



Investing in rural people

Republic of Zambia

Rural Finance Expansion Programme

Programme design report

Main report and appendices

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Project No. 1100001650

East and Southern Africa Division
Programme Management Department

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Currency equivalents

Currency Unit	=	Zambian Kwacha (ZMW)
US\$1.0	=	ZMW5.300 (Rebased, January 2013)

Weights and measures

1 kilogram	=	1,000 g
1 000 kg	=	2.204 lb.
1 kilometre (km)	=	0.62 mile
1 metre	=	1.09 yards
1 square metre	=	10.76 square feet
1 acre	=	0.405 hectare
1 hectare	=	2.47 acres

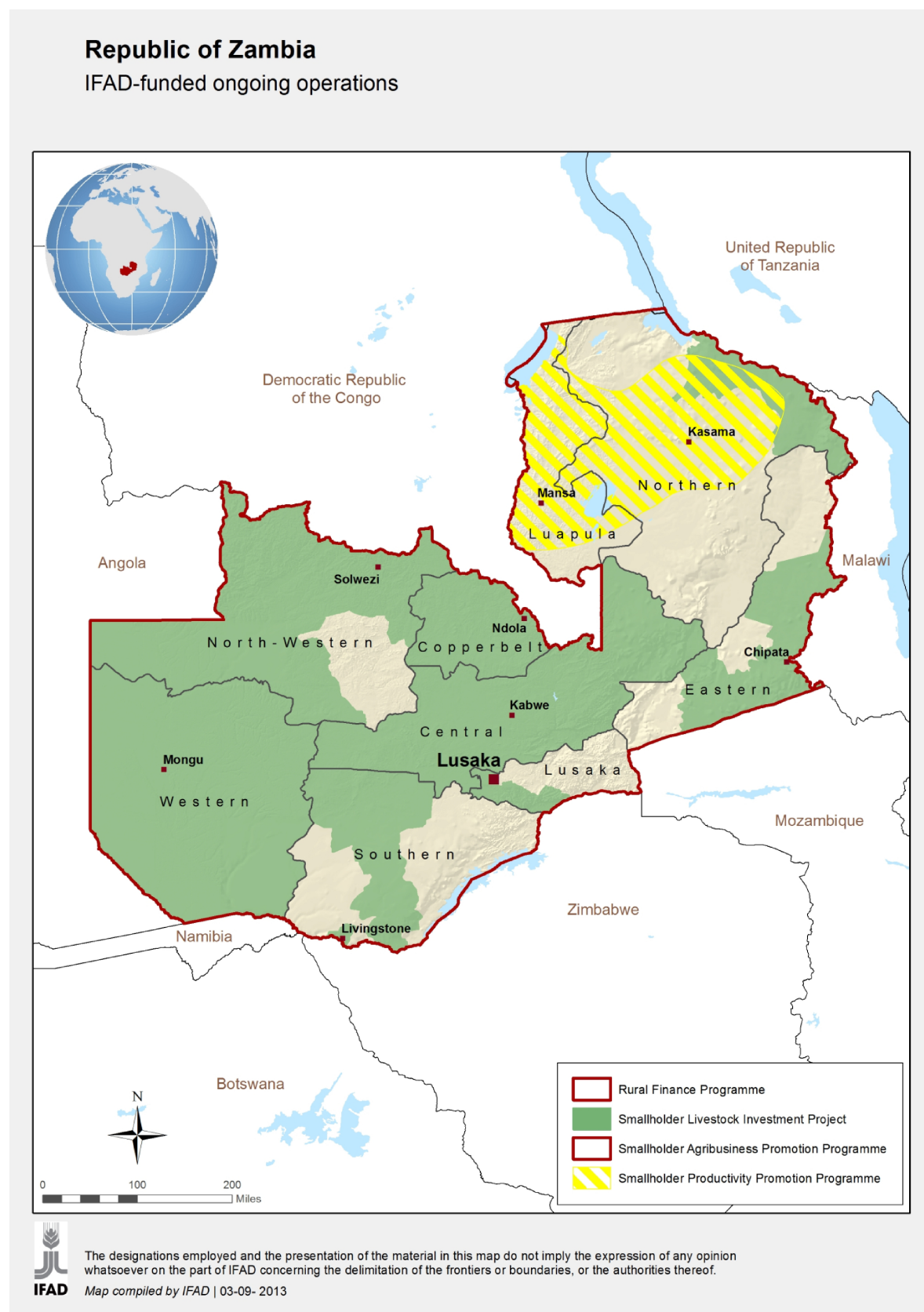
Abbreviations and acronyms

AfDB	African Development Bank
AMIZ	Association of MicroFinance Institutions of Zambia
AWPB	Annual Work Plan and Budget
BAZ	Bankers Association of Zambia
BOZ	Bank of Zambia
CBFIs	Community-based Financial Institutions
COSOP	Country Strategic Opportunities Programme
DBZ	Development Bank of Zambia
FAO	Food and Agricultural Organization (of the UN)
FSPs	Financial Service Providers
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
IDM	Investments and Debt Management Department
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
LCMS	Living Conditions Monitoring Survey
M&E	Monitoring and Evaluation
MAL	Ministry of Agriculture and Livestock
MFIs	Microfinance Institutions
MoF	Ministry of Finance
MSMEs	Micro, Small and Medium Enterprises
MTR	Mid-Term Review
NBFIs	Non-Bank financial institutions
NSCB	National Savings and Credit Bank
PCO	Programme Coordinating Office
PFI	Participating Financial Institution
PSC	Programme Steering Committee
PDO	Programme Development Objective
PIM	Programme Implementation Manual
RFP	Rural Finance Programme
RFSP	Rural Finance Policy and Strategy
RFU	Rural Finance Unit
RUFEP	Rural Finance Expansion Programme
PFSP	Participating FSPs
PDG	Programme Design Group
SIDA	Swedish International Development Agency
S3P	Sustainable Productivity Promotion Programme
SAPP	Smallholder Agribusiness Promotion Programme
SLIP	Smallholder Livestock Investment Project
SMEs	Small and Medium Enterprises
TA	Technical Assistance
USAID	United States Agency for International Development
USD	United States Dollar
VSLAs	Village Savings and Loans Associations
ZMW	Zambian Kwacha
ZNFU	Zambia National Farmers Union
ZPPA	Zambia Public Procurement Authority

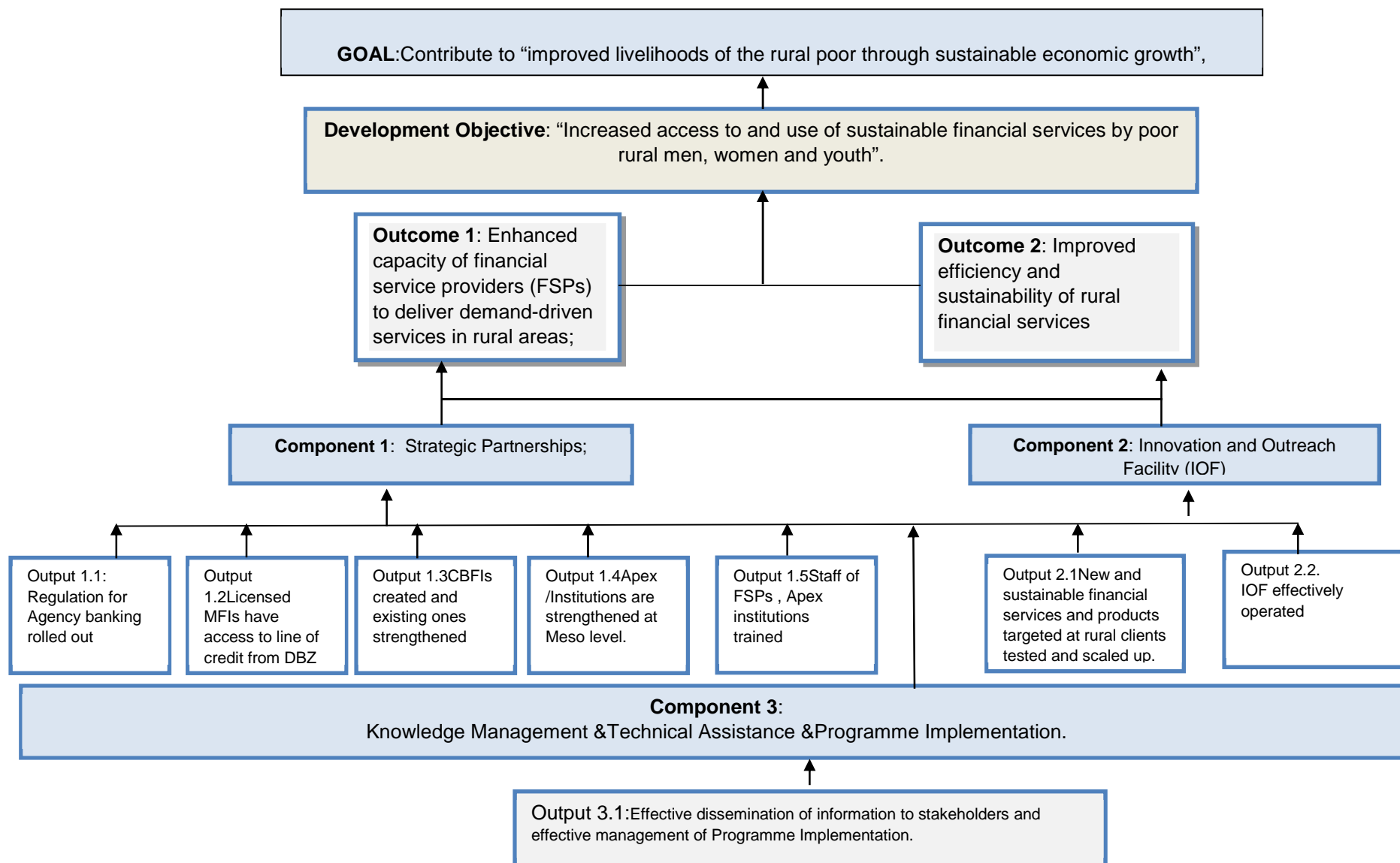
Map of the programme area



Map of IFAD interventions in the country



RUFEP Programme Flow



Executive Summary¹

1. **Justification and rationale:** There is a substantial growth potential in Zambia's agricultural sector. This potential can be better explored by smallholders, small and medium scale entrepreneurs and large corporations with enhanced investments in production, processing and marketing, and value chain development in a broader sense. Such investments will be promoted through the strengthening and diversification of financial services; and creation of enabling environment for provision of suitable financial services to value chain actors. The most recent data indicate that only about 37% of the adult population use financial services. Of this total 22% are users of informal financial services while about 14% are users of the formal banks. Enterprise surveys also indicate that access to finance is the most common business constraint. In the sub-regional context, Zambia has the second lowest financial services usage rate in Eastern and Southern Africa, only trailed by Mozambique. One consequence of this is that poverty rates have remained high ranging from 64% in 2006 to 60% in 2010, which means that the overall poverty rate has only declined by 2% over the period.

2. The financial sector has shown moderate development over the past decade. The number of Banks and deposit-taking financial institutions has grown. Financial institutions are much healthier and more profitable now, thanks to improved regulation and supervision of the relevant institutions by the Bank of Zambia (BOZ). Some Banks and Microfinance Institutions (MFIs) have introduced new products targeting rural industries and agriculture with some degree of success. However, several constraints still remain. These include an inadequate regulatory framework, low human resource capacity in the sector, low competency in structuring finance for complex agricultural operations, reliance on mortgages as collateral, inadequate experience and legal framework for the use of collateral substitutes and little understanding on how to tailor financial services to suit product value chains. These constraints have resulted in the prevalence of many inappropriate products and low targeting potential of new opportunities. On the demand side, lack of consumer awareness and financial literacy is still a challenge.

3. **The Overall framework conditions** for IFAD investment in the rural finance sector in Zambia is generally favourable and promising, but can be improved. However, the recent introduction of interest rate caps by BOZ has the potential to change the landscape. BOZ is monitoring the impact of this intervention and has engaged the sector in dialogue to come up with longer-term market based solutions. The banks' profitability is not at stake, as their average lending rates are below the cap, and they have better investment alternatives. Development-oriented MFIs may be more negatively affected due to high costs, limited investment opportunities and low scale of operation. The new policy is already affecting the operations of a number of MFIs, but others have taken measures to respond to the policy, including reduction of costs, higher scale of operation and reorganization of their portfolios. The policy change may however translate into reduced access to formal financial services by the rural poor and micro and small enterprises (MSEs) in the immediate to medium term period. BOZ is however also considering measures to ameliorate the negative impact of the policy including *inter alia* to develop agency banking regulations which will present more dynamic opportunities for the players

¹Mission composition: Ms Abba Benhammouche (IFAD Country Director and Mission Leader); Mr Ezra Anyango (Policy and Institutional Expert), Ms Teresa Maru Munlo (Financial Institutions Strengthening Expert), Ms Enid Kiiza (Agriculture and Rural Finance Expert), Mr Shakib Mbabaali (Project Implementation Expert), Mr Vittorio Silvestri (Economic and Financial Analyst) and Dr Dick Siame (IFAD Country Programme Officer and Village Savings and Loans (VSLA) Specialist). The previous design Mission was led by Ms Abba Benhammouche (IFAD Country Director and Mission Leader); Mr Michael Marx (Senior Credit and Rural Finance Officer, FAO Investment Centre); Ms Melanie Newman (Agricultural and Rural Finance Specialist); Mr Davis Atugonza (Finance Management Specialist); and Dr Dick Siame (IFAD Country Programme Officer). The first design mission (Oct./Nov. 2012) was led by Ms Fumiko Nakai, then IFAD Country Programme Manager. Ms Elisabeth Ssendiwalwa (IFAD Regional Gender Coordinator East and Southern Africa) contributed the gender and poverty assessment issued during her participation in the first design mission. Mr Francesco Rispoli, Technical Advisor Rural Finance, Policy and Technical Advisory Division, IFAD, Mr Craig Turner, Agribusiness Specialist, consultant, and Dr Siame participated in the inception mission led by Mr Marx in Sep. 2012.

to extend their rural outreach at lower cost. The Rural Finance Expansion Programme (RUFEP) will support the BOZ in this endeavour to bring the costs of branch networks down.

4. **Lessons learnt.** Past interventions of IFAD in Zambia, in particular the Rural Finance Programme (RFP), other funders' experiences, and from a sectoral analysis of constraints/opportunities show that progress on building sustainable rural finance access can only be achieved through a holistic approach, involving several actors at different points in both the financing and product value chains. In this regard it requires: (i) a flexible approach, through which financial institutions will be supported to try out and test new, promising avenues for expansion of services to the un- and under-banked rural population; (ii) addressing knowledge gaps through capacity building over time; (iii) addressing existing gaps in regulation and supervision through capacity improvement over time; (iv) documenting and scaling up of innovative practices existing in Zambia and elsewhere; and (v) providing international expertise to share best practices with the local counterparts. Experience has shown that thematic interventions are desirable, feasible and profitable in agricultural term finance. Such interventions may include supply/value chain finance, savings-based credit schemes and linkages with development programmes, mobile phone transactions, community-based finance, insurance, and others. In addition, the infrastructure of deposit-taking financial institutions in under-served rural areas is worth supporting, given the very good returns of such investments for the rural economy and the rural poor. The instruments and tools used to advance access to finance in the above areas may include, but not be limited to well-defined matching grants, selective capacity development, and strategic knowledge management.

5. **Goal & Objectives.** RUFEP will contribute to the Development Goal “**improved livelihoods of the rural poor through sustainable economic growth**”, which is consistent with the goals and objectives of the Government of the Republic of Zambia (GRZ) and IFAD's Country Strategic Opportunities Programme (COSOP). The proposed Programme Development Objective (PDO) is: “**Access to and use of sustainable financial services by poor rural men, women and youth has increased**”. This will be indicated by increase in the number (about 140,000 households) and percentage of the adult population actually using financial services, and a decline in the cost of borrowing for productive purposes for rural clients. Two major Programme outcomes are expected that would lead to achieving the PDO:

- i) Enhanced capacity of financial service providers (FSPs) to deliver demand-driven services in rural areas; and
- ii) Improved efficiency and sustainability of rural financial services.

6. **Programme Area.** The Programme will be national in scope with the geographical areas finally reached depending on the outreach of the different financial institutions and service providers that will be partnering with the Programme. Specific measures are incorporated in the design for the expansion and deepening of financial services into those areas currently not served or underserved. The main and ultimate target group is the rural poor, in particular the economically active micro and small entrepreneurs and smallholder farmers, with particular attention to women and the youth. The Programme will be implemented over eight years.

7. **Components.** The Programme objectives will be achieved through three components: (1) Strategic Partnerships; (2) Innovation and Outreach Facility (IOF); and (3) Knowledge Management and Programme Implementation. Although all the outputs will contribute to both outcomes to some degree, specific outputs have been assigned to the most relevant component and outcome. The component-specific outputs and outcomes are as follows:

8. **Component 1: Strategic Partnerships** will contribute more directly and significantly to outcome 1: (Enhanced capacity of FSPs to deliver demand-driven services in rural areas) and has the following five specific outputs:

- a new framework for regulation and supervision of agency banking/mobile banking is introduced and rolled out;

- licensed and deposit taking MFIs have access to a line of credit from the Development Bank of Zambia (DBZ) for investments in the agricultural sector;
- new CBFIs have been created and existing ones strengthened and operate sustainably - being monitored by SaveNet;
- new and existing institutional frameworks are strengthened at meso level to support FSPs to deliver services to the rural areas; and
- staff of FSPs, Apex institutions and other relevant institutions have received training on agricultural and rural finance.

9. Under Component 1 strategic institutions demonstrating high leverage capacity and significance in terms of the Programme objectives will qualify for medium-term support based on a longer-term vision and support framework. This support will be targeted at Macro, Meso and Micro levels building on the foundations laid and lessons learned under RFP and other Programmes within the country. These will include support to the BOZ and MoF for policy development and creating an enabling environment, for DBZ to leverage on the activities initiated under RFP and the Apex bodies of the various financial sector players (Banks, MFIs and Community Based Financial Institutions ((CBFIs)). Additional support at Meso and Micro level will depend on qualifications based on clear support framework criteria.

10. **Component 2: Innovation and Outreach Facility** will contribute more directly and significantly to outcome 2: (improved efficiency and sustainability of rural financial services) and has two specific outputs:

- New and sustainable financial services and products targeted at rural clients tested and scaled up; and
- IOF effectively operated to test Innovative financial products and delivery mechanisms for the agriculture and rural areas.

11. Under component 2, three different windows have been formulated, under which selective and well-defined pro-poor interventions can be supported. Window 1 will focus on innovations around CBF linkage to formal financial institutions/services. Window 2 will focus on innovations around agency banking and mobile banking. Window 3 will focus on innovations around product development. Flexibility will be built under this component to allow institutions with interesting innovative proposals for newly identified opportunities to qualify for spot-support under defined criteria while recognizing that ideas that are no longer relevant can be phased out.

12. **Component 3: Knowledge Management and Programme Implementation** is a cross cutting component servicing the other two components. This component does not have any specific outcomes but contributes to the achievement of the two outcomes through knowledge management and implementation support. It comprises two sub-components: Knowledge Management and Technical support (KM&T) and Programme Implementation (PI). KM&T comprises a range of diverse activities all geared towards increasing public and sectoral knowledge and understanding of technical matters related to rural and agricultural finance. PI comprises all support services and activities conducted by the Programme Coordinating Office (PCO) to facilitate access to financial services for the rural poor.

13. **Institutional arrangements.** The MoF will be the lead agency of RUFEP. The Department of Investment and Debt Management, will house the PCO together with the Rural Finance Unit (RFU), a new unit created to coordinate policy matters on rural finance and industrialization. The MoF may consider transferring the RFU and the PCO to National Planning Department. This will be done in close consultation with the International Fund for Agricultural Development (IFAD).

14. A Programme Coordinator will head the PCO and supervise the support team of 5 staff and two technical experts (one international and one national) who will provide technical leadership to the planning and implementation of the first two components; and a Knowledge Management expert who will provide guidance on research, documentation and dissemination activities. All staff and technical

assistance will be recruited through a competitive process following IFAD/GRZ procedures; and contracts will be time-bound and performance based.

15. A Programme Steering Committee (PSC) with relevant representation at national level will provide oversight to RUFEP similar to the RFP arrangements. The Programme Design Group (PDG), a committee of stakeholders, which has actively participated in the entire RUFEP design process, will be transformed into a Technical Advisory Group (TAG) for Programme implementation and support the PCO in coordinating all programme implementation activities.

16. **Programme cost and financing:** Total costs of the Programme are calculated at USD 26.3 million (ZMW 149million). The allocation of the costs by components is as follows: USD 11.1 million (42.1%) is allocated to component 1, USD 9.05 million (34.4%) are allocated to component 2 and USD 6.2 million (23.5%) are allocated to component 3. A budget of USD 200,000 has been allocated as an advance for start-up costs². Programme costs are proposed to be financed by loans of USD 20.4 million, (composed of USD 12.00 million from the Spanish Trust Fund and USD 8.4 million from IFAD), a GRZ contribution of USD 2.6 million equivalent, primarily in the form of taxes and duties and RFU staff salaries and rent, contributions by participating institutions of USD 3.3 million equivalents.

17. **Impact:** RUFEP will increase access of the target group population to financial services. It is expected that single measures may reach as many as 140,000 households, although the total number of persons directly served will be smaller, as some persons may benefit from several measures. Of the total number of final beneficiaries, a large proportion of the beneficiaries is expected to be women and youth. The base case economic internal rate of return (EIRR) is estimated at 16%.

²This will change with the finalization of the Financing arrangements.

Logical Framework

Results Hierarchy	Objectively Verifiable Indicators (OVIs)	Means of Verification (MOV)	Assumptions/Risk
Overall Goal			
Contribute to Improved livelihoods of the rural poor through sustainable economic growth	<ul style="list-style-type: none"> At least 30,000 (of 6 members each) rural households with improved food security by end of programme from baseline at the start of RUFEP. 5% reduction in the prevalence of child malnutrition rate from the 2010 GRZ baseline. 	<ul style="list-style-type: none"> Demographic and Health, Income and food security Surveys conducted by the Central Statistics Office (CSO) 	<ul style="list-style-type: none"> Stable political and economic environment.
Development Objective			
Increased access to and use of sustainable financial services by poor rural men, women and youth.	<ul style="list-style-type: none"> 15% of rural households with improvement in access to sustainable financial services at programme completion*. 5% reduction in the prevalence of child malnutrition from the 2010 baseline*. 	<ul style="list-style-type: none"> Finscope Surveys Baseline and Impact assessment Heal surveys by CSO 	<ul style="list-style-type: none"> Absence of external and internal economic shocks. No fin. sector policy interference by GRZ
Component 1: Strategic Partnerships			
Outcome 1: Enhanced capacity of FSPs to deliver demand-driven services in rural areas.	<ul style="list-style-type: none"> PFSPs have improved profitability at or above operational self-sufficiency levels. PSFPs have attained/improved some or all of the following performance indicators; (1) Increase in number of rural outlets/clients; (2) reduced cost of money unit lent; (3) higher rural portfolio volume; and/or (4) Increased choice of products/services offered. PSPFs have improved portfolio at risk over 30 days to 5% or below; operational self-sufficiency > 100%; operating expenses ratio to 25%). The non-performing loan (NPL) ratio for agricultural purposes has remained within the average NPLs for all sectors in at least five of Programme years. 	<ul style="list-style-type: none"> Annual Audited Financial statements of PFSPs MiX Market and MIX Gold Mid-Term and End of Project Evaluation Reports 	<ul style="list-style-type: none"> Stable political and economic environment. Reduced negative impact of HIV/AIDs and poor health status of poor households.
Output 1: A new framework for regulation and supervision of Agency banking/ Mobile banking is introduced and rolled out.	<ul style="list-style-type: none"> At least five Banks/FSPs are operating rural agent networks with at least 30 agency outlets in un- and under-Banked rural areas. At least 100,000 new accounts opened and maintained by clients at new rural branches/agents of Banks/FIs/MFIs and 200,000 rural/urban people registered and using money transfer services. 	<ul style="list-style-type: none"> BOZ reports RUFEP M&E records 	<ul style="list-style-type: none"> BOZ willing to implement the innovative regulations. GRZ committed to financial inclusion in the rural areas.
Output 2: Licensed and deposit-taking MFIs have access to a line of credit (LoC) from DBZ for investments in the agricultural sector.	<ul style="list-style-type: none"> Operating manuals for the refinance facility approved by the DBZ BOZ. At least 8 commercial banks and MFIs will have accessed LoC from DBZ by end of project period. The 8 FSPs accessing LoC will have increased their agriculture portfolio by at least 10%. DBZ will have disbursed to FSPs a minimum of amount equivalent to US \$ 6 million by the end of RUFEP. 	<ul style="list-style-type: none"> DBZ annual financial statements and reports RUFEP M&E records 	<ul style="list-style-type: none"> DBZ still willing to continue with LoC. GRZ willing to leave funds from RFP with DBZ.
Output 3: New CBFIs have been created and existing ones	<ul style="list-style-type: none"> 1,500 newly formed CBFIs with 30,000 members and at least 1,000 existing ones composed of at least 20,000 members strengthened. At least 80% of newly formed and strengthened CBFIs continue to operate strongly 	<ul style="list-style-type: none"> Records of grant recipients RUFEP M&E records 	<ul style="list-style-type: none"> Sufficient capacity of the network of CBFIs promoters

Results Hierarchy	Objectively Verifiable Indicators (OVIs)	Means of Verification (MOV)	Assumptions/Risk
strengthened and operate sustainably - being monitored by SaveNet.	<ul style="list-style-type: none"> three years after creation and 20% formal linkages and retaining 60% original membership. The CBFIs use of an increasing number of financial products and services and/or 40% of members using credit versus non-credit products and services. 		<ul style="list-style-type: none"> SaveNet is formed.
Output 4: New and existing Institutional frameworks are strengthened at Meso level to support the FSPs to deliver services to rural areas.	<ul style="list-style-type: none"> RFU created in the MoF (supported by RUFEP and MoF) and has rolled out the implementation of RFP and number of staff allocated to RFU increased. RFU has taken lead and improved sector coordination, holding coordination meetings at least twice a year. A strong Association of MicroFinance Institutions of Zambia (AMIZ) supporting the MFI industry with quarterly collection and dissemination of information on financial sector performance and market trends. AMIZ/SaveNet organizing best practices quarterly courses for members on a cost share basis. AMIZ achieving at least 80% collection of dues and membership fees annually. SaveNet created and facilitating coordination of CBFI industry development and linkage to international best practices. AMIZ/SaveNet Improved self-sufficiency. 	<ul style="list-style-type: none"> RUFEP KM & Mission Reports GRZ Budget AMIZ records, SaveNet records 	<ul style="list-style-type: none"> GRZ is still willing and committed to rural finance inclusion and enabling environment.
Output 5: Staff of FSPs Apex institutions and other relevant institutions have received training and technical assistance on agricultural and rural finance.	<ul style="list-style-type: none"> At least 2,000 participants have attended courses offered on agricultural and rural finance with RUFEP support by end of the Programme. Some of the courses may include; (Agricultural Lending, Savings Mobilization, Making Insurance work for the poor, Microfinance Best Practices, Corporate Governance, Risk Management, Market Research and Strategic Planning). 60% of post-course monitoring of participating FSPs' courses on agricultural and rural finance show producers are able to plan for agri-production, diversification of crops and financing of the agribusiness yielding high levels of satisfaction with relevance and quality of training. 	<ul style="list-style-type: none"> AMIZ, SaveNet, Bankers Association of Zambia (BAZ) and PFSPs records on participants and topics RUFEP KM Reports post-training satisfaction monitoring reports 	
Component 2: Innovation and Outreach Facility (IOF)			
Outcome 2 Improved efficiency and sustainability of rural financial service.	<ul style="list-style-type: none"> At least 49,000 households have accessed and used mobile financial services. The volume of deposit and loan transactions generated by PFIs has increased by 20% by the end of RUFEP from baseline. At least five PFSP have introduced five new products to serve rural areas/farmers by the end of the Programme and the new products usage has increased by at least 190,000 people 50% of whom are youth and women. 	<ul style="list-style-type: none"> Mid-Term and End of Project Evaluation Reports BOZ annual reports Periodic Fin Access surveys conducted by the FinMark Trust 	<ul style="list-style-type: none"> All stakeholders are responsive to financial and technological innovations
Output 1: New and sustainable financial services and products targeted at rural clients tested and scaled up.	<ul style="list-style-type: none"> At least 5 of new financial products and two delivery models targeted at rural clients (by type and FI) are tested and rolled out by end of RUFEP. At least 190,000 users of new financial products. The percentage of the unbanked rural and urban MSME is reduced by at least 10% from baseline of 2014 (Finscope Survey) to end of RUFEP. At least 20% increase in the volume of transactions generated in the rural areas by the PFSP from baseline of 2014³ Finscope survey. 	<ul style="list-style-type: none"> Records of grant recipients RUFEP M&E records Finscope survey records 	<ul style="list-style-type: none"> The demand for innovative financial products is sustained

³ The next Finscope Survey is scheduled for the year 2014. RUFEP will use the latest data for baseline of this indicator.

Results Hierarchy	Objectively Verifiable Indicators (OVIs)	Means of Verification (MOV)	Assumptions/Risk
Output 2: IOF effectively operated to test Innovative financial products and delivery mechanisms for the agriculture and rural areas.	<ul style="list-style-type: none"> At least 1,500 mobile and bank agents registered and operating successfully. A total of 72 grants of IOF are approved and at least 60% of the innovation projects are successfully completed by the three windows by the end of RUPEP. At least 10% matching contribution for window 1 and 3 and 50% contribution for window 2 Value of IOF support from the participating organizations. At least 20% CBFIs linked to formal FSPs for savings and other services such as credit lines. 	<ul style="list-style-type: none"> IOF participating Institution records RUFEP M&E and progress reports Agreements and MOUs signed for linkage Approved credit lines and savings accounts 	<ul style="list-style-type: none"> Technological innovations exist
Component 3: Knowledge Management & Programme Implementation.			
Output 1: Effective dissemination of information to stakeholders and effective management of Prg. Implementation.	<ul style="list-style-type: none"> At least one annual multi-stakeholder (micro, meso and macro level) workshop to share RUFEP experiences and plans. Specific events organized events for dissemination organized for stakeholders (include workshops, publications, e-mails, conferences, websites, etc.) PCO have developed/procured data collection and analysis tools such as PULSE. PCO have collected, analysed and disseminated sector information to relevant stakeholders quarterly and annually. PCO have prepared accurate quarterly and annual reports on time At least 2,000 participants are reached by events organized for stakeholders. Website for RUFEP purposes created and updated at least thrice per year. 	<ul style="list-style-type: none"> RUFEP records Annual, Mid-term and Project Completion Reports 	<ul style="list-style-type: none"> Stakeholders buy into RUFEP's KM supported activities.

I. Strategic context and rationale

A. Country and rural development context

1. Zambia is a large landlocked country with a total land area of 753,000km². Its population totalled 13 million in 2010, giving it a low population density of 17 persons/km². The country has a very young population with 45.4% of the total population below the age of 15 years and another 20.8% in the 15-24 years age bracket. At independence in 1964, Zambia inherited an economy which was heavily dependent on the copper mining sector (then accounting for more than 90% of export earnings) and a population that was close to 50% urban. After a period of economic decline in the 1990s, Zambia's economic situation has improved in the last 10 years: driven by the economic and public sector reforms initiated in the 1990s and propelled by rising copper prices. Annual economic growth averaged about 6% during the latter half of 2000s. However, poverty levels have remained persistently high, especially in the rural areas. Income distribution is highly unequal as indicated by a high Gini co-efficient (51-57% according to different sources in different years).

2. Zambia's recent economic growth has been driven by copper mining, construction and tourism. The economy remains vulnerable to changes in the global metals markets and unexpected declines in copper prices would weaken Zambia's prospects for sustainable growth. In order to foster more broad based economic growth, Zambia has sought ways to diversify its economy away from reliance on copper. The Government has therefore targeted agriculture as a priority sector in poverty reduction and food security since two thirds of the population live in rural areas and rely on the agricultural sector for their livelihoods.

3. **Agriculture and the rural sector.** Agriculture accounts for about 20% of Gross Domestic Product (GDP)¹ and most people in rural areas depend on agriculture. The agricultural sector has the potential to be a major source of economic growth as the country has abundant supplies of unused fertile land. There are also opportunities to improve agricultural productivity, which is very low by global standards. Zambia generally experiences good rainfall, ranging from 500 mm in the south to 1,400 mm in the north; though the country has been subjected to floods and droughts in recent years. Faster agricultural growth is also critical to reducing the high rate of rural poverty and supporting the expansion of consumer demand.

4. Smallholder farming households number approximately 1.1 million, over 20% of which are headed by women. These households cultivate on average 1.5 hectares (ha) of land, generally using low-input, hand hoe technology and relying primarily on family labour. Farming systems vary according to the agro-ecological conditions, but are dominated by maize, grown by 80% of farming households. In the past the government has supported maize production through the Farmer Input Support Programme (FISP) and guarantees maize purchase through the Food Reserve Agency (FRA). However, GRZ has recognised that the policy, which absorbed almost 50% of the total agricultural budget (2012 and 2013), needs substantial overhaul. Some policy reforms on the FISP programme were made in May 2013 to rationalise its operations to promote efficiency. The government has introduced these policies to promote crop diversification to improve rural incomes and nutrition. Smallholder crops targeted include beans, groundnuts, rice, cotton, tobacco, sugar cane and vegetables.

5. The livestock sub-sector is important for poverty reduction and risk mitigation for the poor as well as for economic growth. The major types of livestock owned by smallholder farmers are cattle, goats, sheep, and chickens. Government has taken measures to exploit this high potential agricultural sub-sector. Livestock extension and disease control services have been strengthened and training of farmers intensified. East Coast Fever is the major livestock disease for smallholder farmers. Prevention and treatment measures have been intensified and elements of cost recovery have been introduced to

¹ Various sources: e.g. African Economic Outlook (figure for 2010) (<http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Zambia%20Full%20PDF%20Country%20Note.pdf>); World Bank.

promote sustainability. Government will also continue its responsibilities in the control of diseases of national economic importance, namely Foot and Mouth Disease; and Contagious Bovine Pleural-Pneumonia. Trans-border movement of livestock is a major challenge for disease control. The operation of livestock check points has proven ineffective. Collaboration with the bordering countries may need to be explored.

6. **Poverty context.** The Living Conditions Monitoring Survey (LCMS) Report 2010¹ indicated that 42.3% of the Zambians were classified as “extremely poor”. The proportion of those classified as “extremely poor” and “moderately poor” was significantly higher in rural areas (77.9%) compared to 27.5% in urban areas. The LCMS report indicated that during self-assessment, the most commonly cited reason for poverty was the inability to afford agricultural inputs (32% of the rural population). A related issue is the lack of capital to start or expand agricultural output. The high cost of inputs and poor rural infrastructure, and the absence of rural financial services serving smallholder farmers (apart from limited community-based schemes) make it difficult for smallholders to access inputs. Only out-grower schemes provide inputs on credit to significant numbers of smallholder farmers. Another commonly cited reason for poverty is the lack of oxen for ploughing. This supports the notion that labour and finance are the most important bottlenecks for agricultural production and significant determinants of poverty.

7. Apart from rural-urban contrast, poverty is also strongly associated with a number of household characteristics, including gender, age and the educational level of the person heading the household. The Millennium Development Goals Progress Report 2011² indicated that in 2006, extreme poverty stood at 57% in female-headed households compared to 49% for male-headed households. Households with older people were also more likely to be poor, with 66% of households headed by people above 60 years living in extreme poverty compared to 50% for households headed by persons aged 30-59 years. Extreme poverty was also strongly influenced by education, with 77% of households with heads without education living in poverty, compared to only 9% of households with heads with tertiary education. There are also substantial provincial variations in the incidence of extreme poverty ranging from 16% in Lusaka Province to 73% in Western Province³.

8. In 2010, Zambia ranked 150 out of 169 countries on the Human Development Index. Despite its rich agricultural resources, Zambia has continued to experience chronic food and nutrition security problems. Stunting rates stand at 45%, with 21% being severe. Stunting remains the most common nutritional disorder affecting under five years children, above the Sub-Saharan Africa average of 42%⁴.

9. **Financial sector and access to finance.** The main formal financial institutions in Zambia are commercial banks, followed by deposit-taking (MFIs, development banks, other non-bank financial institutions (NBFIs) and credit institutions). Penetration of the formal sector in rural areas is very low, and mobile and electronic transaction systems are not yet well developed. Interest rates are generally high, except for the corporate sector, and exceeds 100% in the case of some MFIs, credit-only operators and informal money-lenders. In the semi-formal sector, credit unions operating under a cooperative status and credit-only MFIs lending mostly to wage earners are one of the few sources of finance. Rural areas are predominantly serviced by CBFIs including *Chilimba*, the local term for rotating savings and credit schemes and accumulating savings and credit associations (ASCAs) and village savings and loan associations (VSLAs). Outreach and capacity of CBFIs remains low. Women use informal and semi-formal financial services at the same rate as men, but much less the formal banks, clear indicators for underlying access problems.

10. Only 37.3% of adults had access to financial services (formal and informal) in 2009⁵. Access by the urban population to financial services is higher (42%) than in rural areas (34%). Informal finance is generally more important to small and SMEs and farmers, and more prominent in rural areas. In

¹ Central Statistical Office.

² UNDP.

³ UNDP, Millennium Development Goals Progress Report 2011.

⁴ Zambia Demographic Health Survey [ZDHS] 2007.

⁵ Finscope Zambia 2009.

Eastern and Southern Africa, Zambia has the second lowest usage rates of financial services, only followed by Mozambique.

11. Financial markets are highly concentrated in urban areas. FSPs focus on investing in Government bonds and treasury bills, and lend predominantly to the corporate sector, large-scale commercial farmers, medium and large scale enterprises and salary earners. Bank lending to Micro, Small and Medium enterprises (MSMEs), smallholder farmers and to rural clients is insignificant. According to the FinScope Zambia Small Business Survey, 85% of MSMEs in rural areas are 'un-banked' compared to 15% in urban areas. The average share of loans in total bank assets is comparatively low (40%) signifying excess liquidity. The overall consensus is that finance is expensive and difficult to obtain except for the largest firms, which is why the banks have excess liquidity. For medium sized firms, the most common formal loan product is the overdraft which is also difficult to get and expensive. Borrowing from the MFI sector was also prohibitive to many in view of high interest rates¹.

12. **Constraints and opportunities:** Weak institutional capacity, inadequate management information systems, weak product development and lack of qualified human resources are among the main constraints to development of the financial sector. Most lenders still employ traditional appraisal techniques with a strong emphasis on mortgage collateral. High operating costs in rural areas and risk-averse senior management of FSPs more concerned with short-term profits tend to discourage expansion of financial services in rural areas. On the demand side, the main issues facing rural clients are the cost of loans, inappropriateness of products (emphasising monthly repayment), collateral requirements and lack of familiarity with banking approaches, techniques and products.

13. On the policy side, one issue for consideration is the interventionist approach by BOZ to cap interest rates in January 2013. While it is true that the interest rates were very high (see footnote 9) despite the warnings by BOZ, the policy measure was equally drastic to some sector players. Preliminary results of the survey commissioned by BOZ to determine its impact indicate that: (i) the commercial banks are not adversely affected and will continue with their operations and expansion plans; (ii) the enterprise lending MFIs and payroll lenders will be negatively affected and are reorganizing their operations to remain afloat - many of the enterprise lenders have sought to increase their loan book to cope with reduced earnings²; and (iii) BOZ is still receiving new applications for entrants into the MFI sector which means the opportunities and interest is still there for new entrants. BOZ has indicated its willingness to engage the sector in dialogue with a view towards long term market-based solutions.

14. RUFEP will address this policy issue of interest rates through support to BOZ to facilitate stakeholder dialogue to establish long term solutions, and also develop and roll out agency banking regulations. These regulations will allow FSPs to utilize agents such as shops, petrol stations, etc., to extend financial services instead of constructing their own costly physical infrastructure. Once this is combined with mobile banking the costs of financial transactions would be drastically reduced and ease of entry into rural areas will be enhanced creating competition that would drive interest rates down while the FSPs remain profitable. There would be no need for BOZ to regulate interest rates once market rates come down to affordable levels for most rural people especially the poor.

15. Despite the challenges, Zambia has made good progress in financial sector development on a number of fronts over the past decade. The number of banks has almost doubled, and a microfinance sector has emerged, with at least five MFIs fully licensed deposit-taking institutions. Developments in testing grassroots models for community-based finance (e.g. VSLAs) supported under the current IFAD-supported RFP are underway. In the commercial banking sector, capacity is growing, loan portfolios have become healthier and profitability has improved. Some banks are piloting new approaches to finance farmers and value chain operations, including a linkage between banks and savings groups.

¹Prior to interest rate caps the MFI interest to small borrowers ranges from 100-200% (Source - Discussions with BOZ, AMIZ and some MFIs).

²Some MFIs indicated that they may reorganize their rural operations but most of them said they will grow loan book and mobilize local savings and increase efficiency in operations.

The use of mobile phones is growing¹, opening the door for telephone-based financial transactions. More opportunities for further deepening financial intermediation and inclusion in rural areas now exist with BOZ making efforts to regulate mobile and agency banking.

16. **Other relevant interventions:** The Rural Finance Policy and Strategy document that was prepared with the support from the RFP has been approved by cabinet. The guiding principles of the Strategy include encouraging market-based approaches, supporting access to a variety of financial services, and promoting a wide range of financial organisations. It also supports demand-driven and innovative approaches of the private sector in line with good practices. The proposed creation of a RFU within the MoF to implement this policy has been approved by cabinet and will be supported under RUFEP. RFU will form an entry point of policy discussions with BOZ and MoF on the interest rate capping issue.

17. A number of other ongoing initiatives of the government and donor agencies have potential for useful synergies with RUFEP. The second phase of the Financial Sector Development Plan (FSDP II) funded by a number of donors has prepared a large number of new regulations and policies on financial systems development. GRZ has recently decided to embark on a rural industrialisation strategy and sees the Rural Finance Policy and Strategy (RFPS) as a key element of the strategy. RUFEP support will also be mandated to address access to finance issues related to rural industrialisation as well as support to rural MSMEs.

18. The Department for International Development (DfID) supports Financial Sector Deepening Zambia (FSDZ) that became operational in September 2013. This Programme aims at increasing access to finance for 300,000 persons within the next five years through a range of interventions in the financial sector. The FSDZ will also continue to support any unfinished agenda of the FSDP II, which will close in 2014. FSDZ will formally collaborate with RUFEP in knowledge management and support for apex bodies of MFIs and CBFIs. Coordination and collaboration arrangements, including exchange of information, joint initiatives and co-financing where feasible, have been tentatively agreed upon between IFAD and FSDZ, and will be finalized once both Programmes are effective.

19. The United States Agency for International Development (USAID), in collaboration with the Swedish International Cooperation Agency (SIDA) also extends credit guarantees through Development Credit Authority (DCA) to local banks for lending to value chain operators supported by USAID Programmes. The Swedish and Finnish governments, through their embassies, also support the Zambia National Farmers Union (ZNFU) in expanding a smallholder loan product called “Lima”, where farmer groups deposit 50% of the expected loan amount in a locked savings account as collateral for inputs delivered on credit. Motivated by the lessons learned from the RFP support to the DBZ under the credit line for commercial banks and MFIs, the World Bank has initiated preparation of a new project aiming at improving access to finance for SMEs. This project, with an estimated investment of up to USD 40 million, is at its preliminary stages of concept development with DBZ as an intermediary for loans extended by commercial banks and deposit-taking MFIs.

20. The AfDB while not immediately planning any intervention in the financial sector would highly appreciate the interventions of IFAD and the World Bank in this sector given its current and planned interventions in agricultural production and value addition, livestock, aquaculture and small enterprise development. In all cases, the RUFEP initiatives will thus be complementary to the other initiatives and support the achievement of mutual objectives.

B. Rationale

21. Zambia has one of the lowest penetration rates of the financial sector in Eastern and Southern Africa especially in the rural areas. The GRZ’s Revised Sixth National Development Plan (RSNDP, 2011-15) notes that economic growth has not translated into significant reductions in poverty or improved general living conditions for the majority of the Zambians. This is especially the case for the majority of households in rural areas who are dependent on agricultural activities. The RSNDP puts

¹28% in 2010 but must be higher than 50% currently.

rural development high on the agenda, recognising the need to reduce the high poverty levels in rural areas. In addition to the focus on stimulating agricultural productivity and promotion of agro-businesses, increased access to financial services in rural areas has been identified as one of the important thrust areas.

22. Improved access to financial services has the potential to facilitate economic growth and inclusion, reduce income inequality and reduce seasonal income fluctuations. Access to financial services enables women, men and youth to save and to borrow, build their assets, invest in income-generating ventures and thus to improve their livelihoods. IFAD brings a wealth of experience in improving gender equity in access to financial services.

23. RFP is the first comprehensive and structured program under MoF, which deals directly with the challenges and constraints to growth and outreach of rural financial services. RFP has provided support for improving operational outreach, institutional strengthening, and leveraging activities to promote product and service delivery innovations. The lessons learned from RFP have highlighted where there are gaps and weaknesses in the overall framework for rural financial sector development and what opportunities exist to fill those gaps (see details section III D below and Appendix 3). RUFEP design builds on the lessons learned from RFP scaling up areas of success and refining aspects that did not work well.

24. Key among the lessons learned from the IFAD country programme under the current COSOP are the need for: (i) simplicity in programme design; (ii) establishment of formal coordination systems to facilitate synergies among programmes; and (iii) GRZ to facilitate the development of good financial systems and regular performance review at all levels.

25. Specific lessons learned from RFP include: (i) the need for flexibility in innovation facility financing to take advantage of emerging opportunities; (ii) capturing opportunities to develop CBFIs for extending outreach of financial services to remote areas; and (iii) the need for development of products such as savings, value chain financing, money transfer services that are in demand among the rural poor. From the organizational perspective the lessons include: (i) the need for efficient procurement and financial systems; and (ii) the need for technical assistance to support programme coordination and knowledge management. Key among the success factors of RFP includes the development of the RFPS that has been approved by cabinet leading to the establishment of the RFU. The guiding principles for the RFPS include encouraging market-based approaches, supporting access to a variety of financial services, and promoting a wide range of financial organisations. It also supports demand-driven and innovative approaches of the private sector. RUFEP will support the establishment of RFU within MoF and the rollout of this policy which mandates RFU to take the lead in coordinating and monitoring financial sector and policy formulation.

26. RUFEP also builds on one of the three strategic objectives of IFAD's COSOP (2011-2015): **“to increase access to and use of sustainable financial services by poor rural men and women”**. While the on-going IFAD-financed projects focus on addressing the production and market linkage constraints across value chains in which smallholder farmers participate; a close and direct link of farmers and agribusiness to the financial sector is an indispensable element for success. In order to develop a more comprehensive Programme support, closer linkages between the demand and supply side of financial services is needed to generate synergies that will accelerate rural poverty reduction.

II. Programme description

A. Programme area and target group

27. **Programme area:** The general Programme area of coverage will be national. The specific geographical areas covered will depend on the outreach of the different financial institutions and service providers that will be partnering with the Programme. Specific measures are incorporated in the design to give preference to the expansion and deepening of financial services into those areas currently not served or underserved. A tool has been developed to help target the geographical areas that are

poorer/financially least served. The key determinants for selection of Programme areas will include: (i) the existence of a financial service provider prepared to expand its operations; (ii) the presence of other service providers e.g. NGOs with capacity for developing CBFIs in poor rural areas with good economic potential; (iii) CBFIs seeking to expand and upgrade their operation to MFIs; and (iv) opportunities to support other IFAD-assisted programmes with financial services. (See Annex 2 attachment 2 for more details)

28. **Target group:** The main and ultimate target group is the rural poor, in particular the economically active micro and small entrepreneurs and smallholder farmers, with a particular attention to women and the youth. RUFEP targets up to 140,000 households (inclusive of men, women and youth)¹. Target groups will be addressed through the Programme more specifically as different roles and segmentation emerge, i.e. differentiating between savers in the formal financial sector, members of CBFIs, members of farmer groups, owners of mobile phones interested to make payments, MSME borrowers, etc.

29. In order to increase the effectiveness and likelihood of reaching the target group, RUFEP design has developed a targeting strategy to ensure inclusion of the poor. Lessons from RFP and elsewhere provide a strong foundation for good targeting of the poor under RUFEP. Measures to stimulate demand for financial services include: (i) helping target beneficiaries to participate in savings and credit activities to build a financial history; (ii) encouraging savings to reduce vulnerability to income and food security fluctuations; (iii) development of a 'social fund' used for consumption or emergencies; (iv) value chain development to include the poor target group; (v) need to keep simple records to provide evidence of feasibility and profitability of economic activities; and (vi) overall improvement in management skills. (see Annex 2 for more details)

30. RUFEP component 1 aims to widen the scope of support to more institutions than under RFP, to reach previously un-served people. Under component 2, the poverty focus and gender mainstreaming aspects have been strengthened. The first window focuses on CBFIs Linkages with formal 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.

31. 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 phone and access at local outlets (shops, supermarkets, petrol stations, input dealers, etc.) and has the potential to significantly reduce transaction costs². Under these windows, barriers to access of smallholder women and men farmers and youth will be analysed with the aim of reducing bottlenecks. A specific tool "The Gender and Poverty Responsiveness Checklist" that has been developed by the design team to help the programme implementers check whether an intervention to be supported under RUFEP is indeed gender and poverty responsive. (See Annex 2 Attachment 1)

32. The Programme also recognises the special problems faced by the youth in Zambia (and elsewhere) and the differences among them (rural versus urban; young men and young women). In addition to the specific measures already undertaken in the design, (see Annex 2) the Programme will have a strategy to identify specific needs of young women and men in the rural areas to determine how partners can provide them with appropriate financial service options and ensure financial tools and products to address their specific challenges and opportunities.

33. The Programme's targeting and intervention strategies will therefore come together and give special considerations for women and the youth. Some of the challenges faced by women regarding 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

¹The Ministry of Youth and Sport defines the youth as young men and women from 18 to 35 years old.

²CBK Statistics - The experience from Kenya shows a 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.

procedures, etc. Furthermore, poorly disaggregated data on gender means there is limited information on what women want and need. In recognition of these disparities, the RFPS - formulated with support of RFP, includes social and gender equity as one of its objectives, which will continue to be actively pursued under the RUFEP.

B. Development objective and impact indicators

34. The Programme will contribute to the Development Goal “**improved livelihoods of the rural poor through sustainable economic growth**”, which is consistent with the goals in the Revised Sixth National Development Plan (SNDP, 2011-2015). The proposed Programme Development Objective (PDO) is: “**Access to and use of sustainable financial services by poor rural men, women and youth has increased**”. This will be indicated by changes in the number (about 140,000 households) and percentage of the adult population using financial services, and a decline in the cost of borrowing for productive purposes for rural clients.

C. Outcomes/Components

35. Two major Programme outcomes are expected to lead to achieving the PDO: (i) enhanced capacity of FSPs to deliver demand-driven services in rural areas; and (ii) improved efficiency and sustainability of rural financial services. These outcomes will be measured through the following indicators, which apply to all three components:

Outcomes

36. **Indicators of Outcome 1:** (a) At least 50% PFSPs maintain a trend of increasing profitability, measured by Return on Equity of 15% and Return on Assets of at least 10%; (b) partner financial institutions improve their performance (portfolio at risk 30 days below 5%; operational self-sufficiency > 110%; operating expenses ratio 25%); and (c) the NPL ratio for agricultural purposes has remained within the average NPLs for all sectors in at least five Programme years.

37. **Indicators of Outcome 2:** (a) The share of agricultural loans in total bank loans has on average increased by 15% by the end of the Programme; (b) the volume of deposit and loan transactions generated by Participating Financial Institution (PFIs) has increased by 20% by the end of RUFEP; and (c) at least five PFSPs have introduced five new products to serve rural areas/farmers by the end of the Programme.

38. A total of eight output indicators have been formulated (see Logical Framework and Annex 6 on Monitoring and Evaluation (M&E) arrangements) as per the initial configuration of the partnerships and windows. These would have to be adjusted in case of changes in the partnerships or windows.

Components

39. The Programme objectives will be achieved through three components: (1) Strategic Partnerships; (2) Innovation and Outreach Facility and (3) Knowledge Management and Programme Implementation.

40. These components contribute to the outcomes through eight outputs: including five outputs for component one, two outputs for component two, and one for component three. Component three will also contribute to the achievement of the other two outcomes. Following are the outputs under each component.

41. **Component 1:** (Strategic Partnerships) will contribute more directly and significantly to outcome 1: (Enhanced capacity of FSPs to deliver demand-driven services in rural areas) and has the following five specific outputs:

- a new framework for regulation and supervision of agency banking/mobile banking is introduced and rolled out;

- licensed and deposit taking MFIs have access to a line of credit from DBZ for investments in the agricultural sector;
- new CBFIs have been created and existing ones strengthened and operate sustainably - being monitored by SaveNet;
- new and existing institutional frameworks are strengthened at meso level to support FSPs to deliver services to the rural areas; and
- staff of FSPs, Apex institutions and other relevant institutions have received training on agricultural and rural finance.

42. **Component 2:** (Innovation and Outreach Facility) will contribute more directly and significantly to outcome 2: (improved efficiency and sustainability of rural financial services) and has two specific outputs:

- New and sustainable financial services and products targeted at rural clients tested and scaled up; and
- IOF effectively operated to test Innovative financial products and delivery mechanisms for the agriculture and rural areas.

43. **Component 3:** Knowledge Management and Programme Implementation is a cross cutting component servicing the other two components. This component does not have any specific outcomes but contributes to the achievement of the two outcomes through knowledge management and implementation support. It comprises two sub-components: Knowledge Management and Technical Support (KM&T) and Programme Implementation (PI). KM&T comprises a range of activities for increasing public and sectoral knowledge and understanding of technical matters related to rural and agricultural finance. The activities will include: (i) research and studies; (ii) public thematic dialogue; (iii) dissemination and linkages with relevant players in the financial and other sectors; and (iv) technical support to selected partners particularly other IFAD-funded projects. The second sub-component comprises all support services and activities conducted by the PCO to facilitate access to financial services (see Logical Framework and Annex 6 on M&E arrangements) as per the initial configuration of the partnerships and windows formulated.

Component 1: Strategic Partnerships

44. Within the financial sector, the players are classified into three levels: Macro, Meso and Micro. The Macro players oversee policy, legal and regulatory frameworks, and mainly include key ministries and the Central Bank. RFP has already established working relationships with several of these players and RUFEP is expected to expand on activities already initiated or support capacity to improve the operating environment under component 1. The Meso players provide infrastructure and may include national networks/associations and telephone network operators among others. These players will also qualify for support under component one as long as the support will impact on the whole sector or industry. The Micro level largely comprises financial service providers and consumers. They innovate with products and develop services delivery mechanisms. Most of them would qualify for participation under component 2.

45. The objective of Component 1 is to strengthen partner institutions' capacity to facilitate and or deliver innovative demand-driven financial services to rural communities. In line with IFAD's Rural Finance Policy and GRZ's proposed Rural Finance Policy, institutional strengthening will be carried out at all three levels (Macro, Meso and Micro) to include a range of players that have a significant role in promoting an enabling environment, and delivering rural financial services. In identifying potential partnerships, consideration has been given as to where the Programme has the greatest competitive advantage and therefore can add greater value.

46. **Support at Macro Level:** The Programme will work with BOZ and MoF to develop and review rural finance policies that will assist in minimizing entry and operational constraints, leading to mutual benefits for both the supplier and the consumer. RUFEP will work directly with the BOZ departments

responsible for non-bank financial institutions, agency/mobile banking, financial literacy and consumer education. The Programme will facilitate stakeholder dialogue through meetings, workshops and seminars, and contribute studies on topical matters such as interest rates, with a view to establishing long term solutions. Additional support will include workshops and exposure visits for finalising and rolling out the agency banking and mobile money laws and regulations and local training for staff on the same. The initial concepts of these regulations are already identified by BOZ. In addition, the Programme will enhance the capacity of BOZ to supervise implementation of these new laws and regulations. The Programme will also support scaling up of consumer financial education by BOZ's Financial Education Coordinating Unit (FECU) during the pilot and roll out of agency banking regulations.

47. **Support MoF's RFU at Macro Level:** The Programme will support creation of the RFU in order to consolidate and strengthen rural finance sector coordination, and thus ensure investments are appropriately leveraged and the impact of such investments is established and documented. The RFU will also enhance knowledge management and scaling up of innovations, and oversee the implementation of the Rural Finance Policy. The programme will support RFU establishment costs including equipment and materials, and provide allowances for staff assigned to the unit. The Programme will also support training and exposure visits both locally and internationally, to build the capacity of RFU to be able to roll out the policy on rural finance. In addition, RUFEP will support the establishment of knowledge management capacity under RFU including studies, workshops, seminars, development of a website and communications materials. Whilst RUFEP will support the RFU set up process, it remains the responsibility of MoF to ensure the RFU has adequate human and financial resources in the long run.

48. **Support to AMIZ at Meso level:** The Programme will support the AMIZ, to position itself as a main provider of capacity building to its members and others within the sector. This would also enable it to become a strategic market intelligence leader on issues of microfinance and rural finance. The Programme will support, AMIZ in enhancing its office with equipment and materials, market studies, local training for members, and international exposures for benchmarking with other countries. This will enhance its capacity to collect and process information that can be used to form opinions concerning the market share, penetration, services and distribution of those services. Such information will be useful for stakeholders, and assist AMIZ in its capacity building, lobbying and advocacy roles. AMIZ will also benefit from the investments IFAD has already made through MIX Gold to have its members report on their performance and access best practices. Although AMIZ is currently staffed by two persons, it will be able to draw on additional expertise from its membership as needed. The current Board is new and is committed to improving the performance of AMIZ.

49. **Support to DBZ at Meso Level:** In addition, at the Meso level, RUFEP will support DBZ by enhancing the capacity of staff in appraising MFIs that will be accessing the remaining RFP line of credit. This will be done through local training and workshops, international exposures where relevant and further refinement of processes and procedures for wholesale lending. DBZ is a specialized development Bank with two core product lines; wholesale lending and corporate banking. The Bank is in the process of introducing a new window for SME lending that will be channelled through commercial banks. It remains committed to improving rural access by partnering with MFIs. To that effect, DBZ requested GRZ to convert the credit line from RFP into capital for the Bank to continue with its wholesale lending to MFIs. The Government prefers to leave the funds with DBZ as a credit line targeting the rural areas through MFIs.

50. **Support to SaveNet at Meso Level:** Lastly, at the Meso level, RUFEP will support the establishment of SaveNet- an apex organisation for CBFi promoters. The support to SaveNet will include office equipment and materials such as computers. In addition RUFEP will support training and workshops for refinement, translation and standardization of CBFi training materials to be used by the staff of promoter organizations and Training of Trainers for local agents. This apex organisation will be responsible of facilitating the scaling up of a standardized CBFi model and ensuring that the agents are well trained. RUFEP will also support the network in undertaking market research on ways to improve and streamline the systems. The Programme will also facilitate linkage of CBFIs to the MAL extension

agents through the Department of Agribusiness and other formal financial institution linkages. The Programme will support the development of Information Communication Technology (ICT) materials such as a website for SaveNet that will be instrumental in sharing lessons from Zambia and elsewhere.

51. **Support to FSPs at Micro level:** At the Micro Level, RUFEP will, support capacity building of FSPs through AMIZ. Where there is need for customized support individual FSPs may apply to the Programme for support. Feedback from some of the FSPs that received a line of credit from DBZ indicates that the facility was useful in facilitating penetration of rural areas. Local training will be organized through RUFEP support to both supply side and demand side players in specific value chains. The focus of such training will be on how to make markets work for the target groups. AMIZ and SaveNet will facilitate identification of FSPs and demand side groups to benefit from such training.

52. Promoters of CBFIs are currently in the process of creating a network for organizations that are savings-led called SaveNet. Through SaveNet, RUFEP will also facilitate the standardisation, contextualisation and translation of CBF information/training and model administration manuals.

53. Partnerships under this component will undergo rigorous pre-assessment, including due diligence and analysis of the needs and most effective means of addressing those needs. An initial scoping survey will be conducted by the two experts engaged to oversee implementation of the two components. The results will identify potential partners, and the areas of focus. Once this is complete, a request for expression of interest will be initiated and institutions will be prequalified based on an established criteria developed during the design. A comprehensive needs assessments will be conducted to identify and package capacity building, training and technical support for qualifying partners. Institutions that do not satisfy the initial criteria but demonstrate potential for outreach and innovation will be considered on a case-by-case basis. The criteria for screening participating institutions are summarized in Table 1 below. The appraisal tool will not be used as a tool for exclusion but more for identifying areas of potential capacity building focus.

Table 1: Criteria for Selection of Partners

All FSP applicants should demonstrate that:
1. They are legally registered or are willing to register under prevailing laws
2. Their core business or part of their business is rural development, rural finance, or has a rural focus
3. There exists a clear governance structure and the board is robust or are willing to develop a clear governance structure
4. There exists qualified senior management or PFSP is willing open to develop a strong senior management team
5. They have a clear strategy to increase outreach and sustainability
6. They have adequate staff capacity or are willing to improve capacity to implement the proposal
7. There exists baseline data or there is willingness to establish baseline data on key indicators to be monitored throughout the project period and beyond
8. Features of existing products and services are clearly documented
9. A positive trend for operational self-sufficiency, and where applicable, a system for tracking operational and financial efficiencies should be clearly defined
10. Existence of a robust management information system or the willingness to develop and/or acquire one
11. Willingness to cost share

In all cases, a detailed partnership framework will be drawn up in consultation with partners to ensure that there are clear and mutually agreed objectives, and that RUFEP support will lead to positive outcomes for the Programme's target groups.

54. **Component 2: Innovation and Outreach Facility.** This component builds on the IOF under RFP and the successes in CBFi development and the value chain financing pilots under the Line of Credit of RFP. CBFi training and support under RFP has provided a strong platform for transforming the target population, previously viewed as an unattractive banking proposition, into a potential client base that can effectively demand and use financial services.

55. The outcome of the IOF component is "Improved efficiency and sustainability of rural financial services". The component aims at increasing the number and value of financial transactions involving the target groups. Activities will include piloting and scaling-up of successful innovative practices that reduce transaction risks and improve efficiency. Three matching grant windows are initially proposed: (i) CBFi Linkages Window; (ii) Agency and Mobile banking Window; and (iii) Rural Finance Equity and Innovation. During Programme implementation new opportunities will arise that may call for new windows to be introduced while windows which are no longer relevant could be retired.

56. **Window1 CBFi Linkage:** This window is aimed at building on the achievements of RFP. According to the preliminary findings of the Country Programme Evaluation, *"the support to the CBFIs has yielded good results, despite probably falling short on some of the original targets in terms of outreach. The need for these institutions in remote rural areas has been demonstrated, since the participants (mainly women) wanted a secure place to put their savings, as well as access to credit. The re-enrolment rate of participants to the follow on cycles of the CBFIs is high, indicating satisfaction with the results. Based on anecdotal evidence, most of the loans are used for highly profitable business purposes and the cash distributions are put to a wide variety of purposes, including paying school fees, reinvestment in their businesses and improving their houses"*¹.

57. The expansion of this window under RUFEP will enable institutions (partners) willing to work with CBFIs to identify the needs of CBFIs, and design products that will meet their needs. The target institutions are banks, FIs, and NBFIs – including insurance companies as well as value chain actors (farmer associations, processors, etc.). For banks and NBFIs, support will go towards developing mutually beneficial processes, products and services so that CBFi members can access a wider range of financial products at lower cost. For value chain actors to access this window, they must be in a position to provide financial services directly or in partnership with a financial institution. The promoters

¹Preliminary findings from the IFAD's Office of Independent Evaluation – Zambia Country Programme Evaluation; July 2013.

of CBFIs are in the process of creating a network for organisations that are savings led called SaveNet. Through SaveNet and in collaboration with DFID-funded FSDZ this window will also seek formal linkage with financial institutions through agency banking mechanisms to utilise their excess liquidity.

58. Under RFP, some beneficiary institutions under the IOF (CETZAM and Micro Bankers Trust (MBT)), partnering with cooperatives/groups, piloted value chain finance schemes, and their experience is relevant to this window. Partner institutions will structure and package financial products and services within specific value chains that CBFIs are interested in. Focus will be on innovations that, encourage CBFIs to orient their savings use (or what is commonly known as ‘sharing out’ among VSLAs) towards investments in the selected value chain. The existing savings, entrepreneurial and member monitoring skills will be useful in complementing those of the partner institution in reducing risk and costs. RUFEP will ensure regular interaction and joint planning with other Programmes involved in value chain development including the MAL Agribusiness Department, IFAD-funded: (i) Smallholder Agribusiness Promotion Programme (SAPP); (ii) Sustainable Productivity Promotion Programme (S3P); and (iii) the Smallholder Livestock Investment Project (SLIP), and the USAID funded Agribusiness in Sustainable Natural African Plant Products (ASNAPP) and Production Finance and Improved Technology (PROFIT) Plus, etc. This will ensure roles of the actors in each value chain are well defined and harmonised.

59. **Window 2: Agency/Mobile Banking:** The demand for convenient money transfers and savings in rural Zambia has been demonstrated by the pilot conducted by Celpay. This window will therefore build on experiences from other African countries (e.g. Kenya, Uganda.) where agency banking has revolutionised financial service delivery. In Zambia, efforts to licence and regulate agency banking are already underway with BOZ having initiated drafting of the regulations. The focus of this window is to enable institutions to undertake innovative pilots that can use a wide range of entities (supermarkets, petrol stations, shops, and CBFIs, etc.). Coupled with the widespread use of mobile phones, the range of options will be widened for low cost rural outreach and avoidance of security risks. This window is therefore targeted at licensed payment operators including banks and NBFIs, deposit-taking FIs and CBFIs, mobile money operators, mobile network operators, industry regulators, agent network organisations and others.

60. The Zambian financial market already has some innovations that would fall under this window (e.g. mobile money and e-wallet). Despite the high levels of mobile telephone use in rural areas, use of phones in financial transactions is still limited to money transfers. One of the main bottlenecks is the limited capacity of small institutions to develop branchless banking platforms by mobilising, incentivising and managing an adequate distribution network of retail agencies – as evidenced by the case of Celpay under RFP. This window will support smaller institutions to overcome this bottleneck while also enabling larger institutions to develop products suited to rural areas. Mobile banking (as a concept) aims at turning a mobile phone into a virtual Automated Teller Machine (ATM) while agency banking transforms secure, cash-holding enterprises into bank branches. The individual or combined use of the two concepts will improve the ease with which financial service providers can reach remote locations. Proposals that seek to develop CBFIs as agents will be given priority under this window.

61. **Window 3: Rural Finance Equity and Innovation:** This window will be more flexible and opportunistic responding to demand side opportunities that arise from other windows to improve access or increase the range of services offered. The new services could complement ongoing ones such as adding savings and/or insurance to credit activities. The response of Zambia’s financial sector to such opportunities is, in some aspects, particularly weak. For example, some institutions have sought deposit taking licenses but have neglected savings mobilisation. These are mostly institutions transitioning from a credit-only operation and are more comfortable with the business they know and understand with their sustainability based on high interest rates. Support to such institutions to pilot savings products could help change this practice and help lower the cost of borrowing. According to the 2009 Finscope study, nine out of ten adults do not save with the formal financial sector. Those who save mainly save at home, in the form of inputs or entrust another person to keep money for them. To quote the study, *“To unlock Zambia’s savings potential requires financial service providers and policymakers to get to the heart of the population’s understanding of, and attitudes towards, savings, as well as their income realities”*.

62. Major changes are needed to successfully mobilise savings. Such changes touch on all aspects of the relevant institutions, including institutional culture and structures. Smaller institutions may not have the funds to invest in these changes. Other weaknesses of financial service delivery include insurance (at only 5.4% - Finscope 2009), yet the reasons for savings reflect a need for insurance (mostly medical emergencies). Though insurance may seem unpopular because of some cultural interpretations, the savings behaviour is focused on issues that insurance products could address.

63. Another area of need is financial literacy because of the double disadvantage of gender and rural inequalities in accessing financial services. Since access and use are correlated to the level of urbanisation, asset ownership and education, innovations which facilitate use of financial services by rural women and youth fit under this window. In addition this window will aim at supporting rural-friendly innovations, measures that address inequalities as a result of social construct, and uninformed perceptions of their benefits. It is anticipated that other innovations that may fall under this window will be identified during the Finscope 2013 survey.

64. Each matching grant window will have set terms, conditions and operational procedures. These will be prescribed in the IOF Operating Manual while the Performance-Based Grant Agreements will contain clear targets and ceilings, as well as conditions of use, criteria for recall/cancellation, and other terms and conditions. While the first window is based on the RFP, the second window (Agent/Mobile banking) is premised on an enabling legal framework being established. This aspect has been taken into consideration under support to BOZ in Component 1.

65. In response to changes in demand, emerging opportunities and findings of relevant studies (e.g. Finscope 2013), new windows may need to be introduced. The PCO will seek the approval of the PSC and the no-objection of IFAD, to make the necessary changes and to develop the eligibility and operating criteria. Successful implementation of activities under this component requires close collaboration with partners involved in value chain development. To ensure orderly support to target groups, sequencing of activities should ensure that the necessary capacity building of individuals, and institutions and standardisation of practices is done in consultation with potential financiers. Otherwise, target populations will be required to undergo multiple group formations and individuals' and institutions' capacities may not be built to the level required. The sharing of information is also critical for dissemination of innovative approaches and their eventual rollout across institutions and value chains as well as influencing policy. Summarized below is the Component rationale and activities.

Table 2: Innovation and Outreach (Matching Grant) Facility (IOF)

Window	Window 1: CBFI Linkage	Window 2: Agency/Mobile Banking	Window 3: Rural Equity Innovations
Rationale	Lessons learned from RFP show that promotion CBFI is the most promising intervention to reach un-served rural areas. RUFEP will build on these lessons and expands the scope by including a new dimension of linkage to formal FSPs. This assumes that low income individuals transformed into a bankable group – can attract FSPs. Link mutually beneficial (CBFIs penetrate remote rural areas at lower cost, FSP provide liquidity & savings services).	RFP lessons with one provider show potential but was not successful. RUFEP will provide more resources and higher level intervention at policy level to unlock potential for the whole industry. Reduces need for physical branches and ATMs (high cost investments) by utilising existing structures that are rural and target friendly. Convenient – even low income persons already have mobile phones. Widely acknowledged success in remote penetration in Africa.	Lessons from National Savings and Credit Bank (NSCB) reinforce the need but this was not successful under RFP. RUFEP builds on these lessons to tackle the needs identified. Important products (savings insurance leasing) remain poorly used, some persons remain excluded due to low asset, education, awareness. Very limited demand side research and data.
Preparatory Activities	See paragraph on component description.	PCO/Technical Advisors to keep stakeholders informed.	PCO/Technical Advisors to keep stakeholders informed.
Eligible Applicants	CBFIs, CBFI promoters or apex organisations, licensed FSPs, Value Chain Developers (VCDs) or other institutions willing/prepared to work with CBFIs to achieve RUFEP objectives.	FSP networks or apex bodies, licensed FSPs, electronic payment and transfer operators, industry regulators, CBFIs network organisations ¹ .	Research agencies, FSP networks and apex bodies, CBFI promoters, regulators, VCDs.
Main Activities Supported	CBFI – FSP dialogue, gap and feasibility analyses, product development, staff client training, cost of pilot activities and reviews.	Study tours, technology acquisition and pilot testing, staff training, pilot/parallel runs, legal consultation costs, feasibility studies.	Research studies, dialogues between FSP and researchers, feasibility studies on excluded, etc.
Target Group Considerations	Ensure that links are mutually beneficially. Keep track of whether benefits on CBFI side are being sustainably provided.	Ensure that technology is properly sourced, parallel runs, staff training is done. Contracts must ensure delivery of paid-for technology and support services.	Innovations on credit delivery should be limited under this window. Only if they result into overwhelming impact.
Matching Ratios	MG for 90% of total costs for 24 months.	MG for 60% of total costs for 24 months.	MG for 90% of total cost for a period of 12 months.
Maximum Grant Amount	Range USD 30,000 – 50,000 ² ZMW 150,000 – 250,000	USD 200,000 ZMW 1,000,000	USD 25,000 ZMW 125,000
Average Grant Size	USD 35,000	USD 150,000	USD 25,000

Component 3: Knowledge Management and Programme Implementation

66. This component comprises two sub-components: Sub-Component 3.1 – Knowledge management and technical support; Sub-Component 3.2 – Programme implementation.

67. **Sub-component 3.1: Knowledge Management and Technical Support.** It is generally acknowledged by stakeholders that there is a need for information that will contribute to filling

¹ Must be in collaboration with licensed FSPs. This condition also applies to Window 3.

² Depending on the number of FCBIs to be linked to the licensed FSP.

knowledge gaps on the demand and supply sides. The knowledge is required to better understand the constraints and to identify opportunities for addressing them. The Programme will contribute to the generation and dissemination of knowledge about innovations and new approaches for uptake by stakeholders and the general public. Initiatives will be supported that enhance and share learning such as annual rural finance conferences, dialogue fora on sector specific challenges or opportunities and on relevant innovative practices from other countries. Where possible, these activities will be undertaken in collaboration with partners. Furthermore, research and capacity building activities should include a strategic partnership element that facilitates national-international collaboration and contributes to strengthening local capacity in addition to fulfilling the programme's knowledge management needs. The above will be explored and discussed with DFID FSDZ and if feasible it should be included in the MOU.

68. RUFEP will share lessons learnt and emerging best practices with stakeholders using different fora and will establish close ties with the on-going knowledge management initiatives of IFAD in Eastern and Southern Africa. One such linkage will be with MIX Gold, an IFAD-funded initiative that collects and analyses regional data for sharing among implementing partners and other stakeholders. The Programme will recruit a Knowledge Management Specialist who will be located in the MoF's RFU, once established. This will contribute to ensuring sustainability for this function, and facilitate the RFU's work of coordinating the rural finance sector activities.

69. RUFEP will include a budget to be used on key areas needing additional technical expertise so as to advance the case for the rural poor through agricultural and rural finance initiatives such as: (i) collateral substitutes; (ii) supply chain and value chain analyses and financial modelling; (iii) market research and segmentation; and (iv) use of online survey tools, etc. Areas to be addressed will be developed in close consultation with stakeholders.

70. **Technical Assistance (TA).** All TA will be procured on a need basis following GRZ/IFAD procurement guidelines. Performance of TA will be assessed against contract-specific deliverables. The Programme will require a variety of technical assistance, some of which may not be available locally. Where TA is not available locally, they will be procured regionally/internationally, and in order to build local capacity, all international TAs will be paired with local TAs to the extent possible. It is, proposed that in order to ensure that procurement of TA does not slow down implementation, a pre-qualification system will be employed. This would entail identification of key capacity areas and advertisement for expressions of interest in local, regional and international media. Expressions of interest will be assessed based on the provided criteria and a database of pre-qualified TA produced. This would be used in inviting proposals by the Programme when needed.

71. TA will be deployed to strengthen partner institutions' capacity to enhance their contribution to the framework conditions for rural financial sector growth and outreach. An institution qualifies as a partner institution if:

- a) Its support or its' financial services are highly relevant for achieving the project objectives;
- b) It has the minimum financial and human resources to undertake the activities for the benefit of the target groups;
- c) It is willing to commit itself to closely collaborate with the RUFEP; and
- d) It contributes to the costs of activities supported under the Programme.

72. **Component 3.2 – Programme Implementation.** This will include the organisation of the PCO, providing technical leadership to the planning of the first two components and the knowledge management activities, reporting, financial management, and procurement support. The PCO will be established within MoF with responsibility for the day-to-day management and coordination of all Programme components and activities. The PCO will include the following positions: Programme Coordinator, Financial Controller, Procurement Specialist, M&E Specialist, Knowledge Management Specialist, at least two Technical/Rural Finance Officers, Assistant Accountant, Administrative Assistant, Office Assistant and one or two drivers. The staff will be recruited for an initial period of two

years, with six months of probation, renewable for periods of two years. All contracts will include clear performance targets, which will be used to determine each person's performance. (For details see appendices 4, 5 and section III below)

D. Lessons learned and adherence to IFAD policies

73. RUFEP design builds on lessons learned from the current COSOP (2011-2015) and RFP experience. The general lessons from all IFAD interventions reflected in the current programme design can be summarised as follows:

- *Simplicity and Coordination*: the need for simplicity in project design and the establishment of coordination units that can assist management for development results. RUFEP design takes into consideration partnerships and special skills that each partnership brings on board and makes a direct effort to build synergies with partners such as DFID's FSDZ and other IFAD supported programmes.
- *Review of performance*: Contracted staff and service provider contracts should allow for regular review of performance and for renewal or termination as necessary. RUFEP include a review clause in all contracts with staff and service providers.
- *Ownership*: Government decision and processes should be taken into account to maintain ownership. In this regard RUFEP design has worked closely with the Programme Design Group (PDG) appointed to represent GRZ interests. The design further recommends that the PDG will be converted into a Technical Advisory Group during the programme implementation.
- *Financial Management Systems*: Fully reliance on Government financial systems may not meet IFAD's fiduciary standards. New Programmes should therefore arrange for independent financial management and accountability systems to augment national financial management systems. This has been taken into consideration in the design for RUFEP.
- *Collaboration and Synergies*: Experience shows that there is need for collaboration and learning between projects, strong governance arrangements, and adequate follow-up and support from IFAD. The design for RUFEP takes into consideration the role that the other IFAD programmes will play on the demand side to prepare farmers and other value chain players to benefit from financial services.

74. RUFEP design also takes stock of lessons learned from its predecessor, RFP. These include the following:

- *Flexibility in grants under IOF*: RFP revealed the need for improved capacity to finance innovation/outreach proposals that cost more than the limits set at the inception of RFP. RUFEP therefore, provides for increasing the amount of matching grant funding under all the windows and TA for grantees and proposal reviewers.
- *CBFI Model Success*: The experience of RFP shows that the CBFI model has been the most successful in deepening financial outreach to the rural areas especially focusing on women. The design for RUFEP has built in a specific window for expansion of the CBFI model and increasing its scope to include linkages with formal financial service providers to make it more sustainable. The concept of Agent banking should provide opportunities for such synergies and linkage.
- *Need for Savings Services in Rural Areas*: Despite all the organisational challenges faced by the NSCB, the experience of the Bank shows that the demand for financial services in the rural areas is evident. The number of savers increased significantly after the product development supported by RFP through contracted TA¹. The design of RUFEP takes this into consideration and recommends that NSCB be supported in conducting due diligence to

¹Savers rose to over 40,000 from below 20,000 prior to product development.

determine its comparative advantage. Both component 1 and 2 are designed to address this need.

- *Value Chain Financing:* Value chain financing efforts by beneficiaries of the line of credit under DBZ and MFIs provide potentially scalable models that can be refined and replicated by RUFEP and other financial institutions. The DBZ wholesale line of credit benefited from TA that facilitated linkages between farmers and MFIs to ensure that the farmers got the best price for their produce. In addition, this pilot identified the need for funding for the whole value chain as opposed to only primary production. RUFEP recognises that financing is required at all levels of the value chain hence the need to work on both the demand and supply side of finance.
- *Money Transfer Systems:* RFP demonstrated the demand for convenient money transfers and payments and savings in rural Zambia through the pilot conducted by Celpay despite its organisational challenges. RUFEP takes this a step forward and builds in a window specifically geared toward reaching out to the rural areas with secure payment systems such as mobile banking.
- *GRZ Procurement Systems:* RFP shows that the GRZ procurement systems are not well adapted to innovative programmes and subject to delays. Hence there is a need for RUFEP to have some delegated authority to undertake procurement. RUFEP design includes a request to GRZ for a mechanism of delegated authority and also includes a procurement specialist in the PCO to ensure that the processes are expedited.
- *Technical Assistance:* RFP shows that a lean configuration of a project management unit, with only one officer in charge of technical issues, conceptualisation and supervision of project implementation, is not adequate. RUFEP has budgeted for two additional technical staff for each component to build capacity of the local technical expert by sharing best practices from an international expert.
- *Knowledge Management:* Past operations funded by IFAD did not envisage substantial investment in knowledge management and therefore knowledge management was treated as part of the programme implementation responsibility. Given the rapid changes in the financial sector landscape, the need for more applied research, documentation and dissemination is invaluable. RUFEP includes a sub-component dealing specifically with knowledge management and dissemination.

75. The project design is also compliant with the main IFAD policies and strategies including the Zambia COSOP, rural finance policy and decision tools for rural finance, targeting and gender mainstreaming, rural enterprise development, and private sector development.

III. Programme implementation

A. Approach

76. RUFEP is designed to address the critical constraints in Zambia's rural finance sector. The design aligns with the priorities of GRZ and IFAD regarding provision of rural financial services. Implementation will respond to the demand for rural financial services as expressed by the target group. The design process identified areas where financial sector actors are interested to enter or to try out new approaches and products, and the common areas of overlap between the different interests. The design process identified opportunities for change to benefit the poor. With the assistance of key stakeholders, in particular the PDG, mandated by GRZ to work with the design Mission, priorities were set and the investments were packaged under a coherent implementation framework. This is expected to drive the change process and bring good returns for the target beneficiaries.

77. **Overall Programme approach.** RUFEP will focus on developing the capacity of various financial institutions by:

- a) facilitating the development of conducive framework conditions;
- b) building financial institutions' capacity to operate effectively within those framework conditions; and
- c) establishing and strengthening platforms for stakeholder dialogue and knowledge management.

78. Programme design builds in a high degree of flexibility to be able to respond to the rapidly evolving sector challenges and to effectively identify, promote, and capture opportunities. The Programme also adopts a flexible approach to institutional collaboration. Experience under the RFP has shown that an institution, identified as a partner, may not necessarily be in a financial position or be qualified or interested to participate in accordance with the agreements reached earlier. In order to avoid such situations, RUFEP will establish partnerships whereby institutions qualify for support, and will also discontinue partnerships where partnerships conditions are no longer productive. The Programme also provides a framework for trialling institutions or newly emerging networks as partners under simple performance-based grant agreements, and for graduating grant-recipients into full partners when appropriate.

79. The Programme support structure will be tailored to the different levels of maturity of actors. For example, an institution that demonstrates strong capabilities and strategic importance for the sector, would qualify for medium-term support under Component 1, with subsequent rounds of support in line with longer-term goals. Other institutions with interesting proposals for new opportunities may qualify for spot-support under Component 2. In such cases, potential partners will be required to apply for support under pre-defined windows. Interventions related to capacity development and value chain finance may be supported under Component 1.

80. RUFEP has been designed taking into consideration stakeholder interests by identifying areas of common concern. In addition, RUFEP will play an active promotion role where no other institution or actor is able or willing to assume this role with a view of handing over responsibility to partners as soon as feasible. This approach will apply to the provision of knowledge about value chain finance, which is currently an area of technical weakness. In general, the PCO will play a coordination role for implementation of programme activities. Most of the day-to-day implementation will rest with partners, service providers and IOF grant recipients.

81. The PCO will provide support through matching grants to qualified CBFIs and FSPs. This will enable actors in the financial and associated sectors to experiment with new concepts, ideas and practices, and to scale-up successful models. This approach also contributes to preserving the integrity of initiatives, and to ownership by partner institutions.

82. RUFEP will intervene at three levels: At the macro-level, it will elaborate a framework for collateral substitutes and provide a regulatory and supervisory framework for financial institutions that currently operate outside meaningful and competent supervision. Many interventions will strengthen the meso-level infrastructure, including a package of knowledge management assistance to DBZ to create a refinancing facility for term loans, training systems, and efforts to build cohesion across new systems and products. This also includes support to the emerging network of CBFi promoters, which is expected to advance understanding on how to deepen informal village and community-based financial transactions. At the micro level, the Programme will test and scale up innovations, including technologies such as agency and mobile banking that contribute to closing the access-inclusion gap. Most of the support will facilitate transactions between financial institutions and their clients – through product development, agency-banking, cell-phone banking, value chain finance and opening of new branches, and through the horizontal expansion of community-based models.

83. RUFEP will align its targets with GRZ targets for rural financial sector development and will adhere to monitoring standards such as those applied by Finscope in order to measure changes in access and inclusion specific to rural finance.

B. Organizational framework

84. **Lead implementation agency.** The lead Programme implementing agency will be the MoF. The Ministry's Investments and Debt Management Department will have the direct responsibility of overseeing RUFEP implementation. As already mentioned the MoF may consider transferring the RFU and the PCO to National Planning Department. This will be done in close consultation with IFAD.

85. **Oversight.** A Programme Steering Committee (PSC) with relevant representation at national level will provide oversight, policy direction and coordination between key government institutions (i.e. MoF, BOZ and MAL). MoF may invite other Ministries (e.g. the Ministry of Community Development). It is recommended that all or part of the members of the PDG who have actively participated in the RUFEP design process be transformed into a Technical Advisory Group for Programme implementation. The group could also bring in other stakeholders from the rural finance/banking sector and should have at least half of its members coming from the private sector.

86. **Managing partnership arrangements.** Implementation of components 1 and 2 will largely rest with partner institutions and grant recipients, governed by a partnership agreement, memorandum of understanding or grant agreement. It is critical to provide a framework and guidelines (e.g. for work planning and budgeting, progress reporting, financial and procurement management as appropriate), ensure the quality of work plan and budget and reporting, provide implementation support, monitor their performance, and terminate partnership arrangements when required.

87. **Linkages with other actors.** Coordination, with various actors and partnerships will be pursued where feasible leading to synergy and added value. Proactively exploring opportunities for linkages will be one of the important tasks for the PCO, which will also contribute to coordinating the support for the sector under the RFU. In addition to sector players (financial institutions, apex organisations, etc.), the major initiatives (presently known) that will have to be well-coordinated and harmonized include the DFID-supported FSDZ, the private sector development activities and projects of the World Bank (credit line and technical assistance to banks and MFIs for SME lending) and various current and planned projects of the AfDB (in the livestock and aquaculture sectors, plus one regional development project and a planned intervention in small enterprise development). The same applies to other relevant Programmes and projects, including the ones funded by the Finnish and Swedish governments.

88. RUFEP will work very closely with other IFAD-financed programmes/projects to increase access to financial services by the target groups. Where RUFEP target groups and partners may benefit from support by other IFAD programmes/projects, this will also be facilitated. This approach will lead to higher levels of integration and synergy within the overall country programme. There are also opportunities for synergies with initiatives supported by other Development Partners. Where possible and feasible, these will be explored and deepened for the benefit of the rural poor. In particular cases, Memoranda of Understanding will be signed to help guide the collaboration.

C. Planning, M&E, learning and knowledge management

89. RUFEP's approach to planning, M&E and knowledge management will build on emerging best practices of the RFP and the other IFAD Programmes/Projects in Zambia. More detailed information on these functions can be found in Appendix 6. Given the nature of the Programme interventions, most of the implementation will rest with partners, service providers and IOF grant recipients.

Planning

90. Annual Work Plans and Budgets (AWPBs) will provide the PCO with a timetable for implementation of a set of carefully scheduled activities, together with their budgets and input requirements for the coming year. AWPBs will be formulated taking into account the previous AWPB, the Programme design report, supervision report recommendations and legal covenants, such as contracts and partnership agreements of service providers and participating partners, and their expected absorption capacity. Budget allocations constitute a basis for release of funds by different donors, and for financial control. An AWPB is an essential covenant in the legal financing agreement.

Failure to prepare the AWPB on a timely basis may lead to delay in or suspension of disbursements by IFAD and other donors. The first AWPB will be prepared, together with the procurement plan for the first 18 months of the Programme and form part of the final design report to be presented for discussion during the start-up workshop, as well as for submission to IFAD for no objection. Subsequent AWPBs should be prepared, discussed and approved no later than sixty days before the end of the financial year. If required, the PCO, through the PSC, can propose adjustments in the AWPB during the Programme year, which will become effective after clearance by IFAD.

Monitoring and evaluation

91. The M&E system will be based on the Logical Framework and generate verifiable information on the Programme's performance to assist the GRZ/MoF, PCO, partner institutions and other entities to plan and finance their activities, compare progress against targets and allow timely remedial action to correct problems. Information generated will contribute to facilitating workflows and improving the quality of decision-making. It is, therefore, important to provide a clear common framework for planning and progress reporting, and to ensure that all parties have clear understanding of the tools, formats, definition and applicability of indicators, and are ready and able to meet quality assurance requirements.

92. The Programme's external monitoring will comprise: (i) joint supervision missions by IFAD and MoF (every six months on average); (ii) an annual Programme audit; (iii) a comprehensive Mid-Term Review (MTR); and (iv) a Programme Completion Assessment. In addition, *ad hoc* thematic/ diagnostic studies will be undertaken as and when necessary.

93. The FinScope surveys undertaken in Zambia in 2005 and 2009 provide representative data on PDO indicator 1. This survey will likely be repeated in 2013 or 2014; some RUFEP indicators should be built into this survey. The Programme will therefore contribute to the costs of two subsequent surveys. BoZ and FinMark Trust are prepared to add a few pertinent questions to enable the Programme to fully utilise the results for monitoring purposes. In addition, to provide baseline data all participating financial institutions will be asked to submit information on key indicators on their current outreach in terms of number of clients, portfolio outstanding, geographical coverage, range of products, portfolio performance, etc. Another baseline study on the cost of borrowing for productive purposes in rural areas will be conducted in the first months. Lastly, the IFAD-funded MIX Mapping exercise which will be conducted by the MIX Market in year one is also likely to provide useful baseline data as well as being a useful output for stimulating policy dialogue and outreach planning.

94. **M&E instruments.** M&E will employ a set of interlinked instruments which capture data in pre-designed templates and provide information in customized tables. A Programme database will serve as a real time tracking instrument for outputs and outcomes. The AWPB data will be captured in two stages: (i) immediately after approval of the AWPB; and (ii) regularly during AWPB implementation. The AWPB will be translated into monthly and quarterly action plans to be implemented and monitored at partner and national level.

95. To keep the database simple and focused, the reporting system will consist of a set of tables, which respond to the requirements of key reports (six-monthly and annual progress reports, IFAD supervision and follow up reports). If other tables are needed, (requiring advanced analysis), the database will allow for raw data to be transferred to specialized software for further analysis. The design of the Programme database will be fully harmonized with other applications/databases of the Programme, especially with the financial and procurement application in order to be able to assess and report on Programme efficiency.

Learning and knowledge management

96. Based on the lessons learned from the previous IFAD programmes undertaken within the country and elsewhere (see Section II D above) Knowledge Management and Dissemination has been elevated to sub-component 3.1. The details of this are covered under component 3 above.

D. Financial management, procurement and governance

97. The Programme financial management arrangements are compatible with the government system and reflect IFAD's rules and regulations in relation to disbursement documentation, procurement and audit. The following aspects are discussed below and detailed in Appendix 7.

98. **Financial Management Assessment.** A financial management assessment has been undertaken in compliance with IFAD requirements (see Appendix 7). Fiduciary risk is rated as medium and given the proposed mitigation measures, the final risk assessment is low. Zambia's Corruption Perceptions Index, falls in the medium risk category but has shown some improvement having moved from 32 in 2011 to 37 in 2012 (out of 100 at the lowest risk level). RUFEP design takes into account this fiduciary risk. Given this medium risk, combined with a high fiduciary risk in some aspects RUFEP design has proposed appropriate financial management arrangements which are summarised in Appendix 7 and detailed in the draft Programme Implementation Manual (PIM).

99. **Strength and weaknesses of the GRZ Integrated Financial Management Information System (IFMIS).** The use of the IFMIS is a requirement in Zambia. Fortunately, the assessment of IFMIS shows strong control features, including segregation of duties and budget control. The project module of the software also allows for project accounting. However, the following gaps within IFMIS still exist:

- a) where role profiling is not carefully done in the system, Programme implementation would be affected due to delays in disbursements, as the line Ministry's controlling officer would have to sign off each payment; and
- b) advances to staff/implementers are expensed within IFMIS leaving them for off-the-system monitoring and control.

100. Considering that IFMIS is not yet available for those Programmes not physically resident in the MoF premises, arrangements will be made for RUFEP to operate a stand-alone financial management system as an interim arrangement until IFMS is fully rolled out.

101. **RUFEP Financial Management Organisation Structure.** A fully-fledged finance section of the PCO will be staffed by officers competitively recruited and paid for from Programme funds. Both the Financial Controller and the Assistant Accountant would be recruited on performance based contracts.

102. **The Programme bank accounts:** Designated Account in USD covering both IFAD and Spanish Trust Funds in the Central Bank, Operational Account ZMW – also covering both IFAD and Spanish Trust Fund in any financial institution acceptable to GRZ and IFAD. The initial deposit to be drawn in equal proportions from both IFAD and Spanish Trust Fund is proposed as USD 1.5 million being approximately the external funds expenditure projected for the first semesters.

103. **Financial Management for partnerships under component 1.** The financial management guidelines are proposed in Appendix 7 and will be detailed in the draft PIM. Some of these include a requirement for the partner institution not to mix RUFEP funds with other funds but rather to have a specific RUFEP Bank account and the requirement to cascade the replenishment basis to these institutions.

104. **Financial Management under component 2.** This is a matching grant facility as under the RFP. Matching grants by their nature create unique financial management challenges. Under RUFEP, the matching grants will be under different windows with varying level of matching contributions. Appendix 7 suggests financial management guidelines that will be further detailed in the PIM. These include, among others, the need for arrangements to enforce the matching contribution to ensure ownership and sustainability, financial accounting and database tracking of matching grants among others.

105. **Relevant issues to be included in the financing agreement.** From a financial management perspective, the following points should be considered at loan negotiation for possible inclusion in the financing agreement and the Letter to the Borrower:

- a) Provision for counterpart funding;

- b) Allowing the PCO to purchase a simple off-the-shelf Financial Management package until IFMIS is available for project use;
- c) Matching grant facilities, under the IOF Component, will follow their own processes and governance structures for vetting and approving grant applications/proposals according to clearly defined criteria and procedures. The procedures will be detailed in the PIM.

106. **Procurement.** The procurement arrangements for RUFEP, as detailed in Appendix 8, include the following topics, which are briefly covered below: Country Procurement Assessment, RUFEP Procurement Arrangements, and Procurement Planning.

107. **Country Procurement Assessment.** Zambia has ended the prolonged transition period during which the Zambia Public Procurement Authority (ZPPA) retained its review and approval role while procurement regulations and standard solicitation documents were being finalised. The transition period was to end originally at the end of December 2010, which was extended to December 2012. Involving ZPPA in procurement processes was a cause of delay and conflict of interest in procurement process. This was stopped in January 2013, and the ZPPA now retains an oversight role.

108. **Procurement under the Proposed Programme.** Procurement will mainly be for services with only few vehicles and equipment for the RFU and the PCO. The strategic partnerships (Component 1) and the provision of matching grants (Component 2) will not be considered as public procurement as it was the case under the RFP. Procurement requirements by grant recipients financed by the IOF facility will be covered in grant agreements. In most cases, procurement will be undertaken by grant recipients themselves following good commercial practices. A prior procurement capacity assessment of the recipient institutions will be undertaken to determine their adequacy.

109. In view of the assessment, as given in Appendix 8, provisions regarding the restriction to citizens or local bidders and the requirement for foreign bidders to partner with citizens or local bidders will not be applied, and some thresholds will be aligned to the IFAD procurement guidelines.

110. Transparency, **governance, anti-corruption.** In collaboration with IFAD and government, a Governance and Anti-Corruption Framework will be elaborated during the first year of implementation to mitigate the risk of corruption and promote effective utilisation of Programme resources.

E. Supervision

111. IFAD and MoF will jointly undertake six-monthly supervision missions. The most important skills and experiences that should be represented in the Missions include: (i) financial sector; (ii) financial management and procurement; and (iii) Programme set-up and implementation, planning, M&E and Programme manuals. Key features likely to require attention by the missions will include: (i) the ability of partners to procure the required goods and services; (ii) set-up and functioning of the M&E arrangements within the PCO and with partners and grant recipients; (iii) procedures and systems causing implementation and reporting delays; and (iv) procurement of TA. A comprehensive MTR will be undertaken, and will consider the achievement of Programme objectives and the constraints thereon and recommend such re-orientation as may be required. The recommendations will take into consideration the likelihood of achieving the objectives during the remaining time period.

F. Risk identification and mitigation

112. There are a number of risks involved in Programme implementation. The matrix below identifies some of these risks by category or domain, classifies them according to relevance and probability, and presents the main risk mitigation measures.

Table 3: Risks and risk mitigation measures ranked by relevance and probability

Main Risks	Relevance	Probability	Main Risk Mitigation Measures
Maintaining interest rate caps for lending, could potentially inhibit FIs from covering their costs for more risky or more costly lending operations	High	Moderate	<ul style="list-style-type: none"> • Experience of countries that operated such policies • RUFEP will support introduction of Agency Banking to reduce cost of branch networks and lower costs of transactions to positively address the policy issue • Continued dialogue between BOZ and all concerned parties, lobbying and advocacy for new market based regulations
Hesitance of banks and MFIs to adopt rural/agricultural finance as business options and to accept new collateral substitutes for smallholder lending	High	Moderate	<ul style="list-style-type: none"> • Constant dialogue with financial institutions and apex bodies right from the beginning • Creating ample opportunities for the financial sector to participate in the design • Developing solutions from the banking side fully compatible with internal regulations and control mechanisms • No imposition of regulations on the banks, but preserving the discretion of financial sector to decide what collateral to accept • Engage relevant microinsurance organizations locally and within the region to develop/offer agric- insurance to encourage FSPs to take reasonable risks and increase agric-lending
Low uptake of grant facility under IOF by financial sector	High	Low to moderate	<ul style="list-style-type: none"> • Strict orientation of the PCO along private sector ethos, work principles and attitudes • 'Marketing' of the facility by the PCO • Dialogue with the financial sector players and their apex bodies • Preparedness to adjust the conditions and add new windows in case of demand for other domains linked to the Programme objective and target groups
Political interference into financial sector	High	Low	<ul style="list-style-type: none"> • Policy dialogue with stakeholders, donors • Conferences discussing relevant current policy options involving policy makers • Research and studies dissemination
Distortions of rural financial markets through subsidies by GRZ or donors	High	Low	<ul style="list-style-type: none"> • Empirical analysis and publication of the impact of the measure • Lobbying and advocacy
Inability of the FSPs to improve their outreach to rural areas	High	Low	<ul style="list-style-type: none"> • Adopting private sector-led approaches • Feasibility studies on return on investment • Work with BOZ to develop agency banking
Absence of feasible solutions for delegated supervision	Moderate	Moderate to high	<ul style="list-style-type: none"> • Considering investments in capacity building of potential institutions • BOZ to develop mobile banking regulations
Low interest of agribusiness sector to collaborate on development of value chain finance models	Moderate	Moderate	<ul style="list-style-type: none"> • Dialogue with private sector • Using research and studies to show cases of concrete examples of enhanced business • Raising awareness on value chain finance models through conferences and workshops • Developing models and systems improving the efficiency of value chains and out-grower schemes

IV. Programme costs, financing, benefits and sustainability

A. Programme costs

113. The total programme investment and incremental recurrent costs, including physical and price contingencies, are estimated at USD 26.3 million (ZMW 149 million). Taxes make up approximately USD 2.6 million or 9.9% of total project costs. The total baseline costs are USD 25.1 million, while price and contingencies account for USD 1.3 million. Summaries of the programme costs by component and expenditure category are presented in the tables below.

Table 4: Programme cost summary by component

Components Project Cost Summary	(ZMW 000)						(USD '000)					
				%	% Total					%	% Total	
				Foreign	Base					Foreign	Base	
	Local	Foreign	Total	Exchange	Costs		Local	Foreign	Total	Exchange	Costs	
1. Strategic Partnerships	50,886	4,412	55,298	8	42		9,601	832	10,434	8	42	
2. Innovation and Outreach Facility	47,965	-	47,965	-	36		9,050	-	9,050	-	36	
3. Knowledge Management and Programme Implementation.	24,342	5,218	29,560	18	22		4,593	984	5,577	18	22	
Total BASELINE COSTS	123,193	9,630	132,823	7	100		23,244	1,817	25,061	7	100	
Physical Contingencies	3,263	108	3,371	3	3		616	20	636	3	3	
Price Contingencies	10,888	1,883	12,770	15	10		526	92	618	15	2	
Total PROJECT COSTS	137,344	11,621	148,965	8	112		24,386	1,929	26,315	7	105	

Table 5: Programme cost summary by expenditure category

Expenditure Accounts Project Cost Summary	(ZMW 000)						(USD '000)					
				%	% Total					%	% Total	
				Foreign	Base					Foreign	Base	
	Local	Foreign	Total	Exchange	Costs		Local	Foreign	Total	Exchange	Costs	
I. Investment Costs												
A. Vehicles, Equipments and Materials	2,469	1,869	4,338	43	3		466	353	819	43	3	
B. Training, Workshops, Studies	18,464	2,463	20,927	12	16		3,484	465	3,949	12	16	
C. Technical Assistance												
Local TA	8,448	3,220	11,668	28	9		1,594	608	2,202	28	9	
International TA	21,666	2,078	23,744	9	18		4,088	392	4,480	9	18	
Subtotal Technical Assistance	30,114	5,298	35,412	15	27		5,682	1,000	6,682	15	27	
D. Innovation and Outreach Grants	47,965	-	47,965	-	36		9,050	-	9,050	-	36	
Total Investment Costs	99,013	9,630	108,643	9	82		18,682	1,817	20,499	9	82	
II. Recurrent Costs												
A. Recurrent Costs	24,180	-	24,180	-	18		4,562	-	4,562	-	18	
Total Recurrent Costs	24,180	-	24,180	-	18		4,562	-	4,562	-	18	
Total BASELINE COSTS	123,193	9,630	132,823	7	100		23,244	1,817	25,061	7	100	
Physical Contingencies	3,263	108	3,371	3	3		616	20	636	3	3	
Price Contingencies	10,888	1,883	12,770	15	10		526	92	618	15	2	
Total PROJECT COSTS	137,344	11,621	148,965	8	112		24,386	1,929	26,315	7	105	

B. Programme financing

114. IFAD will finance 32% of the Programme costs (USD 8.4 million) through a loan to GRZ on highly concessionary terms. The Spanish Trust Fund will contribute USD 12.0 million or 45.6% of total costs also on highly concessionary terms. The GRZ will contribute 9.9% of Programme Costs (USD 2.6 million) which is the estimate of the tax element in RUFEP transactions. The grantees under component 2 will make compulsory contributions varying from 10% to 40% of the cost. Windows 1 and 3 will make at least 10% contribution while window 2 participating institutions will make contributions of at least 40%. In addition, the participating institutions under component one will be required to co-finance programme funded activities. The total participating institutions contribution has been estimated as USD 3.3 million (12.5% of total costs).

Table 6: Components by financier

Zambia
Rural Finance Expansion Programme
Components by Financiers
(USD '000)

	GRZ		IFAD		Spanish Trust Fund		Participating Institutions		Total		Local		
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	For. Exch.	(Excl. Taxes)	Duties & Taxes
1. Strategic Partnerships	1,743	15.7	4,216	38.0	3,989	36.0	1,138	10.3	11,087	42.1	881	8,462	1,743
2. Innovation and Outreach Facility	-	-	4,200	46.4	2,690	29.7	2,160	23.9	9,050	34.4	-	9,050	-
3. Knowledge Management and Programme Implementation.	869	14.1	-	-	5,309	85.9	-	-	6,178	23.5	1,048	4,261	869
Total PROJECT COSTS	2,613	9.9	8,416	32.0	11,988	45.6	3,298	12.5	26,315	100.0	1,929	21,773	2,613

C. Summary benefits and economic analysis

115. The number of beneficiaries is difficult to estimate given that the funds will not directly flow to farmers or enterprises for investment purposes. Both the number and average amounts of grants are not known at this stage, and no data are available on the final outreach and investment amounts. Based on the quantifiable benefit streams, an estimate of the number of beneficiaries under each stream has been made. In assessing the number of beneficiaries, it is estimated there would be some 140,000 households (inclusive of men, women and youth) in rural areas that will have accessed financial services as a result of RUFEP interventions. The details are given in Appendix 10.

116. The quantifiable benefits from the RUFEP can be classified under two streams:

a) Reduced transaction costs from e-banking

The Programme will provide 136 grants under this window. Each e-banking project will reach on average 4,500 beneficiaries; giving a total of 160,000 beneficiaries. However, not all these will be IFAD target group, thus this number has been scaled down for the analysis to 70% based on the poverty data. Thus the number of beneficiaries would be 110,000 under this window. The benefits will arise from reduced transaction costs for the beneficiaries. It is assumed that it takes on average two hours for a farmer to access a nearby bank; and thus remittances to rural areas have three cost dimensions: the bank charges, the time off the farm and the cost of transport to the nearby branch. In addition, through e-banking, bulking of inputs will be improved and this will be attractive to the value chain actors.

The net saving based on Zoon money transfer company experience will be ZMW 25 per ZMW 500 transaction; this is demonstrated in Appendix 10. A typical rural person receives such a remittance six transactions per year. The benefit per year per beneficiary, therefore, is ZMW 25 times the six transactions which gives ZMW 150 per year.

b) Incremental Gross Margins for farmers

Funding windows 1 and 3 will support better access to inputs through access to working capital as a result of the financial outreach/products. Currently, most smallholders use few, if any, purchased inputs and sell immediately post-harvest and, therefore, avoid the need for working capital, but at the cost of greatly reduced profitability. Based on production statistics in Zambia a number of enterprise models are given in Appendix 10. Using the relative production weights based on 2010 production statistics, the weighted average shows a potential increment annual income of ZMW 490,000 per household as a result of adoption of improved production technologies.

117. There are also **non-quantifiable benefits** as follows:

- a) Selected support for strategic partner institutions (including the RFU) will contribute to the improvement of framework conditions for rural financial sector growth and outreach.
- b) There will be more capacity to design and deliver demand-driven rural and agricultural financial products and services.

- c) Component 3 will facilitate rural finance knowledge management; this will advance the agenda of financial sector deepening.
- d) There are other non-quantifiable benefits such as employment creation and an overall contribution to the stability/robustness of the financial sector.

118. The results of the financial and economic analysis are positive. For the production models, incremental returns to labour are attractive, as are the rates of return. In terms of the economic analysis, the project results in an EIRR of 16%; the ERR is relatively stable with regard to cost increases, benefits reductions and time lags (see Appendix 10, Financial and Economic Analysis, for details).

D. Sustainability

119. Sustainability prospects differ between different types of Programme intervention and partner institutions. In the case of PFIs, efforts are geared at enhancing the viability of rural finance operations. Viability of operations is a criterion for support throughout all support services, and is retained as indicator for measuring outcome 1. Efforts will be taken to make CBFIs more sustainable by improving their support framework, identifying new approaches to data generation and analysis, which will facilitate support arrangements and reduce their costs; and by linking CBFIs – where so desired by members – with other support arrangements, such as extension and learning, financial services (deposit and loans), and production and marketing. Other measures, such as those aimed at improving the capacity of the DBZ as wholesale lender and re-financier aim to make DBZ more sustainable and provide a framework for growth of the agricultural and financial sectors.

120. Macro level interventions, such as introducing new tier III regulations and supervision and at new collateral substitutes, aim to make the respective segments of the financial sector and the productive and agro-processing businesses more viable, to improve transparency and integrity of the financial sector, or facilitate access of the rural population to financial services.

121. All knowledge management activities are aimed at improving the public understanding of financial sector issues, creating a momentum for the advancement of financial inclusion, and thus create space for new transactions, testing of innovative practices, and improvement of the quality of services. All of these comprise a lobbying and advocacy element for the benefit of the rural poor, and are therefore an investment into equitable economic and social development. The same applies to financial literacy and consumer protection activities scheduled as second round activities under the BOZ partnership.

122. The only measure not improving the sustainability of institutions or the financial sector as a whole is the support to the RFU. The creation of this unit will imply additional costs for the GRZ. However, these represent a necessary investment into better and harmonized coordination, flow of information, and government supervision, leading to improved rural finance policies, and therefore highly justified.

Appendix 1: Country and rural context background

A. Overall country context

1. **Geography and population.** Zambia is a large landlocked country with a land area of 753,000km². The country shares borders with Malawi, Mozambique, Zimbabwe, Botswana, Namibia, Angola, Democratic Republic of Congo and Tanzania. Its population, which grew at 2.8% during the 2000s, totalled 13 million in 2010, giving it a low population density of 17 persons/km². The total population is estimated to have reached 14.08 million by 2012¹.

2. **Economy.** At independence in 1964, Zambia inherited an economy which was heavily dependent on the copper mining sector (then accounting for more than 90% of export earnings) and a population that was close to 50% urban. After a period of economic decline in the 1990s, Zambia's macroeconomic situation has improved in the last 10 years: driven by the macro-economic and public sector reforms initiated in the 1990s and propelled by rising copper prices, annual economic growth averaged about 6% during the latter half of 2000s. The strong economic performance is expected to continue in 2013 and 2014 premised on increased mining output, rising construction activity and sustained robust growth in services and agriculture². Despite solid economic growth, poverty levels have remained persistently high, especially in the rural areas. Income distribution is highly unequal as indicated by a high Gini coefficient³.

3. The government has also improved its fiscal discipline. Since 2004, the fiscal deficit has been maintained at 3% of GDP or less. The average inflation in 2012 is estimated at 6.5% and is expected to remain within single digits for some time. Real GDP growth is forecast to average 7% in 2013-17, supported by large investments in infrastructure and the mines, a surge in copper production and robust growth in all sub-sectors of the economy, including agriculture (estimated to grow on average by 6% per year)⁴. The Kwacha, the national currency, is expected to depreciate against the USD by 4% annually on average up to 2017 (Economic Intelligence Unit [EIU]). Zambia's economic performance and policy management in recent years were deemed satisfactory and the World Bank recently reclassified Zambia as a lower middle-income country.

4. **Economic cooperation and regional integration**⁵: Zambia hosts the headquarters of the Common Market for Eastern and Southern Africa (COMESA) and remains active in the Southern Africa Development Community (SADC). Zambia remains committed to a liberal trade regime and efforts to deepen this process further have continued through regional and multilateral arrangements, which is important in promoting export-led growth and economic diversification. Zambia's pro-trade policies and improved trade-related infrastructure such as the one-stop border post at Chirundu with Zimbabwe and Kasumbalesa with the Democratic Republic of Congo, and the launch of the Simplified Trade Regime at the Mwami border post with Malawi, have yielded benefits. The 2012-13 **Global Competitiveness Report** showed that Zambia was ahead of many of its peers in institutional strength, macro-economic environment; goods market efficiency, business sophistication and financial market development⁶. At the same time, the most problematic factors for doing business included access to financing (with 25% of responses), corruption (15%), tax rates (10%) and inadequate infrastructure (8%).

¹World Bank Data 2012.

²Africa Economic Outlook, Zambia Country Report 2012 -2013.

³Estimated at 0.57 following the 2004 Living Conditions Monitoring Survey (Central Statistics Office 2005). The UNDP Human Development Report 2011 indicated a value of 50.7% for Zambia.

⁴Economic Intelligence Unit. Zambia Country Report (February 2013).

⁵Africa Economic Outlook, Zambia Country Report 2012.

⁶World Economic Forum: The Global Competitiveness Report 2012-2013.

B. Agriculture and rural context

5. **Agriculture sector in the country economy:** Zambia's recent economic growth has been driven by copper mining, construction and tourism. Agriculture accounts for about 20% of GDP¹. Growth rates for the sector have been estimated at an annual average of 5.9% for the 2013-2017 period (EIU). Most people in rural areas depend to a very large extent on agriculture. The economy remains vulnerable to changes in the global metals markets, and unexpected declines in copper prices would weaken Zambia's prospects for sustainable growth. Zambia has long sought for ways to diversify its economy away from the reliance on copper to foster broad based economic growth. The Government has targeted agriculture as a priority sector in poverty reduction and food security given that two thirds of the population live in rural areas and rely on the agricultural sector for their livelihoods. 62% of Zambia's adult population lives in rural areas. Moreover, almost 90% of Zambians who live below the extreme poverty line are concentrated in rural areas, and the poverty gap ratio (a measure of how far average incomes fall below the poverty line) is far higher for the rural population than their urban counterparts (20% and 3.7%, respectively). Overall, 30% of adults (rural and urban) say that they rely mostly on agriculture as a source of income and over half the rural population (53%) report agriculture as being the only source of household income [Source: FinScope Survey 2009].

6. The agricultural sector has the potential to be a major source of economic growth, given abundant underutilised fertile land and adequate rainfall. Less than half of Zambia's 23 million hectares of potential arable land is currently used for agriculture. In terms of potential, of Zambia's total landmass, 58% is classified as medium to high potential for agriculture production. Unfortunately, only 14% of this land is cultivated. Water resources are equally unexploited with only 11.8% of Zambia's irrigation potential being utilized [Source: Zambia National Rice Strategy, 2011]. The country generally experiences good rainfall, ranging from 500 mm in the south to 1,400 mm in the north; though the country is subject to both floods and droughts. The major drivers for enhanced production would be enhanced yields, which are currently very low by global standards, and leasing of larger plots of land to medium- and large-scale investors. Faster and even agricultural growth in the smallholder sector would be critical to reducing the high rate of rural poverty and supporting the expansion of consumer demand.

7. **Agrarian structure:** Smallholder farming households number approximately 1.1 million, of which over 20% being headed by women. These households cultivate on average 1.5 hectares (ha) of land, generally using low-input, hand hoe technology and relying primarily upon family labour. They produce partly for household consumption and partly for the market. There are some 40,000-60,000 emerging farmers, who cultivate 5-20 ha, typically using draught power, purchasing inputs and hiring manual labour; and their production is predominantly for sale. There are also some 1,500 large-scale commercial farmers and a few, though growing number of large corporate operations.

8. **Smallholder agriculture:** Farming systems vary according to the agro-ecological conditions across the country. In the northern half of the country, cassava is the main staple and the basis for the production system. In the southern half of the country, maize is the main food crop; while in the centre, there are mixed maize/cassava systems. Overall, agricultural production is dominated by maize, which is grown by 80% of farming households and in 2010 covered over half the area planted. Maize production is strongly promoted by the GRZ through a targeted subsidized (FISP); and a guaranteed maize purchase programme operated by the FRA, which in recent years has offered above market farm-gate prices. Other important smallholder crops include beans, groundnuts, rice, cotton, tobacco, sugar cane and vegetables. Conservation farming practices have been widely promoted in Zambia specifically for the maize-based farming systems in the dryer parts of the country. As for the livestock sub-sector, its importance for not only poverty reduction or risk mitigation strategy for the poor but also for national economic growth has also been increasingly recognised. The major types of livestock owned by smallholder farmers are cattle (largely for draught power by smallholders, beef, dairy, as well as social status), goats, sheep, and chicken.

¹Various sources: e.g. African Economic Outlook (figure for 2010)(<http://www.africaneconomicoutlook.org/fileadmin/uploads/aeo/PDF/Zambia%20Full%20PDF%20Country%20Note.pdf>); World Bank.

9. **Government policies on input subsidies and guaranteed minimum price for maize marketing:** Government support for the agricultural sector is currently dominated by the FISP and funding of the FRA. Together, these consume 49% and 46% of the total budget of the MAL in 2012 and 2013 respectively¹. Under the FISP, agricultural inputs are distributed to small and medium-scale maize producers at heavily subsidised rates. Under the crop marketing system, the FRA buys maize from farmers (often irrespective of the quality) at a guaranteed minimum price that significantly exceeds the market price. It is widely recognised that both policies are in need of an overhaul: targeting under the FISP is weak; better-off farmers are reported to have benefited more than poor smallholders from both FISP and FRA; crop wastage, combined with the high minimum price, has boosted the cost of maize for farmers looking to supplement their own crop (as an estimated 50% of rural farm households are net buyers of maize). The policy has also promoted over-reliance of livelihoods on one main crop against a risk reduction strategy based on crop diversification. In addition, maize has been increasingly grown in replacement of traditional crops (millet, sorghum, etc.) in areas not well suited to the climatic and agronomic conditions, thus strongly increasing the risk of poor yields. In addition, the recent infestation of cropland by army worms in parts of the country could adversely affect agriculture. Given that Zambian agriculture is predominantly rain-fed, adverse weather conditions – poor rainfall or floods – could jeopardise the sector's growth prospects.

10. The new Government elected in September 2011 has realized that productivity in Zambia's agriculture sector is also low due low capacity utilisation and concentration in production of staple food crops with minimal export value and high cost of production. The agriculture sector also suffers from a shortage of skills, particularly for veterinary and extension services exacerbated by limited access to long-term finance. Access to credit remains one of the main challenges facing Zambian small businesses.

11. The Government has therefore indicated its commitment to change these policies and shift towards investments in agriculture infrastructure and crop diversification. It has therefore embarked upon measures aimed at addressing the binding constraints to productive agriculture. In order to boost crop and livestock production diversification, reforms are underway to encourage crop diversification with the Farmer Input Support Programme expanded to cover other crops such as soya, cotton, sunflower, and rice. To alleviate delays in input distribution, government plans to introduce an electronic voucher (e-voucher) system from 2013. The e-voucher system is expected to strengthen the role of the private sector in supplying agricultural inputs. Livestock restocking, and streamlining of policy and scaling up of extension services, irrigation and research are additional policy measures being undertaken to increase agricultural productivity.

12. In June 2012, the government announced establishment of industrial clusters zones countrywide, to be supported by appropriate industrial infrastructure for SMEs. This is meant to add value to agriculture products, making them competitive in exports markets. In order to ease credit constraints, the government has announced recapitalisation of the DBZ, a government owned institution providing long-term finance. Improving the recovery of loans by the Citizens Economic Empowerment Commission is also expected to avail resources to new applicants, especially the micro, small and medium entrepreneurs, which are hugely credit constrained. The banking sector is also expected to continue playing its intermediation role, with products designed for agriculture-related SMEs².

13. **Other IFAD-supported programmes:** Within the community of IFAD-supported programmes there are three on-going IFAD-financed projects (S3P, SAPP and SLIP) focus on addressing the production and market linkage constraints across key agricultural subsectors and value chains in which smallholder farmers participate, a close and direct link of farmers and processors with the financial sector is an indispensable element for the success of these activities. Even where rural investors receive matching grants, they are not very likely to survive in medium terms unless they are able to establish their linkages with a financial institution. In a move to build a more comprehensive and integrative programme support in Zambia, the close inter-linkage of support in the real and financial

¹ZMW 800.0 million out of a total allocation of ZMW 1,748 million for 2013.

²Africa Economic outlook, Zambia.

sectors is needed to generate more synergies to achieve faster rates in poverty reduction. The implication is that a new rural finance programme such as RUFEP should be formally linked to these programmes in an effort to take care of both demand side and supply side issues. Such approach is likely to lead to much higher levels of integration and synergy than previously achieved. There are also opportunities for synergies with other initiatives supported under the UN agencies, such as the WFP (P4P, e-payments), and the FAO as regards value chain support and finance, e-vouchers and the integration of producer groups into market arrangements and financial services. Where possible and feasible, these shall be explored and deepened for the benefit of the rural poor.

C. Financial sector context START

14. **Financial sector overview** Zambia has made good progress in financial sector development on a number of fronts over the past decade. The number of Banks has almost doubled, to reach 19, and the volume of business transacted through ATMs has growth rates of about 25% a year. A microfinance sector has emerged with five MFIs fully licensed as deposit-taking institutions, non-deposit-taking MFIs (about 30), other NBFIs including leasing companies (20), the state-owned quasi-bank NSCB and the DBZ both of which have been supported under the RFP. While NSCB and DBZ have been created by Acts of Parliament, they are reporting to the BOZ, although not fully under its supervision. In the semi-formal sector, savings and credit cooperative societies (687)¹ and credit-only MFIs (30) lending mostly to wage earners are important. In the informal sector, the most important type are the rotating savings associations, often referred to as 'Chilimba', followed by the VSLAs and other CBFIs.

15. In the commercial banking sector, capacity has improved, loan portfolios become healthier in most banks, and recently, profitability has improved. One bank has recently had a very positive response when introducing a new simple-to-use credit card to the local market, and several banks are planning to expand their agricultural and rural portfolio considerably. The financial landscape during 2012 remained buoyant, supported by a favourable political and socio-economic environment, which enabled the country to record positive and significant growth. Investments showed positive signs as evidenced by a successful issuance of the USD 750 million bond, which attracted bids amounting to USD 12 billion². There were general improvements in all areas as the banking sector recorded growth in loans, advances and in total deposits. Yields on government securities remained positive in real terms due to a sustained reduction in the inflation rate.

16. **Government Policy Framework for the Financial Sector:** The Government recognizing the importance of the financial sector is seeking to ensure financial sector stability and access which is reflected in a number of regulatory changes that have been made to improve banking regulation over the past decade. GRZ formulated a five year FSDP. Launched in 2004, the FSDP is guiding efforts of all stakeholders to realize the vision of a financial system that is stable, sound and market-based and will support resource mobilization for economic diversification and sustainable growth. In January 2010, a further three year extension of the FSDP Phase II was approved, which focuses on three main pillars: enhancing market infrastructure increasing competition; and increasing access to finance³. However in the recent past GRZ has sent mixed signals by implementing some regulations which could positively influence access and others could potentially reverse the significant gains made in the financial sector as follows.

17. **Financial literacy and consumer protection:** Financial literacy, as measured by the Finscope surveys, is at comparatively low levels. It is widely recognized that the lack of understanding of financial terms, products and services constitutes an important obstacle in deepening access to financial services, in particular in rural areas. In addition, there is no concise consumer protection laws in place, through which the users of financial services would be better protected against malpractices. Lending institutions are for example not forced to inform their clients on the effective interest rate per year

¹According to the MAL Department of Cooperatives there were over 20,000 registered cooperatives as of December 2010. The three main categories include multi-purpose, agricultural and savings and credit cooperatives. Source: Ministry of Agriculture and Livestock, Department of Cooperatives, Cooperative Statistics in Zambia, 2010.

²Ditto.

³OPM Development of Rural finance Policy and strategy in Zambia Final Report June 2012.

(calculated along a standardized methodology) and inclusive of all fees and charges), but instead often express lending rates as nominal flat rates per month excluding any fees and charges. The FSDP has in 2011 submitted a draft strategy on financial education, which awaits adoption by GRZ. The BOZ has recently established a small unit working on these issues, and receives some TA from Germany in this field.

18. **Interest rate caps:** In January 2013, the BOZ introduced a cap of 18.25% on lending rates of commercial bank, of 30% for payroll lenders and of 42% for MFIs. This move, which represents a break from the previous more liberal positions, was made in a move to reduce cost of borrowing in the country. Early evidence shows that whilst the banks will remain mostly unaffected, MFI lending is hardly profitable under the new regime. It is not possible to assess the medium to longer term impact of these measures before accurate data has come out. However, initial assessments commissioned by BOZ indicate that MFIs' revenues are negatively affected and they have to make up for the loss by increasing their loan books or reorganize rural expansion. This corresponds with the negative impacts experienced by most countries which have in the past introduced a similar interest rate cap policy. On a positive side MFIs have begun to be more innovative to realize efficiency and BOZ is still receiving new applications from new MFIs. The industry has engaged BOZ in dialogue with a view to achieving market based long term solutions away from interest rate caps. RUFEP on its part will support BOZ to formulate and roll out Agency banking and Mobile Banking regulations. These regulations would allow the banks and other FSPs to operate agents such as petrol stations, local supermarkets etc to reduce their costs of constructing and operating full branches. When this is achieved, the FSPs will lower their costs of rural outreach and with increased ease of entry into the market competition should drive the cost of borrowing downwards for the rural poor.

19. **Capital adequacy:** In January 2012, the BOZ also introduced new minimum capital requirements for Banks. While domestic banks were to preserve their equity at least at USD 20 million, foreign banks were to hold at least the equivalent of USD 100 million. It may not be possible to justify this differentiation in technical terms, and also to understand why government-owned deposit-taking banks operating outside the Central Bank regulation are exempt from the new policy. However, against the initial decision, the deadline was extended from the end of 2012 to the end of 2013. It is therefore not possible to assess the outcome of this policy.

20. **Constraints at Macro Level:** Despite the gains made in the formal banking sector, there remain substantial gaps and weaknesses across Zambia's financial sector and the access-inclusion gap remains a significant concern in relation to national economic development goals. These gaps include:

- a) the state-owned financial institutions (NSCB and DBZ) are not subject to the standard banking prudential regulations due to their special status. The BOZ has therefore not been able to enforce adequate capitalization of these FIs and only the DBZ has recently received an injection of capital from GRZ;
- b) (high lending rates and other usury charges that have constrained access to financial services (that has led BOZ to introduce interest rate caps);
- c) Financial institutions falling under the tier III, i.e. savings and credit cooperatives/credit unions and non-deposit-taking MFIs, are not regulated yet, even though some credit unions hold significant deposit balances, through which they could become a potential systemic risk to the financial sector.

21. **Access to finance:** Penetration rates of the financial sector are in general low. Of all adults, 37.3% had access to financial services in 2009. As expected, access of the urban population to financial services is higher than in rural areas, not the least because of the much higher number of access/service points and the lesser average distance to these. However, the differences are much less than could be expected. Informal finance is generally more important to SMEs and farmers on average, and more prominent in rural areas. In Eastern and Southern Africa, Zambia has the second lowest usage rates of financial services, only followed by Mozambique. Between 2005 and 2009, access to

financial services has only improved by about three percent points, which is considered to be slow. The table below compares the usage of financial services by category.

Table 4: Access to financial services in Zambia for different categories (in % of adults)

Type of financial services	All adults	Urban areas	Rural areas	SMEs	Farmers
Formal financial institutions	23	32	18	30	19
• of which Banks	14	23	9	18	8
Other formal institutions	17	21	15	21	15
Informal finance	22	19	24	32	27
No use of financial services	63	58	66	49	62

Source: Finscope 2009. Round figures in percent of total. NB: Percentages in columns do not add to 100 since there are overlaps between formal and informal financial product usage.

22. As elsewhere in Africa, financial markets are highly concentrated in urban areas; financial services are heavily concentrated on the corporate sector, urban areas and wage earners¹. Bank and MFI lending to MSEs, smallholder farmers and to rural clients is insignificant. According to the FinScope Zambia Small Business Survey, 85% of rural MSMEs are 'unbanked' compared to 59% in urban areas. The *Global Competitiveness Report 2012-2013* shows a much above average financial market development for Zambia on the one hand, but that access to financing is reported the single most problematic factor for doing business (by 25% of respondents)². The overall consensus is that finance is expensive and difficult to obtain with the exception of the largest lead firms. For medium sized firms, the most common formal loan product is the overdraft which is also considered difficult to come by and expensive. Borrowing from the microfinance sector prior to the introduction of interest caps was also prohibitive to many in view of the costs, as rates exceeded 100% in some cases.

23. **Constraints and opportunities:** Weak institutional capacity, including inadequate management information systems, weak capacity for product development and the lack of qualified human resources are among the main meso and micro level constraints preventing further development and deepening of the financial sector. In general, many FIs lack sound knowledge about shaping bank products and services to the needs of the agricultural and rural sector. Credit technology is not very advanced, and most lenders employ traditional approaches and methodologies with a strong emphasis on traditional forms of collateral, especially mortgage. High operating costs in rural areas and risk-averse senior management in banks and MFIs concerned with showing satisfactory return on investments tend to discourage rural finance expansion. Banking regulation covers most dimensions, but leaves credit unions and microcredit operators untouched. While supervision has gradually improved, the BOZ is unable to adequately monitor the entire financial sector. The single main obstacle for investments into improving access to finance is the policy on interest rate caps.

24. On the demand side, poor roads and lack of transport, long distances to financial institutions in rural areas, lack of trust in banks, lack of knowledge and awareness in how to approach banks and negotiate loan applications, as well as a poor credit culture, resulting from many years of government sponsored credit with low emphasis on repayment enforcement, all contribute to low uptake of financial services in rural areas. For rural clients, the main issues are high cost of loans, inappropriateness of products (emphasizing monthly repayment), collateral requirements and lack of familiarity with banking approaches, techniques and products.

¹See Anthony Musonda Simpasa: Competition and Market Structure in the Zambian banking sector. Working Paper 168. Tunis, January 2013: African Development Bank

Group. <http://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/Working%20Paper%20168%20-%20Competition%20and%20Market%20Structure%20in%20the%20Zambian%20banking%20Sector.pdf>

²Followed by corruption (reported by 15%), tax rates (10%), inadequate supply of infrastructure (8%) and poor work ethic in national labour force (6%). Global Competitiveness Report 2012-2013, p. 370

25. Despite the above constraints, in most aspects, the framework conditions for a new investment by IFAD into the rural finance sector are conducive, including:

- a) the interest of the MoF to take the leadership role and advance on the implementation of the Rural Finance Policy and Strategy, once adopted by GRZ;
- b) the support and interest by the BOZ to expand the foundations for and develop rural finance further and deeper through a systemic approach;
- c) the growth of both Banks and MFIs in the past years, their profitability and their expansion of their loan portfolios;
- d) the high interest in the industry, in particular commercial Banks and development-oriented MFIs, to improve their performance and outreach within the confinement of profitability;
- e) the pilot testing of new and innovative approaches and products undertaken by some financial institutions in collaboration with ZNFU, suppliers and development partners;
- f) the promising developments in developing and testing grassroots models for community-based finance (including VSLAs), which have been supported under the current RFP, and the growing interest among value chain actors and farmer groups in the concept;
- g) the growing number of users and owners of mobile phones, also in rural areas (28% in 2010), opening the door for the use of mobile phones in financial transactions, although the potential impact may not be as high as in Kenya with its M-PESA transfer/payment system; and
- h) a legal framework that is in most dimension conducive and oriented at developing a capable, integer and solid financial sector.

D. National development policy and strategies

26. The overall goal of the RSNDP 2011-2015 is “**sustainable economic growth and poverty reduction**”. The Government's highlights the urgency of economic diversification, and it identifies five key growth areas: agriculture, tourism, manufacturing and commerce/trade, as well as mining. Rural development is high on the SNDP agenda, recognising the need to reduce the high poverty levels in rural areas. Amongst others, stimulating agriculture productivity, promotion of agro-businesses, expansion and increased access to financial services in rural areas have been identified as important thrust areas in this regard in the SNDP. The high cost of finance and limited access to financial services are identified as constraints to capital formation and growth. The broad reform measures geared at financial sector development include improving market infrastructure, increasing competition and increasing access to finance.

E. Development partners

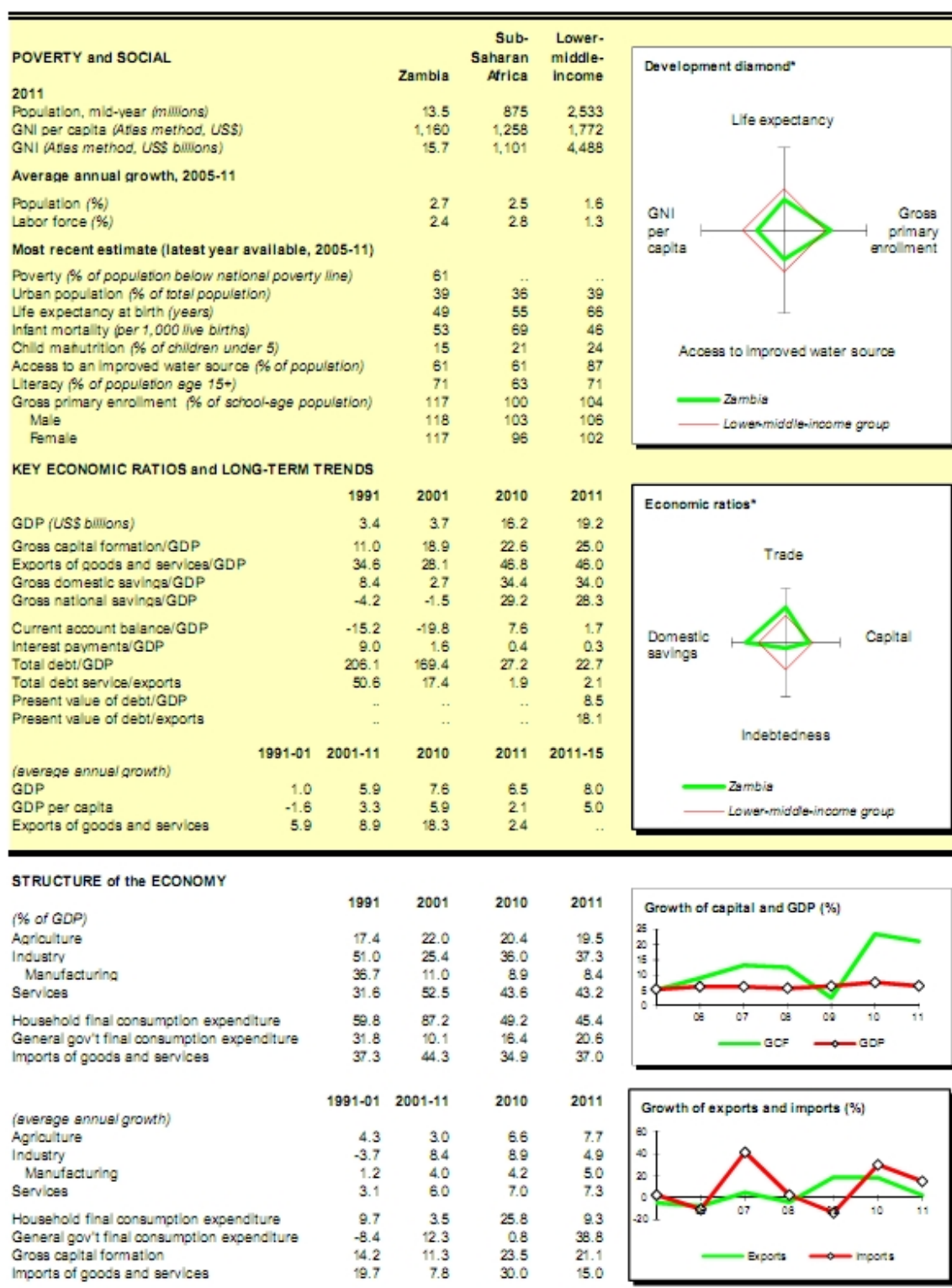
27. Apart from IFAD, the key development partners active in the rural, agriculture and finance sectors include: the World Bank, DfID, AfDB, WFP, FAO, European Union, Japan International Cooperation Agency (JICA), USAID, Finland, Norway, Sweden and Germany. In the agriculture/rural sector, efforts are being made to advance policy dialogue on priority issues with the government, and harmonization and alignment with the government systems and procedures through the Agricultural Cooperating Partners Group (AgCP, as well as through sub-groups on livestock and irrigation). The Group is led by a rotating *troika* of 'lead' development partners, which represent the interests of the AgCP in the MAL-led Agricultural Sector Advisory Group, made up of stakeholders from the public and private sectors. With the establishment in 2008 of an IFAD Country Office in Lusaka, staffed by an experienced Country Officer, IFAD has become an engaged and substantive member of the AgCP. IFAD is also a member of the United Nations Country Team (UNCT).

28. **Other relevant interventions:** A number of past and current interventions paved the way for the RUFEP. The second phase of the FSDP, which has been funded by a number of donors and which has been extended till 2014, prepared a large number of new regulations and policies pertaining to financial

systems development. Among these is the new Rural Finance Policy and Strategy, which was prepared with the RFP support, which provides the overall framework for support to the (rural) financial sector. The guiding principles for the Rural Finance Policy and Strategy include encouraging market-based approaches, supporting access to a variety of financial services, and promoting a wide range of financial organisations, support demand-driven and innovative approaches of the private sector, in line with good practices. The Policy has recently been submitted to the Cabinet and is awaiting Cabinet approval. One of its core institutional proposals is the creation of RFU within the MoF, which is proposed to be supported under the RUFEP if and once the Policy has entered into force.

29. A number of other ongoing initiatives of the GRZ and donor agencies are relevant and potential for creating synergies. The GRZ has recently decided to embark on a rural industrialization strategy and perceives the Rural Finance Policy and Strategy as one support pillar to rural industrialization. The planned RFU will also be mandated to address access to finance issues related to industrialization, not only for MSMEs and the agricultural sector. DFID will have its Access to Finance programme functional around September 2013, through which it aims at increasing access to finance for 190,000 persons within the next five years through a range of interventions in the financial sector. The Access to Finance programme will also continue to support any unfinished agenda of the FSDT II, which will close in 2014. USAID, with financial support from SIDA, extends guarantees via DCA to local banks for lending to value chain operators supported by USAID. The Swedish and Finnish governments, through their embassies, also support ZNFU in expanding a smallholder loan product called “Lima”, where farmer groups deposit 50% of the expected loan amount in a blocked savings account as collateral for inputs delivered on loan basis. The World Bank has initiated preparation of a new project aiming at improving access to finance for SMEs. This project, with an amount of up to USD 40 million, will use the DBZ as intermediary for loans extended by commercial banks and deposit-taking MFIs to MSEs, thus a refinance facility. Current issues debated between the GRZ and the World Bank include the definition of SMEs and the target beneficiaries under the proposed project, the proportion of loans passing through banks and MFIs, and the potentially negative impact of the interest rate ceiling. The World Bank has decided to put all further preparatory steps on hold until the outcome of the interest rate caps has been clearly assessed. In case this project would be approved, the DBZ would benefit from the capacity development in managing refinance facilities under the RUFEP. The AfDB is not immediately planning any intervention in the financial sector, but would highly appreciate the interventions of the World Bank and IFAD in this sector given its current and planned interventions in agricultural production and value addition, livestock, aquaculture and small enterprise development. In all cases, the RUFEP initiatives will thus be complementary to these other initiatives, reinforce these, support their achievement of their respective objectives, and will in turn benefit from the investments made under these parallel initiatives. Coordination and collaboration arrangements, including exchange of information, joint initiatives and co-financing where feasible and required, have been tentatively agreed upon between IFAD and DfID, and will have to be finalized once both programmes will be effective. Managers of both programmes will meet regularly, inform each other on planned and current initiatives and activities, exchange data on grant application received and approved, and jointly assess opportunities and strengths implying changes in strategy or operations.

ATTACHMENT 1: COUNTRY DATA SHEET¹



Note: 2011 data are preliminary estimates.

This table was produced from the Development Economics LDB database.

* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

¹ Source: World Bank, 2013.

Appendix 2: Poverty, targeting and gender

I. RURAL POVERTY

A. Population and poverty levels

1. The 2010 Census of Population and Housing captured the population of Zambia as 13,092,666 representing an increase of 32.4% from the population of 9,885,591 captured during the 2000 Census. Females comprise 50.7% of the current population while males make up 49.3%. The population in rural areas stood at 7,919,216 in 2010, an increase from 6,458,729 in 2000. The urban population was 5,173,450 in 2010, which grew from a population of 3,426,862 in 2000. Zambia has a relatively young population with 45.4% of the population below the age of 15 years. In rural areas 48.6% of the population is below the age of 15 years compared to 40.5 percent of those in urban areas. The population aged 15-24 make up 20.8% of the total population, of which 19.3% are in rural areas and 23.2% are in urban areas.

2. Zambia has a total of 2,513,768 households. Of these, 77.5% are male-headed and 22.5% female-headed. Poverty levels among female-headed households tend to be higher than in male-headed households. Overall, the average household size is 5.2 persons. The average household size female-headed households is 5.4 persons while that for male-headed households is 4.4 persons. The average household size in rural areas (5.3) is almost the same as for urban areas (5.1 persons). Table 1 shows population by province as well as the total population in rural and urban areas.

Table 1: Total population by province, region and sex (Zambia, 2010)

Region and Province	Population			In % of total population	
	Total	Male	Female	Male	Female
Rural	7,919,216	3,906,636	4,012,580	49.3	50.7
Urban	5,173,450	2,548,011	2,625,439	49.3	50.7
Central	1,307,111	648,465	658,646	49.6	50.4
Copperbelt	1,972,317	981,887	990,430	49.8	50.2
Eastern	1,592,661	784,680	807,981	49.3	50.7
Luapula	991,927	488,589	503,338	49.3	50.7
Lusaka	2,191,225	1,082,998	1,108,227	49.4	50.6
Muchinga	711,657	349,872	361,785	49.2	50.8
Northern	1,105,824	546,851	558,973	49.5	50.5
North-West	727,044	358,141	368,903	49.3	50.7
Southern	1,589,926	779,659	810,267	49.0	51.0
Western	902,974	433,505	469,469	48.0	52.0
Zambia	13,092,666	6,454,647	6,638,019	49.3	50.7

Source: Republic of Zambia Central Statistical Office ZAMBIA, 2010 CENSUS OF POPULATION AND HOUSING Preliminary Population Figures, February, 2011

3. The definition of poverty is not straight forward due its multidimensionality, complex nature and the fact that it manifests itself in various forms. It is usually associated with economic and/or social deprivation with the former being the most commonly used indicator. The Zambia Millennium Development Goals (MDG) Progress Report 2011 looks at the extreme poor as those living on less than USD 1.25 a day. The report notes that extreme poverty is much higher in rural areas at 67% compared to 20% in urban areas.

4. The LCMS series of poverty analysis has adopted the material well-being perception of poverty in which the poor are defined as those who are unable to afford minimum basic human needs, comprising of food and non-food items. The categorization of the poor in Zambia in LCMS is elaborated in Box 1 below.

Box 1: LCMS 2006 - Poverty Analysis

Extremely Poor

The extreme poor or the ultra-poor are those who cannot afford to meet the basic minimum food requirements even if they allocated all their total spending on food. The Extreme Poverty Line is normally set at the total expenditure equivalent to the Food Poverty Line. For example in LCMS V, these are households whose total monthly expenditures are less than K 65,710 equivalent to the total cost of the average national calories intake found in the data. This is updated from the 1998 poverty line of K 32,861 by using Central Statistical Office's consumer food basket adjusted from the prevailing market price at the time of the survey. The national food basket was constructed by the National Food and Nutritional Commission way back in the early 1980s.

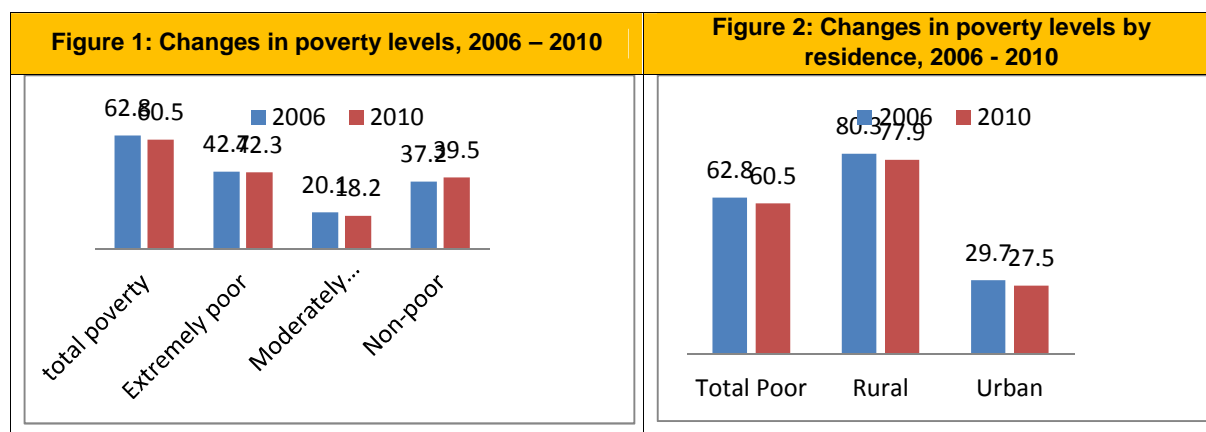
Moderately Poor

In view of the fact that minimum basic needs do not entail food-energy intake alone, some minimum basic non-food items such as health, shelter, and education are also necessary. This category consists of people who can afford to meet the basic minimum food requirements but cannot afford non-food basic needs.

Non Poor

The overall poverty line is derived from the summation of the food expenditure level that gives the required food energy intake and the mean non-food expenditure allowance. This category consists of people whose expenditure is equal or more than the overall poverty line.

5. Results from the LCMS surveys indicate that poverty levels reduced only slightly from 2006 to 2010 as shown in Figure 1 below. The overall poverty rate is obtained by summing the extreme and moderate poverty rates. In 2010, the extremely poor, according to the LCMS definition, accounted for about 42% of the total population. The results indicate that a large segment of the population is still unable to afford the cost of a minimum food basket.



Source: Central Statistical office, *Living Conditions Monitoring Survey Report 2006 and 2010*, Republic of Zambia.

6. The above figures show that in 2006 rural poverty was estimated at 80.3% compared to urban levels of 29.7%. The same pattern was revealed in 2010 where headcount poverty was as high as 77.9% in rural areas compared to urban poverty levels of 27.5%.

7. The tables below show the poverty-related data from 1991-2006 as captured by the Zambia MDG Progress Report 2011.

Table 2: Poverty figures Zambia 1991-2015

Area	1991	1993	1996	1998	2002	2004	2006	2015 target
Proportion of the Population living in extreme poverty ¹ (in percent)								
National	58	61	53	58	46	53	51	29
Rural	81	84	79	71	52	53	67	40.5
Urban	32	24	44	36	32	34	20	16
Poverty Gap Ratio (incidence X depth of poverty) in percent								
National	62.2		51.3			53	34	31.1
Rural	69.7		55.6			56	45	34.8
Urban	46.4		37.9			42	13	23.2

Source: United Nations Development Program (UNDP), Zambia Millennium Development Goals Progress Report, 2011

Table 3: Extreme poverty and distance to 2015 MDG target by province (%)

Area	1991	1996	1998	2004	2006	2015 targets	Gap ²
Central	56	59	63	63	59	28.0	31.0
Copperbelt	44	33	47	38	27	22.0	5.0
Eastern	76	70	66	57	65	38.0	27.0
Luapula	73	64	69	64	61	36.5	24.5
Lusaka	19	22	35	29	16	9.5	6.5
Northern	76	69	66	60	64	38.0	26.0
Northwestern	65	65	64	61	57	32.5	24.5
Southern	69	59	59	54	58	34.5	23.5
Western	76	74	78	73	73	38.0	35.0

Source: UNDP, Zambia Millennium Development Goals Progress, 2011

MDG=Millennium Development Goal

8. According to the above table, poverty trends between 1991 and 2006 show that the country achieved a modest reduction in extreme poverty. Table 3 shows that there are wide variations in poverty levels from province to province.

9. The figures for “extreme poverty” for 2006 are different between the data from LCMS survey (42.7% national) and the UNDP report (51%), probably due to differences in survey methodologies and/or definition in different data sources. However, the consistent overall picture, looking at the both reports, is that extreme poverty is concentrated in rural areas: 67% of the rural population being classified as extremely poor in 2006 in contrast to 20% in urban areas in the UNDP report, whereas in the LCMS report, the figures in 2006 were 80.3% (poverty in rural areas) and 29.7% (urban area).

10. Apart from rural-urban comparison, poverty level is also strongly associated with a number of household characteristics, including gender, age and the educational level of the person heading the household. The MDG Progress Report 2011 indicated that in 2006, extreme poverty stood at 57% in female-headed households compared to 49% for male-headed households. Households with older people were also more likely to be poor. Thus, 66% of households headed by people above 60 years lived in extreme poverty compared to 50% for households headed by those aged 30-59 years. Additionally, extreme poverty was influenced by education. Seventy-seven percent of the households with heads without education lived in poverty, compared to only 9% of the households with heads with tertiary education.

11. The poor – in Zambia as elsewhere – are highly vulnerable. They are exposed to multiple risks, including droughts, commodity price shocks, health shocks, and all too frequent deaths due to HIV/AIDS and other diseases, and they have limited capacity to cope with these risks. Often voiceless and powerless, the poor have little influence over institutions of the state. The poorest and most

¹ Extreme poor from the MDG one's perspective of those living on less than USD 1.25 a day.

² Percentage points by which extreme poverty should decline between 2006 and 2015 to meet MDG target.

vulnerable in Zambia include widows and people with disabilities, as well as households caring for members with HIV/AIDS and other serious diseases.

12. There are also substantial provincial variations in the incidence of extreme poverty ranging from 16% in Lusaka Province to 73% in Western Province. At provincial level, Western and Central Provinces have the longest distances to travel to meet their targets.

B. Human Development

13. In 2005, Zambia ranked 166 out of 175 countries on the global Human Development Index (HDI) and in 2010, it ranked 150 out of 169 countries. Despite its rich agricultural resources, Zambia has continued to experience chronic food and nutrition security problems. Stunting rates in Zambia stand at 45%, with 21% being severe. Stunting remains the most common nutritional disorder affecting under five years children in Zambia, above the Sub-Saharan Africa average of 42% (ZDHS 2007).

14. Table 4 shows that Zambia's overall HDI improved over the period. All nine provinces have also shown improvements in their respective HDIs during the same period, with economic growth as the major driver.

Table 4: HDI values for Zambia and its provinces, 2000, 2004 and 2008

	HDI 2000	2000 Rank	HDI 2004	2004 Rank	HDI 2008	2008 Rank	Change in HDI
Central	0.367	5	0.35	5	0.398	3	0.048
Copper-belt	0.441	1	0.427	2	0.480	1	0.053
Eastern	0.330	6	0.345	6	0.354	6	0.009
Luapula	0.295	9	0.303	8	0.350	7	0.046
Lusaka	0.437	2	0.440	1	0.465	2	0.025
Northern	0.312	8	0.321	8	0.326	8	0.005
North Western	0.372	3	0.37	7	0.382	5	0.012
Southern	0.371	8	0.367	4	0.394	4	0.027
Western	0.316	7	0.292	9	0.321	9	0.029
Zambia	0.360	NA	0.367	NA	0.409	NA	0.042

Source: Zambia Human Development Report 2011

II. GENDER AND YOUTH

A. Status of Women

15. Various global assessments on gender gaps show that Zambia has a long way to achieving gender equality. The 2009 Social Institutions and Gender Index (SIGI) ranked Zambia 85 out of 102 countries and 58 out of 86 in 2012. For the Gender Inequality Index, Zambia received a score of 0.627, placing the country at 131 out of 146 countries. In 2011, the World Economic Forum ranked Zambia 106 out of 135 countries in its 2011 Global Gender Gap Report, with a score of 0.630 where 0 represents inequality and 1 represents equality. The 2009 Gender Empowerment Measure for Zambia is 0.426 out of a possible 1. Gender inequalities exist in decision-making and access to resources as manifested in: the low participation of women in higher levels of decision making (currently only 22 of the 150 MPs are women); their relatively lower levels of education and literacy; the high maternal mortality and HIV infection rates among women; and, their vulnerability to poverty as well as sexual and gender based violence. The table below presents the gender gaps for several sub-sectors of society.

16. Gender inequalities exist in decision-making and access to resources as manifested in: the low participation of women in higher levels of decision making (currently only 22 of the 150 MPs are women); their relatively lower levels of education and literacy; the high maternal mortality and HIV infection rates among women; and, their vulnerability to poverty as well as sexual and gender based violence. The table below presents the gender gaps for several sub-sectors of society.

Table 5: Gender gaps in education, employment and political representation

	1990	1995	2000	2004	2005	2006	2007	2008	2009	2010	2015 Target
Ratio of girls to boys in education											
Primary	0.9			0.95	0.96	0.97	0.96	0.97	0.96	1.0	1
Secondary	0.92	0.72			0.86	0.86	0.86	0.87	0.88	0.86	1
Tertiary					0.74	0.72	0.77	0.74			1
Ratio of Literate female to men (15 – 24 years)											
	0.75		0.70		0.8	0.8	0.8	0.8	0.8		1
Share of women in wage employment in non – agricultural sector (%)											
	0.39				0.34						
Proportion of seats held by women in national parliament (%)											
	6.7	10	12		12	14	14	14	14	18	30

Source: UNDP, Zambia Millennium Development Goals Progress, 2011

17. The literacy rate for women is 64% against 82% for men. It is reported that women provide 70% of labour in the Zambian agriculture sector. In political decision making, women represent 14% of the Parliament, 17% of Cabinet Ministers and 13.3% of Deputy Ministers. The estimated HIV prevalence rate among women (aged 15-49) was 16.1 percent in 2007, compared to a rate of 12.3 percent among men.

B. Policy Responses

18. Zambia has a good record on ratification of gender protocols. It ratified CEDAW in 1985 and reports regularly on CEDAW targets. In 2005, the government amended the penal code to prohibit indecent assault, sexual harassment and trafficking of women. Zambia enacted the Anti-Gender-Based Violence Act in 2011. The Government established the Gender in Development Division (GIDD) under the Cabinet Office, which was mandated to coordinate, monitor, and evaluate the implementation of the 2000 National Gender Policy in order to achieve gender responsive development. This division has now been upgraded to a full ministry under the Ministry of Gender and Child Protection. The Sixth National Development Plan pledges to **continue to advance the mainstreaming of gender in the development process and the empowerment of women**. It identifies gender as one of the main cross-cutting areas of focus. The Zambia Vision 2030 identifies *gender responsive sustainable development* as one of its key principles. The gender policy makes the following provisions for enhancing gender equality, among others: Affirmative action – 30% of available land to be reserved for women; Land registration simplified, services decentralized, education of women on land issues intensified; Strengthen credit, research and extension targeting especially women; Improve rural infrastructure to ensure timely input and market access; Facilitate formation of women farmer groups, develop gender sensitive guidelines to increase access to agricultural programmes; Streamline collateral demands to enable women use cattle, and equipment; Ensure protection of rural women from exploitative agricultural agencies.

19. However, as demonstrated by statistics on gender indices and poverty data, these policy provisions have not translated into gender equality. There are still glaring gender gaps in Zambia that need to be bridged. Women still have difficulty owning and controlling land. When a husband dies or the couple divorces, the woman often goes back to her relatives. It is mainly the men who buy farming inputs from agro-dealers. Women usually cannot manage huge pieces of land due to lack of labour and machinery. There is a tendency to believe that youths cannot own land and utilize it properly. Unmarried youths do not generally own land and equipment.

C. Situation of the Youth and Policy Responses

20. According to the Ministry of Youth and Sports, the youth in Zambia are defined as those between 18 and 35 years of age. The main challenges for the youth in Zambia are unemployment, HIV/AIDS and access to education. It is estimated that about 300,000 young women and men are offloaded on the job market each year with few employment opportunities. Unemployment in Zambia is generally very high. Secondary Education is accessible for only a few young people while tertiary education is largely

inaccessible due to the few colleges and universities in Zambia. Many young people have been affected by the HIV pandemic in one way or another leading to their vulnerability and high poverty levels. The majority of the youth in Zambia are socially and economically disadvantaged. They have inadequate access to the basic conditions required to develop and live an independent life.

21. Concerned by the high levels of unemployment and limited sources of livelihoods amongst the youth, the government (through a committee on labour, youth and sports appointed in October 2011) carried out a study of the development of youth entrepreneurship in Zambia. The study identified the following constraints impeding the promotion of the youth entrepreneurship in Zambia: Inadequate ministerial structure (there were no District Youth Officers to coordinate development projects at district level); inadequate funding; non-inclusion of entrepreneurship skills and programmes in schools; and poor access to low cost financial capital and information on available opportunities. Furthermore, the youth have been categorized as high risk borrowers. This means that banks and financial institutions need innovative products with conditions conducive to the youth.

22. To address the issues of the youth, the GRZ developed a National Youth Policy in 1994 which was updated in 2006. A National Plan of Action was launched by the Ministry of Youth and Sports in 2009. Under this plan, the Youth Development Fund was started focusing on offering loans and grants to youths to start business or expand business. By October 2011, the fund stood at eleven million Kwacha (USD 2.2 million). It has been reported that there have been problems with the management of this fund especially in monitoring and recovery of the loans. Furthermore, the fund is more available to the youth in urban areas than those in rural areas.

III. AGRICULTURE AND RURAL LIVELIHOODS

23. The agricultural sector provides employment to more than 70% of the rural population. Although large agricultural area is practically arable, only 5% of the land available for agriculture is cultivated. Maize, cassava and sorghum are the most common subsistence crops grown in Zambia. The main cash crops of Zambia are cotton, groundnuts, sugarcane and tobacco. Tobacco is the most important export crop of Zambia. The rural poor in Zambia engage in agricultural activities, mainly semi-subsistence farming and rely mostly on family labour for agriculture production. Most of them are asset-poor smallholders. They use simple technologies (hand hoes and oxen) and cultivation practices (minimal purchased inputs such as hybrid seed or fertilizer). It is estimated that 60% of Zambia farmers do not apply fertilizers on their fields, while more than 60% do not use hybrid maize seeds. They practice rain fed agriculture and produce mainly maize, groundnuts, roots and tubers, mostly for own consumption on five or less hectares (most smallholders cultivate less than 2 hectares) and productivity tends to be low. Maize was the overwhelming dominant crop in 2009/10 as 81.72% of all smallholders grew the crop. Cassava cultivation is concentrated in the north and north-western parts of Zambia. Groundnuts, the second most widely cultivated crop in Zambia and important source of protein in Zambian diets, are frequently intercropped with maize. In Zambia, groundnuts are often considered a *women's crop* due to their importance for home consumption. Most smallholders lack access to functioning input and output markets and support services, and it is estimated that less than 50% sell crops in any given year. Although the rural poor are less dependent than the urban poor on market-purchased food, the largest proportion of their household budget is spent on food.

24. Apart from the smallholder farmers, there are medium-scale and large scale in Zambia. The medium-scale farmers cultivate between 5 and 20 ha. They supplement hand hoes with oxen and tend to depend on external inputs and mechanization. They sell part of their harvest but keep some for home consumption. These farmers apply low- medium cost irrigation methods with mechanization. Only a small proportion of female farmers fall into this group. Large-scale or 'commercial' farmers cultivate over 20 ha, mainly relying on mechanization, improved seeds, fertilizers, chemicals, animal draft power or tractors, and sell most of their produce. Large-scale farmers produce most of the wheat, soybean, coffee, milk, high-value and horticultural and export crops and account for most livestock product sales. Very few female farmers can be found among commercial farmers. Patterns of livelihood vary from one area to another as they are influenced by local factors such as climate, soil, and access to markets.

Table 6: Typology of agricultural producers in Zambia

	Approx. # of Producers	Approx. Farm Size	Technology, Cultivation Practice	Market Orientation	Location	Major Constraints
Small-scale producers	800,000 HHs	< 5ha (with majority cultivating 2 or less ha of rain-fed land)	Hand hoe, minimal inputs, household labour	Staple foods, primarily home consumption	Entire country	Remoteness, seasonal labour constraints, lack of input and output markets
Emerging farmers	50,000 HHs	5 - 20 ha	Oxen, hybrid seed and fertilizer, few with irrigation, mostly household labour	Staple foods and cash crops, primarily market orientation	Mostly line-of-rail (Central, Lusaka, Southern Provinces), some Eastern, Western Provinces	Seasonal labour constraints, lack of credit, weak market information
Large-scale commercial Farms	700 farms	50 - 150ha	Tractors, hybrid seed, fertilizer, some irrigation, modern mgmt., hired labour	Maize and cash crops	Mostly Central, Lusaka, Southern Provinces	High cost of credit, indebtedness
Large Corporate Operations	10 farms	1000+ ha	High mechanization, irrigation, modern management, hired labour	Maize, cash crops, vertical integration	Mostly Central, Lusaka, Southern Provinces	Uncertain policy environment

Source: World Bank 2005, Poverty Reducing Potential of Smallholder Agriculture in Zambia: Opportunities and Constraints; Africa Region Working Paper Series No. 85.

25. It is estimated that over 80% of the work in subsistence agricultural production in Zambia is done by women. Women are generally responsible for sowing, weeding, crop maintenance and harvesting, and are almost exclusively responsible for growing food crops for the family. Men, on the other hand, are mainly responsible for field preparation with some involvement by women. Women face cultural and institutional constraints in food and agricultural production. They have limited access to and ownership of resources such as land and financial services. Men are in charge of land and all productive household assets. In terms of crops, males grow cash crops while females grow crops for household consumption and for sale at the local market. Women farmers experience lower yields compared to male farmers. Usually, they are the last ones to plant as they are allocated land last and they only work on their land after the family plot, controlled by the males/husbands, have been done. Women mainly use recycled seeds.

26. The LCMS indicated that during self-assessment, by far the most commonly cited reason for poverty was the inability to afford agricultural inputs (32% of the rural population). A related issue is the lack of capital to start or expand agricultural output. The high cost of inputs and poor rural infrastructure, and the absence of rural financial services serving smallholder farmers apart from limited community-based schemes make it difficult for smallholders to access inputs. Only out-growers schemes provide inputs on credit to significant numbers of smallholder farmers. Another commonly cited reason for poverty is the lack of cattle (oxen). This supports the notion that the inability to cultivate rather than access to land per se is more relevant in terms of the determinants of poverty.

IV. TARGETING AND GENDER MAINSTREAMING

27. The main and ultimate target group of RUFEP is the rural poor, in particular, women and the youth. The programme targets to have several hundreds of thousands of women, men and youth in rural areas access financial services as a result of its interventions. Access to financial services facilitates economic growth and inclusion reduces income inequality, hence improving the lives of the

poor. By enabling poor women and men to save, borrow, access other forms of financial services, enables them to build their assets, invest in business and family (e.g. education health) and to explore new entrepreneurial ventures, and thus improve their livelihoods. Well-designed programmes enabling access and usage of appropriate financial services can help poor households reduce their vulnerability to crises, especially when access to services is planned as part of household livelihood strategies and sustained over time.

28. **Embedded Targeting and Gender Features.** The challenges in most programmes aiming at including poor persons into financial services is the requirement that they should be 'economically active' – a term whose interpretation and meaning may differ depending on the user. The reality also is that many of the target group may not be economically active all the time due to the cyclic nature of enterprises and business opportunity. To increase the effectiveness and likelihood of a programme benefiting the poor, a number of activities should be incorporated into programme design to ensure that there is a mechanism for continuously bringing more of the target group within the economically active class. Fortunately for RUFEP, work already done under RFP provides a strong foundation for good targeting. The lessons from RFP (and elsewhere) relevant to good targeting of the poor (on the demand side) under financial service improvement programmes include: (i) getting target persons to participate in savings and credit activities so that they become aware of what it entails and to build a banking history; (ii) savings also help smoothen incomes – reducing vulnerability arising of income and food security fluctuations; (iii) since poor households are very vulnerable to seasonality (of income and food), there should be an aspect of a 'social fund' so that loan funds are not used for consumption or emergencies; (iv) value chain development to include the poor is key – since most poor people tend to remain outside these value chains¹; (v) need to keep records to provide evidence of feasibility and profitability of the income generating activity; and (vi) overall improvement in management skills (to handle non-household member labour and managing of the group).

29. A critical look at the CBFi methodologies popularised under RFP reveal that these desirable features have been included, with women as majority participants. This possibly explains why the CBFi activities have been very successful and they are likely to continue. This implies that the basic work (on the demand side) for ensuring the poor are brought into RUFEP activities has been done. The challenge is to ensure that more inactive persons are enrolled and the above five key aspects are strengthened further. These concerns are partly addressed by; the replicable nature of CBFi activities as well as training of 'village agents or training of trainers to continue supporting CBFis and training them. The other aspects is consolidation, harmonisation and refinement of the methodologies in use (different service providers offer slightly different methodologies) to avoid conflicting message and build common platforms for information collection and impact monitoring and evaluation. These are aspects that have been built into component 1 of RUFEP through supporting SaveNET – a network of CBFis in Zambia.

30. On the supply side, again RFP has done important foundation work to enable formal FSPs to reach more of the excluded persons - who are mainly those residing in the rural areas, low asset and education level (all features of the poor as shown in 2009 Finscope). The relevant RFP interventions include improving: (i) outreach to underserved areas by NSCB through branch opening; (ii) providing loan funds to DBZ for on-lending to smaller FSP, whose outreach is constrained by limited savings capacity and consequent limited liquidity; and (iii) providing an IOF to support innovations that positively impact rural outreach and the range of products and services offered there.

31. Under RUFEP, component 1 which is aimed at institutional strengthening has widened its scope to include more institutions. This means that more institutions will be enabled to reach previously unserved areas. Secondly, the IOF, which is designed under three windows, has had its poverty focus and gender mainstreaming aspects strengthened. The first window focuses on CBFi Linkage with formal FSPs – to enable the former benefit from the large pool of loanable funds available in the latter.

¹ Pure subsistence – the value chain of their production begins and ends in the same household. There are no external demands on quality, quantity and timeliness of delivery. This is what makes transition from subsistence to commercial farming so challenging as the expectations of the producer are dictated from outside the household.

Window 2 (the Agency and Mobile Window) provides one of the most effective interventions for reaching the poor since its basis is the use of mobile phone and access to local outlets (shops, supermarkets, petrol stations, inputs dealers, etc). To further enhance targeting in Window 2, the use of CBFIs as FSP agents will be considered as an extra advantage when proposals under this window are being reviewed. This means that CBFI members can become part of the formal bankable population through their CBFI acting as the bank agent. For the third window (the Rural Equity Innovations window) – is aimed at supporting innovations that improve equity in access and usage. The window focuses on supporting innovations that improve participation of rural women and youth, as well products and services that are critical to rural enterprises but have been inappropriately presented or misunderstood (e.g. savings and insurance). This window was included because rural women and youth, suffer additional disadvantage because apart from living in the rural area, their asset ownership and education levels are lower than that of men – which in turn impacts both their opportunity to access financial service and the ability to use them. Zambia's 2009 Finscope findings attest to these inequalities. In addition, the social construct (and stereotyping) is not only evidenced in communities where target populations live, but in institutions delivering financial services as well. Window 3 will therefore support studies and interventions that aim to remove inequalities by changing institutional culture, structures, products and services in financial service delivery. Rather than a beneficiary going to an ATM or bank branch, their mobile phone or local supermarket could (respectively) play these roles. This drastically reduces the time and cost of access but also provides a service in a manner and environment that the beneficiary is used to. Previously, the cost in term of money and time as well as the bureaucratic processes at bank branches have led to usage (even where access is enable) of financial services remaining low. The range of activities eligible for financing under these two windows include the desirable targeting aspects described in the previous two paragraphs.

32. To further enhance targeting in Window 2, the use of CBFIs as FSP agents will be considered as an extra advantage when proposals under this window are being reviewed. This means that CBFI members can become part of the formal bankable population through their CBFI acting as the bank agent. For the third window (the Rural Equity Innovations window) – is aimed at supporting innovations that improve equity in access and usage. The window focuses on supporting innovations that improve participation of rural women and youth, as well products and services that are critical to rural enterprises but have been inappropriately presented or misunderstood (e.g. savings and insurance). This window was included because rural women and youth, suffer additional disadvantage because apart from living in the rural area, their asset ownership and education levels are lower than that of men – which in turn impacts both their opportunity to access financial service and the ability to use them. Zambia's 2009 Finscope findings attest to these inequalities. In addition, the social construct (and stereotyping) is not only evidenced in communities where target populations live, but in institutions delivering financial services as well. Window 3 will therefore support studies and interventions that aim to remove inequalities by changing institutional culture, structures, products and services in financial service delivery.

Additional Gender Mainstreaming Actions

33. To complement targeting and gender responsive features embedded in component design, there is also need to assess RUFEP interventions activities and proposals received for gender responsiveness and appropriate poverty targeting. Gender responsiveness in design is a necessary but not adequate condition for proper targeting and addressing of gender issues. It is therefore important to equip Programme managers and implementers with a simple tool that they can use day to day to check whether an intervention or proposal supported under RUFEP is indeed gender and poverty responsive. The Gender & Poverty Responsiveness Checklist is contained in Attachment 1. This checklist is based on the Gender Action Learning System (GALS) methodology. GALS uses inclusive and participatory processes and simple mapping and diagram tools for Individual life and livelihood planning. This enables women and men, including those who cannot read and write, identify their visions, plan their lives and businesses and bring about significant changes in gender relations.

Attachment 1: Gender and Targeting Checklist

Issue	Practice
Organizational Policy	Do the organizational mandate, vision and objectives of the financial service provider have explicit commitment to gender equality of opportunity and women's empowerment?
	Is there a gender policy that supports this commitment, and was it developed through a participatory process with staff and clients, integrated into all staff training and including gender equitable recruitment, employment and promotion?
Staff Training	Have staff (including the senior management) of the institution (and its partners participating under RUFEP) undergone gender sensitization. Has the institution made a business case for engaging women in rural finance (i.e. explored women as a viable and profitable segment)?
Product design and access	Is there any form of gender discrimination in access to all forms of financial services - product and service development, including technological innovation.
	Do financial services contribute to women's empowerment through effective design of products, non-financial services including financial literacy, and client participation?
Non-financial services	Are there non-financial services provided to women and youth to enable them to use financial products effectively and with maximum benefit?
Monitoring	Are gender indicators an integral part of social performance management and market research.
Advocacy	Do consumer protection and regulatory policies integrate gender equality of opportunity and empowerment?
	Is gender advocacy in areas like women's property rights and combating gender-based violence essential to removing gender discrimination and empowerment an integral part of the advocacy strategy.
	Is there a general understanding of gender issues in rural finance among staff
	Is the institutional culture gender-friendly and empowering, and does it manifests traits of promotion, planning and interactions with clients
	Are simple diagram tools used in the organisation's market research process and/or on an ongoing basis by the institution. Are there tools designed to increase participants' understanding of their situation, in business planning, loan contracts and learning from friends, relatives or simple pictorial pamphlets. Is financial literacy integrated into the application processes?
	Institution provide forum for gender and poverty awareness-raising and changing power relationships as well as collective action and gender advocacy for change.
	Training of trainers in gender and poverty - individuals and households supported to develop visions and an analysis of opportunities and challenges.

Attachment 2: RUFEP Targeting Mechanism

Measures	Activities
Geographical targeting	Though Programme is national in coverage, poorer/financially least served areas could be prioritized – e.g. higher poverty incidence in Western and Central Provinces (poorest)
Enabling measures – to create and sustain a policy and institutional environment favourable to gender equality and women's empowerment	Proposed partnership with the BOZ on collateral substitutes for rural lending Support removal of discriminative requirements that bar women from accessing financial services Review financial services to identify and address access issues for women and youth, including seasonal credit Sensitisation and capacity building of FSP senior management and operational staff on gender and youth issues Promote learning and capacity-building networks that can work together to identify, develop and monitor good practices and innovations in increasing women's and youth access Assess gender responsiveness of the financial institutions which are partnering with RUFEP Ensure that female and male staff of the organisation are able to interact with women on the basis of respect and equality and to promote women's empowerment
Empowering measures ¹	Leadership training, particularly for men from poorer households, women & youth Promote women membership in CBFIs Promote women representation in leadership positions Consider youth specific groups (female participation encouraged & monitored)
Direct targeting ²	Not applicable
Self-targeting measures ³	New products should be tailor-made for rural youth and women needs. Microloans for small business ventures, with not collateral requirements will be availed through variety of ways Village groups will be strengthened Make all information accessible in local languages and visual forms that women are more likely to speak and understand
Operational measures ⁴	Ensure TORs for project staff reflect contribution to gender equality and community empowerment Women and youth economic empowerment to be discussed during the start-up workshop Gender sensitization will be part and parcel of the capacity building of the financial institutions selected in Component 1 (strategic partnership) CBFIs will require more in-depth gender training for selected staff. This will mainly be on integrating GALS into the trainings for village savings and loans groups
Monitoring targeting performance- monitor output/outcome & emerging impacts on the target group	All data should be disaggregated by sex, and where possible, by age. Such data will be complemented by qualitative interpretation and analysis to capture gender and youth issues (e.g. men taking away women's loans) Capture information on quality of the services accessed by women compared to men Gender & youth aspects included in baseline survey, impact assessments, mid-term review

¹– to give target groups at least equal chances to access project activities.

²when services or resources are to be channelled to specific individuals or households.

³– to ensure that goods & services respond to priority needs, resource endowments & livelihood strategies of target groups.

⁴to ensure gender-equitable participation in, and benefit from, planned activities.

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Appendix 3: Country performance and lessons learned

I. OVERVIEW OF IFAD OPERATIONS IN ZAMBIA

1. To date, IFAD has provided loans to Zambia totalling USD 180.1 million to help finance 12 programmes and projects with a total number of 495,300 households or about 3 million individual beneficiaries to date. The first projects leading up to the 1998 COSOP were designed to cushion rural poor people from the effects of central planning. These were followed by operations that worked to improve household food security by ensuring support services, increased access to productive assets and dissemination of technical knowledge. They also focused on improving household food security by ensuring support services, increased access to productive assets and dissemination of technical knowledge. The projects under the 2004 COSOP explicitly added a focus on commercialization of smallholder agriculture and strengthening marketing linkages between them and the market.

2. In the 2004 COSOP, under the goal to increase income, improve food security and reduce vulnerability in rural areas, five objectives were identified, though no quantified targets were defined. The first objective was to **“improve smallholder access to input and output markets”**. The objectives were built on the experiences of the Smallholder Enterprise and Marketing Programme (SHEMP, 2000–2008); and provided the basis for the subsequent and ongoing Smallholder Agribusiness Promotion Programme (SAPP, 2010–2017). The SAPP aims to increase the volume and value of agribusiness based on the output of small-scale producers, by working with selected value chains at the post-production stages. The second objective was to **“increase smallholder incomes from non-timber forest products”**. The associated Forest Resource Management Project (FRMP, 2000–2006) was closed early, for administrative reasons after a weak implementation performance. The third objective, **“to improve access to rural financial services”**, is being pursued under the ongoing Rural Finance Programme (RFP, 2007–2013). The fourth objective, to **“reinvigorate the rural livestock sector”**, was the basis for the Smallholder Livestock Investment Project (SLIP, 2007–2014). The fifth and final objective, to **“increase use of natural resources management and conservation farming techniques, for increased food production”** was not followed up explicitly during the COSOP period (2004–10), but remains valid.

3. The latest and current results-based COSOP approved by the Executive Board in September 2011 covers the period from 2011–15. The three strategic objectives in this COSOP are as follows:

- a) *access to, and participation in, expanded and more competitive markets by poor rural men and women are increased within more efficient value chains;*
- b) *access to and use of technologies and services for enhanced productivity, sustainability and resilience of smallholder production systems are increased; and*
- c) *access to and use of sustainable financial services by poor rural men and women are increased.*

4. Thus, the five objectives in the previous COSOP were streamlined, aligned with the IFAD Strategic Framework 2011–15. The current COSOP does not have two sub-sector specific objectives as in the previous COSOP (livestock, non-timber forest products).

5. In the context of the previous and current COSOPs, IFAD has been supporting the Government with the following projects:

- **Smallholder Enterprise and Marketing Programme** - with the objective of improving the marketing environment of smallholder farmers by strengthening linkages with private sector farming and marketing enterprises;
- **Forestry Resource Management Project** - with the objective of securing a sustainable income base for poor rural communities dependent on forest resources, represented tangibly by enhanced household income levels in forest areas in the medium term;

- **Rural Finance Programme** - with the objective to Increase the use of sustainable financial services in rural households (implementation period from 2007-13);
- **Small Livestock Investment Project** - with the objectives¹ to: (a) reduce the incidence of East Cost Fever and Contagious Bovine Pleuro-Pneumonia to levels that will allow re-establishment and growth of smallholder cattle herds; and (b) increase the livestock productivity of poor smallholder households and their sustainable access to animal draught power (implementation period from 2008-2013);
- **Smallholder Agribusiness Promotion Programme** - with the objective to *increase the volume and value of agribusiness based on the output of small-scale producers* (implementation period from 2010 – 2017); and
- **Smallholder Productivity Promotion Programme** - with the objectives to sustainably increase the production, productivity and sales of smallholder farmers in target areas (implementation period from 2012-2019).

6. Most of the projects have been under the ministry (or ministries) with the mandate for agriculture and livestock². The exceptions to this have been the Forestry Resource Management Project, which was under the Ministry of Tourism, Environment and Natural Resources, and RFP under the MoF³.

II. COUNTRY PROGRAMME PERFORMANCE

7. In general, the project performance has been between modestly satisfactory and modestly unsatisfactory. Regardless of the responsible ministry, all projects suffered from slow start-up and slow progress in the initial years. Also, many projects suffered from management problems (SHEMP, FRMP, SLIP and SAPP), to the extent that at times IFAD had to take a strong position with regard to project staffing issues. The entire recruitment process has in most cases been slow to very slow, leading to substantial delays in programme implementation. Oversight by parent ministries has also not been very deep, with the exception of the RFP in the most recent years, when a committee of stakeholders was formed to accompany programme implementation and then the design of the new RUFEP.

8. **Project performance**, which has gradually improved over time, has depended not only on the quality of design, but also on:

- a) the different institutional partners with which IFAD has worked and their differing capacity for management and implementation;
- b) the strength of the various project coordination units and the individuals employed in these; and
- c) the growing impact of the IFAD country office and stronger, IFAD-conducted implementation support.

9. However, beyond the individual projects, more energy would be needed to develop and deliver a cohesive country programme in which the different interventions create synergies and mutually reinforce each other; instead, till now, support has essentially comprised a number of discrete projects with insufficient collaboration on adjacent intervention areas. In order to promote complementarity among IFAD supported projects, the Country Programme Management Team has embarked on promoting and strengthening synergies between and within projects. This is meant to ensure ultimately that smallholders benefit from agricultural and rural infrastructure and market linkages, have improved access to markets (via SAPP) and financial institutions (via RFP), and have opportunities to improve

¹ As a result of a mid-term review (MTR) conducted in August 2010, some re-orientation in the project implementation has been introduced, notably a shift away from ADP oriented restocking to the diversification of the smallholder farmers' livelihoods by focus on animal production and access to ADP.

² Currently, Ministry of Agriculture and Livestock.

³ The name changed from "Ministry of Finance and National Planning" mid-2012.

productivity (via S3P and SLIP). For details, see “Other IFAD-supported programmes” above in Appendix 1.

10. **Procurement:** Programme implementation in the first two years was delayed mainly due to procurement and other start up constraints faced by the project. These kinds of constraints have occurred in other donor/IFAD funded programmes and are not new. It appears that inadequate procedures and inadequate procurement capacity in the government were the main causes. Some lessons emerging from this programme include:

- i) the need to undertake a procurement capacity assessment and audit during design stage. This process would include assessment of minimum organizational and other factors critical to successful programme implementation in the parent ministry and propose remedies to any anticipated constraints;
- ii) the need for training and sensitization of parent ministry staff on the programme prior to implementation.

This would help to reduce concerns/misunderstandings on particular aspects of the programme. Another conclusion is that procurement delays should be anticipated as a matter of principle during the design and built adequately into to programme implementation scheduling.

A. Lessons learned

11. **Lessons drawn under the COSOP:** The current COSOP lists a number of general lessons from all IFAD interventions.

12. First, as regards GRZ agencies working in agriculture and rural development, these are facing challenges taking on new functions or assuming new ways of delivering services. This should translate into:

- i) simplicity in project design; the establishment of coordination units that can support the line functions;
- ii) implementation support to assist project managers manage for development results; and
- iii) building national ownership over the projects.

13. Second, as contracted staff and service providers had not always performed to the standards required, contracts should allow for regular review of performance and for renewal or termination.

14. Third, while Government decision making could be slow and cause delays in project implementation, it would be important to respect these processes and time spans to maintain ownership. Fourth, as financial management and accountability would not be consistently strong, it would not be appropriate to fully rely on national systems but instead arrange for separate accounts, careful cash flow management and active support to financial management systems. Finally, there had also been insufficient collaboration and learning between projects; insufficiently strong governance arrangements; and, till recently, inadequate follow-up and support from IFAD.

15. The COSOP further refers to a historically strong welfare culture in Zambia, reflected both in government policies and donor-supported projects that offered investments and grants without commitment from the rural population. This led to a culture of dependency, stifled initiative and wasted public resources. As Government was now trying to promote a “**mind-set change**” by promoting farming as a business, encouraging a savings culture, and giving a greater role to other stakeholders in the agricultural sector, these efforts should be actively supported, and located within a larger vision of private sector-led agricultural development.

16. **Lessons on Rural Finance:** A number of lessons can be drawn from the on-going RFP and other donor-supported projects, as well as the practice of financial institutions¹.

¹ This is in addition to the lessons learnt from the RFP, as presented in the Main Report under II D.

B. Component: 1 RFP Community Based Financial Institutions

17. This component has been the most successful in deepening financial outreach to the rural areas especially focusing on women and promises high potential for expansion. Positive experiences made with community-based financial institutions (such as VSLAs), which have been promoted under the RFP included:

- i) putting into the national context a solid and transparent model for savings and credit transactions in the informal sector, which turned out to be very attractive to women;
- ii) continuation rates after the end of support of above 80% which means it is demand driven and serves the needs of its members; and
- iii) testing linkages with the financial sector and inserting the model in farmer groups.

18. The VSLA model has the ability to replicate itself at very low costs after community promoters (agents) are well trained by the VSLA promoter organization. Success factors in the model include ownership structure and voluntary membership, sharing out at a given time allowing members to save for a purpose and exit when they want and re-join later, proper training of local agents by promoters to impart skills that remain within the community leading to the self-replication of the model and providing a platform for potential linkage to other programmes such as agricultural extension, etc.

19. Some of the weaknesses observed included: comparatively high costs of promotion per beneficiary in the initial period before the replication starts; this is due to the weak community based organizations in Zambia; and a relatively static model of sub-contracting the implementation to semi-commercial operators which was initially caused by inadequate capacity of CBFI Promoters and limited number of potential promoters in Zambia¹.

20. RFP has laid a good foundation on which to upscale the VSLA particularly amongst smallholder households in remote rural areas whose access to credit is restricted by remoteness and absence of microfinance institutions. In addition, RFP has been an agent of changing the mind-set and culture of smallholders themselves that they are capable of mobilising savings, earn interest on them and from the proceeds improve their living standards. To achieve the above, they need to have an effective and well managed farmers' organisation where adherence to principles of transparency and good governance are key. The cooperatives model that is used by MAL could borrow lessons from the VSLA model. It is expected that RUFEP will build on these successes of RFP.

21. The success of VSLA model facilitated by RFP has attracted well known promoter organizations such as CARE, CRS, World Vision and Plan to start their activities in Zambia. As a result *SaveNet*, an association of Savings Led Micro Finance Institutions is in the formation stage. *SaveNet* will focus on capacity building, sharing information, development of management systems and coordinating the sector so that it has a voice, etc. DfID's Financial Sector Deepening Zambia has expressed an interest to collaborate with RUFEP in developing the network. Linkage with such institutions under RUFEP should also make VSLAs to be part of value chains. Working with the Department of Agribusiness and Marketing under MAL, SAPP and S3P and others in selected value chains, RUFEP's CBFI promoters should link VSLAs to key players such as input suppliers, banks and microfinance institutions, etc. Such linkages will be sustained based on mutual benefit. Facilitating linkages between formal semi-formal and informal financial sector institutions can help address some of the constraints of rural access².

C. Component 2: Promotion of Rural Banking

22. The interest of GRZ and IFAD to increase the number of physical branch outlets in rural areas with aim of rural outreach led to the project design of the RFP under which the branch expansion of the NSCB was supported. The RFP implementation unit and all supervision missions emphasized constantly the need for NSCB management to increase the number of its rural branches further.

¹This has changed with the coming into the country of specialized CBFI promoter organizations such as CRS, World Vision, and CARE in addition to the existing ones –Plan International and Keepers Zambia Foundation, etc.

²OPM Development of Rural finance Policy and Strategy Final Report June 2012.

However, it appears that insufficient attention was paid to the fact that the costs of these branches were not fully covered by RFP support, and required additional investments by the NSCB and concurrence from the BOZ. Although the two rural branches launched eventually broke even after nine months, they were initially not breaking even immediately, each new branch opened added to the operational costs that increased losses of the bank. In a situation where the NSCB incurred losses almost throughout the implementation period, the RFP thus added to the already existing losses. Care should therefore be applied to ensure that all investments supported are made with a view to enhance the sustainability of a financial institution at least in the medium term.

23. The case of the NSCB offers further material for lessons drawn. GRZ, BOZ, IFAD and RFP implementation unit tolerated over a longer period that a partner financial institution did not produce annual accounts within the prescribed periods, and that the accounts were not subsequently audited by a qualified chartered accountant as practiced elsewhere. This neglect ultimately hid the fact that the NSCB had consumed its share capital, which in turn led to the exclusion of NSCB from future support under the RUFEP, until the situation would be rectified. The lesson to be drawn is that IFAD should never tolerate such practice, and suspend support to all financial institutions which do not produce their audited financial statements within the prescribed time frame.

24. Under the RFP, reforming NSCB into a strong rural finance institution was a key pillar of the programme. During design stage, considerable effort was made to identify crucial success factors for the institution at both the governance and management levels. Some of these factors included the need to effectively capitalize the institution, the need for appropriate regulatory oversight as well as the need for an effective board. Several of these factors were put in place prior or during programme implementation. However, these have not been sufficient to drive the institution forward. A key lesson emerging from this case is that without strong, effective management of an institution, that has practical experience in implementing similar reforms, successful restructuring of the institution is between difficult and impossible.

25. Another key lesson emerging from this case is that unstructured TA without line management authority does not work well in a commercial restructuring exercise of this nature. The timing of the TA under the RFP did not coincide for example with the procurement of the information technology system, which diminished the potential benefit of TA. In addition, detailed restructuring recommendations recommended by the TA were not implemented by the institution for a variety of reasons. The TA provider had no authority to implement these recommendations as they were not in a line management role. The owner of the Bank, i.e. GRZ, represented by the MoF, did neither have the human resources to ensure adequate follow-up on these recommendations, nor the political will to do so.

26. A positive lesson is on the demand side. The experience of the bank shows that the demand for financial services in the rural areas is evident. Despite all the organizational challenges faced by NSCB, the number of savers throughout its network rose to over forty thousand after the product development supported by RFP through contracted TA. The two branches opened in Lukulu and Chilubi also finally broke even after over nine months. GRZ has committed to inject additional resources to procure a good core banking system, changed the previous management and Governance. With this level of commitment from GRZ, the Bank can take advantage of its strategic position in the rural areas to leverage on agents when the BOZ rolls out agent banking regulations.

27. Given its strategic nature to rural outreach and based the lessons learned from the experience of other previously state owned banks such as ZANACO and National Microfinance Bank (NMB) in Tanzania, the support from RUFEP should be based on a proper due diligence carried out to justify or not the additional support and in what areas. RUFEP may consider funding an independent firm to conduct the due diligence to ensure that the quality of output is acceptable to IFAD.

D. Component 3: Credit Facility for Contracted Small-Scale Production

28. After an initial slow start with the wholesale credit targeting the banks that already had excess liquidity DBZ introduced credit to qualifying MFIs to on-lend to contacted small scale farmers. DBZ forged strong links with CETZAM (an MFI) and an agricultural extension service provider such as

ASNAPP and the Zambia Agribusiness Technical Assistance Centre (ZATAC Ltd). In this arrangement ASNAPP proved agricultural extension services and technical assistance to the farmer groups and market access to complement and add value to the financing provided by CETZAM from the line of credit from DBZ. This value chain approach ensured that the farmer got value for produce and the Financial Service Provider also got paid back their loans. Although it took about two years and an investment of about USD 300 per farmer for the farmers to stand on their own from the technical assistance¹ this subsidy was necessary to ensure that the value chain is sustainable. A key lesson is that the Technical Assistance facilitated linkage where the MFIs would have been limited and ensured that the farmers got the best price for their produce. In addition, this pilot showed that funding is required for the whole agricultural value chain as opposed to primary agriculture. Some of the challenges include limited capacity of MFIs to provide technical assistance to farmers on their own, inadequate long term technical assistance hence the need to build local capacity and lack of appropriate financial products.

29. Another lesson learned in this component is that changes in the operating environment can significantly erode programme implementation effectiveness. For one of the components (the credit line component), the MTR assessment was that the market for a line of credit had declined significantly by the time the programme had begun. As a result, there has been almost no effective demand for the product despite aggressive marketing. While it is difficult to anticipate such changes, design should, where there is a long period between programme design and actual implementation, build in a quick demand assessment to verify if the demand for these support services would still exist.

E. Component 4: Innovation and Outreach Facility

30. The demand for convenient money transfers and payments and savings in rural Zambia has been demonstrated by the pilot that was conducted by Celpay despite its organisational challenges. This window can leverage on experiences from other African countries (e.g. Kenya, Uganda.) where agency banking has revolutionized financial service delivery. In Zambia, efforts to license and regulate agency banking are already underway with BOZ having initiated the drafting of the regulations.

31. Government procurement systems are not suitable for the management of innovative funds and RUFEP should be given delegated authority from ZPPA to manage the fund including contracting of the promoters (authority must be granted to RUFEP by the date of signing the Financing Agreement). Innovation by its very nature should allow for flexible operational modalities in order to respond on time to proposals and a technical expert should be in charge of the innovation and Outreach facility.

F. Component 5: Institutional, Policy and Management Support

32. A lean configuration of a project management unit, with only one officer in charge of technical issues, conceptualization and supervision of project implementation, is not adequate. In addition, under a scenario of limited international exposure and experience of many actors in the financial sector, such lean configuration would not permit the unit to introduce innovations already practiced outside the country, encourage actors in the financial sector to look for more innovative practices and offer these to their clientele, and maintain a constant dialogue with the different financial sector actors on needs, priorities, challenges and opportunities. While some additional technical staff may be needed to distribute the respective tasks over several shoulders, the remaining challenge would be the introduction and dissemination of innovations.

33. Past operations funded by IFAD did not envisage substantial investments into knowledge management. The major innovation introduced to the country was thus limited to the project design. Given the rapid changes in the financial sector landscape, the need to introduce innovations to scale up services and expand outreach, and the need to reduce operating costs and loan losses in order to reduce the costs of borrowing, much more applied research is needed to assess how financial institutions managed these challenges, where the opportunities for improvements, scaling up and

¹Oxford policy Management – Development of Rural Policy and Strategy in Zambia – Final report. 18th June 2012.

expansion into rural areas lie, and what institutional, conceptual and operational adjustments would be needed to make such innovations more applicable in the local context.

Appendix 4: Detailed programme description

I. DEVELOPMENT OBJECTIVES

1. The eight year programme would contribute to the Development Goal **“improved livelihoods of the rural poor through sustainable economic growth”**, which is consistent with the goals in the Government’s Revised Sixth National Development Plan (RSNDP, 2011 - 2015). The proposed Programme Development Objective (PDO) is: **“Access to and use of sustainable financial services by poor rural men, women and youth has increased”**. This will be indicated by changes in the number (about 140,000) and percentage of the adult population actually using financial services by the end of the Programme, and a decline in the cost of borrowing for productive purposes for rural clients.

II. OUTCOMES

2. Two major Programme outcomes are expected that would lead to achieving the PDO: (i) Enhanced capacity of FSPs to deliver demand-driven services in rural areas; and (ii) Improved efficiency and sustainability of rural financial services. These outcomes will be measured through the following indicators, which apply to all three components:

- **For Outcome 1:** (a) At least 50% participating FSPs (PFSPs) maintain a trend of increasing profitability, measured by Return on Equity of 15% and Return on Assets of at least 10%; (b) partner financial institutions improve their performance (portfolio at risk 30 days below 5%; operational self-sufficiency > 110%; operating expenses ratio 25%); and (c) the non-performing loan (NPL) ratio for agricultural purposes has remained within the average NPLs for all sectors in at least five Programme years.
- **For Outcome 2:** (a) PFSPs demonstrate increased profitability (as measured by Return on Equity [RoE] and Return on Assets [RoA]) during and after supported periods; and (b) The intra-sectoral NPL ratios for agricultural purposes has remained below the average NPLs for all sectors in at least most Programme years.

3. A total of eight output indicators have been formulated (see Logical Framework and Appendix 6 on M&E arrangements) as per the initial configuration of the partnerships and windows formulated. These would have to be adjusted in case of changes of the partnerships or windows.

III. COMPONENTS

A. Component 1: Strategic Partnerships. Rationale Detailed Description

4. In spite of the efforts of various development partners, including RFP, the rural sector in Zambia remains largely financially excluded. Even though major constraints include sparse population and limited infrastructure, there is evidence that capacity of providers plays a significant role in overcoming these constraints and deepening outreach, especially in rural areas. With fast-paced landscape and environmental changes, institutions struggle to develop and/or adapt to new systems and structures. In order to make a sustainable impact on capacity, it is now an acceptable best practice to provide connected support to various players within the whole sector (market system as defined by the new Rural Finance Policy and Strategy). This approach is critical in ensuring that players are moving in the same direction and return on investments is maximized. In the rural finance sector, the major players include policy makers, infrastructure providers, capacity providers and financial service providers and consumers. Any support should, therefore, be targeted at all the players. No one single investor or partner can offer adequate support to all the players at any given time and, therefore, the need for partnerships.

5. Traditionally, within the financial sector, the players are classified into three levels, Macro, Meso and Micro. The Macro players oversee policy, legal and regulatory frameworks, and mainly include key ministries and the Central Bank. Meso players provide infrastructure and may include national networks/associations and telephone network operators, among others. The Micro level largely comprises financial service suppliers and consumers.

6. RFP has already established working relationships with several of these players and RUFEP is expected to expand on activities already initiated or support capacity to improve operating environment, to innovate products, services and delivery mechanisms.

7. To its credit, GRZ has demonstrated its commitment to rural development by approving a Rural Finance Policy and Strategy, and is in the process of creating a unit (RFU) within MoF to oversee the sector. The policy identifies key gaps at every level that new partnerships may address. For example, legal framework and regulations for other forms of banking delivery channels, supervision of deposit taking MFIs, distinguishing enterprise and consumer lending at macro level. BOZ has already initiated studies in some of the identified areas, and is in the process of restricting its supervision departments in anticipation of a more unified and inclusive supervision of the financial sector. The policy also highlights weaknesses of rural finance sector coordination. It is envisaged that the new RFU will oversee implementation of the policy in addition to coordination of the rural finance sector activities.

8. There are several players at the Meso level, and the notable ones in the context of RFP are BAZ) Association of AMIZ, DBZ, several mobile network operators. Currently, there are plans to set up a new network of promoters of the CBFi model.

9. **BAZ** is a strong active network, and continues to lobby and advocate for its membership behind the scenes, especially with the BOZ. Even though the banks have not been pro-rural, this situation is changing as more banks adopt use of technology. Because of this, and the anticipated agency banking, the rural finance landscape is set to change dramatically, to the benefit of consumers. BAZ, to date, operates almost exclusively from other networks and associations, probably because the laws and regulations for each sector are independent and not under one umbrella, like in other countries.

10. **AMIZ** was established in 1998 to advocate and lobby for effective policies on behalf of the sector. In addition, it has a mandate to facilitate member capacity building with a view to improving outreach and sustainability. Currently, it has 34 members that include traditional MFIs and consumer lenders, even though plans are underway to revise the AMIZ constitution to differentiate these players. AMIZ is governed by a seven member board drawn from its membership. Out of the 34 members, only 7 are licenced deposit takers, but only 5 have started mobilizing savings with varying degrees of success. In general, savings mobilization remains an extremely weak service, probably because MFIs are traditionally credit cultured and will require different skill sets to be able to undertake savings mobilization effectively. AMIZ performance has received mixed reviews by members, but the new Board has already initiated processes for a turnaround in order to attract consistent member support through value added services.

11. **DBZ** is a specialist development bank, the only of its kind focusing on wholesaling and corporate banking. They are in the process of introducing SME lending that will be implemented through commercial banks. DBZ is just emerging from troubled times caused by changes in foreign exchange laws, and has gone through re-structuring. It has established working relationships with some MFIs and is committed to pursuing rural financing through such partnerships. There are still some weaknesses with capital adequacy, process and human resource capacity gaps.

12. Even though there are several mobile network operators in Zambia, cell phone ownership especially in rural areas is very low, only at 27% according to FinScope 2009. This in addition to sparse population is a significant limitation to financial access. Financial literacy in collaboration with the operators will facilitate increase uptake of cell phone in anticipation of potential banking services.

13. The planned network of CBFi promoters is set to change the CBFi landscape through a major scale. The ambitious plan is to reach 6,552 groups with 137,592 members within three years of set up. Setting up will require heavy investment to cater for equipment, systems and human resources, but the plan outreach in the long term justifies such investment. The promoters are willing to contribute to some set up costs, and this shows commitment and potential for sustainability.

14. The Micro level includes all financial service providers, but there are several categories serving the rural sector; the commercial banks, MFIs and CBFIs. While commercial banks are doing well, the MFIs are struggling to develop and maintain effective systems while expanding. Except for FINCA, the

other deposit taking institutions are reaching less than 20,000. This is surprising given that Zambia has a similar population to Malawi yet leadings MFIs in Malawi are reaching in excess of 40,000. This can only be a pointer to potential, and with support from programmes like RUFEP this potential will eventually be unlocked. This will mean lower operational costs, cheaper services and financial sustainability for these institutions.

15. The CBFIs show potential for deepening rural financial services sustainably, but a lot of work needs to be done to streamline administration and managing risk exposures. The members also need to be exposed to availability and use of other financial services, and also their roles vis-a-vis those of their leaders, field agents and promoters. Such exposure will empower them to make right choices, and decisions. They will in addition develop effective negotiating skills for win-win linkages with other financial service providers.

16. Component 1 is premised on the above background. Under this component, a support framework based on discussions with various stakeholders is elaborated under the Annual Work Plan and Budget (AWPB). Criteria have been provided to facilitate the assessment of FSP proposals. Several instances of approval of proposals have been envisaged, with a mix of internal and external assessments, through which all measures to be supported, will be approved, however, in all cases within the global ceiling approved for components 1 under the AWPB.

Strategic Partners

17. This component will formalize and provide structured approaches for strategic partnerships under the Programme. The overall objective of Component 1 is to strengthen partner institutions' capacity to deliver innovative demand driven financial services to the rural communities in Zambia. The enhanced capacities will result in increased access to a range of financial services by the rural population, especially women and the youth. Interventions under this component will bring about direct transformational changes at the institutional level, impacting positively on policy, infrastructure, financial access and livelihoods. In line with IFAD's Rural Finance Policy and GRZ's proposed Rural Finance Policy, the institutional strengthening will be carried out at all the three levels of the financial sector (Macro, Meso and Micro) to include a range of players that play a significant role in promoting an enabling environment, and delivering rural financial services.

18. While Zambia's financial industry has seen considerable developments and dedicated strategic programming with respect to rural and agricultural finance, the persistent inadequate industry capacity remains a major constraint to growth in the supply of appropriate financial services. This component will provide structured and well-targeted support to address gaps in skills and knowledge across these different market sectors, and to ensure industry actors are able to respond to growing end-market needs and opportunities.

19. RUFEP will provide ongoing policy and capacity building support to categories of pre-qualified partners at Macro, Meso and Micro levels. These partners will include MoF and BOZ at the Macro level on policy-related issues, AMIZ and DBZ at Meso level on capacity building, CBFIs, MFIs and other FIs for greater outreach. In pre-determining these potential partnerships, consideration has been made on where the Programme has the greatest competitive advantage and therefore can add greater value. Potential partnerships have been identified based on RFP experiences and strategic roles these partners currently play and/or envisage playing in future, in promoting increased rural access and general sector growth.

20. At the **Macro** level, the Programme will work with MoF and BOZ to develop and review rural finance policies that are geared towards minimizing entry and operational constraints, leading to mutual benefits for both the supplier and the consumer. Given the recent introduction of interest rate caps by GRZ, the Programme will facilitate stakeholder dialogue with a view to establishing long term solutions. Support may include, but not be limited to, finalizing and rolling out the Agency banking and Mobile money laws and regulations. The initial concepts of these regulations are already initiated by BOZ. The development process will be undertaken jointly with the sector stakeholders. In addition, the Programme will enhance the capacity of BOZ to supervise policy implementation of these new laws and

regulations. The Programme will also support scaling up of consumer financial education by BOZ during the pilot and roll out of Agency banking regulations.

21. Also at the **Macro** level, the Programme will support creation of the RFU in order to consolidate and strengthen rural finance sector coordination and, thus, ensure investments are appropriately leveraged and the impact of such investments is established and documented. The RFU will also enhance knowledge management and scaling up of innovations, and oversee the implementation of the Rural Finance Policy. The Programme will support RFU establishment costs, including equipment and materials, and provide allowances for staff assigned to the unit. The Programme will also support training and exposure visits, both locally and internationally, to build the capacity of RFU to be able to roll out the policy on rural finance. In addition, RUFEP will support the establishment of knowledge management capacity under RFU including studies, workshops, seminars, development of a website and communications materials. Whilst RUFEP will support the RFU set up process, it remains the responsibility of MoF to ensure the RFU has adequate human and financial resources in the long run.

22. The Programme will support AMIZ at the **Meso** level, to position itself as a main provider of capacity building to its members and others within the sector. This would also enable it to become a strategic market intelligence leader on issues of microfinance and rural finance. The Programme will support, AMIZ in enhancing its office with equipment and materials, market studies, local training for members, and international exposures for benchmarking with other countries. This will enhance its capacity to collect and process data into useful information that can be used to form opinions concerning the market share, penetration, services and distribution of those services. Such information will be useful for stakeholders, and assist AMIZ in its capacity building, lobbying and advocacy roles. AMIZ will also benefit from the investments IFAD has already made through MIX Gold to have its members report on their performance and access best practices. Although AMIZ is currently staffed by two persons, it will be able to draw on additional expertise from its membership as needed. The current Board is new and is committed to improving the performance of AMIZ. Already, the Board has undertaken a financial analysis and established mechanisms to reduce costs with a view to achieving operational sufficiency. The Board is also in the process of developing a strategic plan, establishing a performance management mechanism for the secretariat. The active members unanimously agree that there is a need for a strong AMIZ playing its role in the market.

23. In addition, at the Meso level, RUFEP will support DBZ smoothen out effects of the restructuring process, by enhancing capacity of staff in appraising MFIs that are participating in the line of credit. Support will also be provided in developing new processes and procedures. DBZ is a specialized development bank with two core product lines; wholesale lending and corporate banking. The bank is in the process of introducing a new window for SME lending that will be channelled through commercial banks. It remains committed to improving rural access as they have had a successful partnering with MFIs. To that effect, DBZ has requested the Government to convert the credit line into capital for the bank to continue with its wholesale lending to MFIs. Even though DBZ has gone through turbulent times, its mandate gives it a lot of potential as a wholesale lender.

24. Lastly, at the Meso level, RUFEP will support the establishment of SaveNet- an Apex organisation for CBFi promoters. This Apex organisation will facilitate scaling up of standardized CBFi model, in addition to undertaking market research on ways to improve and streamline the systems. RUFEP will also support training of the Apex staff, CBFi field agents and exchange programmes between various CBFIs. The Programme will also facilitate linkage of CBFIs to the Ministry of Agriculture and Livestock MAL extension agents through the Department of Agribusiness and other formal financial institution linkages. The Programme will support the development of ICT materials such, as a website for SaveNet, that will be instrumental in sharing lessons from Zambia and elsewhere.

25. At the **Micro** Level, RUFEP will, through AMIZ, support capacity building of FSPs. Where there is need for customized support, individual FSPs may apply to the Programme for support. Feedback from some of the FSPs that received a line of credit from DBZ indicate that the facility was useful in facilitating penetration of rural areas by these organisations that were traditionally focusing on urban and peri-urban areas. DBZ has indicated its commitment to continue providing this line of credit to

qualifying MFIs as this facility was also found to be cheaper than traditional commercial loans, and hence facilitated the reduction of interest rates on funds on-lent to customers. It was therefore a good facility especially for MFIs exploring penetration of rural areas. It is envisaged that such a facility helps FSPs explore new service frontiers while managing risks, and they will eventually wean off the services into their mainstream businesses.

26. Still at the Micro level RUFEP, through Save-Net, will facilitate the standardisation, contextualisation and translation of CBFi formation/training and model administration manuals. In addition, RUFEP will facilitate the development of a simplified framework for financial linkages between CBFIs and MFIs/Commercial banks. This will ensure the promotion of win-win linkages. RUFEP will continue to support the strengthening of existing CBFIs in addition to supporting formation of new ones.

27. BOZ, MoF/RFU and AMIZ play strategic roles in providing a conducive operating environment for rural finance. Therefore, the only prequalification required will be requisition of support, approval by the vetting committee and signing of a memorandum of understanding. The memorandum of understanding will be based on indicators stipulated in the logical framework.

28. Partnerships under this component will undergo rigorous pre-assessment, including due diligence and analysis of the needs and most effective means of addressing those needs. An initial scoping survey will be conducted by the two experts engaged to oversee implementation of the two technical components. The results will identify potential partners, and the areas of focus. Once this is complete, a request for expression of interest will be initiated and institutions will be prequalified based on an established criteria developed during the design. Comprehensive needs assessments will be conducted to identify and appropriately package institutional capacity, training and technical support for all qualifying partners. A criterion has been provided to assist the PCO in assessing the FSP applicants. Institutions that do not satisfy the initial criteria but demonstrate potential for outreach and innovation, will be considered on a case by case basis.

29. However, in all cases, a detailed partnership framework will be drawn up in consultation with partners to ensure that there are clear and mutually agreed objectives, and that planned interventions for institutional capacity, training and technical support will lead to positive outcomes for the Programme's target groups.

FSP Assessment Criteria for Capacity Grants

All FSP applicants should demonstrate that:

1. They are legally registered under prevailing laws;
2. Their core business is rural development, rural finance, or has a rural focus;
3. There exists a clear governance structure and the board is robust;
4. There exists qualified senior management;
5. They have a clear strategy to increase outreach and sustainability;
6. They have adequate staff capacity or are willing to improve capacity to implement the proposal;
7. There exists baseline data or there is willingness to establish baseline data on key indicators to be monitored throughout the project period and beyond;
8. Features of existing products and services are clearly documented;
9. A positive trend for operational self-sufficiency, and where applicable, a system for tracking operational and financial efficiencies should be clearly defined;
10. Existence of a robust management information system or the willingness to develop and/or acquire one;
11. Willingness to cost share.

30. The following operating principles are also put in place to guide overall partnership arrangements under this component.

- a) **Demand-driven:** While the PCO will be fully responsible for the holding of information days in order to create awareness of the Programme among all potential partners, all capacity building interventions provided under this component will be based on demand from potential partners. It will remain the responsibility of partners to establish operational gaps and formulate support

needs, and effectively communicate this to the Programme. Technical support and guidance to potential partners will be offered by the PCO to refine proposals, technical support needs, including externally contracted expertise if required, as well as budget requirements and partner contributions, both financial and in-kind.

- b) **Cost sharing:** Willingness to cost share will be a demonstration of commitment by the potential partners. The ratio of cost sharing will be decided in collaboration with partners and will be dependent on resource capacity.
- c) **Leveraging resources:** To the extent possible, the PCO should focus on identifying and building synergies with other projects and partners with a similar mission, hence leveraging resources and maximizing potential impact of interventions. Where the synergies are established the PCO should move to seek a formal collaboration with the identified partner through signing of a memorandum of understanding.
- d) **Accountability for performance:** This will start with competitive bidding, appropriate assessment of the proposals, signing of performance based agreements with successful partners, monitoring and reporting.
- e) **Sustainability and Added Value:** Partnerships will be based on competitive advantages of various partners that can demonstrate long term institutionalisation of the interventions supported by the programme and potential for greater outreach.

31. During the design phase, various levels of partnerships were identified, including MoF, BOZ, AMIZ, DBZ, SaveNet, FSPs and CBFIs. These partnerships are considered to be strategic, and any support interventions, can have high potential impact on policy, infrastructure and delivery of financial services to the rural sector.

32. Subsequent intervention areas and activities with the same partners will be based on past performance (of partners and activities) and emerging needs. New partners may be brought in at any point as opportunities emerge. This approach avails the Programme flexibility and responsiveness in strengthening infrastructure and service provision. However, the approach requires sound appraisal of the proposed interventions, and close monitoring of partners' activities as well as timely support and proactive dialogue with existing and potential partners on the part of the Programme management.

33. The operating manual for component one will provide instruction and guidance on formulating partnership agreements (e.g. scope, duration, setting of targets and objectives) as well as tools and approaches for managing partner arrangements under this component.

34. All **Technical Assistance (TA)** will be procured on a need basis following GRZ/IFAD procurement guidelines. Performance of TA will be assessed against contract-specified deliverables. The Programme will require a variety of technical assistance, some of which may not be available nationally. It is, therefore proposed that in order to ensure that procurement of TA does not slow down implementation, a pre-qualification system will be employed. This would entail identification of key capacity areas and advertisement for expressions of interest in local, regional and international media. Expressions of interest will be assessed based on the provided criteria and a database of pre-qualified TA produced. This would be used in inviting proposals by the Programme when needed.

B. Component 2: Innovation¹ and Outreach

35. The outcome of the component is “Improved efficiency and sustainability of rural financial services”. The component aims “to **increase the number and value of financial transactions involving the Programme’s target groups**”. This IOF mainly builds on the successes achieved under RFP which include:

- i) increased remote rural outreach through savings-focused CBFIs;
- ii) successful piloting of value chain finance for smallholders (under the RFP line of credit);
- iii) demonstration of demand mobile-based money transfer, payments and savings services (in rural Zambia).

In light of these achievements under RFP, the IOF under RUFEP has been designed with three innovation windows; the **CBFI Linkage Window**; the **Agent/Mobile Banking Window** and the **Rural Equity Innovation Window**.

36. **Window 1: The CBFI Linkage** window is aimed at building on the achievements of RFP. According to the preliminary findings of the Country Programme Evaluation, *“the support to the CBFIs has yielded good results, despite probably falling short on some of the original targets in terms of outreach. The need for these institutions in remote rural areas has been demonstrated, since the participants (mainly women) wanted a secure place to put their savings, as well as access to credit. The re-enrolment rate of participants to the follow on cycles of the CBFIs is high, indicating satisfaction with the results. Based on anecdotal evidence, most of the loans are used for highly profitable business purposes and the cash distributions are put to a wide variety of purposes, including paying school fees, reinvestment in their businesses and improving their houses”*². Repeat enrolment of participants in CBFI follow-on cycles continues to be high (an indication of satisfaction with the results), the processes are community-led, with a strong focus on savings mobilisation, high replicability potential – all signs of an operationally and financially sustainable intervention. Previously viewed as an unattractive banking proposition, the collective membership of CBFIs present a potential client base that can attract FSPs to previously unreached areas. The window will support innovations in two variations of CBFI linkage: Option 1 – direct CBFI Linkage, where CBFIs link directly to licenced FSP. This option is suitable when a value chain is already well established – i.e. a buyer-seller contract, which can be used by the CBFI as collateral, exists; and Option 2 – the tripartite CBFI Linkage, involving the CBFI, VCD and FSP. The VCD will provide technical assistance in whichever commodity the CBFI members are dealing in/producing. The aim is similar to Option 1 – i.e. to enable the CBFI have a firm buyer-seller contract that can provide an alternative to formal collateral, required by most FSPs.

37. The targeted institutions under the CBFI Linkage Window are therefore CBFIs, CBFI promoters/apexes, licenced FSPs (including leasing and insurance companies) and VCDs, e.g. farmer associations, processors, NGOs, etc. Support under this window will go towards: (i) enabling CBFIs either collectively or individually present themselves to FSPs as a bankable proposition; and (ii) supporting those FSPs interested in linking with CBFIs to make the necessary changes in institutional setup, business strategies and processes to provide products and services that are suited to the needs of CBFIs. For such a link to be mutually beneficial and sustainable, FSPs must be assured of CBFI capacity to monitor loans at individual level (thereby reducing the cost and risks of outreach)

¹Definition of Innovation - An innovation is something new and original. It creates new markets and value by converting new knowledge into new, better, efficient products, services or business processes. Customers are willing to pay for the innovation as it improves the way they live. An innovation must be replicable at an economical cost and must satisfy a specific need. Situations which tend to be confused with innovation (but are not) include: (i) something new but not novel or better (i.e. invention); (ii) something done differently but not better (improvement); and (iii) something good but not new/copied (imitation). Innovation involves risk taking and organisations that create innovative products or technologies take on greater-than-usual risk. For the case of rural finance, innovative FSPs leave easy-to-bank clients (urban, large enterprises, adequate collateral, trade/service) and go on to find new processes, products and services that can serve a new market (rural, small, asset-poor clients mainly involved in agricultural or other little-known rural enterprises), especially rural women and youth.

²Preliminary findings from the IFAD’s Office of Independent Evaluation – Zambia Country Programme Evaluation; July 2013.

while CBFi members, would in selecting a partner FSP, be looking for an entity that can provide a wider (than their own) range of financial products and services on terms CBFIs or their members can meet.

38. Substantial preparatory work has to be undertaken to bring the demand (CBFIs) and supply side (FSP) under the CBFi Linkage Window together. Fortunately, a number of CBFi promoters are already operating in the country e.g. Catholic Relief Services (CRS), Plan International, CARE, and more recently SaveNET. Under Component 1, support has been planned to strengthen SaveNET so that it can spearhead harmonised development of the CBFi sub-sector¹. With such a mandate, SaveNET will be well placed to act as **‘the voice of CBFIs’** and to coordinate discussions with FSPs and VCDs on accessing support under the CBFi Linkage window. SaveNET’s initial role under Component 2 will be to present CBFIs to the financial sector ‘as an attractive client base and unique bankable proposition’, and to the agricultural sector as ‘a sound basis for value chain development activities’. SaveNET can also help to identify which of the participants (VCDs, FSPs, CBFi promoters) are best placed to in-build these activities into their innovation proposals submitted under this innovation window.

39. The activities that need to be part of the CBFi Linkage innovations process include (but are not limited) to:

- i) identifying interested linkage partners (FSPs and VCDs);
- ii) making all sides aware of what each party has to offer and the mutual benefits;
- iii) undertaking Gap Analysis² and sharing the results with CBFIs, VCD and FSPs;
- iv) improving/developing products and services to be delivered under the linkage;
- v) training of linkage partners (CBFIs, VCDs and FSPs) on the new products and services; and
- vi) piloting, monitoring and review of the innovation(s).

40. Articulation of the above processes is aimed at protecting the interests of CBFIs, who could be treated as the ‘weaker partner’, resulting in reduced benefits from linkage with stronger, well institutionalised FSPs. In the interest of the CBFi subsector, CBFi promoters like SaveNET should consider taking charge of activities (i), (ii) and (iii) (of the above paragraph) since they affect the CBFi sub-sector as a whole, while the rest of the activities ((iv), (v) and (vi)) could be undertaken by applicant FSPs and VCDs. The number of stakeholders involved in this window underscores the need for regular communication and sharing of information as well as close oversight by the PCO and the technical advisors.

41. **Window 2: Mobile/Agency Banking** – This Window is premised on the mobile money transfer operations that are already popular in the country. Mobile banking (as a concept), aims at turning a mobile phone into a virtual ATM. These mobile-based operations can be further harnessed to enable additional products and services like savings and loans, leading into full scale mobile banking. The experiences under RFP (by Celpay), though they fell short of rural outreach targets, demonstrated that customer demand for convenient money transfers, payments and savings (in rural Zambia) exists. The transformative nature of agent and mobile banking has already been proven in other countries (e.g. Kenya with its M-Pesa and Uganda with its M-Sente). Once mobile banking is introduced, it will form the basis for licensed FSPs to use a wide range of liquid-secure entities (supermarkets, petrol stations, shops and CBFIs) that have mobile phones/or point of sale devices, as agents for financial service delivery. BOZ has already initiated the process of drafting the Agency banking regulations, a process that will be supported under Component 1 of this Programme.

¹The harmonisation will among other things include deciding how best to; focus CBFi activities; in-build CBFi promoter training; CBFi member training (financial literacy, business skills, recordkeeping skills); and CBFi strengthening (standardised reporting and performance monitoring formats or platforms).

² CBFi financial products are very different (processes, volumes, conditions, additional services) from those offered by licensed FSPs. The Gap Analysis is aimed at establishing the gap between CBFi and licensed FSP with the aim of identifying interventions that can close this gap without overstretching each linkage partner’s capability and quality of operations.

42. The Agency/Mobile Banking window aims at supporting institutions to innovate and make use of the high levels of mobile telephone use and the numerous potential agents in rural Zambia to deliver financial services. Apart from lack of regulatory framework for agency banking, the other two main bottlenecks hindering agency/mobile initiatives are the lack of: (i) funds to acquire the relevant technology; and (ii) management ability and capacity to mobilise, incentivise and manage an adequate distribution network of retail agencies. This is particularly true for the smaller FSPs. Some of the larger FSPs have also not had opportunity to 'tailor' the use of their existing mobile-based products to the needs of rural populations. This window therefore targets innovative proposals from (i) networks and apex bodies of financial institutions including CBFIs; (ii) licensed FSPs; (iii) electronic payment and transfer operators (working in collaboration with a licensed FSP); (iv) industry regulators; and (v) agent (including CBFIs) network organisations. To successfully innovate, pilot and rollout mobile and agency networks may require the combined use of this window as well as institutional strengthening support under Component 1. Consequently, intending applicants should be encouraged to seek clarity on what activities fall under this window (i.e. the innovation part) and the rest of the activities (mostly institutional strengthening) will be accommodated under the meso and micro level support interventions under Component 1.

43. Window 2 also faces the challenge of attracting truly new innovations – particularly in an environment, like Zambia, where competition in the financial sector is still low; this could affect the outcomes of this window. Zambia, however, is geographically close to countries like Kenya, which have already made substantial progress in mobile and agency banking. Rather than trying to 're-invent the wheel', learning visits and partnerships between Zambian and Kenyan FSPs should be encouraged to enable quicker knowledge transfer. This aspect may, in a way, violate the understanding/definition of innovation used under this component. However, as long as the 'innovation' is new to Zambia and is adapted to suit needs of RUFEP target population, it should qualify as an innovation. The expected result is for the proportion of mobile and agency banking transactions in the supported institutions, to increase compared to transactions at ATMs and 'brick and mortar' branches respectively.

44. **Window 3: Rural Finance Equity and Innovation** – According to the 2009 Finscope study, 'Zambia's savings potential **requires financial service providers and policymakers to get to the heart of the population's understanding of, and attitudes towards savings, as well as their income realities**'. This limited understanding partly arises out of limitations in demand side data on Zambia's financial sector. But even from the demand side (Finscope 2009 data), findings reveal high levels of exclusion (on average 62.7%), particularly in the rural areas (65.6%), low levels of savings with formal institutions (only 10% of adults), and even those who save informally, mainly save at home, in inputs, or entrusting savings with another person. Use of formal insurance products stood at a paltry 5.4% of adult population.

45. While access issues may be addressed, the usage bottlenecks must also be overcome. The ease with which clients, particularly those in the rural areas, use different financial products varies greatly. While the uptake of some products like credit is immediate (as soon as they are offered), some products like savings and insurance may be gradual and could remain very low despite easing access. Among the issues that can affect usage are: institutional processes/bureaucracies; charges on the product; product terms and conditions as well cultural/social construct. Consequently, some licensed NBFIs, which are licensed to take deposits, have received poor response to savings mobilisation efforts. Even when such institutions are able to meet regulators' requirements for branch interconnectivity, they may remain internally constrained due to institutional and cultural stereotyping of some products and parts of the population. In fact, the transition from credit-only to full intermediation is, for some licensed deposit takers, not yet complete. At socio-cultural level, the products (particularly savings and insurance) may not be adequately suited to the 'life cycle events' that are the main driver of savings in the target communities.

46. The Rural Finance Equity and Innovation Window is aimed at supporting innovations that improve equity in access and usage. The window will give preference to interventions that improve participation of rural women and youth, as well as products and services that are critical to rural enterprises but have been inappropriately presented or misunderstood. On social inequalities, rural

women and youth, in particular, suffer additional disadvantages. In addition to living in the rural area, their asset ownership and education levels are lower than that of men. On inequality among products, this window is intended to support innovations that can improve use of 'important but poorly understood/delivered products' like savings, insurance, leasing, etc. The need for this window is borne out of the findings of the 2009 Finscope, where savings behaviour was found strongly correlated with health emergencies – a need that would best be served by appropriate insurance products. Yet on the other hand, formal insurance products and services do not attract many users (5.4%). Many of the FSPs have had limited opportunity to explore the social constructs in the communities and within their institutions that lead to them missing out on business potential of savings and insurance. Specialised social-cultural and economic studies as well as changes in institutional culture and structures, could provide a way out of the inequalities currently evident in financial service delivery.

47. Window 3 will, therefore, support proposals from: (i) research agencies; (ii) networks and apex bodies of financial institutions, including CBFIs; (iii) industry regulators; and (iv) (VCDs e.g. farmer associations, processors, NGOs as long as they are working with licensed FSPs, which will undertake the pilot rural outreach activities. The innovations should be aimed at improving the understanding of the causes of inequalities, uninformed perceptions; improve inclusion of underserved RUFEP target group, particularly women and youth, and improve usage of less understood products. It is anticipated that other innovations that could address inequality may be identified during the 2013 Finscope study, and would therefore be eligible under this window. In response to changes in demand, emerging opportunities and findings of relevant studies (e.g. Finscope 2013), new innovation windows may need to be introduced under this component. Through analysis of applications received under the three windows as well as various studies, the PCO will initiate a case for review of the windows and thereafter seek the approval of the PSC and IFAD's no-objection. Once approval is obtained, the necessary change to existing windows or introduction of new windows will be undertaken and respective eligibility and operating guidelines developed.

48. Each matching grant window will have set terms, conditions and operational procedures to guide implementation. These will be prescribed in the IOF Operating Manual while the Grant Agreements will contain clear targets and ceilings, as well as conditions of use, criteria for recall/ cancellation, and other terms and conditions as detailed in the table below. Investments under this component will cover a wide range of items/activities as detailed in the same table. The matching grants will however not cover loans, lines of credit and guarantees and to avoid over-usage in post-pilot operational costs (staff salaries and wages, transport, office running costs), a maximum period during which support will be provided has been indicated (see table). In all cases, a contribution of the grant applicant is required, which will depend on the window under which they have applied. The duration should under normal circumstances not exceed two years. Projects that would take longer than this should be split into several phases; the approval of the first phase would then be done with the explicit approval of the entire project, subject to satisfactory implementation by the grantee and compliance with all obligations.

49. Multiple applications. An applicant eligible to participate under more than one window may submit: one proposal at a time under any given window and not more than two parallel proposals under different windows at any point in time. Applicants may also combine applications for support under component 1 with an application for support under one of the innovation windows. In such a case, careful review of the combined application should be made to ensure that the pilot period of the innovation is respected and that activities and RUFEP support are logically sequenced. In cases of overlap in content of proposals – where institutional strengthening comprises a large part of the innovation proposal, the applicant will be advised to apply under the two components.

50. The list of innovative ideas and financial products mentioned in this Report is by no means exhaustive. Innovations may range from value chain financing, medium-term financing or leasing for the agriculture sector, innovative insurance products (e.g. index insurance), the expansion of leasing to the financing of agricultural equipment, biometric identification at points of sales, strategic partnerships (to reach previously un-served businesses), opening up new service channels, devising innovative financial products, marketing and customer service strategies, product and strategy development for promoters of CBFIs or village savings and credit initiatives, and more comprehensive support packages for those

under extreme exclusion e.g. the youth. The PCO, technical advisors and the reviewing committees should, in upholding the conditions detailed under the three windows, use their expertise and knowledge to guide applicants on how best to structure their proposals in line with the terms and conditions that best benefit RUFEP's target group.

51. The operations of this component and the innovation windows will be governed by the PIM. The PIM provides a description of the respective partnership arrangements, windows (notably eligibility and selection criteria, grant ceilings, and co-financing requirements, etc.), procedures and mechanisms for application processing, administration of grants, various formats (such as evaluation form, grant agreements). Rigorous internal and external technical review will be built in by subjecting applications that pass initial screening for a detailed review by external technical specialists. A Project Vetting Committee (PVC) will be established with the authority to review and approve or disapprove the applications, while ensuring professional confidentiality so that innovations, approaches and products tested and developed are not revealed to competitors or the general public.

Innovation and Outreach (Matching Grant) Facility (IOF)

Window	Window 1: CBFI Linkage	Window 2: Agency/Mobile Banking	Window 3: Rural Equity Innovations
Rationale	Lessons learned from RFP show that promotion CBFI is the most promising intervention to reach un-served rural areas. RUFEP will build on these lessons and expands the scope by including a new dimension of linkage to formal FSPs. This assumes that low income individuals transformed into a bankable group – can attract FSPs. Link mutually beneficial CBFI to penetrate remote rural areas at lower cost, FSPs would provide liquidity & savings services.	RFP lessons with one provider show potential but was not successful. RUFEP will provide more resources and higher level intervention at policy level to unlock potential for the whole industry. Reduces need for physical branches and ATMs (high cost investments) by utilising existing structures that are rural and target friendly. Convenient – even low income persons already have mobile phones Widely acknowledged success in remote penetration in Africa	Lessons from NSCB reinforce the need but this was not successful under RFP. RUFEP builds on these lessons to tackle the needs identified. Important products (savings insurance leasing) remain poorly used, some persons remain excluded due to low asset, education, awareness. Very limited demand side research and data
Preparatory Activities	See paragraph on component description	PCO/Technical Advisors to keep stakeholders informed	PCO/Technical Advisors to keep stakeholders informed
Eligible Applicants	CBFIs, CBFI promoters or apex organisations, licensed FSPs, VCDs or other institutions willing/prepared to work with CBFIs to achieve RUFEP objectives	FSP networks or apex bodies, licensed FSPs, electronic payment and transfer operators, industry regulators, CBFIs network organisations ¹	Research agencies, FSP networks and apex bodies, CBFI promoters, regulators, VCDs
Main Activities Supported	CBFI – FSP dialogue, gap and feasibility analyses, product development, staff client training, cost of pilot activities and reviews	Study tours, technology acquisition and pilot testing, staff training, pilot/parallel runs, legal consultation costs, feasibility studies	Research studies, dialogues between FSP and researchers, feasibility studies on excluded, etc
Target Group Considerations	Ensure that links are mutually beneficially. Keep track of whether benefits on CBFI side are being	Ensure that technology is properly sourced, parallel runs, staff training is done. Contracts must ensure delivery of paid-for	Innovations on credit delivery should be limited under this window. Only if they result into

¹ Must be in collaboration with licensed FSPs. This condition also applies to Window 3.

Window	Window 1: CBFI Linkage	Window 2: Agency/Mobile Banking	Window 3: Rural Equity Innovations
	sustainably provided	technology and support services	overwhelming impact
Matching Ratios	MG for 90% of total costs for 24 months	MG for 60% of total costs for 24 months	MG for 90% of total cost for a period of 12 months
Maximum Grant Amount	Range USD 30,000 – 50,000 ¹ ZMW 150,000 – 250,000	USD 200,000 ZMW 1,000,000	USD 25,000 ZMW 125,000
Average Grant Size	USD 35,000	USD 150,000	USD 25,000

52. **Synergies:** Component 2 activities will be implemented by a wide range of entities spread across the financial, agricultural and social sectors. A single innovation may involve two or three entities. Furthermore, rural populations, though predominantly involved in agriculture, do undertake various rural enterprises. This makes the range of eligible activities very wide as well. In addition, some of the target institutions are apex institutions representing a large number of organisations. The smallest members of such apex organisations also have a right to benefit under this Programme but their views and participation may be masked by the more prominent members of the apexes. Again, care needs to be taken to ensure apexes are truly representative of the least of their members. Eligibility also is accommodative of public, private as well as civil society organisations. Programme coordination needs to periodically review whether the activities and strategies of this wide range of participants: (i) carry untapped synergies that can improve pace and cost effectiveness of innovations and component activities; (ii) there are no contradiction, overlaps, duplication in terms of approach and the persons being reached by the different innovative activities; (iii) other IFAD-funded programmes (SAPP, S3P, SLIP) and other related programmes (e.g. the USAID-funded ASNAPP and PROFIT Plus and the DfID-supported Access to Finance Programme) provide the necessary technical assistance/expertise of the quality and at a time that best benefits RUFEP's target groups.

C. Component 3: Knowledge Management and Programme Implementation

The component comprises two sub-components: a) Sub-Component 3.1 – Knowledge Management and Technical Support; and b) Sub-Component 3.2 – Programme Implementation.

Sub-Component 3.1: Knowledge Management and Technical Support

53. This sub-component comprises support services and activities conducted by the PCO to prepare, supplement, deepen and/or accelerate processes of facilitating access of the rural poor to financial services. In this respect, support will be provided under two broad areas: (i) knowledge management; and (ii) the provision of technical expertise and guidance in rural and agricultural finance matters. These support functions will play an important role in enhancing implementation plans under components 1 and 2 described above and should be closely integrated with planning, monitoring and evaluation functions as outlined in Appendix 6.

54. **Knowledge management** will comprise a range of activities geared toward increasing public and intra-sectoral knowledge and understanding of technical matters related to rural and agricultural finance, aiming to contribute at a very practical level to facilitating access of, and usage by, the rural poor and IFAD-target groups to financial services. In this respect, key principles underlying support for knowledge management under the RUFEP are: a) user friendliness and practicality, promoting applied learning; b) knowledge as a public good, aiming to raise and sustain levels of knowledge across the sector as a whole; and c) meaningful dialogue, creating space for participatory debate that lead to demand-driven solutions for the market. There have to be targeted interventions for knowledge generation, management and dissemination; this endeavour will be led by the Programme's Knowledge

¹ Depending on the number of CBFI to be linked to the licensed FSP.

Management and Communication Officer (be located in the MoF's RFU). Some of the areas to consider are described in more detail hereunder.

55. **Research studies:** There is a strong case in Zambia for objective-oriented research and development studies and initiatives that will contribute to filling gaps in knowledge and understanding and at the same time help to identify opportunities for expanding and deepening financial inclusion. The RUFEP will, therefore, make provisions for the generation and subsequent dissemination of knowledge, which answers questions, but also brings to the fore emerging solutions, innovations and new approaches in rural financial service provision for uptake by sector stakeholders and the general public. The Programme will commission studies on the basis of a clear expression of demand by the industry.

56. The Programme will include a budget resource '**basket**' specifically for research and development. Whilst it is foreseen that the bulk of research and development initiatives will take place in the first half of the Programme, with areas of need being removed over that time, it is possible that new areas for research and investigation will emerge as markets and Programme responsiveness evolve.

57. It is not possible to outline all the themes to be covered over a period of almost a decade, but topics – seen from today's requirements – needing deeper research and analysis may include:

- i) practice of applying collateral substitutes and their pros and cons;
- ii) supply chain and value chain analyses and financial modelling;
- iii) Comparative analysis of the efficiency of different products and financial services in rural areas;
- iv) cost reduction potential of different technologies, products and approaches when serving rural areas;
- v) efficiency gains under different value chain arrangements;
- vi) feasibility of rural banking and finance under interest cap policies;
- vii) perceptions and attitudes of the rural population vis-a-vis mobile phones and mobile phone banking; and
- viii) transaction costs under different linkage-banking approaches (e.g. the ZANACO Lima model, linkages with self-help groups, etc.).

58. In addition, research issues relating to community-based finance may be addressed here under component 3 or under component 2, IOF in the form of grant support to specific (or groups of) CBFI-promoters. Preferably, research exercises will be sub-contracted to capable local institutions, such as universities, research institutes or other institutional bodies. In all cases, adequate provision shall be made to ensure that all activities are conducted in accordance with standard methodologies, within the prescribed timeframe, and presented with the highest possible quality and diligence.

59. **Sector-wide thematic dialogue:** Knowledge generation and management will take place via events and fora that ultimately raise the profile of Zambia as a 'learning zone' for rural and agricultural finance. Initiatives will be supported that enhance and share learning such as annual rural finance conferences, dialogue fora on sector specific challenges or opportunities and on relevant and important innovative practices from other countries, which hold relevance and potential for uptake by the local industry. Where possible, these activities shall be undertaken under collaborative partnership arrangements. Again, the Knowledge Management and Communication Officer will take the lead in facilitating the undertaking of these activities. This will be done in collaboration with the RUFEP staff, especially the Project Coordinator, PM&E Officer, the two Technical Advisors and the relevant sector stakeholders.

60. **National dialogue on Zambia's rural finance options:** During the early stages of RUFEP's first year of implementation, the PCO will launch a national dialogue on the different options accessible to Zambia to advance on the financial inclusion front¹. Elements of this dialogue could comprise:

- i) a review of the contributions of the different types of financial institutions to economic development and financial inclusion;
- ii) a review and feasibility study of the different options and systems practiced outside Zambia that might advance equitable rural development in Zambia;
- iii) a review of the prevailing laws and regulations and their impact on equitable development, financial inclusion and other relevant parameters; and
- iv) economic and financial analysis of the impact of investments into the different options.

61. It will be important to secure the support of a highly qualified moderator to manage the process (which is expected to be quite demanding) and to support with compiling and analysing information generated. The outcomes of a well-facilitated national dialogue are expected to be a much higher awareness on the part of the general public and decision-makers of the relevance of current policies and programmes, as well as a clear and rational notion on how best to advance the rural finance and inclusion agenda, and emerging alliances for future sector development processes.

62. **National Surveys:** At least two national surveys are planned in Zambia, which will make significant contribution to understanding the status of supply and demand with respect to financial services provision. Under the current FSDP, GRZ, IFAD and the Mix Market will collaborate on conducting a detailed mapping exercise, which will fill important gaps in the information available on rural finance provision by improving information on rural finance providers and rural outreach. The implementation and analysis of findings from the MIX Mapping exercise will inform decision-making around gaps in physical access². Whilst the RUFEP will not directly fund or oversee implementation of the MIX Mapping exercise, it will liaise closely with implementing partners to help in the design, implementation, analysis and reporting phases, and will be able to access the information for use in planning, monitoring and evaluation functions.

63. It is also anticipated that a new FinScope survey will be conducted in the course of 2013, under contract of the BOZ and undertaken by FinMark Trust (FMT). The results should be expected late 2013 or early 2014. Given the relevance of the survey results for Zambia and the usefulness of the information generated by the FinScope Surveys, some of the RUFEP impact indicators have been built around the FinScope Survey in the knowledge that this depth of information will be made available after the survey is completed. The Survey results will likely also provide useful baseline data for the RUFEP. Collaboration with FMT could extend to more formal partnership, such as the PCO coordinating with FMT to include pertinent questions in the survey tool, which would then enable the RUFEP to fully utilise the results for impact monitoring purposes. The PCO should also explore the opportunity to co-finance implementation of subsequent surveys led by FMT and relevant to the RUFEP agenda.

64. **Linkages with other actors:** Whenever possible, coordination, linkages with various actors and partnerships will be actively pursued under the Programme, leading to synergy and added value across programming activities. Maintaining dialogue with various parties and proactively exploring opportunities for linkages will be one of the important tasks of the PCO, which will also contribute to coordinating support for the sector under the supervision of the RFU. In addition to proactively reaching out to and dialoguing with sector players (financial institutions, apex organisations, etc.), there are major initiatives which are already identified and which will have to be well coordinated and harmonized. This includes close coordination with the DfID-supported FSDZ Programme (in this particular case, RUFEP will seek

¹ South Africa has recently conducted a one-day *Indaba* on the inclusiveness of its financial sector, with public debates transmitted on TV, newspaper articles, some basic research, etc.

² Closely linked to IFAD's commitment to monitoring the performance of its rural finance interventions, MIX Mapping denotes an exercise undertaken by the Mix Market, which offers a platform for collecting data from financial institutions around the globe on key financial and social performance parameters. The Mix Mapping exercise presents physical access to finance in a graphical format. See for example the one recently prepared on Kenya: <http://maps.mixmarket.org/kenya/>.

to sign a Memorandum of Understanding with the DfID supported programme to define the nature of collaboration and the expected output of such collaboration), the private sector development activities and projects of the World Bank (e.g. a credit line and technical assistance to banks and MFIs for SME lending) and various current and planned projects of the AfDB (in the livestock and aquaculture sectors, plus one regional development project and a planned intervention in small enterprise development). Other relevant programmes and projects, which require proactive partner dialogue include those funded by the Finnish and Swedish governments, as well as those planned under the GRZ industrialization policy and strategy, in particular, plans for economic zoning together with selected value chain financing through the Citizens Economic Empowerment Commission.

65. **Knowledge dissemination:** In addition to knowledge dissemination through the learning forums and platforms for dialogue described above, the PCO will continually seek opportunities to share lessons learnt and emerging best practices with existing stakeholder working groups (such as those formed under the FSDP) and it will establish close ties with the on-going knowledge management initiatives of IFAD in Eastern and Southern Africa.

66. In the second half of year one, the PCO will create a programme website, which will provide a platform for knowledge dissemination and sharing of information on relevant programming issues among key stakeholders and the general, interested public. This website will contain postings of all relevant national surveys, as well as programme-generated research findings and publications. As well as documenting and publishing outputs from knowledge management activities, the website will also update and inform about the Programme, including key achievements, partnership successes, and the results and outcomes of interventions financed/supported. It will make available all application forms and templates, as well as guidelines for potential applicants. Other relevant information will include upcoming events, details of planned trainings and schedules on the same, as well as links to key partner websites.

67. **Technical expertise and guidance in rural and agricultural finance matters:** The provision of technical expertise will be rationalised and aligned to planned interventions and the relevant windows under the three Programme components. Technical expertise will be drawn upon to fill identified knowledge gaps and to enhance the PCO's programming initiatives. Key principles governing the use of technical expertise will include:

- a) significantly advancing the case for the rural poor, and women and youth especially;
- b) demand-driven service provision that is timely and responsive to needs and attuned to recipients' capacities;
- c) high positive impact on the Programme agenda through well-defined terms of reference, concrete and timely deliverables, accountability and quality assurance of the services to be provided.

68. In order to minimise the time required for each procurement of the technical expertise, key technical areas that are likely to require specialists could be identified and pre-qualification (short-listing) of eligible and qualified consultants in each area could be done in advance. This way, the Programme may avoid having to advertise for expression of interests for each case. The use of retainer or framework contracts could also be considered. Based on this premise, the first round of technical assistance would focus on:

- i) a study on the evolution of the demand for financial services by the agricultural sector, in particular financing of value chains over the next 5 years;
- ii) an inventory of the existing practices, models, systems, procedures, advantages and constraints, and legal and other constraints in the field of agricultural and value chain finance (by sub-sector and region), with clear conclusions on what models and approaches work under what conditions, and what and/or who are the respective driving forces; and
- iii) a feasibility study on the expansion potential of the beef, hides and dairy sub-sectors, comprising in-depth analysis of the different value chains, the different business levels within

those value chains, including profitability, organisational and financial capacity of actors, and, based on findings, a set of recommendations on how best to advance financing of these sub-sectors and value chains.

69. One of the tasks of the firm or institution recruited to perform the feasibility study will be to prepare draft terms of reference for subsequent technical assistance requirements (for the selected sub-sectors), which will then be reviewed and refined by the PCO.

70. Potential additional areas for consideration for pre-qualifying consultants/consulting firms for technical assistance could include: an analysis of tools and approaches used for agricultural loan appraisal across the financial sector (i.e. with respect to adequacy, relevance, efficiency in supporting business analysis and risk management); exploring the design, packaging and delivery of value chain finance models in other promising sub-sectors; or identifying further capacity development needs and means for addressing these.

71. **Facilitating and structuring value chain finance:** Given that there is insufficient knowledge in the structuring and packaging of value chain finance across financial and non-financial industry actors, there is a strong need for the effective facilitation of concrete financial and institutional linkages, and aggregation of value chains in Zambia. The PCO will actively engage in providing such support, provided, however, that no private sector institution or agency could assume this role. In addition, the PCO will support in organizing linkages between value chain actors in need of financial solutions with potential financial sector partners. It should be noted that this mandate is of a subsidiary nature. It should only be exercised by the PCO if, and as long as, no other player would be in a position to draw on the IOF, or other facilities for the purpose. This serves to retain the principle of facilitating the initiative of the private sector, not to absorb or usurp it. It is also expected that where there is a need for the PCO to directly undertake activities for facilitating and structuring value chain finance, that this would diminish over time.

72. **Support to other IFAD-financed Programmes:** With regard to other IFAD-financed programmes, the RUFEP is expected to provide on a demand basis technical guidance and leadership on how best the respective target groups could access and make good use of financial services. At the same time, where value chains and smallholders would be supported under the RUFEP and be in need of support in their real sector operations, and where such support could be provided by these other programmes, this should be facilitated and arranged for. Such an approach is likely to lead to much higher levels of integration and synergy than previously achieved. There are also opportunities for synergies with other initiatives supported under the UN agencies, such as the World Food Programme (WFP) (Purchase for Progress (P4P), e-payments), and the Food and Agriculture Organisation (FAO) with regard to value chain support and finance, e-vouchers and the integration of producer groups into market arrangements and financial services. Where possible and feasible, these shall be explored and deepened for the benefit of the rural poor.

73. **Sub-Component 3.2 – Programme Implementation:** Under this sub-component, a PCO will be established within MoF with responsibility for the day-to-day management and coordination of all Programme components and activities. The PCO will include the following positions: Programme Coordinator, Financial Controller, Procurement Specialist, M&E Specialist, Knowledge Management and Communication Specialist, at least two Technical/Rural Finance Officers, Assistant Accountant, Administrative Assistant, Office Assistant and one or two drivers. The staff will be recruited for an initial period of two years, with six months of probation, renewable for periods of two years. All contracts will include clear performance targets, which will be used to determine each person's performance.

74. The PCO will, essentially, have four different levels of responsibility. First, it will have the overall operational responsibility of ensuring a smooth day-to-day RUFEP implementation. Secondly, it will have the responsibility of intermediating between the different arms of the government involved variously in the execution of RUFEP, including serving as a Secretariat for the PSC. Thirdly, the PCO will serve as the government link to IFAD for all RUFEP-related operational matters. Lastly, the PCO will be the intermediary between the different service providers and all the RUFEP target groups.

75. The PCO responsibilities are summarised as follows:

- i) Prepare Annual Work Plans and Budgets (AWPBs) for the Programme and submit them to MoF/PSC and IFAD for comments and approval;
- ii) Disburse and control the flow of funds, under various contractual and partnership agreements;
- iii) Promote integration at the grassroots level by the local implementation agencies and service providers, team building to promote integration of activities along the commodity and financial value chains;
- iv) Identify key messages for target groups and ensure its proper packaging and the appropriate delivery mechanism;
- v) Develop and implement a RUFEP communication and knowledge management strategy;
- vi) Supervise and evaluate all activities under RUFEP. This will be done through the development, installation and maintenance of a participatory M&E system. Ensure that The RUFEP M&E system is appropriately linked to the MoF M&E system;
- vii) Undertake local and international competitive bidding for procurement of civil works, goods and services as required for effective Programme implementation;
- viii) Manage Programme finances prudently and consistent with the international acceptable practices, including ensuring that both the internal and external audit functions are undertaken in a timely fashion;
- ix) Prepare and submit comprehensive and informative Programme implementation progress and financial reports to IFAD and GRZ in a timely manner.

76. The PCO will prepare AWPBs which will serve as the basis for Programme implementation planning and progress monitoring. The Programme will be implemented in accordance with the standard government fiscal year. At the same time, annual review workshops (ARW) will be held to discuss the previous year's progress (the annual report will be prepared and discussed) and to outline proposals for the coming Programme year. The ARW will serve as a participatory process by which stakeholders, through their representatives, positively influence the process of implementation and, at the same time, monitor and evaluate the outcomes.

77. The PCO activities with regard to Monitoring and Evaluation, Financial Management, and Procurement will be undertaken as stipulated in Appendices 6, 7 and 8, respectively. Details of RUFEP implementation modalities will be provided in the PIM.

78. The PCO will be located in an office large enough to adequately accommodate its officers. The office will be furnished with the necessary equipment (Information Technology and Communication equipment and furniture) and provided with logistical support to enable the officers to effectively undertake their respective duties.

Appendix 5: Institutional aspects and implementation arrangements

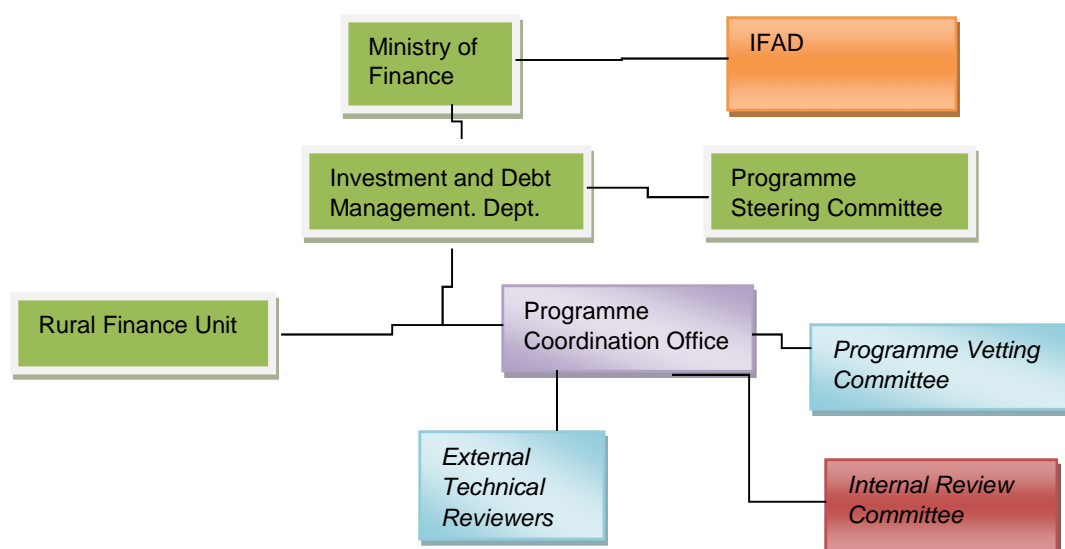
1. **Lead Implementing Agency:** The lead Programme implementing agency will be the MoF; the Investment and Debt Management Department (IDMD) will have the direct responsibility of overseeing RUFEP implementation. The IDMD will also house the Rural Finance Unit (RFU) in the interim as the MoF prepares to establish a Rural Finance Department. The RFU will play a strategic role to enhance inclusion of other players in the sector. It will provide a policy oversight over the RUFEP and all other similar interventions as part of its overall mandate. This is contained in the Rural Finance Policy and Strategy that was approved by Cabinet in May 2013.

2. **Oversight:** A PSC with relevant representation at national level will provide oversight, policy direction and coordination between key government institutions. The PSC members will include: (i) Permanent Secretary (PS), Budget and Economic Affairs, MoF; (ii) Director, IDMD, MoF; (iii) Chief Economist, IDMD, MoF; (iv) Chief Accountant, IDMD, MoF; (v) Director, Non-Bank Financial Institutions, BOZ; and (vi) Director, Agribusiness Department, Ministry of Agriculture and Livestock (MAL). The PS will serve as chairperson to the PSC and the RUFEP PC will serve as secretary (without voting rights).

3. It has been recommended that members of the PDG, who have been participating actively in the RUFEP design process, be transformed into a TAGfor Programme implementation. The group could also bring in other stakeholders from the rural finance/banking sector, it should have at least half of its members coming from the private sector.

4. **Programme Implementation** will be vested with a PCO. The PCO will be charged with providing the administrative and technical support services for Programme implementation, including providing technical leadership to the planning and implementation of the first two components and research activities, reporting, financial management and procurement support. The PCO will be headed by a Programme Coordinator who will supervise and inspire the administrative and technical teams. The PCO will include the following positions: Programme Coordinator, Financial Controller, Procurement Specialist, M&E Specialist, Knowledge Management Specialist, at least 2 Technical/ Rural Finance Officers, an Assistant Accountant, one Administrative Assistant, one Office Assistant and one or two drivers. Staff of the ongoing RFP will be evaluated to establish whether their qualifications meet RUFEP's requirements. Otherwise, all staff will be recruited from the labour market for an initial period of two years, with six months of probation, renewable upon satisfactory performance for periods of two years. All contracts will be established with clear performance targets, which will be used to determine each staff member's performance. The draft Terms of Reference for the key PCO staff are presented in Attachment 1. The organigramme of the RUFEP is presented in the chart below. The chart also shows the relationship between the PCO and the three administrative bodies involved in the processing of grants under components 1 and 2 (i.e. the Internal Review Committee, external reviewers, and the Programme Vetting Committee).

Figure 1: RUFEP Organigramme



5. **Managing partnership arrangements:** Implementation of Programme activities under components 1 and 2 will largely rest with selected partner institutions and grant recipients, governed by a partnership agreement, memorandum of understanding or grant agreement. Hence, it is critical to provide a framework and guidelines (e.g. for work planning and budgeting, progress reporting, financial and procurement management as appropriate), ensure the quality of work plan and budget and reporting, provide implementation support, monitor their performance, and terminate partnership arrangements when required.

6. All key operational aspects of components 1 and 2 will be guided by the Operational Manuals, which will in effect form a key section of the overall PIM.

Attachment 1: Terms of Reference for key PCO staff

A. Programme Coordinator

Job Title:	Programme Coordinator
Duration:	Aligned to programme duration
Recruitment:	National or international, National preferred
Contract:	Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to:	<ul style="list-style-type: none"> • Programme Steering Committee (on matters related to the Financing Agreement with IFAD) • Head, Financial Sector Development Plan, BOZ (for technical matters) • Director, IDMD, MoF on administrative matters)

Purpose

As a member and head of the PCO, the PC has the overall responsibility for the smooth, timely and high-quality management and implementation of RUFEP. As head of the PCO, the PC is in charge of the day-to-day management of the Programme and the coordination of all its activities and partnerships. The PC liaises with relevant stakeholders in the government sector, financial sector (ranging from community-based finance to commercial banking) and agricultural and agribusiness sectors, the donor community as far as it supports or is interested in rural and agricultural finance, or financial systems development, and the International Fund for Agricultural Development as regards all matters pertaining to the Financing Agreement signed between the GRZ and the Fund. The PC ensures coordination with the Rural Finance Unit under the MoF and maintains close ties with the TAG for programme implementation.

Key Responsibilities and Duties

1. Develop an implementable programme of activities in accordance with the Financing Agreement and the Programme design documents;
2. Ensure timely submission of Annual Work Plans and Budgets (AWPBs), activity reports, financial reports, audit reports and others in accordance with the stipulated requirements;
3. Ensure the smooth management of the Programme in all facets and dimensions;
4. Coach, guide, mentor, inspire, monitor and supervise all staff in the PCO;
5. Ensure proper funding of activities all the time, and adequate use and absorption of funds as allocated;
6. Ensure that proper systems and procedures are established, contained in the respective manuals and fully adhered to by all respective persons and units;
7. Ensure updating of manuals, systems and procedures as required;
8. Maintain excellent relationships with partners and key actors in the government, financial and private sectors as well as with the relevant donor community, and coordinate activities with these as needed;
9. Assist potential and actual partners to conceptualize their projects, proposals and visions;
10. Introduce innovations generated inside and outside Zambia to other possible actors and replicators;
11. Guide and inspire the national dialogue on rural and agricultural finance, and on financial systems development, in particular as regards the ability of the financial sector to better serve the rural poor;
12. Provide oversight over the implementation of components 1 and 2;
13. Manage the knowledge management and technical assistance activities under component 3.1;
14. Provide guidance and expertise in the process of establishing the Rural Finance Unit in the MoF;

15. Ensure a proper set-up and functioning of the Planning, Monitoring and Evaluation (PM&E) systems and procedures, and that PM&E is properly anchored in all projects run by partners and grant recipients;
16. Prepare an annual report on the evolution of rural finance in Zambia and the progress made by the financial sector to improve the quality, outreach and depth of financial services to the IFAD target groups, including an overall assessment of the development of the financial sector; this report shall be published annually on the website managed by the PCO;
17. Prepare the AWPB in accordance with the Financing Agreement and IFAD procedures;
18. Contribute actively to the knowledge management activities of IFAD within the Eastern and Southern Africa Division;
19. Conceptualize all knowledge management activities under the RUFEP and ensure their proper implementation and most widespread dissemination;
20. In collaboration with the Financial Controller, ensure effective management and accounting of the RUFEP financial resources;
21. Participate in and lead the technical review and appraisal process of grant and partnership applications;
22. Ensure the most efficient and effective use of the financial resources provided by the GRZ and IFAD;
23. Adequately prepare, guide and assist all incoming supervision, evaluation, backstopping, etc. missions deployed by either GRZ or IFAD;
24. Serve as secretary to the PSC;
25. Implement all written directions by the PSC, IFAD and MoF as required;
26. Ensure that proper financial management and procurement systems are set up, and the full compliance of all persons concerned with the respective regulations;
27. Excel in transparency and accountability of all activities and duties performed, and set the standards for transparency and accountability in programme implementation;
28. Ensure that a website on rural finance will be established in the first five months after programme start and regularly updated;
29. Ensure that the mid-term review terms of reference are prepared and review exercise conducted as scheduled;
30. Agree with the Access to Finance Project funded by the DFID, and other project or programme similar in nature to the RUFEP and Access to Finance, on mechanisms and procedures of exchange of information, applications, reviews and approvals, concentration of work, joint initiatives and co- or parallel financing, as required;
31. Assume full responsibility over the assets received by the PCO and the prudent use of Programme-funded assets and resources.

Minimum Qualifications

- MBA, MSc, MA degree in economics, development finance, or other relevant discipline;
- At least 10 years of professional experience in relevant fields;
- Practical banking experience gathered in a leading or middle management position over at least three years in a developing environment;
- Excellent leadership qualities;
- Practical experience in leading and managing teams;
- Good understanding of accounting practices;
- Excellent communication skills;
- Full proficiency in English.

Skills and Experience

- Proven technical leadership in banking and finance, micro and macro economics, and agriculture;
- Good understanding of agriculture, value chain development value chain finance, and rural development issues;

- Excellent interpersonal skills;
- Experience in the provision of technical assistance, supervision or evaluation of projects and programmes, in the private and/or public sectors;
- Good understanding of networking principles, lobbying and advocacy mechanisms, and the creation of alliances for joint initiatives;
- Good understanding of PM&E, planning approaches, results-based management, and similar;
- Proven capacity in the formulation and production of high quality written material, including among others research studies, impact assessment reports, publications for media, etc.;
- Demonstrable capacity to work with private sector, civil society, media and government sectors on evaluation and monitoring programs at a national scale, and to develop appropriate communication strategies and be an effective communicator in working with a diverse range of stakeholders; and
- Strong people management skills, willing and able to foster cross-sector collaboration and partnerships to enhance program results.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background and publication records	10
2	Length, depth and relevance of professional and practical experience in rural, agricultural and microfinance, banking, leasing, etc.	35
3	Extent of expertise in the technical domains of the Programme	20
4	Depth and length of management experience, in particular of donor-funded projects/programmes	20
5	Length and level of management positions held	10
6	Level of accounting, financial management and procurement experience and skills	5
7	Depth of understanding of rural and agricultural development issues and experience with value chain development and value chain finance	5
8	Depth of experience in designing, delivering and evaluating training for adults	5
9	Strong writing, analytical and interpersonal skills	10
10	Depth of experience in qualitative and quantitative research	10
11	Depth of experience with result-management and PM&E	10
TOTAL		140

B. Financial Controller

Job Title:	Financial Controller
Duration:	Aligned to programme duration
Recruitment:	National
Contract:	Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to:	Programme Coordinator

Purpose

The Financial Controller reports directly to the PC, and is responsible for financial management of the Programme and for maintaining all project accounts in good order. As head of the finance unit, the financial controller will take charge of all matters in the Programme accounting cycle. The Programme accounting cycle to be overseen by the Financial Controller starts from financial-related inputs in AWPB preparation and budget control, committing funds, disbursements and cash flow management in an effective and efficient manner, financial reporting to ensuring smooth audits and facilitation for supervision missions on all financial management aspects.

Key Responsibilities and Duties

1. Installation of appropriate accounting/reporting systems to ensure that the PCO and especially the Project Coordinator are regularly informed of on-going financial activities and transactions. Ensure the RUFEP structure in terms of its components, sub-components, categories, activities, approval limits are accurately profiled in the GRZ Integrated Financial Management System;
2. Ensure timely capture of RUFEP in the GRZ budget yellow book as required by the GRZ budgeting processes and calendars;
3. Communicate to all implementing partner institutions, service providers and grantee recipients their financial responsibilities, the funds available and how to access it, and the requirements of reporting and record keeping in accordance with prevailing government practices which are acceptable to IFAD;
4. Maintain all accounting records in a form appropriate for regular auditing (at least once a year);
5. Ensure that all project funds are used in accordance with the conditions of the loan agreements, with due attention to economy and efficiency, and only for the purposes for which the funds were provided;
6. Ensure that counterpart funds have been provided and used in accordance with the conditions of the loan agreements, with due attention to economy and efficiency, and only for the purposes for which they were provided;
7. Ensure that all necessary supporting documents, records and accounts are kept in respect of all project activities, with clear linkages between the books of account and the financial statements presented to the financiers;
8. Ensure that designated accounts are maintained in accordance with the provisions of the loan agreement and in accordance with the financier's rules and procedures;
9. Ensure that the financial statements are prepared in accordance with International Public Sector Accounting Standards as adopted in Zambia;
10. Liaise with external auditors to audit the Programme accounts to meet the required submission dates by IFAD;
11. Oversee tax matters of the Programme, ensuring that tax exemptions for the procurement of goods for the Programme are secured at the appropriate time;
12. Process documentation and follow up on disbursements from the government and IFAD to ensure that releases are not delayed. Ensure that funds for Programme implementation are disbursed in a timely manner to enable Programme interventions to be carried out on time;

13. Prepare and submit regular withdrawal applications to IFAD and follow up to ensure that the Programme does not run short of liquidity;
14. Follow up on all project funds released to implementing partners for timely retirement and proper utilization;
15. Ensure that SOEs are carefully compared for eligibility with relevant financial agreements and the disbursement handbook, and with budget control discipline;
16. Ensure that fixed assets are well accounted for and annual verification is undertaken of the condition of assets and their location;
17. Prepare informative management accounts in the form of monthly, quarterly, semi-annual and annual reports regarding aspects of Programme financial monitoring bringing out variances and advising implementers as to the limits of expenditure;
18. Act as a counter-signatory to Programme fund releases as required for Programme financial transactions and also sign as witness to contracts as much as possible; and
19. Carry out any other activities that are assigned by the PC.

Minimum Qualifications

The candidate should have a Bachelor's degree in accounting, and must be certified chartered accountant Association of Chartered Certified Accountants (ACCA) Chartered Institute of Management Accountants (CIMA).

Skills and Experience

- At least eight years of relevant work experience, including at least four as a financial manager or accountant in government/donor projects or large institutions;
- Strong managerial skills and demonstrated capacity to manage people and interact with a wide range of private sector partners and government representatives;
- Knowledge of work planning, budgeting and reporting;
- Excellent quantitative and analytical skills;
- Computer-literate including accounting packages and well-versed in the use of Excel, Word and basic data base set-ups.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background - accounting background training at university level	20
2	Membership of the Institute of Chartered Accountants of Zambia or equivalent	20
3	Depth and length of project financial management experience, in particular of donor-funded projects/programmes	30
5	Level of understanding of project accounting software	10
9	Strong writing, analytical and interpersonal skills	20
	TOTAL	100

C. Procurement Officer

Job Title:	Procurement Officer
Duration:	Aligned to the Programme duration
Recruitment:	National
Contract:	Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to:	Programme Coordinator

Purpose

The Procurement reports directly to the PC, and is responsible for managing procurement processes and contract administration aspects. As head of the procurement unit, the incumbent will be tasked to ensure compliance with Zambia Public Procurement Act and its regulations and ensure due diligence to comply with IFAD Procurement Guidelines and handbook.

Key Responsibilities and Duties

1. Installation of appropriate procurement systems and procedures for effective planning and monitoring of procurements under the project;
2. Oversee preparation and consolidation of inputs to the Annual Procurement Plan;
3. Finalize, within three months after start of duty, a draft manual on procurement by partners (under component 1) and grant recipients (under component 2), which sets the minimum standards of compliance for the procurement of goods and services under RUFEP financing;
4. Continuously train (on the job) implementers in the preparation of terms of reference, specifications and proactive follow-up of these inputs in the bidding processes;
5. Prepare bidding documents based on acceptable bidding standards;
6. Ensure all prior review requirements such as obtaining of the No Objections from IFAD are complied with in a timely manner;
7. Ensure that all the due tendering processes are adhered to: sufficient publications, strict adherence to deadlines, transparency in communications with bidders, publication of bid results, etc.;
8. Ensure acceptable record keeping in procurement with at least a complete procurement file for each procurement from start to contract finalisation. Maintain all procurement records in a form appropriate for regular auditing and spot checks by supervision missions;
9. Communicate to all implementing entities and service provider their responsibilities and requirements with respect to procurement in keeping with prevailing government practices which are acceptable to IFAD;
10. Oversee the contracting process, including ensuring that Evaluation Committees have people with appropriate expertise;
11. Monitor implementation of contracts: report status and problems to the PC on a monthly basis; and intervene to address problem upon request by the Coordinator;
12. Ensure that goods and services financed have been procured in accordance with the loan agreement and the Zambia Public Procurement Act;
13. Work with the Financial Controller to ensure that tax exemptions for the procurement of goods for the project are secured at the appropriate time;
14. Prepare quarterly reports of progress with implementation of the Procurement Plan, and regularly inform the PC of problems and make proposals to overcome bottlenecks; and
15. Carry out any other activities that are assigned by the PC.

Minimum Qualifications

The candidate should have a Bachelor's degree in procurement and supplies or a full CIPS (Chartered Institute of Purchasing and Supply) diploma and must be a member of the Zambia Institute of Procurement and Supply or equivalent.

Skills and Experience

- At least five years of relevant work experience, preferably including experience in procurement in government/donor projects or large institutions;
- Appreciation of the evolution of the public sector procurement reforms in Zambia;
- Ability to work well in teams and to interact with a wide range of private sector partners and government representatives;
- Knowledge and experience of matching grant processes;
- Knowledge of work planning and reporting;
- Excellent quantitative and analytical skills;
- Computer-literate and well-versed in the use of Excel and Word.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background- procurements	20
2	Membership of the Zambia Chartered Institute of Procurement and Supplies	30
3	Depth and length of project/ public procurement management experience, in particular of donor-funded projects/programmes	30
5	Level of understanding of management of matching grants	10
9	Strong writing, analytical and interpersonal skills	10
	TOTAL	100

D. Planning, Monitoring and Evaluation Officer

Job Title:	Planning, Monitoring and Evaluation Officer
Duration:	Aligned to the Programme duration
Recruitment:	National or international, National preferred
Contract:	Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to:	Programme Coordinator

Purpose

As a member of the PCO, the Planning, Monitoring and Evaluation Officer (PMEO) ensures that the RUFEP has a robust, effective and manageable framework in place for RUFEP planning, monitoring and evaluation. The PME officer also ensures that key implementing partners are capable of, and timely responding to planning, monitoring and evaluation needs with respect to tracking and reporting against targets laid out in financing and partnership agreements, and agreed results-based indicators as per the RUFEP logframe. The PMEO will develop and maintain a strong communication and operational framework, which supports the PCO and programme implementation partners to work jointly in adhering to PME protocols, which leads to enhanced programme implementation and success in achieving the programme development objective. The PMEO also has a mandate to instil quality assurance, integrity, and accountability across PME functions.

Key Responsibilities

1. In close collaboration with the RUFEP PC, develop, refine and roll out a robust and effective PM&E system, which supports operationalisation of the RUFEP with respect to the programme logframe, M&E targets and indicators of success, and which meets the approval of key programme stakeholders;
2. Integrate results-based management principles and approaches into the M&E system and processes to enhance intervention strategies, effective use of people and resources, mechanisms and approaches for results-based decision-making, and transparency and accountability throughout the programme life cycle;
3. Provide necessary training, orientation and technical oversight to ensure implementing partners have appropriate M&E tools and capacities to meet agreed M&E tracking, assessment and reporting requirements;
4. Ensure timely and responsive action where partners are failing to comply with M&E operational and/or reporting requirements, including support to enhance internal systems and coordinated action with PCO to review financing and partnership agreements as required; and
5. Ensure systematic approaches and practical linkages for using M&E data/information to inform and enhance PCO decision-making, and interventions and activities under the Knowledge Management sub-component.

Key Duties

1. Support in the design and implementation of a PM&E system based on key RUFEP programming tools including the logframe, programme design report and operation manuals;
2. Actively support in integrating use of the PM&E system across programme operations, financing and partnership agreements and reporting frameworks within three months of programme start-up;
3. Support in the development and implementation of the Programme baseline data collection and analysis, including the design, testing and refinement of tools, identifying and sourcing credible data on Zambia's financial sector, managing partner input, data consolidation and production of a final baseline report;

4. Lead in the development of tools and approaches that the PCO and implementing partners can apply to enhance and facilitate data/information collection. Intensive support during first six months with on-going support on an as need basis thereafter. This will include among others: guidelines in understanding key RUFEP terminology, including financial terminology, guidance and application of sampling techniques, formats for standardizing and collating data information, templates for reporting, case study development, impact survey tools, and other relevant tools;
5. Support integration of RIMS into the M&E system by: working with stakeholders and implementing partners to ensure understanding and awareness of RIMS; ensuring implementing partners are capable of providing input for first- and second-level indicators (as incorporated into the RUFEP logframe); ensuring performance measurement of mandatory indicators – child malnutrition and household assets;
6. Ensure timely completion of the RIMS reporting form in accordance with IFAD reporting deadlines;
7. Support results-based management approaches across all implementing partners by: calling for appropriate analysis in advance of setting targets and defining realistic expected results; clearly identifying beneficiaries and ensuring planned interventions and activities will meet their interests and needs; regular and systematic monitoring of progress towards results and based on programme indicators; working closely with partners to identify and manage risk in line with available resources; ensuring timely and proficient reporting in results achieved and resources involved;
8. Organise the reporting of all Programme implementing partners and assemble the quarterly and annual programme reports;
9. Develop a diverse range of mechanisms to support participatory PME and oversee their implementation. This could include regular partnership reviews, field-based activities to capture lessons learnt and input and ideas from target groups, as well as organizing forums, which capture Programme challenges, constraints and promote dialogue and identification of locally-owned solutions;
10. Establish robust procedures for performance reporting in accordance with the current AWPB, including support for partners in developing relevant reporting procedures, formats, and quality assurance mechanisms;
11. Lead in the design and implementation of field-based PM&E initiatives such as field missions, evaluation and impact assessments, case study development, etc.;
12. Assist the PC in the planning and implementation of research and development initiatives supported under the RUFEP including support in study design, sampling, qualitative and quantitative data collection and analysis, and reporting;
13. Assist in organizing and implementing learning events for sharing results of M&E exercises conducted by the Program and/or implementing partners;
14. Develop tools and instruments for the evaluation of training activities supported under the RUFEP;
15. Conduct evaluation polls immediately after training sessions and within 3-4 months after the end of a course or session, e.g. by using surveymonkey and similar tools; and
16. Support in contracting and selecting a website development and management partner and assist with online data management and data monitoring.

Minimum Qualifications

- MSc degree in economics or social sciences with a minimum of 10 years' professional experience or BSc degree with minimum of 15 years professional experience;
- Demonstrable capacity to design and manage PME systems, including the design of an appropriate implementation framework, development and testing of M&E tools and approaches, planning and overseeing field-based M&E activities, data management and reporting;
- Proven ability to design and manage diverse research initiatives from inception through to report writing;

- Sound understanding of and experience in supporting rural economic development programming; and
- Proficiency in English.

Skills and Experience

- Strong capabilities in data collection, including instrument testing, field data collection, data entry, random quality control testing, data compilation and analysis;
- Extensive experience in designing and delivering training and capacity building in PME systems operationalisation, including development of training curricula, operational guidelines, and performance management;
- Proven ability and expertise in working with data management software and web-based applications for use in M&E management;
- Experience in establishing and managing robust M&E performance reporting across a diverse range and large volume of partners;
- Ability to plan and conduct structured and supportive field monitoring, including formal partner performance assessments, stakeholder reviews, etc.;
- Proven capacity in the formulation and production of high quality written material, including among others research studies, impact assessment reports, stories from the field, publications for media;
- Demonstrable capacity to work with private sector, civil society, media and government sectors on evaluation and monitoring programs at a national scale, and to develop appropriate communication strategies and be an effective communicator in working with a diverse range of stakeholders;
- Strong people management skills, willing and able to foster cross-sector collaboration and partnerships to enhance program results; and
- Strong communication skills, especially writing skills;

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	Depth and relevance of educational background	10
2	Length, depth and relevance of professional and practical experience in PME	30
3	Extent of proven skills and experience in critical areas of PME system design and management	10
4	Depth and length of management experience	5
5	Ability to understand the position, the programme and his/her role in contributing to successful delivery	10
6	Depth of understanding of rural finance issues	10
7	Depth of understanding of rural and agricultural development issues	5
8	Experience in designing training packages and delivering trainings for adults	5
9	Strong writing, analytical and interpersonal skills	15
10	Experience in qualitative and quantitative research	15
11	Working experience in bi- or multilateral projects	15
	TOTAL	130

E. International Technical Advisor

Job Title:	International Technical Advisor
No. of positions:	1
Duration:	Two years contract
Recruitment:	International
Contract:	Two-year contract, renewable based on need
Reports to:	Programme Coordinator

Purpose

RUFEP is a programme funded by GRZ, IFAD and the participating communities. The Programme's development objective is **to 'increase access to and use of sustainable financial services by poor rural men, women and youth'**. It is estimated that about 190,000 rural persons in Zambia over an eight-year period will, commencing from 2014, benefit from Programme activities. The Programme will make investments under two components: (i) Strategic Partnerships – by strengthening the capacity of policy, apex and financial service providers (FSPs) in the financial sector to address challenges that affect delivery of financial services in the rural areas; (ii) Innovation and Outreach Facility – by supporting institutions to pilot and roll out innovative, demand-driven rural and agricultural products and services.

The Programme will be implemented through a wide range of institutions including; MoF, BOZ, Apex and wholesaling institutions, banks, microfinance institutions, other financial service providers including insurance and leasing companies, value chain developers, farmer organisations and community based financial institutions (groups, cooperatives, associations, clubs, VSLAs, Savings and Internal Lending Communities (SILCs), etc.). The Programme will interact and collaborate with government ministries and departments (MoF, MAL and others), other programmes within Zambia including other IFAD-funded programmes (Smallholder Livestock Investment Project (SLIP), Smallholder Agribusiness Promotion Programme (SAPP), Sustainable Productivity Promotion Programme (S3P)) and those under DfID, FSD, World Bank and USAID, various NGOs and CBOs. The planned Rural Finance Unit (RFU) within the Ministry of Finance will benefit from technical advisory support in order to speed their appreciation of rural finance in general and RUFEP in particular.

To strengthen the capacities of the PCO and the RFU to implement and oversee this Programme, it is proposed to hire an International Technical Advisor for a period of two years, with an option for extension. The location will be Lusaka, Zambia, with at least 25% field travel.

Key Responsibilities and Duties of the International Technical Advisor

Maintaining a good understanding of the technological, operational, institutional and other innovations and good international practices on rural, agricultural and microfinance in the region and globally, the responsibilities include (but are not limited to) the following:

1. Advise the PCO on the logical and effective implementation of activities under the different components and in line with the Rural Finance Policy and Strategy as well as the RNAIP;
2. Identify the capacity building needs of different implementers and advise on how these needs can be addressed to ensure their effectiveness in terms of Programme outcomes;
3. Advise the PCO on how to enhance overall performance under the Programme;
4. Support the PCO in developing appropriate strategies to inform potential partners of available Programme support under all components;
5. Support the review and refinement of the Programme Implementation Manual;

6. Provide technical advice to implementing institutions on how to improve their products, processes, business strategies, research and other proposals in pursuance of their business and programme objectives and targets;
7. Advise the RUFEP on how to enhance synergies with other programmes and review draft Memoranda of Understanding (MOUs) between the Programme and other partners;
8. Advise the Programme to identify the best learning options for study tours and exchange visits;
9. Coach, mentor and train the National Technical Advisor in all aspects of rural finance in general and effective RUFEP implementation in particular;
10. Participate in the development of Terms of Reference (TORs) for all RUFEP-related consultancies and review capacity interventions, including training, and ensure quality of deliverables;
11. Support the Ministry of Finance through technical advice on the establishment and operationalisation of the RFU;
12. Support RFU in the development of rural finance calendar of events;
13. Support the RFU to develop terms of reference for the rural finance sector coordination group, and advise on the composition of members;
14. Advise the RFU on new developments about policy, innovations in rural finance and best practices;
15. Advise the RFU on training opportunities and exposure opportunities;
16. Support the PCO to create collaborations with the private sector;
17. Attend meetings/workshops under the Programme and offer advice/technical opinion with special focus on those that may affect Programme performance; and
18. Deal with any other matter relevant to Programme objectives as may be identified by the PCO and RFU/MoF, including training stakeholders on aspects immediately related to Programme implementation.

Qualifications for the International Technical Advisor

Formal academic qualification in banking, finance, Bank management or financial economics with at least 10 years at a senior level in microfinance or rural banking institution or managing large rural finance projects with multiple partners in a developing country preferably in Africa. He/She should have extensive exposure to policymaking in rural finance, microfinance and financial inclusion. Experience with institutional strengthening and/or innovation in rural financial institutions will be an added advantage.

The person should be mature, team oriented professional with good analytical and good communication – able to make easily understandable technical inputs on rural finance and financial sector. He/She should be able to strike rapport with personnel at different levels, including policy makers, international organizations and other stakeholders. A strong self-motivated individual working with no or minimal supervision and able to travel to the rural areas and meet tight deadlines. The person should have excellent skills in written and spoken English and be fully conversant with computer use.

Minimum Qualifications

- MSc, MBA or MA in economics, banking and finance, social sciences, agricultural economics, or similar discipline;
- At least 10 years of practical experience in banking, leasing, microfinance, agricultural finance, of which at least 5 years in managing a large programme;
- Good understanding of the functions of a financial system, the different types of financial institutions and their services, financial systems development, inclusive finance, value/supply chain finance principles and approaches as well as extensive exposure to innovations;
- Good understanding of institutional strengthening concepts and methods as well as how to operate an innovation/matching grant facility; and
- Excellent knowledge of innovations (in increased financial access and usage) worldwide.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	MA, MBA or MSc	10
2	Length and variety of practical experience in banking, rural finance and innovation	20
3	Depth of familiarity with the respective core knowledge: Component 1: Experience in Financial Inclusion, Institutional Capacity building, Training, Analysis, Report Writing, Workshop Facilitation, Networking Component 2: Experience in managing or working with matching grants, innovation facility with extensive knowledge of community based finance and agent/cell-phone/electronic- based products Component 3: Experience in supply/value chain finance, research and studies on rural finance-related topics, organisation of public debates, workshops and fora, website management	20 20 10
4	Experience with project management, in particular those funded by International Finance Institutions	10
5	Experience in/knowledge of M&E functions	10
	TOTAL	100

F. National Technical Advisor

Job Title:	National Technical Advisor
No. of positions:	1
Duration:	Aligned to the Programme duration
Recruitment:	National
Contract:	Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to:	Programme Coordinator

Purpose

RUFEP is a programme funded by GRZ, IFAD and the participating communities. The Programme's development objective is to **'increase access to and use of sustainable financial services by poor rural men, women and youth'**. It is estimated that about 190,000 rural persons in Zambia over an eight-year period will, commencing from 2014, benefit from Programme activities. The Programme will make investments under two components: (i) Strategic Partnerships – by strengthening the capacity of policy, apex and FSPs in the financial sector to address challenges that affect delivery of financial services in the rural areas; (ii) Innovation and Outreach Facility – by supporting institutions to pilot and roll out innovative, demand-driven rural and agricultural products and services.

The Programme will be implemented through a wide range of institutions including; MoF, BOZ, Apex and wholesaling institutions, banks, microfinance institutions, other financial service providers including insurance and leasing companies, value chain developers, farmer organisations and community based financial institutions (groups, cooperatives, associations, clubs, VSLAs, (SILCs, etc.). The Programme will interact and collaborate with government ministries and departments (MoF, MALand others), other programmes within Zambia including other IFAD-funded programmes SLIP, SAPP, S3P) and those under DfID, FSD, World Bank and USAID, various NGOs and CBOs. The planned RFU within MoF will benefit from technical advisory support in order to speed their appreciation of rural finance in general and RUFEP in particular.

To strengthen the capacities of the PCO and the RFU to implement and oversee this Programme, it is proposed to hire a National Technical Advisor for a period of two years, with an option for extension. The location will be Lusaka, Zambia, with at least 25% field travel.

Key Responsibilities and Duties of the National Technical Advisor

Attain and maintain a good understanding of the technological, operational, institutional and other innovations and good international practices on rural, agricultural and microfinance at national and regional level, and through understudying the International Technical Advisor. The responsibilities include (but are not limited to) the following:

1. Advise the PCO on the logical and effective implementation of activities under the different components, and in line with the Rural Finance Policy and Strategy as well as the RNIP;
2. Identify the capacity building needs of different implementers and advise on how these needs can be addressed to ensure their effectiveness in terms of Programme outcomes;
3. Advise the PCO on how to enhance overall performance under the Programme;
4. Support the PCO in developing appropriate strategies to inform potential partners of available project support under all components;
5. Support the review and refinement of the Programme Implementation Manual;

6. Provide technical advice to implementing institutions on how to improve their products, processes, business strategies, research and other proposals in pursuance of their business and programme objectives and targets;
7. Advise the RUFEP on how to enhance synergies with other programmes and review draft Memoranda of Understanding (MOUs) between the Programme and other partners;
8. In collaboration with the International TA, participate in the development of Terms of Reference (TORs) for all RUFEP-related consultancies and review capacity interventions, including training, and ensure quality of deliverables;
9. Support the Ministry of Finance by providing advice on the establishment and operationalisation of the RFU;
10. In collaboration with the International TA, support the RFU in the development of rural finance calendar of events;
11. Support the RFU to establish a data base of rural sector investors, and subsequently develop a reporting framework for these players;
12. In collaboration with the International TA, support the RFU in planning, organizing and holding sector and knowledge forums;
13. Advise the RFU on new developments about policy, innovations in rural finance and best practices;
14. Advise the RFU on training and exposure opportunities;
15. Support the PCO to create collaborations with the private sector;
16. Assist in the preparation and conduct of supervision, backstopping and evaluation missions;
17. Attend meetings/workshops under the Programme and offer advice/technical opinion with special focus on those that may affect Programme performance; and
18. Deal with any other matter relevant to Programme objectives as may be identified by the PCO and RFU/MoF, including training stakeholders on aspects immediately related to Programme implementation.

Qualifications for the National Technical Advisor

Formal academic qualification in banking, finance, Bank management or financial economics with at least 10 years at a senior level in microfinance or rural banking institution or managing large rural finance projects with multiple partners in a developing country preferably in Zambia and/or other African countries. He/She should have extensive exposure to policymaking in rural finance, microfinance and financial inclusion. Experience with institutional strengthening and/or innovation in rural financial institutions will be an added advantage.

The person should be mature, team oriented professional with good analytical and good communication – able to make easily understandable technical inputs on rural finance and financial sector. He/She should be able to strike a rapport with personnel at different levels, including policy makers, international organizations and other stakeholders. A strong self-motivated individual working with no or minimal supervision and able to travel to the rural areas and meet tight deadlines. The person should have excellent skills in written and spoken English and be fully conversant with computer use.

Minimum Qualifications

- MSc, MBA or MA in economics, banking and finance, social sciences, agricultural economics, or similar discipline;
- At least 10 years of practical experience in banking, leasing, microfinance, agricultural finance, of which at least 5 years are in managing a large programme;
- Good understanding of the functions of a financial system, the different types of financial institutions and their services, financial systems development, inclusive finance, value/supply chain finance principles and approaches as well as extensive exposure to innovations;
- Good understanding of institutional strengthening concepts and methods as well as how to operate an innovation/matching grant facility; and

- Excellent knowledge of innovations (in the financial sector) within the region and other parts of the world.

Selection Criteria and Maximum Scores

No.	Criterion	Maximum score
1	MA, MBA or MSc	10
2	Length and variety of practical experience in banking, rural finance and innovation	20
3	Depth of familiarity with the respective core knowledge: Component 1: Experience in Financial Inclusion, Institutional Capacity building, Training, Analysis, Report Writing, Workshop Facilitation, Networking Component 2: Experience in managing or working with matching grants, innovation facility with extensive knowledge of community based finance and agent/cell-phone/electronic- based products Component 3: Experience in supply/value chain finance, research and studies on rural finance-related topics, organisation of public debates, workshops and fora, website management	20 20 10
4	Experience with project management, in particular those funded by International Finance Institutions	10
5	Experience in/knowledge of M&E functions	10
	TOTAL	100

G. Knowledge Management and Communication Officer

Job Title:	Knowledge Management and Communication Officer
Duration:	Aligned to the Programme duration
Recruitment:	National
Contract:	Two-year contract, with six months' probation period, renewable based on agreed performance targets and deliverables
Reports to:	Programme Coordinator

Purpose

As a member of the PCO, the Knowledge Management (KM) and Communication Officer will lead the development, implementation, evaluation and continued improvement of KM and communication in RUFEP. The officer will report to the RUFEP PC and will work closely with the Programme's PMEO.

RUFEP is a Programme funded by GRZ, IFAD and the participating communities. The Programme's development objective is to **'increase access to and use of sustainable financial services by poor rural men, women and youth'**. It is estimated that about 190,000 rural persons in Zambia over an eight-year period will, commencing from 2014, benefit from Programme activities. The Programme will make investments under two components: (i) Strategic Partnerships – by strengthening the capacity of policy, apex and FSPs in the financial sector to address challenges that affect delivery of financial services in the rural areas; (ii) Innovation and Outreach Facility – by supporting institutions to pilot and roll out innovative, demand-driven rural and agricultural products and services. The Programme will be implemented through a wide range of institutions and, therefore, knowledge management and communication will be quite crucial.

Key Responsibilities and Duties of the Knowledge Management and Communication Officer

1. Conduct the research, including stakeholder analysis and needs assessment, and consultation needed to develop the communication and knowledge management strategy for RUFEP;
2. Undertake a study of the ICT environment in Zambia to assess the appropriateness of using modern ICTs as tools to support communication and KM in Programme activities;
3. Develop the strategy (using consulting services, if needed), building on the findings of the research and on own past experience;
4. Validate the strategy with the Programme Coordination Office and the Rural Finance Unit staff and key RUFEP stakeholders;
5. Develop an annual implementation plan and budget for the strategy;
6. Develop campaigns and information materials to support awareness raising and sensitization of key stakeholders;
7. Develop key messages about the Programme and articulate them in ways appropriate to the various target audiences;
8. Prepare user-friendly information sheets that detail key facts and figures about RUFEP in particular and rural finance in Zambia in general;
9. Interact with MoF communication unit staff and advise RUFEP staff on media engagement;
10. Oversee development and continued updating of a Programme website;
11. Support the development of appropriately targeted communication materials to support extension activities and to communicate new and relevant findings in the rural finance sector;
12. Synthesize reports and write thematic case studies, lessons learned and stories about successes emerging from Programme implementation;
13. Ensure that success stories, lessons and examples of best practice are packaged and shared within the country, with the Government and other development partners in Zambia, throughout the region and at IFAD corporate level;
14. Act as a link between RUFEP and the relevant IFAD's regional knowledge networks;
15. Ensure that systematic learning and knowledge sharing are fully embedded in Programme management and implementation;

16. Advise and support the Programme Coordinator, PM&E Officer and the other RUFEP and RFU staff, as may be required, on how to integrate knowledge management and communication into their daily work;
17. Design and implement a training programme for RUFEP staff, relevant government partners and other RUFEP stakeholders, as required, on KM and communication approaches, methods and tools;
18. Ensure that the Programme communication and KM strategy is continuously monitored and improved; and
19. Undertake any other task as may be assigned by the Programme Coordinator.

Education and Experience

- University degree in communications, journalism or a related discipline. Higher education in a field related to rural finance or rural development would be an advantage;
- Minimum of five years of experience in communications and/or knowledge management in the rural development sector;
- Proven experience in designing and implementing successful communication and knowledge management strategies for sustainable development;
- Experience in or solid understanding of, use of modern information and communication technology (ICT) in development; and
- Experience in the sphere of rural development project management and implementation, in particular a good basic knowledge of project M&E systems, will be a distinct advantage.

Competencies

- Strong written and oral communication skills;
- Strong analytical skills;
- Self-motivated and creative thinker;
- Proven ability to work in teams;
- Strong social skills and open-minded;
- Excellent knowledge of modern communications tools, in particular web-based technology;
- Ability to work independently and with limited supervision.

Selection Criteria and Maximum Scores

NO.	CRITERION	MAXIMUM SCORE
1	Depth and relevance of educational background	10
2	Length, depth and relevance of professional and practical experience in Knowledge Management and Communication	30
3	Extent of proven skills and experience in critical areas of Knowledge Management system design	10
4	Depth and length of management experience	5
5	Ability to understand the position, the Programme and his/her role in contributing to successful delivery	10
6	Depth of understanding of rural finance issues	10
7	Depth of understanding of rural and agricultural development issues	5
8	Experience in designing training packages and delivering trainings for adults	5
9	Strong writing, analytical and interpersonal skills	15
10	Experience in qualitative and quantitative research	15
11	Working experience in bi- or multilateral projects	15
	TOTAL	130

Appendix 6: Planning, M&E and learning and knowledge management

1. **Introduction:** This Appendix provides the main ingredients for further elaboration and fine-tuning of planning, monitoring and evaluation (PM&E), and learning and knowledge management functions in the PIM. The proposed systems, tools and approaches for PM&E, learning and knowledge management (including tools and templates for data collection and reporting) have been inspired by, and build on, those developed under the RFP and other IFAD-supported programmes in Zambia. Proposed modifications and enhancements under the RUFEP are in the context of increasing programming capabilities with respect to result-based management approaches, evidence-based learning, and overall Programme performance management. The following sections present an overview of proposed PM&E functions, including key issues, approaches, PM&E components and their functionality, and explanations on the inter-linkage between PM&E and learning and knowledge management as core to driving Programme success.

A. Programme context for PM&E, learning and knowledge management

2. In conceptualising a framework for PM&E for the proposed Programme, the key issues listed below need to be given due consideration.

- **Flexible Programme design and the strategic role of PM&E:** Whilst the Programme design provides key thrusts for Programme implementation through the design framework of broad interventions, approaches and mechanisms for planning and carrying out Programme activities, not all specific and detailed activities are pre-determined. The Programme design builds in a high degree of flexibility to be responsive to the evolving environment and sector challenges and to effectively identify, promote and leverage opportunities, whilst at the same time promoting efficient use of resources. In specific terms, for Component 1 (Strategic Partnerships), although a few initial partners and interventions have been identified and sub-project proposals elaborated, subsequent sub-projects and partnerships (with the same or new partners) would be formulated during the Programme period, depending on emerging opportunities and the changing environment. The criteria to be used to determine qualification will be specified in the component's operation manual. As for the Innovation and Outreach Facility (Component 2), concrete sub-projects are not prescribed and would depend on opportunities, proposals and capacity of potential applicants. At the same time, scoping for new ideas, innovations and opportunities, and appropriate packaging of support would need to be actively undertaken by the Programme management. Such flexible and responsive management functions underline the strategic role of, and the need for, a reiterative process of planning, implementation, monitoring and evaluation. While such an approach would indeed be applicable for most, if not all, projects, its importance is even more pronounced here, as it is a prerequisite for maintaining the flexible nature of the Programme.
- **Partner-led implementation and implications for PM&E:** Since most of the implementation will rest with implementing partners (Component 1) and IOF grant recipients (Component 2), they would have a crucial role in the operationalisation and output capabilities of the PM&E system. Progress reporting and measuring the level of achievements of results against set indicators will be based on collection and consolidation of data information from various parties. It is therefore important to provide a clear common and user-friendly framework, including tools and guidelines for planning, monitoring and progress reporting. Equally important is to ensure that all parties have clear understanding on PM&E tools and formats, and definitions for and applicability of indicators, as well as a strong understanding of and commitment to quality assurance measures required.
- **Support to the rural finance sector, attribution issue and use of industry indicators:** Because the Programme intends to intervene at all levels of the financial sector (macro, meso, and micro-levels) and to develop capacities across a broad range of financial sector partners, it

needs to be recognised that attribution of the Programme's interventions to positive (or negative) outcomes and impacts becomes more challenging. For example, it would be impossible to measure precisely, or attribute, the *incremental* number of rural clients of a financial institution based on the nature of Programme support (e.g. staff training, support for product development). Inevitably, there would need to be a number of proxy indicators, as well as qualitative analysis, which would provide an indication of contribution of the Programme to outcomes and towards achieving the Programme development objective. Unless the level and type of the Programme support can justify specific data collection and reporting requirements, the main approach should be to use standard industry indicators that are regularly and readily available with or without the Programme, such as those indicators, banks would normally report to BOZ and as contained in the BOZ reports. The use of the FinScope surveys (and the proposed Programme financial contribution to the exercise) would also contribute to performance measurement in this context.

- **Learning and knowledge management:** In the RUFEP context, learning and knowledge management would go beyond learning from reflecting on Programme experience and achievements, and reporting on actual performance against targets based on information generated from the Programme PM&E system (though these functions would be present). PM&E and learning and knowledge management would be intrinsically linked. For example, successful models and scaling-up in village savings and loan schemes or in the use of technologies could form the basis for a learning event to share learning and ideas for further replication. There are also opportunities for supporting specific studies and research activities in search of possible innovative approaches, technology usage and partnerships, which could overcome constraints to access in the Zambian context. The need for such exercises may become apparent through PM&E activities. However, ultimate needs and refinement of research topics would be based on the expressed demand of relevant industry players. For this to happen, Programme management would need to maintain regular dialogue with industry stakeholders and proactively stimulate their interests in pursuing innovations under RUFEP support. Programme management would also continuously monitor the developments, interesting cases and good practices in other countries, and be ready to package and disseminate relevant information in a timely and appropriate way. The Programme expressly builds in funding and suggested approaches for shared learning and knowledge dissemination, which the Programme management can draw on to share Programme results, and promote industry strengthening. At the same time learning events would be a mechanism for gathering industry feedback to inform Programme decision-making.
- The purpose of the PM&E system is to: (i) satisfy the Programme management information requirements; (ii) promote active involvement of the Programme partners and beneficiaries; (iii) focus more on Programme effects and impact as well as on oversight aspects; (iv) adopt a modular approach to data generation, processing and reporting; (v) prioritize quality and organizational aspects of the information generated; and (vi) use information generated for Programme management decision-making, including support needs, priorities, leverage opportunities, etc.
- The Programme PM&E system will be divided over three key components, namely: (i) output performance monitoring; (ii) outcome performance monitoring; and (iii) impact assessment. Each will draw on different sets of performance indicators and to some extent on different data collection methodologies. This system ensures compliance with the three levels of results to be measured using the IFAD Results and Impact Management System (RIMS).
- First-level RIMS results (outputs) will be included in an annual RIMS form that the PCO will complete and send to IFAD every year. The deadlines are communicated by IFAD annually and are normally scheduled for the end of March. In PY2 or PY3, when second-level results (outcomes) will be available, these should be reported to IFAD together with the first-level RIMS results. Third-level RIMS results (impact) should be reported to IFAD two times during the Programme implementation period; once at midterm and once at Programme completion.

Although the RIMS reporting timing to IFAD will be around March every year, output indicators should be reported annually based on the previous year end.

B. Overall approaches to PM&E

3. The purpose of the PM&E system is to: (i) satisfy the Programme management information requirements; (ii) promote active involvement of the Programme partners and beneficiaries; (iii) focus more on Programme effects and impact as well as on oversight aspects; (iv) adopt a modular approach to data generation, processing and reporting; (v) prioritize quality and organizational aspects of the information generated, and (vi) use information generated for Programme management decision-making, including support needs, priorities, leverage opportunities, etc.

4. The Programme PM&E system will be divided over three key components, namely: (i) output performance monitoring; (ii) outcome performance monitoring; and (iii) impact assessment. Each will draw on different sets of performance indicators and to some extent on different data collection methodologies. This system ensures compliance with the three levels of results to be measured using the IFAD Results and Impact Management System (RIMS).

5. First-level RIMS results (outputs) will be included in an annual RIMS form that the PCO will complete and send to IFAD every year. The deadlines are communicated by IFAD annually and are normally scheduled for the end of March. In PY2 or PY3, when second-level results (outcomes) will be available, these should be reported to IFAD together with the first-level RIMS results. Third-level RIMS results (impact) should be reported to IFAD two times during the Programme implementation period; once at midterm and once at Programme completion. Although the RIMS reporting timing to IFAD will be around March every year, output indicators should be reported annually based on the previous year end.

6. The system for monitoring the Programme outputs is based on a set of performance indicators associated with the Programme's components and sub-components and will mainly concentrate on the immediate financial and physical outputs. The achievement of outputs will be monitored on an annual basis. Therefore, all output indicators should be calculated taking into consideration the calendar year. Annual output targets should be provided in the Results Framework in the AWPBs.

7. Programme outcomes are considered the short- and medium-term effects of the outputs produced as a result of the Programme. The outcomes are not, unlike the outputs, the direct responsibility of the PCO, but an effect of the implemented activities and outputs of the Programme. The purpose of monitoring Programme outcomes is to inform the Programme management of the results of Programme initiatives, identify the most successful implementation experiences as well as the setbacks that have hindered the achievement of expected objectives, and for the Programme management to adjust intervention strategies and approaches accordingly.

8. Impacts are the changes that are logically expected to occur once the outcomes have been realized. In this respect, the Programme development objective is usually only achieved by the end of project implementation. The programmatic goal is set within the macro-level context (i.e. aligned with national development goals) within which the Programme fits, and describes the long-term impact that the Programme is expected to contribute towards (but not in itself achieve).

C. Annual Work Planning and Budgeting

9. The AWPBs are prepared for each Programme year, and form the basis for Programme implementation. The purpose of the AWPB is to provide the PCO with a timetable for implementation of a set of carefully scheduled activities, together with their respective budgets and input requirements for the coming year. AWPBs are formulated taking into account the previous AWPB, the Programme design report, documented supervisory Mission recommendations and legal covenants, such as contracts and partnership agreements with service providers and participating financial institutions. The AWPB is a tool for underlining, specifying and consolidating implementation priorities, and for projecting inputs and budget needed, for pre-planning procurement requirements, and most importantly establishing staff work plans both within the PCO, and across implementing agencies. Financial allocations within the AWPB constitute the basis for release of funds by different donors, and for financial control. When well

linked to the Design Report and the Programme Logical Framework, the AWPB can be a powerful tool for assessing Programme efficiency and effectiveness in achieving the Programme outcomes. Moreover, a quality AWPB facilitates the preparation of progress reports and the work of the supervision Missions. An AWPB is an essential covenant in the financing agreement; failure to prepare it on a timely basis may lead to delay in or suspension of fund disbursements by IFAD and other donors.

10. In line with the RUFEP Programme approach, the AWPBs will have a mixture of detailed budget for pre-defined interventions and activities as well as indicative budget allocations based on good projections for anticipated numbers of partnerships and/or grant recipients. The first RUFEP AWPB should be prepared, together with the procurement plan, for the first 18 months of the Programme, and be presented for discussion during the start-up workshop, as well as for submission to IFAD for no objection. Subsequent AWPBs should be prepared, discussed and approved no later than sixty days before the end of the financial year. Experience shows that this review process requires a minimum of six months. If required, the PCO, through the PSC, may propose an adjustment in the AWPB during a programme year, which will become effective upon clearance by IFAD. To allow meaningful participation of the Programme stakeholders, the process of AWPB preparation should, as a first step, involve all potential and actual partners, and from there evolve into a consolidated work plan and budget.

11. Table 1 provides a summary overview of the budgeting process for the proposed Programme components, as well as where budget should be well defined and where indicative budgetary allocations will be the norm.

Table 1: Budgeting process

Programme Component	Well-defined activities and budget	Requirements for indicative allocations
Component 1: Strategic Partnerships	<ul style="list-style-type: none"> Detailed activity plan and budget for each partner institution (if sub-projects are on-going, verification and adjustments may be required for unimplemented activities) Costing and budget for any component operations 	An indicative allocation needed for potential partnership arrangements that may be elaborated during the coming year
Component 2: Innovation and Outreach Facility	<ul style="list-style-type: none"> Planned disbursements for approved grants and required budget* Other costs related to IOF operations (e.g. external technical reviews, proposal evaluations) 	An indicative allocation needed for grants yet to be approved (and disbursed), as well as a 'reserve' for funding ad hoc/spot applications
Component 3: Knowledge Management and Programme Implementation	Plans and budgets for: <ul style="list-style-type: none"> Focused research or thematic studies being proposed National seminars, workshops Other KM activities (e.g. website management, documentation of case studies, publications) PCO operations 	

* Detailed activities and budget breakdown for each grant, with the level of detail in each grant agreement, may not all be elaborated in AWPBs, although the Programme management would have such information. For the purpose of the global Programme AWPBs to be submitted to the Programme Steering Committee for approval and to IFAD for a no-objection, less detail would be expected. An acceptable level of detail would include: a list of the grants approved under each window, total costs, grant amounts and estimated amounts for disbursement within the respective year.

12. Table 2 provides an indicative activity schedule, areas of responsibility and timing for AWPB preparation.

Table 2:AWPB preparation and schedule

Activity	Schedule	Responsibility
Component 1: Preparation of work plan and budgets with the selected partner institutions for the following year (or validation and adjustments in case of on-going sub-projects) and projections of additional partnerships to be approved during the course of the following year	June - August	PCO with the partner institutions
Component 2: Assessment of progress under on-going IOF-financed sub-projects, estimated budget requirements for the following year; projection of additional requirements for sub-projects yet to be approved		PCO
Preparation of work plan and budgets for Component 3 for the following year		PCO (in consultation with stakeholders as appropriate)
Preparation of consolidated AWPB	Late August	PCO
Review of the draft AWPB by the RUFEP technical advisory group	Mid-September	
Adjustments and finalisation	Mid-September	PCO
Submission of the AWPB to the PSC for review and approval	Mid-September	PCO / RFU
Submission of draft AWPB to IFAD	End October	PCO / RFU
NO or Comments from IFAD	Mid-November	IFAD
Finalisation of AWPB and its eventual distribution to all relevant partner/participating institutions	Mid-December	PCO

13. Proposals for partnership arrangements under Component 1 will be prepared and approved in accordance with established procedures as contained in the respective operating manual. Specific activity plans and budgets will be developed for each partnership and for planned sub-project(s) there under. As for grants and sub-projects to be financed under the IOF, a clearly established vetting and approval process will be elaborated in the IOF operational manual. Consequently, as long as the budgets under these separate components are within the indicative allocation made in the AWPB, an approval by the PSC and a no-objection by IFAD on the revised AWPB should not be required.

D. PM&E as a support for quality Programme management and decision-making

14. The onus for capturing information and ensuring appropriate systems for the same will rest with the RUFEP partners, service providers and IOF grant recipients. Progress reporting and the level of achievements of results against set indicators will be based on the consolidation of data and information from these various parties. It is therefore important to provide a clear common framework for M&E planning and implementation, and reporting, to ensure that all parties have clear understanding of their role, as well as the tools, approaches and required formats for contributing to M&E requirements and quality assurance.

15. As part of the planning process, the partner institutions and the IOF grant recipients will be required to set clear targets for key common indicators and to report on them. AWPBs would need to provide aggregated targets for key common indicators, which would be derived from the logical framework.

16. The basic approach to defining progress indicators for reporting on achievements and outcomes by financial service providers, which should be agreed upon and included in performance-based agreements, should be that of being as selective as possible and focusing them on those that are monitored and maintained by the respective actors themselves. Unless the level and type of Programme support can justify specific data collection and reporting requirements, the main approach

should be to use standard industry indicators that are regularly and readily available with or without the Programme, such as those indicators banks would normally report to the Bank of Zambia and be contained in the BoZ reports.

17. The **PM&E system** will also generate quantitative verifiable information on Programme performance in a form that will assist the GRZ, PCO and partner financial institutions and other bodies interacting with the PCO to plan and finance their activities, compare actual progress against planned targets and allow timely remedial action to correct problems encountered during implementation. Information generated will contribute to facilitating workflows and contribute to the quality of the decision-making by providing the means to target in on implementation problems, which Programme management can then solve through effective communication and co-ordination with the implementing agencies.

18. **Reporting:** The information collection and reporting routine is also a critical component in supporting the Programme management decision-making and PM&E functionality. Information on the Programme performance will be captured regularly from different sources and at different levels. Information then has to be processed, consolidated, analyzed, and classified before being presented in customized/standardized formats for use in reporting. The Programme will be required to deliver quality and timely reports including: (i) monitoring reports; (ii) progress reports; (iii) financial reports; (iv) audit reports; and (v) completion reports. This set of reports constitutes the minimum reporting requirements. The different reports of the M&E will be categorized by period covered, partners producing them as well as by the Programme objective hierarchy and the indicator level.

19. The Programme's external monitoring will comprise: (i) six-monthly IFAD supervisions; (ii) *ad hoc* thematic/diagnostic studies; (iii) yearly audit reports; (iv) Mid-Term Review reports; and (v) a Programme Completion Evaluation/Impact Assessment (PCE). All relevant M&E data will be disaggregated by gender and age bracket where feasible.

E. Planning, monitoring and evaluation and results-based management

20. **Baseline.** The RUFEP will be able to capture baseline data from select key sources during the first 12-18 months, depending on timelines and availability of final reports.

21. As a first step, participating financial institutions (with the involvement of the key industry representative organisations such as AMIZ and BAZ) will be required to prepare and submit key indicators on their current outreach in terms of number of clients, portfolio outstanding, geographical coverage, range of products, portfolio performance, etc. Where possible, partners will provide disaggregated data for gender and youth.

22. The FinMark Trust is also expected to repeat its Finscope Survey during 2013. The results should be expected late 2013 or early 2014. Given the relevance of the survey results for monitoring financial access and inclusion, it is recommended to build some of the RUFEP Programme impact indicators into the FinScope survey and explore opportunity to co-finance the implementation of this and consecutive surveys. Where possible, FinMark Trust could be requested to add pertinent questions to enable the Programme to fully utilise the results as baseline and later for impact monitoring purposes.

23. In addition, the RUFEP will collaborate with the MIX Market, which has received a grant from IFAD, to integrate the use of mapping tools to visually show the level of financial services, combined with economic infrastructure (spatial information and over time). The MIX mapping exercise would not only provide useful baseline information; it would also be a useful tool for policy dialogue and outreach planning. An update of the Mapping exercise would also be a powerful tool for measuring RUFEP effectiveness with respect to contributing to financial access and inclusion.

24. Lastly, baseline data (and on-going data monitoring) will be captured through specific surveys to capture information not readily available. For example, one such survey will be to collect data on the cost of borrowing in rural areas (baseline, mid-term and at Programme completion). The need for other surveys will be defined at the Programme start and when the need arises.

25. **M&E instruments.** One of the key responsibilities of the PM&E Officer will be to establish a robust PM&E system, including a set of interlinked PM&E instruments, which will effectively capture

data in pre-designed templates and provide information in customized tables, which are then used for analysis, decision-making and reporting on Programme (and partner) performance. One of the core instruments to be built into the PM&E operational system is the Programme output database. Its functionality is described in the next section.

F. Programme Output Database

26. The Programme Output Database (POD) will serve as a real time tracking instrument of the implementation of the Programme activities and associated outputs and outcome together with other related attributes. The AWPB data will be captured in two stages: (i) immediately after approval of the AWPB; and (ii) regularly during implementation of the AWPB. The AWPB should be translated into monthly and quarterly action plans to be implemented and monitored at partner and national level.

27. The process of data collection involves completion of standardized templates with information on the input delivery, implementation of specific activities, and achievement of outputs in accordance with a set of pre-selected indicators. These templates will be used to track the implementation progress of the proposed activities as per the AWPB in terms of starting date, percentage of completion and completion date. Outputs and outcomes of each activity will be tracked in terms of quantities planned; quantities achieved and compared to AWPB targets, PDO milestones and benchmarks where applicable. Qualitative outcome indicators shall be scored using IFAD scoring criteria (as included in the PIM). Under the same database, qualitative information connected with the activities, components and sub-components will also be captured. Inputs will be captured in terms of their delivery date and place and recorded into the Programme inventory database.

28. To keep the database simple and focused, the reporting system of the database will consist initially of a set of tables, which respond to the requirements of key reports, namely, the half-annual and annual progress reports, and IFAD supervision and follow up reports. If other tables are needed for monitoring and reporting purposes (which require advanced data input and analysis), the database will allow for crude data to be transferred to other specialized software for further analysis.

29. The design of the Programme output database will be fully harmonized with other applications/databases of the Programme, especially with the financial and procurement application, in order to be able to monitor and assess Programme efficiency.

G. Financial and Procurement Application

30. The purpose of financial and procurement application is to track Programme financial transactions using a set of financial indicators for each of the Programme components, associated subcomponents, activities, outputs and outcomes. Financial monitoring will capture data on these indicators on a monthly basis comparing achievements against AWPB and appraisal targets. This data will be tabulated and reported monthly, quarterly, semi-annually, and annually.

31. Programme financial reporting will include procurements of inputs and services, measuring the cumulative expenditures (both individually and consolidated) of IFAD and GRZ, strategic partners, and grant recipients against the financing plans proposed by these various parties in the Final Programme Design Document and the AWPB.

32. Monthly financial statements will include expenditure by component and disbursement category for the month, and expenditure to date compared with the monthly and annual budgets. The templates for monthly financial statements will be prepared during the design and set-up of the financial and procurement operating systems for the RUFEP at the start of the Programme. Detailed half-annual financial progress reports will be prepared at all levels of Programme management and be consolidated by the Financial Controller.

33. The consolidated financial progress reports consist of a set of templates, which will report on, among other things:

- a) Disbursement category and expenditures;
- b) Financier contribution;

- c) Component expenditures;
- d) Detailed component financial analysis.

34. Monitoring of procurement activities is a critical part of the financial and procurement system, and serves to ensure that the procurement plan is completed satisfactorily in line with IFAD procurement guidelines and in accordance with the Final Design Report and AWPB targets. Procurement of goods and services is the first step in input delivery and implementation of activities. Input delivery on the other hand is the entry point of linking the financial system and the output/activity monitoring. Procurement monitoring is also necessary for setting up the Programme assets database (inventory system).

H. M&E indicators

35. The M&E list of indicators that will be employed to monitor Programme implementation and assess its impact, including RIMS indicators are described in the Logical Framework (see main report). Indicators have been selected so as to measure as close as possible qualitative changes that are intended over time, which are relatively easy to obtain without special surveys (except where this is not possible), and at relatively low costs. Furthermore, given that the M&E system will have to rely on the data submitted by partner financial institutions, only those data have been selected (and built for example in the targets prepared for sub-projects of partners under component 1) which can under normal circumstances be traced and captured by the management information system of the financial institutions. Unless this will be the case, data generation and reporting will be very difficult or rejected by financial institutions.

I. RIMS indicators

36. The M&E system for IFAD-financed Programmes is required to include among its M&E indicators a list of RIMS indicators at the three different levels (compiled from the standard list provided by IFAD). Inclusion of RIMS indicators in the Programme M&E system will facilitate the preparation of RIMS tables, which should be completed and sent to IFAD at the end of each year of the Programme implementation. A list of the proposed first and second level indicators will be agreed upon at the start of Programme implementation.

37. In line with the IFAD RIMS's third level results, two mandatory anchor indicators are identified for assessing the long-term nationwide impact of the Programme: child malnutrition and household asset ownership. Data sources for these two main indicators will include: (i) the CSO; and (ii) the Programme M&E database. The Programme baseline, Medium Term Review (MTR) and Completion Impact Survey will be outsourced to an independent consultancy firm and quantify the Programme's results and impact.

38. **Measuring Results and Impact:** The Programme's Logical Framework will form the basis for the overall results-based M&E system, which will build on the existing systems in place in other IFAD-supported Programmes. Initial M&E indicators are provided in the Programme's logical framework. Final indicators will be developed in the course of the preparation and findings of the Programme's start-up, targeting, monitoring and evaluation workshop.

39. Performance monitoring will concentrate on the financial and physical outputs and the outcomes of Programme activities. Performance indicators will be monitored annually for outcomes and quarterly for outputs and will include IFAD RIMS 1st and 2nd level indicators. RIMS two mandatory anchor indicators (household asset ownership and child malnutrition) will be used for assessing the impact of the Programme at the baseline, mid-term and completion levels.

J. Mid-Term Review

40. A comprehensive MTR will be externally conducted midway through the Programme implementation. Apart from the standard objectives and orientations, the RUFEP-MTR will assess whether a continuation of the Programme implementation would make sense under the then prevailing framework conditions.

41. The review will comprise: (i) physical and financial progress as measured against AWPBs; (ii) performance and financial management of contracted implementing partners; and (iii) an

assessment of the efficacy of interventions. In addition, it is expected that the review would assess institutional and policy changes arising from Programme activities, with regard to: the contribution of rural finance and improved infrastructure to rural poverty reduction and growth; the impact on the socio-economic status of poor rural women and men; and environmental impact. Review findings on implementation progress and institutional and policy change would inform decision-making, as appropriate, on adjustments to the content, financing and targeting of the Programme's components.

42. During the final year of the Programme implementation, as part of the preparation of the IFAD-required Programme Completion Report/Impact Assessment (PCR/IA), the M&E data collected over the Programme implementation period will be used as part of a thorough assessment of Programme achievements, in terms particularly of changes in the access to financial services, usage of the financial services and in the livelihoods of beneficiaries that relate to the implemented Programme activities, and the sharing of lessons learnt and development experience. The Programme completion process will include stakeholder workshop(s) to give the stakeholders the opportunity to: (i) evaluate the performance of the Programme; (ii) to promote accountability; and (iii) to identify factors and responsibilities to increase the likelihood of sustainability, together with key success factors and shortcomings.

43. The PCO PM&E Officer will, under the overall guidance and supervision of the PC be responsible for running the internal M&E and organizing all relevant activities. Draft TORs of the PMEO are presented in Appendix 5.

Appendix 7: Financial management and disbursement arrangements

1. The purpose of this appendix is to provide proposals for financial management and mitigation actions needed to remedy weaknesses identified in the financial and internal control systems under which RUFEP will be operating. The appendix includes the overall fiduciary risk assessment, the strength and weaknesses of IFMIS through which RUFEP will be processing payments. Given the fiduciary risk assessment, the appendix provides proposals for financial management staffing and the proposed funds flow arrangements. It also provides relevant issues that need to be included in the financing agreement and financial management inputs that should be included in the overall RUFEP supervision plan.

A. Overall Fiduciary Risk Assessment

2. IFAD requires a Financial Management Assessment (FMA) as part of project design. The primary objective of the assessment is to provide assurance that the implementing agency will have sufficiently strong financial management systems and controls in place to properly manage, control and report project finances in order to ensure that project funds are used economically and efficiently for the purpose intended. FMA involves:

- a) Assessing inherent risk involving the country level financial management risk;
- b) Project specific assessment. In the case of RUFEP the PCO is not yet established but similar arrangements as under RFP's PMU and the Public Expenditure Management and Financial Accountability (PEMFA) project funded by the World Bank that is already rolled on IFMIS have provided the basis to complete the assessment. The overall RUFEP fiduciary risk assessment at design is assessed as medium and with the proposed mitigations, the final risk assessment is low.

Table 1: Fiduciary risk assessment

	Initial risk assessment	Proposed mitigation	Final risk assessment
Inherent Risk			
1. TI Index	-	-	M
Control Risks			
2. Organization and Staffing	L	RUFEP will have two finance staff (Financial Controller and Assistant Accountant) paid for from Programme Funds	L
3. Budgeting	M (Budget Control under RFP was not up to individual budget activity level, mostly because the Programme did not have a FM software)	If at the start of RUFEP IFMIS is not yet available to projects hosted outside the Ministries, RUFEP should be allowed to procure a stand-alone FM software and set up the coding of RUFEP in the system in the recommended formats as part of the start-up activities. This data should be transferred to IFMIS once it is operationalised at the Project level.	L
4. Funds Flow and Disbursement arrangements	H (With RUFEP coming with many partnerships and grant recipients, the existing RFP systems will not cope)	Strict administration of partnerships and grant agreements with strict financial management arrangements to be detailed in the PIM	M
5. Internal Controls	H (With more	Specific IOF manual will include agreed	M

	Initial risk assessment	Proposed mitigation	Final risk assessment
	partnerships and grants, the existing RFP systems will not cope)	internal controls in dealing with grant recipients	
6. Accounting systems, Policies and Procedures	H (RFP has been using excel after waiting in vain for IFMS installations)	Profiling of RUFEP in IFMIS or, in its absence (if at the start of RUFEP, IFMIS is not yet available to projects hosted outside MoF, RUFEP should be allowed to procure a stand-alone FM software and set up the coding of RUFEP in the system in the recommended formats as part of the Start Up activities), the setting up of RUFEP FM system, will be a critical start up activity that is a disbursement condition	M
7. Reporting and Monitoring	H (RFP could not report up to individual budget item level) and there were inconsistencies in financial data in various reports.	Code the RUFEP in IFMIS as part of the start-up activities. If IFMIS is not fully functional at start-up, an off-the-shelf accounting package should be used and the data transferred once IFMIS becomes operational	M
8. Internal Audit	M (Currently all RFP expenses are subject to Min. Fin. Internal Audit review before payment. However, structured internal audit only done occasionally)	Ministry Internal Auditors will be required to include RUFEP in their annual internal audit plans. RUFEP AWPB will include a budget line for periodic Internal Audit Functions	L
9. External Audit	M (Under RFP audits were done by a private auditor and was largely satisfactory but with some significant audit queries)	Training of the RUFEP finance team in financial reporting under IPSAS cash basis.	L
RUFEP fiduciary risk at design stage	M		L

H/M/L = High, Medium and Low risk as per the Guideline Note on undertaking Financial Management Assessment at design.

3. **Inherent Risk:** Zambia's annual Corruption Perceptions Index as published by Transparency International still falls in the medium risk category and has shown some improvement having moved from 32nd position in 2011 to 37th position in 2012 (out of 100 at the lowest risk level).

B. Strength and weaknesses of the GRZ Integrated Financial Management System (IFMIS)

4. The use of IFMIS is increasingly becoming a requirement; the GRZ is rolling out IFMIS to its ministries, departments and agencies, including projects such as the proposed RUFEP. However, currently, this applies only to projects located in the same building as their parent Ministries. Additional IT infrastructure is required to link the projects located outside the government ministries. This is the reason why RFP never got to be rolled-on IFMIS; this resulted in the use of excel spreadsheets with many limitations to process its financials. There is therefore the risk that the envisaged RUFEP roll-on may also be delayed. In order to undertake an assessment of the strength and weakness of the IFMIS, the RUFEP design mission based itself on the PEMFA project (it should be noted that, unlike RFP or the proposed RUFEP, PEMFA is hosted within the Ministry of Finance premises and that is why it is already linked to IFMIS) funded by the World Bank that has already been rolled on IFMIS. The assessment of IFMIS shows that it has strong control features as illustrated in the following payment processing cycle:

- The requisitioning user department is required to generate the requisition form, directly from IFMIS. If there is no budget for the activity, the requisition form will simply not be generated and the process would not be able to proceed any further. IFMIS is thus very strong as a budget and commitment control tool. The accounting officer (in the case of projects, the PC) would have to also sign off, electronically, on this form before the procurement officer can be notified, also under IFMS computer prompts, to take the necessary procurement actions.
 - Once the requisition form is successfully uploaded into IFMSI, with all its contractual details, and cleared by the PC, the Procurement Officer is notified electronically on his/her workstation computer through IFMIS auto prompts. If the Procurement Officer is comfortable, from a procurement perspective, s/he signs off by raising a local purchase order tool; this also has to be signed off by the project coordinator before proceeding to the next level. Therefore, the system is strong, if well used it ensures that procurement processes have been complied with; otherwise the procurement officer would not be able to sign off at this point and the system would abort.
 - The next step in the payment processing cycle is for the user department to electronically sign off receipt of goods or acknowledgement of service delivery as the technical user department (technical contract manager).
 - It is after the designated technical contract manager has signed off, confirming receipt of goods/services that, the invoice payment prompt will appear on the workstation computer of the finance staff. On receiving this prompt, the incoming invoices from suppliers/services providers will be posted in IFMIS. The invoice parameters as posted by the finance staff will have to be auto corroborated to the information already within IFMIS before the payment processing can move to the next level.
 - At project level, the final payment procedure involves the financial controller and the PC, who have independent passwords, having to sign off thereby prompting the printing of pre-printed cheques. In Zambia, the system is not yet advanced to allow transactional data to be sent to the commercial banks electronically; physical cheques have to be printed and delivered. This, however, is likely to change during the implementation period for RUFEP.
 - Through the IFMIS Business Intelligence facility (this is the facility where project tailored financial reports can be designed), budgets can be controlled.
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5. From the above payment cycle, IFMIS has strong features for segregation of duties and budget control. For a fraudulent payment to successfully go through, it would require a connivance of very many officers. The following gaps and weaknesses have been noted and will need to be addressed under RUFEP.

- IFMIS is not yet operationally functional for projects which are not physically located in the same premises as their parent Ministries. This is because the required IT infrastructure to link the projects with the Ministries is not yet in place. IFMIS may therefore not be immediately available to RUFEP unless it is physically located within the Ministry of Finance Premises.
 - Cash advances are expensed in IFMIS at the point of withdrawing the funds and there is no in-built mechanism for IFMS to track advances that remain unaccounted for or unretired. Thus, IFMIS will perform very poorly in monitoring advances to partner institutions under component 1 and Grant recipients under component 2.
 - Role profiling is very crucial and if not well done, processing a single transaction can take, sometimes, up to weeks. Role profiling means determining, within IFMIS, who does what up to what access rights. The Permanent Secretary is usually the overall accounting officer; but through role profiling the payment approval function can be delegated to a programme coordinator who would have to be assigned access rights under password controls. If this is not done, it would mean that each payment would have to be signed off by the Permanent Secretary and this can be a source of significant disbursement delays. Similarly, the RUFEP financial controller, the procurement officer, the technical support team would have to have their roles in a payment cycle well profiled within IFMIS and assigned respective passwords and access right levels. This role profiling will be a key start-up activity to be documented in form of a report to be shared with IFAD.
 - For project accounting purposes, if the coding using the IFMIS business intelligence facility is not carefully done to reflect the structure of the project components, and expenditure categories, project financial reporting will require a lot of off IFMS accounting work. The general impression is that, even if it is very well coded, there will still be a lot of off IFMIS accounting work in dealing with partner institutions and grants under the IOF facility. For example, it will not be possible to generate withdrawal applications to IFAD directly from IFMIS.
 - Finance officers under RFP also performed some procurement functions because there was no dedicated
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procurement specialist in the PMU. This is not a recommended practice as there should be segregation of duties between the two functions. Under RUFEP these functions have been separated.

C. RUFEP Financial Management Organisation Structure

6. Given the above assessment which represents a moderate fiduciary risk, RUFEP design team proposes the following arrangements. A separate Programme Coordination Office will be set up for RUFEP with a fully-fledged finance section staffed by one Financial Controller and one Assistant Accountant competitively recruited and paid for from the Programme funds. These will be recruited on an initial two year contract basis. This includes the review and approval by IFAD of the: (i) recruitment process; (ii) terms of reference of the officers and; (iii) post review of the selected officers prior to the issuing of the contracts. The recruited officers will have to be trained in the IFAD-specific financial management requirements.

D. Proposed funds flow arrangements

7. The Programme will open a Designated Account in USD at the Bank of Zambia and a Programme account in Zambian Kwacha in a commercial Bank acceptable to the Fund. The proposed RUFEP envisions a number of partnerships and this comes with financial management implications. Programme implementation under components 1 and 2 will largely rest with selected partner institutions and grant recipients.

8. **Financial Management for partnerships under Component 1.** The institutions with which RUFEP will enter into partnerships are each expected to make their own significant contribution in addition to the RUFEP contribution. Given the size of the funding, the following financial management arrangement will be detailed in the PIM and included in the partnership agreements:

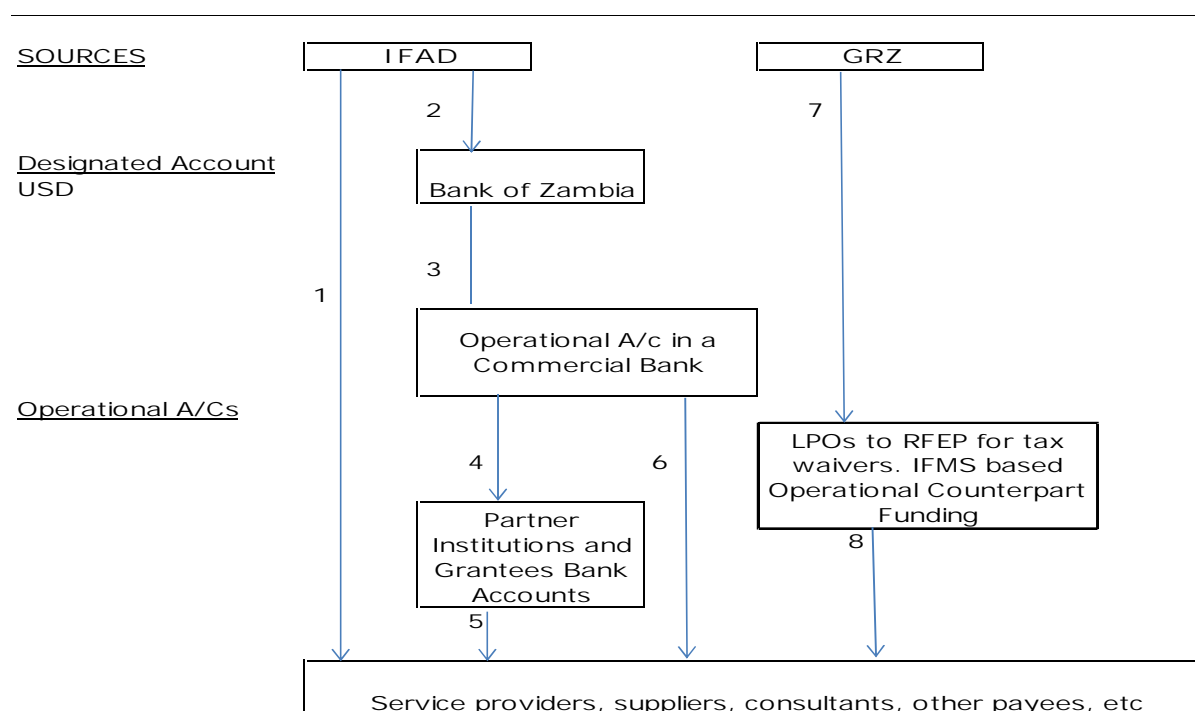
-
- Each partner institution will open a specific Bank account for the RUFEP funds.
 - To access RUFEP funds, evidence by way of Bank statements will be provided by partner institutions that it has put its pro rata contribution on the Bank account in advance.
 - Each partner institution will provide counterpart staff to participate in the RUFEP AWPB events to ensure their respective parts of the budgets have been well captured. That is, the AWPB preparation process will be participatory.
 - Budget overruns at partner institution level will not be allowed beyond 5% without prior written concurrence from the PCO. Thus, the partner institution will be required to make use of agreed budget control tools.
 - The partner institution will receive an initial float that will be managed on a replenishment basis on submission of certified SOEs subject to the SOE in the letter to the borrower as amended from time to time by the Fund depending on the assessment of the fiduciary risk. Initially this is proposed as USD 20,000. The same replenishment system that RUFEP will use to access IFAD loan funding will cascade to the partner institution.
 - The PCO will, in addition to the SOEs, require financial reports to be able to capture the transactions of the partner institution in the RUFEP consolidated financials.
 - Partner institutions will be required to grant RUFEP's internal and external auditors full audit cooperation. This will include collaboration with the IFAD supervision Missions.
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9. **Financial Management under the Innovation and Outreach Facility Component:** This is a matching grant facility as practiced under the RFP. Matching grants by their nature create unique financial management challenges. Under RUFEP, these matching grants will be under a number of windows with varying level of grantee contributions. Regarding this facility, the following financial management arrangements are suggested and to be detailed in the PIM.

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- Matching grants pose unique accounting issues:
 - How to deal with the counterpart contribution;
 - Under cash basis, how to account for matching grants in the accounting system;
 - The need for specialised data base for matching grants;
 - The tax elements in grants;
 - The nature of accountability on the side of the grantees.
 - While the specialised IOF manual will be developed as part of the PIM, it is important to explain in the appendix the accounting approach:
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- A Beneficiary contribution: Grantees will not have to deposit their respective contribution into their own Bank accounts in the same tranches as they expect to receive from RUFEP. Instead, they will keep analytical records regarding their own contributions and justify these where needed. Transfers of grants will be in tranches, based on achievements of certain milestones by the grantees as defined in the grant agreements. For bigger grants, it will also be allowed for RUFEP to pay the suppliers directly after the grantee has confirmed that they have paid the supplier their share of the matching grant. This is likely to be the case where external international TA is recruited under the grant agreement.
- Matching grants will be expensed at the point of disbursements and will be included in the withdrawal application at that point. If the RUFEP was to wait for the grantees to submit their returns, it would quickly deplete its initial deposit. A grant, once given, is a grant expensed; the rest will be left for monitoring and evaluation/follow up by the Technical Officers and the Monitoring and Evaluation Officer.
- Since grants will be expensed at the point of disbursement, neither IFMIS nor the proposed simple off the shelf accounting package system will be able to provide ledgers for each grant thus necessitating a separate grant data base. The objective is to ensure that grantees are not paid beyond the grant ceiling and the agreed milestone bases payment is adhered to.
- Taxes and Grants: It should be emphasised that the tax element in grants does not cause ineligibility for IFAD financing purposes as in other transactions. It will be taken that the tax element is paid from the portion contributed by the beneficiary.
- Nature of Accountability from Grantee: The matching grant represents an arrangement of equal partnership between RUFEP and the grantee and the accountability will be output-based as opposed to a series of paper work.

Figure 1: The RUFEP flow of funds chart



10. The funds flow chart above depicts the use of the standard International Financing Institution (IFI) disbursement methods including: (i) direct payment method for bigger payments over USD 50,000; (ii) use of designated account; and (iii) reimbursement if GRZ has pre-financed any transactions. As RUFEP has very few physical goods to procure, the use of the special commitment procedure is unlikely.

E. Relevant issues that need to be included in the financing agreement

11. From a financial management perspective, the following points should be considered at loan negotiation for possible inclusion in the financing agreement:

- Provision for counterpart funding;
- Allow PCO to have simple off-the-shelf Financial Management package until IFMIS is available for project use;
- Profiling of RUFEP in IFMS is a critical start-up activity that is considered a disbursement condition (if at the start of RUFEP, IFMIS is not yet available to projects hosted outside MoF, RUFEP should be allowed to procure a stand-alone FM software and set up the coding of RUFEP in the system in the recommended formats as part of the start-up activities);
- The Project Bank accounts: Designated Account, Operational Account ZMW- IFAD;
- In the Letter to the Borrower, SOE ceiling to be set at low levels initially given the high inherent risk. USD 20,000 is suggested as the initial SOE threshold and to be reviewed after supervision Mission assessment of fiduciary risk;
- Matching grant facilities, under the IOF, will follow own processes and governance structures for vetting and approving grant applications/proposals according to clearly laid down criteria and procedures. The procedures will be detailed in the operational manual.

F. Financial management inputs for RUFEP supervision plans

12. RUFEP Supervision Missions should be able to undertake financial management reviews around the electronic IFMIS system. In particular the supervision missions should be able to perform walk through tests to confirm the integrity of system based controls. In particular, check on IFMIS segregation of duties in the processing of payments such as the need for IOF managers to sign off with the system acknowledgement of service delivery. Supervision Mission teams should include a financial management specialist who has the ability to review electronic payment platforms such as IFMIS, as opposed to the conventional paper-based payment processes.

13. RUFEP Supervisions Missions should also check that the RUFEP coding within IFMIS is reflective of RUFEP components, sub-components and key activities. Otherwise, budget control within IFMIS would be baseless from a project accounting perspective.

14. Supervision Missions should review cash advances to PCO staff and other government staff as this has in the past been found as a risky area. The recommendations made herein assume that IFMIS will be available for RUFEP's use at the Programme start. In the vent that the IFMIS software is not available, a good off-the-shelf Financial Management software should be purchased and the coding of RUFEP undertaken in the system in the recommended formats. The supervision Missions would then need to properly review the conventional paper-based payment processes to ensure compliance.

Appendix 8: Procurement

A. Country Framework Assessment

1. The Government of Zambia passed a Public Procurement Act in 2008, which transformed the Zambia National Tender Board into the ZPPA. The act provided the ZPPA with an oversight and regulatory role, while “procurement entities” (i.e. parastatals, line ministries, etc.) were to be empowered to be fully responsible for the complete procurement cycle. There was a prolonged transition period during which ZPPA retained its review and approval role while procurement regulations and standard solicitation documents were to be finalised. Such transition period was to end originally at the end of December 2010, which was extended to December 2012. The Public Procurement Regulations 2011 were finalised with delays after the originally prescribed such transition period (December 2010). But, even after this (issuance of the Public Procurement Regulations), the ZPPA was still exercising its old functions of reviewing and approving procurement requests from various ministries and entities. Until mid-2012, there were requirements for each procurement case with a contract amount over ZMW 50,000 (about USD 10,000) to be reviewed and approved by the ZPPA; this was a major cause of delays in procurement processes. Fortunately, this practice has been stopped, and the ZPPA retains only its statutory oversight role.

2. According to the Procurement Regulations 2011, for procurement with estimated contract amount below ZMW 500,000 (approximately USD 100,000), “**simplified bidding process**” is supposed to be used, which involves the preparation of “**a written request for quotations using the appropriate standard document issued by the Authority [ZPPA]**”. The process of preparing such standard document (or standard bidding document, for any of the procurement methods provided in the Act/Regulations) has also been taking long time, although it is believed to have been close to being concluded late 2012. The threshold of USD 100,000 for “simplified bidding process” is considered to be rather high. Such process, based on requests for quotations from a short list of at least three bidders, has a risk of being easily manipulated. Furthermore, the threshold for “open international bidding” for goods is ZMW 5 million (about USD 1 million) according to the Public Procurement Regulations 2011, which is much higher than the threshold indicated in the IFAD Procurement Handbook (about USD 200,000).

3. Apart from the delays in implementing the reform and lack of clarity on what should be guiding public procurement, other major issues are that:

- a) There are gaps in the regulations (e.g. no provision for an appeal mechanism);
- b) Some provisions in the Act are not considered to be in line with internationally accepted practices for public procurement (e.g. limiting the participation in open national bidding processes to citizens and local bidders, and requiring a foreign bidder to partner with citizens or local suppliers to participate in international bidding processes);
- c) Some provisions are not considered to be practical (e.g. requirement for all contracts to be subject to a review by the Office of Attorney General); and
- d) There is limited capacity in the ZPPA for the entity to be transformed and play an oversight and regulatory role.

4. As for the World Bank’s Country Procurement Assessment Report for Zambia, the last available one dates back to 2002. An assessment of GRZ procurement procedures was conducted by OECD/DAC in 2007, and was based on the 1994 Zambia National Tenders Board Act. It followed the methodology developed for the Assessment of National procurement Systems (version 4). Its main conclusions were that while the system is well documented with clear responsibilities and procedures, some major weaknesses remained, particularly regarding the fact that:

- a) Open competitive bidding is not stated as the default procurement method;
- b) Many tenders are in fact restricted or not adequately advertised;

- c) The complaints system works poorly and the appeals mechanism is inadequate;
- d) Records management is very poor;
- e) Risk assessment and management is not undertaken; and
- f) Lastly, the AfDB carried out an assessment of national competitive bidding procedures in 2011.

5. The findings are in line with other assessments and IFAD's observations. The AfDB report considered the Zambia legal and regulatory framework essentially acceptable for national competitive bidding under projects financed by the Bank, while point out some areas of gaps and deviations from the Bank's policies or international accepted best practices. Some the areas noted included exclusion of foreign bidders under NCB; the mandatory joint ventures between foreign and local bidders; lack of independent complaints and appeals review mechanisms, amongst others.

6. There is a Zambia Institute of Purchase and Supplies (ZIPS) established in 2003 under the ZIPS Act. According to this Act, only the members registered with the ZIPS should be performing procurement functions.

B. Assessment of Ministry of Finance Procurement Capacity

7. The MoF has PSU as other ministries. Not being a line ministry, the volume of procurement handled under the Ministry is expected to be much less compared to other ministries, such as MAL, Works, Health, and Education. The MoF's PSU is currently staffed by: one Chief Purchase and Supplies Officer, two Purchase and Supplies Officers, and two Purchase and Supplies Assistants (one of which is deployed to the stores section). There is a plan to expand the unit to ten staff. According to the ZIPS Act, all procurement staff need to be those registered with the ZIPS. RUFEP will provide capacity building to the PSU; this will largely be in form of provision of selected equipment and targeted skills enhancement, particularly in the area of project procurement.

8. The assessment of the MoF indicates that for most criteria in the IFAD assessment tool, the rating is 2 or 3. ZPPA has released a set of Standard Bidding Documents. The World Bank has since reviewed the Standard Bidding Document for National Competitive Bidding and proposed improvements.

C. RFP's experience and lessons

9. The proposed Programme will be under the MoF. The procurement experience under the on-going RFP, which was also placed under the MoF, has shown that there is room for improvement. The most recurrent issue is that of the time it takes for procurement processes, although it has also partly been due to the demanding requirement for ZPPA prior review and this has now been stopped (or lessened).

10. The RFP PMU did not have a procurement officer. The programme depended on the Ministry's PSU. Under the RFP, the main procurements have been those for services (e.g. service providers for promoting CBFIs, technical assistance/consultancy services for the DBZ, the NSCB, and for developing the Rural Finance Policy and Strategy, etc.). Procurement of goods and civil works has been few with comparatively small amounts involved. In relation to the procurement under the RFP, the following observations are made:

- a) Contracts with the service providers for promoting CBFIs included the purchase of some equipment (e.g. vehicle, motorbikes, etc.). This was indeed in accordance with the Loan Agreement and the Appraisal Report, but the issue was that the service providers undertook the procurement of these equipment independently without their procurement capacity assessment and without sufficient check if the due process is followed or not. Most of the procurement in the benefit of the NSCB (mainly, equipment and small civil works for new branches) was carried out by the NSCB that would pre-finance and send the bills to the RFP PMU for reimbursement.

- b) Another case was the Procurement of the Rubikon IT system which malfunctioned, affecting not only the expected branch expansion but also the related services. A review pointed to weaknesses in the procurement processes. A more rigorous process (including due diligence) should have been followed given the technical nature of the items/services.
- c) Given the above (RFP) experiences, it is proposed that under RUFEP an assessment be carried out on the procurement capacities of the recipient institutions to ensure that the procurements conducted are in line with IFAD procurement guidelines. Alternatively, PCO should take responsibility for procurement of capital items and/or high value technical goods/services on behalf of the service providers. In such cases, the cost for operations and maintenance would be included in the contracts.
- d) There may be some instances where the procurement process of consultancy services could have been more technically sound and robust if there had been more inputs by technical specialists, for example, in preparing the terms of reference and in technical evaluation processes. There are aspects in such procurement that would not be dealt with effectively by those who are not familiar with the subject matter. Depending on the nature of the technical requirements, an external specialist may have to be called in to assist in the process.
- e) In order to minimise the time required for each procurement cycle, under RUFEP, key technical areas that are likely to require specialists could be identified and pre-qualification (short-listing) of eligible and qualified consultants each area could be done in advance. This way, the Programme may avoid having to advertise for expression of interests for each case. The use of retainer or framework contracts could also be considered.
- f) Normally, matching grant facilities would have own processes and governance structures for vetting and approving grant applications/proposals according to clearly laid down criteria and procedures. However, under the RFP, the IOF was operated as if this was the same as normal public procurement. The grant applicants/recipients were treated as “bidders” and standard consultancy contract formats were used (which would normally take the form of “grant agreements”). Indeed, this was contrary to the initial intention (e.g. Appraisal Report, Loan Agreement). Furthermore, the process of evaluating grant applications/proposals was not rigorous, with minimum involvement of technical experts. Under the new Programme, the IOF should have its own governance structure and processes as per its operational manual.
- g) Although the RFP depended on the Ministry’s PSU, there were no or little consultations on its procurement plans between the parties. The procurement plans were drawn up by the PMU and were not shared with the Ministry. The RFP’s procurement plans reviewed had indicated some shortcomings and weak understanding on how the procurement plans should be developed, including lack of consideration for appropriate packaging.

D. Procurement under the Proposed Programme

11. It is expected that procurement under the proposed Programme would mainly be for services. The provision of matching grants under the IOF (Component 2) would not be considered as public procurement as it was the case under the RFP. Procurement requirements by sub-grant recipients financed by the IOF facility should be covered in sub-grant agreements. In most cases, procurement should be undertaken by grant recipients themselves following good commercial practices but these can receive support from the PCO.

12. Under Component 1 (Strategic Partnerships), it should be recognised that it is partnership arrangements between the government and those partners that have strategic roles in the rural financial sector development on their own merits. Thus, it is not that the Programme would need to competitively look for service providers which could provide services required. As such, these would not be considered nor governed by public procurement rules and procedures. Selection of the qualifying partners will be made according to clearly laid down criteria and procedures that will be specified in the operational manual. The relationships with the strategic partners would be governed by partnership agreements with responsibilities and obligations with each party and clear performance milestones.

13. According to the IFAD's revised General Conditions for Agricultural Development Financing (April 2009), the IFAD Procurement Guidelines and the Letter to the Borrower, procurement of goods, works and services financed by IFAD may be carried out in accordance with the provisions of the Borrower/Recipient's procurement regulations, to the extent such are consistent with the IFAD Procurement Guidelines. Each Procurement Plan is to identify procedures which must be implemented by the Borrower/Recipient in order to ensure consistency with the IFAD Procurement Guidelines.

14. In view of the current situation, in principle, for procurement requirements financed by IFAD, the following modifications to the national system would be recommended to be in line with the IFAD Procurement Guidelines:

- a) Provisions regarding the restriction to citizens or local bidders and the requirement for foreign bidders to partner with citizens or local bidders will not be applied.
- b) Threshold for international competitive bidding for goods to follow the provision in the IFAD Procurement Handbook, USD 200,000. For civil works, the GRZ Procurement Regulations provides USD 10 million as a threshold for open international bidding and the IFAD Procurement Handbook provides USD 1 million. It is not very likely for IFAD-financed projects in Zambia to finance civil works over USD 1 million, but should this happen; the threshold indicated in the IFAD Procurement Handbook should be used.
- c) Thresholds for "open national selection" (over ZMW 300,000, or USD 60,000) and "open international selection" (over ZMW 500,000, or USD 100,000) for consulting services will not be applied. The choice of national or international media for requesting expression of interest for consulting services, when open competition is pursued, will be determined on a case by case basis. In case of "open international selection", the channels of United Nations Business Development (UNDB), used for UN agencies to advertise international bids, and "dg market", a widely circulated magazine with IFI bid adverts, should be used.

15. Procurement/selection methods for each procurement requirement should be provided in the procurement plan to be submitted to IFAD for no-objections. Other modifications and recommendations with regard to various stages of procurement process are discussed below:

- a) Procurement prior thresholds, at least at the initial stage, are suggested as follows: USD 50,000 for goods or civil works, and USD 25,000 for consulting services.
- b) These thresholds will be confirmed in the Letter to the Borrower. If the procurement process is within this threshold, the project can carry out the process and report; IFAD will conduct ex-post verification based on a sample. IFAD no-objections would be required on TORs for all consulting services irrespective of this threshold.

Appendix 9: Programme cost and financing

I. OVERVIEW

1. This appendix describes the assumptions underlying the Programme costs and financing plan and presents the basis and details of the estimated Programme costs.

A. Main Assumptions for Cost Estimation

2. **Inflation** is expected to remain in single digits in 2014- 2021 as output of the staple food, maize, exceeds domestic demand, helping to curb food prices, which account for 53% of the consumer price index. A relatively stable exchange rate is also expected to check inflation by limiting growth in the price of imports. It is forecast that inflation will remain within the range of 7 % in 2013 to 2014 as fiscal policy is tightened and growth in electricity prices slows (following large tariff increases towards cost-recovery levels in recent years). It is expected to remain close to that level in 2014-21 as tighter fiscal policy counters the impact of a gradual increase in global oil prices. For costing purpose an average inflation rate of 7% has been factored in.

3. **Exchange Rate:** According to the EIU, the new rebased kwacha's value will be supported by strong growth in copper production in 2014-16, large foreign investment inflows, high public external borrowing and relatively low domestic inflation. This will be offset by robust import demand, a stronger US dollar and a winding-down of the boom in global copper prices. Overall, it is expected that the kwacha will depreciate by an annual average of 4%, from an estimated ZMW 5.15:USD 1 in 2012 to ZMW 7.33:USD 1 in 2021. The predominance of copper in the export basket will continue to expose the currency to external shocks. The exchange rate used for the costs of this programme is ZMW 5.300 per USD 1.

4. **Taxes and Duties:** The imported items for the Programme attract import and excise duties of varying proportions. A 4 WD Pick Up vehicle will attract VAT at 16%, customs tax at 15% and excise tax at 10%; while the rates for a station wagon would even be higher at VAT 16%, customs 25% and excise tax at 30%. Generally, Value-Added Tax of 16% is levied on most goods, works and some services. The Government will either finance or waive the cost of all taxes on goods works and services procured under the Programme. These are therefore covered as Government contributions in the cost tables.

B. Programme Costs

5. **Total Programme Costs:** The total Programme costs, including physical and price contingencies, are estimated at ZMW 149 million (USD 26.3 million). The total baseline costs are USD 25 million, while price and physical contingencies account for USD 1.25 million.

6. The major investments are in Component 1: Strategic Partnerships constituting 42% (USD 10.4 million) of base costs; Component 2 (IOF) takes up 36% (USD 9.050 million) of base costs. The Knowledge Management and Programme Implementation Component take up 22% of base costs (USD 5.577 million). The table below gives the breakdown in ZMW and USD terms.

Table 1: Summary of RUFEP costs

Zambia

Rural Finance Expansion Programme

Components Project Cost Summary

	(ZMW 000)					(USD '000)				
				%	% Total				%	% Total
				Foreign	Base				Foreign	Base
	Local	Foreign	Total	Exchange	Costs	Local	Foreign	Total	Exchange	Costs
1. Strategic Partnerships	50 886	4 412	55 298	8	42	9 601	832	10 434	8	42
2. Innovation and Outreach Facility	47 965	-	47 965	-	36	9 050	-	9 050	-	36
3. Knowledge Management and Programme Implementation	24 342	5 218	29 560	18	22	4 593	984	5 577	18	22
Total BASELINE COSTS	123 193	9 630	132 823	7	100	23 244	1 817	25 061	7	100
Physical Contingencies	3 263	108	3 371	3	3	616	20	636	3	3
Price Contingencies	10 888	1 883	12 770	15	10	526	92	618	15	2
Total PROJECT COSTS	137 344	11 621	148 965	8	112	24 386	1 929	26 315	7	105

C. Financing Plan

7. IFAD will finance 32% of the Programme costs (USD 8.4 million) through a loan to GRZ on highly concessionary terms. The Spanish Trust Fund will contribute USD 12 million or 45.6% of total costs also on highly concessionary terms. The GRZ will contribute 9.9% of Programme Costs (USD 2.6 million) which is the estimate of the tax element in RUFEP transactions. The grantees under component 2 will make compulsory contributions varying from 10% to 40% on the respective innovation windows. Window 1 and three will make at least 10% contribution while window 2 participating institutions will make contributions of at least 40%. In addition, the participating institutions under Strategic Partnerships components will be required to co-finance programme funded activities. The total participating institutions contribution has been estimated as USD 3.3 million (12.5% of total costs). Of the total costs of USD 26.3 million, Knowledge Management and Programme management takes up USD 6.2 million including contingencies this component will take up to 23% of total costs.

Table 2: Financing Plan by Components

Zambia

Rural Finance Expansion Programme

Components by Financiers

(USD '000)

	GRZ		IFAD		Spanish Trust Fund		Participating Institutions		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
1. Strategic Partnerships	1 743	15.7	4 216	38.0	3 989	36.0	1 138	10.3	11 087	42.1	881	8 462	1 743
2. Innovation and Outreach Facility	-	-	4 200	46.4	2 690	29.7	2 160	23.9	9 050	34.4	-	9 050	-
3. Knowledge Management and Programme Implementation	869	14.1	-	-	5 309	85.9	-	-	6 178	23.5	1 048	4 261	869
Total PROJECT COSTS	2 613	9.9	8 416	32.0	11 988	45.6	3 298	12.5	26 315	100.0	1 929	21 773	2 613

II. SUMMARY COST TABLES

Table 3: Expenditure Accounts by Financiers (USD)

Zambia

Rural Finance Expansion Programme

Expenditure Accounts by Financiers

(USD '000)

	GRZ		IFAD		Spanish Trust Fund		Participating Institutions		Total		For. Exch.	Local (Excl. Taxes)	Duties & Taxes
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%			
I. Investment Costs													
A. Vehicles, Equipments and Materials	328	38.1	297	34.5	236	27.4	-	-	861	3.3	371	162	328
B. Training, Workshops, Studies	658	15.8	2 724	65.4	696	16.7	85	2.1	4 164	15.8	495	3 011	658
C. Technical Assistance													
Local TA	362	15.3	482	20.4	1 309	55.5	206	8.7	2 359	9.0	657	1 340	362
International TA	745	15.9	-	-	3 097	66.0	847	18.1	4 690	17.8	406	3 538	745
Subtotal Technical Assistance	1 108	15.7	482	6.8	4 407	62.5	1 053	14.9	7 049	26.8	1 063	4 879	1 108
D. Innovation and Outreach Grants	-	-	4 200	46.4	2 690	29.7	2 160	23.9	9 050	34.4	-	9 050	-
Total Investment Costs	2 094	9.9	7 703	36.5	8 029	38.0	3 298	15.6	21 124	80.3	1 929	17 101	2 094
II. Recurrent Costs													
A. Recurrent Costs	519	10.0	713	13.7	3 959	76.3	-	-	5 191	19.7	-	4 672	519
Total Recurrent Costs	519	10.0	713	13.7	3 959	76.3	-	-	5 191	19.7	-	4 672	519
Total PROJECT COSTS	2 613	9.9	8 416	32.0	11 988	45.6	3 298	12.5	26 315	100.0	1 929	21 773	2 613

Table 4: Cost Summary by Expenditure Accounts

Zambia

Rural Finance Expansion Programme

Expenditure Accounts Project Cost Summary

Rural Finance Expansion Programme				(ZMW 000)		(USD '000)				
Expenditure Accounts	Project Cost Summary			%	% Total				%	% Total
				Foreign	Base				Foreign	Base
	Local	Foreign	Total	Exchange	Costs	Local	Foreign	Total	Exchange	Costs
I. Investment Costs										
A. Vehicles, Equipments and Materials	2 469	1 869	4 338	43	3	466	353	819	43	3
B. Training, Workshops, Studies	18 464	2 463	20 927	12	16	3 484	465	3 949	12	16
C. Technical Assistance										
Local TA	8 448	3 220	11 668	28	9	1 594	608	2 202	28	9
International TA	21 666	2 078	23 744	9	18	4 088	392	4 480	9	18
Subtotal Technical Assistance	30 114	5 298	35 412	15	27	5 682	1 000	6 682	15	27
D. Innovation and Outreach Grants	47 965	-	47 965	-	36	9 050	-	9 050	-	36
Total Investment Costs	99 013	9 630	108 643	9	82	18 682	1 817	20 499	9	82
II. Recurrent Costs										
A. Recurrent Costs	24 180	-	24 180	-	18	4 562	-	4 562	-	18
Total Recurrent Costs	24 180	-	24 180	-	18	4 562	-	4 562	-	18
Total BASELINE COSTS	123 193	9 630	132 823	7	100	23 244	1 817	25 061	7	100
Physical Contingencies	3 263	108	3 371	3	3	616	20	636	3	3
Price Contingencies	10 888	1 883	12 770	15	10	526	92	618	15	2
Total PROJECT COSTS	137 344	11 621	148 965	8	112	24 386	1 929	26 315	7	105

Table 5: Expenditure Accounts by Components- Base Costs

Zambia

Rural Finance Expansion Programme

Expenditure Accounts by Components - Base Costs

(USD '000)

	Strategic Partnerships	Innovation and Outreach Facility	Knowledge Management and Programme Implementation.	Total	Physical Contingencies	
					%	Amount
I. Investment Costs						
A. Vehicles, Equipments and Materials	412	-	407	819	1.2	10
B. Training, Workshops, Studies	3 949	-	-	3 949	4.0	159
C. Technical Assistance						
Local TA	780	-	1 422	2 202	1.8	39
International TA	4 000	-	480	4 480	4.5	200
Subtotal Technical Assistance	4 780	-	1 902	6 682	3.6	239
D. Innovation and Outreach Grants	-	9 050	-	9 050	-	-
Total Investment Costs	9 140	9 050	2 309	20 499	2.0	408
II. Recurrent Costs						
A. Recurrent Costs	1 294	-	3 269	4 562	5.0	228
Total Recurrent Costs	1 294	-	3 269	4 562	5.0	228
Total BASELINE COSTS	10 434	9 050	5 577	25 061	2.5	636
Physical Contingencies	473	-	163	636	-	-
Price Contingencies						
Inflation						
Local	568	-	1 407	1 975	-	-
Foreign	28	-	64	92	-	-
Subtotal Inflation	597	-	1 471	2 067	-	-
Devaluation	-416	-	-1 033	-1 449	-	-
Subtotal Price Contingencies	181	-	437	618	3.1	19
Total PROJECT COSTS	11 087	9 050	6 178	26 315	2.5	655
Taxes	1 743	-	869	2 613	3.4	90
Foreign Exchange	881	-	1 048	1 929	1.1	20

Table 6: Expenditure Accounts by Components- includes Contingencies

Zambia

Rural Finance Expansion Programme

Expenditure Accounts by Components - Totals Including Contingencies

(USD '000)

I. Investment Costs

A. Vehicles, Equipments and Materials

B. Training, Workshops, Studies

C. Technical Assistance

Local TA

International TA

Subtotal Technical Assistance

D. Innovation and Outreach Grants

Total Investment Costs

II. Recurrent Costs

A. Recurrent Costs

Total Recurrent Costs

Total PROJECT COSTS

Taxes

Foreign Exchange

	Strategic Partnerships	Innovation and Outreach Facility	Knowledge Management and Programme Implementation.	Total
A. Vehicles, Equipments and Materials	432	-	429	861
B. Training, Workshops, Studies	4 164	-	-	4 164
C. Technical Assistance				
Local TA	819	-	1 540	2 359
International TA	4 200	-	490	4 690
Subtotal Technical Assistance	5 019	-	2 030	7 049
D. Innovation and Outreach Grants	-	9 050	-	9 050
Total Investment Costs	9 615	9 050	2 459	21 124
II. Recurrent Costs				
A. Recurrent Costs	1 472	-	3 719	5 191
Total Recurrent Costs	1 472	-	3 719	5 191
Total PROJECT COSTS	11 087	9 050	6 178	26 315
Taxes	1 743	-	869	2 613
Foreign Exchange	881	-	1 048	1 929

Table 7: Disbursements by Semester

Zambia

Rural Finance Expansion Programme

Disbursements by Semesters and Government Cash Flow
(USD '000)

	Amount	Amount	Amount	Total	Costs	Cash Flow	Cash Flow
1	685	743	288	1 716	1 954	-238	-238
2	768	1 204	288	2 260	2 559	-299	-537
3	700	1 158	288	2 147	2 370	-224	-761
4	616	688	288	1 592	1 753	-162	-923
5	680	1 079	288	2 047	2 251	-205	-1 128
6	594	599	288	1 480	1 622	-142	-1 270
7	730	1 091	288	2 109	2 325	-216	-1 486
8	642	601	288	1 531	1 683	-152	-1 637
9	715	1 154	288	2 157	2 442	-285	-1 922
10	625	655	288	1 568	1 787	-219	-2 141
11	668	834	203	1 705	1 842	-137	-2 278
12	576	325	203	1 104	1 174	-70	-2 348
13	209	807	6	1 022	1 133	-111	-2 460
14	115	288	6	409	452	-43	-2 503
15	95	645	-	740	830	-90	-2 592
16	-	115	-	115	136	-20	-2 613
Total	8 416	11 988	3 298	23 702	26 315	-2 613	-2 613

III. DETAILED COST TABLES

Table 8: Strategic Partnerships

Zambia
Rural Finance Expansion Programme
Table 1.1. Strategic Partnerships

Detailed Costs

(USD)

(USD)

	Unit	Quantities									Unit Cost	Totals Including Contingencies ('000)									
		2014	2015	2016	2017	2018	2019	2020	2021	Total		2014	2015	2016	2017	2018	2019	2020	2021	Total	
I. Investment Costs																					
A. Macro																					
1. Dialogue Meetings and Workshops /a	per year	3	3	3	3	3	3	3	-	21	20.000	63	63	63	63	63	63	63	-	441	
2. Financial/Consumer Education /b	per year	5	5	5	5	5	5	5	-	35	12.000	63	63	63	63	63	63	63	-	441	
3. Local Training	per year	1	1	1	1	1	1	1	-	7	25.000	26	26	26	26	26	26	26	-	184	
4. International training , conferences & Exposure	per year	1	1	1	1	1	-	-	-	5	50.000	53	53	53	53	53	-	-	-	263	
5. Market Studies	per year	-	1	-	1	-	1	-	-	3	50.000	-	53	-	53	-	53	-	-	158	
6. Equipment and Materials /c	per year	1	-	-	1	-	-	-	-	2	35.000	37	-	-	37	-	-	-	-	74	
Subtotal Macro												242	257	205	294	205	205	152	-	1 559	
B. Meso																					
1. Local Training & Workshops	per year	1	1	1	1	1	1	-	-	6	35.000	37	37	37	37	37	37	-	-	221	
2. Local exposure visits	per year	1	1	1	1	1	1	-	-	6	25.000	26	26	26	26	26	26	-	-	158	
3. International training , conferences & Exposure	per year	1	1	1	1	1	-	-	-	5	40.000	42	42	42	42	42	-	-	-	210	
4. Market Studies	per year	1	1	1	1	1	1	-	-	6	50.000	53	53	53	53	53	53	-	-	315	
5. Equipment & Materials	lumpsum	4	-	-	1	-	-	-	-	5	25.000	105	-	-	26	-	-	-	-	131	
Subtotal Meso												263	158	158	184	158	116	-	-	1 034	
C. Micro																					
1. Local Training/Institutional Assessment	per year	1	1	1	1	1	1	1	-	7	50.000	53	53	53	53	53	53	53	-	368	
2. CBFI Training/local exposure	per year	1	1	1	1	1	1	1	-	7	80.000	84	84	84	84	84	84	84	-	588	
Subtotal Micro												137	137	137	137	137	137	137	-	956	
D. Sector Facilitation Service /d																					
1. Local	per year	1	1	1	1	1	1	-	-	6	130.000	137	137	137	137	137	137	-	-	819	
2. International	per year	1	1	1	1	1	-	-	-	5	800.000	840	840	840	840	840	-	-	-	4 200	
Subtotal Sector Facilitation Service												977	977	977	977	977	137	-	-	5 019	
Total												1 617	1 528	1 475	1 591	1 475	593	289	-	8 568	

\a Assuming 3 meetings per year at a cost of US\$20000

\b Assuming 5 pple per year @ \$ 12000. The pple include MoF and BoZ

\c Office equipment for BOZ and AMIZ

\d Capacity development on agric and rural finance for banks

Table 9: Rural Finance Unit

Zambia
Rural Finance Expansion Programme
Table 1.2. Rural Finance Unit
Detailed Costs
(USD)

		Quantities										Totals Including Contingencies ('000)										
		Unit	2014	2015	2016	2017	2018	2019	2020	2021	Total	Unit Cost	2014	2015	2016	2017	2018	2019	2020	2021	Total	
I. Investment Costs																						
A. Programme Coordination Unit																						
Four-wheel vehicles	No	2	-	-	-	2	-	-	-	4	50.000	101	-	-	-	109	-	-	-	210		
Computers software, printer	No	2	-	-	-	2	-	-	-	4	2.000	4	-	-	-	4	-	-	-	8		
Multifunction printer-copier-scanner	No	1	-	-	-	-	-	-	-	1	5.000	5	-	-	-	-	-	-	-	5		
Office Furniture /a	No	2	-	-	-	-	-	-	-	2	1.500	3	-	-	-	-	-	-	-	3		
Projector	No	1	-	-	-	-	-	-	-	1	500	1	-	-	-	-	-	-	-	1		
Digital camera with GPS	no	1	-	-	-	-	-	-	-	1	500	1	-	-	-	-	-	-	-	1		
Subtotal Programme Coordination Unit												114	-	-	-	114	-	-	-	-	228	
B. Monitoring and evaluation, knowledge management & partnership development																						
1. M&E and Knowledge Management																						
Est. nt of M&E and KM	person/month	1	-	-	-	-	-	-	-	1	30.000	30	-	-	-	-	-	-	-	30		
Focused studies (TA)	Study	1	1	2	2	1	1	-	-	8	30.000	30	31	63	64	33	33	-	-	255		
Annual conference on rural finance	No	-	1	1	1	1	1	1	1	7	15.000	-	15	16	16	16	17	17	17	115		
Documentations & publication KM products	Lumpsum	1	1	1	1	1	1	1	1	8	3.000	3	3	3	3	3	3	3	3	26		
Website design (for Prog or RFU)	Lumpsum	1	-	-	-	-	-	-	-	1	10.000	10	-	-	-	-	-	-	-	10		
Website maintenance	Lumpsum	1	1	1	1	1	1	1	1	8	5.000	5	5	5	5	5	6	6	6	43		
Participation in pertinent reg/intl w ksp	Lumpsum	5	5	5	5	5	5	5	5	40	3.000	15	15	16	16	16	17	17	17	130		
National seminars, workshops	session	-	2	2	2	2	2	-	-	10	5.000	-	10	11	11	11	11	-	-	54		
PCO staff capacity building	lumpsum	6	6	6	6	6	6	6	6	48	3.000	18	19	19	19	20	20	20	21	156		
Subtotal M&E and Knowledge Management												112	99	132	135	105	107	64	65	819		
Total Investment Costs												226	99	132	135	219	107	64	65	1 047		
II. Recurrent Costs																						
A. Salary & Allowances																						
Knowledge Management & Comm.	Pers/year	1	1	1	1	1	1	1	1	8	56.604	60	61	62	64	65	66	68	69	515		
Chief Economist	Per Month	12	12	12	12	12	12	12	12	96	1.500	19	19	20	20	21	21	21	22	164		
Principal Economist	Per Month	12	12	12	12	12	12	12	12	96	1.500	19	19	20	20	21	21	21	22	164		
Administrative Assistant	Per year	1	1	1	1	1	1	1	1	8	25.100	27	27	28	28	29	29	30	31	228		
Subtotal Salary & Allowances												125	127	130	132	135	138	141	143	1 071		
B. Operating Costs																						
Communication costs	Per Month	12	12	12	12	12	12	12	12	96	2.000	25	26	26	27	28	28	29	29	218		
O&M Costs	Per Month											21	22	22	23	23	23	24	24	182		
Subtotal Operating Costs												47	48	49	50	51	52	53	54	400		
Total Recurrent Costs												171	175	178	182	186	189	193	197	1 472		
Total												398	274	311	317	404	296	257	262	2 519		

^a Includes meeting room

Table 10: Innovation and Outreach Facility

Zambia
Rural Finance Expansion Programme
Table 2. Innovation and Outreach Facility

Detailed Costs

(USD)

(USD)		Quantities									Totals Including Contingencies ('000)										
	Unit	2014	2015	2016	2017	2018	2019	2020	2021	Total	Unit Cost	2014	2015	2016	2017	2018	2019	2020	2021	Total	
I. Investment Costs																					
A. Window 1 CBF Linkage																					
No. of Grants	No. of grants	10	10	10	10	10	10	10	-	70	35.000	350	350	350	350	350	350	350	-	2 450	
B. Window2 Agency/mobile Banking																					
No of grants	No. of grants	6	6	6	6	6	6	-	-	36	150.000	900	900	900	900	900	900	-	-	5 400	
C. Window3 Rural Equity Innovation																					
No of grants	No. of grants	8	8	8	8	8	8	-	-	48	25.000	200	200	200	200	200	200	-	-	1 200	
Total												1 450	1 450	1 450	1 450	1 450	1 450	350	-	9 050	

Table 11: Knowledge Management and Programme Implementation

Zambia
Rural Finance Expansion Programme
Table 3. Knowledge Management & Programme Implementation
Detailed Costs
(USD)

(USD)		Quantities										Totals Including Contingencies ('000)									
		Unit	2014	2015	2016	2017	2018	2019	2020	2021	Total	Unit Cost	2014	2015	2016	2017	2018	2019	2020	2021	Total
I. Investment Costs																					
A. Programme Coordination Office																					
1. Vehicles and equipment																					
4WD vehicles	No	3	-	-	-	4	-	-	-	7	50.000	152	-	-	-	219	-	-	-	370	
Computer, software, printer	Set	8	-	-	-	8	-	-	-	16	2.000	16	-	-	-	17	-	-	-	34	
Multifunction printer-copier-scanner	No	1	-	-	-	-	-	-	-	1	8.000	8	-	-	-	-	-	-	-	8	
Office furniture /a	No	10	-	-	-	-	-	-	-	10	1500	15	-	-	-	-	-	-	-	15	
Projector	No	2	-	-	-	-	-	-	-	2	500	1	-	-	-	-	-	-	-	1	
Digital camera with GPS coordinates	No	2	-	-	-	-	-	-	-	2	500	1	-	-	-	-	-	-	-	1	
Subtotal Vehicles and equipment												193	-	-	-	236	-	-	-	429	
B. Monitoring and evaluation, knowledge management & partnership development																					
1. International and National Experts																					
International Tech. Advisor	Per Year	1	1	-	-	-	-	-	-	2	240.000	242	247	-	-	-	-	-	-	490	
National Tech. Advisor	person/year	1	1	1	1	1	1	1	1	8	177.700	179	183	187	190	194	198	202	206	1540	
Subtotal International and National Experts												422	430	187	190	194	198	202	206	2 030	
Total Investment Costs												615	430	187	190	430	198	202	206	2 459	
II. Recurrent Costs																					
A. Salaries and Allowances																					
1. Administrative Staff																					
Programme Coordinator	person/year	1	1	1	1	1	1	1	1	8	76.716	81	83	85	86	88	90	92	93	698	
Procurement Officer	person/year	1	1	1	1	1	1	1	1	8	56.604	60	61	62	64	65	66	68	69	515	
Financial Controller	person/year	1	1	1	1	1	1	1	1	8	66.200	70	72	73	75	76	78	79	81	603	
Monitoring and Evaluation Officer	Months	1	1	1	1	1	1	1	1	8	56.604	60	61	62	64	65	66	68	69	515	
Assistant Accountant	person/year	1	1	1	1	1	1	1	1	8	24.090	26	26	27	27	28	28	29	29	219	
Administrative Assistant	person/year	1	1	1	1	1	1	1	1	8	25.285	27	27	28	28	29	30	30	31	230	
Office Assistance /b	pers/year	1	1	1	1	1	1	1	1	8	2.409	3	3	3	3	3	3	3	3	22	
Driver	person/year	2	2	2	2	2	2	2	2	16	10.841	23	23	24	24	25	25	26	26	197	
Subtotal Administrative Staff												350	357	364	371	378	386	394	402	3 000	
B. Operating costs																					
Per diem for in-country travel /c	person/day	300	300	300	300	300	300	300	300	2 400	130	41	42	43	44	45	46	47	48	355	
Vehicle O&M +insurance /d	Per Year											11	11	11	11	11	12	12	12	91	
Office Rent	Month	12	12	12	12	12	12	12	12	96	2.500	32	32	33	34	34	35	36	37	273	
Subtotal Operating costs												84	85	87	89	91	92	94	96	719	
Total Recurrent Costs												433	442	451	460	469	478	488	498	3 719	
Total												1048	872	638	650	899	677	690	704	6 178	

/a Includes meeting room

/b This is total cost to employer with gratuities and other mandatory benefits

/c Based on about 6 officers likely to undertake field trips at average of 40 days/ year

/d Based on 18% of purchase cost

Appendix 10: Economic and Financial Analysis

Overview of benefits

1. Benefits to the target group and the number of the target group beneficiaries are very difficult to estimate because the programme, except for CBFIs, will not provide assistance directly to the target groups. The assumption is that the target group will indirectly benefit from expansion of financial services by the financial institutions that will be strengthened and the products that will be developed. This is possible but cannot be guaranteed as financial institutions, being private sector operators, and with expected pressure from shareholders for meaningful dividends, will focus on maximising profits. Thus they will give priority attention to serving clients with minimum operational risk and high returns. Thus, only a proportion will be IFAD direct target group and care has been taken to account for this.

2. In spite of the above estimation difficulties, some of the quantifiable benefits from RUFEP can be classified under two streams:

- a) **Reduced transaction costs** attributable to electronic/mobile banking to be supported under the Programme. The reduction on transaction costs from reduced time taken by the beneficiary to collect remittances—in the without Programme situation, it takes over two hours for a rural farmer to access a nearby bank which is very costly. In addition, in the 'without' programme situation, the cost per payment cycle is very expensive totalling ZMW 65 per ZMW 500 within-country remittance. In the with-programme analysis, e-banking charges are ZMW 40 for a ZMW 500 remittance (Zoonza charges). A typical rural person makes six such transactions per year; the RUFEP would benefit such a rural person by ZMW 150 per year; even if the cost of a mobile phone is considered, this reduction in transaction costs is sufficient to make a difference in the lives of beneficiaries.
- b) **Incremental Gross Margins** for farmers There will be in form of benefits from better access to inputs as a result of access to working capital through credit facilities.

3. There are many non-quantifiable benefits as follows:

- a) Selected support for strategic partner institutions (including the rural finance unit) will contribute to the improvement of framework conditions for rural financial sector growth and outreach on a sustainable basis;
- b) There will be more capacity to design and deliver demand-driven rural and agricultural financial products and services;
- c) Component 3 will facilitate rural finance knowledge management; this will advance the agenda of financial sector deepening;
- d) There are other non-tangible benefits such as the employment creation and generally contributing to the stability/robustness of the financial sector.

Estimation of number of beneficiaries

4. The number of beneficiaries is also difficult to prove given that the funds flows will not go directly to agriculture or MSMEs. Based on the quantifiable benefit streams discussed above, an estimate of the number of beneficiaries under each stream has been made. The risk of double counting beneficiaries is very high; the same beneficiary may benefit under more than one stream; prudence has been applied to scale down the potential number of beneficiaries.

5. The summary for potential beneficiary households under the respective windows is presented in the table below.

Table 1: Summary of beneficiary households under various funding windows

Funding window	Tentative amount allocated- USD	Average grant/project- USD	Projected number of projects	Number of beneficiaries/ project	Total number of beneficiaries	Reduction to account for non-IFAD target group	Direct Cost/Beneficiary- USD
CBFI Linkage	2,450,000	35,000	70	280	19,600	19,600	125
Agency/Mobile Banking	5,400,000	150,000	36	4,500	162,000	113,400	33
Rural Equity Innovations	1,200,000	25,000	48	200	9,600	9,600	125
Total number of beneficiaries					191,200	142,600	

Detailed analysis of benefits from physical outreach

Reduced transaction costs from e-banking

6. The Programme will provide 136 grants under this window. Each e-banking project will reach on average 4,500 beneficiaries; giving a cumulative total of 160,000 beneficiaries under this stream of benefits. However, not all these will be IFAD target group, thus this number has been scaled down for the analysis to 70% based on the poverty data. Thus the number of beneficiaries used in this analysis is 110,000 under this window. The benefits will arise from reduced transaction costs for the beneficiaries. It is assumed that it takes on average two hours for rural farmer to access a nearby bank; and thus remittances to rural areas have three cost dimensions: the bank charges, the time off the farm and the cost of transport to the nearby branch. In addition, through e-banking, bulking of inputs will be improved and this will be attractive to the value chain actors.

7. The net saving based on Zoona experience will be ZMW 25 per ZMW 500 transaction; this is demonstrated below. A typical rural person receives such a remittance six transactions per year. The benefit per year per beneficiary, therefore, is ZMW 25 times the six transactions which gives ZMW 150 per year.

Table 2: Reduced Transaction Costs attributable to e banking innovations

	Without Programme ZMW	With Programme ZMW	Reduced transaction cost ZMW	PY1	PY2	PY3	PY4	PY5	PY6+
Current bank charges/ ZMW 500 transaction	45								
Transport from inner Village to nearby bank branch	10								
Time spent off farm to transact at nearby bank branch	10								
	<u>65</u>								
Transfer charges under e-banking, based on Zoona Charges		40	25						
Number of transaction/beneficiary/year			6						
Total saving/beneficiary/year (ZMW 25 x 6)			150						
Projected number of beneficiaries				18,900	37,800	56,700	75,600	94,500	113,400
Aggregate reduced transaction costs- ZMW'000				2,835	5,670	8,505	11,340	14,175	17,010

8. The aggregated net benefit stream under the electronic/mobile banking funding window is projected to be ZMW 17 million per year by year 6.

Improved productivity

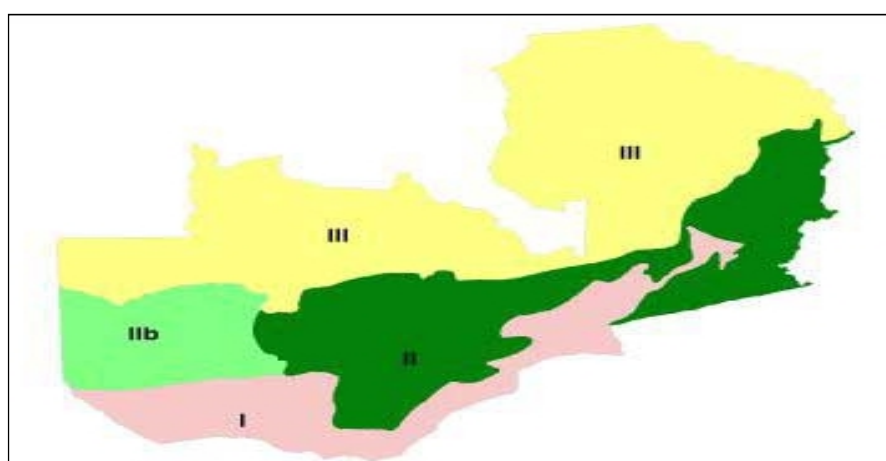
9. Funding windows 1 and 3 will support better access to inputs the financial outreach/products. Currently, most smallholders use few, if any, purchased inputs and sell immediately post-harvest and, therefore, avoid the need for working capital, but at the cost of greatly reduced profitability.

10. Agro-Ecological Zones: Zambia is made up of four distinct agro-ecological zones, which are based on relative rainfall and soil characteristics as described below.

Table 3: Classification of Agro-Ecological Regions (AER) in Zambia

Element	AER 1	AER 2 ⁵⁶	AER 3
Rainfall	<800 mm	800-1000 Mm	>1000 mm
LGP (70% probability)	80-120 days	100-140 days	120-150 days
No. of decades < 30 mm	Up to 5	1-3	-
Altitude	Valleys: 300-900 m asl. South: 900-1200 m asl.	900-1300 m asl.	1100-1700 m asl. Luapula valley:1000m
Temperature <i>Growing season</i>	20-25 °C	23-25 °C	26°C
<i>Cold season</i>	Mild/severe frost	Some severe frost	
Sunshine			Limited
Soils	Loamy clay soils Red coarse sandy soils Poor drained sandy soils	Ila: Moderately leached clay soils Iib: Coarse sandy loams and Sandy soils	Highly weathered soils pH<4.5 (Al/Mn tox)
Vegetation	Mopane woodland Acacia woodlands Deciduous thickets	Ila: Miombo woodland Munga woodland Iib: Kalahari woodland	Miombo woodland
Main crops	Drought resistant crops such as cotton, sorghum and millet (rice in shores of Zambezi plains) <i>Livestock limited (Tsetse)</i>	Ila: Maize, cotton, tobacco, helianthus, soybean, and irrigated wheat and vegetables Iib: maize, rice, cashew nut, cassava, millet, vegetables <i>Livestock: beef cattle production, dairy, and poultry</i>	Cassava, maize, beans, millet/sorghum and peanuts, sugar cane and fruits <i>Livestock: mainly small ruminants, poultry</i>
Provinces	Southern and parts of Eastern and Western	Ila: Lusaka, Central + Southern and Eastern Iib: Western	

Figure 1: Agro-Ecological Regions



⁵⁶ AER 2 is commonly sub-divided into sub-region Ila comprising the sandveld plateau of Central, Eastern, Lusaka and Southern Provinces and a sub-region Iib comprising the Kalahari sand plateau and the Zambezi flood plains in the western Province.

11. Due to the relatively higher and consistent rainfall pattern, regions IIa and III are the most productive agricultural zones in the country. Conversely, Region I, located in the southern portion of the country is the most vulnerable to drought induced crop failures. Due to its sandy soils and isolation from major urban centres, Region IIb is the least productive region, in terms of staple maize production, with 61% of smallholder in the region being net maize buyers.

12. Small-scale farming systems in Zambia are overwhelmingly dominated by a single crop: Maize. 82% of all smallholders grew maize in 2009/10. Cassava, the second most important staple food crop, is geographically confined to the north and north-western parts of Zambia. Groundnuts, the second most widely cultivated crop in Zambia and important source of protein in Zambian diets, are frequently intercropped with maize.

13. According to the statistical data 2009/10, the crops that are mostly grown by small and medium scale farmers in Zambia are the following: maize (82%), groundnuts (49%), cassava (38%), sweet potatoes (18%), mixed beans (15%), Millet (10%), sunflower (7%) and cotton (6%). These are obviously national averages but the mix of crop may vary depending on the agro-ecological zone. Maize, groundnuts, beans, sunflower and cotton are mostly grown as cash crops while the other crops may be considered as food security crops. Therefore, farm mix will depend on the agro-ecological zone where the farmers are located but according to available statistics the following farm mix are more likely.

14. According to supplementary surveys data, the smallholder land holding size per household in Zambia is 3.27 hectares. According to FAO statistics (2008), the ratio of cultivated land by rural population in Zambia is 0.781; this means it is reasonable to assume cultivable acreage to 2.5 hectares. Other reports show that a smallholder is on average using only 1 hectare and this is what is assumed in the analysis.

15. It is unlikely participating farmers can seriously be engaged in more than 2 or 3 enterprises in the small piece of cultivable land. At farm level the farmers will obviously be growing a combination of enterprises but the assumption is that they will obtain a loan for only one enterprise in a hectare.

16. The following crop models are attached. The relative weights are based on 2010 production statistics. The weighted average shows an increment income of ZMW 4.9 million per household

Table 4: Un-scaled down benefits per farmer per crop/enterprise

	Without Program me ZMW	With Program me ZMW	Increase ZMW	weight/a #	Weighted increase in income/ ha ZMW
Groundnuts	404	5,746	5,342	0.32	1,695
Sorghum	416	553	137	0.03	4
Cotton	753	2,308	1,555	0.04	65
Cabbage	10,645	26,832	16,187	0.03	529
Poultry	576	10,604	10,028	0.03	328
Dairy	1,173	22,740	21,567	0.01	282
Maize	884	4,684	3,800	0.53	2,029
				1.00	4,931

a/ based on relative production statistics

17. It is understood that the average household will not achieve this kind of income in one step. The following step-wise progress in income levels has been used in the economic analysis.

Table 5: Net benefit per farmer scaled down

Project Year	Incremental Income	Scaling factor	Scaled-down income
	ZMW		ZMW
Year 1	4,931	0	-
Year 2	4,931	0.3	1,479
Year 3	4,931	0.4	1,972
Year 4	4,931	0.6	2,958
Year 5	4,931	0.7	3,452
Year 6+	4,931	0.7	3,452

18. The scaled down net benefit per farmer in table 5 and the number of adopting farmers enables the computation of the expected aggregate benefits under this stream.

Table 6: Aggregate benefits related to increased productivity

	PY1	PY2	PY3	PY4	PY5	PY6+	PY7	PY8	PY9	PY10	PY11+
Beneficiaries under window 1: CBF Linkage	3,267	6,534	9,801	13,068	16,335	19,602	19,602	19,602	19,602	19,602	19,602
Beneficiaries under window 3: Rural equity innovations	1,600	3,200	4,800	6,400	8,000	9,600	9,600	9,600	9,600	9,600	9,600
Total Beneficiaries under windows 1 and 3	4,867	9,734	14,601	19,468	24,335	29,202	29,202	29,202	29,202	29,202	29,202
Percentage accessing credit for improved productivity	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%	10%
Number of beneficiaries accessing credit for improved productivity	487	973	1,460	1,947	2,433	2,920	2,920	2,920	2,920	2,920	2,920
Adoption rate	-	0.1	0.1	0.2	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Number of adopting farmers	-	97	146	389	730	876	876	876	876	876	876
Incremental income per farmer (ZMW)	-	1,479	1,972	2,958	3,452	3,452	3,452	3,452	3,452	3,452	3,452
Aggregate incremental income (ZMW' 000)	-	144	288	1,152	2,520	3,024	3,024	3,024	3,024	3,024	3,024

19. The aggregate benefits related to increased productivity are projected to ZMW 3.024 million per year by programme closure.

Overall Combined Economic Analysis

20. The results of the economic analysis as summarised in Table 7 justify the Programme's investments in promoting rural finance sector in Zambia. The analysis shows that the Programme has the capacity to generate an economic rate of return (ERR) of 19% over a 20-year period. It is worth noting that, due to estimation-related complications, there are some benefits that would accrue that have not been analysed. It is, nonetheless, prudent to point out that these other additional benefits will make the entire investment that much more viable and beneficial to Zambia as a whole through increased capacities in the rural finance sector. Thus, the actual ERR will likely be higher than the 19% reported herein.

Table 7: Overall combined economic analysis

Table 7: Overall Combined economic analysis

	Reference	PY1	PY2	PY3	PY4	PY5	PY6	PY7	PY8	PY9	PY10	PY11+
Quantifiable Benefits (ZMW'000)												
Reduced Transaction Costs due to E-banking	Table 2	2,835	5,670	8,505	11,340	14,175	17,010	17,010	17,010	17,010	17,010	17,010
Incremental Gross Margins to Farmers	Table 6	-	144	288	1,152	2,520	3,024	3,024	3,024	3,024	3,024	3,024
Total Benefits		2,835	5,814	8,793	12,492	16,695	20,034	20,034	20,034	20,034	20,034	20,034
Programme Costs (Economic costs)		21,009	19,657	18,477	18,992	19,275	14,415	7,050	3,909			
Recurrent Costs after Programme Closure									3,909	3909.136	3909.136	3909.14
Benefits net of Programme Costs		- 18,174	- 13,843	- 9,684	- 6,500	- 2,580	5,618	12,984	12,215	16,125	16,125	16,125
ERR		16%										

21. **Sensitivity analysis.** A number of scenarios were tested to establish the economic viability of the total Programme in the event of adverse factors. The ERR is relatively stable with regard to cost increases, benefits reductions and time lags.

16%	ERR for Overall Programme- Base Case
12%	ERR if benefits decrease by 10%
12%	ERR if costs increase by 10%
15	ERR if benefits lag by one year
15	ERR if benefits lag by two years

Attachment 1: Crop/Enterprise Models

Zambia
Rural Finance Expansion Programme
Ground nuts Crop Model

FINANCIAL BUDGET

(In ZMW Per ha)

	Jan. -- Dec.				
	Existing Technology	New Technology			
	1 to 21	1	2	3	4 to 21
Revenue	1,224	7,344	8,568	9,792	12,240
Input costs					
Ground Nut Seed Improved	-	180	180	180	180
Ground Nut Seed UnImproved	90	-	-	-	-
Basagran	-	315	315	315	315
Frontier Optimum	-	126	126	126	126
Pantera	-	87	87	87	87
Karate	-	4	4	4	4
Abacus	-	226	226	226	226
Seedplus	-	45	45	45	45
Gypsum	-	3,338	3,338	3,338	3,338
Comp D	-	712	712	712	712
Packing	100	200	200	200	200
Sub-total Input costs	190	5,234	5,234	5,234	5,234
Income (Before Labor Costs)	1,034	2,110	3,334	4,558	7,006
Labor costs					
High Labour	630	1,260	1,260	1,260	1,260
Income (After Labor Costs)	404	850	2,074	3,298	5,746

Income Before Labor: IRR = None, NPV = 36,120.68

Income After Labor: IRR = None, NPV = 31,356.62

Zambia
Rural Finance Expansion Programme
Ground nuts Crop Model

YIELDS AND INPUTS

(Per ha)

	Unit	Jan. -- Dec.				
		Existing Technology	New Technology			
		1 to 21	1	2	3	4 to 21
Yields	Tonnes	0.5	3	3.5	4	5
Operating Inputs						
Ground Nut Seed Improved	Kg	-	90	90	90	90
Ground Nut Seed UnImproved	Kg	90	-	-	-	-
Basagran	Lt	-	5	5	5	5
Frontier Optimum	Lt	-	1	1	1	1
Pantera	Lt/ha	-	1	1	1	1
Karate	Kg/ha	-	0.1	0.1	0.1	0.1
Abacus	unit	-	1.2	1.2	1.2	1.2
Seedplus	grams	-	225	225	225	225
Gypsum	Kg	-	250	250	250	250
Comp D	Kg	-	200	200	200	200
Packing	Bags	50	100	100	100	100
Labor						
High Labour	Days	35	70	70	70	70

Zambia
Rural Finance Expansion Programme
Sorghum Crop Model
FINANCIAL BUDGET
(In ZMW Per ha)

	Jan. -- Dec.			
	Existing Technology	New Technology		
	1 to 21	1	2	3 to 21
Revenue	816	2,122	2,285	2,448
Input costs				
Sorghum Seed Improved	-	49	49	49
Sorghum Seed UmlImproved	20	-	-	-
Comp D	-	534	534	534
Urea	-	263	263	263
Packing	20	60	60	60
Sub-total Input costs	40	905	905	905
Income (Before Labor Costs)	776	1,216	1,380	1,543
Labor costs				
High Labour	360	990	990	990
Income (After Labor Costs)	416	226	390	553

Income Before Labor: IRR = None, NPV = 5,377.47
Income After Labor: IRR = None, NPV = 613.41

Zambia
Rural Finance Expansion Programme
Sorghum Crop Model
YIELDS AND INPUTS
(Per ha)

	Unit	Jan. -- Dec.			
		Existing Technology	New Technology		
		1 to 21	1	2	3 to 21
Yields	Tonnes	0.5	1.3	1.4	1.5
Operating Inputs					
Sorghum Seed Improved	Kg	-	8	8	8
Sorghum Seed UmlImproved	Kg	8	-	-	-
Comp D	Kg	-	150	150	150
Urea	Kg	-	75	75	75
Packing	Bags	10	30	30	30
Labor					
High Labour	Days	20	55	55	55

Zambia
Rural Finance Expansion Programme
Cotton Crop Model

FINANCIAL BUDGET

(In ZMW Per ha)

		Jan. -- Dec.			
		Existing	New Technology		
		Technology			
		1 to 21	1	2	3 to 21
Revenue		1,400	4,480	4,760	5,040
Input costs					
Cotton Seed Improved	-	35	35	35	
Cotton Seed UnImproved	17	-	-	-	
Lime	-	75	75	75	
Comp D	-	890	890	890	
Urea	-	263	263	263	
Seedplus	-	15	15	15	
Karate	-	32	32	32	
Actomapid	-	1	1	1	
Methomyl	-	57	57	57	
Pantera	-	87	87	87	
Nutricot	-	17	17	17	
Sub-total Input costs		17	1,472	1,472	1,472
Income (Before Labor Costs)		1,383	3,008	3,288	3,568
Labor costs					
High Labour	630	1,260	1,260	1,260	
Income (After Labor Costs)		753	1,748	2,028	2,308

Income Before Labor: IRR = None, NPV = 15,804.21

Income After Labor: IRR = None, NPV = 11,040.15

Zambia
Rural Finance Expansion Programme
Cotton Crop Model

YIELDS AND INPUTS

(Per ha)

		Jan. -- Dec.			
		Existing Technology	New Technology		
	Unit	1 to 21	1	2	3 to 21
Yields	Tonnes	0.5	1.6	1.7	1.8
Operating Inputs					
Cotton Seed Improved	Kg	-	15	15	15
Cotton Seed UnImproved	Kg	15	-	-	-
Lime	Kg	-	500	500	500
Comp D	Kg	-	250	250	250
Urea	Kg	-	75	75	75
Seedplus	grams	-	75	75	75
Karate	Kg/ha	-	0.8	0.8	0.8
Actomapid	Lt	-	0.1	0.1	0.1
Methomyl	Kg	-	0.62	0.62	0.62
Pantera	Lt/ha	-	1	1	1
Nutricot	Lt	-	1	1	1
Labor					
High Labour	Days	35	70	70	70

Zambia

Rural Finance Expansion Programme

Cabbage Crop Model

FINANCIAL BUDGET

(In ZMW Per ha)

		Jan. -- Dec.			
		Existing	New Technology		
		Technology			
		1 to 21	1	2	3 to 21
Revenue		12,000	24,000	30,000	36,000
Input costs					
Cabbage Seed	315	315	315	315	
Alachlor	-	8	8	8	
Pantera	-	87	87	87	
Malathion	-	20	20	20	
Dimethoate	-	7	7	7	
Bellis	-	342	342	342	
Copperoxychloride	-	113	113	113	
Steward	-	106	106	106	
Comp D	-	3,560	3,560	3,560	
Urea	-	1,050	1,050	1,050	
Packing	500	1,400	1,400	1,400	
Sub-total Input costs		815	7,008	7,008	7,008
Income (Before Labor Costs)		11,185	16,992	22,992	28,992
Labor costs					
High Labour	540	2,160	2,160	2,160	
Income (After Labor Costs)		10,645	14,832	20,832	26,832

Income Before Labor: IRR = None, NPV = 119,159.31

Income After Labor: IRR = None, NPV = 106,908.86

Zambia

Rural Finance Expansion Programme

Cabbage Crop Model

YIELDS AND INPUTS

(Per ha)

		Jan. -- Dec.				
		Existing	New Technology			
	Unit	Technology	1 to 21	1	2	3 to 21
Yields	Tonnes		10	20	25	30
Operating						
Inputs						
Cabbage Seed	Kg		0.6	0.6	0.6	0.6
Alachlor	Lt/ha	-		4	4	4
Pantera	Lt/ha	-		1	1	1
Malathion	Lt/ha	-		0.6	0.6	0.6
Dimethoate	Lt/ha	-		0.16	0.16	0.16
Bellis	Kg/ha	-		0.8	0.8	0.8
Copperoxychloride	Kg/ha	-		3	3	3
Steward	Kg/ha	-		0.15	0.15	0.15
Comp D	Kg	-		1,000	1,000	1,000
Urea	Kg	-		300	300	300
Packing	Bags		250	700	700	700
Labor						
High Labour	Days		30	120	120	120

Zambia

Rural Finance Expansion Programme

Chicks broilers Livestock Model

FINANCIAL BUDGET

(In ZMW Per ha)

	Jan. -- Dec.		
	Existing	New Technology	
	Technology	1	2 to 21
	1 to 21		
Revenue	2,500	15,000	23,750
Input costs			
Chicks Broilers Improved	-	3,800	3,800
Chicks Broilers UnImproved	1,900	-	-
Starter Broilers	-	1,789	1,789
Grower	-	2,747	2,747
Finisher	-	3,432	3,432
Bursin	-	45	45
Bursin Plus	-	45	45
Lasota	-	26	26
Stress Pack	-	26	26
Charcoal	-	525	525
Transport	-	500	500
Council Levy	-	150	150
Sub-total Input costs	1,900	13,085	13,085
Income (Before Labor Costs)	600	1,915	10,665
Labor costs			
Cheap Labour	24	61	61
Income (After Labor Costs)	576	1,854	10,604

Income Before Labor: IRR = None, NPV = 68,301.10

Income After Labor: IRR = None, NPV = 68,024.33

Zambia

Rural Finance Expansion Programme

Chicks broilers Livestock Model

YIELDS AND INPUTS

(Per ha)

	Unit	Jan. -- Dec.		
		Existing	New Technology	
		Technology	1	2 to 21
		1 to 21		
Yields	bird	100	600	950
Operating				
Inputs				
Chicks Broilers Improved	Bird	-	1,000	1,000
Chicks Broilers UnImproved	Bird	1,000	-	-
Starter Broilers	Kg	-	800	800
Grower	Kg	-	1,200	1,200
Finisher	Kg	-	1,500	1,500
Bursin	Dosage	-	1,000	1,000
Bursin Plus	Dosage	-	1,000	1,000
Lasota	Dosage	-	2,000	2,000
Stress Pack	pack	-	2	2
Charcoal	Bags	-	15	15
Transport	\$0.2/km/ton	-	16.6667	16.6667
Council Levy	unit	-	1,000	1,000
Labor				
Cheap Labour	unit	2	5	5

Zambia

Rural Finance Expansion Programme

Cow Livestock Model

FINANCIAL BUDGET

(In ZMW Per ha)

	Jan. -- Dec.			
	Existing Technology	New Technology		
	1 to 21	1	2	3 to 21
Revenue				
Milk	1,350	6,750	16,200	27,405
Cow Sales	250	2,500	3,000	3,000
Sub-total Revenue	1,600	9,250	19,200	30,405
Input costs				
Ai Services	-	600	600	600
Maize Brand	-	288	288	288
Dairy 19 Feed	-	2,692	2,692	2,692
BVD	-	167	167	167
Multivitamins	-	11	11	11
Acaricides	-	2,712	2,712	2,712
Dewormer Calf	-	252	252	252
Mastitis Prevention	-	10	10	10
Transport	-	79	79	79
Sub-total Input costs	-	6,811	6,811	6,811
Income (Before Labor Costs)	1,600	2,439	12,389	23,594
Labor costs				
Cheap Labour	427	854	854	854
Income (After Labor Costs)	1,173	1,585	11,535	22,740

Income Before Labor: IRR = None, NPV = 138,496.56

Income After Labor: IRR = None, NPV = 135,267.58

Zambia

Rural Finance Expansion Programme

Cow Livestock Model

YIELDS AND INPUTS

(Per ha)

	Unit	Jan. -- Dec.			
		Existing Technology	New Technology		
		1 to 21	1	2	3 to 21
Main Production					
Milk	Lt	200	1,000	2,400	4,060
Cow Sales	animal	0.1	1	1.2	1.2
Operating Inputs					
Ai Services	Straw s	-	2	2	2
Maize Brand	Kg	-	451	451	451
Dairy 19 Feed	Kg	-	1,353	1,353	1,353
BVD	Dosage	-	2	2	2
Multivitamins	Dosage	-	24	24	24
Acaricides	Dipsession	-	52	52	52
Dewormer Calf	L	-	6	6	6
Mastitis Prevention	Syringe	-	1	1	1
Transport	\$0.2/km/ton	-	2.6255	2.6255	2.6255
Labor					
Cheap Labour	unit	35	70	70	70

Zambia

Rural Finance Expansion Programme

Maize Crop Model

FINANCIAL BUDGET

(In ZMW Per ha)

	Jan. -- Dec.				
	Existing Technology	New Technology			
	1 to 21	1	2	3	4 to 21
Revenue	2,183	6,548	7,639	8,730	9,821
Input costs					
Maize Seed- Improved	-	85	85	85	85
Maize Seed- Unimproved	42	-	-	-	-
Frontier Optimal	-	126	126	126	126
Atrazine	-	129	129	129	129
Biobuffer	-	14	14	14	14
Gramoxone	-	240	240	240	240
Endosulphan	-	123	123	123	123
Punch Extra	-	102	102	102	102
Lime	-	30	30	30	30
Comp D	-	1,068	1,068	1,068	1,068
Urea	-	700	700	700	700
Packing	90	180	180	180	180
Sub-total Input costs	132	2,797	2,797	2,797	2,797
Income (Before Labor Costs)	2,050	3,751	4,842	5,933	7,024
Labor costs					
High Labour	1,170	2,340	2,340	2,340	2,340
Income (After Labor Costs)	880	1,411	2,502	3,593	4,684

Income Before Labor: IRR = None, NPV = 32,175.43

Income After Labor: IRR = None, NPV = 23,327.88

Zambia

Rural Finance Expansion Programme

Maize Crop Model

YIELDS AND INPUTS

(Per ha)

	Unit	Jan. -- Dec.				
		Existing Technology	New Technology			
		1 to 21	1	2	3	4 to 21
Yields	tonnes	1	3	3.5	4	4.5
Operating						
Inputs						
Maize Seed- Improved	Kg	-	5	5	5	5
Maize Seed- Unimproved	Kg	5	-	-	-	-
Frontier Optimal	Lt	-	1	1	1	1
Atrazine	Lt	-	4	4	4	4
Biobuffer	Lt	-	0.7	0.7	0.7	0.7
Gramoxone	Lt	-	6	6	6	6
Endosulphan	Kg/ha	-	2.9	2.9	2.9	2.9
Punch Extra	Lt	-	0.8	0.8	0.8	0.8
Lime	Kg	-	200	200	200	200
Comp D	Kg	-	300	300	300	300
Urea	Kg	-	200	200	200	200
Packing	Bags	45	90	90	90	90
Labor						
High Labour	Days	65	130	130	130	130

Appendix 11: Draft Programme Implementation manual



Republic of Zambia

Ministry of Finance

Rural Finance Expansion Programme

Programme Implementation Manual

28th August 2013

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List of Acronyms

AfDB	African Development Bank
AMIZ	Association of Microfinance Institutions of Zambia
ASCA	Accumulating Savings and Credit Association
ATM	Automatic teller machine
AWPB	Annual Work Plan and Budget
BAZ	Bankers Association of Zambia
BOZ	Bank of Zambia
CBFI	Community-Based Financial Institution
CF	Conservation Farming
COMESA	Common Market for Eastern and Southern Africa
COSOP	Country Strategic Opportunities Programme
CSO	Central Statistical Office
DBZ	Development Bank of Zambia
DCA	Development Credit Authority
DfID	Department for International Development
DTMFI	Deposit-taking Microfinance Institution
EIRR	Economic Internal Rate of Return
EIU	Economic Intelligence Unit
ENRMMP	Environment and Natural Resources Management and Mainstreaming Programme
FAO	Food and Agriculture Organization of the United Nations
FI	Financial Institution
FISP	Farmer Input Support Programme
FRA	Food Reserve Agency
FSDP II	Second Financial Sector Development Plan
FSP	Financial Service Provider
GDP	Gross Domestic Product
GRZ	Government of the Republic of Zambia
HDI	Human Development Index
IDMD	Investment and Debt Management Department (under the Ministry of Finance)
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
IOF	Innovation and Outreach Facility
IRC	Internal Review Committee (of the PCO)
LCMS	Living Conditions Monitoring Survey
M&E	Monitoring and Evaluation
MAL	Ministry of Agriculture and Livestock
MDG	Millennium Development Goal
MFI	Microfinance Institution
MG	Matching Grant
MIS	Management Information System
MoF	Ministry of Finance
MSME	Micro Small and Medium Enterprise
MTR	Mid-Term Review
NBFI	Non-Bank Financial Institution
NDTMFI	Non-Deposit-taking Microfinance Institution
NPL	Non-Performing Loan
NSCB	National Savings and Credit Bank (NatSave)
PC	Programme Coordinator
PCO	Programme Coordination Office
PDO	Programme Development Objective
PFI	Participating Financial Institution

PIM	Programme Implementation Manual
PM&E	Planning, Monitoring and Evaluation
PO	Programme Officer
PS	Permanent Secretary
PSC	Programme Steering Committee
PVC	Programme Vetting Committee
PY	Programme Year
RUFEP	Rural Finance Expansion Programme (IFAD)
RFP	Rural Finance Programme (IFAD)
RFU	Rural Finance Unit (within MOF)
RIMS	Results and Impact Monitoring System
RoA	Return on Assets
RoE	Return on Equity
S3P	Smallholder Productivity Promotion Programme
SADC	Southern Africa Development Community
SAPP	Smallholder Agribusiness Promotion Programme (IFAD)
SIDA	Swedish International Cooperation Agency
SLIP	Small Livestock Investment Project
SME	Small and Medium Enterprise
SNDP	Sixth National Development Plan
SOE	Statement of Expenditures
TA	Technical Assistance
TOR	Terms of Reference
TST	Technical Support Team
TTR	Tri-Term Review
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VC	Value Chain
VSLA	Village Savings and Lending Association
WB	World Bank
ZDHS	Zambia Demographic Health Survey (2007)
ZMK	Zambia Kwacha (legal tender till 31.12.2012)
ZMW	New Zambia Kwacha (legal tender starting 1.1.2013)
ZNFU	Zambia National Farmers Union
ZPPA	Zambia Public Procurement Authority

NB: The amounts expressed in this Manual refer to those in USD. In most cases, the equivalents in ZMW (in ZMW) are stated. As the exchange rates between the old and new Kwacha and the US dollar will fluctuate, **the USD amounts will be decisive**. The exchange rate used for the purposes of this Manual is:

USD 1.00 = ZMW 5.000

A. Overall introduction to this manual

- The purpose of this manual is to provide a comprehensive set of guidelines, tools and formats, to facilitate Programme management from inception through to closing.
- As a management tool, the manual contents reflect the Programme design, and the overall implementation framework with respect to key principles and approaches to be applied, planned intervention strategies, partnership arrangements, fiduciary controls, and planning, monitoring and evaluation, and reporting.
- The Manual should be considered as a living document; when it comes to practical application and usage, if aspects prove challenging, or out of context, there should be appropriate mechanisms in place for rectification and improvement as this will lead ultimately to improved Programme delivery.
- The Manual is made of components or sub-manuals, which can be referenced as a whole or independently. For example, sub-manuals for components 1 and 2 - whilst they are anticipated to lead to common outcomes, and drive progress to achieving the Programme Development Objective (PDO), they require different management approaches with respect to eligibility criteria, funding disbursement mechanisms, partner management, etc.; this is reflected in the respective manuals for each component.
- The Manual is an internal management document. Whilst parts of it can be shared with implementing partners (e.g. selection criteria, Logical Framework and indicators, Planning, Monitoring and Evaluation (PM&E) requirements, templates for data collection, reporting formats, etc.), the documents should not be distributed as a whole.
- The Manual provides instruction for contractual arrangements, fund management, reporting, etc. Therefore, it requires compliance on the part of Programme management and staff. Failure to work within the framework of the Manual is a breach of responsibility.

B. RUFEP Operating Manual

1. Introduction

1. The Programme will contribute to the Development Goal of “improved livelihoods of the rural poor through sustainable economic growth”. This is consistent with the goals in the Government’s Sixth National Development Plan (SNDP). The proposed Programme Development Objective (PDO) is: “Access to and use of sustainable financial services by poor rural men, women and youth has increased”. This will be indicated by changes in the number and percentage of the adult population actually using financial services by the end of the Programme, and a decline in the cost of borrowing for productive purposes for rural clients.

2. **Outcomes.** Two major Programme outcomes are expected that would lead to achieving the PDO: (i) Enhanced capacity of Financial Service Providers (FSPs) to deliver demand-driven services in rural areas; and (ii) Improved efficiency and sustainability of rural financial services. These outcomes will be measured through the following indicators, which apply to all three components (see section 2 on components below):

- **For Outcome 1:** (a) The share of agricultural loans in total bank loans has on average been two percent points above the baseline value; (b) Volume of deposit and loan transactions generated by Participating Financial Institutions (PFIs); and (c) By the end of the RUFEP, at least five PFIs have introduced five new products to serve rural areas/farmers;
- **For Outcome 2:** (a) PFIs demonstrate increased profitability of at least 15% (as measured by Return on Equity [RoE] and Return on Assets [RoA]) during and after supported periods; and (b) The non-performing loan (NPL) ratio for agricultural purposes has remained within the average of 15% during most of Programme years and within the industry standards.

3. Several output indicators have been formulated (see Logical Framework and Annex 6 on planning, monitoring and evaluation (PM&E) arrangements) as per the initial configuration of the partnerships and windows formulated. These would have to be monitored and adjusted accordingly, during the course of Programme implementation, in case of changes to the partnerships or windows.

4. **Programme area.** The Programme will be national in scope. The specific geographical areas reached will depend on the outreach of the different financial institutions and service providers that will be partnering with the Programme. Specific measures have been incorporated in the design to give preference to pushing for the expansion frontier and deepening of financial services into those areas currently not served or underserved.

2. Components

5. The PDO will be achieved through three components: (a) Strategic Partnerships; (b) Innovation and Outreach Facility (IOF); and (c) Knowledge Management and Programme Implementation. Institutions demonstrating high leverage capacity and strategic importance in terms of achieving the PDO will qualify for medium-term support under component 1, with further rounds of support as required under a longer-term vision and support framework. Other institutions with interesting proposals for newly identified opportunities may qualify for spot-support under component 2. The expectation here is that all initiatives are geared towards deepening and widening financial services for the rural poor, and that the combined thrust of all initiatives would advance the frontiers of rural finance further. In addition, all activities supported under components 1 and 2 are conceived, planned, implemented and ‘owned’ by the respective actors and initiators, and not initiated under the Programme or by the staff engaged to implement the RUFEP. This is different from activities under component 3, where the main initiative and responsibility lies with the implementing staff.

6. Under component 1, a support framework will be jointly elaborated and approved in the Annual Work Plan and Budget (AWPB). Potential partners seeking support under component 2 will have to

apply under pre-defined windows using well-defined procedures. Several approaches for the approval of proposals have been envisaged, with a mix of internal and external technical assessments, through which all initiatives to be supported will be approved. Initiatives undertaken under component 3 will be conducted in accordance with the AWPB, with the choice of interventions and activities being more at the discretion of the Programme Coordination Office (PCO) than those proposed under the partnership and grant agreements concluded under components 1 and 2.

2.1 Component 1: Strategic Partnerships

7. This component will formalize and provide structured approaches for strategic partnerships under the Programme. The overall objective of Component 1 is to strengthen partner institutions' capacity to deliver innovative demand driven financial services to the rural communities in Zambia. The enhanced capacities will result in increased access to a range of financial services by the rural population, especially women and the youth. Weak capacity is an issue across all levels of service provision from wholesale and commercial banking right down to community-based informal savings and credit management. This component will provide structured and well-targeted support to address gaps in skills and knowledge across these different market sectors, and to ensure industry actors are able to respond to growing end-market needs and opportunities.

8. In line with IFAD's Rural Finance Policy and GRZ's proposed Rural Finance Policy, institutional strengthening will be carried out at all the three levels of the financial sector (Macro, Meso and Micro) to include a range of players that play a significant role in promoting an enabling environment, and delivering rural financial services. RUFEP will provide ongoing policy and capacity building support to categories of pre-qualified partners at Macro, Meso and Micro levels. These partners will include Ministry of Finance (MoF) and Bank of Zambia (BOZ) at the Macro level on policy-related issues, Association of Microfinance Institutions of Zambia (AMIZ) and Development Bank of Zambia (DBZ) at Meso level on capacity building, Community-Based Financial Institutions (CBFIs), Micro-Finance Institutions (MFIs) and other Financial Institutions (FIs) for greater outreach at the Micro level. Details are provided hereunder:

- a) At the **Macro** level, The Programme will work with MoF and BOZ to develop and review rural finance policies that are geared towards minimizing entry and operational constraints, leading to mutual benefits for both the supplier and the consumer. The support will entail but not be limited to policy dialogue forums, studies, workshops and conferences, training, exposure visits and equipment.
- b) At the **Meso** level, the Programme will support the setting up of the Rural Finance Unit (RFU) within MoF in order to consolidate and strengthen rural finance sector coordination and thus ensure investments are appropriately leveraged and the impact of such investments is established and documented. Support will include set up structure costs, development of systems, training, exposure and equipment.
- c) The Programme will also support AMIZ, at the Meso level, to position itself as a main provider of capacity building to its members and others within the sector. Support will include member training needs assessment, development of training materials, training, development of systems and information analysis tools, exposure, workshops and equipment.
- d) In addition, the Programme will support DBZ, at the Meso level, to smoothen out effects of the restructuring process, by enhancing capacity of new staff in appraising MFIs that are participating in the line of credit. Support will also be provided in developing new processes and procedures, staff training, and exposure. Also, at this level, The Programme will support the establishment of SaveNet- an apex for CBFi promoters. Support for SaveNet will include, but not limited to, partial set up costs, staff training, training of field agents, establishment of a website
- e) At the **Micro** Level, The Programme will, through AMIZ, support capacity building of FSPs, and where there is need for customized support, FSPs may apply to the Programme and will

be considered on merit, based on the provided criteria. In addition, the Programme, through Save-Net, will facilitate the standardization, contextualization and translation of CBF formation/ training and model administration manuals. Also, the Programme will support the development of a simplified framework for financial linkages between CBFs and MFIs/Commercial Banks

9. Partnerships formed under this component will undergo rigorous pre-assessment, including due diligence and thorough analysis of the needs and most effective means of addressing those needs using Programme resources. An initial scoping survey will be conducted that should identify potential partners, and the areas of focus. Once this is complete, a request for expression of interest will be floated and initial institutions will be prequalified based on an established criteria already developed during the design to assist the PCO in assessing the FSP applicants. Comprehensive needs assessments will be conducted to identify and appropriately package institutional capacity, training and technical support for all qualifying partners. For those institutions that do not meet the initial criterion but demonstrate potential for outreach and innovativeness in delivery, they will be considered on case by case basis.

10. In all cases, a detailed partnership framework will be drawn up in consultation with partners to ensure partnerships will have clear and mutually agreed objectives, and that planned interventions for institutional capacity, training and technical support will lead to positive outcomes for the Programme's target groups.

11. The interventions and budget amounts will be for an initial support spanning 1.5 years, and in most cases, will be in the range of 15-25% of the overall estimated allocation for the component. Subsequent intervention areas and activities with the same partners will be based on past performance (of partners and activities) and emerging needs. New partners may be brought in at any time as opportunities emerge. This approach avails the Programme flexibility and responsiveness in strengthening infrastructure and service provision. However, the approach requires sound appraisal of the proposed interventions, and close monitoring of partners' activities and outputs as well as timely support and proactive dialogue with existing and potential partners on the part of Programme management.

12. Given the flexibility of the approach under component 1, the budget allocated to this component will be tentative and not fixed. On an annual basis, the budget will be reviewed and allocated based on diligent forward planning in the AWPB. Projected budget and amounts for allocation will be determined as a result of detailed discussions with existing and prequalified potential partners, and the development of partnership frameworks, which will include full costings, and clear breakdown of RUFEP and partner contributions. The tentative initial budget allocation for component 1 is USD 10,434,000 million, which covers the full range of identified partners. Partner contributions towards this amount will be in the range of 10 to 40%, depending on a mix of agreed scope of the partnership, a partner's financial capacity to contribute, agreed targets, and resources required.

13. The partnerships envisaged under component one are expected to contribute to industry-level strengthening through their potential for shaping sector capacities via sector representation, and reach. Partnerships under component one may also contribute to ensuring a balance between micro-level interventions (as per the focus under component two) and macro- or meso-level interventions, which contribute to improving framework conditions and strong foundations for sector growth, as well as institutionalized learning.

14. The operating manual for component 1, which is detailed in the sections below, provides instruction and guidance on formulating partnership agreements (e.g. scope, duration, setting of targets and objectives), as well as approvals and quality assurance processes, and the tools and approaches for managing partner arrangements, including 'rolling' or phased partnerships, under this component.

15. The table below provides criteria of FSP assessment to ascertain whether the applicant institution qualifies for capacity building grants under component 1.

Assessment Indicator/factor	Description
Legal status	Is the applicant legally registered under prevailing laws? Are there by laws or documents of legal registration? Is the organization supervised by BOZ or other regulatory authority?
Core Business	Is the applicant a financial service provider? Do the services have an orientation towards rural enterprises? Agriculture? rural women? rural youth? If the applicant is not already providing services in the -rural areas, are there plans to expand services to rural areas?
Governance structure	Is there a functional board in place? Is there a constitution/By laws or memorandum and articles of association? Do Board members have full knowledge and understanding of finance inclusion and rural finance? Are the Board members fully apprised of their opportunities? Are Board meetings held regularly with the right quorum? Does the Board have a code of conduct document?
Senior Management	Are all management positions filled? Are key management positions and functions clearly delineated on paper and in practice? Is management guided by organizational mission, vision and a current strategic plan, and annual work plan showing clear outreach and sustainability targets? Does management meet regularly for progress review? Does a healthy relationship between management and board exist? Is management pro-active in identifying and dealing with operation gaps? Is management willing to address identified weaknesses?
Staff capacity	Does the FSP have the right number of staff and are they knowledgeable in financial inclusion, agriculture lending, microfinance and rural enterprise? Is there willingness to improve capacity and ensure proposal is implemented successfully?
Management Information System (MIS)	Does the FSP have a functional MIS evidenced by up to date operational and financial reports, and operations and accounting manuals? Do the reports show a positive trend in operational and financial sufficiency? Do the reports show low portfolio at risk and do strategies to manage risk exist? Does the FSP have baseline indicators or willing to establish them? Is management willing to address any apparent weaknesses in the system?
Products and services	Are these clearly defined and documented? Are these products and services operational and convenient (i.e. timely, affordable, information on eligibility easily accessible and understood)? Are the products geared toward financial inclusion of the rural poor ? Are products developed with targeting the un- or under-served?
Service outlets	Does the FSP have outlets within the target community areas or willing to expand?
Cost sharing	Is the FSP willing to cost share on the proposal for capacity building?

2.2 Component 2: Innovation and Outreach Facility

16. The expected outcome of this component is that “Participating Financial Service Providers (PFSPs) design and deliver demand-driven rural and agricultural financial products and services”. The component aspires to increase the number and value of financial transactions involving the target groups, and aims at improving outreach, piloting and scaling-up successful innovative practices, reducing transaction costs and improving efficiency. It will support innovative practices and attempts to enhance access to finance, but will neither support normal day-to-day operations of financial institutions nor offer lines of credit. Actors will comprise: (i) networks and apex bodies of financial institutions; (ii) licensed FSPs; (iii) value chain developers; (iv) secondary or apex farmer organisations; (v) operators desirous to expand sustainable savings and credit intermediation models (including CBFIs) to rural areas; and (vi) electronic payment and transfer operators in collaboration with a financial institution. Relevant financial services include saving/deposit-taking, credit, leasing, transaction and payment services and insurance, which may be linked with input supply. Where financial literacy would be a constraint for the success of a scheme, product or service, or business

management skills in the case of CBFIs, these would also be eligible for support upon proper justification.

17. The component provides for matching grants in varying degrees depending on the capacity and the needs of the participating institutions under three windows: – Window 1: focuses on the CBF Linkage; Window 2: focuses on the Agency/Mobile Banking; and Window 3: focuses on the Rural Equity Innovation. The operations of this component and the innovation windows will be governed by the details elaborated in this PIM. The PIM provides a detailed description of the respective partnership arrangements, windows (notably eligibility and selection criteria, grant ceilings, and co-financing requirements, etc.), procedures and mechanisms for application processing, administration of grants, various formats (such as evaluation form, grant agreements). Rigorous internal and external technical review will be built in by subjecting applications that pass initial screening for a detailed review by external technical specialists. A PVC will be established with the authority to review and approve or disapprove the applications, while ensuring professional confidentiality so that innovations, approaches and products tested and developed are not revealed to competitors or the general public.

Table 4: Innovation and Outreach (Matching Grant) Facility (IOF)

Window	Window 1: CBFI Linkage	Window 2: Agency/Mobile Banking	Window 3: Rural Equity Innovations
Rationale	Lessons learned from RFP show that promotion of CBFIs is the most promising intervention to reach rural un-served areas. RUFEP builds on these lessons and expands the scope by including a new dimension of linkage to formal FSPs. This is premised on the assumption that low income individuals transformed into a bankable group – can attract FSPs Link mutually beneficial (CBFIs penetrate remote rural areas at lower cost, FSP provide liquidity & savings services).	RFP lesson with one provider shows potential but was not successful. RUFEP provides more resources and higher level intervention at policy level to unlock potential for the whole industry. Reduces need for physical brick and mortar branches & ATM (high cost investments) by leveraging on existing structures that are rural and target friendly. Convenient – even low income persons already have mobile phones Widely acknowledged success in remote penetration in Africa.	Lessons from NSCB reinforce the need but this was not successful under RFP. RUFEP builds on these lessons to tackle the needs identified. Important products (savings insurance leasing) remain poorly used, some persons remain excluded due to low asset, education, awareness. Very limited demand side research & data.
Preparatory Activities	See paragraph on component description.	PCO/Technical Advisors to keep stakeholders informed.	PCO/Technical Advisors to keep stakeholders informed.
Eligible Applicants	CBFIs, CBFI promoters or apexes, licensed FSPs, VCDs or other institutions willing/prepared to work with CBFIs to achieve RUFEP objectives.	FSP networks or apex bodies, licensed FSPs, electronic payment & transfer operators industry regulators, CBFIs network organisations ⁵⁷ .	Research agencies, FSP networks and apexes, CBFI promoters, regulators, VCDs.
Main Activities Supported	CBFI – FSP dialogue, Gap and Feasibility Analyses, Product Development, Staff Client training, cost of pilot activities and reviews.	Study tours, technology acquisition and pilot testing, staff training, pilot/parallel runs, legal consultation costs, feasibility studies.	Research studies, dialogues between FSP and researchers, feasibility studies on excluded, etc.
Target Group Considerations	Ensure that links formed are mutually beneficially. Keep track of whether benefits on CBFI side are being sustainably provided.	Ensure that technology is properly sourced, parallel runs, staff training is done. Contracts must ensure delivery of paid-for technology and support services.	Innovations on 'credit delivery' should be limited under this window. Only if they result into overwhelming impact.
Matching Ratios	MG for 90% of total costs for 24 months.	MG for 60% of total costs for 24 months.	MG for 90% of total cost for a period of 12 months.
Maximum Grant Amount	Range USD 30,000 – 50,000 ⁵⁸ ZMW 150,000 – 250,000	USD 200,000 ZMW 1,000,000	USD 25,000 ZMW 125,000
Average Grant Size	USD 35,000	USD 150,000	USD 25,000

⁵⁷ Must be in collaboration with licensed FSPs. This condition also applies to Window 3.

⁵⁸ Depending on the number of FCBFIs to be linked to the licensed FSP.

Window	Window 1: CBFI Linkage	Window 2: Agency/Mobile Banking	Window 3: Rural Equity Innovations
Av. Total Investment	USD 7,000 +35,000	USD 60,000 + 150,000	USD 7,500 + 25,000
No Grants per /Yr	12	8	12
No of Grants/6 Yrs	72	48	72
Av. Value of projects/6 Yrs	USD 3,024,000	USD 10,080,000	USD 2,340,000
Estimated No of beneficiaries	20,000	160,000 ⁵⁹	10,000
Av. Cost per capita	USD 151	USD 63	USD 234 ⁶⁰
RUFEP Investment	USD 2,520,000	USD 7,200,000	USD 1,800,000
Contribution by Institutions/Comm.	USD 504,000	USD 2,880,000	USD 540,000

General Provisions of Accessing the IOF

18. Unlike in the previous IOF under RFP, all submissions must have both innovative and outreach features to ensure that the component does not merely support outreach (as was mostly done under RFP). Component 1 under RUFEP adequately provides for institutional strengthening that will enable institutions to extend their current footprints (products and services) into the rural areas. All the innovation windows will place emphasis on innovations that can bring in the most excluded – the poor in general and poor rural women and youth in particular. For purposes of this Programme and this component, innovation has been defined as something: (i) new and original; (ii) that creates new markets and adds value by converting new or existing knowledge into new, better, efficient products, services or business processes; (iii) customers must be willing to pay for the innovation as it satisfies a specific need; (iv) that should be replicable at an economical cost. Interventions that are likely to be presented as innovations (but are not) have also been defined.⁶¹

19. The general provisions to be fulfilled by all institutions intending to access the IOF are: (i) legal registration; (ii) have at least two years audited accounts; (iii) be engaged in rural finance activities or have approved intention to do so⁶². For FSPs, they should; (iv) be regulated entities or should have, by the time of application, submitted an application to BOZ; (v) demonstrate that they are viable or able to become viable during the period of support⁶³; and (vi) adequately capitalised⁶⁴. Investments under this component will cover a wide range of items/activities as detailed in the table above. The matching grants will however not cover loans, lines of credit and guarantees and to avoid over-usage in post-pilot operational costs (staff salaries and wages, transport, office running costs), a maximum period during which support will be provided has been indicated (see table 4 above). In all cases, a contribution of the grant applicant is required, which will depend on the window under which they have applied. The duration should, under normal circumstances, not exceed two years. Projects that would

⁵⁹ Includes persons who are not RUFEPs target group as the larger licensed FSPs are likely to benefit from this window.

⁶⁰ Cost includes a research element – some of the research ideas generated may not be immediately applied.

⁶¹ These are not innovations ; (i) something new but not novel or better is an invention; (ii) something done differently but not better is just an improvement; and (iii) something good but not new or is copied is an imitation.

⁶² Evidence of board approval is needed for those not previously involved in rural finance activities.

⁶³ To ensure that IOF support is not wasted on non-sustainable innovations or institutions. Sustainability should be demonstrated in terms of size of membership, business levels and capable of covering non-innovation related operational costs).

⁶⁴ BOZ can provide comfort on this issue. The purpose is to ensure the institution is able to absorb losses arising out of new activities.

take longer than this should be split into several phases; the approval of the first phase would then be done with the explicit approval of the entire project, subject to satisfactory implementation by the grantee and compliance with all obligations.

20. **Multiple applications.** An applicant eligible to participate under more than one window may submit: (i) one proposal at a time under any given window; (ii) not more than two parallel proposals under different windows at any point in time. Applicants may also combine applications for support under component 1 with an application for support under one of the innovation windows. In such a case, careful review of the combined application should be made to ensure that the pilot period of the innovation is respected and that activities and RUFEP support are logically sequenced. In cases of overlap in content of proposals – where institutional strengthening comprises a large part of the innovation proposal, the applicant will be advised to apply under the two components.

21. The list of innovative ideas and financial products mentioned in this PIM is by no means exhaustive. Innovations may range from value chain financing, medium-term financing or leasing for the agriculture sector, innovative insurance products (e.g. index insurance), the expansion of leasing to the financing of agricultural equipment, biometric identification at points of sales, strategic partnerships (to reach previously un-served businesses), opening up new service channels, devising innovative financial products, marketing and customer service strategies, product and strategy development for promoters of CBFIs or village savings and credit initiatives, and more comprehensive support packages for those under extreme exclusion e.g. youth. The PCO, technical advisors and reviewing committee should, in upholding the conditions detailed under the three windows, use their expertise and knowledge to guide applicants on how best to structure their proposals in line with the terms and conditions that best benefit RUFEP's target group.

22. Innovations involve risk taking and organisations that create innovative products or technologies take on greater-than-usual risk. For the case of rural finance, innovative FSPs are expected to forego serving easy-to-bank clients (urban, large enterprises, adequate collateral, trade/service) and innovate new processes, products and services that can serve a new market (rural, small, asset-poor clients mainly involved in agricultural or other little-known rural enterprises), particularly rural women and youth. Thus, the need to ensure that innovations are first piloted and only rolled out after results of pilots (sustained demand and cost-effectiveness) have been established before rollout.

2.3 Component 3: Knowledge Management and Programme Implementation

23. **Component 3: Knowledge Management and Programme Implementation.** The component comprises two sub-components: a) Sub-Component 3.1 – Knowledge Management and Technical Support; and b) Sub-Component 3.2 – Programme Implementation.

Sub-Component 3.1: Knowledge Management and Technical Support

24. This sub-component comprises support services and activities conducted by the PCO to prepare, supplement, deepen and/or accelerate processes of facilitating access of the rural poor to financial services. In this respect, support is considered as structured under two broad areas: (i) knowledge management; and (ii) the provision of technical expertise and guidance in rural and agricultural finance matters. These support functions will play an important role in enhancing implementation plans under components 1 and 2 described above and should be closely integrated with planning, monitoring and evaluation functions as outlined in Appendix 6.

25. **Knowledge management** will comprise a range of activities geared toward increasing public and intra-sectoral knowledge and understanding of technical matters related to rural and agricultural finance, aiming to contribute at a very practical level to facilitating access of, and usage by, the rural poor and RUFEP-target groups to financial services. In this respect, key principles underlying support for knowledge management under the RUFEP are: a) user friendliness and practicality, promoting applied learning; b) knowledge as a public good, aiming to raise and sustain levels of knowledge across the sector as a whole; and c) meaningful dialogue, creating space for participatory debate that

lead to demand-driven solutions for the market. There have to be targeted interventions for knowledge generation, management and dissemination; this endeavour will be led by the Programme's Knowledge Management and Communication Officer.

26. The Programme will include a budget resource 'basket' specifically for research and development. While it is foreseen that the bulk of research and development initiatives will take place in the first half of the Programme, with areas of need being removed over that time, it is possible that new areas for research and investigation will emerge as markets and Programme responsiveness evolve. It is not possible to outline all the themes to be covered over a period of almost a decade, but topics – seen from today's requirements – needing deeper research and analysis may include: (i) practice of applying collateral substitutes and their pros and cons; (ii) supply chain and value chain analyses and financial modelling; (iii) comparative analysis of the efficiency of different products and financial services in rural areas; (iv) cost reduction potential of different technologies, products and approaches when serving rural areas; (v) efficiency gains under different value chain arrangements; (vi) feasibility of rural banking and finance under interest cap policies; (vii) perceptions and attitudes of the rural population vis-a-vis mobile phones and mobile phone banking; and (viii) transaction costs under different linkage-banking approaches (e.g. the ZANACO Lima model, linkages with self-help groups, etc.). In addition, research issues relating to community-based finance may be addressed here under component 3 or under component 2, IOF in the form of grant support to specific (or groups of) CBF-promoters. Preferably, research exercises will be sub-contracted to capable local institutions, such as universities, research institutes or other institutional bodies. In all cases, adequate provision shall be made to ensure that all activities are conducted in accordance with standard methodologies, within the prescribed timeframe, and presented with the highest possible quality and diligence.

27. **Planning, Monitoring, Evaluation and Results-Based Management.** The onus for capturing data information and ensuring appropriate systems for the same will rest with Programme partners, service providers and IOF grant recipients. Progress reporting and measuring the level of achievements of results against set indicators will be based on the consolidation of data and information from various parties. It is, therefore, important to provide a clear common framework for M&E planning and implementation, and reporting, to ensure that all parties have a clear understanding of their role, as well as the tools, approaches and required formats for contributing to M&E requirements and quality assurance.

28. In addition, to ensure that RUFEP will be in a position to gauge its achievements in all the areas of intervention, all participating financial institutions will be asked to prepare key indicators on their current outreach in terms of clients, geographical coverage, range of products, portfolio performance, etc.

29. The Programme will ensure mechanisms, and structured approaches for capturing lessons learnt, new knowledge and opportunities for enhancing partner approaches, interventions and activities throughout the Programme life cycle. As such, M&E functions will tie in closely with Knowledge Management described above.

30. The Programme will promote evidence-based approaches to Programme implementation decision-making. For example, the implementation and analysis of findings from the MIX Mapping exercise will inform decision-making around gaps in physical access⁶⁵. The last (2009) FinScope survey, conducted within the framework of the Financial Sector Development Plan (FSDP) and measuring access to financial services, offers valuable insight into the access-inclusion gap, consumer preferences as well as non-financial constraints to financial inclusion. These studies could provide some key indicators for useful baseline for the RUFEP. It is also possible that a new FinScope survey could be conducted in the course of 2013, under contract of the Bank of Zambia and undertaken by FinMark Trust. In undertaken, the results would be expected late 2013 or early 2014. Given the relevance of the survey results for Zambia, it is recommended to build some of the

⁶⁵ This denotes an effort undertaken by the Mix Market, a platform collecting data from financial institutions around the globe on key financial and social performance parameters. The Mix mapping exercise presents physical access to finance in a graphical format. See for example the one recently prepared on Kenya: <http://maps.mixmarket.org/kenya/>.

Programme impact indicators into the FinScope survey and explore opportunity to co-finance the implementation of this and follow-on surveys. The Programme will work with BOZ and FinMark Trust to add pertinent questions to enable RUFEP to fully utilise the results for impact monitoring purposes.

31. **National dialogue on Zambia's rural finance options.** At the onset of the RUFEP, the PCO will launch a national dialogue on the different options accessible to Zambia to advance the financial inclusion front⁶⁶. Elements of this dialogue could comprise: (i) a review of the contributions of the different types of financial institutions to economic development and financial inclusion; (ii) a review and feasibility study of the different options and systems practiced outside Zambia that might advance equitable rural development in Zambia⁶⁷; (iii) a review of the prevailing laws and regulations and their impact on equitable development, financial inclusion and other relevant parameters; and (iv) an economic and financial analysis of the impact of investments into the different options. The outcomes of the process are expected to be a much higher awareness among the general public and decision makers about the relevance of current policies and programmes, a clear and rational notion on how best to advance on the rural finance and inclusion agenda, and emerging alliances for the future building process.

32. **Facilitating and structuring value chain finance.** There is a high need for facilitation of concrete financial and institutional linkages and aggregation of value chains in Zambia. The PCO will engage actively in providing such packaging support, provided that no private sector institution or agency could assume this role. It is expected that the need for directly undertaking this activity will diminish over time. In addition, the PCO will arrange for fora or fairs where value chain actors in need of financial solutions can present themselves to the financial sector and market their projects.

33. **Technical assistance in the implementation process.** The provision of technical expertise will be rationalised and aligned to planned interventions and the relevant windows under the three Programme components. Technical expertise will be drawn upon to fill identified knowledge gaps and to enhance the PCO's programming initiatives. Key principles governing the use of technical expertise will include: a) significantly advancing the case for the rural poor, and women and youth especially; b) demand-driven service provision that is timely and responsive to needs and attuned to recipients' capacities; c) high positive impact on the Programme agenda through well-defined terms of reference, concrete and timely deliverables, accountability and quality assurance of the services to be provided.

34. In order to minimise the time required for each procurement of the technical expertise, key technical areas that are likely to require specialists could be identified and pre-qualification (short-listing) of eligible and qualified consultants in each area could be done in advance. This way, the Programme may avoid having to advertise for expression of interests for each case. The use of retainer or framework contracts could also be considered. Based on this premise, the first round of technical assistance would focus on: (i) a study on the evolution of the demand for financial services by the agricultural sector, in particular financing of value chains over the next 5 years; (ii) an inventory of the existing practices, models, systems, procedures, advantages and constraints, and legal and other constraints in the field of agricultural and value chain finance (by sub-sector and region), with clear conclusions on what models and approaches work under what conditions, and what and/or who are the respective driving forces; and (iii) a feasibility study on the expansion potential of the beef, hides and dairy sub-sectors, comprising in-depth analysis of the different value chains, the different business levels within those value chains, including profitability, organisational and financial capacity of actors, and, based on findings, a set of recommendations on how best to advance financing of these sub-sectors and value chains. One of the tasks of the firm or institution recruited to perform the feasibility study will be to prepare draft terms of reference for subsequent technical assistance requirements (for the selected sub-sectors), which will then be reviewed and refined by the PCO.

⁶⁶South Africa has recently conducted a one-day *Indaba* on the inclusiveness of its financial sector, with public debates transmitted on TV, newspaper articles, some basic research, etc.

⁶⁷ The BOZ has for example suggested to assess the feasibility of introducing the concept of rural/community banks, as existing in Ghana, Nigeria and a few other countries.

35. **Component 3.2: Programme implementation.** Under this component, the administrative services for Programme implementation will be provided, including providing technical leadership to the planning and implementation of the first two components and research activities, reporting, financial management and procurement support. For this purpose, a classical PCO will be established, comprising a Programme Coordinator (PC), Financial Controller, Procurement Specialist, M&E Specialist, Knowledge Management Specialist, at least 2 Technical/Rural Finance Officers, an Assistant Accountant, one Administrative Assistant, one Office Assistant and one or two drivers. Staff of the ongoing RFP will be evaluated to establish whether their qualifications meet RUFEP's requirements. Otherwise, all staff will be recruited from the labour market for an initial period of two years, with six months of probation, renewable upon performance for periods of two years. All contracts will be established with clear performance targets, which will be used to determine each staff member's performance.

3. Target groups and targeting strategies

36. The main and ultimate target group is the rural poor, in particular the economically active micro and small entrepreneurs and smallholder farmers, with particular attention to women and the youth. In order to increase the effectiveness and likelihood of the Programme benefits reaching the target group, the Programme design and implementation will incorporate a targeting strategy to ensure inclusion of the poor, and women and youth in particular. For example, the CBF Linkage Window, one of the windows proposed under the IOF, is targeted at the development of sustainable community-based financial institutions. This will be one of the effective ways to encourage the participation and empowerment of the poor, particularly women and youth. Mechanisms that enable women to graduate from small group-based to larger individual loans without discrimination to support diversification of their economic activities will be encouraged. Programme design also envisages that the selection criteria for matching grants under the IOF will comprise the definition of clear benefits for women and the youth, and that other opportunities to help financial institutions realize the benefits of serving these target groups will be explored where possible. The Programme also recognizes the special problems faced by the youth in Zambia (and elsewhere) and the differences among them (rural versus urban; young men and young women). The Programme will have a strategy to identify specific needs of young women and men in the rural areas to determine how partners can provide them with appropriate financial service options and ensure financial tools and products address their specific challenges and opportunities.

37. RUFEP targets to have up to 140,000 men, women and youth in rural areas access financial services as a result of its interventions. At least 50% of these will be women and 25% youth⁶⁸.

38. Target groups will be addressed through the Programme more specifically as differing roles and segmentation emerges, i.e. differentiating between savers in the formal financial sector, members of CBFs, farmers engaged in farmer groups, owners of mobile phones interested to make payments, MSME borrowers, etc. Various mechanisms to reach these target groups will be devised, including innovative financial products that are attractive to women and youth. Majority of the target group are small-scale farmers who generally lack access to financial services.

39. However, even larger enterprises lack access to long-term finance and will therefore benefit from the Programme through other windows. Efforts will be undertaken to lead financial partner institutions to work towards more equitable financial inclusion in their products and services. Given the inability of the rural sector to satisfy banks' hard collateral requirements, efforts will be undertaken with the BOZ to elaborate new and redefine existing guidelines for the acceptance of non-traditional collateral substitutes as hard collateral by the financial sector. Electronic banking through mobile phones has an enormous potential to better serve the rural poor and reduce their transaction costs, and will therefore be actively pursued as part of the targeting strategy under the Programme. Given the potential for local savings and credit arrangements in the form of CBFs, the horizontal expansion

⁶⁸ The Ministry of Youth and Sport defines the youth as young men and women from 18 to 35 years old.

and vertical deepening of these to ease access of women and the youth to financial services will also be pursued as part of the gender strategy. In some aspects, the present data available is inadequate with respect to formulating strategies, which aim to reduce gender imbalances. A good example would be the case of mobile phone banking; various data clearly indicate that women in general, and more so women in rural areas, have below average ownership and use of mobile phones (Zambia Business Survey 2010). Under component two, the proposed window on Mobile/Agency Banking will explore and analyse barriers to access of smallholder women and men farmers, with the aim of reducing bottlenecks and barriers through, for example, the use of mobile phones. It is therefore important to better understand ownership and usage of mobile phones in order to ensure strategies for inclusiveness under the proposed window would have the desired impacts.

40. The Programme's targeting and intervention strategies will therefore come together and give special considerations for women and youth. Some of the challenges faced by women regarding access to finance have been identified as lack of collateral/discriminatory property rights; financial illiteracy; lack of awareness of development finance; lack of financial confidence; lack of appropriate products; uncertain business climate; inadequate financial skills; lack of banking facilities; cumbersome application procedures and complicated forms to complete; and high cost of finance. Furthermore, poorly disaggregated data on gender means there is limited market information on what women want and need; most businesses are informal and in lower value areas. In recognition of these disparities, the recently approved Rural Finance Policy includes social and gender equity as one of its objectives; this will continue to be actively pursued under RUFEP.

4. Implementation arrangements

41. **Lead implementation agency.** The lead Programme implementing agency will be the MoF. The MOF will mandate the Investment and Debt Management Department (IDMD) to be directly responsible for RUFEP implementation. IDMD will also house the RFU the set-up of which is contained in the Rural Finance Policy and Strategy that was approved by Cabinet in May 2013. The RFU establishment will receive support under component 1.

42. **Oversight.** A Programme Steering Committee (PSC) with relevant representation at national level will provide oversight, policy direction and coordination between key government institutions. The PSC members will include: (i) Permanent Secretary (PS), Budget and Economic Affairs, MoF; (ii) Director, IDMD, MoF; (iii) Chief Economist, IDMD, MoF; (iv) Chief Accountant, IDMD, MoF; (v) Director, Non-Bank Financial Institutions, BOZ; and (vi) Director, Agribusiness Department, Ministry of Agriculture and Livestock (MAL). The PS will serve as chairperson to the PSC and the RUFEP PC will serve as secretary (without voting rights).

43. It has been recommended that members of the PDG, who have been participating actively in the RUFEP design process, be transformed into a Technical Advisory Group (TAG) for Programme implementation. The group could also bring in other stakeholders from the rural finance/banking sector; it should have at least half of its members coming from the private sector.

44. **Managing partnership arrangements.** Implementation of Programme activities under components 1 and 2 will largely rest with selected partner institutions and grant recipients, governed by a partnership agreement, memorandum of understanding (MOU) or grant agreement. Hence, it is critical to provide a framework and guidelines (e.g. for work planning and budgeting, progress reporting, financial and procurement management as appropriate), ensure the quality of work plan and budget and reporting, provide implementation support, monitor their performance, and terminate partnership arrangements when required.

45. **Linkages with other actors.** Coordination, linkages with various actors and partnerships will be actively pursued under the Programme where feasible and leading to synergy and added value. Maintaining dialogue with various parties and proactively exploring opportunities for linkages will be one of the important tasks for the PCO, which will also contribute to coordinating the support for the sector under the RFU. In addition to sector players (financial institutions, apex organisations, etc.), the

major initiatives (presently known) that will have to be well-coordinated and harmonized include the DfID-supported “Access to Finance Deepening Project”, the private sector development activities and projects of the World Bank (credit line and technical assistance to banks and MFIs for SME lending) and various current and planned projects of the African Development Bank (in the livestock and aquaculture sectors, plus one regional development project and a planned intervention in small enterprise development). The same applies to other relevant programmes and projects, including the ones funded by the Finnish and Swedish governments.

5. Collaboration with other IFAD-supported Programmes

46. With regard to other IFAD-financed Programmes/Projects, RUFEP will work very closely with them to increase access and use of financial services by the Programmes’/Projects’ target groups. On the other hand, in situations where value chains and smallholders would be supported under the RUFEP and be in need of support in their sector operations that these other programmes could provide, such support will be facilitated and arranged for. Such approach is likely to lead to much higher levels of integration and synergy than previously achieved. There are also opportunities for synergies with other initiatives supported under the UN agencies, such as the World Food Programme’s (WFP) Purchase for Progress (P4P), e-payments, and the Food and Agriculture Organization of the United Nations (FAO) with regard to value chain support and finance, and the integration of producer groups into market arrangements and financial services. Where possible and feasible, these shall be explored and deepened for the benefit of the rural poor. In particular cases, MOU will be signed to help guide the envisaged collaboration.

6. Financial Management

47. **Fiduciary Risk Assessment.** IFAD requires a Financial Management Assessment (FMA) as part of project design. The primary objective of the assessment is to provide assurance that the implementing agency will have sufficiently strong financial management systems and controls in place to properly manage, control and report project finances in order to ensure that project funds are used economically and efficiently for the purpose intended. FMA involves:

- a) Assessing inherent risk involving the country level financial management risk;
- b) Project specific assessment. In the case of RUFEP, the PCO is not yet established but similar arrangements as under RFP’s’ PMU and PEMFA project funded by the World Bank that is already rolled on IFMIS have provided the basis to complete the assessment. The overall RUFEP fiduciary risk assessment at design is assessed as medium and with the proposed mitigations the final risk assessment is low.

Table 2: Fiduciary risk assessment

	Initial risk assessment	Proposed mitigation	Final risk assessment
Inherent Risk			
TI Index	-	-	M
Control Risks			
Organization and Staffing	L	RUFEP will have two finance staff (Financial Controller and Assistant Accountant) paid for from Programme Funds	L
Budgeting	M (Budget Control under RFP was not up to individual budget activity level, mostly because	If at the start of RUFEP IFMIS is not yet available to projects hosted outside the Ministries, RUFEP	L

	Initial risk assessment	Proposed mitigation	Final risk assessment
	the Programme did not have a FM software)	should be allowed to procure a stand-alone FM software and set up the coding of RUFEP in the system in the recommended formats as part of the start-up activities. This data should be transferred to IFMIS once it is operationalised at the Project level	
Funds Flow and Disbursement arrangements	H (With RUFEP coming with many partnerships and grant recipients, the existing RFP systems will not cope)	Strict administration of partnerships and grant agreements with strict financial management arrangements to be detailed in the PIM	M
Internal Controls	H (With more partnerships and grants, the existing RFP systems will not cope)	Specific IOF manual will include agreed internal controls in dealing with grant recipients	M
Accounting systems, Policies and Procedures	H (RFP has been using excel after waiting in vain for IFMS installations)	Profiling of RUFEP in IFMIS or, in its absence (if at the start of RUFEP, IFMIS is not yet available to projects hosted outside MoF, RUFEP should be allowed to procure a stand-alone FM software and set up the coding of RUFEP in the system in the recommended formats as part of the Start Up activities), the setting up of RUFEP FM system, will be a critical start up activity that is a disbursement condition	M
Reporting and Monitoring	H (RFP could not report up to individual budget item level) and there were inconsistencies in financial data in various reports.	Code the RUFEP in IFMS as part of the start-up activities. If IFMIS is not fully functional at start-up, an off-the-shelf accounting package should be used and the data transferred once IFMIS becomes operational	M
Internal Audit	M (Currently all RFP expenses are subject to MoF. Internal Audit review before payment. However, structured internal audit only done occasionally)	Ministry Internal Auditors will be required to include RUFEP in their annual internal audit plans. RUFEP AWPB will include a budget line for periodic Internal Audit Functions	L
External Audit	M (Under RFP audits were done by a private auditor and was largely satisfactory but with some significant audit	Training of the RUFEP finance team in financial reporting under IPSAS cash basis.	L

	Initial risk assessment	Proposed mitigation	Final risk assessment
	queries)		
RUFEP fiduciary risk at design stage	M		L

H/M/L = High, Medium and Low risk as per the Guideline Note on undertaking Financial Management Assessment at design.

48. **Inherent Risk:** Zambia's annual Corruption Perceptions Index as published by Transparency International still falls in the medium risk category and has shown some improvement having moved from 32nd position in 2011 to 37th position in 2012 (out of 100 at the lowest risk level).

49. **Strength and weaknesses of the GRZ Integrated Financial Management System (IFMIS).** The use of IFMS is increasingly becoming a requirement; the GRZ is rolling out IFMS to its ministries, departments and agencies, including projects such as the proposed RUFEP. However, currently, this applies only to projects located in the same building as their parent Ministries. Additional IT infrastructure is required to link the projects located outside the Government Ministries. This is the reason why RFP never got to be rolled-on IFMIS; this resulted in the use of excel spreadsheets with many limitations to process its financials. There is therefore the risk that the envisaged RUFEP roll-on may also be delayed. In order to undertake an assessment of the strength and weakness of the IFMS, the RUFEP design mission based itself on the PEMFA project (it should be noted that, unlike RFP or the proposed RUFEP, PEMFA is hosted within the Ministry of Finance premises and that is why it is already linked to IFMIS) funded by the World Bank that has already been rolled on IFMIS. The assessment of IFMIS shows that it has strong control features as illustrated in the following payment processing cycle:

- The requisitioning user department is required to generate the requisition form, directly from IFMIS. If there is no budget for the activity, the requisition form will simply not be generated and the process would not be able to proceed any further. IFMIS is thus very strong as a budget and commitment control tool. The accounting officer (in the case of projects, the Project Coordinator) would have to also sign off, electronically, on this form before the procurement officer can be notified, also under IFMIS computer prompts, to take the necessary procurement actions.
- Once the requisition form is successfully uploaded into IFMIS, with all its contractual details, and cleared by the Project Coordinator, the Procurement Officer is notified electronically on his/her workstation computer through IFMIS auto prompts. If the Procurement Officer is comfortable, from a procurement perspective, s/he signs off by raising a local purchase order tool; this also has to be signed off by the project coordinator before proceeding to the next level. Therefore, the system is strong, if well used it ensures that procurement processes have been complied with; otherwise the procurement officer would not be able to sign off at this point and the system would abort.
- The next step in the payment processing cycle is for the user department to electronically sign off receipt of goods or acknowledgement of service delivery as the technical user department (technical contract manager).
- It is after the designated technical contract manager has signed off, confirming receipt of goods/ services that, the invoice payment prompt will appear on the workstation computer of the finance staff. On receiving this prompt, the incoming invoices from suppliers / services providers will be posted in IFMIS. The invoice parameters as posted by the finance staff will have to be auto corroborated to the information already within IFMIS before the payment processing can move to the next level.
- At project level, the final payment procedure involves the financial controller and the project coordinator, who have independent passwords, having to sign off thereby prompting the printing of pre-printed cheques. In Zambia, the system is not yet advanced to allow transactional data to be sent to the commercial banks electronically; physical cheques have to be printed and delivered. This, however, is likely to change during the implementation period for RUFEP.
- Through the IFMIS Business Intelligence facility (this is the facility where project tailored financial reports can be designed), budgets can be controlled.

50. From the above payment cycle, IFMIS has strong features for segregation of duties and budget control. For a fraudulent payment to successfully go through, it would require a connivance of very

many officers. The following gaps and weaknesses have been noted and will need to be addressed under RUFEP.

- IFMIS is not yet operationally functional for projects which are not physically located in the same premises as their parent Ministries. This is because the required IT infrastructure to link the projects with the Ministries is not yet in place. IFMIS may therefore not be immediately available to RUFEP unless it is physically located within MoF Premises.
- Cash advances are expensed in IFMIS at the point of withdrawing the funds and there is no in-built mechanism for IFMIS to track advances that remain unaccounted for or unretired. Thus, IFMIS will perform very poorly in monitoring advances to partner institutions under component 1 and Grant recipients under component 2.
- Role profiling is very crucial and if not well done, processing a single transaction can take, sometimes, up to weeks. Role profiling means determining, within IFMIS, who does what up to what access rights. The Permanent Secretary is usually the overall accounting officer; but through role profiling the payment approval function can be delegated to a programme coordinator who would have to be assigned access rights under password controls. If this is not done, it would mean that each payment would have to be signed off by the Permanent Secretary and this can be a source of significant disbursement delays. Similarly, the RUFEP financial controller, the procurement officer, the technical support team would have to have their roles in a payment cycle well profiled within IFMIS and assigned respective passwords and access right levels. This role profiling will be a key start-up activity to be documented in form of a report to be shared with IFAD.
- For project accounting purposes, if the coding using the IFMIS business intelligence facility is not carefully done to reflect the structure of the project components, and expenditure categories, project financial reporting will require a lot of off IFMIS accounting work. The general impression is that, even if it is very well coded, there will still be a lot of off IFMS accounting work in dealing with partner institutions and grants under the IOF facility. For example, it will not be possible to generate withdrawal applications to IFAD directly from IFMS.
- Finance officers under RFP also performed some procurement functions because there was no dedicated procurement specialist in the PMU. This is not a recommended practice as there should be segregation of duties between the two functions. Under RUFEP these functions have been separated.

51. **RUFEP Financial Management Organisation Structure.** Given the above assessment which represents a moderate fiduciary risk, the following arrangements will apply. A separate Programme Coordination Office (PCO) will be set up for RUFEP with a fully-fledged finance section staffed by one Financial Controller and one Assistant Accountant competitively recruited and paid for from Programme funds. These will be recruited on an initial two year contract basis. This includes the review and approval by IFAD of the: (i) recruitment process; (ii) terms of reference of the officers; and (iii) post review of the selected officers prior to the issuing of the contracts. The recruited officers will have to be trained in the IFAD-specific financial management requirements.

52. **Proposed funds flow arrangements.** The Programme will open a Designated Account in USD at the Bank of Zambia and a Programme account in Zambian Kwacha (ZMW) in a commercial bank acceptable to the Fund. The proposed RUFEP envisions a number of partnerships and this comes with financial management implications. Programme implementation under components 1 and 2 will largely rest with selected partner institutions and grant recipients.

53. **Financial Management for partnerships under Component 1.** The institutions with which RUFEP will enter into partnerships are each expected to make their own significant contribution in addition to the RUFEP contribution. Given the size of the funding, the following financial management arrangement will be detailed in the PIM and included in the partnership agreements:

- Each partner institution will open a specific bank account for the RUFEP funds.
- To access RUFEP funds, evidence by way of bank statements will be provided by partner institutions that it has put its *pro rata* contribution on the bank account in advance.
- Each partner institution will provide counterpart staff to participate in the RUFEP AWPB events to ensure their respective parts of the budgets have been well captured. That is, the AWPB preparation process will be participatory.
- Budget overruns at partner institution level will not be allowed beyond 5% without prior written concurrence from the PCO. Thus, the partner institution will be required to make use of agreed budget

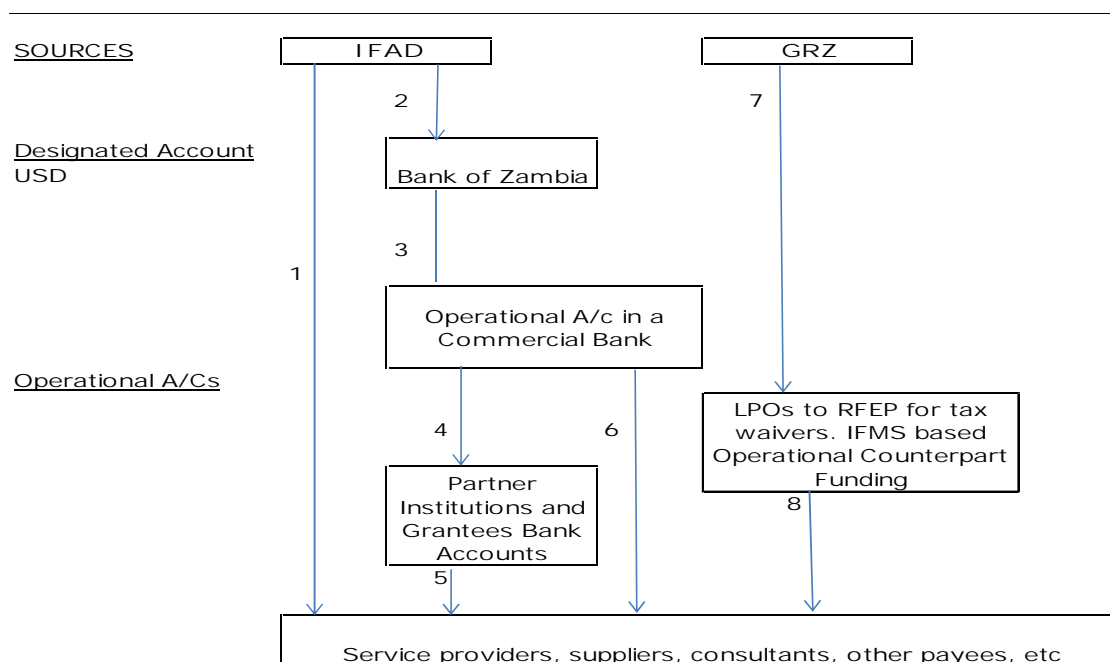
control tools.

- The partner institution will receive an initial float that will be managed on a replenishment basis on submission of certified Statement of Expenditures (SOEs) subject to the SOE in the letter to the borrower as amended from time to time by the Fund depending on the assessment of the fiduciary risk. Initially this is proposed as USD 20,000. The same replenishment system that RUFEP will use to access IFAD loan funding will cascade to the partner institution.
- The PCO will, in addition to the SOEs, require financial reports to be able to capture the transactions of the partner institution in the RUFEP consolidated financials.
- Partner institutions will be required to grant RUFEP's internal and external auditors full audit cooperation. This will include collaboration with the IFAD Supervision Missions.

54. **Financial Management under Component 2: Innovation and Outreach Facility.** This is a matching grant facility as practiced under the RFP. Matching grants by their nature create unique financial management challenges. Under RUFEP, these matching grants will be under a number of windows with varying level of grantee contributions.

- Matching grants pose unique accounting issues:
 - How to deal with the counterpart contribution;
 - Under cash basis, how to account for matching grants in the accounting system;
 - The need for specialised data base for matching grants;
 - The tax elements in grants;
 - The nature of accountability on the side of the grantees.
- While the specialised IOF manual will be developed as part of the PIM, it is important to explain in the appendix the accounting approach:
 - A Beneficiary contribution: Grantees will **not** have to deposit their respective contribution into their own bank account in the same tranches as they expect to receive from RUFEP. Instead, they will keep analytical records regarding their own contributions and justify these where needed. Transfers of grants will be in tranches, based on achievements of certain milestones by the grantees as defined in the grant agreements. For bigger grants, it will also be allowed for RUFEP to pay the suppliers directly after the grantee has confirmed that they have paid the supplier their share of the matching grant. This is likely to be the case where external international TA is recruited under the grant agreement.
 - Matching grants will be expensed at the point of disbursements and will be included in the withdrawal application at that point. If the RUFEP was to wait for the grantees to submit their returns, it would quickly deplete its initial deposit. A grant, once given, is a grant expensed; the rest will be left for monitoring and evaluation/follow up by the Technical Officers and the Monitoring and Evaluation Officer.
 - Since grants will be expensed at the point of disbursement, neither IFMS nor the proposed simple off the shelf accounting package system will be able to provide ledgers for each grant thus necessitating a separate grant data base. The objective is to ensure that grantees are not paid beyond the grant ceiling and the agreed milestone bases payment is adhered to.
 - Taxes and Grants: It should be emphasised that the tax element in grants does not cause ineligibility for IFAD financing purposes as in other transactions. It will be taken that the tax element is paid from the portion contributed by the beneficiary.
 - Nature of Accountability from Grantee: The matching grant represents an arrangement of equal partnership between RUFEP and the grantee and the accountability will be output-based as opposed to a series of paper work.

Figure 1: The RUFEP flow of funds chart



55. The funds flow chart above depicts the use of the standard International Financing Institution (IFI) disbursement methods including: (i) direct payment method for bigger payments over USD 50,000; (ii) use of designated account; and (iii) reimbursement if GRZ has pre-financed any transactions. As RUFEP has very few physical goods to procure, the use of the special commitment procedure is unlikely.

56. **Financial management inputs for RUFEP supervision plan.** RUFEP Supervision Missions will undertake financial management reviews around the electronic IFMIS system. In particular the supervision Missions should be able to perform walk through tests to confirm the integrity of system-based controls. In particular, check on IFMIS segregation of duties in the processing of payments such as the need for IOF managers to sign off with the system acknowledgement of service delivery. Supervision Mission teams should include a financial management specialist who has the ability to review electronic payment platforms such as IFMIS, as opposed to the conventional paper-based payment processes. RUFEP Supervisions Missions should also check that the RUFEP coding within IFMIS is reflective of RUFEP components, sub-components and key activities. Otherwise; budget control within IFMIS would be baseless from a project accounting perspective.

57. Supervision Missions should review cash advances to PCO staff and other Government staff as this has in the past been found as a risky area. The recommendations made herein assume that IFMIS will be available for RUFEP's use at the Programme start. In the vent that the IFMIS software is not available, a good off-the-shelf Financial Management software should be purchased and the coding of RUFEP undertaken in the system in the recommended formats. The supervision Missions would then need to properly review the conventional paper-based payment processes to ensure compliance.

7. Monitoring and Evaluation

58. This section contains summarised information on how the Programme will undertake planning, monitoring and evaluation (M&E), learning and knowledge management. It will build on the established practice of the RFP and the other on-going IFAD projects in Zambia. More detailed information can be found in Appendix 6. Given the nature of the Programme interventions, most of the implementation will rest with partners, service providers and IOF grant recipients.

Planning

59. The Annual Work Plan and Budgets (AWPBs) are prepared for each Programme year, and form the basis for Programme implementation. The purpose of the AWPB is to provide the PCO with a timetable for implementation of a set of carefully scheduled activities, together with their respective budgets and input requirements for the coming year. AWPBs are formulated taking into account the previous AWPB, the Programme design report, documented supervisory Mission recommendations and legal covenants, such as contracts and partnership agreements with service providers and participating financial institutions. The AWPB is a tool for underlining, specifying and consolidating implementation priorities, and for projecting inputs and budget needed, for pre-planning procurement requirements, and most importantly establishing staff work plans both within the PCO, and across implementing agencies. Financial allocations within the AWPB constitute the basis for release of funds by different donors, and for financial control. When well linked to the Design Report and the Programme Logical Framework, the AWPB can be a powerful tool for assessing Programme efficiency and effectiveness in achieving the Programme outcomes. Moreover, a quality AWPB facilitates the preparation of progress reports and the work of the supervision Missions. An AWPB is an essential covenant in the financing agreement; failure to prepare it on a timely basis may lead to delay in or suspension of fund disbursements by IFAD and other donors.

60. In line with the RUFEP Programme approach, the AWPBs will have a mixture of detailed budget for pre-defined interventions and activities as well as indicative budget allocations based on good projections for anticipated numbers of partnerships and/or grant recipients. The first RUFEP AWPB should be prepared, together with the procurement plan, for the first 18 months of the Programme, and be presented for discussion during the start-up workshop, as well as for submission to IFAD for no objection. Subsequent AWPBs should be prepared, discussed and approved no later than sixty days before the end of the financial year. Experience shows that this review process requires a minimum of six months. If required, the PCO, through the PSC, may propose an adjustment in the AWPB during a Programme year, which will become effective upon clearance by IFAD. To allow meaningful participation of Programme stakeholders, the process of AWPB preparation should, as a first step, involve all potential and actual partners, and from there evolve into a consolidated work plan and budget. The table below provides a time schedule that would guide the AWPB preparation and approval process.

Monitoring and evaluation

61. The M&E system will be based on the log-frame and generate verifiable information on the Programmes' performance in a form that will assist the MoF, PCO, partner financial institutions and other entities interacting with the PCO to plan and finance their activities, to compare actual progress against the planned targets, and to allow timely remedial action to be taken to correct problems encountered during implementation. Information generated through the M&E systems will contribute to facilitating workflows and to the quality of decision-making by providing the means to target in on implementation problems and ensure effective communication, co-ordination and problem solving between the implementing agencies. The four interrelated components of the proposed M&E will collectively span the performance-impact space and comprise: (i) Input/output/activity monitoring sub-system; (ii) Financial and procurement sub-system; (iii) Outcome/impact assessment sub-system (which includes the Results and Impact Monitoring System [RIMS]); and (iv) Reporting routine. Progress reporting and measuring the level of achievements of results against set indicators will be based on the consolidation of data and information from various parties. It is therefore important to provide a clear common framework for planning and progress reporting, and to ensure that all parties have clear understanding on the tools, formats, definition and applicability of indicators, and the means to conduct quality assurance.

62. The Programme's external monitoring will comprise: (i) six-monthly IFAD supervisions; (ii) *ad hoc* thematic/diagnostic studies; (iii) yearly audit reports; (iv) Mid-Term Review reports; and (v) a Programme Completion Evaluation/Impact Assessment (PCE). All relevant M&E data will be disaggregated by gender and age bracket where feasible.

63. The RUFEP will be able to capture baseline data from select key sources during the first 12-18 months, depending on timelines and availability of final reports.

64. As a first step, participating financial institutions (with the involvement of the key industry representative organisations, such as AMIZ) will be required to prepare and submit key indicators on their current outreach in terms of number of clients, portfolio outstanding, geographical coverage, range of products, portfolio performance, etc. Where possible, partners will provide disaggregated data for gender and youth.

65. The FinMark Trust is also expected to repeat its Finscope Survey during 2013. The results should be expected late 2013 or early 2014. Given the relevance of the survey results for monitoring financial access and inclusion, it is recommended to build some of the RUFEP Programme impact indicators into the FinScope survey and explore opportunity to co-finance the implementation of this and consecutive surveys. Where possible, FinMark Trust could be requested to add pertinent questions to enable the Programme to fully utilise the results as baseline and later for impact monitoring purposes.

66. In addition, the RUFEP will collaborate with the MIX Market, which has received a grant from IFAD, to integrate the use of mapping tools to visually show the level of financial services, combined with economic infrastructure (spatial information and over time). The MIX mapping exercise would not only provide useful baseline information; it would also be a useful tool for policy dialogue and outreach planning. An update of the Mapping exercise would also be a powerful tool for measuring RUFEP effectiveness with respect to contributing to financial access and inclusion.

67. Lastly, baseline data (and on-going data monitoring) will be captured through specific surveys to capture information not readily available. For example, one such survey will be to collect data on the cost of borrowing in rural areas (baseline, mid-term and at Programme completion). The need for other surveys will be defined at the Programme start and when the need arises.

68. **M&E instruments.** Each of the M&E components is managed by a set of interlinked instruments, which captures data in pre-designed templates and provides information in customized tables for use in progress monitoring and reporting. A Programme Output Database will serve as a real time tracking instrument of the implementation of the Programme activities and associated outputs and outcomes, together with other related attributes. The AWPB data will be captured in two stages: (i) immediately after its approval; and (ii) regularly during its implementation. The AWPB should ideally be translated into monthly and quarterly action plans to be implemented and monitored at partner and national level.

69. To keep the database simple and focused, the reporting system of the database will consist initially of a set of tables, which respond to the requirements of key reports (six-monthly and annual progress reports, IFAD supervision and follow up reports). If other tables are needed, (requiring advanced analysis), the database will allow for crude data to be transferred to other specialized software for further analysis. The design of the Programme Output Database will be fully harmonized with other applications/databases of the Programme, especially with the financial and procurement application in order to be able to assess the programme efficiency.

8. Reporting

70. The provision of informative progress reports is a formal requirement; the Loan and Financing Agreements stipulate these requirements. The six-monthly and annual reports should be prepared and submitted to IFAD, the other co-financing institutions and all collaborating institutions. The main functions of progress reports are:

- Review current progress compared to planned activities, and expenditures compared to budgets;
- Provide overall status information on the Programme since it started – in terms of physical progress and total expenditure;

- Identify problems encountered during the reporting period and any remedial actions taken to resolve the problems;
- Analyse strength and weaknesses, opportunities and threats;
- Discuss quantitative and qualitative progress made in achieving the overall objectives; and,
- Provide strategic direction for the next planning cycle.

71. The primary importance of preparing progress reports is that it forces implementing agencies and Programme management to record data and review progress. Reflect on outputs, evaluate performance, and discover weaknesses that can be improved and successes that can be up-scaled. It is this process of reflection and analysis that matters; if done properly, the process would lead to better plans and implementation in the future.

72. Progress reports are the most tangible result of monitoring and, usually, a distinction is made between quarterly, six-monthly and annual reports. Monthly reports are not recommended although some implementing agencies may use monthly reports as part of their internal management systems. For IFAD Programmes/Projects, however, a month is generally too short to record significant change and prepare a consolidated report. Thus, six-monthly and annual reports will be produced. It is recommended that RUFEP liaises with the other IFAD-supported Programmes/Projects in the country to agree on a set of guidelines and a format for progress report writing.

C. Procurement Manual (to be prepared when the PCO is established)

The RUFEP Procurement Manual will be developed during the first quarter of the first Programme Year under the leadership of the RUFEP Procurement Officer. The manual will have to be consistent with the IFAD Guidelines on Procurement.

D. Financial Management Manual (to be prepared when the PCO is established)

The RUFEP Financial Management Manual will be developed during the first quarter of the first Programme Year under the leadership of the RUFEP Financial Controller. The manual will have to be consistent with the IFAD Guidelines on Financial Management.

E. Operating manual for Component 1 – Strategic Partnerships

Introduction

73. The RUFEP has been designed to offer holistic support to strengthen the financial sector through an enabling environment and improved infrastructure, to improve the capacities and efficiencies of a broad range of actors operating within the sector, and to expand the range and reach of products, services and delivery channels. RUFEP support and initiatives will be demand driven. The RUFEP PCO will be a facilitator rather than a direct implementer. All initiatives supported will demonstrate clear links with market needs, and achieving the Programme's objectives. An understanding of, and the ability to apply, these approaches will be fundamental to developing the level of strategic partnerships envisaged under component 1. This component will formalize and provide structured approaches for strategic partnerships under the Programme. The overall objective of Component 1 will be to strengthen partner institutions' capacity to enhance their contribution to the improvement of framework conditions for rural financial sector growth and outreach. While Zambia's financial industry has seen considerable new developments and dedicated strategic programming with respect to rural and agricultural finance, the persistent lack of industry capacity is a major constraint to growth in the supply of appropriate financial services. Weak capacity is an issue across all levels of service provision from wholesale and commercial banking right down to community-based informal savings and credit management. This component will provide structured and well-targeted

support to address gaps in skills and knowledge across these different market sectors, and to ensure industry actors are able to respond to growing end-market needs and opportunities.

Justification

74. While there exists various institutional frameworks in Zambia for developing rural and agricultural financial services, there are gaps and weaknesses that need to be addressed on the supply-and demand-side for significant progress towards financial inclusion to be realized. Component 1 will contribute to addressing gaps and weaknesses at the wholesale- and retail-levels on the supply-side. Though many of the legal and regulatory gaps have been or continue to be addressed under the FSDP, there are key areas which have not yet been addressed. The RUFEP, under Component 1, will be in a position to mobilize technical expertise to develop contextualized and workable solutions to fill those gaps. There are market opportunities in rural and agricultural finance, which are not being fully exploited due to lack of or weak technical skills, knowledge and know-how on the part of suppliers, at all levels of the supply chain. There is currently very little in the way of well-structured, demand-driven training and capacity building in Zambia on contemporary areas of rural and agricultural finance, and there are particular challenges around viability and scale, targeted value chain financing, community-based financing, technologies uptake, and linkages across production, marketing and financing, which require multiple-stakeholder interventions to come up with viable and sustainable solutions.

Objectives and Structure of the Manual

75. The manual for component 1 is intended to provide the RUFEP Programme management, and relevant monitoring and supervisory bodies with comprehensive explanations, guidelines and tools and formats to support RUFEP planning and implementation.

76. The Manual begins by presenting the overall structure of component 1 and goes on to present the proposed initial partnership frameworks. Subsequent sections prescribe the terms and conditions governing proposed initial and future partnerships, including conditions for terminating partnerships.

Overall Structure of Component 1

77. Support under component 1 consists of the provision of grant funding to various partners under a partnership framework and formal agreement, which will articulate the conditions of the partnership, including activities, expected results, the costing and financing plan, and expected duration, among others.

78. Under Component 1, the RUFEP will work with several key partner institutions to begin with, namely, MoF/RFU, BOZ, Development Bank of Zambia (DBZ), the Association of AMIZ, SaveNet and some FSPs. Five sub-projects have been discussed and agreed with these partners as key areas of need, and will represent the focus of support under component 1 for the first 18 months. With RUFEP support:

- MoF/RFU will establish operating systems, database of rural finance investors/partners and a sector coordinating group;
- BOZ will address two key areas of legislative and regulatory development required to strengthen the legal framework for rural and agricultural finance, namely: a) Interest rate cap, b) developing appropriate regulatory and supervisory for agency and mobile banking;
- DBZ will develop its institutional capabilities for designing, testing, implementing and managing agricultural wholesale lending and a refinance facility for agricultural term finance.

Table 1: Proposed initial partnerships under Component 1

Partner	MoF/RFU	BOZ	DBZ	AMIZ	SaveNet	FSPs	CBFIs
Objective	Support RFU set up, systems development and enhance its role as the coordinating body for rural finance	Developing regulation and supervision agency and mobile banking	Capacity development for wholesale lending and design and roll out of a refinance facility for agric term finance	Capacity development on market intelligence, agric and rural finance for MFIs	Support set up of SaveNet structures and systems and develop capacity to be able to support scale up of CBFIs	Develop capacity to be able to increase outreach in rural areas with innovative products and services	Develop capacity to manage, grow and graduate members into formals sector
Duration	18 months	18 months	18 months	18 months	18 months	18 months	18 months
Costs	ZMW 2.1 million	ZMW 1.8 million	ZMW 1.8 million	ZMW 1.5 million	ZMW 2.0 million	ZMW 1.0 million	ZMW 1.0 million
RUFEP contribution	ZMW 1.8 million	ZMW 1.7 million	ZMW 1.7 million	ZMW 1.3 million	ZMW 1.5 million	ZMW 0.8 million	ZMW 0.9 million
Total costs: ZMW 11.2 million USD 2.1 million							
Total:	Total RUFEP contribution: ZMW 9.7 million USD 1.8 million						

- It design and conduct market-driven trainings and other learning events for their respective membership bases (Participation will be open to interested and eligible non-member financial institutions, but on different terms.

79. The Table below provides an overview of planned partnerships and objectives, as well as an overview of duration (phase one scenarios) and costs.

80. The initial partnerships and planned strategic interventions summarized in the above table can have high potential impact on policy, infrastructure and overall growth of the rural finance sector.

81. In the case of the partnerships that the Programme will start with, detailed draft partnership frameworks for each of these partnerships and proposed sub-projects under the partnerships have been prepared in close collaboration with potential partners and other stakeholders. The Table below provides a summary of the main features of these partnerships, including partner and partner's mandate, key partnership features, rationale, main objectives, technical support needs, main outcomes, direct and indirect beneficiaries, costs, and estimated number of beneficiaries.

Table 14: Strategic partnerships under component one

Partner /	Macro/Meso Level	Macro Level	Meso Level	Meso Level	Meso Level	Meso Level	Micro Level	
								Micro Level

Partner /	Macro/Meso Level	Macro Level	Meso Level	Meso Level	Meso Level	Meso Level	Micro Level	Micro Level
Partner's Mandate	MoF – To oversee management of GRZ financial resources and ensure that there are effective legal frameworks to anchor implementation and management.	BOZ – collateral substitutes – To contribute to the enabling environment for the evolution of the financial sector to stimulate economic growth and social stability; formulate and implement monetary policy; establish and regulate security of payment, clearing and settlement systems; license, regulate and supervise FSPs.	DBZ - To become a strong and financially sustainable value creating institution of first choice in the provision of development finance and associated financial services.	AMIZ - To facilitate, support and strengthen the services provided by member microfinance institutions and to represent them in the best way possible, utilizing microfinance best practices.		SaveNet - To promote financial inclusion of economically marginalized communities especially in rural areas through scaling up of innovative models like CBFIs among others.	FSPs - To provide affordable demand driven financial services to all in a profitable or sustainable manner.	CBFIs - To provide flexible savings led user friendly financial services to the rural poor.

Partn er /	Macro/Meso Level	Macro Level	Meso Level	Meso Level	Meso Level	Meso Level	Micro Level	Micro Level
Key Featur es of the Partne rship	Support capacity of MoF to develop/revi ew appropriate rural financial policies, guidelines and frameworks that will catalyze sustainable growth of the rural financial sector.	Support BOZ on policy dialogue on interest rate cap, leading to corrective policy decisions and guidelines; Support finalization and rolling out laws/regul ations of agency and mobile banking; Support exploration and analysis of options for introducing new collateral substitutes for agric, SME; support decision- making on best options and with adoption and disseminati on of legal changes; Support scaling up of financial education.	To build the institutional capacity of DBZ to design, roll out and manage various agricultural re-finance facilities based on identified market demand.	To build sustainabili ty of AMIZ through increased flow of demand- driven services for its membershi p; contribute to strengtheni ng and diversifying microfinan ce services which lead to expansion and deepening of the microfinan ce sector.		Support for structural set up, operational systems and processes and Build capacity for SaveNet to develop and roll out field agent developme nt plan and implement training of field agents.	Enhance Capacity to deliver diverse financial services and respond to the needs of clients; Enhance capacity to deepen outreach and increase operational and financial sustainabili ty.	Support financial education programs especially on operations of CBFIs; Facilitate CBFI formation and expansion; Support exchange programs between different CBFIs; Train CBFIs on product and financial value chain opportunities.

Partn er /	Macro/Meso Level	Macro Level	Meso Level	Meso Level	Meso Level	Meso Level	Micro Level	Micro Level
Ration ale	There is need for coordination of sector activities in order to leverage resources and maximize impact; Secondly, since projects have a life span, there is need to build a knowledge base of scalable financial interventions and find an appropriate flat form to disseminate such knowledge and ensure higher level of sustainability . RFU will play that role.	The need for an appropriate collateral substitute framework that applies across all formal sector players is well documented in studies focused on increasing credit flows to SMEs. This support is also premised on the BOZs goals on financial inclusion. Current constraints include banks over-reliance on 'traditional' collateral forms, and inappropriate requirements for small-scale farmers, which act as a barrier to their accessing finance.	There is great demand by local MFIs and banks for a re-finance facility for agricultural term loans; there is also potential future demand for re-financing of non-deposit taking MFIs for rural lending;; the bank's current over liquidity, increasing the need to improve its lending capacity, and ability to manage available funds.	Despite clear industry challenges, AMIZ's current weak financial position and lack of resources means it is unable to address members' and broader industry needs effectively; there is no other meaningful platform for learning or knowledge dissemination; AMIZ needs to invest in and upgrade its product and service offerings.		The CBF model has been proven to be viable for penetrating the rural areas and improving financial access for the economically marginalized. This model presents great opportunities for scaling and increasing outreach and impact.	.Even though there are many financial service providers access to services, especially by the rural poor is still low. One of the reasons for this has been identified as the inadequate capacity of providers to offer affordable services and also services that match the needs of their clients. Also some of the providers do not have adequate systems for expansion and growth.	Over 62% of adults are still financially excluded in Zambia according to FinScope 2009, and a big percentage of this are rural people. In an attempt to address this constraint the rural communities especially women have organized themselves into groups to save and lent to each in order to meet emergency cash-flow needs. In the last few years several promoters of CBFs have established operations in Zambia, but there is still a big gap in both outreach and capacity of communities to expand and sustain this model.

Partner /	Macro/Meso Level	Macro Level	Meso Level	Meso Level	Meso Level	Meso Level	Micro Level	Micro Level
Main objectives	To build capacity of MoF/RFU to be the focal centre of rural finance sector initiatives, and to be able to play a leading role in harnessing and sharing knowledge on innovations.	To introduce innovative and cheaper banking models that will increase outreach especially in rural areas; To elaborate and introduce a more diverse and appropriate framework for collateral coverage for agricultural and rural loans in the context of Basle II guidelines.	To strengthen the capacity of DBZ to manage various re-finance windows, in particular agricultural term finance for banks and MFIs.	To equip AMIZ with the resources needed to conduct demand-driven training and be a leading learning forum; To build capacity of AMIZ to play an effective market intelligence role, advocacy and lobbying.		Support set up of a functional SaveNet and enhance capacity to spearhead scaling up and build an appropriate learning and knowledge dissemination platform.	Build capacity of FSPs to deliver affordable responsive services and improve delivery systems and processes, with a special focus on rural and agriculture, and also women and youth.	Raise awareness of communities about the potential of CBFI model. Improve community capacities to establish and sustain CBFI operations; Expose them to potential product and financial value chains.

Partner /	Macro/Meso Level	Macro Level	Meso Level	Meso Level	Meso Level	Meso Level	Micro Level	Micro Level
Technical support	Support establishment of the Rural Finance Unit and implementation of Rural Finance policy; Support establishment of Rural Finance Sector working group Support establishment of appropriate monitoring, evaluation and knowledge management frameworks.	Support BOZ in formulating and reviewing of legal and appropriate regulatory frameworks based on sound analysis of current legislative framework and context; special focus to be given to agency and mobile banking; Support BOZ in scaling up the financial education program for the consumer.	Substantial upgrading of the bank's capacities in areas such as product definition, policies and procedures, post-disbursement monitoring and portfolio and risk management, financial modelling and management; Organisational re-modelling.	Support AMIZ to implement cost effective data collection and analysis, and where necessary undertake key studies on demand Support AMIZ in implementing code of conduct and strategic plan (sensitize members on their roles); Support to develop and implement a 2-year comprehensive training plan, based on a quality needs assessment, and support AMIZ in the development of tools and approaches for post-training impact monitoring.		Contribute to set up costs; Support standardization and translation of operating manuals Training of staff and field agents.	Support institutional assessments and due diligence as may be appropriate Support training and exchange program Support orientation and sensitization of new developments.	Support standardization, contextualization and translation of CBF operations and training manuals; Support training of members and exchange programs.

Partner /	Macro/Meso Level		Macro Level		Meso Level		Meso Level		Meso Level	Meso Level		Micro Level		Micro Level	
Main outcomes / results	A functional RFU; An active Rural Finance Sector group Database of rural financial sector players M&E and knowledge management framework.		Introduction of agency and mobile banking laws and regulations Formal presentation with clear justification and best options for introduction of new collateral substitutes ; clear formulation of legal changes.		Increase in wholesale portfolio to banks and MFIs for agric and rural on lending; A market study that confirms viability for a re-finance facility of agricultural term loans; institutional capacity in place for wholesale lending; At least one new product rolled out.		Market information sharing with members Active membership and improved sustainability; Clear understanding of MF sector needs and priorities; increased capacity of MF sector players to design and deliver rural and agric finance through applied knowledge and learning.			A functional Network with a clear growth strategy; Operational manuals standardized Increased number of certified field agents.		Increased outreach especially in rural areas with focus on women and youth; Increase in operational and financial sustainability; Improved portfolio at risk.		Increase in number of new CBFIs Increase in savings and credit per cycle; New linkages between larger older CBFIs and FSPs.	
Direct target	MoF/RFU staff, Rural Sector Group Members.		BoZ Board, executive management and operations staff and sector stakeholders.		DBZ Board, operational management and staff.		AMIZ Board, executive management and staff; member (and potentially non-member) developmental MFIs.			SaveNet board, secretariat staff, and field agents.		Board, management, staff.		Rural community members especially women and youth.	
Indirect target	Agric and rural SMEs and small-scale producers.		Agric and rural SMEs and small-scale producers.		Agric SMEs, emergent and small-scale farmers.		Rural MSMEs, including small-scale farmers, and rural women and youth.			Agric and rural SMEs, organised formal small-scale producer groups.		Agric and rural SMEs, organised formal small-scale producer groups.		Household members.	
Costs / Funding Sources	USD	ZMW ('000)	USD	ZMW ('000)	USD	ZMW ('000)	USD	ZMW ('000)		USD	ZMW ('000)	USD	ZMW ('000)	USD	ZMW ('000)
	Total	Total	Total	Total	Total	Total	Total	Total		Total	Total	Total	Total	Total	Total
	385,000	2,100	127,056	673	441,450	2,340	387,137	2,052		367,000	2,000	183,490	1,000	183,490	1,000

Partner /	Macro/Meso Level		Macro Level		Meso Level		Meso Level		Meso Level	Meso Level		Micro Level		Micro Level	
	RU FEP 330,000	RUF EP 1,800	RU FEP 103,750	RU FE P 550	RU FEP 375,400	RU FE P 1990	RU FEP 248,461	RU FE P 1,317		RUF EP 275,000	RUF EP 1,500	RU FEP 146,790	RU FE P 800	RU FEP 135,138	RUF EP 900,
	GRZ 55,000	GRZ 300,000	BOZ 23,306	BOZ 174	DBZ 66,050	DBZ 350	AMIZ 138,676	AMIZ 735		Sav eNet 36,700	Sav eNet 200,	FSPs 36,700	FS Ps 200,00	CB Fls 18,348	CBFls 100,
Estimated no. of beneficiaries					5,000							50,000		65,000	

82. One of its core institutional proposals in the Rural Finance Policy and Strategy document is the creation of RFU within the Ministry of Finance. The GRZ is committed to establishing the RFU. It is envisaged that the RFU will provide oversight of current and planned rural finance initiatives. The RFU should also provide a useful conduit between Programme implementation partners and GRZ/MoF with respect to enhancing policy dialogue, learning and cross-Programme collaborations.

83. Therefore, in addition to the partnerships outlined above, the RUFEP will provide support to the RFU now that Cabinet has approved the policy mandating its creation. Support will comprise portions of both operating costs and implementation activities over the eight-year Programme term. While the RUFEP and MoF will agree the scope, terms and conditions of this support, it remains the responsibility of the MoF to ensure the RFU has adequate human and financial resources. Further dialogue will take place with the MoF in the run up to Programme commencement to finalize and formally agree a framework of support to the RFU, including IFAD contributions, and the role and responsibilities of the RFU vis-à-vis the RUFEP. Finalized agreements will need to be incorporate into the final Programme Implementation Manuals.

Partnership development under component 1

84. It is highly likely that new partners will be identified and engaged by the PCO during the Programme life cycle. However, strategic partnerships under Component 1 can only contribute to achievement of the RUFEP objectives if they are well crafted , and built on a number of contextual factors including the capacities of the partner, available resources, support needs, and partner willingness to take ownership. Therefore, all partnerships under component 1 will require structured approaches for developing, refining and approving partnership agreements. Steps in the partnership development process, as well as key issues to consider are laid out in table 2. Whenever possible, these steps should be taken in close collaboration with the potential partner, and in an open and transparent way.

Table 2: Key steps for strategic partnership development

Step	Processes	Issues to consider
1	Market scans, stakeholder dialogue, and follow-up through other RUFEP activities to identify and engage with potential partners;	Partners' role in the market place, outreach capabilities, synergies with Programme objectives, and with current and planned activities under the AWPB;
2	Dialogue and negotiation with key decision-makers to develop and draft a partnership framework, conduct due diligence, partner needs assessment;	Partner financial, operational and technical capacities, audited financials, management structures, clients/target groups, value add, risks, planned activities, duration, resources needed, partner support needs, market assessment needs, need for other service providers;
3	Internal review of partnership framework, refinement together with partner, presentation to PVC for approval;	Contribution to achieving PDO, potential impacts, realistic objectives, planning and financing, timeframe for completion, partner commitment and ownership, performance monitoring plans;
4	Sign off on formal agreement, integration into formal planning tools (AWPB, financial and procurement plans, PM&E).	Priorities on commencement, support needs, partner orientation, quality of field work plans, monitoring and supervision plans.

Tools for partnership development

85. A basic set of tools for partnership development is provided with this manual (see Annexes 1 to 7). The PCO will engage with a potential new partner (or consortium of partners) to develop a partnership framework which captures the fundamentals of the partnership (as shown in table 3). The PCO will conduct partner due diligence in parallel with developing the partnership framework. Partner due diligence is a critical step for assessing among others: partner stability, management and implementation capacities, available resources, commitment levels and past performance record (guidelines for partner due diligence are provided in Annex 2). This framework, together with other

relevant documentation would be presented for internal review by the PCO. Any changes after the internal review would be done in conjunction with the partner. Based on the final partnership framework, the partner and PCO will draft a terms of reference. The final partnership framework, terms of reference, together with relevant documentation would then be presented to the PVC for formal approval. Once approved a formal partnership agreement would be drawn up and signed off by appropriate partner and PCO representatives.

Partnership arrangements

Guiding principles for Partner eligibility and selection

86. While the Programme will remain open to a broad range of institutional partners, minimum criteria for eligibility would apply. An institution would qualify as a partner institution if: (a) its support or financial services are highly relevant for achieving the overall RUFEP objectives; (b) it has the minimum financial and human resources available to undertake the proposed activities for the benefit of the target groups; (c) it is willing to commit itself to closely collaborate with RUFEP; and (d) it contributes to the costs of specific activities supported under the Programme. In the case of (d), it is understood that cost contributions will be finalized as part of the pre-assessment and partner framework development process.

87. The following operating principles are also put in place to guide overall partnership arrangements under this component.

PCO

- **Demand-driven:** While the PCO will be fully responsible for undertaking information days in order to create awareness of the Programme among all potential partners, all capacity building interventions provided under this component will be based on demand from potential partners. It will remain the responsibility of partners to establish operational gaps and formulate support needs, and effectively communicate this to the Programme. Technical support and guidance to potential partners will be offered by the PCO to refine proposals, technical support needs, including externally contracted expertise if required, as well as budget requirements and partner contributions, both financial and in-kind;
- **Cost sharing:** Willingness to cost share will be a demonstration of commitment by the potential partners. The ratio of cost sharing will be decided in collaboration with partners and will be dependent on resource capacity;
- **Leveraging resources:** To the extent possible, the PCO should focus on identifying and building synergies with other projects and partners with a similar mission, hence leveraging resources and maximizing potential impact of interventions. Where the synergies are established, the PCO should move to seek a formal collaboration with the identified partner through signing of a memorandum of understanding;
- **Accountability for performance:** This will start with competitive bidding, appropriate assessment of the proposals, signing of performance based agreements with successful partners, monitoring and reporting;
- **Sustainability and Added Value:** Partnerships will be based on competitive advantages of various partners that can demonstrate long term institutionalization of the interventions supported by the Programme and potential for greater outreach.

Appraisal and approval processes

88. The following sections offer guidelines for terms and conditions for approving partnerships, renewing partnerships, and terminating partnerships.

89. In addition to the minimum eligibility criteria and operating principles described above, terms and conditions for partnership approval should include:

Table 3: Terms and conditions for partnership approval under component 1

Item	Terms and conditions
Key Objective(s)	<ul style="list-style-type: none"> • Generic capacity development and knowledge dissemination;

	<ul style="list-style-type: none">Enhancing FSP management and operational staff capabilities for operating in rural and agricultural finance in specific task areas (market research, product development, applying new client-centred approaches, enhancing operational efficiencies)Industry-level service development: Enhancing access to sustainable financial services for the rural population, and women and youth in particular.	
Direct target groups	<ul style="list-style-type: none">Licensed FSPs, including deposit-taking, credit-only and community-finance institutionsFormal apex organisations or associations, working with FSPs to expand and deepen rural and agricultural finance: savings, credit, insurance and transaction services; small-scale agricultural finance, agric sub-sector and value chain finance.	
Eligibility criteria	<ul style="list-style-type: none">Formal licensed wholesale financial institutionFormal apex organisation or association, working with FSPs to expand and deepen rural and agricultural financeOn-time submission of annual reports to BOZ over the past two years or on-time submission of required financial reports to relevant supervisory bodyAlready operating in the rural and agricultural finance sectorClear and established outreach mechanisms and approaches (through a client-base, network or membership base)In the case of capacity development initiatives, clear evidence of ability to design and use needs assessment tools, ability to develop (or contract, review and supervise) activities around needs analysis, curricula development, course outlines, teaching methodologies, materials development; ability to design and implement follow-up evaluation proceduresA well-developed partnership framework with clear and realizable objectives, activities and outputs, funding contributions, resource allocation, and timeframe.	
Selection criteria score		Relative weight
<ul style="list-style-type: none">Capacities of the partner and evidence of partner ability to manage and report on activities proposed under the partnership		15%
<ul style="list-style-type: none">Extent of impact on: management and staff of rural and agric focused FSPs		15%
<ul style="list-style-type: none">Extent of impact on growth and outreach in rural areas, cost of borrowing, increased financial inclusion for low-income rural micro entrepreneurs and households, and women and youth in particular		20%
<ul style="list-style-type: none">Proposed activities in line with partner's core area of business and expertise		5%
<ul style="list-style-type: none">Evidence of adequate availability of resources (financial, human, technical know-how) to delivery as per the partnership framework		10%
<ul style="list-style-type: none">Partner willingness to take ownership		15%
<ul style="list-style-type: none">Level of external support required		5%
<ul style="list-style-type: none">Duration of impact (long-lasting and sustainable)		10%
<ul style="list-style-type: none">Extent of co-financing		5%
Examples of partnerships and sub-projects that can be supported	<ul style="list-style-type: none">Wholesale developmental financing initiatives that lead to developing new products, services and delivery channels for rural and agric marketsRepresentative organisations, associations or apex bodies that apply for grant funds to provide training and technical expertise in viable and sustainable rural and agricultural finance (savings, credit, insurance, transaction services) for their client or membership basesRepresentative organisations or associations that wish to access RUFEP support to work in partnership with FSPs to develop innovative and scalable financing mechanisms for small-scale agricultural lending, or community-based finance linked with agri production and marketing	
Examples of partnerships and sub-projects that cannot be supported	<ul style="list-style-type: none">Credit lines for retail financial institutionsPartnership initiatives that displace or crowd out private sector	
Items eligible for support	<ul style="list-style-type: none">Limited contributions toward staff salaries, operating and maintenance costsLimited contributions toward office equipment and office running costsCosts directly related to organising and preparing trainings, learning workshops and seminars including:Costs of technical experts or technical service providers (domestic and	

	<p>international), requested to support/enhance partner initiatives including honoraria, fees, and travel costs</p> <ul style="list-style-type: none"> Costs of trainers, moderators (domestic and international), including honoraria, fees, and travel costs Hire of venues Cost of training curricula development, preparation of training manuals, tools and materials, including training of trainers manuals Production costs for re-producing manuals, printing, copying and other costs directly related to training events organisation and implementation Costs for meals, coffee/tea breaks provided during training events
Maximum grant amount	<ul style="list-style-type: none"> USD 500,000 (based on current partnership frameworks) Funding and implementation of activities will in most cases be phased On-going support is conditional on partner performance, and financial management
Co-financing arrangements	<ul style="list-style-type: none"> Partner contribution – minimum 10%, maximum 50%; Calculation of total costs and cost contributions should be based on the total cost of activities and implementation of the same as per the partnership framework; detailed budget required as support, and should include all eligible items, including accommodation and travel costs of participants; clear split on non-eligible items is required.
Nature of co-financing by partner	<ul style="list-style-type: none"> A mixture of cash and in-kind contributions
Environmental Impact Assessment	<ul style="list-style-type: none"> Not required
Documentation requirements	<ul style="list-style-type: none"> Pre-agreement package Finalized partner framework, budget, due diligence report (including financials and auditor reports as applicable), terms of reference, partnership agreement, other supporting documentation related to partner capacities and planned activities Post agreement Monthly and quarterly implementation plans Implementation progress reports and financial reports Training reports ((i) covering objectives, curriculum, methods and approaches, duration, costs, etc.; (ii) assessment of how participants have absorbed the key messages; (iii) results of training and learning event evaluations (tools to be developed in conjunction with, and approved by, RUFEP PCO) Additional RUFEP impact and evaluation reports as requested

Partner funding arrangements (to be developed when the PCO is established)

Partnership engagement and monitoring (to be developed when the PCO is established)

Reporting requirements

90. Partners under component 1 will be required to submit quarterly implementation progress reports and accompanying financial reports based on reporting templates provided (see templates in Annex 6). Reporting will be required starting from the date of disbursement of the first tranche of funding and henceforth for the duration of the partnership.

91. The deadlines for submitting reports will be aligned with Programme reporting requirements (i.e. partners will be required to submit their reports in advance of RUFEP reporting deadlines to allow a process of analysis and review, consultation, finalizing and consolidation of information). The PCO will carefully monitor the timeliness and quality of partner reporting, and provide timely feedback. Persistent lack of adherence to deadlines or violation of agreement terms may lead to termination of the partnership agreement.

92. Immediately following the sign-up of a new partner, the relevant PCO officers (Technical Advisors, PM&E Officer and Financial Officer) will provide a comprehensive orientation on reporting for respective staff counterparts in the partner organisation, including data generation and indicator tracking requirements, orientation on reporting formats and obligations, as well as potential consequences of non-compliance.

93. Partners under component 1 may be required to submit additional reports related to impact and evaluation assessment (e.g. beneficiary impact assessments, cost-benefit analysis, etc.) for up to two years after partnership/grant closure. Furthermore, partners will be expected to allow specific representatives of the GRZ and IFAD, including auditors, supervision and evaluation missions, access to partner facilities, documentation, implementing staff and partner beneficiaries to support RUFEP-related impact and evaluation initiatives. Partnership agreements should expressly make reference to such requirements and clearly show that signing of the agreement is acknowledgement of acceptance of the requirements.

Annex 1: Partnership framework Template

Annex 2: Partner due diligence Guidelines (to be developed when the PCO is established)

Annex 3: Terms of reference Generic content required (to be developed when the PCO is established)

Annex 4: Partnership agreement Time-bound contract (to be developed when the PCO is established)

Annex 5: Templates for fund disbursement scheduling, disbursement requests, request for advances, and request for pre-financing (to be developed when the PCO is established)

Annex 6: Implementation and performance reporting Template (to be developed when the PCO is established)

Annex 7: Auditor statement Template (to be developed when the PCO is established)

Annex 1 – Partnership Framework Template

Zambia: Rural Finance Expansion Programme Support to Partner Institutions (Component 1)

Sub-Project: Phase **(enter phase)** support to **(enter partner/partners' name(s))**

Name of partner institution	
Address	
First contact person	
Second contact person	
Third contact person	

Information sought	Information provided
Mandate, goals and objectives	Corporate Vision: Mission Statement: Strategic Objectives:
Main strategies relevant here:	
Main sources of income:	
Number of full-time staff:	<ul style="list-style-type: none"> Management Operational staff
Key figures for 2012: [latest available; to be checked upon receipt of audited accounts]	Total assets: Income: Expenditure: Net result: Off-balance sheet items:
What are the main problems and challenges you are facing that you want to address under this collaboration with the RUFEP?	15.
What are the objectives of	Objective(s):

<p>this sub-project?</p>	<p>This will be measured by the following indicators:</p> <p>Indicator 1:</p> <p>Indicator 2:</p> <p>(Add other indicators as necessary)</p>																						
<p>Please formulate 1-3 major results (or outcomes) that shall be achieved at the end of this sub-project? In case it would be possible to breakdown the targets reached by gender and youth and/or rural areas, please do so.</p>	<p>Result 1:</p> <p>Result 2:</p> <p>Result 3:</p> <p>(Add brief additional explanations as necessary)</p>																						
<p>Please describe for each Result 1-3 above the key implementation activities that would lead to the achievement of the outcome/result.</p>	<p>Result 1:</p> <ul style="list-style-type: none"> • Key Activity 1.1: • Key Activity 1.2: • Key Activity 1.3: • Key Activity 1.4: <p>Result 2:</p> <ul style="list-style-type: none"> • Key Activity 2.1: • Key Activity 2.2: • Key Activity 2.3: • Key Activity 2.4: • Key Activity 2.5: <p>Result 3:</p> <ul style="list-style-type: none"> • Key Activity 3.1: • Key Activity 3.2: • Key Activity 3.3: 																						
<p>Taking a realistic view, what is the timeline for achieving the above results?</p>	<p>Result 1 by: (enter month and Programme cycle year for completion)</p> <p>Result 2 by:</p> <p>Result 3 by:</p>																						
<p>If the above would involve a partnership with a third party, please provide the name and the nature of that partnership.</p>																							
<p>How do you suggest shall the progress achieved against the objective and the results/outcomes be captured and monitored?</p>																							
<p>Please formulate risks that you would anticipate for the implementation of the above, and what risk mitigation measures should be applied.</p>	<p>Risks:</p> <ul style="list-style-type: none"> • Risk 1: • Risk 2: • Risk 3: <p>(add as necessary)</p>	<p>Risk mitigation measures:</p> <ul style="list-style-type: none"> • • • 																					
<p>What are the total costs for this sub-project? What is the financing plan for this sub-project?</p>	<table border="1"> <thead> <tr> <th colspan="4">Costs and financing plan: (based on detailed budget and costs – see separate sheet)</th> </tr> <tr> <th></th> <th>Costs</th> <th>Funded by RUFEP</th> <th>Funded by DBZ</th> </tr> </thead> <tbody> <tr> <td>In ZMK mn.</td> <td></td> <td></td> <td></td> </tr> <tr> <td>In USD</td> <td></td> <td></td> <td></td> </tr> <tr> <td>% of total</td> <td></td> <td></td> <td></td> </tr> </tbody> </table>			Costs and financing plan: (based on detailed budget and costs – see separate sheet)					Costs	Funded by RUFEP	Funded by DBZ	In ZMK mn.				In USD				% of total			
Costs and financing plan: (based on detailed budget and costs – see separate sheet)																							
	Costs	Funded by RUFEP	Funded by DBZ																				
In ZMK mn.																							
In USD																							
% of total																							
<p>What procurement rules do you suggest to apply for the</p>																							

procurement of goods and services under this sub-project?	
Next steps	

Desirable additional information	(For Internal Use) Submitted Yes / No
1. Copy of financial statements for the previous two years	
2. Copy of management accounts for the latest quarter	
3. Copy of procurement guidelines, policies or regulations	
4. Copy of corporate strategy and/or business plan	
5. Budget in the attached excel sheet	
6. Value of off-balance sheet credit operations handled for third parties	

F. Operating manual of the Innovation and Outreach Facility (IOF)

1. Introduction to the Innovation and Outreach Facility

1.1 Introduction

94. The objective of IOF component is to enable “Participating Financial Service Providers to develop capacity to deliver demand-driven rural and agricultural financial products and services”. The component aims to increase the number and value of financial transactions involving the Programme’s target groups. This IOF mainly builds on the successes achieved under RFP which include: (i) increased remote rural outreach through savings-focused CBFIs; (ii) successful piloting of value chain finance for smallholders (under the RFP line of credit); and (iii) demonstration of demand mobile-based money transfer, payments and savings services (in rural Zambia). In light of these achievements under RFP, the IOF under RUFEP has been designed with three innovation windows vide; the CBI Linkage Window; the Agent/Mobile Banking Window and the Rural Equity Innovation Window.

1.2 Justification

95. The Zambia financial sector has shown moderate development over the past decade: the number of Banks and deposit-taking financial institutions has grown, financial institutions are much healthier and profitable now, and regulation and supervision of the systemically relevant institutions by the Bank of Zambia (BOZ), has significantly much improved. Some Banks and MFIs have introduced new products targeting rural areas and the agricultural sector with some degree of success. While the interest in rural and agricultural finance has been rising, several constraints still remain: the lack of knowledge and skills to finance more complex agricultural operations without full reliance on mortgage as collateral, little understanding on how to tailor financial services to suit product value chains, the prevalence of many inappropriateness products, the lack of targeting potential new opportunities in promising areas and lack of appropriate regulatory framework on the supply side, and others. On the demand side, the lack of consumer awareness and financial literacy is still a challenge.

1.3 Objectives and structure of this manual

96. The manual for component 2 is intended to provide the RUFEP Programme management, and relevant monitoring and supervisory bodies with comprehensive explanations, guidelines and tools and formats to support RUFEP planning and implementation. The Manual begins by presenting the overall structure of the IOF component and goes on to present approaches for the implementation of the component.

2. Overall structure of the IOF

97. The support provided under this component consists of matching grants. A matching grant facility (MGF) is a one-off, non-reimbursable transfer to eligible grant recipients. Beneficiaries can only be legal entities, not individuals, and may comprise different types of institutions, including FSPs, VCDs, CBFIs, CBI networks, farmer associations and cooperatives and their apex bodies, mobile operators, research institutions, technical service providers etc. Where licensed FSPs are referred to, this applies to institutions licensed by and operating under BOZ supervision and meeting capital adequacy norms, which are willing and capable to render additional services to the rural population or finance agricultural ventures (in a broader sense).

98. **Approaches adopted for the implementation of the IOF.** In addressing these objectives, the approach adopted by the MGF will build on the following principles⁶⁹:

- **Responsiveness** to the: (i) needs of the ultimate target groups of the RUFEP; (ii) needs of financial institutions desirous to improve and expand their services for the benefit of the ultimate target groups; and (iii) rapidly changing environment in which the financial sector operates, and to the need to become and remain competitive;

⁶⁹ Adapted from the SAPP Operating Manual for the Matching Grant Facility, 2nd Draft, July 2012.

- **Accessibility** for a range of operators in the financial sector, ranging from banks to microfinance institutions, credit unions and other financial institutions, and value chain operators, such as agribusinesses, producer groups and cooperatives, and other value chain actors;
- **Transparency** of organization and management with predefined rules and procedures for operations and the changes of such rules;
- **Accountability** at all levels, including a “check and balance” management and decision making approach, with high quality technical assessments and sound approval mechanisms;
- **Efficiency** of all appraisal steps by means of constantly monitoring the duration of all steps;
- **Effectiveness** through the focus on sound, sustainable and innovative solutions to enhance access of the rural poor to financial services of all kinds, which have the potential to be replicated elsewhere;
- **Respect** for the autonomy and ownership of partner institutions and the need to protect intellectual efforts and innovative investments by preserving a professional secret.

99. **Windows under the IOF.** The IOF is sub-divided into a number of windows. Initially, there will be three windows and these have been identified and selected on the basis of the following considerations:

100. **Window 1: CBFI Linkage** –The CBFI Linkage Window is premised on the success under RFP where CBFIs provided a secure place to place savings and access to credit. Repeat enrolment of participants in CBFI follow-on cycles continues to be high (an indication of satisfaction with the results), the processes are community-led, with a strong focus on savings mobilisation, high replicability potential – all signs of an operationally and financially sustainable intervention. Previously viewed as an unattractive banking proposition, the collective membership of CBFIs presents a potential client base that can attract FSPs to previously unreachable areas.

101. The window will support innovations in two variations of CBFI linkage – (i) Option 1 (direct CBFI Linkage), where CBFIs link directly to licensed FSP. This option is suitable when a value chain is already well established – i.e. a buyer-seller contract, which can be used by the CBFI as collateral, exists. (ii) Option 2 (the tripartite CBFI Linkage, involving the CBFI, VCD and FSP. The VCD will provide technical assistance in whichever commodity the CBFI members are dealing in/producing. The aim is similar to Option 1 – i.e. to enable the CBFI have a firm buyer-seller contract that can provide an alternative to formal collateral, required by most FSPs.

102. The targeted institutions under the CBFI Linkage Window are therefore; CBFIs, CBFI promoters/apexes, licensed FSPs (including leasing and insurance companies) and VCDs e.g. farmer associations, processors, NGOs etc. Support under this window will go towards (i) enabling CBFIs either collectively or individually present themselves to FSP as a bankable proposition; and (ii) supporting those FSPs interested in linking with CBFIs to make the necessary changes in institutional setup, business strategies and processes to provide products and services that are suited to the needs of CBFIs. For such a link to be mutually beneficial and sustainable, FSPs must be assured of CBFI capacity to monitor loans at individual level (thereby reducing the cost and risks of outreach) while CBFI members, would in selecting a partner FSP, be looking for an entity that can provide a wider (than their own) range of financial products and services on terms CBFIs or their members can meet.

103. Substantial preparatory work has to be undertaken to bring the demand (CBFIs) and supply side (FSP) under the CBFI Linkage Window together. Fortunately, a number of CBFI promoters are already operating in the country e.g. CRS, Plan International, CARE, and more recently SaveNET. Under Component 1 of this Programme, support has been planned to strengthen SaveNET so that it can spearhead harmonised development of the CBFI sub-sector. With such a mandate NetSAVE, will be well placed to act as ‘the voice of CBFIs’ and to coordinate discussions with FSPs and VCDs on accessing support under the CBFI Linkage window. SaveNET’s initial role under Component 2 will be

to present CBFIs to the financial sector 'as an attractive client base and unique bankable proposition', and to the agricultural sector as 'a sound basis for value chain development activities'. SaveNET can also help to identify which of the participants (VCDs, FSPs, CBF promoters) are best placed to in-build these activities into their innovation proposals submitted under this innovation window.

104. The activities that need to be part of the CBF Linkage innovations process include (but are not limited) to: (i) identifying interested linkage partners (FSPs and VCDs); (ii) making all sides aware of what each party has to offer and the mutual benefits; (iii) undertaking Gap Analysis and sharing the results with CBFs, VCD and FSPs; (iv) improving/developing products and services to be delivered under the linkage; (v) training of linkage partners (CBFs, VCDs and FSPs) on the new products and services; and finally (vi) piloting, monitoring and review of the innovation(s). Articulation of the above processes is aimed at protecting the interests of CBFs, who could be treated as the 'weaker partner', resulting in reduced benefits from linkage with stronger, well institutionalised FSPs. In the interest of the CBF subsector, CBF promoters like SaveNET should consider taking charge of activities (i), (ii) and (iii) (of this paragraph) since they affect the CBF sub-sector as a whole, while the rest of the activities ((iv), (v) and (vi)) could be undertaken by applicant FSPs and VCDs. The number of stakeholders involved in this window underscores the need for regular communication and sharing of information as well as close oversight by PCO and the technical advisors.

105. **Window 2: Mobile and Agency banking:** Transaction costs are important, to both the supplier and user of financial services. Mobile banking have a good chance to reduce transaction costs for both sides, and the advantages in terms of travel costs and opportunity losses increase in an almost linear way with remoteness from the tarred roads and urban centres. In addition, there seems to be a substantial potential in using mobile phones within value chains, be it for input supply and purchase, and disbursement of proceeds, as well as for marketing of produce outside value chains. A subsidy to different types of operators to advance technology for the benefit of the rural poor is therefore fully justified.

106. The Mobile/Agency Banking Window is premised on the mobile money transfer operations that are already popular in the country. Mobile banking (as a concept), aims at turning a mobile phone into a virtual ATM. These mobile-based operations can be further harnessed to enable additional products and services like savings and loans, leading into full scale mobile banking. The experiences under RFP (by Celpay), though they fell short of rural outreach targets, demonstrated that customer demand for convenient money transfers, payments and savings (in rural Zambia) exists. The transformative nature of agent and mobile banking has already been proven in other countries (e.g. Kenya with its M-Pesa). Once mobile banking is rolled out, it will form the basis for licensed FSPs to use a wide range of liquid, secure entities (supermarkets, petrol stations, shops and CBFs), that have mobile phones/or point of sale devices, as agents for financial service delivery. BOZ has already initiated the process of drafting the agency banking regulations, a process that will be supported under Component 1 of this Programme.

107. The Agency/Mobile Agency window aims to support institutions to innovate and make use of the high levels of mobile telephone use and the numerous potential agents in rural Zambia to deliver financial services. Apart from lack of regulatory framework for agency banking, the other two main bottlenecks hindering agency/mobile initiatives are the lack of; (i) funds to acquire the relevant technology; and (ii) management ability and capacity to mobilise, incentivise and manage an adequate distribution network of retail agencies. This is particularly true for the smaller FSPs. Some of the larger FSPs have also not had opportunity to 'tailor' the use of their existing mobile-based products to the needs of rural populations. This window therefore targets innovative proposals from (i) networks and apex bodies of financial institutions including CBFs; (ii) licensed FSPs; (iii) electronic payment and transfer operators (working in collaboration with a licensed FSP); (iv) industry regulators; and (v) agent (including CBFs) network organisations. To successfully innovate, pilot and rollout mobile and agency networks may require the combined use of this window as well as institutional strengthening support under Component 1. Consequently, intending applicants should be encouraged to seek clarity on what activities fall under this window (i.e. the innovation part) and the rest of the

activities (mostly institutional strengthening) will be accommodated under the meso and micro level support interventions under Component 1.

108. Window 2 also faces the challenge of attracting truly new innovations – particularly in an environment, like Zambia, where competition in the financial sector is still low, could affect the outcomes of this window. Zambia however, is geographically close to countries like Kenya, which have already made substantial progress in mobile and agency banking. Rather than trying to ‘re-invent the wheel’, learning visits and partnerships between Zambian and Kenyan FSPs should be encouraged so that quicker knowledge transfer is enabled. This aspect may in a way violate the understanding/definition of innovation used under this component (see footnote 1). However, as long as the ‘innovation’ is new to Zambia and is adapted to suit needs of RUFEP target population; it should qualify as an innovation. The expected result is for the proportion of mobile and agency banking transactions in the supported institutions, to increase compared to transactions at ATMs and ‘brick and mortar’ branches respectively.

109. **Window 3: Rural Finance Equity** – According to the 2009 Finscope study, ‘Zambia’s savings potential ‘requires financial service providers and policymakers to get to the heart of the population’s understanding of, and attitudes towards savings, as well as their income realities’. This limited understanding partly arises out of limitations in demand side data on Zambia’s financial sector. But even from the demand side (Finscope 2009 data), findings reveal high levels of exclusion (on average 62.7%) particularly in the rural areas (65.6%), low levels of savings with formal institutions (only 10% of adults), and even those who save informally, mainly save at home, in inputs, or entrusting savings with another person. Use of formal insurance products stood at a paltry 5.4% of adult population.

110. While access issues may be addressed, the usage bottlenecks must also be overcome. The ease with which clients, particularly those in the rural areas, use different financial products varies greatly. While the uptake of some products like credit is immediate (as soon as they are offered), some products like savings and insurance may be gradual and could remain very low despite easing access. Among the issues that can affect usage are; institutional processes/bureaucracies; charges on the product; product terms and conditions as well cultural/social construct. Consequently, some licensed NBFIs, which are licensed to take deposits, have received poor response to savings mobilisation efforts. Even when such institutions are able to meet regulators’ requirements for branch interconnectivity, they may remain internally constrained due to institutional and cultural stereotyping of some products and parts of the population. In fact, the transition from credit-only to full intermediation is, for some licensed deposit takers, not yet complete. At socio-cultural level, the products (particularly savings and insurance) may not be adequately suited to the ‘life cycle events’ that are the main driver of savings in the target communities.

111. The Rural Equity Window is aimed at supporting innovations that improve equity in access and usage. The window address will give preference to interventions that improve participation of rural women and youth, as well products and services that are critical to rural enterprises but have been inappropriately presented or misunderstood. On social inequalities, rural women and youth, in particular, suffer additional disadvantage because apart from living in the rural area, their asset ownership and education levels are lower than that of men. On inequality among products, this window is intended to support innovations that can improve use of ‘important but poorly understood/delivered products’ like savings, insurance, leasing, etc. The need for this window is borne out of the findings of the 2009 Finscope, where savings behaviour was found strongly correlated with health emergencies –a need that would best be served by appropriate insurance products. Yet on the other hand, formal insurance products and services do not attract many users (5.4%). Many of the FSPs have had limited opportunity to explore the social constructs in the communities and within their institutions that lead to them missing out on business potential of savings and insurance. Specialised social-cultural and economic studies as well as changes in institutional culture and structures, could provide a way out of the inequalities currently evident in financial service delivery.

112. Window 3 will therefore support proposals from: (i) research agencies; (ii) networks and apex bodies of financial institutions including CBFIs; (iii) industry regulators; and (iv) VCDs e.g. farmer

associations, processors, NGOs as long as they are working with licensed FSPs, which will undertake the pilot rural outreach activities. The innovations should be aimed at; improving understanding causes of inequalities, uninformed perceptions; improve inclusion of underserved RUFEP target group, particularly women and youth; and improve usage of less-well understood products. It is anticipated that other innovations that could address inequality may be identified during the 2013 Finscope study, and would therefore be eligible under this window. In response to changes in demand, emerging opportunities and findings of relevant studies (e.g. Finscope 2013), new innovation windows may need to be introduced under this component. Through analysis of applications received under the three windows as well as various studies, PCO will initiate a case for review of the windows and thereafter seek the approval of the PSC and IFAD's no objection. Once approval is obtained, the necessary change to existing windows or introduction of new windows will be undertaken and respective eligibility and operating guidelines developed.

113. The number of windows may be increased or decreased during Programme implementation, as per the emerging or changing demand and opportunities. Additional windows that may merit support may include: (i) specific measures to facilitate access to savings and credit and financial education for the youth; (ii) projects linking financial services with business development and financial literacy in remote rural areas; (iii) the transformation of non-deposit-taking MFIs into deposit-taking ones in rural areas; or (iv) the transformation of financial institutions engaged in consumption lending only into those lending for productive purposes in rural areas. The respective decision will be made by the Programme Steering Committee on proposal of the RFU.

114. **Note on Window 1:** The RUFEP provides for support to CBF in the following dimensions: (i) horizontal expansion to other areas, provided this would be in line with the overall expansion plan of the promoting agency; (ii) networking of the different promoting agencies, provided that the financial contributions by network members exceed the total external contributions; (iii) studies and action research on relevant issues, such as elements of success, cost reduction, efficiency increases, linkages with other sectors, etc., which are geared at systems development; (iv) training of field volunteers, field staff and field supervisors on new/harmonized approaches, techniques and methods; and (v) data generation, data dissemination (website) and reporting. Upon request and after complying with all conditions set for partnerships under component 1, the emerging network of CBF promoters should be adopted under component 1 partnerships.

115. The terms and conditions below apply to the cases of horizontal expansion of CBF. Consequently, terms and conditions will have to be developed to cover items (ii)-(v) above. It may in the end be easier and more appropriate to provide the latter support under component 1, provided that the network shows its capacity to handle the respective activities and shoulder the counterpart contributions. In such case, no amendment of the terms and conditions below would then be required.

116. **Treatment of overlaps and concurrence.** It cannot be principally excluded ex-ante that activities might eventually fall under different windows, where a proposal complies with the eligibility criteria of different windows at the same time. The main dividing line shall therefore be where the main emphasis, focus, objective or predominant use of funds of the proposed activity will be located.

4. Terms and conditions of the windows IOF

117. The following are the terms and conditions of each of the three innovation windows:

Window 1: Terms and Conditions for the CBFs Linkage Window	
Item	Terms and conditions
Objective(s)	<ul style="list-style-type: none"> Enabling CBFs to link to licensed FSPs so that rural populations can access a wider range of financial products and services
Direct target groups	<p>Entities willing to link to CBFs, identify their needs and design products and services aimed at meeting these needs. These include</p> <ul style="list-style-type: none"> CBFI networks/Associations Licensed FSPs Value Chain Developers (in collaboration with CBFs) Farmer association or apex body

Eligibility criteria	<ul style="list-style-type: none"> • Legal registration • Familiarity with the promotion of CBFIs, and working in collaboration with FSPs • 2-years Audited Annual financial statements submitted to relevant supervisory body • Sufficient field and supervisory staff available • Clear implementation plan and schedule showing profitability of innovative activities and how they can be sustained after the pilot period • Clear direction on steps to be taken after the pilot activity
Selection criteria	Relative weight
<ul style="list-style-type: none"> • Adequate exploring of the needs of CBFIs in terms of financial products and services and clear plan on how to meet them 	15%
<ul style="list-style-type: none"> • Impact of planned interventions on savings, credit and profit of CBFIs supported (no. of beneficiaries to be reached through the proposed measures, in particular women & youth) 	10%
<ul style="list-style-type: none"> • Simplification of processes and methods including collateral substitution 	20%
<ul style="list-style-type: none"> • Outreach to poorly served areas (outside the line of rail provinces) 	5%
<ul style="list-style-type: none"> • Special features to attract women and youth to benefit 	10%
<ul style="list-style-type: none"> • Provision of additional extension services, training or education or value chain development support 	10%
<ul style="list-style-type: none"> • Uniqueness and innovativeness of new products to be enjoyed by CBFI members 	15%
<ul style="list-style-type: none"> • Potential replicability of the proposed project/approach 	10%
<ul style="list-style-type: none"> • Use of village agents ToTs to lower unit cost of delivery and formation of new CBFIs 	5%
Examples of projects that can be supported	<ul style="list-style-type: none"> • FSP linking to CBFIs • Improved savings mobilisation basing on CBFI existing practice • Introduction of insurance into CBFI products • FSP products or services that make CBFIs more sustainable and increase members' incomes • Tri partite model – value chain developer, FSP and CBFI financing arrangement
Examples of projects that cannot be supported under this window	<ul style="list-style-type: none"> • Automated CBFI-Agent model to be financed under Window 2 • Institutional transformation of existing cooperatives into a legal body (e.g. a secondary cooperative union) • FSP-CBFI linkages that are not mutually beneficial
Items eligible for support	<ul style="list-style-type: none"> • dialogues with potential partners • All costs apart from credit lines • Training of CBFI members, Training of staff • Evaluation of impact • Technical assistance for specific assistance needed (in agriculture, SME development, accounting, integration into value chains, etc.) • External impact and evaluation studies, etc.
Items not eligible for support	<ul style="list-style-type: none"> • Physical infrastructure • Vehicles • Board and lodging for participants • Travel costs of participants
Documentation requirements	<ul style="list-style-type: none"> • Implementation of activities • One year after the conduct of the measures: Brief certification prepared by the grantee on: (i) the number of members, value of savings and loans and profits realized by the groups during the year after termination of intensive support; and (ii) the external institutional linkages maintained by the CBFIs supported; and (iii) an assessment of the future prospects of sustainability of the supported linkages

Window 2: Terms and Conditions for the Agency/Mobile Banking Window	
Item	Terms and Conditions
Objective(s)	<ul style="list-style-type: none"> • Enhancing access to financial services and reducing transaction costs for rural areas
Direct target groups	<ul style="list-style-type: none"> • Licensed payment operator • Cellphone operator • Licensed FSP

	<ul style="list-style-type: none"> • CBFI Network • Other organisations (apex bodies or NGOs dedicated to promoting smallholders)
Eligibility criteria	<ul style="list-style-type: none"> • Licensed payment operator, cell phone operator or deposit-taking FI • Corporate status of other organisations • In-time presentation of annual report to shareholders, owners, the BOZ or governmental bodies, as the case may be, over the past two years, by all participating organisations • Technically feasible and financially viable proposal showing how smallholders can be better served through electronic/mobile banking approaches • Demonstrated impact on smallholder transaction costs or incomes of at least USD 20/user/year • Availability of other relevant services and support mechanisms as per the specific requirements of the smallholders to be served • Potential to reach at least 1000 incremental clients within 2 years with new product or enhanced quality of services • Clear outreach mechanisms and approaches • Memoranda of Understanding or contractual agreements between proposed partner institutions • Implementation schedule
Selection criteria	Relative weight
<ul style="list-style-type: none"> • Convincing documentation on the no. of potential beneficiaries to be reached through the proposed measures, in particular women and the youth 	30%
<ul style="list-style-type: none"> • Extent of impact on clients' businesses, incomes, livelihoods 	25%
<ul style="list-style-type: none"> • Integration into value chains 	5%
<ul style="list-style-type: none"> • Uniqueness and innovativeness of the proposal 	15%
<ul style="list-style-type: none"> • Duration of impact (long-lasting and sustainable) 	10%
<ul style="list-style-type: none"> • Potential replicability of the proposed project/approach 	10%
<ul style="list-style-type: none"> • Extent of matching contribution above the required minimum 	5%
Examples of projects that can be supported	<ul style="list-style-type: none"> • Payment, voucher or transfer systems for inputs • Price information for smallholders • Dissemination of production-related information via SMS • Payment insurance premiums • Disbursement and repayment of loans • Aggregation of inputs • Sales arrangements for smallholders
Examples of projects that cannot be supported	<ul style="list-style-type: none"> • Systems and services not immediately benefiting smallholders in rural areas
Items eligible for support	<ul style="list-style-type: none"> • Study tours • Legal costs (partnerships, platform acquisition) • Costs of programming • Costs of new hardware needed • Negotiation fora and training of smallholders and operators • Training of staff, parallel runs, TA • Feasibility studies • Cell phone costs if smallholders need new mobile phone devices at a unit cost not exceeding USD 80
Items not eligible for support	<ul style="list-style-type: none"> • Vehicles • Board and lodging for participants • Travel costs of participants
Environmental Impact Assessment	<ul style="list-style-type: none"> • Not required
Documentation requirements	<ul style="list-style-type: none"> • Implementation of activities • 2 years after the conduct of the measures: Brief certification prepared by grantee on: (i) the number of clients that have been effectively reached within 2 years using a simple template provided by RUFEP; and (ii) estimated impact on incomes and transaction costs as a result of project implementation

Window 3: Terms and Conditions for Rural Equity Innovations		
Item	Terms and conditions	
Objective(s)	<ul style="list-style-type: none"> Testing and adoption of innovative practices/products by FSPs benefiting rural women and youth Studies on less-used products and services (savings, insurance, leasing, warehousing, etc.) and less-understood rural businesses with high profit potential Needs emerging out of the Finscope 2013 	
Direct target groups	<ul style="list-style-type: none"> Research bodies, networks, associations, NGOs, FSPs, etc. 	
Eligibility criteria	<ul style="list-style-type: none"> Legally recognised body collaborating with licensed FSP Licensed FSPs Audited financial statements for 2 years For non FSPs, memorandum of understanding for an FSP to use findings of research/study Clear outreach mechanisms and approaches Provision of background on proposed product, intended target groups, presumed markets and marketing approach Outline for an implementation plan and schedule Potential to reach at least 1000 incremental clients within 2 years with the innovation or new product with the majority women and youth 	
Selection criteria		Relative weight
<ul style="list-style-type: none"> Convincing documentation on the no. of potential women and youth beneficiaries to be reached through the proposed measures 		20%
<ul style="list-style-type: none"> Extent of impact on smallholders' businesses, incomes, livelihoods 		25%
<ul style="list-style-type: none"> Profitability of the innovation, product or services to be developed under the proposal 		10%
<ul style="list-style-type: none"> Competitiveness of the innovation, product or services to be developed under the proposal 		10%
<ul style="list-style-type: none"> Uniqueness and innovativeness of the proposal 		15%
<ul style="list-style-type: none"> Growth potential of the intended innovations, products or services developed under the proposal and potential replicability of the proposed project/approach 		15%
<ul style="list-style-type: none"> High influence on policy or legislation 		5%
Examples of projects that can be supported	<ul style="list-style-type: none"> Developing innovative practices not yet offered in the Zambian markets Banking products and services including deposits and insurance Products clearly targeting rural clients and/or smallholders Establishment/deepening of credit bureau, collateral registry etc. 	
Examples of projects that cannot be supported	<ul style="list-style-type: none"> credit-only expansion innovations Products and services not immediately benefiting smallholders in rural areas Products with marginal impact on smallholders' incomes 	
Items eligible for support	<ul style="list-style-type: none"> Costs of external short term technical consultants and legal counsel Training costs Technical feasibility studies Gap Analysis Effects and cause studies on non-use of some financial services Studies on women youth exclusion 	
Items not eligible for support	<ul style="list-style-type: none"> Physical infrastructure Travel costs of participants 	
Environmental Impact Assessment	<ul style="list-style-type: none"> Not required 	
Documentation requirements	<ul style="list-style-type: none"> Implementation of activities One year after the conduct of the measures: Brief certification prepared by the grantee on: (i) the number of clients reached, and the number and volume of transactions since starting to offer the new product; and (ii) an assessment of the future prospects of sustainability of the supported arrangements and its expansion 	

G. Grant appraisal under the components 1 and 2

118. **Appraisal of grants for partnership proposals and grants under windows 1-3.** A number of formal steps of appraisal of grant applications are envisaged. A rigorous appraisal requires that three different technical instances review applications and decide its merit or lack thereof. In order to avoid compromises, these three instances would have to conduct their review in a pre-determined sequence and independent of each other. This also implies that no person engaged at one level could participate again at another. For transparency and accountability purposes, full documentation of the steps and the outcomes is expected at the end of each step.

119. The steps of appraisal for partnership proposals and windows 1-3 are the same and comprise the steps and procedures outlined below:

- i. Submission of an application by an eligible institution under one or several specific windows;
- ii. Acknowledgement of receipt by the PCO within the maximum response time limit;
- iii. First rough screening of the proposal by the PCO;
- iv. Presentation of the proposal to the weekly Internal Review Committee (IRC) by the PCO;
- v. Decision by the IRC on compliance of the proposal with regulations:
 - a) **Decision 1.1: Defer Suspension:** In case of need for additional information or clarification, the PCO would be tasked to obtain such from the applicant and re-submit the proposal to the next IRC;
 - b) **Decision 1.2: Reject:** In case the proposal would not be compliant with the conditions as laid down in this manual, the PC would inform the applicant accordingly, by detailing exactly where the proposal would not be compliant, and by inviting the applicant to work on areas of weakness and re-submit at a future date;
 - c) **Decision 1.3: Approve:** Where the proposal is deemed to be compliant with all terms and conditions, the IRC will decide to proceed with the appraisal and prepare its rating of the proposal based on the selection criteria.
- vi. PCO Convocation of an ordinary session of the PVC and transmission of complete sets of applications to all members, including the rating of the proposal along the respective selection criteria by the IRC;
- vii. Decision by PVC on the proposal:
 - a) **Decision 3.1: Rejection:** The PVC may decide to reject a proposal on three grounds: (i) the proposal is deemed to be non-compliant with the conditions as laid down in this manual; (ii) the rating of the proposal along the specific selection criteria is lower than those of competitors, and the funds available under the window do not permit funding of this proposal; or (iii) the rating of the proposal is below the minimum threshold defined for the specific window. In either of such cases, the PVC would decide to reject the proposal and instruct the PC to inform the applicant accordingly, by detailing exactly where the proposal would not be compliant or scoring below the requirements/standards set by competitors, and by inviting the applicant to modify the proposal accordingly and re-submit it;
 - b) **Decision 3.2: Approval:** In case the proposal would be deemed to be compliant with all terms and conditions by the PVC and exceeding the minimum selection threshold, the PVC would approve the proposal and instruct the PC accordingly. The PVC may also introduce conditions and/or deadlines for disbursement of tranches.
- viii. As apparent from the above, the decisions of the three instances involved in appraising grant applications can only be one of the following:
 - 1) In the case of IRC: request for information, rejection or approval;
 - 2) In the case of the PVC: rejection or approval;
 - 3) In case the information provided by the applicant, deemed to be insufficient by the PC and the reviewers, neither the PVC nor the external reviewers are entitled to ask for additional information and postpone a decision;
- ix. Information of the applicant on the decision of the PVC;
- x. Preparation of grant agreement by the PCO and its transmission to the grantee, in accordance with the instructions of the PVC;
- xi. Submission of the signed grant agreement by the grant recipient to the PCO;
- xii. Disbursement of grant, eventually in tranches and upon conditions;

- xiii. Post-disbursement monitoring by the PCO;
- xiv. Regular reporting by the grant recipient along the provisions of the grant agreement;
- xv. Submission of final accounts and narrative closure report by the grant recipient to the PCO;
- xvi. Post-project reporting on an annual basis for a specified period as per the grant agreement;
- xvii. Final closure of case upon full disbursement and/or full compliance of grant recipient with all terms and conditions.

120. **Deadlines for applications.** Applicants may submit their written proposal to the PCO at any given point of time. There will be no calls for submission of proposals or expression of interest to do so.

121. **Format for applications.** Applicants are requested to use specific templates for their applications to ensure comparability and compliance of applications with terms and conditions. The PCO will make these templates accessible to the general public on its website, by email upon request and through other appropriate means. An outline for the application templates for windows 1-3 is provided in Attachment 1. A template for Partnership Framework proposals (under Component 1) is provided as Annex 1.

122. **Obligation of the PCO vis-à-vis the applicant.** The staff of the PCO and technical advisors shall be in charge of providing guidance on the understanding of potential applicants of the RUFEP and components 1 and 2 in a broad manner. In addition, the PCO shall provide information requested by any potential applicant on the IOF and the interpretation of terms and conditions, explain the processes of grant appraisal and assist in the understanding of the selection criteria. Where needed, they shall also provide guidance on M&E issues, reporting, financial management, procurement, etc. In doing so, the PCO staff shall maintain a position of strict independence and neutrality, and shall not assist an applicant in preparing or writing a proposal. In addition, they shall not modify a proposal submitted by an applicant.

123. **Acknowledgements.** The PCO shall acknowledge receipt of all proposals and correspondences received, preferably by email. Applicants shall be informed that all correspondence, including the submission of proposals, shall be done via email, with the exception of the grant agreement and other legal documents requiring physical signatures.

124. **First level review.** The PCO will undertake a first internal review of the proposal received and assess its compliance with all terms and conditions (eligibility criteria).

125. **Internal Review Committee.** At the level of the PCO, an internal review committee (IRC) shall be established. The IRC shall be composed of: (i) the Programme Coordinator; (ii) the TAs; (iii) the Procurement Officer; and (iv) the M&E Officer. Meetings of the internal review committee will be held every second week subject to cases pending for clearance. The IRC will be chaired by the RFU representative.

126. In case the IRC will deem the proposal not to be compliant with the terms and conditions, the PCO would inform the applicant in writing of probable areas of non-compliance of the proposal with the guidelines and conditions and invite its representatives for a discussion on how such areas of non-compliance could be adjusted to make the proposal compliant. The applicant is free to: (i) accept such meeting and any eventual proposal made by the PCO; and (ii) modify the proposal accordingly.

127. In case the IRC deems a proposal to be non-compliant with the rules and regulations, and the applicant insists on maintaining the application as it was submitted, the PC would inform the applicant about the rejection.

128. The PCO shall prepare a scoring of each proposal along the respective selection criteria for each window under which the applicant has submitted the proposal. In case one proposal would be submitted for parallel grant support under different windows, the scoring would have to be done for each window.

129. To the extent possible, the PCO shall respect the autonomy and expertise of the applicant, and handle all cases in a manner to ensure that ownership fully remains with the applicant.

130. **External reviewers.** The PCO shall establish a roster of highly qualified domestic and international experts in each domain of the IOF and partnership projects. For this purpose, the PCO shall establish the criteria for the selection of suitable experts. This roster shall be established through a public invitation to experts to submit their expression of interest to serve the RUFEP. This invitation shall be made through different media, including relevant local print and internet media. Each reviewer shall be accredited under a specific window in her/his field of expertise. An expert shall be accredited, or deleted from the list, upon a joint decision made by the IRC or PSC. Reviewers shall be paid a fixed honorarium per case reviewed, which will be determined by the PSC. For budget purposes, an amount of USD 350 per case has been calculated. Any increase over this amount requires the non-objection of IFAD.

131. Each eligible application shall be reviewed by the PCO. The PCO is not permitted to change any part of the proposal received. They shall submit in their assessment to PVC:

- a narrative of the proposal essentials;
- a short feasibility and viability analysis, and an assessment of the medium- to long-term sustainability of the proposed activities;
- an assessment whether the application contributes to the objectives of the RUFEP and complies with (a) all eligibility criteria; and (b) the respective technical requirements of ventures of this nature;
- a weighing of the proposal as per the selection criteria;
- an assessment of the potential benefits and target groups reached;
- an assessment whether (i) the services to be provided will be clearly geared at the RUFEP target groups; and (ii) the data to be generated on the outputs and outcomes will be sufficiently disaggregated for the purposes of impact and outcome monitoring of the RUFEP;
- a statement whether the budget and financing plan (including grant and matching contributions) are appropriate and in conformity with reality;
- a reasonable valorisation of planned contributions in kind;
- a conclusion on the need for a social and/or environmental impact assessment, depending on circumstances; and
- a final statement on the approval or rejection, as the case may be, and the grounds for the decision.

132. **The Programme Vetting Committee (PVC).** The final instance of grant appraisal for all windows of the IOF will be the PVC. The main features of the PVC, which shall be comprised of nine members, are as follows:

- The PVC shall be composed of eight members, including: (i) one representative from BOZ; (ii) one representative from the Ministry of Finance (MoF); (iii) one representative of the board of directors of BAZ; (iv) one representative of the board of directors of AMIZ; (v) one representative from the ZNFU; and (vi) three private sector representatives recruited through a tender process; these shall preferably be persons familiar with banking and finance, but not be actively engaged in the financial sector.
- The PC is not a member of the PVC, but serves as convenor of and secretary to the PVC, presents the cases submitted for approval, and responds to queries. Other experts may be co-opted as the need arises upon majority decision. Neither the PC nor co-opted experts shall have voting rights at the PVC.
- The appointment of the institutional representatives will be done by the Steering Committee of the RUFEP upon nomination by the respective chief executive officer of the respective institution and the results of the open recruitment/tender process.

- All members of the PVC are requested to indicate at the beginning of the first session of the PVC any affiliation and/or economic interests with financial institutions, potential service providers and other relevant institutions. Persons with affiliations and/or economic interests in an institution applying for a grant under the RUFEP or seeking to supply goods or services under a contract shall be excluded from the deliberations and decisions as regards this particular case, and shall not be replaced by other persons. A member of the PVC who fails to fully declare her or his affiliations and economic interests shall automatically cease to be a member of the PVC. In such cases, the chairperson of the PVC will notify the respective chief executive officer accordingly.
- All nominated PVC members who fail to attend three consecutive meetings will automatically cease to be members of the committee. In such a case, the PC informs the respective chief executive officer of the institution concerned and requests for a new appointment or start a new recruitment process, as the case may be.
- The PVC undertakes a comprehensive assessment of each application, checks compliance of a proposal with all terms and conditions, ensures that all procedures are complied with and appraises the proposal along the selection criteria. The PVC is not permitted to change any part of the proposal they received. The PVC ultimately decides on the rejection or approval of an application. In case a proposal is rejected, the reasons for rejection have to be detailed in the minutes of the session.
- The PVC shall be authorized to determine a minimum threshold for each window below which no proposal could be funded. This threshold shall be determined in a manner to encourage high quality proposals without discouraging eligible institutions to prepare and submit their applications.
- The PVC will be convened about every six to eight weeks by the Programme Coordinator. The quorum at PVC meetings is attained if 5 out of the 8 members are present; decisions are made with the majority of votes, i.e. at least five votes, in favour of a support; if this majority is not attained, the proposal is deemed to be rejected.
- The decisions of the PVC are final.
- All documents to members of the PVC shall be circulated in electronic format at least one full week before the meeting. In addition to a standardized presentation of each single proposal, a summary sheet covering essentials of all projects shall also be circulated to the PVC members. The documents shall include in tabular form the scoring of each proposal along the selection criteria as made by the external reviewers and the IRC.
- All members of the PVC shall receive an allowance compensating them against the time spent and efforts made to render competent and professional advice to the Committee. The allowance shall be fixed in terms of the net time spent at PVC meetings, and shall amount to USD 30 per full hour. Payments shall be made to civil servants and persons on public payroll on condition that the respective member provides the Programme Coordinator with an official certification signed by the nominating chief executive officer that such payment is permitted under the respective regulations and would not contradict the status of the person concerned.

133. **PVC sub-committee.** For grants below a value of USD 20,000, the PVC may set up a sub-committee authorized to make decisions on its behalf. This committee shall be comprised of four members of the PVC. The members are to be elected with a simple majority by the PVC from among volunteers. The quorum required for decisions of the sub-committee is four members, and decisions require a majority (i.e. three out of four). This committee can be established only once at least five regular meetings of the PVC have been held. After one year of functioning, the PVC may increase the approval limit to USD 50,000 per case. The minutes of the meetings of the sub-committee shall be submitted to the full PVC through the PC.

134. **Minutes.** The chairpersons of the IRC and of the PVC ensure that minutes of all meetings are properly kept. The secretaries of the IRC and the PVC will, respectively, submit the minutes of any meeting within three days to the chairperson for approval. The final version of the minutes shall be distributed to all members attending the respective session immediately upon finalization, as well as to all members of the IRC.

135. **Exclusions from decision making.** Members of the PVC are not permitted to attend meetings of the IRC or act as external reviewers. Members of the PCO are not entitled to act as external reviewers or as members of the PVC. An exception of this is the PC, who shall serve as secretary to the PVC without voting rights.

136. **Notification.** All applicants shall be notified by the PC of the final outcome regarding their application. In the case of approval, the PC suggests the next steps to undertaken, such as drafting grant agreements, opening specific accounts, appointing staff or starting tender/procurement processes. In case of rejection by the PVC, the Programme Coordinator notifies the applicant of the decision and the reasons for rejection as stated by the PVC, and informs about the opportunity to re-submit the application, eventually after modification.

137. **Re-submission.** In case an application has been rejected on the grounds of receiving a lower score or non-compliance with terms and conditions, the applicant is permitted to re-submit it a second time after incorporating the appropriate modifications. The modifications should address the comments and suggestions made by the PVC. The PCO shall treat such applications as modified applications and commence the normal appraisal process.

138. **Multiple applications.** An applicant is permitted to submit one proposal at a time under any given window. An applicant may submit two parallel proposals under different windows at any given time. There are no restrictions with regard to the number of proposals submitted by any applicant. However, no applicant shall be permitted to implement more than two parallel projects funded under the IOF at any point in time. The condition for submission of a second proposal under the same window is that the previous proposal has been fully implemented and closed by the PCO.

139. **Duration of projects.** The duration of projects should be determined in accordance with the implementation capacity of the applicant, the absorption capacity of the market, the availability of human, financial and other resources needed, and other important parameters. In addition, the duration should be fixed by acknowledging a probability for delays. While capacity development activities may eventually be completed within 4-6 weeks, others, such as product development, may require much longer. In case a project would take much longer than 18 months, it is preferable that the project be split into several phases; the approval of the first phase would then be done with the explicit approval of the entire project, subject to satisfactory implementation by the grantee and compliance with all obligations. In such cases, the applicant would have to submit a budget for the entire project period. The maximum project duration is set at 24 months, counting from the date of disbursement of the first tranche to the grantee.

140. **Ceilings.** The amount specified as "Maximum grant amount" for each window shall constitute the upper ceiling for support under the respective window, irrespective of the total costs of a project and percentage level of the matching contribution. Where the costs of a project submitted for support exceed this maximum eligible amount, it may be considered for funding, however by applying the given ceiling of support per project. For all ceilings, the respective amount in USD is decisive, not the ZMW equivalent.

141. **Common conditions for all projects.** The following conditions apply to all applications for grant support under the IOF:

- Projects that have previously been financed by another donor agency or government body can in principle also be supported under the IOF, provided that the activities that have been financed by a third party have been completed successfully and that the accounts for this project have been submitted to the financier/donor; this also applies to projects that are undertaken in phases, where one phase has previously been supported by a third party.
- Projects that have already been started can also be supported, provided that all obstacles to implementation have been removed or overcome. Projects that have already been started, or where construction of buildings etc. has already begun, or where equipment has already been acquired or procured, are therefore eligible in principle, especially where the costs of projects have been underestimated. In such cases, the entire project including previous activities shall

be considered for the calculation of total project costs and the matching contribution by the applicants.

Grant chart to be inserted here in the final version

6. Grant administration

142. IOF funding allocation. There will be no fixed allocation of funds for the IOF in the RUFEP budget. In addition, there will be no fixed allocation for any window or by year. Instead, as there is no hierarchy or specific priority of one activity or window over another, and as all windows contribute to the same two outcomes, funds shall be used as per the emerging demand from eligible applicants. For administrative purposes, an initial allocation for the three windows will be made in a rather arbitrary manner, by anticipating the possible demand for and ability of the industry to absorb funds under each window. Furthermore, it was assumed that all windows would ultimately absorb 15-20% of the total funds tentatively allocated. Assuming a tentative allocation of USD 7 million for the IOF, and under the above assumptions, about 240 proposals could be funded in total under the Programme, or about 21 grants on average per year worth USD 0.9 million. The grant funding of USD 7 million would leverage total investments of USD 12 million, which is 1.7 times the grant amount.

143. Disbursements. All disbursements shall exclusively be made by way of bank transfer in national currency (ZMW) into an account officially opened by the grant recipient. The respective account shall be specified in the grant agreement. No cash or in-kind releases are permitted. Requests for fund transfers shall be submitted by the PC to the Finance Controller upon approval by the PC. Grant recipients are requested to confirm receipt of funds transferred by email within one week after receipt.

144. Disbursements in tranches. Disbursements to grant recipients follows the nature of the proposed investment in acknowledgement of the associated risks. In most cases, disbursement will be in tranches. Payment of grants shall be made within two weeks upon submission of an invoice compliant with the specific requirements. The table below presents the disbursement modalities and conditions for the initial three windows.

Window 1: Disbursement Modalities and Conditions for the Three Innovation Windows			
Window	Modalities	No. Of Tranches	Conditions for Disbursement
Window 1: CBFI Linkage	<ul style="list-style-type: none"> Initial advance of 50% of provisional amount Reimbursement of 50% of eligible expenses up to grant ceiling 	1	Submission of invoice and implementation report
Window 2: Mobile & Agency Banking	<ul style="list-style-type: none"> Pre-financing 30% of total costs by applicant Reimbursement of eligible expenses in 3 tranches based on attainment of targets stipulated in the contract/agreement 	3	Submission of invoice and documents of fulfilment of disbursement conditions
Window 3: Rural Equity Innovations	<ul style="list-style-type: none"> Initial advances of 30% of provisional grant amount 2 disbursements (50%) based on attainment of agreed indicators not later than five months after starting implementation Final payment of balance outstanding (20%) upon completion of activities 	3	Submission of invoices, documentation of expenses incurred and respective payments made by grantee and meeting other conditions

145. Record keeping requirements of expenses by grant recipients. All grant recipients are requested to keep records as per the specific monitoring and reporting requirements of their project and as specified in the grant agreement. All grant agreements shall contain clear reporting requirements along specific indicators, and contain a clause pursuant to which the grant recipient commits to comply with the set reporting requirements. Where possible, the persons and units in charge of reporting shall also be named explicitly.

146. **Duration of processing.** The processing of grant applications, starting from the receipt of the first application to the approval by the PVC, shall be done with all due diligence and as short as possible under the given resource endowment. For all project applications received, the duration of processing until disbursement of the first tranche shall be measured and monitored. For this purpose, the PCO shall create a database for all applications received which permits an assessment of the duration of all appraisal steps till the closure of the case. The database shall contain at least the steps listed in the table below, plus the dates of: (i) all other disbursements; (ii) dates of receipt of periodical implementation reports; (iii) dates of receipt of financial reports; and (iv) closure. The following targets for the average duration of processing shall be aspired:

Table 11: Average duration of main appraisal steps for grant processing under the IOF		
Main step	Duration in weeks	
	Minimum	Maximum
Acknowledgement of receipt	0.5	1.0
Decision on compliance of application with Manual by PCO	1.0	2.0
Selection and recruitment of external reviewers, and transmission of applications to reviewers	0.5	1.0
Receipt of technical reviews by PCO	1.5	4.0
Submission of proposal to PVC	1.0	2.0
Decision on proposal by PVC	1.5	3.0
Notification of applicant on decision of PVC	0.5	1.0
Transmission of grant agreement to grant recipient	1.0	1.5
Disbursement of first tranche to grant recipient	1.0	1.5
Total	8.5	17.0

147. Ideally, the duration of processing should not exceed two months. The PCO shall prepare quarterly reports on the duration of processing in which the minimum, maximum and average processing time shall be presented and analysed. Furthermore, the PCO shall present explanations for all cases where the time between receipt of application and disbursement of the first tranche exceeds four months.

148. **Data processing.** Data to be entered in the database include all elements of the grant application, technical details pertaining to eligibility and selection criteria, costs, outputs and outcomes, targets to be achieved, dates of appraisal steps and all other relevant information needed for decision making and monitoring and evaluation purposes.

149. **Processing software.** It is recommended to use the software package “RuralInvest” elaborated by FAO for processing of applications under the IOF. This software, which is available free of charge from the FAO internet site⁷⁰, permits handling, processing, monitoring and reporting of grant and matching grant schemes such as the IOF under different windows and terms and conditions. Configuration is relatively easy, and can be done to suit different levels of complexity (e.g. by using a lesser number of the available modules for smaller and simpler projects involving smaller amounts than for larger projects with higher levels of complexity). Alternative options are using a database or spreadsheet programme, which would also have to be configured adequately.

150. The PC will send each grantee under the IOF a standard letter of grant agreement, which contains the main points of the application, including the objectives, implementation and budget (in summary form), the terms and conditions of the grant, eventually with any conditionality imposed on the grantees, a disbursement schedule and a reference to the conditions under which the grant may be revoked.

⁷⁰ See <http://www.fao.org/investment/ourrole/ruralinvest/en/>

151. **Procurement** involves mainly technical assistance. The main items to be procured under the component are: (i) recruitment of a website designer for information disclosure in year 1; and (ii) recruitment of a team of consultants to conduct an impact evaluation of the IOF operations in the 3rd year of implementation. In addition, the PCO needs to launch the recruitment process of external reviewers through an invitation for expression of interest campaign, which should be repeated after about two years. This will lead to the creation of a database on suitable national and international experts for each IOF window. Recruitment of a single reviewer would then be done through a short contractual agreement with specific (short) terms of reference for each single case and standard terms and conditions for all reviews. Given average cost per review of USD 350, and more than 2,000 reviewer contracts to be concluded under the Programme, no additional tendering of these services would be expected. The PCO will be compelled to select reviewers first of all on strictly professional grounds (knowledge and hands-on experience of the topic, writing and presentation skills, speed of submission), and then second by applying equity and fairness considerations when making a choice among reviewers of the same or similar professional qualification. The PCO would maintain a database of all reviews subcontracted and report annually to the GRZ and IFAD on the use of the consultants.

152. **Information disclosure.** The following information on the IOF shall be disclosed in the English language on a website to be created under the RUFEP:

- The overall objectives and main terms and conditions and procedural steps of grants under the IOF (IOF leaflet or brochure);
- The procedures and guidelines for processing;
- A complete and up-to-date list of grant recipients, containing at least: (i) the name and location of the grant recipient; (ii) the nature and main objective of the project; (iii) the window under which the grant was awarded; (iv) the amount of support and matching contribution; (v) any eventual conditions or restrictions as decided by the PVC; and (vi) the dates of application, approval by the Vetting Committee and disbursement of the first tranche; this information shall be provided in the form of a spreadsheet program and shall be updated on a monthly basis by the PCO;
- A list of grants that have been rejected, with the main reason for rejection as per the information note to the applicant (in summary form);
- A list of grants that have been revoked, with the main reason for revocation (in summary form);
- Application forms/templates and guidance notes for each window;
- An annual report on the results achieved, with details and analysis on applications received, reasons for rejections, approvals, funding, results achieved by type of projects, status, total disbursements, by window, nature of projects, type of applicant, location, intended benefits, etc.;
- Any other relevant information related to the IOF, such as audit reports, evaluation reports, etc.

153. **Printed IOF Brochure.** Upon approval of the regulations for the IOF, the RUFEP shall print a one-page brochure with key information on the IOF. This brochure shall contain information covering:

- RUFEP objectives;
- Role and objectives of the IOF;
- Summary terms and conditions for the three windows, including the summary Table 1 above;
- Summary of the main screening steps;
- Reference to the IOF website;

- Reference to the PU office from where application forms and guidance can be obtained, with physical address and office phone numbers.

154. **Impact evaluation.** In the beginning of the third year of Programme implementation, the RUFEP will commission an impact evaluation of the results of the first disbursements. The selection of the service provider will be on a competitive basis. The main focus of the external evaluation is to assess whether, and to what extent, the resources have been well spent by the recipients, what outcomes and impacts can be observed, what level of sustainability could be expected from the supported projects till that date, and to make recommendations on the set-up, conditions and procedures of the IOF.

155. **M&E indicators for the IOF.** In order to measure the contribution of the IOF to the Programme Development Objective and the two outcomes, it will be necessary for the PCO to maintain records on the following and obtain data from all grant recipients as follows:

- Number of men, women and youth in rural areas that have accessed financial services as a result of RUFEP interventions;
- List of all PFIs;
- Value of total loans outstanding of PFIs as at the end of June and December of each year, and value of loans outstanding for agricultural purposes outstanding as at the end of June and December of each year;
- New products introduced by PFIs (including mobile phone operators, where applicable) for rural areas (nature, purposes, target groups, terms and conditions, localities where offered, etc.);
- Return on equity (RoE) and return on assets (RoA) of PFIs during and after supported periods;
- Value of intra-sectoral non-performing loans and NPL ratios for agricultural purposes, compared with the value of overall NPLs.

156. Furthermore, five of the nine output indicators of the Programme directly refer to the IOF, on which the PCO needs to maintain data. These indicators are:

Table 12: IOF Output Indicators		
Output	Indicators	Means of Verification
Output 4: Linkages formed between CBFIs and licensed FSPs increased	<ul style="list-style-type: none"> • At least 10 linkages formed between licensed FSPs and CBFIs • At least 20,000 target persons benefitting from linkage between CBFI and license. Benefits should include savings services, credit or any other service offered by the participating FSP 	Participating institutions RUFEP M&E records
Output 5: Agency & mobile banking transactions (in participating institutions) increased	<ul style="list-style-type: none"> • At least 8 institutions (previously not offering mobile or agency banking services in the rural areas) offering mobile or agency banking • At least 40% of the 160,000 new mobile or agency banking accounts in the rural areas 	Records of grant recipients RUFEP M&E records
Output 7: New and sustainable financial services, products and processes targeted at rural women and youth tested and scaled up	<ul style="list-style-type: none"> • At least 10 new financial products and delivery models targeted at rural clients, by type of product and FI, and by gender where feasible • No. of women and youth users (10,000) of new financial products and delivery models targeted at rural clients by gender and age group 	Records of grant recipients RUFEP M&E records
Output 8: IOF effectively operated	<ul style="list-style-type: none"> • No. of IOF grants approved and % successfully completed by window, type of recipient • Value of IOF support and matching contribution • Semi-annual analysis of unsuccessful applications done and recommendations made on how to improve applicant success rate 	IOF records and progress reports

157. Over and above these logframe indicators, the monitoring unit of the PCO shall provide details and data on at least the following:

- Incremental number of deposit or loan accounts newly opened as a result of the grant-funded investments (disaggregated by gender, age bracket [adult/youth]);
- Incremental value of deposit balances of new clients as a result of the grant-funded investments (disaggregated by gender, age bracket [adult/youth]);
- Incremental value of loans outstanding to new clients as a result of the grant-funded investments (disaggregated by gender, age bracket [adult/youth]);
- Incremental number of farmers accessing financial services through value chains and value of transactions;
- Number of CBFIs linked with formal FIs, value chains and similar arrangements;
- No. and value of projects supported, by province/district, by type of recipient/target groups and by window;
- No. and value of projects supported, by county, by gender, by type of recipient/target groups and by window, which are operational after 18-24 months of start;
- Duration of processing of applications at all levels.

158. **Environmental safeguards.** There is no information at present pertaining to the compliance of projects with environmental standards funded by FIs in Zambia. FIs do not screen such compliance at present. There are no clear rules and regulations pertaining to the compliance of smaller investment projects with environmental standards. Given further that no particular type of lending or project shall be promoted under this Programme, no environmental screening will be introduced unless the GRZ has established clear norms and obligations, and except where PFIs show a demand for training and guidance in this domain.

159. **Reporting.** Grant recipients under all IOF windows are requested to submit quarterly implementation progress reports starting from the date of disbursement of the first tranche and the spending of and accounting for the last item to be procured under the project. Where feasible, the deadlines of such reporting shall coincide with the end of a quarter of the calendar year. Upon the signature of the grant agreement, the M&E officer shall visit the respective reporting officer of the PFI and guide her/him on data generation and reporting obligation and formats. PFIs shall furthermore provide data and reports for a period of two years after grant closure on the outcomes of the innovations, products and facilities created by the grant recipient through IOF funding. The grant agreement shall furthermore specify that representatives of the GRZ and IFAD, including supervision and evaluation missions, shall be permitted access to these facilities and implementing offices and officers.

160. **Ownership of goods, data and information obtained.** All goods acquired by the grant recipient from the proceeds of the grant shall be used for the purposes of the project as submitted in the grant application and as approved in the grant approval letter. All goods remain the exclusive property of the grant recipient, i.e. a corporate body. As owner, the grant recipient is solely responsible for taking care of all property, providing for proper maintenance of goods and insuring property against common losses and risks. All data and information gathered during and after the completion of the project remain for the exclusive use of the grant recipient, with the provision that experiences and information gathered can also be used by the PCO for reporting to the GRZ and IFAD and for dissemination to the general public in generic form. In case of cancellation of a grant, goods remain the property of the grant recipient, irrespective of the right of the Ministry of Finance to request for reimbursement of the full grant or a portion thereof.

161. **Cancellation of grants.** The grant agreement shall contain a clause to the effect that the RUFEP reserves its right to cancel a grant agreement under certain conditions. Grant recipients are to sign a certification that they have understood the conditions and will comply with all clauses. The

cancellation of a grant can only be done by the PC. The PC would have to decide whether to stop the disbursement of the next tranches (in case not all tranches have been disbursed) to enforce compliance or to recall the entire grant and ask the recipient to pay back all amounts received. The conditions for cancellation of grants shall comprise:

- a) Impossibility to reach the stated objectives of the project, whether by force majeure or otherwise;
- b) Inability of a recipient to fully account for the spending of the entire amount received within four weeks after receiving a notice requiring for compliance and threatening to recall the grant;
- c) Inability to start the proposed project/activities within a period of three months after the signature of the grant agreement, as explicitly stated in the grant agreement unless the PC has approved an extension period which shall not exceed three more months;
- d) Use of grant funds for purposes and projects other than those stated in the grant agreement.

Attachment 1: Outline for a template for grant application under windows 1-3

- Details on applicant: name, addresses, contact persons (including email and phone contacts), date of creation, legal status, shareholders and shareholding, business activities, objectives, vision, mission, staff, turnover, major balance sheet items, major income statement items;
- Copies of annual reports (including balance sheet and income statement) for the past three years;
- Copy of the latest monthly or quarterly report submitted to the BOZ (if compelled to do so);
- Copy of certificate of incorporation (except for banks and deposit-taking MFIs);
- Brief summary of similar projects conducted by the applicant in the past and their outcomes;
- Name of project, project objectives, target groups, methods and approaches, proposed outcomes and outputs, and major activities to be carried out;
- Time schedule of implementation;
- Structure, hierarchy, lines of command and responsibilities under the proposed project;
- Feasibility of project;
- Viability and sustainability of project (including statement of assumptions);
- Familiarity of the applicant with the subject matter of the proposal;
- Capacity of the applicant to implement the proposed activities;
- Risk assessment (potential risks identified, their relevance and importance, and risk mitigation measures built into the proposal);
- Maturity of proposal (Is the project ready for immediate implementation? Are there external/third party conditions to be complied with prior to starting the project? Are all necessary approvals obtained? Is the MIS of the applicant adequately configured to facilitate the future transactions? Are all required staff employed and trained for the assignment?);
- Presentation of information indicating full compliance with all eligibility criteria;
- Presentation of information showing extent of compliance with selection criteria;
- Details on how and to what extent the proposed activities will positively impact on the RUFEP target groups;
- A statement on the innovativeness, replicability and potential for scaling-up of the proposal;
- Costs and financing plan of proposal, including amount of support sought and nature and amount of matching contribution of the applicant, and disbursement and payment schedule;
- Physical, financial and other targets to be achieved at the end of the project, and any eventual milestones for passing from one phase to the next;
- Proposed monitoring and reporting arrangements (approaches, responsibilities, timelines, contents, data submission, etc.) during and after the closure of the project, including disaggregation by gender, age bracket etc. for the purposes of impact and outcome monitoring of the RUFEP;
- Proposed procurement regulations;
- Proposed financial reporting on uses of funds to be submitted by the applicant, and deadlines for such submission;
- Acceptance of obligation to comply with the specific documentation requirements as stated in the terms and conditions of the respective grant window;
- Acceptance of the general terms and conditions of the grant (as published on the RUFEP website or transmitted to the applicant);

- Acceptance of commitment to settle all disputes in a cordial manner, and abidance by a ruling of an arbiter in case of failure of settlement of dispute;
- Acceptance to permit to the PCO the unrestricted use of the results and realizations of the project to the general public, through photos, publications, reports and via the internet;
- Acceptance of providing access to all data and information to any external evaluator or person nominated by the PC to monitor or evaluate the realizations funded under the RUFEP;
- Signature by the duly authorized representatives of the grant recipient, date and venue.

Attachment 2: Outline for a grant agreement under windows 1-3

The grant agreement to be signed between an eligible institution, as represented by its chief executive officer, and the MoF, as represented by the PC of the RUFEP, shall comprise at least the following items:

- Name of project, project objectives, proposed outcomes and outputs, and major activities to be carried out;
- Amount and nature of contributions by both the applicant(s) and RUFEP, and ultimate dates for such contributions;
- Reporting requirements to be complied with by the applicants;
- Details on financial accounts to be submitted by the applicants, and deadlines for such submission;
- Details on submission of requests for disbursements in tranches, including conditions, dates and deadlines;
- A clause that the grant agreement overrules the details of the grant application;
- A clause on the obligation of both sides to settle all disputes in a cordial manner, and a proposal for arbitration in case no agreement could be reached between both sides;
- A consent by the applicant to permit the unrestricted presentation of the results and realizations of the project to the general public, through photos, publications, reports and via the internet;
- A consent by the applicant to permit to any external evaluator or person nominated by the PC to visit the realizations;
- Conditions under which the grant may be cancelled;
- Signature by the duly authorized representatives of the grant recipient and the Ministry of Finance, and date and venue.

Attachment 3: Terms of reference for the Internal Review Committee (to be prepared when the PCO is established)

Attachment 4: Terms of reference for external reviewers (to be prepared when the PCO is established)

Attachment 5: Terms of reference for the Programme Vetting Committee (to be prepared when the PCO is established)

Attachment 6: Terms of reference for IOF Programme Officers (to be prepared when the PCO is established)

Attachment 7: Template for the decision of the IRC (to be prepared when the PCO is established)

Attachment 8: Template for the report of external reviewers (to be prepared when the PCO is established)

Attachment 9: Template for the decision of the PVC (to be prepared when the PCO is established)

Attachment 10: Template for the final closure report of the grantee (to be prepared when the PCO is established)

Attachment 11: Checklist for appraisal of grant applications under the IOF (to be prepared when the PCO is established)

Appendix 12: Compliance with IFAD policies

1. This Appendix analyses the extent to which the design of RUFEP complies with the relevant IFAD policies. The design is fully aligned to the IFAD policy framework, as is shown below for the IFAD policies on Rural Finance, Rural Enterprise Development, and Private Sector Development and Partnerships.

2. The design of the RUFEP is fully in line with internationally recognized good practices in rural finance. It has been informed by both local and global knowledge, the current government policies on rural finance. It strongly builds on past interventions of IFAD in Zambia, in particular the RFP, other donor activities in agriculture and rural finance, and lessons learned from other countries with similar or comparable features, in particular in the Eastern and Southern Africa sub-region. RUFEP has been informed by a thorough analysis of the rural financial sector in Zambia and benefitted from a close interaction with the Government of Zambia, the in-country PDG, and the other in-country key players in the financial and agricultural sector.

3. In particular, the Rural Finance Policy; the Policy on Gender Equality and Women's Empowerment; the Targeting Policy; the Rural Enterprise Policy; the Private Sector Strategy; the Strategy for Knowledge Management, and the Technical Note on Matching Grants have been of relevance in shaping the approaches and methodologies.

Rural Finance Policy

4. RUFEP fully complies with IFAD Strategic Framework 2011-2015 and the six guiding principles of the IFAD Rural Finance Policy.

As per the policy, throughout its interventions in rural finance, IFAD works to:	RUFEP complies with this policy as follows:
1. Support access to a variety of financial services, including savings, credit, remittances and insurance, recognizing that rural poor people require a wide range of financial services.	The FSPs to be supported are varied, and they provide a wide range of products and services using different delivery models. The products and services include, but are not limited to; credit, savings, insurance, value chain development and value chain financing.
2. Promote a wide range of financial institutions, models and delivery channels, tailoring each intervention to the given location and target group.	A range of FSPs including commercial banks, microfinance institutions and community based financial institutions will be supported. These institutions employ different delivery channels in line with client needs and capacities. The channels include group methodology, individual delivery, mobile banking, agency banking.
3. Support demand-driven and innovative approaches with the potential to expand the frontiers of rural finance.	All FSPs endeavor to provide fully demand-driven and innovative products and services using innovative approaches that are pro rural and pro poor. To ensure rural reach is deepened consistently and made more inclusive, the RUFEP will support players and providers in enhancing their capacities to be cost effective and more responsive. Also, the RUFEP design has included support aimed at increasing financial literacy at the client end.
4. Encourage – in collaboration with private sector partners – market based approaches that strengthen rural financial markets, avoid distortions in the financial sector and leverage IFAD's resources.	RUFEP design builds on existing financial institutions and has included innovative schemes to provide affordable credit to rural and agriculture clients in a way compatible with existing best practices, government and donors' approaches.

As per the policy, throughout its interventions in rural finance, IFAD works to:	RUFEP complies with this policy as follows:
	Furthermore, RUFEP design stresses the need for strategic partnerships and stipulates how such partnerships can be developed and enhanced.
5. Develop and support long-term strategies focusing on sustainability and poverty outreach, given that rural finance institutions need to be competitive and cost-effective to reach scale and responsibly serve their clients.	Issues of sustainability in rural finance by supporting the institutions to develop and balance between short and long term strategies to ensure access and use of services in a more permanent nature.
6. Participate in policy dialogues that promote an enabling environment for rural finance.	RUFEP will work with MoF and BOZ to develop and review rural finance policies that are geared towards minimizing entry and operational constraints, leading to mutual benefits for both the supplier and the consumer. RUFEP will also support the setting of the RFU within MoF in order to consolidate and strengthen rural finance sector coordination.

Policy on Gender Equality and Women's Empowerment

5. RUFEP design builds on a thorough gender and poverty analysis. Existing methodologies such as the gender checklists have been used in the design process together with other tools, such as the GALS methodology, which are currently being refined and up-scaled by Oxfam/Novib with the support of an IFAD grant. A specific tool "The Gender & Poverty Responsiveness Checklist" has been developed by the design team to help the programme implementers check whether an intervention or proposal supported under RUFEP is indeed gender and poverty responsive. (See Appendix 2 Attachment 1)

6. Under component 2, the IOF which has three windows, the poverty focus and gender mainstreaming aspects have been included in the design. The first window focuses on CBFi Linkage with formal FSPs – to enable the CBFis benefit from the services available in the formal FSPs. CBFi methodologies implemented under RFP reveal that women are the majority of participants which also explains its success and potential for scale up. In addition, 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 phone and access at local outlets (shops, supermarkets, petrol stations, inputs dealers, etc.) and has the potential to significantly reduce transaction costs⁷¹. Under these windows barriers to access of smallholder women and men farmers and youth will be analysed with the aim of reducing bottlenecks.

Targeting Policy

7. The programme activities, implementation arrangements and M&E system have been designed in compliance with the IFAD targeting policy. RUFEP strategy takes into account the needs of smallholder farmers, women and the youth and activities are tailored to the needs of the IFAD target group.

8. Given the nature of interventions, no spatial targeting will be attempted under the Programme. As the Programme is not directly involved in direct supply of financial services, it does not provide resources for lending, and no attempt is made to create any limits for loans sizes or choice of specific clients. However, all grants under the IOF have clear eligibility and selection criteria pertaining to the expected outreach to the RUFEP target groups. Compliance with these at appraisal stage and later on during implementation of grants will be closely monitored. In addition, requires partners to pay close attention to special target groups, specifically women and the youth.

⁷¹CBK Statistics- The experience from Kenya shows a 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.

Rural Enterprise Policy

9. As per the policy, IFAD supports the provision of entrepreneurial-oriented financial services (see above), and the provision of non-financial services including, institutional capacity building, training for CBFIs and small holder farmers and smallholders' organizations involved in business ventures supported by the project.

10. Further elements of the policy relate to the facilitation of value chain development, policy dialogue and cost-recovery for services. Improving value chains is part of the innovative venture of the RUFEP, including the improvement of finance access and markets for smallholder farmers. In terms of policy dialogue, the project will assist in fine tuning and rolling out of agency and mobile money regulations. The RUFEP will also support value chain stakeholders, through various value chain platforms to contribute towards shaping the policy and legislative environment for the development of inclusive value chains.

Private Sector Strategy

11. As per the strategy, IFAD will support local private sector development through policy dialogue, investments and co-financing partnerships. Private sector development is a significant anchor for RUFEP to leverage its resources. Policy dialogue will be supported by the multi-stakeholders financial value chain platforms. Investments in joint private investors/smallholders operations featuring co-financing partnerships will be promoted for the two components.

Strategy for Knowledge Management

12. Knowledge Management is at the core of RUFEP's strategy, which is fully in line with the guidelines provided in the IFAD Strategy for Knowledge Management.

13. RUFEP design includes mechanisms, and structured approaches for capturing lessons learnt, new knowledge and opportunities for enhancing partner approaches, interventions and activities throughout the Programme life cycle. As such M&E functions will tie in closely with Knowledge Management strategy. The Programme will contribute to the generation and dissemination of knowledge that brings to the forefront emerging solutions, innovations and new approaches for uptake by sector stakeholders. RUFEP will share lessons learnt and emerging best practices with stakeholders using different fora and it will establish close ties with the on-going knowledge management initiatives of IFAD in Eastern and Southern Africa.

IFAD Technical Note on Matching Grants

14. The RUFEP design fully complies with the recommended design elements and modes of the Technical Note on Matching Grants. While there will be no matching grants for productive purposes, efforts will be geared at making the poor bankable, by helping financial institutions to; understand the requirements of the poor and smallholder clients, serve the poor and smallholder clients in a sustainable manner through appropriate product and service pricing, and by enhancing regulations to permit innovative service approaches and selection criteria.

ATTACHMENT 1: ENVIRONMENTAL AND SOCIAL REVIEW NOTE

MAIN CHARACTERISTICS OF THE PROGRAMME AREA

A. Major site characteristics

The Programme will operate nationally in areas where partners and grant recipients will chose to operate. Consequently, there is no specific geographical coverage targeted under the Programme. While some measures, such as the changes of banking regulations, will affect the whole country, other measures will be limited to the zone of operation chosen by partners and grant recipients. Therefore, this section of the Environmental and Social Review Note provides an overview of Zambia's socio-economic and environmental characteristics at the national level.

Physical and Biological Characteristics. Zambia is landlocked and has no direct access to the sea. It is surrounded by eight countries¹ and ranked 39th largest country in the world covering an area of 753,000 sq. kms. With a population of 13m (2010), it has a sparse population density at 17 people per sq. km. Zambia's climate is influenced by several factors including its elevation. Its altitude ranges from 1,500-2,000m in the northeast to 350–600m above sea level in the south at the confluence of the Zambezi and Luangwa rivers. Three main factors greatly influence its sub-tropical climate: a) the inter-tropical convergence zone, where two air masses from the northern and southern hemisphere meet; b) altitude variations; c) and El Nino. The result is that the country has three distinct seasons: (i) the warm rainy season (November to April); (ii) the cool dry season (May to July); and (iii) the hot dry season (August to October). Large due to elevation, high altitude areas experience cooler temperatures than the low-lying regions; while annual rainfall ranges from 600 mm in the lower south (low rainfall areas) to 1,300 mm in the upper north of the country (high rainfall areas).

Zambia is endowed with a wealth of natural resources found within sixteen ecosystems within its four major biomes consisting of forest, woodland, grassland and aquatic systems. The ecosystems are characterised by landscapes that include: forests, grassy plains, hills and steep escarpments; lakes and rivers, deep valleys and ecologically and rich wetlands. Added to these are found areas of anthropic origin including cropland, plantation forests and urban settlements. In terms of both surface and ground water resources, Zambia can be described as one of the best watered countries in Africa as large parts of the country lie along the Zambezi and Congo drainage systems. The country has an estimated 49.6 billion cubic metres ground water (about 40% of total ground water in the whole Southern African region). In addition, large water bodies it has the following major perennial rivers: the Zambezi, Luangwa, Kafue, Kabompo, Luapula and Chambeshi; and lakes: Bangweulu, Kariba, Tanganyika and Mweru. The country is divided in three broad Agro-Ecological Zones, largely influenced by rain and soils, which define Zambia's agricultural potential:

- **Region I:** Covers the eastern and southern rift valley areas, southern parts of Western and Southern Provinces. This is a semi-arid area with a hot and dry climate, sandy and poor soils. Rainfall is less than 800 mm per year, has a short growing season of between 80 and 120 days. Due to variable and unreliable rainfall within one rainy season, agricultural production is marginal.
- **Region II:** Covers the Sandveld Plateau zone of Central, Eastern, Lusaka and Southern Provinces. The region is a medium rainfall zone with 800-1,200 mm per season, and has a growing season of 120-150 days. This has been the most productive region of Zambia, but some soils in the region have been severely depleted, due to over-farming and poor production management practices.
- **Region III:** Covers Northern, Luapula, Copper-Belt and North Western Provinces, parts of Serenje and Mkushi districts in Central Province. Much of this region is part of the Central African Rift Valley. Rainfall in this region ranges from 1,200 mm and above. It has a growing season of up to 190 days. The impact of the high rainfall has been considerable soil nutrient leaching and erosion as soils are highly acidic and limit the range of crops that can be grown.

¹Includes wetlands which together contribute to 20% of Zambia's surface water of its total land mass.

Zambia is a member of the SADC and COMESA. The creation of a single free trade area made up of 26 countries with a large population will create a huge market, attract investments and be conducive to large-scale production.

Zambia's climate is predominantly tropical with temperatures being moderated by elevation, ranging from 25C - 35C during summer (October - April) and from 20C – 25C during winter months (May - September). It has one rainy season of up to 5 months (November – March) with peak months being from mid-December to January. Zambia is heavily dependent on rain-fed agricultural production. The country has several thousand kilometres of water-body dominated by inland lakes (such as Lakes Tanganyika, Mweru and Bangweulu) together with a network of major perennial rivers (Zambezi and Kafue) provide Zambia with sources of fish and hydroelectric sources. In addition, Zambia is endowed with vast national parks of international reckoning. A combination of good climate and untapped vast arable agricultural land including vast ground water for irrigation gives Zambia the potential as one of the leading agricultural producing countries in the region.

Economy. Although Zambia is amongst major copper exporting countries in the world, agriculture remains the most important economic activity for the majority of the population. It contributes 22% to GDP and provides a livelihood to about 50% of the population. About 67% of the work force is engaged in agriculture or food production, largely dominated by smallholder producers using limited technology, mostly hoe and axe to a lesser extent draught power especially in Southern, parts of Central and Eastern provinces. These smallholders totalling about 3 million households account for about 70% of the country's total agricultural production. Non-traditional crops with potential are cotton, coffee, tobacco, sugar-cane, pineapple, cashew-nut, cassava and horticultural/floricultural crops. Constraints in agriculture which government is addressing include low productivity, poor infrastructure, human resources and restrictive labour laws. The country's stable macroeconomic environment and improvements in its regulatory framework have brightened its business prospects that have been helped by the growing information, communication and technology sector.

Socio-Cultural Context. The programme will operate in areas with high levels of rural poverty characterised by the majority of households that lack purchasing power for food and other essentials. An assessment of the profile and trends in the rural economy, as described in official statistics, suggests that about 80% of people dwelling in rural Zambia are poor. The proportion is not falling and so the absolute numbers may be of the increase.

Overall, poverty levels are declining being spearheaded the decline in urban poverty. However, statistics show rural poverty to be on the increase. The force behind these developments point to demographic changes as the rural population grew by about 1 million people between 1991 and 2006. However, during the same period urban population dropped most likely due to urban-rural migration and other factors. Levels in rural poverty fluctuate seasonally. For example, apparent poverty levels decline between April to June coinciding with the harvest period and when most households record significant sales of their surplus produce.

Target Group. The target group comprises first and foremost the economically active rural poor, in particular women and the youth, as users of financial services of all kinds. Among these, smallholder farmers and micro, small and medium scale entrepreneurs stand out, mostly as borrowers, but also as beneficiaries of improved savings, payment and transfer services. The actual number of beneficiaries can only be estimated will depend on a large number of factors, including the following: (i) interest of financial service providers and value chain actors in the Programme support; (ii) actual composition of the grant application and partnership sub-projects; and (iii) absorption capacity of partners and grant recipients. It is however expected that about 140,000 households will ultimately benefit from Programme support. A large proportion of the beneficiaries is expected to be women and youth.

B. Issues in natural resource management

Issues in Natural Resource Management. Of its total population, 64.3% live below the poverty line, with 34.8% living in severe poverty, mostly residing in rural areas. These poverty levels mean that the natural resource base is a critical asset. The result is a high correlation between poverty and

environmental degradation as people become dependent of the exploitation of the environment for survival. The poverty situation particularly in the rural areas, results in unsustainable natural resource exploitation, and is associated with resource depletion and environmental degradation. This situation is compounded by (a) high levels of population growth in rural areas that create a vicious cycle of increase in poverty and resource depletion; (b) limited understanding of environmental problems and mitigation; and (c) a weak administrative and legal framework.

Deforestation and Land Degradation. The population is heavily dependent of agriculture whose landscapes are key sources of ecosystem services required by people. In the pursuit to secure livelihoods, poor husbandry leads to declining soil fertility and hence productivity, soil erosion and increasing greenhouse gasses. Although 67% of Zambia's land surface (49,468,000 ha) is currently covered by forest, deforestation rates estimated to be between 298,000 ha per annum and 444,800 ha per annum between 1996 and 2006, respectively, are very high. Therefore, the greatest environmental challenge facing the country is deforestation. Forest degradation is through encroachment and bush fires principally caused by uncontrolled agricultural expansion and charcoal burning. Both deforestation and land degradation negatively affect soils and forests³. However, unless there are deliberate measures to reverse the trend, their depletion poses a long-term threat to peoples' livelihoods.

The prevailing poverty levels mean that the natural resource base is a critical asset. The agricultural landscapes are key sources of ecosystem services required by people. In their pursuit to secure livelihoods, poor husbandry may lead to declining soil fertility and hence productivity, soil erosion and increasing greenhouse gasses. Although 67% of Zambia's land surface (49,468,000 ha) is currently covered by forest, deforestation rates estimated to be between 298,000 ha per annum and 444,800 ha per annum between 1996 and 2006, respectively, are very high. Deforestation is particularly high in the Copper-belt province where estimated deforestation rates were 0.3% (or 167,000 ha per annum) between 2000 and 2010 due to high demands for charcoal production.

Soils contain water and are a main buffer against drought and floods and also climatic change through sequestration of atmospheric carbon. Soils are the act as water reservoirs better than any man-made reservoir. Forests act as a safety net, providing non-timber forest products including mushrooms, honey, vegetables, caterpillars and fruits, supporting coping strategies during times of weather-related crop failure. They are also a valuable source of energy, income and construction material for the growing population. Therefore, good husbandry of soil, water and crops (soil and water conservation measures), enhances agricultural productivity, increases groundwater recharge and base flows in streams. However, unless there are deliberate measures to reverse the trend, their depletion poses a long-term threat to peoples' livelihoods.

Deforestation has in turn affected the hydrological cycle and modified weather conditions. For example, in Kaoma district of Western Province - one of Zambia's largest charcoal-producing regions, several perennial streams have become seasonal and some have even dried up, while the water level in the Luena River, which flows through the town of Kaoma, has dropped. In Zambia's Southern Province, which suffered one of the highest and fastest deforestation rates in the 1990s, floods and droughts have become more frequent events.

Other, linked environmental issues include soil erosion and land degradation - verging on desertification in some areas - most of which results from deforestation, land clearance and agricultural techniques that are ill-adapted to Zambian conditions. Wildlife depletion is also an issue, especially in the protected areas; as are inadequate sanitation and air and water pollution.

Conservation Farming. Traditional agricultural techniques that leave the topsoil bare during key periods of the year make a significant contribution to soil erosion and environmental degradation. The Conservation Farming Unit, an initiative of the ZNFU, has been trying to change this. Since 1996, and backed by a consortium of international donor agencies, it has been promoting the use of

³ They contain water and are a main buffer against drought and floods and also climatic change through sequestration of atmospheric carbon and act as water reservoirs.

conservation farming (CF) techniques for smallholders in Zambia as a means to increase productivity, while using the land and water resources in a more efficient and sustainable manner. The CF system advocated involves: dry-season land preparation using minimum tillage methods; no burning but rather retention of crop residue from the prior harvest; planting and input application in fixed planting stations; and nitrogen-fixing crop rotations. The CF system: (i) enables farmers to plant with the first rains; (ii) improves water infiltration, water retention and plant root development; (iii) prevents soil erosion; and (iv) enables farmers to locate fertiliser and organic material in close proximity to the plants, where they will provide greatest benefits.

Immediate gains result from increased yields, lower draft power and labour requirements, and from a reduced risk of crop failure in years of low rainfall: thus making it an invaluable approach for enhancing farmers' ability to adapt to the effects of climate change. Many of the benefits are longer term however: they include improved soil organic matter levels, gains from nitrogen-fixing crop rotations, and reduced labour requirements for field preparation that enable many adopters to expand the area of land under cultivation. By ensuring permanent ground cover, CF also provides a carbon sink and so contributes to climate change mitigation. To date, approximately 140,000-160,000 smallholder farmers in Zambia (about one in seven) have adopted CF techniques to some degree.

Wherever the Programme operates there will be high to very high levels of rural poverty where the majority of households lack purchasing power for food and other essentials, which is aggravated in drought years. An assessment of the profile and trends in the rural economy, as described in official statistics, suggests that about 80% of people dwelling in rural Zambia are poor. The proportion is not falling and so the absolute numbers are rising.

Government and the private sector. The role of the private sector in the economy is articulated in the Sixth National Development Plan. The emphasis is that poor rural people remain central to agriculture as private sector investment. Government has established Private Sector Focal Points in key ministries including MAL to spearhead engagement of private sector and government in national economic development in general and in agriculture and rural development in particular. MAL's promotion of agriculture as a business whatever the scale, especially among smallholders clearly demonstrates government commitment. This entails creating an environment in which the domestic rural private sector can flourish. Government policy is consistent with IFAD's strategy for private sector engagement which ensures that poor rural people remain central to agriculture as private sector investment. As part of its commitment, government has encouraged the private sector to take an active role in delivering services to smallholders and has become part and parcel in the design of recent IFAD supported projects and programmes.

C. Potential Social and Environmental Impacts and Risks

By and large, these impacts and risks would be indirect and may include activities of agricultural enterprises financed by financial institutions supported by RUFEP. For example, harmful emissions from an agro-processing plant may affect human health living in the vicinity or a discharge of harmful chemicals from the plant into a stream could harm fish and eventually affect human health through the food chain.

Some parts of the country, especially the Copper-belt Province, mostly peri-urban areas especially provincial centres and along major trunk roads, are increasingly affected by deforestation mostly for purposes of charcoal production. This is leading to severe soil erosion due to poor forest cover. Rapid urbanisation also is, mostly in these areas leading to improper conversion of forests, woodlands and rangelands to farmland, excessive exploitation of fuel wood resources. Industrial pollution is most evident on the copper-belt along the Kafue River where chemical affluent from the mines is discharged. Therefore, environmental issues in Zambia mostly involve deforestation, soil erosion and industrial pollution. Rampant timber logging especially in North-Western and Western provinces is also cause for concern as regeneration of the natural forest takes ages to recover.

ENVIRONMENTAL AND SOCIAL IMPACTS

Overview. Largely due to deforestation Zambia is unlikely to attain the Millennium Goal 7 on environmental sustainability. For example, the main sources of wood fuel are natural woodlands and agricultural lands. The present consumption of wood fuel exceeds the potential sustainable supply (Energy Services Delivery in Zambia Report 2004). This is a serious threat to the total forestry land cover, which is currently estimated at 66% of the total land area. The rate of deforestation is well above the global and regional average and is closely linked to other major environmental problems such as land degradation, wildlife depletion and loss of biodiversity and ecosystem services. These problems constrain poor households' income opportunities through lowering agricultural productivity and access to different non-timber forest products. Water- and air-pollution (indoor and outdoor) as well as the low access to clean water and sanitation have serious negative health implications for poor households. Environmental health factors play a very significant role for the low life expectancy and high child mortality and morbidity in Zambia. Poor households also have the least capacity to cope with food insecurity or economic shocks following natural disasters. Environmental degradation poses significant constraints to key growth sectors such as agriculture and tourism. Climate variability is estimated to reduce agricultural growth by 1% per year.

The main environmental and social impacts of RUFEP will be generated by three areas of interventions: (i) agricultural production (crop; livestock production – dairy, beef cattle, small ruminants, fisheries and poultry); (ii) agro-processing (various); and (iii) agro-infrastructure development (storage sheds, farm equipment, buildings, etc.).

Table: Environmental and social impacts to be addressed under RUFEP

From Agro-Processing/value addition	From Livestock production	From food-crops production
ENVIRONMENTAL IMPACT		
<ul style="list-style-type: none"> Pungent smell from dairy, beef cattle, poultry and small ruminants, fish scales offal/cuttings, fuel and oil fumes from processing plants Income generating activities that improve revenue relieves the pressure on agricultural and livestock production Waste disposal 	<ul style="list-style-type: none"> Risk of overstocking and overgrazing if livestock do not have all-season access to fodder/pasture Degradation of forest covers due to overgrazing by small ruminants Waste disposal 	<ul style="list-style-type: none"> Increased use of fertilisers and pesticides. Ground water pollution from fertilizers and pesticides Soil erosion and loss of fertility Food crop production will involve use of ground water resources during the dry season with consequent fall in water table Waste disposal
SOCIAL IMPACT		
<ul style="list-style-type: none"> Poor food safety standards through packaging, storage, transportation, etc., may negatively affect quality of processed foods Consumption of expired processed foods risk food poisoning of consumers including farmers and workers Use of contaminated water to process products and by-products 	<ul style="list-style-type: none"> Poor culling standards of diseased livestock could pose a health risk for humans and livestock Diseased animals may be consumed with inadequate cooking and adversely affect human health Poor disposal standards of manure and effluents may contaminate water bodies (rivers and streams (and increase sedimentation) Poor environmental practices (e.g. facilities for uncovering fresh products such as meat) could attract insect-vectors e.g. flies 	<ul style="list-style-type: none"> Poor disposal standards of manure and effluents may contaminate water bodies (rivers and streams (and increase sedimentation) Poor drainage may become a breeding ground for mosquitoes, rats, cockroaches, etc. Untreated drinking water taken from polluted sources (rivers, streams and shallow wells) Improper use of fertilisers/ agrochemicals can increase concentration in crops to unsafe levels for human consumption

From Agro-Processing/value addition	From Livestock production	From food-crops production
		<ul style="list-style-type: none"> Improper handling of agrochemicals (e.g. without protective clothing) may pose health risks to handlers such as farmers, etc.

Conflict over resources. Although the population pressure is by and large relatively low in the country, increasing population growth and economic development along the line-of-rail and especially the copper-belt and peri-urban areas of provincial towns, there is evidence of rising conflicts in the use of resources including water and agricultural land. The result has been depletion of forests for wood for fuel and building materials. Bringing more land under cultivation has resulted in increased deforestation in these areas. In some areas, there has been a conflict of interest between humans and animals especially over grazing. In areas where water is scarce, the growing demand for it both by humans and animals is cause for concern and needs to be addressed urgently.

Waste disposal. Input supply, seed preparation and seedling production generate a number of waste products made of metal, plastic, cardboard, etc. Livestock operations also generate effluents and manure that may require special treatment before they can be safely used on crops. Oil from the engines of processing plants must be replaced periodically and disposed of safely. Considering the small scale of the activities by rural clientele of the RUFEP accessing programme funds, these wastes are expected to have a minimal impact on the environment. However, the programme will take every opportunity to identify any negative impact thereby enhancing an awareness that will be critical for future expansion and development. Improper disposal of animal waste can be expected to create air pollution (noxious odours) and/or breeding grounds for insects and pests, as well as contamination of water bodies.

Pesticides and Fertilisers. Although Zambia is not among major users of fertiliser in Southern Africa, government programmes such as FISP have increased its use amongst smallholders country-wide. Pesticides for crops such as cotton and horticulture production have also been increasingly used among smallholders in a quest to increase yields. It is quite clear that the use of fertiliser and pesticides will increase rather than decrease in future. Unless urgent corrective measures are put in place by government, improper use fertilizers and pesticides leads to the pollution of soils, rivers, streams, and shallow wells and aquifers. The health of smallholder farmers as well as that of their livestock is at risk if they do not properly control the use or storage of agrochemicals. In addition, consumers themselves are at risk if they eat products that are exposed to agrochemicals. Based on these factors, the programme will work together with relevant authorities including other IFAD supported projects in food crops, horticulture, and dairy for them to not only provide starter kits, where necessary, to smallholders but train them in the proper application and storage of agrochemicals. Frontline staffs from MAL in collaboration with institutions like the Environmental Council of Zambia to sensitise smallholders the subject.

Impact of Agricultural Production changing weather patterns. Changes in Rainfall Pattern will increase the risks in crop failure due to unpredictable weather patterns. For example, very early or very late, too much or too little rains will negatively affect crop yields.

Soil Fertility and Erosion. Although the country is land surplus, they are pockets of areas where intensification of staple food production could lead to overuse of arable land, leading to erosion and loss of soil fertility. In most smallholder farms, loss of soil fertility is caused by the absence of fertilizer and organic manure as part of the integrated soil fertility management. In addition, the low and labour intensive technology of hoe and axe, common to most parts of the country restricts farmers from opening up new farmland and allowing soils in old farms to naturally regenerate soil nutrients and become productive once more. Soils low in organic matter and highly acidic and leached especially in the high rainfall Region I require that farmers receive relevant training in soil fertility management in cropping systems, adequate use of nitrogen-fixing crops, application of agricultural liming, composting of crop residues and mixing the product with manure and appropriate doses of mineral fertiliser, etc.

Introduction of labour saving technologies including drought power would enable farmers to open up new farmland while letting other farms to fallow. New technologies (a combination of farming equipment and good agricultural practices) would also discourage the slash-and-burn farming system which is a major agent of deforestation. This would improve soil fertility and productivity. Such an approach would be supported by IFAD in all its projects in consultation with key stakeholders such as MAL and ZNFU Conservation Unit as well as Golden Valley Research Trust.

Environmental Impacts due to Agro-processing. In the rural Zambia, the source of energy is still obtained mainly from fuel wood or charcoal. Attempts to introduce or increase processing activities in rural areas would increase the demand for such sources and result in significant increases in deforestation. The opportunity of smallholder groups accessing proceeds from component the programme to finance the creation of any agro-processing capability in the rural areas, even the smallest ones, will be subject to a detailed analysis of the energy requirements and possible sources for the necessary mitigating measures in those areas.

Health Impact Issues. Like many countries in the tropics, Zambia has a high potential habitat for tropical pests and diseases which include the anopheles mosquito that carries malaria, a vector of schistosomiasis in streams, flies, leeches, etc. Smallholders countrywide depend on streams and other water bodies for various uses including farming, fishing, livestock watering, bathing, laundry and drinking water. Frequent contact with these mosquito breeding sites facilitates the transmission of many water-borne diseases. The disposal of domestic waste and human faeces is a major factor in the pollution of the environment, especially water. Human faeces contain bacteria and viruses, as well as schistosomiasis eggs and worms, etc. provoking typhoid, dysentery, schistosomiasis and other water borne diseases. The programme will, where need arises, take measures to directly or indirectly sensitise the affected population on these issues.

Environmental Category

In Zambia, the forest policy is enacted through the Forests Act 7 (1999). The Act establishes different types of forest management bodies (including national, local and joint forest management). Local communities are involved to varying degrees in the different types of forest management bodies. The Forestry Department (in the Ministry of Environment and Natural Resources) provides a Regulatory Framework, for example, to enable local communities to be engaged through Forest Management Councils. Such community-empowered and inclusive management of forest resources offer the potential for resultant financial rewards to be directly beneficial to communities and individuals. The approach win-win scenarios across many interventions including those in climate change mitigation, adaptation and poverty alleviation dimensions.

Concerning the institutional framework, the Zambian Government recognized that some of the challenges could be better addressed through the establishment of an Environment and Natural Resources Management and Mainstreaming Programme (ENRMMP). This is done in an effort to improve co-ordination of all environmental and natural resource projects in the country. Hence, the ENRMMP comprises a steering committee of government officials and international co-operating partners such as UNDP, UN Environment Programme and FAO. The Committee acts as an umbrella for all challenges and opportunities for carbon management in Zambia. It also involves cooperating partners working in the environment sector. The committee is supported by a multi-sectoral technical committee comprising experts in forestry, agriculture and other environmental areas. As the ENRMMP is government led, it has greater potential for longevity than if it was linked to a particular project with a predetermined lifespan. The ENRMMP operates on a national scale. The ENRMMP encompasses all projects in the environment sector and provides an opportunity for wider cross-scale and cross-sector planning at the national level. It also has permanent members, providing opportunities for long-term, consistent and progressive planning and monitoring of projects. The institutional arrangement offers positive impact on future sectoral policy development since various policymakers have an opportunity to work and interact with experts from different sectors.

Monitoring Aspects

Monitoring requirements of RUFEP will be based on the logical framework of the programme design and underlying logic. The programme M&E will be built around the hierarchy of objectives of a results management-based framework. This will be supported by tools and procedures for monitoring actual implementation of the programme activities, including for example, expenditures and delivery of outputs. The monitoring system will develop tools and procedures with which to evaluate programme outcomes and impact. As RUFEP will address the needs of various stakeholders, the M&E systems will be designed to meet information needs of multiple stakeholders involved in implementation. The M&E systems shall also be designed to enable management make informed decisions; the systems shall work closely with knowledge management activities and most importantly will enable the programme to meet Government and IFAD reporting requirements in a timely manner.

Although RUFEP activities are described in general terms in the Design Report, the PCO jointly with all major implementing partners shall define actual activities in annual work plans and budgets to be approved by Government and IFAD. The M&E systems will employ both qualitative and quantitative data in a complementary manner. Both types of data will be collected and analysed continuously and over time as required. As RUFEP will be implemented by different Implementing Partners, the PCO, will ensure that implementers meet the requirements of the M&E systems. Specific procedures shall be developed by the PMU or its equivalent for recording quantitative data at various levels. The M&E will address the following: (a) what needs to be planned for and what needs to be measured; (b) how data is collected recorded, communicated, stored, processed and reported; and (c) who does what, and what skills are required.

Environmental category. The programme document describes the specific activities and interventions. Few, if any, negative environmental impacts are expected to result from the interventions supported. Moreover, as any potential impacts can only be assessed and quantified during programme implementation, the PCO will be responsible for ensuring that the requirements of the environmental legislation of Zambia are adhered to in order to avoid negative impacts, and, when and if necessary, introduce appropriate mitigation measures. On this basis, it is proposed to classify the programme under Category B.

Appendix 13: Contents of the Project Life File

Programme development timeline

- TORs for Inception Mission, September 2012
- Aide Memoire Inception Mission, September 2012
- TORs for Detailed Design Mission, November 2012
- Aide Memoire Detailed Design Mission, November 2012
- Draft PDR, November 2012
- TORs for Follow-up Design Mission, March 2013
- Aide Memoire Follow-up Design Mission, March 2013
- Draft PDR, April 2013
- TORs for Final Design Mission, July 2013
- Aide Memoire Final Design Mission, August 2013
- Draft PDR, September 2013
- COSTAB file, September 2013

Review

- CPMT Minutes, September 2012
- CPMT Minutes, November 2012
- Comments by GRZ-PDG
- Comments by PTA
- CPMT Minutes, May 2013
- QE Memorandum, June 2013
- Comments by external QE reviewers
- QE Panel Report, June 2013
- CPMT Minutes, August 2013
- Compliance Note for QE Recommendations, September 2013
- QA Minutes, October 2013

Knowledge base

- COSOP (2011-2015)
- Final draft COSOP Mid-Term Review Report, August 2013
- RFP Mid-Term Review Report, March 2011
- Rural Finance Programme Supervision Reports
- IFAD Guidelines for Project Design
- IFAD Rural Finance Policy
- IFAD targeting policy: Reaching the rural poor
- IFAD policy on gender equality and women's empowerment (2012)
- IFAD rural enterprise policy
- IFAD's private-sector development and partnership strategy
- IFAD climate change strategy
- IFAD environment and natural resource management policy (2011)
- IFAD Decision Tools for Rural Finance
- Sixth National Development Plan, 2011-2015
- Finscope Zambia 2009
- Financial Sector Development Plan, 2004-2009 (Phase I)
- Development of Rural Finance Policy and Strategy in Zambia Final Report, June 2012
- MOF Media Statement on External Assistant to Zambia – Context and Impact, August 2013

