AGRICULTURAL FINANCE IN ZAMBIA: HOW CAN SMALLHOLDER INCLUSION BE DEEPENED?

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Access to finance across all farmer categories and other value chain nodes within the agricultural sector

Profitable investments across value chains

Agricultural transformation

• Poverty reduction
• Food and nutrition security
Only 1% of lending comes from commercial sources.

Smallholder farmers remain the most excluded

The share of loans to agriculture is 17%, and declined since 2004.

Microfinance institutions prefer salary-based loans.

Agriculture also has the highest share of NPLs at 26%—this has more than doubled since 2013.
WHAT EXPLAINS THE STATUS QUO?

Agricultural sector risks and limited climate resilience among farmers.

Smallholder farmers lack what is considered quality collateral.

High levels financial/agricultural finance illiteracy.
WHAT EXPLAINS THE STATUS QUO?

- Majority of farmers do not produce a marketable surplus. (Close to 70 percent have a commercialisation index of under 35%)
- Low uptake of insurance as a risk mitigation measure
- Limited competition in the banking sector
AGRICULTURAL RISK IN CONTEXT

Source: Braimoh et al., (2018)
ABOUT THE STUDY

To identify supply and demand side constraints for smallholder agricultural finance inclusion.

To provide policymakers with evidence-based choices of appropriately structured incentive compatible risk mitigation policy strategies and instruments in Zambia.

To provide evidence on the current and potential practice of value chain financing in Zambia and draw out issues for implementation and policy discussion.
Mixed methods approach:

Qualitative

- Key informant interviews, focus group discussions, literature review.

Descriptive analysis of survey data.

- 2015 RALS
Efforts to change the status quo
EFFORTS TO IMPROVE FINANCIAL INCLUSION

International lines of credit secured and available under the development bank of Zambia (SMEs)

A rural finance department established in the MoF

WII insurance scaled-up to all smallholder farmers.

Financial inclusion strategy, Rural finance policy, National Strategy on financial education, National financial sector development policy.
WEATHER INDEX INSURANCE PAYOUTS

Two commodity exchanges exist, and WRS in operation

Credit Reporting Act. No. 8 of 2018 enacted

Scraping off of 26 “unwarranted” bank charges as at September 4th 2018

Several sources of public financing, e-FISP, emergent farmer fund, CEEC, Aquaculture development fund
TARGET BENEFICIARIES, FARMER DEPOSITS AND E-CARD ACTIVATIONS UNDER THE E-FISP

Source: ZIAMIS, (2018)
EFFORTS TO IMPROVE FINANCIAL INCLUSION

Agricultural finance is now part of the Agecon curriculum at UNZA.

ZIAMIS—a farmer register is now functional and was designed with financial inclusion in mind.

Movable Asset security interests can now be registered at PACRA.

Value chain financing mitigating some risks (assets & commodities).

A credit guarantee scheme to be operationalised in September 2018.

Other donor-financed credit guarantee schemes in place.
Key gaps still remain
WHAT ARE THE KEY GAPS/ISSUES?

Exclusive agency agreements in the financial sector

Information asymmetry
- Limited knowledge of the smallholder markets means assessments are based on preconceptions

Intermittent and small loan demand raises transaction costs.

Lack of liquidity among mobile money agents.
Indaba Agricultural Policy Research Institute

..ISSUES/GAPS CONT’D

Threatened sustainability of the Zambia Agricultural Commodity Exchanges associated Warehouse Receipt System (WRS)

Underutilization of the Zambia Integrated Agriculture Management Information System (ZIAMIS) platform as a risk mitigation measure.
The absence of a credit registry that includes the unbanked.

Failure to recognize movable assets as of good quality by bank supervision guidelines in relation to immovable assets.

Weaknesses in contract farming such as the prevalence of fake seed, failure to consider other farmer needs, side-trading, and double contracting by farmers, collusion.
High cost of using movable assets as collateral

Political nature of public credit guarantee schemes

High cost of participation in public guarantee schemes.

Poor understanding of WII among smallholders

- Limited extension
- Limited capacity among insurance companies
ISSUES IN VEHICLE AND ASSET FINANCING

It has not performed well in cases where:

- There is no off-taker
- Beneficiary selection has been done poorly
- Market conditions have been adverse (e.g. El Nino years)
- Business from the equipment has been low

Operational leasing has been abandoned due to:

- High asset specificity
WHAT ARE THE KEY GAPS/ISSUES?

Full potential of e-FISP yet to be realized:

- Input redemption restricted to the rainy season (for reconciliation purposes)
- Delays in card activation exposing farmers to risks.
- Largely still maize-centered...very limited use for livestock.

Other value chain-specific public funds are usually politicized.

Majority target SMEs

Unclear targeting

- Confusion on definitions of smallholders or other farmer categories across departments.
How can we deepen smallholder financial inclusion?
First, recognize that markets evolve, and that a single intervention cannot address the issues.

Then periodically review the issues and constraints to financial inclusion.
Promote the use of technologies that reduce the cost of financial service delivery

- Cashless transactions (legislation)
- Partnerships between FI’s and mobile phone operators.
- Bar agency exclusivity in mobile money (legislation)
Strengthen cooperatives and farmer groups

These can be used to facilitate inventory collateralization by groups of smallholders, and access loans/inputs through commodity exchanges/WRS.

Allows for use of social guarantees to access loans.
An effective contract farming framework

- Enhance monitoring and enforcement of seed trading regulations
- Timely delivery of inputs
- Dual-regulation of contract farming
- Incentive compatible contracts
- Take into account other farmer needs
- Include low-cost insurance in the package
- Enhance monitoring and enforcement of farmers
Capacitate commodity exchanges

- Conduct a capacity needs assessment for ZAMACE and the WRS, to identify required actions and investments to contribute towards its effective functioning.

- Conduct a feasibility assessment of procuring Food Reserve Agency (FRA) purchases through the commodity exchange to help capitalize it vis-à-vis the political economy.

- Promote commercially-oriented cooperatives in rural areas.
  - Inventory deposits in groups of commercially oriented farmers.

- Promote individual participation in smallholder lending through WRS.
Expedite the development of a **credit registry**

- Include the unbanked and link this to the Zambia integrated agriculture management information system.
- Also include borrowers from non-banking institutions such as community-based microfinance institution, and contract farming.
- The credit reporting Act No. 8 of 2018 provides for this.

Promote the use of **ZIAMIS as a financial inclusion tool**. For ZIAMIS to be self-sustaining, it should be purely run as a business, ensuring FIs seeking information to assess creditworthiness pay a fee.

- Possible integration with other platforms (credit reference bureau?)
Financial Literacy

Enable consumers (esp. SHF) of financial products and services to be aware of financial opportunities and to make informed decisions

- Smallholder farmers (Insurance, loan products, digital finance services...)
- Bank/FI employees’ capacity (capacity building on ag. finance).
Credit guarantee schemes

Reduce cost of participation.

Depoliticize them.
Govt. Funding

Include the other services on e-voucher platform.
- Savings, and utility payments.

Input redemptions must not be restricted to the rainy season.

Harmonize definitions across departments/agencies to improve targeting.

Depoliticize public agricultural financing.
Expand the population from which experts on agricultural finance are drawn.

The local market is still crawling.
THANK YOU