view to broadening outreach in rural areas including, focusing on, *inter alia*, the creation of effective payment systems, credit reference bureau(s), warehouse receipts and collateral management, weather index insurance, etc.
- (ii) Dissemination of demand and supply side market information: In partnership with the private sector, GRZ shall support the collection and dissemination in rural areas of both demand and supply side market information.

- (iii) Enhancement of market driven skills development: GRZ shall support, through capacity building and in partnership with the private sector, the enhancement of demand-driven skills development targeting mainly financial organisations and support organisations that operate in rural areas.

#### 1.5.3 MICRO LEVEL

- (i) Expansion of financial services providers into rural areas: GRZ shall promote the expansion of financial service providers into rural areas, targeting commercial banks, non-bank financial institutions (NBFIs), SACCOs, insurance companies and community-based organizations.
- (ii) Hospitable environment that fosters market-driven linkages and partnerships: GRZ shall ensure a hospitable environment that fosters market-driven linkages and partnerships among and between diverse financial service providers and relevant support institutions.
- (iii) Support product innovation and delivery of new financial products in rural areas: GRZ shall encourage the provision of a variety of financial products and services in rural areas e.g. warehouse receipts, leasing and micro-insurance.
- (iv) Support implementation of market-driven financial education strategy: GRZ shall support the implementation of the financial education strategy that is driven by market signals and demand.

### 1.6 RURAL FINANCE STRATEGIES

#### 1.6.1 STRATEGIES AT THE MACRO LEVEL

Working in partnership with the private sector and other non-state actors, GRZ shall encourage market-based approaches to rural finance provision.

- (i) Undertake a review of the financial landscape (including the legal and regulatory framework), to determine whether there is a need to introduce new tiers / types of regulated financial institutions to operate in rural areas (e.g. lower-tier banks such as rural or community banks).
- (ii) Undertake a review of the financial cooperatives / savings and credit cooperatives (SACCOs) sector to
- (iii) Gather information on registered cooperatives,

- (iv) Analyse sector data to support; (i) the development of an effective framework for regulating and supervising financial cooperatives/ SACCOs; and (ii) the design and implementation of the capacity building programme for financial cooperatives.
- (v) Develop clarity around the role of the Development Bank of Zambia and the National Savings and Credit Bank – including the road map for better governance and management.
- (vi) Develop and implement strategies to improve the targeting and sustainability of public sector credit programmes.
- (vii) Undertake a review of the incentive system in place for existing as well as emerging financial service providers (e.g. in terms of taxation, regulations on setting up branches, etc.), focusing on the following:
- (viii) Support the review of regulations governing the setting up of bank branches;
- (ix) Review the current tax regime for financial services, including the incentives and disincentives for financial sector outreach;
- (x) Review credit reference bureau regulations – including the need for bureau fee structure to reflect the small size of microfinance loans;
- (xi) Support efforts to enable inter-operability under the proposed national payment switch;
- (xii) Undertake lesson-learning / greater analysis and dissemination of findings on the costs and possible constraints with the use of alternative delivery mechanisms, including appreciation of the extent to which mobile payments can effectively facilitate better access to the unbanked in rural areas; and
- (xiii) Support efforts to fully establish unified collateral registry regulations (as started under FSDPII), including the use of movable property (especially by non-banks).
- (xiv) Create channels for private sector to provide input to rural finance policy, focusing on the following:
- (xv) Establish long-term institutional arrangements for public-private dialogue and monitoring and evaluation of interventions;
- (xvi) Facilitate information sharing amongst different financial service providers (e.g. on innovative approaches / pilot operations) via the proposed Rural Finance Forum / Working Group; and
- (xvii) Conduct regular Rural Finance Forum meetings to review and publicise progress and establish priorities for follow up action.



1.6.1.1 *GRZ shall put in place an enhanced financial oversight and accountability systems and structures that will secure the confidence of all rural financial services providers.*

- (i) Establish a Rural Finance Department in the Ministry of Finance (MoF).
- (ii) Establish an intra-governmental rural finance working group that meets quarterly with membership that includes MoF, BOZ, Ministry of Agriculture and Livestock, Ministry of Community Development, Mother and Child Health, Ministry of Commerce and Ministry of Energy and Water Development to ensure policy coherence.
- (iii) Establish, steer and support public-private working group(s) to promote and review rural finance policies;
- (iv) Annually convene, through the Rural Finance Department, the Rural Finance Forum, which will review and publicise progress and establish priorities for follow-up action.
- (v) Engage development partners in the establishment of new programmes and review of programmes under implementation.

1.6.1.2 *GRZ shall promote the creation of a supportive institutional environment that promotes the provision of a variety of rural financial services that are tailored to meet the peculiar requirements of rural people.*

- (i) Continued implementation of Financial Sector Development Plan II (FSDPII), implementation of the Bank of Zambia Strategic Plan and continued engagement to finalise follow up plans;
- (ii) Review regulatory requirements to increase flexibility and reduce costs where appropriate, e.g. branching and other conditions;
- (iii) Ensure that customer identification and verification requirements do not unnecessarily limit access to finance for low-income rural clients;
- (iv) Issue regulations and directives on agent banking and electronic money to increase certainty and encourage market entry;
- (v) Build capacity for the direct or delegated regulation of SACCOs by the Bank of Zambia and ensure that any large SACCOs are regulated and supervised directly by the Bank of Zambia;
- (vi) Rather than establishing new tiers for rural financial intermediaries, consult with current and potential providers to better understand perceived barriers to the profitable provision of rural financial services, including human resource constraints;

- (vii) Consider whether the Association of Microfinance Institutions of Zambia (AMIZ) can develop the capacity to play a role in supervising the activities of Tier III MFIs, and, if so, enhance its capacity to do so;
- (viii) Improve MFI efficiency through capacity building and overall efforts to improve the enabling environment for rural financial services;
- (ix) Periodically assess which categories of financial services users (e.g. women, landless, residents in distant locations) are continually demonstrating very high levels of exclusion and what more can be done by government and service providers to make the financial products and distribution systems more usable by them;
- (x) Support consumer protection by requiring, particularly, the microfinance sector to adopt transparent and responsible pricing practices that promote quoting prices using the annual percentage rate (APR) as opposed to the nominal rate. The Government will also encourage the use of interest rate disclosure on declining balance basis and discourage the use of flat interest rate computation method.

#### 1.6.2 STRATEGIES AT THE MESO LEVEL

*1.6.2.1 GRZ shall facilitate the development of financial sector infrastructure with a view to broadening outreach in rural areas including a focus on, inter alia, the creation of effective payment systems, credit reference bureau(s), warehouse receipts and collateral management, weather index insurance, etc.*

- (i) Support development of retail infrastructure for access to rural financial services by lowering costs and increasing transaction volumes in rural areas;
- (ii) Reduce start-up and operating costs by creating more flexibility, for example with respect to branching requirements;
- (iii) Create an enabling environment for technology-enabled financial service delivery models such as agent banking, mobile phone-based financial services, and use of ATMs and Point of Sale facilities;
- (iv) Increase the attractiveness of electronic financial infrastructure by GRZ making payments through appropriate electronic channels for social programmes such as social transfers, FISP etc.

- (v) Ensure the establishment of a national switch to encourage investment in rural financial infrastructure by ensuring interoperability of retail payment systems.
- (vi) Expand access to acceptable collateral by facilitating registration of real property and encouraging the use of movable assets:
- (vii) Simplify real property registration and lower registration costs;
- (viii) Develop a unified database to link multiple collateral registries;
- (ix) Consult with financial institutions on barriers to greater acceptance of warehouse receipt systems and movable assets as collateral.
- (x) Support the development of the credit information system to enable it to be used by the providers of microcredit.

1.6.2.2 *In partnership with the private sector, GRZ shall support the collection and dissemination in rural areas of both demand and supply side market information.*

- (i) Increase access to information on creditworthiness of rural clients by mandating the submission and sharing of credit information, expanding sources of credit information, and exploring alternative techniques for assessing creditworthiness:
- (ii) Require all banks and NBFIs to regularly submit both positive and negative credit information, including low-value obligations;
- (iii) Encourage all banks and NBFIs to use credit reports prior to extending loans. To avoid imposing high costs on MFIs, work with credit bureau and MFIs to develop a cost-effective business model for low-value loans;
- (iv) Include data on payment of other monthly obligations, such as utility and telecommunications bills;
- (v) Consider the use of psychometric analysis for clients with little or no formal credit history.
- (vi) Encourage MFI efficiency and transparency by developing standardized loan documentation for microcredit that effectively discloses loan terms to clients;

- (vii) Support periodic conduct of demand side surveys (e.g. FinScope) and release of easily accessible supply side data on financial infrastructure, outreach, products and prices;
- (viii) Monitor financial sector human resource capacity, to a) identify and address demand for capacity building; and b) strengthen national institutional capacity to offer relevant training and certification.

1.6.2.3 *GRZ shall support, through capacity building and in partnership with the private sector, the enhancement of demand-driven skills development targeting mainly financial organisations and support organisations that operate in rural areas.*

- (i) Develop appropriate training programmes that will equip financial services providers in rural areas with the appropriate skills.
- (ii) Support the institutionalisation of capacity building throughout the financial sector (see Policy 3.2).
- (iii) Support the pairing of micro financing institutions with large-scale financial institutions for the purpose of transferring knowledge and skills to the former.

### 1.6.3 STRATEGIES AT THE MICRO LEVEL

1.6.3.1 *GRZ shall promote the expansion of financial service providers into rural areas, targeting commercial banks, NBFIs, SACCOs, insurance companies and community-based organizations.*

- (i) Develop options for medium and long term finance in rural areas (apex funding)
- (ii) Undertake a review of the coverage and effectiveness of existing apex funds to inform actions for extending existing funds or starting new funds;
- (iii) Undertake a market assessment to explore opportunities for setting up an Agricultural / Rural Finance Investment / Market Development Fund that could serve as an independent entity (involving private and public sector stakeholders), and that could be used to:
- (iv) establish a Challenge Fund for banks and other regulated financial institutions to move to rural areas (similar to the Rural Finance Programme 'innovative facility');
- (v) provide 'smart subsidies' to co-finance investments, such as small community and market infrastructure (e.g. group irrigation, village-based warehouses and other post-production infrastructure), linked to strategic value / supply chains;

- (vi) support institutional capacity building among non-banks and support institutions;
- (vii) re-finance rural / agricultural lending by financial institutions.
- (viii) Develop appropriate monitoring and evaluation (M&E) frameworks for determining whether the use of subsidies lead to market development (i.e. that subsidies are 'crowding-in' other private actors, leading to better functioning markets); the M&E framework might include monitoring the how and to what extent different private sector actors participate, the proportion of rural finance that is provided by the private sector as compared to the public sector, etc.

1.6.3.2 *GRZ shall ensure a hospitable environment that fosters market-driven linkages and partnerships among and between diverse financial service providers and relevant support institutions.*

(i) Support capacity building of financial service providers:

- Undertake a review of key areas where capacity building support is needed the most (i.e. target institutions and their needs, covering skills and overall institutional capacity gaps) and mechanisms currently in use to supply capacity building needs;
- Identify needs and establish mechanisms to fund capacity building support for some institutions (e.g. those deemed to have 'high potential') as a part of the proposed investment fund and other relevant development programmes;
- Support the development of accreditation / certification processes for key skills needed in the delivery of financial services in rural/ agricultural areas;
- Develop capacity among potential suppliers of capacity-building support services to financial institutions, including industry associations (e.g. AMIZ) and organisations engaged in the promotion of VSLAs;
- Develop capacity building support programmes that respond to institution-specific needs (e.g. for MFIs, SACCOs);
- Develop market information and promote successful and innovative business models (including opportunities to demonstrate and disseminate information on successful business models);
- Continue to support study tours for relevant policymakers and practitioners in the financial sector<sup>2</sup>.

(ii) Support efforts to establish an adequate supply of institutions providing technical assistance to existing and potential users of financial services in rural areas:

- Develop a roster of institutions (both private and public) currently providing agricultural extension services (technical advice), access to inputs and markets, technical assistance to manage post-harvest activities, etc.; the aim should be to assess current capacity and explore options for expanding services to other geographical areas;
- Establish effective mechanisms to fund (or co-finance) the provision of support services through the proposed investment fund and other relevant development programmes;
- Develop market information and promote successful and innovative business models (including opportunities to demonstrate and disseminate information on successful business models)
- Promote the provision of appropriate research and training by Universities and research institutions in Zambia

(iii) Seek to ensure an adequate physical infrastructure available to all agricultural producers, to reduce risks and costs of financing agribusiness

1.6.3.3 *GRZ shall encourage the provision of a variety of financial products and services in rural areas e.g. warehouse receipts, leasing and micro-insurance.*

(i) Support the design and implementation of warehouse receipt and collateral management systems:

- Support the appointment of the authorized agency to perform the functions of the Warehouse Licensing Authority, as specified in the Agricultural Credits Act of 2010;
- Support efforts to establish adequate capacity within the authorized agency, especially in the early phase of operations;
- Track private sector investment in infrastructure to ensure that adequate infrastructure/ warehouse are set up considering market potential and physical spread;

- Incorporate training and sensitization of farmers and financial organisations on the principles of the warehouse receipt system in planned financial education initiatives;
  - Maintain open dialogue with private sector / market participants to encourage greater participation among banks and private warehouse operators in the warehouse receipts and collateral management system.
- (ii) Support the design and implementation of leasing products
- Undertake a review of laws and regulations governing the provision of leasing products, including an assessment of proposed regulations to improve the capital adequacy base and the taxation treatment for leasing and finance companies;
  - Undertake a review of the capacity of leasing companies – and more particularly, their capacity to provide leasing services to target consumers (e.g. emergent farmers, groups of small-holders) in rural areas;
  - Support the preparation of a strategy to develop the leasing sector (to include a diverse range of financial services that covers factoring and trade finance, term lending, and investment advisory services, as well as traditional leasing activities), taking note of lessons learned in earlier pilot projects.
- (iii) Support the design and implementation of micro-insurance products
- Complete the review and formulation of insurance regulations;
  - Support efforts to create greater awareness of business opportunities among insurance service providers – especially the development of insurance products most relevant to rural-based households and producers (e.g. crop insurance);
  - Support capacity building/ training and provision of technical assistance to insurers and potential distributors – especially with respect to market research, product design, and marketing (i.e. to ensure product uptake);
  - Incorporate principles of insurance services in planned financial education activities.

1.6.3.4 *GRZ shall support the implementation of the financial education strategy that is driven by market signals and demand.*

- (i) Support the implementation of the proposed financial education programmes for small-scale farmers
  - Review programmes for delivering financial education to rural farmers (e.g. ZANACO's in partnership with the Zambia National Farmers Union (ZNFU)) and apply lessons learned to the new programme;
  - Ensure all conduits relevant to farmers/rural households – e.g. use of radios and other media in various formats such as talk shows; company led initiatives, <sup>3</sup> – are involved in/ consulted on the new programme.
  - Ensure the use of appropriate media (such as mobile phones and radio) to deliver financial education.
  - Support capacity building of relevant stakeholders to deliver financial education programmes (e.g. large agribusinesses, ZNFU, Cooperatives and other institutions providing extension services)
- (ii) Support the implementation of the proposed financial education programmes for micro, small and medium enterprises (MSMEs) and for youth
  - Review existing financial education programme for MSMEs, such as ZANACO's, and apply lessons learned to the new programme
  - Review existing financial education programme for rural young women, such as Camfed's, and apply lessons learned to the new programme
  - Ensure use of appropriate media (such as mobile phones and radio) to deliver financial education
  - Ensure that the new programmes offer financial education to rural as well as urban MSMEs and young people
  - Support capacity building of NGOs/organisations working with MSMEs in the design and delivery of financial education training and materials to MSMEs and youth.
- (iii) Support the implementation of the proposed 'financial education through appropriate media' programmes



- Review existing ‘edutainment’ initiatives aimed at financial education both in Zambia and elsewhere in order to draw out lessons learned and best practices.
- Ensure that radio and TV programmes are developed as there is greater penetration of radio than TV in rural areas.
- Ensure that key messages are relevant to both rural and urban audiences, as well as to female audiences.

## 1.7 IMPLEMENTATION FRAMEWORK

### 1.7.1 INSTITUTIONAL ARRANGEMENT

A number of Government ministries (covering areas of economics, finance, agriculture, cooperatives, community development, commerce, trade, industrial development) have a stake in the rural finance agenda. It is important to ensure that the institutional home has adequate human and financial resources as well as sufficient supervisory influence to champion and drive the rural finance agenda across Government. Since rural finance extends beyond agriculture; has direct relevance to key national priorities (e.g. enhancing prosperity, creating jobs and reducing poverty); and requires linkages with the Bank of Zambia, other regulators and financial sector associations, the Ministry of Finance is the appropriate institutional base for this function. To achieve this, a Department for Rural Finance shall be established within the Ministry. As part of its coordinating role, the Department will assume the monitoring and evaluation (M&E) function to ensure that the actions GRZ has committed itself under this Policy and Strategy are fulfilled.

### 1.7.2 LEGAL FRAMEWORK

As a part of the Financial Sector Development Plan and implementation of BoZ strategic plan and Rural Finance Policy and Strategy, GRZ will carefully consider a number of changes to the legal and regulatory framework to ensure that the risks and costs for the financial services providers and users can be reduced on a sustainable basis. Some of the changes being considered are:

<sup>1</sup> E.g. ZNFU and companies providing extension services to farmers, such as Agribusiness in Sustainable Natural African Plant Products (ASNAPP), Zambia Agribusiness Technical Assistance Centre (ZATAC) and Development Aid from People to People (DAPP)

- Requirements for establishment of bank branches and agents;
- Requirements for identification and verification of customers under KYC/ anti money laundering requirements;
- Regulatory framework to encourage use of agents and electronic money;
- Effective support and supervision of SACCOs

#### 1.7.3 MONITORING AND EVALUATION

The Department for Rural Finance to be established within the Ministry of Finance will ensure the Monitoring and Evaluation (M&E) function for the Rural Finance Policy and Strategy. Many of the indicators to be used in the M&E system will be directly taken, or adapted, from indicators that are already used in monitoring and evaluating the programmes of relevant Ministries and agencies, including the Bank of Zambia. Other indicators will need to be specially established for key specific policies and strategies. The Department will work with members of the proposed intra-governmental rural finance working group, and in consultation with members of the Rural Finance Forum, to agree a set of indicators for the Policy and Strategy. The Department will set up and operate the monitoring system; will undertake periodic evaluation of specific strategies; and will undertake or commission overall evaluations of the Policy and Strategy.

#### 1.7.4 INFORMATION DISSEMINATION

A key constraint to the operation and development of rural financial services is asymmetry of information – for example between the suppliers of financial services and their users; between regulators and the regulated; and between policy institutions and those affected by their policies. As a key contribution to tackling this problem, the Government will develop a communications strategy:

- to disseminate information about this Rural Finance Policy and Strategy;
- to ensure the dissemination of information about each initiative and facility related to the Policy and Strategy; and
- to eliminate the information gap between policy makers, regulators and people at the grass root level in the rural areas.

The implementation of the communications strategy will be coordinated by the Department of Rural Finance in cooperation with the intra-governmental rural finance working group.

#### 1.7.5 RESOURCE MOBILISATION

As a part of the Medium Term Expenditure and annual budget, GRZ will allocate resources for the establishment and operation of the rural finance department. GRZ will also mobilise specific support for rural finance from interested development partners.<sup>4</sup>

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<sup>4</sup> E.g. Government of Finland has been providing support to FSDPII. IFAD have provided \$13.8 million support to a six year Rural Finance Programme implemented by Ministry of Finance. The current IFAD programme is due for completion in September 2013 and a follow up programme is being discussed with GRZ. DFID is also about to finalise its support for an access to finance programme in Zambia which will especially target financial services in rural areas.









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