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FINANCE OPTIONS TO ENABLE COMMUNITY FORESTRY AND CLIMATE ACTION IN NORTH WESTERN PROVINCE, ZAMBIA

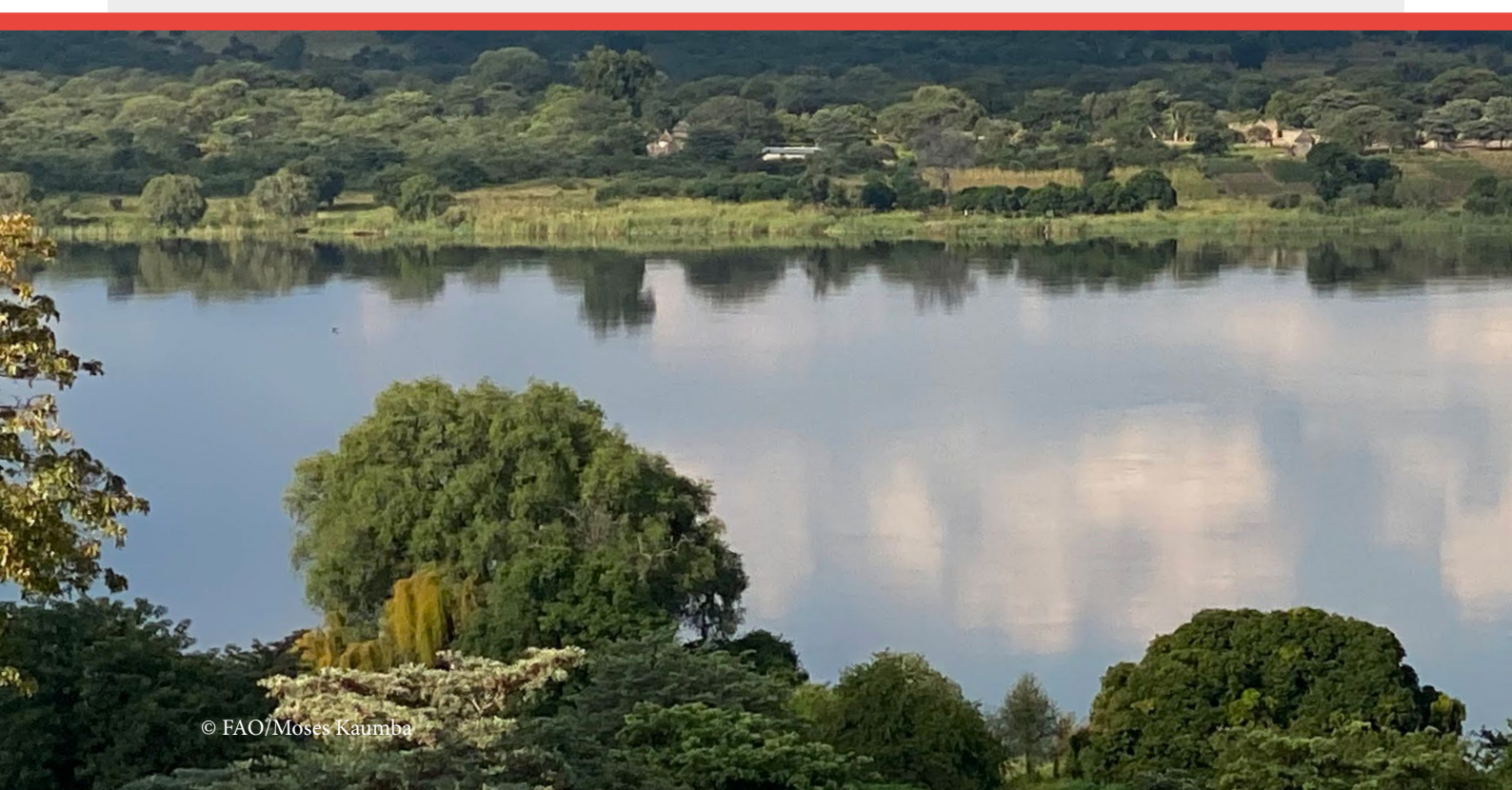
// TECHNICAL BRIEF //



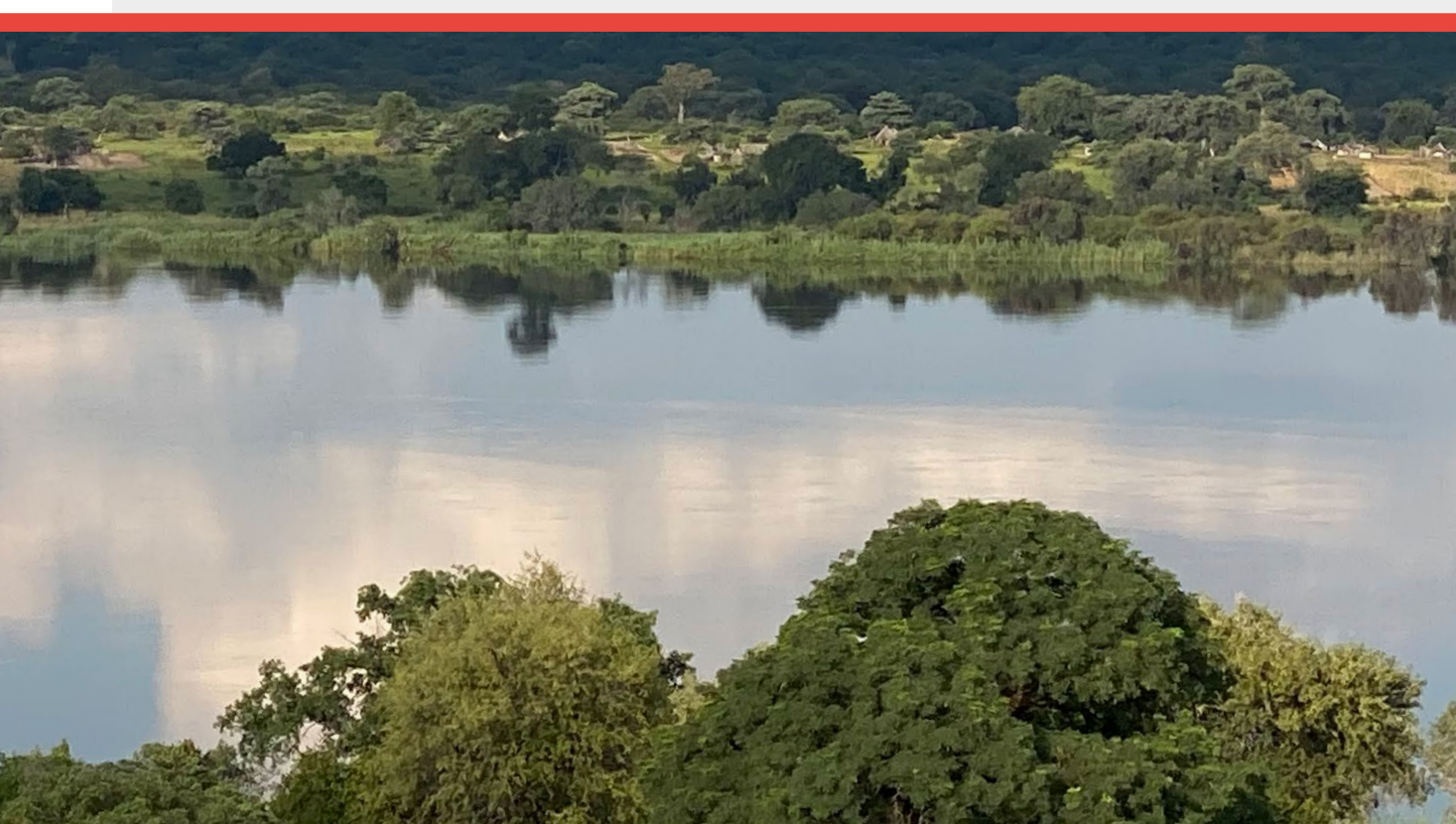
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KEY MESSAGES

- Rural communities, particularly community forest management groups (CFMGs), can play a pivotal role in driving local climate action, forest conservation and sustainable development.
- The capacity of CFMGs to fully realize the socioeconomic and environmental benefits of community forestry (CF) is constrained by their limited access to financial services, which would enable them to initiate or expand promising forest-based enterprises, contribute to climate action and harness forest resources for economic, environmental and social benefits.
- Formal financial services are available in North Western Province; however, rural communities face barriers to access due to insufficient financial literacy, complex procedures, limited rural coverage, collateral requirements and high lending rates.
- Informal financial services — such as moneylenders, savings groups (SGs) and village bank groups (VBGs) — are widely present in North Western Province and can be leveraged to enhance financial literacy in rural areas. However, these services are limited by small loan amounts, high interest rates and weak linkages with formal financial institutions.
- A comprehensive financial literacy programme tailored to rural communities is essential to enhance financial inclusion, alongside the establishment of linkages between CFMGs, SGs, VBGs and formal financial institutions.



- Financial institutions (FIs) must be supported in developing financial products tailored to rural communities and forest-climate activities (e.g. hybrid digital finance, collateralized term loans, credit guarantee schemes), ensuring that these products address the differentiated needs and interests of women and men. As CFMGs are progressively granted formal land and forest rights, the potential for using forests as collateral may be explored.
- A key focus should be raising awareness among all stakeholders — including FIs, government institutions, local communities and the general public — about the financial potential of forest-based enterprises and their contribution to green growth and climate solutions.
- The government and development partners can strengthen their role as key enablers by promoting harmonized blended finance mechanisms and leveraging the Constituency Development Fund (CDF) to support responsible forestry activities and local climate action.
- Enhancing the financial inclusion of CFMGs will be key to enabling forest-based local climate action and sustainable development in North Western Province.





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01.

Community-based forestry for local climate action and sustainable development



In Zambia's North Western Province, community forestry (CF) initiatives hold immense potential to drive local climate action, forest conservation and sustainable rural development. Community forest management groups (CFMGs) — with 127 currently seeking formal recognition in North Western Province — could play a pivotal role in managing forest resources, contributing to both environmental conservation and economic growth.

The capacity of CFMGs to fully realize the socioeconomic and environmental benefits of CF is constrained by their limited access to financial services to support initial investments. In North Western Province, some formal financial institutions are present; however, rural communities face significant challenges in accessing them (see section 6). Informal financial services — such as savings groups (SGs) and village banking groups (VBGs) — offer alternative financial mechanisms that CFMGs could partner with to build on their financial experience. However, SGs are limited by small loan amounts, high interest rates and weak linkages with formal financial institutions.

Addressing these constraints is imperative to unlocking the full potential of CFMGs, enabling them to develop forest-based enterprises, capture value from forest resources and contribute to climate action. This brief outlines strategies to improve financial access for rural communities — particularly for CFMGs — as a key enabler of forest-based local climate action and sustainable rural development in North Western Province.

Within the framework of a government-led REDD+ jurisdictional programme in North Western Province, financial inclusion would be a key element in leveraging climate action from multiple local actors, effectively reducing greenhouse gas (GHG) emissions and mobilizing climate finance.

02.

Financial institutions in North Western Province



Table 1 summarizes the financial institutions (FIs) operating in Zambia's North Western Province and the services they provide.

// TABLE 1 //

Financial institutions and their services in Zambia's North Western Province

FINANCIAL INSTITUTIONS	FINANCIAL PRODUCTS & SERVICES	BRANCHES
Madison Finance and Madison General Insurance	Agribusiness loans (poultry, piggery, and dairy farming), Saving Groups (SGs) literacy and loans	Solwezi
Vision Fund	Crop loans, Horticulture loans, Dairy loans, SGs literacy and loans	Solwezi, Kalumbila, Mwinilunga
NATSAVE	Asset plus loans, Mobile banking systems, ATM service, VISA cards	Solwezi, Kalumbila
Agora Microfinance Zambia Limited (AMZ)	Village banking service, Agriculture lending, Group lending, Small business group lending, Micro insurance, Mobile money	Solwezi, Kabompo, Mwinilunga
Atlas Mara Bank	Retail and digital banking, Business banking	Solwezi, Kabompo
ABSA & Jacaranda Rural Hub Solwezi	Mobile banking services, Concessional lending for agribusiness	Solwezi
FNB (First National Bank)	Collateralized term loans to MSMEs, Invoice discounting	Solwezi, Kalumbila
ZANACO	Value chain financing, village banking plus account, mobile banking services, collateralized term loans to MSMEs, invoice discounting, order financing	Solwezi
Indo Zambia Bank (IZB)	Collateralized term loans to MSMEs	Solwezi

Source: Authors' own elaboration.

Notably, Atlas Mara Bank in Mwinilunga extends its services to Ikelenge, while the Kabompo branch extends its services to Manyinga. However, no banks had a physical presence in Manyinga or Ikelenge in 2023, leaving a gap in financial service accessibility in these districts.

03.

Development actors supporting financial inclusion and rural businesses in North Western Province



The following development actors have experience or a presence in Zambia's North Western Province and have been active in advancing financial inclusion and sustainable development.

// TABLE 2 //

Development actors advancing financial inclusion and sustainable development in Zambia's North Western Province

DEVELOPMENT ACTORS	TYPE OF INSTITUTION	FINANCIAL LITERACY	EXPERIENCE IN THE TARGETED AREA	OFFICE IN SOLWEZI	PRESENCE IN AT LEAST 1 OF THE 5 DISTRICTS
Financial Sector Deepening (FSD)	NGO	YES	YES	NO	NO
World Vision	NGO	YES	YES	NO	YES
Musika	NGO	NO	YES	YES	YES
RFDP	NGO	YES	YES	NO	YES
Jacaranda Hub	Incubator / Accelerator	NO	NO	YES	NO
PROSPERO	Non profit company	YES	YES	NO	NO

Source: Authors' own elaboration.

04.

Promising forest businesses for sustainable development and local climate action in North Western Province



North Western Province is the most forested region of Zambia. Its rich natural capital offers promising economic opportunities linked to forest products and services that can contribute to climate-compatible green growth, in line with Zambia's National Green Growth Strategy (GGS) 2024–2030.



Honey

There is a growing demand for honey from North Western Province, both domestically and internationally, indicating potential for market expansion and income generation. Collaborative initiatives between government agencies, NGOs and private sector actors—such as Forest Fruits, Northwestern Bee Products, Nature's Nectar and Wuchi Wami — demonstrate the potential for inclusive and sustainable development of the honey industry (e.g. off-taker agreements). However, despite this potential, the honey value chain faces various obstacles, including the high cost of beehives, limited access to finance for equipment, poor road infrastructure, inadequate policy frameworks and the lack of standardized quality regulations.

Mushrooms

Mushroom cultivation presents a promising avenue for income generation and ecosystem preservation in North Western Province. Favorable weather patterns and strong local demand create opportunities for business development. However, several challenges need to be addressed, including access to finance, the development of structured local markets, the adoption of modern processing techniques, infrastructure improvements and the reduction of post-harvest losses.





Wild fruits

Several wild fruits, such as intungulu and masuku, offer potential for commercial development through processing into juices, wines and jams, as well as the creation of niche markets. However, the informal market structure and lack of processing facilities pose significant challenges to the growth of this value chain. To unlock its full potential, concerted efforts are needed to formalize the industry, improve processing capabilities and facilitate access to tailored financial services.

Wild vegetables

The underexploited potential of wild vegetables — such as lengalenga and kiswita — underscores the need for targeted interventions to enhance processing and value addition. However, as some of these species grow in forest gaps, there are concerns that scaling up production could have unintended negative impacts on forests.



Sustainable artisanal timber production

Sustainable artisanal timber production provides an opportunity for CFMGs to diversify income sources while preserving forest capital and strengthening their role in combating illegal logging — particularly of species threatened by overharvesting, such as rosewood. Strategic approaches that support CFMGs in sustainably managing their forests through selective harvesting are likely to be effective in the long term.

Ecotourism

The rich forest capital and cultural heritage of North Western Province offer immense potential for ecotourism development. Heritage Enterprise Groups, supported by the National Heritage Department, represent promising initiatives to promote sustainable tourism activities that leverage traditional cultural knowledge for forest preservation.

Payments for water and carbon ecosystem services

Communities can also receive compensation for their forest management and restoration efforts, as well as for the provision of water and carbon ecosystem services. Some CFMGs in North Western Province are already engaged in carbon initiatives, while communities in Ikelenge District are receiving payments from the hydroenergy company ZESCO for restoring headwater forests. Carbon credits and

payments for ecosystem services (PES) related to water and carbon offer an opportunity for rural communities to receive financial incentives in exchange for forest conservation or restoration activities.

Other forest- and tree-related livelihoods

CFMGs also have the potential to develop other income-generating activities, such as tree nurseries (for seedling production) or the production of medicinal products. Certain forest products — including caterpillars, chikanda and fish — are in high demand, but current unsustainable harvesting practices must be addressed before scaling up production. Furthermore, CFMGs can play a pivotal role in promoting sustainable agriculture and agroforestry practices, helping to meet the rising demand for agricultural land — driven by mining activities — while contributing to decoupling agriculture from deforestation.



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05. Main challenges for financial inclusion of rural communities



Challenges of formal financial services

Lack of financial expertise and complex procedures

The procedures of FIs are often complex for rural communities. For example, opening a bank account is a lengthy process that requires an identity card, which can be challenging for people in rural areas. Moreover, even when FIs offer supportive conditions for savings group bank accounts, rural communities are often unaware due to limited dissemination of information. This lack of awareness about formal FIs and their requirements results in low demand.

Difficulties in meeting FI requirements and lack of collateral

The requirement for collateral — typically mortgages on real estate — is impractical for rural communities. The lack of collateral limits

access to formal financial services and constrains investment in agroforestry and non-wood forest product (NWFP) value chains.

Lack of a gender-sensitive approach

Formal FIs often fail to address underlying social norms when designing financial services, perpetuating gender inequalities and leading women to rely predominantly on informal financial mechanisms. As a result, formal FIs primarily benefit men and urban populations.

Poor presence of formal FIs in rural areas

Rural communities in North Western Province suffer from a lack of formal financial institutions and field agents. High transaction costs

and low demand disincentivize FIs from establishing a presence in rural areas, leaving communities underserved and financially excluded. At the same time, limited financial literacy, lack of collateral and complex banking procedures further reduce demand for loans from rural communities.

Cost of lending

The high cost of borrowing from formal financial institutions — ranging from 2 to 2.5 percent per month for commercial banks and 4 to 10 percent per month for microfinance institutions — poses a significant challenge. Smallholder farmers and rural communities,

lacking adequate collateral, find it financially burdensome to access loans, limiting their ability to invest in low-emission forest initiatives.

Lack of targeted financial products

Financial products and services designed for financially viable micro, small and medium enterprises (MSMEs) in rural areas do not adequately meet the needs of rural communities. The absence of targeted financial products for forest-climate businesses further limits investment opportunities.

Challenges of informal financial services

Limited inclusion of men and youth

Savings groups (SGs) and village banking groups (VBGs) are mostly dominated by women, with men and youth underrepresented (Mwenge and Bwala, 2020).

Small loan amounts and high interest rates

Savings groups provide only limited loan amounts, often with high interest rates ranging from 5 to 20 percent per month.

Need for stronger linkages with formal financial institutions

To raise more capital, SGs need to connect with formal financial institutions or form savings and credit cooperatives. However, these processes can be lengthy, and most formal FIs are reluctant to invest in SGs due to low expected returns.





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06.

Recommendations to enhance financial inclusion of rural communities in NW Province



Rural communities in North Western Province, including CFMGs, need targeted financial services and products to address their lack of capital and unlock the full economic potential of forest products and services, while contributing to climate action.

Strengthening savings groups, village banks and CFMGs

Comprehensive financial literacy programme

A comprehensive financial literacy programme — including basic financial skills, cooperative governance, digital finance and mobile banking, development of bankable proposals, and entrepreneurship — is crucial to enhancing rural financial inclusion.

Linking CFMGs, SGs and VBGs to formal FIs

After a reasonable period of successful activity (two to three years), dynamic SGs or VBGs can be linked to formal FIs. Development partners can play an important role in building trust between SGs

and FIs. Newly established CFMGs could also link with experienced SGs or VBGs or establish their own informal financial institutions to mobilize savings and provide affordable credit.

Gender-transformative approach (GTA) to foster financial inclusion

Future interventions should integrate GTA approaches, working with gender experts in financial inclusion. GTA approaches challenge traditional gender roles and seek to empower women and youth.

Promoting financial solutions tailored to rural communities

Hybrid digital finance and mobile banking

Digital finance enables FIs to reduce transaction costs, which is crucial for expanding service delivery in rural areas. It also facilitates access to financial services for rural communities, notably through mobile banking tools (e.g. mobile money accounts, mobile money transfers, online bill payments, mobile credit). However, digital finance also presents risks in terms of gender inequality, as women and youth sometimes have less access to mobile phones than men.

Credit guarantee schemes (CGSs)

CGSs allow FIs to mitigate the risks of lending to MSMEs. In case of default, a credit guarantee allows the FI to be reimbursed for a percentage of its losses. The cost of the guarantee, if not subsidized by the government or a project, is usually borne by the borrower. In 2017, the Zambian government created "the National Credit Guarantee scheme", while USAID and DFC launched "a loan guarantee project in partnership with ABSA Bank" in 2022.

Collateralized term loans

These loans allow borrowers to purchase equipment, which serves as collateral to secure the loan. This asset-based lending approach uses movable assets, such as machinery or equipment, as collateral. The use of community forests as collateral (also referred to as a "tree collateral" approach) could provide an opportunity to boost CFMGs' financial inclusion and business opportunities.

Insurance products

While most FIs in the province offer life insurance products, none currently provide insurance products for agricultural or forestry financing. The FSD has experimented with weather index insurance for agriculture in partnership with "MayFair Insurance", but not in North Western Province. Climate risk insurance for forestry could also be explored.

Green bonds and green loans. These financial instruments channel socially responsible investments into projects with positive environmental impacts. The Zambian government issued guidelines for green bonds, and the first green bond was registered with the Securities and Exchange Commission in December 2023 by the Copperbelt Energy Corporation. However, more efforts are needed to operationalize green bonds and green loans (World Bank, 2024).

Blended finance mechanisms

The use of public or donor finance to leverage private-sector investment in sustainable development is key.

Some promising **local experiences** include the financial inclusion initiatives of CFMG Keloundu Zambesi in Ikelenge District, the SG in Manyinga District that secured a CDF grant in 2023, the PROSPERO blended finance mechanism, SGs linked to FIs with RUFEP support and the Wuchi Wami honey company, which operates an outgrower scheme with more than 2 500 small-scale farmers.

Adapting financing for forest-based businesses

Financing forest-based enterprises

Honey production, mushroom farming, seedling nurseries, ecotourism and carbon credit initiatives are examples of low-emission, climate-resilient economic activities that not only benefit the environment and climate action but also provide profitable opportunities.

Financing for ecosystem services

Commercial banks and MFIs could pre-finance investments that enhance water and carbon benefits from forests and related climate adaptation and mitigation opportunities. FIs could be encouraged — and possibly incentivized by the government — to pre-finance rural communities for carbon credit initiatives, forest-water PES or GHG emission reduction activities under a REDD+ jurisdictional

programme. Carbon credit purchase agreements could be used as collateral, allowing communities to access loans or grants more easily. A financial product could function similarly to an invoice discounting model, where the carbon buyer provides invoices for future carbon credit acquisitions.

Awareness-raising and investment promotion

A key focus should be on raising awareness among all stakeholders — including FIs, government institutions, local communities and the general public — about the financial potential of forest businesses and their contribution to green growth and climate solutions. Advocacy efforts can be supported through the development of a forest-climate business case and the establishment of forest business incubators, highlighting

the multiple economic opportunities from forests (e.g. timber, NWFPs, carbon credits, PES, ecotourism) and justifying investments.

Adapting financial products to forest-climate businesses

FIs may need to tailor or develop their financial products for

promising forest-climate businesses, providing flexible financing options that consider the seasonal and cyclical nature of forest products.

Strengthening the enabling role of the government and development partners

Developing a harmonized blended finance mechanism

The government should be supported in designing a **harmonized blended finance mechanism**, leveraging private, development and public finance. Concessional loans (combined with grants) should be promoted for forestry, agroforestry and sustainable agriculture, with a focus on women, youth and disadvantaged people in rural areas. The CDF could serve as a catalytic fund to boost forest preservation and climate action. Moreover, facilitating access to guarantee schemes, such as ZCGS, is essential.

Facilitating concessional finance for sustainable forest management

The invoice discounting project with credit guarantees, tested by FSD and IDE Global Zambia in 2019 for 1 000 smallholder farmers, could be replicated in North Western Province for NWFP value chains. Similarly, NATSAVE's Asset plus financing product, which supports smallholder farmers in acquiring agricultural equipment, should be adapted to NWFP value chains.

Maximizing the impact of the CDF and other funds

It is important to maximize the impact of the CDF and other existing funds by directing resources towards forest-climate businesses and related infrastructure projects.

Improving infrastructure

The government should facilitate investments to expand broadband and mobile network coverage in remote areas, enabling the delivery of digital financial services and promoting

financial inclusion. Strengthening road infrastructure is also crucial to reducing transportation costs and improving market access for rural producers.

Enhancing coordination among ministries and development partners

Improved coordination between the Forestry Department, local councils and the Community Development Department is needed to optimize financial inclusion efforts. The Cultural Department should also be engaged as a bridge between project implementers and the community, facilitating dialogue and addressing concerns.

Strengthening decentralized forest governance

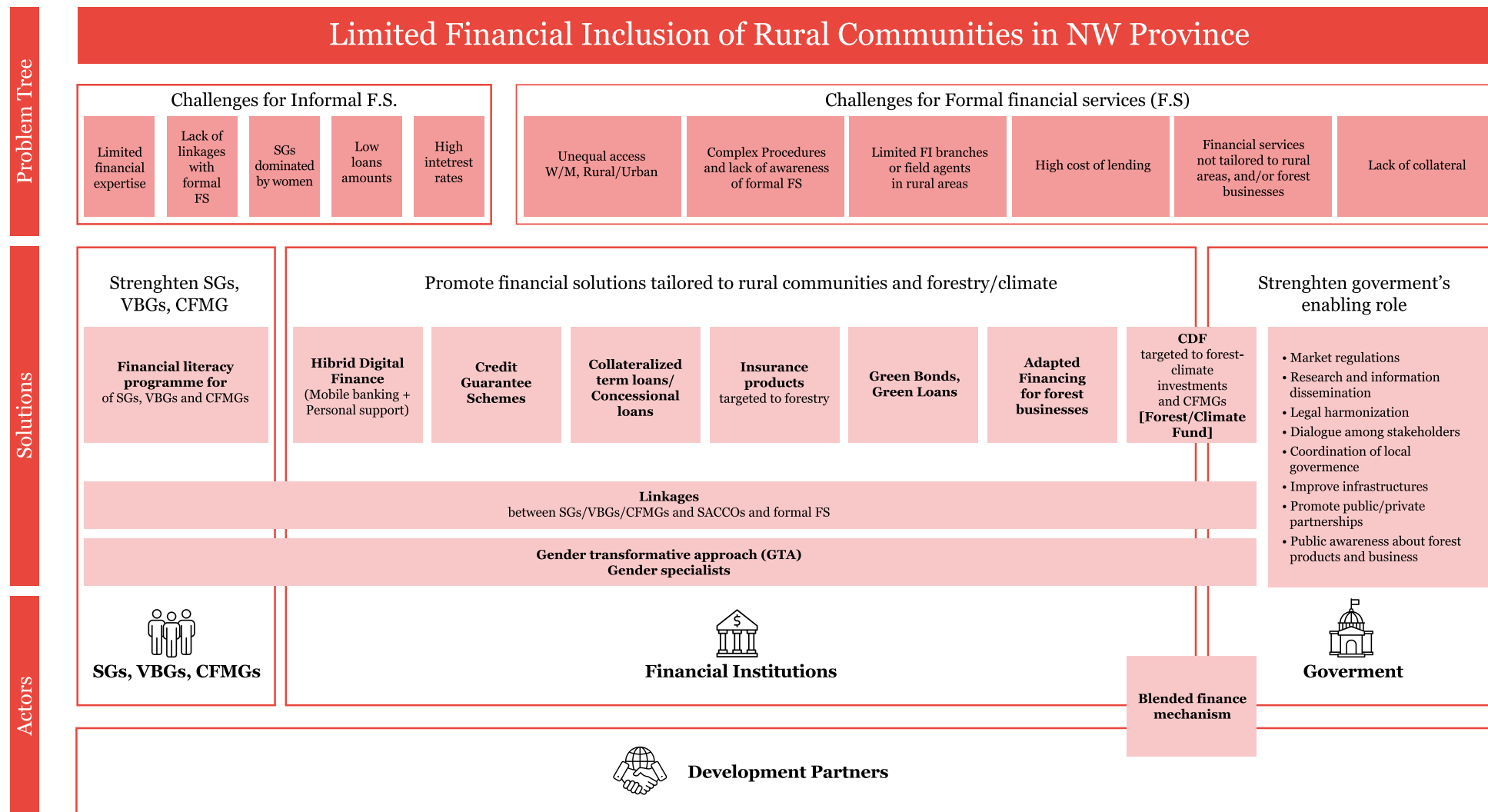
Lessons from **the DFONRMP** should be applied to further empower local committees, such as **the DDCC** and its **natural resources and environment subcommittee**.

Improving coordination on blended finance mechanisms

Government and development agencies should harmonize interventions, integrating guarantee schemes, concessional loans and grants under a coordinated approach.

Engaging development partners and FIs with local expertise

Future interventions to foster financial inclusion should actively involve development partners and FIs with experience working with local communities and NWFP value chains.



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