



# IFAD

## SUPERVISION AND IMPLEMENTATION SUPPORT MISSION REPORT

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Project:	Rural Finance Programme (RFP) IFAD Loan No. 643-ZM
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### **List of Acronyms**

AWPB	Annual Work Plan and Budget
BoZ	Bank of Zambia
CBFIs	Community-Based Financial Institutions
ESBG	European Savings Banks Group
FSDP	Financial Sector Development Plan
GRZ	Government of Republic of Zambia
IFAD	International Fund for Agricultural Development
IFMIS	Integrated Financial Management Information System
IOF	Innovation and Outreach Facility
KZF	Keepers Zambia Foundation
M&E	Monitoring and Evaluation
MAL	Ministry of Agriculture and Livestock
MBT	Micro Bankers Trust
MFI	Micro-Finance Institution
MoF	Ministry of Finance
NSCB	National Savings and Credit Bank
OPM	Oxford Policy Management
PBAS	Performance-Based Allocation System
PCU	Project Coordination Unit
PMU	Programme Management Unit
PRG	Programme Reference Group
PSU	Purchasing and Supplies Unit
QRC	Quarterly Review Committee
REES	Rural Economic Expansion Services
RIMS	Results and Impact Management System
RFP	Rural Finance Programme
RFU	Rural Finance Unit
SAPP	Smallholder Agribusiness Promotion Programme
SLIP	Smallholder Livestock Investment Project
SOE	Statement of Expenditure
TA	Technical Assistance
VSLA	Village Savings and Loan Association
WA	Withdrawal Application
ZMK	Zambian Kwacha
ZNFU	Zambia National Farmers Union
ZPPA	Zambia Public Procurement Authority

**Republic of Zambia**  
**Rural Finance Programme**  
**IFAD Loan No. 643-ZM**

Report on Supervision and Implementation Support Mission<sup>1</sup> (7-17 August 2012)

**A. Introduction**

1. The Rural Finance Programme (RFP) is a 6 year programme with a total budget of USD 17.4 million, with a highly concessional loan from IFAD of USD 13.8 million and co-financing from the Government of Zambia (GRZ), participating financial institutions and beneficiaries. The overall development goal of the RFP is to improve the livelihood of the target group, which includes some 150 000 rural households who will benefit from improved access to financial services. The Programme consists of the following five components: (a) Development of Community-Based Financial Institutions (CBFIs); (b) Promotion of Rural Banking Services; (c) Credit Facility for Contracted Small-Scale Production; (d) Innovation and Outreach Facility (IOF); and (e) Policy, Institutional and Management Support. The loan was declared effective on 7 September 2007. A mid-term review was conducted in October-November 2010. The Programme Completion Date and the Loan Closing Date are scheduled for 30 September 2013 and 31 March 2014, respectively. The programme is managed and coordinated by the Programme Management Unit (PMU) placed under the Ministry of Finance (MoF)<sup>2</sup>.

2. The main objectives of the Mission included: (a) review the implementation progress and assess the likelihood of reaching the targets and the programme objectives; (b) agree with key stakeholders on the focus and direction for the remainder of the programme implementation period; and (c) review and assess the operations of the monitoring and evaluation system, especially in terms of measuring and documenting outcomes and impact.

3. The Mission met with the MoF Permanent Secretary (Budget & Economic Affairs), the management of the National Savings and Credit Bank (NSCB) and the Development Bank of Zambia (DBZ) and their staff, representatives from the Bank of Zambia, the Ministry of Agriculture and Livestock, the service providers and implementing partners, and other stakeholders. Field visits were carried out in the Central, Copperbelt and Northern Provinces. The Mission's findings are based on these interactions, the data, information and various documents shared with the Mission.

4. The Mission's findings summarized in this Aide Memoire, which will be subject to endorsement by IFAD management, were discussed with key stakeholders at the wrap up meeting in Lusaka on 17 August 2012, chaired by the MoF Permanent Secretary (Budget & Economic Affairs). The team wishes to sincerely express its gratitude to the GRZ and all stakeholder representatives who provided their inputs and views.

**B. Programme Environment and Context**

5. In the past 12 months, various significant developments have taken place in the financial sector in Zambia. As an overall trend, the banking sector has continued to grow fast while its financial condition has at the same time clearly improved. In 2011, the total assets of the 19 commercial banks grew by 20.5% to ZMK 27 764 billion. The profitability of the banks increased sharply, by 80.9% from the 2010 level. The share of non-performing loans declined to 10.4% at the end of 2011 from 14.8% a year before. The number of bank branches increased by 20 to 286, which further reduced the number of Zambian districts without any commercial bank branch.

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<sup>1</sup> The mission comprised: Ms. Fumiko Nakai (IFAD Country Programme Manager/ Mission Leader), Dr. Jorma Ruotsi (Senior Banking Specialist, Deputy Mission Leader), Ms. Miriam Cherogony (Rural Finance Specialist – Community-Based Financial Institutions), Dr. Dick Siame (IFAD Country Officer), and Mr. Godfrey Wanjohi (Financial Management Specialist). The RFP PMU staff members fully participated in the mission's undertakings.

<sup>2</sup> The name of the Ministry was recently changed from the Ministry of Finance and National Planning.

6. Late in 2011, the Bank of Zambia (BoZ) announced a significant change in minimum capital requirements for commercial banks. The new capital requirement for local banks is ZMK 100 billion (USD 20 million), up from ZMK 12 billion. For foreign banks the new minimum requirement is ZMK 500 billion (USD 100 million), up from ZMK 12 billion. According to the BoZ, while the aim is to generally strengthen the whole banking system, a particular target is to encourage the banks to increase their lending and with a larger capital base, to make them capable to participate also in the financing of large projects. The Bankers' Association calculates that some USD 500 million of new capital has to be raised if all commercial banks would remain in the market. The time limit for reaching the new minimum capital level is the end of December 2012. According to the BoZ, potential extensions to this deadline will be negotiated on a bank-by-bank basis. The implications of these new rules on the banks' portfolios and liability structures are expected to start to emerge starting from 2013. One potential adverse impact may be on the entry of foreign microfinance banks to Zambia, as they could easily face problems in raising the USD 100 million now required to enter the market in Zambia.

7. Another major change was the introduction of a common BoZ reference rate that all banks have to use when defining their lending rates to the clients. Earlier, each bank has used its own reference rates, which have in most cases been some 10 points higher than the current BoZ reference rate of 9%. According to the Bankers' Association, while no maximum lending rates have been introduced by the central bank, the effect of the introduction of the common reference rate has been a significant voluntary decline in lending rates to customers. This situation, together with the stronger capital bases of the banks, is now expected to lead to larger volumes of affordable credit for both working capital and investment purposes.

8. In a related development, the BoZ has recently indicated to the MFIs that it intends in the near future to make a statement concerning the interest rates of the non-bank financial institutions. Before making such statements, it is expected that the BoZ would re-classify these institutions based on their functions and client groups. This would be a very welcome approach as the operations of the urban consumer lenders/moneylenders have little to do with the "proper" MFIs that carry out development-oriented financial operations with much higher operational costs than the urban consumer lenders. After re-classification, the interest rate issue could be tackled in a more appropriate manner, taking into consideration the Government's priorities concerning financial inclusion.

9. Concerning particularly rural and microfinance, the most significant development has been the progress achieved in the development of an appropriate rural finance policy and strategy for Zambia. This process is discussed in detail later in this Aide Memoire. When approved, this new Policy and the related action plan will form a well-structured development plan for the sector for the next five years. At the same time it will provide an investment framework into which cooperating development partners can buy in. This is expected to lead to a better coordination of both public and donor funds that in the future are available for the development of the rural finance market in Zambia.

### **C. Overall Assessment of Programme Implementation**

10. Overall, the programme implementation progress in the past year has been satisfactory. The key achievements as at the end of June 2012 include: 808 savings and credit groups (CBFIs) formed or strengthened with 12 689 members (8,983 women and 3 706 men) with USD 283,462 of voluntary savings, USD 381 261 of gross loan portfolio; 1 059 clients are accessing micro loans (with the portfolio value of USD 252 525) from the NSCB through its 5 branches where microfinance services have been launched with RFP support; 6 892 loans with the value of USD 3.2 million disbursed through four participating financial institutions using the credit line extended by the DBZ; and the development of a Rural Finance Policy and Strategy with wide stakeholder consultations, which is being finalised to be submitted for a Cabinet approval. While the Mission observed during the field visit that NSCB's microfinance operations have had positive impact on micro business operators who did not have access to loans before, the

malfunctioning of the banking system procured with the RFP support has had serious negative effects, constraining the branch expansion and outreach to rural areas.

11. Good progress has been made towards the programme purpose “to increase the use of sustainable financial services in rural areas” as demonstrated by outputs and outcomes under various components, although the achievements against the original target of reaching 150 000 rural households<sup>3</sup> is still limited. This is partly because the implementation pace got accelerated late only in 2010. More significantly, it is also because that NSCB branch expansion, which was supposed to make contribution in reaching the majority of the targeted rural households (100 000 households) largely in terms of savings facilities, has severely been constrained. The number of households benefiting from the RFP support is currently estimated at about 28 000. This achievement, in absence of significant contribution originally envisaged by NSCB branches, can be considered moderately satisfactory and reasonable. There is good prospect of further progress before the end of the programme. It is important to assess and document the impact and lessons from the RFP implementation, as has been planned by the PMU.

#### **D. Outputs, Outcomes and Implementation Progress**

##### **Component 1: Development of Community-based Financial Institutions**

12. The objective of this component is to improve access of commercially active poor households to community based financial services on a sustainable basis through the promotion of rural self-owned and managed institutions. There are three sub-components: (i) creation of new CBFIs focused on saving mobilization, including support for training and advisory services building on current operations of NGOs and microfinance institutions including the development of savings methodologies, testing promising modifications, and piloting more advanced systems; (ii) strengthening of existing CBFIs, formed under other projects will be supported to be viable and sustainable savings and credit groups; and (iii) thematic technical assistance support to promote new methodologies for CBFIs and to provide specialized training, thematic workshops and study tours. The expected outputs are: (i) increased numbers of operational CBFIs offering rural financial services; and (ii) capacity of rural finance support institutions strengthened.

13. **Implementation progress.** In general, the progress in this component is satisfactory and is likely to achieve the targets if proper strategies are put in place. Given that there is one year left, there is need to redouble the efforts. The Mission is pleased that most of the recommendations of the previous mission were fully implemented except two, namely: (i) the recruitment of technical assistance for CBFI promoters, which would have included the revision of CBFI manual, assessment and improvement of the group record keeping, tailored training to each CBFI promoter and village agents with a focus on sustainability of the model; and (ii) the promotion of linkage banking. Table 1 shows that the four CBFI promoters are covering ten districts in three provinces with 808 groups reaching over 12 600 persons with financial services. So far the groups have saved a total of USD 283 462 and loaned each other a total of USD 381 261.

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<sup>3</sup>The Appraisal Report provided an approximate number of beneficiaries as follows: (a) 30 000 households through CBFIs; (b) 100 000 to 120 000 households accessing NSCB savings facilities through its branch network, with about 15 000 taking up loans; and (c) 60 000 smallholder households through their participation in contract farming, some of whom will also be NSCB savers.

**Table 1: CBFi Promotion Statistics (As at 30 June 2012)**

CBFi Promoters	No. of districts	No. of groups	No of persons receiving RFP support	Value of voluntary savings (US\$)	Value of gross loan portfolio (US\$)
Africare	3	251	4 152	111 634	111 634
KZF	3	259	3 474	62 426	65 163
MBT*	2 *	86	1 676	12 502	8 258
REES	3	212	3 387	96 900	196 206
<b>Total</b>	<b>10</b>	<b>808</b>	<b>12 689</b>	<b>283 462</b>	<b>381 261</b>
RFP Target		2 500	30 000	720 000	650 000
% of RFP Target		32%	42%	39%	59%

\* MBT shares Chipata district operation area with Africare.

14. In Mbala district in Northern Province, the Mission witnessed Chalatila group in Lucheche share out over ZMK 23 million at the end of the cycle. The group members are involved in agriculture and petty trade. It was interesting to listen to the members reflecting on the difference between the VSLA and cooperatives and what could be borrowed from the VSLA approach to improve the functioning of the cooperatives. On the downside, the Mission visited another group in Twafane-Kalupa in Mungwi that had ZMK 5 million in their box not being lent out, with the risk of keeping a large amount of money at hand. There is an urgent need for linkages between banks and self-help groups for safekeeping of savings and developing a history for possible credit delivery in future.

15. During the field visits, the Mission noted limited business skills development as one of the key obstacles for increased income generation. The groups with excess liquidity in their cash box clearly were short of business ideas. The groups that were linked to multipurpose cooperatives supported by REES in Northern Province were doing well in terms of being able to aggregate produce and market as a group. There is need to link the CBFi activities to enterprise development support with other actors including the Ministry of Agriculture and Livestock. The RFP is already working with other IFAD financed projects (SAPP and SLIP) to support a dairy cooperative currently financed by Micro Bankers Trust (MBT), but there is need to increase such engagement with other stakeholders and leverage resources in order to reach more farmers. The Mission recommends that PMU should explore further synergies like this one with other actors to ensure the access to finance effort is leveraged with business skills development.

16. **CBFi expansion contracts.** In line with the recommendation of the last mission to support the existing CBFi promoters to expand their areas of operations and leverage on existing infrastructure, the PMU requested the four CBFi promoters to submit expansion proposals. The PMU negotiated and agreed with the three service providers (KZF, MBT, and REES) but the negotiations failed with Africare due to high overheads. As a result, the Africare contract was not extended beyond the original contract end date (June 2012) and MBT agreed to take over the Africare areas of operations. The KZF contract was supposed to have come to an end but due to the delays in procurement they started the activities late. Consequently, the PMU has given the KZF a no cost extension of their current contract. The Mission recommends that this no cost extension be formalized to avoid audit queries.

17. Following the approval by the MoF Tender Committee to amend the three CBFi promoters' contracts with a total additional sum of over USD 784 000, the PMU prepared Contract Addendums and submitted them on 11 July 2012 to the MoF Treasury Counsel, where they are still awaiting the clearance. Given the time constraint, the clearance process should be speeded up to enable the promoters to achieve the objectives by the end of the contract period. The PMU is also reminded to submit these contract amendments for IFAD no-objection.

18. The target cost per group was expected to be relatively high at USD 80 given the sparse rural population in Zambia. So far, it stands on average at USD 108 per group. This is expected as the promoters are still in the process of building the critical mass and volumes of transactions for the groups. As an exit strategy, some of the promoters



visited have introduced village agents, typically supporting 8-10 groups, and cluster committees who are working as volunteers at the moment. The village agents and facilitators have bicycles and motorbikes, respectively, provided by RFP.

**Table 2: CBF Promoters - Contract Amounts and Cost**

	Contract Period	Contract amount (USD)	Amt disbursed (USD)	Cost per member (Target)	Cost per member (Actual)
Africare	15/06/09 - 14/06/12	355 708	355 708	79	86
KZF	15/06/09 - 14/06/12	355 000	324 682	79	93
MBT	21/09/10 - 20/09/13	349 975	218 181	77	164
REES	10/09/10 - 09/09/13	393 312	283 692	84	83
		<b>1 453 995</b>	<b>1 182 262</b>	<b>80</b>	<b>107</b>

19. Discussions with some village agents revealed there is need for incentives for them to support their performance. Interviews with groups indicated they were keen to support the village agents but there was no clear strategy on how to do it. There is need for the PMU to sit together with the implementers to develop a uniform strategy. For example, as practised in other countries, groups could contribute 1% of what is collected to remunerate the village agent and support the network of village agents as skilled private service providers. During the remaining programme period, an exit strategy should be developed which could include the role of the village agents, the consolidation of activities by increasing group sizes, savings, and lending volumes within the groups, and the promotion of systematic links with banks.

20. There exists a wide variation among the groups being formed and supported under this component. There is need for the PMU with the CBF promoters to develop guidelines for categorisation of these groups. This will inform the type of programme support that will be required to ensure that the groups are sustainable. This will also help the PMU to gauge the impact of this component. The Mission recommends that the PMU seek information from rural finance experiences from other countries on the development of such group categorization guidelines and adapt them to the Zambian context.

21. Although some synergies between the different programme components are expected, interviews and field visits indicate this is not always the case. For example, MBT and KZF's activities on dairy, honey, and rice value chain, although it was not originally planned, should incorporate group savings and credit as a basic foundation for financial management among the farmers. On the other hand, some of the IOF interventions seem to be operating without appropriate marketing arrangements; for example, in the case of honey, there may be need for some additional support in order to link the farmers to markets through the Honey Association of Zambia or the Zambia National Farmers Union (ZNFU). The PMU needs to revisit some of these arrangements and ensure that the loose ends are tied and the farmers benefit on a sustainable basis.

22. At the same time the Mission is pleased with the PMU's efforts to create partnerships and synergies in savings and credit activities. As an example, RFP has tried to build synergies through collaboration with Plan International. Discussions with CRS indicated that there is scope for synergy in the sharing of experiences on the use of technology (e.g. cyber cash box), on the use of cell phones for data collection, and on the development of a future platform for savings-led initiatives in Zambia. The Mission recommends the invitation of other rural finance promoters such as CRS and Plan International to the annual Rural Finance Forum to share experiences. The next Rural Finance Forum will be organised with RFP support at the end of this year.

23. On knowledge management, the Mission witnessed many interesting case studies that the programme can document and share with others. The Mission is pleased that the PMU has made the outcome reporting a part of the quarterly reporting of the CBF promoters and other implementing agencies. There is still need to explore the use of different mediums such as videos, photos, media, etc. to capture these experiences. The Mission was pleased that REES was inviting the media to accompany them on the field visits to write stories and documentaries on what REES is doing, with RFP support, in

community-based savings and credit activities. This approach should be adopted by all implementing agencies to widen the public understanding on the impact the Programme is having on its beneficiaries.

Agreed action – Component 1	Responsibility	Agreed date
1. Explore synergies with other actors and across components to ensure the access to finance effort is leveraged with business skills development	PMU	Continuous
2. Speed up and finalise the process of CBFI promoters' contract amendments	PMU and MoF	31/08/12
3. Develop a clear exit strategy for CBFI promoters	PMU with CBFI promoters	15/10/12
4. Develop group categorization guidelines for CBFIs	PMU with CBFI promoters	15/10/12

## Component 2: Promotion of Rural Banking Services

24. The component aims to assist the Government to develop NSCB into a financially sound and professionally managed institution that makes appropriate services available also to rural households and small-scale entrepreneurs. The key RFP interventions are: (i) recapitalisation of NSCB through new government equity and transfers of IFAD loan funds; (ii) modernisation of the accounting and banking systems of NSCB; (iii) widening the coverage of NSCB through new rural branches; and (iv) the provision of substantial international and local TA to support the management of the bank. If NSCB was with this support developed into a modern, profitable and nationwide banking institution, Government could expect good returns for its investments in this development-oriented financial institution. In brief, the strategy of this component is based on investments in two phases. The first phase was to contain the investments to recapitalise NSCB and to modernise its banking systems. The successful completion of these initial investments would trigger the second phase of RFP investments to expand the bank's branch network and to significantly increase the volumes of its savings and credit operations.

25. The RFP support to NSCB has faced challenges from the beginning, which have continued also in the past 12 months. On the positive side, towards the end of 2011, with the change of management, the key management structures of the bank became stronger with the restructuring of the organisation and with new appointments. The restructuring was done largely according to the recommendations of the RFP-funded consultant, European Savings Banks Group (ESBG). NSCB now has two directorates, under which the operational departments are organised. The Managing Director and the two Directors now meet every Friday in coordination meetings, as ESBG earlier recommended. With its new management, in 2011 NSCB grew fast and became more profitable. By the end of 2011, the total deposits on 120 000 accounts reached USD 40 million, indicating annual growth of 30%. The portfolio increased by 34% to USD 20 million, consisting of a total clientele of around 11 000 borrowers with the average loan size of around USD 1 800. With these growth figures and improved costs controls, the bank reported an unaudited profit of around USD 820 000, which was a major improvement from the previous loss-making years.

26. In 2012, the achievements of the bank have financially and especially operationally been disappointing. In the first six months of 2012, the growth in both savings and portfolio has fizzled out. The financial results also indicate a loss of some USD 261 000. In addition to slow growth and extra expenditures related to IT problems, a key reason for the return to losses is that the fresh analysis of the NSCB portfolio has again this year revealed aged loans that required additional provisioning of USD 0.5 million, with a direct adverse impact on the bank's profitability.

27. However, at the core of the problems remains the situation with the bank's IT solutions for accounting, banking and reporting, which were analysed in detail in the January 2012 Mission Report. Since then, taking corrective action has been slowed down due to the lack of a functional Board of Directors in NSCB. The new Board, freshly

appointed by the Government, has not yet met, and most of the actions agreed on in January 2012 have been delayed. At the same time the failure to install a functional banking system has received attention of the Public Accounts Committee of the Parliament. The reactions of this Committee can be summarised as follows. First, it started a public investigation to identify the persons responsible for the situation in the bank. These are on-going by various investigation agencies of the Government. Second, the Committee stressed the need to recover through an arbitration process from the suppliers the funds wasted in the process. The sum to be demanded is now agreed to be USD 3.6 million. The actual arbitration in Lusaka is expected to start soon.

28. Third, the Parliamentary Committee agreed that to operate as a normal bank, NSCB needs a totally new IT solution to be procured, as the NSCB management has proposed. The management of NSCB is currently reviewing the available options and designing such strategies for the procurement and installation through which the repetition of the problems of the past five years could be avoided. The management of the bank indicated to the Mission that if they receive a go-ahead for this procurement process from the MoF within the coming few months, the procurement and installation could be completed some 18 months after the MoF approval. This would mean that the new system could be operational some time in 2014, well after the RFP completion date.

29. In the RFP budget, there remains some unused allocation from the IFAD loan. It was agreed that this amount would be available to support the procurement of the new IT system for NSCB on two conditions: (i) the MoF makes a decision to authorise NSCB to procure a new banking solution; and (ii) NSCB can present to RFP/IFAD a convincing plan of how such a procurement and installation process would be professionally managed to avoid the repetition of the past errors. If these conditions are not met by the end of February 2013, this USD 154 000 would be re-allocated to support the RFP/DBZ credit line operation.

30. The problems with the IT systems have understandably adversely affected also the other RFP support activities in NSCB. With the support of the ESG experts, appropriate savings and credit products for the bank's microfinance operations were developed. Their piloting started in 2010 in five branches and was extended to 10 other ones in May 2012. However, with the problems in banking systems, the outreach of these microfinance operations has remained limited. At the end of June 2012, the microfinance portfolio in the pilot branches covered around 1 000 clients with a total portfolio of USD 360 000. With the more advanced Assets Plus product, only some 100 loans were active with a total value of approximately USD 100 000. These figures are of course very much smaller than was expected when RFP was designed.

31. A related issue concerns the processing of microloans in NSCB. After nearly two years of piloting, the documentation of each small loan is still sent by EMS from the branches to the Lusaka Head Office for decision making. It is difficult to see what value can be added by the Head Office to the processing of a USD 750 trading loan from an applicant that the local Credit Officer and the Branch Manager have personally assessed. For repeat loans, the current situation is even more difficult to justify. It is strongly recommended that the Branch Managers would be given the authority to decide on microloans for instance up to the ZMK 10 million (USD 2 000) limit. Without increasing risks in any substantial manner, this would save money but especially reduce the current loan processing time.

32. The real irony is that the NSCB microloan product would have had all the potential to become a real success for NSCB. Where piloted, it has been very popular particularly with rural traders that have the professional trading skills but no banking history, and has reached a practically perfect recovery performance. The visit during the mission in the Ndola area showed that the potential for expansion with this type of a loan product, which probably carries the lowest interest rate in Zambia for microloans, is vast. Operating through key market places and targeting the core agricultural and commodity value chains through standard microfinance approaches such as group guarantees on individual loans to rural traders, low-cost satellite offices to collect savings and issue

loans, and motorcycles for expansion to near-by rural and agricultural centres, NSCB could have reached a commanding role in micro-banking in Zambia. Examples of such recent developments in micro-banking are many in Eastern and Southern Africa. However, up-scaling the current pilot to a full scale national operation supported by active marketing is not justified until NSCB has a reliable system to record its banking transactions.

33. The other operation that has suffered is the NSCB branch network expansion. Instead of the planned 20, only two branches have so far been opened with the RFP support. In the remaining months of the RFP project period, only limited progress in this area can be expected, especially as much of the management's attention will and should be focused to ensure that the banking system procurement succeeds this time. In this situation it was agreed that the potential RFP support for branch expansion covers only the three remaining branches budgeted for 2012 and a potential three to be budgeted for January-August 2013. Furthermore, RFP will in the coming months follow up the progress in the branch expansion in NSCB. In the event the planned six branch expansion does not materialise, the funds that are not likely to be used for this purpose will before the end of February 2013 be re-allocated to other components of RFP.

34. It should be noted that while little has been achieved in branch expansion, the concept for having NSCB branches in rural districts remains viable, as demonstrated by the Lukulu example. This branch in a remote rural district was opened in 2009 with support from RFP. By June 2012, it had 2 124 deposit accounts operational with a total balance of around USD 1 million. Its loan portfolio consisted of 445 loans with a total value of USD 360 000. Although operating in a poor area with limited economic activities, the Lukulu Branch broke even in late 2011 after two years of operations, and reached a profit of USD 52 000 in the first six months of 2012. This can be considered a major achievement that could be built on when all elements required for network expansion will eventually be present in NSCB.

35. Finally, there remains an allocation of around USD 150 000 to support the training activity in NSCB. Of this, the allocation for 2012 is USD 70 000, of which no funds are used yet. To support NSCB with capacity building (although not any training related to the failed IT system), it was agreed that NSCB will submit to RFP (i) a revised version of the 2012 training plan for which NSCB seeks RFP support, to a maximum value of USD 70 000, and (ii) a training programme for January-August 2013 for which NSCB seeks RFP support, to a maximum value of USD 121 000. If approved by RFP, these programmes should substantially contribute to NSCB's overall capacity building efforts in the coming 12 months.

Agreed action – Component 2	Responsibility	Agreed date
5. Make decisions in NSCB concerning the new IT system	NSCB/MoF	Immediate
6. Decide on the use of remaining IT support of RFP	NSCB/RFP/IFAD	Latest February 2013
7. Continue expand the pilot of microfinance products	NSCB	Continuous
8. Decide on microloan approval at the branch level	NSCB	Immediate
9. Present RFP with branch expansion plans for 6 branches	NSCB	Immediate
10. Make final re-allocation of unused branch expansion fund to DBZ credit lines (if required)	RFP/IFAD	Latest February 2013
11. Submit to RFP revised 2012 training plan	NSCB	August 2012
12. Submit to RFP training plan January-August 2013	NSCB	September 2012

### Component 3: Credit Facility for Contracted Small-Scale Production

36. This component was designed to establish a credit line to facilitate commercial banks' lending to contract farming companies with the aim of intensifying these operations. The credit line (USD 4 million) was to finance new smallholder and small-scale production operations – mainly for production credit and small investments. The importance of the component was seen as particularly high in Zambia, where practically all seasonal credit to smallholders was provided under contract farming arrangements. At the same time the operation was expected to give the participating banks experience in

financing small and medium-size agro-companies and also to help to establish DBZ in its new role of whole-sale, apex lender.

37. After various start-up delays, the operations of the component have in the past two years progressed well. In the view of DBZ, it has with the smallholder financing operations now moved from the pilot to a full commercialisation phase. This means that in addition to the funds from RFP, the bank is planning to commit also its own funds to market-connected agricultural finance activities. This of course was originally one of the key targets of Component 3.

38. **Overall Developments in DBZ since August 2011.** As described in detail in the August 2011 Aide Memoire, the financial position of DBZ improved significantly during the first six months of 2011. Through both direct injections of new Government equity and the conversion of development funds to DBZ's equity, the total equity of the bank increased from USD 7 million to USD 64 million. The Mission was informed that the 2013 National Budget is likely to include additional capital for DBZ's operations. As only some USD 20 million of the bank's funds is currently committed to the bank's portfolio, DBZ today is a very liquid institution. With the earnings from the new capital, DBZ has also become a profit making institution. The annual profit in 2011 was around USD 2.5 million, including around USD 1 million in foreign exchange gains. In the first half of 2012, the profitable operations have continued and the share of the non-performing loans has fallen to a low 2% of the portfolio, consisting now mainly of the old EDP loans.

39. From its improved financial position, DBZ started in 2011 the design process for a new appropriate Strategic Plan. By the end of 2011, the first draft of the Strategic Plan was ready. Since then, its approval has been delayed by the changes in the Board of Directors and senior management that followed the 2011 general elections. A new Board has now been appointed for the bank. The Mission was informed that the new Strategic Plan will be on the agenda of the first meetings of the new Board of Directors.

40. In the first draft of the Strategic Plan, four key instruments were proposed for DBZ in its future development finance operations: (i) wholesale lending through the financial system (banks and MFIs); (ii) direct lending to strategically placed companies in the key sectors; (iii) fund management operations; and (iv) equity investments in strategic companies. These selected investment strategies largely follow the way forward recommended for the bank by RFP-funded experts and technical support missions. The Mission was informed that the new Board of Directors will revisit the draft of the Strategic Plan and its proposed strategies to reflect the development priorities of the new Government. At the same time the Mission was also informed that the key role for DBZ is still seen to be that of a development oriented apex-bank for the whole financial sector.

41. **RFP Credit Line Operations.** After various changes in the scheme approach, the RFP credit line operations now target well-established microfinance institutions, which on-lend the funds to such farmers or their groups that sell their produce under pre-negotiated marketing arrangements. Table 3 shows the status of the USD 4 million credit line operations at the end of June 2012.

42. The total approvals of credits to the four participating MFIs from the DBZ/RFP credit line have reached USD 3 950 000, indicating that practically the whole credit line budget has been fully committed. At the same time the reflows back to DBZ from the first loans disbursed to MFIs in October 2012 currently stand at USD 482 842. This, together with the un-committed USD 50 000, is today available for new wholesale loans to the MFIs from the RFP credit line. At the same time the demand for these useful agricultural loan funds clearly exceeds these available funds. CETZAM has already submitted an application of USD 400 000, the processing of which has been delayed by the changes in the DBZ management. Similarly, Vision Fund is ready to use its undisbursed credit funds and at the same time plans for a new application to DBZ. Also the fast growing EFC is planning for a new credit request. In this situation, the unused funds that are becoming available for re-allocation from other RFP components can effectively be utilised in the DBZ credit line operations before the end of the RFP project period.

**Table 3: Commitments and Disbursements in DBZ Credit Facility  
End of June 2012 (USD)**

<b>Financial Institution</b>	<b>Credit Line Approved</b>	<b>Amount Disbursed by DBZ</b>
CETZAM I	1 000 000	1 000 000
Micro Bankers Trust	200 000	200 000
Entrepreneurs Financial Centre (EFC)*	1 000 000	1 000 000
Vision Fund*	750 000	400 000
CETZAM II	1 000 000	1 000 000
<b>Total</b>	<b>3 950 000</b>	<b>3 600 000</b>

\*Note the change of names of PULSE Financial Services to Entrepreneurs Financial Services (EFC) and Harmos Micro Enterprise Development to Vision Fund, to reflect the global brands of these international operators.

43. The recipients of the DBZ-funded loans from the participating MFIs are both small companies and cooperatives working in agro-marketing and individual farmers engaged in the actual market-related farming operations. The cumulative number of these sub-borrowers since 2010 reached 6 892 by June 2012. Periodical reports and field visits generally indicate increased production volumes in the funded operations and as a consequence high repayment rates in these lending operations. The PAR (+30 days) in loans funded from the credit line tends to be clearly better in credit line loans than for the whole portfolio of the MFIs, such as in the cases of CETZAM and EFC. For Vision Fund, the recovery record in credit line loans is reported to be a perfect 100%. These developments clearly encourage the expansion of this type of rural lending activities in Zambia, in the case of DBZ both from the RFP credit line funds and from its own liquid lending capital.

44. The contractual relationships in the RFP/DBZ credit line operations require urgent attention. As discussed in January 2012 during the Follow-Up Mission, the current co-operation between RFP and DBZ is organised based on a Memorandum of Understanding (MoU) between the Government and DBZ. This MoU does not have an arrangement for the post-RFP period. Basically two options are available. First, the Government can lend the funds to DBZ as a long-term development loan at low interest rate based on Kwacha terms, reflecting the repayment terms of the original IFAD loan. This arrangement would be formalised through a Subsidiary Loan Agreement. The Government could then pay IFAD's service charges with the interest earnings from this loan and the principal from the repayments of the subsidiary loan by DBZ. Alternatively, the Government could issue the total credit line amount to DBZ as new equity, with the obligation of using the funds for these agricultural credit line operations. Following this option, the Government could then pay IFAD's service charges with the dividends earned from this investment, and the principal to IFAD potentially by selling its shares in DBZ if buyers for these shares can in the future be identified.

45. Both of the above arrangements should cover the original USD 4 million of the credit line plus the additional RFP funds that may in the coming months be allocated for the purpose. When these arrangements are completed, DBZ will then be in a position to revisit the terms, at which it issues the credit line funds to participating MFIs. So far these credits have been for a short period (24-48 months), which is too short for the planned development purposes and makes it very difficult for the MFIs to plan the expansion of their agricultural portfolios. For sustained impact, a preferable option would for instance be to issue the funds from DBZ to MFIs for periods such as 5-10 years, with a grace period of 3-4 years. This would allow the MFIs to effectively revolve the funds in its lending operations, while at the same time making the accounting and management of the credit line operations easier. In the event any MFI would breach any terms agreed for the scheme, DBZ would of course have the right to call back the whole credit line allocation disbursed to this MFI.

46. In 2011, COMESA funded a training needs assessment in all the four participating MFIs. Based on these assessments, the MFIs designed training programmes for their staff. In this year's AWPB, RFP has allocated USD 100 000 to finance relevant parts of these capacity building programmes. While most MFIs have carried out these capacity building events, the RFP/DBZ funding arrangement has been delayed, at least partly due to the changes that have taken place in DBZ. It was agreed that DBZ would without delay submit to the PMU the training plans of the MFIs (or the reports if such training has already been carried out with the MFIs' own funds). If these training programmes fall within the COMESA needs assessment, the PMU can then pay/refund the training costs to MFIs according to the AWPB.

<b>Agreed action – Component 3</b>	<b>Responsibility</b>	<b>Agreed date</b>
13. Process the pending RFP/DBZ credit line application	DBZ	August 2012
14. Organise the financing of MFI training.	MFIs/DBZ/PMU	By October 2012
15. Re-organise the contractual arrangement between Government and DBZ.	MoF/DBZ/PMU	By October 2012
16. Re-design the lending terms between DBZ and MFIs, particularly concerning the repayment period of credit line funds by the MFIs.	DBZ/MFIs/PMU	By November 2012

#### **Component 4: Innovation and Outreach Facility**

47. This component, with an IFAD loan allocation of USD 1.0 million for matching grant support, is aimed to assist in the development of innovative rural finance methods as well as in the widening of the outreach of rural finance operations in the country. In this demand-based operation RFP, through PMU, provides matching grants to cover a part of the costs of these operations, the rest of project budgets coming from the benefiting/implementing financial institutions.

48. The implementation of the component has progressed well. The whole RFP allocation for this activity has been committed, as matching grant financing from the IOF has been approved to 11 small projects. As shown in Table 4 below, the total RFP commitment for these projects is USD 1 009 227. Following the IOF rules, the implementing institutions invest in these projects from their own funds a total of USD 495 000. As the implementation of the projects has speeded up during the past year, the disbursements by RFP to IOF activities have nearly doubled during the past 12 months, from USD 336 741 in August 2011 to the current USD 626 580.

49. The funded IOF projects are distributed relatively evenly in different parts of the country. The Mission visited one IOF project in Copperbelt Province and reviewed the progress of the others based on reports by the implementing institutions and the follow-up reports by the RFP management. Table 4 includes a brief description of the implementation status of each IOF sub-project, presented in the order of their approval.

50. In the past 12 months, with all the funds committed, the focus of the PMU of RFP has been on the follow-up of the progress of the supported projects. Since January 2012, nine of the projects have been visited either by the Programme Manager or the M&E Officer. It was agreed that this process continues actively through the remaining RFP period. In the event it becomes clear that funds in some projects will not be fully used, it was agreed that the decisions to cancel such grants will be made latest by February-March 2013, to make it possible to utilise the released funds in other RFP activities before RFP closes.

51. Some of the funded projects clearly include such approaches and rural finance practices that can be both up-scaled and replicated. One of these is the VSLA-type of project of the Churches Health Association of Zambia (CHAZ) visited by the Mission in Copperbelt Province. The interesting twist here is to use HIV-related existing health groups as basis of the VSLAs, called in the communities as their "Village Banks". Both in Eastern Province and Copperbelt, this has proved to be a very successful concept, highly appreciated by the participating women and men. Already, 61 such groups have been formed with 1 067 members, mostly women. Interviews confirmed without exception the



positive impact of these rural finance activities on household finances and assets, small investments and the ability of the members to tackle various types of family problems and needs. More generally, the impact is clear also on the members' perception of themselves as active participants in the rural economy, not as just passive receivers of hand-outs.

**Table 4: RFP-Supported IOF Projects (August 2012)**

<b>Institution</b>	<b>IFAD Loan Contribution (USD)</b>	<b>Disbursed by RFP End July 2012</b>	<b>Type of Project/Progress</b>
CETZAM Financial Services	100 000	84 858	Establishment of new rural satellite offices for microfinance. Initial delays because of documentation problems, now progressing as planned, with 7 small rural branches opened and operational. Some 3 000 new clients introduced to rural credit, with the total portfolio fluctuating seasonally around USD 1 million.
Empowerment Microfinance	53 698	53 698	Establishment of a new microfinance branch, focusing on services to HIV-affected households. The branch now fully functional and all funds disbursed. The branch has served so far some 600 rural clients.
CELPAY	127 500	127 500	Affordable electronic money transfer services for all districts. After initial problems with software, the system now fully functional and fully rolled-out. Agents operate now in practically all districts in Zambia, services widely marketed to public.
Micro Credit Foundation Ltd	80 000	80 353*	Establishment of two new microfinance branches in Eastern Zambia. Progressed as planned, now the grant fully disbursed. Instead of two, three branches opened with IOF support.
Rural Economic Expansion Services (REES)	100 000	25 000	Loans to farmers' groups to procure processing equipment, buy crops and add value. Implementation concept does not fully match the design. Now RFP and REES have agreed on original concept to be applied. If not, part of the grant may be cancelled.
Keepers Zambia Foundation	100 000	61 742	Seed capital to a beekeepers' association to buy, process and market honey. Procured from 46 groups (600 farmers) during first season. A full report to RFP presented in February 2012 on progress and financials. Ready for procurement in the 2 <sup>nd</sup> season.
CELPAY II	75 600	75 600	Establishment of mobile phone-based savings service. Inception Report submitted to RFP; design work started in March 2012; now design about 50% ready and staff training on-going.
Cotton Growers Association	96 524	24 131	Establishment of revolving fund for smallholders. Sensitisation done. Current very low cotton market prices create challenges for successful start-up, and viability of whole model requires continuous follow-up.
Churches Health Medical Association	98 840	24 710	To start VSLAs for caregivers; piloting on-going. First instalment disbursed. Progresses very well, significant up-scaling potential, see more in text below.
Keepers Zambia Foundation II	85 920	21 480	Seed capital to rice producers' association to buy, process and sell rice. Inception Report received in February 2012. Shareholding structure of processing company now reflects RFP demands. As planned, rice procurement to start in the 3 <sup>rd</sup> quarter of 2012.
Empowerment Microfinance II	91 195	47 508	Investment in IT to operate rural microfinance with mobile phones, now in partnership with ZANACO, using the bank's XAPIT-accounts to disburse and collect the MFI loans. A pilot operation demanding on-going follow-up.
<b>Total</b>	<b>1 009 277</b>	<b>626 580</b>	

\*The small over-disbursements are related to changes in ZMK-USD ratio.



52. Encouraged by this IOF-supported intervention, the CHAZ has decided to make this model into their focal approach that aims at the improvement of the living conditions of low-income households and their nutrition level. They are considering the means of expanding the scheme to their other health centres all over the country. As the number of these centres is 146, the up-scaling potential is substantial. With five village agents per health centre covering 10 groups of 20 members each, this would mean a rural finance operation covering some 150 000 rural households. This type of expansion should be a highly supportable activity in future by development partners. If implemented, it would also mean a very high extra "dividends" on the original small IOF investment.

53. In the draft of the new Rural Finance Policy and Strategy, the IOF-type of transparent, demand-based funding arrangements are listed as one of the recommended instruments when stimulating rural finance operations in Zambia in the future. The mission is supportive of such proposed approach.

54. It has been during earlier missions agreed that RFP/IFAD will document the successful experiences that will emerge from the IOF operations and disseminate the information both locally and through IFAD's regional and global information channels. This can be done either by the RFP staff or by consultants recruited for these purposes with RFP/IFAD funds.

Agreed action – Component 4	Responsibility	Agreed date
17. Follow-up IOF projects through reports and field visits.	RFP	Continuous
18. Re-allocate cancelled grant balances (if required)	RFP/IFAD	Latest February 2013
19. Document and disseminate successful IOF approaches	RFP/IFAD	Continuous

#### **Component 5: Policy, Institutional and Management Support**

55. **Rural Finance Policy and Environment.** Under this component, RFP aims to support the creation of a supportive and conducive environment and policies for rural finance activities in Zambia. As a part of this approach, one of its core operations was to be the establishment of a Rural Finance Unit (RFU) in MoF. This Unit was to coordinate the development of an appropriate rural finance policy for the country, promote dialogue among the stakeholders in the sub-sector and strengthen rural finance capacity in involved sector ministries and other government bodies.

56. As indicated in earlier reports, RFP does not act in isolation in the policy-related work but as an integral part of the Financial Sector Development Plan (FSDP) and its activities that are organised by its Secretariat in the BoZ. This has proved to be a successful strategy for RFP. Under the on-going FSDP II, the key working group for RFP is the Access to Finance Group. It is chaired by the Programme Manager of RFP, with one member of the RFU also as a member. This arrangement makes it possible to focus the activities of the Working Group on those policy areas that are critical for and in line with the objectives of RFP.

57. The key policy-related objective in 2011 and 2012 for RFP was to design and to obtain an approval for an appropriate rural finance policy and strategy for Zambia. Since the August 2011 mission, the progress in this process has been satisfactory. After an international competitive bidding process, Oxford Policy Management (OPM) was in late August 2011 selected to draft the Policy and Strategy. After the elections and the related new nominations of senior staff in the MoF, the contract with OPM was signed in early December 2011. The contract amount was well below the maximum amount agreed on with an earlier IFAD mission.

58. After relevant literature and programme documents' review by OPM, the OPM team interacted with various stakeholders in Zambia between 16 and 28 January 2012. Towards the end of the country visit, a one-day meeting was held with the PRG and other stakeholders, during which initial findings were shared and insightful comment received. In April 2012, a first draft Policy and Strategy document was submitted by OPM. This draft was carefully considered by the PRG and based on the PRG feedback, the draft report was updated by the OPM team. The updated draft report was then discussed at a

national stakeholders' workshop on 24 May 2012, at which over 80 people participated. Following this, the draft was finalised and the final Rural Finance Policy and Strategy Report was submitted to the Government in June 2012. In the view of the Mission, the participatory nature of this policy design process, involving both the public and private sector stakeholders, is a very commendable achievement, much related to the leading role of the PMU of the RFP and the PRG in the process.

59. The Mission finds the Rural Finance Policy and Strategy a very appropriate document to guide the development of the sector in Zambia in the coming years. It follows the current thinking of the roles of the public institutions and the private sector institutions when widening the frontiers of rural finance in the country. The action plan included in the Policy follows the requirements of earlier RFP missions for a practical document which is implementable and into which different donor institutions can channel their contributions in a coordinated manner. Discussions with the management of the Bank of Zambia clearly showed that the central bank shares the positive opinions of the Mission concerning the usefulness of the Policy and Strategy.

60. Concerning the next steps, the MoF is currently converting the Policy and Strategy into the "Zambian policy format" used by the Government. This version will then be taken for comments to the FSDP, which then returns it to the MoF, which presents it, as the ministry in charge of policy, to the Cabinet for final approval. It is planned that this would take place by September 2012, which would make it possible to include the potential budgetary implications into the national budget of 2013.

61. Related to the last point and to the RFP objectives, the Rural Finance Policy and Strategy appropriately notes that a number of Government ministries have a stake in the rural finance agenda. Therefore it is important to ensure that the institutional home for the implementation of the Policy has adequate human and financial resources as well as sufficient supervisory influence to champion and drive the rural finance agenda across Government. Since rural finance extends beyond agriculture; has direct relevance to key national priorities; and requires linkages with the Bank of Zambia, other regulators and financial associations, the MoF is the appropriate institutional base for this function. To achieve this, the Policy recommends that a Department of Rural Finance be established within the MoF. As part of its coordinating role, the Department would assume also the monitoring and evaluation (M&E) function to ensure that the actions the Government has committed itself under this Policy and Strategy are fulfilled.

62. The above approach is well in line with the RFP approach, as the establishment of such a permanent unit was one of the original objectives in the Programme design. The inclusion of this operation already in the 2013 national budget would be a very welcome way forward. At the same time, the potential support that the new Department would need in its early operations could be discussed with IFAD and other potential partners such as the World Bank and DfID.

63. In other activities of this sub-component, while the work of the Access to Finance Group of FSDP II has focused on the Policy and Strategy, various other issues have been worked on by the Group during the past 12 months. These include the Know-Your-Customer issues, the unified collateral registry, as well as the establishment of a Warehouse Licensing Authority to facilitate the use of warehouse receipts as collateral. Furthermore, a Rural Finance Forum was organised in December 2011 with the RFP support to discuss topical issues of rural and microfinance and to provide additional inputs to the Policy and Strategy development process. The last RFP-supported Forum is planned for the end of 2012.

64. In summary, the achievements of this sub-component, which was from the RFP start-up considered very challenging to implement, have in the view of the Mission clearly met or even exceeded the expectations. In addition to the commitment of the Programme Manager and the PRG, an issue that has contributed to good results clearly is the decision of not trying to do things in isolation as a project but working all the way through the existing public and private sector structures of the financial sector.

65. **Programme management and oversight.** The programme management performance has overall been satisfactory. The implementation of the programme largely depends on partners and service providers (i.e., CBFi promoters, NSCB, DBZ and MFIs disbursing loans from the credit line; IOF matching grant recipients), and therefore, monitoring and managing their performance is essential. The PMU, working with the RFU in the MOF and with inputs by the Quarterly Review Committee (QRC) and the Programme Reference Group (PRG), has been largely effective in guiding the programme planning, implementation, progress monitoring and in addressing implementation issues. It is noted, however, that the QRC guidance and oversight has been limited in the past year due to the change of the Government and the MOF Permanent Secretary: there was no QRC meeting between August 2011 and May 2012, hence, effectively, the 2012 AWPB was approved by the QRC only retrospectively in May 2012.

66. In terms of putting in place systems and procedures, the Mission would like to commend the initiative taken by the PMU for developing a Human Resources and Administration Manual for the RFP PMU.

67. **Monitoring and evaluation.** The RFP M&E system is in place and operational. The M&E largely relies on data submitted by the implementing partners and service providers. Therefore, providing proper guidance to them on the interpretation of indicators, data collection and submission, and verifying the accuracy of data is an important element in operationalizing the system. Over time, with implementation support by the M&E consultant and continuous interaction with the implementing partners, the quality of data submitted is reported to have much improved, although the timeliness can still be an issue. The data and information received are on the one hand verified, analysed and used for dialogue with respective partners, and on the other hand are aggregated for programme progress reporting. During the reporting period, RFP ended support to two partners (Africare and Micro Credit Foundation). These two organisations are yet to submit their end of project reports. The PMU should develop a format for implementing agencies that outlines achievements and lessons by the end of the support.

68. As agreed with the August 2011 Mission, some case studies were conducted and the resulting report supplemented the annual submission to IFAD of data on the corporate core indicators ("RIMS indicators"), as well as the 2011 annual report. The PMU is commended for this undertaking and should enhance systematic documentations of processes and impacts, immediate and long term, that have been observed in various aspects of the RFP components.

69. Nearing the programme completion, the following activities are planned: component impact assessment (a request for proposal has been issued); a follow-up survey on baseline survey; both feeding into a Programme Completion Report which is a requirement under the GRZ-IFAD Loan Agreement. The procurement process for these should start as early as possible, given the tendency of long delays. The PMU is also planning to organise a series of small stakeholder workshops this year in different geographical areas to critically reflect upon key lessons from the field, which would feed into a national-level workshop. The Mission is fully supportive of such exercise and the lessons identified should be reflected in the process of designing a new investment programme in the sector. Using case studies, lessons generated and the results of various studies, the information and stories should be packaged in appropriate formats for publication and dissemination. The training on documentation proposed under the IFAD's regional initiative for the projects in Zambia should be helpful in this regard.

70. **Coherence between AWPB and implementation.** The 2011 budget execution level was relatively low at 55% against the AWPB. This is mainly due to the slow progress under the NSCB constrained by the system problem, late disbursements (spilled over to 2012) under the IOF and the DBZ credit lines although in both cases, the available resources have all been committed and the progress in 2011 is considered to be moderately satisfactory. On the other hand, the results achieved under the CBFi component against the AWPB 2011 targets are largely satisfactory (mostly above 80%).

71. As for the 2012 AWPB, as of 30 June 2012, the budget execution level is about 22%. This has again to do with the fact that disbursements against the commitments have not been made, and so far there has been no disbursement for the NSCB component. The expenditures against the AWPB is expected to increase in the second half of the year.

### Other Programme Implementation Issues

72. **Gender and poverty targeting.** The M&E records and field observation indicate that the programme is effective in reaching poor rural men and women, one of the main categories of the target group. This phenomenon is prominent especially under the CBF component, and some IOF-supported projects specifically targeted at the vulnerable such as HIV-affected households as discussed earlier. The programme monitors and reports on gender-differentiated data. Under the CBF component, 70% of the group members supported are women.

73. **Innovation and learning.** The IOF is an obvious tool for encouraging innovations, in addition to support to enhance the outreach. Some innovative approach, such as mobile money, is piloted under this facility, but they are yet to be systematically documented. Apart from the IOF interventions, over the programme implementation period, some lesson learning have been taking place, such as learning and adaptation for the approach to support CBFs, or learning from other countries' experience and reflecting them in the process of the policy and strategy formulation.

Agreed action – Component 5	Responsibility	Agreed date
20. Support the processing of Policy in MoF.	PMU, PRG	Continuous
21. Support and document FSDP proceedings.	PMU	Continuous
22. Support establishment of RF Department.	PMU	Continuous
23. Organise Rural Finance Forum.	PMU/PRG	Late 2012
24. Package the information and stories in appropriate formats and publish them for dissemination	PMU (M&E Specialist)	Continuous

### E. Fiduciary Aspects

74. **Financial management.** Overall, the financial management system is considered to be adequate. However, there has been a concern regarding the use of Excel spreadsheet for financial accounting, instead of a dedicated software accounting system which would produce automated reports and provide assurance for accurate and timely financial reporting. As has been discussed with past missions, the procurement of an accounting software was suspended by the MoF with the intention of integrating the RFP's accounts into the GRZ Integrated Financial Management Information System (IFMIS). While some steps have been undertaken recently (e.g., training of PMU staff with IFMIS), at the time of the Mission, the IFMIS still has not been operationalized for RFP. Under the circumstances, it is even more important to ensure regular and timely financial management reporting and enhance internal controls. A monthly reconciliation of the Special Account should be carried out as a management tool to regularly check the accuracy of the accounting records.

75. The other concern, also raised by the external auditor, is the concentration of tasks on the Financial Controller, which might have affected the timeliness of preparing quarterly management accounts and submission of withdrawal applications. The RFP management responded to the auditor on this issue indicating that the job descriptions of the Assistant Accountant had been reviewed to include additional responsibilities. The Mission and the PMU agreed that the job descriptions of the Financial Controller and the Assistant Accountant would be revisited once again to clearly indicate the expected outputs and performance indicators. Otherwise, the structure of the internal controls that includes the oversight role of the MoF officials and the PM is considered adequate for the level of financial transactions generated by RFP.

76. **Review of Statements of Expenditures.** The Mission reviewed a sample of expenditure items from the Statement of Expenditures (SOEs) supporting Withdrawal Applications 39 and 45 for the Special Account replenishment. The sample selected was

made up of 10 items with a value of USD 316,692, representing 54% of the combined WA value. These expenditure items were deemed eligible based on the validation with supporting documents maintained by the PMU.

77. **Funds flow and financing.** As at 30 June 2012, the programme has received an aggregate funding of USD 11.3 million or 67% of the funding plan at appraisal of USD 17.4 million. Out of this total, the IFAD funding (up to WA 45) amounts to USD 9.2 million or 67% of the IFAD allocation at appraisal of USD 13.8 million. The GRZ contribution to date is USD 2.01 million equivalents or 65% of the expected amount. At appraisal, the estimated contribution by financial institutions (under the IOF) and by beneficiaries (under the CBFI component) were also indicated as part of the programme cost. It is recommended that these contributions be separately reflected in reports.

78. **Special Accounts reconciliation.** The combined cash balances at the time of the Mission for the Special Account A, with the initial deposit of USD 700,000 amounted to USD 104,996. The reconciling items included expenditures claimed in WAs (47 and 49) in the amount of USD 463,280 pending submission to IFAD. These WAs cover expenditures over the six months up to 30 June 2012. However, there is a difference of USD 22,078 between this figure and the claimed WAs as of 30 June 2012, and yet the SPA reconciliation is reflecting no unclaimed expenditures. This difference should be reconciled. The amounts in WAs for the SpA (A) replenishment have often been more than twice the minimum threshold of 20% of the initial deposit (i.e. USD 140,000). More frequent preparation of WAs upon reaching the minimum threshold is encouraged.

79. As for the SpA B, the entire amount was disbursed to DBZ in April 2012. The accountability report for enabling submission of the requisite WA is yet to be received as of the date of the Mission. The Mission recommends a follow-up by PMU for speedy accountability of disbursements to ensure timely utilisation of the allocated funds in the incremental credit expenditure category.

80. **Fixed assets register.** The fixed assets register is kept reasonably well.

81. **IFAD loan disbursement.** As at 30 June 2012, the total IFAD loan disbursement including the initial deposits up to WA 45 amounted to SDR 5.9 million, representing 64% of the total IFAD loan of SDR 9.250 million. Factoring in the initial deposits and pending withdrawal applications (to cover the expenditures up to 30 June 2012), the disbursement rate will soon increase to 72% and the IFAD loan balance then is estimated to be at SDR 3.3 million or USD 5 million at the current exchange rate.

82. **Forward planning and budgeting.** The estimated balance of USD 5 million should also finance the commitments already made (e.g., existing contracts, DBZ credit lines). Reflecting on the commitments, further requirements and possible adjustments in activities and budget, it is necessary to develop a projection for resource requirements up to the loan closing to identify the need for IFAD loan reallocation. It was agreed with the PMU that, coupled with the 2013 work planning and budgeting process, the resource requirement till the end of the programme will be consolidated by 15 November 2012. Such plan would need to be revisited and possibly adjusted, say by the first quarter of 2013, depending on the assessment of implementation performance by various partners. The PMU should carefully monitor the status of IFAD loan funds by category to take action when the need for reallocation is confirmed and/or when it becomes necessary.

83. **Counterpart fund contribution.** According to the Loan Agreement, USD 3,043 million was expected as the GRZ counterpart fund contribution. As at 30 June 2012, the Government has contributed USD 2.01 million equivalents, representing 66% of the allocation, which is commendable. However, the review of the ledger account revealed a difference of USD 67,098 equivalent between the ledger balance (USD 255,229) and the cash balance (USD 188,131). The Mission recommends urgent reconciliation between the two accounts to ensure full justification of the cash balance.

84. **Audit.** The audited financial statements and report for 2011 were submitted to IFAD within the prescribed deadline (i.e., by 30 June 2012). The auditors awarded clean

and unqualified opinions to the financial statements, accounts and reports. IFAD reviewed the submission and communicated to the PMU that the quality of the financial statements were found to be of a good standard and the audit report acceptable by IFAD, the auditor's performance being considered mostly satisfactory.

85. **Procurement.** Under RFP, the bulk of procurement has been for technical assistance and service providers to assist in the implementation of various components (e.g., service providers for CBFIs). Apart from these, procurement of other goods and services has been limited in the past year, but even for those few cases, one of the key issues has been a lengthy internal review process, especially at the Zambia Public Procurement Authority (ZPPA). Examples include the selection of a consultant for the Rural Finance Policy and Strategy (7-8 months from the issuance of a request for expression of interest up to the contract signing) and the one for an external auditor. While the recent ZPPA decision to increase the thresholds for their review (for evaluation reports and draft contracts) is a welcome move, the requirement for submitting soliciting documents for the ZPPA review still remains. As such, the simplest countermeasure would be to do forward planning as much as possible.

86. *Procurement planning.* There is room for improvement for procurement planning and the quality of the plans. The Mission recommends that the PMU consults more closely with the MoF Purchasing and Supplies Unit (PSU) in the preparation and execution of the procurement plan. In order to manage the few remaining procurement processes, the PMU should critically review the remaining procurement needs. Procurement processes should be planned with realistic timelines and be undertaken in such a manner to ensure delivery of goods and services by 30 September 2013. It is also recommended that key time-bound implementation milestones be agreed on with NSCB and other implementers, according to which the conditions for access of funds for procurement must be met. These definite arrangements will enable funds releases to where they are likely to be utilised before completion date.

87. *Procurement by other parties.* There have been a number of procurements by or for the service providers and implementing partners. The responsibilities for procurement in some cases have not been very clear. In the case of CBFI promoters where the cost of vehicles was part of their contract sum, to avoid VAT payment for vehicles that remain GRZ assets, the invoicing was processed through the MoF and channelled through the RFP for settlement to the suppliers, while the procurement process (e.g. request for quotations and evaluation) was carried out by the CBFI promoter. The payments processed through the PMU were deducted from the lump sum contract amounts. Furthermore, the procurement process for a 4WD motor vehicle by one of the CBFI promoters was not fully in line with the GRZ procurement procedures. However, it was confirmed that there will be no more such contracts before programme completion.

88. In the case of NSCB, the practice has been that the NSCB takes the responsibilities for procurement processes for goods and works financed by the RFP, make payments and claim for reimbursement from the RFP later on. When processing the payments (through reimbursement), the PMU checks the supporting documents and adequacy of the process, which should be continued diligently to avoid expenditures against any misprocurement being declared ineligible.

89. *Procurement record keeping and filing.* Record keeping and filing for procurement are not adequate, neither at the MoF's PSU nor the PMU. The MoF PSU and the PMU should organise the documents currently retained and ensure completeness of the files for all procurement cases.

90. *Contract management.* The process and system for managing the contracts is largely satisfactory. The funding of the contracts follows the GRZ financial regulations and procedures which require provision of service before payments are made. Payments to CBFI promoters are made only after the accounting for the previous payments is satisfactory to PMU in terms of expenditures being consistent with the contract provisions and for the intended purpose.

91. **Compliance with IFAD loan covenants.** The Programme is implemented in compliance with key loan agreement covenants with the exception of delayed submission of the 2012 AWPB and the 2011 annual report, as well as non-functioning of the QRC for a period associated with the changes in the government.

<b>Agreed action – Fiduciary Aspects</b>	<b>Responsibility</b>	<b>Agreed date</b>
25. Prepare a forward plan for the full utilisation of the remaining programme funds including a comprehensive procurement plan	PMU with partners	15/11/2012
26. Based on the projection, determine in a timely manner the need for loan reallocation (amendments to the Loan Agreement) and submit a request to IFAD as needed	PMU	When needed – but by March 2013
27. Prepare SPA reconciliation at the end of each month for use as a management tool.	Finance Controller	30/09/2012
28. Conduct reconciliation to resolve the difference of USD 22,078 between the cumulative WAs and the cumulative expenditure as at 30 June 2012.	Financial Controller	30/09/2012
29. Revisit and revise the financial management team's job descriptions to make them result oriented.	Prog. Manager/ Financial Controller	30/09/2012
30. Reconcile the GRZ counterpart fund ledger account with the Reciprocal cash account	Financial Controller.	30/09/2012
31. Organise procurement files	MoF PSU and PMU	Continuous

## **F. Sustainability**

92. The sustainability prospects of the programme impact vary. In the case of CBFIs, support has included the training of community agents to enhance the sustainability of CBFIs, and these efforts should be consolidated with the groups supported in the remainder of the programme. The sustainability and further growth of the NSCB microfinance operations and outreach would depend on the bank's strategic direction and further support by the GRZ or others. Empowerment of rural men and women and their organisations has been promising particularly under the CBFi component, and under some of the IOF-supported projects.

## **G. Other**

93. Based on consultation with the GRZ and other stakeholders, IFAD's country strategy for Zambia for the period 2011-2015 included a new pipeline investment programme in support of the rural finance sector. The proposed programme will support one of the three strategic objectives of the IFAD programme for Zambia, "to increase access to and use of sustainable financial services by poor rural men and women". The programme is scheduled for presentation to the IFAD Board in September 2013 and the tentative processing schedule was communicated to the GRZ earlier. The first inception mission is planned in September 2012 before proceeding with detailed design work.

94. It is important that critical reflection on the experience and lessons learned under the RFP be undertaken by in-country stakeholders to feed into the programme conceptualisation. The Mission is pleased that such activity is already planned with the Programme Design Group constituted, which would act as a counterpart with IFAD and with other stakeholders in leading the programme design process.

## **H. Conclusion**

95. Overall, the Mission is pleased with the implementation progress. With 13 months left before the programme completion, managing the performance of service providers and implementing partners becomes even more important. As indicated in this Aide Memoire, the implementation progress and the status of funds should be monitored continuously to allow timely reallocation of funds as required.

96. IFAD will field implementation support missions in the first half of 2013, as may be needed. The final IFAD mission for the RFP is tentatively planned for the fourth quarter of 2013 to coincide with the programme completion review exercise.

### Appendix 1: Mission Schedule

Date	Person	Position & Institution	Component	Time	Venue
07/08/12 Tue	Courtesy call on Ms Pamela Chibonga (All)	Permanent Secretary – Budget and Economic Affairs	I-V	08.00	MOF
	RFP Team brief (All)	RFP Team	I-V	09.00	RFP
	Mr Cephus Chabu (Team I)	Managing Director - NSCB	NSCB - II	14.30	Cairo Road
	Mr John Msimuko (Team II)	Executive Director - KZF	CBFI/I&O - I&IV	14.30	Roma
08/08/12 Wed	Mr Jacob Lushinga (All)	Managing Director - DBZ	CFCSP- III	08.30	Katunjila Road
	Ms Gladys Mposha / Mr Musapenda Phiri (All)	BOZ Acting Director NBF/ Project Coordinator – FSDP	PIMS -V	11.30	BOZ
	Mr Friday Mumba (Wanjohi, Nakai)	Acting Chief Purchasing And Supplies Officer		14.30	MOF
	Mr Cephus Chabu (Team I)	Managing Director - NSCB	NSCB - II	14.30	Cairo Road
	Mr Anthony Mang'eni (Team II)	Savings Led Micro Finance Technical Advisor – Catholic Relief Services	CBFI - I	14.30	Kabulonga
	Mrs Grace Nkuwa (Team II)	MBT - CEO	CBFI - I	15.45	Zambezi Road, Roma
	Petrus Langenhoven/ Mr Newton Phiri (Team I)	Country Director / Project Manager – ASNAPP	CFCSP- III	16.00	Green House, 8764 Off Buluwe Rd
	Mr David Chewe	Bankers Association of Zambia – Chief Executive	PIMS-V	17.00	Namambozi Road, Rhodes Park
09/08/12 Thu	Dr Fortune Kamusaki / Mr Derrick Simukoko/ Mr Michael Mwaanga (All)	RFU/Director, MOF, IDM	PIMS -V	08.30	MOF
	Travel to Kasama (Team II)		CBFI - I I&O-IV	09.30	Kasama
	Travel to Ndola (Team I) On the way to Ndola, visit to:			12.00	Ndola
	PFSL - Outgrower Client: Chibombo		CFCFP - III	13.30	Chibombo
	MBT: Mpima Dairy Co-op		CFCFP – III	16.30	Kabwe



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10/08/12 Fri	<b>[Team I]</b> Meet with CHAZ Savings & Credit Groups	Program Manager - CHAZ	I&O- IV	08.30	Ndola - Fiwale
	Visit NSCB Ndola Branch - Chifubu money window	Branch Manager Ndola - NSCB	NSCB - II	14.00	Ndola
	<b>[Team II]</b> Mr Michael Chishimba	CEO – REES	CBFI - I	08.00	Kasama
	Meet with REES Savings & Credit Groups	Project Manager - REES	I&O-IV CBFI - I	11.00	Mbala
	Meet with REES I&O Groups	Project Manager - REES	CBFI - I	15.00	Kasama
11/08/11 Sat	<b>[Team I]</b> Visit NSCB Ndola Branch – Masala money window	Branch Manager Ndola - NSCB	NSCB - II	08.30	Ndola
	Travel back to Lusaka			11.30	
	<b>[Team II]</b> Meet with REES Savings & Credit Groups	Project Manager - REES	CBFI - I	9.30	Mungwi
12/08/12 Sun	Travel back to Lusaka (Team II)				
13/08/12 Mon	Mr David Mundia / Mrs Dora Phiri (All)	MAL - Chief Economist MAL - Chief Cooperatives	PIMS -V	09.00	Mulungushi House
	Mr Dyson Mandivenga (Team I)	CETZAM Financial Services - MD	CFCFP – III & I&O - IV	10.30	Dedani Kimathi Rd
	Mr Webby Mate (All)	Microfinance Institutions of Zambia -Executive Director	PIMS -V	12.00	Godfrey House
	Mr Claude Laford (Team I)	CEO - Pulse Financial Services	CFCSP – III	14.30	Katunjila Road
	Mr Nkosilathi Moyo/ Mr Chilala Hakoma (Team I)	Vision Fund - CEO	CFCSP - III	15.45	Makishi Road
14/08/12 Tuesday	Aide memoire preparation				
15/08/12 Wed	Aide memoire preparation				
16/08/12 Thurs	Review of draft AM with RFP PMU, submission of AM to MoF				
17/08/12 Fri	Aide memoire Signing - Ms Pamela Chibonga	Permanent Secretary - BEA		08.30	MOF

Team I: Ruotsi (IFAD), Mbulo (RFP Programme Manager), Nakai (IFAD)  
Team II: Siame (IFAD), Cherogony (IFAD), Hatwiinda (RFP M&E Officer)  
Wanjohi (IFAD) with Nsamba (RFP Financial Controller)

### Appendix 2: List of People Met

Name	Position	Organisation
Ms. Pamela Chibonga	Permanent Secretary, Budget & Economic Affairs	Ministry of Finance (MoF)
Dr. Fortune Kamusaki	Chief Economist, Investment and Debt Management and Rural Finance Unit Advisor	MoF
Mr. Derrick Simukoko	Senior Economist, Investment and Debt Management	MoF
Mr. Friday C. Mumba	Chief Purchasing & Supplies Officer	MoF
Mr. Jacob Lushinga	Managing Director	Development Bank of Zambia (DBZ)
Mr. Caiaphas Habasonda	Chief Investment Officer	DBZ
Ms. Hephzibah S.N. Beyani	Head Credit	DBZ
Mr. Cephas C. Cabu	Managing Director	National Savings and Credit Bank (NSCB)
Mr. Mwila Chibiliti	Company Secretary/Legal Counsel	NSCB
Mr. David Mukwavi	Business Development Manager	NSCB
Mr. Christopher Ialusha	Head of IT	NSCB
Mr. Clement Kapalu	Director Operations	NSCB
Mr. Nyambe Nyambe	CFO	NSCB
Ms. Mary Munansangu	Head Advances	NSCB
Mr. David Chewe	Chief Executive Officer	Bankers Association of Zambia
Dr. Petrus Langenhoven	Country Director, Zambia	Agribusiness in Sustainable Natural African Plant Products (ASNAPP)
Mr. Newton Phiri	Programme Director, Southern Africa	ASNAPP
Ms. Gladys Mposha	Acting Director Non-Bank Financial Inst.	Bank of Zambia
Mr. Musapenda Phiri	Head, FSDP	Bank of Zambia
Mr. Marvin Ilunga	FSDP	Bank of Zambia
Mr. Joseph Munyoro	Officer in Charge of NSCB	Bank of Zambia
Mr. Webby Mate	Executive Director	Association of Microfinance in Zambia
Mr. David Mundia	Chief Economist	Ministry of Agriculture and Cooperatives
Ms. Grace K. Nkhuwa	Chief Executive Officer Micro Bankers Trust	Micro Bankers Trust
Mr. Bernard Lusale	Asst Programme Manager	Micro Bankers Trust
Mr. Dane Fredenburg	Country Director	Catholic Relief Services
Ms. Elizabeth Stierman	Business Development Advisor	Catholic Relief Services
Ms. Emily Burrows	Head of Programmes	Catholic Relief Services
Mr. Anthony Mang'eni	Technical Advisor	Catholic Relief Services
Ms. Ruth Mitimngi	Programme Manager	Keepers Zambia Foundation
Chilala Hakooma	Head Business Development, Integration & Standardization	Vision Fund Zambia
Mr. Alain Comeau	Credit Advisor	Entrepreneurs Financial Centre
Mr. Fred Chaatila	Head Credit	CETZAM Financial Services PLC
Mr. Michael Mbulo	Programme Manager	Rural Finance Programme: Programme Management Unit (PMU)
Mr. Robert Nsamba	Financial Controller	RFP (PMU)
Mr. Jasper Hatwiinda	Monitoring and Evaluation Officer	RFP (PMU)
<b>Met during field visits (Central Province &amp; Copperbelt Province)</b>		
Mr. Moses Serenje	Chief Credit Officer	Entrepreneurs Financial Centre (EFC) / PULSE
Mr. Tiras Banda	Managing Director, BASA Agro Ltd (Chibombo, Central Province)	EFC borrower (under DBZ credit facility)
Mr. Nebert Zulu	General Manager (BASA Agro Ltd)	Same as above
Mr. Asumani Kelly	Accountant	Micro Bankers Trust (MBT), Kabiwe Branch

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Mr. William Chanda	Manager, Mpima Dairy Fresh	
Mr. Rueben Njamba	Accountant, Mpima Dairy Cooperative	
Ms. Dorothy Kakumbi Chiluba	Manager Business Development & Investment / Microfinance Programmes	Churches Health Association of Zambia (IOF matching grant recipient)
Members of Makubi Savings Group		Fiwale, Masaiti District, Copperbelt Province
Mr. Stanley Ng'andu	Branch Manager	NSCB Ndola Branch
Ms. Chkumbi Chola	Credit Officer	NSCB Ndola Branch
Mr. Ian Kunda	Credit Advisor	NSCB Masala Money Window (Ndola)
Ms. Namwila Gwen Bwalya	Credit Advisor	NSCB Chifubu Money Window (Ndola)
<b>People met during field visits (Northern Province)</b>		
Mr. Reynolds Shula	Board Chairperson	REES
Mr. Michael Chasimba	Chief Executive Officer	REES
Mr. Patrick Cheku	Facilitator, Mungwi District	REES
Mr. Deric Hauchisweya	Facilitator, Mungwi District	REES
Ms. Virginia K. Bambasa	Facilitator, Mbala	REES
Mr. Joseph Shindano	Facilitator, Kasama	REES
Mr. Edward Manda	Facilitator, Kasama	REES
Mr. Birex Kaseke	Accountant	REES
Mr. Joshua Kapya	RPM, Kasama	REES
Mr. Jacob Shawa	Mungwi, District Agricultural Coordinator	Ministry of Agriculture and Livestock
Mr. Michael Bwalya	Mungwi, DPS	Ministry of Agriculture and Livestock
Ms. Joyce Chanda	District Commissioner	Mungwi
	District Commissioner	Mbala
	District Commissioner	Kasama
Mr. Kelvin Chibale	Radio Broadcaster	Radio Mana
Mr. Henry Kangwa	Radio Broadcaster	Radio Mana
Mr. Mathews Musonda	Village Agent	Mungwi
Mr. Kenneth Sirondwa	Village Agent	Mbala
Butungwa Savings and Credit Group	Official and Members	Kawimbe, Mbala
Chalatila S and C Group	Official and Members	Lucheche, Mbala
Camp Committee S & C group	Officials	Nondo, Mbala
Bwafwano SACCO	Officials and Members	Nseluka, Mungwi
St. Francis VSLA	Officials and Members	Nseluka, Mungwi
Twafane-Kalupa S & C Group	Officials and Members	Mungwi
Lubwe S&C group	Officials and Members	Mungwi
Tafimbwa Lubilo S & C Group	Officials and Members	Chitambi, Kasama
Mulengwa Hills SACCO	Officials and Members	Mulenga Hills, Kasama

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Participants at Wrap-up Meeting, 17 August 2012 at MOF		
Name	Position	Organisation
Pamela Chibonga	Permanent Secretary – Budget & Economic Affairs	Ministry of Finance
Fortune Kamusaki	Chief Economist - IDM	Ministry of Finance
Derrick M. Simukoko	Senior Economist - IDM	Ministry of Finance
Friday Mumba	Acting Chief Purchasing & Supplies Officer	Ministry of Finance
Saidi Sakala	Purchasing & Supplies Officer	Ministry of Finance
Cephas Chabu	Managing Director	National Savings & Credit Bank
David Mukwavi	Business Development Manager	National Savings & Credit Bank
Jacob Lushinga	Managing Director	Development Bank of Zambia
Hephzibah S. Beyani	Head Credit	Development Bank of Zambia
Musapenda J. Phiri	FSDP – Project Coordinator	Bank of Zambia
Reynolds K. Shula	Chairperson – REES Board	Rural Economic Expansion Services Ltd - REES
Mwiinga Christabell	Project Officer	Keepers Zambia Foundation
Ruth Mitimangi Nabutali	Snr. Programme Manager	Keepers Zambia Foundation
Dorothy Chiluba	Manager Business Development & Investment/Microfinance Programs	Churches Health Association of Zambia - CHAZ
Michael Mbulo	Programme Manager	Rural Finance Programme
Jasper Hatwiinda	Monitoring Evaluation & Planning Specialist	Rural Finance Programme
Robert Nsamba	Financial Controller	Rural Finance Programme
Bernard Lusale	FSPC1/PC	Micro Bankers Trust
Grace K. Nkhuwa	Chief Executive Officer	Micro Bankers Trust
Dr. Jorma Ruotsi	Senior Banking Specialist	IFAD Consultant
Ms. Miriam Cherogony	Rural Finance Specialist	IFAD Africa
Mr. Godfrey Wanjohi	Financial Management Specialist	IFAD Consultant
Dr. Dick Siame	Country Programme Officer	IFAD
Ms. Fumiko Nakai	Country Programme Manager	IFAD

### Appendix 3: Project Status Report

#### Project 1280 [643] Rural Finance Programme

#### Basic Facts

Country	Zambia			Project ID	1280	Loan/DSF Grant No.	643
Project	Rural Finance Programme					Supp. Loan/DSF Grant	
Date of Update	12-Oct-2012					Financing terms	HC
Supervising Inst.	IFAD/IFAD						
No. of Supervisions	5	No. of Implementation Support/Follow-up missions	6				
Last Supervision	17-Aug-2012	Last Implementation Support/Follow-up mission	11-Feb-2012				

				USD million		Disb. rate %
Approval	02-Dec-2004			Total costs	17.43	
Agreement	09-Sep-2005	Effectiveness lag	33.6	IFAD Total	13.81	
Effectiveness	07-Sep-2007	PAR value	-----	IFAD loan	13.81	71
MTR	22-Oct-2010			DSF grant		
Current completion	30-Sep-2013	Last Amendment		IFAD grant		
Current closing	31-Mar-2014	Last Audit	28-Jun-2012	Domestic Total	3.62	
No. of extensions	0			Beneficiaries	0.14	
				Government (National)	3.04	65
				Domes. Fin. Inst.	0.43	35
				Cofinancing Total		

#### Project Performance Ratings

B.1 Fiduciary Aspects	Last	Current	B.2 Project implementation progress	Last	Current
1. Quality of financial management	4	4	1. Quality of project management	5	5
2. Acceptable disbursement rate	4	4	2. Performance of M&E	5	5
3. Counterpart funds	5	5	3. Coherence between AWPB & implementation	5	5
4. Compliance with loan covenants	5	5	4. Gender focus	5	5
5. Compliance with procurement	5	4	5. Poverty focus	5	5
6. Quality and timeliness of audits	5	5	6. Effectiveness of targeting approach	5	5
			7. Innovation and learning	5	5

B.3 Outputs and outcomes	Last	Current	B.4 Sustainability	Last	Current
1. Component 1 Development of Community Based Financial Institutions (CBFIs)	5	5	1. Institution building (organizations, etc.)	4	4
2. Component 5 Policy, Institutional and Management Support	5	5	2. Empowerment	5	5
3. Component 4 Innovation and outreach Facility	5	5	3. Quality of beneficiary participation	4	4
4. Component 3 Credit Facility for Contracted Small-Scale Production	4	4	4. Responsiveness of service providers	4	4
5. Component 2 Promotion of Rural Banking Services	3	3	5. Exit strategy (readiness and quality)	4	4
			6. Potential for scaling up and replication	5	5

#### B.5 Justification of ratings

## Overall Assessment and Risk Profile

		Last	Current
C.1	Physical/financial assets	4	4
C.2	Food security	4	4
C.3	Overall <b>implementation progress</b> (Sections B1 and B2)	5	5
<p><b>Rationale for implementation progress rating</b></p> <p>Overall, the programme implementation progress in the past year has been satisfactory. The key achievements as at the end of June 2012 include: 808 savings and credit groups (CBFIs) formed or strengthened with 12 689 members (8,983 women and 3 706 men) with USD 283,462 of voluntary savings, USD 381 261 of gross loan portfolio; 1 059 clients are accessing micro loans (with the portfolio value of USD 252 525) from the NSCB through its 5 branches where microfinance services have been launched with RFP support; 6 892 loans with the value of USD 3.2 million disbursed through four participating financial institutions using the credit line extended by the DBZ; and the development of a Rural Finance Policy and Strategy with wide stakeholder consultations, which is being finalised to be submitted for a Cabinet approval. While it has been observed in the field that NSCB's microfinance operations have had positive impact on micro business operators who did not have access to loans before, the malfunctioning of the banking system procured with the RFP support has had serious negative effects, constraining the branch expansion and outreach to rural areas.</p>			
C.4	Likelihood of achieving the development objectives (section B3 and B4)	4	4
<p><b>Rationale for development objectives rating</b></p> <p>Good progress has been made towards the programme purpose "to increase the use of sustainable financial services in rural areas" as demonstrated by outputs and outcomes under various components, although the achievements against the original target of reaching 150 000 rural households is still limited. This is partly because the implementation pace got accelerated late only in 2010. More significantly, it is also because that NSCB branch expansion, which was supposed to make contribution in reaching the majority of the targeted rural households (100 000 households) largely in terms of savings facilities, has severely been constrained. The number of households benefiting from the RFP support is currently estimated at about 28 000. This achievement, in absence of significant contribution originally envisaged by NSCB branches, can be considered moderately satisfactory and reasonable. With intensive efforts for accelerating the implementation, there is good prospect of further progress before the end of the programme. It is important to assess and document the impact and lessons from the RFP implementation, as has been planned by the PMU.</p>			
C.5	<b>Risks</b> Short description of major risks for each section and their impact on achievement of development objectives and sustainability		
	Fiduciary aspects	<p>The programme does not have a dedicated accounting software; instead, it is using the Excel programme. This was because the GRZ requested that the government system (Integrated Financial Management System, IFMIS) be used and that no dedicated accounting software be procured. While some steps have been undertaken recently (e.g., training of PMU staff with IFMIS), at the time of the August 2012 Mission, the IFMIS still had not been operationalized for RFP. Under the circumstances, it is even more important to ensure regular and timely financial management reporting and enhance internal controls. A monthly reconciliation of the Special Account should be carried out as a management tool to regularly check the accuracy of the accounting records. The other concern on financial management, also raised by the external auditor, is the concentration of tasks on the Financial Controller, which might have affected the timeliness of preparing quarterly management accounts and submission of withdrawal applications. The RFP management responded to the auditor on this issue indicating that the job descriptions of the Assistant Accountant had been reviewed to include additional responsibilities. It was agreed with PMU that the job descriptions of the Financial Controller and the Assistant Accountant would be revisited once again to clearly indicate the expected outputs and performance indicators. For procurement, key issues include: a lengthy internal review process, the quality of the procurement plans and its effective use as a management tool, procurement by or for service provides under contracts with PMU, as well as poor procurement record keeping and filing. In the remaining programme period, forward planning and managing the procurement process (in liaison with the Ministry's Purchase and Supplies Unit), as well as effective contract management would be critical.</p>	
	Project implementation progress	<p>The delays in the NSCB component adversely affect the planned, RFP-supported branch expansion and planned outreach. The programme continues with a prudent approach concerning the utilisation of the RFP funds and the need for possible adjustments/allocation should be assessed. Also, lessons from this component will be reflected in future operations.</p>	
	Outputs and outcomes	<p>The delays in the NSCB branch expansion has affected (and will affect) the achievements of outputs and outcomes, especially in terms of originally expected increase in the number of deposit account holders amongst rural households. In addition, a major risk is also the undermining of the savings culture that RFP is keen to promote – either for political reasons or by donors and NGOs who provide grants to the rural population on the grounds that financial services are not available to them. The new RF policy provides the most important mechanism for avoiding this.</p>	
	Sustainability	<p>A Rural Finance Unit within the Ministry of Finance (MoF) has been established – and the new Rural Finance Policy and Strategy (being finalised) provides for a Rural Finance Department in the MoF as a permanent structure. In the process of developing the Rural Finance Policy and Strategy, RFP supported a study tour to Tanzania for the RF Policy Reference Group, thereby developing their understanding of the subject matter and capacity to contribute to the process. These have assisted in building national ownership for rural financial service development, and establishing an enabling framework for financial operators to invest in the sector, which will also ensure the expansion and sustainability of CBFIs. The proposed IFAD-financed project in support of the rural finance sector could still support the development of enabling environment and national capacity.</p>	

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**Proposed Follow-up**

Issue / Problem	Recommended Action	Timing	Status
Underperforming of NSCB component	Close follow-up with a possibility of adjustments in the budget and activities.	Decision on the possible adjustments by late Feb 2013	Ongoing
Lessons and direction for a follow-on programme	Conduct a critical reflection and draw lessons and proposed overall direction for the proposed follow-up programme in support of the RF sector.	By end July 2012	Prog Design Group met mid-August 2012 and produced a "concept paper" for the new programme. A focused workshop to reflect on lessons is still to be organised
KM products (impact assessment,	Documentation/capturing of experience and lessons (e.g., Innovation and Outreach Facility), impact assessment - and share/disseminate KM products.	Continuous	Some done in 2011 but still more to come
Capacity of service providers for IOF and CBFIs	Support capacity building of service providers to enable them to provide quality services to target groups.	Continuous	Ongoing
Decision on how to handle the DBZ credit line post-RFP	Reorganise the contractual arrangement between Government and DBZ	October 2012	
Loan reallocation	Based on the projection till the end of the programme, determine in a timely manner the need for loan reallocation and submit a request to IFAD as needed	When needed - but by March 2013	

**Additional observations**

#### Appendix 4: Implementation Status: Key Actions Agreed with Previous Missions

Actions Agreed 8-19 August 2011 Mission; 22 January - February 2012 Mission(*)	Responsibility	Agreed Date	Status 31 July 2012 <i>X not implemented;</i> <i>* partially implemented or in progress;</i> <i>** implemented</i>
<b>Component 1: Development of Community Based Financial Institutions</b>			
1.1 Extend the invitation for TA to CBFI Promoters	PMU	Immediately	X: Lessons from Care Malawi exchange visit being used to improve monitoring
1.2 Use remaining component funds for expansion around current areas	PMU	Continuous	** Three Contract Addendums for expansion submitted to MOF Treasury Counsel on 11 July 2012 for clearance.
1.3 Partner with other IFAD projects and other donors	PMU	Continuous	** RFP collaborating with Plan International and Catholic Relief Services in the creation of an apex body for CBFI Promoters. RFP is also working with SAPP and SLIP to support Batoka Dairy Cooperative Society currently financed by Micro Bankers Trust
1.4 Use remaining RFP funds to recruit and train village agents	PMU/IAs/IFAD	2011/12	* Contract Addendums for expansion await clearance by MOF Treasury Counsel. Expansion proposals include recruitment and training of village agents
1.5 Encourage linkage banking	IAs/PMU	Continuous	** RFP is encouraging VSLAs and other IOF supported projects to link up with NSCB and other banks for banking services. There is need to use part of the TA with DBZ to train on savings and credit as well.
1.6 Write and publish success stories	PMU/IAs/IFAD	Continuous	* Case studies were collected from three Components thus; MCF, Africare Zambia and NSCB in August 2011 and included in 2012 annual report. Preparation for publication in newsletter, etc. encouraged.
1.7 Conclude redesign of record keeping form for CBFI groups	IAs/PMU	October 2011	** This was concluded and minimum documentation has been adopted at group level following Care Malawi exchange visit
<b>Component 2: Promotion of Rural Banking Services</b>			
2.1 Continue to link further RFP support to NSCB to success in systems development	PMU/MOF	Continuous	** Link maintained as recommended
2.2 Re-examine needs of high level expertise in NSCB and recruit accordingly	NSCB	Immediately	* Director of Operations and the Director of Corporate Support Services have been recruited from outside NSCB, both with relevant banking backgrounds. More capacity needed for procurement of new banking software.
2.3 Assess progress in systems development	PMU/IFAD	Early 2012	** NSCB has decided to proceed with arbitration and replacement of current system
2.4 Limit financing for branches to 2 until further notice	PMU/IFAD	Early 2012	* RFP has reimbursed NSCB for the Chilubi Branch capital expenses. Kalabo Branch has not yet been opened. Advertisements inviting contractors made in July 2012.
2.5 Present a new training plan based on agreed guidelines	NSCB	September 2011	* New training plan submitted in July 2012. RFP has requested for programme details and options for local training.
2.6 Continue piloting new rural products	NSCB	Continuous	** Microfinance products being now piloted in 10 rural and 5 peri-urban branches. Asset plus product also being implemented, but with low volumes.



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Appendix 4: Implementation Status: Key Actions Agreed with Previous Missions

<b>Actions Agreed</b> 8-19 August 2011 Mission; 22 January - February 2012 Mission(*)	<b>Responsibility</b>	<b>Agreed Date</b>	<b>Status 31 July 2012</b> <i>X not implemented;</i> <i>* partially implemented or in progress;</i> <i>** implemented</i>
2.7* Follow up the developments on the IT issue in the coming months and informs IFAD of the decisions that NSCB and the Government possibly take in this important area.	PMU / NSCB	Continuous	* NSCB has decided to proceed with arbitration and replacement of current system. NSCB and Neptune have appointed an arbitrator. Third arbitrator to chair the sessions yet to be appointed. Limited RFP support tied to the MoF commitments and assurance of proper project management.
2.8* Support branch expansion on a case-by-case basis and only in genuinely rural districts	PMU	Continuous	* NSCB has placed advertisements (July 2012) in the local newspapers requesting for contractors to build new branches in Kalabo and Chavuma.
2.9* RFP not to support proposed new branches planned for Choma and Mazabuka	PMU	Immediately	** Maintained as recommended.
<b>Component 3: Credit Facility for Contracted Small Scale Production</b>			
3.1 Define new future strategy for DBZ	DBZ	Dec 2011	* Draft Strategic Plan ready for board approval. New Board now appointed. Will revisit the Strategy soon.
3.2 Coordinate DBZ role and strategy with Rural Finance Policy and Strategy	DBZ/PMU/MOF	Dec 2011	** DBZ part of the Stakeholders involved in the drafting of the RF policy and strategy.
3.3 Follow-up the PFI performance	DBZ	Continuous	** Periodic visits made by DBZ to MFIs; DBZ reports on their performance.
3.4 Aim at lower client interest rates in credit line funding	DBZ/PFIs	Dec 2011	** CETZAM has lowered interest rates from 4% flat to 3% reducing balance and other MFIs are following suit. MFIs now waiting for BoZ stand on interest rate issue.
3.5 Include insurance in dairy cow loans	DBZ/PFIs	Immediately	X MBT still discussing with insurance companies for an affordable premium rate, currently most companies charge between 3% and 5% of loan amount.
3.6 Actively support ASNAPP related operations in 4 areas	DBZ/PMU/PFIs	Continuous	** RFP working closely with ASNAPP. ASNAPP has opened up new offices in Lusaka to service expansion areas of Central and Eastern Provinces with the support of USAID.
3.7* Provide comprehensive MFI progress reports	DBZ	March 2012	** Now available.
3.8* Submit MFI training plans for funding	DBZ/MFIs	March 2012	* DBZ has received funding proposals but the same have not been submitted to RFP.
3.8* Finalize post RFP Credit line MOU arrangement	MOF/DBZ	September 2013	X No action taken.
<b>Component 4: Innovation and Outreach Facility</b>			
4.1 Follow up actively progress of all approved projects	PMU	Continuous	** Monitoring visits made to new and old IOF projects.
4.2 Explore possibilities to allocate more funds for IOF	PMU	February 2012	Currently no-reallocation planned as time to short for implementation.
4.3 Document interesting cases and publish via IFAD	PMU	Continuous	* Case studies were collected from MCF and EMFI. Requires further action by RFP/IFAD.
<b>Component 5: Policy, Institutional and Management Support</b>			
5.1 Consultancy contract for RF Policy finalized	PMU/MOF	Mid Sept. 2011	** Signed on 6 <sup>th</sup> December 2011; delay due to change of Government.
5.2 Final RF Policy draft submitted	Consultants	December 2011	** Submitted in July 2012 to MOF RFU to draft Cabinet Memorandum.

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5.3 Policy approved by Government	GRZ	June 2012	* Submitted in July 2012 to MOF RFU to draft Cabinet Memorandum, which then to be presented to Cabinet.
5.4 RFU included in RF Strategy as permanent unit	MOF	June 2012	** Included as proposed.
5.5 Funding and staff for RFU included in national budget	MOF	2013 Budget	X If Policy approved, aim to include in 2013 national budget.
<b>Fiduciary Aspects</b>			
5.6 Improve financial statements by reconciling surplus of sources and uses of funds statement with the bank balances	Financial Controller	December 2011	** Being implemented as recommended
5.7 Review activities for adjustments between components	Programme Manager / Financial Controller	October 2011	** Done. IFAD approval received in February 2012
5.8 Formulate mechanism for capture of contribution by Financial institutions and beneficiaries	Programme Manager / Financial Controller	October 2011	** Being implemented as recommended
5.9 Prepare SPA reconciliation at the end of each quarter for use as a management tool	Financial Controller	Sept. 2011	** Being implemented as recommended
5.10 Implement a dedicated Accounting Software for the processing of the Financial transactions of the Programme	Programme Manager / Permanent Secretary	Sept. 2011	* All key staff trained in the use of IFMIS and the system has been installed at RFP. Awaits inclusion of RFP in the national budget
5.11 Maintain copies of procurement evaluation documentation to facilitate subsequent validation by the missions	Programme Manager / Financial Controller	August 2011	** To be made available to the team in August 2012
5.12 Discuss exhaustively with respective IAs regarding double counting as a result of receiving multiple funding	PMU/IAs	October 2011	** DBZ loan to CETZAM targets clients with higher loan amounts for small-scale agriculture equipment and other value addition technology valued around \$ 1,000 While the IOF are for smaller loans of between US\$ 200 and US\$300.
5.13 Finalize loan re-allocation proposals and submit to IFAD	PMU	December 2011	** Done. IFAD approval received in February 2012