Agri-ProFocus Zambia

A Market Study on Microfinance Services in Zambia

Promoting farmer entrepreneurship
A Market Study on Microfinance Services in Zambia

FINAL REPORT

December 2014

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Correct citation.
# Table of Contents

Acknowledgements ................................................................................................................ IV

Executive Summary ................................................................................................................. V

Abbreviations ........................................................................................................................ VI

List of tables ............................................................................................................................ VII

1.0 Introduction ..................................................................................................................... 0
  1.1 Background to the Study ................................................................................................. 0
  1.2 Methodology .................................................................................................................. 0
  1.3 Study Limitations .......................................................................................................... 2

2.0 Overview of National Context ....................................................................................... 2
  2.0 The Microfinance Sector in Zambia ............................................................................. 6

3.0 Supply Side Analysis ..................................................................................................... 7
  3.1.1 Micro Finance Institutions in the Agriculture Productive Sector ............... 8
    A. Vision Fund Zambia ........................................................................................................ 8
    B. CETZAM Financial Services Limited ................................................................. 10
    C. FINCA Zambia .......................................................................................................... 14
    D. PULSE Financial Services Limited ...................................................................... 16
    E. Micro Bankers Trust ................................................................................................. 18
    F. AGORA Microfinance Zambia ............................................................................ 21
    G. Micro Loan Foundation Zambia .......................................................................... 23
  3.1.2 Supply-side Constraints ......................................................................................... 24

4.0 Other Financial Institutions in the Selected Districts .................................................. 27

5.0 Demand Side Analysis ................................................................................................. 30
  5.1.1 Products and Services on Demand ..................................................................... 30
5.1.2 Demand-side Constraints

6.0 Renewable Energy Agro Enterprise Activities

8.0 Strategic Partnerships Enabling Financial Inclusion in Rural Areas

8.0 Conclusion

9.0 Recommendations

9.1 Macro-level

9.2 Meso-level

9.3 Micro-level

Bibliography

Appendix I: Terms of Reference

Appendix II Criteria for selection – Study Districts

Appendix III Non-Bank Financial Institutions licensed by Bank of Zambia (2014)

Appendix IV Case Studies of Agricultural SME Finance Models

CASE 1 Equity Bank, Kenya — “Kilimo Biashara”

Direct Smallholder Lending

CASE 2 Opportunity International, Africa — Informed Lending

Direct Smallholder Lending in Ghana, Rwanda, Mozambique, Malawi, Uganda

CASE 3 ZANACO, Zambia — Munda Smallholder Scheme

Indirect Smallholder Lending

CASE 4 Zanaco, Zambia — Emergent Farmer Finance and Support Program “ZEFP”

CASE 5 Dunavant Zambia Ltd/Cargill Zambia Ltd. — Farmer Input Credit
Acknowledgements

Agri-ProFocus Zambia (APF) wishes to acknowledge the contributions of various stakeholders, respondents and Microfinance Institutions who participated in the Market Study on Microfinance Services in Zambia. Sincere thanks go to Mr Webby Mate, Executive Director of Association of Microfinance Institutions of Zambia (AMIZ) for his guidance; Claire van der Kleij and Nchimunya Kasongo of Agri-ProFocus Zambia who facilitated and coordinated this study.

APF is grateful to all the financial institutions and individuals who contributed to the study either in discussions or by communicating their ideas; their inputs and information have given useful insights to this study. Finally, APF is grateful to the Centre for Microfinance and Enterprise Development (cmedzambia@gmail.com), an independent microfinance/microenterprise training and consulting firm, for conducting the study and compiling the report.
Executive Summary

Agri-ProFocus in Zambia has undertaken this Market Study on Microfinance Services in Zambia in order to understand existing opportunities for alternative financing in Microfinance to small holders and agro-enterprises in Zambia. The goal of the study was to gather market intelligence on MFIs particularly involved in agriculture and rural financing. The study focused on 4 districts (Choma, Chipata, Kasama, Mkushi/Serenje) and Lusaka. Each of these districts offered unique insights on particular aspects of agricultural and rural finance in the context of microfinance sector. Institutions that were studied included Finca Zambia, Agora Microfinance, PULSE Financial Services Ltd, Micro Bankers Trust, Micro Credit Foundation, CETZAM Financial Services Ltd and Vision Fund Zambia. The paper also covers Zambia’s rural finance context with a particular focus on the microfinance sector. It further highlights the state of financial inclusion in Zambia, with particular focus on FinScope surveys (2005 & 2009). Challenges unique to the rural and agricultural financial sector are also highlighted and contextualized. In conclusion the study reveals that a lot of ground remains uncovered by MFIs in terms of agricultural and rural finance. This is in spite of existing opportunities and models being used by commercial banks and input suppliers that MFIs in Zambia can learn contextualize and replicate. In this paper, a section has been dedicated in Appendix V on Cases of Agriculture SME Finance Models that MFIs can learn from as seen in the banking sector. Finally, recommendations are highlighted at the macro-, meso- and micro level covering policy, apex bodies and retail MFIs.
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>AMIZ</td>
<td>Association of Microfinance Institutions of Zambia</td>
</tr>
<tr>
<td>AMZ</td>
<td>Agora Microfinance Zambia</td>
</tr>
<tr>
<td>APF</td>
<td>Agri-ProFocus Zambia</td>
</tr>
<tr>
<td>ASNAPP</td>
<td>Agribusiness in Sustainable Natural African Plant Products</td>
</tr>
<tr>
<td>BOZ</td>
<td>Bank of Zambia</td>
</tr>
<tr>
<td>CEEC</td>
<td>Citizens Economic Empowerment Commission</td>
</tr>
<tr>
<td>CEP</td>
<td>Care Enterprise Partners</td>
</tr>
<tr>
<td>CSO</td>
<td>Central Statistical Office</td>
</tr>
<tr>
<td>CMED</td>
<td>Centre for Microfinance and Enterprise Development</td>
</tr>
<tr>
<td>DID</td>
<td>Développement International Desjardins</td>
</tr>
<tr>
<td>EFC</td>
<td>Entrepreneurship Finance Centre</td>
</tr>
<tr>
<td>ETG</td>
<td>Export Trading Group</td>
</tr>
<tr>
<td>GRZ</td>
<td>Government of the Republic of Zambia</td>
</tr>
<tr>
<td>iDE</td>
<td>International Development Enterprise</td>
</tr>
<tr>
<td>MBT</td>
<td>Micro Bankers Trust</td>
</tr>
<tr>
<td>MCDMCH</td>
<td>Ministry of Community Development Mother and Child</td>
</tr>
<tr>
<td>MLF</td>
<td>Micro Loan Foundation</td>
</tr>
<tr>
<td>MFI</td>
<td>Micro Finance Institution</td>
</tr>
<tr>
<td>NSCB</td>
<td>National Savings and Credit Bank</td>
</tr>
<tr>
<td>OPM</td>
<td>Oxford Policy Management</td>
</tr>
<tr>
<td>PROFIT+</td>
<td>Production, Finance, and Improved Technology Plus</td>
</tr>
<tr>
<td>RFPS</td>
<td>Rural Finance Policy and Strategy</td>
</tr>
<tr>
<td>PFSL</td>
<td>Pulse Financial Services</td>
</tr>
<tr>
<td>R-SNDP</td>
<td>Revised Sixth National Development Plan</td>
</tr>
<tr>
<td>SME</td>
<td>Small and Micro Enterprise</td>
</tr>
<tr>
<td>VFZ</td>
<td>Vision Fund Zambia</td>
</tr>
<tr>
<td>ZANACO</td>
<td>Zambia National Commercial Bank</td>
</tr>
<tr>
<td>ZNFU</td>
<td>Zambia National Farmers Union</td>
</tr>
<tr>
<td>ZNBS</td>
<td>Zambia National Building Society</td>
</tr>
</tbody>
</table>
List of tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Table 1: Zambia: Basic facts and figures</td>
<td>2</td>
</tr>
<tr>
<td>Table 2: Percentage of unbanked population in Zambia by province</td>
<td>3</td>
</tr>
<tr>
<td>Table 3: Categories of microfinance institutions (Draft Microfinance Services Bill, 2014)</td>
<td>7</td>
</tr>
<tr>
<td>Table 4: VFZ Basic Facts and Figures as at June 30, 2013</td>
<td>9</td>
</tr>
<tr>
<td>Table 5: CETZAM Basic Facts and Figures as at June 30, 2013</td>
<td>13</td>
</tr>
<tr>
<td>Table 6: FINCA Zambia Basic Facts and Figures as at June 30, 2013</td>
<td>15</td>
</tr>
<tr>
<td>Table 7: PFSL Basic Facts and Figures as at June 30, 2014</td>
<td>18</td>
</tr>
<tr>
<td>Table 8: MBT Basic Facts and Figures as at June 30, 2014</td>
<td>21</td>
</tr>
<tr>
<td>Table 9: Agora Basic Facts and Figures as at June 30, 2014</td>
<td>22</td>
</tr>
<tr>
<td>Table 10: MLF-Z Basic Facts and Figures as at June 30, 2014</td>
<td>24</td>
</tr>
<tr>
<td>Table 11: Private-Owned Financial Service Providers in selected districts of the study</td>
<td>27</td>
</tr>
</tbody>
</table>
1.0 Introduction

1.1 Background to the Study

The Agri-ProFocus Zambia was launched in October 2009 and focuses on providing Business and Partnership Brokering services within selected agricultural value chains starting with Rice and Dairy Value Chains, but also on other sectors that offer quick opportunities as embedded within the mission of Agri-ProFocus to promote farmer entrepreneurship. The Zambia Agri-ProFocus is part of the Agri-ProFocus partnership; an initiative originating from the Netherlands that creates opportunities for multi-stakeholder action and learning for the enhancement of farmer entrepreneurship. The partnership currently consists of 35 member organisations and is operational in 12 countries in Africa, and in Indonesia.

The Agri-ProFocus Zambia assists its active members by helping them overcome the challenge of tapping into available funding through partnerships. The Agri-ProFocus coordination team is hosted by SNV Zambia, based in Lusaka.¹

Agri-ProFocus in Zambia has seen that the linkage between smallholder farmers, SMEs and financial institutions can be improved. Banks often provide stringent conditions, e.g. collateral which SMEs cannot provide, which hinder rural low income people and SMEs to access finance. Microfinance institutions (which include micro-credit, micro-savings, micro-insurance, and savings and credit cooperatives) and other entrepreneurial lending schemes in the country offer a good alternative source of finance. However, due to the challenges faced by Microfinance institutions in Zambia, Agri-ProFocus in Zambia contracted the Centre for Microfinance and Enterprise Development Zambia to undertake a Market Study on Microfinance Services in Zambia.

1.2 Methodology

The assignment involved both primary and secondary data collection and desk review. Relevant literature was examined (including visiting websites) by the CMED team, who also interviewed key stakeholders during the District Field visits from 18th November to 4th December 2014. Semi structured and informant interviews were conducted for relevant staff at various selected organisations.

The study team collected information about existing financial service providers for each selected District from the Bank of Zambia website. The

Districts covered included Kasama, Serenje/Mkushi, Chipata, Choma and Lusaka which were selected through scoring against a certain criteria (see appendix II) for details. Subsequently an evaluation of which institution provided Rural and Agriculture Financial (RAF) services was made by analysing the various products offered. The study team then visited only those financial institutions that had an active agricultural portfolio or had plans to introduce one in the respective districts. Where possible the study team selected farmers that had benefited and held focus group discussions or one on one interviews.

**Target group**

The respondents targeted in the study included MFI Branch Managers for selected MFIs in study districts, representatives of farmer organizations, Senior Managers in their headquarters and one representative of the MFI apex body in Zambia – Association of Microfinance Institutions of Zambia (AMIZ).

During data collection and analysis, the CMED team also conducted outreach mapping to understand branch networks of all service providers in the financial services sector affecting rural and agricultural finance. In addition CMED used institutional mapping to help in the profiling of institutions offering microfinance services in the areas of study with the type of products and target clients. Special attention was also given to identify institutions financing activities that use renewable energy in their agro-enterprise activities. In this regard, the consultants focused on the following:

- Supply side analysis of the products and services offered by MFIs in Zambia
- Demand side analysis for micro-finance services and products in Zambia
- Analysis of the constraints the rural target group (small holders/SMEs) has to access micro-finance opportunities and constraints to improve the link between smallholders/SMEs and MFIs
- Drawing up recommendations on how to overcome constraints and take advantage of opportunities to improve financial service provision to rural communities via MFIs as alternative sources of finance

On 11th December 2014 the CMED team made a presentation at the Cresta Golf View Hotel to the Agri-ProFocus Zambia general membership for
validation of the findings. During this meeting the initial findings were shared and feedback received from stakeholders.

1.3 Study Limitations

Although attempts were made to meet all relevant key stakeholders in the allocated timeframe, this was not always possible due to busy schedules and time constraints. Portfolio data from MFIs was particularly difficult to collect due to its sensitive nature. Where it was available it was outdated and not useful for the current study. To overcome this limitation, complementary data was also collected from apex bodies that aggregate MFI reports such as the Association of Microfinance Institutions of Zambia (AMIZ).

2.0 Overview of National Context

Table 1: Zambia: Basic facts and figures

| Population: | 13.8 million |
| Life expectancy at birth: | 52 years |
| Adult literacy rate: | 81% |
| Access to improved water source: | 60% |
| Infant mortality rate: | 66 per 1,000 live births |
| Maternal mortality rate: | 440 per 100,000 live births |
| GDP per capita: | US$1,700 |
| Inflation: | 7% |

Source: Zambia Population Census, 2010

Zambia ranks 163 out of 186 on the UN Human Development Index (2013) and has been classified as a lower middle income country (World Bank, 2012). Despite strong macroeconomic growth from the mining sector (primarily copper), the country faces significant income disparities, with national poverty levels remaining relatively stagnant - 60% of the population (nationally) and 79% of rural households are classified as poor. Approximately 70% of Zambia’s households are involved in agriculture or aquaculture. Farming activities and self-employment are the two highest income earners for Zambian households, but investments in many of these productive activities are constrained by lack of access to financial services as approximately 62.7% of the adult population currently experiences

financial exclusion (FinScope, 2009). Comparison between FinScope results of 2005 and 2009 show a slight improvement of 3.6% from 33.7% in 2005 to 37.3% in 2009 in overall levels of financial inclusion. Despite this slight increase in overall levels of financial inclusion a majority of Zambian households remain financially excluded especially in rural areas where the reports estimate that 65.6% of adult population is financially excluded. The Zambia Business Survey (2010) further reveals that 85% of rural-based micro, small and medium enterprises (MSMEs) are financially excluded with only 5% being banked (FinMark Trust., 2012).

**Table 2: Percentage of unbanked population in Zambia by province**

<table>
<thead>
<tr>
<th>Provinces</th>
<th>% of population</th>
<th>% of banked population</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lusaka</td>
<td>14.8</td>
<td>39.2</td>
</tr>
<tr>
<td>Copper belt</td>
<td>17.6</td>
<td>21.2</td>
</tr>
<tr>
<td>Southern</td>
<td>11.7</td>
<td>12.9</td>
</tr>
<tr>
<td>Northern</td>
<td>12.0</td>
<td>6.7</td>
</tr>
<tr>
<td>Central</td>
<td>11.3</td>
<td>5.9</td>
</tr>
<tr>
<td>Eastern</td>
<td>12.6</td>
<td>5.5</td>
</tr>
<tr>
<td>North Western</td>
<td>5.5</td>
<td>3.5</td>
</tr>
<tr>
<td>Western</td>
<td>7.3</td>
<td>2.7</td>
</tr>
<tr>
<td>Luapula</td>
<td>7.3</td>
<td>2.4</td>
</tr>
</tbody>
</table>

*Source: FinScope Zambia, 2009*

Improvements to the country’s financial infrastructure continue to be uneven, with few opportunities for the inclusion of very poor and rural households. Access to finance is impacted by a number of factors, including limited outreach of banks and non-bank financial institutions, and gaps in policies and regulations governing the financial sector.

While a World Bank report\(^3\) explains that physical distance to banks and other financial institutions serves as a primary barrier to financial inclusion, a FinScope report questions this commonly-cited reason for poor financial inclusion, citing the fact that almost 20% of urban adults, for whom physical accessibility does not pose a challenge, still rely on informal financial services. Issues related to income and affordability serve as the greatest barriers to financial inclusion, yet accessibility, usage, and eligibility are also barriers (FinScope, 2009). Studies also note that 17% of the adult population in Zambia does not have official identification documents and thus cannot

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interact with formal financial service providers (CGAP, 2009). Further, on gender issues, Zambia’s 2006 Living Conditions Monitoring Survey found that women are less likely to be employed than men and thus less likely to engage with the formal financial sector.

A FinMark Trust report (2012) reveals challenges faced by financial institutions in expanding financial services to rural households in Zambia. These include:

- Zambia is a vast country with a low population density where remote agricultural households and villages can be completely isolated at certain seasons of the year;
- Rural households depend on farming seasons and other agricultural activities for their household income. This makes their income erratic due to unreliable household cash flow;
- A majority of small scale farmers and rural agro-enterprises face other unique challenges such as:
  - Market isolation due to poor feeder (farm-to-market) roads and limited infrastructure such as electricity;
  - Lack of agriculture insurance hence vulnerability to crop failure due to drought, floods or disease.
  - Limited coverage of agricultural extension services hence low crop yields and poor livestock production;
  - Weak and poor usage of market information systems hence inefficient production practices and exploitation by middlemen;
  - A majority of rural households do not understand how formal financial service providers operate hence misconceptions about their products leading to low usage.

In spite of the above challenges, the Government of the Republic of Zambia (GRZ) has placed great emphasis on increasing financial access to its rural population as part of its rural development drivers. Through GRZ’s revised Sixth National Development Plan, R-SNDP (2013-2016) (pp.15) the government states the increased focus on financial access in the rural areas through the Rural Finance Program (RFP) in phase two of the R-SNDP. Zambia has finalized the development of Rural Finance Policy and Strategy (RFPS) document which will facilitate deeper outreach and financial inclusion for rural populations. This was approved by the cabinet in May 2013.

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document sets a policy framework that encourages innovative sustainable business models that will increase financial inclusion in Zambia (GRZ, 2012, page 4\(^5\)).

Under the Financial Sector Development Plan (FSDP), Revised Sixth National Development Plan (R-SNDP, 2014) proposes the expansion of rural financial services under the framework of Rural Finance Program to facilitate access to financial services among rural entrepreneurs. In this regard, the government endorsed the Rural Finance Policy and Strategy (RFPS, 2013) document to spearhead the growth and expansion or rural financial services. The Bank of Zambia (BOZ), on the other hand, has strengthened the regulatory environment by putting in place policies that make it easy to set up microfinance institutions through the Draft Microfinance Services Bill 2014 (BOZ, 2014) and also allowing for branchless banking as part of rural finance strategy. BOZ also houses the Financial Education Coordinating Unit (FECU) that promotes the National Strategy on Financial Education in Zambia in an effort to increase financial literacy in the country and subsequently usage of formal sector financial services and products, especially by the rural households (BOZ, 2014). These are part of the FSDP which is a comprehensive strategy to address weaknesses in Zambia’s financial system by modernizing the sector while proposing a framework for other sub-sector strategies that promote financial sector development in Zambia (BOZ, 2009).

Further, as part of the Maya declaration of 2011 in Mexico, the Bank of Zambia, being a member of the Alliance for Financial Inclusion (AFI), a network of central banks and other financial regulatory bodies, made a commitment to promote financial inclusion through creating an enabling environment in the financial sector (AFI, 2013). As a result of this and many other GRZ efforts, Zambia’s financial landscape is now dotted with institutions addressing financial challenges especially in the rural financial sector.

However, constraints characteristic of the financial sector in Zambia still remain. On the supply-side there is low management and governance capacity in the financial sector (especially microfinance), lack of experience in structuring finance for the agricultural sector, inadequate experience and legal framework for the use of collateral substitutes and little understanding on how to design value-chain financing for the agricultural sector by financial services providers. These constraints have resulted in the prevalence of many inappropriate products and low targeting formal sector players. On the

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demand-side, lack of consumer awareness and financial literacy is still a challenge. Policy makers, donor agencies and the government have tried to address the financial access challenge in Zambia through various innovations. Agency banking is a model being used by mainstream banks to access financial services to remote rural areas through retail outlets, for instance. However, there remains other challenges in addressing the financial needs of rural agricultural households and agro-enterprises as most financial institutions have requirements (loan terms) that do not fit this sector.

2.0 The Microfinance Sector in Zambia

Zambia’s Microfinance Sector is part of the formal Non-Bank Financial Institutions (NBFIs) regulated and supervised by the Bank of Zambia. The sector was initially under the Banking and Financial Services Act of 2000 that included 9 leasing companies, 3 building societies and 1 Development Bank.

NBFIs, especially Microfinance Institutions (MFIs) complement commercial banks and insurance companies by providing services and products to underserved rural households, MSMEs and agro-enterprises in Zambia.

The history of microfinance industry in Zambia dates back to the period when Zambia’s financial services industry was undergoing liberation, 1992/93 (Maimbo and Mavrotas, 2003). The majority of the MFIs were established in the last 10 – 15 years and the coverage remains low especially for rural agricultural households. Prior to 1992, the Lima Bank, Zambia Cooperative Federation-Financial Services, the Credit Union and Savings Association (CUSA), the National Savings and Credit Bank (NSCB), the Small Industries Development Organisation (SIDO) [later renamed the Small Enterprise Development Board (SEDB)] and the Village Industry Service were the major providers of rural financial services (Kingombe, 2004). These institutions depended heavily on government subsidies and also used targeted credit rendering them susceptible to massive default due to bad microfinance practices. Due to their collapse there was a huge gap in rural and agricultural financial services targeting small holders and agro-enterprises.
During the same period, commercial banks that had maintained their rural branch networks also closed them down citing lack of business and high operational costs.

The modern microfinance industry in Zambia is re-merging from this background with at least 33 MFIs providing microfinance services according to the Bank of Zambia website (2014). However, due to the unique nature of microfinance services, BOZ has proposed amendments to the Banking and Financial Services (Microfinance) Regulation 2006, a subsidiary of the Banking and Financial Services Act of 2000. Under Chapter V of the Draft Microfinance Services Bill, 2014, MFIs are categorized into 3 tiers:

Table 3: Categories of microfinance institutions (Draft Microfinance Services Bill, 2014)

<table>
<thead>
<tr>
<th>Category (Tier)</th>
<th>Services Offered</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier I (Deposit taking microfinance institutions)</td>
<td>a. Credit facilities; b. In-country transfers; c. Savings; and d. Such other services as the Bank may prescribe.</td>
</tr>
<tr>
<td>Tier II (Non-deposit taking microfinance institutions)</td>
<td>a. Credit facilities only</td>
</tr>
<tr>
<td>Tier III (MFIs that do not meet the minimum paid-up capital requirement of ZMW 100,000 as prescribed by the Bank of Zambia under section of the Act as is registered as MFI with such a body as may be designated by the Bank)</td>
<td>Bill is not clear on the services to be offered by apparently this is dependent on the services to be offered by the delegated body as long as they fall under the other categories.</td>
</tr>
</tbody>
</table>

3.0 Supply Side Analysis

This section provides an overview of selected MFIs in the districts of study. The bias is on MFIs that were serving smallholder farmers and agro-enterprises at the time of data collection. Focus is on the type of agricultural products and services on offer, terms and conditions and key partnerships that have been developed to add value to services offered to smallholders by MFIs.
3.1.1 Micro Finance Institutions in the Agriculture Productive Sector
A. Vision Fund Zambia

Introduction

Vision Fund Zambia (VFZ) is part of the nearly 40 Micro Institutions (MFIs) within the Vision Fund International Network. VFZ was established in 2003. Vision Fund is part of World Vision, a Christian relief, development and advocacy organization. VFZ was established in 2003 as an independent institution and operated as Harmos Micro Enterprise Development Limited. In 2011, Harmos Micro Enterprise Development Limited rebranded to Vision Fund Zambia to align with the Vision Fund International Network. VFZ has 12 branch operations in 7 provinces covering the following districts: Chipata, Chongwe, Kasama, Mbala, Chirundu, Choma, Sinazongwe, Monze, Lusaka, Kitwe, Solwezi and Chingola.

VFZ approach

VFZ operates within World Vision Area Development Programs (ADPs) to enable people to develop a reliable source of income and a livelihood. The table below provides an overview of VFZ products and services.

Target Group

All Zambian citizens with the age of 18 years and above qualify as long as they meet the following criteria:

- Micro-entrepreneurs with business experience
- Women running small businesses or small scale farming
- Small scale farmers in the VFZ catchment areas
- Clients within World Vision program areas
- Clients without existing loans from other sources and have no default history

VFZ Products

Business Loans: for working capital
Asset Financing: purchase assets for use in the business or the farm
SME Loans: for individual borrowers
Bicycle Loans: to meet transport needs in rural Zambia
School Fees Loans: to help existing clients

Agricultural Loans: for input, irrigation equipment and livestock such as dairy

- **Dairy** - Support farmers with restocking and other needs. Working with *Palabana* Dairy and other Co-operatives
- **Seasonal Crops** - support farmers for purchase of inputs through suppliers. Balloon payments
- **Irrigation Crop** - Support horticultural farmers to purchase irrigation equipment and other

Terms and Conditions

- Interest rates at 4.5 % per month
- Commitment fee of 10 % for all loans
- Solidarity group members use group joint guarantee system and pledge assets within groups
- Immovable/Movable property can be used to secure Individual Loans

Key Partners

**PROFIT+:** In Chipata VFZ works with PROFIT+ to increase the skills of farmers in group organization, increased production skills and market linkages.

**International Development Enterprise (iDE):** VFZ has partnered with iDE for the supply of treadle pumps to farmers.

**Kick Start International:** VFZ has partnered with Kick Start Zambia for the supply of small irrigation equipment. Kick Start sells the equipment to Agro Dealers. In addition they also provide training, demonstrations and general awareness about their products to small scale farmers through the Agro Dealers.

**Export Trading Group (ETG):** VZF has partnered with ETG who are suppliers of inputs (seed, fertilizer) and also buyers of crops.

**Renewable Energy Sector:** VZF has no loan products for renewable energy but discussions are underway with a supplier for solar lumps.
Table 4: VFZ Basic Facts and Figures as at June 30, 2013

<p>| | |</p>
<table>
<thead>
<tr>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loan Portfolio</td>
<td>US $ 2,281,174</td>
</tr>
<tr>
<td>No. of Active Borrowers</td>
<td>8,690</td>
</tr>
<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 263</td>
</tr>
<tr>
<td>Assets</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
<tr>
<td>Number of Depositors</td>
<td></td>
</tr>
</tbody>
</table>

Source 1: AMIZ MFI indicators, 2014

B. CETZAM Financial Services Limited

Introduction

CETZAM Financial Services Plc formerly CETZAM Opportunity Microfinance Limited is a deposit taking Micro-Finance Institution licensed by the Bank of Zambia. It was founded in 1995 as an independent microfinance institution (MFI) with the aim of providing sustainable microfinance services to the economically disadvantaged of Zambia. It is registered as a company Plc by shares and is affiliated to Opportunity International, a global network of microfinance institutions.

CETZAM has 8 branches in Chingola, Kamwala, Kitwe, Livingstone, Lusaka, Monze, Ndola and Siavonga. CETZAM also has satellite offices in 13 Districts namely Chibombo, Chirundu, Choma, Gwembe, Kabwe, Kafue, Kalomo, Kapiri Mposhi, Lumwana, Mazabuka, Mkushi, Mumbwa and Solwezi.

CETZAM Approach

Historically CETZAM’s mission was to transform the lives of the poor by providing them with access to client-useful financial services and training resources through a financially viable national-scale microfinance institution. The mission of CETZAM has since changed to ‘commercially transforming, economically active and deserving clients, who lack the resources to build capacity.’

6 Information on assets and deposits was not available
Target Group

The following categories of people qualify for CETZAM services:

- Business entrepreneurs already in business and need additional capital to run their businesses
- Trade vendors, retailers, wholesalers
- Service providers such as food providers, mechanics, distributors and secretarial services
- Manufacturing - furniture making, metal fabricating etc.
- Employees in formal employment

CETZAM Products

Tusunye Savings Account - CETZAM’s Tusunye savings account is an account meant to enable CETZAM’s clients save their funds for future use.
  
  i. The account requires a minimum opening balance of ZMW 20.00
  ii. Withdrawals on the account are free
  iii. No fees for deposits
  iv. An attractive interest rate of 6% is offered on the account per annum

Trust Bank Loans - These are small loans and normally cater for small businesses that generate income on a daily basis. The maximum loan obtained in this product is not more than ZMW 1,500. The loan term is 16 weeks (4 months) and repayments are made weekly.

Solidarity Group Loans: These are group loans that are accessed by a smaller number of clients between five to eight members. These members need much more than what Trust Bank Loans offer. The maximum loan obtained in this product is ZMW 5,000. The clients have an option to choose the loan terms and repayments are usually fortnightly or monthly. The loan term is 4 to 12 months.

Direct Solidarity Group Loans: These comprise between five to eight members. Clients accessing this product do not need to graduate from a Trust Bank but come in directly. The maximum loan obtained in this product is ZMW 5,000. The clients have an option to choose the loan term and repayments are usually fortnightly or monthly
**Individual Loans:** These are loans that are accessed individually. Clients normally need much more than the group loans. The minimum loan obtained under this product is ZMW 2,000 and the maximum is ZMW 250,000. The loan term is between 4 to 24 months payable monthly.

**Small to Medium Enterprise (SME) Loans:** SME loans are for those clients who have registered companies and clients who obtain loans under the individual loan product. The minimum loan obtained under this product is ZMW 50,000 and the maximum is ZMW 250,000. The loan term is between 4 to 24 months payable monthly.

**Salaried Loans:** This product is targeted at people in formal employment. Salaried loans can be accessed by entering into a memorandum of understanding with employers to guarantee direct remittance of loan instalments for all their members of staff intending to borrow funds. The loan repayment period for salaried loans is a maximum period of 24 months payable monthly.

**Agricultural Loans:** These are loans that are accessed by small scale farmers who grow cash crops or engage in market gardening. Farmers are funded for inputs, irrigation technology etc. A grace period of three months is given and repayments are linked to the type of crop grown but the maximum loan term is six months.

CETZAM clients also have access to the following products:

- **Credit Life insurance** - Which is insurance that covers clients in the event of death. The insurance company pays the outstanding loan at the time of death;

- **Ntula Funeral Benefit Insurance** - This is a scheme that covers 5 members of the client’s family including the client, to benefit from the insurance in an event of death among the registered dependants. The insurance helps the client to cater for funeral expenses instead of using money generated from the business; and

- **Training in business skills** - CETZAM provides training in entrepreneurship or will ask another service provider to conduct training.
Terms and Conditions

- Interest rates between 4% and 8% per month
- Processing fee is 3.8% for all loans
- Individuals must pay between 10% and 20% of the loan amount into a loan security fund (LSF) prior to disbursement of the loan. LSF is refunded when the loan is repaid in full
- Immovable/Movable property can be used to secure Agriculture loans, Individual loans and Solidarity group loans

Key Partners

International Development Enterprises (iDE): CETZAM is working with iDE, an organization focused on irrigation and pumps. CETZAM’s partnership with iDE began as early as 2008 when iDE partnered with the MFI to develop an agricultural loan product for iDE smallholder farmers to purchase micro-irrigation technologies and other agricultural assets to improve their incomes and livelihoods.

MEDA: CETZAM also has a similar relationship with MEDA, a Canadian NGO. A third key relationship is with Agribusiness in Sustainable Natural African Plant Products (ASNAPP), which also provides technical assistance to farmers linked to CETZAM. ASNAPP has also helped to facilitate access to markets for some farmers - e.g. large buyers of agricultural produce such as FreshMark and the Sun International Hotel in Livingstone.

Table 5: CETZAM Basic Facts and Figures as at June 30, 2013

<table>
<thead>
<tr>
<th></th>
<th>US $ 4,074,807</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loan Portfolio</td>
<td></td>
</tr>
<tr>
<td>No. of Active Borrowers</td>
<td>9,869</td>
</tr>
<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 413</td>
</tr>
<tr>
<td>Assets</td>
<td></td>
</tr>
<tr>
<td>Deposits</td>
<td></td>
</tr>
<tr>
<td>Number of Depositors</td>
<td></td>
</tr>
</tbody>
</table>

Source: AMIZ MFI Indicators, 2014
C. FINCA Zambia

Introduction

FINCA Zambia is a regulated, deposit taking, microfinance institution. FINCA Zambia serves low-income entrepreneurs in rural and urban areas of the country, many of whom are single mothers caring for children orphaned by AIDS. Its 14 branches deliver financial products including individual and group loans and savings.

FINCA Approach

FINCA takes an integrated approach to financial inclusion through its unique structure and the comprehensive way in which resources are leveraged to best serve FINCA clients. There are four primary facets to this approach:

- Financial intermediation through the provision of loans, savings and insurance products tailored to local needs;
- Social intermediation typified by the financial literacy training and support embedded in the group and Village Bank loan programs;
- Enterprise development; and
- Social service impact by leveraging the FINCA network to provide support in the areas of education, health, nutrition and financial literacy training.

Target Group

- Zambians of at least 18 years of age who own small enterprises and are in need of capital injection or savings.
- They should have a minimum of 1 year in current business, business location and resident location.

Products & Services

Small Enterprise Loans: FINCA offers small enterprise loans to enable clients to start or expand small businesses, based on self-identified plans and
market demand. The repayment period ranges from 12 - 36 months with monthly repayment instalments. The loan range is between ZMW 105 and ZMW 250. The loan collateral requirements are flexible including business assets, motor vehicles and movable assets.

**Village Banking Loans:** FINCA Zambia offers Village Bank loans. These are groups of low-income entrepreneurs who come together to share and guarantee one another’s loans.

**Savings:** As licensed, deposit-taking institutions, FINCA Zambia offers savings accounts. These accounts have a double benefit: depositors have a secure place to keep their savings and those funds can be used as loan capital to support other small businesses in the community.

**Saver Account:** Available for anyone above the age of 18 years. It offers free unlimited withdraws and deposits at all the branches. The minimum balance is ZMW 20 and there are no monthly fees. An interest rate of up to 2% per annum is paid.

**Fixed Term Deposit Account:** Fixed terms of between 90 to 360 days available to new and existing clients. The interest rates paid range from 2% to 10% with a 1% additional incentive for old clients. The minimum investment is ZMW 250

**Insurance:** FINCA Zambia provides insurance that covers business losses, health and funeral expenses, and loan repayment in the event of a client’s illness, injury or death.

*Table 6: FINCA Zambia Basic Facts and Figures as at June 30, 2013*

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loan Portfolio</td>
<td>US $ 11,539,892</td>
</tr>
<tr>
<td>No. of Active Borrowers</td>
<td>38,838</td>
</tr>
<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 297</td>
</tr>
<tr>
<td>Assets</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
<tr>
<td>Number of Depositors</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: AMIZ MFI Indicators, 2014*
D. PULSE Financial Services Limited

Introduction
Pulse Financial Services Limited (PFSL) operating as Entrepreneurs Financial Centre (EFC) is a deposit taking Microfinance Institution licensed and supervised by Bank of Zambia. Pulse Financial Services Limited (PFSL) was formerly known as Pulse Holdings Limited. It started as a CARE Zambia project in 1996 and later transformed into Pulse Financial Services Limited, a privately owned microfinance institution.

The architect of the new vision for PFSL is Développement International Desjardins (DID), a subsidiary of the Desjardins group and the sixth largest bank in Canada.

PFSL is currently operational with branches in Chipata and Kitwe on the Copperbelt and a business loan centre in Ndola. Lusaka has branches in Kamwala, Chawama, Kanyama, Kalingalinga and business loan centres in Chilenje, Soweto Market and Kafue. The EFC head office is at the corner of Katunjila road and Freedom Way, where the Downtown branch is situated at Unity House.

PFSL Approach

PFSL’s Vision: To become the preferred Licensed Deposit Taking Microfinance solution for entrepreneurs in Zambia.

PFSL’s Mission: To increase peri-urban and urban MSMEs access to specialized financial services on a permanent basis while contributing to wealth creation, improvement of living conditions and development of the Zambian private sector.

Target Group
PFSL targets micro and small enterprises in peri-urban and urban areas. These can be individuals or other legal entities engaged in income generating activities. They must have been in business for at least 6 months and able to demonstrate a proper recording system and capability of operating a business profitably. They should be in possession of collateral e.g. business equipment, vehicle, house or land.
Products and Services

Loans:

**Business Loan:** The Business Loan is specifically designed for MSE’s who need fast and efficient loan services for empowerment. This loan finances a wide range of activities including working capital, equipment purchase and investments, agricultural supplies and many more. The loan amount ranges from ZMW 1,000 to ZMW 400,000.

**Home Improvement Loan:** This loan aims to contribute to the improvement of the household quality of life through expansion or upgrade of existing houses. Each loan is tailor made to respond to different requirements for the home improvement project. The loan amount ranges from ZMW 5,000 to ZMW 400,000 with a repayment period of up to 60 months. The applicant needs to provide Bill of Quantities and a valuation report.

**Market Women Trader’s Loan:** This loan is designed to provide a financial breakthrough for women with small businesses in need of financial assistance. The loan amount ranges from ZMW 1,000 to ZMW 6,000 with a repayment period of up to 60 months.

Savings:

**Term Deposit Account:** Fixed terms of between 90 to 360 days available to new and existing clients. The interest rates paid range from 2% to 10% with a 1% additional incentive for old clients. The minimum investment is ZMW 2,000.

**Regular Savings Account:** This is a simple and convenient account. It offers free unlimited withdraws and deposits at all the branches. The minimum balance is ZMW 20 with a monthly fee of ZMW 10. The account opening fee is ZMW 30.

**Premium Savings Account:** This account helps clients save towards a specific objective such as business capital, education, home improvement or any other project. The minimum balance is ZMW 200 with no monthly or account opening fee.

**Naine Micro Savers Account:** This account aims at offering services to micro savers such as low wage earners, street vendors, marketeers, members of associations or cooperatives and other micro entrepreneurs. This is open to clients who have a regular savings account and has no monthly fees.
Other Services:

Client Share Ownership Program: The Client Share Ownership Program offers PFSL clients an opportunity to invest in PFSL equity through a cooperative. PFSL gives back a minimum of 10% of the interest paid to any client that makes payments on their loans in full and on time. 25% of this is given as shares and 75% is at the discretion of the client.

Easy Pay: This product offers companies in wholesale trade, motor vehicle import & sales and suppliers who provide credit services to their customers a faster, convenient and efficient solution to all payment needs.

Table 7: PFSL Basic Facts and Figures as at June 30, 2014

<table>
<thead>
<tr>
<th>Gross Loan Portfolio</th>
<th>US $ 12,358,223</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Active Borrowers</td>
<td>16,398</td>
</tr>
<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 754</td>
</tr>
<tr>
<td>Assets</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
<tr>
<td>Number of Depositors</td>
<td></td>
</tr>
</tbody>
</table>

Source: AMIZ MFI Indicators, 2014

E. Micro Bankers Trust

Background

Micro Bankers Trust (MBT) was formed in 1996 by the Ministry of Community Development, Mother and Child Health (MCDCH) in collaboration with the European Union (EU), as a nonprofit making Zambian organization. It was established out of the need for creating an institution to champion the provision of alternative financial services for the vulnerable and viable population in Zambia, with special emphasis to women.

Registered as a trust under the registrar of societies, the governance is assured by a Board of Trustees made up of professional individuals with various backgrounds. The settler of the trust is the Ministry of Community Development, Mother and Child Health.

MBT has 12 branch operations in 7 provinces covering: Chipata, Chongwe, Kabwe, Kafue, Monze, Chingola, Luanshya, Mpika, Mongu, Petauke and Lusaka.
Vision
To be the best financial services provider to low income population segments in Zambia to build better lives.

Mission
To contribute to the creation of wealth at community level through access to appropriate financial and other services for enterprise development and self-employment by low income groups.

Products and Conditions

Twende Loans
‘TWENDE’ stands for Towards Women Economic Needs for Development and Empowerment. These are loans that the trust disburses to women groups and accessed by individual members of the group. Minimum of group size is 5 members. The group members are collectively held responsible for the loan disbursed. Individual clients pledge collateral substitutes. The loan duration is between 6-12 months and is administered in cycles starting with a starter that is the micro credit highway for the borrower. The 1st loan for new entrants is ZMW 1,000.00 and subsequent ceiling can increase depending on repayment performance. Repayment is either bi-weekly or monthly. The current interest rate is 35% per annum on a declining balance.

SMEs
Individual lending is a methodology used to disburse loans to Small and Medium Enterprises. The loan can be given for enterprise development or for consumption by loanees and are disbursed in cycles of 6 months. Individuals can also qualify for these loans under the salary guaranteed scheme with recommendation from their employers and deductions are effected from their salaries. In another category, individual members from well performing groups are recommended for an individual loan after three successful group loan cycles. Upcoming entrepreneurs with viable business plans wishing to boost their capital are also given loans.
Agriculture Equipment Loans
The Agriculture Equipment Loan is a combination of 2 loan products i.e. Irrigation Equipment (PUFF) and the Power Tiller Products with the support of MACO. The client must reside at the farm. For Irrigation Loans, there should be a borehole or perennial stream/river on the farm. No clients can access more than one loan at a time. The loan ceiling is ZMW 50,000. The current interest rate is 35% per annum on a declining balance. The repayment period is a maximum of 24 months with a grace period of up to 3 months. Collateral based preferably Fixed Assets.

Small Livestock Loans
These loans are primarily for small scale farmers engaged in rearing of small livestock on business lines. These include poultry rearing i.e. both Broiler and Layers and Piggery. Farmers with some experience of livestock farming and with shelter/chicken-run for the animals on the proposed site are considered. The current interest rate is 35% per annum on a declining balance. The repayment period is a maximum of 24 months with a grace period of up to 3 months. The loan ceiling for beginners is up to ZMW 10,000 per client.

Dairy Loans
The Dairy loan product is primarily a credit line for Dairy Animals that are accessed by targeted groups. The loan only finances the purchase of Dairy animals and a limited amount that will meet the cost of the starter medication kits, milk bucket and transportation cost not exceeding 20% of the cost of the animal. The loan ceiling for beginners is up to ZMW 20,000. The current interest rate is 35% per annum on a declining balance. The repayment period is a maximum of 24 months with a grace period of up to 3 months.

Target Group
MBT services target predominantly those who do not have access to loans from formal financial institutions to borrow for enterprise development activities.
Partners
- Dairy Association of Zambia
- Livestock Development Services
- Genetic Breeders
- Saro Agro

Table 8: MBT Basic Facts and Figures as at June 30, 2014

<table>
<thead>
<tr>
<th></th>
<th>US $ 1,556,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross Loan Portfolio</td>
<td>US $ 1,556,000</td>
</tr>
<tr>
<td>No. of Active Borrowers</td>
<td>16,929</td>
</tr>
<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 92</td>
</tr>
<tr>
<td>Assets</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
<tr>
<td>Number of Depositors</td>
<td></td>
</tr>
</tbody>
</table>

Source 2: AMIZ MFI Indicators, 2014

F. AGORA Microfinance Zambia

Agora Microfinance Zambia (AMZ) is a microfinance institution established in 2010 that began operations in 2011 and is dedicated to serving low-income, rural households in Zambia with appropriate financial products.

Vision
A Zambia where economic opportunities for the poor enable them to improve their livelihoods, move out of poverty and be equal members of society.

Mission
To contribute to the economic well-being of the poor through effective provision of appropriate financial services.

Products

End-of-Term Loan
This loan is aimed at predominantly farming households with seasonal cash flows to stimulate agribusiness activities. This product is offered to
households that can demonstrate the seasonal nature of their primary livelihood and offers a term of up to 12 months.

**Flexi Loan**
This loan is aimed at households with more stable businesses and flexible cash flows. These will primarily be traders with consistent daily, weekly and monthly cash flows. Repayments allow for flexibility according to the cash flow patterns of the business and the maximum term is 12 months.

**Emergency Loan**
This loan is available to existing clients for serious health emergencies that require immediate action (accidents and hospitalization). Turn-around time from application to disbursement is as little as a few hours.

AMZ is headquartered in Lusaka and currently operates four branches in the Western and Central Provinces. In 2011, two branches opened simultaneously in Mongu in the Western Province and in Mumbwa in the Central Province. In November 2012, a new branch opened in Kaoma, also in the Western province and in October 2013, AMZ began working in Chibombo, located in the Central Province.

**Target Group**
AMZ aims to serve clients who have previously been excluded from the formal financial market, predominantly due to poverty or location. With the objective of "finance on your doorstep", AMZ staff work in the local communities, visiting clients near their homes to provide previously inaccessible services.

**Table 9: Agora Basic Facts and Figures as at June 30, 2014**

<table>
<thead>
<tr>
<th>Gross Loan Portfolio</th>
<th>US $ 1,726,241</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Active Borrowers</td>
<td>11,244</td>
</tr>
<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 154</td>
</tr>
<tr>
<td>Assets</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: AMIZ MFI Indicators, 2014*
G. Micro Loan Foundation Zambia

Introduction
The MicroLoan Foundation Zambia (MLF-Z) is a not-for-profit specialist microfinance provider that was established in 2008. Its activities are overseen by the Microloan Foundation which has its headquarters in the United Kingdom and is regulated by the Charity Commission. MLF-Z’s main activity is providing low-income women living in predominantly rural areas of Eastern, Southern and Central Provinces of Zambia with short-term loans of between 4-6 months for productive purposes. It lends exclusively to women.

Mission
The MLF-Z defines its mission as being to significantly reduce the depth and breadth of poverty in the communities within which it operates. It does this by lending money to groups of women to help them build sustainable businesses, and by providing meaningful training and on-going mentoring support. The MFZ’s organizational culture is entrepreneurial and it believes in applying the principles of good business management to charitable work.’

Products
MLF-Z offers short-term loans for productive ventures accompanied by a strong training component. Most borrowers live in relatively isolated rural areas.
MLF-Z does provide extensive training for borrowers, often as frequently as every two weeks in their villages. Prior to disbursing the loan, training is in the following areas:
- Products, procedures, interest rates and savings
- Loan application and disbursement
- Constitution planning or drafting
- Leadership and responsibilities
- Avoiding delinquency
- Rights and responsibilities

After receiving the loan, training continues in the following areas:
- Group support and what happens when things go wrong
- Setting savings goals
• Market research
• Costs, profits and pricing
• Doing a business plan
• Appropriate loan sizes
• Revision of constitution and loan application

Terms and Conditions
• MLF-Z charges a flat rate of interest of 40% per annum.
• Borrowers are required to make a deposit of 10% of the loan amount on the first loan cycle, and 20% on later cycles as savings and these are held with a third party commercial bank. Savings cannot be accessed until the loan is repaid in full but the savings do attract interest.

Target group
MLF-Z lend exclusively to women involved in productive activities

Table 10: MLF-Z Basic Facts and Figures as at June 30, 2014

<table>
<thead>
<tr>
<th>Gross Loan Portfolio</th>
<th>US $ 472,915</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of Active Borrowers</td>
<td>3,603</td>
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<tr>
<td>Average Loan Balance per Borrower</td>
<td>US $ 131</td>
</tr>
<tr>
<td>Assets</td>
<td>-</td>
</tr>
<tr>
<td>Deposits</td>
<td>-</td>
</tr>
<tr>
<td>Number of Depositors</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: AMIZ MFI Indicators, 2014

3.1.2 Supply-side Constraints
The MFIs lending to the agriculture productive sector have a number of constraints and weaknesses. The consultancy team found that in general the MFIs that have developed and are implementing agricultural products had a weak institutional capacity, including inadequate management information systems (MIS), weak capacity for product development, the lack of qualified human resources in agricultural finance and weak monitoring systems for the farmers. This has made it difficult for them to expand their operations and also maintain healthy loan portfolios. The constraints and weaknesses are
discussed in detail below and are divided into internal and external constraints.

i. Internal Constraints

**Institutional Capacity:** Lack of institutional capacity for product development including research and identifying cost effective delivery models in rural areas. Only three MFIs have developed and are implementing agricultural products and services in the selected districts on a limited scale.

**Staff Capacity:** Recruitment and developing of staff with skills in agricultural finance is a challenge for most MFIs. This has been highlighted as a major constraint for the expansion of rural agricultural finance services by most MFIs. In addition management and field officers also lack understanding of rural agricultural business impacts and ability to appraise and manage agricultural loans.

**Ineffective monitoring of farmers due to distance:** Operational costs for agricultural lending continue to be high. Farmers are located in distant areas, spread out, resulting in higher transport costs for collections and loan monitoring. A number of MFIs have had to close some satellite offices due to high costs. This has resulted in the deterioration in the performance of the loan portfolio.

**Misunderstanding of relationship between MFIs and Partners:** Inadequate information provided to farmers regarding the roles of different stakeholders in partnerships with an MFI resulting into misunderstandings by the farmers. Some farmers who received equipment loans through equipment dealers and not cash are not servicing loans since their understanding was that it was a grant. Other farmers who were introduced to MFIs through programs initiated by development NGOs stopped servicing the loans granted by MFIs the moment the NGO project ended.

**High demand for agricultural loans but no loan product:** A number of MFIs in the selected districts indicated a high demand for agricultural loan products. Outside the three that offer agricultural products (with one specialising in
dairy) on average out of 5 clients that walk into the bank three are looking for agricultural loans. The loan conditions on demand include the following:

- Loan terms that mature at the harvest time of the crop
- Suspension of interest payments during the time that the crop is under cultivation
- Consideration for drought periods
- Provision of extension services

**Initial and ongoing costs of doing business in rural areas:** It is costly to establish new branches in rural areas and also identifying and retaining suitable and qualified staff is a challenge.

ii. **External Constraints**

**Lack of Agricultural Insurance:** The high risk nature of agricultural business would be mitigated by provision of insurance. Currently there is no insurance company in Zambia offering such a product. A number of products currently available are for Credit Life Insurance which has to do with covering the risk of the client and not volatile weather and prices. Discussion are however underway with Focus General Insurance (FGI) introduce weather index insurance.

**Bank of Zambia interest rate capping:** The Bank of Zambia introduced interest rate caps in early 2013. This has resulted in loss of interest income by MFIs operating in rural areas. Results from the selected districts also confirm that additional lending to micro and small enterprises, especially to the agricultural sector and to rural entities has declined. Some MFIs have closed down satellite branches.

**Low Financial Literacy:** There is extremely low knowledge, awareness and understanding of financial services in rural areas. This is also in line with the FinScope Survey results of 2009 which found that although 90% of the unbanked population (the bulk of who live in rural areas) said they knew what a bank was, less than half are familiar with such terms as ‘savings account.’ Rural households lack basic understanding of financial terms and financial products and services and how these can benefit them.
Liquidity and concentration challenges: The MFIs face liquidity and concentration challenges due to farmers in the same areas generally requesting for loans at the same time and often engaging in the same activities (usually maize). At VFZ in Kasama the number of clients seeking agricultural loans has grown from 50 in the first year to 200 in the second and 800 in the third year.

4.0 Other Financial Institutions in the Selected Districts

A number of financial institutions have operations in the 4 selected rural districts reviewed by the study. However none of these financial institutions have agricultural products that can be accessed by the target group. Below is an inventory of the financial institutions by District:

Table 11: Private-Owned Financial Service Providers in selected districts of the study

<table>
<thead>
<tr>
<th>District</th>
<th>Financial Institution</th>
<th>Provision of Rural Financial Products</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>YES (✓), NO (✗)</td>
</tr>
<tr>
<td>Chipata</td>
<td>Barclays Bank Zambia</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Standard Chartered Bank</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>ZANACO</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>NSCB</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Stanbic Bank</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>First National Bank</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Investrust Bank</td>
<td>✓</td>
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<tr>
<td></td>
<td>Finance Bank</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Indo Zambia Bank</td>
<td>✓</td>
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<tr>
<td></td>
<td>PFSL</td>
<td>✓</td>
</tr>
<tr>
<td></td>
<td>Consumer lenders</td>
<td>✓</td>
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<td>Choma</td>
<td>Barclays Bank Zambia</td>
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<tr>
<td></td>
<td>Standard Chartered Bank</td>
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4.1 State-Owned Financial Institutions

**National Savings and Credit Bank:** The National Savings and Credit Bank (NSCB) is a Government-owned Non-Bank Financial Institution that was establish in 1972 by an Act of Parliament namely the National Savings and Credit Act, Chapter 423 of the Laws of Zambia. The Act gives the Bank the power to administer funds on behalf of any person or agency, accept deposits, operate saving schemes, making of loans and to carry on any form of banking business.

The Bank has firmly positioned itself in the market through its unequalled presence in several districts of the country. Presently, it has thirty two (32) branches through which it delivers financial products at competitive rates. The Study team visited the Mkushi Zambia National Farmers Union (ZNFU) offices (NSCB has no branch in Mkushi or Serenje) where NSCB and ZNFU have entered into a partnership called **Bunjimi Asset +** to improve Small Scale & Emergent Farmer access to commercial credit through acquisition of agricultural equipment. Bunjimi Asset + targets small scale and emergent farmers and uses the equipment as security for the loan. The loan repayment period is up to 3 years.

**Zambia National Building Society:** Zambia National Building Society was established by the Building Societies Act of 1968 as amended in 1970 on 24th December of the same year. The primary objective of establishing theZNBS was to increase Housing stock in the country by provision of house loans and undertaking construction housing projects. In addition to property
Financing, ZNBS also provides Banking services across the country. ZNBS also provides office space to individuals and companies mainly in branches along the line of rail. The society also provides Real Estates Services to the General Public. ZNBS has got a 19 branch network across the country.

A building Materials Loan has been introduced to enable clients construct a house in stages. This loan enables clients to acquire all the building materials in stages from reputable companies at competitive prices. ZNBS has presence in all the Districts visited by the study team except Mkushi/Serenje.

**Citizens Economic Empowerment Commission:** The Citizens Economic Empowerment Commission (CEEC) is a body corporate which was established by the CEE Act whose mandate is to promote broad based and equitable economic empowerment of citizens that are or have been marginalized or disadvantaged and whose access to economic resources and development capacity has been constrained due to various factors such as race, sex, educational background, status and disability.

The study team visited the Kasama office. Since 2011 the CEEC has been focusing on supporting agri- businesses with a view to helping the establishment of rural industries. The CEEC empowerment fund, funded mainly by Parliament through the Ministry of Finance makes available resources to citizen owned companies, citizen empowered companies, citizen influenced companies, groups of citizens or co-operatives, and broad based economic empowerment programs to acquire mainly processing equipment and for working capital. The loans are disbursed through commercial banks and NSCB.

**Zambia National Commercial Bank (ZANACO):** Zambia National Commercial Bank, commonly referred to by the name "Zanaco" is a one of the largest financial service providers in Zambia owned by Rabo Bank, the Government of Zambia, the public and ZNFU. Agribusiness is a key focus area of ZANACO, a specialized segment serving the Agricultural Value Chain comprising Agri Corporates (commodity Traders,
Processors, Plant/Seed Genetists,) Commercial Farmers, Agri SMEs – Traders and Processors, Emergent Farmers and Small Scale Farmers.

ZANACO provides financing solutions tailored to the segment in which the client operates and also tailored to the specific unique needs of the client. This is backed by an unparalleled international support by Rabo Bank, a global Agricultural Bank domiciled in the Netherlands with overseas presences across all continents as well as a deep knowledge in Agricultural Financing.

The Agribusiness Unit of ZANACO is operated out of the head office in Lusaka. ZANACO has branches in all the 4 selected districts of the study. ZANACO, working in partnership with ZNFU and Dairy Association of Zambia has supported the Magoye Dairy Farmers Cooperative Society to purchase dairy animals. ZANACO is also one of the banks through which CEEC disburse its loans through out Zambia. In Kasama ZANACO is also working with other partners in the promotion of the rice value chain. Recently ZANACO has introduced a unit that offers support to MFIs.

5.0 Demand Side Analysis

The demand for financial services in rural areas by SMEs and small holder farmers is mainly for appropriate and flexible savings, credit, insurance and payments products. Other related facilitating services like extension services and guaranteed markets for their products are also on demand. The services are discussed in detail below.

5.1.1 Products and Services on Demand

**Savings:** Ability to save to purchase inputs and meet consumption requirements. The farmers indicated a need for a cost-effective, safe and convenient method for savings.

**Credit:** The farmer groups discussed with indicated a need for affordable credit for inputs and investment. The farmers also expressed concern that in times of natural calamities the MFIs are not ‘lenient’ with them. This leads to the need for the provision of insurance against crops/livestock due to natural disasters. The farmers also expressed a need for matching the activity and the loan term. A
number of MFIs were reported to have been inflexible when it came to agricultural loans. At the same time they indicated that it was important that interest payments were also suspended until the crop/livestock was in a position to generate some income.

**Disbursement of loans in Cash:** Farmers that were interviewed expressed a need for MFIs to consider disbursing cash loans instead of loans in kind through suppliers. Strengthening of the governance of the farmer groups could guard against cheating by some farmers. Regular monitoring by the MFIs or development partners would also help.

**Money Transfer/Remittances:** The farmer groups mentioned two types of transfer needs. One was the need to have a mechanism for repaying loans without travelling long distances or entrusting a group member. The other was the need for them to be paid for their produce by buyers especially Food Reserve Agency without travelling long distances and making multiple trips.

**Provision of extension and monitoring services:** All the farmers met demanded to be visited by Camp Extension Officers from the Ministry of Agriculture and Livestock for extension services and Field Officers from the MFIs for loan monitoring. Some farmers considered that the MFI was not interested in the recovery of the loan or that the activity was ‘just another project’ once the Field and Camp Extension Officers stopped visiting.

**Commodity Traders:** The farmer groups expressed a need for a convenient way of selling their produce. A number of them have to travel long distances to find a market or wait for Commodity Traders that are not consistent. They also expressed their frustrations with selling maize to the Food Reserve Agency.
5.1.2 Demand-side Constraints

The smallholder farmer and SME constraints are mainly the poor roads and lack of transport, long distances to financial institutions, lack of knowledge and awareness on how to approach MFIs and negotiate loan applications, inappropriateness of products (emphasizing monthly repayment), lack of title to land and collateral requirements. All these contribute to low uptake of financial services in rural areas. The constraints and weaknesses are discussed in detail below and are divided into internal and external constraints.

i. Internal Constraints

Inadequate technical skills: Farmers have little knowledge on technical issues about agriculture. During our discussions issues of soil acidity and soil type were raised. Most farmers do not know what crops to plant on what soil type and the effects of soil acidity. This has an impact on their production yields. This was also cited when it came to animal husbandry.

No title to land: Most farmers talked to have no title to the piece of land they were cultivating. This made it difficult for the farmers to use the land as collateral to access higher loan amounts from MFIs. In addition in cases of family disputes the pieces of land were at high risk of being grabbed.

ii. External Constraints

No effective extension services including after sales service for equipment: Lack of extension services for the farmers has resulted in poor yields. In cases where farmers have acquired equipment poor or no after sales service has resulted in short life and poor performance of agricultural equipment.

Lack of long term Credit: Most farmers expressed concern that MFIs do not have long term finance to support capital for development. Most loans are for a period of not more than 24 months. This makes it difficult to buy equipment with useful lives of 5 years or longer.

No working capital loans: Farmers raised concern that in the case where a farmer is granted a loan to buy small equipment (hammer mill, treadle
pump) there are no funds availed for working capital. This situation is exacerbated by the lack of financial institutions where farmers can save.

**Follow up loans:** Farmers raised concern that in most instances MFI promise them that upon completion of a loan a subsequent loan will follow without delay. Unfortunately this is never the case.

**Incremental Loan amounts:** In our discussions with farmers the issue of incremental loans was raised. MFIs usually promise farmers that upon paying the first loan on time the second loan will be increased. This is an incentive provided by the MFI to encourage farmers to pay back on time and also to demonstrate that the relationship with the farmer is of a longer term nature and not just a one off. Unfortunately when this is not done it leads to frustration of the plans made by farmers.

**Long loan disbursement procedures:** The farmers complained that MFIs have very long loan processing procedures. In the case of dairy farmers this has resulted in farmers losing out on the dairy animals that they would have earmarked to purchase. There are a limited number of dairy animal producers and in a number of cases although a loan would have been approved by the time the farmer goes to collect the animals they find that the same has been sold to another buyer.

**Disbursement of loans in kind:** Farmers expressed concern that the system of disbursing loans in kind has in a number of occasions led to supply of poor quality input or equipment. It also contributed to late supply of the same. The farmers observed that it was not uncommon for MFI Credit Officers to collude with suppliers and despite the farmers complaining that the input or equipment is of poor quality Credit Officer and supplier interest has prevailed. This is also the same in the case were the supplier does not have the required inputs at the right time, farmers are forced to wait until the selected supplier has the inputs in stock even when other competitors are in a position to deliver.
Long distance to nearest bank: A number of farmer groups interviewed indicated that the long distance to the nearest bank made it difficult for them to make their periodic loan repayments. There is mistrust with the system of a group member collecting the repayments and transporting the same to the bank. They prefer that a field officer collects the money. A number of groups have had bad experiences with moneys entrusted with group members.

6.0 Renewable Energy Agro Enterprise Activities

Demand for micro energy loans: A number of MFIs discussed with confirmed an existing demand for Micro Energy Loans (MEL). MFIs however have no specific product for MELs. The Magoye Dairy Cooperative Society supported by MBT and SNV expressed interest in introducing biogas to its members for cooking. They informed the study team that two members were using Biogas for cooking on a pilot basis and enjoying the benefits.

There is need for FIs to encourage clients to engage in renewable energy and also for MFIs to recognise MEL as rural and agricultural product (powering agricultural equipment, lighting, charging mobile phones).

8.0 Strategic Partnerships Enabling Financial Inclusion in Rural Areas

MFIs involved in providing financial services in rural areas have formed a number of strategic partnerships with other organizations that provide support services to the clients the MFI serves. These partnerships have allowed financial institutions to effectively expand into rural areas and reduce the risk of lending to the sector. These partnerships have largely been successful although they have encountered challenges in some cases. The successes have been largely in the following:

- improved quality of products as a result of technical support
- Increased production as a result of introduction to bulking and improved varieties
- Guaranteed market for produce
- Assured income and hence loan repayment for the MFIs
For example the CETZAM partnership with the USAID Sustainable Natural African Plant Products (ASNAPP) project working with farmer groups in Southern Province has succeed in helping the farmers improve the quality and quantities of the vegetable production. In addition a guaranteed market has been secured with Sun International and other local Hotels.

In Chibombo Micro Bankers Trust (MBT) working with Parmalat has succeeded in training the Liteta Dairy Cooperative Society on dairy management. Farmers have improved their skills in keeping the animals, hygiene and paddock maintenance. This has resulted in high yields of milk. In addition Parmalat has guaranteed the market.

The management of the information regarding the partnership roles has been a challenge. In addition a number of partners providing technical support are donor projects or supported hence only available for a specific period of time. The Commodity Traders have experienced challenges regarding government policy especially for maize export and fixing of the price.

For example the partnership between DAPP and CETZAM in Serenje was useful in identifying and training the farmer groups. Unfortunately once the DAPP project ended the farmers did not see the linkage with CETZAM anymore and stopped servicing the loans.

Some farmers in the same area who received equipment loans through equipment dealers and not cash are not servicing loans since their understanding was that it was a grant.

Below are some examples of working partnerships in the selected districts:

**International Development Enterprises (IDE)**

In Chipata and Choma Vision Fund Zambia and Cetzam Financial Services are working with International Development Enterprises (iDE), an organization focused on irrigation and pumps. CETZAM’s partnership with iDE began as early as 2008 when iDE partnered with the MFI to develop an agricultural loan product for iDE smallholder farmers to purchase micro-irrigation technologies and other agricultural assets to improve their incomes and livelihoods.
Kick Start International
Vision Fund Zambia (VFZ) is working with Kick Start International an organisation focused on providing wholesale irrigation agricultural equipment to Agro Dealers. Kick Start is involved in awareness creation for the irrigation pumps. They also train the Agro Dealers and carry out demonstrations on the use of the pumps. Kick Start ensures that the Dealers provide after sales service to all farmers that buy the equipment by making period follow ups. Kick Start have operations in Central, Copperbelt, Eastern, Lusaka and Southern Provinces, and recently started operating in Western province

Production, Finance, and Improved Technology Plus (PROFIT+)
In Chipata VFZ has signed a Memorandum of Understanding (MOU) with the Production, Finance and Improved Technology Plus (PROFIT+) Project. Discussions are under way with Micro Bankers Trust to also sign an MOU.PROFIT+ is a USAID funded project set out to increase food security and decrease poverty. The program targets smallholder farmers and agribusinesses to increase agricultural productivity and facilitate inclusive access to markets and private sector investment in target value chains. Though the partnership PROFIT facilitates the formation of farmer groups and links them to VFZ for access of loan. Under the tomato and onion value chain farmers are supported with technical skills to improve on quality and quantity through improved varieties and are supported with linkages to the market. Through this arrangement about 400 farmers have accessed loans from VFZ.

Zambia National Farmers Union
In Mkushi and Serenje National Savings and Credit Bank has signed an MOU with the Zambia National Farmers Union to support the implementation of the Bunjimi Asset-Plus Loan Product. This product enables emergent farmers to procure small tractors and other farm equipment. About 28 tractors have been financed to-date.

ZANACO is also supporting small scale and emergent farmers in the same districts to acquire tractors and other agricultural equipment. ZNFU is supporting the small scale farmers through forward contracts and off-takers
arrangement for marketing. ZNFU has also facilitated interactions between small scale farmers and large scale farmers in the area. Large scale farmers have been involved in mentoring, knowledge and technology sharing, marketing and have generally played the motivation role.

**Export Trading Company Limited**

In Chipata and Kasama discussions are in progress with Export Trading Company Limited (ETG) to facilitate provision of inputs and guarantee a market for Soya beans from farmers that apply for loans from VFZ. ETG is an agricultural trading company that is involved in the purchase of local crops and export. They have operations in all the 6 provinces of Zambia and buy maize, soya beans, finger millet, groundnuts, sweet beans and pigeon peas. In addition ETG also supplies inputs such as fertiliser and seed. Under the MOU with VFZ, ETG will guarantee purchase of soya beans from framers and provide the farmers with inputs such as fertilise and seed. This arrangement will ensure a guaranteed market for the farmers’ produce and repayment of the loan to VFZ directly from the sales through ETG.

The Netherlands Development Organisation (SNV), using the Market Based Approach, has been critical in structuring partnerships between ETG and farmer groups in its areas of operation. In Kasama SNV is working with VFZ and ZANACO to link smallholder farmers to the Export Trading Company Limited (ETG), for instance. In addition SNV is building farmer capacity through support to the development of out-grower schemes and farmer associations.

**Deco Agro Limited**

In Kasama VFZ is working with Deco Agro Limited (DAL), an Agro Shop with operations in Luwingu, Kabwe, Kapiri Mposhi and Kalomo. Deco Agro Limited is a supplier of inputs and agricultural equipment. The Agro shop delivers, installs and starts and provides after sales service up to a period of six months after purchase. DAL has a working relationship with VFZ which should develop into a formal MOU in future. Under the current informal understanding DAL allows farmers that have had their loans approved by VFZ to be able to collect inputs and equipment before receiving a payment from
VFZ. DAL has also entered into a similar arrangement with the Citizen Economic Empowerment Commission (CEEC).

8.0 Conclusion

MFIs operate on the principal pillars of effective targeting of the poor at commercial interest rates, scheduling loan repayments in small weekly amounts with minimum financial strain on low income households. Unlike commercial banks, MFIs use collateral substitutes such as group (joint) guarantee systems that further ensure peer pressure\(^7\) from group members. The high loan recovery in areas where banks have failed to reach due to high operational costs in rural areas is attributed to group guarantee system, a Grameen Model. However, smallholder farmers have not benefited much from the MFI sector as terms and conditions for MFI products are usually a mismatch to farm revenues. MFIs structure short-term repayment periods (weekly or monthly) while farm revenues occur during the harvest period making it difficult for smallholders to perform on their loans where they have no alternative sources of income. Therefore, while MFIs complement commercial banks, there remains a gap in agricultural lending that targets smallholder farmers in rural areas. Nevertheless, a number of MFIs in Zambia have developed financial products targeting agricultural activities. This is an emerging activity as has been documented in the foregoing sections.

Our findings indicate that MFIs in Zambia are filling a critical gap left by commercial banks in serving rural households and smallholder farmers. However, the data reveals that agricultural lending does not form a critical proportion of MFI portfolio compared to other non-agricultural loan products. One of the principal challenges smallholder farmers are facing in accessing credit is poorly designed products that do not match their farm incomes. To overcome this, a few MFIs have developed loan products targeting agricultural activities in some of their areas of operations. Findings indicate

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\(^7\) Peer pressure occurs where members (peers) of the same MFI loan groups influence individual members not to default on loan repayments for fear of making other members lose their savings, future loan opportunities and also relationship with the group members. This pressure makes members conform to group norms such as timely loan repayments, lest they face social sanctions imposed by the group.
that MFIs seem to venture in agricultural lending where they can identify strategic partners (including insurance companies) that also offer extension and/or other technical advisory services and credit guarantee schemes. Such partnerships are localised as they do not have national coverage making MFIs have active agricultural portfolio only in areas where such partners exist. There are many opportunities to scale up agriculture lending through MFIs in Zambia. The drivers for this would include establishing partnerships with other actors that add value to farm activities and make lending less risky for MFIs. These include examining different agricultural lending models used by commercial banks and other input suppliers (Appendix V).

Findings also note that supply-side external constraints such as BOZ interest rate capping have led to MFIs scaling down operations in some of their rural networks because they cannot break even under the new rates. This further aggravates limited funding available for agriculture lending to smallholder farmers. Studies show that MFI interest rates are generally higher than bank rates due to the high operational costs MFIs incur to service rural clients. In spite of this, MFIs have managed to attract a large number of clients due to other factors such as making loans easily accessible with flexible monthly or weekly repayment rates. While client protection is critical, high MFI interest rates can be justified in light of their operational costs especially in Zambia where rural households are sparsely populated. There is need for policy advocacy by AMIZ to sensitize the regulator on challenges faced by MFIs in servicing rural areas. Studies need to be done to further examine the actually impact of BOZ interest capping on the supply-side and demand-side in Zambia.

9.0 Recommendations

9.1 Macro-level

Interest rate cap and other policy issues: Anecdotal evidence shows that the introduction of interest rate cap in Zambia has had a negative effect on MFIs as most have scaled down due to inability to cover their operational costs. This also had a direct impact on would-be investors in Zambia’s
microfinance industry as investors shy away from an environment with direct government involvement. However, studies are yet to be done to critically analyze the direct impact of this on agricultural and rural finance sector in Zambia. There is also need to enrich the Microfinance Bill with policies that make it easy for MFIs to lend to farmers who have no security due to farming on traditional land without title deeds. This would involve providing policy direction to BOZ through the FSDP on collateral and contract enforcement that make loan administration by MFIs less risky.

Active involvement of MFI apex body (AMIZ) in agricultural finance: MFIs in Zambia need to be sensitized on existing opportunities in the agricultural sector. Agricultural lending portfolio for most MFIs is less than 10% of their overall portfolio and out of the 33 NBFIs operating in Zambia, a few have agricultural lending activities in the country. A number of factors mentioned in supply-side and demand-side constraints section contribute greatly to MFIs not providing these services. AMIZ may need to work with other apex bodies like DAZ and ZNFU to educate AMIZ members on how to structure agricultural loans by examining opportunities in the value chains, for instance.

9.2 Meso-level

Development of strategic partnerships: Development of strategic partnerships by financial institutions with other organisations that provide support services to smallholder and SME clients is very important. These partnerships have allowed financial institutions to effectively expand into rural areas and reduce the risk of lending to the sector. For example ZANACO has partnered with ZNFU in Serenje/Mkushi and Cetzam and VFZ with several partners providing technical support, providing inputs and marketing support. There is need to document emerging and promising practices that will inform practitioners who intend to roll out agricultural lending through these models in Zambia – with respect to regional context.

Use of Community Based Financial institutions (CBFs): Using Community Based Financial Institutions as aggregators to reduce operational costs. The existing savings, entrepreneurial and member monitoring skills are useful in
complementing those of the partner MFIs in reducing risk and costs. MFIs should structure linkages with the many CBFIs operating in Zambia as they offer an existing platform through farmer households are already accessing various forms of financial services that can be leverage for agricultural lending and insurance. Under PROFIT+, farmers have been organized in Savings Groups known as Savings and Internal Lending Communities (SILC) a methodology promoted by Catholic Relief Services (CRS). CARE International is also promoting a similar model – Village Savings and Loans Associations (VSLAs). These CBFIs operate in many remote parts of Zambia and complement MFI services by serving farmer groups with appropriate financial and non-financial products. CBFIs are user-owned, user-managed and largely informal structures that operate in remote rural areas with high participation of communities not reached by banks and MFIs. Most smallholder households have membership within these groups and CBFIs ave the effect of smoothing household cash flow which impacts directly on farm incomes. However, CBFIs do not have the financial capacity and management skills to structure agricultural lending products that fulfil smallholder technical and financial needs. They therefore provide promising opportunities for aggregating farmer groups and associations for higher level financial products to be provided by MFIs. MFIs on the other hand should be able to expand their branch networks to cover areas where CBFIs operate. MFIs can use agency banking models and Mobile Money infrastructure to reach members of these CBFIs at low operational costs.

Additionally, farmers operating under CBFIs should be trained on business development and management skills with the goal of diversifying their household incomes. This will make them less vulnerable to shocks arising from erratic changes in weather due to climate change.

**Mobile Network Operators (MNOs):** While national coverage for e-money is limited right now there is a promising growth in network of agents and especially agents. These networks of agents provide an infrastructure for formal sector financial institutions (MFIs) to reach out to clients in remote rural areas, especially covered by CBFIs. However, there is need to build the
capacity of these networks by introducing super-agents\(^8\) to manage area networks and manage liquidity so that when rural households can transact (withdraw or send money) without being told “come back later because we do not have sufficient cash right now.” This is the most common issue that has been raised in discussions because one failed attempt to withdraw or send money can frustrate efforts for an agro-enterprise to take advantage of opportunities, for instance. There is need to dialog with all MNOs (Zoona, Airtel & MTN Money) to ensure coverage where CBFI\(s\) and producer groups are located while training agents on float management and customer relations.

9.3 Micro-level

Identifying potentially viable small-scale farmer-clients: Extending rural financial services is not easy and requires an understanding of the rural/agricultural economic environment. Many rural finance clients – including those considered to be viable clients of well-established financial institutions – face several constraints that go beyond the work of financial institutions and need to be addressed through other interventions. However, for financial institutions to successfully provide financial services, they must be able to understand what these constraints are and how they affect people’s livelihoods.

Capacity in Agricultural Loans Appraisal: Building capacity in terms of analysing and appraising loans is essential to the business of extending loans but this is even more critical when it comes to agricultural loans. These require an understanding of agricultural activities that even experienced Loan Officers from commercial banks may not have. It is therefore important that MFIs intending to service rural communities are equipped with the relevant skills. MFIs should include Climate Smart indicators in their loan appraisals so that they avoid funding activities that

\(^8\) Super-agents are higher level agents who operate a number of agencies in a particular network. The M-pesa model in Kenya has a super-agent having a number of retail agents under him/her. Super-agency models help in management of float and agents for the MNO.
have an adverse effect on the climate as this eventually compromises their agricultural loan portfolio due to weather shocks affecting farm income.

**Guaranteed Market:** The importance of serving clients that more or less have a guaranteed market is acknowledged as important by all MFIs that serve the small holder farmers. Even if clients are provided agro-technical advice that would help increase their productivity, but do not have access to markets, the increased productivity will not translate into income. In some cases, providers of technical advice also share some information about demand patterns with farmers that they train – for example the PROFIT+ Project working with VFZ in Eastern Province.

**Working with clients with diversified income:** It is helpful to work with clients with diversified income sources. Many, if not all, households in rural areas will either have different activities from which they source their income (e.g. a combination of agricultural and non-agricultural income-generating activities), or may plant a variety of crops or combine garden farming with raising some small livestock. This is a very important risk-mitigating approach adopted by many households. From a lender’s perspective, diversified income sources might mean that loan officers may have to draw out information on and appraise different economic activities in order to assess credit-worthiness. But this also shows a clientele that may be in a better position to honour debt obligations even in the face of certain risks.

**Matching Loan repayment schedules with farming cycles:** It is important for MFIs to recognise that repayment schedules need to be tied in with the farming cycle and household cash flow patterns. Therefore the financial products must reflect this. For example, CETZAM, VFZ, MBT offer credit products that have a grace period and allow for balloon payments that are tied in with expected harvest times.

**Disbursement of loans in-kind:** While it may be good to exercise greater control over the use of loan proceeds by the borrower’s additional measures should be taken to ensure that farmers are not affected by delayed supply or supply of poor quality inputs or machinery. VFZ in Kasama has entered
into an agreement with an Agro Supplier to ensure that all input and equipment is realised to farmers whose loans have been approved even before the payment is made. In Chipata Kick Start International makes periodic follow ups to ensure that the Agro Dealers are providing after sales service to the farmers.

Insurance Companies: Looking at the insurance sector there appears to be both recognition and willingness to serve the smallholder, rural, poor households. Most of the insurance companies have agricultural insurance products (crop and livestock) but these products are focused on the higher end market (agro-industries, large commercial farmers, and some of the emerging smallholder farmers) and would not be affordable for SMEs. FINCA and Focus General Insurance have been discussing the introduction of weather-indexed crop and livestock insurance although no concrete product has been developed yet.

Individual discussions with Zanaco and ZNFU mentioned the presence of the reinsurance giant SwissRE and one of the more innovative micro-insurance providers, MicroEnsure, have introduced weather indexed insurance into the Zambia market, with backing from Rabo Bank as well.
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Appendix I:  Terms of Reference

1. Background

SNV Zambia is a member organization of the Agri-ProFocus Partnership which aims to promote farmer entrepreneurship and food security in developing countries. The Agri-ProFocus in Zambia is a multi-stakeholder network which serves as a neutral marketplace for professionals from agri-businesses, producer organizations, NGOs, government, research institutions to share expertise and do business. The Coordination team, hosted by SNV, therefore has the responsibility to create opportunities for multi-stakeholder action and to facilitate connections and business links between professionals and organizations through expert meetings, network events, dissemination forums, market research and publications.

Agri-ProFocus in Zambia has seen that the linkage between smallholder farmers, SMEs and financial institutions can be improved. Banks often provide stringent conditions, e.g. collateral which SMEs cannot provide, which hinder rural low income people and SMEs to access finance. Micro-finance institutions (which include micro-credit, micro-savings, and micro-insurance, savings and credit cooperatives) and other entrepreneurial lending schemes in the country offer a good alternative source of finance. However, MFI’s in Zambia struggle to live up to their mandate. The MFI sector is small, fragmented and has a limited outreach to the rural areas and comparatively low in relation to the rest of Africa. The limited offer of financing instruments, including suitability for agribusinesses and lack of access to foreign capital or donor funding to finance loans has also affected their service provision.

Contribution to increasing rural wealth, job creation and GDP could increase substantially if there was increased access to finance, including microfinance, to facilitate greater investment in and growth of Zambia’s economic development.
2. Objectives

2.0 To generate market intelligence on the products and services offered by MFIs in Zambia;
2.1 To analyse the demand for micro-finance services and products in Zambia;
2.2 Analyse the constraints the rural target group (small holders/SMEs) has to access micro-finance opportunities and constraints to improve the link between smallholders/SMEs and MFIs;
2.3 To recommend how to overcome constraints and take advantage of opportunities to improve financial service provision to rural communities.

3. Activities

The analysis will be conducted in these phases:

3.0 To generate market intelligence on the products and services offered by MFIs in Zambia (supply side analysis). Develop an inventory on all MFIs active in Zambia including:
   - Profile of MFI
   - List of products and services offered
   - Products/services specifically targeting rural communities (including smallholder farmers and SMEs)
   - Size of finance/credits offered
   - Repayment conditions
   - Selection criteria for clients

3.1 Demand analysis for micro-finance services and products in Zambia including:
   - Identify products/services most in demand
   - The satisfaction of the clients of specific products by district and target group
   - Identify the constraints to achieving financial inclusiveness
3.2 Analyse the constraints the rural target group (small holders/SMEs) has to access micro-finance opportunities and constraints to improve the link between smallholders/SMEs and MFIs;

3.3 To recommend how to overcome constraints and take advantage of opportunities to improve financial service provision to rural communities.

- Where are the opportunities to improve financial inclusiveness, what support is required and who should provide it?

Number of days allocated to activities: 20 days
Location of the activity: Selection of 4 rural districts and Lusaka

**Methodology:**

The consultant will provide a proposal which explains methodology, and the selection process of the 4 districts/areas. The consultant will meet with the technical review team to discuss the assignment after which he/she will draft an inception report clearly stating methodology and timeframe. The first week of research will also include developing criteria for selection of 4 rural areas to conduct the field research. The inception report will include the selected 4 areas. The consultant will conduct field research through focus group discussions, interviews, collection of data from all relevant players. After this additional desk research is done at home base, data analysis and first draft report is produced. This first draft will be delivered to the technical committee for review. After the committee’s feedback the consultant will finalize the study.

Target group of the activity: MFIs, SMEs involved in renewable energy and agriculture, Smallholder farmers

Number of participants in activity: consultant, MFIs, AMIZ, SMEs smallholder farmers

Expected result of activity: A report with MFI inventory and analysis of requested content as described above
Time period: October 27th-November 21st

4. Deliverables

- Inception report by October 29th
- First draft of the market study latest by November 17th 2014
- Final draft of the market study latest by November 21st 2014
### Appendix II

**Criteria for selection – Study Districts**

<table>
<thead>
<tr>
<th>District</th>
<th>Why selected?</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lusaka</td>
<td>• Headquarters of most FIs&lt;br&gt;• Key informants for apex / regulatory bodies like AMIZ, BOZ, ZNFU etc</td>
</tr>
<tr>
<td>Kasama</td>
<td>• Northern province headquarters&lt;br&gt;• Touch points for most rural and agricultural finance institutions for Northern province&lt;br&gt;• Area of interest for SNV/Agri-ProFocus Zambia&lt;br&gt;• Presence of activities targeting agro business value chain actors</td>
</tr>
<tr>
<td>Choma</td>
<td>• Southern province touch point&lt;br&gt;• Presence of livestock activities</td>
</tr>
<tr>
<td>Serenje/Mkushi</td>
<td>• Central province touch point&lt;br&gt;• Presence of large scale farmers mentoring small scale farmers</td>
</tr>
<tr>
<td>Chipata</td>
<td>• Eastern province touch point&lt;br&gt;• Active smallholder and NGO projects&lt;br&gt;• Various value chain actors&lt;br&gt;• USAID Feed the Future hub&lt;br&gt;• Presence of activities targeting agro business value chain actors</td>
</tr>
</tbody>
</table>
### Appendix III

**Non-Bank Financial Institutions licensed by Bank of Zambia (2014)**

<table>
<thead>
<tr>
<th>Non-Bank Name</th>
<th>Head Office Physical/Post address*</th>
<th>City</th>
<th>Telephone</th>
<th>Fax</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Bayport Financial Services Limited</td>
<td>Plot No. 68, Bayport House, Independence Avenue, P.O. Box 33819, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-212772</td>
<td>+260-211-212713</td>
</tr>
<tr>
<td>2. Blue Financial Services Zambia Limited</td>
<td>Stand No. 9814, Metropolitan Building, Kafue Road, P.O. Box 30516, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-232082</td>
<td>+260-211-232083</td>
</tr>
<tr>
<td>3. Blue Cash Xpress Limited</td>
<td>Stand No. 9814, Metropolitan Building, Kafue Road, P.O. Box 37029, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-234306</td>
<td>+260-211-234307</td>
</tr>
<tr>
<td>4. Izwe Loans Zambia Limited</td>
<td>Plot No. 471, Shop No. 3A, Cairo Road, P.O. Box 35087, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-235273</td>
<td>+260-211-235130</td>
</tr>
<tr>
<td>5. Elpe Finance Limited</td>
<td>Plot No. 1020, Northend, Cairo Road, P.O. Box 23224, Lusaka</td>
<td>Lusaka</td>
<td>02-230366</td>
<td>02-221238</td>
</tr>
<tr>
<td>6. Letshego Financial Services Limited</td>
<td>Plot No. 49, Independence Avenue, P.O. Box 51499, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-257741</td>
<td>+260-211-257735</td>
</tr>
<tr>
<td>7. Unity Finance Limited</td>
<td>Second Floor, Ambia House, Cairo Road, P.O. Box 35721, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-233084</td>
<td>+260-211-221179</td>
</tr>
<tr>
<td>8. FINCA Zambia Limited</td>
<td>Plot No. 609 Zambezi Road, Roma Suite 111, Foxdale Court, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-251828</td>
<td>+260-211-251736</td>
</tr>
<tr>
<td>9. Bomach Finance Limited</td>
<td>First Floor, Room 125-128, Central Park, P.O. Box 36298, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-222802</td>
<td>+260-211-223039</td>
</tr>
<tr>
<td>10. Meanwood Finance Corporation Limited</td>
<td>Fourth Floor, Design House, P.O. Box 31334, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-236165/7</td>
<td>+260-211-236170</td>
</tr>
<tr>
<td>11. CETZAM Financial Services Limited</td>
<td>Fourth Floor, Mukuba Pension House, Private Bag E760, Lusaka</td>
<td>Lusaka</td>
<td>+260-211-222991</td>
<td>+260-211-222961</td>
</tr>
<tr>
<td>12. Prime Circle Microfinance Limited</td>
<td>Plot No. 11388, Kaunda Square Road, Munali, P.O. Box 34959, Lusaka</td>
<td>Lusaka</td>
<td>+260-281694</td>
<td>+260-211-281694</td>
</tr>
<tr>
<td>13. Pulse Financial Services Limited</td>
<td>First Floor, Unity House, Corner of Freedomway/Katunjira Roads, P.O. Box RW 51269, Lusaka</td>
<td>Lusaka</td>
<td>+260-233137/38</td>
<td>+260-211-233136</td>
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<tr>
<td>14. Yakabutala Musa Limited</td>
<td>Shop No. 4, Nange Building, Behind Kabwata Clinic, P.O. Box 36634</td>
<td>Lusaka</td>
<td>+260-977494340</td>
<td></td>
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<tr>
<td>15. Genesis Finance Limited</td>
<td>Plot No. 20849, First Floor, Corporate Park, Alick Nkhata Road, Lusaka</td>
<td>Lusaka</td>
<td>+260-250372/45</td>
<td>+260-211-250346</td>
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<tr>
<td>16. Micro Bankers Trust</td>
<td>Plot No. 57, Zambezi Road, Roma</td>
<td>Lusaka</td>
<td>+260-211-290852</td>
<td>+260-211-291393</td>
</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
<td>Address</td>
<td>City</td>
<td>Phone 1</td>
</tr>
<tr>
<td>-----</td>
<td>-------------------------------------</td>
<td>------------------------------------------------------------------------</td>
<td>---------</td>
<td>-----------------</td>
</tr>
<tr>
<td>18</td>
<td>Metropolitan Finance Corporation Limited</td>
<td>Plot No. 35965, E Mutuzi Corporate Park, PHI, P.O. Box 30958, Lusaka, ZAMBIA</td>
<td>Lusaka</td>
<td>+260-211-281943</td>
</tr>
<tr>
<td>19</td>
<td>Kungoma Financial Services Limited</td>
<td>Room 145, First Floor, Wing L, Permanent House, P.O. Box RW 260</td>
<td>Lusaka</td>
<td>+260-211-235195</td>
</tr>
<tr>
<td>20</td>
<td>Madison Finance Company Limited</td>
<td>Fourth Floor, MLife Building, Dar-es-Salaam Place, P.O. Box 34366, Lusaka.</td>
<td>Lusaka</td>
<td>+260-211-231985</td>
</tr>
<tr>
<td>21</td>
<td>Agora Microfinance Zambia Limited</td>
<td>Plot 35184, Alick Nkhata Road Base Park</td>
<td>Lusaka</td>
<td>+260-211-293593</td>
</tr>
<tr>
<td>22</td>
<td>Sigma Financial Solutions Limited</td>
<td>P.O. Box 35062</td>
<td>Lusaka</td>
<td>+260-211-293341</td>
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<tr>
<td>23</td>
<td>Christian Empowerment Microfinance Zambia Limited</td>
<td>P.O. Box 910227</td>
<td>Mongu</td>
<td>0977880280</td>
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<tr>
<td>24</td>
<td>Chibuyu Financing Company Limited</td>
<td>P.O. Box 38724</td>
<td>Lusaka</td>
<td>0977414610</td>
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<tr>
<td>25</td>
<td>Vision Fund Zambia Limited</td>
<td>P.O. Box 33911</td>
<td>Lusaka</td>
<td>+260-211-225146</td>
</tr>
<tr>
<td>26</td>
<td>Grayspages Financial Solutions Limited</td>
<td>P.O. Box 22713</td>
<td>Kitwe</td>
<td>+260-212-228247</td>
</tr>
<tr>
<td>27</td>
<td>Nu-Bridge Financial Services Limited</td>
<td>P.O. Box 35409</td>
<td>Lusaka</td>
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<tr>
<td>28</td>
<td>Faron credit Limited</td>
<td>P.O. Box 80836</td>
<td>Kabwe</td>
<td>+260-215-222039</td>
</tr>
<tr>
<td>29</td>
<td>Microfinance Zambia Limited</td>
<td>P.O. Box 37102, Lusaka.</td>
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<td>+260-211-239752</td>
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<tr>
<td>31</td>
<td>Gobena Microfinance Limited</td>
<td>P.O. Box 34247, Lusaka</td>
<td>Lusaka</td>
<td>+260211287262</td>
</tr>
<tr>
<td>32</td>
<td>Zampost Microfinance Zambia Limited</td>
<td>Lusaka Main Post Office</td>
<td>Lusaka</td>
<td>+260211220563</td>
</tr>
<tr>
<td>33</td>
<td>Betternow Finance Company Limited</td>
<td>P.O. Box 321701</td>
<td>Lusaka</td>
<td>+260211250605</td>
</tr>
</tbody>
</table>

*Head Office physical addresses are bound to be different due to relocation.*

Appendix IV Case Studies of Agricultural SME Finance Models

CASE 1 Equity Bank, Kenya — “Kilimo Biashara”

Direct Smallholder Lending

Equity Bank is the largest bank in the region, with 5.7 million accounts, over 57 percent of all bank accounts in Kenya, and operations in Uganda and Southern Sudan. Equity Bank commenced business in 1984 and evolved from a building society and microfinance institution to an all-inclusive commercial bank listed on the Nairobi Stock Exchange and Uganda Securities Exchange.

Equity Bank’s approach to agricultural financing is based on direct smallholder lending integrated into a larger supply chain partnership and supported by a first loss guarantee provided by donors. Equity Bank signed a partnership with AGRA, IFAD, and the Government of Kenya in May 2008. The deal includes a loan project of USD 50 million in agricultural SME loans for farmers with little or no collateral. AGRA and IFAD provide a 10 percent first loss guarantee. Under this partnership, Equity Bank developed the smallholder financing product “Kilimo Biashara,” which is designed to make financing available for 2.5 million farmers and 15,000 agricultural input retail businesses in rural areas. Equity Bank enhances security by (i) capping loan exposure at USD 17,000 per farmer, (ii) applying group lending terms, whereby six farmers act as co-guarantors, and (iii) reducing the cash amounts in farmers hands (farmers can pay agro-dealers out of their Kilimo Biashara credit).

By June 2008, USD 18.75 million in loans has been disbursed, reaching 37,000 beneficiaries. The loans carry a 12 percent interest rate applied when the loans fall due — a rate well below Equity Bank’s standard lending rate of 18 percent. According to Equity Bank, the project is a success because it has changed the position of smallholders from food insecure to semi-commercial producers. One of the success factors is the technical assistance on financial literacy and farm management provided by the government extension service bureau to the farmers. The repayment risk of the individual farmers is mitigated by their integration into supply chains, including WFP’s P4P program.
CASE 2 Opportunity International, Africa — Informed Lending

Direct Smallholder Lending in Ghana, Rwanda, Mozambique, Malawi, Uganda

Opportunity International is one of the largest microfinance institutions in the world. Opportunity has started agricultural lending under the “Informed Lending” Production Finance Model. “Informed lending” is a parametric lending model anchored on: (i) the exact mapping of the borrower’s farm’s plots (plot sizes, altitude, and access to water); (ii) a diagnostic of the borrower’s household profile (demographics of the family, breakdown of all farm enterprises such as crops/land used, other sources of income/activity, access to water/roads/bank, mobile phone use); and, (iii) the crop profile, including costs of inputs and labor, and returns based on yield and price data. Combined with targeted extension services, the financed farmer often improves food crop yields, allowing the reallocation of a portion of the land to cash crops. In addition to these assessment techniques, where appropriate Opportunity seeks to secure loan recovery by concentrating on cash crops with regulated output buyers (such as cocoa in Ghana and tobacco or chilies in Malawi). For these contract farming financing operations, Opportunity helps to reduce the risk of side-selling through advance cash provision to farmers during the lean season when farmers are most likely to succumb to the temptation of side-selling.

The total number of target agricultural clients in 2011 was 41,000 farmers in Ghana, Malawi, Mozambique, Rwanda, and Uganda. The best estimate of the number of disbursed loans by the end of 2011 was only USD 29,000, however, with most of the shortfall occurring in the Malawi loan program.
CASE 3 ZANACO, Zambia — Munda Smallholder Scheme

Indirect Smallholder Lending

Zanaco (Zambia National Commercial Bank Plc) is one of the leading banks in Zambia in terms of customer deposits, total assets, and points of representation. It was partially privatized in April 2007 when Rabobank acquired 49 percent of the Government’s interest in the Bank. Zanaco was listed on the Lusaka Stock Exchange in 2008 and is considered “Citizen Owned” with over 50 percent of the shares owned by Zambians and the Zambia National Farmers’ Union (ZNFU). The Munda credit facility provides smallholder farmers better access to finance in order to help them to grow their business and to offer a practical alternative to the discontinued national Input Support Program, in which the Government had provided inputs to farmers. Zanaco lends to District Farmer Associations (DFAs) that are affiliates of ZNFU. Before each growing season, DFAs assess the total needs for inputs of their predominately maize-growing smallholder members, and then submit their requirements to ZNFU to tender for the accumulated need for fertilizer and seeds. Zanaco finances these inputs backed by 50 percent cash collateral, deposited by the DFAs. Farmers organized in co-operatives or associations and members of ZNFU through the DFAs are able to purchase seeds and/or fertilizer from input suppliers such as Omnia Fertilizer Zambia Limited and Seed Company/Zamseed. At the end of the maize season, the harvest is sold to the processor, who channels proceeds to Zanaco, which then deducts the outstanding loan balance from that amount, along with accrued loan interest and other associated costs, such as crop insurance premiums. The remaining surplus then flows back to the individual smallholders through their DFA. Via a DFA, the collective smallholders are responsible for the loan repayment of each individual, according to the principle “all for one”. If repayment is not made on time, participation in Munda for the DFA in the next season is prohibited.

In the 2011/12 farming season, the scheme disbursed a total loan amount of USD 4 million to 25 DFAs representing 4,026 participant farmers working on 10,088 ha, up from 600 farmers and 600 ha in the 2008/09 farming season. These farmers’ yields have also increased from an original 1.5 metric tons per hectare (MT/ha) in 2008/09 to 3 MT/ha during the 2010/11 season on account of improved use of hybrid seeds and fertilizers, and adoption of conservation farming practices spearheaded by ZNFU. Zanaco forecasts the number of financed farmers to increase to 10,000 in 2012/13. The current interest rate is ZMK Base Rate (16 percent per
annum (p.a.) minus 5 percent (11 percent p.a.), which is a competitive rate in Zambia. The arrangement fee is USD 100 per DFA, and the borrower does not have to provide additional collateral beyond the cash.

From a bank point of view, the portfolio performs well, and no defaults have been registered thus far. The reason for such a performance is twofold: first, a cross default is at stake since Zanaco finances DFAs, who collect the 50 percent cash collateral and use the “all for one” principle. Second, the Food Reserve Agency of the government sets the price early in the season at a particularly high level to cover the amount they buy for food security purposes. This price will hold for a minor part of the crop bought by the Government, and drives the general market price for maize above competitive levels. Currently, maize is the predominantly financed crop. The model heavily relies on the Zambia National Farmers’ Union organization in its operational and risk management activities; therefore, it might not be replicable in contexts with weaker smallholder organizations. The model’s sustainability also relies on crop diversification at the farmer level and enhanced corporate governance skills at the DFA level. Lastly, the 50 percent cash collateral — instead of a legal claim on the harvest as collateral — reduces the leverage of the farmers involved. Nevertheless, there is ample demand among farmers for the scheme.
CASE 4 Zanaco, Zambia — Emergent Farmer Finance and Support Program “ZEFP”

Zanaco (Zambia National Commercial Bank Plc) is one of the leading banks in Zambia in terms of customer deposits, total assets, and points of representation. It was partially privatized in April 2007 when Rabobank acquired 49 percent of GRZ’s interest in the Bank. Zanaco was listed on the Lusaka Stock Exchange in 2008 and is considered “Citizen Owned” with over 50 percent of the shares owned by Zambians and the Zambia National Farmers’ Union (ZNFU).

The ZEFP seeks to combine access to finance with support services for emerging farm business. A pilot project was completed in August 2009, in which Zanaco provided the financing (both working capital and investment finance), IFC and Rabo Foundation financed the technical assistance program (via a grant that was channeled through ZNFU), and Rabo Development provided bank capacity building to Zanaco. This included agricultural credit skills and farm performance monitoring training to Zanaco. The farmers were also trained in farm management and financial skills. In addition, external specialists provided support for individual farmer loan applications and business plans. An important aspect of the program is the involvement of key agricultural input suppliers and off-takers: the South African fertilizer company Omnia has a crucial role in soil sampling and determining the fertilizer program together with the farmers. Cropserve does the same for the agri-chemicals. Other partners such as Parmalat, Afgri, and Zamace (the local Agri Commodity Exchange) are committed to covering the marketing link to the program. The involvement of the project partners is commercially driven: all parties acknowledge the immense growth potential of this group.

As of December 31, 2011, the program had provided loans to 123 farmers, with a total loan portfolio of USD 4.5 million. Some delays in achieving results have been related to the limited number of standalone farmers under the emergent segment. Zanaco has diversified by incorporating value chain financing in sectors with strong market linkages to develop its own segment of emergent farmers. Although most commercial farmers and small-scale
farmers are members of ZNFU, the majority of farmers under this segment are not members. Therefore, the bank has diversified its marketing strategy by running advertisements on the program as a way of reaching out to them. The technical assistance program implemented by ZNFU/Rabobank and IFC has led to enhanced practices by the Bank and improved the productivity of the participating farmers. Zanaco hired and trained a group of new agri-loan officers to strengthen the agri-finance capacity of its branches. Without agri-finance capacity building of its rural branches, the ambitious growth targets for emerging farmers would not be feasible. The program plans to expand into sugar, pork, rice, and dairy production, as these sectors have relatively strong market linkages that mitigate the risk of cash diversion by farmers and reduce reliance upon land collateral.
CASE 5 Dunavant⁹ Zambia Ltd/Cargill Zambia Ltd. — Farmer Input Credit

Tight Value Chain Finance

Dunavant Zambia Ltd. is the largest cotton company in Zambia, with 100,000 contract farmers and a 60 percent market share. Cargill, which purchased Clark Cotton in 2006, has around 1,000 employees in Zambia. Together, both companies process around 90 percent of the country’s cotton.

Dunavant and Cargill finance contract farmers through a structured loan package that provides inputs on credit. The growers participating in the scheme have no assets for collateral because land is communal and held in a trust by a chief. To participate in the scheme, a grower must have at least 0.5 hectare of land. The input loan package includes: planting seed, which is disbursed at the beginning of the season; insecticide, which is disbursed after verification by field staff that the seed has been planted; fertilizer, which is provided at the same time as the insecticide; plastic knapsack sprayer for application of the pesticide for farmers or groups of farmers with 1 hectare of land; and wool bags for storage. The total value of the package without a sprayer is approximately 250,000 Zk (USD 47) per hectare and with a sprayer 520,000 Zk (USD 98) per hectare. The inputs are high quality, standardized products that would not be available to the farmer without the program. As such, more than 99 percent of Dunavant’s contracted farmers participate. After harvest, farmers move the cotton by hired oxcart to one of the 1,440 buying points where they receive cash on delivery. The final payment received by the farmers at time of delivery is the net of the costs of the input package received. Although contracts are entered between the company and the growers, the system relies on trust and strong mutual commercial incentives, as contracts are generally not enforceable. Participating growers receive an identity card that establishes an account number, and the transaction is carefully tracked through a complex, paper-based monitoring system at the company’s main office in Chipata. In order to ensure the expected quality of production and promote grower loyalty, Dunavant and Cargill make training an essential component of the program. Training covers issues from proper pesticide application to care and maintenance of sprayers, and is supported by an expansive network of permanent field staff.

Dunavant Zambia worked with more than 100,000 farmers in 2011, up from 70,000 contract farmers in 2009/2010. In 2007, Dunavant lent more than USD 10 million to farmers. Similarly, Cargill Zambia worked with 65,000 farmers in 2011.

⁹ Dunavant is now known as NWK Agri-services
divestment of the parastatal Lint Company of Zambia in 1994, Dunavant’s annual sales volumes have increased by approximately 30,000 metric tons. Yields have increased from 600 kilograms per hectare to an average of 1,200 kilograms per hectare, sometimes reaching 2,400 kilograms per hectare. The target for repayment of loans is 87.5 percent, but actual rates have been 94 percent in 2000, 95.35 percent in 2001, 95.5 percent in 2002, and 97.02 percent in 2003.

In 2012, a database of all contract farmers was organized to prevent double contract farming and further reduce risk. The key to the successful growth and sustainability of the program is the enduring relationship between growers and the company — led by mutually beneficial commercial incentives, consistent input credit and extension/education services, careful farmer selection, strict controls on the quality and variety of seed, prompt payment systems with account monitoring for all contract farmers, and even HIV/AIDS workplace and family outreach programs.

Primary challenges to sustainability include sharp drops in global cotton prices and opportunistic traders that source from and undermine the established supply chain. The business model used by Dunavant and Cargill is replicable for those physical traders and processors who see value in downward integration of a wide range of commercial intermediary functions. Financing, when it can be done with minimal risk, is therefore an important enhancement to more traditional trading and manufacturing roles.
CASE 6 Palabana Dairy Cooperative Society & Parmalat, Zambia

Value Chain Finance

Zanaco (Zambia National Commercial Bank Plc) is one of the leading banks in Zambia in terms of customer deposits, total assets, and points of representation. It was partially privatized in April 2007 when Rabobank acquired 49 percent of GRZ’s interest in the Bank. Zanaco was listed on the Lusaka Stock Exchange in 2008 and is considered “Citizen Owned” with over 50 percent of the shares owned by Zambians and the Zambia National Farmers’ Union (ZNFU). Palabana Dairy Cooperative Society was established in 1996.

The cooperative has its own milk storage depot with a storage capacity of up to 3,000 liters of milk per day. The milk is collected directly by Parmalat, the off-taker and milk processor, from the Milk Collection Centre. Land O’ Lakes (the donor/consultancy arm of the largest U.S. dairy cooperative) provided initial capital by financing 22 cows. The quality-based payment system by Parmalat incentivizes the farmers to optimize quality; 100 percent of the milk is grade A. The members pay ZMK 100/liter commission to the cooperative (4 percent of the liter price) to pay for the cooperative’s workers and overhead. In 2006, Zanaco provided a USD 12,000 loan to the cooperative to finance 20 cows (Jersey and Friesian); a year later the loan was increased to USD 36,000 to finance another 30 cows. Both loans were repaid on time. In 2011, the Cooperative obtained a third loan of USD 120,000 to purchase 65 cows, repayable in 2015.

Parmalat has signed a 5-year off-take guarantee with the cooperative and pays directly into the cooperative’s account with Zanaco on a monthly basis. Through this tri-partite agreement, Zanaco is able to underwrite predictable cash flow and collect repayment through deductions at the income source. Due to high repayment levels, the program has seen consistent expansion and participation: 50 farmers participated in 2009/10, 120 in 2010/11, 200 in 2011/12, and 300 are anticipated in 2012/13. After repayment of the current loan, the cooperative would like to again double the loan to over USD 200,000 to finance new cows. In addition, the current milk tank capacity of 3,000 liters has to be increased, as daily production currently amounts to 2,000 liters. It is important to note that these loans benefited from a larger Land O‘Lakes development project financed by USAID. An IFPRI survey shows that the Land O‘Lakes project achieved significant improvements in household income, food security, and dietary and livelihood diversity for approximately 22,000 beneficiaries. 47 Key risks of the project...
are price volatility and dependence on one large buyer: the cooperative sells milk to Parmalat, and Parmalat dictates prices. This risk is mitigated by the emergence of small milk processing companies like Nice Products and Kaposhi that may create competition for Parmalat. Another risk is weather: in the dry season, most small-scale farmers who depend on natural grazing are affected by a lack of grazing grass. This risk can be mitigated by supplementing with hay and molasses, and by acquiring multi-peril insurance covering drought, floods, and fire.
Dunavant Zambia Ltd. is the largest cotton company in Zambia, with 100,000 contract farmers and a 60 percent market share. Mobile Transactions Zambia Limited (MTZL)\textsuperscript{10} is a Zambian mobile money company that specializes in electronic transactions for unbanked and rural end users.

In 2009, Mobile Transactions and Dunavant began to develop a system that interfaces with the outgrower management system to pay farmers electronically into accounts on their mobile phone “m-wallets.” Mobile Transactions first developed Dunavant’s online outgrower management system, which serves as the core of the information system to support the outgrower agricultural operations. Within one season, this system moved from a decentralized database at each of the nine agricultural offices to a centralized web-based platform hosted within Dunavant’s head office. Agricultural offices and rural sheds, equipped with laptops powered by solar-charged car batteries that can connect to the Internet via mobile GPRS modems, were able to capture real-time data into a centralized system and, most importantly, facilitate payment within 3 days. Recognizing that this delay still encourages a degree of side selling, MTZL built an online interface that facilitates payment through farmer’s MaKwacha Account m-wallets as soon as the Crop Voucher Receipt is processed, usually within 1 day. Farmers need only to visit their local MaKwacha agent to withdraw their cash. In order to serve the large number of farmers without a mobile device, MTZL offers same day payment at local agent locations through agent mobile phones. This system has been approved by the Bank of Zambia and is currently being piloted in Dunavant’s Eastern and Southern regions. Farmers can also use their mobile phones as an interface to store and transfer money, purchase airtime, and make retail purchases, such as for agricultural inputs. Several MaKwacha Agents also act as agricultural retailers and accept electronic payment for seeds, fertilizer, chemicals, and farming implements. Farmers can even contract local, small-scale tillage and spray service providers by making person-to-person money transfers between their mobile phones. Another option is that farmers can pay school fees directly to local schools that accept MTZL transactions. By partnering with schools, cooperatives, and input dealers to add value to their services, MTZL is able to build relationships with farmers and rapidly expand its operations. During the 2009/10 season, Dunavant farmers in four districts had the option of being paid into accounts on their mobile phones. MTZL

\textsuperscript{10} Mobile Transactions Ltd operates as ‘Zoona’
and Dunavant are planning to offer this service to all 100,000 contract farmers. By April 2011, Dunavant employee payments valued 1.7 million were made through the platform. There are formidable challenges, however. Though Zambia has followed the African trend of rapid mobile phone growth (there are now three million mobile phone users on the two largest networks, Airtel and MTN), coverage is still limited to mainly urban areas. Only a small percentage of farmers have mobile phones, and many do not have an incentive to buy one because of low network coverage.
## Appendix V List of Respondents

<table>
<thead>
<tr>
<th>Name</th>
<th>Position/Organization</th>
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</thead>
<tbody>
<tr>
<td>Mr Webby Mate</td>
<td>Executive Secretary - Association of Microfinance Institutions of Zambia</td>
</tr>
<tr>
<td>Mr Nkosilathi Moyo</td>
<td>Chief Executive Officer - Vision Fund Zambia</td>
</tr>
<tr>
<td>Mr Chilala Hakooma</td>
<td>Chief Operations Officer - Vision Fund Zambia</td>
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<tr>
<td>Mr Nsama Katongo</td>
<td>Agricultural Loans Officer - Vision Fund Zambia - Kasama</td>
</tr>
<tr>
<td>Mr Isaac Mando</td>
<td>Branch Manager - VFZ Chipata</td>
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<tr>
<td>Mr Lemmy Manje</td>
<td>Coordinator - Technical Advisory Group on micro insurance</td>
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<tr>
<td>Mr Kelvin Milambo</td>
<td>Chief Executive Officer - Cetzam Financial Services</td>
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<tr>
<td>Mr Crispine Milumbe</td>
<td>Chief Operations Officer - Cetzam Financial Services</td>
</tr>
<tr>
<td>Mr Mpundu Mwape</td>
<td>Credit Officer - Cetzam – Mkushi/Serenje</td>
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<tr>
<td>Mr Josephat Phiri</td>
<td>Regional Manager, Zambia National Farmers Union – Mkushi</td>
</tr>
<tr>
<td>Mr Peter Mbewe</td>
<td>Chief Executive Officer - Micro Bankers Trust</td>
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<tr>
<td>Mr Mazala</td>
<td>Chief Financial Officer - Micro Bankers Trust</td>
</tr>
<tr>
<td>Mr Bruce Chongo</td>
<td>Senior Credit Officer - Micro Bankers Trust, Monze</td>
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<tr>
<td>Ms Priscilla Bwalya</td>
<td>Marketing Officer – FINCA</td>
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<tr>
<td>Mr Thomas Phiri</td>
<td>Branch Manager - FINCA Chipata</td>
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<tr>
<td>Mr Suwilanj Simbeye</td>
<td>Branch Manager – Choma, FINCA</td>
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<td>Name</td>
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<td>17.</td>
<td>Mr Hapela Mweemba</td>
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<td>18.</td>
<td>Mr Kelison Michelo</td>
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<td>19.</td>
<td>Mr Mathias Michelo</td>
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<td>20.</td>
<td>Mr Sailas H. Hamweemba</td>
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<td>21.</td>
<td>Mr Nelson Munsaka</td>
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<td>22.</td>
<td>Mr Edward Hamulamfu</td>
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<td>23.</td>
<td>Mrs Rita Muntanga</td>
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<td>24.</td>
<td>Mr Stanford Simbwalang</td>
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<td>25.</td>
<td>Mr Abrey Chulu</td>
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<td>26.</td>
<td>Mr Tresford Phiri</td>
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<td>27.</td>
<td>Mr Joshua Kapya</td>
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<td>28.</td>
<td>Mr David Mbewe</td>
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<td>29.</td>
<td>Mr Zacharia P. Sakala</td>
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<td>30.</td>
<td>Mr John Mulanda</td>
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<td>31.</td>
<td>Mr Isaac Soko</td>
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<td>32.</td>
<td>Mr Samuel Gondwe</td>
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<td>33.</td>
<td>Mr Ngolwe Sikazwe</td>
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<td>34</td>
<td><strong>Mr Anderson Chisala</strong></td>
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<td>35</td>
<td><strong>Mr Goodson Kayumba</strong></td>
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<tr>
<td>36</td>
<td><strong>Ms Esther Kachenjela</strong></td>
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<td>37</td>
<td><strong>Mr Melody Tanganika</strong></td>
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<td>38</td>
<td><strong>Mr Beatrice Phiri</strong></td>
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<tr>
<td>39</td>
<td><strong>Ms Claire Van der Kleij</strong></td>
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<tr>
<td>40</td>
<td><strong>Ms Nchimunya Kasongo</strong></td>
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</tbody>
</table>