Republic of Zambia

National Financial Inclusion Strategy

2017-2022

DRAFT
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Abbreviations and Acronyms

AFI	Alliance for Financial Inclusion
AML	Anti-Money Laundering
BOZ	Bank of Zambia
CCPC	Competition and Consumer Protection Commission
CFT	Combating the Financing of Terrorism
CSO	Central Statistics Office
EDR	External Dispute Resolution
FISF	Financial Inclusion Support Framework (World Bank)
FSDP	Financial Sector Development Plan
FSDZ	Financial Sector Deepening Zambia
FSP	Financial Service Provider
G2P	Government-to-Person
GRZ	Government of the Republic of Zambia
KYC	Know Your Customer
KPI	Key Performance Indicator
NFIS	National Financial Inclusion Strategy
NSFE	National Strategy on Financial Education
MFI	Microfinance Institution
MNO	Mobile Network Operator
MOF	Ministry of Finance
PIA	Pensions and Insurance Authority
POS	Point of Sale
RUFEP	Rural Finance Expansion Program
SACCO	Savings and Credit Cooperatives
SEC	Securities and Exchange Commission
SME	Small and Medium-sized Enterprise
ZEHCL	Zambia Electronic Clearing House Limited

Executive Summary

In support of Vision 2030, this National Financial Inclusion Strategy (NFIS) is being adopted by the Government of the Republic of Zambia (GRZ) in [June] 2017. The vision of this NFIS is to have universal access and usage of a broad range of quality and affordable financial products and services. In achieving this vision, it is expected that all Zambians will reap the full benefits of financial inclusion: that is, individuals will be able to use appropriate savings, credit, payment, insurance, and investment services to manage risks, plan for the future, and achieve their goals; and firms will be able to access affordable financing to innovate, grow, and create employment.

Despite recent progress on financial inclusion, much remains to be done to achieve this vision. Over 40 percent of Zambian adults are excluded from the financial sector; and nearly 80 percent do not use financial products and services from regulated providers. Significant discrepancies also remain between rural and urban areas, men and women, youth and adults, and SMEs and large firms. The potential to leverage digital technologies, to reduce costs and expand the reach of the formal financial sector has not yet been fully realized. Nonbank financial institutions like microfinance institutions, insurance companies, and pension providers have limited reach. Low levels of financial capabilities among some consumers and limited consumer protection mechanisms also constrain the ability and willingness of consumers to use formal financial products and services to meet their goals.

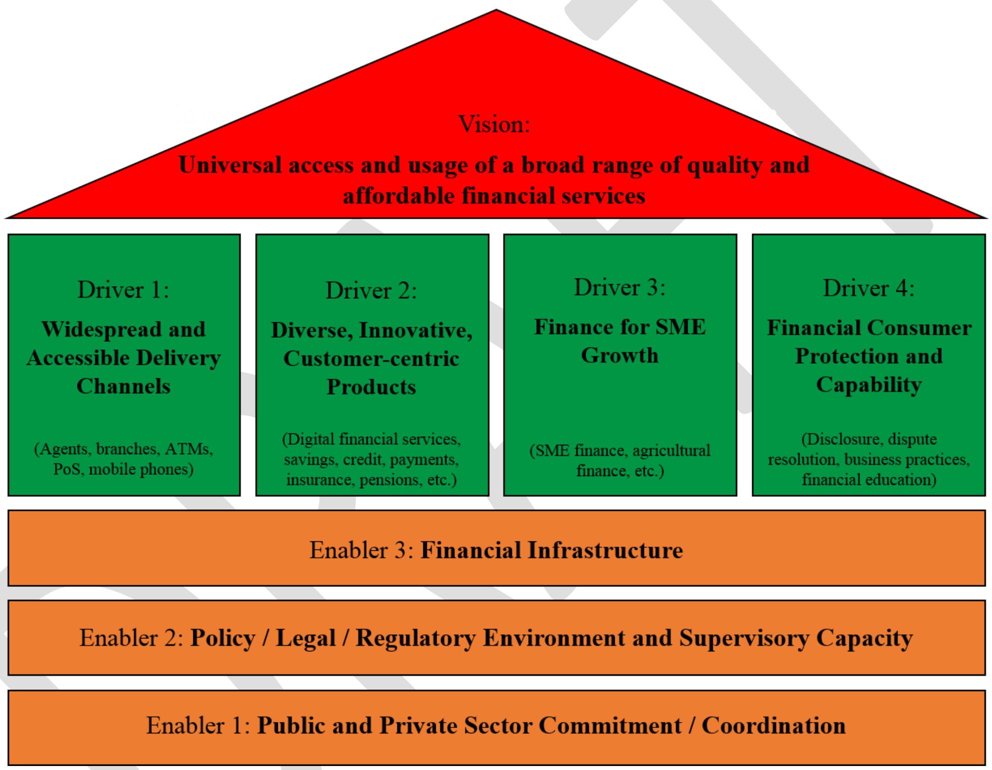
To address these gaps, this NFIS sets forth a coordinated and sequenced set of actions to be executed by the public and private sectors. The successful implementation of these actions will achieve the following:

- An increase in financial inclusion from 59% to 80% by 2022.
- Improved physical access to high-quality financial delivery channels, including branches, agents, ATMs, and mobile phones as the percentage adults using an electronic payment instrument will grow from 37% to 55% by 2022.
- Innovative and diverse financial products and services that meet customers' needs as the percentage of adults with a store-of-value transaction account will grow from 36% to 70% by 2022.
- Greater availability of affordable financing for SMEs, small holder farmers and agricultural firms as the percent of SMEs indicating access to credit as a major constraint will decrease from 27% to 20% by 2022.

- Enhanced consumer protections and increased financial capabilities of consumers as the percentage of adults with adults with low financial knowledge levels will decrease from 17% to 10% by 2022.

The NFIS framework (below) represents these four areas as "Drivers", which are in turn supported by three key "Enablers": (i) Public and Private Sector Commitment and Coordination; (ii) Policy, Legal, and Regulatory Environment and Supervisory Capacity; and (iii) Financial Infrastructure.

Figure ES. 1: NFIS Framework



The implementation of this NFIS will be guided by a Coordination Structure that leverages expertise and resources from both the public and private sectors. Measurement of progress towards the NFIS vision and objectives will be supported by a robust Monitoring & Evaluation System, which includes a range of national-level and action-level key performance indicators and targets. Chief among these targets is the achievement of 80 percent financial inclusion by 2022 (at least 50 per cent of which should be formal).

Zambia joins more than 30 countries that have or are developing National Financial Inclusion Strategies. This NFIS represents a renewed commitment to financial inclusion in

Zambia, and builds on previous, relevant efforts (e.g., FSDP, FSDP II) as well as existing, ongoing commitments by Government. Implementation of this NFIS will be pursued in parallel to complementary financial sector objectives, including financial stability and financial integrity.

1. Introduction

Financial inclusion is a well-established policy priority in Zambia. Zambia's first Financial Sector Development Plan (2004-2009) recognized the "gap in provision of financial services to the low-income households in the rural and peri-urban areas" as a significant challenge and outlined a series of legal, regulatory, and infrastructure reforms to address this gap. The subsequent Financial Sector Development Plan II (2010-2015) more explicitly prioritized financial inclusion, including "Increasing access to finance" as one of three strategic pillars. The Bank of Zambia in its new Strategic Plan for 2016-2019 has adopted a strategic objective to "increase formal financial inclusion by 16 percentage points to enhance living standards." Most recently, the government of Zambia is adopting a new financial sector Policy for Financial Sector Development in 2017 which envisions the important role of financial inclusion in the broader financial sector.

These financial sector strategies are anchored by Zambia's National Development Plans and Zambia's Vision 2030 to become a prosperous middle-income country by 2030. The latter includes several references to developing an inclusive financial sector.[1] In addition, there are several recent and ongoing strategies and interventions such as the National Strategy on Financial Education (NSFE), the Rural Finance Policy and Strategy, and the Financial Inclusion Support Framework (FISF), each supported by a range of stakeholders with the objective of supporting financial inclusion.

Zambia has also signalled its commitment to financial inclusion through its participation in international fora. Zambia has been an active participant in the Alliance for Financial Inclusion (AFI) since its founding and, in 2011, was among the first countries to sign the Maya Declaration - a global set of measurable commitments to financial inclusion - and committed to achieving 50 percent financial inclusion, a target that has recently been surpassed. Indeed, according to the 2015 FinScope survey, 59 percent of adults now report using either formal or informal financial services, a sharp rise from the 37 percent recorded in the 2009 survey.

[1] Section 3.1.4 of Zambia Vision 2030 notes that Zambia will "Improve access to affordable credit and other financial services as well as the development of capital markets in both rural and urban areas, for both men and women."

With the end of FSDP II in June 2015, the Government has recognized the need for a comprehensive national strategy to accelerate progress towards financial inclusion in Zambia.

1.1 Rationale for a National Financial Inclusion Strategy

Financial inclusion has been shown to have a number of positive effects on poverty alleviation, and private sector development. Empirical studies have demonstrated that by reducing vulnerability to economic shocks, financial inclusion can be a key driver of poverty alleviation.[2] Inclusive financial systems provide low-income adults with the tools to borrow, save, make payments, and manage risks, which in turn facilitate consumption smoothing and lessen the impacts of unexpected reductions in income that are common among those in the informal sector.[3] Access to a range of appropriate and affordable financial products and services can also facilitate investments in human capital and boost job creation. Without inclusive financial systems, individuals must rely on their own limited savings to invest in education or become entrepreneurs – and firms must rely solely on their earnings to pursue promising growth opportunities. Households must borrow from each other and pool meager resources to ensure children are educated, major family events such as funerals can be paid for, and expenses can be managed over long periods of uneven income flows. For firms, particularly small and young ones that are subject to greater constraints, access to finance is associated with innovation, job creation, and growth. Recent evidence also demonstrates that broader access to and use of bank deposits can significantly mitigate deposit withdrawals or growth slowdowns in times of financial stress – one example of the links between financial inclusion and other financial sector objectives like stability, integrity, and consumer protection.[4]

The promotion of financial inclusion has become an important policy objective for policymakers around the world. In 2010, the G-20 formed the Global Partnership for Financial Inclusion and produced a set of recommendations known as "The Principles for Innovative Financial Inclusion."[5] In 2011, the Alliance for Financial Inclusion - an

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[2] See, inter-alia, Financial Inclusion: Can It Meet Multiple Macroeconomic Goals?
Ratna Sahay, Martin Čihák, Papa N'Diaye, Adolfo Barajas, Srobona Mitra, Annette Kyobe, Yen Nian Mooi, and Seyed Reza Yousefi (IMF); Banking the World: Empirical Foundations of Financial Inclusion (MIT Press)

[3] World Bank Global Financial Development Report, 2014.

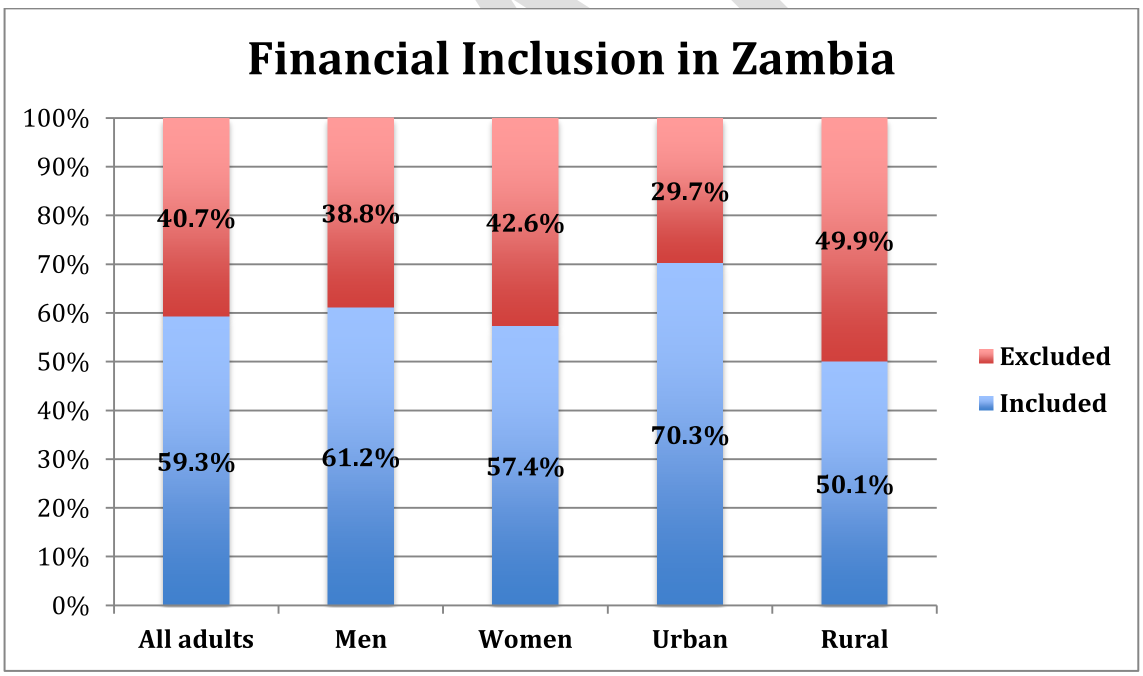
[4] Han, Rui, and Martin Melecky. 2013." Financial Inclusion for Financial Stability: Access to Bank Deposits and the Growth of Deposits in the Global Financial Crisis." Policy Research Working Paper 6577, World Bank, Washington.

[5] In 2016, the G20 endorsed an update of these principles focused on leveraging digital technologies to expand financial inclusion, the "G20 High-Level Principles for Digital Financial Inclusion".

international network of regulators – was formed, and launched the Maya Declaration.[6] The World Bank Group (WBG) has also articulated a vision for Universal Financial Access (UFA) by 2020, defined as universal ownership of a transaction account to enable all individuals to store money and receive payments.

Despite significant progress in recent years, much remains to be done in Zambia to achieve universal financial inclusion. Large segments of the population remain unserved or underserved by financial service providers. In particular, significant discrepancies remain between rural and urban areas, men and women, youth and adults, and SMEs and large firms. (see Figure 1 below). The potential to leverage digital technologies to drive down transaction costs and expand the reach of the formal financial sector has not yet been fully realized. Limited financial capabilities of consumer, limited consumer protection mechanisms, and lack of trust in financial institutions also constrain the ability and willingness of consumers to leverage financial products and services to meet their goals. These challenges are further discussed in Section 2.

Figure 1: Breakdown of Financial Inclusion in Zambia



Source: FinScope Zambia 2015; includes both formally and informally included.

6 The Maya Declaration is a global and measurable set of commitments by developing and emerging country policy makers to unlock the potential of the poor through greater financial inclusion. Institutions from, more than 80 countries, including Zambia have endorsed the Declaration.

This NFIS provides a comprehensive roadmap to accelerate financial inclusion progress in Zambia by setting forth a series of specific, delineated, and sequenced actions for a wide range of stakeholders. The NFIS outlines a vision and definition for financial inclusion, provides an assessment of the existing obstacles to achieving greater financial inclusion, and establishes a roadmap with key outputs and actions, a coordination structure, and a monitoring and evaluation system. The NFIS thereby consolidates existing relevant strategies and interventions into a single document and implementation plan. With the launch of this NFIS, Zambia joins more than 30 countries that have or are developing National Financial Inclusion Strategies.

1.2 Financial Sector Context

This NFIS is being introduced in the midst of slowed economic growth and notable financial sector stress. Monetary and financial conditions have been constrained since 2015, with depreciation in the exchange rate and inflation rising to over 20 percent, although declining to single digit towards the end of 2016. A range of factors have contributed to the current situation, including decreasing copper prices, electricity shortages due to poor rainfall, uncertainty on the mining sector taxation regime, and a challenging fiscal position. The Bank of Zambia has tightened monetary policy in response to inflationary pressures, which has had a negative impact on bank liquidity and access to credit. The interbank lending rate rose to stood at over 27 percent in the early months of May 2016, and credit has been contracting since the fourth quarter of 2015. Despite the fall of interbank rates since mid-2016, liquidity conditions towards the end of the year remained tight.

Although bank capitalization levels are high, non-performing loans (NPLs) have increased due to the slowdown in economic activity, depreciation of the kwacha in 2015, high lending rates from mid–2015, and rising government payments arrears, although these issues are slowly being addressed. Three smaller nonbank financial institutions and one small bank have failed since the beginning of 2016. Discussions towards the introduction of a deposit insurance scheme are currently underway.

Zambia's financial system is dominated by banks. Banks account for about 69 percent of total financial sector assets, with majority foreign-owned banks accounting for 83 percent of total bank assets. The nonbank financial institution (NBFI) sector is dominated by pension funds (72 percent of NBFI assets) of which the government-run National Pension Scheme Authority (NAPSA) accounts for 67 percent. Microfinance institutions (MFIs) – deposit taking MFIs and non-deposit taking MFIs - comprise 10 percent of total financial sector assets, and insurance companies 7 percent. Other NBFIs include 4 building societies, 1 savings and credit institution, 10 leasing companies, a development bank (Development

Bank of Zambia), 11 saving and credit cooperatives, 74 foreign exchange bureaus and a credit reference bureau.

1.3 Defining Financial Inclusion

Establishing a clear and consensus-driven definition of financial inclusion can help public and private sector actors focus their activities and discussions in a manner that will help bring about change in the country. Within the context of the NFIS, financial inclusion in Zambia is defined as:

Access 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.

1.4 The Vision

The overall objective of the NFIS is to achieve an inclusive financial system, defined as one in which there is universal access and usage of a broad range of quality and affordable financial services that meet the needs of both individuals and enterprises. This has been articulated in the following vision:

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

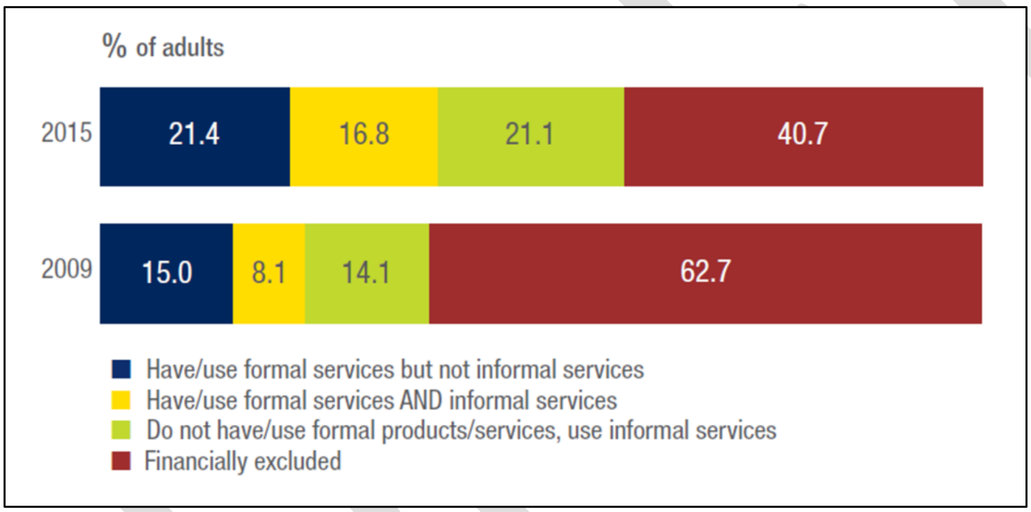
This is an aspirational goal: while universal access and usage may not be fully realized within the timeframe covered by the strategy, it is anticipated that major inroads will be made, and solid foundations will be laid for achieving the vision over the longer term.

This vision is further defined and operationalized via the High-level and Intermediate Key Performance Indicators (KPIs) and targets set forth in the Monitoring & Evaluation System (Section 5). Within the context of this strategy and its timeframe, the objective is to have 80 percent of the population financially included (formally or informally). ***Access*** is defined as physical proximity to a financial access point, measured by an index which takes into account the number of access points per 10,000 adults, the number of districts with at least one access point, and the percentage of the population who live in districts with at least one access point. ***Usage*** is defined as individuals having used payments or other formal or informal financial services within the past 90 days. ***Quality*** implies that the products used are suitable, satisfy customer needs and meet acceptable consumer protection standards. Finally, affordable means products which are within the means of customers and are sustainable for the provider.

2. The Current State of Financial Inclusion

Financial inclusion in Zambia has been broadened and deepened in recent years. The Zambia FinScope surveys which have previously been completed in 2005, 2009 and 2015, measures financial inclusion in terms of access and usage of both informal and formal financial services, recorded a large increase: between 2009 and 2015 access and usage increased from 37 to 59 percent (Figure 2). The World Bank Global Findex Survey of 2014 finds a similarly large increase in the ownership of store-of-value transaction accounts: between 2011 and 2014 the percentage of adults with an account at a formal financial institution increased by 15 percentage points to 36 percent.[7] This is equivalent to an increase of 1.2 million unique accounts. Yet despite these gains the vast majority of individuals and SMEs remain unserved or underserved by the formal financial sector.

Figure 2: FinScope Financial Access Strand



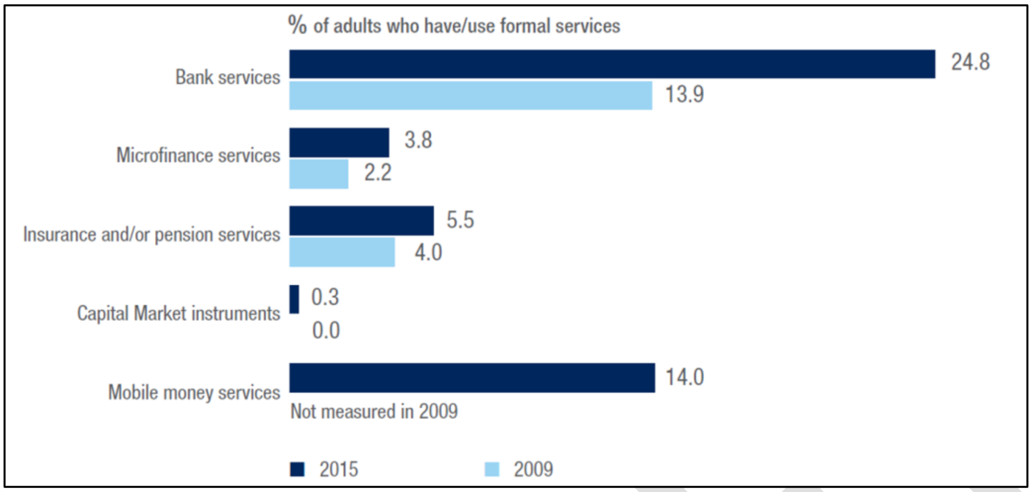
Source: FinScope 2015

The 2015 FinScope also reveals that banks remain the most widely used provider of financial products and services – reaching 24.8 percent of adults (Figure 3). Mobile money providers[8] reach 14.8 percent of adults and 3.8 percent of adults use microfinance services. Less than six percent of adults report using insurance and/or pension services, and fewer than one percent of adults report using capital market instruments.

[7] See http://datatopics.worldbank.org/financialinclusion/

[8] Mobile money providers are defined as banks or non-banks that provide that facilitate the electronic transfer of value via mobile phones or similar devices.

Figure 3: Trends in Uptake of Formal Financial Products and Services



Source: FinScope 2015

This section reviews the current state of financial inclusion in Zambia, drawing on information and analysis in the two consecutive Financial Sector Development Plans of the Government, the 2016 FSAP Update, the World Bank's 2014 Zambia Economic Brief with a focus section on financial inclusion, and 2012 Diagnostic of Consumer Protection and Financial Literacy. The framework also builds on both local and global surveys, data and findings from the 2015 FinScope Survey, 2014 Global Findex survey, 2016 Financial Capability Survey, 2013 Enterprise Survey, 2010 Zambia Business Survey, and the 2015 Doing Business indicators.

2.1 Delivery Channels

There exists a wide array of delivery channels for formal financial services in Zambia. These include branches and agents of banks, MFIs and SACCOs, as well as mobile money agents and ATMs. Data from the IMF's 2016 Financial Access Survey shows that Zambia has a higher penetration rate of bank branches and deposit-taking microfinance institution branches than Uganda or Tanzania, and that Zambia's ATM penetration rate falls between the two (Table 1). However, the majority of Financial Service Providers outlets are located in Zambia's cities and towns, predominantly along the line of rail from the Copperbelt to Livingstone and major trading routes. In addition, for several years Zambian banks and MFIs have been deploying agent banking via POS devices to expand their physical footprints significantly. More can be done once providers have certainty regarding how the anticipated new agent banking regulations will govern the market.

Although both Uganda and Tanzania have a higher percentage of their populations in rural areas than Zambia, these two jurisdictions also have two to three times as many mobile money agents. Some of the reasons for this low number of mobile money agents, particularly in rural areas, can be found in the market structure, increased urbanization, compensation of agents and marketing of mobile money in Zambia. Relative to six other leading mobile financial service markets (Kenya, Tanzania, Uganda, India, Pakistan and Bangladesh), agents in Zambia are well-trained, but Zambia has the highest percent of exclusive agents as 91 percent of agents work exclusively with just one provider.[9] This structure and initiation of over the counter (OTC) transactions by agents on a client's behalf also result in a high percentage of an agents' time being spent helping clients – which negatively affects efficiency and profitability.

Table 1: Financial Service Delivery Channel Benchmarking, Zambia and Comparators[10], 2015

Type of Delivery Channel	Uganda	Tanzania	Zambia
Bank branches per 100,000 adults	2.98	2.48	4.68
Deposit-taking MFI branches per 100,000 adults	0.19	0.31	0.94
SACCO branches per 100,000 adults	*<tbd>*	7.88	*<tbd>*
Bank / MFI / SACCO Agents per 100,000	*<tbd>*	*n/a*	6.06
Mobile Money Agents per 100,000 adults	540	924	219
ATMs per 100,000 adults	4.55	27.37	10.97
Total			

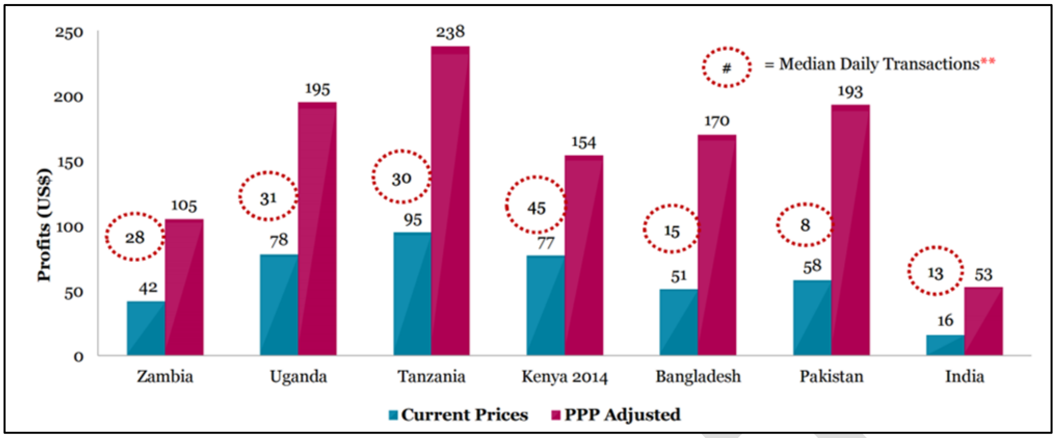
Sources: IMF FAS, 2015; MIX FINclusion Lab.

Such a market with lower transactions and exclusive tie ups leads to a significant impact on agent's profitability as demonstrated below in Figure 4 which shows Zambian agents have the lowest profitability among the sample countries, except for India.

[9] Agent Network Accelerator Survey: Zambia Country Report. Helix Institute of Digital Finance. January 2016.

[10] Tanzania and Uganda have been selected as comparison countries as one is from the East African Community and one from the Southern African Development Community and both countries have made significant progress in financial inclusion in recent years – primarily through digital financial services – a key focus of this strategy.

Figure 4: Mobile Money Pricing and Agent Profitability



Source: Agent Network Accelerator Survey: Zambia Country Report. Helix Institute of Digital Finance. January 2016.

The limited motivation for agents in Zambia coupled with only 52 percent of consumers owning mobile phone handsets appear to be key determinants of the slow growth of this delivery channel. For the market to improve, mobile phone ownership will have to increase, USSD codes will need to be translated into local languages so consumers can transact directly, and agents will require better economics and liquidity, better cellular signal coverage and more reliable identification documents to register clients.[11] Finally, even among those clients that are using mobile financial services in Zambia, the vast majority of clients use "basic" services of cash-in/cash-out, money transfer and bill payment. Credit is not widely being offered, and only 2% of agents offer savings services.[12]

The limited reach of SACCOs in Zambia compared to Tanzania and Uganda may also contribute to a much higher rate of financial exclusion (40.7 percent) in Zambia than in Tanzania (26 percent exclusion as of 2013) and Uganda (15 percent exclusion as of 2013) – despite similar historical regulatory frameworks across these three countries. Unlike Tanzania, Uganda and Kenya where SACCOs are widespread and utilized by 4.3 percent, 7.2 percent and 21.3 percent of adults respectively,[13] SACCOs in Zambia are small and serve only 1.4% of the adult population.[14] The SACCOs in these reference countries are predominately based in rural areas and serve low to moderate income consumers, including large numbers of women and youth. However, in Zambia its mainly SACCOs related to formal or government employers which have remained after past crisis and closure of SACCOs in Zambia in part due to weak oversight. As demonstrated by Zambia's

[11] Consumers Behaviours in Zambia: Analysis and Findings. Financial Sector Deepening Zambia. February 2016.
[12] Agent Network Accelerator Survey: Zambia Country Report. Helix Institute of Digital Finance. January 2016.
[13] International Credit Unions Statistical Report. December 2015.
[14] FinScope 2015.

FinScope 2015 survey, the most important factors for consumers in determining where to save money is the ease of access to the funds followed by security of the funds. Therefore, to reduce financial exclusion, usage of financial service providers that are more approachable and accessible than banks, such as SACCOs and MFIs should also be further developed and supported.

Overall, financial access points are highly concentrated in Lusaka and a few other densely populated urban centers along the main trade corridors. Approximately 60 percent of all commercial bank branches are in Lusaka and the Copperbelt. Conversely, approximately 25 percent of districts in Zambia have at best one regulated financial institution, being NATSAVE which maintains which maintains a network of 30 branches in rural areas. The distribution networks for insurance are much more limited than for banking services.

Chilimbas [15]and other such savings groups are utilized by 11 percent and 5 percent of adults respectively in Zambia which, when combined, exceed those of mobile money usage, are equal to nearly two-thirds of the rates of usage of banks and significantly surpass MFIs, which are only utilized by 3.8 percent of adults.[16] Linkages between formal and informal providers remain limited.

Financial infrastructure constraints also restrict the reach of the formal financial sector. The National Payment Systems (NPS) Act does not necessarily cover electronic payment instruments. It is envisaged that these provisions will be included in the new NPS Act – to be shaped in line with the Southern African Development Community (SADC) Model Law. Governance of the Zambia Electronic Clearing House Ltd. (ZECHL) and open and fair access to the systems it operates are open issues. Non-bank financial institutions and service providers continue to be excluded from ZECHL, as banks control the infrastructure due to the shareholding structure in which banks own 50 per cent, with the other 50 per cent owned by the central bank. However, there are ongoing discussions and agreement has been reached on the modalities for participation by the non-bank financial institutions.

[15] Chilimbas are informal rotating savings and credit groups.
[16] FinScope 2015.

Gaps in Delivery Channels

- Delivery channels are heavily concentrated in Lusaka and other urban areas
- Low density of agents relative to peer countries
- High share of over-the-counter (OTC) transactions and limited functionality of agents
- Lack of consumer understanding and confidence in mobile-based delivery channels
- Low mobile phone penetration (52 percent of adults own a mobile phone)
- Limited use of electronic retail payment instruments and high fees
- Inadequate power service coverage across the country
- Weak outreach of the SACCOs across the population.

Underlying Issues

- Lack of regulatory framework for agent banking.
- High levels of mobile money agent exclusivity, as compared to peer countries.
- Low levels of mobile money agent profitability, as compared to peer countries.
- Few linkages between informal savings groups/chilimbas and formal financial service providers.
- Poor connectivity / ICT infrastructure (e.g. system failure)
- Lack of interoperability in payment systems.
- Limited access of some providers to ZECH
- Low liquidity throughout financial system
- Limited acceptance networks for electronic retail payment instruments
- High transaction fees for electronic retail payment instruments
- Limited distribution channels for insurance

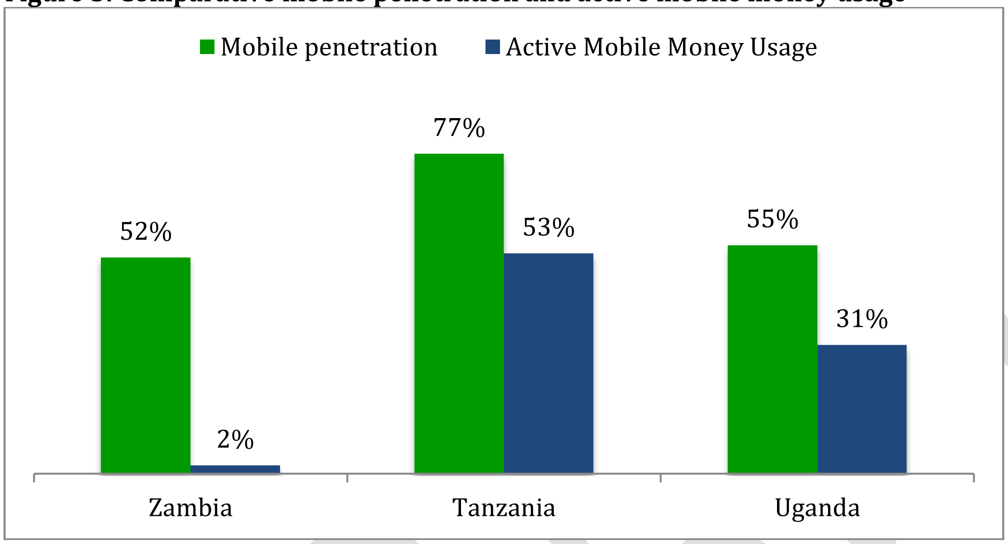
Box 1: Summary of Gaps and Underlying Issues – Delivery Channels

2.2 Availability of Financial Products and Services for Individuals

2.2.1 Transaction accounts

Digital transaction accounts represent an initial entry point for low-income and financially excluded households, which can provide access to a broader set of financial services such as savings, payments, credit, investment, insurance and pensions. To further the availability of such accounts, in June 2015, the BoZ issued Circular 09/2015 on Electronic Money. Zambia was amongst the first countries in Africa to launch digital financial services in 2002. The promise of mobile money is particularly high in a low population density country with a large unbanked rural population, and a mobile penetration rate of 52 percent. As at 31 March 2016, Zambia had 5.92 million mobile money registered accounts compared to 2.90 million registered bank accounts. However, as of 2015, only 250,000 (2.2% of the adult population) of the 8.5 million unique mobile subscribers are active monthly mobile money users (Figure 5). By comparison, in 2015, 31% of adults in Uganda had used mobile money in the last 90 days, and in Tanzania 53% had an active mobile money account.

Figure 5: Comparative mobile penetration and active mobile money usage



Source: FinScope 2015

The reasons for this limited uptake in Zambia are complex. Zambia's market place is unique in Sub-Sahara Africa in that a bill payment technology company (Zoona) - not a mobile network operator (MNO) - has the largest agent network. In addition, as noted above, compared to other leading mobile money countries, Zambia's agents have the highest level of exclusivity and one of the lowest levels of profitability. There is insufficient telecommunication connectivity resulting from limited investments, limited risk appetite of MNOs, inadequate product design, lack of a low-income remote area strategy, and low levels of consumer awareness of mobile money. Liquidity management outside of the main rail corridor also presents a major challenge. Regulation does not appear to be a major obstacle at the moment, though better coordination between the BoZ and Zambia Information and Telecommunications Technology Authority on KYC requirements would be helpful. Draft agency and mobile banking regulations should be finalized and implemented. In addition, this strategy will adopt the enactment of new laws, the issuance of new regulations and the review of existing laws and regulations that may impede the development of the electronic money ecosystem, as strategic actions.

The most common electronic payment delivery channel for purchasing items was ATM/debit cards, which are used by 10.2 percent of adults per the FinScope 2015.

There is a need to develop an adequate ecosystem of digital transactions to promote and sustain the market. One important measure would be for government to migrate key payment streams (notably G2P and P2G) onto such an ecosystem to increase usage and demand. Similarly, remittances can be more fully leveraged to increase financial inclusion. Remittances frequently represent the low-income population's first exposure to regulated financial services, and could be migrated to electronic platforms, thereby reducing costs and promoting greater financial inclusion.

2.2.2 Savings, Investment, and Pension Products

Savings, investment, and pensions are critical, inter-alia, to enable individuals to manage risks, invest in homes and education, absorb financial shocks, and provide income in retirement and old-age.

Approximately one-third of Zambians currently save, but the most common form of savings (44 percent) is informal. According to the FinScope Zambia 2015 report, the savings services and mechanisms used by Zambians are cash at home (42.7%), banks (30.2%), Chilimba (15.4%), the use of family members and friends to keep money safe (12.1%), farming inputs (9.7%), cash-on-hand (7.5%), business stock or materials (7%), pension or NAPSA (5.9%), savings groups (4.8%) and the mobile phone (3.9%)[17]. Livestock and crops are common forms of saving in the rural areas. Capital markets are under-developed, and there is a lack of appropriate investment products for average households.

Pensions in Zambia are largely confined to the minority of the population who are formally employed. Zambia has a two-tiered pension system, with mandatory and voluntary pillars. All those who are formally employed must contribute to one of three public schemes: the National Pension Scheme (NPS), the Public Service Pension Fund (PSPF), or the Local Authority Superannuation Fund (LASF). The total assets of these three schemes were approximately Kw 10.7 billion as of end 2014, and they had a combined membership of 845,573. The voluntary pillar consists of trusts established by employers. These pension funds are supervised by the Pensions and Insurance Authority, and had 102,596 members and assets of Kw 5.0 billion as of end 2014.

There are no voluntary or mandatory schemes currently in place for agricultural or informal workers, who make up the bulk of the active population. The GRZ, along with private sector financial service providers, need to consider ways of expanding pension coverage to the self-employed and informal sector workers.

[17] FinScope Zambia 2015 report

If the NFIS is to facilitate savings and wealth accumulation among a larger share of the population, new products will need to be developed to encourage Zambians to save or move from informal to formal savings. Financial service providers need to develop techniques using digital distribution channels to serve new market segments—particularly low-income clients—at low cost, and to deliver products that meet their needs. As an example, Kenya has recently launched a product that enables Kenyans to purchase small denominations of treasury securities on their cell phones. Efforts to promote financial literacy with awareness and understanding of these new products and services will be an important part of this effort.

2.2.3 Insurance

Zambia has been among the first African countries to embrace a systematic approach to make insurance more inclusive, resulting in a pronounced uptake in all types of insurance from 2009 to 2015. Penetration of life assurance, the most common insurance product, doubled over the period from 20% in 2009 to 40% in 2015[18]. Growth in other insurance products (funeral, medical, credit) was higher still, although starting from a lower base. To increase uptake of insurance products, particularly to low-income households and the informal sector, development of micro-insurance (MI) has been a priority area. However, traditionally, micro-insurance has been associated with low margins that make direct sales costly, and render it an unattractive business for brokers. The use of non-traditional distribution channels, such as MNOs, has offered new opportunities for the insurance market. The number of MI policies grew from 200,000 in 2011 to over three million in 2015, including insurance products distributed through mobile network operators[19], and the number of insurers offering MI has increased from 5 life insurers in 2012 to 9 (including non-life insurers) in 2014.

The principal reason cited by individuals who do not use insurance products was a lack of awareness of the product, so there is clearly a need to educate the population about insurance. There is also a need to develop and scale up appropriate insurance products adapted to the needs of low-income households, including, in rural areas, weather and crop insurance for farmers. Product design features need to focus on improving customer experience and convenience, and lowering costs. Improved distribution channels, and widespread digital transaction accounts, will be critical to these efforts. Also, important to promote inclusive insurance will be adaptations to the regulatory framework, including

[18] FinScope 2009, 2015
[19] We understand that the mobile product has since been dropped, resulting in a sharp drop in micro-insurance policies.

lower capital requirements for micro-insurers, and proportionate KYC and AML requirements.

Box 2: Summary of Gaps and Underlying Issues – Products and Services for Individuals

Gaps for Product and Services

- Cash is the predominant form of payment.
- Limited use of electronic retail payment instruments
- Most savings done informally
- Low uptake of insurance and investment products
- Low awareness of available financial products and services
- Data on available products and services is limited and not comparable
- Only 53 percent of adults are aware of mobile money
- Public perception that available financial products are not suitable for individuals with low and irregular income streams
- Lack of public trust in financial institutions due to past failures
- Absence of pension products for informal and agricultural workers

Underlying Issues

- Lack of deposit insurance
- G2P and P2G payments delivered via cash and paper-based instruments
- Lack of consistent tiered documentation and KYC process for financial products and services
- Lack of customer-centric product design (e.g. language barriers, service gaps) and use of technology
- High cost of existing financial products and services
- Lack of appropriate regulations for micro-insurers
- Limited availability / use of disaggregated consumer data to inform product design and delivery
- Legal restrictions to product development, information access, consumer protection
- Limited use of electronic retail payments
- Infrastructure challenges: limitations in power and mobile coverage availability

2.3 SME and Agricultural Finance

The World Bank's 2013 Enterprise Survey shows that the number one barrier to growth for firms in Zambia is access to credit (27.5percent of firms listed it as the most important barrier) followed by practices such as inadequate and poor record keeping and poor corporate governance of the informal sector (22.5 percent). However, deeper investigation showed that 53 percent of small firms (i.e., those with 5-19 employees) were rejected in their most recent loan application, whereas 9 percent of medium sized firms (20-99 employees) and 0 percent of larger firms (100+ employees) had loan applications rejected. Not surprisingly, it is small firms that are most likely to indicate that access to finance is a major constraint. Only 5 percent of these small firms have a loan in Zambia, compared to 17 percent of small firms in Sub-Saharan Africa. Yet 37 percent of small firms report needing a loan.

Table 2: Access to Finance for Small Firms, Zambia 2013

Indicator	Zambia	Sub-Saharan Africa	All countries
% firms with a loan or line of credit	8.8	22.6	34.3
% of firms using banks to finance investments	12.2	20.2	25.3
% of firms using banks to finance working capital	9.9	22.5	30.5
% firms reporting access to finance as a major constraint	27.4	36.9	25.8
% of firms whose recent loan application was rejected	34.1	14.2	11.5
% of firms with a checking or saving account	86.1	86.1	86.6

Source: Enterprise Survey (World Bank)

Access to finance for SMEs is limited due to the presence of structural constraints, including firm informality, high collateral requirements and poor bank lending tools. Most small firms are informal in Zambia, and the reasons for this include poor access to registration centers, the lack of perceived tangible benefits to formalization, and tax avoidance

Collateral requirements generally focus on immovable property such as land and buildings as financial services providers are generally reluctant to provide credit secured by movable property. A lot of SMEs do not own immovable property thus presenting them with financing challenges. To improve the legislative framework to enable credit secured by movable property The Movable Property (Security Interest) Act, 2016 was enacted on 6 April 2016. This Act provides for the creation of security interests in movable property, makes security interests effective against third parties, enhances the availability of low-cost secured credit to debtors to use the full value inherent in their assets to support credit, and establish a Collateral Office and Collateral Registry.[20]

While growing slightly over the past five years, domestic credit provided to the private sector was only 19.6 percent of GDP in 2015, compared to 45.6 percent in other lower middle income countries and 99 percent in middle income countries.[21]

[20] The Movable Property (Security Interest) Act, 2016
[21] World Development Indicators. World Bank. 2016.

On the consumer side, 29.8% of consumers had borrowed money in the 12 months prior to the 2015 FinScope Survey. The primary reasons for consumer borrowing were to cover living expenses and emergency medical expenses. Consumer loans represent the largest portion of banks' lending portfolios (34 percent in December 2016 based on Bank of Zambia statistics). Some portion of these consumer loans could also be used by households for informal microenterprises.

Lending to the agriculture sector has over the years been substantial, relative to lending of other sectors, it has, however, been reduced significantly over the past ten years as a proportion of total bank lending.[22] In 2006 bank lending to the agriculture sector was approximately 25 percent of all bank loans; at end of 2016 it was 17.1 percent. Cross country econometric studies show that GDP growth originating in agriculture is, on average, at least twice as effective in benefiting the poorest half of a country's population as growth generated in nonagricultural sectors.[23] In addition, a strong agriculture sector could help diversify sources of foreign exchange earnings for the country. The importance of growth in this sector as a tool to help reduce poverty cannot be over-stated.

A lack of alternative sources of funding from the traditional banking such as using venture capital, private equity, crowd-funding and capital markets in general has hampered SME growth in Zambia. Similarly, a lack of innovative working capital financing instruments for SMEs also serves as a significant barrier to SME growth in Zambia. Limited access to funding for existing providers of working capital financing (e.g. microfinance institutions), lack of payment discipline and low awareness of relevant products all constrain the current availability and uptake of working capital financing instruments such as factoring. There is need to explore the opportunities that lie within the capital markets, where innovative products can be designed to ensure entities such as microfinance institutions and the banks access cheaper capital that can then be directed to financial inclusion initiatives targeting SMEs as an example.

Finally, a well-developed credit information system and movable collateral registry are essential to help fuel both SME and agriculture finance. Ensuring the availability of agriculture insurance, leasing services and an electronic warehouse receipt system are more specific to needs of farmers. Efficient and predictable insolvency and debt enforcement frameworks are also important drivers in improving financial inclusion and increasing access to credit. Modern frameworks may lead to the reduction of the cost of obtaining credit. Increased access to finance enhances enterprise growth, which in turn leads to preserving employment, growth and the creation of new job opportunities.

[22] As of December 2016, the major allocations of banks' loan portfolios are 34% consumer, 17% agriculture, 12.6% manufacturing, 10.25% wholesale and retail trade, 6.3% mining, 4.6% transport, storage and communications.

[23] Agriculture and Poverty Reduction. World Development Report. World Bank. 2008.

Stakeholders report problems of delays and information quality with the existing credit and collateral registries.

Gaps for SMR and Agricultural Finance

- Limited availability / uptake of financing
- High cost of credit
- High levels of small firm rejection for loans
- Scarcity of credit products that do not require physical collateral
- Lack of long-term financing of both credit and equity
- Limited availability of agriculture and SME insurance and leasing products
- Poor provision of non-credit services: savings, cashflow, payments, insurance

Underlying Issues

- Arduous business registration processes and unknown benefits of registration leading to low levels of registered firms
- Low level of coverage and inaccurate data of the credit bureau (16.8 percent of adults).
- Lack of traditional collateral, financial statements and earning records.
- Lack of an accurate and up-to-date collateral registry and acceptance of movable collateral, albeit a new law has been passed.
- Limited capacity of financial institutions to serve the SME market segment and little market information for customers to assess options
- Limited availability / use of disaggregated SME data to inform product design
- No uniform SME definition

Box 3: Summary of Gaps and Underlying Issues – SME Finance

2.4 Financial Consumer Protection and Financial Capability

The low level of consumer trust and confidence in formal financial service providers has been identified as one of the causes of financial exclusion in Zambia. Financial Capability and Consumer Protection (FCCP) has thus emerged as a priority for financial sector development. The continuing rapid growth in financial inclusion in recent years has brought many Zambians into the formal financial system for the first time. This offers new opportunities but also exposes consumers to new risks and obligations that they may not fully understand. Strong financial consumer protection can empower the public, by ensuring that individuals and firms are treated fairly and have access to clear and transparent information about the costs, risks and rewards of financial products. Financial capability equips consumers with the knowledge, skills, attitudes and behaviors required to act in their best interest, and to select and use financial services that best meet their needs. Together, financial capability and consumer protection build public confidence in financial institutions and enhance the understanding and communication of client needs to financial institutions, thus encouraging financial inclusion.

A Consumer Protection/Financial Capability diagnostic conducted by the WBG in 2012 identified important gaps in the existing legal and institutional framework for consumer protection, and found it to be characterized by overlapping jurisdictions. Sector-specific laws currently have limited provisions related to consumer protection. While drafts of new sector laws contain more comprehensive provisions, these bills have not yet been passed. Moreover, overlapping mandates between the sector financial regulators (BoZ, PIA, and SEC) and the Competition and Consumer Protection Commission (CCCP) complicate implementation of meaningful consumer protection measures. Furthermore, the provision of mobile and digital financial services also require that financial sector regulators collaborate with the Zambia Information and Technology Communications Authority (ZICTA) on consumer protection. In addition, there is need for financial sector regulators to have dedicated functions for market conduct supervision, which is currently being done alongside prudential supervision, and for consumer protection rules to not only be enhanced but monitored closely and enforced. Among the key gaps in the current CP regime are the following:

- **Disclosure and Transparency:** There is currently a lack of transparency in the sector due to very limited disclosure requirements. This can result in opaque pricing, unfair competition and limited consumer awareness of the terms and conditions of basic financial products. Regulators have begun to take steps to enhance transparency and promote consumer protection. Under the regulatory framework, CB Circular No. 19/2015 on the Removal of Interest Rate Caps, Consumer Protection Measures and Key Facts Statements for Consumer Credit was issued in November 2015 to all financial services providers to engage in responsible lending practices, promote transparency in the pricing of credit products and provide consumers with sufficient information to understand credit agreements.[24] The implementation of the Key Facts Statements is monitored under the Regulators' supervisory regime.

- **Dispute Resolution:** Legally mandated regulation of internal complaints_handling is limited, and varies considerably across and within sectors. Multiple agencies have

[24] Bank of Zambia CB Circular No. 19/2015 - Removal of Interest Rate Caps and Consumer Protection Measures, 4th November 2015

formal or de facto responsibility for alternative dispute resolution, including industry associations which have voluntary schemes, financial regulators, which lack a clear mandate to intervene but are often approached by aggrieved consumers, and the CCCP. The CCCP is the only government agency that has a formal mandate to resolve consumer disputes, but may not have the financial expertise needed to adjudicate complex financial disputes. There is therefore a need to mandate standardized internal dispute resolution mechanisms, establish a formal external dispute resolution mechanism for the sector, and inform customers of such facilities.

- **Business practices**: A number of business practices by financial service providers give rise to concerns that should be addressed in law or regulation. These include, inter alia: charging interest on a flat rate rather than on reducing balances, unfair prepayment penalties, non-disclosure of penalties or other fees, abusive debt collection practices, mandatory bundled or tied sales, the absence of cooling off periods for relevant products, and failure of credit providers to verify a customer's ability to repay.

- **Data Protection:** Zambia currently has no comprehensive law that protects the collection, security and disclosure of financial sector data. Furthermore, there are gaps in existing credit reporting legislation on data sources, and a lack of clarity on whether credit providers can share information amongst themselves on their customers.

The results of the 2016 Zambia WBG Financial Capability survey reaffirm the importance of addressing these existing consumer protection gaps to develop consumer confidence in financial institutions. The survey findings suggest that three quarters of those who experienced a conflict with a financial service provider in the past three years did not take any action to resolve the conflict. The primary reasons are the lack of trust or awareness of existing government institutions that can be approached in the event of disputes with financial institutions.

Cognizant of the importance of strengthening financial capability, a National Financial Education Strategy (NFES) was developed under the FSDP II to provide a framework for the implementation of financial education initiatives. A Financial Education Coordination Unit (FECU), established in 2013 under the FSDP Secretariat, was tasked with implementation of the strategy. Since then several educational initiatives have been undertaken, including financial literacy weeks, outreach to youth and schools, and media awareness programs.

While these programs have reached thousands of Zambians, they have yet to achieve significant impact. It is important to design and implement financial capability initiatives that will reach a larger share of the population, and bring about meaningful and sustainable behavioral change. The absence of a comprehensive baseline assessment of existing financial capability has represented a challenge in designing these programs, and in better understanding the groups that need to be targeted as well as the gap that needs to be addressed. However, this gap has now been addressed both by a deeper FinScope in 2015 and by a demand-side survey on financial capability undertaken by the WBG in 2016.

The 2016 survey revealed that whilst most adults can perform simple financial calculations, they lack the numeracy skills needed to identify better bargains, as well as the specific knowledge required to make informed savings and borrowing decisions. Vulnerable groups who struggle the most in understanding basic financial concepts are more likely to live on the lowest incomes and in rural areas. The survey also shows that respondents show the greatest strength in living within their means and planning for unexpected expenses. Approximately 72% of Zambian adults report that they do not run short of money after buying essential goods such as food. In contrast, the survey also reveals that financial attitudes and behaviors which relate to savings and not overspending appear to be a challenge. A large majority of respondents (75%) does not try to save, and 47% also report being impulsive by regularly purchasing unnecessary items.

The results of this survey and the FinScope will facilitate the design of targeted financial capability initiatives, and enable the design of a comprehensive monitoring and evaluation (M & E) framework to measure progress.

Box 4: Summary of Gaps and Underlying Issues – Financial Consumer Protection and Capabilities

Gaps in Consumer Protections & Capability

- Low awareness of available financial products and services
- Poor information on available services from suppliers, creating gaps in ability to compare options
- Low consumer confidence in financial service providers (esp. banking, insurance sectors)
- Low consumer confidence in mobile-based delivery channels
- Low knowledge of how to resolve disputes with a financial institution
- Low financial capabilities

Underlying Issues

- Lack of clear institutional mandates for financial consumer protection.
- Lack of transparency (e.g. no standardized, understandable product information)
- Limited and inconsistent internal complaint resolution mechanisms within financial institutions
- Unclear avenues for external dispute resolution
- Unfair business practices and frauds
- Limited enforcement / penalties for misbehaving financial institutions.
- Limited data protection for financial consumers
- Limited use of data, research, and effective learning methods for the target groups to inform design of financial education programs
- Limited reach of financial education programs
- Limited monitoring, and therefore little evidence of effectiveness/impact of financial education programs

2.5 Underserved Segments: Rural Residents, Women, and Youth

While financial inclusion has been growing strongly, overall figures mask significant inequalities. This subsection further examines gaps related to three key underserved segments: rural residents, women, and youth.

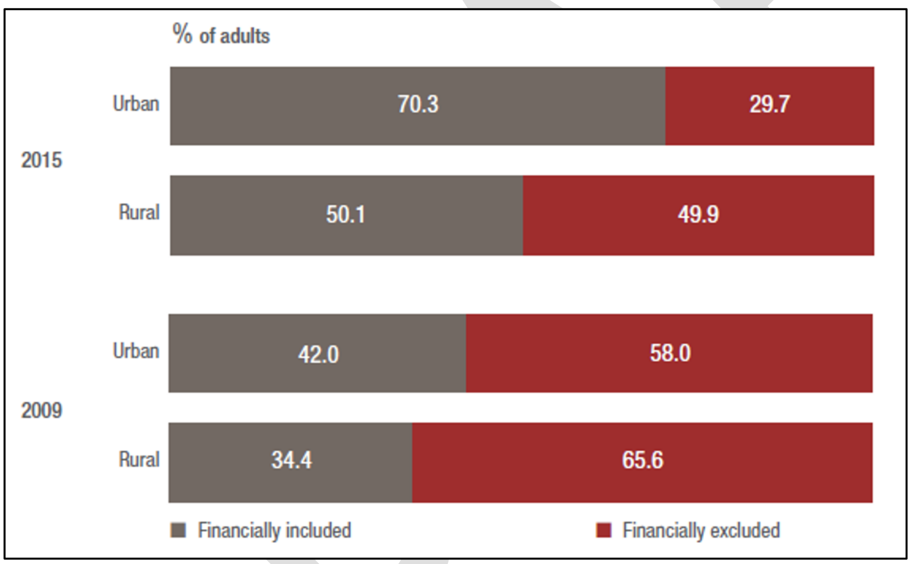
While the national financial inclusion rate was 59% in 2015, this broke down as 70% in urban areas and 50% in rural Zambia (Figure 6).[25] Given Zambia's low population density and high incidence of poverty in rural areas, it is not surprising that the country's financial access points are highly concentrated in Lusaka and the Copperbelt. Sixty percent of bank branches are found in these areas, while 25% of poorer, rural districts are currently not

[25] FinScope 2015

served by any regulated financial service provider. While NatSave and ZamPost have adopted strategies to serve the unbanked outside of the main urban centers, most providers have not found it cost effective to serve these areas, following existing service models.

The recent rapid expansion of agent outlets, coupled with new technologies such as mobile banking, now offer the possibility for banks, MNOs and other providers to extend outreach to rural areas in a cost-effective manner. The expansion of financial access points in rural areas is thus a critical target that will need to be met to bridge the urban/rural divide. If this is accomplished, providers will be able to offer a range of tailored, affordable financial services in rural areas for the first time. The NFIS secretariat will coordinate closely with the Rural Finance Expansion Program (RUFEP), which has been working to increase the access to and usage of sustainable financial services by poor rural men, women and youth in rural areas.

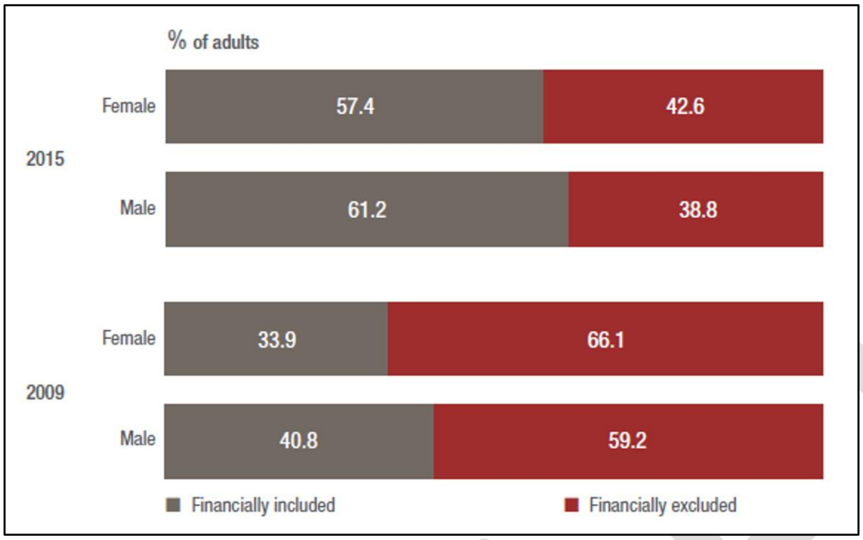
Figure 6: Rural/Urban gap in financial inclusion



Source: FinScope 2015

While the gender gap in financial inclusion is not as wide as the rural/urban split, women remain modestly more financially excluded than men in Zambia. This is primarily because women are much more likely than men to use informal financial services (65% of women use informal savings groups compared to 34% of men according to the 2015 FinScope). Female inclusion has been rising more quickly for women in recent years: it increased from 33.9% in 2009 to 57.4% in 2015: male inclusion rates rose from 40.8% to 61.2% over the same period (Figure 7).

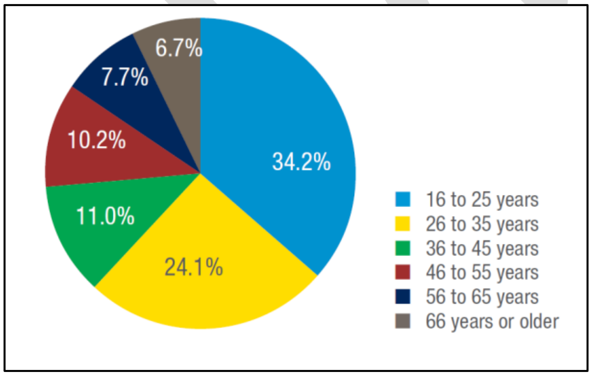
Figure 7: Gender Gap in Financial Inclusion



Source: FinScope 2015

Those aged 16-25 comprise the largest proportion of financially excluded adults in Zambia (Figure 8). With a median age of only 16.7 years, Zambia has the 5th youngest demographic profile of any country in the world.[26] The promotion of savings accounts to youth (i.e., age 16 and older or can obtain an identity card) is important to encourage them to adopt a long-term view of accumulating savings. Ensuring that youth below the age 18 years old can open savings accounts in their-own-right, without having a joint account holder, is intended to support job creation and youth employment activities. It will also ease pressure on the need for Government to set up special funds for youth development.

Figure 8: Financial Exclusion by Age Group



Source: FinScope 2015

[26] World Factbook. 2016.

3. NFIS Framework

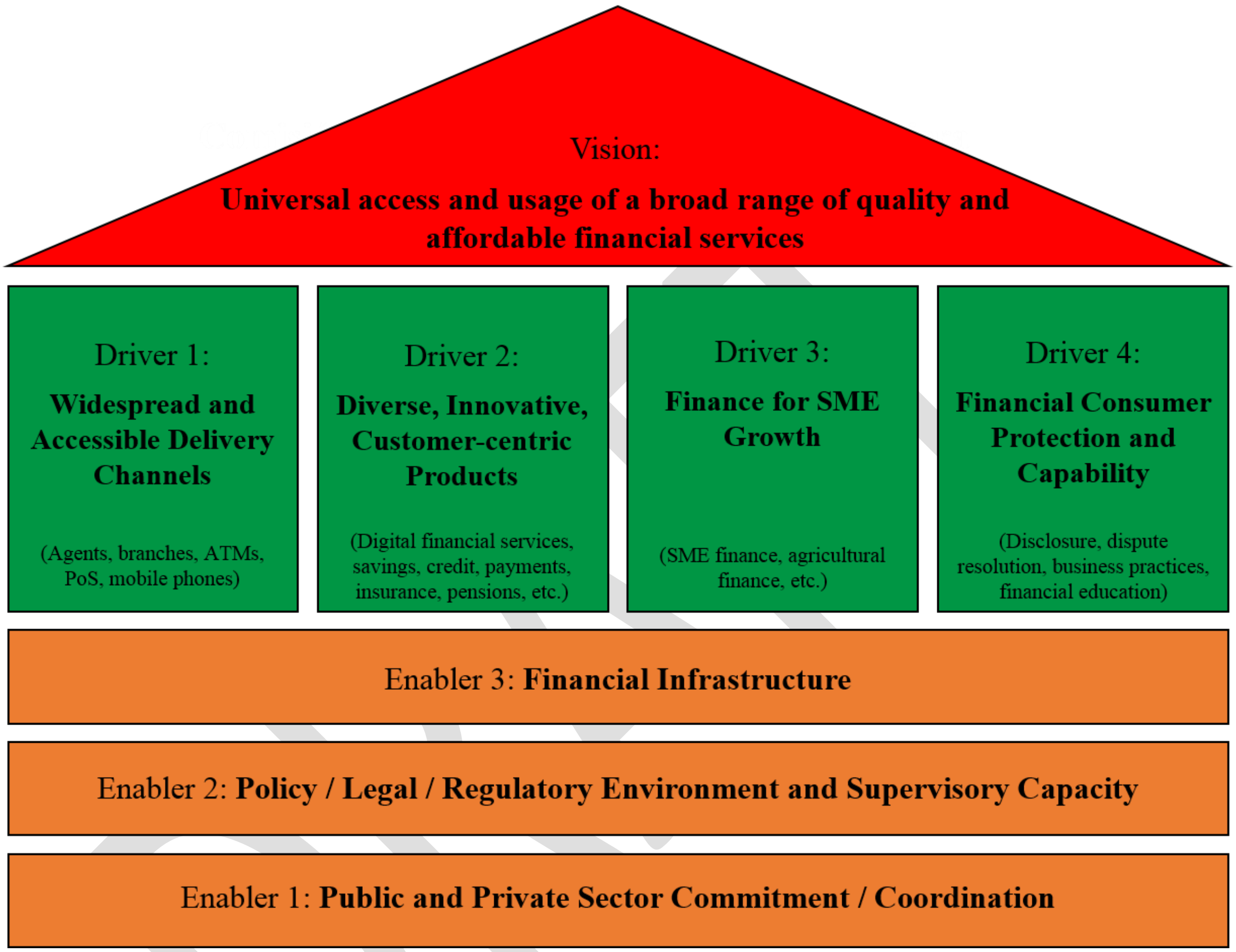
The NFIS framework is aimed at providing confidence to consumers in the formalized financial system and providing an enabling environment to the providers of financial services. The regulatory arms of government shall encourage fair competition among all providers of financial services, thereby encouraging innovation, growth and job creation whilst offering protection to responsible consumers. Higher confidence in the formalized financial system is expected to contribute to the realization of the NFIS vision to have universal access and usage of a broad range of quality and affordable financial products and services.

The monitoring and evaluation system for financial inclusion shall include the determination of Access in terms of the availability of products and services, physical proximity (number of POS and distance to POS) and affordability; Usage in terms of product acquisition and frequency of use; Quality in terms of product development that considers the needs of customers and product attributes (design) that match the needs of consumers.

Expanding financial inclusion in Zambia requires a framework to provide a conceptual foundation for the NFIS, as well as a consistent operational structure that is reflected across the Action Plan, Monitoring & Evaluation System, and Coordination Structure. The framework below (Figure 9) reflects the gaps and underlying issues identified in Section 2. The policy framework is comprised of a set of cross cutting priority areas – the key Enablers - that need to be put in place as they will lay the foundation for overcoming financial exclusion decisively over the long run. The key enablers will support targeted Strategic policy objectives – the Drivers - aimed at increasing access and developing an ecosystem of financial services that will have the quality and features required by individuals and enterprises in Zambia. The Drivers are used to structure the Action Plan, Monitoring & Evaluation System, and Coordination Structure (via the Working Groups).

There are certain risks that could undermine realization of the objectives and targets of the NFIS. These include macro-economic and fiscal risks that result in high interest rates and tight liquidity, weakening the financial system and dampening the supply and demand for finance. These market conditions were experienced in 2016, and the GRZ took appropriate actions to correct the macro-imbalances. Another risk is that the public and private sector commitment needed to advance the financial inclusion agenda is not sustained throughout the period. The NFIS was developed in a consultative process, with input from all stakeholders, in order to ensure buy-in to its objectives. Furthermore, the governance structure, which has strong representation from all key public and private stakeholders, is intended to mitigate the risk of a loss of commitment and support.

Figure 9: NFIS Framework



3.1 Key Enablers

The NFIS Policy Framework is built on three key Enablers for financial inclusion: (1) public and private sector commitment to the NFIS implementation and coordination; (2) enabling policy / legal / regulatory environment and supervisory capacity; and (3) financial infrastructure.

3.1.1 Public and Private Sector Commitment / Coordination

The strong commitment and effective coordination of relevant stakeholders including policymakers, regulators, supervisors, and the private sector will be critical for effective implementation of the NFIS. Commitment from each stakeholder implies their willingness to invest time and resources in the implementation of the Action Plan and to coordinate within a well-functioning and adequately resourced Coordination Structure. The Coordination Structure is detailed in Section 4 and is led by a high-level steering committee chaired by Secretary to the Treasury of the Ministry of Finance.

3.1.2 Policy / Legal / Regulatory Environment and Supervisory Capacity

A policy, legal, and regulatory framework that promotes financial stability, competition, proportionality, and consumer protection is critical to achieve financial inclusion objectives. Legal and regulatory reforms that are fundamental to expanding financial inclusion include enhanced consumer protection, particularly on digital finance products and child-and-youth products; regulations on dormant accounts; tiered KYC requirements to encourage basic bank accounts and digital finance; adoption and implementation of the Credit Reporting Bill; deposit insurance, and reform of insolvency legislation that balances protections afforded to both creditors and debtors. Monetary policies also have an impact on the viability of financial services providers, and their ability to provide attractive savings accounts and affordable credit. These will be monitored for their impact. Finally, tax policy impacts formality in the real sector, and thereby indirectly impacts SME finance. The GRZ will ensure that critical legal reforms are finalized and adopted in a timely manner.

3.1.3 Financial Infrastructure

An insufficient financial infrastructure will limit the benefits and bounds of financial inclusion. Reforms in payment systems, secured transactions and creditor/debtor rights, private credit bureau and interoperability of payment instruments are crucial for ensuring that the financial system can operate soundly and efficiently. Ensuring that a well-developed credit information system and a market infrastructure that protects the rights of lenders via a judicial system, and borrowers via responsible lending and effective consumer protection, is essential to help fuel SME finance.

3.2 Key Drivers

Building on the three NFIS Enablers, the NFIS Policy Framework envisions four Drivers that are critical to realizing the NFIS Vision: (1) widespread and accessible delivery channels; (2) diverse, innovative, and customer-centric products for individuals; (3) accessible and supportive financial services for SME and agricultural sector growth; and (4) financial consumer protection and financial capability. These Drivers are reflected in the Action Plan, Monitoring & Evaluation System, and Coordination Structure. Many of the policy objectives and actions within these Drivers relate to the Enablers described above.

3.2.1 Widespread and Accessible Delivery Channels

Individuals and SMEs cannot take up or effectively use financial products and services if they cannot access them. The NFIS therefore prioritizes actions that increase the accessibility and functionality of delivery channels, including branches, agents, ATMs, and POS. These actions are particularly critical for ensuring that unserved and underserved segments are provided the opportunity to enter the formal financial system, and to reduce existing disparities in financial inclusion.

Strategic objectives under this Driver include:

- Expand reach and quality of agent-based and other cost-effective delivery channels;
- Expand use of mobile-based delivery channels;
- Improve overall quality of service of financial service providers;
- Achieve interoperability and scale of retail payment systems;
- Strengthen reach and sustainability of microfinance institutions and SACCOs.
- Strengthen pathways to formal financial inclusion for users of informal and semi-formal financial services.

3.2.2 Diverse, Innovative, and Customer-Centric Products

Universal access to transaction accounts and a diverse and widespread distribution network will create the "rails" for innovative financial services that conveniently and affordably meet the needs of all Zambians. These include new payment, insurance, savings, investment and pension products – all of which can help individuals to manage risk, smooth consumption, plan for the future, and meet their financial goals.

Policy objectives under this Driver include:

- Reduce documentation barriers to product uptake and usage;
- Improve product diversity and customer-centric design;
- Expand supply of microinsurance and micro-pension products;
- Improve quality and availability of financial products and services for youth; and
- Improve quality and availability of financial products and services for women.

3.2.3 Finance for SME and Agricultural Sector Growth

Small and medium enterprises in Zambia are engines of job creation and growth. Given government's policy priority to improve financing for SMEs, agriculture and rural areas to achieve economic diversification and inclusive growth, actions under this driver will specify priority areas to expand access to finance for SMEs and agriculture finance.

Policy objectives under this Driver include:

- Improve knowledge of rural SMEs and cash flows in and out of rural areas;
- Build capacity of financial service providers to lend to SMEs and to farmers;
- Improve government-supported SME and agricultural finance schemes;
- Facilitate methods of SME formalization;
- Support growth in financing agriculture value chains;
- Develop leasing and factoring instruments that meet SME/agricultural needs;
- Improve credit reporting systems; and
- Improve the quality and efficiency of the insolvency regime.

3.2.4 Financial Consumer Protection and Capability

The lack of consumer understanding and confidence in financial institutions has long been associated with financial exclusion in Zambia. Strengthening financial capability and consumer protection has therefore been identified as a key driver of financial inclusion.

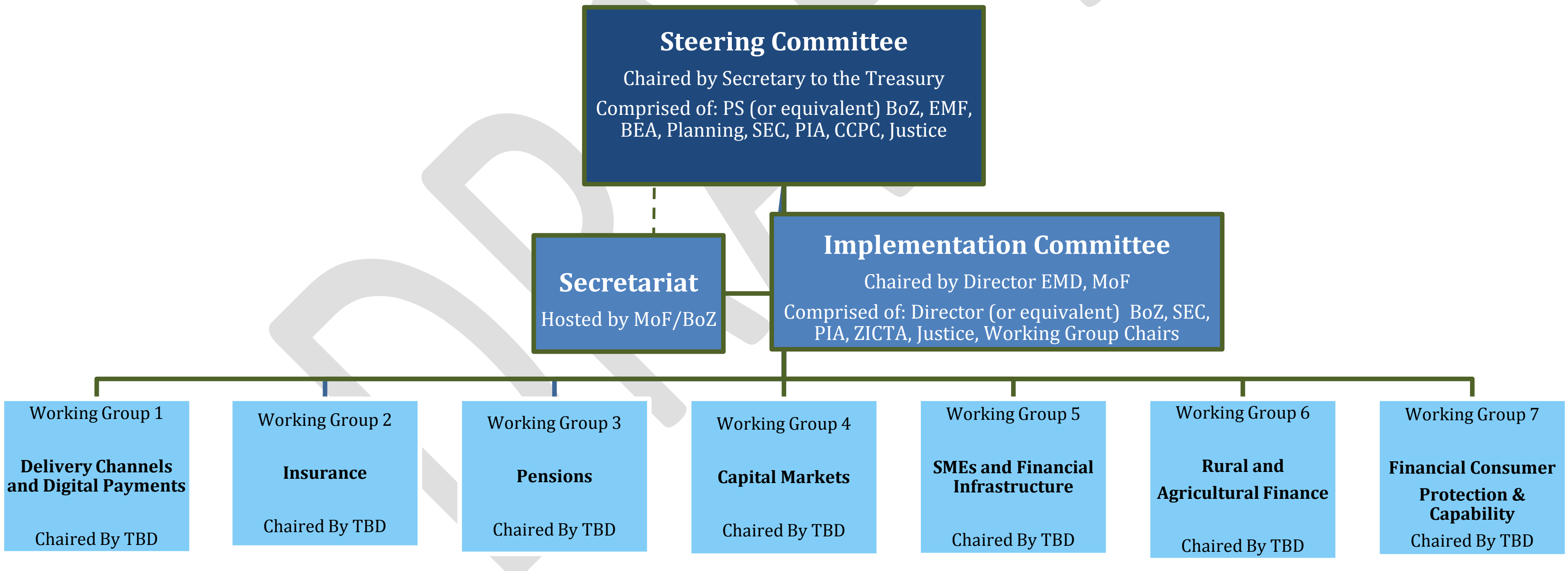
Policy objectives under this Driver include:

- Improve comparable disclosure practices of financial service providers;
- Improve awareness of, access to and efficiency of dispute resolution mechanisms for financial consumers;
- Strengthen and clarify consumer protections for personal financial data;
- Improve business practices of financial service providers;
- Improve deposit protection;
- Strengthen financial consumer protection supervision;
- Clarify institutional arrangements and legal mandates for financial consumer protection; and
- Strengthen financial capability of consumers.

4. Coordination Structure

The initiatives needed to achieve broad financial inclusion will be carried out by multiple stakeholders in the public and private sectors. Hence, the formation of a national governance structure is critical to achieving the objectives of the NFIS. As shown in Figure 10, it is proposed that this Governance Structure be composed of three governing bodies: 1) the NFIS Steering Committee; 2) the Implementation Committee and 3) the NFIS Secretariat. Seven working groups comprised of private, public and development partners will be instrumental implementing the NFIS.

Figure 10: Coordination Structure



4.1 NFIS Steering Committee

The National Financial Inclusion Strategy Steering Committee will provide overall policy guidance for the development and implementation of the strategy and a high-level platform for achieving Zambia's financial inclusion objectives and vision. The NFIS Steering Committee will function as the guiding body for governance and coordination of Zambia's National Financial Inclusion Strategy.

The National Financial Inclusion Strategy Steering Committee (NFISSC) is to be chaired by the Secretary to the Treasury and deputized by Deputy Governor – Operations, Bank of Zambia. The Committee comprises:

- Deputy Governor – Operations – Bank of Zambia;
- The Permanent Secretary – EMF – Ministry of Finance;
- The Permanent Secretary – BEA – Ministry of Finance;
- The Permanent Secretary – Planning – Ministry of Development Planning;
- Chief Executive Officer – Securities and Exchange Commission of Zambia;
- Registrar and Chief Executive Officer – Pensions and Insurance Authority;
- Executive Director – Competition and Consumer Protection Commission;
- The Permanent Secretary – Ministry of Justice;
- The Chairperson of the NFISIC as Ex-Officio; and
- One or two any other persons appointed by the Chairperson of the Committee,

The tasks for the National Financial Inclusion Strategy Steering Committee are to:

a) provide overall guidance and supervise the National Financial Inclusion Strategy drafting and Implementation Committee, and monitor its performance;
b) guide the implementation of major legislative and policy reforms required to realize Zambia's National Financial Inclusion objectives;
c) lead the effort to coordinate nationwide policy reforms, particularly with respect to aligning policies on government payments, taxes, consumer protection, etc.;
d) ensure that annual budgetary allocations provide sufficient resources for implementation of reforms under the National Financial Inclusion Strategy;
e) monitor and evaluate the implementation of the National Financial Inclusion Strategy, including tracking the progress of reform actions and monitoring indicators and results achieved;
f) meet bi-annually to take stock of the progress on the NFIS and make necessary course corrections; and
g) perform other functions required to achieve its purpose.

4.2 NFIS Implementation Committee

The Implementation Committee will have the overall responsibility of drafting and implementing the National Financial Inclusion Strategy, under the guidance of the Steering Committee. The Implementation Committee will have support from various working groups established to drive financial inclusion.

The National Financial Inclusion Strategy Implementation Committee (NFISIC) will be chaired by the Director, Economic Management Department in the Ministry of Finance, and deputized by the Senior Director-Supervisory Policy – BoZ. The committee comprises:

- The Director – National Planning – Ministry of Development Planning;
- The Representative of the Bank of Zambia;
- The Representative of the Securities and Exchange Commission;
- The Representative of the Pensions and Insurance Authority;
- The Representative of the Competition and Consumer Protection Commission;
- The Representative of the Zambia Information and Communications Technology Authority;
- The Representative of the Ministry of Justice;
- Chairpersons of the Working Groups;
- One or two any other persons appointed by the Chairperson of the Committee; and
- Key staff of the NFIS Secretariat.

The tasks for the National Financial Inclusion Strategy Implementation Committee are:

a) lead effective intra-government, inter-institutional and public-private coordination of activities to meet the national financial inclusion objectives;
b) collaborate and coordinate with other existing or future thematic groups such as the RUREF, payments groups, etc.;
c) notify and establish mechanisms and guidelines for clearly mandated and relevant Working groups to aid in the implementation of the NFIS;
d) oversee the activities and effectiveness of the Working groups and make changes when necessary;
e) ensure that a functional NFIS Secretariat is in place and has sufficient capacity and financing to provide support on updates to the NFIS action plan, conduct data aggregation, report on results indicators, conduct M&E, research, support implementing agencies and conduct various administrative functions for the Implementation Committee;
f) establish a system for proper cascading, implementation and reporting of financial inclusion reform actions by the respective implementing institutions and Working groups;
g) with assistance from the Working groups, prepare and approve a detailed action plan based on the NFIS action plan, identifying and assigning specific tasks for the short-, medium- and long-term;

h) identify, communicate, and acquire sufficient resources from various funding sources (government budgets, donors, international institutions, private sector etc.) for the implementation of financial inclusion reform actions;
i) create the necessary public awareness on the National Financial Inclusion Strategy and its implementation progress;
j) review, measure, monitor and evaluate implementation of member institutions against the set NFIS M&E targets and milestones, providing timely feedback;
k) review existing policies, practices and systems and identify opportunities and or critical obstacles to enhance financial inclusion and implement proper remedial actions;
l) meet on a quarterly basis, or more frequently when deemed necessary, to review and discuss development and implementation of the NFIS processes and provide guidance accordingly;
m) report to National Financial Inclusion Steering Committee on implementation, progress and results of the NFIS through regular periodic reports; and
n) perform other duties as directed by the National Financial Inclusion Strategy Steering Committee.

4.3 NFIS Secretariat

The NFIS Secretariat, housed at the Ministry of Finance (and co – supported by the Bank of Zambia) is responsible for providing technical, administrative and research support to the NFIS Steering Committee, and the Implementation Committee and ensure smooth implementation of the NFIS.

Sector Specific Institutions will provide secretariats to each of the subject specific working groups established and shall coordinate with the Main Secretariat to be housed in the Ministry of Finance for the smooth implementation of the strategy.

The NFIS Secretariat and the Secretariats for subject specific working groups will consist of staff with the requisite technical, research and administrative expertise. In order to ensure proper implementation of the NFIS, it is recommended that the NFIS Secretariat have sufficient full-time staff and budget resources from the government and/or development partners, and while the secretariats for the working groups have full-or-part-time staff.

The NFIS Secretariat will:

a) ensure the availability of required data and information for establishing baselines and tracking progress under the Monitoring and Evaluation Framework;
b) conduct or contract research required to inform implementation of the NFIS;
c) collect information, data, and implementation updates from the Working groups;

d) provide quarterly progress reports on NFIS implementation to the Implementation Committee;
e) conduct impact evaluations of initiatives; and
f) provide technical and administrative support to working groups through the specific working group secretariat, the Steering Committee, the Implementation Committee and the lead implementing agencies.

4.4 Working Groups

Working groups will be formed in the following focal areas: Delivery Channels and Digital Payments; Insurance and Pensions; Capital Markets; SME and Financial Infrastructure; Rural and Agricultural Finance; and Financial Consumer Protection and Capabilities. In addition, there may be cross-cutting thematic Working groups that will focus on topics such as gender and youth. The primary objectives of working groups are to validate and monitor developments in the market, propose and facilitate execution of detailed implementation plans, resolve technical issues and propose solutions to the Implementation Committee in order to achieve specific NFIS objectives.

Each of the Working Groups will comprise representatives from public and private sector implementing entities, and individuals that have the requisite technical expertise in each defined area. Respective associations may be involved as co-chairs and senior management level representation is expected. While the working groups will serve as an avenue for consultation and review, some actions may require one organization acting unilaterally to implement regulations/directives. Others will be cross-functional across several working groups with one working group being identified as the lead. Annex 1 includes an initial list of working groups, with suggested chairs and participants.

The tasks for the National Financial Inclusion Working Groups are:

a) based on the results and market conditions expected by the end of the Strategy, develop detailed NFIS implementation plans in their specific area of focus, including timelines and assignment of responsibilities for proposal to the Implementation Committee;
b) consult with other industry players or stakeholders to obtain buy-in on proposed actions, solutions and plans;
c) collaborate and coordinate with other existing or future thematic consultative groups on areas of common concern;
d) provide information on progress in implementation and related targets to the Secretariat on a quarterly basis, or as needed;
e) propose solutions to theme-specific challenges to the Implementation Committee; and

f) propose changes and course corrections to agreed Action Plans or targets, as required.

5. Monitoring & Evaluation System

The measurement of progress towards Zambia's financial inclusion goals and objectives requires a monitoring and evaluation (M&E) system that is well-resourced, well-coordinated, and accepted among a full range of stakeholders. When these conditions are met, such an M&E system can be a powerful and effective tool for identifying obstacles, demonstrating results, and efficiently allocating resources.

The key objectives of the NFIS M&E system are to:

- Track the execution of NFIS measures and actions to ensure that implementation is on track (Section 5.1);
- Facilitate measurement of impact-level and intermediate-level financial inclusion outcomes (Section 5.2) through a robust data infrastructure (section 5.3); and
- Coordinate and provide technical support for evaluations of strategically important financial inclusion initiatives (Section 5.4).

Overall responsibility for the monitoring and evaluation of the NFIS rests with the NFIS Secretariat. A M&E officer within the NFIS Secretariat will coordinate day-to-day execution of the M&E system and provide technical expertise to strengthen the internal M&E capabilities of institutions and partners engaged in the implementation of the NFIS. The M&E officer will be supported by data experts and analysts from institutions represented in the NFIS Implementation Committee. The M&E officer will convene a biannual meeting of these representatives.

5.1 Tracking Implementation of the NFIS

A key function of the M&E system is to ensure that the actions outlined in the NFIS Action Plan are being executed by the responsible entity according to the specified timeline and are linked to the results framework to improve finance inclusion. Thus, each implementing institution will be responsible for reporting the implementation status (not yet initiated, initiated, completed), relevant obstacles to completion, and estimated completion dates on a biannual basis to the NFIS Secretariat. This information will then be consolidated into a biannual implementation report.

5.2 National Results Framework

The NFIS National Results Framework allows implementing institutions and other stakeholders to monitor progress towards the objectives set forth in the NFIS, using defined indicators and targets. The indicators listed in Table 3 reflect the full range of available data resources produced by a range of stakeholders. The indicators are structured by the NFIS Drivers as defined in Section 3.

Indicators are presented at two levels. Impact indicators represent national-level targets that measure progress driven by a range of actions, including factors outside the scope of the NFIS, such as economic growth. Intermediate indicators represent intermediate outcomes that are directly linked with specific NFIS actions; these indicators serve as a link between the actions and the impact indicators. The M&E framework will be coordinated and updated by the NFIS Secretariat. It is expected that the indicators and targets will be reviewed and updated annually.

Table 3: National Results Framework

Driver	#	IMPACT Indicator	Baseline	Target 2022	Source	Reporting Frequency	Reporting Breakdown
Products	1	% adults financially included *(formal & informal)*	59 *(2015)*	80	FinScope	Trienniel	By district
	1A	% women financially included *(formal & informal)*	57 *(2015)*	80	FinScope	Trienniel	By district
	1B	% youth financially included *(formal & informal)*	55 *(2015)*	80	FinScope	Trienniel	By district
	1C	% rural financially included *(formal & informal)*	50 *(2015)*	75	FinScope	Trienniel	By district
Delivery Channels	2	Financial Access Index *(components listed in 2A-2C)*	tbd *(2016)*	80	BoZ	Biannual	By type of access point (branch, agent, ATM)
	2A	*# of access points per 10,000 adults*	tbd *(2016)*	-	BoZ	Biannual	By type of access point (branch, agent, ATM)
	2B	*% of districts with at least one access point*	tbd *(2016)*	-	BoZ	Biannual	By type of access point (branch, agent, ATM)
	2C	*% of total population living in districts with at least one access point*	tbd *(2016)*	-	BoZ	Biannual	By type of access point (branch, agent, ATM)
Products	3	% adults with a store-of-value transaction account	36 *(2014)*	70	FinScope / Findex	Trienniel	By gender, age, income, rural, district
Products	4	% adults using an electronic payment instrument	37 *(2015)*	55	FinScope / Findex	Trienniel	By gender, age, income, rural, district
Products	5	Cashless retail transactions per capita	TBD	TBD	BoZ	Quarterly	By type of instrument
Products	6	% of adults saving at a regulated financial institution	22 *(2015)*	30	FinScope / Findex	Trienniel	By gender, age, income, rural, district

Products	7	% of adults saving with informal saving groups	6 (2016)	10	FinScope / Findex	Trienniel	By gender, age, income, rural, district
Products	8	% of adults with at least one non-mandatory insurance product	5 (2016) TBC	TBD	Capability Survey 2016	Trienniel	By gender, age, income, rural, district
Products	9	% of adults with at least one pension product	4 *(2015)*	20	FinScope	Trienniel	By gender, age, income, rural, district
Products	10	% of adults using an investment product	0.3 *(2015)*	3	FinScope	Trienniel	By gender, age, income, rural, district
Finance for Growth	11	% SMEs with a loan or line of credit	8 *(2013)*	20	Enterprise Survey	Periodic	By firm size, industry, district, gender
Finance for Growth	12	% SMEs reporting "access to finance" as a major obstacle	27 *(2013)*	20 TBC	Enterprise Survey	Periodic	By firm size, industry, district, gender
Protection & Capability	13	% of adults that express trust in the financial sector	68 *(2015)*	TBC	Gallup World Poll	Trienniel	By gender, age, income, rural, district
Protection & Capability	14	% of adults that check terms and conditions of financial products before purchase	23 *(2016)*	TBD	Financial Capability Survey	Periodic	By gender, age, income, rural, district
Protection & Capability	15	% of adults that consider alternatives while shopping for financial products and services	23 *(2016)*	TBD	Financial Capability Survey	Periodic	By gender, age, income, rural, district
Protection & Capability	15	% of adults who experience conflicts with a financial service provider in past 3 years	13 *(2016)*	TBD	Financial Capability Survey	Periodic	By gender, age, income, rural, district
Protection & Capability	16	% of adults who try to resolve conflicts with financial institutions (of those who experience a conflict)	25 *(2016)*	TBD	Financial Capability Survey	Periodic	By gender, age, income, rural, district
Protection & Capability	17	% of adults with low product awareness levels (i.e., knowledge index score between 0-2)	7 *(2016)*	TBD	Financial Capability Survey	Periodic	By gender, age, income, rural, district
Protection & Capability	18	% of adults with low financial knowledge levels (i.e., knowledge index score between 0-2)	17 *(2016)*	10	Financial Capability Survey	Periodic	By gender, age, income, rural, district

Driver	#	INTERMEDIATE, ACTION-LEVEL Indicator	Baseline 2016	Target 2020	Source	Reporting Frequency	Reporting Breakdown
Cross-cutting	1	% G2P payments delivered via digital channels	TBD	TBD	MoF	Biannual	
Cross-cutting	2	% P2G payments delivered via digital channels	TBD	TBD	MoF	Biannual	
Delivery Channels	3	% of agents that are non-exclusive	7	TBD	BoZ	Biannual	
Delivery Channels	4	% of informal savings groups linked to FIs	TBD	TBD	TBD	Biannual	
Products	5	% of regulated FIs with tiered KYC product requirements	n/a	TBD	BoZ	Biannual	
Finance for Growth	6	% of individuals covered by credit reporting system	9 TBC	TBD	CRB	Biannual	
Finance for Growth	7	% of registered SMEs covered by credit reporting system	TBD	TBD	CRB	Biannual	
Protection & Capability	8	% of FIs rated compliant with disclosure requirements	n/a	TBD	BoZ	Biannual	
Protection & Capability	9	% of complaints resolved via internal dispute resolution mechanisms at financial institutions	n/a	TBD	TBD	Biannual	
Protection & Capability	10	% complaints resolved by external dispute resolution mechanism (of those received)	n/a	TBD	TBD	Biannual	
Cross-cutting	11	# of NFIS biannual reports released publicly	n/a	10	NFISIC	Biannual	
Cross-cutting	12	# of stakeholders actively participating in NFIS Coordination Structure	n/a	TBD	NFISIC	Biannual	

5.3 Financial Inclusion Data Infrastructure

High-quality data is the foundation of a robust M&E system. Zambia has a range of existing supply- and demand-side data sources with which to measure financial inclusion progress. Annex 2 outlines the existing and potential financial inclusion data sources as of the time of the publication of the NFIS. The M&E officer will be responsible for the continuous updating of this resource.

It is important to note there is a difference between the indicators presented in the M&E framework below and the full depth and breadth of the objectives and actions defined in the NFIS. Thus, it is critical that efforts to increase the scope and quality of Zambia's financial inclusion data infrastructure be undertaken and prioritized, and that the M&E framework maintain a certain degree of flexibility to incorporate these data sources, indicators, and targets as they become available. In particular, efforts are required to improve demand-side measurement in the following areas:

- SME finance
- Uptake and usage of digital financial services;
- Product quality and satisfaction; and

Once new questions and modules in these areas have been developed and piloted (including through cognitive interviews, focus groups, and field testing), they can be integrated into the regular demand-side national surveys (e.g. those undertaken by FinScope and CSO instruments for both individuals and SMEs). These initiatives will be complemented by simultaneously improving the scope, consistency, and quality of supply-side financial inclusion data, that is data collected directly from financial service providers. Several activities under the NFIS Action Plan will be devoted to strengthening the data landscape to better monitor and evaluate financial inclusion.

5.4 Evaluation of Key Actions

In addition to monitoring progress, it is critical that evaluations of key NFIS actions be conducted to assess their efficiency, impact, and the degree to which they contribute to national-level NFIS objectives and targets. An independent mid-term evaluation of the implementation of the NFIS action plan should be conducted in 2019 and a final evaluation in 2022. A key role of the NFIS Secretariat will be to coordinate, oversee, and mobilize resources for these evaluations.

6. Action Plan

The Action Plan below outlines a series of actions to close the gaps identified in Section 2. The Action Plan is structured around the four Drivers in the NFIS Policy Framework, with an additional "cross-cutting" category. Policy Objectives are listed along with associated, specific Actions. Each Action is linked to a Primary Entity, one or more Secondary Entities, a Priority level (High, Medium, Low), and a Timeline (e.g. 2018-2019). Both the public and private sector must play a key role in implementing the Action Plan, though it is ultimately the private sector that will move forward financial inclusion in Zambia.

Table 4: Action Plan

#	Objective	Action	Primary Entity	Secondary Entities	Priority	Timeline
Widespread and Accessible Delivery Channels						
1	Expand reach and quality of agent-based and other cost-effective delivery channels	Issue agent banking regulations	BoZ	Justice	High	2017
		Reduce agent exclusivity barriers	CCPC	BoZ	High	2017
		Leverage Post Bank network for agent banking	Post Bank		Medium	2017-2022
		Undertake study on causes and potential solutions to address agent liquidity issues	<tbd>		High	2017-2018
		Expand agent banking infrastructure (particularly rural areas)	Private sector		High	2017-2022
		Provide incentives (tax, etc.) for financial institutions to expand branch networks and POS infrastructure in rural areas	MoF		Medium	2017-2022
2	Expand use of mobile-based delivery channels	Encourage employers to partially disburse wages through mobile money (e.g. 10%)	MoF		Medium	2017
		Develop cheaper avenues for low-income consumers to obtain mobile phones	ZICTA		High	2017-2018
		Enable and promote use of mobile-based delivery channels for non-payment products (e.g. insurance, credit)	BoZ	Industry	High	2017-2018
3	Improve overall quality of service of financial service providers	Issue industry-specific Quality of Service Charters	BAZ, industry associations		High	2017
		Issue publicly posted scores based on compliance of Quality of Service Charters	BoZ		High	2018-2022

4	Achieve interoperability and scale of retail payment systems	Complete phased implementation of national switch	BoZ		High	2017
		Promote interoperable products	BoZ		High	2018
		Promote expansion of acceptance networks for retail payment systems	BoZ	ZICTA	High	2017-2022
5	Improve access and operations of ZECH	Grant fair and open access to ZECH for non-banks which meet standards	BoZ		High	2017
		Review governance of ZECH to ensure openness	BoZ		High	2017
6	Strengthen pathways to formal financial inclusion for users of informal and semi-formal financial services	Recognize financial inclusion role of informal savings groups	BoZ			
		Expand linkages between savings groups / Chilimbas and formal financial institutions	MCTI	BoZ	Medium	2018-2022
7	Strengthen reach and sustainability of SACCOs	Expand linkages between SACCOs and formal financial institutions	MCTI	BoZ	Medium	2018-2022
		Review feasibility of incorporating SACCOs into financial sector legal and regulatory framework	MCTI	BoZ	Medium	2018
		Promote sustainable SACCOs through technical assistance and expanded product offerings	MCTI	BoZ	Medium	2018-2022
#	**Objective**	**Action**	**Primary Entity**	**Secondary Entities**	**Priority**	**Timeline**
Diverse, Innovative, Customer-centric Products						
8	Reduce documentation barriers to product uptake and usage	Issue tiered KYC requirements	FIC	BoZ, SEC, PIA, ZICTA	High	2017-2018
9	Improve product diversity and customer-centric design	Undertake dialogue between clients and FSPs	BoZ, SEC, PIA	Professional associations	High	2017-2020
		Design, test and adopt products using available data (e.g., collective investments, savings, credits, payments, etc.) and allowing regulatory space for innovation.	Industry		High	2017-2020
		Develop USSD code menus in seven main local languages	ZECH	BoZ, Payments Dept; ZICTA	High	2018

10	Expand supply of microinsurance and micro-pensions products	Amend insurance regulations to lower capital requirements for micro-insurers	PIA	Insurance Association	High	2020
		Develop regulations on micro-pension	PIA	Pensions Association	High	2020
		Public sensitisation of new products	PIA	Pensions Providers	Medium	2021
11	Improve quality and availability of financial products and services for youth and children	Promote children's accounts	BoZ	Banks and MFIs	Medium	2018
		Change legal/regulatory requirements to allow youth (ages 16-18) to open savings accounts	BoZ/MoF		Medium	2018
12	Improve quality and availability of financial products and services for women	Design approaches to reduce barriers to financial inclusion for women	Industry	MoF, BoZ, Ministry of Gender, Associations, Providers	High	2020
#	**Objective**	**Action**	**Primary Entity**	**Secondary Entities**	**Priority**	**Timeline**
Finance for SME Growth						
13	Improve credit reporting systems	Finalize Credit Reporting Bill	MoF	BoZ	High	2017
		Monitor and enforce compliance with Credit Reporting Act (when in enacted)	BoZ		Medium	2018
		Implement online movable collateral registry (in line with Movable Property Security Interest Act of 2016)	PACRA	Industry	High	2017
14	Improve the quality and efficiency of insolvency regime	Reform insolvency legislation (Companies Act and Insolvency Bill) to address	MOF	MOJ	Medium	
		Build capacity of Commercial Court judges to handle insolvency cases	MOJ		Medium	
		Set time standards through High Court Rules for completion of litigation	MOJ		Medium	
15	Build capacity of financial service providers to serve SMEs	Train lenders in 'down scaling' SME lending, valuation, and registration of movable assets	<tbd>		High	2018-2019
		Improve SME banking practices through non-credit offerings (e.g., cash-flow support, payments, insurance, equity) and evaluate programs such as, Live Labs for potentially scaling up	Industry, FSDZ		Medium	2018

16	Improve government-supported SME finance approaches	Review effectiveness and impact of existing SME support schemes (Youth Fund)	ZDA	Min of Gender, MCTI, Min of Sports	High	2018
		Improve targeting, sustainability, impact of SME support schemes			High	2018-2022
		Pursue World Bank and/or other lines of credit	MoF	BoZ	High	2017
		Review incentives and specific goals for increased procurement by GRZ of goods and services from SMEs (including women-owned)	ZPPA & CEEC	MoF & MCTI	Medium	2018
		Research and remove barriers to SME registration	MoF		High	2018-2019
17	Finance agriculture value chain	Evaluate viability of warehouse receipt financing	RUFEP		High	2017-2018
		Build capacity for FIs to design and offer agriculture finance products	BAZ	BoZ	High	2017-2022
		Encourage development of agriculture insurance products	RUFEP		Medium	2017-2022
		Explore incentives to encourage agriculture lending (Partial guarantee schemes)	RUFEP		Medium	2017-2022
18	Develop leasing and factoring instruments	Undertake assessment to determine existing constraints and potential reforms and actions	MoF	World Bank/IFC	High	2017
#	**Objective**	**Action**	**Primary Entity**	**Secondary Entities**	**Priority**	**Timeline**
		Financial Consumer Protection and Capability				
19	Clarify institutional arrangements and legal mandates for financial consumer protection	Enact existing relevant legal amendments to strengthen mandates for financial consumer protection	BoZ, SEC, PIA, CCCP	MOF, MOC	High	2017
		Agree on a common strategy for financial consumer protection	BoZ, SEC, PIA, CCCP		High	2017
		Revise and consolidate sectoral MoUs	BoZ, SEC, PIA, CCCP		High	2017-2018
20	Improve disclosure practices of financial service providers	Undertake market research (focus groups, surveys, etc.) to develop approaches to improve disclosure for core retail financial products	BoZ, SEC, PIA, CCPC	Industry	High	2017-2018
		Issue Key Fact Statement (KFS) and other disclosure requirements for core retail financial products (including local language requirements, and dispute resolution channels)	BoZ, SEC, PIA, CCPC	Industry	High	2018-2019

		Undertake mystery shopping to assess implementation of CP requirements	BoZ, SEC, PIA, CCPC		Medium	2019-2022
21	Improve access to and efficiency of dispute resolution mechanisms for financial consumers	Issue internal complaints handling requirements for financial institutions	BOZ, SEC, PIA		High	2018
		Undertake efforts to strengthen customer awareness of dispute resolute channels	BoZ, SEC, PIA, CCPC	Industry	High	2018-2022
		Determine institutional arrangement for external dispute resolution (EDR)	BoZ, SEC, PIA, CCPC		High	2018
		Establish (preferably single) external dispute resolution (EDR) mechanism for financial sector	BoZ, SEC, PIA, CCPC		High	2018-2019
		Publish data on customer complaints	TBD	BoZ, SEC, PIA, CCPC	High	2018-2022
22	Strengthen financial consumer protection supervision	Determine internal responsibilities with regulators for financial consumer protection supervision	BoZ, SEC, PIA		High	2017
		Build capacity of regulators to undertake financial consumer protection supervision	BoZ, SEC, PIA		High	2018-2019
23	Strengthen and clarify consumer protections for personal financial data	Draft and issue (as needed) data protection law/regulations	BoZ, MOF	CRB, PIA, SEC	High	2018
24	Improve business practices of financial service providers	Draft and issue regulations that ensure/address responsible lending practices, cooling off periods, collection practices, sales practices, treatment of dormant accounts	BoZ, SEC, PIA		Medium	2018-2019
25	Improve deposit protections	Review and pass Deposit Protection Act	BoZ, MOF		High	2018
26	Strengthen financial capability of consumers	Undertake a mapping of existing financial education programs	BoZ, SEC, PIA		Medium	2018
		Undertake an assessment and update of the National Strategy for Financial Education	BoZ, SEC, PIA		Medium	2018
		Fully embed appropriate financial education into primary, secondary, vocational, and tertiary school curriculum	Ministries of Education	BoZ, SEC, PIA, CCPC	Medium	2017-2018

#	Objective	Action	Primary Entity	Secondary Entities	Priority	Timeline
		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	2017-2022
#	**Objective**	**Action**	**Primary Entity**	**Secondary Entities**	**Priority**	**Timeline**
		Cross-Cutting				
27	Leverage Government-to-Person (G2P) and Person-to-Government (P2G) payments to expand financial inclusion	Undertake pilots of G2P and P2G payment migration to digital platforms	MoF	Ministries of Education, Ministry of Community Development and Social Welfare, City Councils	High	2017-2018
		Migrate G2P and P2G payments to digital platforms	MoF	Ministries of Education, Ministry of Community Development and Social Welfare, ZRA, City Councils	High	2018-2022
28	Improve cross-agency coordination	Ensure participation of relevant stakeholders in NFIS Coordination Structure	NFIS IC		High	2017-2022
		Provide regular updates to all government authorities on financial inclusion progress	MoF		High	
29	Improve data infrastructure for financial inclusion	Incorporate financial inclusion modules into CSO survey instruments	CSO		Medium	2017-2019
		Review scope, quality, and consistency of supply-side financial inclusion data	BoZ		Medium	2017-2018
30	Strengthen evidence base for financial inclusion policymaking	Undertake impact evaluations of strategically important financial inclusion programs / reforms	NFIS IC		High	2017-2022

Annex 1: Working Groups

Working Group 1: Delivery Channels and Digital Payments

Chair: <tbd>
Secretariat: Bank of Zambia

Members:

(1) Bank of Zambia
(2) FSDZ
(3) Airtel Money
(4) MTN Money
(5) Zamtel Mobile Money Ltd.
(6) BAZ
(7) Micro Insurance TAG
(8) UNCDF
(9) ZICTA

Working Group 2: Insurance

Chair: <tbd>
Secretariat: PIA

Members:

(1) PIA
(2) Insurance Association of Zambia
(3) Insurance Brokers Association of Zambia
(4) Micro Insurance TAG
(5) FSDZ
(6) Workers Compensation Fund Control Board

Working Group 3: Pensions

Chair: <tbd>
Secretariat: PIA

Members:

(1) PIA
(2) SEC
(3) Ministry of Community Development and Social Welfare
(4)Ministry of Labour and Social Security
(5) National Pension Scheme Authority
(6) MoF
(7) Zambia Association of Pension Funds
(8) Zambia Federation of Cooperatives
(9) Zambia National Farmers Union

Working Group 4: Capital Markets

Chair: <tbd>
Secretariat: SEC

Members:

(1) MoF
(2) SEC
(3) PIA
(4) BoZ
(5) Grofin Zambia Limited
(6) Focus Capital Limited
(7) Lusaka Securities Plc
(8) Corpserve Zambia Limited
(9) Kukula Capital Limited
(10) African Life Financial Services
(11) Bond and Derivatives Exchange Plc.

(12) FSDZ

Working Group 5: SME Finance and Credit Infrastructure		
Chair: <tbd> **Secretariat:** Bank of Zambia		
Members:		
(1) BoZ (2) Ministry of Commerce, Trade and Industry (3)Rural Finance Expansion Programme (RUFEP) (4) Capital Markets Association	(5) Banker Association of Zambia (6) Association of Microfinance Association of Zambia (7) Citizens Economic Empowerment Commission	
Working Group 6: Rural and Agricultural Finance		
Chair: <tbd> **Secretariat:** RUFEP		
Members:		
(1) MoF (2) Ministry of Agriculture (3) RUFEP (4) Financial Education Coordination Unit/BoZ	(5) BAZ (6) Savings Led Micro Finance Network Zambia (7) Zambia National Farmers Union	(8) Musika (9) FSDZ
Working Group 7: Financial Consumer Protection and Capabilities		
Chair: <tbd> **Secretariat:** CCPC		
Members:		
(1) CCPC (2) SEC (3) BoZ	(4) PIA (5) ZICTA (6) Associations for Micro Institutions in Zambia	(7) Consumer Unity Trust Society (8) FSDZ (9) BAZ

Annex 2: Financial Inclusion Data Sources

Data Source	Demand- or supply-side	Unit of measurement	Target population	Panel dimension	Mode of interview	Sample size	Year (most recent)	Frequency	Topics covered	Responsible Institution
Existing Sources of Financial Inclusion Data										
Bank of Zambia	Supply	Financial service providers	Licensed FSPs	Yes	Electronic reporting	-	2015	Annual	Access points, product uptake / volumes	BoZ
FinScope	Demand	Individual	Adults age 16+	No	Face-to-face	8,570	2015	Periodic	Accounts, payments, savings, credit	FSD Zambia
ICT Survey	Demand	Individual	Adults age 10+	No	Face-to-face	6,150	Forthcoming	Every 2-3 years	Uptake / usage of digital financial services	ZICTA / CSO
Financial Capability Survey	Demand	Individual	Adults age 18+	No	Face-to-face	2,505	2016	TBD	Financial capability	World Bank
Global Findex	Demand	Individual	Adults age 15+	No	Face-to-face	1,000	2014	Trienniel	Accounts, payments, savings, credit	World Bank
Enterprise Surveys	Demand	Firm	Formal firms with >5 employees	No	Face-to-face	720	2013	Periodic	Access to finance	World Bank
Potential Sources of Financial Inclusion Data										
Living Conditions Survey	Demand	Household / Individual	All households	No	Face-to-face	12,000 HH	2010, 2015	Bienniel*	Consumption, education, housing, etc.	CSO
Informal Sector Survey	Demand	Household	Households engaged in informal sector production	No	Face-to-face	3,000	2013	Bienniel*	Production, employment	CSO

Crop Forecasting / Post-Harvest Surveys	Demand	Agricultural production unit	Small, medium, large farms	Yes	Face-to-face	15,000	2015	Annual*	Agricultural production, inputs	CSO