



## **A REVIEW OF THE IMPLEMENTATION OF THE RURAL FINANCE POLICY AND STRATEGY OF 2012**

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## ACRONYMS

<b>ETG</b>	Export Trading Group
<b>FinScope</b>	Financial Scoping
<b>FinTech</b>	Financial Technology
<b>IFAD</b>	International Fund for Agricultural Development
<b>JSE</b>	Johannesburg Stock Exchange
<b>MFS</b>	Mobile Financial Services
<b>RUFEP</b>	Rural Finance Expansion Programme
<b>ZAMACE</b>	Zambian Commodity Exchange





# Financial Inclusion

## INTRODUCTION

The Zambian population has been growing in the recent past registering over 66% of the rural population. Approximately 50% of the adult population in rural areas is unbanked or has no access to financial services (PMRC, 2019). This access to financial services has been a challenge due to various reasons, such as the 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 which consists 77 % of poor people in rural areas compared to only 23% in urban areas.** The country has continued to score significant gains in financial inclusion despite the economic challenges the country has faced. According to the FinScope Survey (2020) **financial inclusion increased to 69.3% from 59.3% in 2015 as formal financial inclusion rose to 61.3% from 38.3% in 2015.**

## RURAL-URBAN ECONOMIC DIVIDE



In critically looking at 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. This paper will first focus on some of the successes scored by the policy and strategy implementation process as well as the implementation gaps that have impeded the effective expansion of financial services in Zambia.

### POLICY IMPLEMENTATION AND SUCCESSES SCORED

One of the key strategies in the policy, aimed at guaranteeing enhanced uptake of financial services in rural areas is the need to streamline national payment systems. The Bank of Zambia has since made several revisions to the National Payment Systems Directives on Electronic Money Issuance. 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 as well as provisions for consumer protection and the need for e-money institutions to have procedures for dealing with customer complaints.**



Because of such interventions, the volume and value of transactions processed on mobile money platforms has significantly improved. **This increase in both volume and value has also been 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 as well as banks.**



In addition, the Rural Finance Expansion Programme (RUFEP) has also been promoting access to and usage of sustainable financial services and products by rural poor men, women and youth in Zambia with a target to reach 140,000 beneficiaries to improve financial inclusion. The programme has supported the Rural Finance and Strategy of 2012 through its funding from Ministry of Finance and National Planning, International Fund for Agricultural Development (IFAD) and other co-operating partners to support formulation and implementation of Rural Finance Policies, monitor and evaluate the Rural Finance Sub-sector as well as the dissemination of information on Rural Finance. RUFEP remains critical to the implementation and success of the Rural Finance and Strategy of 2012.



The Rural Finance Policy and Strategy also supports the design and implementation of Warehouse Receipt and Collateral Management Systems. Consequently, **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 and operates Zambia's sole commodities exchange.** It is the authorized agency for implementation of the Warehouse Receipt System under Agricultural Credits Act No. 35. Under this 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 have a combined capacity of over 800,000 tonnes and include the following; AFGRI Corporation, Commodity Exchange Commodities (CHC), Zdenakie, Export Trading Group (ETG), NWK agri-services and Mount Meru Millers.** 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 "future contracts".

## Challenges Affecting the Successful Implementation of the Rural Finance Policy and Strategy

Despite some of the notable implementation successes highlighted above, the Rural Finance Policy and Strategy policy has also been criticized. At a **macro level, the emphasis should be given to the 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 launch, very little has been done regarding the review of the financial landscape in Zambia particularly the development of a functional incentivised 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 to 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 levels. Although 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 segments.**

**Effective implementation of the policy** has also been hampered by the **lack of agency banking regulations.** The long-awaited Agency Banking Regulations that will guide and accelerate agency banking in underserved rural areas have not yet been released by the Bank of Zambia.

Agency banking allows financial institutions to make use of agents at hardware stores, post office branches, fueling 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 the people. Agency banking as a share of transaction volume by financial agents ranked bottom in 2017 compared to Mobile Financial Services (MFS) and other third-party providers.**



With the introduction and growth of second-generation products as well as the emergence of the Financial Technology (FinTech) industry, regulation calibrated to enable affordable services for the financially excluded remains essential to the success of digital financial services.

It is worth mentioning that, despite some notable financial sector growth in rural Zambia, many individuals still remain excluded from accessing formal financial services due to lapses in the implementation of the Rural Finance Policy and Strategy. **Zambia lags behind other developing economies in both aspects of access and usage of financial services by adults and enterprises. 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.** Capacity building needs to be done among banks and other financial service providers on the usage of non-traditional forms of security/collateral and to develop a functional agricultural insurance scheme. 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. In addition, there has been a lack of the implementation framework to effectively track the progress of the policy and strategy.

## CONCLUSION

In the recent past Government has made strides to expand access of the rural poor to a suitable “diversity of products and institutions that fill the financial needs of low-income rural clients in income generation and reduction of vulnerability of rural population.” Well-functioning financial markets facilitate rural economic growth and poverty inequalities reduction by mobilizing and transferring funds, allocating them to productive investments (including improved agricultural technology and non-farm enterprises), and enabling households to smoothen consumption and mitigate risks. The Rural Finance Unit under the Ministry of Finance through its objectives on rural finance policy and strategy partnering with cooperating stakeholders such as the **International Fund for Agricultural Development (IFAD)** have made significant progress in financial inclusion in rural areas of Zambia. This has been made possible through the Rural Finance Expansion Programme (RUFEP) supported by the Government of the Republic of Zambia through the Ministry Finance and National Planning and the IFAD. Going forward, the revised or new policy must be supported by an implementation framework to allow for effective realization of Rural Finance Policy and Strategy.

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## Unlocking Zambia's Potential

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