



REPUBLIC OF ZAMBIA

NATIONAL FINANCIAL SECTOR DEVELOPMENT POLICY 2017





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**NATIONAL FINANCIAL SECTOR
DEVELOPMENT POLICY**

2017

FOREWORD



Worldwide, the financial sector is recognised as a facilitator of economic growth and development. A deep and inclusive financial sector is generally associated with financial sector efficiencies that affect all other sectors of the economy positively. In recognising this important role, Zambia embarked on the development of a National Financial Sector Development (FSD) Policy to grow and transform the financial sector. The Policy aims at having a well-developed and inclusive financial system that supports efficient resource mobilisation and investment for sustainable economic development.

The Policy comes after Zambia's first and second Financial Sector Development Plans (FSDPs), which ran in two successive five-year cycles from 2004 to 2009 and from 2010 to 2015. The FSDPs represented both a vision and a comprehensive strategy by the Government to address weaknesses in the Zambian financial system by focusing on five core pillars: legal reforms and corporate governance, payment systems, market efficiency and contractual savings, financial education, and access to finance and financial markets.

With the end of FSDP II in June 2015, the Government recognised the need for a comprehensive national policy to accelerate progress toward an inclusive, stable, and competitive financial sector in Zambia. The Policy is a product of extensive consultations between the Government and other stakeholders in the financial sector and encompasses key facets of the sector that would contribute to national objectives of economic development and poverty reduction through provision of credit to economic agents through the flow of funds from savers to borrowers (intermediation), provision of access to financial services, facilitation of international capital flows, provision of efficient payment systems for financial transactions, enhancement in efficiency of investments, and maintenance of macroeconomic stability.

I am very optimistic that once the Policy is implemented effectively in line with the Vision 2030 and the Seventh National Development Plan, the financial sector will deepen and grow sufficiently to address challenges and shortcomings identified during and after the implementation of the first and second Financial Sector Development Plans. This implementation will be supported by interventions such as the National Financial Inclusion Strategy (NFIS), National Strategy on Financial Education (NSFE), and the Rural Finance Policy and Strategy, and other strategies and action plans such as the 10-year Capital Market Master Plan.

This Policy will, therefore, serve as a guide to the Government, the private sector, civil society organisations (CSOs), and development partners in developing the financial sector.

A handwritten signature in black ink, appearing to read 'Felix C. Mutati', with a long horizontal line extending to the right.

Felix C. Mutati, M.P.

MINISTER OF FINANCE

ACKNOWLEDGEMENT



The Ministry of Finance wishes to acknowledge and thank the various stakeholders who participated or contributed to the formulation of this Policy. In particular, we would like to recognise the valuable contributions made by the National Financial Inclusion Strategy Drafting Committee (NFISDC) for putting the document together and the support from the Financial Sector Deepening Zambia (FSDZ) to the process. The NFISDC was made up of staff from seven (7) institutions namely; the Ministry of Finance, the Bank of Zambia, the Competition and Consumer Protection Commission, the Pensions and Insurance Authority, the Securities and Exchange Commission, the Rural Finance Expansion Programme and the Zambia Information and Communications Technology Authority. The Committee worked tirelessly in engaging stakeholders at all levels and putting together various submissions that have given rise to this Policy.

The Ministry would like to further extend its appreciation to all stakeholders for providing valuable comments on the draft policy. The Ministry is also grateful to other stakeholders in the financial sector made up of the public and private sectors, research and academia, civil society organisations and development partners for their invaluable support and contributions made during the drafting stage and consultative process.

A handwritten signature in black ink, appearing to read 'Fredson K. Yamba'.

Fredson K. Yamba

SECRETARY TO THE TREASURY

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WORKING DEFINITIONS

Bank	means a company authorised to conduct banking business in accordance with the Banking and Financial Services Act.
Banking business	means receiving deposits, including chequing and current account deposits, and using deposits, either in whole or in part, for the account and at the risk of the person carrying on business to make loans, advances, or investments; providing financial services; and any custom, practice, or activity prescribed in rules issued by the bank as banking business.
Branch	means the permanent premises, other than the head office, at which a financial service provider conducts business in or outside Zambia.
Branchless banking	means the provision of banking services or financial services without relying on physical branches.
Consumer	means any person who purchases or offers to purchase goods or services supplied by an enterprise in the course of business and includes a business person who uses the product or service supplied as an input to his or her own business, a wholesaler, a retailer, and a final consumer in accordance with the Competition and Consumer Protection Act.
Digital financial services	means mobile financial services and branchless banking.
Financing	means the act or process of raising or providing funds.
Financial business	means a body corporate that conducts a financial service business, excluding acceptance of deposits.

Financial institution	means a company, other than a bank, providing a financial service.
Financial deepening	means the increased provision of financial services with a wider choice of services geared to all levels of society.
Financial infrastructure	means legal and regulatory frameworks, audit systems, accounting and financial procedures, collateral arrangements, and payment systems.
Financial sector	means the subsector of the economy concerned with and related to financial, banking, and monetary matters and provision of banking and financial services to commercial and retail customers, including banks, investment funds, and capital markets.
Financial sector regulator	means the Bank of Zambia, the Pensions and Insurance Authority, and the Securities and Exchange Commission.
Financial service	means, but is not limited to, the following services: <ul style="list-style-type: none"> a) commercial or consumer financial services; b) brokering; c) factoring, with or without recourse; d) finance leasing; e) financing of commercial transactions, including forfeiting; f) issue and administration of credit cards, debit cards, travelers' cheques, or bankers drafts; g) issues of guarantees, performance bonds, or letters of credit, excluding those issued by insurance companies; h) lending on the security of, or dealing in, mortgages or any interest in real property; i) payment of cheques or other demand orders drawn or issued by customers and payable from deposits held by the payer; j) purchase and sale of foreign exchange; k) issue of debentures and money market instruments; l) the acceptance of deposits;

- m) issue of building society and mutual society shares, with characteristics similar or identical to deposits;
- n) venture capital findings;
- o) issue of bond and capital instruments;
- p) investment advisory services;
- q) trading in equity;
- r) microfinancing;
- s) development financing; and
- t) any other service that may be designated as a financial service by the financial sector regulator.

Finance service provider	means a bank, financial institution, or financial business.
General insurance	means insurance business carried out in a prescribed manner by a company licensed as a general insurer.
Group life insurance	means insurance covering the lives of several persons under a blanket policy.
Insurance for public	means insurance that covers the insured in the case of legal action brought by members risks of the public. This insurance covers liability due to bodily injury or property damage.
Long term insurance	means insurance business carried out in a prescribed manner by a company licensed as a long-term insurer.
Micro insurance	means insurance business of such classes as may be prescribed by regulations. The key feature of micro insurance is the low premiums and benefits aimed at extending insurance services to unserved segments of the population.
Reinsurance	means the transfer of a risk assumed by an insurer to a reinsurer or another insurer.

ACRONYMS AND ABBREVIATIONS

ATM	automated teller machine
BoZ	Bank of Zambia
CCPC	Competition and Consumer Protection Commission
CSO	civil society organisation
DFS	digital financial service
EFT	electronic fund transfer
FIC	Financial Intelligence Centre
FSD	financial sector development
FSDP	Financial Sector Development Plan
LASF	Local Authority Superannuation Fund
LuSE	Lusaka Securities Exchange
MSME	micro, small, and medium enterprise
MTN	medium-term notes
NAPSA	National Pension Scheme Authority
NBFI	non-bank financial institution
NFISDC	National Financial Inclusion Strategy Drafting Committee
NFS	national financial switch
NPL	non-performing loan
NPS	National Pension Scheme
PIA	Pensions and Insurance Authority
POS	point of sale
PSPF	Public Service Pension Fund (PSPF)
SACCO	savings and credit cooperative
SEC	Securities and Exchange Commission
SME	Small and medium enterprise
ZECH	Zambia Electronic Clearing House
ZICTA	Zambia Information and Communications Technology Authority

1. INTRODUCTION

This Financial Sector Development (FSD) Policy expresses the commitment of the Government of the Republic of Zambia to fostering the development of the financial sector through the provision of strategic guidance and oversight. The Policy aims at having a well-developed, competitive, and inclusive financial system that supports efficient resource mobilisation and access to financial services and products by all. This takes cognisance that a well-developed and functioning financial sector would support the attraction and mobilisation of savings and investments, allocate resources for development, and build the trust and confidence of a wide and diversified consumer base.

The financial sector in Zambia is moderately developed and dominated by the banking sub-sector, followed by the insurance, pensions, microfinance, and capital markets sub sectors. The sector provides a wide variety of financial instruments and constitutes the formal financial services, while informal financial services exist in the form of money lenders and savings groups.

The financial sector together with users of financial and non-financial products and services make up the financial sector ecosystem, which is critical for contributing to the attainment of sustainable economic development and ultimately poverty reduction. This may be achieved through avenues such as provision of credit to economic agents, provision of access to financial services, facilitation of international capital flows, provision of efficient payment systems for financial transactions, and enhancement in efficiency of investments.

Government, financial sector regulators, and other institutions such as the Competition and Consumer Protection Commission (CCPC) and the Zambia Information and Communications Technology Authority (ZICTA) play a critical role in the financial sector ecosystem. The aforementioned players are key in the development of the financial sector through regulation and reforms aimed at enhancing the performance of the sector.

In the last decade, reforms in the sector have been undertaken aimed at promoting growth in the business volumes of financial institutions and financial inclusion and strengthening the resilience of the financial sector. Notwithstanding, the absence of a comprehensive policy to support the development of the financial sector has resulted in fragmented implementation of initiatives that support the sector. This has prevented the sector from achieving its full potential. This Policy is therefore a comprehensive framework that will provide oversight and strategic guidance to all stakeholders to ensure that financial sector programmes and national strategies and initiatives developed have broad levels of consistency and synergy. In addition, the Policy will safeguard the needs of all individuals and micro to large enterprises and be instrumental in attracting a diversified, sustainable, and expanding pattern of external capital flows.

This Policy is organised into eight sections. Section one is the introduction, while section two presents a situation analysis. Section three contains the national vision of the financial sector, while sections four and five provide the rationale and guiding principles, respectively. Subsequent sections, six, seven, and eight, provide objectives, measures, and the implementation framework.

2. SITUATION ANALYSIS

2.1 FINANCIAL SECTOR REFORMS

In the last two decades, various reforms and programmes aimed at enhancing the performance of the sector have been implemented. Between 2004 and 2015, the Government formulated and implemented a Financial Sector Development Plan (FSDP) in two successive five-year cycles from 2004 to 2009 and from 2010 to 2015. The aim of the FSDP was to address weaknesses in the Zambian financial system with a focus on legal reforms, corporate governance, payment systems, market efficiency and contractual savings, financial education, and access to finance and financial markets.

Arising from the FSDP, the Government also formulated two additional national strategies—the Rural Finance Policy and Strategy and the National Strategy on Financial Education for Zambia—to broaden the outreach of financial services to rural areas and enhance the financial capabilities of users of financial services. Nonetheless, the absence of a policy to guide the development of the overall financial sector has remained a concern for sector players.

2.2 FINANCIAL INFRASTRUCTURE

2.2.1 The Bank of Zambia and Monetary Policy Framework

As the central bank, the Bank of Zambia (BoZ) derives its mandate from the Constitution; the Bank of Zambia Act; and the Banking and Financial Services Act, Chapter 387 of the Laws of Zambia. The mandate of the bank is to achieve and maintain price and financial system stability to foster sustainable economic development. Key to this is the formulation and implementation of monetary policy.

The monetary policy framework utilises inflation targeting while the policy rate introduced in 2012 is a critical anchor for signalling the monetary policy stance. The policy rate provides a credible and stable anchor to financial market participants in setting their own interest rates. In addition, the BoZ may also employ other monetary policy instruments such as the statutory reserve ratio and overnight lending facility to provide short-term liquidity assistance to commercial banks to influence liquidity conditions and ultimately the overnight interbank rate.

The main challenges with the transmission of monetary policy using this framework has been the underdeveloped financial markets characterised by low secondary trading in Government securities, limited financial inclusion, illiquid and thin capital markets, and the concentration of liquidity in a few banks. These challenges remain and must be addressed to strengthen the monetary policy transmission mechanism.

2.2.2 Payment Systems

The national payment systems are gradually evolving from cash systems to digital/electronic-oriented systems following the enactment of the National Payments Systems Act of 2007. The volume and value of transactions processed through electronic funds transfer (EFT) systems have increased steadily compared with the cheque image clearing system, which has recorded a decline in the volume and value of transactions.

The increase in the usage of EFT systems has been attributed to several factors. These include scaling up of sensitization campaigns to promote the usage of electronic payment methods; increase in the number of active agents; and the use of prepaid cards, point-of-sale (PoS) systems, and automated teller machines (ATMs) by deposit-taking institutions. In addition, the rise in the number of users and services of mobile money to pay bills and fund transfers and financial education campaigns have contributed to the use of EFT systems.

The Bank of Zambia, in conjunction with the Zambia Electronic Clearing House (ZECH) and the Bankers Association of Zambia, has continued to work on the implementation of the national financial switch (NFS). This will enable the interoperability of various payment systems and contribute to increasing the level of financial inclusion by extending access to financial services to the unbanked and underbanked adult population.

However, large amounts of cash remain in circulation and affect effective monetary policy implementation, while the lack of interoperability constrains the efficient use of digital financial services. The planned development of a national financial switch and consumer awareness campaigns should assist in addressing the challenge.

2.2.3 Digital Financial Services

Despite Zambia being the earliest to adopt digital financial services (DFSs) in Africa with the launch of Zap by Celpay in 2002, the country lagged behind for some time. This was evidenced by low outreach, activity, and product choice. In the recent past, however, the Zambian DFS market has become increasingly competitive with a diverse group of providers that has increased to approximately 12,000 agents across the country. The market consists of banks, third-party providers, and telecommunication companies.

The DFS market is regulated by the Bank of Zambia in accordance with the Banking and Financial Services Act and the Banking and Services Microfinance Regulations. As more innovative players and business models emerge, the roles of other regulators in the DFS market, such as ZICTA, CCPC, and Financial Intelligence Centre (FIC), have intensified.

Zambia has a low cellular penetration rate, and the usage of mobile financial services is low. According to the 2017 Zambia Financial Capability Survey Report, the country's mobile penetration rate is 74.5 percent, which is low compared with Africa's average rate of 90.8 percent and Ghana's and Côte d'Ivoire's rates at 129.7 percent and 119.3 percent, respectively. The 2015 FinScope report reveals that, of the adult population in Zambia, 11 percent own mobile money accounts and only 4 percent use mobile money. Recent data, however, show that DFS uptake among Zambian adults has increased significantly from 8 percent in 2015 to 18 percent in 2016. Uptake of mobile money, and consequently DFS, is constrained by lack of awareness and means of accessing the services.

2.3 STRUCTURE AND OPERATION OF THE FINANCIAL SYSTEM

2.3.1 Banking Sector and Non-Bank Financial Institutions

As of March 2017, the banking sector comprised 18 licensed commercial banks, of which eight are locally owned, a further eight are subsidiaries of foreign-owned banks, and two are jointly owned by the Government and foreign banks. The banks mostly focus on combined retail and corporate banking, with the exception of a few that exclusively undertake corporate banking. The banks mainly operate as universal banks and cover a wide range of market segments, with loans and advances being dominated by personal loans at an average of about 27 percent. This is generally followed by advances to the agriculture, forestry, fishing, and hunting sector; manufacturing sector; and wholesale and retail trade.

The non-bank financial institutions (NBFIs) regulated by the Bank of Zambia comprise 122 institutions consisting of eight leasing and finance institutions, four building societies, 73 bureaux de change, one savings and credit institution, 34 microfinance institutions, one development bank, and one credit reference bureau. The NBFIs had a geographic coverage of 349 branches at the end of 2016, up from 334 in 2015. Other financial service providers include 11 savings and credit cooperatives (SACCOs) and several informal rotating savings and credit groups referred to locally as Chilimbias.

The main challenges in the banking and non-bank sector relate to enhancing competition, reducing the high cost of credit, reducing the cost of banking services to consumers, increasing the scale and outreach to rural areas, and extending financial literacy of consumers countrywide. In addition, a need exists to review the legal framework in a bid to enhance supervision.

A. Concentration of the Banking System

The Zambian banking system shows a high degree of concentration, with the larger foreign banks accounting for about 70 percent of the market share in terms of assets and net loans and deposits.

The dominance of a few banks tends to undermine competition in the sector, especially for smaller borrowers. Coupled with structural challenges in this sector, the effect has been a huge spread between savings and lending rates. Additionally, although transparency has improved with respect to bank charges, they remain a hindrance for the ability of most households and small businesses to prosper.

The NBFIs' structure and composition have been driven by the increase in bureaux de change partly to support cross-border trade. As a proportion of total assets in the banking and non-bank sector, NBFIs account for a very small proportion of just less than 10 percent. Consumer and enterprise-lending microfinance and building society sub-sectors account for 67.7 percent of the NBFIs' total assets.

A policy response to define a balance between financial sector stability and access to finance is required to enhance financial inclusion without creating financial stability risks.

B. Soundness of the Banking and NBFi Sector

The overall financial performance and condition of the banking sector as of March 2017 was rated satisfactory. As of end March 2017, the banking sector's total assets were K66,037.2 million (3.28 percent of GDP). The aggregate capital adequacy position was rated satisfactory because of high capital adequacy ratios of 24.0 percent and 26.3 percent for primary and total regulatory capital, respectively.

On a bank-by-bank basis, 12 out of the 17 operating banks accounting for 87.2 percent and 88.3 percent of the sector's total assets and deposits, respectively, met the minimum capital requirements and were rated satisfactory. Asset quality was rated fair because of an increase in non-performing loans (NPLs). The gross NPL ratio deteriorated to 10.6 percent in March 2017 from 9.7 percent at end-December 2016. Earnings performance was rated satisfactory while the sector's aggregate liquidity position was rated fair.

The overall financial condition and performance of the NBFIs was rated fair with satisfactory regulatory capital and liquidity management. However, the sector had challenges with the quality of loans and earnings performance due to the large proportion of NPLs. The NPLs were attributed to challenges with over-indebtedness with personal loans, high interest rates, and an unfavourable business environment for enterprises. Other challenges include suppressed earnings due to provisions for potential loan losses as the non-performing loans are expected to remain high over the medium term.

2.3.2 Insurance

The insurance industry recorded an increase in the number of licensed insurers and reinsurers, from 12 in 2008 to 38 in 2016. The industry is also characterised by more than 300 licensed intermediaries and service providers. The industry's

contribution to national GDP was 1.1 percent in 2016, compared with 0.87 percent in 2015. This contribution is still low in comparison with emerging markets' average contribution of 3 percent.

In terms of categories, the overall product mix shows that motor insurance businesses account for more than 40 percent of the general insurance business underwritten as of 2016. Long-term insurance businesses were dominated by group life and individual life insurance, accounting for 62 percent of the business underwritten. This scenario reflects that the population faces several risks that remain uncovered. This was despite an increase in the use of formal insurance services from 4 percent to 5.5 percent in 2015 as reported in the 2015 FinScope Survey.

The major gaps in the sector requiring a policy response are market demand for greater transparency, low financial literacy, low capitalisation of industry players, absence of legal provisions on local retention, limited mandatory insurance to cover public liability risks, low levels of innovation in the design of products, and poor distribution channels. This has contributed to significant fronting of risks by way of reinsurance to offshore companies, thus reducing resources that could be retained locally for economic development.

2.3.3 Pensions

The pensions sector in Zambia is largely contributory and comprises mandatory and occupational pension schemes. There is one mandatory scheme, the National Pension Scheme (NPS), which is managed by the National Pension Scheme Authority (NAPSA). In terms of occupational pension schemes, there are two categories: first, those established by Act of Parliament, namely the Local Authorities Superannuation Fund (LASF) and the Public Service Pension Fund (PSPF), and second, 242 pension schemes established by employers as trusts. In addition, as of the end of 2016, the industry was serviced by seven fund administrators and six fund managers who provide secretarial and investment functions to the occupational pension schemes, respectively.

As of 31st December 2015, the membership in schemes established by an Act of Parliament was 881,138, representing 5.7 percent of the population, with combined net assets of K18.8 billion representing 10.3 percent of GDP. The occupational schemes that are established by employers as trusts had a membership of 112,260 in the same period with net assets of K5.6 billion (included in the aforementioned combined net assets).

In terms of geographical coverage, only 30.9 percent of the rural population had pension services, while 69.1 percent of the urban population had pension services. The low coverage is worsened by a culture of viewing pensions as the preserve of people in formal employment. This has been compounded by a provision under the Fourth Schedule of the Income Tax Act, Chapter 323 of the Laws of Zambia that pension schemes shall be established by the employer or on behalf of the employer. In addition, lack of representation of the informal sector (such as Traders Association Pension Scheme, Market Association Pension Scheme, or Peasant Farmers Association Pension Scheme), unfavourable terms, lack of withdrawal facility when faced with hardships, low incomes of informal sector workers, and limited marketing have impacted on the expansion of pension schemes.

The unfavourable performance in pension schemes has been due to challenges such as inadequate funding, poor investment returns, low pension payments, lack of preservation of the funds, and delayed and non-payment of pension benefits by some pension schemes. These poor-performing schemes have contributed to the reluctance to belong to pension schemes, notwithstanding the societal benefits that pension schemes offer.

Further, restrictions such as limitations contained in some investment guidelines, the lack of depth and breadth of the local stock market, and the availability of more lucrative investment options have been a challenge in terms of fund placement. The low activity of capital markets “forces” pension schemes to invest in low-yielding instruments such as money markets, thereby achieving low returns and subsequently low fund value.

2.3.4 Capital Markets

The Zambian capital markets were formalised in 1993 to enhance capital formation and wealth creation. The Stock Exchange Act of 1990 was repealed and replaced by the Securities Act of 1993.

The Lusaka Securities Exchange Plc (LuSE) is Zambia’s main exchange and is the venue for listing and trading equities and private debt instruments and the secondary market for government bonds. The LuSE had 23 listings as of July 2017 and has over the years recorded very few new listings. Further, the exchange had a low market capitalisation to GDP ratio at 16 percent as of the end of 2016. The LuSE private debt market, which consists of corporate bonds and notes issued under a medium-term notes (MTN) programme, is underdeveloped and there is almost no secondary market trading. However, issuance is more frequent than for the equity market.

Secondary trading of government bonds is limited, consists mostly of bilateral trades between banks, and is reported to the LuSE. In addition, there are recent entrants in the capital markets, such as the bonds and commodities derivatives exchanges. Brokers and investment advisers increased by more than 50 percent between 2011 and 2016. Assets under fund management using collective investment schemes increased by almost 300 percent between 2011 and 2016.

In summary, the Zambian capital markets remain largely underdeveloped and are characterized by low issuances, illiquidity, low turnover, lack of depth, erosion in value on some stocks, and low interest from both potential investors and issuers. Moving forward, deepening of capital markets will be anchored to robust policy and regulatory frameworks, diversified products and services, efficient infrastructure and institutional arrangements, and investor education and public awareness.

2.3.5 MSME, Rural, and Agricultural Finance

According to the FinScope Zambia Small Business Survey, 85 percent of micro, small, and medium enterprises (MSMEs) in rural areas are “unbanked” compared with 15 percent in urban areas. Further, although access to financial services nationally is at 59 percent for adults, there is wide variation between urban and rural areas (50 percent and 70 percent, respectively). Informal finance is generally more important and utilised among MSMEs and farmers and is more prominent in rural areas.

Access to finance for MSMEs, including in agriculture, is limited due to structural constraints, such as informality, high collateral requirements, and inadequate bank lending tools. In addition, given that private credit to GDP is only 19 percent in Zambia, many commercial banks have focused on corporate clients, and as a result there are minimal dedicated MSME lending windows.

The provision of MSME finance across different types of private financial institutions and markets is currently weak. Capital markets—both corporate bond markets and equity markets—are out of reach for many MSMEs in terms of listing requirements and size. With respect to agriculture finance, there is limited appreciation among financial sector players and the risks associated with lending to farm-related activity particularly on a small scale are high. Gaps are still wide for rural/MSMEs clients who require a wide set of financial services that contribute simultaneously to managing risks, smoothing consumption, making investments, conducting transactions, and facilitating production of goods and services.

2.4 REGULATION AND SUPERVISION

The framework for safeguarding financial stability in the banking sector mainly involves the Ministry of Finance and the Bank of Zambia. The obligations of the Ministry of Finance mainly concern financial policy making and providing legal background for the financial market. The Bank of Zambia Act, which is the primary legislation, has not been reviewed since 1996, although efforts are currently underway to bring the Act in line with the amendments to the Constitution that enhances its autonomy. The other substantive legislation, the Banking and Financial Services Act, was amended in 2017.

Other pieces of banking sector regulation required relate to a clear framework for resolving financial crises and better coordination among the major financial sector regulators and institutions such as the ZICTA, the CCPC, and the FIC. This will require both legal and administrative reforms.

Along with other responsibilities, the BoZ is responsible for primary market operations for government treasury bills and bonds through open auctions via an electronic platform. The Securities and Exchange Commission (SEC) is the apex regulator of capital markets in Zambia. Pursuant to the Securities Act, the SEC has a dual mandate to supervise capital market operators and to encourage orderly market development.

The Pensions and Insurance Authority (PIA) is responsible for the insurance sector, including their service providers and intermediaries and occupational schemes, while the mandatory scheme is regulated by Parliament through the Ministry of Labour and Social Security. The major act is the Insurance Act of 1997, which is an old piece of legislation that needs updating. Further, there is need for legislative reforms, especially with respect to the introduction of a regulatory framework for pension funds such as those relating to minimum funding standards and guidelines on governance and risk management.

3. VISION

“To have a robust and world class financial sector that supports the country’s development aspirations.”

4. RATIONALE

The absence of a comprehensive national policy on financial sector development has resulted in shallow financial markets, relatively low financial literacy, and limited financial inclusiveness. In addition, illiquid markets perpetrated by the poor information flow and visibility strategies of the local bourse, little innovation in the design of products, loose regulatory coordination mechanisms, and limited mandatory insurance to cover public liability risks have contributed to the under-development of the financial sector.

The financial sector is mainly characterised by limited skills and knowledge base, inadequate financing instruments for MSMEs, and low levels of contractual local savings and domestic resources to provide long-term capital to finance investments. In addition, the sector is also characterised by limited availability and uptake of financing, inadequate institutional frameworks to support MSMEs and agricultural finance, high market costs, relatively low product innovation, weak financial infrastructure, and low consumer confidence in some financial service providers and products such as mobile-based delivery channels. Further, lack of transparency and limited and inconsistent internal complaint resolution mechanisms within financial institutions have been a challenge.

This policy will, therefore, provide a holistic framework for the development of the financial sector.

5. GUIDING PRINCIPLES

The guiding principles for the Policy are as follows:

(i) Inclusiveness

All segments of society shall have universal access to and usage of a broad range of quality and affordable financial products and services.

(ii) Fairness

All stakeholders shall adhere to all forms of fairness, be it procedural, interactional, or distributional. Regardless of gender, ethnicity, or social status, all who have met the conditions set for financial products and services will be able to use

appropriate savings, credit, payment, insurance, and investment services to manage risks, plan for the future, and access financing.

(iii) Competitiveness

All to promote efficiency, access, and stability in the provision of a wide range of financial organisations, models, and delivery channels and development of demand-driven and innovative products.

(iv) Objectivity

The provision and accessibility of a variety of financial services shall be free from bias or prejudice.

(v) Inter-Agency Complementarity

All stakeholders shall complement each other to maximise effectiveness in the provision of financial products and services.

(vi) Ethics and Integrity

Impartiality and compliance with international standards in the financial sector and in the provision of financial products and services shall be promoted, while independence and integrity shall be integral principles in the development of financial sector products and services. The conduct of financial sector players shall conform to the international best practice and code of conduct.

(vii) Transparency

All stakeholders shall disclose full information on financial products and services (e.g., standardised, understandable information; clear and concise disclosure in simple language).

6. POLICY OBJECTIVES

6.1 Overall Objective

The overall objective is to provide a framework that will lead to the development of a stable, resilient, competitive, innovative, and inclusive financial sector that contributes to broad-based wealth creation and sustainable economic development.

6.2 Specific Objectives

1. To develop a competitive and resilient financial sector.
2. To develop and maintain an enabling regulatory environment for the financial sector.
3. To make the financial sector more inclusive and deepen the financial markets.
4. To develop MSMEs and rural finance.
5. To enhance financial infrastructure in accordance with international best practices.
6. To increase financial literacy and strengthen consumer protection.
7. To facilitate effective and sustainable partnership in the provision of financial products and services.

7. MEASURES

7.1 Development of a Competitive and Resilient Financial Sector

Measures:

- a) Build the institutional capacity of financial sector regulators to carry out assessments of the development of the financial sector and the sub-sectors;
- b) Undertake programmes to modernize the structure, functions, and operations of regulators;
- c) Promote the development and implementation of sub-sector strategic plans;
- d) Encourage the development of customer-tailored products and needs;
- e) Promote the mobilisation of local resources;
- f) Promote attractive savings and investment products;
- g) Promote increased capitalization of financial service providers; and
- h) Enhance regulatory frameworks to build the resilience of the financial sector.

7.2 Development and Maintenance of an Enabling Regulatory Environment for the Financial Sector

Measures:

- a) Accelerate the conclusion of ongoing reforms to the financial sector legislative framework;
- b) Support the development of new legislation and policies and harmonisation of existing laws;
- c) Establish regulatory frameworks to promote local retention of risks prior to reinsurance in foreign markets;
- d) Issue regulations on agent banking and electronic money to increase certainty and encourage market entry;
- e) Establish enhanced financial oversight and accountability systems and structures that will secure the confidence of all financial service providers and consumers; and
- f) Enhance the regulatory framework for effective corporate governance in the financial sector.

7.3 Development of More Inclusive and Deepened Financial Markets

Measures:

- a) Promote the establishment of well-developed and diversified financial products and services, including savings, credit, transfers, capital markets products for low-income groups, micro pensions, and micro insurance;
- b) Develop and implement a framework for SME listing on the stock exchange;
- c) Promote the diversification of delivery channels through partnerships and other market-based synergies;
- d) Formulate and implement a national financial inclusion strategy;
- e) Increase the digitisation of government and retail payments; and
- f) Promote a shift from a cash-based system to an electronic and digital-based financial system.

7.4 Development of MSMEs and Rural Finance

Measures:

- a) Support the implementation of the Rural Finance Policy and Strategy;
- b) Formulate an MSME finance strategy;
- c) Review regulatory requirements to increase flexibility and interoperability and reduce costs where appropriate for provision of MSME and rural finance;
- d) Enact relevant legislation to provide for formalisation and supervision of SACCOs; and
- e) Build capacity for the direct or delegated regulation of SACCOs.

7.5 Enhancement of Financial Infrastructure in Accordance with International Best Practices

Measures:

- a) Support the expansion of Internet-related infrastructure to cover the whole country;
- b) Support the expansion of bandwidth to unserved areas;
- c) Create an enabling environment to promote the establishment of financial services branches and agencies;
- d) Create an enabling environment for technology-enabled financial service delivery models that provide for interoperability, such as online-based financial services, agent banking, mobile phone-based financial services, and use of ATMs and PoS facilities; and
- e) Ensure the establishment of an inclusive national financial switch.

7.6 Promotion of Increased Financial Literacy and Stronger Consumer Protection

Measures:

- a) Develop and implement a new National Strategy on Financial Education (2018–2023) that is inclusive of all financial sub-sectors;
- b) Develop and implement a framework to support consumer protection and product information disclosure; and
- c) Enhance the supervisory functions of financial sector regulators.

7.7 Facilitation of Effective and Sustainable Partnerships in the Provision of Financial Products and Services

Measures:

- a) Promote an environment that fosters market-driven linkages and partnerships;
- b) Promote the role of partnerships in enhancing the professionalism and certification of practitioners in the sector; and
- c) Promote an environment that fosters partnerships in research to develop the financial sector.

8. IMPLEMENTATION, MONITORING, AND LEGAL FRAMEWORK

The attainment of the vision, strategic objectives, and policy measures set out in this Financial Sector Development Policy shall largely depend on the following implementation framework.

8.1 Institutional Arrangements

8.1.1 Ministry of Finance

The Ministry of Finance shall provide overall policy guidance in facilitating, regulating, coordinating, monitoring and evaluating, and implementing the Policy. To ensure successful implementation of the policy measures, the Government, through the Ministry of Finance, shall ensure development of strong partnerships with various stakeholders such as financial sector regulators, the private sector, and all financial sector players.

8.1.2 Ministry of Justice

The Ministry of Justice shall be responsible for facilitating the enactment of laws and regulations relating to the financial sector and provide legal opinion on financial-related treaties, memoranda of understanding, arrangements, and agreements. The Ministry shall ensure that the laws and regulations relating to financial sector regulators are harmonised.

8.1.3 Other Line Ministries and Government Agencies

All line ministries that are responsible for any issues related to financial sector development in one way or another shall work in collaboration with the Ministry of Finance and other Government ministries and agencies in the implementation of the Policy.

8.1.4 Bank of Zambia

Based on its mandate, the Bank of Zambia will be responsible for, but not limited to, regulating and supervising banks and non-bank financial institutions. It shall also promote growth of the sector by enforcing legislation that creates an enabling environment and promotes competitive behaviour and the development of accessible, affordable, and quality innovations, products, and services.

8.1.5 Securities and Exchange Commission

In line with its mandate, the SEC shall be responsible for, but not limited to, development of a regulatory framework for the capital markets that promotes business and protects investors from fraudulent market operations. It shall promote diversification of capital markets products and services, efficient capital markets infrastructure and institutional arrangements, and investor education and public awareness for capital markets products and services.

8.1.6 Pensions and Insurance Authority

The role of the Pensions and Insurance Authority shall be in line with its mandate. It shall be responsible for, but not limited to, the regulation and supervision of insurance and pension schemes. It shall promote diversification and growth of insurance products and collaborate with the private sector in educating the public on the importance of insurance and the products available.

8.1.7 Competition and Consumer Protection Commission

In line with its mandate, the CCPC shall be responsible for consumer protection, competition, and stability. In collaboration with financial regulators, the CCPC shall work to improve comparable disclosure practices of financial service providers and improve awareness of, access to, and efficiency of dispute resolution mechanisms for financial consumers. Further, it shall improve business practices of financial service providers, strengthen financial consumer protection supervision, and clarify institutional arrangements and legal mandates for financial consumer protection.

8.1.8 Private Sector

The private sector shall collaborate with the Government in promoting the competitiveness of the sector, seek public-private partnerships for innovative systems and infrastructure development and investment, and work with the Government to stimulate participation, good corporate governance, and social responsibility and ethics.

8.1.9 Civil Society Organisations

CSOs shall work in collaboration with financial sector stakeholders in the promotion of programmes that encourage youth, women, MSMEs, rural households, communities, and all financially excluded households to participate in the financial sector and use financial products.

8.2 Legal Framework

The Government will endeavour to comprehensively enhance and harmonise the legal framework of the financial sector through the review of relevant laws and enact appropriate legislation in line with the Constitution as the supreme law of the country and ultimately enhance the development of the financial sector. The following is a partial list of key pieces of legislation in this regard:

- a) Banking and Financial Services Act No. 7 of 2017,
- b) Securities Act No. 41 of 2016,
- c) Insurance Act No. 27 of 1997,
- d) Competition and Consumer Protection Act No. 24 of 2010,
- e) Bank of Zambia Act No. 43 of 1996,
- f) Public Finance Act No. 15 of 2004,
- g) Pension Scheme Regulation Act No. 28 of 1996,
- h) Loans and Guarantees (Authorisation) Act Cap 366,
- i) National Payments Systems Act of 2007,
- j) Money-Lenders Act Cap 398, and
- k) Appropriation Act.

8.3 Resource Mobilisation and Financing

The Government and all relevant stakeholders shall make available adequate resources for the implementation and monitoring of the Policy. The Government

shall engage cooperating partners in mobilising support for specific FSD initiatives to enhance the inclusivity and competitiveness of the financial sector in Zambia.

8.4 Monitoring and Evaluation

The implementation of this Policy shall be closely monitored to ensure that it is properly institutionalised across key players in the financial sector in line with Government objectives. The Ministry of Finance shall ensure effective monitoring of implementation of the Policy across all Government institutions and regulatory bodies. The indicators to be used will be developed by the individual financial sector stakeholders and in line with the strategy, while baseline benchmarks will be agreed upon in collaboration with other stakeholders. Furthermore, the Policy will be monitored and evaluated by other stakeholders through annual reports and quarterly review meetings. The Policy will be in effect for a period of 10 years, subject to revisions to maintain its consistency with developments in the financial sector.

