Financial Sector Deepening Zambia (FSDZ) is a national non-profit company providing information, innovation, and impact to increase financial inclusion. We seek to expand and deepen the financial market so all Zambians can benefit from financial services. We work with financial service providers, policy makers and civil society to make Zambia’s financial sector more robust, efficient and, above all, inclusive. FSDZ enjoys the active support of financing partners UK Aid and Sida.
## ACRONYMS ANDABBREVIATIONS

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tr>
<td>BoZ</td>
<td>Bank of Zambia</td>
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<tr>
<td>CLG</td>
<td>Company Limited by Guarantee</td>
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<td>DFID</td>
<td>Department for International Development</td>
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<td>DFS</td>
<td>Digital Financial Services</td>
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<td>FSPs</td>
<td>Financial Service Providers</td>
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<td>MAP</td>
<td>Making Access Possible</td>
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<td>M4P</td>
<td>Making Markets Work for the Poor</td>
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<td>NFIS</td>
<td>National Financial Inclusion Strategy</td>
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<td>PIC</td>
<td>Programme Investment Committee</td>
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<td>SGs</td>
<td>Savings Groups</td>
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<td>SME</td>
<td>Small and Medium Enterprises</td>
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<tr>
<td>TAG</td>
<td>Technical Advisory Group</td>
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<td>WIN</td>
<td>Women and Financial Inclusion</td>
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The first year of FSDZ operations as a Company Limited by Guarantee (CLG) was busy and very productive. We established ourselves as a responsive, reliable and independent Zambian market change agent supporting financial inclusion.

From our inception in April 2016, we have been actively committed to good governance. All Board and Programme Investment Committee members have at least 20 years of experience at very senior levels in financial markets, business, law, and governance. We have a deep understanding of the key international issues surrounding financial inclusion, know Zambia well, and meet frequently. With FSDZ fiduciary responsibilities on a day-to-day basis provided by Deloitte and Touche Ltd. Zambia, and an external annual audit by KPMG with an unqualified opinion in our first year, FSDZ also has high quality, sound fiduciary management.

The work of our governing Board, Programme Investment Committee, and CEO has been completed successfully and in a timely manner. A new and expanded Rolling Five-Year Strategy and budget is being finalized, which is closely aligned with the voiced concerns of the financially excluded, the documented market circumstances of the private sector, and the government’s Financial Sector Development Policy and Financial Inclusion Strategic Plan. We have begun diversifying our funding sources with the welcome addition of Sida to our first financing partner, DFID. Together, we have produced strong results.

FSDZ research, partnerships, stakeholder engagement, and innovation have proven useful to the market. Financial market participants have engaged with us in brainstorming, advisory services, planning, and problem-solving. The FinScope 2015 study is the baseline and reference point for Zambian financial inclusion, and geospatial mapping has been widely incorporated into strategic planning of financial service providers. Together with the financial diaries, the three surveys form a uniquely deep and broad picture of the market.

While there has been a significant increase in financial inclusion from 2009 (37.3%) to 2015 (59.3%), much more needs to be done to achieve the Government’s vision for all Zambians to have universal access and usage of a broad range of quality and affordable financial products and services. Informal financial services dominate the landscape. The economy is still driven by cash transactions, and the cost structure of the formal financial sector is too high for most households. Digital technology has started to contribute to financial inclusion but will take time to accept, and there are still gaps in cell phone ownership and coverage. Zambia also needs improved consumer protection and financial education to increase financial inclusion.

Our nation is at a tipping point: a financial market that is poised to deepen, where FSDZ can help market participants of all kinds to expand sustainable financial services for the poor and underserved.

Dr. Caleb Fundanga
Chairman of the Board
Executive Director of the Macro Economic and Financial Management Institute
Former Governor of the Bank of Zambia 2002-2011
FSDZ was established as a non-profit Company Limited by Guarantee (CLG) on 16 February 2016. The CLG operates independently as a local entity. Department for International Development (DFID), along with its legal representative Corpus Globe Corporate Solutions, are the two Members of the CLG and are responsible for establishing the governance and management structure of the company. Membership in the company is open to additional financing partners willing to contribute to financial sector deepening in Zambia. The Chief Executive Officer was appointed and started work on 11 April 2016, with a three-month overlap with the prior Project Director to facilitate the changeover.

A Board of Directors has been established, with DFID initially appointing three Directors and an additional two Directors added by Board request during the first six months of operations. The Board members (four Zambian and one South African; three women, two men) have extensive experience, skills, and expertise in the financial sector and the law. They also have senior level professional involvement in inclusive economic development, combined with a solid understanding of FSDZ’s work and ambitions. The Directors are jointly and severally responsible for the overall governance and strategic direction of the organisation and probity of its activities. The Board defines and fosters achievement of FSDZ’s aims, objectives and goals in accordance with governing documents and legal and regulatory guidelines. It approves annual and rolling five-year strategies and budgets, work plans, and funding strategies.

In addition to the Board of Directors, a subcommittee of the Board called the Programme Investment Committee (PIC) has been established. The PIC handles decision-making on FSDZ Project Plans, and provides technical advice on direction, performance, and financial inclusion priorities to the Board and to the CEO. It also directly engages financing partner representatives, and the Chair of the PIC is the representative of the largest financing partner (DFID). The PIC membership is made up of national and international experts in financial sector development (various citizenships and one Zambian, three men and two women) with a thorough understanding of the “making markets work for the poor” (M4P) approach and the objectives of FSDZ. The PIC also includes one Board member to ensure consistency and to share information.

During the first annual general meeting in August 2017, detailed discussions and agreements were completed to ensure optimal balance between the Members, Board, and PIC, and appropriate roles and responsibilities that fit the characteristics and needs of the company.

The CEO engages regularly with the Board and PIC and manages the day-to-day operations of FSDZ. She has over 35 years of experience worldwide in financial services, gender, rural development, and private sector development at very senior levels, including six years in two previous long-term assignments in Zambia. A team of 21 professional staff, of whom 19 are Zambian citizens, engage collaboratively in all aspects of financial inclusion.

FSDZ recruited Deloitte and Touche (Zambia) as our fiduciary managers, and they commenced work at the founding of the CLG. Deloitte handles all day-to-day financial transactions, accounts, risk management, tax management, and other services associated with our operations. The Deloitte manager sits in our offices and interacts with the finance and admin team each day on financial planning, implementation, monitoring, and reporting issues. Under competitive tendering, the CEO recommended and the Board confirmed the appointment of KPMG as external auditor. The external auditors provided an unqualified opinion for the first-year accounts, a very good result.

Our officers take validation very seriously. We meet monthly to review results chains, assess spending discuss the measurement of results and issues in implementation, and test our assumptions. All partners are regularly engaged in this process. At least quarterly, the teams go to the field to cross-check data on progress and results being collected, and validate information to determine reporting accuracy.
OUR TECHNICAL APPROACH\(^1\)

The basis of FSDZ’s work is the M4P approach, which has emerged as an increasingly influential development strategy over the last decade. Making markets work for the poor (and, by extension, for any family that is underserved in terms of financial services) starts with intensive research into how markets are currently working, where the poor are situated within them, and what will determine future development opportunities. Looking at the market system holistically helps us understand the current state and potential future of financial inclusion in Zambia. This deep understanding of the financial market enables us to engage differently with financial service providers, regulators, and NGOs to facilitate market provision of accessible, appropriate, and affordable financial services for all Zambians.

Elements of the market

- The starting point is the core function of markets: transactions between supply and demand. The basis of any transaction is the creation of value for those engaging in it. From the perspective of the demand side, the first question to consider is the application of the financial service: what use does it offer? If financial services are to become truly accessible to most Zambians, affordability is critical. Costs will need to reduce further. Finally, the participants in a financial transaction need to trust that the other party will honour its side of the deal.
- The ability of financial services to create value through offering useful solutions to real world problems at an affordable price underpinned by confidence in the outcomes is shaped by the market’s supporting functions and rules.
- The supporting functions include: (1) industry infrastructure such as credit information sharing systems, payment systems, security depositories and collateral registries; and (2) service markets most notably the ability to outsource functions to specialist players to exploit scale and specialization efficiencies.
- Although much attention tends to be focused on the formal rules of the game (laws and regulation together with enforcement), the informal rules (habits and norms, attitudes and mental models) play an equally significant role.

Source: Drawn from Financial Sector Deepening Kenya.

Making markets work requires stakeholders to regularly interact, listen and learn from each other, and to recognize constraints in their own beliefs, behaviour, and investments which prevent more effective and durable financial inclusion. The benefit of the M4P approach is that it enables collaborative behaviour in competitive markets, and focuses on solutions that both contribute to the bottom line of financial services providers and provide quality financial services to low-income households without distorting the market. Within the M4P context FSDZ maintains a robust monitoring and results measurement system that meets the unique demand for information collection, use, and results sharing to prove and improve implementation.

\(^1\) FSDZ has borrowed extensively from Financial Sector Deepening Kenya (FSDK) for the Technical Approach materials and both Figures 1 and 2, given the FSDK successful experience over ten years in developing the model of M4P engagement in financial sector deepening. Special thanks to FSDK Director David Ferrand for permission.
OUR STRATEGY

FSDZ has identified lack of trust as the fundamental barrier limiting financial inclusion. This issue manifests itself in very high costs for services, slow innovation and adaptation, insufficient investment in information and market analysis, irregular public-private dialogue, challenges updating laws and regulations, and very poor understanding of financial services by the public. Such factors are increasingly recognized across the financial market as preventing access to financial services and financial sector development. The good news is that there is increasing willingness to address these constraints together. In our new five-year strategy, we have focused overcoming these constraints within seven thematic areas: Rural and Agricultural Finance (RAF), Informal Finance, Inclusive Insurance, Small and Medium Enterprises (SME), Digital Financial Services (DFS), Policy, Women and Financial Inclusion (WIN), and Research.

To develop trust and improve access to quality financial services, it is our view that market actors must educate, innovate, and create to make financial products and services more accessible and affordable, particularly for the poor. FSDZ’s role is to assist in three ways. First, we will improve the quality and quantity of information available to all participants in the market. This helps address the concerns of financial institutions in serving low-income clients and expanding services on offer. Information, well presented, will also help actual and potential customers better understand their choices. Second, we will use human centred design, data, and risk sharing mechanisms to facilitate solutions for competitive private sector growth. Third, FSDZ will provide continuous feedback and encouragement throughout the market, reinforcing improvements such as enhanced rules and institutions that can enable financial inclusion.

This year the team has concentrated on disseminating research and information of market conditions, developing market understanding and innovation with financial service providers, and working with regulators and ministries to improve the rules environment. Over the next five years, we will continue to address affordability, innovation, and understanding. These elements will build trust and help develop a financial system which delivers real value for everyone, especially for low-income Zambians. The result should be durable financial services that provide our citizens with increased resilience, income generating opportunities, and education, to help people make better financial decisions.

Figure 2: Creating value through financial inclusion

Source: Drawn from Financial Sector Deepening Kenya
## FINANCIAL INCLUSION: WHERE ARE WE?

Zambia Selected Economic and Financial Inclusion Indicators

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
<th>Year</th>
<th>Source</th>
</tr>
</thead>
<tbody>
<tr>
<td>Demographics and living standards</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Total population</strong></td>
<td>15.5 million</td>
<td>2015</td>
<td>LCMS</td>
</tr>
<tr>
<td><strong>% of population under age 15</strong></td>
<td>50</td>
<td>2014</td>
<td>ZDHS</td>
</tr>
<tr>
<td><strong>% rural/urban</strong></td>
<td>58.2/41.8</td>
<td>2009/15</td>
<td>LCMS</td>
</tr>
<tr>
<td><strong>Gini coefficient</strong></td>
<td>0.69</td>
<td>2015</td>
<td>LCMS</td>
</tr>
<tr>
<td><strong>Headcount poverty rural/urban</strong></td>
<td>76.6/23.9</td>
<td>2009/15</td>
<td>LCMS</td>
</tr>
<tr>
<td>Financial inclusion trends, by percentage</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Adults financially included</strong></td>
<td>37.3/59.3</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Adults financially included rural</strong></td>
<td>34.4/50.1</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Adults financially included urban</strong></td>
<td>42.0/70.3</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Adults financially included female</strong></td>
<td>33.9/57.4</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Adults financially included male</strong></td>
<td>40.8/61.2</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td>Percentage of adults who have/use formal services</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Banking services</strong></td>
<td>13.9/24.8</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Microfinance services</strong></td>
<td>2.2/3.8</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Insurance and/or pension services</strong></td>
<td>4.0/5.5</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Capital market instruments</strong></td>
<td>0.0/0.3</td>
<td>2009/15</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Mobile money services</strong></td>
<td>14.0</td>
<td>2015</td>
<td>FinScope</td>
</tr>
<tr>
<td>Percentage of adults have/use informal services</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td><strong>Chilimba</strong></td>
<td>12.5</td>
<td>2015</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Savings Group</strong></td>
<td>6.5</td>
<td>2015</td>
<td>FinScope</td>
</tr>
<tr>
<td><strong>Kaloba</strong></td>
<td>2.3/2.6</td>
<td>2009/15</td>
<td>FinScope</td>
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Where there are two numbers separated with a forward slash, the first represents the 2009 value and the second the 2015 value.

a. Percentage of the population living below the poverty line.

b. Progress out of Poverty Index

**Sources of data:** 2015 Living Conditions Monitoring Survey (LCMS); 2013/14 Zambia Demographic and Health Survey (ZDHS); 2009 and 2015 Zambia FinScope.

Informal Financial Services
- Informal access points
- Main roads

Formal Financial Services
- 1,000 and more adults per sq. km
- 10 to 1,000 adults per sq. km
- 0 to 10 adults per sq. km

Sources of data: FSDZ Geospatial mapping 2015


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<thead>
<tr>
<th></th>
<th>2009</th>
<th>2015</th>
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<tr>
<td>Have/use formal but not informal services</td>
<td>15</td>
<td>21.4</td>
</tr>
<tr>
<td>Have/use formal and informal services</td>
<td>8.1</td>
<td>16.8</td>
</tr>
<tr>
<td>Do not have/use formal but use informal services</td>
<td>14.1</td>
<td>21.1</td>
</tr>
<tr>
<td>Financially excluded</td>
<td>62.7</td>
<td>40.7</td>
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Sources of data: 2009 and 2015 FinScope surveys
Almost half of Zambians living in rural areas are financially excluded... and most of Zambia's poor live in rural areas.

**KEY THEMES**

**Rural and Agricultural Finance**

Agriculture is central to most Zambian’s livelihoods and household nutrition. Over half of Zambian adults engage in agriculture and/or fishing as part of their livelihoods. Yet, based on FinScope 2015, almost half of Zambians living in rural areas are financially excluded (compared with less than a third in urban areas). Farmers and rural people are more likely to be excluded. And most of Zambia’s poor live in rural areas.

In most cases, rural finance is synonymous with lending rather than a wider range of financial services. The key barriers limiting rural access to financial services are: (i) low education levels; (ii) volatile weather; (iii) inappropriate and poorly designed financial products; (iv) low financial literacy levels; and (v) weak formal financial service provider (FSP) appreciation of needs.

In the short to medium term, it is unlikely that all rural finance market constraints can be fully addressed by the Government and private sector. With many farmers having one rain-fed crop per year, timelines are longer and slower, and the entire rural economy is dominated by agricultural production cycles. However, addressing the key constraints in FSP capacity and understanding of the poor and their financial needs can generate strategic market change. FSDZ will continue to target areas which can have substantial results for the poor, such as financial delivery of input subsidies, smallholder farmer financial education using a range of innovative tools, product innovation and use of digital finance where possible, and bundling of financial services through aggregators.

**Top Rural and Agricultural Finance achievements of 2016/2017**

- Field/video interviews and documentation of market participants to identify key needs
- Product development with other teams in weather-based crop insurance; research to determine the elements needed to support women smallholder farmers; and methods to improve financial education in rural areas
- Deepened rural finance policy understanding and mapping

*Agro-dealer in Kapiri*

*Source: Nicholas Mukupa*
Informal Finance

The Zambian financial market is characterised by a system that has both formal and informal segments, and informal finance dominates. The three most common informal financing mechanisms that FSDZ focuses on are Savings Groups (SGs or time-bound savings/credit/risk management groups, usually operating in one-year renewable cycles), Chilimbas (rotating savings associations) and Kalobas (moneylenders). Informal services are more popular than formal ones for several reasons, including geographic proximity, low transaction costs, and flexibility and speed with which services are provided. However, there is an estimated unmet demand of over 2 million adults for SGs alone, and there are challenges in extending SGs as well as understanding and encouraging responsible use of other informal financial services.

FSDZ aims to significantly increase the scale, quality, and efficiency of SG mobilisation and training in Zambia by building stakeholder capacity. We also push for transition from NGO-created and sustained SG operations to private agent creation and support to SGs, along with introduction of affordable financial education and other types of financial services on a fee-for-service basis. We will continue to explore Kaloba and Chilimbas, deepen options for market-based creation and operations of SGs, improve client information about the benefits and costs of informal finance, and facilitate appropriate linkages between informal and formal finance.

Top Informal Finance achievements of 2016/17

• Increased SG members by over 104,000 members, of whom 80 percent were women
• Longitudinal study of savings groups: baseline study
• Testing of private model for savings group expansion, with new videos in three languages

Inclusive Insurance

As with many developing insurance markets worldwide, insurance is one of the least utilised financial services in Zambia. FinScope 2015 revealed that only 5.5% of the adult population report that they have insurance and pensions, which is only a slight increase from 4.0% in 2009.2 Insurance is still dominated by mandatory insurance products. Smaller-sized, simpler insurance products, called microinsurance, have real promise to expand coverage in Zambia. The main market constraints to microinsurance are (i) lack of capacity to design and deliver microinsurance

2 Finscope 2009 and FinScope 2015
products; (ii) low financial literacy and very weak understanding of insurance; and (iii) absence of specific regulations. Since 2012, a multi-stakeholder Technical Advisory Group (TAG) has led the development of Zambia’s microinsurance sector to address these and other gaps as they emerge.

Insurance growth worldwide takes time to address. Zambia’s microinsurance market development process is testament to the progress that can be gained from the effective longer-term engagement and participation of all key stakeholders through a TAG. Observers from other countries have come to Zambia to learn from this model. This year, with active support from FSDZ, the insurance TAG developed and approved a five-year strategy that builds on existing achievements as well as outlining new milestones and strategies for the next five years. The institutionalization of the TAG will ensure that the sector coordination function is handled purely by the market. FSDZ will continue to engage in product innovation and will increasingly support financial education on microinsurance, as well as bundling insurance with other products and supporting Savings Group engagement to facilitate better risk management.

**Top Inclusive Insurance achievements of 2016/17**
- 60,000 smallholder farmers obtain weather index insurance through partnership with Musika supporting Focus General and Mayfair
- Insurance Week 2016 in all ten provinces improves public exposure and information
- TAG five-year strategy developed and approved

**Small and Medium Enterprise Financial Services Support**
SMEs are spread across all economic sectors and represent the best opportunity to grow and diversify the Zambian economy, particularly given our young and creative population. The main challenges in addressing financial service delivery to SMEs (and the smaller microenterprises) are (i) lack of information on SME locations and business conditions; (ii) market perception by financial service providers (FSPs) that SMEs are unduly risky as clients; (iii) weak institutional understanding of the products and services needed to attract and retain SMEs as customers; (iv)
need to upgrade government SME policies; and (v) weak SME understanding of what is needed to engage with FSPs. FSDZ’s work on SME finance targets improved the supply of appropriate financial services to SMEs, and improved market capacity to understand and deliver suitable blends of financial services to this group.

Top SME achievements of 2016/17
- Live Labs project for SMEs designed to match-make SMEs and banks, based on research
- Capacity building for seven Zambian financial institutions
- 98 participants in the SME Executive Diploma from 10 financial institutions
- SME Executive Diploma course graduating to ZIBFS

The last fiscal year improved both market capacity to train FSP staff for improved outreach, and understanding by both SMEs and banks of how to engage more effectively. As formal financial institutions move down-market and a young population pushes innovation, FSDZ sees real potential for growth in SMEs and their micro-entrepreneurial cousins. Facilitating product development in tandem with client groups, linking banks to business development provider organizations, facilitating better understanding the SME market through applied research, and supporting improved policies for SME growth can increase financial inclusion.

Digital Financial Services (DFS)

Digital Financial Services (DFS) refers to mobile financial services and branchless banking. Zambia was the earliest entry of DFS in Africa, but the market is still in the nascent stage and is primarily focused on payment services. Constraints to the growth of DFS include (i) weak network coverage and power infrastructure; (ii) poor agent network liquidity and expansion; (iii) slow product development; (iv) low levels of understanding of DFS by potential clients; and (v) regulatory structures as yet unprepared for rapid market innovation. During this fiscal year FSDZ focused on market policy, infrastructure, overall financial market information provision, and applied research. We worked closely with UNCDF during the year.

Top Digital Financial Services achievements of 2016/17
- Regulator capacity building via technical training and internal DFS market tool review with 32 Bank of Zambia managers; multi-regulator analysis; and DFI market learning course coordination, 30 graduates from across the market
- Facilitated improved wallet limit rules via regulator consultations with the market
- Enhanced market infrastructure: advice on National Switch, DFS data collection in BOZ

Lake Mweru, Luapula Province
Source: Tobias Tembo

FSDZ sees real potential for growth in SMEs and their micro-entrepreneurial cousins.
During the last fiscal year, the DFS market improved due to a blend of government commitment to expand non-cash payments, better understanding of the steps necessary to move ahead in the DFS market, and more collaborative work among market regulators and players. The market is still young, but can grow subject to filling infrastructure gaps and matchmaking customer needs with product offering and regulation. Financial education will be crucial, and we should expect slow growth while infrastructure, regulation, and customer understanding develop. FSDZ will continue work on digital finance infrastructure, engage with the government and the Bank of Zambia (BoZ) on regulatory enhancements and use of digital services for more payments arrangements, improve financial education options for the public on digital finance, and facilitate bundling of digital with other financial services.

Policy, Rules, and Market Infrastructure
Financial sector policies and rules need to be completed, updated, and effectively implemented in the economy by coordinated actions across all policy-making entities and regulators. This thematic area covers financial market policies and supporting rules, oversight, and financial market infrastructure. The intention is to ensure that policies and infrastructure protect consumers, support profitable product innovations, promote affordability, and increase financial inclusion. The main challenges in this area are (i) outdated legislation and regulation with irregular review and updating; (ii) need for greater market-to-regulator and inter-regulatory work to update market dynamics; (iii) delays in financial infrastructure such as the credit bureau and reporting, and the National Financial Switch, (iv) insufficiently effective consumer protection; and (v) need for a new National Financial Inclusion Strategy (NFIS).

Our policy team has worked with the BoZ, regulators, and private sector market players to build capacity in financial inclusion through a blend of formal and informal engagements and dialogue over this year. The results are increasing capacity, understanding, and actions among regulators and market players to improve policy and rules to increase inclusive growth through financial inclusion. Several Focus Notes, presentations of results of major studies conducted in 2015, and briefs from the ongoing Making Access Possible study have been used by stakeholders. Informal sessions and advice on rural finance policy, the NFIS structure, the potential for free deposit accounts at banks, consumer protection options, financial education approaches, biometric identities, and practical implementation of financial inclusion approaches have been provided to the market and regulators at the working and management levels.

Dr. Tukiya Kankasa-Mabula, Deputy Governor - Administration and Visscher Bbuku, Director Financial Markets, Bank of Zambia
Source: Nicholas Mukupa
In late 2016 the BoZ’s new four-year strategic plan was released, highlighting financial inclusion, gender equity, and technology/human resource management as three of its five pillars. With increasing recognition of financial inclusion across the Government in policy documents, government strategies, and action plans, FSDZ will continue to actively engage with market policymakers and regulators to increase financial inclusion.

**Top Policy achievements of 2016/17**
- Support in the thinking and development for the NFIS and how to monitor its success
- Data template for reporting financial inclusion indicators in the Bank of Zambia, being piloted by selected service providers
- Financial Education activities: Financial Literacy Week, and curriculum development with the BoZ and Curriculum Development Committee
- Empirical research on the problems affecting credit reporting in Zambia
- Campaign to facilitate and encourage use of the new collateral registry

**Women and Financial Inclusion (WIN)**

According to the FinScope findings\(^4\), Zambian women in each income bracket earn less on average than men, and the disparity increases for poorer women. In the bottom two quintiles, women earn only a little over 60% of the income of their male counterparts. Formal inclusion is skewed towards men, while informal inclusion and financial exclusion are skewed towards women. The use of formal financial services decreases as poverty deepens, particularly for women. The most significant constraints for women and youth in accessing financial services are (i) financial services on offer are a mismatch for youth; (ii) financial services are not designed or delivered to meet the specific needs of women, particularly rural women, women entrepreneurs and women farmers; (iii) women face challenges in keeping savings; and (iv) there is limited capacity to improve financial education delivery, both for women and youth out of school, and for youth and children in schools.

FSDZ work on WIN began in late 2016 with applied market assessments and research, and we are now putting the results into action. We have begun by leveraging existing opportunities to enhance financial inclusion and capabilities of women and youth. WIN activities have started to educate financial service providers to better understand the value of women and youth as customers, and to commence the design of consumer-centric, cost effective, and safe products for women and youth. Provision of financial education in schools and creation of innovative digital

tools for groups of youth and women have begun, designed for effective learning and sustainable financial behaviours. FSDZ ensures gender, diversity, and disability equity considerations are incorporated into all thematic areas across our organization, and we are developing assessment and learning tools for use across partners and other programmes in Zambia. FSDZ is also engaging in enhancing regulatory performance to more actively support financial services delivery to and increased financial inclusion for these groups.

**Top WIN achievements of 2016/17**
- Human-centred design work for a digital savings product for low-income women
- Community sensitization, networking events, and volunteer recruitment for youth and women financial literacy and discussions of new products
- Support to BoZ to develop work plans and monitoring for gender and financial inclusion and co-sponsorship of the first ever GBA All Stars Africa event to increase bank provision of better products and services for women

**Insights through Research**
Data gaps in the financial market are significant across Africa. In Zambia, we face the same difficulties accessing accurate information on financial institution and client status and operations; customer needs; and results of innovations, financial capacity building, and regulatory change on the financial market. To increase financial inclusion, knowledge generation and sharing are crucial – at the right times, in the right forms, and to the right sets of people. The role of FSDZ is to facilitate the market identification of information gaps and to help fill them. This is the case with policymakers, government information services, and regulators, and to facilitate market actors to generate, use, and communicate their own information more effectively.

**Top Research achievements of 2016/17**
- Public presentation of results and further market data use of Finscope 2015, geospatial mapping 2015, and financial diaries 2015
- MAP research completed; updated geospatial mapping begun
- Targeted research: longitudinal study, MAP papers, two papers on SME owners, gender analysis of FinScope 2015, and review of the Living Conditions Monitoring Survey

FSDZ used this year to share the results of significant national surveys, establish new work to enable financial inclusion to proceed in informed ways, start to develop the research network for such work across interested agencies, develop knowledge management, and establish policy and protocols for long-term data sharing arrangements. The team also managed the start-up and conduct of the major Making Access Possible (MAP) research programme, and the second phase of the geospatial mapping – census of financial service access points.

The FSDZ team also spent time in this first year interacting with and starting to develop research relationships with a variety of Zambian organizations. Joint training of media and journalists on economics and financial inclusion took place with the Zambia Institute for Policy Analysis and Research. Ongoing discussions with the Innovations for Poverty Action group on potential randomised control trials and other options continue, as do discussions with IPSOS, the University of Zambia, Copperbelt University, the Central Statistics Office, and other data gathering, educational and research institutions. FSDZ will continue market consultations about financial inclusion data gaps and how they can be filled, including by public-private partnerships.
FINANCIAL RESULTS

Income

Zambia Financial Sector Deepening Limited (FSDZ) was incorporated on 16th February 2016. For the period from 16th February 2016 to 31st March 2017, FSDZ had total expenditure equal to total income. Total core funding received for the period amounted to GBP4,350,617 of which GBP4,215,058 has been recognised as income and GBP135,559 has been deferred. Of the recognised income, GBP4,001,420 was DFID funded and GBP213,638 funded by Swedish International Development Cooperation (SIDA). Incoming resources are recognised on an accruals basis in accordance with the substance of the relevant financing agreement with excess receipts over expenditure being deferred. All FSDZ accounts are non-interest bearing accounts, hence no interest income is earned.

INCOME STATEMENT

FOR THE PERIOD 16th FEBRUARY 2016 TO 31st MARCH 2017

<table>
<thead>
<tr>
<th>INCOME</th>
<th>2017 GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Grants</td>
<td>4,215,058</td>
</tr>
<tr>
<td>Other income</td>
<td>-</td>
</tr>
<tr>
<td>Finance income</td>
<td>-</td>
</tr>
<tr>
<td>Total Income</td>
<td>4,215,058</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Expenditure</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Project expenses</td>
<td></td>
</tr>
<tr>
<td>Core projects</td>
<td>3,157,965</td>
</tr>
<tr>
<td>Designated projects</td>
<td>-</td>
</tr>
<tr>
<td>Total project expenses</td>
<td>3,157,965</td>
</tr>
<tr>
<td>Administrative expenditure</td>
<td>983,399</td>
</tr>
<tr>
<td>Total expenditure</td>
<td>4,141,364</td>
</tr>
<tr>
<td>Unrealised foreign exchange losses</td>
<td>73,694</td>
</tr>
<tr>
<td>Total costs</td>
<td>4,215,058</td>
</tr>
<tr>
<td>Surplus/(deficit) for the year</td>
<td>-</td>
</tr>
</tbody>
</table>

5 Finance income includes interest earned on FSDZ funds, however, all FSDZ accounts are non-interest bearing.

6 Core/non designated projects are projects funded by donors through unrestricted funds. Unrestricted funds have no conditions regarding the projects they can be used on.

7 Designated projects are funded by donors through restricted funds. Restricted funds can only be used on the project specified by donors.
# BALANCE SHEET

**AS AT 31st MARCH 2017**

<table>
<thead>
<tr>
<th>ASSETS</th>
<th>2017 GDP</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-current assets</td>
<td></td>
</tr>
<tr>
<td>Plant and equipment</td>
<td>35,897</td>
</tr>
<tr>
<td>Intangible assets</td>
<td>10,361</td>
</tr>
<tr>
<td><strong>Total non-current assets</strong></td>
<td>46,258</td>
</tr>
<tr>
<td>Current assets</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td>161,214</td>
</tr>
<tr>
<td>Bank and cash balances</td>
<td>514,479</td>
</tr>
<tr>
<td><strong>Total current assets</strong></td>
<td>675,693</td>
</tr>
<tr>
<td><strong>TOTAL ASSETS</strong></td>
<td>721,951</td>
</tr>
<tr>
<td>Current liabilities</td>
<td></td>
</tr>
<tr>
<td>Sundry payables</td>
<td>586,392</td>
</tr>
<tr>
<td>Deferred income</td>
<td>135,559</td>
</tr>
<tr>
<td><strong>Total current liabilities</strong></td>
<td>721,951</td>
</tr>
</tbody>
</table>

**TOTAL LIABILITIES** 721,951

*Blind community Savings Group*

*Source: Nicholas Mukupa*
HOW WE HAVE AFFECTED MARKET SYSTEM CHANGE

FSDZ observed three changes in the Zambian financial market during this fiscal year.

The first change is an increasing recognition and use of data and analysis done by FSDZ. The FSDZ data sets and results have been requested by and influential for many organizations, including the IMF/World Bank, the Bank of Zambia, commercial banks, microfinance institutions, insurance firms, and digital financial services providers. Firms have changed their growth strategies, product development, and client approaches after using the databases and results of FSDZ major research. FSDZ responded to demand by producing new products, including briefs, Focus Notes, and interim reports of the Making Access Possible research. We also started developing public-private partnerships for research.

The second market change we see is increased market player interest in collaboration and product innovation that reaches more Zambians. Early next year we will support a private firm to formally study Savings Groups’ (SGs) use of social funds to see if there is a demand and opportunity for private insurance. Two banks have started work with FSDZ to experiment with strong SMEs, providing new targeted SME products and services to improve their businesses and increase the bottom line. Our work on innovative insurance and rural finance involves significant encouragement of new bundled products. The Luapula Chiefs have already begun our collaboration by expanding Savings Groups with the support of traditional leadership.

The third market change FSDZ continues to observe and encourage is increased willingness of regulators to improve rules that will ease financial access and protect consumers, including in digital financial services. There has been greater collaboration between the Ministry of Finance (MoF) and the financial regulators, and commitment to update rules and practices to enable more effective and balanced growth. FSDZ supported regulators in the drafting of the NFIS, development of increased limits for digital financial transfers, setup of the National Financial Switch, standards-setting in microinsurance, and improved credit infrastructure.

With the just-released Bank of Zambia (BoZ) strategy including increasing financial inclusion and gender equity within the BoZ and the market, there is clearly a more comprehensive and public commitment to financial inclusion. Growth targets for financial inclusion released by the government show specific percentage targets, and the National Financial Inclusion Strategy (NFIS) has just been released. There is also serious movement forward in key legislation to enable financial inclusion, and significant consideration of policy and rules changes for microfinance and SMEs. FSDZ will track these closely, and encourage such reforms.

CONCLUSION

FSDZ had a strong year as an organisation. We settled into the market with a clear role as a trusted and informed facilitating agent for financial inclusion. As an organization, we established our policies and procedures, defined our structure and agenda, and shared a good deal of knowledge while also spending a lot of time listening to what is needed. As we move into another year, FSDZ will deepen our work to foster innovation, improve affordability of financial services, and increase everyone’s understanding of how financial services work and how they can be valuable and useful to individuals, communities, businesses, and the nation.
FSDZ AT A GLANCE
April 2016 - March 2017

TOPLINE RESULTS

105,471
(84,687 women)
Zambians with expanded income opportunities and reduction in vulnerability

271,091
(137,580 women)
Poor people or microenterprises with access to a new financial service

48,582
(12,097 women)
Zambian smallholder farmers with access to a new financial service

160,046
(108,530 women)
Receiving financial education

36
Industry stakeholders using FSDZ data and public information products

2
Policy making institutions with improved capacity to formulate and implement effective policies and regulations

10
New or improved forms of technical assistance to stakeholders

20
Financial Service Providers with increased capacity to serve poor women, men and microenterprises

4
Financial Service Providers with improved skills or products to serve SMEs with financial services

6
Financial Service Providers with increased ability to serve smallholder farmers

47,939
Smallholder farmers accessing weather index insurance

105,375
Savings Groups providing financial services to members

Development of Savings Group formation video kit in 3 local languages
- Tonga
- Nyanja
- Bemba

13
Published flagship research analysis and data sets for:
- Financial Diaries
- FinScope
- Geo-spatial mapping

1
4-day capacity building workshop with the BoZ for Digital Financial Services

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- Tonga
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- Bemba

13
Published flagship research analysis and data sets for:
- Financial Diaries
- FinScope
- Geo-spatial mapping

1
4-day capacity building workshop with the BoZ for Digital Financial Services
APPENDIX 1: FY2016 FSD Zambia Staff

CEO’s OFFICE

BETTY WILKINSON
Chief Executive Officer

EMILY MOSENI MANGWELA
Executive Assistant and
Learning and Talent Development Officer

Financial Services

LEMMY MANJE
Head - Financial Services

JOACKIM KASONDE
Senior Project Manager
Rural and Agriculture Finance

CHIPILI MWABA
Project Manager
Informal Finance

MAUWA YONDELA LUNGU
Project Manager
Inclusive Insurance

JIMMY SITUMBEKO
Project Manager
SME Finance

Women’s Financial Capabilities and Inclusion (WIN)

VERYL ADELL
Head - Women’s Financial Capabilities and Inclusion

TENDAI MADONDO
Programme Assistant - Women’s Financial Capabilities and Inclusion (WIN)

Digital Financial Services and Policy

CHARITY CHIKUMBII
Policy Advisor
Digital Financial Services

Measuring and Communicating Results

JASPER HATWIINDA
Head Measuring and Communicating Results

JOHN MUSANTU
Senior Officer - Monitoring Results Measurement

KINGSLEY SAMBO
Officer - Monitoring Results Measurement

TAYLOR YESE
Digital Communications Officer
WIN Project Office

NKATYA KABWE
Senior Communications Officer
APPENDIX 2: FSDZ Partners

AB Bank Zambia
Agora Microfinance
Bankers Association of Zambia
Bank of Zambia
Barclays Life Insurance
CARE International UK
Catholic Diocese of Ndola
Catholic Relief Services
Cavmont Bank
Entrepreneurs Financial Centre (EFC)
Farm to Market Alliance
iDE
International Labour Organization (ILO) Green Jobs Programme
Insurers Association of Zambia (IAZ)
Investrust Bank
Mayfair Insurance Zambia
Madison Finance
Madison Life Insurance
Medeem
MicroEnsure
Microfinance Zambia
MUSIKA Development Initiatives
National Union for Small-scale Farmers of Zambia
Patents and Companies Registration Agency (PACRA)
Pensions and Insurance Authority (PIA)
PLAN International Zambia
Professional Insurance Corporation Zambia
Rural Finance Expansion Programme (RUFEP)
Sanlam
World Bank Group
World Food Programme
Zambia Cooperative Federation (ZCF)
Zambia Institute of Banking and Financial Services (ZIBFS)
Zambia National Commercial Bank
Zazu
Zambian Institute of Policy Analysis and Research (ZIPAR)
ZOONA Transactions Zambia