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fsdZambia
Expanding Financial Inclusion

STATUS OF AGRICULTURAL FINANCE IN ZAMBIA DEMAND AND SUPPLY ANALYSIS

2023

Policy Report
February

FSD Zambia is a Zambian organisation working closely with key players throughout the economy to ensure that all Zambians are financially healthy, particularly the most excluded and underserved. We help rural families, women, youth, low-income people, and other households in Zambia to understand and access a wide range of sustainable, comparable, and affordable financial services. To expand financial inclusion, we collaborate with both public and private sector institutions to make financial markets work better. FSD Zambia enhances trust between clients and suppliers of financial services by helping to bring people together, cultivate understanding, stimulate innovation, and lower costs. This way, all women, men, girls, and boys can learn about, choose, and use a wide range of financial services that positively impact their lives.

FSD Zambia enjoys the active support of financing partners Sweden Sverige, Comic Relief, Jersey Overseas Aid, Irish Aid, Deutsche Gesellschaft für Internationale Zusammenarbeit, United States Agency for International Development (USAID), UK Department for International Development (UKAid) and the Rural Finance Expansion Programme (RUFEP).

More information is available on our website, www.fsdzambia.org

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ACRONYMS

AAP-	Agricultural and Agro Processing
GDP-	Gross Domestic Product
GV-AgFin-	Agricultural finance for agri-based enterprises in rural areas
BoZ-	Bank of Zambia
CAADP-	Comprehensive Africa Agricultural Development Programme
CMMR-	Credit Market Monitoring Report
DBZ-	Development Bank of Zambia
DFS-	Digital Financial Services
8NDP-	Eighth National Development Plan
FBOs-	Faith-Based Organizations
FtMA-	Farm to Market
FISP-	Farmer Input Support Programme
FSD Zambia-	Financial Sector Deepening Zambia
FSDP-	Financial Sector Development Policy
FSPs-	Financial Services Providers
FRA-	Food Reserve Agency
GWP-	Gross Written Premiums
KIIs-	Key Informant Interviews
MFI-	Micro Financial Institutions
MSMEs-	Micro Small Medium Enterprises
MoFNP-	Ministry of Finance and National Planning
NAP-	National Agriculture Policy
NDPs-	National Development Plans
NFIS-	National Financial Inclusion Strategy
NatSave-	National Savings and Credit Bank
NGOs-	Non – Government Organizations
NBFIs-	Non-Bank Financial Institutions
PIA-	Pension and Insurance Authority
POS-	Point of Sales
RALS-	Rural Agriculture Livelihoods Survey
SGs-	Saving Groups
SEC-	Security and Exchange Commission
SHFs-	Small Holder Farmers
SDGs-	Sustainable Development Goals
ZCGS-	Zambia Credit Guarantee Scheme
ZAMACE-	Zambia Agricultural Commodities Exchange

EXECUTIVE SUMMARY

Agriculture is a sector in Zambia providing livelihood to more than 70 per cent of the population. The sector employs about 50 per cent of the workforce and has contributed 6-9 per cent of Gross Domestic Product (GDP) for the past decade.The challenge facing Zambia's agriculture sector is low productivity, which has been attributed to a lack of access to appropriate inputs, technology, and financial services. To further understand the financial challenges facing the agricultural sector in Zambia,

Financial Sector Deepening Zambia (FSD Zambia) supported by the GIZ 'Promotion of Agricultural Finance for Agri-Based Enterprises in Rural Areas (GV-AgFin)' conducted research on the status of agricultural finance in Zambia.

A mixed method research design was employed involving the combination of literature review, key informant interviews (KIIs) and supply and demand data analysis. The literature review broadly focused on available reports related to economic and agricultural sector performance, agricultural finance, and policies and strategies on agricultural finance in Zambia. Respondents for the KIIs were drawn from key institutions such as the government, financial institutions supervised by Bank of Zambia (Banks and NBFIs), insurance companies, donor-funded projects, and market facilitators.

The analysis revealed the following key findings: Though Zambia is making progress in increasing the levels of financial inclusion, formal inclusion for farmers is still low as compared to non-farming counterparts. Farmers are borrowing more than their non-farming counterparts but mostly from informal sources. The proportion of formal credit to the agriculture sector as revealed by Credit Market Monitoring Report (CMMR) is deficient and is mainly for commercial farmers than emergent and smallholder farmers (SHFs). The gender gap is still persistent in the utilisation of financial services among farmers, favouring men. SHFs have poor access to financial services due to lack of know your customer (KYC) requirements. Multiple players provide financial services (long- and short-term products) mostly at high interest rates[1] with commercial banks having the largest share by value of formal credit. There is no specific agricultural finance policy in Zambia[2]; both Government and the private sector are providing support for the growth of agricultural finance.

To further improve agricultural finance and address the existing challenges, the following are the recommendation for policymakers, regulators, FSPs and development organisations:

[1] Commercial Bank average interest rates ranges between 25 – 30 percent while Micro Financial Institution lending to the agricultural sector average rate was around 70 percent

[2] But there is a National Agricultural Investment Plan (NAIP) and Rural Finance Policy and Strategy (RFPS). However, the NAIP is a sector plan while RFPS includes all sectors in rural areas of which agriculture is just a subcomponent

1. The Government should consider developing specific strategies for expanding agricultural finance due to its specific and complex nature.

2. Enhance and strengthen intergovernmental coordination and re-look at institutional mandate within the implementation framework of the existing ‘Rural and Agricultural Finance Policy and Strategy’.

3. The Government should also continue to design and implement policies to develop the financial infrastructure to support agricultural finance, such as agricultural credit, credit reporting and collateral management. For example, this could be done through operationalisation of already existing policies such as the Agricultural Credit Act.

4. There is a need for regulators to be more specific on the nature of agricultural finance when developing regulations. Currently, most regulatory, and supervisory policies in the financial market are generic.

5. To address the problem of inappropriate products due to information asymmetry, FSPs need to adequately invest in analytics solutions to improve product design.

6. Donor-funded programmes such as FSD Zambia should continue working on initiatives that promote product design, uptake, understanding and usage of agricultural financial service and ensure supportive and conducive regulatory and supervisory policies.

7. Government should consider re-introducing the electronic voucher system and address the gaps such as non –payment of agro dealers on time. This will bring efficiency in the management of Government led agricultural financing programme for SHFs.

8. To improve agricultural credit management, there is need for FSPs to invest in digital solutions and this should include promoting digital literacy among SHFs.

9. Both demand and supply side analysis revealed some inherent gender gaps in the uptake and usage of financial services. To close such gaps, there is a need for FSPs to design financial products tailored towards the needs of women.

INTRODUCTION

1.1. Background

In the quest to attain national development objectives in ensuring a competitive and resilient economy with significant impact on both poverty and hunger, the Zambian Government has placed National development planning at a core. The Eighth National Development Plan (8NDP), covering 2022 – 2026, is centred around improving the Zambian population's livelihoods through economic transformation[3]. To achieve such a robust transformation, Agriculture, including other sectors such as mining, manufacturing, and tourism, have been identified as key drivers.

Since the past decade, from 2011 to 2021, Agriculture remains a key economic sector in Zambia, providing livelihood to more than 70 percent of Zambia's population. The sector employs about 50 per cent of the total workforce, contributing between 6 and 9 per cent of GDP[4]. The Zambian populations continue to be skewed toward rural areas, with 60 per cent of the population residing in rural areas where poverty levels are significantly high. Since most rural households are engaged in agriculture, the sector provides a platform through which poverty reduction through economic transformation can be achieved.

The critical challenge facing Zambia's agriculture sector is low productivity, which has been partly attributed to a lack of access to inputs and technology and appropriate financial services[5]. To respond to the challenge of lack of access to financial services in both rural and agricultural sectors, the Zambian Government with key stakeholders such as Bank of Zambia (BoZ), Financial Services Providers (FSPs) and both local and international organizations, have designed key intervention as outlined in the National Financial Inclusion Strategy (NFIS). The main objective of NFIS is to increase the uptake of financial services among Zambia's adult population, including farmers. Increasing financial inclusion amongst farmers and the rural population through providing access to appropriate and sustainable financial services has been argued to be a key contributor to productivity and growth in Zambia and globally.

There are several constraints affecting Zambia's Agricultural and Agro Processing (AAP) sector, such as inadequate agricultural inputs and policies, poor rural road connectivity, lack of access to appropriate financial services, low power access and reliability and lack of appropriately skilled labour[6]. Addressing the agricultural finance challenge has been identified as a key priority as increasing access to and improving the quality of agricultural and rural financial services across AAP and rural businesses are highly important to national socio-economic objectives and the attainment of Sustainable Development Goals (SDGs).

FSD Zambia through support of the GIZ implemented ‘Promotion of Agricultural Finance for Agri-Based Enterprises in Rural Areas (GV-AgFin)’ project conducted additional research on the status of agricultural finance in Zambia. FSD Zambia is a Zambian organisation working closely with key players throughout the economy to ensure that all Zambians are financially healthy, particularly the most excluded and underserved. Using the facilitation approach, FSD Zambia helps rural households, women, youth, low-income people, and other households to understand and access a wide range of sustainable, comparable, and affordable financial services.

GV AgFin, is a GIZ implemented project financed by the German Ministry of Development Cooperation, it aims at bridging the gap between the specific financial needs of the agricultural sector (demand side) and the insufficient provision of financial services for the agricultural sector on the supply side. GV AgFin is designed as a concerted approach that combines interventions on the 'demand' and 'supply' side, with the main objective being to improve the supply of financial services adapted to the business models of farms and agri-based enterprises.

This report presents the findings and key recommendations on the status of agricultural finance in Zambia. The research involved scanning both the demand and supply side for:

1) Increase market understanding of agricultural finance issues based on the 2020 FinScope survey (Demand side);

2) Review of agricultural finance services providers in terms of available products (supply side);

3) Identification of opportunities and challenges which will be targeted toward policy recommendations; and

4) Identification of policy issues to improve the provision, access, and use of agricultural services.

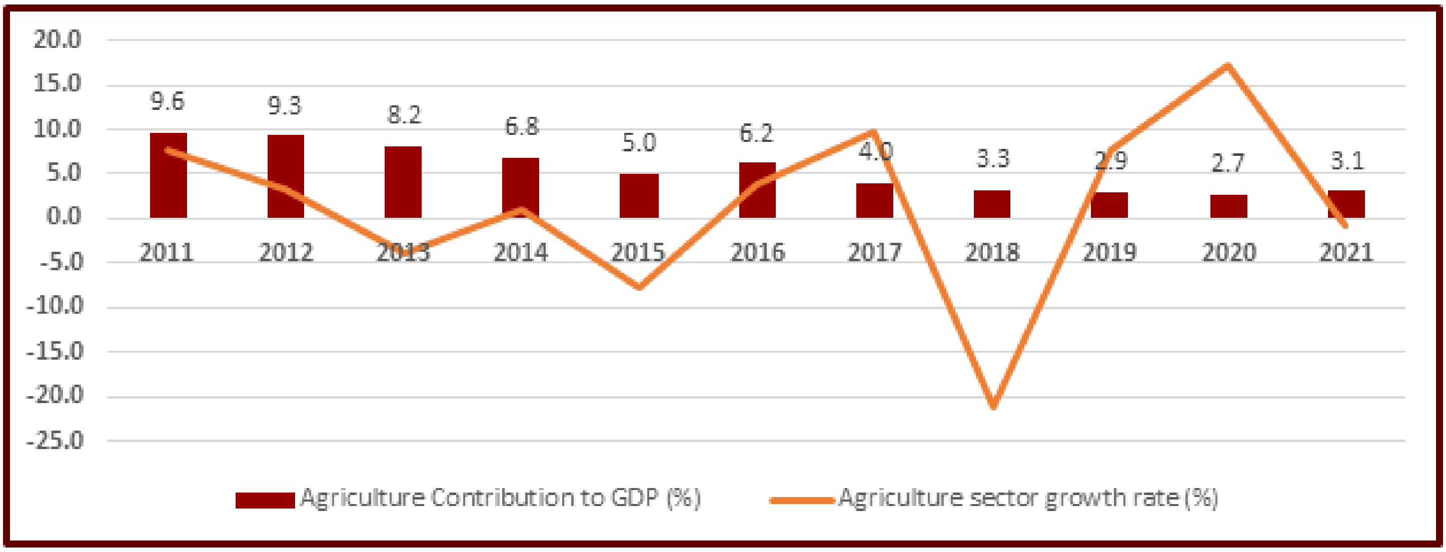
3. Eighth National Development Plan (2022 – 2026) – Ministry of Finance and National Planning
4. Zambia Statistical Agency (2022) and Labor Force Survey Report (2020)
5. Indaba Agricultural Research Institute, Zambia Agricultural Status Report 2020
6. Millennium Challenge Corporation, Constraints to Inclusive Growth in Zambia, 2022

1.2. Agricultural and Financial Sector Overview

1.2.1. Agriculture Sector Overview and Performance

Gross Domestic Product (GDP) Contribution and Sector Growth Rates: Zambia's agricultural sector contribution to GDP has been declining over the past decade averaging 5.6 per cent. Though there has been a slight increase to 3.1 per cent in 2021 from 2.7 per cent in 2020, GDP contributions remain low, considering that most of the Zambian population is employed and derives their livelihood from the agriculture sector. Similarly, the sector growth rate has remained significantly low (past decade average of 1.5 per cent). Figure 1.

Figure 1: Agriculture Contribution to GDP and Sector Growth rates (%), 2011 - 2021



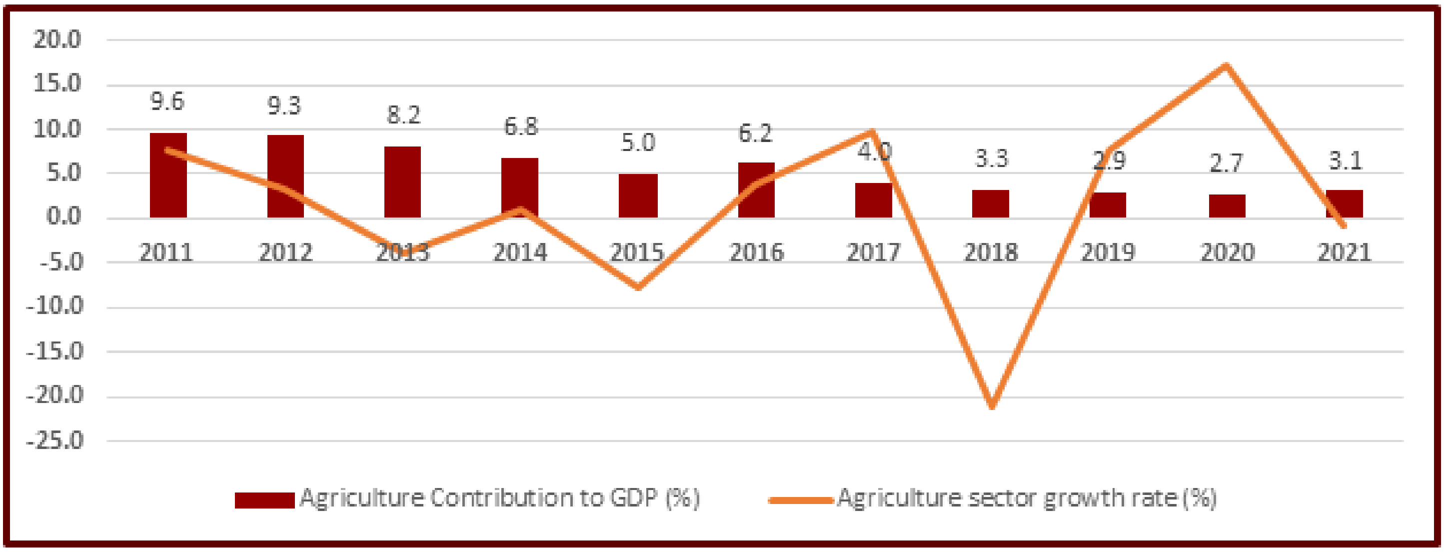
Source: Author based on statistics from Zambia Statistical Agency and Ministry of Finance and National Planning

The major attribution factor to the poor performance observed in the agricultural sector has been adverse weather conditions due to climate change effects, resulting in high rainfall variability. This is because the agricultural sector in Zambia is dominated by SHFs[7], who cultivate less than 2 hectares and depend on rain-fed agriculture. Hence, extreme climate events have and are likely to lead to massive crop and livestock failure affecting the sector's overall contribution.

Agriculture Production: More than two-thirds of agricultural production in Zambia is crop-based with maize accounting for more than half of the total crop production. Over the past decade, there has been slight variability both in maize production and yield. Between the 2018/2019 and 2020/2021 farming seasons, maize production nearly doubled from 2 to 3.6 million metric tonnes. This increase in production has been attributed to adequate rainfall received in the 2020/2021 farming season.

7. Based on IAPRI 2016 data, out of the total households involved in farming, 71 percent are smallholders cultivating between 0 to 2 hectares

Figure 2: Maize Production (MT) and Yield (MT/Ha), 2010/2011 to 2020/2021 Seasons

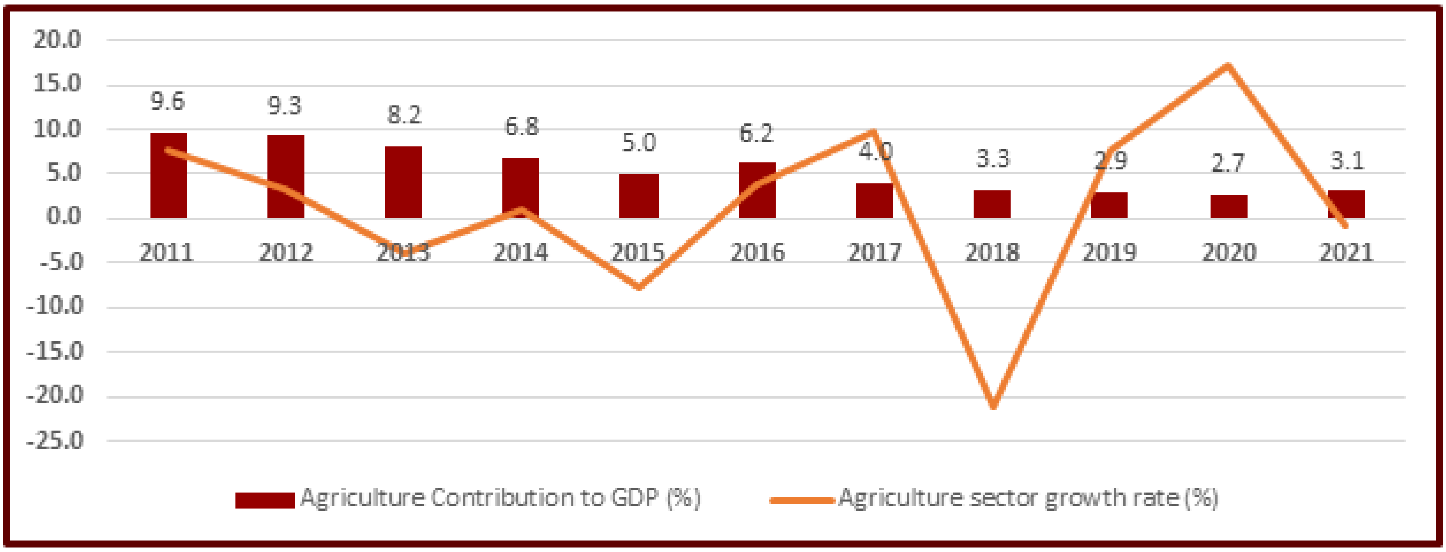


Source: Author based on statistics from Zambia Statistical Agency and Ministry of Finance and National Planning

Due to an increase in maize production, the main staple food in Zambia, the country has seen a stable food security position with adequate stock for human and industrial consumption[8]. Other sub-sectors contributing to agricultural production include livestock and fisheries, which have seen marginal increases in the past few years.

Expenditure Allocation: For the past ten years, Zambia's public expenditure allocation on agriculture has been below the 10 per cent threshold set in the Malabo declaration[9]. Limited public expenditure in agriculture has also impacted the country's ability to realise and attain the Comprehensive Africa Agricultural Development Programme (CAADP) commitments.

Figure 3: Agriculture Budget Allocation and Expenditure (%)



Source: Author based on statistics from Ministry of Finance and National Planning

Additionally, as seen in figure 3, public expenditure in agriculture has been dominated by only two programmes, the Farmer Input Support Programme (FISP) and the Government purchase of grain, mainly maize, through the Food Reserve Agency (FRA). Though such Government programmes (FISP and FRA) are well appreciated, over-prioritisation has the potential to shift resources from other needy

8. According to MoF 2021 Annual Economic Report, food security position is mostly measured through adequacy of the main staple food which is maize. Malnutrition is quite prevalent in the country but is not an input in the measurement of food security position.
9. Malabo declaration is an African Union Declaration were member states agreed on sets of principles to accelerate agricultural growth and transformation. One of the commitments to enhance invest finance in agriculture required 10 percent of the total budget on agriculture.
10. Indaba Agricultural Research Institute, Zambia Agricultural Status Report 2021

areas and core mandates of the sector, such as extension services and research where spending has generally been low[10]. Additionally, the focus on maize has led to malnutrition in the country causing stunting.

1.2.2. Financial Sector Overview and Performance

The financial sector in Zambia comprises banks and Non-Bank Financial Institutions (NBFIs) and is regulated and supervised by three agencies, namely, the Bank of Zambia (BoZ), Security and Exchange Commission (SEC) and Pension and Insurance Authority (PIA). The sector is dominated by mostly foreign-owned banks, accounting for above two–thirds of the total financial sector assets. See table 1

Table 1: Financial institutions in Zambia, Number and share of financial assets, 2021

Type of financial institution	Number of Financial institutions (FIs)	Percentage share of total financial assets
Banks	17	73.3
Pension Funds	245	16.6
Insurance	29	2
Leasing Finance Institutions	8	0.3
Building Societies	2	1
Bureau de Change	74	<0.1
Savings and Credit Institutions	1	0.4
Microfinance Institutions	38	5.3
Development Finance Institutions	1	1
Credit Reference Bureau	1	<0.1

Source: Bank of Zambia

Banking Sector: Despite the slowdown in economic activities because of the Covid -19 pandemic, the performance of the banking sector in Zambia as measured by asset and liability structure, capital adequacy, asset quality, earnings and liquidity, and fund management has remained satisfactory[11]. The satisfactory performance of the Banking sector over the past five years has been attributed to the adequate capital position, satisfactory earning performance and liquidity conditions. See table 2.

Non-Bank Financial Sector: As of December 2021, the performance of the NBFIs regulated by BoZ was rated to be satisfactory. Specifically, on the performance benchmarks capital adequacy position was strong, but asset quality was unsatisfactory (17.2 per cent in 2021 above the prudential limit of 10 per cent). Earnings performance was rated as satisfactory (In 2021, profit before tax was K953.6 million in contrast to a loss before tax of K23.6 million in 2020) and liquidity condition was rated strong (60.5 percent in 2021 from 55.3 per cent in 2020 and above the prudential minimum of 15.0 percent)[12].

11. Ratings: Strong – Sound in every respect, no supervisory response required. Satisfactory – Fundamentally sound with modest correctable weaknesses, supervisory response limited. Fair – Combination of weaknesses, if not redirected will become severe. Watch category. Requires more than normal supervision. Marginal - Immoderate weaknesses unless properly addressed could impair future viability. Needs close supervision. Unsatisfactory - High risk of failure in the near term. Under constant supervision.
12. Bank of Zambia and Ministry of Finance and National Planning Economic Reports (various years)

Table 2: Banking Sector Performance Indicators, 2017 - 2021

Performance Indicators/Other data	2017	2018	2019	2020	2021
Total Assets (K' million)	71,702.10	82,098.80	93,124.30	137,475	156,860
Total Deposits (K' million)	53,703.00	61,248.40	68,943.40	105,363	113,001
Capital Adequacy					
Total regulatory capital to risk-weighted assets	26.5	22.1	22.2	20	24.6
Tier 1 regulatory capital to risk-weighted assets	24.5	20.1	20.1	17.7	23.2
Asset Quality					
Non-performing loans (NPLs) to total loans	12	11	8.9	11.6	5.8
Net Non-performing loans to total assets	4.1	3.9	0.3	0.9	0
Allowance for loan losses to NPLs	66.5	86.4	91.6	75.9	102.8
Profitability					
Return on assets	3.1	3	3	2.1	5.2
Return on equity	15.4	14.8	16.5	12	35.1
Net interest margin	9.1	9.1	9.3	9.4	9.9
Liquidity					
Liquid assets to total assets	45.9	47	42.1	48.6	46.6
Liquid assets to total deposits & Short-term Liabilities	56.5	57	51.5	57.3	56.3

Source: Bank of Zambia

Capital and Stock Markets: Development in the capital markets, as measured by activity at the Lusaka Stock Exchange (LuSE), continues to be favourable. In 2021, the LuSE All Share Index (LASI)[13] increased by 55 percent on account of share price increments for blue chip companies[14]. As of December 2021, market capitalisation increased by 14 per cent from 57.5 billion Kwacha in 2020 to 67.1 billion Kwacha[15].

Pension and insurance: For the past few years, the performance of the pension and insurance industry has continued to be satisfactory. The major milestones have been the development of microinsurance guidelines and the commencement of the feasibility studies on micro pension, which will result in increased coverage of both pension and insurance products for low-income households. Between 2020 and 2021, the insurance industry in Zambia has seen steady growth, as evidenced by a 22 per cent rise in Gross Written Premiums (GWP) (K5.4 billion in 2021 compared to K4.5 billion in 2020). Similarly, the pension industry has also seen steady development, as represented by net asset growth of 14 per cent and an increase in pension contribution by 22 per cent between the 2020 to 2021 period.

Financial Inclusion: Financial inclusion has increased steadily from 59 per cent in 2015 to 69 per cent in 2020. This growth has been attributed to various development in Zambia's financial sector, such as implementing NFIS. See table 3.

13. An Index which shows the changing average value of the share prices of all companies on a stock exchange
14. "Blue chip" is an informal term for the most reliable and valuable companies on the market
15. Lusaka Stock Exchange data

Table 3: Demand side financial inclusion indicators, 2009, 2015 and 2020

Indicator	2009	2015	2020
Percentage of adults who are financially included	37.3	59.3	69.4
Percentage of adults with access to a mobile phone	70.4	76.9	78.7
Percentage of adults that saved any money in the last 12 months	46.0	63.1	54.8
Percentage of adults that saved at a bank or other formal financial institution	9.9	32.5	36.2
Percentage of adults with at least one insurance product	3.2	2.9	6.3
Percentage of adults with at least one pension product	NA	4.0	8.2

Source: FinScope various years

Access points such as Point of Sales (POS) terminals have increased between 2021 and 2020, and this has been accompanied by unprecedented growth in Digital Financial Services (DFS), specifically mobile money (Table 4).

Table 4: Supply side financial inclusion indicators, 2020 - 2021

Indicator	2020	2021
POS terminals per 100,000 adults	239.27	303.80
Mobile money - Active subscribers	8,607,461.0	9,867,409.0
Mobile money - Volumes of Transactions	750,514,157.0	834,121,817.0
Mobile money - Values of Transactions (ZMW)	105,619,623,781.0	169,402,432,643.0

Source: Adapted from Bank of Zambia financial inclusion indicator framework

2 Review Framework and Methodology

A mixed method research design was employed involving the combination of literature review, stakeholder key informant interviews (KIIs) and analysis of available supply[16] and demand data[17]. The literature review was extensive and focused on available reports related to economic and agricultural sector performance, agricultural finance reports, and policies and strategies on agricultural finance in Zambia. Respondents for the KIIs were drawn from key institutions such as the Government (Ministry of Finance and National Planning Rural Finance Unit and Ministry of Agriculture), financial institutions supervised by the Bank of Zambia (Banks and NBFIs), insurance companies, donor-funded projects and market facilitators.

Demand side analysis in mapping out the financial lives of Zambian farmers utilised the 2020 FinScope survey as a key data source. FinScope survey is designed to provide credible financial sector information on the demand side. The main objectives of the survey are to measure the progress in financial inclusion indicators as set out in the NFIS, estimate, and track the trend of financial inclusion over time for both formal and informal and to outline the type of products and services used by Zambia's adult population[18] and identify the drivers and barriers to financial access and usage[19].

The detailed analytical framework is presented in figure 4 below.

16. Data from Bank of Zambia such as Credit Market Monitoring Report and other relevant financial statistics.
17. FinScope survey data
18. Including smallholder farmers
19. Bank of Zambia, 2020 FinScope Survey Report

Table 4: Supply side financial inclusion indicators, 2020 - 2021

Demand Side

- Understanding of financial services used by farmers.
- Levels of financial inclusion among farmers.
- Borrowing behaviors/credit participation.

Supply Side

- Available service providers
- Types of services on offer
- Size of agricultural credit

Policy Analysis and Review

Review of available policies supporting agricultural finance and identify challenges and weakness

Policy Recommendations

- Policy reform enhancements
- Capacity enhancement for Rural Finance Unit and National Financial Inclusion Strategy

Source: Author's Construction

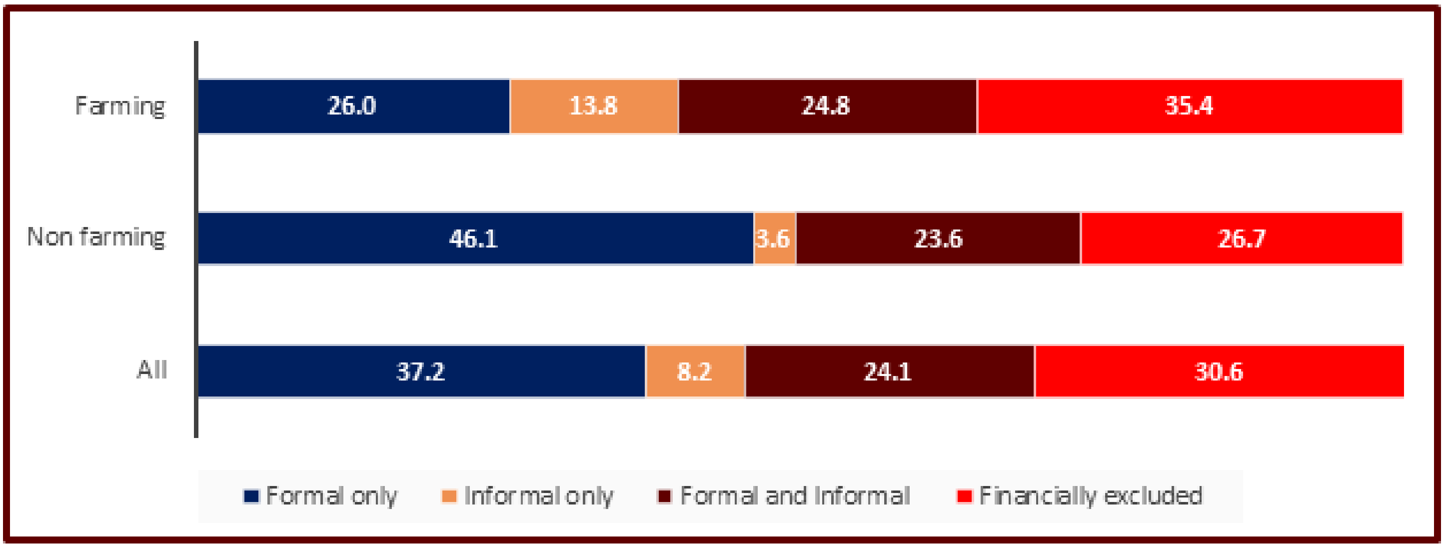
3 | Demand Side Analysis

In Zambia, like many other countries, FinScope survey data presents a rich source of information in understanding financial services used by the adult population. To further understand the types of financial services used by Zambia farmers, data from 2020 FinScope survey was used for analysis. The 2020 FinScope survey estimated about 9.5 million adult populations (Above 16 years old), of which 45 per cent were involved in agriculture[20].

3.1. Levels of Financial Inclusion Among Farmers

There are low levels of financial inclusion for adults that are involved in agricultural activities (64.6 per cent) compared to non-agricultural counterparts (73.3 per cent), representing an 8.7 per cent financial inclusion gap (Figure 5). Though the financial inclusion gap has slightly reduced by 2.3 percentage points from 11 per cent in 2015[21], the gap may be considered high since most of the Zambian population derives their livelihood from agriculture. This means that though the levels of financial inclusion have increased from 59.3 percent in 2015 to 69.4 percent in 2020[22], farmers are less likely to enjoy the benefits of financial inclusion, such as reduced financial vulnerability and increased potential for participating in economic activities.

Figure 5: Financial Access Strands for farming and non farming (%)



Source: Author's Construction Based on 2020 FinScope Data

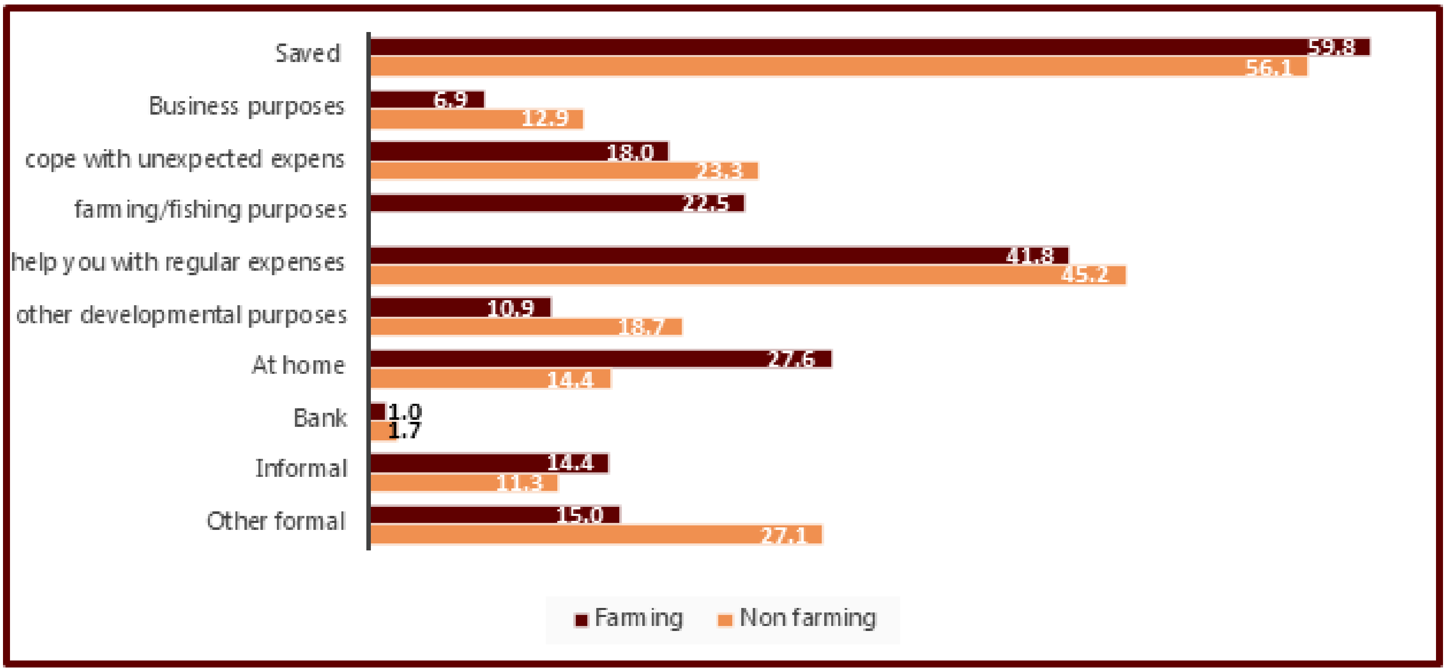
As can be seen from figure 5, farmers are using more (13.8 per cent) of informal financial services such as Saving Groups (SGs) and Village Banks as compared to non-farmers (3.6 per cent), while the usage and access to formal financial services remain low. Though informal financial services are considered the most inclusive, there is a need for informal to formal graduation[23] for Zambia farmers, if the country is to attain the targets for formal financial services set in the NFIS.

3.2. Financial Services Used by Farmers

Saving: The 2020 FinScope survey revealed that the adult population involved in agriculture are saving more (60% compared to 56%) and are mainly saving for transaction purposes (dealing with regular expenses) followed by farming/fishing. The most utilised platforms among farmers were saving at home (28%) and informal services (14%). A smaller proportion of farmers reported saving at a bank or other formal channels. See figure 6.

20. Financial Sector Deepening Zambia FinScope Focus Note – Rural and Agricultural Finance in Zambia (2022). Involvement in agriculture or farming is classified to be involved in either/or of the following: (1) Main source of income is farming (2) Spent most of time farming (3) Own agricultural land (4) saved for farming (5) borrowed for farming (6) bought farming input (7) received money for farming and (8) selling agricultural products
21. Agricultural Finance Diagnostic Report for Zambia, World Bank 2019
22. Bank of Zambia, 2020 FinScope Survey Report
23. Further analysis of FinScope data reveals that between 2020 and 2015, informal inclusion has reduced from 37.9 percent in 2015 to 32.3 percent in 2020. The proportion of households using only informal services reduced to 8.2 percent from 21.1 percent. This means that between the FinScope period, adults using both formal and informal services have increased representing the informal to formal graduation.

Figure 6: Saving, Saving Purpose and Saving Platform (%)

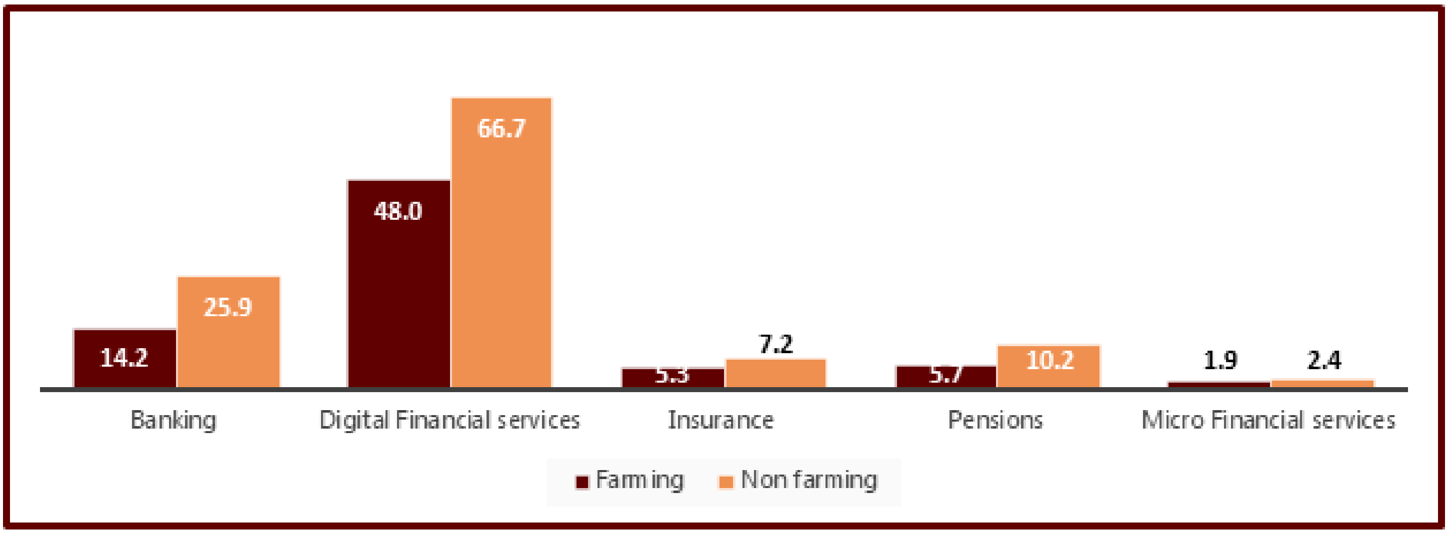


Source: Author's Analyses Based on 2020 FinScope Data

Banking: The utilisation of banking services is very low among farmers as only 14 per cent use banking services compared to their non-farming counterparts (26 per cent). The 2020 FinScope survey further revealed that farmers are utilising banking services mostly for received income other than for payment, saving and borrowing. Low uptake of banking services is mainly driven by proximity and insufficient income to justify usage. See figure 7.

Digital Financial Services: Among formal financial services, DFS was the most utilised service (48 per cent) by farmers, though the proportion is lower than that of non–farmers (67 per cent) (Figure 7). Like the general Zambian population, the most utilized platform for DFS was mobile money mostly for sending and receiving money. Key barriers inhibiting the uptake of DFS services among farmers include a lack of mobile devices, poor demand for services and lack of information.

Figure 7: Formal financial services used by Zambian farmers (%)



Source: Author's Construction Based on 2020 Finscope Data

Other Formal Financial Services: As can be seen in figure 7, uptake of other formal services such as insurance, pensions and services from Micro Financial Institutions (MFI) is low similar to the trend observed in the general population and also non-farmers. Key barriers affecting poor services uptake include lack of affordability, no regular income, and lack of information, as most farmers do not know the benefits of insurance and pension services.

3.3. Borrowing Behaviour and Credit Participation

Borrowing Behaviour: Further analysis of the 2020 FinScope data revealed that there is a slightly higher level of borrowing among Zambian adults involved in farming than their non-farming counterparts (24 per cent as compared to 20 per cent). Farmers mostly borrow from sources such as friends and family, savings groups/village banks, out-growers' schemes. Less than 1.5 per cent of Zambian farmers borrow from formal sources such as Bank and MFI. Farmers borrow mainly for living expenses, farming purposes and risk management, with a smaller proportion reporting having borrowed for business purposes and development. The key barriers for farmers who have not borrowed include lack of capacity to pay back, lack of credit source, no collateral/bad credit history and high cost of borrowing.

Credit Participation: Between 2018 and 2019, total demand for credit, as measured by the number of loan applications, was on a positive trajectory until 2020, when there was a reduction (Table 5)[24]. The slowdown in demand can be attributed to negative economic shocks due to the impact of the Covid-19 pandemic. Further analysis of the CMMR reveals that the proportion of loan applications from the agriculture sector had reduced to less than 0.02 per cent in 2020 and 2021. This means that out of the total demand for credit in Zambia, the larger proportion is from households and individuals (96.9 per cent in 2021), followed by Business Micro Small Medium Enterprises (MSMEs) at 1.9 per cent. Hence, the agricultural sector's credit participation level is significantly small. For large agricultural entities, leases and asset-backed loans constitute the larger proportion of credit applications. In contrast, for smaller agricultural firms, demand for credit is mainly driven by unsecured loans due to a lack of traditional collateral[25].

Table 5: Demand for Credit – Number of Loan Applications, 2018 - 2021

	2018	2019	2020	2021
Agriculture- Large	456	495	337	347
Agriculture- Small and Emergent	1,128	1,177	2,947	3,029
Business- Large	1,459	1,711	1,715	1,521
Business- MSME	223,429	298,231	371,090	393,005
Government	142	145	101	122
Households and Individuals	13,497,210	24,236,539	21,931,427	19,876,631
Other end users	20	13	8	20
Total	**13,723,844**	**24,538,311**	**22,307,625**	**20,522,323**

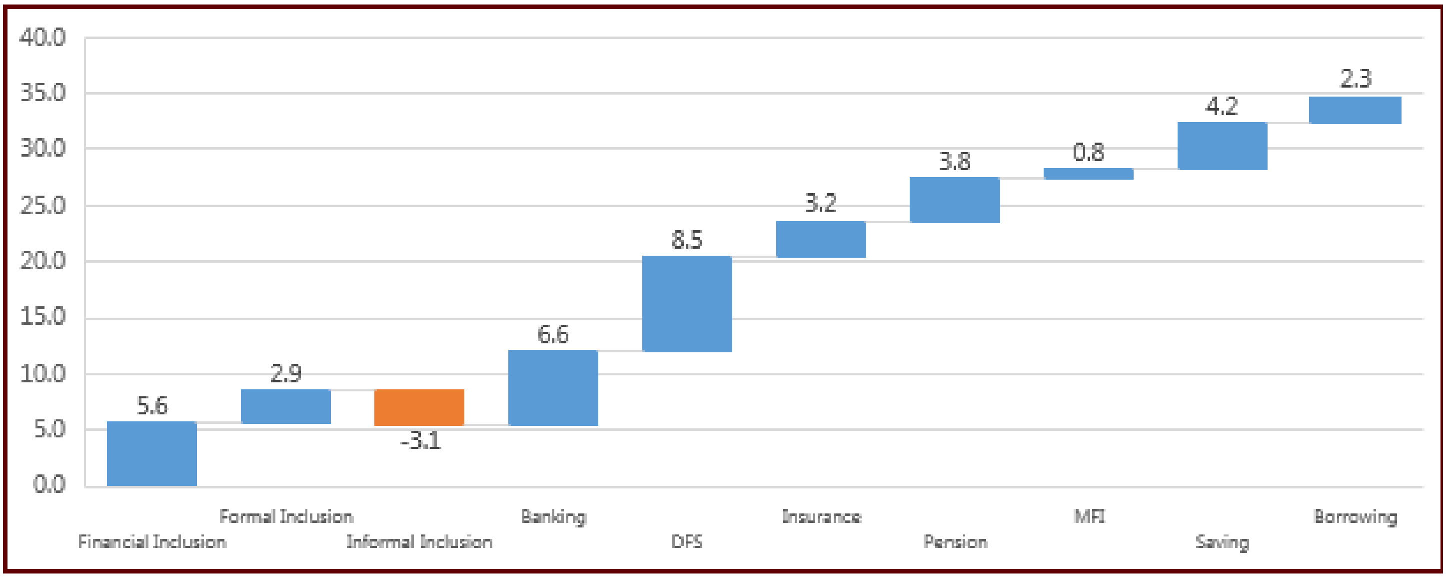
Source: Bank of Zambia Credit Market Monitoring Report Various Years

24. Accessed from https://www.boz.zm/credit-market-monitoring-financial-stability-reports.htm. This result is similar from one observed in the 2019 Rural Agriculture Livelihood Survey conducted by IAPRI
25. 2019 CMMR (https://www.boz.zm/Credit-Market-Monitoring-Report-2019-Final.pdf)

3.4. Gender Gap Analysis of Financial Services for Agriculture Sector

Though Zambia has made substantial progress in increasing the level of financial inclusion, the utilisation of formal financial services is skewed toward men[26]. This trend is also observed in the uptake of financial services among farmers, as can be seen in figure 8[27]. 67.6 per cent of male farmers are financially included as compared with their female counterparts at 62 per cent.

Figure 8: Gender Gap Analysis - Utilisation Of Financial Services Farmers (%)[28]



Source: Author's Construction Based on 2020 FinScope Data

Among specific financial services, the largest gender gaps were observed in DFS (Men 52.4 per cent and women 44 per cent) and Banking (Men 17.7 per cent and women 11.1 per cent)[29].

26. Women and Financial Inclusion in Zambia, FinScope 2020 Focus Note – Financial Sector Deepening Zambia
27. Informed by population-based statistics
28. The positive gap indicate that the service is skewed toward men with a negative for women
29. Gender gap in the financial service utilization for other services were as follows; formal inclusion (Men 71.3% and women 68.4%), Informal inclusion (Men 36.9% and women 40.0%), Insurance (Men 7.0% and women 3.8%), Pension (Men 7.7% and women 3.9%), MFI (Men 7.7% and women 3.9%), Saving (Men 62.0% and women 57.8 %) and borrowing (Men 25.3 % and women 23.0 %). Note: Parameters were treated as independent events

4 Supply Side Analysis

Supply of agricultural financial services for agricultural production, processing, marketing and value chain finance, such as short, medium and long-term loans, leasing, and crop and livestock insurance is important for boosting growth in the AAP sub-sector. Using data from CMMR and interviews with selected Financial Service Providers, this section presents the supply-side analysis of agriculture finance related to the size of agricultural credit, service providers and types of services.

4.1. Size of Agricultural Credit

Though the value of loans disbursed to the agriculture sector for large and small and emergent has been increasing annually, the proportions relative to other end users remain low. In 2021, agriculture credit only accounted for 12.5 percent compared with other sectors. Out of the agricultural loans disbursed large businesses accounted for 32.5% and households and individuals for 23.2%. Analysis of disbursement within the agriculture sector reveals that large agricultural entities accounted for 97.3 percent, with only 2.7 percent for small and emergent farmers (see Table 6).

Table 6: Value of loans disbursed by credit user (ZMW)

Type	2016	2017	2018	2019	2020	2021
Agriculture- Large	1,446,012,684	1,347,062,696	1,721,890,368	5,304,435,810	3,209,518,270	5,139,836,942
Agriculture- Small and Emergent	88,347,529	47,230,638	69,659,674	45,264,377	101,279,893	143,350,752
Business- Large	4,191,139,100	5,176,270,355	5,860,431,607	13,686,581,025	9,711,126,850	13,758,601,999
Business- MSME	1,893,208,751	2,182,979,612	2,241,536,811	2,215,654,893	2,687,506,140	4,429,823,095
Government	892,148,689	726,324,401	1,707,626,918	3,610,784,116	8,082,834,242	8,945,289,030
Households and Individuals	3,055,578,276	5,858,843,620	8,660,759,161	7,216,742,858	5,935,452,754	9,845,140,762
Other end users	110,828,440	200,941,310	138,357,861	207,342,068	2,456,010	90,392,911
Total	**11,676,758,404**	**15,529,412,053**	**20,400,262,400**	**32,286,805,147**	**29,730,174,158**	**42,352,435,490**

Source: Bank of Zambia Credit Market Monitoring Report various years

Furthermore, an analysis of credit disbursement by farm size revealed that in 2021, less than 2 per cent of the total disbursement went to small and medium farms. This means that though Smallholder Farmers (SHFs) and emergent farmers are a majority, they lack access to appropriate credit instruments. Field interviews with FSPs revealed that most SHFs lack the requirements such as collateral and reliable financial information for high value loans making lending to them risky, and costly.

In terms of gender – disaggregation, women lack access to available credit; between 2016 and 2021, the proportion of credit disbursed to women averaged around 20 per cent[30]. This confirms the finding from demand analysis, which revealed some inherent gender gaps in the uptake and usage of financial services. To close such gaps, there is a need for FSPs to design financial products tailored toward the needs of women[31].

4.2. Agricultural Finance Service Providers

There are several agricultural finance providers in Zambia, ranging from formal to informal players. Formal service providers are mainly from commercial banks NBFIs such as MFI Development Bank while informal sources include community savings groups, non – Government Organisations (NGOs)/

Faith-Based Organizations (FBOs)/churches and friends/relatives/informal money lenders[32]. Other key players include Government through the provision of input subsidies[33], Agribusiness, out-grower schemes and input suppliers. Additionally, a smaller proportion of farmers in Zambia are financing their agricultural activities using savings.

Commercial Banks: In terms of value, commercial banks account for the largest share of agricultural finance in Zambia, although their lending is targeted mostly at large scale farmers. Data from 2021 CMMR revealed that out of the total agricultural portfolio, 97 per cent went to large-sized farms as most banks are involved in financing commercial farmers. There are several banks[34] with products that are targeted toward both commercial and emergent farmers, although the approach by banks is to target high-value clients with collateral-based loans to manage the risks associated with agricultural lending.

State-Owned Parastatal Finance Institutions: Development Bank of Zambia (DBZ) and the National Savings and Credit Bank (NatSave) are also involved in lending to the agriculture sector. However, their share of total financing to the sector is very small compared to commercial banks[35]. Like private owned commercial banks, DBZ lending is mostly targeted at commercial farmers and agribusiness companies. Conversely, NatSave lending is targeted toward SHFs and emergent farmers for short-term and medium-term financing such as working capital, asset financing (mechanization) and trade financing. To promote the interest of underserved farmers, Natsave offers most of its products in partnership with other development organisations and market-facilitating agencies such as GIZ, FSD Zambia, MUSIKA.

Micro Financial Institutions: As of 2021, 38 MFI are operating in Zambia[36]. Although most of them are involved in lending to Government workers and other employees, a few of them, such as Agora, Vision Fund and Madison Finance, have significant portfolios in the agriculture sector. Lending by MFI is mostly targeted toward SHFs, MSMEs and groups and mostly short to medium-term financing, offering very limited amounts.

Agribusiness-Based Enterprises: Based on the data analysis from 2019 RALS, this category represents the largest source of finance for rural and agricultural activities. Agribusiness enterprise comprises out-grower schemes, input suppliers (Agro dealers) and agricultural equipment leasing companies. The largest out-grower scheme in Zambia is in the cotton sub-sector, offering inputs as a credit to farmers under contract farming. Other leading suppliers active in the Zambia market include CAMCO, SARO, Louis Dreyfus Company (LDC), etc.

Social and Informal Finance: This represents the second largest proportion of finance for SHFs in rural areas and sources such are family/friends, kaloba[37], savings groups and village banks. The 2019 Rural Agriculture Livelihoods Survey (RALS) revealed that 32% of SHFs' agricultural credit was sourced from family and friends. The FinScope and FSD Zambia impact assessment survey shows that a significant proportion of informal group members are saving to purchase agricultural inputs and equipment[38].

Farmer Input Support Programme: FISP is a government programme that provides inputs to smallholder farmers, such as fertilizer and seeds and is intended to address a lack of financial options for smallholders. However, the programme focuses on grain particularly maize which is Zambia's staple food. The programme was initially designed so that smallholders would receive inputs for up to 3 years. The inputs would allow the farmer to increase yields and graduate from the programme. FISP is a lifeline as there are no alternative sources for financing for farmers who cannot afford the terms and conditions of other players on the market.

Self-Financing: The other option for farmers to finance their agricultural activities is through self-financing, and this is normally done through savings and the sale of crops and livestock. Further analysis of FinScope data revealed a smaller proportion of farmers using this financing platform.

30. Further analysis of CMMR data from 2016 to 2021 on the portion of credit accessed by women
31. The survey conducted in 2019 by Bank of Zambia, Financial Sector Deepening Zambia and Alliance for Financial Inclusion on supply side sex disaggregated data revealed that few financial institutions, offered gender- focused products and services
32. 2020 Zamstats/IAPRI/MoA Rural Agricultural Livelihoods Survey
33. Farmer Input Support Programme which is the subsidy programme by government is a source of input for a proportion of SHFs in Zambia
34. Zanaco, FNB, Stanbic, Standard Chartered Bank have diversified portfolios in agriculture sector. Banks such as AB and NatSave are also involved in lending to both emergent and SHFs
35. The DBZ and NatSave share of total agricultural lending is less than 3 percent (BoZ/CMMR)
36. Bank of Zambia Data
37. Kaloba refer to informal lending from shylocks whose interest rate is compounded
38. Analysis of purpose of saving with SGs and village banks based on data from FinScope 2020 and FSD Zambia Impact assessment surveys for 2019, 2020 and 2021.

4.2. Agricultural Finance Service Providers

There are various products and services to serve the agriculture sector in Zambia. Apart from debt-financed products, there are other services such as agricultural insurance and warehouse receipts[39]. See the table below for details.

Table 7: Agricultural Finance Products and Services on the Zambian Market

Product/Service	Provider	Description
Short and long–term loans	Commercial Banks and DBZ	Available products are mostly targeted toward large and medium-sized commercial farmers with an interest rate[40] based on the Bank of Zambia policy rate. The loan amount can be USD 200,000 or higher. Selected banks also offer low-value loans to SHFs and emergent farmers. Land buildings and equipment are the collateral requirements
Short terms loans	MFI and NatSave	Financing for SHFs, emergent farmers, MSMEs and group lending. These products offer smaller amounts, with a limited amount on offer depending on need, and they have a higher interest rate of over 50% per annum. Fixed and movable collateral is accepted.
Short-term input loan	Agribusiness companies, out-grower schemes and Agro dealers	The loan amount varies depending on the value of input received, while the interest rate is included in the transaction. No collateral requirement
Weather Index Insurance (WII), Area Yield Insurance (AYI) and Index Based Livestock (IBL)	Insurance companies such as Mayfair, Hollard, and Zambia State Insurance (ZSIC),	Designed to cover various risks such as droughts, floods, and pest infestations. These products are targeted toward both commercial and SHFs. Insurance helps reduce the risk of lending to SHF. Coverage to SHFs increased when WII was bundled with FISP.
Informal Short-term loans	SGs, Village banks, friends and family, private unregulated money lenders (kalobla)	These are targeted toward SHFs who are in dire need and have little or no capacity to borrow from formal sources. The loan amounts are usually small, characterized by a high-interest rate, which in some cases is compounded.

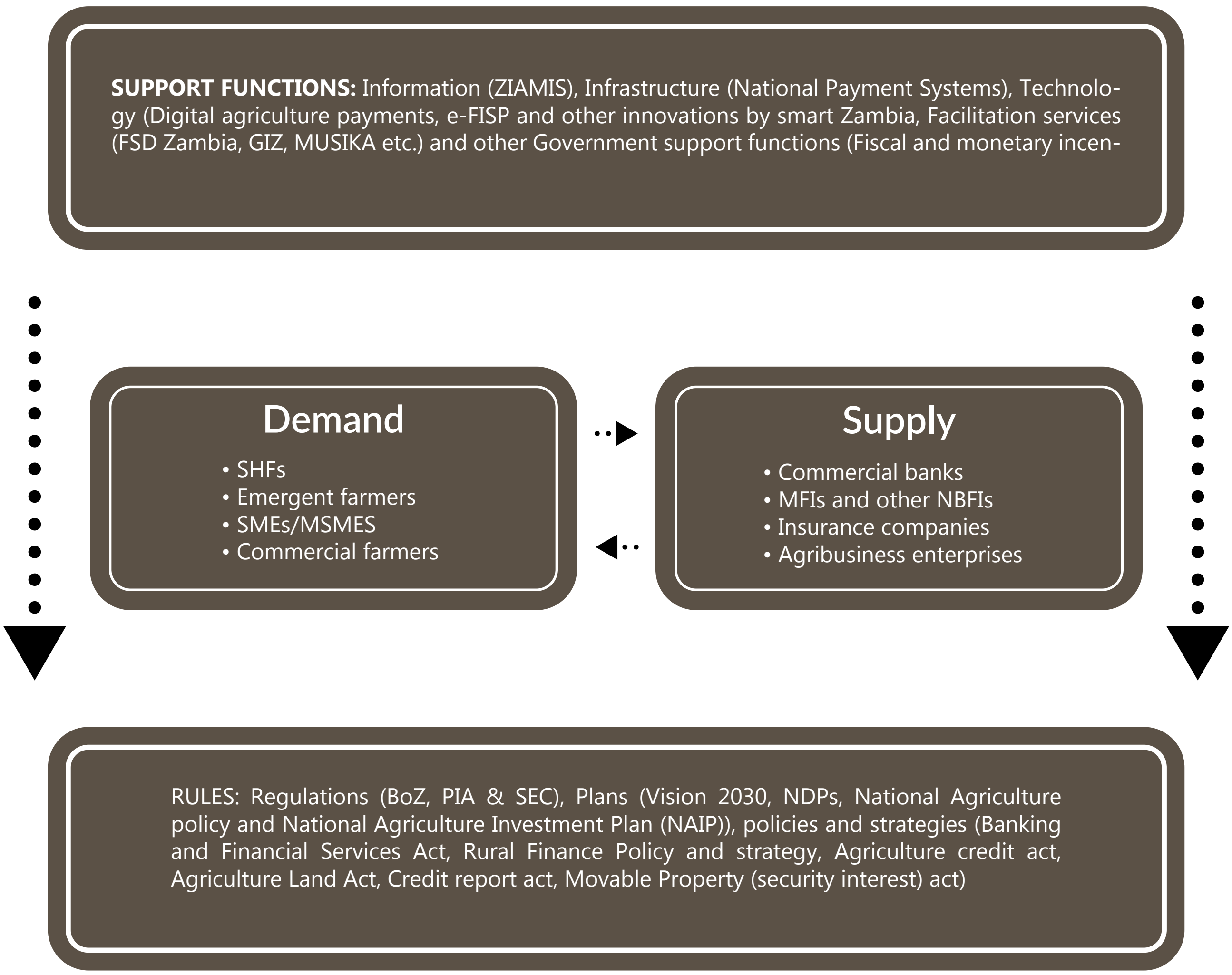
Source: Author based on interviews with key respondents and secondary data

39. This service is available from Zambian Commodity Exchange (ZAMACE), a commodity exchange and warehouse certification service provider which was launched in 2015 as a public private partnership. However, warehouse receipting in Zambia is not fully developed as ZAMACE is not fully operational due to no clear-cut support and messaging from Government.
40. Annual interest rates range between 25 – 30 percent per annum.

5 Policy Analysis and Supporting Environment

Using the market systems[41] approach shown in figure 9, four key issues (Demand, Supply, Support functions and rules) must be critically examined to address the inherent challenges surrounding agriculture finance in Zambia. Demand and supply analysis has been presented in the previous two sections. Hence this section will cover policies and strategies and the supportive environment.

Figure 9: Zambia `s market systems Agriculture Finance Framework



Source: Author's Construction-Based Field Interviews and Documents Review

41. A market system is a multi-function, multi-player arrangement comprising the core function of exchange by which goods and services are delivered and the supporting functions and rules which are performed and shaped by a variety of market players.

5.1. Policies, Strategies and Laws Supporting Agricultural Finance

Agriculture finance combines two critical sectors of the economy; agriculture and finance, and as such, a broad range of policies and strategies must be put in place. In the agriculture sector, the 2013 Zambia National Agriculture Policy (NAP) arrays Government's policy commitments, while the National Agriculture Investment Plan (NAIP)[42] is designed to be more specific in identifying areas of investment to implement NAP. Development in the agricultural sector is also aligned with other national strategies, such as National Development Plans (NDPs)[43] and National Budgets, to ensure that sector allocations are in line with international commitments such as CAADP.

Zambia's financial sector is governed by the 2017 National Financial Sector Development Policy (FSDP). The Policy offers strategic guidance and coordination mechanisms, aiming to have a well-developed and inclusive financial system that supports efficient resource mobilisation and investment for sustainable economic development. The FSDP was intended to address weaknesses in the Zambian financial system and develop the financial sector by focusing on the following key measures: legal reforms and corporate governance; payment systems; market efficiency and contractual savings; financial education; and access to finance and financial markets[44].

Like many other countries, Zambia does not have a specific agricultural finance policy. Agriculture finance is supported by a broad range of policies which are coordinated across various government ministries and departments. The main policy designed to support finance in the agricultural sector in Zambia is the Rural Finance Policy and Strategy of 2012. The policy was designed to respond to and address inherent weakness in the Zambian financial systems to increase access to financial services for rural households and enterprises for which agriculture is a major activity dominating rural areas.
To support the smooth implementation of policies related to agriculture finance through an improved legal framework, many laws have either been put in place or amended[45]. See the table below.

Table 8: Laws Supporting Agricultural Finance in Zambia

Law/Act of Parliament	Purpose
Agricultural credit act no.35 of 2010	This Act repealed and replaced the Agricultural Credit Act of 1995 by establishing the Warehouse Licensing Authority[46]and providing for its functions and powers. The Act provides for borrowing money on the securities of charges based on farming stock and other agricultural assets. This Act meant a broad range of options for agriculture finance as a farmer could access credit based on farming stock.
Banking and Financial Services Act No.7 of 2017	The Act provides for the licensing system for the conduct of banking and financial services to provide for the incorporation of standards, principles and concepts of corporate governance in institutional systems and structures of banks and financial institutions; to provide for sound business practices and consumer protection mechanisms; to provide for the regulation and supervision of banking and financial services; to repeal and replace the Banking and Financial Services Act,1994; and to provide for matters connected with, or incidental to, the foregoing. All products and services developed by FSPs to finance the agriculture sector should be aligned with this Act.
Credit Reporting Act No.8 of 2018	The Act provides for the regulation of credit reporting agencies by the BoZ; the licensing of credit reporting agencies; the establishment of a Credit Registry; the governance and management of credit reporting agencies; the protection of data subjects; information sharing and reporting to enable assessment of the credit worthiness of a data subject.
Movable Property (Security Interest) Act No.3 of 2016	This Act allows the public (including farmers) to use their movable property as collateral to access credit. This Act has resulted in creating a Collateral Registry at PACRA called the Movable Property Registry System (MPRS). Extending collateral to movable properties and other land fixed assets has allowed FSPs to develop a wide range of services and increase access to financial services

Source: National Assembly of Zambia Acts of Parliament

5.2. Supporting Environment

The Government and other stakeholders, such as development organisations, have provided a supportive environment for the agricultural finance market. Government support is viewed at two levels; regulatory and use of fiscal incentives[47], while development organisations work with the Government and the private sector on initiatives to increase access, usage and uptake of financial services within the agriculture sector.

Regulatory Support: The financial sector in Zambia is regulated by three players; BoZ, PIA and SEC. BoZ regulates agricultural credit services provided by banks and NBFIs, while capital and investment funds fall within the ambit of the SEC. In addition to supervisory services, BoZ also undertakes monitoring and reporting of agriculture credit flow through CMMR. PIA regulates agricultural insurance which has been on the rise in recent years. However, agriculture finance services include informal services; currently, no regulations guide informal agricultural credit.

Fiscal Support: The Zambian Government provides an input subsidy, FISP, to small-scale farmers and established FRA to provide a market for farmers. In recent years, FISP and grain purchases through FRA have dominated Government's public budget for the agriculture sector. Currently, the Government does not provide fiscal incentives to private sector players or FSPs who provide agricultural credit in tax rebates or interest rate discounts.

Credit Guarantee Schemes[48]: To promote lending to key sectors of the economy, including agriculture, Government, through the Ministry of Finance and National Planning (MoFNP) created the Zambia Credit Guarantee Scheme (ZCGS) as a private entity. The purpose ZCGS is to warrant the growth of the SME sector by providing a platform for FSPs to offer credit at reduced risks as a guarantee is provided in case of default. Other private sector and government partnership schemes have been launched in Zambia to promote lending to SMEs in AAP[49].

Development Organisation Support: To ensure a supportive environment for agricultural credit, donor-funded development organisations have been active in Zambia. Their support is not only limited to facilitating the development of appropriate products by FSPs but also policy enactment, and supervisory and regulatory support to key government institutions. Currently, some of the development support initiatives include but not limited to FSD Zambia market facilitation role through their Rural and Agriculture Finance[50] (RAF) programme to promote the development and uptake of services to SHFs; GIZ through the GV-AgFin programme, which is aimed at promoting agricultural finance for agri-based rural enterprises; RUFEP through the provision of competitive grants to FSPs to provide lending for rural based agricultural enterprises; MUSIKA through market facilitation to ensure development of products such as digital payment solutions and warehouse receipt financing; and the Farm to Market (FtMA) public – private sector alliance supported by World Food Programme to promote market leakages and access to finance for SHFs.

42. The last NAIP covered the period 2014 – 2018 and the process is currently ongoing to develop the successor plan
43. One of the key strategies of the Eighth National Development Plan covering the period 2022 – 2026 is to increase agriculture production and productivity to ensure an industrialized and diversified economy.
44. https://www.boz.zm/policies-and-strategies.htm
45. These laws are not only specific to agricultural finance but to support the overall credit market in Zambia
46. This led to the creation ZAMACE in 2015.
47. Fiscal Policy instruments such as tax reduction, grants and subsidies applied by the governments to support various activities of individuals and organizations
48. A credit guarantee scheme provides third-party credit risk mitigation to lenders through the absorption of a portion of the lender's losses on the loans made to SMEs in case of default, typically in return for a fee (https://www.worldbank.org/en/topic/financialsector/publication/principles-for-public-credit-guarantee-schemes-cgss-for-smes)
49. In June 2022, USAID through Enterprise Development and Growth Enhanced project launched a $20 million loan guarantee for SMEs in Zambia
50. One of the thematic programmes at FSD Zambia targeting financial inclusion for Smallholder farmers

6 Key Challenges, Opportunities and Recommendations

This report provides the status of agricultural finance in Zambia using the market systems approach focusing on demand, supply, rules and supporting environment. The analysis revealed the following key findings: Though Zambia is making progress in increasing the levels of financial inclusion, formal inclusion for farmers is still low on services such as banking, DFS, insurance, and micro financial services. Farmers are borrowing more than their non-farming counterparts, but mostly from informal sources. The proportion of formal credit to the agriculture sector as revealed by CMMR is very low and is mostly for commercial farmers than emergent and SHFs. The gender gap is still persistent in the utilisation of financial services among farmers, favouring men. SHFs lack access to formal financial services due to lack of necessary KYC requirements; multiple players[51] provide financial services (long- and short-term products) with commercial banks having the largest share. There is no specific agriculture finance policy in Zambia; both Government and the private sector are providing support for the growth of agricultural finance.

6.1. Challenges and Opportunities

The key findings have presented challenges and opportunities that government and industry stakeholders must act on. The following are the critical challenges and opportunities.

Table 9: Challenges and Opportunities for Agricultural Finance in Zambia

	Opportunities
Farmers' low uptake of formal credit, especially emergent and SHFs, is due to a lack of meeting the requirements (collateral and financial records etc.) demanded by formal financial institutions. This also explains why farmers are borrowing more from other sources, such as agri-based enterprises and informal lenders	Expedite the implementation of the Movable Property (Security Interest) Act No.3 of 2016 through awareness campaigns. Build the infrastructure of community-based lenders to collect more information on credit history and provide informal to formal leakages.
Due to information asymmetry, most formal financial institutions are averse to SHF and emergent farmers' lending due to high real and perceived risks[52]. In the result interest rates are prohibitively high for SHFs. Interest rates range from 30-80% p.a.	Provide sector specific information and capacity building to FSPs on agricultural finance. Create an incentive structure for FSPs who are willing to provide agricultural financial services, especially to SHFs by sharing the risk of lending with FSP through e.g., credit guarantee schemes targeted at SHF and by providing access to local currency capital to FSPs for onward lending at favorable rates.
Perceived market imperfection in the financial markets has affected agricultural finance market development due to need (demand and supply) cost structures. This has resulted in most FSPs having products with a high cost of borrowing/ high interest rates. This explains why MFI, who primarily lend to SHFs, charges higher interest rates than commercial banks lending to large-scale farmers.	Coordinate and develop a specific guideline for the operations of the existing credit guarantee scheme and ensure that the benefits are passed on to the borrowers through reduced lending rates due to reduced default risk Create an incentive structure for FSPs who are willing to provide agricultural financial services, especially to SHFs by sharing the risk of lending with FSP through e.g., credit guarantee schemes targeted at SHF and by providing access to local currency capital to FSPs for onward lending at favorable rates.
Though there are several reforms done to improve the infrastructure support for the overall financial sector, specific infrastructure to serve agricultural finance is still weak (credit insurance, credit registry and collateral registry)	Strengthen the institutional capacity of ZCGS to serve not only processing but also production. Develop clear guidelines to aid the implementation of Credit Reporting Act No.8 of 2018.
Stakeholder Coordination between the financial sector and agricultural sector actors in the agricultural finance space remains weak. Implementation of existing policies and strategies does not consider the specificities of agricultural finance.	Work with stakeholders to develop clear incentive structures for increased access to agricultural finance and further strengthen coordination and institutional mandate of key institutions within the existing NFIS and the rural and agricultural finance policy and strategy.
Limited demand-side data to inform customer-centric product development.	Further Capacity building to FSPs to analyze available administrative and survey data

51.Commercial banks, State owned parastatal, MFIs, Agribusiness based enterprises, government subsidies, community-based groups etc.
52. Credit, production due to weather patterns and political

6.2. Recommendations

Based on key findings, challenges and opportunities, the following are the recommendations for policymakers, regulators, FSPs and development organizations:

Policy Makers: The Government, through its policy-making instruments, should develop specific implementation strategies for the expansion of agricultural finance due to its particular and complex nature based on the NFIS and the Rural Finance Policy and Strategy of 2012, which caters for agricultural finance and falls among several entities (Ministry of Finance, Ministry of Agriculture, Ministry of commerce, other ministries and BoZ). This has resulted in a lack of focus on addressing specific challenges relating to agricultural finance in Zambia. There is a need to enhance and strengthen intergovernmental coordination and re-look at institutional mandate within the implementation framework of rural finance policy within the framework of the NFIS. Government through the relevant ministries should promote the integration of financial literacy into social protection and empowerment programmes e.g., social cash transfer, Constituency Development Fund (CDF) and Farmer Input Support Programme (FISP) as a way of building financial capabilities of SHFs.

The Government should also continue to design and implement policies to develop the financial infrastructure to support agricultural finances, such as credit guarantee schemes, provision of local currency capital linked to favourable interest rates for SFHs and agricultural credit, credit reporting and collateral management. Though auxiliary laws have been passed, the Government needs to support full operationalisation. A good example is Agricultural Credit Act no.35 of 2010, which brought on board Zambian Commodity Exchange (ZAMACE), which is not fully operational to date due to unclear support and messaging from policymakers.

Regulators: Some reforms have been done to make the regulatory environment more conducive to the development of the financial sector. However, there is a need for BoZ, PIA and SEC to take into consideration the specific nature of agricultural finance when developing their regulations. This will result in the most desirable outcome of removing barriers and addressing challenges relating to financing AAP. In the future, regulators should work on rules that consider a detailed understanding of the associated risks of agriculture finance.

Financial Services Providers: There is a need for FSPs to close the information gap by coming up with initiatives with other stakeholders to improve data analytics and knowledge generation and management for the agricultural sector. Poor uptake of available products may be due to the development of generic non-customer-centric products, which barely address the needs of SHFs since agricultural activities are sparsely located; FSPs to develop products targeted at groups such as cooperatives and associations. This will help in minimising the associated lending costs and risks and further reduce the cost of borrowing. Group lending models have worked as long as they are bundled with corporate governance training, financial literacy, group insurance, extension services and off-taker agreements. Increasing the information exchange and stakeholder engagement with the agricultural sector through partnerships with offtakers, cooperative structures and SMEs as well as agro-dealers can help close the gap.

Development Organisations: Donor-funded programmes such as FSD Zambia, UNCDF and GiZ should continue working on initiatives that promote financial and digital literacy for SHFs, product design, uptake, understanding and usage and ensure supportive and conducive regulatory and supervisory policies. One of the principal challenges facing agricultural finance in Zambia is information asymmetry. Hence, development organisations can bring value in the sector by embarking on initiatives that promote and improve data collection, data management and analytics, research, training, and knowledge management to reduce the information asymmetry gap. They can partner with FSPs, policy makers and regulators and collect necessary information and data to better understand and assess risk for specific value chains. They should support FSPs and regulators in collecting more granular administrative data (gender, age, region specific etc.) related to available products and work with Government to come up with platforms that support review of existing policies and strategies and information sharing.

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