

ANALYSIS OF RURAL FINANCE POLICY AND STRATEGY IMPLEMENTATION

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ABBREVIATIONS AND ACRONYMS

ATM	Automated Teller Machines
CYFI	Child and Youth Finance International
FISP	Farmer Input Support Programme
KYC	Know Your Customer
FSDP	Financial Sector Development Plan
JSE	Johannesburg Stock Exchange
MoF	Ministry of Finance
MNOS	Mobile Financial Services
MPSI	Movable Property Security Interest Act
MSME	Micro, Small and Medium Enterprises
NBFI	Non-Bank Financial Institutions
NFIS	National Financial Inclusion Strategy
NSFE	National Strategy on Financial Education for Zambia
PACRA	Patents and Companies Registration Agency
SACCo	Savings and Credit Co-operative Society
SMS	Short Messages Services
UNCDF	United Nations Capital Development Fund
USSD	Unstructured Structured Supplementary Data
WBG	World Bank Group

Working Definitions

Macro Level: Consideration that focus on the national level, large Scale or the overall picture of the country for example, the enabling environment of laws, regulations, policies and norms in a country.

Meso Level: Consideration that focus on large corporations or institutions and their interactions.

Micro Level: Consideration that focus on small groups or individual institutions and interactions. For example, the core of the financial services sector where suppliers and consumers meet.

ANALYSIS OF RURAL FINANCE POLICY AND STRATEGY IMPLEMENTATION



EXECUTIVE SUMMARY

Approximately 50% of adults in rural areas are unbanked or have no access to financial services. Access to financial services has been a challenge due to various reasons, which among others include low population density in rural areas and extremely poor infrastructure, compounded by low productivity, making it difficult and expensive to provide such services. The importance of increasing access to financial services cannot be overemphasized because of the key role it plays in reducing poverty, increasing employment and attracting development. This can consequently help to bridge the rural-urban economic divide with 77% of poor people in rural areas compared to only 23% in urban areas.

This paper is aimed at analyzing the Rural Finance Policy and Strategy of 2012, a key policy document aimed at promoting access to financial services in rural areas and thereby reducing vulnerability and promoting prosperity of the rural population. The paper also analyzed other policy statements on rural finance. Implementation gaps were identified and recommendations were proposed thereafter. The paper relied on desk reviews and key informant interviews with stakeholders involved in rural financing.

At a macro level, the Rural Finance Policy and Strategy of 2012, has been criticized. The emphasis should be given to provision of support through subsidies/incentives to financial providers offering services in rural areas where it may be difficult to operate and make profit. Since the policy was launched very little has been done regarding the review of the financial landscape in Zambia particularly the development of a functional incentive system for existing financial players.

At meso level, it has been realized that the provision of supply and demand side market information about rural financial services, which is key in decision making for financial players is not coordinated or nonexistent. For examples, farmers who demand financial services in rural areas have in some studies indicated that the provision of such services is absent.

The Rural Finance Unit at the Ministry of Finance has not been so effective in leading the role of financial inclusion. Particularly due to constraints ranging from fiscal to staffing. Though notable successes have been registered in the overall financial inclusion status for the country, the Government needs to upscale efforts to provide rural financial services by focusing on support towards good product design, development and delivery that meet the needs of the large rural market segment.

To upscale rural finance, Government needs to deal with the prohibitively high costs of offering conventional, branch-based services in remote rural areas by promoting creative thinking and innovation in both financial products and delivery of those products. Capacity building also needs to be done among banks and other financial service providers on how to use non-traditional forms of security/collateral and to develop a functional agricultural insurance scheme. Government can also utilize mobile phone payment solutions for farmers' deposits of the mandatory K400 under the Farmer Input Support Programme (FISP). This will help to enhance financial inclusion of rural farmers who do not have access to conventional branch based financial services.

Some of the interventions/strategies stated in the Rural Finance Policy document and implemented by the Government so far, include the following, among others:

1. Enacted the Credit Reporting Act in 2018 to provide for the establishment of a Credit Registry and the overall governance and management of credit reporting agencies including the protection of data subjects as well as information sharing and reporting, to enable assessment of credit worthiness of data subjects.
2. Supported efforts to enable inter-operability of the national payment switch to reduce the cost of financial services and modernize payment systems. The inter-operability of payments systems was effected in 2019 and it is hoped that this will effectively facilitate better access to the unbanked in rural areas.
3. Revision of the National Payment Systems Directives on Electronic Money Issuance. In 2018 the Bank of Zambia revised the National Payment Systems Directives on Electronic Money Issuance that were initially issued in 2015. The key changes to the directives include the following:
 - Permitting customers to hold multiple wallets.
 - Permitting both commercial banks and approved non-bank financial institutions to host Holding Accounts for electronic money.
 - Inclusion of specific guidance on the use of interest earned on the Holding Accounts.
 - Provisions for consumer protection and the need for e-money institutions to have procedures for dealing with customer complaints.

Consequently, the volume and value of transactions processed on mobile money

platforms in 2018 rose by 76.0% compared to 2017.

4. Supported the implementation of micro-insurance products in the agriculture sector. The Zambian Government had awarded Mayfair Insurance Company a contract to offer weather-based index insurance to all farmers who benefited from Government input subsidies.
5. In September 2018, Government established the Rural Finance Unit to coordinate rural finance, under the Department of Investment and Debt Management at the Ministry of Finance (MoF)
6. In 2016, Government enacted the Movable Property Security Interest Act (MPSI) to Support efforts to fully establish unified collateral registry regulations (as started under Financial Sector Development Plan II), including the use of movable property (especially in non-banks). The Act is aimed at making the business environment attractive for lenders to accept movable property as collateral. The MPSI Act seeks to make movable property a reliable form of collateral, thereby diversifying the nature of mobile assets used as collateral resulting in enhanced borrowing
7. The Bank of Zambia has also been at the fore of promoting the Financial Literacy Week aimed at empowering people with knowledge on available financial products and services as well as creating momentum on both the supply and demand side information for the development of consumer centric financial products and services.

RECOMMENDATIONS

In order to upscale financial inclusion in rural areas specifically and the entire country generally, the following issues need to be addressed:

- The Central bank of Zambia needs to urgently develop Agency Banking regulations to guide and accelerate agency banking in underserved rural areas and consequently increase the agency banking's share of transaction volume by financial agents.
- The Development Bank of Zambia needs to play an active role as an apex financial institution providing finances to micro-financial institution for onward lending to rural areas as espoused in the Rural Finance Policy and

Strategy and Rural Finance Expansion Programme (RUFEP) programme design.

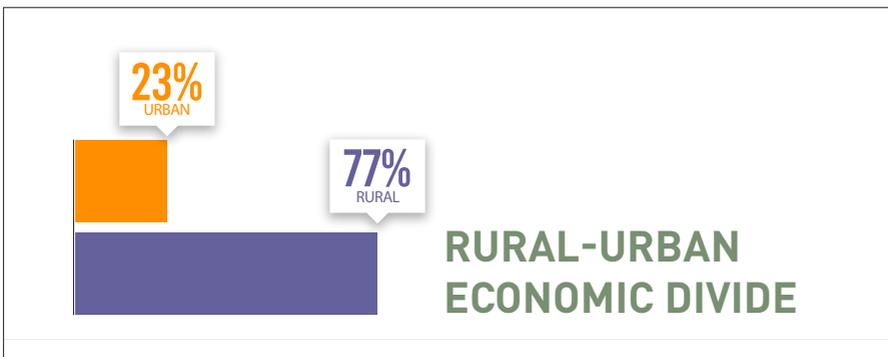
- Government and Zambia Agriculture Commodity Exchange ZAMACE need to put in place measures that will guarantee smallholder farmers' active participation in the agriculture commodity exchange as opposed to the current scenario where majority of farmers having access to the agriculture commodity exchange are well established farmers.
- The Pensions and Insurance Authority (PIA) needs to upscale its efforts in ensuring that the necessary microinsurance guidelines/principles are promptly put in place to promote growth of insurance uptake in rural areas and the country at large. Additionally, legislation needs to be amended to accommodate licensing of micro-insurers and facilitate the opening up of the distribution space.
- Following the enactment of Movable Property Security Interest (MPSI) Act in 2016, Patents and Companies Registration Agency (PACRA) and other stakeholders need to increase sensitization in rural communities on the options available to smallholder farmers through MPSI Act regarding use of a movables sets as collateral to access finance.
- The Zambia Statistics Agency needs to include “financial inclusion variables” in its routine national surveys to be able to measure financial inclusion statistics as opposed to the country relying on private sector sanctioned surveys to measure financial inclusion.
- Ministry of Agriculture needs to decisively deal with complaints specifically relating to inconsistencies in Weather Insurance Index payouts where some farmers receive payouts while others do not but residing in the same geographical area affected by the drought. Enhanced confidence in Weather Insurance will enhance uptake of other micro-insurance products for the farmers.
- Some of the key activities during the Financial Literacy Week need to be extended for the rest of the year and priority should be given to rural areas with lower levels of financial inclusion.

INTRODUCTION

Approximately **50% of adults in rural areas are unbanked or have no access to financial services.**



Access to financial services has been a challenge due to various reasons, which among others include: **low population density in rural areas and extremely poor infrastructure, compounded by low productivity, making it difficult and expensive to provide such services.** The importance of increasing access to financial services cannot be overemphasized because of the key role it plays in reducing poverty, increasing employment and attracting development. This can consequently help to bridge the rural-urban economic divide with **77% poor people in rural areas compared to only 23% in urban areas.**



This paper is aimed at analysing the **Rural Finance Policy and Strategy of 2012**, a key policy document aimed at promoting access to financial services in rural areas thereby reducing vulnerability and promoting prosperity of the rural population. The paper also analysed other policy statements on rural finance Implementation. Gaps were identified and recommendations were proposed thereafter.

At a macro level, the Rural Finance Policy and Strategy of 2012 has been criticized. The emphasis should be given to provision of support through subsidies/incentives to financial providers offering services in rural areas where it may be difficult to operate and make profit. Since the policy was launched, very little has been done regarding the review of the financial landscape in Zambia, particularly the development of a functional incentive system for existing financial players.

At meso level, it has been realized that the provision of supply and demand market information about rural financial services, which is key in decision making for financial players is not coordinated or non-existent. For example, farmers who demand financial services in rural areas have in some studies indicated that the provision of such services is absent.

The Rural Finance Unit at the Ministry of Finance has not been so effective in leading the role of financial inclusion. Particularly due to constraints ranging from fiscal to staffing. ***Though notable success has been registered in the overall financial inclusion status for the country, the Government needs to upscale efforts to provide rural financial services by focusing on support towards good product design, development and delivery that meet the needs of the large rural market segment.***

To upscale rural finance, Government needs to deal with the prohibitively high costs of offering conventional, branch-based services in remote rural areas by promoting creative thinking and innovation in both financial products and delivery of those products. Capacity building also needs to be done among banks and other financial service providers on how to use non-traditional forms of security/collateral and to develop functional

agricultural insurance schemes. Government can also utilize mobile phone payment solutions for farmers' deposits of the mandatory K400 under the Farmer Input Support Programme (FISP). This can help enhance financial inclusion of rural farmers with no access to conventional financial services.

RURAL FINANCE EXPANSION PROGRAMME

The **Rural Finance Expansion Programme (RUFEP)** is a follow up of the Rural Finance Programme (RFP) that completed its implementation on the 30th September, 2013. ***The Financing Agreement for RUFEP between the Government of the Republic of Zambia, the International Fund for Agricultural Development (IFAD) and the Spanish Food Security Facility Trust Fund was signed on 22nd July, 2014.***¹

RUFEP aims to improve livelihoods of poor rural households through enhanced access to financial services and sustainable economic growth. The primary target beneficiaries of the programme are the rural poor. Particularly, the economically active micro and small entrepreneurs, small holder farmers especially women and the youth. **Some of the challenges faced by women and other groups that are financially excluded from access to finance have been identified as lack of collateral/discriminatory property rights; financial illiteracy; lack of awareness and confidence of development finance; inappropriate products; high cost of finance, inadequate financial skills; inadequate banking facilities and cumbersome application processes.**

The Ministry of Finance, through the Investment and Debt Management Department is the Lead Programme Agency and has overall responsibility for the implementation of the Programme. RFP and RUFEP programmes have been instrumental in recommending for the development of the Rural Finance Policy and the eventual creation of the Rural Finance Unit at the Ministry of Finance. RUFEP has also played a pivotal role in the development of terms of reference for the new staff in the unit as well as capacity building in the unit.

1. Republic of Zambia/International Fund for Agricultural Development (IFAD), Rural Finance Expansion Programme Programme-Programme Design Report, 2014.



RUFEP targets up to **140,000 households** in rural areas.

RUFEP targets up to 140,000 households (inclusive of men, women and youth) in rural areas. Lessons from Rural Finance Policy and elsewhere, provide a strong foundation for good targeting of the poor under RUFEP. Measures to stimulate demand for financial services include:²

1. Helping target beneficiaries to participate in savings and credit activities to build a financial history;
2. Encouraging savings to reduce vulnerability to income and food security fluctuations;
3. Development of a ‘social fund’ used for consumption or emergencies;
4. Value chain development to include the poor target group;
5. Need to keep simple records to provide evidence of feasibility and profitability of economic activities; and
6. Overall improvement in management skills.

RUFEP has three components³ as indicated in *Figure 1* below:

COMPONENT 1

Focuses on the development of strategic partnerships, aimed at widening the scope of support to more Institutions than RFP to reach previously un-served people.

COMPONENT 2

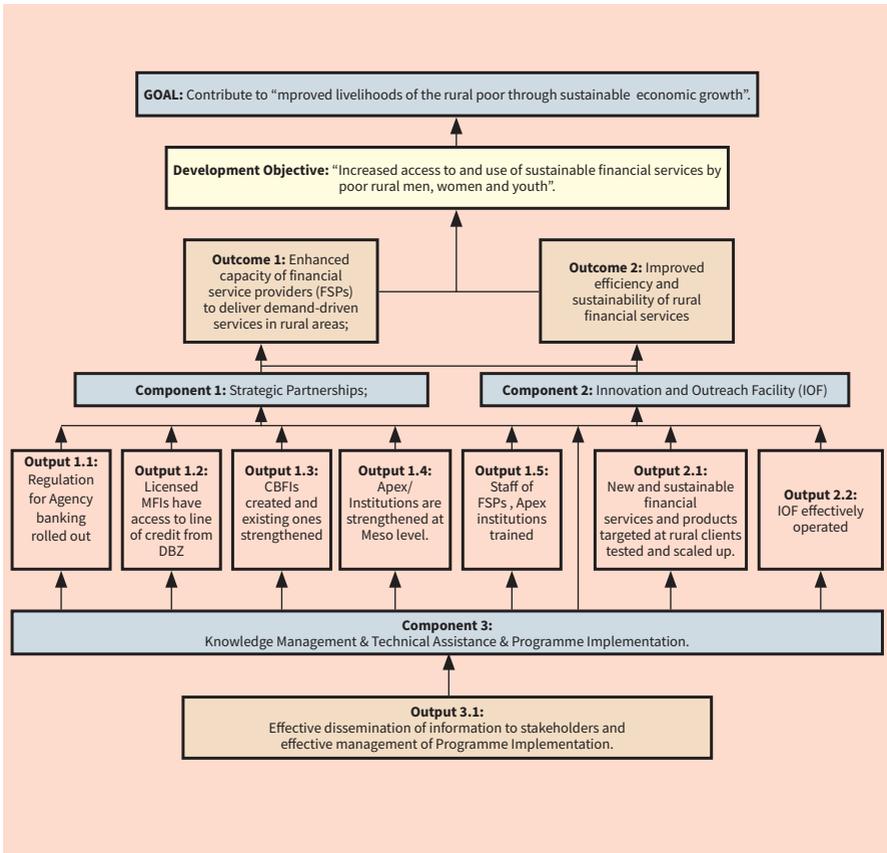
Focuses on Innovation and Outreach Facility. The poverty focus and gender main streaming aspects have been strengthened.

COMPONENT 3

Focuses on management in terms of Knowledge management, technical assistance and programme implementation.

2. Republic of Zambia/International Fund for Agricultural Development (IFAD).
3. Republic of Zambia/International Fund for Agricultural Development (IFAD).

Figure 1: RUFEP Programme Flow



Source: GRZ/FAD 2014

The First window of RUFEP focuses on Community-Based Financial Institutions (CBFIs) linkages with formal Financial Service Providers (FSPs) – to enable the CBFIs benefit from the services available in the formal FSPs. CBI methodology implemented under RFP reveals that women are the majority of participants which also explains its success and potential for scale up. Under this window, RUFEP has successfully been able to provide matching grants to various financial players.

The second window (the Agency and Mobile Window) provides one of the most effective interventions for reaching the poor and especially the youth since its basis is the use of mobile phones and access at local outlets (shops, supermarkets, petrol stations, input dealers, etc.) and has the potential to significantly reduce transaction costs.

Under these windows, barriers to access of smallholder farmers, women, men and youth will be analysed with the aim of reducing bottlenecks.

NATIONAL FINANCIAL INCLUSION STRATEGY (NFIS) 2017 - 2022

Zambia has a National Financial Inclusion Strategy for 2017 to 2022. ***The vision of the strategy is to achieve universal access and usage of a broad range of quality and affordable financial services that meet the needs of both individuals and enterprises.***⁴ This means that irrespective of social or economic status, gender, or level of education, the focus is to ensure that every segment of the Zambian society has access to basic financial services.

NFIS FRAMEWORK

NFIS Framework outlines the key components⁵ required to achieve the NFIS vision. The Framework is built on three key enablers:

1. Public and Private Sector Commitment and Coordination;
2. Policy, Legal and Regulatory Environment and Supervisory Capacity; and
3. Financial Infrastructure.

Strengthening these enablers will provide the foundation for a healthy and inclusive financial sector. The Framework also outlines four key drivers:⁶

1. Widespread and Accessible Delivery Channels;
2. Diverse, Innovative, and Customer-Centric Products;
3. Finance for SME Growth; and
4. Financial Consumer Protection and Capability.

4. Ministry of Finance- Economic Management Department, National Financial Inclusion Strategy (2017-2022).

5. Ministry of Finance- Economic Management Department.

6. Ministry of Finance- Economic Management Department

The NFIS consolidates existing relevant strategies and interventions into a single document and implementation plan. Despite recent progress on financial inclusion where by 4.8 million adults (**59.3 % of the adult population**) were financially included as of 2015, much remains to be done to achieve this vision. More than 3.5 million Zambian adults (approximately 41 % of the adult population) are financially excluded and more than 5 million Zambian adults (approximately 60 % of the adult population) do not use financial products and services from regulated providers.⁷

The 2015 Finscope⁸ report indicates that financial inclusion is significantly skewed towards urban areas at 70.3 % of adults financially included, compared to rural areas that experience lower levels of financial inclusion at 50.2 %.



Financial inclusion data has traditionally been separated into supply and demand-side information. Supply-side data comes from providers of financial services, while demand-side data involves interviews with end-users of products: individuals, households, and firms. Central Banks often collect some supply-side data as part of their supervision duties for regulated institutions, and this can be a good source of information at national level. However, supply-side data provided by central banks or supervisory bodies on the number of accounts and Automated Teller Machines (ATMs) in a country is not detailed enough to provide information about how many people have accounts (due to multiple accounts held by some individuals) and how access varies by region, income level, and other variables⁹. In some countries, central bank data may not provide a useful level of granularity about financial access.

7. Economic Management Department Ministry of Finance, National Financial Inclusion Strategy.

8. Financial Sector Deepening Zambia, FinScope Report 2015, Top Line Findings, 2015.

9. Alliance for Financial Inclusion, 'Setting the Stage, Defining and Measuring Financial Inclusion', Financial Inclusion in Africa-African Development Bank (AfDB), 2013.

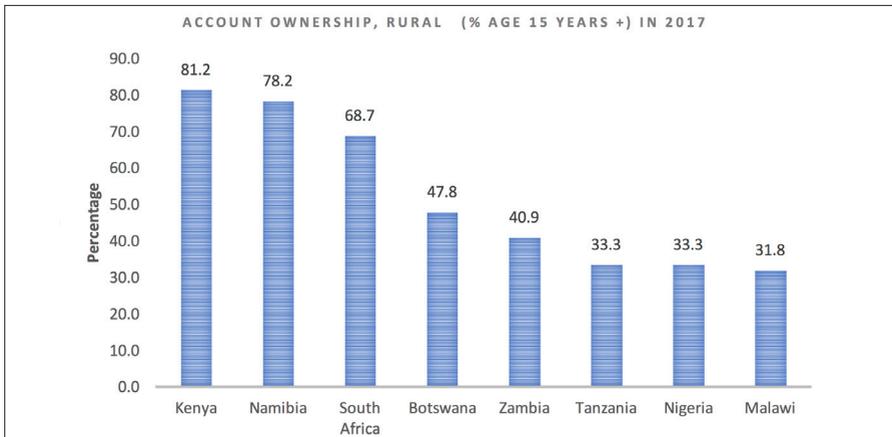
Table 1 below gives a snapshot of some financial inclusion statistics for selected countries in comparison with Zambia by Global Findex.¹⁰

Table 1: Financial inclusion Indicators for selected countries Africa

ZAMBIA				KENYA			
Financial inclusion Indicator	2011	2014	2017	Financial inclusion Indicator	2011	2014	2017
Account, rural (% age 15+)	22.4	33.9	40.9	Account, rural (% age 15+)	37.9	72.8	81.2
Mobile money account, rural		11.3	25.5	Mobile money account, rural		56.7	72.6
Borrowed to start, operate, or expand a farm or business, rural		21.2	14.5	Borrowed to start, operate, or expand a farm or business, rural		23.5	20.2
Financial institution account, rural	22.4	29.8	31.3	Financial institution account, rural	37.9	52.6	55
Made digital payments in the past year, rural		20.7	29.2	Made digital payments in the past year, rural		64.5	75.9
Used a mobile phone or the Internet to access an account, rural		22.5	22.5	Used a mobile phone or the Internet to access an account, rural			71.4
MALAWI				SOUTH AFRICA			
Financial inclusion Indicator	2011	2014	2017	Financial inclusion Indicator	2011	2014	2017
Account, rural (% age 15+)	15.2	16.0	31.8	Account, rural (% age 15+)	46.3	67.3	68.7
Mobile money account, rural		3.1	19.0	Mobile money account, rural		14	19.1
Borrowed to start, operate, or expand a farm or business, rural		17.3	13.9	Borrowed to start, operate, or expand a farm or business, rural		8.39	4.09
Financial institution account, rural		8.54	20.53	Financial institution account, rural	46.3	65.4	66.9
Made digital payments in the past year, rural (% age 15+)	15.2	14.3	21.2	Made digital payments in the past year, rural (% age 15+)		46.7	42.1
Used a mobile phone or the Internet to access an account, rural			18.6	Used a mobile phone or the Internet to access an account, rural			20.5
NAMIBIA				TANZANIA			
Financial inclusion Indicator	2011	2014	2017	Financial inclusion Indicator	2011	2014	2017
Account, rural (% age 15+)		52.4	78.2	Account, rural (% age 15+)	23.6	38.7	33.3
Mobile money account, rural		5.75	38.9	Mobile money account, rural		1.78	2.65
Borrowed to start, operate, or expand a farm or business, rural		3.91	8.44	Borrowed to start, operate, or expand a farm or business, rural		11.6	11.5
Financial institution account, rural		51.8	75.5	Financial institution account, rural	23.6	38.4	33.1
Made digital payments in the past year, rural		30.7	58.9	Made digital payments in the past year, rural (% age 15+)		25.2	17
Used a mobile phone or the Internet to access an account, rural			41.6	Used a mobile phone or the Internet to access an account, rural			4.56
NIGERIA				BOTSWANA			
Financial inclusion Indicator	2011	2014	2017	Financial inclusion Indicator	2011	2014	2017
Account, rural (% age 15+)	23.6	38.7	33.3	Account, rural (% age 15+)	21.8	52	47.8
Mobile money account, rural		1.78	2.65	Mobile money account, rural		20.8	24.4
Borrowed to start, operate, or expand a farm or business, rural		11.6	11.5	Borrowed to start, operate, or expand a farm or business, rural		10.3	2.76
Financial institution account, rural	23.6	38.4	33.1	Financial institution account, rural	21.8	49.3	41.7
Made digital payments in the past year, rural (% age 15+)		25.2	17	Made digital payments in the past year, rural (% age 15+)		37.3	31
Used a mobile phone or the Internet to access an account, rural			4.56	Used a mobile phone or the Internet to access an account, rural			22.3

10. The Global Findex database is the world's most comprehensive data set on how adults save, borrow, make payments, and manage risk. Launched with funding from the Bill & Melinda Gates Foundation, the database has been published every three years since 2011. The data are collected in partnership with Gallup, Inc., through nationally representative surveys of more than 150,000 adults in over 140 economies

Figure 2: Account Ownership, Rural (% Age 15 years +) in 2017



Source: Compiled from Global finder data, 2019

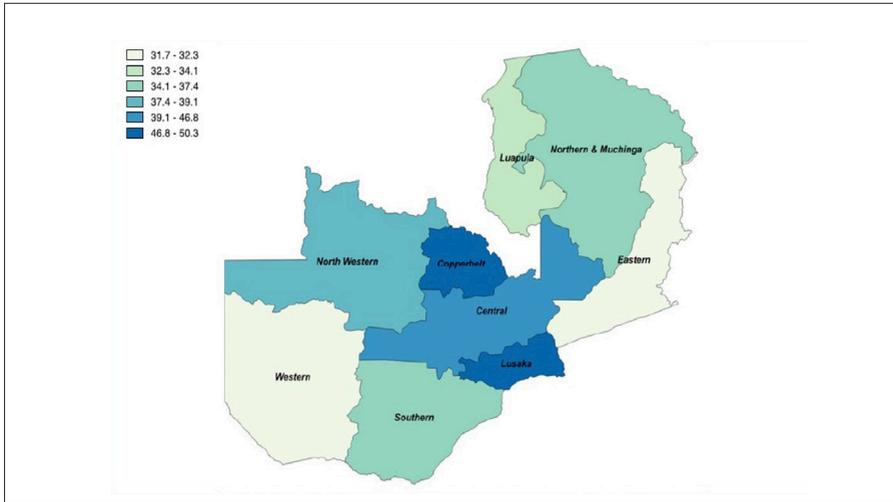
Figure 2 shows the percentage of respondents who have an account (by themselves or together with someone else) at a bank or another type of financial institution or personally used a mobile money service in the past 12 months (% age 15+). The statistics indicate that Kenya has done well, going by the higher number of its rural population have access to accounts because of the recent success of mobile money in Kenya and East Africa in general. This shows that innovations can bring about dramatic changes in how people engage in **financial transactions by lowering entry barriers, reducing costs, and expanding access. Zambia has a lot to learn from countries such as Kenya. The experience from Kenya shows an exponential growth from 2.5 million accounts in 2005 to over 16 million accounts by 2013 on an adult population of just over 20 million.**¹¹

Figure 3 shows the level of inequity between rural provinces and urban dwellers regarding financial inclusion. **Much of the financial exclusion occurs in provinces that can be termed as rural provinces.** Approximately, 3.8 million financially excluded adults (those who use no formal financial products or services) are disproportionately female, poor, and living in rural areas.¹²

11. World Bank Group, Enhancing Financial Capability and Inclusion in Zambia, 2017.

12. World Bank Group, Enhancing Financial Capability and Inclusion in Zambia, 2017.

Figure 3: Financial Inclusion by Province in Zambia



Source: Financial inclusion by province from NBG Financial capability Survey Zambia, 2016

RURAL FINANCE POLICY AND STRATEGY

The main goal of the Rural Finance Policy and Strategy is to develop and maintain an enabling, predictable and coherent policy, legislative and regulatory environment for rural finance that supports national developmental priorities. The policy also looks at strategies aimed at ensuring a sound based regulatory and supervisory system for all financial services in addition to facilitating the provision of affordable and easily accessible rural finance products and services.¹³

The Rural Finance Policy and Strategy also emphasizes the need for policy coherency with regard to rural finance across the Government and the need to facilitate effective and sustainable partnerships with the private sector and other non-state actors in the provision of rural finance services.

13. Ministry of Finance, Rural-Finance-Policy-and-Strategy-2012 (Lusaka: Ministry of Finance, 2012).

RURAL FINANCE POLICY AND STRATEGY FOCUS AREAS

MACRO LEVEL

1. Government to focus on market-based approaches to rural finance provision by working with private sector and other non-state actors.
2. A supportive institutional environment that promotes rural financial services through enhanced financial oversight which includes strengthening the supervisory role of Bank of Zambia with the view of protecting the interests of both suppliers and consumers of financial services.
3. Appropriate regulatory and legislative framework.

MESO LEVEL

- 1. Development of financial sector infrastructure;** such as effective payment systems, creation of credit reference bureaus, warehouse receipts and collateral management and weather index insurance.
- 2. Dissemination of demand and supply side information:** In partnerships with the private sector, Government shall support the collection and dissemination of both demand and supply market information in rural areas.
- 3. Enhancement of market driven skills development:** Government shall support through capacity building and in partnership with the private sector to enhance demand-driven skill development, targeting commercial banks, Non-Bank Financial Institutions (NBFI), Savings and Credit Cooperative Society (SACCOs), insurance companies and community-based organizations.

MICRO LEVEL

1. Expansion of financial services in rural areas: Government shall promote the expansion of financial service providers into rural areas, targeting commercial banks, insurance companies and community-based organizations.
2. Support product innovation and support delivery of new financial service products in rural areas e.g. warehouse receipts, micro-insurance and leasing.

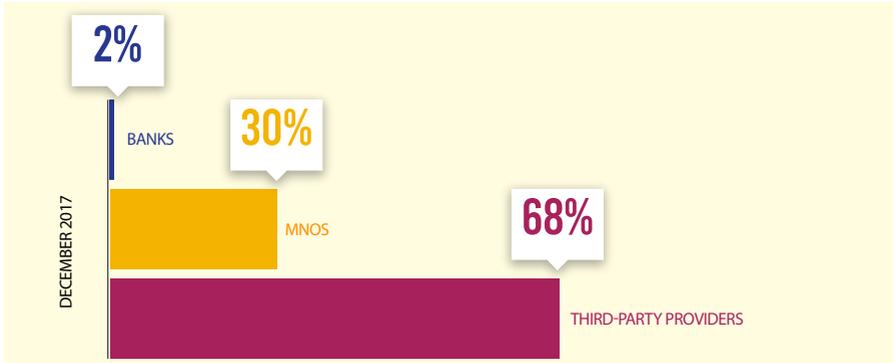
3. Government to support the implementation of financial education strategy.
4. Government to encourage a hospitable environment that fosters market driven linkages and partnerships among financial service providers and relevant support institutions.

ANALYSIS OF RURAL FINANCE POLICY AND STRATEGIES

Issue regulations on Agency Banking and Electronic Money

Agency banking has been up-scaled in Zambia. Agency banking lets financial institutions make use of agents at hardware stores, post office branches, petrol stations and other established business entities to carry out small banking services such as loan applications, deposits, withdrawals, and bill payments. Agency banking has many advantages, including the ability to reach a larger demographic, while providing improved security for these populations.

Figure 4: Share of transaction volume by agency type



Source: State Digital Finance Services Market 2017, Results from UNCDF - Markets Work for the Poor (MWFPP) Annual Provider

Agency banking as a share of transaction volume by financial agents ranked bottom in 2017 as shown in figure 4 above compared to Mobile Financial Services (MNOS) and other third-party providers. With the introduction and growth of second-generation products as well as the emergence of the fintech industry, regulation calibrated to enable affordable services for the financially excluded remains essential to the success of Digital financial services (DFS). DFS are more advanced products such as micro-credit and micro-insurance products, loan repayments, merchant payments, push (to bank)/pull (from bank) transfers and international remittances.

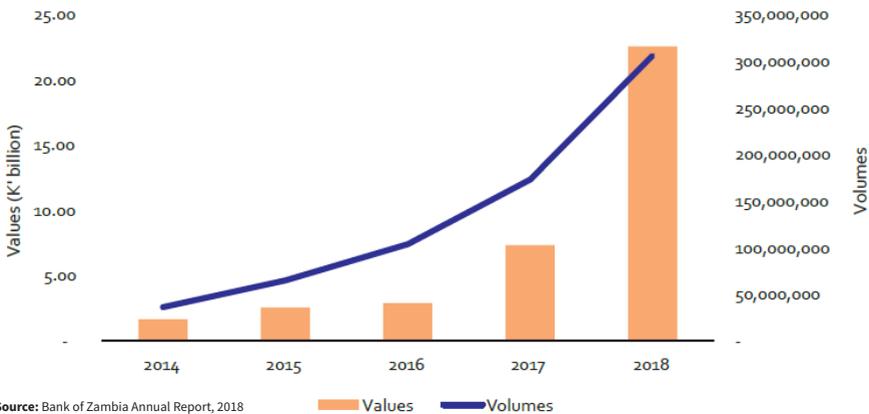
Unfortunately, the long-awaited Agency Banking regulations which are to guide and accelerate agency banking in underserved rural areas and have not yet been released by the Bank of Zambia.

In 2018, the Bank of Zambia **revised the National Payment Systems Directives on Electronic Money Issuance that were initially issued in 2015**. The key changes to the directives include the following:

- Permitting customers to hold multiple wallets.
- Permitting both commercial banks and approved non-bank financial institutions to host Holding Accounts for electronic money.
- Inclusion of specific guidance on the use of interest earned on the Holding Accounts.
- Provisions for consumer protection and the need for e-money institutions to have procedures for dealing with customer complaints.

The volume of transactions processed on mobile money platforms in 2018 rose by 76.0% and 187.0% to K305,208,616 and K22.5 billion, respectively.¹⁴ **The increase in both volume and value was partly driven by an increase in the issuance of second-generation products, such as micro loans, supported by collaborations between mobile money operators and both Micro Finance Institutions and banks.**¹⁵ The collaborations with banks allowed mobile money customers the ability to make transfers between mobile money wallets and bank accounts. Thus, making mobile wallets more appealing to commercial bank customers. The emergence of Fintech companies with solutions tailored to customer needs in both rural and urban areas also supported this growth.¹⁶

Figure 5: Mobile Money Transactions 2014 - 2018



Source: Bank of Zambia Annual Report, 2018

14. Bank of Zambia, 'Annual Report for 2018', 2018.
 15. Bank of Zambia.
 16. Bank of Zambia.

Develop options for medium and long-term finance in rural areas (Apex Funding)

Rural Finance Expansion Programme (RUFEP) supported the establishment of SaveNet, an apex organisation for Community-Based Financial Institutions (CBFIs) promoters. Support to SaveNet include, office equipment and materials such as computers. In addition, RUFEP also supports training and facilitates workshops for refinement, translation and standardization of CBFi training materials to be used by the staff.

SaveNet Zambia is a network organization that seeks to work with development agencies, private sector organizations, and Government to promote financial inclusion among Zambian communities at the grassroots through Community-based financial institutions (CBFI) popularly known as Savings Groups (SGs). SaveNet seeks to Empower Zambian Communities owning, managing and building a resilient asset base to take steps out of poverty.¹⁷ There is need to build capacity of SaveNET, so that it should be able to stand on its own even after the RUFEP programme comes to an end. On the other hand, it must be noted that the Development Bank of Zambia (DBZ) has not provided the much needed linkage/finance to micro finance institutions as an apex institution as espoused in the Rural Finance Policy and the terms of reference of the RUFEP Programme.

Support the design and implementation of Warehouse Receipt and Collateral Management Systems:

Most African countries have, since the 1980s liberalized agriculture without experiencing food crisis, as feared by sceptics, but the outcome of these reforms has been rather disappointing and agricultural markets remain underdeveloped and inefficient. **One of the ways to improve agricultural marketing, is to develop regulated Warehouse Receipt (WR) systems. The system curtails cheating on weights and measures; eases access to finance at all levels in the marketing chain; moderate seasonal price variability and promotes instruments to mitigate price risks.**¹⁸ It also reduces the need for the Government to intervene in

17. Savenet, 'Savenet Zambia Web Page', About Us, 2019 <<http://www.savenet.org.zm/>> [accessed 12 November 2019].

18. J Onumah and G Coulter, 'The Role of Warehouse Receipt Systems in Enhanced Commodity Marketing and Rural Livelihoods in Africa', Food Policy, 27 (2002), 319–37

agricultural markets, and reduce the cost of such interventions if needed. Without access to capital, farmers cannot afford things like fertilizer, improved seed varieties, irrigation systems, and storage facilities. Thus, they are trapped in a cycle of low agricultural productivity and high post-harvest losses.

Zambia has developed a regulated warehouse receipt system. **The Zambian Commodity Exchange (ZAMACE) is a private limited liability company in Zambia, incorporated under the Companies Act in 2007 and operates Zambia’s sole commodities exchange.¹⁹ It was established by stakeholders in the agricultural sector seeking a structured market mechanism that addressed the multiple market imperfections that stifle growth in the agricultural sector such as high transaction costs, low and asymmetric levels of market information, low levels of trust and ‘adversarial’ trading relations.** It is the authorized agency for implementation of the Warehouse Receipt System under Agricultural Credits Act 35 of 2010. Under the system, a farmer will deposit agro-commodities at certified warehouses regulated by ZAMACE and will then receive a warehouse receipt, which is a certification of legal ownership of a particular commodity stored in a specific location and with specified quality and condition. The ZAMACE certified storage sites with a combined capacity of over 800,000 tonnes include AFGRI, CHC Commodities, Zdenakie, ETG, NWK agri-services and Mount Meru millers.²⁰

In 2015, ZAMACE signed an agreement with the Johannesburg Stock Exchange (JSE), the largest stock exchange in Africa, to launch the Warehouse Receipt System which was meant to raise liquidity of agro-commodities and improve farmers’ access to finance through “**futures contracts**”²¹. Futures Contracts on the JSE may not work to the advantage of ZAMACE, especially when focusing on the Maize crop because of the policy inconsistencies on maize exports. ZAMACE should, therefore, focus on diversifying its crops away from Maize to make meaningful hedge-way in the future.

ZAMACE platform has proved useful to some extent in facilitating easy

19. Zambia Agriculture Commodity Exchange (ZAMACE), 'Zambia Agriculture Commodity Exchange (ZAMACE) Web Page-About Us', ZAMACE Web Page-About Us <<https://www.zamace.co.zm/>> [accessed 12 November 2019].

20. Kabanda Chulu, 'Stanbic Kicks off Warehouse Receipts', Zambia Daily Mail (Lusaka, 14 September 2017) <<http://www.daily-mail.co.zm/stanbic-kicks-off-warehouse-receipts/>>.

21. Zambianinvest.com, 'Zambia Commodity Exchange To Launch Warehouse Receipt System This Year', Zambianinvest.Com, 2015 <<http://www.zambianinvest.com/finance/capitalmarkets/zamace-commodity-exchange-to-launch-warehouse-receipt-system-this-year>> [accessed 12 November 2019].

access to credit for farmers who deposit agro-commodities with ZAMACE. STANBIC Zambia became the second Bank after First National Bank (FNB) to start providing financing against Warehouse Receipts for grains deposited in storage sites certified by ZAMACE.²² However, Government needs to put measures to ensure that small holders actively participate on the ZAMACE platform as opposed to well established farmers.

Support the design and implementation of micro-insurance products:

The most notable micro-insurance in the rural agriculture sector has been the Weather Index Insurance. It is a form of insurance that provides cover against the occurrence of a specific weather related events during the life span of a particular crop and this can include drought and floods. It uses satellite data to monitor the given weather pattern over a particular region. Based on this satellite data, the average rainfall is determined. Deviations from the set normal rainfall during the season results in automatic payouts.²³ Smallholders farmers, most of who reside in rural Zambia, are vulnerable to weather-related shocks such as drought, flooding, and irregular rainfall. ***Insurance can be a good risk management tool for these farmers, but the traditional insurance market largely fails to meet their demand for affordable insurance. Weather Index insurance provides an innovative and more efficient solution for them to protect their crops against losses and encourage investment.***

The Zambian Government had awarded Mayfair Insurance a contract to offer weather-based index insurance to farmers who benefit from Government input subsidies. To this effect Mayfair Insurance Company had paid out US\$800,000 in claims to farmers on the Weather Index Scheme between 2014 and 2017.²⁴ However, it must be noted that there have been complaints by some smallholder farmers under Farmer Input Support Programme (FISP) of not having received their insurance payouts in areas that were affected by droughts in the 2018/2019 farming season. The complaints specifically relate to inconsistencies in the payouts mechanism where some farmers receive payouts while others do not yet residing in the same geographical areas affected by the drought. While the private sector such as MAYFAIR is doing its part in developing Miro Insurance products, Pensions and Insurance Authority (PIA) needs

22. Kabanda Chulu, 'Stanbic Kicks off Warehouse Receipts', Zambia Daily Mail (Lusaka, 14 September 2017) <<http://www.daily-mail.co.zm/stanbic-kicks-off-warehouse-receipts/>>.

23. Kenneth W Sibiko, Prakashan C Veettil, and Matin Qaim, 'Small Farmers' Preferences for Weather Index Insurance: Insights from Kenya', Agriculture & Food Security, 2018, 1-14 <<https://doi.org/10.1186/s40066-018-0200-6>>.

24. Mallesi Banda, 'MAYFAIR Insurance Company Has Paid out US\$800,000 in Claims to Farmers on the Weather Index Scheme from 2014 to 2017', Daily Nation Zambia (Lusaka, 2 March 2018) <<https://www.dailynation.info/mayfair-pays-out-us800000-to-farmers/>>

to upscale its efforts in ensuring that the necessary micro-insurance guidelines/principles are in place to guide the growth of micro insurance in Zambia and guarantee good client value from Insurance usage. **There is also need for responsive regulatory framework such as a dedicated license for micro-insurances and opening up of the construction space.**²⁵

Review of Credit Reference Bureau Regulations

The Government enacted the Credit Reporting Act in 2018.²⁶ This is an Act that provides for the regulation and licensing of credit reporting agencies by the Bank of Zambia. The Act also provides for the establishment of a Credit Registry and the overall governance and management of credit reporting agencies, including the protection of data subjects as well as information sharing and reporting to enable assessment of credit worthiness of a data subject including all other matters connected with Credit reporting in Zambia²⁷. However, it has been noted that credit reference Bureau regulations are absent, specifically those that give further information or guidelines on the need for bureau fee structure to reflect the small size of micro-finance loans, especially those operating in rural areas to support financial inclusion.

Support efforts to enable inter-operability under the proposed national payment switch

To reduce the cost of financial services and modernize payment systems, the then Minister of Finance, Honourable Margaret Mwanakatwe announced in the 2019 Budget address, that the National Financial Switch would be operationalized. This was to facilitate the integration of automated teller machines, points of sale terminals, mobile and internet banking transactions between participants. The project was to be implemented in two phases, with the first phase aimed at facilitating settlement and clearance of Automated Teller Machines and Point of Sale transactions which has since been partially operationalised ²⁸. The

25. Price Waterhouse Coopers, Zambia Insurance Industry Survey, 2019.

26. Government of the Republic of Zambia (GRZ), Credit Reporting Act of 2018 (Zambia, 2018).

27. Government of the Republic of Zambia (GRZ), Credit Reporting Act of 2018.

28. National Assembly of Zambia, '2019 Budget Address Delivered to the National Assembly on Friday 28th September, 2018 by Honourable Margaret D. Mwanakatwe MP Minister of Finance' (Lusaka, 2019).

second phase was to focus on covering mobile payments and has since been operationalised. It is hoped that this would effectively facilitate better access to finance for the unbanked in rural areas. **However, there is still need for greater analysis and dissemination of findings on the costs and possible constraints with the use of alternative delivery mechanisms of financial services in rural areas.**

Establishment of a Rural Finance Department in the Ministry of Finance (MoF)

The Rural Finance Unit, under the department of Investment & Debt Management in the Ministry of Finance, has been established. The Unit was effectively established in September, 2018 and the Rural Finance Policy and Strategy was officially launched in November 2018. However, the unit needs to do more in terms of convening with stakeholders to review and publicise progress made and establish priorities for follow-up action in a quest to upscale financial inclusion in rural areas. Stakeholders have called for increased fund allocations to the unit to carry out this mandate.

Support efforts to fully establish unified collateral registry regulations (as started under FSDPII), including the use of movable property (especially in non-banks)

*In 2016, Government enacted the Movable Property Security Interest Act (MPSI) to make the business environment attractive for lenders to accept movable property as collateral. The MPSI Act sought to make movable property a reliable form of collateral, thereby diversifying the nature of mobile assets used as collateral resulting in enhanced borrowing²⁹. The Act provides more available options as admissible collateral for financial clients looking for credit facilities from the banks. It further provides for the establishment of a collateral registry whose objective is giving lenders the assurance required to accept personal or movable property as collateral. **The Moveable Property Act is being administered by the Patents and Companies Registration Agency (PACRA).** Banks had started piloting the use of animals as a form of collateral when lending money to Micro,*

29. Government of the Republic of Zambia (GRZ), The Movable Property (Security Interest) Act of 2016 (Zambia, 2016).

Small and Medium Enterprises (MSMEs). By September 2018, over 12,000 transactions had been recorded on the collateral registry since the enactment of the Act³⁰. ***With the use of moveable assets as collateral, businesses including farmers and SMEs in rural areas need to take advantage of the system and access credit to grow their businesses. Farm equipment can also be offered as collateral as opposed to fixed property.*** With the introduction of movable property Act, the law provides more available options as admissible collateral for the rural community wishing to obtain credit facilities from financial institutions. For people especially those in rural areas to appreciate MPSI Act, Patents and Companies Registration Agency (PACRA) needs to upscale its sensitization efforts to have more people register their assets. This is key in ensuring that rural people have access to different lines of credit using movable assets.

Support periodic conduct of demand size surveys (e.g. FinScope) and release of easily accessible supply side data on financial infrastructure.

The 2015 FinScope Survey³¹ is the third FinScope survey implemented in Zambia. The first survey was conducted by FinMark Trust in 2005 to inform the Government of Zambia's financial sector reform programme as articulated within the Financial Sector Development Plan (FSDP).

The 2015 FinScope Zambia Survey objective was to track overall trends in financial inclusion over time in terms of:

- Changes in the levels of inclusion – both formal and informal inclusion
- Changes in terms of the type of financial services being used and the type of provider
- To assess whether Zambia is on track in terms of achieving national financial inclusion targets.

However, more emphasis should be put in ensuring that the country prioritizes implementation of independent national demand-side surveys that address the country's particular financial inclusion agenda.

30. Evans Musenya Manda, 'Glance at The Moveable Property Act', Times of Zambia Online, January <<https://www.times.co.zm/?p=101907>>

31. Financial Sector Deepening Zambia.

According to Alliance for Financial Inclusion³² some countries, such as Burundi and Kenya had their Central Banks taking a prominent role in implementing autonomous national demand-side surveys. The Central Bank of Burundi began to design a demand-side survey, while the Central Bank of Kenya was also launching their third iteration of the FinAccess survey which was a collaborative effort. Government through the Rural Finance Unit (RFU) needs to further build capacity in conducting its own national surveys, most of which are administered by Zambia Statistical Agency, to incorporate variables to measure rural financial statistics and financial inclusion as opposed to relying on surveys sanctioned by the private sector.

Ensure that customer identification and verification requirements do not unnecessarily limit access to finance for low-income rural clients.

The 2015 FinScope Report indicates that a significant barrier to uptake of financial services is regulatory in nature— specifically with regard to potential customers of financial institutions having to comply with strict “know your customer” (KYC) requirements. KYC requirements for the opening of accounts with financial institutions for individuals include:

- Proof of identity by means of a valid identification document
- Proof of residential address

The vast majority of adults had indicated that they had access to their national registration card (93.5%), while only 15.9% had access to a proof of residential address document³³. Other strategies need to be employed by finance service providers to ascertain proof of residence since majority of adults indicated that they had no access to proof of residence documentations.

Support the implementation of the proposed financial education programs.

The Government through the Bank of Zambia developed the National Strategy on Financial Education(NSFE) for 2012 to 2017. This was

32. Alliance for Financial Inclusion, 'Setting the Stage:Defining and Measuring Financial Inclusion', Financial Inclusion in Africa-African Development Bank (AfDB), 2013.

aimed at empowering Zambians with the knowledge, understanding, skills, motivation and confidence to help them secure positive financial outcomes for themselves and their families, especially those that are disadvantaged by less education and/or poverty. On 4th November, 2019, Cabinet approved the second National Strategy on Financial Education for 2019-2024. This means that as a country we have had an absence of a financial strategy from 2018 up until the 4th November 2019.³⁴

The Bank of Zambia has also been at the fore of promoting the Financial Literacy Week aimed at empowering people with knowledge on available financial products and services as well as creating momentum on both the supply and demand side information for the development of consumer centric financial products and services. For six (6) years running, Zambia has been conducting the Financial Literacy Week under the auspices of the National Strategy on Financial Literacy Education for Zambia (NSFE), and the flagship Global Money Week of the Child and Youth Finance International (CYFI)³⁵. **Consequently, citizens have been reached directly through interactive activities such as exhibitions, branch visits, and sensitization in schools, markets, community centres and workplaces.** In addition, many other citizens have been reached indirectly through television, community radios, newspaper articles, short-message service (SMS) and the social media during the Financial Literacy Week. **However, calls have been made to have the activities run throughout the year and the need to place more emphasis in reaching out to rural masses on account that they are the most financially excluded**³⁶.

From private sector, regarding the promotion of financial education on 13th April 2018, Zazu and Financial Sector Deepening Zambia (FSDZ) did a 4-months pilot project to increase financial literacy through the use of mobile phones. The project was a partnership between the two organizations and was aimed at delivering financial literacy courses to Zambians via mobile phones. The courses were intended to increase awareness on finance. The pilot was done on the Copperbelt province reaching over 6,000 people in Luanshya, Masaiti, Mpongwe and Ndola

33. Financial Sector Deepening Zambia.

34. Lusaka Times-Online Publication, 'Cabinet Meeting Decisions Aimed at Addressing the Electricity Challenges Zambia Is Currently Facing', Lusaka Times-Online Publication (Lusaka, 2019) <<https://www.lusakatimes.com/2019/11/06/cabinet-meeting-decisions-aimed-at-addressing-the-electricity-challenges-zambia-is-currently-facing/>>.

35. Organising Committee 2018 Financial Literacy Week, 'Report on the 2018 Financial Literacy Week', 2018, 1-44.

36. Organising Committee 2018 Financial Literacy Week.

districts. The courses were primarily delivered in English and Bemba and were accessible for free using Unstructured Supplementary Data (USSD) and toll-free voice call³⁷. It is hoped that this project will receive more Government support as it has now been rolled out to the entire country to support the implementation of financial education programmes.

CONCLUSION

Despite the recent financial sector growth in Zambia, many individuals especially those in rural areas are still excluded from accessing formal financial services. An analysis of the usage of (and access to) financial services by adults and enterprises shows that Zambia lags behind other developing economies in both aspects, and that cost, distance, and documentation requirements are important obstacles.

Removing physical, bureaucratic, and financial barriers to expand financial inclusion is challenging since this also requires addressing the underlying structural causes such as low-income levels and governance challenges. Nevertheless, measures to improve financial systems and underlying information and regulatory environment are also likely to speed up the introduction and adoption of new products, processes, and technology that may help further lessen these barriers.

37. Financial Sector Deepening Zambia (FSDZ), 'Zazu and FSDZ Partner to Increase Financial Literacy in Zambia By FSD Zambia', 2018 <<https://www.fsdzambia.org/news-item/zazu-and-fsdz-partner-to-increase-financial-literacy-in-zambia/>> [accessed 1 August 2019].

RECOMMENDATIONS

- Government and other stakeholders need to upscale efforts to provide rural financial services by focusing on support towards good product design, development and delivery that meet the needs of the large rural market segment.
- To upscale rural finance, Government needs to deal with the prohibitively high costs of offering conventional, branch-based services in remote rural areas by promoting creative thinking and innovation in both financial products and delivery of those products.
- Capacity building needs to be done among banks and other financial service providers on how to use non-traditional forms of security/collateral with reference to the Movable Property Security Interest Act.
- The Central bank of Zambia needs to urgently develop Agency Banking regulations to guide and accelerate agency banking in under-served rural areas and consequently increase the agency banking share of transaction volume by financial agents.
- The Development Bank of Zambia needs to play an active role as an apex financial institution in providing finances to micro finance institutions for onward lending to rural areas as espoused in the Rural Finance Policy and Strategy and Rural Finance Expansion Programme (RUFEP) programme design.
- Government and Zambia Agriculture Commodity Exchange (ZAMACE) needs to put in measures that guarantee smallholder farmers' active participation on the agriculture commodity exchange as opposed to a scenario where majority of farmers having access to the agriculture commodity exchange are well established farmers.
- The Pensions and Insurance Authority (PIA) needs to upscale its efforts in ensuring that the necessary micro-insurance guidelines/principles are promptly put in place to promote growth of insurance uptake in rural areas. Additionally, legislation needs to be amended to accommodate licensing of micro-insurers and the need to open up the distribution space.
- Following the enactment of Movable Property Security Interest

(MPSI) Act in 2016, Patents and Companies Registration Agency (PACRA) and other stakeholders need to increase sensitization in rural communities on the available options through MPSI Act regarding use of a movables sets as collateral to access finance.

- Zambia Statistics Agency needs to include “financial inclusion variables” in its routine national surveys to be able to measure financial inclusion statistics as opposed to the country relying on private sector sanctioned surveys to measure financial inclusion.
- Ministry of Agriculture needs to decisively deal with complaints specifically relating to inconsistencies with the Weather Insurance Index payouts where some farmers receive payouts while others do not but residing in the same geographical area affected by the drought. Enhanced confidence in Weather Insurance Index will enhance uptake of other in micro-insurance products for the farmers.
- Some of the key activities during the Financial Literacy Week need to run for the rest of the year and priority should be given to rural areas with lower levels of financial inclusion.

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Unlocking Zambia's Potential

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