

## **FINANCING AGRICULTURE AND RURAL DEVELOPMENT IN ZAMBIA**

**FK MUSWEU\***

### **ABSTRACT**

Financing agriculture and rural development is critical to the development of the Zambian economy it a well-known fact that the Zambian government has been aiming at diversifying the economy. Reliance on copper mining as a source of revenue has had several limitations as country and therefore the justification to diversify the economy and agriculture is one of the sectors that has been cited an alternative source of revenue if it is well developed.

The details in this article is entirely collected through secondary research, specifically from scholarly articles in agriculture and rural development, development studies and banking and finance, various text books in development studies, agriculture and rural development and banking and finance and journals from professional bodies. The paper is focused on the factors that have an impact on financing agriculture and rural development in Zambia. Although emphasis is on Zambian institutions, general commentaries are cited from various areas on the continent of Africa and the universe.

**KEYWORD:** Access To Finance, Agriculture And Rural Development, Financial Literacy, Mobile Banking.

### **INTRODUCTION**

The major focus of this article is financing agriculture and rural development in Zambia to discuss this topic the term access to finance is defined and general commentaries are made on access to finance. Furthermore the term agricultural and rural finance is discussed basing it on the Zambian situation and citations are also made from various areas on the continent of African. additionally the article also focuses on factor that have an impact on access to funding in rural areas as well as agriculture and rural development such as urbanization, decentralization, the farmer input support

program, financial literacy and mobile banking. The article also emphasizes why agriculture and rural development should be taken seriously.

### **WHAT IS ACCESS TO FINANCE?**

Access to finance refers to the extent to which financial services are available. Access to finance plays a pivotal role to the development of a country. It is an aid to the production and distribution of goods and services. Lack of finance has been a major drawback for a number of firms especially the small medium scale enterprises (SMEs).

---

\*Department of Commerce and Management, Studies DMI St Eugene University, Zambia.

**Correspondence E-mail Id:** editor@eurekajournals.com

SMEs employ the largest share of workers in most countries in Africa and are a major contributor to the GDP of most economies on the continent. SMEs increase competition, generate employment and foster innovation, although SMEs are prone to challenges to grow and therefore it is vital that these issues are resolved as this will result in SMEs increasing their contribution to economic development.

It is also important to state that limited access to finance is not just a problem to the small and medium scale enterprises (SMEs), this also extends to large institutions, including government. Government and several other institutions are in constant search of funding to carry out various projects and activities that contribute to a health and safe lifestyle of the citizens.

Physical access, affordability or eligibility are constraints to the access to finance. In addition small and medium scale businesses may have difficulties in meeting eligibility criteria such as the ability to provide collateral or strict documentation requirements. Most entities have limited access to formal financial services due to cost barriers in form of high transaction fees. It is important to state that the lack of access to funding has necessitated most institutions like the ones described above to obtain debt finance as a means of funding their operations, projects and activities.

Research indicates that in Africa, less than 20 percent of households on average have access to formal financial services. Even where there is availability of access small and medium businesses and low-income individuals and may have difficulties in meeting eligibility criteria like strict documentation requirements or the ability to provide collateral.

In the agriculture sector small scale farmers are contribute the largest portion to the country's total agriculture output per farming season in a

similar manner that SMEs make a significant impact to the country's GDP and the largest employer in the country. The sector is also suffering from the setbacks of lack of funding to ensure that they are productive. Research indicates that the small farmers who produce the largest output in terms of agriculture produce are the worst hit by insufficient funding as most of the commercial farmers manage to acquire most of the implements and resources needed to engage in agriculture compared to small scale farmers. Agriculture and rural finance is discussed in details below.

## **AGRICULTURAL AND RURAL FINANCE**

Agricultural and Rural financial services are offered by both formal and informal financial institutions.

The majority of the population in Zambia and the continent as whole depends on agriculture production and lives in rural areas. There is inadequate supply of financial services to the sector with a lower percentage of resources on average being allocated to the agricultural sector. There several reasons for lack of access to finance in rural areas and in the agriculture value chain the major ones being factors such as poor infrastructure and widely dispersed populations raise information and transaction costs. In addition there is a problem in the use of collateral due to difficulties in verifying title and property rights.

The Zambian government has been keen to boost the agriculture sector to be a major income earner for the country to avoid too much dependence on mining. One of the recent programmes is that of the Zambian government and the International Fund for Agricultural development (IFAD) is the "Enhanced Smallholder Agribusiness Promotion Programme (E-SAPP)". The E-SAPP is financial agreement signed between IFAD and the Zambia government to promote market oriented agriculture and focus

mainly on women and young people “www.ifad.org”. This will enable smallholder farmers conduct farming as a business and not substance farming. In addition to E-SAPP the Zambian government for instance has made several amendments in the tax legislation over the past years in order to provide tax incentives to individuals and firms in the agriculture sector in orders to boost the sector.

## **URBANISATION**

Urbanisation is the process by which population becomes concentrated in cities or localities (Davis, 1969). Urbanisation leads to the proportionate increase population living in urban areas as a result of people deserting rural areas to urban areas for a better life.

The socio-economic development of districts and cities has the major impact on urbanisation in Zambia. In the past rural areas did not much in economic development especially infrastructure development and yet such areas when developed could be the engines of development for the country heavily dependent on copper mining as a source of income. Economic development and industrialisation is disproportionate with much of economic development being focused in urban areas than rural areas. According to the Central statistics office (CSO) the most urbanized provinces, Lusaka and Copperbelt, had the highest percentages of migrants, 38.2 and 20.1 percent, respectively.

Urbanisation has both negative and positive effects a good example is the provision of labour and capital. Research indicates that a large percentage of people migrated to the Lusaka and the Copperbelt in search of employment and they were a valuable source labour needed for a number of institutions. However urbanisation has also negative effects such as increase in pollution, increase road congestion, increase epidemics and the strain on the limited infrastructure and services such as roads and medical care in

hospitals. One noticeable example of the strain on the limited infrastructure and services are the cholera pandemics that have been hitting Lusaka and the copperbelt.

## **DECENTRALISATION**

The decentralisation process embarked by the current government has led to the creation of new districts. According to media reports the government has been building infrastructure in the newly created districts such as schools, hospitals, government offices and housing units. Houses for police officers have been built in a number of areas. It is a reasonable policy for rural development. Our citizens leaving in those areas will get to appreciate their areas too as what they may look for in cities such as Lusaka, Ndola and Kitwe can also be found in those areas. On the other hand more still needs to be done such as the focus on infrastructure that is focused on enhanced on improving agriculture. For instance through the food reserve agency (FRA) and other agencies warehousing facilities can be built in the rural areas. The wastage of produce is and delays in the produce reaching the market are among the major problems that farmers face and this can be alleviated by sufficient warehousing facilities and other factors such as improvement in the transport system so as to enable farmers reach the markets in reasonable time. Roads are being built in a number of areas, though a number of areas are still impassable, therefore more still needs to be done. It is not just roads that need to be improved and built government also needs to consider other forms transport such as air where air strips can be built, rail transport and water transport in accordance with the capacity of the government.

It is important to state that infrastructure development is one of the issues that need to be addressed to revive sectors such as agriculture and tourism which urgently need to be revived to avoid the government relying too much on copper as a source of revenue.

## **FARMER INPUT SUPPORT PROGRAM (FISP)**

The Farmer Input Support Program (FISP) is one vehicle government is aiding farmers with resources needed to cultivate crops and rear livestock to ensure that the nation is self-sustained in terms of agricultural produce. The Farmer Input Support Program (FISP) Electronic voucher initiative was implemented the Ministry of Agriculture during the 2015/2016 farming season has opened a window of opportunity for smallholder farmers to diversify their farming enterprises "www.time.co.zm". It has widened the choice of inputs for farmers engaged in both crop and livestock rearing. Under the electronic voucher initiative government distributes seed and fertiliser and the respective farmers cover for their remaining requirements in terms of costs.

## **FINANCIAL LITERACY**

In Zambia and many other countries people need the skills and confidence to manage their money well. Financial literacy is an essential ingredient to strengthen financial inclusion in Zambia and many countries in Africa. Therefore empowering people on the managing their investments are an essential goal of financial literacy. In addition to strengthening financial literacy governments also has a role to play in protecting consumers by ensuring that financial intermediaries apply appropriate codes of conduct and standards. Recognizing the need for consumer protection is of paramount importance in enabling financial literacy. Government need to enable provision of information on the prices and risks involved in the services from financial intermediaries so that consumers to make informed choices.

Low-income households in the Sub region often have limited access to financial services such as loans, insurance and savings frequently leading to individual reverting to more expensive traditional alternatives. Therefore financial literacy is a necessary ingredient to strengthen financial

inclusion in Zambia and the African continent as whole. According to the deliberation at the conference held at the Mulungushi conference centre on financial literacy on 28<sup>th</sup> March, 2017 government and other cooperating partners have set a target to archive financial literacy level of 80% by the year 2022.

Research indicates that in Zambia and many countries in the sub region people leaving in the rural area have lower financial literacy levels compared to people leaving in the urban areas. Therefore in order to improve access to finance and in deed to financial services in rural areas government and other institutions need to undertake the process enhance financial literacy to the people leaving in the rural areas as it is an essential part to enhance the financing of agriculture and rural development.

## **MOBILE BANKING**

The use of mobile phones to deliver banking services is referred to as Mobile Banking or M-Banking. Mobile banking offers the advantage of overcoming the limitations of physical infrastructure. Mobile banking will be particularly important in rural areas since they lack physical infrastructure, although Mobile banking has already had a significant effect on the provision of financial services in Zambia and in many other countries in the universe. Financial services firms such as Zoono, Airtel money, MTN money and Zamtel (Zangena) are already offering the service of transferring funds in Zambia.

## **CONCLUSION**

The Zambia government has been striving to diversify its economy by attempting to enhance the agriculture sector in order to make it one of the pillars of the economy. The government of Zambia has been heavily dependent on mining, especially copper mining as a major source of its income for the country.

It is therefore vital for government to identify factors which may be useful in development the rural areas and enhancing agriculture as well as increasing funding for agriculture and rural development. In this article the essential factors are infrastructure development, financial literacy and mobile banking. It is also vital for government and other cooperating partners to formulate and implement strategies on how agriculture should be the major income earner for the government rather than relying on copper mining. Copper is wasting resource that can come to extinct with in the near future.

## REFERENCES

- [1]. Bain, A.D. (1992) *The Economics of the Financial Systems*. Blackwell Publishers Ltd.
- [2]. Brealey, R.A., S.C. Myers and F. Allen (2008) *Principles of Corporate Finance*. Boston, London: McGraw-Hill/Irwin, Tenth edition.
- [3]. Colin Firer, Stephen A. Ross, Randolph W. Wester field and Bradford D. Jordan (2004). *Fundamentals of Corporate Finance*. McGraw-Hill Education. 3<sup>rd</sup> Edition.
- [4]. Freixas, X. and J.C. Rochet (2008) *Microeconomics of Banking*. The MIT Press.
- [5]. Grinblatt, M. and S. Titman (2002) *Financial Markets and Corporate Strategy*. McGraw-Hill/Irwin, 2002), Second edition.
- [6]. Heffernan, S. (2005) *Modern Banking in Theory and Practice*. John Wiley and Sons.
- [7]. Saunders, A. and M.M. Cornett (2007) *Financial Institutions Management: a Risk Management Approach*. McGraw-Hill/Irwin, Sixth edition.
- [8]. Sinkey, J.F. (2002) *Commercial Bank Financial Management in the Financial-Services Industry*. Pearson Education.
- [9]. Saunders, A. and M.M. Cornett (2007) *Financial Institutions Management: a Risk Management Approach*. McGraw-Hill/Irwin.
- [10]. Siklos, Pierre (2001). *Money, Banking, and Financial Institutions: Canada in the Global Environment*. McGraw- Hill Ryerson.
- [11]. The Zambia daily mail newspaper.
- [12]. [www.time.co.zm](http://www.time.co.zm).
- [13]. [www.ifad.org](http://www.ifad.org).
- [14].