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Sida Decentralised Evaluation

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Evaluation of the Sida-USAID/DCA Guarantee to Zanaco

Final Report

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**Final Report
May 2018**

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The views and interpretations expressed in this report are the authors' and do not necessarily reflect those of the Swedish International Development Cooperation Agency, Sida.

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Abbreviations and Acronyms

CMS	Credit Monitoring System (as maintained by DCA)
DCA	Development Credit Authority of USAID
FGD	Focus Group Discussion
FISP	Farmer Input Support Programme
FRA	Food Reserve Agency
GRZ	Government of the Republic of Zambia
Kw	Zambian Kwacha (unit of currency)
MFI	Micro Finance Institutions
NPLs	Non-Performing Loans
PROFIT+	Production, Finance and Improved Technologies Project (USAID funded)
Sida	Swedish International Development Cooperation Agency
SME	Small and Medium Enterprises
ToC	Theory of Change
Zanaco	Zambia National Commercial Bank
ZNFU	Zambia National Farmers Union

Preface

This evaluation was contracted by the Swedish International Development Cooperation Agency (Sida) through the Framework Agreement for Evaluation Services, and conducted by FCG Sweden in association with Tana, Nordic Consulting Group, Sthlm Policy Group and Itad.

The Evaluation Team consisted of the Team Leader Sarah Gray, working with Emma Sitambuli & Jens Albråten. The report was quality assured by Derek Poate and the Project Manager was Christian Carlbaum at FCG Sweden.

Executive Summary

Introduction

The subject of this evaluation is the Portfolio Loan Guarantee provided to The Zambian National Commercial Bank (Zanaco) by USAID and Sida jointly. This evaluation assesses the performance of the guarantee during the period 2013-2017. The aim of the guarantee was to open up access to finance for small and medium scale farmers that would not otherwise have access to credit.

The overarching objective as stated by Sida in the Terms of Reference (see Annex 5) and modified in the Inception Report is to determine to what extent this guarantee has contributed to:

- Changes in the bank's loan appraisal methodology, assessment of risk, capacity to interact effectively with rural clients, etc. Thereby, better enabling the bank to provide loans to people that are not its traditional customers.
- Systemic change in the financial market as it pertains to the banking sector's risk assessment of agricultural lending, including lending to female farmers and to more remote geographic areas.

In Zambia's financial sector banks are the dominant players accounting for more than 69% of total financial sector assets, as compared to 10% for Microfinance Institutions (MFIs).

Donor-backed loan guarantees can be an effective instrument when intermediaries are reluctant to lend to clients due to their perceived high risk. Also, rural inhabitants, and particularly smallholder farmers, often lack collateral such that lending is only available for large commercial farms and well established SMEs. When available, loan terms are often too short to accommodate the annual agriculture cycle. Guarantees can target specific classes of risk and hence make banks willing to issue loans they otherwise would be unwilling to consider. This means that the guarantee can serve as a substitute for collateral, allowing first-time borrowers and people otherwise excluded to get financial access. Guarantees act as a form of insurance to help a borrower obtain financing on better terms than would be possible without the guarantee.

The aim of the Sida/USAID loan portfolio guarantee is to increase the bank's ability to offer loans to promote private sector participation leading to better food security,

more productive jobs in rural areas and economic growth. The overall development target in terms of outcome is to increase lending by over \$9 million to small and medium-sized self-governing enterprises in agricultural based value chains. Borrowers were to be identified along broad private agriculture value chains, including inputs and production, capital investment, aggregation, storage, processing, handling and transportation. To ensure equitable gender distribution of the guarantee's benefits, at least 20% of the guaranteed loans were to be made to women or women owned enterprises. The total guarantee amount is jointly underwritten by Sida and USAID, who provide risk coverage of 30% and 20%, respectively. The remaining 50% risk is covered by Zanaco Bank. At least 20% of all qualifying loans were intended to be for projects in the Eastern Province of Zambia.

In addition to mobilizing finance for enterprises, partial guarantees can demonstrate to local banks that loans to underserved sectors can be profitable. This should foster self-sustaining financing, as lenders start to lend on a continuous basis without the support of donor-backed guarantees. These guarantees are often coupled with training and professional assistance from the donor to strengthen a financial institution's long-term involvement in local credit markets and to enable them to better assess risk levels on the individual loan applications that they receive. Training of borrowers, who are not accustomed to working with the financial sector is also important to ensure that they have sufficient financial literacy to fully understand the obligation they are taking on. Training of farmers in improved agronomy and climate resilience, so that they reduce their risk profile, is also often linked with programmes to enhance their access to finance.

A Portfolio Guarantee implies that rather than the guarantor reviewing every loan before it is put under the guarantee, the lender places all loans from its target portfolio under the guarantee and individual loans are mainly reviewed at regular monitoring meetings to confirm that they qualify, or if a claim is made.

Methodology for the Evaluation

The evaluation adopted the widely recognised and tested (OECD/DAC) quality standards and criteria. As such, the evaluation was planned and implemented in a transparent and participatory manner respecting stakeholders' views while ensuring the independence of the evaluation consultants. The evaluation applied the DAC criteria for evaluating development assistance: relevance, efficiency, effectiveness, impact and sustainability. The team conducted a qualitative approach using various methods for collecting data and information: document review, interviews, focus groups discussion (FGDs) and observations.

During field visits (in the Copperbelt, Lusaka and Eastern Province) FGDs were conducted with: the elected representatives of Dairy Cooperatives, Dairy Association of Zambia (DAZ) and District Farmer Associations (DFAs) and ordinary members belonging to Information Centres (ICs). Other meetings were conducted with staff employed by the DFAs, some remaining Zambia National Farmers' Union (ZNFU) employees and one loan officer working for Zanaco bank in Kabwe District. These meetings used semi-structured interviews techniques and were with individuals or up to 2 representatives. The interviews comprised open-ended questions with room for follow-up in accordance with the answers provided. Interview guides (Annex 1) were developed in order to facilitate overview, comparison and quality assurance. The interviews aimed to answer those evaluation questions relevant to the particular interviewee's involvement in the programme.

In Lusaka meetings were held with the HQ staff at Zanaco Bank responsible for lending under this guarantee, USAID Zambia's staff from the Agricultural and Economic Growth Team and staff at the Swedish embassy. Meetings were conducted with some organisations working in the microfinance sector, being: MLife, FSD project and Musika, an NGO, all of which are donor supported and have involvement in micro-finance targeting the poorest and small scale entrepreneurs. Skype interviews were conducted with Sida HQ and with staff working for DCA in Washington.

Major Findings

There is limited evidence from this study that this guarantee has significantly altered this Bank's behaviour or the banking sector's risk assessment regarding agricultural lending.

This guarantee programme has provided Zanaco with an entry into the Emergent Farmer sector which they will have learnt from. Also, several DFA's referred to the fact that having previously accessed finance through Zanaco Bank, which at the time of this study was no longer available to them, that they now felt confident to approach input suppliers directly to request credit. Some limited success was achieved with a small number of the best performing borrowers of 'Lima' Loans obtaining inputs with 70% deposit paid in advance and the remainder paid post-harvest.

However, banking institutions like Zanaco need to assess whether they have the infrastructure to support smallholder farmers. Given the complex requirements of lending to the smallholder sector it is questionable whether a large commercial bank can develop the levels of client interface and transparency required to ensure that such lending is transparent and fair. Other financial institutions which are focused on lending to the micro-finance sector are likely to be much better placed to reach out to

smallholders, but there is little evidence that they currently have the geographic outreach to effectively service this market.

Banking institutions have had long exposure to the high levels of risks from lending to the agricultural sector and have learnt to rely a great deal on the availability of strong collateral along with the individual borrower's credit history. This Portfolio Loan Guarantee did not provide any other training or technical support to any of the stakeholders and was not offered to any other financial institution, so there is little to suggest that it will have altered the bank's strategic behaviour.

Given that the smallholder's lending relied on one intermediary, ZNFU, there was very high counterparty risk¹ for the guarantee programme (and the stakeholders). The risk was triggered when the organization (ZNFU) started to unravel due to internal maladministration largely unconnected to this evaluation. This counterparty risk was increased significantly as the MoU between ZNFU and Zanaco apparently stipulated that there should be no direct contact between the bank and the target group. Thus, ZNFU was given a free hand to handle cash flows and information flows regarding the loans. The fact that Sida/USAID partnered with just one bank and the bank in turn relayed on one intermediary added to the counterparty risk.

Due to lack of documentation it is not possible to evaluate how effective Zanaco's terms on the guaranteed loans were for the borrowers, for instance, concerning the interest rate margin. However the experience from Ethiopia², is that bringing in more than one bank on a guarantee programme promotes competition and efficiency in favour of the target group. DCA's Evaluation Report from May 2016 (Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia) is a useful reference in this respect and can be downloaded [here](#).

There is a significant lack of structured monitoring and follow up mechanisms linked to the cooperation between Zanaco, ZNFU and DFAs and thus a significant lack of transparency. The lending process involved several actors Zanaco, ZNFU, DFA's which increases the demand for proper and structured control mechanisms. The lack

¹ Counterparty risk is the risk to each party of a contract: that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract.

² Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia USAID/DCA Ethiopia. May 2016.

of transparency and competition in the process increases the risk for efficiency losses for example additional fees added in the loan process.

There was a lack of TA linked to the guarantee programme. The lack of financial literacy among borrowers puts high demands on TA and education directed at the target group. For example, a minimum requirement should be that the borrower properly understands the potential cost of their loans.

Recommendations and Lessons Learnt

It is very challenging for a large commercial bank to develop the right operational structure to be able to ensure that a lending programme targeting many thousands of smallholders can really be monitored adequately. There is a danger in using an intermediary agent if they do not have the resources to monitor their agent's activities closely. The micro-finance sector could be encouraged by donors to do more to support smallholders. They may be more likely to be able to set up procedures that are transparent and have greater safeguarding measures. They should be much closer to the ground in the way they operate. Alternatively, working more on warehouse receipt systems to enable farmers to access credit for the following season, without resorting to selling immediately post-harvest when prices will be low, might be further pursued. But there are no easy answers to this issue.

Efforts should be made to diversify distribution through engaging more distribution channels to the target group in order to reduce the counterpart risk. Also, to achieve greater efficiency gains in loan management vis-à-vis the borrowers. The donors should strive to engage more than one bank in the guarantee programme as this may foster a competitive behavior among participating banks and thus promote more sustainable development in the financial sector.

In the preparatory work for setting up a guarantee programme it is vital that all stakeholders fully agree about the objectives of the programme. Furthermore, it is of great importance to implement a well-structured monitoring and follow-up system. Not least when, as in the present case with DFAs there are several crucial links in the process chain and a significant counterparty risk.

Lessons learnt:

The objective and target indicators are stated in the cooperation agreement between Zanaco, USAID and Sida. However, the evaluator's assessment is that there are differences concerning the target indicators in the programme and that the two donors have different objectives. The target for DCA is the degree of utilization of the programme, whereas Sida expected that the utilization also focused on the targets

regarding gender and geographic location. This resulted, among other things, in significant loss of effectiveness from the donor's perspective. In the preparatory work for setting up a guarantee programme it is vital that all stakeholders fully agree the objectives of the programme.

Furthermore, it is of great importance to implement a well-structured monitoring and follow-up system. Not least when, as in the case of DFAs, there are several crucial links in the delivery chain and a significant counterparty risk. There needs to be an element of direct communication between the bank and the borrower to ensure that the actual borrower fully understands the terms and conditions. In addition to better transparency, there is greater opportunity to ensure that borrowers do not incur charges that they were unaware of. Such an arrangement can also promote the transfer of knowledge regarding access to finance.

Efforts should be made to diversify distribution through offering more distribution channels to the target group in order to reduce the counterparty risk. In the longer term this can also achieve greater efficiency gains in loan management vis-à-vis the borrowers, as best practices will emerge.

Competition between lenders needs to be encouraged and if successful this should remove the possibility that a lender is offering terms and conditions which are unfair or excessively in the lender's favour. This can also promote more sustainable development in the financial sector.

Smallholders, due to their high level of vulnerability are very risk adverse. If they are to be encouraged to enter into lending agreements, it would be helpful if crop loans of up to one year could have the interest rate fixed for the tenor of the loan.

1 Introduction

1.1 CONTEXT

Access to financial services is an important factor for inclusive economic growth and income generation. For agricultural enterprises, access to financial services is crucial for innovation, job creation and growth. For smallholder farmers access to high quality seed and fertilizer is often only possible by accessing group-based micro loans.

In the 2015 Finscope survey it is noted that 40.7% of the adult population in Zambia are financially excluded, i.e. use no financial services whatsoever. Although this is a significant improvement from 2009, the figure then being 62.7%, large differences between groups persist, such as between women and men and between the urban and rural population. The report shows that 49.8% of people living in rural areas were financially excluded, compared to 29.7% for the urban population. Among women, 42.5% were financially excluded compared to 38.8% of men. The Zambian government, in its National Financial Inclusion Strategy 2017-2022, has set the goal of increasing financial inclusion to 80% by 2022.

Although Zambia recently experienced substantial growth, averaging 6.9% per annum in the period 2005-2015, inequality levels have increased. Poverty in Zambia is to a large extent geographically determined and according to the Zambian National Development Plan 2017-2021, 57.9% of the population residing in rural areas continue to have poor road networks and poor delivery of social services, along with limited access to electricity.

In Zambia, 85% of farmers are smallholders, and they are often considered not credit worthy (Central Intelligence Agency World Factbook, 2015) by conventional banks. Increasing agricultural investment could be an effective way to reduce poverty among these farmers, increase food security, stimulate employment and enhance environmental sustainability. In the Results Strategy for Sweden's international development cooperation in Zambia, increased access to financial services for small-scale farmers, entrepreneurs and businesses is a priority and the ambition is that Sweden will contribute to at least 30,000 small-scale farmers having access to financial services.

In Zambia's financial sector, banks are the dominant players accounting for more than 69% of total financial sector assets, as compared to 10% for Microfinance

Institutions (MFIs). Loan guarantees can be an effective instrument when intermediaries are reluctant to lend to clients due to their perceived high risk. Also, rural inhabitants, and particularly smallholder farmers, often lack collateral such that lending is only available for large commercial farms and well established SMEs. When available, agricultural loan terms are often too short to accommodate the annual agriculture cycle. Guarantees can target specific classes of risk and hence make banks willing to issue loans they otherwise would be unwilling to consider. This means that the guarantee can serve as a substitute for collateral, allowing first-time borrowers and people otherwise excluded to get financial access. Guarantees can act as a form of insurance to help a borrower obtain financing on better terms than would be possible without the guarantee.

The Sida/USAID loan portfolio guarantee with Zanaco Bank is intended to increase lending to the medium and small agricultural scale sector in Zambia. The aim is to increase the bank's ability to offer loans to promote private sector participation leading to better food security, more productive jobs in rural areas and economic growth. The overall development target in terms of outcome is to increase lending by over \$9 million to small and medium-sized self-governing enterprises in agricultural based value chains. Borrowers can be identified along broad private agriculture value chains, including inputs and production, capital investment, aggregation, storage, processing, handling and transportation. To ensure equitable gender distribution of the guarantee's benefits, at least 20% of the guaranteed loans were to be made to women or women owned enterprises. The total guarantee amount is jointly underwritten by Sida and USAID, who provided risk coverage of 30% and 20%, respectively. The remaining 50% risk is covered by Zanaco Bank. At least 20% of all qualifying loans were intended to be for projects in the Eastern Province of Zambia.

In order to reach out to smallholder farmers, Zanaco rather than involving its branch network, involve the Zambia National Farmers Union (ZNFU) as an agent to identify borrowers, collect deposits and repayments, etc. Unfortunately, ZNFU suffered maladministration which in 2015 led to the near collapse of the organisation.

1.2 THE ASSIGNMENT

The evaluation aims to assess and provide a comprehensive account of the achievements of the programme results in accordance with the five OECD/DAC standard criteria; effectiveness, relevance, efficiency, impact and sustainability. It also provides evidence-based learning and advice: conclusions, recommendations and lessons' learnt, allowing for a better understanding of cause and effect relationships between pursued results, which can facilitate evidence-based discussion.

The overarching objective as stated by Sida in the Terms of Reference (see Annex 5) and modified in the Inception Report is to determine to what extent this guarantee has contributed to

- Changes in the bank's loan appraisal methodology, assessment of risk, capacity to interact effectively with rural clients, etc. Thereby, better enabling the bank to provide loans to people that are not its traditional customers.
- Systemic change in the financial market as it pertains to the banking sector's risk assessment of agricultural lending, including lending to female farmers and to more remote geographic areas.

The intended outcome of the evaluation is to inform key stakeholders, i.e. the Embassy of Sweden, the Loans and Guarantee Unit of Sida, the Development Credit Authority (DCA) of USAID, USAID Zambia and Zanaco, about results on activity, output, and outcome levels.

USAID's stated expected outputs, outcomes and impact for this guarantee at the time of execution were as follows (these align with Sida).

Outputs: This loan portfolio guarantee with Zanaco will facilitate the flow of up to USD \$9,087,600 to borrowers operating projects in the agriculture sector. The guarantee will increase Zanaco's related lending, measured by client base and loan portfolio, and allow it to reduce collateral requirements.

Outcomes: Due to the guarantee, Zanaco will have a larger lending portfolio dedicated to the agriculture sector. The guarantee will also establish and/or deepen the credit histories of targeted borrowers. After the guarantee, Zanaco will likely continue to lend to those borrowers with which it had a positive lending experience.

Impact: USAID anticipated that the increased number of borrowers with positive credit histories may strengthen the interest of other commercial banks in lending to the agriculture sector. The success of this guarantee may also encourage more commercial banks to support agriculture-related lending programs characterized by longer loan tenures.

1.3 INCEPTION ACTIVITIES

The most important elements of the inception phase were:

- Together with Sida/Embassy of Sweden, USAID and Zanaco Bank, establishing a mutual understanding for the purpose, scope, conceptual framework, terminology and limitations of the assignment.
- Identifying and gaining access to data sources. (see Annex 3 for a list of Document Consulted)

- Conducting initial Skype interviews with some stakeholders (see Annex 4 for a list of persons interviewed throughout the assignment).
- Practical planning by the team regarding field mission logistics, etc.

1.4 METHODOLOGY

The overall methodology that guided this evaluation was qualitative research. Based on this approach, the first level of study participants were the members of staff from: a) the Swedish embassy in Zambia and Sida officials in Stockholm; b) USAID, Zambia and DCA Washington; and c) ZANACO branch and head office staff. The second level participants were the guarantee loan beneficiaries i.e. the DFA representatives, Dairy Cooperative members, smallholder farmers and emergent farmers. The main data collection tools included FGDs, in-depth interviews, case study analysis (success stories) and direct observation.

In general, the depth of analysis was determined based on the nature of the indicators and targets established in the programme's theory of change and the availability of independently verifiable information. The team was provided with USAID's initial risk assessment and a draft monitoring document, along with access to DCA's Credit Monitoring System which is updated biannually using spreadsheets supplied by Zanaco. Additional data was requested from Zanaco to enable a better understanding to be gained regarding annual lending and associated default rates, however this has not been provided at the time of writing. In addition, no baseline data on lending prior to the start of this programme has been forthcoming.

As anticipated at the inception stage, many of the findings of this evaluation rest upon information gathered from interviews with key stakeholders, document reviews, and the team's observations during field visits. It was planned that the views of senior staff within all three primary stakeholder organisations (Zanaco, ZNFU and USAID's DCA) would be obtained in order for the team to gain a complete understanding of the context within which this guarantee portfolio was established and operated. The ZNFU emerged as the primary facilitator of all lending and collections vis-à-vis smallholder farmers under this portfolio guarantee. But due to the near collapse of this organisation in 2015 no headquarters representative responded to our requests for a meeting and no documentary evidence was received from them. Some former field staff of ZNFU were encountered during field missions. They acted as field agents to extend the outreach of the lending programme. Smallholder farmers and their representative organisations District Farmer Organisations (DFAs) and Dairy Cooperatives were interviewed along with other concerned individuals at the district level. In addition, a small sample of emergent farmers were interviewed in Chisamba and Lusaka Districts. The preliminary list of the semi-structured interviews questions is set out in Annex 1, although actual interviews often illicit information which was

not anticipated at the time of the inception report and this in turn leads to additional questions. In Lusaka meetings were conducted with MLife, FSD project and Musika all of which are donor supported and have involvement in micro-finance targeting the poorest and small scale entrepreneurs. Other meetings were held with staff from USAID Zambia and the Swedish embassy. A feedback session was conducted to share preliminary findings with staff from the both the Swedish embassy and USAID Zambia.

According to the ToR, gender was a significant issue with prioritized relevance for the evaluation and data was requested from ZNFU regarding the percentage of female smallholder farmers receiving loans, but this was not forthcoming. However, one ‘women’ owned dairy cooperative was visited to understand how women benefited including their main issues regarding their loans. The selection of client interviewees did ensure that women were included in order to get a good overview of the issues that affect them. One of the DFAs consulted had female representation on their board and she attended our meeting. The team sought to understand better how gender is perceived in the banking and farming sectors and whether the programme is able to respond positively to improve the prospects for women agri-entrepreneurs. A meeting was also held in Stockholm with the Deputy Head of the Unit for Loans and Guarantees at Sida.

The qualitative field study included the Copperbelt province, Central Province, Eastern Province and Lusaka province. See Annex 2 for more details. It should be noted that in agreement with the Zanaco Bank and USAID, the existence of this guarantee instrument was not mentioned during any of the field work interviews. It was believed that knowledge of the guarantee would create a moral hazard which would reduce the incentive of borrowers with outstanding repayments to honour their loan agreements.

1.5 QUANTITATIVE STUDY

It was anticipated in the Inception Report that quantitative data would be available to enable analysis of some of the indicators listed below. However, this data has not been obtained.

- 1) Credit losses and defaults for this G/F in comparison with the general credit losses among Zambian banks and their credit losses without guarantees when aimed at the agro-sector
- 2) Repayment time
- 3) Collaterals in asset classes
- 4) Guarantee fees in relation to the total interest rate

- 5) Time aspects of credit cycles (e.g. time span between credit request and credit decision)
- 6) Percentage between granted and not granted credit request
- 7) Statistics concerning the interest rate margin between Zanaco's guaranteed loans and the “normal” margin for bank loans in the agro-sector in Zambia.

In an attempt to obtain very basic impact data, Zanaco was requested to provide the following information:

- 1) The composition of loans disbursed respectively to smallholder farmers and emergent farmers (value and number of loans disbursed) annually from 2008 to 2017.
- 2) The annual default rates (resulting in an actual claim) and breakdown (between smallholders and emergent farmers) on loans disbursed from 2008 to 2017.

This information has not been received and has substantially limited the triangulation of evidence that was anticipated in the Inception Report.

An up to date aging analysis of Non-Performing Loans (NPLs) was also requested. The current CMS updated on 03/03/18 gives some detail on this.

2 Stakeholders: their Objectives and Relationships

The primary actors involved in this Portfolio Loan Guarantee are described below:

2.1 THE ZAMBIA NATIONAL COMMERCIAL BANK PLC (ZANACO)

Zambia National Commercial Bank Plc (Zanaco) was established in 1969 to service the financial needs of the Zambian economy. In 2007, the Government of the Republic of Zambia (GRZ) sold a 49% stake in the Bank to Rabo Development B.V. a subsidiary of the Cooperatieve Centrale Raiffeisen-Boerenleen Bank (Rabobank) of the Netherlands. Subsequently, Rabo Development sold a 3.41% stake to Lizara Investments Limited, a nominee of the ZNFU. The GRZ currently owns 25% and there are other minority shareholders.

The strong relationship with Rabobank enables Zanaco to benefit from technical assistance and best practices in various areas of banking. From the 2016 Annual Report published by Zanaco, it appears that it is a well-managed bank with proper policies in place and an emphasis on social responsibility in its banking activities. The main focus for the bank's lending is related to food, agriculture and retail (consumers and SMEs). Zanaco is known as “the people's bank” because of its large footprint. It has many distribution channels, not least through its branches which gives it a unique level of outreach in the country, it also has 9 SME Xpress agencies, and an additional 121 retail/transaction outlets, covering 74 districts in Zambia.

2.2 USAID'S DEVELOPMENT CREDIT AUTHORITY

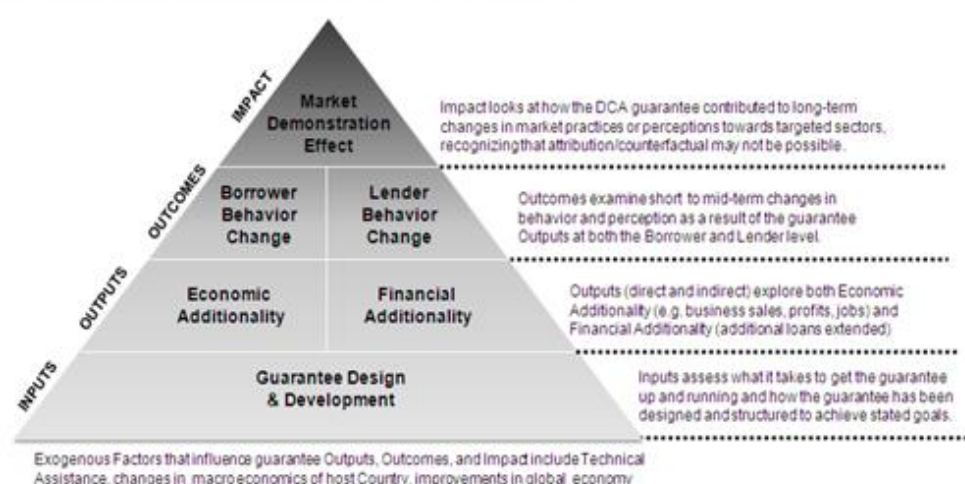
The Development Credit Authority (DCA) is the agency used by USAID to issue loan guarantees backed by the full faith and credit of the U.S. Government, to private lenders, particularly for loans made in local currency. These guarantees typically cover up to 50% of the principal of loans to small and medium entrepreneurs, however, they do not cover lost interest income. The rationale of the guarantee is to enable the value of the U.S. Government's funding to be maximized by using credit from local sources to finance development activities, with only a maximum of 50% any losses funded by the US Treasury. Since its first guarantee in the Philippines in 1999, DCA has issued 542 guarantees in 74 countries with a 2.4 percent default rate.

However, it is important that guarantees be accompanied by well-designed and targeted technical assistance (TA) programmes, which increase the borrower's ability to repay the loan and enhance the lending institution's ability to assess risk levels associated with new borrower categories. DCA has no budget for in-county programming and is therefore dependant on the work of country-based USAID missions to provide this TA. The leverage that DCA has over the programming choices in-country is limited and depends a great deal on the mission's leadership and the extent to which the timing of guarantee agreements and TA programmes happen to dovetail.

If successful, the guarantees should encourage the local wealth of a country to be invested in its own development. DCA's primary tool for measuring the success of an individual guarantee agreement is its level of utilisation (in the case of this portfolio guarantee it is already over 99%). DCA also has a limited travel budget and therefore relies on in-county missions to undertake routine, regular monitoring activities. Again, the extent to which this is undertaken will vary from mission to mission. It is understood from senior staff at DCA that various internal institutional issues affected its work during the period of this portfolio guarantee, primarily severe budget restrictions combined with high staff turnover. It should be noted that the total staffing level within DCA, all of which is based in Washington DC, is very low and was recently also affected by a recruitment freeze. This is now lifted and attempts are being made to recruit a few more officers.

Below is a diagram which sets out the USAID/DCA's interpretation of the Theory of Change (ToC) for this Loan Portfolio Guarantee.

Figure 1: DCA Guarantee Theory of Change



USAID's stated expected outputs, outcomes and impact for this guarantee at the time of execution were as follows (these are aligned with Sida's):

Outputs: This loan portfolio guarantee with Zanaco will facilitate the flow of up to USD \$9,087,600 to borrowers operating projects in the agriculture sector. The guarantee will increase Zanaco's related lending, measured by client base and loan portfolio, and allow it to reduce collateral requirements.

Outcomes: Due to the guarantee, Zanaco will have a larger lending portfolio dedicated to the agriculture sector. The guarantee will also establish and/or deepen the credit histories of targeted borrowers. After the guarantee, Zanaco will likely continue to lend to those borrowers with which it had a positive lending experience.

Impact: USAID anticipated that the increased number of borrowers with positive credit histories may strengthen the interest of other commercial banks in lending to the agriculture sector. The success of this guarantee may also encourage more commercial banks to support agriculture-related lending programs characterized by longer loan tenures.

2.3 THE RELATIONSHIP BETWEEN ZANACO AND USAID/DCA

USAID/DCA had a previous Loan Portfolio Guarantee facility with Zanaco in 2009 which was a \$5 million co-guarantee with the African Development Bank to enable Zanaco to lend to SMEs in agriculture, tourism, natural resources, and private health value chains. The guarantee agreement stated that the bank will endeavour to lend at least 10% to the private health sector. This was a standard 50% guarantee, with the African Development Bank covering 40% of the risk and USAID covering 10%. All utilization fees were paid to AfDB.

In 2012, the facility currently under review was agreed between USAID/DCA and Sida, specifically targeting agricultural value chains. Sida provides 30% coverage, while USAID covers 20%. The \$9 million facility is in support of Sida's and USAID's country strategies and supports qualifying projects, such as financing, inputs, production, processing, handling, storage, transportation, and marketing within the smallholder and emergent farmer sectors. At least 20 percent of all loans were to be provided in the Eastern Province, and at least 20 percent should have been made to women or women-owned enterprises.

Zanaco was chosen as the partner financial institution due to its strong position in the country, its commitment to agriculture and SMEs, and its strong relationship with USAID following the 2009 guarantee. While Zanaco serves all sectors, in 2012 it had a five-year growth target which included agricultural SMEs. Of the five largest banks in Zambia, Zanaco serviced roughly 30% of the agricultural market share. Zanaco is the only bank to provide financing to the entire value chain. Zanaco's overall

strategy, according to USAID is to focus on volume, impact and financial inclusion, making use of their large branch network, especially in the rural areas. The Non-Performing Loan ratio for the entire bank in 2013 was around 9%, while for the agriculture sector it was around 6%³.

- DCA Portfolio Management conducted a country visit during the week of June 17, 2013 to address the following issues and to determine the way forward:
- DCA Portfolio Management to work with the USAID Mission to update the monitoring plan for all the guarantee facilities, to include activities such as loan file reviews, regular meetings, borrower site visits, and loan referrals through the Mission and its implementing partners.
- Zanaco to advise DCA regarding potential claims, so that DCA Portfolio Management can provide next steps.
- DCA will share the evaluation framework with the USAID Mission, and help coordinate with Sida on possible impact assessments of the 2009 guarantee.
- DCA Southern Africa Investment Officer, will work with USAID/Zambia to explore a guarantee for warehouse receipt backed lending.
- USAID/Zambia should invite Sida to participate in quarterly meetings/site visits with bank partners.
- Review the seven loan files currently covered by the Portfolio Loan Guarantee.

Following this country visit, in January 2015 Brian Martalus, USAID/Zambia/Economic Development Officer held a meeting with Zanaco and completed a ‘meeting template’ document as provided by DCA. Beyond this there is no documentary evidence of any monitoring or assessments conducted by DCA and the bullet points listed above do not appear to have been addressed in any formal manner.

It was stated by DCA’s Compliance Team Lead that, the nature of the portfolio guarantee meant that the bank would update DCA every 6 months concerning new loans that it had added to the portfolio guarantee and provide other information regarding repayment rates, etc. on a spreadsheet which DCA then posted into its own Credit Monitoring System. At the time of a claim being submitted by Zanaco Bank,

³ DCA Portfolio Management Zambia – June 17 - 19, 2013

the DCA would then confirm that the loan in question did in fact qualify as a target loan under the guarantee agreement. Due to the good track record of Zanaco Bank this retrospective arrangement was considered to be appropriate. He also stated that the primary monitoring indicator used by DCA was the rate of utilisation of the guarantee. In the case of Zanaco, the guarantee was fully utilised by 2016 and therefore it was not a priority for an in-country visit, especially given DCA's resource limitations.

Regarding the targets stated in the legal agreement between Zanaco Bank and Sida/USAID, that at least 20 percent of all loans were to be located in the Eastern Province, and at least 20 percent should be made to women or women-owned enterprises. USAID/DCA have stated that lack of clarity in the reporting led to confusion around whether thresholds were met effectively. The issue was first raised in 2015, and both DCA and Sida worked with the bank to find required data and a reasonable solution. On May 27, 2015, the bank was told by USAID (with Sida copied) that it had met its thresholds for both requirements. It would appear that the only data backing those assumptions were restricted to phone calls and a single spreadsheet and email summary sent by ZANACO, but that no additional verification documentation was collected to prove the make-up of said associations, their management, or their locations. Further documentation went unprovided by ZANACO in 2017 during attempts by the evaluation team to learn more about the loans. In addition, it is not apparent from the data collected in CMS that any such thresholds were met. Difficulty tracking and maintaining this information has led to critical gaps in understanding for all parties, especially due to high staff turnover at DCA.

2.4 THE ZAMBIA NATIONAL FARMERS' UNION (ZNFU) AND THE DISTRICT FARMERS' ASSOCIATIONS (DFAS)

Zambia National Farmers Union (ZNFU) is a membership based organization with nationwide coverage representing the agriculture industry. Specifically, ZNFU represent small to large scale farmers, being: District Farmers' Association (DFAs) whose members are smallholder farmers, commodity based associations such as dairy cooperatives and poultry farmers, and, largescale commercial farming businesses. The mission of ZNFU is stated on their website (http://www.znfu.org.zm/about_us) as being to promote and safeguard the interest of members as individual farmers, companies, purveyors and other organizations involved in the business of agriculture in order to achieve sustainable agriculture, and economic and social development. Its core functions are lobbying and advocacy, members' service provision and support, information dissemination and communication.

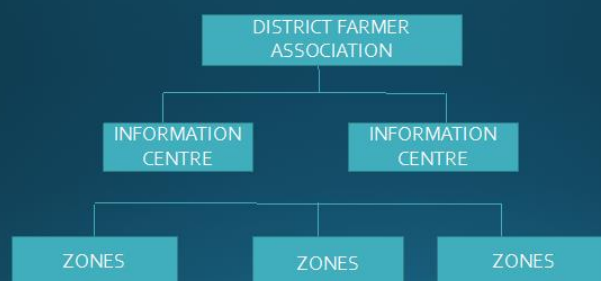
Founded in 1905, ZNFU had expanded its membership considerably from the early 1980s due to a policy of keeping annual subscription very low and having a wide entry qualification. Individual smallholder farmers belonging to a DFA paid Kw100 (approximately \$10) per annum in membership fees to their DFA of which Kw30 was paid to ZNFU. For the past 25 years ZNFU has actively promoted the creation of new DFAs and as a result had an unrivalled outreach of district offices (68 in 2012) throughout the country. Each ZNFU district office was staffed by 3 or more employees and in addition to membership fees the organisation received funds to implement a number of donor funded programmes enabling the purchase of motorbikes to facilitate easy access to the farmers and their families.

In around 2009 the ZNFU signed a Memorandum of Understanding (MOU) with Zanaco Bank (document not seen by this evaluation) to market “Lima Loans” through their DFAs (the legal borrower) to individual smallholder farmers. These loans were designed to provide access to finance to smallholders for the purchase of high quality maize seed and fertiliser for up to 8 hectares of land (in later years up to 5% of the finance was made available for non-maize crops such as soya beans and groundnuts).

ZNFU acted as a field agent for Zanaco bank responsible for all aspects of the marketing, disbursement and collection of the “Lima Loan” at the district level. It was stated by Zanaco Bank staff that this MOU prevented Zanaco from contacting DFAs directly as all communication with the borrower was to be sent via the ZNFU. From this, it is clear that Zanaco Bank, with regard to smallholder lending, operated this portfolio guarantee exclusively out of its headquarters in Lusaka. From 2012 to 2018, this loan scheme forms a major part of the loans covered by the Portfolio Loan Guarantee agreed between Zanaco Bank and Sida/USAID-DCA.

Due to the dearth of finance available to smallholders, the credit facility was extremely attractive and over subsequent years, up to 2014/15, it led to huge increases in membership of some DFAs from around 200 members in 2010 up to 3000+ members in 2014 (these approximate figures were obtained from interviews conducted with several DFAs). Each DFA was organised as shown in Figure 2 below:

Organisational structure of DFA's



Each smallholder belonged to an Information Centre (IC) and the loans were disbursed via the borrower (the DFA) to the IC and from there to the smallholders. Each IC was led by a Contact Farmer. Regular meetings were held and training and other support was provided to members. With regard to the loans the IC was intended to act as a peer group guarantee mechanism, in which members co-guarantee the repayment of all loans by the members of their IC. This is a tried and tested mechanism for reinforcing repayment of micro-finance loans, but its effectiveness is generally limited to groups of 5 up to a maximum of 30 members, who are well known to each other and have formally agreed to co-guarantee each other's loans. The success of the 'Lima Loans' led to rapid membership growth such that this system of peer group guarantee collapsed.

A 2012 report to Sida (External Review of Core Support under Joint Financial Agreement to Zambia National Farmers Union), which is generally positive in its findings, does highlight the risks associated with rapid expansion of DFA membership which, it states, is largely due to the marketing of the 'Lima Loan'. The report states that for long term sustainability the DFAs and ZNFU did not appear to have adequate staffing or administrative capacity to facilitate this rapidly growing membership base. The report also points to a potential conflict of interest regarding the 'Lima Loans' as ZNFU benefited from increased membership fees, along with a loan facilitation fee, which could put it at odds vis-à-vis its safeguarding duty to its members. The sale of this financial product on behalf of Zanaco Bank also created a moral hazard for the bank, as ZNFU benefited financially whilst not sharing any credit risk regarding potential defaults.

It should be noted that ZNFU also collected a crop insurance premium (being 4% of the principle loan amount) from smallholders. This premium was apparently paid to

two insurance companies, although following the 2014/15 drought and extensive crop failure there was little or no transparency regarding claim pay-outs. No further information on this crop insurance has been forthcoming as ZNFU HQ staff were not available for interview.

In addition to ‘Lima Loans’ the Zambia Dairy Association (operating under the auspices of ZNFU) dispersed loans for the purchase of high yielding dairy cows (‘Loan a Cow’ scheme). These loans were also covered by the Sida/USAID portfolio guarantee and included an element of livestock insurance which, despite a relatively high mortality rate among the cattle imported from South Africa, appeared to be operated to the satisfaction of most borrower cooperatives (although a minority of insurance claims remained outstanding at the time of field visits). It should be noted that lending to the dairy sector may be assessed as lower risk, as the borrower is in receipt of a daily income from the sale of milk. This enables regular repayments to be made and avoids the need for one large (balloon or bullet) payment at the end of harvest, by which time the borrower is likely to be facing many demands on the receipts from the sale of their produce.

2.5 THE EMERGENT FARMERS

In addition to small-holder farmers, the portfolio guarantee was targeted at Emergent Farmers. These are a distinct category of farmer who cultivate between 5 and 20 hectares of land (perhaps up to 50 hectares), as compared to the majority of smallholders, of whom 70% cultivate up to two hectares of land.

The Indaba Agricultural Research Institute report: *The Rising Class of Emergent Farmers: An Effective Model for Achieving Agricultural Growth and Poverty Reduction in Africa?* Working Paper 69, October 2012, found that the origin of the majority of emergent farmers is as follows:

The majority of the emergent farmers held prior jobs other than as farmers. This suggests that many emergent farmers may not have achieved their current scale of farm operation through a process of agricultural-led income generation and area expansion. Rather, many emergent farmers may have achieved their scale of operation through what we will call a lateral entry into farming whereby an individual primarily engaged in non-farm employment was able to use savings to purchase land and farming assets. Of the farmers with title to their land and who entered farming laterally, 60% have held public sector employment. This suggests that land titling policies, aimed at driving investment in agriculture, are benefiting a relative elite minority of individuals. The promulgation of the 1995 Land Act may have facilitated the transition from urban to rural life for many former public sector employees. In

particular, the 1995 Land Act made it possible for urban residents to acquire titled land in customary areas⁴.

Even though employment creation was one of the motivations for supporting emerging farmers, the above description raises a question regarding targeting, specifically; whether the donors intended to assist the bank to lend to farmers, many of whom appear to be comparatively wealthy and who have been enabled to invest their savings in land as a result of recent changes in land titling?

The majority of the Emergent Farmers obtaining loans under this portfolio guarantee are located close to Lusaka (where land prices are currently quoted as high as \$8,000 per acre or more depending on location). Others are close to urban centres on the main trunk roads out of Lusaka. They have invested in small to medium specialised agribusinesses such as dairy, poultry, horticulture and fisheries among others. Unlike smallholder farmers, they benefit from regular income streams from the sale of their produce which should support monthly loan repayments. However, as witnessed from interviews conducted with a small number of such farmers, their businesses face a multiplicity of risks, such as the vagaries of government policy including export bans and transport restrictions, and even an outbreak of cholera which resulted in the forced closure of street markets in Lusaka where some produce was marketed.

⁴ Conversely, there is very little evidence of farmers who followed an agricultural-led growth strategy utilizing markets to acquire their land. Instead, those farmers overwhelmingly depend on traditional modes of land acquisition, including through traditional authorities, inheritance, or from living relatives. There is a lack of evidence to support any assertion that improvements in the conditions of small-scale agriculture have contributed to growth in the emergent farm sector.

3 Portfolio Guarantee Operation in Zambia

3.1 INTRODUCTION TO GUARANTEES

Guarantees are intended to promote private sector investment particularly in countries with large reserves of untapped private capital such as in developing countries where credit risk is considered very high. To encourage financial institutions to lend capital for developmentally beneficial projects, credit guarantees can be used to cover part of the risk on loans to new or underserved sectors of the economy where financing is unavailable or inaccessible due to large collateral demands, etc. In addition to mobilizing finance for enterprises, partial guarantees can demonstrate to local banks that loans to underserved sectors can be profitable. This should foster self-sustaining financing, as lenders start to lend on a continuous basis without the support of donor-backed guarantees. These guarantees are often coupled with training and professional assistance from the donor to strengthen a financial institution's long-term involvement in local credit markets and to enable them to better assess risk levels on the individual loan applications that they receive. Training of borrowers, who are not accustomed to working with the financial sector is also important to ensure that they have sufficient financial literacy to fully understand the obligation they are taking on. Training of farmers in improved agronomy and climate resilience, so that they reduce their risk profile, is also often linked with programmes to enhance their access to finance.

3.2 LOANS TO SMALLHOLDER FARMERS

The information below is based on interviews with Zanaco's staff and meetings with DFA board members/coordinators along with some remaining ZNFU regional staff. The process is set out in order to illustrate the relative complexity involved in providing loans to smallholders and also to illustrate that in this instance there appears to be a relative absence of checks and controls. In light of such lapses it is the opinion of this evaluation that there is a real danger that smallholder farmers will be exposed to exploitation. Any future lending programme of this nature will need to ensure adequate levels of transparency throughout the process. If DFAs were fully informed regarding actual costs, etc. there would still remain a challenge to ensure that individual members were aware of their true liabilities. Such transparency is essential to ensuring the integrity and sustainability of the process and to uphold trust within DFAs and the safeguarding of the interests of the smallholders.

Step One: In September each year the ZNFU regional officers met with their DFA leadership to identify farmers considered to be credit worthy. These farmers are offered ‘Lima Loans’ and asked how many hectares (max 8) they would like to plant. (Predominantly maize but small amounts of soya and groundnuts were introduced in later years.) Farmers accessing a loan were required to pay a ‘facilitation fee’ to the DFA/ZNFU. Initially this was Kw 100 per hectare. In later years it became Kw 100 for 1st hectare and Kw 25 for additional hectares. The change in the charging regime is regressive; benefiting DFA members with above average landholdings. In 2013/14 the ZNFU Council (including DFA Chairmen) decided this fee be paid 100% to ZNFU. DFAs believed they would get 50% repaid to them for investment into projects approved by ZNFU. The payment of 100% of the facilitation fee to ZNFU was apparently justified on the basis that some DFAs were misusing their 50% share.

Two possible pitfalls of this process are that those members with the smallest land holding will pay more to access these loans, as compared to those with the larger landholdings (who are also more likely to be represented on the DFAs’ boards).

Step Two: Zanaco Bank provided training in ‘Financial Fitness’. DFA leaders were trained and expected to communicate messages to members (Training of Trainers). According to the DFA leaders, the messages were around how borrowers could transform their lives if they opened themselves up to the idea of accessing loans (aspirational). All trainees interviewed were very positive about this training. The training curriculum has not been seen by the evaluators and it is unclear if this training just enhanced financial literacy, or whether it was aimed more at promoting the ‘Lima Loan’.

Step Three: ZNFU collated the input requirements for each DFA and aggregated these nationwide. Zanaco then announced a tendering process for the entire package of inputs. The lowest bids were accepted for each individual input. The farmers were then informed of the cost of their inputs and required to make a 50% down-payment. (The majority of DFAs stated that they did all the calculations and collected quotations from local input suppliers. In one case, the DFA said that they used the highest quote (in case prices increased). Another DFA stated that they calculated the average price from local suppliers.) If the process worked as some DFAs describe, it is reasonable to assume that the price obtained for a bulk purchase of maize seed and fertilizer would be lower than the quotes obtained locally by individual DFAs. It is not known if an adjustment was made to allow for any economies of scale obtained by Zanaco. Full disclosure of actual prices and transport costs etc. would be required in order to make any judgement in this regard and these should be communicated to each DFA.

Step Four: The farmers were required to visit their local Zanaco branch to deposit their down-payment into the DFA bank account, up to 2013. Thereafter, into

ZNFU's designated account. The farmers got a receipt. When all the payments were collected Zanaco ordered the inputs from the suppliers – to be delivered to each DFA or designated delivery/collection point. (Accounts from the DFAs indicated that ZNFU and/or the DFA collected cash deposits from each farmer. The cash was paid into the DFAs A/c and when complete the balance was transferred into a ZNFU A/c.) After 2013 DFAs were instructed that the receipts must go directly into the ZNFU account (30-day deposit) due to mishandling of monies by some of the DFAs. Upon delivery of the inputs the DFAs signed the delivery notes and letters of confirmation.

Step Five: Zanaco sent letters of contract to DFAs setting out terms and conditions for the loans including the interest rate at the time of writing (which was variable) and the rate at which interest would be charged if repayment was delayed (also variable). These had to be signed by two representatives from each DFA. DFAs stated that these contract letters arrived after the down-payments had been deposited and therefore the leadership had no option but to sign. Some DFA board members stated that these letters had been signed by their Chairmen +1 under duress from ZNFU and without following due process within their DFA. The contract letters, written in 'legal style' English were around 11 pages in length. Without a detailed explanation it is unlikely that the DFA signatories would have fully understood what they were signing. DFA rules required that all contracts be agreed at board meetings prior to signing, but time was not provided for this. (The contract letter states that an Arrangement Fee [Kw 500 or around \$50 in 2011] payable to Zanaco would be collected up-front. Presumably this was added to each loan.)

Step Six: Zanaco paid interest on ZNFU's 30-day deposit account at between 4% to 10% per annum. Zanaco stated that this interest was deducted from the outstanding loan amount at the end of the tenor of the loan. The contracts make reference to a 30-day deposit account to be held until repayment of the loan, but do not mention payment of interest on the deposit. Some DFAs reported receiving some interest covering the final month or so of the deposit but they could not explain how this worked.

Step Seven: In addition to the 50% down-payment, farmers were required to pay 4% of the total face value of their loan up-front to ZNFU as Crop Insurance. DFAs did not receive evidence that this Crop Insurance premium was paid and were not informed of the terms and conditions under which claims would become payable. Some claims were paid in years 2014/15 and 2015/16 which assisted some borrowers to pay off their loans. Zanaco Bank stated that in some cases losses were notified to the insurance company by ZNFU too late for the claim to be assessed. The lack of transparency around this insurance makes it very difficult to evaluate and induces distrust amongst borrowers.

Step Eight: When all signed delivery notes were collated and the accounts fully reconciled Zanaco paid the input suppliers. This reportedly happened in around March the following year. So it appears that Zanaco did not pay the input suppliers for some 3 or 4 months after they received the farmers' 50% deposit.

Step Nine: On 30th September each year the loans were due for repayment in full. The collection process began earlier whenever the harvest was ready for marketing. Where DFAs aggregated crops to sell in bulk to merchants the funds were deposited directly with the DFA. Otherwise, farmers deposited their cash repayment + interest with the DFA. The DFA then transferred these funds to the designated ZNFU 'Recovery A/C'. ZNFU was then responsible to use these funds + 50% collateral held in their 30-day Deposit Account to repay loan + accrued interest. In many cases the DFAs, supported by ZNFU's field staff visited borrowers in order to collect repayments. The period covered by this guarantee is one of sharply rising interest rates, so the farmers were often surprised to learn that their actual repayment was higher than they had originally been advised. DFAs emphasised that if farmers had been told in advance that their repayments would be variable (unknown) rather than fixed, then farmers would have refused to take out loans. Interest was charged on the entire 100% principle value of the loan despite the fact that a 50% deposit had been lodged in a ZNFU account for up to 11 months.

The DFAs were concerned that if their loans were not repaid in full they would lose their credit rating which would prevent them from accessing future loans from any source. The DFAs reported that payments made into ZNFU's Recovery Account were not immediately used to repay the loan. After 30th September outstanding loan amounts plus interest attracted monthly compound interest, possibly at higher rates. This became very expensive for farmers and was increasingly difficult for the DFAs to explain. DFAs also stated that there was confusion concerning which DFAs had deposited what amount into the ZNFU Recovery Account, such that they might be charged interest on the wrong amount. Most of the repayments were collected in cash directly from the farmers, either by ZNFU or the DFA. The system varied from region to region and even from DFA to DFA. Some DFAs may have been more assertive than others in protecting their interests. (One DFA/ZNFU employee stated that they had refused to pay the increased interest rates charged on their loan and that Zanaco had agreed to this. Another DFA stated that from 2014/15 they had been excluded from the process and that ZNFU had dealt directly with their farmers

The letters of contract stated that interest rates were variable. But it seems that the implications of this were not adequately explained to DFAs or their members. Differing actual interest rates were reported and no documentary evidence has been seen, but the reports are consistent in that all DFAs stated that rates in 2010 were around 10+% and by 2016 they had risen to 25+%. This is also consistent with rises in the Central Bank's base rate. While high interest rates are inevitable in the

prevailing macro-economic environment, it is easy to understand the difficulties faced by smallholders when maize pricing is effectively Government controlled⁵ and highly politicised.

There is a lack of clear and transparent systems throughout the entire process and therefore it is unlikely that a clear audit trail could be established. This is essential to ensure fairness and to maintain the integrity of all the participants.

3.3 LOANS TO EMERGENT FARMERS

Loans to emergent farmers have been administered directly by Zanaco, with individual farmers contacting the Bank directly, often in response to advertising campaigns. Loans have been provided for working capital with a tenor of 12 months, and for the purchase of assets and construction of buildings, etc. with tenors ranging from 24 months to 60 months. Large amounts of collateral were attached to most of these loans often representing the private residential accommodation of borrowers which was valued at significantly more than the loan principle (but title could not be subdivided so the entire property was effectively mortgaged). This form of collateral is rated as “very strong” by the Bank and it is reasonable that such loans could be provided without the backup of a guarantee agreement. One borrower had successfully refinanced her loan, at a reduced cost, with another bank using her land and residence as collateral.

In February 2015 a number of loans were issued, mainly in Southern and Central provinces, for the ‘purchase of a brand new 60hp Tractor, ripper, planter and trailer’ at a value of \$34,850. According to the CMS these loans were provided collateral free, but the collateral was actually held in the form of the ownership title to the assets purchased. This form of collateral is rated as “weak” since the assets will depreciate from the moment they are delivered to the farmer and obtaining repossession may also be costly. It is likely that Zanaco was encouraged to try this type of lending (similar to an equipment lease or hire-purchase scheme) because of the existence of the guarantee. These loans should have been fully repaid by

⁵ In Zambia the price of maize is controlled by the GoZ which purchases large quantities via its the FRA (Food Reserve Agency). The FRA purchases at a fixed price throughout the country. If the FRA price increases this primarily benefits large scale producers, while smallholders retain much of their produce for their own consumption.

28/02/2018 but it is not possible to understand from the CMS whether any of them are included in the large overdue reported on 03/03/2018.

According to the Zanaco interviewee, emergent farmers with weak collateral but who were assessed to have the ability to repay loans were the ones who were successful in obtaining the above loans. Despite the guarantee, the Bank was still risking 50% of its capital plus the interest earned on the loan.

The emergent farmers visited by this evaluation mission expressed considerable concern regarding the very high interest rates, which increased over time in line with the central bank base rate. They were also surprised by the charges that they had to pay in order to value and register their collateral and ensure their mortgaged assets were fully insured to the benefit of the bank, etc. These charges were described as ‘hidden’, indicating that Zanaco had not fully informed these borrowers (many of whom are highly educated) regarding the full implications of the loans that they were taking on.

An example, provided by one of the borrowers interviewed by the team, of the structure of these charges on a 12 month working capital loan is set out below:

Year	Type of loan	Amount	Charges and other costs
2011	Working Capital, with one-year tenor. Borrowed for soya bean and horticulture enterprise	Kw 185,000 US \$18,500	1. Base rate 19% per annum- subject to change at Bank's discretion 2. Arrangement fee – flat rate of 2% of loan principle levied at time the loan was issued 3. Commitment fee 0.0125% 4. Security: - A legal mortgage on the farm valued at Kw 4.0 million - Building insurance - Further charge for Kw 1.2 Million over the farm - Floating agricultural charge over all crops to be grown to cover all amounts outstanding plus interest from time to time. 5. Multi-peril insurance to cover crops with banks interest noted 6. Legal valuation fees and registration of securities costing around Kw 3,000 per annum.
2012	Working Capital	Kw 120,000 US \$12,000	1. Interest 16% per annum calculated on daily basis and payable in arrears by debit to the account 2. Arrangement fee of 2% as above 3. Commitment fee of 1.2% levied on the principle value of the loan (increased from 2011) 4. Other costs as illustrated above.
2013	Working Capital	Kw 150,000 US \$15,000	Interest charged 16.25% calculated on daily basis All other charges as above
2014	Working Capital	Kw 325,000 US \$32,500	Interest at 24% calculated on daily basis All other charges as above.
2017	Working Capital	Balance not known	Interest at 28% calculated on daily basis

Note: With cumulative interest charged daily in addition the costs paid to the bank for arranging the loan and the costs of mortgaging the collateral and insuring the collateral in favour of the bank, the annual cost of this loan will currently be well in excess of 30% which means that the loan principle will increase by over 50% per annum if no payments are made. When crops fail, or other risks involved in marketing agricultural produce materialise, the prospect of not making repayments is always present. In this instance the borrower is looking to sell some land in order to repay the loan and thereby avoid a forced sale by the bank

4 Relevance

This study set out to answer two questions related to relevance as listed in the final Inception Report:

- 1) What were the wider potentials and challenges of access to finance by the poor in Zambia, including macro-economic factors that have influenced the market during the period of the guarantee.

Response: The Sida/USAID guarantee programme in Zambia was established in a credit market characterized by high credit losses (compared to corresponding countries) and high interest rate margins for on-lending to the private sector.

The key macro-economic variables⁶ have been volatile in Zambia, reaching critical levels in 2015 and 2016, mainly caused by severe drought. During the period from 2012 the inflation rate rose, reaching more than 18 percent in 2015 and the central bank base rate was around 20 percent. The severe draught caused price hikes primarily on food and electricity tariffs, while commodity prices fell during the same period. The effect was lowered growth with GDP increasing at just 2 or 3 percent per annum and an increase in the national budget deficit which contributed to crowding-out effects on lending to the private sector. At the same time, defaults on bank loans rose and private sector demand for credit was dampened.

The situation has stabilized during 2017 and early 2018 with a recovery of GDP growth to 4 or 5 percent and the inflation rate falling to 6 or 7 percent, resulting in a lowering of the base rate which at present is just over 10 percent. Even though the macro-economic situation has stabilized in Zambia, there remain challenges in the credit market for the private sector.

⁶ Sources: Bank of Zambia, Monetary Policy Statement, November 22, 2017. African Development Bank, paper on the Zambia credit market 2016

The domestic private credit market is still characterized by high lending rate margins, low credit growth, and a high degree of non-performing loans. Additionally, the high fiscal deficit and national debt constrain access to credit for the private sector and may imply risks to the stability of the financial sector.

Private sector borrowing remains subdued despite the recent recovery in the Zambian economy. As the programme was structured and given the macro-economic environment it was not possible to identify any wider potential.

- 2) To what extent have the loans (and services) provided under the guarantee conformed to the needs and priorities of the beneficiaries?

Response: DFAs and smallholder farmers reported that inputs were received in good time for planting which greatly assisted the farmers. (This is in contrast to the GoZ's FISP⁷ which provided subsidised inputs for planting half a hectare but typically the inputs arrived late.) The quality of the inputs was also reported to be high which in a good season very significantly enhanced yields. The dairy farmers were mostly satisfied with the dairy cattle they received although the high mortality rate combined with some unpaid insurance claims had created real hardship for a minority of borrowers. Most DFAs and Dairy Cooperatives remained very motivated to obtain future financing, and with the ending of the schemes available under this guarantee they were struggling to identify alternatives. Some DFAs had negotiated very limited agreements with input suppliers, restricted to their best performing farmers, whereby they paid 70% up-front for the supply of seed and fertilizer with the remaining 30% plus interest paid post-harvest.

DFAs, Dairy Cooperatives and Emergent Farmers all stated that the interest rates charged on their Zanaco loans and the level of collateral and other charges paid by them were excessive. A few had successfully refinanced their loans at a reduced cost with other financial institutions, and one emergent farmer was selling some of his land in order to pay off his over-dues. However, as stated above, the macro-economic environment makes high interest rates inevitable. (Whether the Bank's profit margins could enable any temporary cost reduction to allow the crippling cost

⁷Farmer Input Support Programme (FISP). This programme has faced persistent problems, including: late delivery, standardised packages regardless of soil type or agro-ecological zone, the crowding out of the private sector, and, the very high cost to the public purse. In February 2018 the Minister of Agriculture announced that it will be abolished on the basis that smallholder farmers will now have 'graduated' and therefore no longer be in need of subsidised inputs.

of loans to be reduced is something only Zanaco Bank can assess.) There is no evidence that the provision of a Loan Guarantee by Sida/USAID has had any influence on the cost of borrowing and this was not the stated purpose of the guarantee. Although reductions in levels of collateral required from emergent farmers might have been expected and in the case of the equipment loans referenced above this was achieved (only title to the assets was retained as collateral which, due to depreciation, would be around 50% of the principle value of the loan before the addition of interest earned).

This Sida/USAID 50% partial guarantee does not cover lost interest income when a borrower defaults. In a country that has, for example, a 30% interest rate (which is not dissimilar to the current rate in Zambia) the interest income would represent almost 50% of the total loan value but this cannot be included in a claim. Therefore, in such a case, the guarantee covers 50% of the principal, but only 25% of the bank's actual loan exposure. One Zanaco Bank representative suggested that due to the high level of risk associated with agricultural lending, a guarantee would only really work if it covered 100% of loan principle. However, DCA's Credit Review Board will not normally approve guarantees above 50% as one of the goals of DCA is to share risk with its partners. (By contrast, USAID is permitted to provide 100% guarantees when working under its own mandate, rather than through DCA.)

Doris Banda: a borrower of the 2014/15 Lima Loan.



Doris and some of her children standing in front of their old (leftside) and new houses. The new house was built using cash earned from her 'Lima' loan.

5 Effectiveness

This study set out to answer nine questions related to effectiveness:

- 1) What are the functions of USAID/DCA as agent of this portfolio loan guarantee, and have they been effective in supporting the operation of this guarantee?

As set out in Chapter Three above, DCA's Portfolio Management Team (now renamed) should conduct country visits to review the progress of each facility whenever possible in order to address under-utilization issues, to better ascertain the bank's strategy to implement the guarantee, to provide training on DCA procedures and reporting, and to advise the USAID mission team on how best to engage with the lenders, utilize technical assistance mechanisms, and to monitor the facilities. Unfortunately, for the reasons set out in Chapter Three these actions did not occur on a regular basis and no effective monitoring of this facility was provided.

- 2) To what extent has the programme contributed to access to finance by small and medium scale farmers in Zambia?

One hundred and two groups (DFAs and Dairy Cooperatives) and emergent farmers received loans under this Portfolio Loan Guarantee, see basic summary information about the loans in the box below. Although no counterfactual evidence is available, it is highly likely that most of these loans would not have been disbursed in the absence of the guarantee. The exception to this could be the loans to some emergent farmers who had significant amounts of collateral to offer. The evidence for this is reinforced by the fact that the 'Lima Loans' and 'Loan a Cow' schemes are not at present on offer from Zanaco. It is regrettable that the virtual collapse of Zanaco's field agent, ZNFU, brought about a very negative situation vis-à-vis the DFAs and this has cast a dark cloud over the entire 'Lima Loan' programme, which prior to 2014/15 appeared to be operating very successfully.

During the 'Lima Loan' period the membership of DFAs increased exponentially. Resulting in very significant membership fee payments to ZNFU. One DFA reported paying Kw 126,000 in 2014/15 in addition to the facilitation fee. Achieving this level of increased membership must have involved a considerable promotional drive by ZNFU/DFAs. Typically, less than 50% of members actually received loans. Since 2014/15 (a year of drought and high defaults) membership declined rapidly. Many DFAs are back to their pre-2010 levels or lower. Some are now struggling to meet

their outgoings and described measures to recover their past income generating activities, such as maize milling, although this cannot necessarily be attributed to loss of members. Future access to finance by those DFAs and their members who failed to meet their repayment obligations has been damaged by their resultant poor credit history. This is highlighted by the fact that where suppliers have provided inputs on credit, this has only been available to a small minority of members who could prove 100% repayment.

Information about the loans derived from the Credit Monitoring System, provided by Sida.

No. of Loans/ Transactions	102
No. of Woman Owned	5
No. of First Time Borrowers	33
No. of Companies with Employees	0 Employees: 61 companies 1-5 Employees: 14 companies 6-10 Employees: 11 companies 11-50 Employees: 8 companies 51-100 Employees: 2 companies 101+ Employees: 6 companies
Sector	Agriculture: 102
State/Province/Region	Southern: 26 Copperbelt: 9 Northern: 8 North-Western: 2 Western: 1 Eastern: 2 Luapula: 6 Central: 26 Lusaka: 22
Average Interest Rate	19,37%
Average Revenue	\$951 319
Average Assets	\$1 129 076

3) Has the guarantee increased the proportion of female borrowers in the SME portfolio of Zanaco?

Regrettably, there is no reliable data available to support the assertion that the number of female borrowers has increased. It could be that the target of 20% female borrowers was indeed achieved (most DFAs stated that their membership was around 30% female and the Dairy Cooperatives tended to have predominately female members), but if so, it was not by design as far as Zanaco Bank was concerned. The Bank did not have a well-developed awareness of the potential of female borrowers.

For such a target to become meaningful gender training would be required to ensure that the Bank's staff have a more proactive approach towards supporting female farmers and entrepreneurs.

- 4) Are there any regulated credit restrictions on the banking sector which constrain bank lending to the target sector (e.g. reducing bank liquidity).

There are no regulated credit restrictions which constrain bank lending to the target sector, although the GRZ's high fiscal deficit is likely to divert funds away from private sector lending.

- 5) How effective has the technical assistance provided by USAID been over the period of the Guarantee, to borrowers and to bank staff (if any)?

The USAID TA function provided by the Profit+ programme⁸ was only referred to by one borrower interviewed during the field work for this assignment. Profit+ had no component to support access to finance and its main geographic focus was Eastern Province where, despite the agreed 20% loan disbursement target, only some 3% of lending was actually disbursed by Zanaco. See Chapter Three for further details on USAID's TA provision vis-à-vis DCA's guarantee programmes.

- 6) Have borrowers received effective follow-up support to better enable them to repay their loans, especially where repayment difficulties have emerged?

No evidence was found of any follow-up support having been provided.

- 7) Where targets have not been met what action has been taken, and was this action effective.

As referenced in Chapter three above, DCA's primary target for monitoring purposes was the level of utilisation. This Portfolio Loan Guarantee was fully utilised ahead of time and therefore this guarantee was considered to have been a success.

⁸ PROFIT+ (Production, Finance and Improved Technology) under the USAID's Feed the Future initiative, seeks to improve and sustain agricultural productivity in selected crops (including maize) in Lusaka and Eastern Provinces of Zambia

Regarding the targets stated in the legal agreement between Zanaco Bank and Sida/USAID, that at least 20 percent of all loans were to be located in the Eastern Province, and at least 20 percent should be made to women or women-owned enterprises. As mentioned above in section 3.3, USAID/DCA have stated that lack of clarity in the reporting led to confusion around whether thresholds were met effectively. The issue was raised and both DCA and Sida worked with the bank to find required data and a reasonable solution. It appears that the only data backing those assumptions were restricted to phone calls and a single spreadsheet and email summary sent by ZANACO. Further documentation was not provided by ZANACO during attempts to learn more about the loans. In addition, it is not apparent from the data collected in the CMS that any such thresholds were met. Difficulty tracking and maintaining this information has led to critical gaps in understanding for all parties, especially due to changes in staffing at DCA.

- 8) Has USAID and/or Zanaco made efforts to diversify distribution channels for guaranteed loans?

At this point in time, no diversification of distribution channels has been referred to by either USAID or Zanaco. However, Zanaco Bank stated that they had a consultant working with the bank to look at ways in which lending to smallholders might be better implemented in the future. This consultant was not available for a meeting with this evaluation team and to date no outcome of his work has been made available.

- 9) Has USAID and/or Zanaco implemented any training programme to educate borrowers on the rules and responsibilities of bank lending?

Zanaco provided training to DFA leaders, called Financial Fitness Training. But this is not understood to have focused on the rules and responsibility of bank lending as they would pertain to DFAs.

6 Efficiency

This study set out to answer four questions related to efficiency:

- 1) Undertake a simple analysis of value for money; i.e. an analysis of the value of funds budgeted and spent against the benefit of the attained outcomes.

Table: Showing Respective Costs of the Guarantee to Zanaco, USAID and Sida

	Claims payable by the Swedish (30%) and US (20%) Govts. Treasury.	Fees paid by Zanaco
Claims paid to date (50% of loans written off)	\$64,423	
Pending claims (50% of loans to be written off)	\$10,536	
Potential maximum future claims based NPLs 181 days in arrears as at 03/03/2018 (50% of \$302,419)	\$30,241 (estimated)	
Origination Fee being 1% of the combined 50% Guarantee Ceiling (\$4,543,800). (Total loan guarantee being \$9,087,600)		\$45,438 (paid to Sida)
Utilization fees, as per the Guarantee Agreement ⁹ and charged to date by USAID		\$ 71,051 approximately of which \$15,804 is currently unpaid
Total	\$105,200	\$116,489

⁹Utilization Fee: One percent (1%) per annum of the combined average outstanding principal amount that is guaranteed by the Guarantors. This amount is to be calculated by multiplying the utilization fee rate of one half of one percent (0.50%) per annum by the combined Guarantee Percentage (50%) of the average of the principal amount outstanding of all Qualifying Loans at the end of the two most recent Guarantee Periods. The fee is payable semi-annually, as billed.

For illustrative purposes only, a hypothetical Utilization fee is calculated as follows:

- 1% per annum fee of average outstanding principal amount guaranteed.
- Outstanding Principal Amount for the two most recently ended Guarantee Periods are \$300,000 and \$100,000; resulting in an average of \$200,000.
- Combined Guarantee Percentage is 50%.
- Utilization Fee for the six month period is 0.5% (i.e. half of the 1% per annum rate) of 50% of \$200,000, which equals \$500.

Note: All fees are paid in Zambian Kwacha.

There is no breakdown of these claim figures between the different category of borrower (i.e. smallholder farmers vs. emergent farmers), although from claims paid to date it appears that DFAs account for over 50% of defaults. Claims under DCA/AfDB's previous Guarantee Agreement with Zanaco signed in 2009 were zero. Despite the high level of claims, the fees paid by Zanaco exceed the claim pay-outs that they have received.

However, none of the above answers the question around value for money. It is not possible to make an analysis of value for money as:

- There is no real structure or following up mechanism for monitoring the whole chain down to the farmer.
- The objective and target indicators are stated in the cooperation agreement between Zanaco, USAID and Sida. However, the evaluator's assessment is that there are differences concerning the target indicators in the programme and that the two donors have different objectives. The target for DCA is the degree of utilization of the Guarantee, whereas Sida expected that the utilization also focused on the targets regarding gender and geographic location. Thus there is a risk of little value for money in the outcome of the programme due to lack of monitoring, transparency and deviations and/or ambiguities concerning objectives among the stakeholders.
- Although the utilization target was fully met therefore leading to an increase in lending to the target sectors, we have no means of assessing whether the outcome of that increased lending was positive or negative, particularly due to the high default rates and the risks to the credit ratings of some DFAs and other individual farmers. Also, we do not have an understanding of where Zanaco is heading with regard to a future lending strategy regarding these two target sectors.

- 2) How has the target of reaching out to female beneficiaries and beneficiaries in the Eastern Province been achieved and managed by Zanaco?

As referenced above, these targets have not been emphasised by Zanaco and no effective monitoring was undertaken by USAID or Sida.

- 3) What targets have been established by Zanaco for the performance of the Bank in terms of loan appraisal procedures and follow-up monitoring of borrowers. Have these targets been met.

No targets have been established by Zanaco for its monitoring of the programme.

It is understood that when loan repayments are overdue the bank initiates follow-up procedures to obtain repayment and that these procedures are very prompt and time-consuming for borrowers to respond to. Two borrowers with outstanding repayments (and with collateral to offer a lender), who were interviewed during this study stated that they had refinanced their overdue payments or transferred their entire loan to an alternative provider.

- 4) What targets have been established for the performance of the guarantee in terms of its financial impact, claim payments, etc. To what extent have these targets been achieved.

No targets existed for these indicators. The only indicator measured by DCA was actual utilization of the Guarantee which in this instance was achieved well in advance of the expiry of the guarantee, therefore achieving a positive financial impact.

Zanaco have stated that the procedures for making claims are very lengthy and require extensive paperwork which is time consuming for the Bank to collate. In defence of this level of detail, DCA state that they have to delve into the details of each claim until such time that they are satisfied that the claim is genuine.

7 Impact and Sustainability

7.1 IMPACT

This study set out to answer two questions related to impact:

- 1) How has Zanaco's attitude and behaviour in the market changed as a result of this guarantee, with respect to small and medium scale farmers and female customers?

In response to this question the Zanaco Bank staff interviewed provided the explanation that the Bank currently had a consultant working on recommendations for the bank to consider regarding its strategy for lending to these target sectors. They were not able at this time to provide any further detail.

From the DCA's CMS it can be seen that Zanaco continued to lend to a smaller number of DFAs in 2015/16 and 2016/17, but with a high level of claims. This is under a third Portfolio Loan Guarantee that DCA has provided to Zanaco amounting to \$35 million. It is assumed that they managed these loans without using ZNFU as an intermediary. In the current year, 2017/18 no DFA loans are shown, but there are a small number of loans provided to Emergent Farmers

From the above it is evidenced that Zanaco continues to explore opportunities to service the financial requirements of both smallholders and emergent farmers, which indicates that the provision of the three guarantee programmes since 2009 has had a positive impact. Given the high level of claims it is uncertain how they will proceed.

Zanaco is in the process of recruiting around 6 regional banking officers who are graduates in agriculture related disciplines who will support lending to agriculture outside Lusaka. It is understood that these officers will be primarily responsible for supporting commercial farmers, but they may also work with some emergent farmers.

- 2) Has the provision of a guarantee fund increased the flow of investment funds to the target sectors?

Yes, the flow of funds into the target sectors increased significantly from 2012 to 2015 (by over \$9 million if you assume that no lending would be occurred without the existence of the guarantee). Although the high level of claims appears to have significantly reduced available funds in the current period.

7.2 SUSTAINABILITY

This study set out to answer two questions related to effectiveness:

- 1) Is it likely that Zanaco will continue to lend money to small and medium scale farmers in the way they have done under the guarantee?

It does not seem advisable for Zanaco to lend money to smallholder farmers through DFAs with an independent intermediary organisation, such as ZNFU controlling so much of the business but offering so little transparency or accountability. This evaluation team were not informed how Zanaco plans to proceed in the future.

Regarding emergent farmers, the Bank is continuing to lend but with high demands for collateral and other costs to the borrowers, beyond the current very high levels of interest. The outcome of the equipment loans provided with much lower collateral requirements is not known and cannot be determined from the information available in the CMS. At the time of writing there are some high outstanding balances but the repayment schedules are not provided.

- 2) What effect does this loan guarantee have on the wider financial sector, if any? Is there a tendency in the Financial sector as a whole to open up for new target groups of customers?

The Zanaco clients interviewed had few options within the wider financial sector to obtain MSME lending. One client had successfully refinanced a loan with another bank, but this individual was in possession of a significant level of collateral and appeared to be an exception rather than the rule. There was certainly little competition within the financial sector to reach out to these types of client, and there was no evidence of micro-finance institution (MFIs) working with smallholder clients in the areas visited by this evaluation. Undoubtedly, some MFIs will be active in some areas, but their coverage is not widespread and there is no evidence that their behaviour has been influenced by the outcome of this Portfolio Loan Guarantee. The loans through Natsave (National Savings Bank) and banks like FNB (First National Bank) and other agricultural firms are limited to equipment financing, yet majority of the smallholders prefer loans for inputs such as fertilizer and hybrid seeds.

In addition, the evaluation specifically assessed the following two mainstreaming issues:

- 1) Has the guarantee had any positive or negative effects on gender equality? Could gender mainstreaming have been improved in planning, implementation or follow up?

Effectively, no consideration was given to gender equality in the implementation of this programme. If this issue is to be addressed in the future, it must be linked with actual training for banking staff in gender mainstreaming and regular monitoring of outcomes.

- 2) Has the guarantee had any positive or negative effects on the environment?
Could environment considerations have been improved in planning, implementation or follow up?

The impact of climatic conditions has had a significant effect on the successes and failures of the lending under this Portfolio Loan Guarantee. In the years 2012, 2013 and 2014 the climate was favourable resulting in good harvests and relatively low levels of claims. However, since 2015 the rains have been less reliable and non-performing loans, particularly in 2015 were very high. A programme of technical assistance to support farmers in adapting their agricultural techniques to cope with unpredictable climatic conditions could be useful. The Conservation Farming Unit Zambia is working in some districts to assist smallholder farmers in this regard.

8 Conclusions

The overarching objective as stated by Sida in this assignment's Terms of Reference is to determine to what extent this guarantee has contributed to:

- Changes in the bank's loan appraisal methodology, assessment of risk, capacity to interact effectively with rural clients, etc. Thereby, better enabling the bank to provide loans to people that are not its traditional customers.
- Systemic change in the financial market as it pertains to the banking sector's risk assessment of agricultural lending, including lending to female farmers and to more remote geographic areas.

There is no convincing evidence from this study that this guarantee has altered this Bank's behaviour or the banking sector's risk assessment regarding agricultural lending.

Behaviour Changes in Lending Institutions:

This guarantee programme has provided Zanaco with an entry into the Emergent Farmer sector which they will have learnt from.

However, banking institutions like Zanaco need to assess whether they have the infrastructure to support smallholder farmers. Given the complex requirements of lending to the smallholder sector it is questionable whether a large commercial bank can develop the levels of client interface and transparency required to ensure that such lending is transparent and fair. Other financial institutions which are focused on lending to the micro-finance sector are likely to be much better placed to reach out to smallholders, but there is little evidence that they currently have the geographic outreach to effectively service this market.

Banking institutions have had long exposure to the high levels of risks from lending to the agricultural sector and have learnt to rely a great deal on the availability of strong collateral along with the individual borrower's credit history. This Portfolio Loan Guarantee did not provide any other training or technical support to any of the

stakeholders and was not offered to any other financial institution, so there is little to suggest that it will have altered the bank's strategic behaviour.

Given that the smallholder's lending relied on one intermediary, ZNFU, there was very high counterparty risk¹⁰ for the guarantee programme (and the stakeholders). The risk was triggered when the organization (ZNFU) started to unravel due to internal maladministration largely unconnected to this evaluation. This counterparty risk was increased significantly as the MoU between ZNFU and Zanaco apparently stipulated that there should be no direct contact between the bank and the target group. Thus, ZNFU was given a free hand to handle cash flows and information flows regarding the loans. The fact that Sida/USAID partnered with just one bank and the bank in turn relayed on one intermediary added to the counterparty risk.

Due to lack of documentation it is not possible to evaluate how effective Zanaco's terms on the guaranteed loans were for the borrowers, for instance, concerning the interest rate margin. However experience from guarantee programmes, in for example Ethiopia¹¹, is that bringing in more than one bank on a guarantee programme promotes competition and efficiency in favour of the target group. DCA's Evaluation Report from May 2016 (Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia) is a useful reference in this respect and can be downloaded [here](#).

There is a significant lack of structured monitoring and follow up mechanisms linked to the programme and thus a significant lack of transparency. The lending process involved several actors Zanaco, ZNFU, DFA's which increases the demand for proper and structured control mechanisms. The lack of transparency and competition in the process increases the risk for efficiency losses for example additional fees added in the loan process.

10 Counterparty risk is the risk to each party of a contract: that the counterparty will not live up to its contractual obligations. Counterparty risk is a risk to both parties and should be considered when evaluating a contract.

11 Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia USAID/DCA Ethiopia. May 2016.

Behaviour Changes in Borrowers:

Several DFA's referred to the fact that having previously accessed finance through Zanaco Bank, which at the time of this study was no longer available to them, that they felt confident to approach input suppliers directly to request credit. Some limited success was achieved with a small number of the best performing borrowers of 'Lima' Loans obtaining inputs with 70% deposit paid in advance and the remainder paid post-harvest.

There was a lack of TA linked to the guarantee programme. The lack of financial literacy among borrowers puts high demands on TA and education directed at the target group. For example, a minimum requirement should be that the borrower properly understands the potential cost of their loans.

9 Recommendations

Banking institutions like Zanaco need to assess whether they have the infrastructure to support smallholder farmers, perhaps they should focus on servicing Emergent Farmers. Sometimes small positive achievements can be obscured by a focus on negative outcomes. This guarantee programme has provided Zanaco with an entry into the Emergent Farmer sector which they will have learnt from.

It is very challenging for a large commercial bank to develop the right operational structure to be able to ensure that a lending programme targeting many thousands of smallholders can really be monitored adequately. There is a danger in using an intermediary agent if they do not have the resources to monitor their agent's activities closely. The micro-finance sector could be encouraged by donors to do more to support smallholders. They are more likely to be able to set up procedures that are transparent and have greater safeguarding measures. They should be much closer to the ground in the way they operate. Alternatively, working more on warehouse receipt systems to enable farmers to access credit for the following season, without resorting to selling immediately post-harvest when prices will be low, might be further pursued. But there are no easy answers to this issue.

Technical assistance measures need to be harmonised with the timing of the guarantee programmes and the role of in-country mission in monitoring the guarantee need to be clarified and better understood by all.

Training needs to be provided through technical assistance programmes to enable bank staff to effectively manage agricultural loans and to be exposed to best practices. Borrowers also need training to fully understand financial products and how they can utilise them effectively.

On loans of up to one year provided to smallholders, consideration could be given to fixing the interest rate thereby ensuring that the cost of the loan is known to the borrower in advance (provided repayment is made on-time).

Training in climate adaptation, which is already happening in Zambia could be extended to more farmers.

The requirements for monitoring and the collection of data needs to be established in collaboration with the banking institution to ensure that it is feasible to collect the

information required. In the case of DCA's CMS it is understood that Zanaco was not able to supply all the data requested.

Efforts should be made to diversify distribution through engaging more distribution channels to the target group in order to reduce the counterpart risk. Also, to achieve greater efficiency gains in loan management vis-à-vis the borrowers. The donors should strive to engage more than one bank in the guarantee programme as this may foster a competitive behavior among participating banks and thus promote more sustainable development in the financial sector.

In connection with loan distribution, there should be an element of direct communication between the bank and the borrower to ensure that the actual borrower fully understands the terms and conditions of the loans. In addition to better transparency, there is greater opportunity to ensure that borrowers do not incur charges that they were unaware of. Such an arrangement can also promote the transfer of knowledge regarding access to finance.

In the preparatory work for setting up a guarantee programme it is vital that all stakeholders fully agree about the objectives of the programme. Furthermore, it is of great importance to implement a well-structured monitoring and follow-up system. Not least when, as in the present case with DFAs there are several crucial links in the process chain and a significant counterparty risk.

Since the interest rate is not covered by Sida / USAID credit guarantee, the actual guarantee is below the stated level of 50 percent. Considered could be given to adjusting the credit guarantee to apply to the interest earned as well.

The DCA's evaluation report (2016) which reviews guarantees that it has supported in Ethiopia contains an ambitious list of recommendations many of which could be relevant to Sida's work. As mentioned above, the feasibility of collecting information needs to be reviewed in depth and in partnership with the financial institution to ensure that it is aligned as far as possible to bank's existing systems.

10 Lessons Learnt

There are differences concerning the target indicators in the programme. The objective and target indicators are stated in the cooperation agreement between Zanaco, USAID and Sida. However, the evaluator's assessment is that there are differences concerning the target indicators in the programme. The target for DCA is the degree of utilization of the programme, whereas Sida expected that the utilization also focused on the targets regarding gender and geographic location.. This resulted, among other things, in significant loss of effectiveness from the donor's perspective. In the preparatory work for setting up a guarantee programme it is vital that all stakeholders fully agree the objectives of the programme.

Furthermore, it is of great importance to implement a well-structured monitoring and follow-up system in the whole financial value chain. Not least when, as in the case of DFAs, there are several crucial links in the delivery chain and a significant counterparty risk. There needs to be an element of direct communication between the bank and the borrower to ensure that the actual borrower fully understands the terms and conditions. In addition to better transparency, there is greater opportunity to ensure that borrowers do not incur charges that they were unaware of. Such an arrangement can also promote the transfer of knowledge regarding access to finance.

Efforts should be made to diversify distribution through offering more distribution channels to the target group in order to reduce the counterpart risk. In the longer term this can also achieve greater efficiency gains in loan management vis-à-vis the borrowers, as best practices will emerge.

Competition between lenders needs to be encouraged and if successful this should remove the possibility that a lender is offering terms and conditions which are unfair or excessively in the lender's favour. This can also promote more sustainable development in the financial sector.

Smallholders, due to their high level of vulnerability are very risk adverse. If they are to be encouraged to enter into lending agreements, it would be helpful if crop loans of up to one year could have the interest rate fixed for the tenor of the loan

Annex 1- Semi structured interview guide

Please note: these extensive lists only provide a guide - not all questions were relevant to individual interviewees and discussions led-on to other questions.

Sida Lusaka/Head Quarters

1. What role in the G/F has been provided by Sida
2. How was Zanaco selected as the primary bank to administer the G/F? Was there a possibility of implementing the fund with more banks in Zambia
3. How have the institutional arrangements regarding the management of the funds worked? What in particular has worked well, and what has not?
4. Do you feel that you have sufficient data on this portfolio Guarantee to enable your office to have a proper overview of its operation?
5. Based on your observations from reports, etc. what do you think has worked well as far as Zanaco Bank is concerned? Could things be done better next time?
6. Do you think the G/F has achieved its purposes?
7. Based on the collaborative meetings in Lusaka, do you think there has been a behavioural change in Zanaco to improve access to finance by small scale and emergent farmers?
8. Is there sufficient technical expertise within Sida on guarantee funds mechanisms?
9. What recommendations does Sida have on future design and monitoring of Portfolio Guarantees

USAID Staff in Washington and Lusaka

1. USAID is acting as an 'agent' to Sida. What are the roles of the agent? Do you have a document agreeing these roles with Sida?
2. What are the respective roles of officers in USAID Washington and USAID Lusaka with regard to the G/F?
3. Does the agent retain the 'Utilisation Fee' paid by Zanaco, or is it transferred to Sida? Do you have a schedule of payments regarding this utilisation fee?
4. What routine monitoring does USAID undertake? Please provide a list of all the indicators that are routinely monitored.
5. Do you undertake 'exceptional' monitoring to address any particular concerns? If yes, please describe in detail.

6. Were the conditionalities placed on this G/F met by Zanaco (ie 20% female and 20% to Eastern Province)? If not, what action was taken to address any shortfall?
7. What is the status of loan collateral on loans that are declared to be in default? How is this collateral secured? Who is responsible for collecting collateral and how are the amounts collected divided between the parties? Please send the team all reports prepared by Zanaco regarding their collateral held against outstanding loans and their collections on defaulted loans. What is the overall recovery rate of collateral to date?
8. Do USAID normally expect their Guarantee Funds to be leveraged? What is an average leverage rate on all USAID G/Fs. Why was it decided not to leverage this particular fund?
9. Are Guarantee Funds considered by the Central Bank in Zambia when they are assessing capital adequacy ratios of commercial banks?
10. What is your view regarding the interest rate charged by Zanaco?
11. In relation to the scope of the Evaluation, has ZANACO really opened up access to finances to small scale and emergent farmers that would not otherwise have accessed credit? What is the evidence to show that?
12. Based on experiences, does USAID expect Zanaco to be willing to take the full risks for providing services and products to new clients in this target group?
13. To what extent have the loans and services provided under the guarantee fund conformed to the needs and priorities of the beneficiaries?
14. What challenges and possible improvements for monitoring the results of the G/F can be noted? (USAID Washington/USAID Zambia)
15. What technical assistance has been provided by USAID? And how effective has that been?
16. What recommendations does USAID have on the future design and monitoring of the G/F

Zanaco's Senior Management

1. How centralised is your lending programme, and in particular your loans backed by a G/F? Why do you use this approach?
2. Do you normally use intermediaries such as ZNFU to increase your outreach to farmers? How does this arrangement work? How was ZNFU identified as an intermediary? Is there any MOU?
3. How were the individual clients identified throughout the country?
4. Do intermediary organisations also become responsible for following up on late payments or providing any kind of other support to borrowers?
5. What follow-up, if any, does your bank provide directly to borrowers. How do you think that follow-up can be best provided – and through what institution?
6. What percentage of loans were received by 'smallholders' as opposed to 'emergent' farmers in under this G/F (LIMA)?

7. What minimum level of collateral do you normally expect on loans, and is this different for agri loans. Have you reduced collateral due to your experience with this guarantee.
8. What is the status of loan collateral on loans that are declared to be in default? How is this collateral secured? Who is responsible for collecting collateral and how are the amounts collected divided between the parties? Please send the team all reports prepared by Zanaco regarding collateral held against outstanding loans and their collections on defaulted loans. What is the overall recovery rate of collateral to date?
9. Do you think that any improvements could be made to the operation of G/Fs in the future?
10. Do you think that USAID or Sida could do more to support smallholder farmers through the banking sector in the future? If so, how?
11. Do you have a strategy to develop the local economy around your individual branches, and if so, do you have targets for this?
12. Do you prefer to lend to cooperatives/groups or to individual farmers? What is your experience of the loan performance of groups verses individuals (emergent farmers)? And Males versus females?
13. Do you plan any future programmes in order to support smallholder and emergent farmers? In a similar approach as done through this G/F?
14. How can you ensure that women farmers are engaged with enterprise development loans?
15. What do you find as the overall impact of the G/F in terms of direct or indirect, negative and positive results?
16. Will Zanaco continue to lend money to small and medium scale farmers in the way you have done under the guarantee.
17. Has Zanaco's attitude and behaviour in the market changed as a result of this G/F with respect to small and medium scale farmers and female customers?
18. What technical support has been provided by USAID on the implementation of the G/F
19. What recommendations does ZANACO have for any future designs and G/Fs

Bank's Branch Staff

1. What are your bank's priorities?
2. Do you think that a GF is appropriate for smallholders in your area? How?
3. What targets (if any) do you have terms of loan numbers and total amount to be supported?
4. Do you think that any particular value chains are better for loan investments?
5. Do you work with other organisations in order to reach out to smallholders?
6. What other organisations offer loans to smallholders in this area?
7. What impact of your lending programme have you witnessed in your area?
8. Where do you see challenges and what are the causes? How can these be mitigated?

9. Do you provide any direct follow up and support to farmers who fail to make on-time loan repayments?
10. What support do you receive from your HQ?

ZNFU or other agents working with Zanaco

1. How and why did your organisation get involved with Zanaco? Do you have an MOU with ZANACO?
2. Why did ZNFU decide to recommend groups as opposed to individuals?
3. What were the roles of ZNFU on the G/F? is ZNFU still performing those roles? If not, why not?
4. What training did you receive and was it useful? What improvements would you suggest?
5. How does your organisation identify potential clients to assist?
6. What support does your organisation provide?
7. How do you interact with Zanaco? What rewards do you receive (fees)?
8. To what degree do you provide follow-up to Zanaco's borrowers that you have identified? What would motivate you to do this more? Have any of the clients that you introduced to Zanaco failed to make loan repayments, and if so why?
9. Which borrowers are most likely to succeed and what factors create the conditions in which success is more likely – what are the characteristic which create success?
10. What recommendations does ZNFU have for future engagements on the G/F

Loan Beneficiaries

1. How did you learn about the loan at Zanaco?
2. What, if any, training did you receive regarding banking and borrowing and how did it help? Have you received any follow-up and if so, was this useful?
3. Did you have prior skills / knowledge in agri-business and had you run a business of any type previously?
4. How well is your current agri-business performing and has this been improved by the loan that you received? How much was the loan and how have you used the loan funds? How long have you been running your own business?
5. Have you repaid your loan or you are still servicing it? Why or why not?
6. Was this your first loan from a bank? If not where else have you sourced funds from for your business?
7. Did you previously have a bank account? Do you have one now?
8. Did you get start-up capital from any source other than Zanaco, if so, from where?
9. What business support networks do you belong to – formal or informal. What specific support would you like to receive?
10. How do you market your agri- products and do you receive any assistance with marketing?
11. What constraints do you currently face and how could these be overcome? Do you feel that you can overcome the constraints that you currently face?
12. Has your net income increased due to involvement with Zanaco? Do you earn a living wage now that you are running a business? What family financial

responsibilities do you have and do the loan repayments increase your constraints?

13. How do you see your agri-business growing over future years?

14. What benefits has your loan brought to your business?

Annex 2 - Field visits conducted

Action/Type of Client	Activity	Type of Loan	District	Province	Responsible for identifying clients	Date
Travel to Luanshya	Interviewees					
Groups/cooperatives/ Farmers Associations	Fisenge Women's Dairy Cooperative	Group	Luanshya	Copperbelt	ZNFU	25 January 2018 (Morning)
Groups/cooperatives/ Farmers Associations	Chibombo District Farmers Association	Group	Chibombo	Central	ZNFU	26 January
Emergent Farmers	Two, at least one female, to be interviewed	Individual	Chisamba	Central	ZANACO	27 January
Travel to Eastern Province						28 January
Groups/cooperatives/ Farmers Associations	Chadiza District Farmers Assoc. (50% female clients to be interviewed)	Group	Chadiza	Eastern	ZNFU	30 January
Small Holder Farmers	Two, at least one female, to be interviewed	Individual	Chipata	Eastern	ZANACO	31 January
Emergent Farmers	Two, at least one female, to be interviewed	Individual	Chipata	Lusaka	ZANACO	1 February
Groups/cooperatives/ Farmers Associations	Chongwe District Farmers Assoc.	Group	Chongwe	Lusaka	ZNFU	1 February

Annex 3 - Documents Consulted

Author/ Organisation	Title	Date of Publication
Sudha Bala Krishnan and Teresa Peterburs World Bank Group	Zambian Jobs in Value Chains	2017
UNDP	UN Human Development Report 2016	2016
Nicholas J. Sitko and T.S. Jayne Indaba Agricultural Research Institute	The Rising Class of Emergent Farmers: An Effective Model for Achieving Agricultural Growth and Poverty Reduction in Africa? Working Paper 69	October 2012
The Government of the Republic of Zambia's Financial Sector Development Plan (FSDP) Project	FinScope Report	2015
Carnegie Consult/Sida	Evaluation of Sida's use of guarantees for market development and poverty reduction	2016
Zanaco Bank	Annual Report	2015
Sida	Appraisal of Intervention Agriculture sector guarantee with Zambia National Commercial Bank in cooperation with USAID in Zambia	September 2012
USAID / Sida	MoU and Cooperation Agreement between USAID and Sida	March 2010
USAID / Sida / Zanaco Bank	GUARANTEE AGREEMENT Sida Guarantee Ref: 2012-001009 USAID Guarantee No: 611-DCA-12-010	2012
Sida	Sida's Guarantee Portfolio 2015	2015
USAID	Zanaco DCA Draft Monitoring Plan	2012
USAID	Opening Doors: A Performance Evaluation of the Development Credit Authority (DCA) in Ethiopia	May 2016
DCA	Guide to Credit Monitoring System	2017
USAID	USAID's Risk Assessment of Zanaco (abridged by DCA)	2012
The Government of the Republic of Zambia	National Financial Inclusion Strategy 2017-2022	2017
The Government of the Republic of Zambia	The Zambian National Development Plan 2017-2021	2017
Central Intelligence Agency	World Factbook, 2015	2015
Sida	External Review of Core Support under Joint Financial Agreement to Zambia National Farmers Union	2012
Bank of Zambia	Monetary Policy Statement,	November 22, 2017
African Development Bank	Paper on the Zambia credit market	2016

Annex 4 - Persons Consulted

Person	Organisation	Designation
Cecilia Brumer	Sida	
Malena Rosman	Sida Head Quarters	Deputy Head
Leila Ahlstrom	USAID / DCA (via Skype)	Relationship Manager, Africa
Scott Haller	USAID / DCA (via Skype)	Compliance Team Lead
Anafrida Bwenge	USAID Zambia Mission	Feed the Future Division Chief
Mlotha Damaseke	USAID Zambia Mission	Agricultural Specialist
Chali Mwefweni	Zanaco	Head Commercial & Agricultural Banking
Chola Chisanga	Zanaco	Credit Administration and Documentation Head
Edwin G. Mulenga	Zanaco	Head Corporate Commercial and Agricultural Banking
Ali Sikalangwe	Zanaco: Kabwe Branch	Senior Relationship Manager
Jeremiah Kasalo	Dairy Association of Zambia (ZNFU)	Executive Manager
Betty Wilkinson	Financial Sector Deepening (fsd) Zambia	Chief Executive Officer
Bennet Murale	MFinance Co.	Head of SME Business Development
Rob Munro	Musika	Director - Strategy
James Luhana	Musika	Operations Manager
Michael Mainga	DFA Chibombo	Chairman
Phineas Muyabi	DFA Chibombo	Secretary
Mickmos Simango	DFA Chibombo: Lwamabwe Info. Centre	Chairman
Anastasia Simango	DFA Chibombo: Lwamabwe Info. Centre	Secretary
Julius Phiri	DFA Chibombo: Lwamabwe Info. Centre	Member
Peggy Murape	Fisenge Milk Collection Centre	Chairwoman
Maurine MWanakasheaga	Fisenge Milk Collection Centre	Vice Chairwoman
Evelyn Malambo	Fisenge Milk Collection Centre	Member (Rep: Dairy Association)

Annex 5 - Terms of Reference

Terms of Reference for the Evaluation of the Sida-USAID/DCA Guarantee to Zanaco

Date: 3rd October, 2017

Case Number: UF2013/10625

1. Evaluation purpose: Intended use and intended users

The intended use of the evaluation is for Sida and USAID to get more insights in the effectiveness of using the guarantee instrument in Zambia and to provide Zambia National Commercial Bank (Zanaco) with guidance on their future endeavors in providing loans to small scale farmers in Zambia. The insights shall serve two purposes:

- To provide Zanaco with recommendations for future engagement with small scale farmers as clients.
- To draw lessons on what has worked well and what has not worked for future design and monitoring of guarantees by Sida and USAID.

The primary intended users of the evaluation are:

- Sida
- The USAID (Zambia and Washington)
- Zanaco bank
- The Swedish Embassy in Zambia

The evaluation is to be designed, conducted and reported to meet the needs of the intended users and tenderers shall elaborate on how this will be ensured during the evaluation process.

2. Evaluation object and scope

The evaluation object is the guarantee provided to Zanaco by USAID and Sida jointly. The evaluation will assess the performance of the guarantee during the period 2013-2017.

The objective of the guarantee is to open up the access to finances for small and medium scale farmers that would not otherwise have accessed credit. By sharing the risk with a local commercial bank, USAID and Sida aim at facilitating the access for

farmers to loans intended for investment in the farmers' farming operations, contributing to increased economic growth among small and medium scale farmers in Zambia. Risk sharing in this case means that when a farmer fails to pay back a loan, the coverage of the default is shared between Sida (30%); USAID (20%) and Zanaco (50%).

For this guarantee it was established that at least 20% of the loans should go to clients in the Eastern province of Zambia and at least 20% of the guaranteed loans must be made to women or women-owned enterprises.

The long term goal is for Zanaco and other financial institutions to be willing to take the full risks for providing services and products to new client groups, hence achieving systemic change in the financial market.

The scope of the evaluation is the implementation arrangements including the management and follow up of the guarantee.

For further information, the Appraisal of intervention, the Guarantee Agreement between USAID-Sida and Zanaco and the Memorandum of Understanding and Cooperation Agreement between USAID and Sida are attached as Annex D. The scope of the evaluation and the theory of change of the project/programme shall be further elaborated by the evaluator in the inception report.

3. Evaluation objective and questions

The objective of this evaluation is to assess the relevance, effectiveness, efficiency, impact and sustainability of the USAID-Sida guarantee to Zanaco with the overarching objective of finding out to what extent the guarantee has contributed to:

- Changes in the behaviour of the banks in providing loans to people that are not traditional bank customers.
- A systemic change in the financial market.
-

The specific evaluation questions will include, but not be limited to the following aspects:

Relevance

- Review briefly the wider potentials and challenges of access to finance by the poor in Zambia, including macro-economic factors that have influenced the market during the period of the guarantee.
- To which extent have the loans (and services) provided under the guarantee conformed to the needs and priorities of the beneficiaries?
- How has the target of reaching out to female beneficiaries and beneficiaries in the Eastern province been achieved and managed by Zanaco?

- How have the expected results been monitored by Sida/The Swedish Embassy and USAID as the agent for Sida? What are the challenges and possible improvements?

Efficiency

- Undertake a simple analysis of value for money; i.e an analysis of the value of funds budgeted and spent against the benefit of the attained outcomes.

Effectiveness

- To what extent has the programme contributed to the access to finance by small and medium scale farmers in Zambia?
- How effective has the technical assistance provided by USAID been?
- Has the guarantee increased the proportion of female borrowers in the SME portfolio of Zanaco?

Impact

- What is the overall impact of the guarantee in terms of direct or indirect, negative and positive results?
- How has Zanaco's attitude and behaviour in the market changed as a result of this guarantee, with respect to small and medium scale farmers and female customers?

Sustainability

- Is it likely that Zanaco will continue to lend money to small and medium scale farmers in the way they have done under the guarantee?
- What effect does this loan guarantee have on the wider financial sector, if any? Is there a tendency in the Financial sector as a whole to open up for new target groups of customers?

In addition, the evaluation shall specifically assess the following two mainstreaming issues:

- Has the guarantee had any positive or negative effects on gender equality? Could gender mainstreaming have been improved in planning, implementation or follow up?
- Has the guarantee had any positive or negative effects on the environment? Could environment considerations have been improved in planning, implementation or follow up?

Questions are expected to be developed in the tender by the tenderer and further developed during the inception phase of the evaluation.

4. Methodology and methods for data collection and analysis

It is expected that the evaluator describes and justifies an appropriate methodology and methods for data collection in the tender. The evaluation design, methodology and methods for data collection and analysis are expected to be fully presented in the inception report.

The Embassy's approach to evaluation is utilization-focused which means the evaluator should facilitate the entire evaluation process with careful consideration of how everything that is done will affect the use of the evaluation. It is therefore, expected that the evaluators, in their tender, present i) how intended users are to participate in and contribute to the evaluation process and ii) methodology and methods for data collection that create space for reflection, discussion and learning between the intended users of the evaluation.

Evaluators should take into consideration appropriate measures for collecting data in cases where sensitive or confidential issues are addressed, and avoid presenting information that may be harmful to some stakeholder groups.

The evaluators are expected to get data from Sida and USAID and travel to Lusaka to meet with Zanaco, USAID, the Embassy of Sweden and visit a reasonable number of beneficiaries.

5. Organisation of evaluation management

This evaluation is commissioned by the Embassy of Sweden in Lusaka. The intended user(s) are the Embassy of Sweden, the Loans and Guarantee Unit of Sida, the Development Credit Authority (DCA) of USAID, USAID Zambia and Zanaco. Sida and USAID have agreed on the ToR for this evaluation and will evaluate tenders and approve the inception report and the final report of the evaluation. The Embassy of Sweden, Sida, USAID and Zanaco will be participating in the start-up meeting of the evaluation as well as in the debriefing workshop where preliminary findings and conclusions will be discussed. The Embassy of Sweden shall be responsible for the management of the Contract including all administration issues related to the evaluation. The Embassy of Sweden's primary point of contact will be the First Secretary in Agriculture, Inclusive Growth and Environment, Ms. Cecilia Brumér (cecilia.brumer@gov.se).

To safeguard independence, Sida, USAID and Zanaco will play an ongoing advisory role and at a minimum reviewing the choice of the stakeholders to interview. The Embassy will reserve the right to contact the evaluation team independently for a progress update at any point during the evaluation period.

In line with the Embassy's standard approach, this evaluation will be carried out in a spirit of partnership and participation. The users will be given the opportunity to

comment on the inception and draft reports before final reports are submitted; ensuring reports are as accurate, relevant and useful as possible. The Embassy will provide a management response for the evaluation, per Sida's standard evaluation protocol.

6. Evaluation quality

All Embassy's evaluations shall conform to OECD/DAC's Quality Standards for Development Evaluation¹². The evaluators shall use the Sida OECD/DAC Glossary of Key Terms in Evaluation¹³. The evaluators shall specify how quality assurance will be handled by them during the evaluation process.

¹² DAC Quality Standards for development Evaluation, OECD 2010

¹³ Glossary of Key Terms in Evaluation and Results Based Management, Sida in cooperation with OECD/DAC, 2014

7. Time schedule and deliverables

The evaluation is expected to take place between November 2017 and March 2018. The Consultant should provide an overall time and workplan which should include significant delivery dates for an inception report, field visits and other planned meetings.

It is expected that a time and work plan is presented in the tender and further detailed in the inception report. The timing of field visits, surveys and interviews need to be settled by the evaluator in dialogues with the main stakeholders during the inception phase.

The Consultant will be expected to provide a suggested schedule of work based on the following deadlines.

Deliverables	Participants	Deadlines
1. Start-up meeting (virtual)	USAID, Sida, Embassy of Sweden and Evaluators	10 th November, 2017
2. Submission of Draft inception report	Evaluators	8 th December, 2017
3. Inception meeting (virtual)	USAID, Sida, Embassy of Sweden and Evaluators	12 th December, 2017
4. Comments from intended users to evaluators	USAID, Sida, Embassy of Sweden and Evaluators	22 nd December, 2017
5. Finalisation and submission of Final inception report	Evaluators	17 th January, 2018
6. Field collection of Primary Data	Evaluators	22 nd of January to 3 rd February, 2018
7. Debriefing Meeting and initial feedback (Lusaka)	USAID, Sida, Embassy of Sweden and Evaluators	5 th February, 2018
8. Submission of Draft Evaluation Report	Evaluators	15 th February, 2018
9. Comments from intended users to evaluators	USAID, Sida, Embassy of Sweden and Evaluators	2 nd March, 2018
10. Final evaluation report	Evaluators	16 th March, 2018

Note: The inception meeting and reports can be discussion by video conference, tele-conference or other means.

The deliverables include an inception report, a draft report and a final report on the evaluation. The report should take into account an inception meeting, field work, and feedback on draft reports.

The report should be written in English in as simple and accessible language as possible.

The final report will be published and made publicly available through Sida's evaluation database.

The inception report will form the basis for the continued evaluation process and shall be approved by the Embassy before the evaluation proceeds to implementation. The inception report should be written in English and cover evaluability issues and interpretations of evaluation questions, present the methodology, methods for data collection and analysis as well as the full evaluation design. A specific time and work plan for the remainder of the evaluation should be presented which also cater for the need to create space for reflection and learning between the intended users of the evaluation.

The final report shall be written in English and be professionally proof read. The final report should have clear structure and follow the report format in the Sida Decentralised Evaluation Report Template for decentralised evaluations (see Annex C). The methodology used shall be described and explained, and all limitations shall be made explicit and the consequences of these limitations discussed. Recommendations should be specific, directed to relevant stakeholders and categorised as a short-term, medium-term and long-term. The report should be no more than 35 pages excluding annexes. The evaluator shall adhere to the Sida OECD/DAC Glossary of Key Terms in Evaluation¹⁴.

The evaluator shall, upon approval of the final report, insert the report into the Sida Decentralised Evaluation Report for decentralised evaluations and submit it to Citrus (in pdf-format) for publication and release in the Sida publication data base. The order is placed by sending the approved report to sida@citrus.com, always with a copy to the Sida Programme Officer as well as Sida's evaluation unit (evaluation@sida.se). Write "Sida decentralised evaluations" in the email subject field and include the name of the consulting company as well as the full evaluation title in the email. For invoicing purposes, the evaluator needs to include the invoice reference "ZZ610601S," type of allocation "sakanslag" and type of order "digital publicering/publikationsdatabas."

8. Evaluation Team Qualification

The team should comprise of more than one consultant. An International development expert with proven record of undertaking similar works in the region

¹⁴ Glossary of Key Terms in Evaluation and Results Based Management, Sida in cooperation with OECD/DAC, 2014

and a local or regional consultant with similar experience more specifically in the area of access to finance and guarantee set ups in Zambia or similar contexts. All Evaluators must be proficient in spoken and written English and should not have any interest in Zanaco's activities.

In particular the team leader should have the following profile or similar in addition to what is stipulated in the framework agreements with Sida:

Expert 1

a) Qualification and skills

Master's degree in Business Administration, Business Development, Finance or related field.

b) General professional experience

A minimum of 12 years relevant professional experience in development programmes in developing countries (minimum 3 years in Africa), notably in monitoring and evaluating donor funded programmes in developing countries, and with the following expertise:

- Demonstrated experience in working with financial instruments such as guarantees for development.
- Experience in conducting evaluations in the financial sector;
- Strong interpersonal skills, diplomacy and tact to effectively communicate with all concerned stakeholders and professionals from diverse cultural and professional backgrounds; and
- Strong professional oral communication and writing skills, including the development of reports, oral presentations, and technical/persuasive documents.

/and Other Team members (Expert 2 and/or 3)

In addition to what is stipulated in the framework agreements the other team members shall have the following:

a) Qualification and skills

Masters degree in Agriculture, Business Development, Business Administration or any related field.

b) Professional experience:

- Experience with development and design of agricultural development initiatives.

- Excellent writing skills and the ability to document clearly and succinctly for internal and external audience.
- Extensive knowledge of the Zambian agricultural and financial sectors

c) Language competencies

- Must have good written and spoken English.

9. Resources

The maximum budget amount available for the evaluation is SEK 700,000 (seven hundred thousand Swedish Krona). This includes all fees and reimbursables. The Consultant should submit a detailed budget showing the appropriate costs.

The Program Officer/contact person at Swedish Embassy is Cecilia Brumér, First Secretary Agriculture, Inclusive Growth and Environment. The contact person should be consulted if any problems arise during the evaluation process.

Relevant Embassy documentation will be provided by the Embassy of Sweden in Lusaka.

Contact details to beneficiaries and intended users will be provided by USAID and Zanaco through the Swedish Embassy programme officer.

The consultant will be required to arrange the logistics such as:

- Preparation of interview guides or other relevant tools.
- Arranging for interviews in consultation with USAID, Zanaco and Embassy of Sweden
- Plan field visits in consultation with USAID, Zanaco and Embassy of Sweden
- Prepare all relevant documentation to be used through out the evaluation process

10. Annexes

Annex A: List of key documentation

1. Guarantee Agreement USAID-Sida-Zanaco
2. Memorandum of Understanding and Cooperation agreement between USAID and Sida
3. Appraisal of intervention
4. Zanaco Annual report 2015

Annex B: Data sheet on the evaluation object

Information on the evaluation object (i.e. intervention, strategy, policy etc.)	
Title of the evaluation object	Evaluation of the USAID-Sida Guarantee to Zambia National Commercial Bank (ZANACO)
ID no. in PLANIt	54020124
Dox no./Archive case no.	UF2013/10625
Activity period (if applicable)	2012 to 2018
Agreed budget (if applicable)	
Main sector	Financial Access
Name and type of implementing organisation	USAID is Fund Manager; Zanaco the lending institution
Aid type	Guarantee
Swedish strategy	Zambia 2008-2012; 2013-2017

Information on the evaluation assignment	
Commissioning unit/Swedish Embassy	Embassy of Sweden in Lusaka
Contact person at unit/Swedish Embassy	Ms. Cecilia Brumér
Timing of evaluation (mid-term review, end-of-programme, ex-post or other)	End of Program evaluation
ID no. in PLANIt (if other than above).	54020124



Evaluation of the Sida-USAID/DCA Guarantee to Zanaco

The subject of this evaluation is the Portfolio Loan Guarantee provided to The Zambia National Commercial Bank (Zanaco) by USAID and Sida jointly. This evaluation assesses the performance of the guarantee during the period 2013–2017. The aim of the guarantee was to open up access to finance for small and medium scale farmers that would not otherwise have access to credit.

The overarching objective of the evaluation was to determine to what extent this guarantee has contributed to: changes in the bank's loan appraisal methodology, assessment of risk, capacity to interact effectively with rural clients, etc. and; Systemic change in the financial market as it pertains to the banking sector's risk assessment of agricultural lending, including lending to female farmers and to more remote geographic areas.

The report finds that there is limited evidence from the study that this guarantee has significantly altered this Bank's behaviour or the banking sector's risk assessment regarding agricultural lending. However, this guarantee programme has provided Zanaco with an entry into the Emergent Farmer sector which they will have learnt from.

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