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Enabling poor rural people  
to overcome poverty

## **President's report**

### **Proposed financing to the Republic of Zambia for the**

### **Rural Finance Expansion Programme**

#### **Note to Executive Board representatives**

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**For: Approval**

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## Abbreviations and acronyms

AMIZ	Association of Microfinance Institutions of Zambia
BoZ	Bank of Zambia
CBFI	Community-based financial institution
COSOP	Country strategic opportunities programme
DBZ	Development Bank of Zambia
DFID	Department for International Development
FSP	Financial service provider
GRZ	Government of Zambia
IOF	innovation and outreach facility
KM	knowledge management
M&E	monitoring and evaluation
MFI	microfinance institution
MIX	Microfinance Information eXchange
MSME	micro, small and medium enterprise
PCO	programme coordinating office
RFPS	Rural Finance Policy and Strategy
RFP	Rural Finance Programme
RFU	rural finance unit
RUFEP	Rural Finance Expansion Programme
ZMW	Zambian Kwacha

## Map of the programme area



## Republic of Zambia

### Rural Finance Expansion Programme

#### Financing summary

<b>Initiating institution:</b>	IFAD
<b>Borrower:</b>	Republic of Zambia
<b>Executing agency:</b>	Ministry of Finance
<b>Total programme cost:</b>	US\$26.315 million
<b>Amount of IFAD loan:</b>	SDR 5.5 million (equivalent to approximately US\$8.4 million)
<b>Terms of IFAD loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Amount of Spanish Food Security Cofinancing Facility Trust Fund (Spanish Trust Fund) loan:</b>	EUR 9 million (equivalent to approximately US\$11.988 million)
<b>Terms of Spanish Trust Fund loan:</b>	40 years, including a grace period of 10 years, with a service charge of three fourths of one per cent (0.75 per cent) per annum
<b>Contribution of borrower:</b>	US\$2.613 million
<b>Contribution of participating institutions:</b>	US\$3.29 million
<b>Appraising institution:</b>	IFAD
<b>Cooperating institution:</b>	Directly supervised by IFAD

## **Recommendation for approval**

The Executive Board is invited to approve the recommendation for the proposed financing to the Republic of Zambia for the Rural Finance Expansion Programme, as contained in paragraph 55.

## **Proposed financing to the Republic of Zambia for the Rural Finance Expansion Programme**

### **I. Strategic context and rationale**

#### **A. Country and rural development and poverty context**

1. Zambia's economic situation has improved in the last decade driven by the economic and public sector reforms initiated in the 1990s and propelled by rising copper prices. Economic growth was around 6% per annum during the latter half of the 2000s. However, poverty levels have remained high, especially in rural areas. In order to foster more broad-based and inclusive economic growth, Zambia has sought ways to diversify the economy and has targeted agriculture as a priority sector for poverty reduction and food security, since two thirds of the population live in rural areas and rely on agriculture for their livelihoods.
2. Agriculture accounts for about 20 per cent of GDP and has the potential to be a major source of economic growth as the country has abundant supplies of fertile land and good rainfall. There are many opportunities to improve agricultural productivity, which is very low by global standards. Faster agricultural growth is also critical to reducing the high rate of rural poverty.
3. The Living Conditions Survey of 2010 indicated that the proportion of Zambians classified as "extremely poor" or "moderately poor" was 78 per cent in rural areas compared to 28 per cent in urban areas. The most commonly cited reason for poverty was the inability to afford agricultural inputs (32 per cent of the rural population), and the lack of capital to start up or expand farms. The high cost of inputs, poor rural infrastructure, lack of oxen for ploughing, and the absence of rural financial services (apart from limited community-based schemes) make it difficult for smallholders to access needed resources. This supports the notion that labour and finance are the major constraints on growth bottlenecks and causes of poverty.

#### **B. Rationale and alignment with government priorities and RB-COSOP**

4. Zambia's agricultural sector potential can be better realized through enhanced investments in production, processing and marketing. Such investments will be promoted by creating an enabling environments and by strengthening and diversifying rural financial services. Only about 37 per cent of the adult population use financial services, and only 14 per cent of these have bank accounts. Access to finance is cited as the most common business constraint. Zambia has the second lowest financial services usage rate in Eastern and Southern Africa, trailed only by Mozambique.
5. The financial sector has shown moderate development over the past decade, supported in part by the IFAD-funded Rural Finance Programme (RFP), which was completed in September 2013. The number of banks and deposit-taking financial institutions has grown and become more profitable due to improved regulation by the Bank of Zambia (BoZ). Some banks and microfinance institutions (MFIs) have introduced new products targeting rural areas. However, several constraints

remain, including: (i) inadequate regulatory framework; (ii) low human resource capacity; (iii) low competency in structuring finance for agricultural ventures; (iv) reliance on mortgages as collateral; (v) inadequate legal framework for use of collateral substitutes; (vi) little understanding on how to tailor financial services to suit specific value chains. These constraints result in the prevalence of many inappropriate products and limited exploitation of new opportunities. Lack of consumer awareness and financial literacy has also been a challenge.

6. Government priorities are generally favourable for further IFAD investment in rural finance, but can be improved. BoZ is monitoring the impact of the recently introduced interest rate cap and has engaged in dialogue to develop market-based solutions. The banks' profitability is not at stake, as their lending rates are below the cap, and they have other investment alternatives. MFIs may be more negatively affected due to high costs, limited investment opportunities and low scale of operation. The new policy is already affecting some MFIs, but others have taken steps such as lowering costs, increasing scale and reorganizing their portfolios. BoZ is considering measures to ameliorate the impact of the policy, including agency banking regulations, which will present opportunities to extend rural outreach at lower cost.
7. The Rural Finance Expansion Programme (RUFEP) will build on one of the three strategic objectives of IFAD's COSOP 2011-2015 which aims "to increase access to and use of sustainable financial services by poor rural men and women". While ongoing IFAD-financed projects focus on production and market constraints, farmers and agribusiness need direct links to the financial sector if they are to be successful, and financial services must be demand-driven.

## **II. Programme description**

### **A. Programme area and target group**

8. Programme coverage will be national, with specific areas depending on the outreach of financial institutions and service providers involved. Preference will be given to areas not served or underserved by financial services. Key selection criteria will include: (i) financial service providers prepared to expand their operations; (ii) other service providers, e.g. NGOs with capacity for developing community-based financial institutions (CBFIs); (iii) CBFIs seeking to expand and upgrade their operation to MFI status; and (iv) opportunities to complement other IFAD-assisted programmes.
9. The target group is the rural poor, in particular economically active micro and small entrepreneurs and smallholder farmers, with particular attention to women and young people. RUFEP will target up to 140,000 households (including men, women and young people) in rural areas. At least 50 per cent of beneficiaries will be women and 25 per cent youth.
10. The programme will employ an inclusive targeting strategy. Measures to stimulate demand for financial services include: (i) helping beneficiaries participate in savings and credit activities to build their financial history; (ii) encouraging savings to reduce vulnerability to income and food security fluctuations; (iii) developing a "social fund" for consumption or emergencies; (iv) developing value chains to include the target group; (v) keeping simple records to provide evidence of profitability of economic activities; (vi) improving managerial skills.

### **B. Programme development objective**

11. RUFEP will contribute to the development goal "improved livelihoods of the rural poor through sustainable economic growth", which is consistent with the objectives of the Government of the Republic of Zambia and IFAD's COSOP. The development objective is "access to and use of sustainable financial services by poor rural men, women and youth has increased". This will be indicated by increases in the number

(about 140,000 households) and percentage of the adult population using financial services, and a decline in the cost of borrowing.

### C. Components/outcomes

12. The programme objectives will be achieved through three components:  
 (1) strategic partnerships; (2) innovation and outreach facility (IOF);  
 (3) knowledge management and programme implementation. There will be two outcomes:
- **Outcome 1, Strategic partnerships:** Enhanced capacity of financial service providers (FSPs) to deliver demand-driven services in rural areas. Indicators for outcome 1 include: (i) at least 50 per cent participating FSPs maintain a trend of increasing profitability; (ii) partner financial institutions improve their performance (portfolio at risk 30 days below 5 per cent; operational self-sufficiency > 110 per cent; operating expenses ratio 25 per cent); and (iii) the non-performing loan ratio for agricultural purposes has remained within the average for all sectors in at least five programme years.
  - **Outcome 2, Innovation and outreach facility:** Improved efficiency and sustainability of rural financial services. Indicators for outcome 2 include: (i) share of agricultural loans in total bank loans has increased by 15 per cent; (ii) volume of deposit and loan transactions generated by participating financial institutions has increased by 20 per cent; and (iii) at least five FSPs have introduced five new products to serve rural areas/farmers.
13. Component 1 will contribute directly to outcome 1 and has the following five specific outputs:
- A new framework for regulation and supervision of agency banking/mobile banking is introduced and rolled out;
  - Licensed and deposit-taking MFIs have access to a line of credit from the Development Bank of Zambia (DBZ) for investments in the agricultural sector;
  - New CBFIs have been created and existing ones strengthened and operating sustainably;
  - New and existing institutional frameworks are strengthened at the meso level to support FSPs to deliver services to rural areas;
  - Staff of FSPs, apex institutions and other relevant institutions have received training on agricultural and rural finance.
- Expenditures under component 1 will include training, workshops, technical assistance and some recurrent costs.
14. Component 2 will contribute more directly to outcome 2 and has two specific outputs:
- New and sustainable financial services and products, targeted at rural clients, tested and scaled up;
  - IOF effectively operated to test innovative financial products and delivery mechanisms for agriculture and rural areas.
- Under this component, funds will be disbursed as financial support or services.
15. Component 3 is a cross-cutting component servicing the other two. It will contribute to achieving outcomes 1 and 2 through knowledge management and implementation support. It includes two subcomponents: knowledge management and technical support, and programme implementation. The first subcomponent



comprises a range of activities for increasing public and sectoral understanding of rural and agricultural finance. The activities will include: (i) research and studies; (ii) public dialogue; (iii) dissemination and linkages with actors in the financial and other sectors; (iv) technical support to selected partners, particularly other IFAD-funded projects. The second subcomponent comprises all activities conducted by the programme coordinating office (PCO). Expenditures under this component will include mainly recurrent staff costs and technical assistance.

### **III. Programme implementation**

#### **A. Approach**

16. RUFEP will build on RFP's work in addressing critical constraints in Zambia's rural finance sector. The programme is aligned with the priorities set by the Government and IFAD in rural financial services and will respond to the needs of the target group. RUFEP will also align with government targets for rural financial sector development and will adhere to monitoring standards, such as those applied by FinScope, in order to measure changes in access and inclusion.
17. The design process identified areas of interest to financial sector actors to try out new approaches and products. Priorities were established and investments packaged under a coherent implementation framework to drive the change process and generate expected benefits.
18. The programme design builds in a high degree of flexibility to respond to evolving challenges, and to identify and capture opportunities. It adopts a flexible approach to institutional collaboration by establishing partnerships when institutions qualify for support, and by being ready to discontinue them when no longer productive. The programme also provides a framework for trying out institutions or newly emerging networks as partners under simple performance-based grant agreements, and for graduating grant recipients into full partners when appropriate. Programme support will be tailored to level of maturity. Institutions with strong capabilities and strategic importance will qualify for medium-term support under component 1, with subsequent rounds of support around longer term goals. Other institutions with relevant proposals for new opportunities may qualify for spot support under component 2.
19. The PCO will adopt a coordination role with most of the implementation undertaken by partners, service providers and IOF grant recipients. The PCO will provide support through matching grants to qualified CBFIs and FSPs, enabling it to experiment with new concepts and practices, and to scale up successful models.
20. RUFEP will intervene at three levels. At the macro level, it will set up a framework for collateral substitutes and provide a regulatory framework for financial institutions that currently operate outside meaningful supervision. Meso-level infrastructure will be strengthened by assistance to DBZ to create a refinancing facility, training systems, and efforts to build cohesion across new systems and products - including support to the emerging network of CBFi promoters. At the micro level, the programme will test and scale up innovations, such as agency and mobile banking. Most of the support will facilitate transactions between financial institutions and their clients.

#### **B. Organizational framework**

21. The lead implementing agency will be the Ministry of Finance through its Investment and Debt Management Department.<sup>1</sup> A programme steering committee will provide oversight, policy direction and coordination between key government institutions (Ministry of Finance, BoZ and Ministry of Agriculture and Livestock).

<sup>1</sup> The Borrower informed IFAD that the RFU and PCO may be transferred during the Programme implementation period to the National Planning Department of the Ministry of Finance.

Finance may invite other ministries (e.g. Community Development) to contribute. Members of the programme design group who participated in RUFEP design will be reconvened as a technical advisory group, which may also enlist other stakeholders and should have at least half of its members from the private sector.

22. Implementation of components 1 and 2 will largely rest with partner institutions and grant recipients, governed by a partnership agreement, memorandum of understanding and other types of agreement as appropriate, specifying inter alia arrangements for work planning, budgeting, reporting, financial management, procurement and implementation support. Selection criteria to be endorsed by the industry will guide the selection of financial service providers to operate under components 1 and/or 2.
23. The PCO will develop partnerships with financial sector actors and other major initiatives such as the Department for International Development (DFID)-supported Access to Financial Sector Deepening Programme of Zambia, the World Bank's private sector development activities, African Development Bank (AfDB) projects and programmes funded by the Finnish and Swedish governments. RUFEP will also work closely with other IFAD-financed projects to support target groups and partners.

### **C. Planning, monitoring and evaluation, learning and knowledge management**

24. RUFEP's approach to planning, monitoring and evaluation (M&E) and knowledge management (KM) will build on best practices of the RFP and other IFAD initiatives in Zambia. Annual workplans and budgets (AWPBs) will take into account the previous AWPB, programme design report, supervision recommendations and legal covenants. The first AWPB and 18-month procurement plan will form part of the final design report to be presented at the start-up workshop, and will be submitted to IFAD for no objection. Subsequent AWPBs will be prepared no later than 60 days before fiscal year-end. The PCO, through the programme steering committee, may propose adjustments to the AWPB, subject to clearance by IFAD.
25. The M&E system will generate information on programme performance to assist the Ministry of Finance, PCO and partner institutions to plan and finance their activities, compare progress against targets, and take timely action to correct problems. External monitoring will comprise: (i) joint supervision missions by IFAD and the Ministry of Finance every six months; (ii) an annual audit; (iii) a comprehensive midterm review; and (iv) a programme completion assessment. Ad hoc thematic/diagnostic studies will be undertaken when necessary.
26. The FinScope surveys undertaken in 2005 and 2009 will likely be repeated in 2013 or 2014. Some RUFEP indicators will be built into this survey and RUFEP will contribute to its cost. To provide baseline data, all participating financial institutions will be asked to submit information on key indicators on their current outreach including number of clients, portfolio outstanding, geographical coverage, range of products, portfolio performance, etc. A baseline study on the cost of borrowing in rural areas will be conducted during year 1. The IFAD-funded Microfinance Information eXchange (MIX) mapping exercise in year 1 is also likely to provide useful baseline data.
27. M&E will employ a database for real-time tracking of outputs and outcomes. AWPB data will be captured in two stages: (i) immediately after AWPB approval; (ii) regularly during AWPB implementation. The AWPB will be translated into monthly and quarterly action plans to be monitored at partner and national levels. The database reporting system will generate the tables needed for key reports (biannual and annual progress reports, supervision and follow-up reports).

28. Based on the lessons learned from previous IFAD programmes in Zambia and elsewhere, knowledge management and dissemination has been incorporated as subcomponent 3.1 and is described under component 3.

#### **D. Financial management, procurement and governance**

29. Financial management will be based on the experience of RFP and other IFAD-financed projects in Zambia. A financial management assessment has been undertaken. Fiduciary risk is rated as medium and appropriate mitigation measures proposed. Zambia's fiduciary environment falls in the medium risk category. Programme-specific risks arise mainly from accountability for the many partnerships and grant recipients, and internal controls and weaknesses in the government accounting and reporting systems.
30. To mitigate risks, RUFEP will install a separate standard financial management software acceptable to the Fund. The assessment of integrated financial management system (IFMS) shows strong control features. Considering that IFMS is not yet available for those programmes not physically housed in the Ministry of Finance, arrangements will be made for RUFEP to operate a stand-alone financial management system as an interim arrangement until IFMS is fully rolled out. The finance section of the PCO will be staffed by officers recruited and paid from programme funds.

##### **Flow of funds**

31. IFAD will disburse funds for the programme to a designated account at the B0Z, covering both IFAD and Spanish Trust Fund funds; a programme account in Zambian Kwacha – also covering both IFAD and Spanish funds – will be held at a commercial bank acceptable to the Government of Zambia (GRZ) and IFAD. The designated account will be administered following imprest fund arrangements. Government funds will flow through a separate account.

##### **Internal control and external audit**

32. Internal control systems will be established for the programme. Ministry of Finance internal auditors will be required to include RUFEP in their annual audit plans and financial management procedures stated in a programme implementation manual to ensure consistent application. External auditors will be appointed through a transparent and competitive selection process with terms of reference subject to no objection by IFAD. Selection of auditors and the scope of the audit will comply with IFAD's Guidelines on Project Audits and international auditing standards. Disbursement conditions will include installation of accounting software and approval by IFAD of the programme implementation manual.

##### **Procurement**

33. Zambia has ended the prolonged transition period during which the Zambia Public Procurement Authority (ZPPA) retained its review and approval role while procurement regulations and standard solicitation documents were being finalized. This caused many procurement delays. The transition period ended in January 2013, and ZPPA now retains an oversight role only.
34. Procurement, mainly for services, will take place in accordance with IFAD's Project Procurement Guidelines. National procurement regulations will be applied to the extent that they are consistent with the IFAD Procurement Guidelines. The procurement plan and any changes must be approved by IFAD. Procurement requirements by subgrant recipients financed by the IOF will be covered in subgrant agreements. Recipients will be assessed for procurement capacity.

##### **Transparency, governance, anti-corruption**

35. In collaboration with IFAD and the Government of Zambia, a governance and anti-corruption framework will be developed in year one to mitigate the risk of corruption and ensure effective use of programme resources.

## **E. Supervision**

36. IFAD and the Ministry of Finance will jointly undertake biannual supervision missions with a focus on: (i) financial system development; (ii) financial management and procurement; (iii) programme set-up and implementation, planning, M&E and manuals. Key issues for the missions will include: (i) ability of partners to procure goods and services; (ii) M&E arrangements within the PCO, and with partners and grant recipients; (iii) procedures and systems causing implementation delays; (iv) procurement of technical assistance. A comprehensive midterm review will recommend any corrective steps.

## **IV. Programme costs, financing, benefits**

### **A. Programme costs**

37. Total investment and incremental recurrent costs, including physical and price contingencies, are estimated at US\$26.3 million. Taxes make up US\$2.6 million or 9.9 per cent of total programme costs. Total baseline costs are US\$25.1 million, while physical contingencies (3 per cent) and price contingencies (7 per cent per annum domestic inflation) account for US\$0.6 million each. The Zambian Kwacha/United States dollar exchange rate is expected to depreciate at 4 per cent per annum. Component 1 represents 42.1 per cent of costs, component 2, 34.4 per cent and component 3, 23.5 per cent.

### **B. Programme financing**

38. IFAD will finance 32 per cent of the programme costs (US\$8.4 million) under a loan on highly concessionary terms. The balance of the country's current performance-based allocation system (PBAS) allocation is expected to be used for a follow-up smallholder livestock investment programme to be submitted to the Executive Board for approval in 2014. The Spanish Trust Fund will contribute US\$12 million or 45.6 per cent of total costs in the form of another loan on highly concessionary terms to scale up ongoing operations. The Government will contribute 9.9 per cent of programme costs (US\$2.6 million), in respect of taxes. The grantees under component 2 will make contributions of between 10 per cent and 40 per cent of the cost. In addition, the participating institutions under component 1 will be required to cofinance programme-funded activities. The contribution by participating institutions is estimated as US\$3.3 million (12.5 per cent of total costs).

**Expenditure accounts by financiers**

(Thousands of United States dollars)

	GRZ		IFAD		Spanish Trust Fund		Participating Institutions		Total	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>I. Investment Costs</b>										
A. Vehicles, Equipments and M	328	38.1	297	34.5	236	27.4	-	-	861	3.3
B. Training, Workshops, Studies	658	15.8	2 724	65.4	696	16.7	85	2.1	4 164	15.8
<b>C. Technical Assistance</b>										
Local TA	362	15.3	482	20.4	1 309	55.5	206	8.7	2 359	9.0
International TA	745	15.9	-	-	3 097	66.0	847	18.1	4 690	17.8
<b>Subtotal Technical Assistance</b>	1 108	15.7	482	6.8	4 407	62.5	1 053	14.9	7 049	26.8
D. Innovation and Outreach Grant	-	-	4 200	46.4	2 690	29.7	2 160	23.9	9 050	34.4
<b>Total Investment Costs</b>	2 094	9.9	7 703	36.5	8 029	38.0	3 298	15.6	21 124	80.3
<b>II. Recurrent Costs</b>										
A. Recurrent Costs	519	10.0	713	13.7	3 959	76.3	-	-	5 191	19.7
<b>Total Recurrent Costs</b>	519	10.0	713	13.7	3 959	76.3	-	-	5 191	19.7
<b>Total Programme Costs</b>	2 613	9.9	8 416	32.0	11 988	45.6	3 298	12.5	26 315	100.0

**C. Summary benefit and economic analysis**

39. The number of beneficiaries is difficult to estimate given that programme funds will not flow directly to farmers or enterprises. Both the number and average amounts of grants are unknown at this stage. Based on the quantifiable benefit streams, it is estimated that some 140,000 households (including men, women and young people) will access financial services as a result of RUFEP interventions. Quantifiable benefits will include reduced transaction costs from improved financial services and increased agricultural productivity through accessing finance for inputs and marketing. There will also be a number of non-quantifiable benefits, including: (i) Improved financial sector outreach; (ii) Improved capacity to deliver demand-driven financial services; (iii) Advancing the agenda for financial sector deepening; (iv) Increased employment and contribution to a stable and robust financial sector. Farm models show favourable returns to labour input, and economic analysis indicates an economic internal rate of return of around 16 per cent.

**D. Sustainability**

40. Enhancing the profitability of rural finance operations will make them more sustainable. The programme will make CBFIs more sustainable by improving their support framework and reducing their costs, and by linking CBFIs with other support arrangements, such as extension and learning, financial services, production and marketing. Other measures, such as improving the capacity of DBZ as wholesale lender and refinancier will also make it more sustainable. New tier III regulations and collateral substitutes will make the financial sector and agricultural businesses more viable, improve sector transparency and integrity, and facilitate access to financial services. KM activities will improve public understanding of financial sector issues to advance financial inclusion, test innovative practices and improve quality of services to the rural poor. This will be supported by financial literacy and consumer protection activities.

**E. Risk identification and mitigation**

41. Both country and programme risks are considered moderate to low on the basis of IFAD's experience in Zambia in the financial services sector and the close engagement of stakeholders in programme design. The most significant risk areas include distortional interest rate regulations, hesitancy of the banks to accept

collateral substitutes, low uptake of IOF grants and political interference. These risks will be addressed and mitigated by continued policy dialogue between IFAD, the Government of Zambia and concerned stakeholders.

## **V. Corporate considerations**

### **A. Compliance with IFAD policies**

42. RUFEP's design is fully aligned with IFAD's strategic framework 2011-15, and IFAD policies on rural finance, gender equality and women's empowerment, targeting, rural enterprise, private sector strategy and knowledge management strategy. In particular, RUFEP complies with the guiding principles of IFAD Rural Finance Policy, which include: (i) supporting access to a variety of financial services; (ii) promoting a wide range of financial institutions, models and delivery channels; (iii) supporting demand-driven and innovative approaches with potential to expand the frontiers of rural finance; (iv) encouraging market-based approaches; (v) developing and supporting long-term strategies focusing on sustainability and outreach; (vi) participating in policy dialogues that promote an enabling environment for rural finance.
43. RUFEP's design builds on a thorough gender and poverty analysis, including the gender checklist in combination with other tools such as the gender action learning system (GALS). A gender and poverty responsiveness checklist has been developed to help determine whether an implementation or proposal is in fact poverty responsive. Poverty and gender mainstreaming aspects have also been included under component 2. Programme activities, implementation arrangements and the M&E system also comply with IFAD targeting policy.
44. The programme complies with IFAD's rural enterprise and private sector strategies through the provision of entrepreneur-oriented financial services in combination with institutional capacity-building, training for CBFIs and smallholder farmers, as well as farmer organizations in business ventures supported by the programme. The programme will also support private sector development through policy dialogue, investments and cofinancing partnerships.
45. KM is a core element of RUFEP and included at subcomponent level with structured approaches for capturing lessons learned, disseminating knowledge, and opportunities for enhancing partner approaches, interventions and activities. The programme will share lessons learned and emerging best practices with stakeholders and will establish close ties with KM initiatives of IFAD in Eastern and Southern Africa.

### **B. Alignment and harmonization**

46. RUFEP is fully aligned and harmonized with national development strategies and policies, related programmes and projects, and with the key elements of IFAD's country programme. The Sixth National Development Plan, 2011-15 identifies five key growth areas: agriculture, tourism, manufacturing, commerce/trade and mining. Rural development is high on the agenda, recognizing the need to reduce poverty levels. Stimulating agricultural productivity, promotion of agribusinesses and increased access to financial services in rural areas have been identified as priorities. Financial sector reform measures include improving market infrastructure, increasing competition and increasing access to finance.
47. The Rural Finance Policy and Strategy (RFPS) was prepared with support from RFP and has been approved by the Cabinet. Its guiding principles include encouraging market-based approaches, supporting access to a variety of financial services and promoting a wide range of financial organizations. It also supports demand-driven and innovative approaches of the private sector. The proposed creation of a rural finance unit (RFU) within the Ministry of Finance to implement this policy has been approved by the Cabinet. Other initiatives with potential for synergies include the second phase of the Financial Sector Development Plan (FSDP II). The FSDP II has

prepared a large number of new regulations and policies on financial systems development. GRZ has recently embarked on a rural industrialization strategy and sees the RFPS as a key element of the strategy.

48. Apart from IFAD, the key development partners in the rural, agriculture and finance sectors include: the World Bank, DFID, AfDB, World Food Programme, Food and Agriculture Organization of the United Nations, European Union, Japan International Cooperation Agency, United States Agency for International Development, Finland, Norway, Sweden and Germany. Efforts are being made to advance policy dialogue and harmonization with government systems through the Agricultural Cooperating Partners Group (AgCP). With the establishment in 2008 of an IFAD country office in Lusaka (fully staffed as of August 2013), IFAD has become an engaged and substantive member of the AgCP. IFAD is also a member of the United Nations Country Team.

### **C. Innovations and scaling up**

49. Innovation is an explicit part of RUFEP design through component 2 which will contribute to outcome 2, improved efficiency and sustainability of rural financial services. Three different innovation windows will be created. Window 1 will focus on innovations around CBFi linkages to formal financial institutions, window 2 on agency and mobile banking and window 3 on product development.
50. Scaling up will be built around the lessons learned from RFP which identified gaps, weaknesses and opportunities in rural financial sector development. RUFEP will build on these lessons by scaling up areas of success and refining less satisfactory aspects. The proposed RFU will also enhance KM and scaling up of innovations and oversee the implementation of the RFPS.

### **D. Policy engagement**

51. Under component 1, the programme will work with the Ministry of Finance and BoZ to review rural finance policies to minimize entry and operational constraints, leading to benefits for both suppliers and customers. The programme will support the creation of a RFU to coordinate rural finance policy formulation. The support will entail but not be limited to policy forums, studies, workshops and conferences, training, exposure visits and equipment. Areas of policy engagement may include: the interest rate cap; finalization and rolling out laws/regulations on agency and mobile banking; analysis of options for collateral substitutes; and support for scaling up financial education.

## **VI. Legal instruments and authority**

52. A financing agreement between the Republic of Zambia and IFAD will constitute the legal instrument for extending the proposed financing to the borrower. A copy of the negotiated financing agreement is attached as an annex.
53. The Republic of Zambia is empowered under its laws to receive financing from IFAD and from the Spanish Trust Fund, acting through IFAD in its capacity as trustee.
54. I am satisfied that the proposed financing will comply with the Agreement Establishing IFAD and the Policies and Criteria for IFAD Financing.

## **VII. Recommendation**

55. I recommend that the Executive Board approve the proposed financing in terms of the following resolution:

RESOLVED: that the Fund shall provide a loan on highly concessional terms to the Republic of Zambia in an amount equivalent to five million five hundred thousand special drawing rights (SDR 5,500,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

RESOLVED FURTHER: That the Spanish Food Security Cofinancing Facility Trust Fund, acting through IFAD in its capacity as the trustee, shall provide a loan on highly concessional terms to the Republic of Zambia in an amount equivalent to nine million euros (EUR 9,000,000), and upon such terms and conditions as shall be substantially in accordance with the terms and conditions presented herein.

Kanayo F. Nwanze  
President



## **Negotiated financing agreement: "Rural Finance Expansion Programme"**

(Negotiations concluded on 27 November 2013)

IFAD Loan Number: \_\_\_\_\_

Trust Loan Number: \_\_\_\_\_

Programme Title: Rural Finance Expansion Programme (the "Programme")

The Republic of Zambia (the "Borrower")

and

The International Fund for Agricultural Development (the "Fund" or "IFAD")

and

The Spanish Food Security Cofinancing Facility Trust Fund (the "Trust")

(each a "Party" and all of them collectively the "Parties")

WHEREAS the Executive Board of IFAD at its 100<sup>th</sup> Session approved the establishment of the Trust and further approved that the Trust, acting through IFAD in its capacity as the Trustee, enters into a Borrowing Agreement with the Kingdom of Spain;

WHEREAS the Kingdom of Spain and IFAD, in its capacity as the Trustee of the Trust, have signed the Borrowing Agreement on 28 December 2010;

WHEREAS IFAD has agreed to extend financing to the Borrower for the purpose of financing the Programme, on the terms and conditions set forth in this Agreement; and

WHEREAS, on the basis of the above and other considerations, the Trust has agreed to extend a Trust Loan to the Borrower for the purpose of increasing the financing in respect of the above referenced Programme, on the terms and conditions set forth in this Agreement.

NOW THEREFORE, the Parties hereto hereby agree as follows:

### **Section A**

1. The following documents collectively form this Agreement: this document, the Programme Description and Implementation Arrangements (Schedule 1), the Allocation Table (Schedule 2), and the Special Covenants (Schedule 3).

2. The Fund's General Conditions for Agricultural Development Financing dated 29 April 2009, as may be amended from time to time (the "General Conditions") are annexed to this Agreement, and all provisions thereof shall apply to this Agreement. For the purposes of this Agreement the terms defined in the General Conditions shall have the meanings set forth therein.

3. The Fund shall provide a Loan and the Trust shall provide a Trust Loan to the Borrower (collectively referred to as the "Financing"), which the Borrower shall use to

implement the Programme in accordance with the terms and conditions of this Agreement.

## **Section B**

1. A. The amount of the IFAD Loan is five million five hundred thousand Special Drawing Rights (SDR 5 500 000).  
B. The amount of the Trust Loan is nine million Euro (EUR 9 000 000).
2. The IFAD Loan and the Trust Loan are granted on highly concessional terms which, pursuant to section 5.01 (a) of the General Conditions shall be free of interest but bear a service charge of 0.75% per annum payable semi-annually in the Loan and Trust Loan Service Payment Currency, and have a maturity period of 40 years, including a grace period of 10 years starting from the date of approval of the Loan and of the Trust Loan by IFAD's Executive Board.
3. The Loan Service Payment Currency for the IFAD Loan and the Trust Loan shall be the USD.
4. The first day of the applicable Fiscal Year shall be the 1 January.
5. Payments of principal and service charge shall be payable on each 15 May and 15 November with payments of principal commencing on 15 May 2024.
6. There shall be one Designated Account opened in the Bank of Zambia, for receiving and holding respectively the IFAD Loan and the Trust Loan proceeds in USD.
7. There shall be a Programme Account in Zambian Kwacha for Programme operations in a commercial bank acceptable to the Fund.
8. The Borrower shall provide counterpart financing for the Programme in the amount of two million six hundred and thirteen thousand United States Dollars (USD 2 613 000) to cover all duties and taxes.
9. Each institution participating in the Programme shall provide a contribution thereto the amount of which is expected to total three million two hundred and ninety-six thousand United States Dollars (USD 3 296 000).

## **Section C**

1. The Lead Programme Agency shall be the Ministry of Finance (the "MoF").
2. The following are designated as additional Programme Parties: The Bank of Zambia (the "BoZ") and the Ministry of Agriculture and Livestock (the "MAL").
3. The Programme Completion Date shall be the eighth anniversary of the date of entry into force of this Agreement.

## **Section D**

The Financing shall be administered and the Programme shall be supervised by the Fund.

## Section E

1. The following are designated as additional general conditions precedent to withdrawal:

- (a) the Designated Account and the Programme Account shall have been duly opened;
- (b) the Programme Steering Committee (the "PSC"), headed by the Permanent Secretary of the MoF, shall have been duly established and adequately staffed;
- (c) the Programme Coordinating Office (the "PCO"), headed by the Programme Coordinator, shall have been duly established and adequately staffed;
- (d) the Memorandum of Understanding (the "MoU") referred to in paragraph 10, Section II Schedule 1 hereto between the MoF and the BoZ shall have been duly executed;
- (e) the Programme Implementation Manual (the "PIM") referred to in paragraph 13, Section II Schedule 1 hereto shall have been submitted to and approved by the Fund; and
- (f) a standard separate financial management software acceptable to the Fund shall have been installed and become operational.

4. The following are the designated representatives and addresses to be used for any communication related to this Agreement:

For the Borrower:

The Secretary to the Treasury  
Ministry of Finance  
Chimanga Road  
P.O. Box 50062  
Lusaka, Zambia

For the Fund:

Kanayo F. Nwanze  
President  
International Fund for Agricultural Development  
Via Paolo di Dono 44  
00142 Rome, Italy

For the Spanish Food Security  
Co-financing Facility Trust Fund

President of the International Fund  
for Agricultural Development in its capacity as Trustee  
of the Spanish Food Security Co-financing Facility  
Trust Fund  
Via Paolo di Dono 44  
00142 Rome, Italy



This agreement, dated \_\_\_\_\_ has been prepared in the English language in six (6) original copies, three (3) for the Fund and three (3) for the Borrower.

REPUBLIC OF ZAMBIA

\_\_\_\_\_  
[Authorized Representative]

INTERNATIONAL FUND FOR  
AGRICULTURAL DEVELOPMENT

\_\_\_\_\_  
Kanayo F. Nwanze  
President

SPANISH FOOD SECURITY  
CO-FINANCING FACILITY TRUST FUND

\_\_\_\_\_  
Kanayo F. Nwanze  
President of the International Fund  
for Agricultural Development in its capacity as Trustee  
of the Spanish Food Security Co-financing Facility  
Trust Fund

## Schedule 1

### *Programme Description and Implementation Arrangements*

#### **I. Programme Description**

1. *Target Population.* The Programme shall be national in scope with the geographical areas covered depending on the outreach of the different financial institutions and service providers that will be partnering with the Programme (the "Programme Area"). The main and ultimate target group is the rural poor, in particular the economically active micro and small entrepreneurs and smallholder farmers, especially women and the youth. The Programme shall benefit up to 140,000 households (inclusive of women and youth) in rural areas within the Programme Area.

2. *Goal.* The goal of the Programme is to improve livelihoods of the rural poor through sustainable economic growth.

3. *Objective.* The objective of the Programme is to increase access to, and use of, sustainable financial services by poor rural men, women and youth.

4. *Components.* The Programme shall consist of the following Components:

(a) **Component 1: Strategic Partnerships**

The objective of this Component is to strengthen partner institutions' capacity to facilitate and/or deliver innovative demand-driven financial services to rural communities. Institutional strengthening shall be carried out at the macro, meso and micro levels to include a range of entities that have a significant role in promoting an enabling environment and delivering rural financial services. The support shall be targeted at all three levels, building on the foundations laid and lessons learned under other projects/programmes within the country.

(b) **Component 2: Innovation and Outreach Facility (the "IOF")**

The outcome of this Component is improved efficiency and sustainability of rural financial services. This component aims at increasing the number and value of financial transactions involving the Target Population. Under this component, three matching grant windows shall be proposed, under which selective and well-defined pro-poor interventions can be supported: (i) Community-Based Financial Institution (the "CBFI") Linkage Window; (ii) Agency and Mobile Banking Window; and (iii) Rural Finance Equity and Innovation. Flexibility shall be built under this component to allow institutions with interesting innovative proposals to qualify for spot-support under defined criteria. In a similar manner, ideas that are no longer relevant shall be phased out.

(c) **Component 3: Knowledge Management and Programme Implementation**

This Component comprises two sub-components: Knowledge Management and Technical Support ("KM&T") and Programme Implementation ("PI"). KM&T comprises a range of diverse activities geared towards increasing public and sectorial knowledge and understanding of technical matters related to rural and agricultural finance. PI comprises support services and activities conducted by the PCO to facilitate access to financial services for the rural poor.

## II. Implementation Arrangements

5. *Lead Programme Agency.* In its capacity as the Lead Programme Agency, the MoF shall have overall responsibility for Programme implementation.

6. *Programme Coordinating Office.* The PCO shall be established within the MoF with responsibility for the daily management and coordination of all Programme components and activities. The PCO shall be headed by a Programme Coordinator who shall supervise and guide the administrative and technical teams. The PCO shall include the following positions: Programme Coordinator, Financial Controller, Procurement Specialist, Monitoring and Evaluation (M&E) Specialist, Knowledge Management Specialist, no less than two Technical/Rural Finance Officers and other staff as appropriate. The staff shall be recruited following a competitive and transparent process and their contracts shall include clear performance targets.

7. *Programme Steering Committee.* A PSC with relevant representation at national level shall provide oversight, policy direction and coordination between key government institutions. The PSC shall be headed by the Permanent Secretary from the MoF, with representatives from MoF, BoZ and MAL as members. The Programme Coordinator shall serve as secretary to the PSC without voting rights.

8. *Programme Vetting Committee (the "PVC").* A PVC shall be established and composed of eight (8) members, including (i) one representative from the BOZ; (ii) one representative from MoF; (iii) one representative of the board of directors of the Bankers Association of Zambia; (iv) one representative of the board of directors of the Association of Microfinance Institutions of Zambia (the "AMIZ"); (v) one representative from the Zambia National Farmers Union; and (vi) three private sector representatives recruited through a tender process, with the Programme Coordinator serving as convenor and secretary, and a representative from the Department for International Development (DfID)-supported Financial Sector Deepening Programme of Zambia as observer. The PVC shall review and approve grant applications for all windows of the IOF based on criteria specified in the PIM. The PVC shall maintain the confidentiality of the grant applications, of the supporting documentation therefor and of the underlying process.

9. *Performance-based Grant Agreements.* The Lead Programme Agency shall enter into a performance-based grant agreement with each grant recipient financed by the IOF facility, as approved by the PVC. Each such agreement shall clearly specify the scope and definition of the work to be undertaken, expected targets, estimated budget for specific activities, as well as clearly defined target indicators. Each agreement shall be prepared and monitored closely by the PCO. The grant agreement shall be submitted to the Fund for its prior approval, and may not be modified without the prior consent of the Fund.

10. *Memorandum of Understanding.* The MoF shall enter into a MoU with each of the BoZ and the Development Bank of Zambia (DBZ) for the implementation of the activities under the Programme assigned thereto. Each such MoU shall clearly specify the scope of the work to be undertaken, expected targets, estimated budget for specific activities, as well as clearly defined target indicators. Each MoU shall be monitored by the PCO and renewed annually based on satisfactory performance. Each MoU shall: (i) be submitted to the Fund for its prior approval; and (ii) specify that the BoZ and the DBZ shall maintain a register of assets acquired with the proceeds of the Financing and that at completion of the Programme implementation, such assets will be transferred to the recipients. Each MoU may not be modified without the prior consent of the Fund.

11. *Subsidiary Agreements.* The Lead Programme Agency shall enter into an agreement/contract for services with each Service Provider for the implementation of the

Programme activities assigned thereto, including, among others, the AMIZ and the SaveNet. Each agreement/contract for services with Service Provider(s) shall clearly indicate the scope of the work to be undertaken, expected deliverables, estimated budget for specific activities, as well as clearly defined performance evaluation criteria. These agreements shall be monitored closely by the PCO and renewed annually based on satisfactory performance. Each agreement with a Service Provider shall: (i) specify that the Service Provider shall maintain a register of assets (e.g. goods and equipment) acquired with the proceeds of the Financing and that at completion of the Programme implementation, such assets will be transferred to the Borrower; and (ii) be submitted to the Fund for its prior approval. Each agreement with a Service Provider may not be modified without the prior consent of the Fund.

12. **Mid-Term Review (the "MTR").** A comprehensive MTR shall be conducted midway through the Programme implementation. The MTR shall consider the achievement of Programme objectives and the constraints thereon and make recommendations in the best interests of the Programme.

13. *Programme Implementation Manual.* The MoF shall prepare a draft PIM acceptable to the Fund and submit same for approval to the PSC. When so approved, a copy of the PIM shall be provided by the Lead Programme Agency to the Fund for endorsement. The PIM may be amended or otherwise modified from time to time only with the prior consent of the Fund. The PIM shall provide a detailed description of the respective partnership arrangements, windows, criteria and procedures for grant application processing and administration, and shall include a model grant agreement and other relevant instruments necessary for Programme implementation.

14. *Implementation of Programme Components.*

#### 14.1. **Component 1 - Strategic Partnership**

At the macro level, the Lead Programme Agency shall cooperate with BoZ to develop and review rural finance policies that are geared towards minimizing entry and operational constraints. In addition, the Programme shall support the creation of a Rural Finance Unit (the "RFU") in order to consolidate and strengthen rural finance sector coordination. At the meso level, the Programme shall support the AMIZ to position itself as a main provider of capacity building to its members and others within the sector. Also, the Programme shall support DBZ to enhance the capacity of its staff in appraising microfinance institutions. Lastly, at the meso level, the Programme shall support the establishment of the SaveNet as an Apex organisation for CBFIs promoters. This Apex organisation shall facilitate scaling up of a standardized CBFIs model, in addition to undertaking market research on how to improve and streamline systems. At the micro level, the Programme shall support capacity building of Financial Service Providers ("FSPs") through the AMIZ.

#### 14.2. **Component 2 Innovation and Outreach Facility**

The PCO shall seek the approval of the PSC and the no-objection of IFAD to make the necessary changes to the matching grant windows and to develop the eligibility and operating criteria. The PCO shall closely collaborate with partners involved in value chain development. To ensure orderly support to target groups, sequencing of activities shall ensure that the necessary capacity building of individuals and institutions, and standardisation of practices is done in consultation with potential financiers.

#### 14.3. **Component 3 Knowledge Management and Programme Implementation**



Under this Component, in addition to the Programme implementation arrangements, contributions shall be made to the generation and dissemination of knowledge about innovations and new approaches for uptake by stakeholders and the general public. In this regard, the Programme shall recruit a Knowledge Management Specialist who will be located in the RFU. It will also identify and promote key areas needing additional technical expertise so as to advance the case for the rural poor through agricultural and rural finance initiatives. An international technical advisor shall be recruited for this purpose to effectively support national players. All Technical Assistance (the "TA") shall be procured on a need basis following the IFAD Project Procurement Guidelines. Performance of TA shall be assessed against contract-specified deliverables.

## Schedule 2

### Allocation Table

1. *Allocation of IFAD Loan and Trust Loan Proceeds.* (a) The Table below sets forth the Categories of Eligible Expenditures to be financed by the IFAD Loan and Trust Loan and the allocation of the amounts of the IFAD Loan and of the Trust Loan to each Category and the percentages of expenditures for items to be financed in each Category:

<b>Category</b>	<b>IFAD Loan Amount (in SDR '000)</b>	<b>Spanish Trust Loan Amount (in EURO '000)</b>	<b>Percentage of Eligible Expenditures (net of taxes and contributions by beneficiaries and participating institutions)</b>
I. Equipments and Materials	180	160	100%
II. Training	1 320	470	100%
III. Consultancies	560	3 000	100%
IV. Grants	2 470	1 800	100%
V. Operating Expenses	420	2 670	100%
Unallocated	550	900	
<b>TOTAL</b>	<b>5 500</b>	<b>9 000</b>	

(b) The terms used in the Table above are defined as follows:

Category I "Equipments and Materials" includes Eligible Expenditures for Vehicles;

Category II "Training" includes Eligible Expenditures for Workshops;

Category III "Consultancies" includes Eligible Expenditures for Technical Assistance and Studies;

Category IV "Grants" includes Eligible Expenditures for CBFi Linkage, Agency/Mobile Banking and Rural Equity Innovations Grants;

Category V "Operating Expenses" includes Eligible Expenditures for remuneration and allowances of PCO staff and allowances only for RFU staff.

2. *Start-up Costs.* Withdrawals in respect of expenditures for start-up costs in all Categories before the satisfaction of the general conditions precedent to withdrawal shall not exceed an aggregate amount of three hundred thousand United States dollars (USD 300 000).

### Schedule 3

#### *Special Covenants*

In accordance with Section 12.01(a)(xxiii) of the General Conditions, the Fund may suspend, in whole or in part, the right of the Borrower to request withdrawals from the IFAD Loan Account and of the Trust Loan Account if the Borrower has defaulted in the performance of any covenant set forth below, and the Fund has determined that such default has had, or is likely to have, a material adverse effect on the Programme.

1. *Gender.* The Borrower shall ensure that gender concerns shall be mainstreamed in all Programme activities throughout the Programme Implementation Period. The Borrower shall also ensure that women beneficiaries shall be represented in all Programme activities and that they receive appropriate benefits from the Programme outputs.

2. *Tax Exemption.* The Borrower shall, to the fullest extent possible, exempt the proceeds of the IFAD Loan and the Trust Loan from all taxes. Any taxes which the Programme is nonetheless obliged to pay shall be promptly reimbursed by the Borrower.

3. *Selection of Partners.* The Borrower shall ensure that partnerships under Component 1 shall undergo rigorous pre-assessment, including due diligence and analysis of the needs and most effective means of addressing such needs. An initial scoping survey shall be conducted by two experts engaged to oversee the Programme implementation. The FSP applicants shall be assessed by the PCO in conformity with the criteria set forth in the PIM.

4. *Financial Statements of Service Providers.* The Borrower shall ensure that the agreement/contract of services of each Service Provider shall specify that the Service Providers will make available to the Borrower, through the PCO, the statements of sources and uses of funds related to Programme activities under their respective responsibility in respect of each Fiscal Year within two (2) months of the end of each Fiscal Year. The PCO shall attach such statements of sources and uses of funds to its own financial statements for subsequent submission to the Fund.

5. *Audit of Service Providers.* The Borrower shall ensure that each agreement/contract of services of each Service Provider referred to in Schedule 1, Section II, paragraph 11 shall specify that the Service Providers will appoint an external independent auditor to audit their financial statements relating to the Programme. These audit reports shall be submitted to the Borrower, through the PCO, within five (5) months after the end of each Fiscal Year for subsequent submission to the Fund.

6. *National and International Technical Advisors.* The Borrower shall ensure that both a national and an international technical advisor shall be recruited following a transparent competitive process respectively within six (6) and nine (9) months of fulfilment of the general conditions precedent to withdrawal specified in Section E 1 hereto.

# Logical framework

Results Hierarchy	Objectively Verifiable Indicators (OVIs)	Means of Verification (MOV)	Assumptions/Risk
<b>Overall Goal</b>			
Improved livelihoods of the rural poor through sustainable economic growth	<ul style="list-style-type: none"> <li>At least 30,000 rural households with improved food security.</li> <li>5% reduction in the prevalence of child malnutrition from the 2010 baseline</li> </ul>	<ul style="list-style-type: none"> <li>Demographic and Health, Income and food security surveys</li> </ul>	<ul style="list-style-type: none"> <li>Stable political and economic environment</li> </ul>
<b>Development Objective</b>			
Increased access to and use of sustainable financial services by poor rural men, women and youth	<ul style="list-style-type: none"> <li>15% of rural households with improvement in access to sustainable financial services</li> <li>5% reduction in the prevalence of child malnutrition from the 2010 baseline</li> </ul>	<ul style="list-style-type: none"> <li>Finscope Surveys</li> <li>Baseline and Impact assessment</li> <li>Health surveys by ZNBS.</li> </ul>	<ul style="list-style-type: none"> <li>Absence of economic shocks</li> <li>No policy interference by GRZ</li> </ul>
<b>Component 1: Strategic Partnerships</b>			
Outcome 1: Enhanced capacity of Financial Service Providers (FSPs) to deliver demand-driven services in rural areas	<ul style="list-style-type: none"> <li>FSPs have improved profitability at or above operational self-sufficiency levels</li> <li>FSPs have attained/improved some or all of the following indicators; (1) Increase in number of rural outlets/clients; (2) reduced cost of money lent; (3) higher rural portfolio volume; and/or (4) Increased choice of products/services offered</li> <li>FSPs have improved portfolio at risk to 5% or below; operational self-sufficiency &gt; 100%; operating expenses ratio to 25%</li> <li>The non-performing loan ratio for agricultural purposes has remained within the average for all sectors in at least five of Programme years</li> </ul>	<ul style="list-style-type: none"> <li>Annual Audited Financial statements of PFSPs</li> <li>MIX Market and MIX Gold</li> <li>Mid-Term and End of Project Evaluation Reports</li> <li>KM and M&amp;E reports</li> </ul>	<ul style="list-style-type: none"> <li>Stable political and economic environment</li> <li>Reduced negative impact of HIV/AIDs and poor health status of poor households</li> </ul>
Output 1: A new framework for regulation and supervision of agency banking/ mobile banking is introduced and rolled out	<ul style="list-style-type: none"> <li>At least five Banks/FSPs are operating rural agent networks with at least 30 agency outlets</li> <li>At least 100,000 new accounts opened at new rural branches/agents and 200,000 rural/urban people registered and using money transfer services</li> </ul>	<ul style="list-style-type: none"> <li>BoZ reports</li> <li>RUFEP M&amp;E records</li> </ul>	<ul style="list-style-type: none"> <li>BoZ willing to implement the innovative regulations</li> <li>GRZ committed to financial inclusion in the rural areas</li> </ul>
Output 2: Licensed and deposit-taking MFIs have access to a line of credit from DBZ for investments in the agricultural sector	<ul style="list-style-type: none"> <li>Operating manuals for the refinance facility approved by DBZ</li> <li>At least 8 commercial banks and MFIs access line of credit</li> <li>FSPs accessing line of credit increase their agriculture portfolio by at least 10%.</li> <li>DBZ will disburse to FSPs a minimum US\$ 6 million</li> </ul>	<ul style="list-style-type: none"> <li>PFSP reports</li> <li>DBZ annual financial statements and reports</li> <li>RUFEP M&amp;E records</li> </ul>	<ul style="list-style-type: none"> <li>DBZ willing to continue line of credit</li> <li>GRZ willing to leave funds from RFP with DBZ</li> </ul>
Output 3: New CBFIs have been created and existing ones strengthened and operate sustainably - being monitored by SaveNet	<ul style="list-style-type: none"> <li>1,500 new CBFIs formed and at least 1,000 existing ones strengthened</li> <li>At least 80% of new/strengthened CBFIs continue to operate strongly three years after creation retaining 60% of original membership</li> <li>CBFIs use of an increasing number of financial products and services</li> <li>40% of CBFIs members using credit versus non-credit products and services</li> </ul>	<ul style="list-style-type: none"> <li>SaveNet Records and Reports</li> <li>Records of grant recipients</li> <li>RUFEP M&amp;E records</li> </ul>	<ul style="list-style-type: none"> <li>Sufficient capacity of the network of CBFIs promoters</li> <li>SaveNet is formed</li> </ul>
Output 4: Institutional frameworks are strengthened at meso level to support the	<ul style="list-style-type: none"> <li>Rural Finance Unit (RFU) created in MoF</li> <li>RFU holds coordination meetings at least twice a year</li> </ul>	<ul style="list-style-type: none"> <li>RUFEP KM &amp; Mission Reports</li> <li>GRZ Budget</li> </ul>	<ul style="list-style-type: none"> <li>GRZ is willing and committed to rural finance inclusion and enabling</li> </ul>

Results Hierarchy	Objectively Verifiable Indicators (OVIs)	Means of Verification (MOV)	Assumptions/Risk
FSPs to deliver services to rural areas	<ul style="list-style-type: none"> <li>A strong microfinance association established</li> <li>Microfinance association/SaveNet organizing best practices courses</li> <li>SaveNet created and facilitating coordination of CBFi industry development</li> </ul>	<ul style="list-style-type: none"> <li>AMIZ records, SaveNet records</li> </ul>	environment
Output 5: Staff of FSPs, Apex institutions and other relevant institutions have received training and technical assistance on agricultural and rural finance	<ul style="list-style-type: none"> <li>At least 2,000 participants attend courses on agricultural and rural finance</li> <li>60% of post-course monitoring show satisfactory results in acquisition of skills and satisfaction levels</li> </ul>	<ul style="list-style-type: none"> <li>AMIZ, SaveNet, BAZ and PFSPs records on participants and topics</li> <li>KM Reports</li> <li>post-training assessment reports</li> </ul>	
<b>Component 2: Innovation and Outreach Facility (IOF)</b>			
Outcome 2: Improved efficiency and sustainability of rural financial services	<ul style="list-style-type: none"> <li>At least 49,000 households access mobile financial services</li> <li>Transactions performed by FSPs increase by 20%</li> <li>At least five FSP have introduced five new products to serve rural areas/farmers</li> <li>New product use increased by at least 140,000 households (50% of which will be women- or youth-headed households)</li> </ul>	<ul style="list-style-type: none"> <li>Mid-Term and End of Project Evaluation Reports</li> <li>BoZ annual reports</li> <li>Periodic FinAccess surveys</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders are responsive to financial and technological innovations</li> </ul>
Output 1: New and sustainable financial services and products targeted at rural clients tested and scaled up	<ul style="list-style-type: none"> <li>At least 5 of new financial products and two delivery models tested and rolled out</li> <li>At least 140,000 households using new financial products</li> <li>Percentage of the unbanked rural and urban MSME is reduced by at least 10%</li> <li>At least 20% increase in the volume of transactions generated in rural areas</li> </ul>	<ul style="list-style-type: none"> <li>Records of grant recipients</li> <li>RUFEP M&amp;E records</li> <li>Finscope survey records</li> </ul>	<ul style="list-style-type: none"> <li>The demand for innovative financial products is sustained</li> </ul>
Output 2: IOF effectively operated to test innovative financial products and delivery mechanisms for the agriculture and rural areas	<ul style="list-style-type: none"> <li>At least 1,500 mobile and bank agents registered and operating successfully</li> <li>72 IOF grants approved and at least 60% successfully completed</li> <li>At least 10% matching contribution for window 1 and 3 and 50% for window 2</li> <li>At least 20% CBFIs linked to formal FSPs</li> </ul>	<ul style="list-style-type: none"> <li>IOF participating institution records</li> <li>RUFEP M&amp;E and progress reports</li> <li>Agreements and MOUs signed for linkage</li> <li>Approved credit lines and savings accounts</li> </ul>	<ul style="list-style-type: none"> <li>technological innovations exist</li> </ul>
<b>Component 3: Knowledge Management &amp; Programme Implementation.</b>			
Output 1: Effective dissemination of information to stakeholders and effective management of Programme Implementation	<ul style="list-style-type: none"> <li>At least one annual multi-stakeholder workshop to share RUFEP experiences</li> <li>Specific events for at least 2,000 stakeholders (workshops, publications, e-mails, conferences, websites, etc.)</li> <li>PCO using data collection and analysis tools such as PULSE</li> <li>PCO collects, analyses and disseminates relevant information to stakeholders</li> <li>PCO prepares accurate quarterly and annual reports on time</li> <li>RUFEP website created and updated at least three times per year</li> </ul>	<ul style="list-style-type: none"> <li>RUFEP records</li> <li>Annual, Mid-term and Project Completion Reports</li> </ul>	<ul style="list-style-type: none"> <li>Stakeholders buy into RUFEP's KM supported activities</li> </ul>