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Rural Finance  
Knowledge  
Management  
Partnership (KMP)



## Rural Finance Policy Development in Eastern and Southern African Countries: Contribution of IFAD-Supported Rural Finance Programmes

### Annex 8. Country report for the Republic of Zambia



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## Chapter 1

# Introduction

### 1.1 Background to the study

In the backdrop of IFAD's effort to improve livelihoods by enhancing access to financial services among rural communities, the Rural Finance Knowledge Management Partnership (KMP) carried out a study to find out how IFAD-supported rural finance programmes contribute to policy development in the Eastern and Southern African region. The focus of the study was on countries with active rural finance programmes and components—Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia—where IFAD has been increasingly engaged in policy dialogue with a view to influencing policy. The IFAD programme also seeks to influence policy to minimize adverse effects of global trends and maximize incentives and opportunities for the rural poor. Apart from challenges in the area of rural infrastructure, capacity of financial service providers and clients, other factors such as legislative, regulatory, supervisory and overall policy constraints often stand in the way of delivery of need-based financial services in the rural area. IFAD has been supporting capacity building of policy-making bodies, development of appropriate decentralized policy and practices, evolving market-oriented research/studies and dissemination of learning.

Considering the critical importance of creating finance policies that are appropriate to rural settings, KMP proposed to undertake a region-wide *Study of Rural Finance Policy Development in the Eastern and Southern African (ESA) Countries—Contribution of IFAD-Supported Rural Finance Programmes*, and to determine the way forward to addressing the key constraint—insufficient skills in information technology and insufficient exposure to skills required for good information management—mentioned above. The study covered all the eight ESA countries where IFAD had been active. For the study, KMP identified a consultant, Biswa Bandhu Mohanty, on account of his expertise and wide experience in rural finance.

### 1.2 Purpose of the study

The study was undertaken with the following overall objective: To produce a KM document for use by the stakeholders of RF programmes being implemented by IFAD in the 8 selected ESA countries. The specific objectives of the study were to:

- Identify major policy issues in ESA countries which IFAD projects have enabled to sort out/address during the course of implementation in the countries;
- Bring out successful strategies adopted/institutional mechanism used to influence policy issues, leading to fulfilment of programme objectives;
- List out country-specific policy issues in ESA, which have regional and

global implications/impact;

- Suggest sustainable institutional mechanisms that have to be put in place for policy exploration, research, debates and discussions for sharpening and furthering poverty reduction, access to financial inclusion, livelihood promotion and inclusive growth; and
- Suggest ways and means for enhancing knowledge management, sharing of experience/best policy solutions among the IFAD programme managers, partners and stakeholders for better programme implementation and speedier/effective policy development.

### 2.3 Target organizations for the study

In the 8 selected countries (Ethiopia, Kenya, Lesotho, Mozambique, Swaziland, Tanzania, Uganda and Zambia) the study targeted public and private institutions that have national responsibility for, as well as commercial interests in, rural development. They included Central Banks; Insurance Regulatory Authorities; Co-operative Regulatory Authorities; Ministries of the National Governments including Ministry of Finance (MOF), Ministry of Agriculture/Cooperatives (MOA); MF associations, co-operative unions/alliances; apex development banks; policy research agencies; and leading civic society organizations (NGOs, CBO, etc).

### 2.4 Data collection methods and tools

Three main methods or tools were used in gathering data.

(i) A questionnaire was designed to solicit views/inputs from the concerned IFAD officers at the project level in all eight countries targeted for the study. The questionnaire is shown as Appendix 8.1.

(ii) Interviews and consultations were used through face-to-face meetings and by e-communication. The consultant visited the capital cities of five of the target countries from 23 June to 9 July 2014; they, included Lusaka (Zambia), Dar es Salaam (Tanzania), Kampala (Uganda), Addis Ababa (Ethiopia) and Nairobi (Kenya). The visits facilitated interviews and discussions with officials of the institutions targeted in those countries. During the short period of 2-3 days at each centre, 84 persons from these select institutions were consulted. The list of institutions visited and persons met and consulted through face-to-face interviews in Zambia is given in Appendix 8.2.

(iii) Intensive literature survey was used to collect information at country/institutional as well as regional and global levels. Documents spelling out regional, national and institutional RF policies, strategies and programmes were studied. In the case of Zambia the list of documents consulted is given in Appendix 8.3.

### 2.5 About this report

This report focuses on the study findings with respect to RF development efforts, the contributions of IFAD RF programmes and the emerging policy issues and challenges and recommendations for addressing them for furtherance of rural



finance policy in Zambia. Although presented as a standalone report, it is intended that this report be read alongside the main study report which addresses RF issues that prevail regionally and globally.

It is also envisioned that the reader will seek to benefit from the following Case Study Reports attached to the main report as appendices: MFI Supervision Directorate (MFSD) of the National Bank of Ethiopia (Appendix 7), Association of Ethiopian MFIs (AEMFI) (Appendix 8), Micro Finance Forum in Uganda (Appendix 9) and Developing Rural Finance Policy and Strategy in Zambia (Appendix 10). For the sake of comparison and regional learning, the reader should also seek to benefit from *Country Reports* for other ESA countries which constitute an important output of this study. The full list Country Reports includes Federal Republic of Ethiopia (Annex 1), Republic of Kenya (Annex 2), Kingdom of Lesotho (Annex 3), Republic of Mozambique (Annex 4), Kingdom of Swaziland (Annex 5), United Republic of Tanzania (Annex 6), Republic of Uganda (Annex 7), and Republic of Zambia (Annex 8).

## Chapter 2

# Study findings

## 2.1 Rural Finance Policy Initiatives and Positive Developments

### 2.1.1 Socio-economic environment

#### HUMAN DEVELOPMENT SCENARIO

In comparisons with some of its neighbours, Zambia is relatively sparsely populated, particularly in the remote areas to the West and East. Most of the population is concentrated in the central parts of the country, close to the urban areas. In rural parts of the country, about 83% of the people are poor and 71% of them are extremely poor. Historical, geographical and social factors are at the roots of rural poverty in large parts of Zambia. Lack of access to inputs and services, transport, markets and other social infrastructure have led to low agricultural productivity. *The key financial sector challenges identified in 2003 included dearth of skilled human resources, inadequate legal infrastructure, different accounting and auditing standards, lack of financial safety nets, lack of credit referencing services, lack of anti-money laundering regulation and inefficient payment systems.* The Government of Republic of Zambia [GoRZ] had taken a series of initiatives in recent years with support of donor agencies for financial sector development with focus on rural areas which are outlined in the following paragraphs.

#### BANKING AND FINANCIAL SECTOR SCENARIO

The banking and financial sector have undergone expansion in as much as there were 160 financial services delivery institutions which included 19 commercial banks, 34 MFIs, 1 National Savings and Credit Bank, Development Bank of Zambia as on 31 March 2014. There were 775 ATMs and 2388 POS as on 31 March 2014. No differential regulatory norms or incentive mechanism was in place to encourage banks to penetrate into rural areas.

A million lives are estimated to have been covered by insurance policies [credit life – 41%, life financial 58% and agriculture 1%] by 2013. MFIs, banks, mobile network operators, workers union, micro enterprises association, community agents, and farmers groups, have assumed as distribution channels. Despite several constraints and challenges common to most markets, stake holders / insurers in Zambia are experimenting and carrying forward the agenda.

#### FINANCIAL SECTOR DEVELOPMENT PLAN (FSDP) 2004

*Focus of the plan:* The 5-year financial sector development plan (FSDP) was formulated and launched in 2004 with a focus on three main pillars - (i)

enhancing marketing infrastructure, (ii) increasing competition and (iii) boosting Access to Finance [A2F]. The FSDP Phase I involved developing policy priorities from the specific recommendations under the key financial sub-sectors and the key priorities included the establishment of the institutional framework for the implementation of FSDP, review of the legislations and drafting of new legislations in the financial sector, etc. The FSDP Phase II [an extension of FSDP I] was formally approved in January 2010 and scheduled to have currency up to December 2014 to deal with long term issues including harmonization of financial sector legislations, strengthening capacity of the regulatory authorities, improving corporate governance standards, payment systems, pension, and professional standards / database in financial sector.

*Implementation structure:* The set up from the beginning included the FSDP Steering Committee [FSDPSC], housed in MOF, the FSP Implementation Committee [FSDPIC] and the FSDP Secretariat, both housed by Bank of Zambia (BOZ), and the FSDP Working Groups. The FSDPSC comprises of 12 members representing all regulators and industry associations and provides overall direction and advice on the implementation of the FSDP programme and is chaired by the Secretary to the Treasury, MOF. The FSDPIC reviews and monitors the activities in line with the Implementation Matrix and Chaired is by the Deputy Governor, BOZ. The twelve Working Groups which consist of subject matter experts under the Phase I have been reconstituted to 6 Working Groups under the Phase II, with a focus on implementing the technical aspects of the recommendations of the FSDP. The New Working Groups under Phase II were (i) Legal Reforms and Corporate Governance; (ii) Payment Systems; (iii) Market Efficiency and Contractual Savings; (iv) Financial Education; (v) Access to Finance and (vi) Financial Market. The Access to Finance Working Group is chaired by the IFAD Official. The implementation process is co-ordinated by the FSDP Secretariat and is led by the Directorate of Non-Banking Financial Institutions of BOZ.

### **2.1.2 Legislative and policy initiatives**

#### **MAJOR INITIATIVES OF FSDP**

*Consumer protection and education:* The World Bank undertook a country-wise baseline survey on consumer protection and financial literacy and shared their findings after due consultation with the stakeholders. The World Bank proposed support measures with FSDP and the regulators with regard to framing the following: a financial services consumer protection law, disclosure regime for financial services, regulation and supervision of consumer protection and financial education strategy for enhancing financial capability. Technical support from the World Bank for addressing the areas identified by the above Survey and Mission were expected to be operationalized from 2014 onwards.

*National Strategy for Financial Education [NSFE]:* The NSFE was officially launched during July 2012. National Financial Education Coordinating Unit [FECO] was set up in BOZ with effect from 2013 with the participation of BOZ, SEC and PIA and with technical and financial support of the German Savings Banks' Federation for International Co-operation [GSBFIC].

*Financial sector law review:* The Securities [Amendment] Bill, Insurance Bill, Pension Scheme Regulation Bill and Banking and Financial Services Bill were put through a Stakeholders' Consultative process and a Legal Consultants' harmonization process and the proposals on these principal laws were sent to the MOF in May 2013 for further action.

*Financial identification system:* The payment system Working Group had prepared a concept paper for introduction of the financial identification system to include use of biometric recognition technology with a view to making it uniquely identify individuals. The FSDP Secretariat developed framework for a professional information database for professional enrichment in the financial sector.

## BOZ INITIATIVES

*Banking and Financial Services [Micro Finance] Regulation, 2006:* The regulation was proposed to be amended, with a focus on regulation and supervision of Tier II and III MF institutions. A discussion paper along with draft Bill had been placed on BOZ website for eliciting public views. The Bill contained many new concepts / provisions for ensuring clarity. The new terms / provisions included collateral substitutes, compulsory savings, low income customers, micro enterprises / small entrepreneurs, Tier II and III MFIs, prohibitions for unlicensed MFIs, classification of NPAs and provisions, submission of returns, compliance function, payment of supervision fees, non-accrual loan, etc.

*Implementation of risk-based KYC guidelines:* Following a review of the Know Your Customer (KYC) guidelines, BOZ had issued a Practice Note on Anti-Money Laundering Due Diligence. The Practice Note was subsequently issued to banks and non-banks financial institutions (FIs) in October 2011. The Practice Note was intended to guide FIs to ensure flexibility on KYC requirement for opening and maintaining bank accounts and accessing other forms of financial services.

*Amendments to Banking and Financial Service Act [BFS Act]:* The BFS Act and BOZ Act empowered BOZ with regulatory and supervisory functions. Keeping in view the contemporary changes in the financial sector and Basel principles of supervision, several changes had been suggested by the FSDP Law Review Project Committee. These changes include provisions related to mobile-based / technology in banking, branchless banking, customer identification data, financial services, money market instruments, corporate governance structure, consumer protection and fair competition, financial accountability, accounting standards, prudential regulation, submission of business plan and policies, etc. These changes need to be firmed up before the eventual enactment.

### **2.1.3 Financial inclusion initiatives**

#### MICRO INSURANCE DEVELOPMENT INITIATIVES

Under the aegis of FSDP since 2010, various initiatives of ILO and Fin Mark Trust development initiatives have been undertaken to stimulate demand, strengthening supply, creating an enabling environment and learning and sharing of experience for furtherance of their micro insurance business with a focus on low-income rural households and individuals. They include:

*Market analysis research:* A market and regulatory analysis study was conducted in 2009 with funding by the Fin Mark Trust, ILO and UNCDF, which unfolded the potential of micro insurance market.

Implementation of insurance strategy: Multi- Stake Holders' Steering Committee and a Technical Advisory Group (TAG) with full time Co-coordinator have been put in place for carrying forward micro insurance development strategy.

*Initiatives for capacity building in micro insurance:* Workshops on themes of innovation, market research, implementation of the insurance week, etc., have been undertaken for sensitization, awareness-building and capacity development of various stakeholders. The Pension and Insurance Authority [PIA], FIN Mark Trust [FMT], Financial Sector Deepening Zambia [FSDZ], Financial Sector Development Programme [FSDP], Insurance Brokers' Association of Zambia [IBAZ], Zambia Insurance Business College Trust [ZIBCT], the Insurance Institute of Zambia [IIZ] and Insurance Business Academy [IBA] have been involved in various consultative processes. IFAD has been a member of the Technical Advisory Group reference to the above.

#### MICRO INSURANCE REGULATORY INITIATIVES

The First initiative was taken in 2012 for formulating micro insurance regulation with technical assistance of World Bank. Subsequently, with funding from Fin Mark Trust, the Pension and Insurance Authority engaged a consultant for drafting the MI regulations in 2013. The draft is envisaged to be discussed with the TAC and industry stakeholders, to take it forward.

## 2.2 Role and Contributions of IFAD's Rural Finance Programmes

IFAD has provided loans totalling US\$ 184.1 million to help finance 12 programmes and projects in Zambia. The programmes and projects of IFAD are designed to reach out to the poorest and most isolated people, including households headed by women. IFAD promotes policy dialogue on issues related to rural financial services, for the development of policy, regulatory and institutional arrangements for rural finance. Implementation of Rural Finance Programme (RFP) (2007-2013) of IFAD ushered in policy and institutional framework that is more conducive to rural finance in the country. The Government of the Republic of Zambia (GRZ) and IFAD have jointly designed and worked in the policy framework of FSDP. IFAD's RFP was recognized in the FSDP document. The successful of RFP led to the design and approval of IFAD's new RF programme, Financial Expansion Programme (FEP), which commenced in 2014. Due to IFAD's programmes, there have been positive outcomes in terms of innovations and outreach facility, strategic partnerships and policy explorations and refinements.

### 2.2.1 Rural Finance Programme [RFP] - Implementation Framework

RFP with a budget of US\$ 17.5 million [includes IFAD's loan of US\$ 13.8 million and GIZ share of US\$3.1 million] was implemented during September 2007 to September 2013 in Zambia. The programme had, *inter alia*, an objective of creating a policy and institutional framework conducive for rural finance development in



the country. The programme had 5 broad components as under:

- Development of Community-Based Financial Institutions [CBFI] involving MFIs, NGOs and financial institutions as implementing partners;
- Promotion of banking services in rural areas through transformation of National Savings and Credit Bank [NSCB];
- Providing credit facility for small scale producers through Development Bank of Zambia [DBZ]'s/ banks' interventions;
- Innovation and outreach facility through MFIs, NGOs and financial institutions and
- Policy, institutional and managerial support with the Ministry of Finance and National Planning [MFNP] of GRZ as the lead implementing partner. This fifth component on policy was envisaged to develop Rural Finance framework and associated legislations through financing and two sub-components viz., (i) support to rural finance and (ii) programme management unit.

Thus, the MFNP particularly the Investment and Debt Management Directorate, Ministry of Agriculture and Livestock, Ministry of Community Development, Mother and Child Health, Bank of Zambia, MFIs, select NGOs, Association of MFIs of Zambia, Zambia Institute for Policy Analysis and Research [ZIPAR], FSDP, TAG on Micro Insurance Development and Zambia National Farmers Union were the implementing partners for RFP.

### ***2.2.2 Rural Finance Forum [RFF] – Providing a Platform for Policy Issues***

The Forum provided opportunities to all stakeholders / participating institutions to discuss topical issues related to rural finance and provided valuable inputs for further development of RF policy and strategies. IFAD convened the meetings of the Forum annually. The important implementing policy issues such as review of the interest rates, capital for MFIs, changes in agriculture inputs subsidies, liberalization of maize marketing policy, etc., were discussed in the Forum. By bringing together a wide range of stakeholders the Forum has been useful for sharing views and experiences in the areas of rural financial issues and operational strategies.

### ***2.2.3 Participation in Other Groups and Advisory Bodies***

Efforts have been directed to advance policy dialogue and maintain harmonization with Government system through the Agricultural Cooperative Partnership Group (AGCP). IFAD has been a member of AGCP as also was UN Country Team. Among the various Working Groups created for RF policy and strategy development, the Programme Manager, IFAD was the Chairman of the Access to Finance Working Group and member of the Technical Group in Micro insurance. The participation of IFAD in these Groups led to the deliberations focusing on policy issues relevant for meeting the objectives of RFP. By promoting and participating in dialogues and discussions IFAD has enhanced opportunities for inter-agency learning.

#### ***2.2.4 Designing COSOP to align with Country Plans and Strategies***

Country Strategic Opportunities Programme (COSOP), 2004, prepared by IFAD focused on strategic partnerships, innovations and outreach. The strategic partnership component aimed to enhance the capacity of financial service providers to deliver demand-driven services in rural areas. The innovation and outreach component sought to improve efficiency and sustainability of RFS. The Interventions of various donor agencies in rural finance development included programmes of World Bank (Access to Financial Sector Deepening Programme of Zambia; and World Bank's Private sector activities) and DFID (Access to Finance commenced in early 2013).

#### ***2.2.5 Documentation Bringing Policy issues to the Centre Stage***

RFP Approval Report [2006], Base Line Report [2010], Mid-Term Review Report [2011] Supervision Mission Report, Impact Assessment / Project Completion Report, Project Monitoring and Evaluation Report, etc., on RFP brought out valuable information and insight on various issues of rural finance from time to time. These serve as reference documents for all stakeholders. Thus, the RFP having an exclusive component on policy development brought the related issues to the attention of policy-making institutions through these documents.

#### ***2.2.6 Setting up Documentation Centre for Reference of all Stakeholders***

An initiative to set up a temporary documentation centre, as a prelude to a fully-fledged repository register (of all documents under the IFAD projects) for reference of all stakeholders, was made.

#### ***2.2.7 Setting up of Rural Finance Unit (RFU) in the GRZ***

RFP designed a strong institutional architecture for implementation including a Rural Finance Unit in the MOF and NP and the Rural Finance Forum referred to above, Programme Management Unit in the Directorate of Investment and Debt Management and the Project Steering Advisory Committee. The success in policy improvement depended on the effectiveness of policy dialogues, institutional methods and structures, strategic and operational frame work of policy development. The RFP was not only supporting RFU, but also pursuing with the Government for putting in place a fully-fledged institutional outfit for RF in the GRZ, on a sustainable basis. The RFU was mandated to co-ordinate, support and complement other counterpart intuitions in implementing forward-looking activities for furtherance of RF policies and strategies.

#### ***2.2.8 Capacity Building of Policy-Making Institutions***

RFP has been helpful in strengthening rural finance capacity in the relevant sector ministries and in close collaboration with FSDP secretariat in BOZ. The implementing institutions like National Savings and Credit Bank (NSCB) and Community Bank Financial Institutions (CBFIs) have received training and technical assistance for development of rural finance products and services. The workshops, exchange visits, review meetings and study tours, etc., for stake holders at various levels in the country (including the recent study visit to Uganda

and Tanzania for exposure of the government officials on policy and regulatory environment) under RFP created new awareness about the financial discipline needed for financial intermediation for the rural areas.

### **2.2.9 Rural Finance Policy and Strategies [RFPS] – A product of participatory policy-making**

A case study on Rural Finance Policy and Strategies showcasing the participatory approach adopted by GRZ and the possible implications of implementation of the package and the lessons learnt in the process is given in the main study report as Appendix 17. The participatory and inclusive development process strengthened industry ownership of, and compliance with, policies and strategies.

### **2.2.10 Policy Refinements and Legislative Initiatives in RF**

In view of IFAD's association with FSDP, it has been contributing to the policy explorations with regard to agency and mobile banking, development of collateral substitutes, review of various policy measures, legislation / regulations – Banking and Financial Institution Act, MF regulations, distinguishing between MFIs and consumer lending institutions, regulation and supervision of Tier III and IV financial institutions, regulation and supervision of financial co-operatives, customer identification, and use of warehouse receipting system under the Agriculture Credit Act, etc. IFAD has been involved in micro insurance development, financial education initiatives and financial inclusion efforts.

### **2.2.11 Lessons learnt from RFP – Inputs for FEP**

- To enhance effectiveness of programme designing and implementation, it may be useful to have learning from similar projects in the East and Southern Africa [ESA] countries;
- RFP led to up-scaling of cell-pay internet and mobile-based financial transactions and money transfer initiatives in the country; Evidence of positive impacts in policy on agency banking / mobile banking was witnessed;
- RFP did not work in isolation, but in convergence with FSDP which led to programme efficiency; Rural Savers' Account [RSA] enabled rural households to acquire accounts under the flexible group Lending Facility;
- The number of banks and deposit-taking FIs had grown and became more profitable due to improved regulation by the BOZ. Some of the institutions have introduced new products targeting rural areas;
- Conducting Annual Stake holders' Forum – Circulation / Dissemination of Reports; A system of circulating reports, conducting stakeholders meeting and documenting minutes has been put in place by IFAD;
- Lack of consumer awareness on their rights and obligations;
- Adverse impact on MFIs due to interest rate cap stipulated by BOZ stood in the way of financial inclusion, which need to be resolved; and
- Only 37% of adult population use financial services and only 14% of adult population have bank account. Measures are warranted to stimulate demand in rural areas.



### ***2.2.12 Transformation of National Savings and Credit Bank [NSCB]***

It has been envisaged to harmonize the Interim transformation of National Savings and Credit Bank (NBSC) Act and Banking and Financial Services Act [BFSA] to bring NSCB at par with the commercial banks for the purpose of Central Bank supervision including corporate governance standards. As this harmonization of laws could not be effected, NSCB was allowed to operate under MoU with BOZ and as such, NSCB was inspected by BOZ's NBFID Department. The NSCB has made good strides in financial inclusion with the support of RFP. It has taken initiatives for branch expansion in rural areas, introduction of IT system / CBS, product Development, giving savings thrust and agency banking. Initiative taken by NSCB for reorienting its policy, products and strategies include the following:

- Branch expansion in rural areas for MF delivery ;
- Introducing cross guarantee through saving accounts, expansion of RSA mechanism (envisaging minimum balance of about US\$ 2) and group lending; and
- Expansion of agency banking – 603 outlets for deepening.

### ***2.2.13 Support to NBSC's expansion and diversification plan***

NBSC has strategic plans for accelerating branch expansion, business development, development of IT-based products, value chain finance and participation in financial literacy programmes, etc. It proposes to be part of the Clearing house and participate in the payment system fully.

IFAD has been helpful to reorient NBSC's activities including savings and credit product development with ESBG study and facilitation. Its country-wide connection of all branches, strengthening MIS and accounting and coverage of operations on a single network will go a long way for it to deepen financial services in rural area.

## Chapter 3

# Emerging issues / challenges and recommendations

The Rural Finance Policy and Strategies in Zambia as evolved from the Oxford Policy Management [OPM] contains a plethora of recommendations at macro, meso and micro levels. It is hoped that the Government of the Republic of Zambia (GRZ) would take expeditious steps to implement those measures for the development of rural finance sector. A few of those measures are emphasized hereunder for further action.

### 3.1 Looking beyond FSDP II

The term of FSDP II would come to an end on 31 December 2014. It may be necessary to initiate steps for a further phase of FSDP II beyond 31 December 2014, by taking stock of the progress made and future possibilities. The Rural Finance Policy (RFP) and strategies, having been adopted by GRZ, should be kept in view while projecting further phase of FSDP.

### 3.2 Implementing Rural Finance Expansion Programme

The agreement for Rural Finance Expansion Programme (RFEP), which was approved by December 2013, was executed between GRZ and IFAD in July 2014. Since RFP was closed on 30 September 2013, the implementation process of RFEP should take cognizance of the developments particularly those from the FSDP II interventions and approval of Rural Finance Policy and Strategies during the period and, accordingly, recast the implementation strategies and priorities under RFEP. Considering the fact that the Rural Finance Policy and Strategies [RFP&S] as approved by GRZ was the outcome of IFAD's RFP, it would be logical that implementation of RFEP accommodates the envisaged suitable components and follow up needs of the above approach. *The Start Up and Implementation Mission for RFEP should be mounted as a priority to explore these possibilities.*

### 3.3. Institutionalizing Rural Finance Forum [RFF]

The RFF, having been incorporated in the RFP, should be institutionalized on a sustainable basis. The TOR, structure, operational procedure and follow up mechanism need to be reviewed and refined in the light of emerging needs and changing environment.

### 3.4 Regulation and supervision of Tier III and IV financial institutions

Efforts have been directed to formulate draft MF regulation by way of amendments to the Banking and Financial Services [MF] regulation 2006 under the Banking

and FI Act. Some of the proposed provisions are intended to address the issues of differentiation of micro finance versus consumer lending, licensing, regulation, supervision, governance of Tier I and II institutions, classification / registration of Tier III institutions, functions of different categories of MFIs, governance, management, prudential norms and supervision of MFIs. The issues need to be addressed (as in the case of Tanzania) starting with, formulation of MF policy, institutional arrangements for regulation and supervision including delegated supervision of non- deposit taking MFIs. Other issues of the sector which need to be addressed include alternative objective means of rationalizing interest rates for micro finance other than stipulated interest rate cap, mainstreaming MFIs with all financial services including payment and settlement system, micro insurance and financial intermediation.

### **3.5 Strengthening of financial co-operative sector**

Having co-operatives at the grassroots is the best way to accomplish rural finance development. A comprehensive legislation and policy for revitalization and development of financial co-operatives [FC]/ SACCOS, building up of Credit Unions and Savings Association [CUSA], creating regulatory and supervisory frameworks including self-supervision of SACCOS, audit policy framework, financial education of members of co-operatives, upkeep of governance standards and co-operative for values, etc., need to be put in place for furtherance of the co-operatives sector. A Working Group for FCs needs to be constituted to carve out a roadmap for its policy.

### **3.6 Differential regulation and incentives for RF services**

Lending for agriculture and allied activities constituted 19.2% of CBs' lending portfolio as on 31 March 2010. Notwithstanding government focus / public announcements on development of agriculture sector, the CBs have not evinced interest in the sector which is mostly rural-based and contributes to only 20% of GDP. Branch banking policy, agency banking, technology-led banking, etc., would be conducive to rural financial services. Setting up of the proposed Challenge Fund/Market Development Fund for incentives for rural lending might encourage banks to move to rural lending. Up- scaling of linkage banking would be another step forward in this direction. Efforts for evolving collateral substitutes should be redoubled.

### **3.7 Strengthening industry association and consultative mechanism**

The associations such as Association of MFIs of Zambia, Bankers' Association, Insurance Association, etc., could play useful roles in policy advocacy and policy refinement and as such, structured consultations with them needs to be institutionalized by the policy-making / regulatory agencies. The capacity development of these bodies in training delivery, studies and documentation, financial literacy campaigns, introduction / ensuring codes of standards and fair practices and self-supervision, needs to be augmented.

### **3.8 Popularizing new financial instruments**

The policy and legislative framework for warehouse receipts, guarantee mechanism, land leasing registry system, fore-closure and enforcement of collateral, etc., are weak and need to be developed. Establishing a Warehousing Licensing Authority as specified in the Agricultural Credit Act 2010 can be considered. The laws and regulations pertaining to leasing need review and rationalization. United collateral registry system should be put in place.

### **3.9 Reforming micro insurance and pension sectors**

Micro insurance and pension sectors are in infancy and both need major policy and legislative reforms. The Technical Advisory Group [TAG] for micro insurance has already done good base work and the interventions as envisaged should be implemented. Insurance and Pension Authority would play a catalytic role in policy, legislative, regulatory and supervisory reforms.

### **3.10 Developing apex and wholesale lending institutions**

The developmental role of apex institutions like NSCBS and Development Bank of Zambia (DBZ) is crucial in deepening financial inclusion efforts in rural areas. The resource needs, particularly long term and medium term funds should be met by CBs and these apex institutions to enable them expand and deepen financial services in rural areas. NSCB and DBZ should intensify their efforts for introducing demand-based financial services products and play a bigger supportive role in linkage banking up-scaling in rural areas.

### **3.11 Building up KM policy and institutional architecture**

Each of the stakeholders participating in Rural Finance should have KM policy and plan for their effective participation in FSDP, RFEP and other RF-related initiatives and programmes. A systematic approach should be made to assess KM development needs. Institutional strengthening for effective KM and capacity-building efforts should be pursued.

### **3.12 Broad-basing of Credit Information System**

Credit reference bureau system is also in the formative stage. A credit reporting bill was reportedly approved by the Cabinet. Credit reporting formats were being revised to suite all in financial institutions and specific sectors. The system of reporting both negative and positive aspects of data / information should be incorporated in the system. Linking the reporting system with customers' identification system, so as to minimize ID verification problem, should be pursued.

### **3.13 Developing framework for Payment and Settlement System**

The initiatives for legislation for comprehensive payment and settlement system, regulation of payment system, establishment of the national switch system

and supervisory arrangements should be pursued and expedited. Proper policy regulatory and supervisory arrangement would pave the way for effective payment system involving participation of all financial institutions.

### **3.14 Instituting Deposit Protection/Safety and Credit Guarantee System**

Deposit Insurance, Deposit Safety and Institutional Protection System should be initiated to enhance depositors' confidence in the financial institutions and as such, should be supported and pursued. Similarly, credit guarantee system is not yet developed in the country and should be supported in terms of policy development and institutionalization.



# Appendices

## Appendix 8.1. Study questionnaire

- 1) Who are you? (Country Project Officer, Country Programme Manager, senior Policy Adviser, PTA, Policy researcher, etc).

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- 2) In which country are you working?

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- 3) Using the format given below, please name IFAD-supported projects in your country, segregating those in operation and the completed ones.

Project no.	Project title	Project period	Project's broad components

- 4) According to you which are the most successful IFAD's intervention in your country? Please specify reasons.

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.....

- 5) Were there any major policy issue(s) pertaining to the project's implementation in your country/ESA?

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.....

- 6) If yes, what did the Government, regulatory agencies and other policy-making authorities do to resolve and subsequently improve the project's implementation. (Please mention the project, policy constraints and the improvement made as indicated in the table)

Project name	Policy constraints	Changes/improvements made

7) What methodology/approach was adopted to change/develop the *relevant* policy?

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 .....  
 .....

8) Have there been any separate documentation done on new policy introduced, policy issues resolved and/or policy refinement/development contributed under the project implemented? If so, specify.

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 .....

9) Do you have any separate institutional mechanism in the project framework for review, debate, resolution and dissemination of policy issues? If so, specify.

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10) Was regulation and supervision of financial services institutions embedded within the Rural Finance Project as core component? If so, outline major interventions effected for improvement in regulatory and supervisory policy?

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 .....  
 .....

11) How has regulation and supervision of financial services embedment in the Rural Finance Project been helpful in policy reforms in financial sector?

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 .....

12) What are the difficulties faced by IFAD in pursuing with policy-making authorities/promoting innovative policy framework?

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 .....



13) What could be the best/most feasible ways of bringing about necessary policy changes/reforms for a donor agency?

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14) Are there any seminar/ workshop, training, sensitization, exposure programmes which are organized for stakeholders' capacity to look into policy issues/ explorations as part of project implementation? If so, cite a few models.

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15) (a)What are the means adopted for dissemination of information/experience in policy issues at various levels including grass root level?

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(b)In your project, has there been a participatory approach as a method in making policy decisions? If so, cite instance(s)

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16) Is there any exchange forum(s) put in-place in your country/ESA for projects to exchange knowledge/experience? If so, how effective is the forum(s)?

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17) Is there any institution(s) in your country which can be banked upon for knowledge management in policy issues pertaining to project themes of IFAD? If so, give details.

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18) (a) Identify five major IFAD's contributions in policy areas/issues in your country?

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(b) Give brief outlines of the above identified policy areas/issues.

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(c) Do you think any of the above is/are best practices/innovative which can be replicated in other countries?

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.....

19) Name five major unresolved policy issues (theme-wise) hindering project implementation in your country?

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20) Would you advocate for policy development in core areas of IFAD support framework in your country/ESA? Give reasons for your answer

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.....

21) Do you have any other input having relevance to IFAD's policy contribution in your country/ESA?

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## Appendix 8.2. References

- 1) Implementation of the Rural Finance and Strategy report.
- 2) Rural Poverty Scenario in Zambia-IFAD Website.
- 3) The Banking and Financial Services Act-2005.
- 4) Financial Sector Development Plan (FSDP)-2004-09- Ministry of Finance and National Planning – Republic of Zambia Government (RZG).
- 5) Financing Enterprise-Policy options for supporting SMEs- the Paper presented by Michael Gondwe. Governor, Bank of Zambia (BOZ) at the Zambia International Business Advisory Council, Lusaka (ZIBAC)-2012.
- 6) Economic and Financial Sector Development in Zambia- Speech by Governor, BOZ- 27.06.2013.
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- 9) Regulation of MF in Zambia (Jan 2010)- A paper presented by Dr. Chiara Chuiga in the International conference on MF Regulations, held at Dhaka;
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- 12) Policy Dialogue to develop RFP in Zambia-IFADAfrica-2012.
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- 18) Innovations and Best Practices to increase Access to Rural and Agricultural Finance in Southern Africa (Dec 2013) - Oxford Policy Management, Kadala Consultants and Fin Mark Trust.
- 19) Development of Rural Finance Policy and Strategy - Oxford Policy Management-2012.
- 20) Summary of DFID’s work (2011-15) in Zambia – June 2012-DFID.
- 21) Country Survey- MF Transparency- June 2011.

## Appendix 8.3. Institutions visited and persons consulted

Sl.no.	Name	Designation	Institution	Date
1	Visschar M Bhuke	Director ,NBFIs Supervision Department	Bank of Zambia	23.06.2014
2	Joseph Munyoro	Asst Director, NBFIs' Supervision Dep't; Project Officer, Financial Sector Devt Plan [FSDP) Secretariat	Bank of Zambia	23.06.2014
3	Kapulwa Kaunda Kafumukacha	Financial Education Coordinator Unit [FECU]	Bank of Zambia	23.06.2014
4	Michael Moful Mbule	Manager	IFAD	23.06.2014
5	Gibson Masumbu	Research Fellow – Human Devt	Zambia Institute of Policy Analysis & Research	23.06.2014
6	Leonard Z Mwanza	Chief Executive Officer [CEO]	Bankers' Association of Zambia	24.06.2014
7	Mildred Stephenson [Ms]	CEO	Trans Union Credit Bureau	24.06.2014
8	Cephas C Chabu	MD	National Savings & Credit Bank	24.06.2014
9	Derrick M Simukoko	Chief Economist	MOF& NP, Govt of Zambia	24.06.2014
10	Boyd Ngandu	Acing Senior Economist	MOF, Investment & Devt Mgt Dep't	24.06.2014
11	Lemy Mauja	Micro Insurance Coordinator	MI Group FSDZ	25.06.2014
12	Adam Gross	Director	DARHINAM Emerging Market Advisory	25.06.2014



