REPUBLIC OF ZAMBIA

THE FIRST NATIONAL FINANCIAL INCLUSION STRATEGY

REVIEW REPORT

July 2023


BongoHive

CONTENTS

FOREWORD

Emanating from the development of the Financial Sector Development Policy (FSDP) and the government's commitment to enhancing financial inclusion, the National Financial Inclusion Strategy (NFIS 2017–2022) was launched in 2017 with the vision to have universal access and usage of a broad range of quality and affordable financial products and services.

Due to delayed implementation arising from the setting-up and operationalization of the institutional framework, which resulted in an extension by an additional year, the five-year implementation period is scheduled to end on 31st December 2023.

As the strategy implementation comes to completion, the government embarked on a rigorous review of the NFIS and, consequently, the production of this NFIS review report. This report identifies the highlights of the NFIS journey from its inception, showcasing various achievements scored, the hurdles that have been encountered, and the possible areas of improvement as we embark on the development of the second strategy.

The methodology used in the production of this report involved a desk review and consultations with various stakeholders involved in the implementation of the NFIS. The findings of this review indicate that the NFIS contributed to the positive trajectory of financial inclusion reported by the FinScope 2020 survey, which saw a significant increase in financial inclusion to 69.3 percent from the 59.4 percent recorded in 2015. This growth was mainly attributed to an increase in the usage of digital financial services. Financial Inclusion has also increased across some demographic segments, including rural verses urban, men verses women, and among all income levels.

A number of achievements in the implementation of the NFIS were recorded, such as the establishment of the Zambia Credit Guarantee Scheme (ZCGS) to enhance access to affordable finance for MSMEs and the implementation of the National Financial Switch (NFS) to operationalise interoperability among financial service providers. Despite these achievements, the implementation of the NFIS faced a number of bottlenecks, key among them being funding and co-ordination challenges.

The government has, therefore, renewed its commitment to continue improving financial inclusion by announcing, during the delivery of the 2023 National Budget Speech, its decision to develop the 2nd NFIS .

Felix Nkulukusa

Secretary to the Treasury
MINISTRY OF FINANCE AND NATIONAL PLANNING

ACKNOWLEDGEMENTS

After achieving many critical milestones, the National Financial Inclusion Strategy (NFIS) 2017–2022 will conclude in December 2023. The shared vision, extensive collaboration, coordination, and commitment guided by the NFIS and its Coordination Structure comprising relevant stakeholders—including financial sector regulators, public and private sector stakeholders, and development partners in improving financial inclusion—made such an achievement possible. The Ministry of Finance and National Planning (hereafter the Ministry) acknowledges the tireless and continued efforts and contributions of all stakeholders that participated in the strategy implementation.

The formulation of this review report was done in consultation with stakeholders involved in the implementation of the 1st NFIS. Special appreciation is extended to the financial sector regulators; the Bank of Zambia (BoZ), the Securities and Exchange Commission (SEC), the Pensions and Insurance Authority (PIA) and the Competition and Consumer Protection Commission (CCPC). The Ministry further recognises the contributions of the line ministries and provincial administration offices, as well as the Rural Finance Expansion Program (RUFEP) and the Financial Sector Deepening Zambia (FSDZ) for their active participation during the consultation process. The Ministry would also like to greatly appreciate the contribution of the World Bank and the United Nations Capital Development Fund (UNCDF) in supporting this extensive review of the NFIS and drafting of the report.

Lastly, the Ministry acknowledges the contributions of all stakeholders that took part in the consultation process to develop this review report. Their valuable inputs, views, and shared experiences through participation in the NFIS implementation enriched the contents of this report. The Ministry believes that the report's findings and recommendations will be instrumental in preparing the 2nd NFIS.

Danies K. Chisenda

Permanent Secretary-Economic Management and Finance
MINISTRY OF FINANCE AND NATIONAL PLANNING

ACRONYMS AND ABBREVIATIONS

ACC	Anti-Corruption Commission
AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
ATM	Automated Teller Machine
BoZ	Bank of Zambia
BRRA	Business Regulatory Review Agency
CCPC	Competition and Consumer Protection Commission
CFT	Combating the Financing of Terrorism
CMMP	Capital Markets Master Plan
CSO	Central Statistics Office
DBZ	Development Bank of Zambia
DFS	Digital Financial Services
EDR	Electoral Dispute Resolution
FinScope	Financial Scoping
Fintech	Financial Technology
FSDP	Financial Sector Development Plan
FSDZ	Financial Sector Deepening Zambia
FSP	Financial Service Provider
G2P	Government-to-Person
GDP	Gross Domestic Product
GNI	Gross National Income
GRZ	Government of The Republic of Zambia
GSMA	Groupe Speciale Mobile Association
GWP	Gross Written Premiums
KPI	Key Performance Indicator
KYC	Know Your Customer

MCDSW	Ministry of Community Development and Social Welfare
MCTI	Ministry of Commerce, Trade and Industry
MFI	Micro-Finance Institution
MI	Micro-Insurance
MNO	Mobile Network Operator
MoA	Ministry of Agriculture
MoC	Ministry of Commerce
MoE	Ministry of Education
MoHA	Ministry of Home Affairs
MoFNP	Ministry of Finance and National Planning
MoSMED	Ministry of Small and Medium Enterprises Development
MSME	Micro, Small and Medium Enterprises
MTRF	Medium Term Refinancing Facility
NAPSA	National Pension Scheme Authority
NATSAVE	National Savings and Credit Bank
NBFI	Non-Bank Financial Institution
NFIS	National Financial Inclusion Strategy
NFISIC	National Financial Inclusion Strategy Implementation Committee
NFISSC	National Financial Inclusion Strategy Steering Committee
NFSDP	National Financial Sector Development Policy
NFS	National Financial Switch
NPL	Non-Performing Loans
NPS	National Pension Scheme
NSFE	National Strategy on Financial Education
P2G	Person-to-Government
P2P	Person-to-Person
PACRA	Patents and Companies Registration Agency
PIA	Pensions and Insurance Authority
POS	Point-of-Sale
PPP	Purchasing Power Parity
PSPF	Public Service Pension Fund
RUFEP	Rural Finance Expansion Program

RFPS	Rural Finance Policy and Strategy
UNCDF	United Nations Capital Development Fund
USSD	Unstructured Supplementary Service Data
SACCO	Savings and Credit Cooperative Societies
SADC	Southern African Development Community
SEC	Securities and Exchange Commission
SME	Small and Medium Enterprise
WBG	World Bank Group
WG	Working Group
ZAMACE	Zambian Commodities Exchange
ZDA	Zambia Development Agency
ZECH	Zambia Electronic Clearing House Ltd.
ZICTA	Zambia Information and Communications Technology Authority

EXECUTIVE SUMMARY

The Government of the Republic of Zambia (GRZ) launched the 1st National Financial Inclusion Strategy (NFIS) in 2017, with the vision of achieving *"universal access to and usage of a broad range of quality and affordable financial products and services that meet the needs of individuals and enterprises."* The five-year NFIS implementation period (2017–2022) will end on 31st December, 2023. The strategy's implementation commenced in 2019, due to the delayed establishment of institutional frameworks that were only put in place in 2018. This resulted in the extension of the implementation period by an additional year. During this period, Zambia advanced its level of financial inclusion despite the country experiencing a wide range of challenges, including the unprecedented COVID-19 pandemic, unsustainable external debt, a decline in commodity prices, and the spill-over effects of the conflict between Russia and Ukraine. However, new opportunities emerged in the financial inclusion space, which included an increase in the uptake of digital financial services.

The NFIS played a crucial role in advancing financial inclusion, which has significantly improved during the last five years. However, financial inclusion was significantly skewed towards urban areas, middle and higher-income households, salaried workers, and formal business owners. Therefore, there is a need for increased attention towards those who are still financially underserved or excluded to achieve financial inclusion for all Zambians.

The NFIS document and its contents provided a comprehensive roadmap for all stakeholders. The vision, four key drivers, and three key enablers were clear and well connected to the existing challenges, bottlenecks, opportunities, and proposed action plans. The Ministry of Finance and National Planning (MoFNP); the financial sector regulators, namely the Bank of Zambia (BoZ), the Securities and Exchange Commission (SEC), and the Pensions and Insurance Authority (PIA); and other key institutions such as the Zambia Information and Communications Technology Authority (ZICTA), and the Competition and Consumer Protection Commission (CCPC), took strong ownership of the NFIS.

However, participation in implementing the NFIS by policymakers, line ministries, and public sector stakeholders with a broader mandate outside the financial sector was limited. Further, the financial and private sectors viewed the NFIS as owned by the government and regulators. The level of interest with regards to participation in the coordinating structure by the private sector varied, with minimal or non-existent participation particularly on Working Group (WG) topics that are not directly related to their businesses. Going forward, having active participation and ownership of the financial inclusion agenda by all relevant public and private stakeholders[1] will be crucial to further improving financial inclusion.

The NFIS Coordination Structure was adequately organised and set for the strategy's implementation. Each function of the Coordination Structure was clearly stated in the NFIS and understood by the stakeholders. The Coordination Structure functioned well during the first two years of the strategy's implementation, but experienced reduced participation and effective operation from the third year onwards.

Notwithstanding the afore mentioned, a number of achievements were recorded. According to the FinScope 2020 Survey, financial inclusion increased from 59.3 percent in 2015 to 69.4 percent in 2020. The survey further revealed that financial inclusion for adults in urban areas stood at 83.8 percent, compared to 55.9 percent in rural areas. Financial inclusion also increased across specific demographic segments, rural vs urban, men vs women, and all income levels, with some segments such as salaried workers and business owners experiencing the least exclusion compared to casual workers and smallholder farmers. Regarding access, mobile money was the leading platform driving the adoption of formal financial products and services, with only marginal percentage increases in access or usage of non-bank products and services, such as pensions and insurance.

The positive movement in the indicators was as a result of targeted and coordinated efforts from the private and public sectors. Key activities such as the introduction of tiered Know Your Customer (KYC) requirements enabled easier access to financial services for lower-income customers. Further, the implementation of the National Financial Switch (NFS) enhanced interoperability that contributed to access and usage of formal financial products and services. This was complemented by efforts undertaken through the Rural Finance Policy and Strategy (RFPS) and NSFE I and II, which promoted financial and digital literacy, savings, and formal financial inclusion for children, youths, adults, farmers, savings groups, and Micro, Small and Medium Enterprises (MSMEs).

The four drivers[2] identified in the NFIS saw relatively successful implementation, with most activities outlined in the NFIS Action Plan completed. Achievements under the first driver, **"Widespread and Accessible Delivery Channels**," include the elimination of agent exclusivity, promotion of mobile-based delivery channels for non-payment products, and implementation of the National Financial Switch (NFS). In addition, savings groups, and the establishment of initial linkages between informal savings groups and the formal financial system, also contributed to the successful implementation. The second driver, "**Diverse, Innovative, Customer-Centric Products**," made significant progress which included the promotion and implementation of tiered KYC requirements, allowing lower-income customers to access additional products; the issuance of Regulatory Sandbox Guidelines by both the Bank of Zambia (BoZ) and Securities and Exchange Commission (SEC) to facilitate the testing of simplified and tailored products; and the development of micro-insurance and pension regulations.

The third driver, "**Finance for MSME and Agriculture Sector Growth**," achieved relatively successful implementation of the actions identified in the strategy. Notable achievements included the promotion of warehouse receipting and the built capacity of Financial Service Providers (FSPs) to design and offer agricultural finance products. This resulted in growing support and increased collaboration for the formal inclusion of more excluded customer groups, such as rural-based smallholder farmers. The last and fourth pillar, "**Financial Consumer Protection and Capability,"** recorded good progress in implementing the planned actions that included harmonising the mandates for financial consumer protection, enhancing institutional arrangements between the three apex financial sector regulators and the CCPC, reviewing and updating the NSFE, and introducing financial education into various curricula.

However, despite this significant and commendable progress, challenges still exist in achieving equitable access to financial products and services for all Zambians. **Financial Literacy**: In addition to the gaps in rural access, financial literacy remains a challenge, especially for products beyond Person to Person (P2P) transfers, such as investments, insurance, digital credit, etc. **Income Gap**: Financial exclusion has consistently been the highest for lower-income individuals primarily operating in the informal sector with non-regular income. The exclusion was highest for dependants, smallholder farmers, and casual workers. **Gender and Social Gaps**: Gaps in access were also revealed between men and women, with financial exclusion for women at 38.8 percent, compared to 42.5 percent for men. This divide, though not large, is primarily seen in formal financial inclusion. **MSMEs Gap**: MSMEs reported access to finance as one of the significant barriers to growth and profitability. Analysis of BoZ's annual Credit

Market Monitoring Report revealed that between 2017 and 2019, the proportion of financing going towards MSMEs dropped from 3.2 to 2.5 percent.

Other challenges included the stalling of periodic engagements with high-level decision-makers within key institutions that drive financial inclusion. Stakeholder turnover was also challenging, resulting in the loss of financial inclusion champions, focal points, and/or institutional memory. In addition, a key challenge highlighted by many stakeholders during the review was inadequate resource allocation evidenced by a non-specific dedicated budget and human resources for the NFIS implementation. Stakeholders involved in each coordination structure, including the WGs as well as assigned primary and secondary entities in the Action Plan, were individually responsible for raising and allocating human and financial resources.

This review recommends that the governance structure be maintained; however, changes should be made to ensure that systems are in place to maintain an operational and functional structure throughout implementation. With the government's commitment to developing a 2nd NFIS (2024–2028) for the next five years, public and private stakeholders' participation will be critical in addressing the remaining challenges and effectively using resources to improve financial inclusion. The progress made so far, as well as learning from past experiences and addressing new areas of concern, such as climate change, that emerged in recent years, will further advance financial inclusion.

THE VISION

Universal access to and usage of a broad range of quality and affordable financial products and services that meet the needs of individuals and enterprises

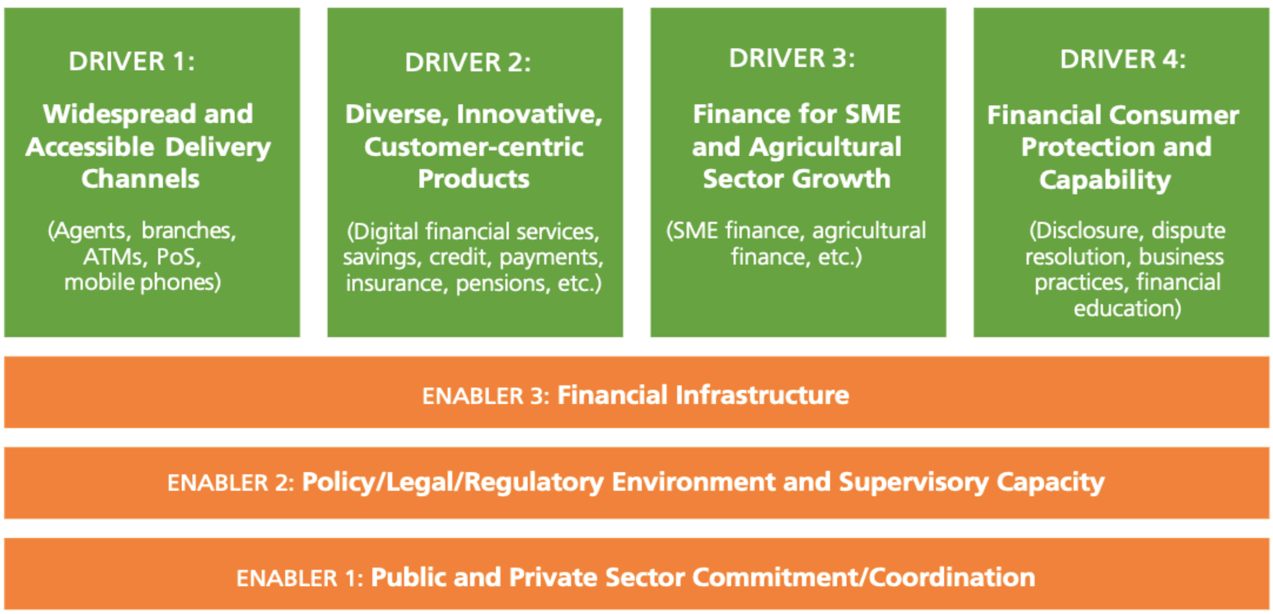
1. INTRODUCTION

The National Financial Inclusion Strategy (NFIS) was developed based on the government's commitment and decision to improve financial inclusion for all citizens, especially the financially underserved and excluded. Further, the NFIS sought to provide a roadmap to accelerate financial inclusion, building on past efforts such as the previous Financial Sector Development Plans (FSDPs) for 2004–2009 and 2010–2015. The National Financial Sector Development Policy (NFSDP) 2017 was designed to guide the development of the financial sector. The NFIS and National Strategy on Financial Education II (NSFE II) were developed to contribute towards the operationalization of the NFSDP.

The Financial Scoping (FinScope) 2015 Survey revealed that approximately 4.8 million adults (59.3 percent of the adult population) were financially included.[3] The NFIS sought to address the gap between the excluded and the included, as well as the underlying gaps regarding geography (rural vs urban), gender (male vs female), age (youths vs adults), and across the business environment (Micro, Small and Medium Enterprises [MSMEs] vs large corporates). The NFIS highlighted the potential of digital technologies and the need for a coordinated approach to address the gaps and enable last-mile delivery of financial products and services.

In the NFIS, four pillars were identified as "drivers" of financial inclusion, while three financial inclusion enablers were also presented, as shown in Figure 1.

FIGURE 1: Drivers and enablers of the National Financial Inclusion Strategy (2017–2022)



Source: National Financial Inclusion Strategy 2017–2022

The NFIS divided the mandate for financial inclusion between the key regulators and policymakers related to their respective sectors, while simultaneously laying out the role of the private sector. The strategy aimed at increasing financial inclusion (formal and informal) to 80 percent; formal financial inclusion to 70 percent; transaction accounts to 70 percent; consumers' financial capabilities and enhance consumer protection; and outreach and adoption of digital financial services among other targets.

The NFIS implementation relied on the following seven Working Groups (WGs):

i. Delivery Channels and Digital Payments;
ii. Insurance;
iii. Pensions;
iv. Capital Markets;
v. Financial Infrastructure;
vi. MSME, Rural and Agricultural Finance; and
vii. Financial Consumer Protection and Capabilities.

The WGs were designed to collaborate with the public sector, private sector, development partners, civil society, academia, and other relevant stakeholders to advance financial inclusion. Therefore, the review report aims to present the progress, achievements, challenges, and lessons learnt during the implementation of the NFIS.

2. OBJECTIVES, DEFINITIONS, AND TARGET AUDIENCE

2.1 OBJECTIVES

This review report aims to present the progress made during the five-year NFIS implementation period (2017–2022), particularly against the Action Plan and Results Framework detailed in the strategy document. The report also recognises the achievements and challenges by analysing the indicators and measuring the outcomes and impact set by the Results Framework. As the macro-economic environment and financial sector landscape in Zambia and beyond its borders experienced significant changes during the five years, which were not anticipated when the NFIS was developed, this report presents those changes and analyses their impact on financial inclusion and other strategy targets.

The Action Plan detailed in the NFIS was coordinated and implemented by multiple public and private sector stakeholders guided by the Coordination Structure set out in the NFIS document. Therefore, the report also aims to review the role, functionality, and effectiveness of the NFIS Coordination Structure: the Steering Committee, NFIS Secretariat, Implementation Committee, and the seven WGs and their respective secretariats. In addition, the report also presents the challenges, lessons learned, and areas of improvement of the Coordination Structure (governance structure) based on the desk review of relevant documents and interviews with stakeholders.

2.2 DEFINITIONS

According to the NFIS, financial inclusion is defined as "**Access to and informed usage of a broad range of quality and affordable savings, credit, payment, insurance, and investment products and services that meet the needs of individuals and businesses".**[4] <u>Access</u> is defined as close physical proximity to a financial access point and the reduction of other mechanical barriers to product uptake, such as documentation. <u>Informed usage</u> is defined as the active use of financial products or services by financially capable consumers. <u>Quality</u> implies that the products used are suitable, satisfy customer needs, and meet acceptable consumer protection standards. Finally, <u>affordable</u> means products that are within the means of customers and are sustainable for the provider.[5]

2.3 THE TARGET AUDIENCE

The NFIS was developed based on the government's commitment and decision to improve financial inclusion in the country to benefit the public, especially the financially underserved and excluded. This report presents, to various audiences within and outside the country, the progress, achievements, challenges, and lessons learnt during the NFIS implementation period (2017–2022).

Zambia has made significant progress towards financial inclusion and is among over 50 other countries that have launched an NFIS, of which about ten are currently implementing their 2nd NFIS, while many others are in the implementation or completion stage of their 1st NFIS. Hence, this review report could be a valuable reference for peer-to-peer learning and knowledge sharing with other countries.

3. BACKGROUND

3.1 A SUMMARY OF WHAT THE NFIS SET OUT TO ACHIEVE

The GRZ launched the NFIS in 2017 with the vision of **"achieving universal access and usage of a broad range of quality and affordable financial services that meet the needs of both individuals and enterprises"** (Appendix I)**.** The NFIS sought to provide a further roadmap to accelerate financial inclusion, building on past efforts such as previous FSDPs (2004–2009 and 2010–2015).[6]

TABLE 1: FSDPs and NFSP: Visions, Objectives and Focused Areas

	1st FSDP	2nd FSDP	NFSDP
Vision	A stable, sound, and market-based financial system that would support efficient resource mobilisation necessary for economic diversification and sustainable growth.	A stable, sound and market-based financial system that will support the efficient mobilization and allocation of financial resources necessary to achieve economic diversification, sustainable growth and poverty reduction.	A robust and world-class financial sector that supports the country's development aspirations.
Overall Objectives	To realise the vision of a financial system that is sound, stable and market-based and one that supports efficient resource mobilisation necessary for economic diversification and sustainable growth.	To address the weaknesses in the financial system and improve the business environment for private sector growth in the country by reducing the impediment of limited and costly access to finance.	To provide a framework that will lead to the development of a stable, resilient, competitive, innovative, and inclusive financial sector that contributes to broad-based wealth creation and sustainable economic development.
Focused area	(11 Working Groups were established): • Accounting and Auditing • Banking • Contractual Savings • Financial Markets • Human Resource • Legal and Regulatory Infrastructure • Macro-economic Issues • Non-Bank Financial Institutions • Payment systems • Taxation • Financial Access	• Greater mobilization of local financial resources towards productive activities through deepening the activities of banks, non-bank financial institutions, and the capital markets. • Increased access to financial services to the currently underserved segments of the economically active population, in particular to the SME and micro-enterprise sectors and the rural and agricultural sectors. • The lower financial cost, in terms of reduced interest rates, intermediation spreads, and reduced costs of financial transactions.	• A competitive and resilient financial sector • An enabling regulatory environment for the financial sector • Inclusive and deepening financial sector • MSMEs and rural finance • A financial infrastructure in accordance with international best practices. • Financial literacy and consumer protection • Effective and sustainable partnership in the provision of financial products and services.

Sources: 1) Bank of Zambia: Progress report on the implementation of the financial sector development plan (FSDP): July 2004 to June 2005, 2) Project Closure Report: Implementation of Phase II of FSDP (2010-2015), and 3) National Financial Sector Development Policy (2017).

The 1st FSDP recognised *"the gap in the provision of financial services to low-income households in the rural and peri-urban areas"* as a significant challenge and outlined a series of interventions to address this gap. The 2nd FSDP prioritised financial inclusion with "increasing access to finance" as one of the three strategic pillars. The government designed the National Financial Sector Development Policy (NFSDP) 2017 to guide the development of the financial sector. The NFIS and the NSFE II were developed as part of operationalising the NFSDP.

TABLE 2: Key indicators

Year	2017	2018	2019	2020	2021
Population, total	17,298,054	17,835,893	18,380,477	18,927,715	19,473,125
Population density (people per km^2 of land area)	23.3	24.0	24.7	25.5	
Population ages 0–14 (% of total population)	44.86	44.50	44.10	43.68	43.26
Population ages 15–64 (% of total population)	53.46	53.81	54.19	54.59	55.00
Population ages 65 and above (% of total population)	1.68	1.69	1.71	1.73	1.74
Population growth (annual %)	3.11	3.06	3.01	2.93	2.84
GNI per capita, PPP (current international $)	3240	3450	3450	3260	3250
GDP per capita growth (annual %)	0.33	0.90	-1.56	-5.60	1.67
GDP growth (annual %)	3.50	4.03	1.44	-2.79	4.60

Source: World Development Indicators

The NFIS sought to stimulate wealth creation, economic growth, and sustainable development. It also targeted individuals and businesses to transact, plan for emergencies and long-term goals, protect against financial shocks, expand their businesses, and participate in other activities that contribute to their financial well-being and overall quality of life. The NFIS provided a more defined and targeted strategy regarding financial inclusion, focusing on equitably increasing access and usage of key financial products and services across the sector.

The NFIS further acknowledged the potential of digital technologies to accelerate formal financial inclusion, while targeting local communities to accelerate informal financial inclusion through structures such as Savings and Credit Cooperative Societies (SACCOs) and village banks. Beyond enabling increased and interoperable transactions and digital payments, the NFIS sought to expand the reach of non-bank financial institutions such as insurance companies, pension providers, finance leasing, and micro-finance institutions. Furthermore, the NFIS sought to facilitate significant improvements in customer financial capabilities and protection.

The mandate of financial inclusion set out in the NFIS was divided between key financial sector regulators and policymakers related to their respective sectors, while simultaneously laying out a role for the private sector in achieving the goals highlighted in the strategy document. According to the NFIS, it was envisaged that implementing the actions and interventions would:

- Lead to an increase in financial inclusion (formal and informal) from 59[7] to 80 percent, and in formal financial inclusion from 38 to 70 percent by 2022;
- Improve physical access to high-quality financial delivery channels, including branches, agents, and automated teller machines (ATMs), such that the number of financial access points per 10,000 adults will increase from approximately 7 to 10 by 2022;
- Create innovative and diverse financial products and services that meet customers' needs, increasing the percentage of adults with at least a transaction account from 36 to 70 percent by 2022;
- Improve outreach and adoption of digital financial services;
- Create greater availability of affordable financing for Micro, Small and Medium Enterprises (MSMEs), smallholder farmers, and agricultural entities, thereby reducing the number of MSMEs reporting access to finance as a major constraint from 27 to 20 percent by 2022; and
- Enhance customer protection and increase consumers' financial capabilities, increasing the percentage of adults with high financial product awareness levels from 36 to 50 percent by 2022.

3.2 FINANCIAL SECTOR LANDSCAPE

3.2.1 Structure and Composition of the Financial Sector

Zambia's financial sector is relatively small and dominated by the banking sector in terms of its financial asset size, about 70 percent in 2021. This did not change during the NFIS implementation period.[8] Foreign-owned banks dominate the banking sector and account for 83 percent of total banking sector assets in 2022.

The non-bank financial institution (NBFI) sector is dominated by pension funds (72 percent of the NBFIs' financial assets), of which the government-run National Pension Scheme Authority (NAPSA) accounts for 75 percent. Micro-finance institutions (MFIs) comprise approximately 10 percent of NBFI sector assets. Although MFIs represent a small portion of financial sector assets, they have been growing rapidly and are currently 37 in total.[9] Insurance companies comprise approximately 7 percent of NBFI sector financial assets. Other NBFIs include 2 building societies, 1 government-owned savings and credit bank (NATSAVE)[10], 7 leasing and finance companies, 1 development bank,[11] 74 foreign exchange bureaus in 2022,[12] and 94 savings and credit cooperatives in 2021[13].

In recent years, the growth of digital financial services (DFS) providers has significantly added to the expanding diversification and outreach of the financial sector. In 2021, a total of 27 DFS providers operated in Zambia—including 11 commercial banks, 1 Micro-finance Institution (MFI), 3 Mobile Network Operators (MNOs), and 12 third-party providers. In recent years, mobile money led the growth in subscribers, with an increase to 19.2 million in 2021 from 15 million in 2018, and the growth of **active** mobile money subscribers to 9.86 million in 2021 from 3.4 million in 2018. While the number of mobile money subscribers has increased by 28 percent, the number of active subscribers has increased by 286 percent since 2018[14].

The MNOs have continued to integrate with various players, including banks, MFIs, financial technology (Fintech) service providers, insurance providers, and investment schemes to increase the services offered to customers on their platforms. As such, the market is seeing increased interoperability and partnerships across providers. There is also a small but growing ecosystem of Fintechs that offer various services ranging from P2B (person to business) to B2B (business to business), including but not limited to aggregation, payments facilitation and switching, digital lending, and investment advisory. A recent mapping revealed approximately 57 businesses ranging in size and maturity that offer Fintech services.

TABLE 3: Financial Sector Regulators in Zambia

Regulators	Financial institutions
Bank of Zambia	Banks
	Micro-finance Institutions
	Mobile Money Operators (that offer payment service platforms)
	Building Society
	Savings and credit institutions
	Leasing and Finance companies
	Development Bank
	Credit Reference Bureau
	Digital Financial Service Providers
Pensions and Insurance Authorities	Insurance Sector (life and non-life)
	Pensions Fund
Security Exchange Commission	Capital Market
Ministry of SME Development	Savings and Credit Cooperative Societies.

The BoZ regulates and supervises the banking sector and some NBFIs, namely, MFIs, MNOs that provide payment systems, building societies, savings and credit institutions, leasing and finance companies, development banks, credit reference bureaus, and DFS providers. The Pensions and Insurance Authority (PIA) regulates and supervises the insurance sector and pension funds while the SEC regulates the capital market. The Ministry of SME Development regulates and supervises SACCOs.

3.2.2 Selected Financial Sector Indicators

In recent years, the gross non-performing loans (NPLs) in the banking sector recorded a high ratio of over 11 percent in 2017 and 2018, which slightly declined in 2019 and then increased after the COVID-19 pandemic in 2020.[15] This affected the banks' abilities and interest in lending to the private sector. The NPL ratio varies across banks and is higher in the agriculture sector.

Inflation increased significantly in recent years, reaching its peak of 24.6 percent in June 2021. However, it declined to about 9.9 percent in 2022. In spite of this recent decline, the rate still exceeds the BoZ target range of 6–8 percent. The interest rate on bank lending remained high.[16] The lending rates in recent years have been over 20 percent, as highlighted in Table 4.

TABLE 4: Selected Financial Sector Indicators

Indicator	2017	2018	2019	2020	2021	2022
Non-performing loans	11.52%	10.95%	8.91%	11.63%	5.82%	5%
Inflation	6.10%	7.90%	11.70%	19.20%	16.40%	9.90%
Lending rates	10.25%	23.56%	28.02%	25.09%	25.90%	24.98%

Source: Bank of Zambia

Banks continued to show interest in government securities due to high yields and high NPLs. As a result, the banks' profitability has been underpinned by earnings on domestically-issued government securities, representing 29 percent of total banking sector assets.[17] The overall banking sector performance maintained stability and profitability, and bank capitalisation remained adequate. However, the sector shows weaknesses due to ongoing macro-fiscal challenges, slow economic growth, and the continued impact of the COVID-19 pandemic.

After the onset of the COVID-19 pandemic, the government and BoZ took a series of policy responses to ease its impact. The monetary and macro-financial policies included lowering policy rates, revising loan classifications and the provision of rules, establishing a Medium-Term Refinancing Facility (MTRF), and revising the tiered KYC threshold for digital transactions.

3.2.3 Growth of the Financial Sector

Since the start of the COVID-19 pandemic in early 2020, there has been substantial growth in the use of DFS. The value of transactions processed on mobile money platforms increased by 60.1 percent from K105,815.1 million in 2020 to K169,402.43 million in 2021. In addition, active MNO-based mobile money users increased by 14.6 percent from 8.61 million in December 2020 to 9.87 million in December 2021.[18] The number of active agents also increased to 156,040 (21.16 percent increase from the previous year), which represents a rapid increase in outreach during this period[19].

The pensions uptake increased to 8.2 percent in 2020 from 3.8 percent in 2015[20]. NAPSA manages the National Pension Scheme, which covers over 700,000 workers; all formal private and public sector employees who joined the labour force after 2000. Other public sector schemes cover public servants and members of the defence forces who started work before 2000.[21] There are no individual pension savings products or coverage for informal sector workers, who are the majority of the labour force.

The insurance industry is small but has grown in recent years. The FinScope 2020 Survey confirmed that access to insurance increased from 2.8 percent in 2015 to 6.3 percent in 2020. The growth rate in Gross Written Premiums (GWP) recorded during 2021 was 17 percent compared to 27.6 percent in 2020.[22] According to the 2021 PIA Annual Report, the industry's growth was attributed to increased fire, life, and health insurance uptake following the expansion of the construction industry and the COVID-19 pandemic. However, in 2021, market penetration was still low at 1.26 percent. There are currently 31 licensed insurance companies, of which 21 offer general and 10 offer long-term insurance. Long-term insurance companies accounted for 47.9 percent, general insurance for 46.8 percent and reinsurance for 5.6 percent.

The capital market is still in its nascent stage of development. The BoZ is responsible for primary market operations for government treasury bills and bonds, which remain the most significant part of domestic credit. The Lusaka Securities Exchange (LuSE) is the venue for listing and trading equities, private debt instruments, and the secondary market for government bonds. The LuSE private debt market is underdeveloped and has almost no secondary market trading. The trading volume of equities and debt of the private companies is still small, and the slow process of transferring ownership discourages trading in the secondary market. However, efforts have been made by the government in the recent past to improve the sector. In April 2020, the SEC launched a regulatory sandbox to drive innovation in the capital markets. The sandbox has so far admitted nine participants with products ranging from P2P lending to crowdfunding and an alternative investment platform for MSMEs. The Ministry of Finance and National Planning (MoFNP), in collaboration with the SEC, recently launched the Capital Markets Master Plan (CMMP) aimed at enhancing the government bond market by implementing measures intended to improve market operations.

4. CHANGES BETWEEN 2017 AND 2022

4.1 MACRO-ECONOMIC ENVIRONMENT AND THE FINANCIAL SECTOR

Zambia is a large, landlocked country sharing its borders with eight other countries. Its economic activities rely heavily on cross-border trade with neighbouring and other countries around the world. The disruption of value chains and the domestic and global movement of goods and services, border lockdowns, travel restrictions, and social distancing caused by the COVID-19 pandemic significantly hit economic activities, the financial sector, and the livelihoods of Zambia's people. The pandemic severely impacted the tourism, manufacturing, transport, and services sectors.

During the NFIS development in 2016 and early 2017, the country's economic performance was strong and recorded real gross domestic product (GDP) growth of approximately 5 percent from 2011 to 2016.[23] However, the macro-economic imbalance weakened the economic performance of the country. Between 2016 and 2021, economic growth slowed and averaged 2.5 percent per year, lower than the annual population growth rate of 2.9 percent.[24] The collapse of commodity prices, particularly the copper price, climate change (mainly drought in 2019), the decade of fiscal expansion, and unsustainable debt accumulation negatively affected the country's economy and the financial sector. Poverty increased amid challenging economic situations and adverse weather shocks. In early 2020, the COVID-19 pandemic hit an already struggling economy. As a result, in 2022, Zambia slipped back into the low-income category for the first time since attaining lower middle-income status in 2011.

The country's vulnerabilities also increased substantially as the external public and public guaranteed debt increased sharply from US$1.4 billion in 2011 (6.7 percent of GDP) to US$14.1 billion by 2019 (66.4 percent of GDP), contributing to external default on its Eurobonds in November 2020.[25] As a result, the effective loss of access to external financing forced the government to increasingly rely on more expensive domestic debt, which also accumulated domestic debts and arrears. This added stress to the country's financial stability as the banking system's net claims on the government increased to 56 percent of total domestic claims in 2021and 2022, from around 27 percent on average between 2011 and 2016.[26]

More than half of the households experienced a loss of income in the months following the onset of the pandemic.[27] In addition, a considerable reduction in employment due to job losses in urban and rural areas was recorded, with the worst being the tourism, manufacturing, and services sectors. The World Bank Enterprise Survey (2021) showed that more firms experienced financial distress, with about 10 percent of the firms having been permanently closed since the pandemic. The closure rate is higher for small firms (15.9 percent) compared to medium-sized (6.3 percent) and large firms (7.5 percent).[28] Firms also experienced delayed payments to suppliers, landlords, and tax authorities due to COVID-19 (92 percent in round 3 and 66 percent in round 1 of the survey)[29].

The government and BoZ took specific measures to lessen the impact of the pandemic (Box 1). The monetary and macro-financial policies included lowering policy rates, revising loan classification provisioning rules, and establishing an MTRF.

BOX 1
COVID-19 in Zambia

Background. Zambia recorded its first COVID-19 case on March 18, 2020, and the number of daily new cases peaked in early August. A second wave started in mid-December 2020 and peaked in January 2021. The third wave began at the end of May 2021. Early actions to contain the spread of the virus in 2020 included: (i) closure of schools and universities; (ii) suspension of non-essential foreign travel; (iii) mandatory quarantine for all foreign travelers; (iv) closure of bars, cinemas, and casinos; (v) delivery and takeout regime for restaurants; (vi) restriction on public gatherings to at most 50 people; (vii) restriction on sporting activities; (viii) a temporary lockdown on the towns of Kafue and Nakonde; and (ix) a partial closure of the border with Tanzania. The economy was adversely impacted by the sharp depreciation of the local currency, increases in yields on public debt, and economic disruptions due to lockdowns by trading partner countries.

Reopening the economy. By late April 2020, the government had begun slowly lifting lockdowns, border closures, and restrictions subject to social distancing, including in churches, some non-contact sports, barber shops, and salons. In early May 2020, cinemas, gyms, casinos, tourist spots, and restaurants were allowed to open as long as they adhered to strict social distancing and sanitary guidelines. Primary and secondary school examination classes reopened in June 2020. The reopening of international airports was announced in late June 2020. All schools, colleges, and universities were allowed to reopen in September 2020, alongside bars and nightclubs. In June 2021, the government reintroduced temporary closures of schools, universities, bars, casinos, and nightclubs; restaurants were again ordered to operate on a takeaway basis. In response to the second pandemic wave, on January 6, 2021, the Lusaka City Council suspended all special gatherings and ordered bars and restaurants to operate on a takeaway basis.

COVID-19 forbearance measures in the financial sector
BoZ's Monetary Policy Committee lowered the policy rate by 225 basis points to 9.25 percent on May 19, 2020, and by 125 basis points on August 19, 2020, to mitigate the adverse impact of the pandemic. BoZ provided K10 billion (2.9 percent of GDP) under the Targeted MTRF for liquidity support to eligible financial services providers. It also scaled up open-market operations to provide short-term liquidity support to commercial banks and embarked on a bond purchase program worth K8 billion to provide liquidity to the financial sector and on-lending to their clients. In addition, BoZ implemented several measures to stimulate the use of e-money and reduce the use of cash. The rules governing interbank foreign exchange market operations were modified to support its smooth functioning by strengthening market discipline and providing a mechanism to address heightened volatility, revising loan classification and provisioning rules and extended the transitional arrangement to IFRS9. BoZ allowed financial service providers to renegotiate the terms of credit facilities with borrowers affected by the pandemic. Non-bank financial institutions were allowed to use capital instruments that do not qualify as standard equity Tier 1 and Tier 2 capital to compute regulatory capital.

Source: International Monetary Fund (IMF)

Coping with the restrictions and preventive measures that were in place in the country, the digitisation of financial services and usage of technology relevant to financial inclusion spiked. For instance, the value of transactions processed on the National Financial Switch (NFS) increased by 111.6 percent to K17 billion in 2021 from K8 billion in 2020. The volume also increased by 110 percent in 2021 from 2020.[30] Mobile payment usage increased significantly since 2020 compared to previous years (Box 2). Additionally, a communication strategy and financial literacy campaign to promote financial health, savings, and the use of DFS among citizens during the pandemic was undertaken by stakeholders in the NFIS coordinating structures.

BOX 2
National Financial Switch in Zambia

The NFS is a payment gateway that facilitates efficient payment processing and interoperability between the service offering of commercial banks, non-bank financial organizations, and various other payment institutions within the country.

Benefits of the NFS are:

- reducing infrastructure acquisition and transaction costs through shared centralised infrastructure among financial institutions and customers;
- providing/promoting a multifaceted inter-bank switching platform for all delivery channels that would easily be interoperable with other payment and settlement systems;
- promoting the development of e-products and delivery channels that would extend the financial services coverage;
- reducing the usage of cash and paper-based financial instruments through the introduction of secure and reliable electronic payment methods; and
- promoting real-time payment of transactions through Straight Processing in order to enhance efficiency.

Source: Zambia Electronic Clearing House Ltd (www.zechl.co.zm)

TABLE 5: Mobile payment usage from 2019 to 2022

	Volume (million)	% increase from the previous year	Value (billion kwacha)	% increase from the previous year
2019	552	-	49.4	-
2020	750	136	106	215
2021	834	111	169	159
2022	1,581	189	295	174

Source: Bank of Zambia

Supporting economic activities by providing access to credit, BoZ responded quickly and established the Targeted MTRF[31] after the start of the pandemic in May 2019. The Targeted MTRF, combined with other policy measures introduced by BoZ in the financial sector, aimed to strengthen and enhance financial sector resilience and support businesses and households impacted by COVID–19. As of June 2022, 34 banks and non-banks applied for the facility; 22 were approved and 98 percent of the allocated K10 billion had been disbursed. Through these banks and non-banks, 84,395 customers benefitted from the facility, of whom 65 percent were individuals and households. The main sectors that benefitted were the wholesale and retail trade, followed by agriculture, mining, and quarrying. As a result of the increase in copper prices, post-election market confidence, and a recovery in the agriculture sector, the economy rebounded in late 2021.

4.2 THE IMPACT OF THE NATIONAL STRATEGY ON ITS TARGET

The slow economic growth, high inflation rate, and currency depreciation, mainly due to unsustainable external debt and accumulated domestic debt, created a challenging environment to improve financial inclusion.

In addition, the COVID-19 outbreak further hit the struggling economy. Under an unprecedented economic environment, certain players in the financial sector, particularly the banking sector, reacted to avoid unnecessary risks to their businesses to sustain their asset quality. For instance, some banks temporarily stopped or slowed down processing loans to new customers in 2020 and instead focused on maintaining existing customer loan portfolios. For some, the preference for investing in government bonds increased during the period due to the high yield with lower risks.

As previously stated, MSMEs and households experienced financial distress, loss, or income reduction. According to the FinScope 2020 Survey results, 23.6 percent of adults responded that they could not afford their living expenses, and their financial health was negatively affected during the implementation of the NFIS.

Meanwhile, the uptake and usage of DFS, especially for transaction purposes, increased significantly during the implementation period. The readiness and maturity of NFS integration during the COVID-19 outbreak certainly contributed to this sharp increase in DFS usage. To mitigate the pandemic's impact, minimise the use of cash, maintain social distancing, and sustain economic activities, DFS offered the necessary and effective transaction means for individuals and businesses. DFS volumes and the values of mobile payments spiked during this period. The previously financially excluded or underserved, who may have relied heavily on cash usage, subsequently started using DFS, which improved financial inclusion.

The sharp increase in DFS usage also created new challenges. The CCPC confirmed increased financial frauds or scams related to DFS usage. This increase was attributed to limited or lacking financial literacy by the consumers or users new to the DFS system, and the lack of DFS cyber security. While continued efforts were made to increase financial literacy and improve awareness, the FinScope 2020 Survey confirmed that one of the remaining gaps was the low level of financial literacy, as the survey results indicated only 23.6 percent of the adult population as financially literate.[32]

According to the 2021 PIA Annual Report, health and life insurance uptake increased when the pandemic started. Although the uptake was still limited, risk awareness, especially of health/life-related risks, increased during the pandemic. The GWP for long-term insurance business increased by 14.8 percent to K1,831 million in 2021 from K1,595 in 2020. Life (individual) and health insurance accounted for 50 percent and 43 percent of the long-term GWP[33].

5. PROGRESS, ACHIEVEMENTS AND REMAINING CHALLENGES

5.1 PROGRESS AND ACHIEVEMENTS

The tenure of the NFIS contributed significantly to the overall financial inclusion improvements. Findings from an analysis of the FinScope 2020 Survey data before the strategy's launch and four years into the strategy's implementation are demonstrated in the table below:

TABLE 6: FinScope Topline Findings[34]

Description	2015	2020
Total adult population (million)	8.1	9.5
Level of financial inclusion (%)	59.3	69.4
Financial inclusion amongst males (%)	61.2	71.2
Financial inclusion amongst females (%)	57.4	67.9
Financial inclusion in urban areas (%)	70.3	83.8
Financial inclusion in rural areas (%)[35]	50.1	56.9
Formal financial inclusion[36] (%)	38.2	61.3
Informal financial inclusion[37] (%)	37.9	32.2
Financially healthy adults (%)	-	13.6
Financially literate adults (%)	-	23.6

Source: FinScope Consumer Surveys in 2015 and 2020

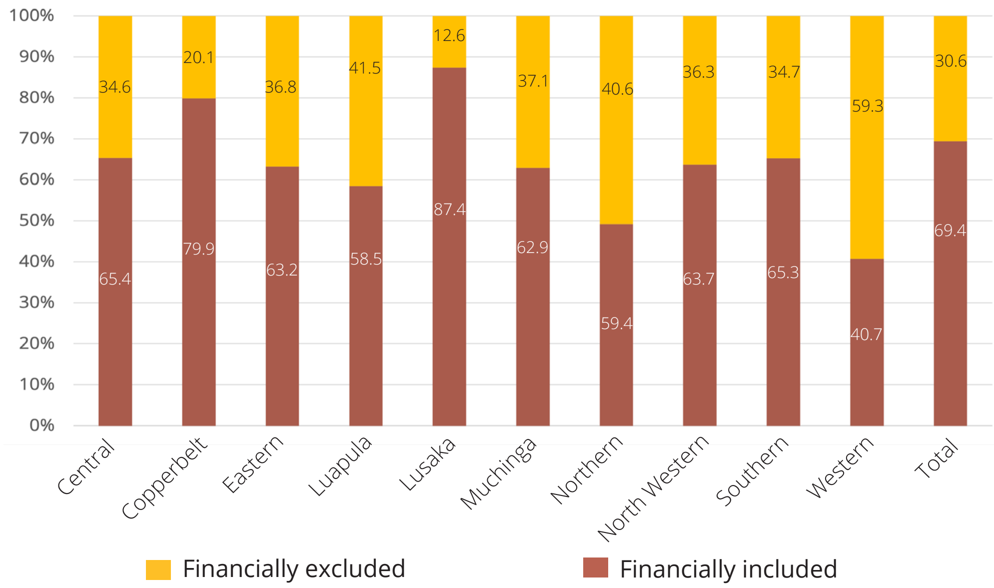
Financial inclusion increased from 59.3 percent in 2015 to 69.4 percent in 2020. This is a significant move considering that the strategy will end in 2023 and there have been two additional years of continued NFIS activities since the survey, which may have further advanced the progress. The positive movements in the FinScope 2020 Survey were attributed to targeted and coordinated efforts from the private and public sectors. The achievements of specific actions are outlined in the strategy's Action Plan and Progress Status provided in Appendix III of this report. Key activities such as introducing tiered KYC requirements to enable easier access to financial services for lower-income customers and implementing the NFS to enhance interoperability have contributed to more accessible and usable formal financial products and services. This has been complemented by efforts undertaken through the RFPS and NSFE I and II to promote financial and digital literacy, savings, and formal financial inclusion for children, youths, adults, farmers, savings groups, and MSMEs.

Although total financial inclusion stands at 69.4 percent, financial inclusion for adults in urban areas is 83.8 percent, compared to 55.9 percent in rural areas. Financial inclusion also appears to have increased across specific demographic segments, such as rural versus urban and men versus women. For example, financial inclusion has been consistently higher in men than women in urban areas compared to rural areas, as presented in Table 6. However, the financial inclusion gender gap was reduced during this period as per the Alliance for Financial Inclusion's Denarau Action Plan (a target to halve the gender gap). Supervisory measures to promote gender mainstreaming and initiatives by financial service providers to launch financial services targeted at women and women-led MSMEs also contributed to reducing the gender gap.

Table 6 also indicates the financial inclusion migration of the populations for both formal and informal inclusion. The data shows a decrease in informal financial inclusion from 37.9 percent in 2015 to 32.3 percent in 2020, and significant growth in formal financial inclusion from 38.2 percent in 2015 to 61.3 percent in 2020. A number of factors contributed to this, including the growth of savings groups being inherently limited to members' abilities to save when compared with the increased capacity and demand for borrowing larger credits over time. Informal financial inclusion helped build confidence in managing finances and created a platform for the use of formal financial services and products. Further, this enabled interactions with financial service providers, as well as the rapid growth of usable and accessible financial services to meet their needs, in particular DFS catalysed by the COVID-19 pandemic.

The Figure 2 showcases how financial inclusion has risen in most hyper urban provinces, such as Lusaka and the Copperbelt. In contrast, most rural provinces, like Western and Luapula, still have relatively low financial inclusion.

FIGURE 2: Financial inclusion by province



Source: FinScope Survey 2020

The FinScope 2020 Survey also finds that financial inclusion has increased across all income levels, with some segments, such as salaried workers and business owners, experiencing the least exclusion compared to casual workers and smallholder farmers. For instance, financial exclusion decreased for salaried workers, from 27.2 percent in 2015 to 16 percent in 2020. On the other hand, the exclusion of smallholder farmers dropped from 48.7 percent in 2015 to 40.1 percent in 2020.

Regarding access, mobile money appears to be the leading platform driving the adoption of formal financial products and services, with only marginal percentage increases in access or usage for non-bank sections of the financial sector, such as pensions and insurance (Table 6). Most notably, access to and usage of formal banking products and services dropped from 24.8 percent in 2015 to 20.7 percent in 2020. At the same time, several banks closed low-traffic branches, resulting in fewer access points for formal banking services. Additionally, the 2020 survey period coincided with the onset of the COVID-19 pandemic, which caused public and private stakeholders in the financial sector to push for the adoption and usage of DFS.

TABLE 7: Levels of Access/Usage of Formal Financial Products and Services

Description	2015	2020
Mobile money	14%	58.5%
Bank	24.8%	20.7%
Pension	3.8%	8.2%
Insurance	2.8%	5%
Micro-finance	1.3%	2.1%
Capital markets	0.3%	0.6%

Source: FinScope Surveys 2015 and 2020

The statistics regarding the drop in informal financial inclusion from 37.9 percent in 2015 to 32.3 percent in 2020 are initially perplexing. However, a deep dive into barriers to accessing or using informal financial services, such as village banks and chilimbas, revealed that a lack of money was the most cited barrier. The other reason cited was the adoption of formal financial products such as mobile money wallets, bank accounts, and the digitization of some savings groups. Field visits further revealed a limit to the growth of informal financial structures such as savings groups and chilimbas, given that they are driven by the amount individual members can save. During focused group discussions with savings group members, a majority expressed that their groups always experience a deficit, meaning loan requests often exceed the savings present.

In September 2020, BoZ released a press statement supporting savings groups, which are vital in providing community-based access to financial services. As such, savings groups are not formally regulated. BoZ, however, plays a role in enabling customers to distinguish between legitimate and trustworthy savings groups and money circulation or Ponzi schemes through information materials and awareness campaigns.[38]

To achieve the progress outlined above, the NFIS implementation relied on the following Working Groups (WGs):

- Delivery Channels and Digital Payments;
- Insurance;
- Pensions;
- Capital Markets;
- Financial Infrastructure;
- MSME, Rural and Agricultural Finance; and
- Financial Consumer Protection and Capabilities.

The activities outlined in the NFIS were shared between the relevant WGs according to their specific focus areas. To this effect, the WGs were designed to collaborate between the public sector, private sector, development partners, civil society, academia, and other relevant stakeholders to advance financial inclusion. As a result, the strategy was very effective at driving implementation with public sector stakeholders that already had a strong mandate or overall objective of financial inclusion. The increased availability of products and services, including bank-to-wallet integrations, digitally-enabled unit trusts for micro-investments, and insurance for smallholder farmers, among others, evidenced the private sector's contribution to increased financial inclusion. However, the private sector's participation in the NFIS's formal implementation structures, such as technical WGs, was somewhat limited. There may be a need to explore solutions to encourage the retention of private sector stakeholders for future iterations of the strategy.

Concerning private sector developments that have contributed to financial inclusion, two key results throughout the strategy's implementation catalysed progress. The first is the increased interoperability, especially between banks, non-banks, and payment service providers. The operationalisation of the first and second phases of the NFS enabled increased transfers across providers and reduced transaction costs as transaction volumes increased. The second key development has been investments by private sector players in building out profitable and reliable agent networks, which has seen growth in agent access points for financial services, from 243 agents/100,000 adults in 2017 to 926 agents/100,000 adults in 2019, with a higher figure expected for 2022.

BOX 3

CASE STUDY: Regulation of Digital Financial Services

DFS are financial services accessed through digital channels such as mobile phones, ATMs, Point of Sale (POS) machines, debit cards, computers, agents including electronic money (e-money), and bank accounts held by financial institutions[39].

Globally, mobile money has continued to grow rapidly, bringing a wide range of products and services to the fingertips of hundreds of millions of users and disrupting traditional financial services. By 2021, the number of registered mobile money accounts globally reached 1.35 billion, with over US$1 trillion in transactions having been processed[40]. The COVID-19 pandemic is attributed to accelerating this growth as people shifted to digital and no-contact ways of making transactions. By providing an accessible alternative to a bank account, mobile money unlocked access to formal financial services for people who were financially excluded, such as the poor, rural populations, women, smallholder farmers, and MSMEs in low and middle-income countries.

The increase in financial inclusion nationwide from 59.3 percent in 2015 to 69.4 percent by 2020 was largely driven by the growth and increased uptake of DFS, particularly mobile money (FinScope, 2020). Despite this growth, increased cases of cyber-crimes and fraud on digital platforms, especially on mobile money, threaten the gains achieved so far. Low levels of financial and digital literacy of the majority who are financially excluded have exposed the consumers of DFS, especially rural people, to risk of digital fraud. Further, policy and regulatory challenges still persist, including dialogue between policy makers, regulators, and industry players.

While the financial sector is regulated by BoZ, which includes DFS, the Zambia Information and Communication Technology Authority (ZICTA) regulates the Information and communications technology (ICT) sector, including MNOs that provide platforms for DFS. BoZ and ZICTA are complimented by the CCPC and other law enforcement agencies such as the Zambia Police and Financial Intelligence Center (FIC) on DFS consumer protection. However, limited collaboration among the DFS oversight institutions as well as government ministries has been cited as one of the key challenges in the regulation of the DFS ecosystem[41]. This leads to several other challenges that include uncoordinated complaints resolution procedures, limited technical capacity amongst agents and law enforcement officers, as well as burdensome data requirements from service providers by regulators[42].

To address these challenges, the Rural Finance Expansion Programme (RUFEP) partnered with ZICTA in 2020 to enhance safety and security of the DFS ecosystem and address the lack of coordination amongst oversight institutions in redressing consumer complaints. ZICTA was required to develop a Collaborative Framework (in conjunction with BoZ) involving all key stakeholders in the oversight of the DFS ecosystem. With low levels of digital financial literacy, ZICTA was supported by RUFEP to conduct consumer education and awareness raising on the benefits, risks, and mitigation measures of DFS to promote consumer confidence of DFS, especially for rural people. This was done in 2021 in conjunction with RUFEP, BoZ and the Zambia Police through meetings across the country and both mass and social media. In May 2022, ZICTA convened a two-day Stakeholders Consultative Workshop bringing together all key stakeholders and regulators to deliberate and work on the regulation of DFS. Key stakeholders that attended included BoZ, MNOs (Airtel, ZAMTEL, MTN), Zambia Police, CCPC, FIC, Bankers Association of Zambia (BAZ) and mobile money agents. The Workshop was a success as it brought together all MNOs and regulators of the DFS ecosystem to deliberate on how to collaborate to protect consumers. At the end, the stakeholders resolved to create a central database to report DFS related fraud and consumer complaints, and a Collaborative Framework for all actors in the DFS ecosystem. Later, a Collaborative Framework for the Oversight of Digital Financial Services was developed by ZICTA which was officially launched by the Minister of Technology and Science on the 23rd August, 2022.

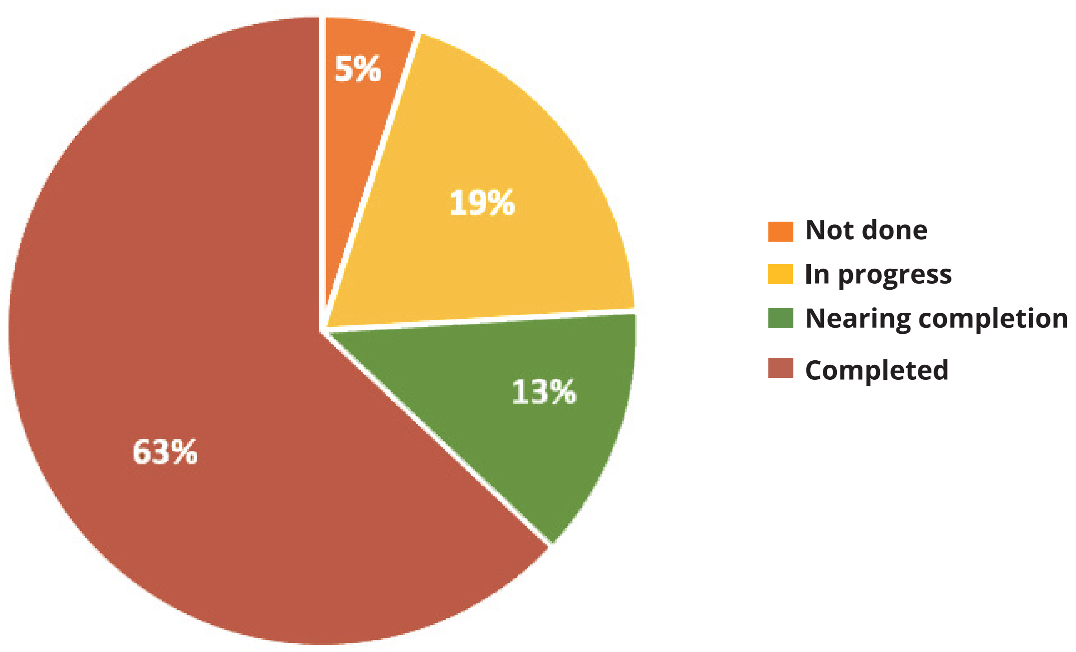
Drawing lessons from existing international, continental, and regional frameworks for collaboration, the Collaborative Framework proposes institutional arrangements with committees and technical WGs for regulatory collaboration by stakeholders in the oversight of DFS.

The private sector has also made progress in designing, piloting, and scaling diverse and innovative products, especially in digital payments, digital credit, savings accounts, financial services for women, and accessible investments. The launch of regulatory sandboxes under BoZ and the SEC has enabled the testing of new and innovative solutions and business models, including, but not limited to, peer-to-peer lending platforms, accessible financing for MSMEs, and blockchain-based payment platforms.

In addition to the progress outlined above, the main areas identified as the four drivers[43] in the NFIS saw relatively successful implementation, with most activities outlined in the NFIS Action Plan completed. Figure 3 demonstrates the successful implementation of the activities.

FIGURE 3: Level of Implementation

NFIS Action Progress



Widespread and Accessible Delivery Channels

Implementation under this pillar made notable progress. Achievements include eliminating agent exclusivity, promoting mobile-based delivery channels for non-payment products, and implementing the NFS. Establishing savings groups and initial linkages between informal savings groups and the formal financial system also contributed to the successful implementation. There were 21 planned activities under this pillar; 13 have either been successfully implemented or are nearing successful implementation. Some activities of the Ministry of Commerce, Trade and Industry, such as reviewing the feasibility of incorporating SACCOs into the financial sector legal and regulatory framework, were not as successful. While initial conversations have begun, no formal position has been taken on incorporating SACCOs into the formal financial sector's regulation framework, a task that was scheduled for completion in 2018. Beyond SACCOs, there is great potential to drive financial inclusion in peri-urban and rural areas by linking the various groups to formal financial services that are customer-centric and tailored to their specific needs. These groups include farmer cooperatives, savings groups, chilimbas, and district-level farmer associations.

A key achievement under delivery channels is the expansion and increased profitability of the agent network. As noted in the section evaluating the overall impact of the NFIS, agent coverage has increased from 243 agents/100,000 adults in 2017 to 926 agents/100,000 adults in 2019. Maximising usage of the existing infrastructure, systems, and agent networks by promoting interoperability from customer perspectives would further increase the delivery channel throughout the country. This same achievement poses an additional challenge, given this growth has mainly been focused in urban and peri-urban areas. Collaboration, coordination, and partnership will be needed to realise a profitable, sustainable, and accessible rural agent network. Some additional work is necessary to broaden Person to Government (P2G) payments beyond tax and licensing payments currently available on the ZamPortal.[44] For example, some pilots were conducted to digitise school payments, and efforts are needed to harmonise and scale the respective pilots. Lastly, improving the quality of service was a high-priority activity, and efforts were made to achieve this, such as the development and launch of the Collaborative Framework for the monitoring of DFS. Additional steps are needed to develop the underlying infrastructure supporting the implementation of policy documents, such as the DFS Collaborative Framework.

BOX 4

CASE STUDY: Savings Group

In Liteta, a group of 27 women supported by the Ministry of Community Development received a grant of K3,700 each and were supported with training on forming savings groups. The groups are currently in their 2nd cycle, where they have managed to save up to K106,000. The savings and loans from this group has enabled its members to invest in farming inputs, children's school expenses, and micro-enterprises. Master Trainers and Community-Based Volunteers periodically support these groups under the Ministry, who share content ranging from financial literacy tips to business training. While formal financial services continue to expand to cover areas like Liteta, the structure of rural savings groups provides an accessible entry for financial inclusion and financial literacy for individuals who have previously been financially excluded. The groups offer these women the ability to save, borrow, and plan.

Diverse, Innovative, Customer-Centric Products

This pillar had significant progress, with 10 out of 14 planned activities being either successfully implemented or well underway to completion. Notable achievements under this pillar include the promotion and implementation of tiered KYC requirements allowing lower-income customers[45] to access additional products, the issuing of Regulatory Sandbox Guidelines by both BoZ and the SEC, the testing of simplified and tailored products, and the development of regulations to enable micro-insurance and pensions. This pillar also saw greater collaboration between stakeholders across the public and private sectors. Notably, the industry's positive response to both sandboxes has proven the need for a collaborative relationship between regulators and industry players, with each party being in tune with the needs and priorities of the other. The PIA also developed industry awards to encourage and reward innovation and exemplary service delivery. Another effort made by PIA with support from Financial Sector Deepening Zambia (FSDZ) was to conduct a gender audit of the PIA in 2021 to analyze gaps related to the low access and usage of insurance products by women and follow-on initiatives such as the training of PIA in gender mainstreaming.

Challenges remain in actualising some activities within the pillar. For example, amending the insurance regulations to lower capital requirements for micro-insurers will need further input from industry stakeholders and regulators to ensure the process addresses the needs of industry operators, while maintaining liquidity requirements to ensure operators cater to customer interests. Some activities marked as near completion need additional engagement to broaden implementation. For example, KYC has worked well in the banking and payments sectors, with limited application in other sectors such as pensions and insurance. Additionally, individual service providers have developed solutions to enable electronic KYC. An independent third party will be needed to drive efforts to design a singular, accessible electronic KYC database.

BOX 5

CASE STUDY: Securities and Exchange Commission Sandbox for the Captial Markets

In March 2021, the SEC launched a regulatory sandbox for the capital market. The sandbox aimed to spur innovation in the capital market by easing regulatory navigation for tech-enabled start-ups and established capital market operators with early-stage innovations. Following its launch, the sandbox received seven applications, four of which were admitted to the sandbox. Among the four were two digital lending startups offering a peer-to-peer lending platform, the Lusaka Stock Exchange offering an investment platform aimed at increasing SME funding, and a private investment firm leveraging technology to connect Zambian investors to global markets. The most notable development from the innovations tested in the sandbox has been the increased availability of financing, particularly for SMEs often viewed as riskier by traditional lenders.

Finance for SME and Agricultural Sector

Implementation under this pillar has been relatively successful overall, with 8 out of 11 activities either completed or nearing completion. While several actions under this pillar were the responsibility of regulators and policymakers, a handful also relied on coordination with private sector industry associations. Implementing actions, such as promoting warehouse receipting and building the capacity of FSPs to design and offer agricultural finance products, indicates growing support and increased collaboration for the formal inclusion of more excluded customer groups, such as rural-based smallholder farmers. This pillar benefited from effective partnerships between FSPs, development partners, and regulators. The movable collateral registry was intended for financing institutions to extend credit to traditionally excluded customer segments such as agricultural MSMEs, rural dwellers, and individuals operating in the informal sector. Another success under this pillar has been the increase of savings groups and their ability to extend informal financial services and financial literacy skills across urban, peri-urban, and rural communities.

However, challenges related to implementing this pillar remain, especially concerning the affordability of products being developed to enhance financing for MSMEs and the agricultural sector. Although the movable collateral registry has been operationalised and is currently housed at the Patents and Companies Registration Agency (PACRA), credit risk remains the greatest concern of most FSPs,[46] limiting their use of the registry. Further follow-ups and work may be needed to identify the registry's challenges. As alluded to in the case study presented in Box 6, in some cases, smallholder farmers accessing financing are locked into only input financing and paying up to 66 percent in interest and fees. Additional work is needed under this pillar to not only improve accessibility but also improve the affordability of products developed to target MSMEs and stakeholders in the agricultural value chain. More work is necessary to build on the efforts of FSPs and development partners in linking savings groups to FSPs with customised, affordable products while expanding the financial literacy curriculum to include financial health. A final observation on the implementation of this pillar is that although similar challenges exist in driving access to finance for MSMEs and actors in the agricultural sector, there is a need to separate the two as potential solutions do not have the same effect across the two categories. The WG attempted to resolve this issue by forming a sub-working group focusing primarily on MSME financing.

BOX 6
CASE STUDY: Inclusive Crop Insurance

Hollard Insurance, in partnership with FSDZ, piloted an insurance product for smallholder farmers in Mumbwa. Unfortunately, due to past experiences with insurance products that never paid out claims when farmers needed them, only 14 out of the planned 40 farmers signed up for the insurance product piloted by Hollard. This product has, however, produced some success stories. The most notable is the case of Ms. Rose Chikomona. Rose signed up for the insurance with a premium of K700. Rose later experienced a poor yield due to an illness and low rains in her area during the 2021/2022 farming season. Hollard was able to grant her a payout of K7,990 to mitigate her losses. This enabled Rose to invest in livestock and buy farming inputs for the next farming season. Rose now sensitises fellow farmers on the need for and benefit of crop insurance. In the future, more needs to be done to sensitise farmers on the currently available product and to expand these offerings.

Financial Consumer Protection and Capability

Evidence under this pillar generally suggests good progress on the implementation, with 14 out of 17 planned activities either completed or nearing completion. Notable achievements include harmonising mandates for financial consumer protection, enhanced institutional arrangements between the three apex financial sector regulators and the CCPC, reviewing and updating the NSFE, and introducing financial education into various curricula. More than any other pillar, successful implementation relied primarily on effective collaboration between policymakers and regulators. Most of the actions prescribed by the strategy under this pillar relied on policy-level and institutional arrangements and were, for the most part, successfully implemented. The Multi-Sectoral Memorandum of Understanding (MoU) between financial sector regulators (BoZ, SEC and PIA) and the CCPC has strengthened collaboration on customer protection in the financial sector. Regarding the capabilities of consumers of financial products and services, some progress has been made, especially with primarily transactional products such as mobile money wallets.

Additional efforts are required under this pillar to realise the market-level impacts of this institutional arrangement. One action that can help drive this, as earmarked within the NFIS Action Plan, is issuing a shared policy or procedure for financial consumer protection. While this activity is underway and will likely be completed by the strategy's end-term, the initial Action Plan earmarked this activity for 2017, as it has a potentially catalytic effect at a market level. A shared approach can serve as a clear market signal that financial consumer protection is a primary concern for all regulators within the space and help manage expectations regarding the protocols and measures for FSPs resolving financial consumer protection issues. Several awareness campaigns have been run by regulators, industry players, and development partners, particularly on digital financial services. In-depth interviews with key stakeholders revealed that more focus should be placed on specific financial sectors such as credit, insurance, and investment.

BOX 7
CASE STUDY: Financial Literacy

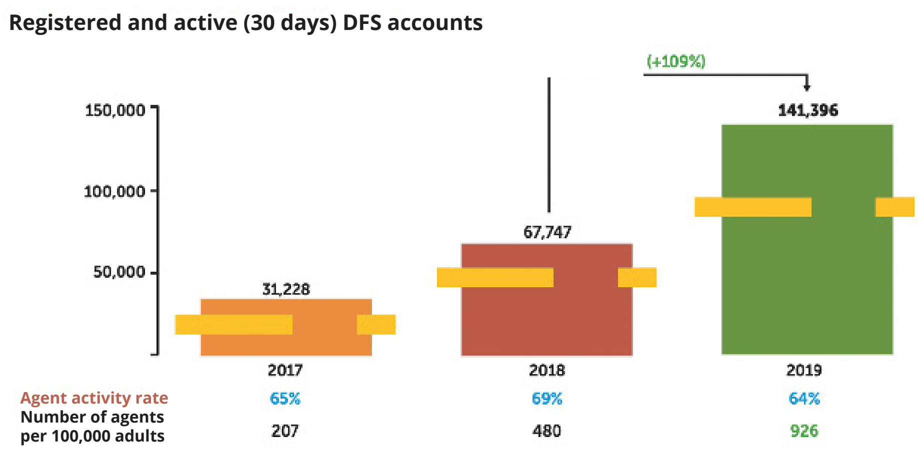
Introducing financial literacy training and business development skills in secondary schools has positively impacted the Nangoma Secondary School. At this school, two teachers received training on administering the National Financial Education Supplementary Curriculum (NFESC), which they then passed on to students. The teachers observed that some students could apply these lessons by passing the information on to their parents, obtaining small part-time employment opportunities within the community, and opening small businesses selling various goods and services within the school. The content of the NFESC has been hailed as comprehensive and adequately covering everything learners need to understand from an early age. Teachers did note a gender divide in the application of the principles contained within the NFESC, with more boys beginning entrepreneurial activities at the school than girls. While this observation is limited to one school, there might be a difference in the assimilation or application of information at schools where this curriculum is applied across the country.

5.2 REMAINING CHALLENGES

The progress made to date, though commendable, also reveals some lingering gaps and challenges in achieving equitable access to financial products and services for all Zambians. The starkest divide is seen between rural and urban financial inclusion. While inclusion in urban areas grew to 83.8 percent, exceeding the 80 percent target stated in the strategy well ahead of the strategy's 2023 end date, inclusion in rural areas grew to 55.9 percent, well below the target. The disparity for rural-based individuals and households experiencing a lower level of financial inclusion is most visible from an access point of view. The number of agent networks and bank branch locations is lowest in rural areas, as qualitatively assessed during the field visits conducted as part of the review of the NFIS.

The State of the DFS Market Report (2019), co-authored by BoZ and the United Nations Capital Development Fund (UNCDF), reveals a marked growth in the agent network between 2017 and 2019, with the figures at 243 agents/100,000 adults and 926 agents/100,000 adults, respectively.[47] This growth has largely been driven by mobile money operators, who have invested significantly in their agent networks' growth, sustainability, and profitability as a distribution structure. In terms of market share, in 2019, MNOs contributed to 81 percent of the total number of active agents distributed across the country, while banks, third-party providers, and MFIs accounted for 5 percent, 14 percent, and 0.1 percent, respectively. With the elimination of agent exclusivity, more and more agents offer products and services from multiple providers. However, float management remains specific to each carrier, limiting the level of agent interoperability in relation to liquidity management. Additionally, agent network growth in rural areas remains sparse and limited.

FIGURE 4: Registered and active (30 days) DFS accounts



Source: Bank of Zambia/UNCDF 2019 State of the Industry Report

Financial Literacy: Besides gaps in rural access, financial literacy remains a challenge, especially on products beyond P2P transfers, such as investments, insurance and digital credit among others, although these are covered in the primary and secondary school curriculum (Appendix IV). According to the NFSDP, the NFIS was an implementation instrument of the policy, which was also a Cabinet-approved document. This NFIS was also well aligned with the National Development Plans and Vision 2030.

To achieve the objectives of the NFIS and support its implementation, some organisations incorporated financial inclusion and its activities in their annual strategic plans. For instance, BoZ included financial inclusion as their priority and identified actions in their annual strategic goals throughout the implementation period. Such actions enabled the organisations to take ownership of the topics within each respective organisation and secure the resources required for implementing the NFIS. Organisations raised and allocated the resources to implement the actions identified in the NFIS. In other words, limited government resources were allocated to the NFIS implementation due to competing government needs. This created challenges to secure financial resources, especially for public sector entities that do not have an autonomous budget, like BoZ, or a strong mandate for financial inclusion.

The NFIS was used as the comprehensive roadmap for all stakeholders during the five-year implementation period. The vision, four drivers, and three key enablers were clear and well connected to the existing challenges, bottlenecks, opportunities, and proposed action plans. The Results Framework was well developed and comprehensively aligned with the priority areas, and challenges stated in the NFIS were well linked to the listed actions. The Action Plan identified the objectives, activities, entities responsible for implementation, priorities, and timeframe. The review confirms that the key participating stakeholders understood these contents well.

The production and issuance of progress reports experienced a delay, although the original plan was to produce quarterly reports. As stated in the NFIS, one of the Secretariat's responsibilities was to publish the progress reports. Quarterly progress reports were issued in the initial year (2018), and later the progress reports were issued annually, although issuance experienced delays. Despite the rapidly changing environment and challenges, the planned mid-term review by the NFIS Secretariat and Implementation Committee was not conducted. The advent of the COVID-19 pandemic further affected the situation, which disrupted normal business operations. As a result, the public sector was forced to shift its priority and attention to emerging issues. A timely mid-term review could have created an opportunity to revisit the policy actions' effectiveness, revise the planned activities, and explore the possibility of joint resource mobilisation. A mid-term review could also have offered the opportunity to refresh and renew commitments to the NFIS implementation.

6. THE NATIONAL FINANCIAL INCLUSION STRATEGY OWNERSHIP AND PARTICIPATION

6.1 REGULATORS /POLICY MAKERS/ LINE MINISTRIES/PUBLIC SECTOR STAKEHOLDERS

The in-depth desk review of the WGs' progress reports during the preparation of this review report confirms their strong ownership and leading roles in the NFIS implementation. The desk review ascertained that policymakers and financial sector regulators, including MoFNP, BoZ, SEC, the PIA, ZICTA, and CCPC, took strong ownership of the NFIS. The NFIS objectives, vision, and actions align well with its overall mandate and the sector they regulate and supervise. Regulators played central roles in hosting the Secretariat, participated as the core members of the NFIS Implementation Committee, and hosted the WG Secretariat on its respective topics48. Each regulator assigned a department, a unit, and full-time or part-time staff responsible for the NFIS implementation.

However, the review noted that the ownership of the NFIS by policymakers/line ministries/ public sector stakeholders with a broader mandate outside of the financial sector was limited. These stakeholders' participation in the Coordination Structure was minimal or did not materialise. However, during the review period, it was observed that efforts were made to involve these stakeholders during the implementation period. In order to improve financial inclusion, it will be crucial to have solid buy-in, participation, and earned ownership of financial inclusion agendas by the policymakers/line ministries/public sector stakeholders.49

6.2 FINANCIAL AND PRIVATE SECTORS

In line with the NFIS, WG members included financial and private sector representatives, with the latter appointed as chairpersons. Although efforts were made to involve the financial and private sectors during the drafting stage of the NFIS, it was noted that their continued participation during the implementation phase was limited. During the review process, it was observed that the financial and private sectors viewed the NFIS as a government and regulators' document. Hence, continued efforts and exploring new ways of involving the financial and private sectors during all stages of developing and implementing the 2nd NFIS would be critical to advancing financial inclusion.

6.3 OTHER KEY STAKEHOLDERS

Other key stakeholders, such as schools, cooperatives, civil society organisations, and non-governmental organisations (NGOs) that do not directly engage in the financial sector had limited or no participation in the NFIS implementation. However, it was observed that financial inclusion cuts across all sectors and therefore, all stakeholders are key in the advancement of financial inclusion. It would therefore be of great importance to improve awareness among all stakeholders on financial inclusion participation in the development and implementation of the 2nd NFIS.

6.4 MONITORING AND EVALUATION FRAMEWORK

The National Results Framework (Appendix II) in the NFIS provides a comprehensive structure to set the baseline and targets. The data sources of the impact indicators and listed surveys, such as WB Financial Capability Survey, Gallup World Poll, and Enterprise Survey, were internationally known and recognised. The global survey results also allowed for comparisons with other countries and created a benchmark for Zambia's peer countries. However, the Results Framework and its identified impact indicators did not necessarily provide the framework to monitor and review progress effectively. The frequency of updated data availability posed challenges in effectively monitoring and measuring the impact of actions and policy changes during implementation. The availability and timeliness of the data listed are essential to monitoring progress and reviewing the effectiveness of actions taken against the achievement of objectives. Out of 32 impact indicators set in the framework, more than 60 percent of the indicators' sources (20) were from survey results conducted by external parties. The survey frequency was limited to every three or five years, or stated as "when data is available". The frequency and cycle of these surveys were not necessarily matched to the implementation cycle. Reliance on external parties and resources also created challenges of periodically using these indicators as a monitoring and evaluation (M&E) tool. For instance, the previous FinScope Survey was conducted in 2015 to set the baseline for the strategy that commenced in 2017. Out of 32 indicators, the 2022 targets of 12 indicators remained as "TBD (To Be Determined)", and most do not have baseline data. The review found no record of these 12 targets being set for 2022 in the later stage of the implementation.

The review recognises that BoZ started collecting additional information during the NFIS implementation period. Supply-side data would need to be regulated and supervised in order to monitor progress relating to the NFIS actions and the Results Framework. This effort partly addressed the constraints to monitoring specific progress and achievements. Therefore, updating and incorporating such indicators that support or are directly linked to the measurement of the NFIS actions' impact, as a part of the Results Framework, would be beneficial during the implementation period. The review also notes that efforts were made to incorporate questions related to the Results Framework indicators, especially demand-side data, into existing or planned surveys and census questionnaires conducted by the Central Statistics Office (CSO). However, the review indicated that this was not materialised for various reasons, such as resource shortages and other priorities. Effective policy decisions, changes, and actions could be made if the updated data and information supported such conclusions. Therefore, it is crucial to prioritise and materialise regular data collection locally.

The NFIS Secretariat produced annual progress reports in 2018, 2019, 2020, and 2021. The progress reports presented the updated status and progress of actions listed in the NFIS. However, it was noted that the issuance of the annual progress reports took time for various reasons.[50] The delays in the release of the progress reports resulted in the non-availability of up-to-date information on the progress made towards the implementation of some of the actions in the NFIS.

6.5 FUNCTIONS OF GOVERNANCE STRUCTURES

The NFIS Coordination Structure (Figure 1) was adequately composed for effective implementation of the strategy. Each function of the Coordination Structure was clearly stated and understood by the stakeholders, particularly within the financial sector regulators and the public sector. The structure also created an opportunity for the private sector, mainly FSPs, MNOs, and other relevant industry representatives, to participate in and engage with the NFIS and its actions. The Coordination Structure was recognised by key stakeholders and functioned during the first two years of the strategy's implementation, but experienced a loss in participation and effective operation from the third year onwards.

The NFIS Steering Committee comprised the chief executives of the respective public institutions relevant to the strategy's implementation, and facilitated stakeholder engagements at the highest levels of decision-making. At the initial stages of the strategy implementation, the Steering Committee met as scheduled. However, with the onset of the COVID-19 pandemic and executive members' conflicting schedules, the frequency of the meetings drastically reduced.

The Implementation Committee and WGs' meetings were equally affected, mainly by the COVID-19 pandemic. Further, stakeholders involved in the WGs expressed that direct, structured, and regular cross-WG information sharing could have enabled further alignment of their actions.

The NFIS Coordination Structure relies on the deliberate and scheduled interaction of the identified institutions, without which the strategy's governance is not as effective, the flow of information is stalled, and ultimately implementation begins to lag.

The other challenge faced by the NFIS Coordination Structure is stakeholder turnover. The Structure relies on financial inclusion champions or focal points within the respective institutions and organisations it comprises. In some cases, key stakeholder turnover leads to institutional memory loss in terms of the commitments made towards effective implementation of the NFIS. This review recommends that the governance structure be maintained, although changes should be made to ensure that systems are in place to maintain an operational and functional structure throughout implementation.

Each stakeholder faced challenges in adequate resource allocation (financial and human resources) during the NFIS implementation. Although the NFIS was approved and endorsed by the Cabinet, resource allocation, especially government budget allocations, were not made specific to the strategy. Instead, organisations involved in each coordination structure, including the WGs and those identified as primary and secondary entities in the Action Plan, were individually responsible for raising and allocating human and financial resources. Some organisations for whom financial inclusion is a crucial component of their strategic plan reported having adequate financial and human resourcing to achieve the activities laid out in the NFIS. The opposite is true for other organisations whose internal strategic plans may not have as strong of a financial inclusion component. Some organisations needed a period of adjustment after the NFIS launch in 2017 to raise and appropriately allocate resources, which affected their implementation timeline. Some institutions raised financial resources to meet their NFIS-related commitments within the WGs. BoZ issued a circular to its regulated entities to incorporate the NFIS targets into their strategic plans and annual reports. The NFIS Action Plan shows that effort was made to put in place, among others, an enabling environment, regulations, financial infrastructure, delivery channels, products, and Fintech to provide a conducive environment for financial inclusion.

7. LESSONS LEARNT

Financial inclusion progress was significantly skewed towards urban areas, middle and higher-income households, salaried workers, and formal business owners, as confirmed in the FinScope 2020 and other surveys. During the NFIS implementation period, while moderate shifts were recorded,[51] there was a need for increased attention towards this dynamic. Low-income levels, unemployment or informal employment, and limited digital and financial literacy in rural areas were some of the barriers to equitable financial inclusion.

As this report has highlighted, there was significant growth in agent networks throughout the strategy's implementation. This growth was primarily in hyper-urban and peri-urban areas, with a limited increase in rural and sparsely populated areas. As digital account[52] interoperability has improved, the same principle could enable effective growth, sustainability, and profitability of rural agent networks, i.e., agent interoperability. Enabling more efficient agent interoperability will be vital to expanding the reach and accessibility of agent networks, particularly in rural areas. Complex issues such as float management, device interoperability, and network connectivity limit the ability of an agent to be interoperable. However, agent interoperability is possible through a singular agent offering multiple services.

As much as savings groups have significantly contributed to financial inclusion, focused group discussions with rural-based groups revealed that income availability was the overarching inhibitor to their growth and impact. It was repeatedly reported that despite the need for group members to borrow more, there were limited resources available due to insufficient savings. This provides an opportunity to link these savings groups and other informal financial structures to the formal financial sector. However, care must be taken to ensure that linking these groups to the formal financial sector does not erode or distort the social make-up of the groups themselves.

MSME financing was identified as one of the key focus areas in the strategy. While the overall financing volume channeled toward MSMEs has grown, this has predominately benefited formal larger-scale MSMEs. Interviews with various FSPs revealed inclusive definitions that encompass some larger-scale businesses. However, a 2020 study by the Zambia Development Agency (ZDA) and the International Trade Centre (ITC) revealed that more than 70 percent of MSMEs are small, with sales of less than K500,000 per month.[53] This figure is likely to be higher, considering the number of formally registered MSMEs is officially unknown. Given this reality, increasing access to credit and developing appropriate financing models for these smaller-scale MSMEs that comprise most of the business environment is a challenge. Continued efforts to explore possible approaches to improving the financial inclusion of these smaller-scale MSMEs will be needed.

Participation in the WGs, created to support the NFIS implementation, was initially meant to include both private and public sector players (regulators, policymakers, industry players, and development partners) with varying levels of financial resourcing within a specific priority area. However, the passage of time and the transition to virtual meetings, attributed to the COVID-19 pandemic, resulted in low private sector participation. Resource mobilisation planning at the strategy development phase would have also benefitted some organisations and enabled more government institutions and development partners to plan their resource allocation to support implementing the NFIS effectively. Hence, there is a need to explore a more sustainable ways to encourage regular engagements between public and private sector stakeholders to ensure coherence and continued collaboration in the financial sector and the advancement of financial inclusion.

While Fintechs play a more significant role in the financial sector, especially in payments and digital credit (e.g., Lupiya and Premier Credit), legacy issues such as capital requirements continue to inhibit their effective participation in other sub-sectors, such as micro-pensions and micro-insurance. There may be a benefit to testing whether a tiered approach to capital requirements in these sub-sectors could spur more participation from start-ups and Fintechs, as well as well-established and well-capitalised providers that currently dominate the sector.

One of the most glaring statistics from the FinScope 2020 Survey was the low percentage of financial health, which stood at 16 percent. This points to the reality that though financial inclusion has increased, one of the most significant impacts—enabling individuals to meet their immediate and future needs—has not yet been realised. As stakeholders begin to develop the 2nd NFIS, there is a need to include programmes and activities that speak to financial health, and improvement of this indicator across a broad range of target groups will be essential.

8. CONCLUSIONS / WAY FORWARD

Financial inclusion has significantly improved during the last five years despite the country experiencing challenging macro and fiscal situations, and the unprecedented COVID-19 pandemic and its impact. The government remained committed and worked closely with key stakeholders to improve financial inclusion during the NFIS implementation period. Financially included adults increased to 69.4 percent, according to the FinScope 2020 Survey report, which was mainly due to the sharp increase in uptake of DFS complemented by other financial sector strategies.

The Coordination Structure stated in the NFIS offered clear roles and responsibilities for each function, namely the Steering Committee, Implementation Committee, Secretariat, and WGs. The NFIS provided clear guidance and created platforms for the key stakeholders (regulators, public and private sectors) to address the identified issues jointly. However, the Coordination Structure faced challenges, such as limited stakeholder participation and resources available to implement the assigned actions. There is also a strong need to strengthen data collection, enhance the usage of the Results Framework, and enable timely M&E of policy actions and their impact.

Calling for the participation of broader public and private stakeholders is crucial to addressing the remaining challenges and effectively using resources to improve financial inclusion. The Ministry of Agriculture, Ministry of Fisheries and Livestock, Ministry of Education, and Ministry of SME Development are some of the primary institutions that may need to be more actively engaged going forward.

Before completing the NFIS implementation in 2023, the government renewed its commitment to financial inclusion and pursuing the vision of the NFIS further, by announcing its decision to develop the 2nd NFIS beginning from 2024. The findings of this report fully support this position considering the many achievements already made and the evolution of the financial sector space.

APPENDICES

APPENDIX I: A BRIEF SUMMARY OF THE NFIS

Vision and Definition

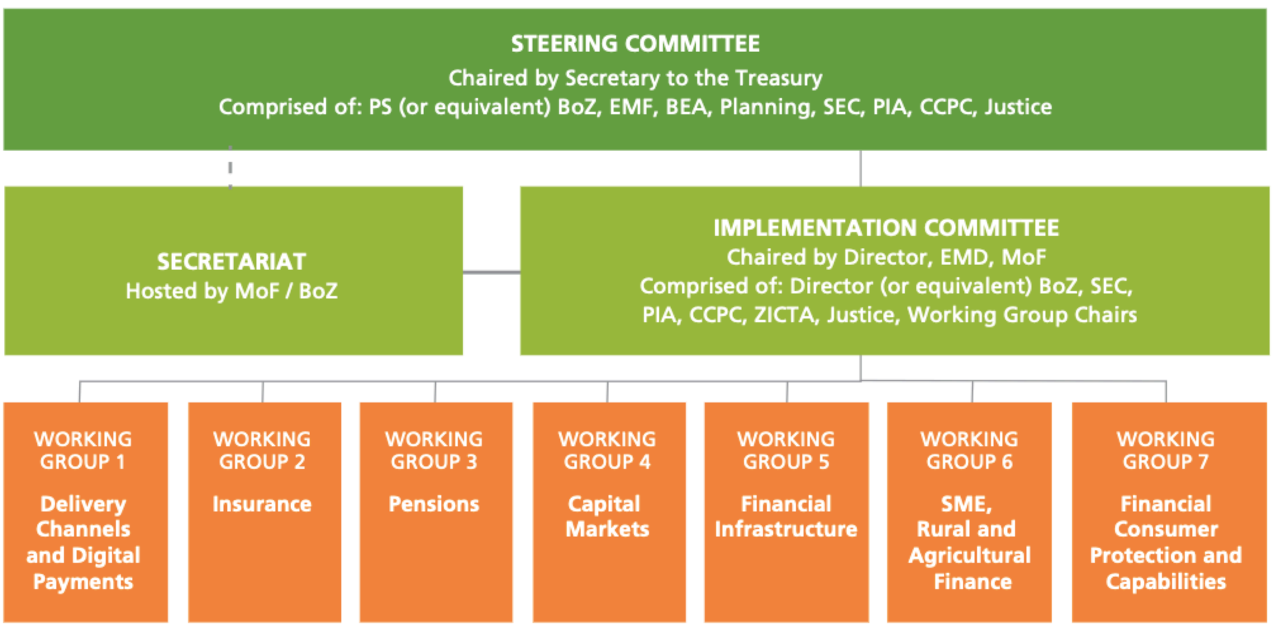
Vision: Universal access to and usage of a broad range of quality and affordable financial products and services.

Definition: Access to and informed usage of a broad range of quality and affordable savings, credit, payment, insurance, and investment products and services that meet the needs of individuals and businesses.

> **Access** is defined as close physical proximity to a financial access point and the reduction of other mechanical barriers to product uptake, such as documentation.
>
> **Informed usage** is defined as the active use of financial products or services by financially capable consumers.
>
> **Quality** implies that the products are suitable, satisfy customer needs, and meet acceptable consumer protection standards.
>
> **Affordable** means products that are within the customers' means and are sustainable for the provider.

Governance Structure (Coordination Structure)

FIGURE 5: NFIS Coordination Structure



Source: National Financial Inclusion Strategy 2017 - 2022

APPENDIX II: NATIONAL RESULTS FRAMEWORK

TABLE 7: The NFIS National Results Framework with Updated Data

Driver	#	Impact Indicator	Baseline	Result	Target 2022	Source
Cross-cutting	1	% adults financially included (formal & informal)	59 (2015)	69.4 (2020)	80	FinScope
	1a	% women financially included (formal & informal)	57 (2015)	67.9 (2020)	80	FinScope
	1b	% youth financially included (formal & informal)	55 (2015)	67.6 (2020)	80	FinScope
	1c	% rural financially included (formal & informal)	50 (2015)	56.9 (2020)	75	FinScope
	2	% adult formally financially included	38 (2015)	61.3 (2020)	70	FinScope
Delivery Channels	3	# of access points per 10,000 adults	7.64(2015)	31.41 (2021)[54]	10	BoZ
	4	% of districts with at least one access point	82 (2015)		100	BoZ
	5	% of the total population living in districts with at least one access point	92 (2015)		100	BOZ
Products	6	% of adults with a transaction account	36 (2014)	69% (2019)[55]	70	Findex/ FinScope
	7	% adults making or receiving a digital payment	29 (2014)		60	Findex/ FinScope
	8	Cashless retail transaction account	-		Tbd	BoZ
	9	% adults saving at a regulated financial institution	22(2015)	[56]	30	FinScope
	10	% adults saving with informal saving groups	6 (2016)	15.5% (2020)	Monitor only / no target	FinScope
	11a	% adults with at least one insurance product	2.8 (2015)	5.0 (2020)	10	FinScope
	11b	% adults with at least one non-mandatory insurance product	3.8		15	FinScope
	12	% adults with at least one pension product	4 (2015)	8.2 (2020)	20	FinScope
	13	% adults using an investment product	0.3 (2015)		Tbd	FinScope

Driver	#	Impact Indicator	Baseline	Result	Target 2022	Source
Finance for Growth	14	% SME with a loan or line of credit	8 (2013)		20	Enterprise Survey
	15	% SME reporting "access to finance" as a major obstacle	27 (2013)	49%	20	Enterprise Survey
Protection & Capability	16	% adults that express trust in the financial sector	68 (2015)		75	Gallup World Poll
	17	% adults that check terms and conditions of financial products before purchase	23 (2016)		40	WB Financial Capability Survey
	18	% adults who try to resolve conflicts with financial institutions (of those who experience a conflict)	25 (2016)		40	WB Financial Capability Survey
	19	% adults with high product awareness levels (i.e. familiar with products from at least 5 & 9 provider types)	36 (2016)		50	WB Financial Capability Survey
	20	% adults with high financial knowledge levels (i.e. correct answers to at least 5 of 7 financial knowledge questions)	26 (2016)		45	WB Financial Capability Survey
Cross-cutting	21	% G2P payment delivered via digital channels			Tbd	MOF
	22	% P2G payments delivered via digital channels			Tbd	MOF
Delivery Channels	23	% agents that are non-exclusive	7		100	BoZ
	24	% savings groups linked to FIs			Tbd	SaveNet, BoZ
Products	25	% regulated FIs with tiered KYC product requirements			Tbd	
Finance for Growth	26	% individuals covered by credit reporting system	17		Tbd	BoZ, WB doing Business
	27	% registered firms covered by credit reporting system			Tbd	BoZ

Driver	#	Impact Indicator	Baseline	Result	Target 2022	Source
Protection & Capability	28	% FIs rated compliant with disclosure requirements			Tbd	BoZ, PIA, SEC
	29	% complaints resolved via internal dispute resolution mechanisms at financial institutions			Tbd	Tbd
	30	% complaints resolved by external dispute resolution mechanism (of those received)			Tbd	Tbd
Cross-Cutting	31	# NFIS biannual reports released publicly	0	2 annual and 2 to be released	10	NFISIC
	32	# stakeholder actively participating in NFIS coordination structure	0		TBD	NFISIC

APPENDIX III: TARGET AND ACTION PLAN

TABLE 8: NFIS Action Plan and Progress Status

Not started	In progress	Near completion	Completed

Objective	Action	Primary Entity	Secondary Entities	Priority	Status
Widespread and Accessible Delivery Channels					
1. Expand reach and quality of agent-based and other cost-effective delivery channels	Issue agent banking regulations (that eliminate agent exclusivity)	BoZ	Justice, CCPC, BRRA	High	Completed
	Review branching requirements and consider tiered requirements for simplified branches	BoZ		Medium	Completed
	Undertake a study of causes and potential solutions to address agent liquidity issues	BoZ	Development partners	High	Completed
	Leverage ZamPost network for agent banking	ZamPost		Medium	In progress
	Leverage mystery shopping as a tool to ensure agent compliance with KYC, disclosure, and other regulatory requirements	BOZ	ZICTA and CCPC	Medium	Completed
	Provide incentives (tax, etc.) for FSPs to expand branch/agent networks in rural areas	MoFNP		Medium	Completed
2. Expand the use of mobile-base delivery channels	Enable and promote the use of mobile-based delivery channels for payment and non-payment products (e.g. insurance, credit)	BoZ	Industry	High	Completed
	Develop cheaper avenues for low-income consumers to obtain mobile phones	ZICTA	Industry	High	Completed
	Encourage employers to partially disburse wages through mobile-based payment instruments	MoFNP		Medium	Completed

3. Improve overall quality of service of financial service providers	Issue industry-specific quality of service charters	BAZ, industry associations		High	In progress
4. Achieve interoperability and scale of retail payment systems	Complete phased implementation of National Switch	BoZ	BAZ, industry associations	High	Completed
	Grant fair and open access to ZECH for non-banks to meet standards	BoZ	BAZ, industry associations	High	Completed
	Promote interoperable products	BoZ	BAZ, industry associations	High	Completed
	Promote expansion of acceptance networks for retail payment systems	BoZ	ZICTA	High	Completed
5. Leverage G2P and P2G payments to expand financial inclusion	Undertake an assessment/mapping of G3P and P2G programmes to assess the feasibility of digitisation and determine the strategy	MoFNP		High	Completed
	Migrate P2G payments to digital platforms (e.g. FISP, Women's Livelihood Program)	Ministry of Agriculture, MCDSW	FSPs	High	Completed
	Migrate P2G payments to digital platforms (e.g. school payments, taxes)	Ministry of Education	FSPs	High	In progress
6. Strengthen the reach and sustainability of SACCOs and MFIs	Develop and expand linkages between SACCOs and other formal financial institutions and between MFIs and other formal financial institutions	MCTI, BoZ	Industry	Medium	In progress
	Review feasibility of incorporating SACCOs into the formal financial sector legal and regulatory framework	MCTI	BoZ	Medium	Not started
7. Strengthen pathways to formal financial inclusion for users of formal financial services	Recognise financial inclusion role of informal savings groups	BoZ		Medium	Completed
	Expand linkages between savings groups/chilimbas and formal financial service providers	MCTI	BoZ	Medium	Near completion

Diverse, Innovative, Customer-Centric Products					
8. Reduce documentation barriers to product uptake and usage	Review potential financial inclusion impacts of tax identification requirements for account opening and consider mitigating approaches (e.g. exemptions for low-value accounts)	BoZ, ZRA, ZICTA, Industry	MoFNP	High	Completed
	Issue, promote, and implement tiered KYC requirements	SEC, PIA, ZICTA, ZRA, Industry	FIC, Justice, BoZ	High	Near completion
	Develop a centralised electronic KYC database into which all market players could tap to ensure customers meet KYC requirements	BoZ, ZICTA	MoFNP, MoHA	Medium	In progress
9. Simplify products using customer-centric design	Introduce and promote basic savings/transaction accounts	Industry, BoZ			Completed
	Design, test, and adopt simplified, tailored products (e.g. savings, credit, payments, collective investments, insurance, pension, etc.) facilitated by sandbox regulation for pilot products	Industry	BoZ, PIA, SEC	High	Near Completion
	Develop approaches to incentivise uptake of simplified products (e.g. competition among providers)	BoZ, PIA, SEC		High	Completed
	Explore affordable development USSD code menus in seven main local languages	ZECH	BoZ Payments Dept, ZICTA	High	In progress
10. Expand the supply of insurance and pensions products	Formulate a strategy for professional development and certification of insurance practitioners through the Insurance Institute of Zambia (IIZA)	Insurance Association, IIZA	FSPs	Medium	Near completion
	Amend insurance regulations to lower capital requirements for micro-insurers	PIA	Insurance association	High	Not started
	Issue regulations on micro-pension	PIA	Pensions association	High	In progress
	Public sensitisation to insurance, pensions, and collective investments	PIA	Pensions providers	Medium	Completed

11. Improve the quality and availability of financial products and services for women, youth, and children	Design approaches to reduce barriers to financial inclusion for women, youth, and children	Industry	MoFNP, BoZ, Ministry of Gender, Industry associations	High	Completed
	Promote children's accounts in line with child-friendly banking principles	BoZ	Banks and MFIs	Medium	Completed
	Change legal/regulatory requirements to allow youth (from age 16) to open and operate savings/transaction accounts	BoZ, MoFNP		Medium	Completed
Finance for SME and Agricultural Sector Growth					
12. Improve coverage and quality of credit reporting systems	Review and finalise Credit Reporting Bill	MoFNP	BoZ, Justice	High	Completed
	Implement online movable collateral registry (in line with 2016 Movable Property Security Interest Act)	PACRA	Industry	High	Completed
13. Build the capacity of financial service providers to serve SMEs	Train lenders in "down scaling" SME lending, valuation, and registration of movable assets	Industry, PACRA, MoFNP	Providers of technical assistance	High	Completed
	Improve SME finance practices through non-credit offerings (e.g. cash flow support, payments, insurance, equity) and evaluate programs such as Live Labs for potential scale-up	Industry, MoFNP	Providers of technical assistance	High	Near completion

14. Improve government supported SME finance approaches	Review the effectiveness and impact of existing SME and agricultural support schemes/ interventions to make transformative changes in targeting sustainability, recovery, and impact, including exploring partial guarantee schemes	ZDA, LuSE, CEEC, DBZ, NATSAVE, MoA	Relevant ministries and agencies	High	Completed
	Review and strengthen mandates of existing state-owned financial institutions in rural and agricultural finance	MoFNP		High	Near completion
	Undertake an assessment to consider the feasibility and potential contribution of a new entity with the agricultural mandate	MoFNP		High	In progress
	Provide for rural outreach and innovation (e.g. accounting treatment, limited tax holiday on imports of ATM/POS equipment for deployment in underserved areas)	MoFNP, ZRA, BoZ, PIA, Sec	ZICTA	High	In progress
15. Finance agriculture value chain	Promote warehouse receipt financing	Industry associations	RUFEP, SEC, ZAMACE, MoA	High	Completed
	Build capacity for FSPs to design and offer agriculture finance products	Industry associations	BoZ, Providers of technical assistance	High	In progress
16. Develop innovative and accessible instruments for the financing of SMEs	Undertake an assessment to determine existing constraints and potential reforms and actions (including those related to factoring and leasing)	MoFNP	Development partners	Medium	Near completion

Financial Consumer Protection and Capability					
17. Clarify institutional arrangements and legal mandates for financial consumer protection	Enact existing relevant legal amendments to strengthen and harmonise mandates for financial consumer protection and resolve overlaps with CCPC	BoZ, SEC, PIA, CCPC	MoFNP, MoC	High	Completed
	Issue a shared policy/ strategy for financial consumer protection	BoZ, SEC, PIA, CCPC		High	Completed
	Revise and consolidate multi-sectoral MoUs under CCPC	BoZ, SEC, PIA		High	Completed
18. Improve disclosure practices of financial service providers	Issue key fact statements and other disclosure requirements for core retail financial products based on market research	BoZ, SEC, PIA, CCPC	Industry	High	Completed
19. Improve access to the efficiency of dispute resolution mechanisms for financial consumers	Issue internal complaints-handling requirements for financial institutions	BoZ, SEC, PIA		High	Completed
	Determine institutional arrangements for external dispute resolution (EDR) and establish (preferable single) EDR mechanism for the financial sector	BoZ, SEC, PIA, CCPC		High	Completed
	Publish data on customer complaints and leverage for supervision	Tbd (by the EDR arrangement)	BoZ, SEC, PIA, CCPC	High	Completed
	Undertake efforts to strengthen customer awareness of dispute-resolution channels	BoZ, SEC, PIA	Industry	Medium	Completed
20. Strengthen financial consumer protection supervision	Determine internal responsibilities within regulators for financial consumer protection supervision	BoZ, SEC, PIA		High	Completed
	Build the capacity of regulators to undertake financial consumer protection supervision	BoZ, SEC, PIA		High	Completed
21. Improve business practices of financial service providers	Draft and issue regulations that ensure/ address responsible lending practices, cooling-off periods, collection practices, sales practices, and treatment of dormant accounts	BoZ, SEC, PIA		Medium	Completed

22. Improve deposit protections	Review and pass Deposit Insurance Bill		BoZ, MoFNP	High	Completed
	Determine institutional leader and governance arrangements for NSFE implementation	MoFNP, BoZ, SEC, PIA		High	Completed
23. Strengthen the financial capability of consumers	Review and update the National Strategy for Financial Education (Action Plan and M&E)	BoZ, SEC, PIA		High	Completed
	Ensure coordination with the National Strategy on Financial Education implementation mechanisms	BoZ, SEC, PIA	MoFNP	Medium	Completed
	Fully embed appropriate financial education into the primary, secondary, vocational, and tertiary school curriculum	Ministry of Education	BoZ, SEC, PIA, CCPC	High	Near completion
	Design, implement, and evaluate priority programs that are likely to be effective and reach scale, leveraging community-based channels (e.g. traditional authorities, churches)	BoZ, SEC, PIA	FSDZ, Ministry of Chiefs and Traditional Affairs	High	Near completion
Cross-cutting					
24. Improve data infrastructure for financial inclusion	Incorporate financial inclusion modules into the CSO survey instrument	CSO		Medium	Not started
	Review scope, quality, and consistency of supply-side financial inclusion data	BoZ, PIA, SEC		Medium	In progress
25. Improve cross-agency coordination for financial inclusion	Ensure the participation of relevant stakeholders in the NFIS coordination structure	NFIS SC		High	In progress
	Provide regular updates to all government authorities on financial inclusion progress	MoFNP		High	In progress

APPENDIX IV: FINANCIAL EDUCATION SCHOOL CURRICULUM

TABLE 9: The Financial Education Curriculum Outline [57]

The curriculum for Grades 8 and 9	
Chapter 1 Money and Trade	Money · Money management · Ways of managing your money · Ways of earning money · Suggestions for using money properly · Key characteristics of money · Understanding the role money plays in our lives · Taxation and National Development Trade · Law of Supply and Demand · Inflation · Deflation · Role of ZRA in local and international trade
Chapter 2 Corruption	Corruption · Type of corruption · Effects of corruption · Effects of corruption on taxation · The Anti-Corruption Commission (ACC) · Function of the ACC · Money Laundering · Money Laundering Money laundering · Ways of money laundering · Effects of money laundering · Prevention of money laundering Fraud · Effects of fraud · Prevention of fraud

Chapter 3	Financial Management	Personal Financial Management · Budgeting · Types of budgets · The importance of a budget · Features of a budget · Challenges of budget implementation · Savings · Importance of savings · Investments · Type of investment Financial Institutions · Types of financial institutions · Electronic money transfers · Online banking · Payment cards · Mobile banking · Documents used in banks · Insurance · Pension · Capital Markets · Investment options in capital markets · Financial services industry regulators
Chapter 4	Entrepreneurship	Entrepreneurship · Qualities of an entrepreneur · Entrepreneurial activities · Benefits of an entrepreneur · Strengthening entrepreneur activities · Business units · Business registration · Sources of capital · Strengths, weaknesses, opportunities, and threats (SWOT) analysis · Marketing and business plan

NOTES

1 For example line ministries, such as Ministry of Agriculture, Ministry of SME Development, Ministry of Education, Ministry of Community Development and Social Services, Ministry of Local Government and Rural Development, and provincial administration offices.

2 i) Widespread and Accessible Delivery Channels, ii) Diverse, Innovative, Customer-centric Products, iii) Finance for SME and Agriculture Sector Growth, and iv) Financial Consumer Protection and Capability.

3 The FinScope 2015 Survey, formally and informally combined.

4 The same definition is used for the FinScope 2020 Survey and added (formal and informal).

5 The NFIS (2017).

6 Financial Sector Development Plan (2010–2015), Bank of Zambia: https://www.boz.zm/Financial-Sector-Development-Plan-II-Brochure.pdf.

7 FinScope Survey (2015).

8 At the beginning of 2017, banks accounted for about 69 percent of total financial sector assets (NFIS, 2019).

9 Deposit-taking and non-deposit-taking MFIs operate in the country. Their lending primarily focuses on payroll lending, mainly for formal sector employees.

10 NATSAVE, a government-owned NBFI focused on enhancing access to finance for households and SMEs, was recapitalised in 2020 up to the minimum capital requirement. The cost of the recapitalization was K900 million (0.3 percent of GDP) (IMF, 2022).

11 Development Bank of Zambia.

12 Bank of Zambia annual reports and NBFIs list as of August 2022 (www.boz.zm).

13 Ministry of Commerce, Trade and Industry Annual Report (2021).

14 Bank of Zambia the National Payment System Annual Report (2021) (https://www.boz.zm/2021NPSAnnualReport.pdf).

15 Bank of Zambia Credit Market Monitoring data.

16 The interest rate offered by NBFIs, especially those of MFIs, are even higher than the ones offered by the banks. This further hinders access to credit, especially for lower income households/individuals and SMEs.

17 International Monetary Fund Country Report No.22/292.

18 Bank of Zambia National Payment Services Annual Report (2021).

19 Ibid.

20 PIA Annual Report (2021).

21 Namely, the Public Service Pension Fund (PSPF) and the Local Authority Superannuation Fund (LASF).

22 PIA Annual Report (2021).

23 The NFIS (2017).

24 World Bank, Macro and Poverty Outlook: Zambia (2021).

25 International Monetary Fund Country Report No 22/292.

26 World Bank estimate using BoZ data.

27 World Bank: Monitoring COVID-19 impacts on Households in Zambia, Report No.1: Results from a High-Frequency of Households (2020).

28 World Bank: The enterprise surveys follow-up on COVID-19; Zambia 2021–Round 3 (2021).

29 Ibid.

30 Bank of Zambia, National Payment System Annual Report (2021).

31 https://www.boz.zm/TermsandConditionsMediumTermRefinancingFacility24May2021.pdf

32 The survey results show that the urban-based adult population is 31.9 percent financially literate while the rural remain lower as 16.2 percent. The adult male is 26.1 percent financially literate while the woman is 21.4 percent.

33 PIA Annual Report (2021).

34 FinScope 2020 Survey Topline Findings, Bank of Zambia https://www.boz.zm/finscope_2020_survey_topline_findings.pdf

35 The urban and rural areas in the FinScope 2020 Survey are defined based on the Census of Population and Housing of the Republic of Zambia conducted in 2010, and updated to accommodate for changes in districts and constituencies that occurred between 2019 and 2020.

36 The definition used in the FinScope 2020 Survey “Individuals primarily using formal financial products/services provided by institutions formally regulated. This is not exclusive usage, as these individuals may also use informal products/services” (2017).

37 The definition used in the FinScope 2020 Survey “Individuals who are not using any formal financial products/services but who use one or more financial products/services offered by an informal provider”.

38 In terms of savings group uptake of DFS, there is a divide between savings groups in rural vs. urban communities. There has been an uptake of digital accounts amongst savings groups in urban settings, but this does not extend to deposit insurance. The digital accounts merely support the transactional function of the savings group, and do not offer deposit insurance per se. The accounts follow the same three-person authentication system that physical cash payouts do in informal savings groups. Savings groups in rural settings have a much lower uptake of DFS, and where uptake exists it is usually limited to a personal level, as in members of the savings groups will have mobile money wallets (or bank accounts in extremely rare cases), but this typically does not impact the physical nature of the groups.

39 State of Digital Financial Services Market in Zambia Report (BoZ, UNCDF, 2019).

40 State of the Industry Report on Mobile Money (GSMA, 2022).

41 Collaborative Framework for the Oversight of the Digital Financial Services in Zambia (ZICTA,2022).

42 Ibid.

43 i) Widespread and Accessible Delivery Channels, ii) Diverse, Innovative, Customer-centric Products, iii) Finance for SME and Agriculture Sector Growth, and iv) Financial Consumer Protection and Capability.

44 https://zamportal.gov.zm/

45 In this context, "lower-income customers" refer to the customers who have limited transaction needs and store limited values in formal financial services. One example is BoZ circular number 01/2020 issued on March 19, 2020, which shows different KYC requirements based on the transaction limit per day and maximum balance. The simplest KYC requirement is for the individuals (Tier 1) whose transaction is less than K20,000 per day and maximum balance of K100,000: i) National Registration Card or passport or driver's license.

46 Zambia Banking and non-Bank Industry Survey, PriceWaterhouseCooper (2020); https://www.pwc.com/zm/en/publications/banking-industry-survey.html

47 State of the DFS Market Report, Bank of Zambia and UNCDF (2019) https://www.uncdf.org/article/6414/state-of-the-digital-financial-services-market-in-zambia-2019---results-from-the-uncdf-annual-provider-survey.

48 Out of the seven WGs, six were hosted by the regulators as secretariats.

49 For example line ministries, such as Ministry of Agriculture, Ministry of SME Development, Ministry of Education, Ministry of Community Development and Social Services, Ministry of Local Government and Rural Development, and provincial government.

50 For instance, as of November 2022, the annual progress reports for 2020 and 2021 were not issued yet.

51 FinScope Survey (2020): https://www.boz.zm/finscope_2020_survey_topline_findings.pdf.

52 Digital account goes beyond mobile money, to include digital accounts held at banks that are mobile money wallets.

53 Promoting SME Competitiveness in Zambia, Zambia Development Agency and International Trade Centre (2020) http://www.zda.org.zm/wp-content/uploads/2020/09/Zambia-Small-and-Medium-Enterprises-Survey-Report.pdf.

54 UNCDF, State of the Industry Report (2019) quotes 92.6: https://www.uncdf.org/article/6354/state-of-the-digital-financial-services-market-in-zambia-2019---results-from-the-uncdf-annual-provider-survey

55 UNCDF, State of the Industry Report (2019).

56 Not captured in the FinScope 2020 Survey.

57 Ministry of Education, Financial Education Learners Supplementary Book Grade 8 and 9 and Grade 10 to 12 (2022). As of February 2023, the curricula for Grade 1 to 7 were developed in English. The curricula were recently translated into the respective local languages and are in the process of finalization as Grades 1 to 7 are also taught in local languages.