Country Survey:

ZAMBIA

By CGAP[1]	No. of MFIs	No. of Borrowers	Borrowers Population[a]	Borrowers/Poor[b]
	8	32,000	0%	0%
By MIX[2]	No. of MFIs reporting (2009)	No. of Active Borrowers	Gross Loan Portfolio (USD)	Average Balance per Borrower (USD)
	5	31,340	6.5 million	149.1
By MFT[c]	No. of MFIs (2010)	No. of Active Borrowers	Gross Loan Portfolio (ZMK)	% Products with a Flat Interest Rate
	25	57,773	14.1 million	73%

Country Overview

Zambia is a landlocked country of 750,000km^2 in southern Africa. It shares its borders with the Democratic Republic of Congo, Tanzania, Malawi, Zimbabwe, Botswana, Namibia, Mozambique and Angola. The population of 13.9 million people is largely concentrated around the capital of Lusaka in the center and in the Copperbelt region in the North West; making Zambia one of the most urbanized countries in Africa.

Political Overview

Gaining independence from the UK in 1964, the territory of Northern Rhodesia was reborn as Zambia. Zambia today is considered a peaceful and democratic country. The one-party socialist system that had prevailed since Independence in 1964 was replaced in the 1990s during a decade of sweeping reform. Despite a history of politics led by opportunism rather than political ideology, there have been five successful multi-party elections since 1991. The 2008 election was deemed as free and fair by observers, reinforcing Zambia's democratic credentials.

As with many countries, corruption remains a significant concern in Zambia across politics, public administration and business. In 2009 Transparency International's Global Corruption Report gave Zambia a 2.8 rating and a ranking of 115 out of 180 countries[3]. Under President Mwanawasa an anticorruption task force was instigated to investigate high-level corruption during the previous administration. The year 2006 to 2007 saw four lawsuits successfully bought to account, including a historic civil case in the UK against the former President Chiluba. This changed under the current President,

[a] MFI borrowers as a percentage of the country's overall population
[b] MFI borrowers as a percentage of the poor population based on national poverty rates
[c] This row of the table is populated with data from MF*Transparency*'s *Transparent Pricing Initiative in Zambia*

Rupiah Banda who had succeeded to presidency after Mwanawasa's abrupt death in 2008. He abolished the Task Force and acquitted President Chiluba. However both donors and civil society reports indicate approval of the present government's efforts address corruption[4]. A new Task Force on Economic Plunder has been established, along with enhanced funding of the Anti –Corruption Commission and the implementation of a new system of integrity committees in each government department. The Zambian government has been joining forces with the private sector to attract investment, and the government is endeavoring to support transparent policy-making and encourage competition[5]

Historically, political violence has not been a concern for Zambia, although the Freedom in the World 2011 report noted a negative trend in its assessment of Zambia's political rights and civil liberties throughout 2010. This was due to political ferocity against civil society and opposition groups as well as the judiciary's failure to demonstrate sufficient autonomy in decision making[6]. Freedom of speech is constitutionally agreed in Zambia, and there are both government owned and independently owned newspapers, radio and television stations, broadcasting a range of views. The government does not restrict access to the internet, however just 4.3% of the population was online in 2007.[7]

Macroeconomic Overview

Thirty years of bleak economic performance saw Zambia descend from its position as one of the most prosperous countries in sub-Saharan Africa to become one of the world's poorest countries. The prolonged period of economic stagnation during the 1980s and 1990s was a result of declining copper prices, economic mismanagement and drought, causing extreme poverty that still prevails today.

Although Zambia has struggled to achieve macro-economic stability, the last decade has seen significant strides in the macro-economy and strong growth. The real GDP growth rate between 2005 to 2010 was 6% per annum, and 2009 saw Zambia experience its eleventh consecutive year of growth. The Zambian economy proved resilient during 2009's global economic crisis, with the increase in copper production and an abundant agricultural harvest contributing to growth of 6.4%[9].

GDP and Inflation

Year	GDP (PPP)*	GDP Real Growth	Inflation	GDP Per Capita (USD)
2007	15.9	6.2%	10.7%	957
2008	17.1	5.7%	12.4%	1182
2009	18.6	6.3%	13.4%	1006
2010	20.1	7.6%	8.5%	1252

***Billion USD / Source: World Bank[8]**

As well as the increased output in the construction, mining and agriculture sectors, this growth was spurred by the privatization of government owned copper mines in the 1990s. After thirty years of decline the industry was denationalized, releasing the government from covering its losses. Higher copper prices and rising foreign investment facilitated by the liberalization of the Zambian economy have increased output and profitability.

Economic growth in Zambia is being increasingly led by the private sector. However, several obstacles continue to severely limit the growth process, including energy bottlenecks; public-sector constraints; infrastructural problems; and insufficient progress towards key institutional reforms.[10] There have also been concerns about Zambia's economic reliance on copper prices. In order to diversify the economic base and reduce the dependence on the copper industry, the government is implementing an economic diversification program. Apart from mining, the fastest growing sectors are energy (hydro power), construction, agriculture and tourism[11.]

GDP – composition by sector:	
Agriculture	21.2%
Industry	46.3%
Services	32.5% (2008 est.)
Annual Trade:	
Imports	$5,671 million (2010 est.)
Exports	$7,141 million (2010 est.)
Source: World Bank[12]	

Historically, interest rates in Zambia have been high due to the government's lack of capital investment and subsequent issues of bonds to meet its spending and debt obligations. This fuelled inflation. In 1968 the Kwacha (ZMK), the national currency, was worth 1.2 US dollars and in March 2011 1 US dollar was 4,715 Kwacha. In 2001 the government improved its fiscal discipline and developed more prudent monetary policy. The government managed to dramatically cut inflation - in 2000 inflation was 32%, but by the end of 2001 inflation had fallen below 20%. By 2007 inflation rates had dropped into single digits for the first time in 30 years. The Central Statistical office reported in early 2011 that inflation rates had risen slightly to 9%. In the 1980s Zambia's fiscal deficit had averaged 13.8% of GDP. This fell to 6.0% in the 1990s, and in 2004 was cut to 2.9%. The improvements in fiscal management also helped reduce domestic debt and interest rates, allowing the government to reach the Heavily Indebted Poor Countries (HIPC) Initiative completion point. This resulted in the annulment of the majority of Zambia's foreign debt, and has led to an increase in official development assistance. [13]

With 36% of the population living in urban areas, Zambia has one of the most urbanized economies in Africa[14]. The informal sector is large and, with just 10% of the population employed by the formal sector it is the most dynamic in terms of employment[15]. Zambia has an estimated labor force of 5.5million (2010), 85% of which are employed in the agricultural sector, 6% in industry, and 9% in services (2004). An estimated 14% are unemployed (2006)[16]

Exports account for $7.1billion, and consist largely of copper/cobalt, electricity, tobacco, flowers and cotton. Imports of about $5.7billion are formed of machinery, transportation equipment, petroleum products, electricity, fertilizer, foodstuffs and clothing[17].

Poverty in Zambia

Key Poverty Figures	
HDI value	0.395
HDI Rank	150
GINI	50.7
Pop. below $ 1.25 a day (%)	64.3
Source: Human Development Report 2010	

In 2005 Zambia qualified for USD 6 Billion in debt relief under the Heavily Indebted Poor Countries initiative (HIPC). Despite this and the strengthening economy, poverty remains a significant issue in Zambia[18]. The Human Development Index ranks Zambia 150 out of 169 countries, making Zambia one of three countries in the world to have a lower ranking today than it had in 1970. Placed amongst the world's poorest nations, Zambia has experienced declines in income - 63% of the population lives on less than $1.25 a day, and 64% are considered to be living in multi-dimensional poverty[19]. HIV / AIDs related issues have had a devastating impact on the population, with 13.5% of the adult population diagnosed. Various social indicators continue to decline, including life expectancy at birth, which currently stands at 52 years[20], and maternal mortality.

Traditional Financial Sector

The 1990s bought radical economic reform to Zambia, with the new government moving the economy from state control to one led by private sector development. Included in these reforms were the decentralization, privatization and liberalization of the financial sector. The resulting proliferation of financial institutions together with several bank failures (nine out of the country's eighteen banks collapsed between 1995 – 2001[21]), the closure of unprofitable rural branches, the shutting of several Government-owned financial institutions that had been set up to cater for the less wealthy, and the introduction of bank charges has resulted in a financial system centered on the needs of the corporate sector and working class elite. Consequently, a large portion of the population is excluded from the formal banking sector. In 2004, of the seventy-two districts that Zambia is divided into, thirty-two did not have any banks or other financial institutions operating in them[22]. The majority of branches are concentrated in urban areas and along the line of the rail (from the Copperbelt Province in the north to Livingstone in the Southern Province).

The first decade of the 21st century saw the government implement its Financial Sector Development Plan (FSDP). This comprehensive government initiative aimed to develop a stable market-based financial system, delivering the conditions required for economic diversification and sustained growth. In deepening and modernizing the financial system the FSDP addresses the challenges of infrastructure, the different accounting and auditing standards, the poor credit culture, and the absence of anti-money laundering regulations.[23]

As of 2005, the Bank of Zambia listed the banking sector as comprising of the Central Bank, thirteen commercial banks (the five largest being Barclays Bank, Standard Chartered Bank, City Bank, Stanbic Bank and Zambia National Commercial Bank), non-bank financial institutions (comprising the three building societies, some micro finance institutions, the National Savings and Credit Bank (NSCB), the Development Bank of Zambia, the thirty-seven Bureau de changes and leasing companies), insurance companies, pension funds and the capital markets.[24]

Financial Inclusion in Zambia

The Global Competitive Index[25], which looks at the set of institutions, policies and factors determining the level of productivity of a country, ranked Zambia 115th out of 139 countries in 2010. This report outlined "Access to Finance" as the most problematic factor for doing business in Zambia, followed by "Corruption" and "Inadequate supply of infrastructure".

The FinScope survey of 2009 concluded that 62.7% of Zambian adults are financially excluded[26]. A variety of reasons contribute to this low level of inclusion. Lack of income was identified as the most significant barrier, followed by the high costs of bank products and services. The majority of the population works in the informal sector, earning their income on an irregular, inconsistent basis. Physical access to bank facilities was not considered a barrier to financial inclusion, with more than 40% of rural inhabitants able to access a financial institution within an hour. Other barriers identified included the lack of appropriate documentation to open a bank account, lack of trust and knowledge about financial products and how to access them, and attitudinal barriers with 66% of adults claiming they have no need for bank accounts.

Whilst still in its infancy, consumer-focused mobile banking is expected to make a transformative change, targeting the unbanked informal sector workers in Zambia[27]. Between 2004 and 2009, mobile phone subscribers in Zambia rose from just 464,000 to 4.4 million[28]. Research shows that current users of mobile money tend to be urban, educated, and

banked. However, recent developments in the market have introduced mobile banking for those who do not own a bank account. With cheap phones and affordable denominations of talk time (e.g. "billing per second"), the low-income are able to benefit from the growth in mobile technology. Lower income individuals who are unable to purchase a handset often possess SIM cards which they use in other people's phones. Some microfinance institutions (MFIs) in Zambia are now looking to develop mobile banking as part of their client services, helping to increase financial inclusion.

Microfinance Industry of Zambia

Introduction

The Microfinance sector in Zambia is unusually undeveloped, even by African standards. The sector is young, small in size, fragmented, and has a limited outreach. Financial inclusion is low, at just 37.3% of adults and the demand for microfinance in Zambia is high. Although well diversified, with a variety of different institution types, the sector has had limited support and will have to overcome many challenges in its development.

A combination of circumstances led to this late development and slow advancement. Until the liberalization of the banking sector in the 1990s, credit finance in Zambia was dominated by several large public sector institutions. Unsustainable business practices lead to the closure of these throughout the decade, giving space for the late emergence of MFIs. Subsequently, these MFIs did not benefit from the donor support that promoted microfinance in other countries around that time. The donor support reaching Zambia since then has largely been targeted at HIV/Aids and debt reduction, so has not benefited the microfinance sector. Any attention towards the financial sector has been focused on the formal banking sector and the development of regulatory and supervisory standards. On 30th January 2006 the Banking and Financial Services (Microfinance) Regulations (MFRs) became law, with the intention of propelling the sector to maturity.

Regulation divides Zambia's MFIs into two types – deposit taking MFIs (development MFIs) and non-deposit taking MFIs (credit companies). The microfinance sector has seen slow and unsteady growth. This has been attributed to the poor credit culture amongst clients, a lack of donor support, and the high expense of service provision in a country with inadequate transport and communication structure. MFI's operational costs are often not aligned with the low volume of activities and so many of the development MFIs are loss-making even though they are expensive by international standards. The credit MFIs (mostly subsidiaries of South African companies) are more financially robust, however it is feared the market for these will soon saturate as they target salaried employees, of which there are just 450,000 in Zambia[29.] Although many of these factors exist in other countries the Zambian microfinance sector has yet to overcome them, largely due to limited microfinance expertise[30]. Unusually, there is an absence of an obvious market leader in Zambia, so there is no one MFI to demonstrate good practices and spur others to improve their operations.

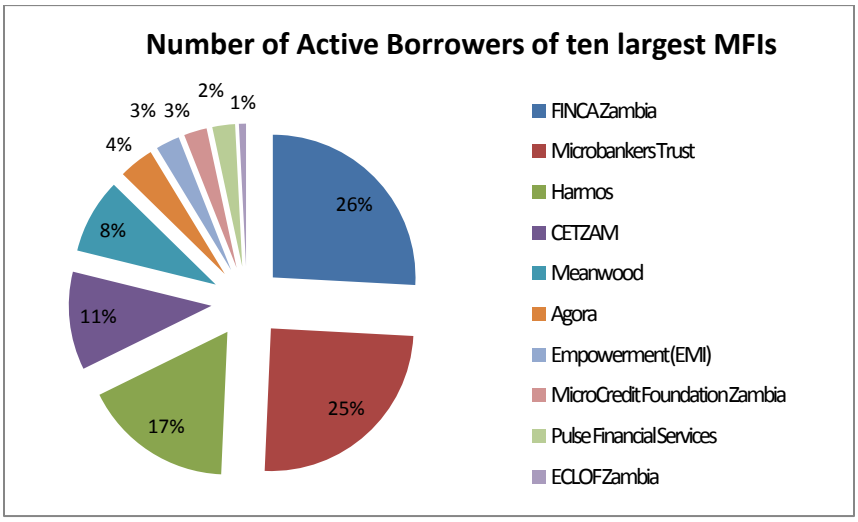
Microfinance Institutions

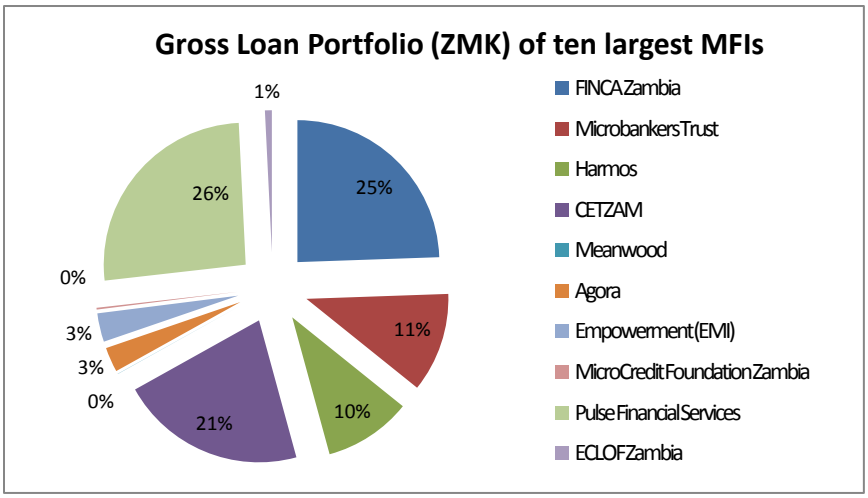
Data from the MIX shows that he microfinance sector in Zambia, as at 2009, recorded 31,340 borrowers and a gross loan portfolio of USD 6.5 million[31]. The sector's main players include several salary-based lenders with significantly higher numbers of borrowers and gross loan portfolio than of the institutions listed below. These salary-based lenders are

categorized as microfinance institutions under Zambian regulation, however operational and financial data on their loan portfolios is not readily available. The following tables outline details on the ten largest microfinance institutions in Zambia that it was possible to ascertain figures for.

Microfinance Institution	Number of Active Borrowers	Gross Loan Portfolio (ZMK)	Reports to MIX (2009)	Participated in MF*Transparency Pricing Initiative* (2011)
FINCA Zambia	14,879	17,703,826,092	Y	Y
MBT, Microbankers Trust	14,300	8,200,000,000	Y	Y
Harmos Micro-Enterprise Development	9,800	7,227,940,834	Y	Y
CETZAM Financial Services	6,399	15,315,329,318	Y	Y
Meanwood Finance Corporation	4,889	16,000,000	N	Y
Agora Microfinance Limited (AMZ)	2,287	2,042,386,000	N	Y
Empowerment Microfinance Institution	1,559	2,360,550,702	N	Y
MicroCredit Foundation (MCF) Zambia	1,500	145,178,300	Y	N
Pulse Financial Services	1,481	18,835,000,000	N	Y
ECLOF Zambia	462	568,000,000	N	Y

Source: MF*Transparency Transparent Pricing Initiative 2011*





Source: MF*Transparency Transparent Pricing Initiative 2011*

Other Institutions offering microfinance in Zambia

The national microfinance network in Zambia (AMIZ) estimates that there are at least three hundred entities involved in microfinance at some level. Other than Deposit taking and Non deposit taking MFIs these include[32]:

- Banks –these are becoming increasingly involved in the larger end of the market with lending to the medium sized SMEs. It is expected that the Zambia National Commercial Bank will become a major player in this field, as well as the National Savings and Credit Bank which is geared to embrace rural microfinance at scale.
- Development non-governmental organisation (NGOs) with microfinance programs – it is unknown to what extent these operate.
- Savings and Credit Societies (SACCOs) – the International Labour Organisation (ILO) depicts Zambia's cooperative movement as generally weak. Many cooperatives are dormant, and the movement's organizational structures and income base is considered poor. In 2009 ILO estimated that there are a total of 2,000 active cooperatives, encompassing 100,000 members, although there is a general absence of credit and savings cooperatives. The government's Department of Cooperatives shows that just 0.7% of the cooperatives registered between 2003 – 2007 were savings and credit cooperatives. However, 36.5 % were considered multipurpose and may have had some element of savings and credit.[33]
- Community-Based Finance Institutions (CBFIs) – Together with SACCOs there is an estimated 740 of these with 13,000 members. The sector is being fostered by Care International & the Copperbelt Urban Livelihood Project (CULP). Alongside the government's Rural Finance Program, they are promoting the formation of CBFIs via a comprehensive training curriculum. Under the first 5 year CULP program from 1997 – 2003 there were fourteen cooperatives formed, with a total membership of 2450. The second phase, in progress now, aims to reach 216,928 people.[34]
- Agriculture Support Program (ASP) & Accumulated Savings and Credit Associations (ASCAs) - This was the Ministry of Agriculture and Cooperatives 5-year program to form groups offering member savings and business development support. ASCAs have 15-20 members, and either have a limited lifeline of around 9-12 months (Village Savings and Loans Associations VSLAs) or an unlimited lifeline. Commencing in 2003, the program led to

the formation of 435 operational groups, 300 savings and credit groups and 234 investment groups, with a combined membership of 12,800, 55% of which were women.

- ROSCAs (Rotating Savings and Credit Associations) - Chilimba, the local name for ROSCAs, is a popular form of savings and loans amongst market women, however the number of ROSCAs in Zambia is not known. Members pool their collections and disperse it to a different member each rotation.
- Money lenders - These are commonly used for a wide range of loan purposes, including medical fees, school fees, funeral expenses etc. They are supposed to be regulated under the Money Lender Act of 1938, but few are. Loans tend to be unsecured, high interest and short term, and often repaid in a single installment. It is not known how many money lenders operate in Zambia.

National Microfinance Network - *Association of Microfinance Institutions of Zambia (AMIZ)*

The Association of Microfinance Institutions of Zambia (AMIZ) is the core network in Zambia. Officially registered in March 1998, it was founded by practitioners to set standards, campaign for new legislation and train staff. AMIZ's mission is to "facilitate, support and strengthen the services provided by member MFIs and represent them in the best way possible by utilizing microfinance best practices". As a coordinating network AMIZ is considered to be competent and well place, however its effectiveness suffers from inconsistent funding. AMIZ has a non-mandatory standing in terms of data collection from its member MFIs, which has led to inaccuracy and incompleteness in the data it collects[35.]

AMIZ currently has a membership of twenty four MFIs, representing more than 90% of clients in the Zambian microfinance market. Data from 2007 showed that the overall reach of the sector to be approximately 120,000 clients. The total portfolio for all AMIZ members is estimated to be approximately ZMK 98.5 billion (USD 30 million), however not all members report to AMIZ so the actual figures are likely to be higher. AMIZ estimates that there are at least 300 entities involved in microfinance at some level[36].

Funders and Donors

The microfinance sector in Zambia is not well supported by donors and investors. This is largely due to the limited opportunities for investment. Almost none of the portfolios of the international microfinance investment funds have exposure to Zambia. The MicroNed report of 2008 indicated that the financial sustainability of MFIs is an obstruction. In 2007 only two AMIZ members had reported an FSS rate of over 100%, and several members reported portfolio at risk rates that indicated high volatility. MFI margins are generally thin, and so they will be required to increase their client base in order to break even at the loan sizes they operate at. A high frequency of staff turnover, a low client retention rate and the limited outreach are evidence of the institutional capacity problems. Recent years have seen the outreach figures of some MFIs contract, casting doubt over the attainment of sustainability and the ability to attract private investment to this sector.[37].

Microfinance Regulation

The regulation of the microfinance sector in Zambia has been a relatively recent development. The process of developing regulations commenced in 1999, and was enshrined in law in 2006. A variety of motives prompted the

regulation of the sector, including the Bank of Zambia's need to maintain financial stability, to safeguard depositors funds, to protect consumers and investors, and to ensure donors funds were being used efficiently and effectively[38].

Pre-regulation

Prior to the regulation of MFIs the sector was served by microfinance providers in an assortment of legal forms that had been registered under different acts. In 2004, two years before the regulations came into play, the sector was formed of societies (49%), companies (21%), cooperatives (21%), and statutory bodies (5%). Institutional forms included MFI NGOs (26%), cooperatives (21%), commercial banks (15%), NGOs (13%) and business associations (13%)[39].

A 2004 survey revealed that, with the exception of banks, the principle service offered by MFIs was microcredit, consisting mainly of agricultural and commercial loans. Loan duration was typically 6 – 12 months, and loan size generally ranged from $11 USD (ZMK 50,000) to $2,265 USD (ZMK 10,300,000). Both group and individual lending methodologies were common, and an array of collateral form was accepted, including personal guarantees, land, forced savings, household goods, cars and livestock. The survey results also revealed a fairly even distribution of clients by gender, but an uneven geographical spreading of clients. Most clients were located in urban areas, along the line of the rail in correlation to the location of the majority of MFIs[40].

The Bank of Zambia's sector survey as part of the "Development of the Microfinance Regulations" Project revealed a number of faults, including a dearth of efficiency, sustainability and transparency in serving the poor, inconsistent reporting to stakeholders, incidents of defrauding by people masquerading as MFI officers, inadequate monitoring of MFIs by investors, and insufficient disclosure to clients regarding services, requirements and costs[41].

Legal and Supervisory Framework for Microfinance in Zambia

Zambia's microfinance sector is governed by the Banking and Financial Services (Microfinance) Regulations, or MFRs. These come under the Banking and Financial Services Act of 1994, as amended in 2000 and 2005. Under the MFRs, the Bank of Zambia has regulated microfinance institutions since January 2006, requiring internal controls, risk management systems, regular reporting, and certain minimum standards.

The MFRs are a detailed list of requirements, which amongst others, prohibit any unlicensed provision of microfinance business, appoint the Bank of Zambia as the regulatory authority and require each MFI to have a minimum of five directors on their board if they are registered as a company. The Regulations prescribe a minimum primary and regulatory capital, require regular submission of management accounts and the payment of a "supervisory fee" to the Bank of Zambia. The MFRs also demand a clear procedure for handling customer complaints, helping to protect the consumer from mistreatment.

The Regulations recognized two types of MFI:

1) Deposit taking (DT) microfinance institutions, more commonly referred to as "Development MFIs", with a minimum capital requirement of ZMK 250 million. These must be registered as a company and so must have a minimum of five board members. The services and products that can be provided are the provision of credit facilities, linkage banking, in-country transfers and compulsory savings for borrowers. DT MFIs have to submit prudent reports to the Bank of Zambia on a monthly basis.

2) Non-Deposit Taking (NDT) microfinance institutions, or "Credit Companies", with a minimum capital requirement of ZMK 25 million. These may be a number of legal forms, including a company, an NGO, registered with the Registrar of Societies, or a cooperative. The provision of services and products are restricted to credit facilities. NDT MFIs must submit prudent reports to the Bank of Zambia on a quarterly basis.

There is a third tier of MFIs, namely Non-Deposit Taking MFIs with a paid up capital of less than ZMK 25 million. Due to capacity constraints these MFIs are not supervised by the Bank of Zambia and are not required to obtain a license. These smaller players in the industry continue to be regulated under the Cooperative Societies Act and the Money Lenders Act.

Post-Regulations

The implementation of the MFRs has led to improved levels of disclosure and transparency in the microfinance sector, resulting in a clarification of legalities and the treatment of insurance fees, compulsory savings, and charges. There have however been several drawbacks, including the onerous costs of compliance to meet the reporting, inspections and governance requirements. The compliance costs of requiring five directors with different individuals as CEO and CFO necessitates high staff costs. The time and effort required to meet the prudent reporting, disruptions during inspection and annual audit requirements increases operating costs. This is likely to have had an adverse impact on the number of MFIs applying for a license. The laws have also restricted MFIs in the types of products and services they can offer, resulting in a negative impact on outreach[42].

At the time the regulations were passed just four MFIs had licenses. This has now increased to twenty-five, eight of which were in existence prior to the regulations. Six MFIs are registered as deposit taking institutions and eighteen as non-deposit taking, meaning the majority of MFIs cannot demand compulsory savings or insurance fees – the regulations treat these as deposits. All the current licensed MFIs have registered their legal form as companies[43].

Of the twenty-five MFIs, 84% are payroll based consumer lenders, accounting for 92% of the sector's total assets. This rise in MFIs targeting salaried employees has changed the structure of the industry significantly and has been an unanticipated consequence of the regulations. There has been a rise in the level of personal indebtedness, leading to concerns about how to encourage responsible lending. Just four of the twenty-five MFIs are microenterprise or "conventional" microfinance lenders. Their client base remains small and has not grown significantly in the last four years[44].

With the new MFIs largely targeting salaried employees who already have bank accounts, there is little evidence that the recent developments in the microfinance sector have resulted in increased access to financial services for the unbanked. The new MFIs are largely located in the capital Lusaka, and MFIs are still concentrated along the line of the rail, with only three MFIs having branches away from the rail[45].

Although the regulations have helped increase the credibility of the sector, microfinance is still a marginal participant in the financial sector. The microfinance sector's total assets account for less than 35% of total assets for the non-bank financial institutions sector, and account for less than 3% when the banking sector is included.[46]

As part of a broader law review under the Financial Sector Development Program (FSDP) the Bank of Zambia is reviewing whether the current BFSA and MRS regulatory framework for MFIs is appropriate, and is considering the experience so

far to recommend changes if necessary. The table below shows a list of the microfinance institutions regulated by the Bank of Zambia in 2010.l

Name	Registration Date	Licensing Date	MFI Type	Enterprise Lending	Existed prior to MFRs
Bayport Financial Services Ltd	18-Feb-02	18-Feb-03	NDT	No	Yes
Blue Cash Xpress Ltd	10-Nov-04	23-Nov-05	NDT	No	Yes
Blue Financial Services Zambia	28-Apr-04	17-Nov-05	NDT	No	Yes
Bomach Finance Ltd	n/a	16-May-08	NDT	No	No
Capital Solutions Ltd	19-Dec-03	20-Mar-08	NDT	No	No
CETZAM Solutions Ltd	06-May-02	14-Oct-08	DT	Yes	Yes
Credit Finance Ltd	16-Aug-06	2-Apr-09	NDT	No	No
Elpe Finance Ltd	15-Feb-05	03-Oct-06	NDT	No	No
FINCA Zambia Ltd	08-Jan-01	08-Apr-08	DT	Yes	Yes
Genesis Finance Ltd	21-Dec-07	22-Jul-09	DT	No	No
Izwe Loans Zambia Ltd	12-Jul-05	02-Dec-08	NDT	No	No
Kungoma Financial Services Ltd	20-Nov-06	2-Apr-09	NDT	No	No
Letshego Financial Services Ltd	09-May-06	24-Sep-07	NDT	No	No
Meanwood Finance Corporation Ltd	14-Oct-05	15-Sep-09	NDT	No	No
Microbankers Trust	05-Jan-01	24-Jul-09	DT	Yes	Yes
Microcredit Foundation Ltd	17-Jan-08	11-Sep-09	NDT	No	No
Microfin Africa Zambia Ltd	17-Dec-02	17-Nov-03	DT	No	Yes
Mtawila Financial Services Ltd	04-May-06	04-Dec-09	NDT	No	No
Pelton Finance Ltd	28-Jul-05	14-Nov-08	NDT	No	No
Prime Circle Microfinance Ltd	12-Jun-07	30-Apr-09	NDT	No	No
Pulse Financial Services Ltd	24-Apr-01	04-Jun-09	DT	Yes	Yes
Royal Microfinance of Zambia Ltd	22-Aug-05	11-Apr-07	NDT	No	No
Unity Finance Ltd	06-Oct-06	02-Apr-08	NDT	No	No
Wide and Deep Services Ltd	01-Apr-08	16-Dec-09	NDT	No	No
Yakabutala Musa Company Ltd	12-Jun-96	15-Jul-09	NDT	No	No

Source: List of MFIs regualated by the Bank of Zambia, 2010[47]

Cost of Borrowing - Interest Rates, Fees and Charges

Unusually, the Bank of Zambia mandates a national formula for the determination of annual rate of interest. This is outlined in the Banking and Financial Services (Cost of Borrowing) Regulations, 1995[48]. This regulation specified that loans obtained through "the use of a line of credit, an overdraft, a payment, credit or charge card, a bank or financial institution shall express the rate of interest charged to a customer as the annual effective rate of interest". The formula is outlined as including the impact of compounding, and so corresponds to an EIR (Effective Interest Rate) formula.

The MFRs clarified that "compulsory" and "forced" savings, along with "insurance fees" be classed as deposits. Therefore only deposit taking MFIs (Development MFIs) are able to impose these. There is no mention in regulation of how to account for the impact of compulsory savings on interest rates and charges.

Microfinance disclosure

The Bank of Zambia encourages a free market environment, and aims to stimulate this via open disclosure of information. Zambia has strict disclosure legislation for microfinance institutions. Regulation requires that licensed MFIs report their financial data to the Bank of Zambia on a regular basis. Deposit taking MFIs are also required to publish their quarterly financial statements and make them available to the public on request. In addition, all licensed institutions are subject to periodic inspections by the Bank of Zambia. The Bank publishes the quarterly financial data on their website as a consolidated Balance Sheet and consolidated Income Statement. Furthermore, MFIs are required to disclose their charges and interest rates in relation to the services and products on offer. The Bank of Zambia also publishes details of the charges, fees and commissions applied by each of the licensed MFIs. This information is published in newspapers on a bi-annual basis to enable the public to make comparisons between institutions. Beyond this, it would appear that willingness to disclose information is low – only five MFIs reported to MIX Market in 2009, four in 2008 and three in 2007.

The Banking and Financial Services (Microfinance) Regulations demand that MFIs produce Disclosure Statements to clients outlining various factors, in writing, including the cost of borrowing. Regulation 30 details the contents of the Disclosure Statement, specifying the inclusion of factors such as description of each loan charge, total amount of loan charges, net amount of money paid to the borrower, rate of interest per annum, loan term, first repayment date and description of any factors which may lead to variation in interest rate or loan term.

Consumer Protection

Consumer protection in Zambia has become an issue of growing importance in the two decades since economic liberalization. Zambian regulation combines consumer protection with competition in a hybrid legistation, under the Competition and Consumer Protection Act (CCPA). Under this regulation individuals as well as companies can be prosecuted and subjected to penalties. Consequences for engaging in anti-competitive practices and consumer maltreatment extend to five years imprisonment to a fine of 10% annual turnover[49]. There is a Competition and Consumer Protection Commission (CCPC), who works to safeguard market structures, dissuade anti-competitive trade practices and protect the welfare of consumers.

Competition in Zambia's microfinance sector appears to be focused on issues of product innovation and service delivery, rather than on price competition. The Zambian media has highlighted that interest rates have not responded to Zambia's move towards single digit inflation and the general improved macroeconomic environment, and have accused Zambia's banking sector of certain restrictive business practices, such as the fixing of interest and bank charges, which have negatively impacted on consumer welfare[50]. Consumer protection initiatives such as MF*Transparency's Transparent Pricing Initiative* are working with the microfinance sector of Zambia to improve responsible pricing practices and increase competition in this area.

Financial literacy and education

Financial literacy in Zambia is generally low. Data from FinScope suggests that familiarity with basic financial terminology has dropped in Zambia over recent years. The 2009 survey indicated that just 31% of adults had heard and understood

the term "savings account" and just 42% of adults had heard and understood the term "interest". This, together with the rapid expansion in personal lending over the past 5 years has led to severe adverse effects on financial wellbeing.

In general, financial education activities in Zambia are fragmented and have limited impact. Examples of attempts to increase financial education have included the publishing of quarterly bank charges by the Bank of Zambia as part of its responsibility to protect consumers; the marketing activities of private financial institutions to promote their products and services; and the training offered by some social-oriented MFIs for potential customers in areas such as cash and loan management. Although there has historically been no structured response to addressing financial education needs, the Bank of Zambia is currently working on a national financial education strategy for Zambia. In early 2011 the FinMark Trust released a paper outlining the state of financial education in Zambia and making recommendations for the roles government, regulators, industry and civil society in promoting financial education and capacity[51].

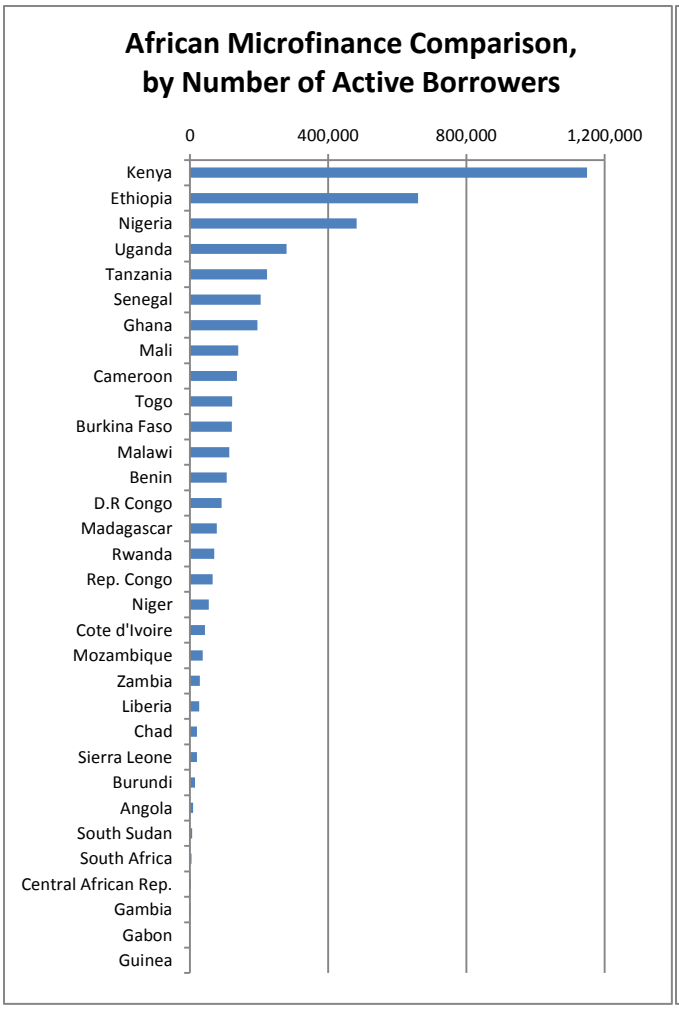
MFI Ratings and Performance

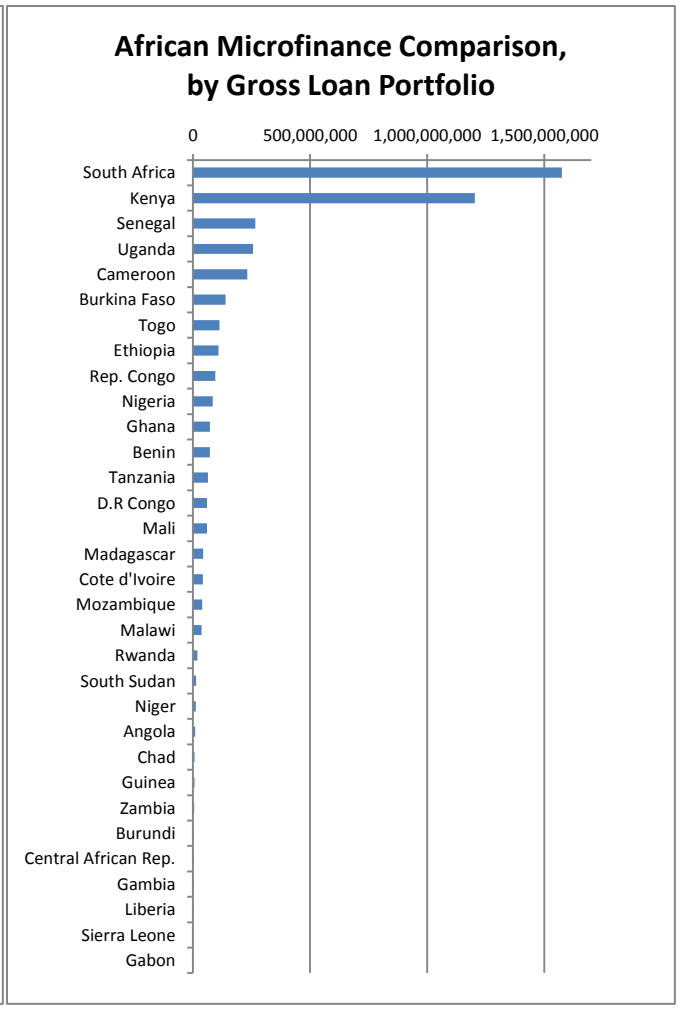
The MFI community in Zambia is not a vocal one. Just five MFIs report to the MIX in 2009 and there appears to be little contribution to widely accepted industry reporting initiatives. Just a handful of MFIs have participated in financial performance ratings and just one in a social performance rating.

MFI	Rating Agency	Rating	Report Date (most recent)
Financial & Operational Ratings			
Harmos	Planet Rating	C-	2010
Cetzam	Planet Rating	C	2010
ECLOF Zambia	MicroFinanza		2011
Microbankers Trust	MicroFinanza	CC+	2008
Social Ratings			
Harmos	Planet Rating	2+	2010

Zambia and Microfinance in Africa

Data from The Mix Market in 2010 showed the African microfinance sector as having 4.5 million borrowers and a gross loan portfolio of $4.6 billion[52]. In terms of scale, the Zambia ranks low in Africa by gross loan portfolio at twenty-six out of thirty-two countries. In terms of number of active borrowers Zambia ranks slightly higher, at twenty-one out of thirty-two countries. This is due to the comparatively small size of the average loan.





Source: Mix Market 2010

Challenges for the Zambian Microfinance Industry

Zambia has a very nascent microfinance market – it is young, small in size and fragmented. The microfinance sector has a limited outreach (particularly to women), as well as uneven coverage over parts of the country and limited financial products. There are many challenges to be faced in the development of Zambia's microfinance sector.

For example, there is a lack of access to foreign capital and donor funding for financial institutions to finance their loans. This has this hampered the ability for MFIs to scale up and invest in their own development. As a result of this, Zambian MFIs have poor management information systems (MIS), hindered further by a lack of technical capacity within the institutions. In addition, staff turnover is high, particularly in rural areas where living conditions may be unattractive to staff and in urban areas staff where the private offers more attractive remuneration and alternative benefits such as shareholdings. Along with these human resources problems is a need for greater training assistance, social performance assistance and business development assistance. The microfinance network of Zambia (AMIZ) is well intentioned by not currently financially supported enough to deliver these needs.

MF*Transparency's* research in Zambia revealed that many MFIs are charging very high product prices, when all aspects of annual percentage rate (APR) are accounted for. These high prices are a result of several reasons, such as the lack of competition in the market. There are very few institutions and MFIs are not competing on prices but other factors such as speed of loan issue, customer service etc. Zambia is also an expensive country in which to carry out business activities. It is a landlocked country with expensive fuel and poor infrastructure. In addition it is thought that there is a lack of awareness amongst some institutions of their charges, and a desire for high profit generation amongst others. The low financial literacy in the population has enabled these high prices to perpetuate. MF*Transparency*, along with other internationally recognized consumer protection initiatives, are working to help strengthen the sector in Zambia and improve the delivery of responsible microfinance.

About the Country Survey

The Country Survey resources are comprehensive literature reviews that outline the country-specific context for the data collected during the Transparent Pricing Initiatives. Each country has a unique set of circumstances defining the state of its microfinance market. The macroeconomic conditions, the political history, and the level of financial inclusion in a country are important factors characterizing the origins and future development of its microfinance market. An awareness of the country-specific regulatory environment for microfinance, as well as the involvement of other industry actors and industry challenges, is a valuable backdrop when considering a market's pricing data. Country Surveys are prepared by a team of talented interns working for MFTransparency, and should be viewed as a resource offering general contextual information for the Transparent Pricing Initiative in each country.

References

1 Consultative Group to Assist the Poor (CGAP). http://www.cgap.org/m/africa.html
2 MIX Market. http://www.mixmarket.org/mfi/country/Zambia
3 Transparency International, 2009 *"Global Corruption Report 2009"*
4 World Economic Forum, 2011 *"Global Competitiveness Report 2010 – 2011"*
5 Source: http://www.trust.org/trustlaw/country-profiles/good-governance.dot?id=b981cba9-8b9e-4cb7-9e52-4bf27d8c4f9c
6 Freedom House, 2011 *"Freedom in the World 2011, The Authoritarian Challenge to Democracy"*
7 Source: http://www.freedomhouse.org/template.cfm?page=251&year=2008
8 World Bank, 2010 *"Zambia Country Brief"*
9 African Development Bank Group, 2010 *"Republic of Zambia 2001-2015 Country Strategy Paper"*
10 Source: http://www.africaneconomicoutlook.org/en/countries/southern-africa/zambia/
11 FinScope Zambia, 2010 *"Top Line Findings 2009"*
12 World Bank, 2010 *"Zambia Country Brief"*
13 Source: http://www.africaneconomicoutlook.org/en/countries/southern-africa/zambia/
14 CIA World Factbook, 2011. *"Africa: Zambia"* https://www.cia.gov/library/publications/the-world-factbook/geos/za.html
15 USAID, 2006 *"Zambia Economic Performance Assessment"*
16 CIA World Factbook, 2011. *"Africa: Zambia"* https://www.cia.gov/library/publications/the-world-factbook/geos/za.html
17 World Bank data, 2010, https://www.data.worldbank.org/
18 Source: http://mdgs.un.org/unsd/mdg/SeriesDetail.aspx?srid=581&crid=894
19 UNDP, 2010 *"Human Development Report 2010"*
20 CIA World Factbook, 2011. *"Africa: Zambia"* https://www.cia.gov/library/publications/the-world-factbook/geos/za.html
21 MicroNed, 2008 *"Zambia Microfinance Scan"*
22 Chiumya. C (2004) *Banking Sector Reform and Financial Regulation: It's Effects on Access to Financial Services by low Income Households in Zambia*
23 Fundanga, C (2009) *Zambia's FSDP, speech by Caleb M Fundanga*
24 Bank of Zambia, 2005 *"FSDP Chapter 3 – Key Financial Sector Issues"*
25 World Economic Forum, 2011 *"Global Competitiveness Report 2010 – 2011"*
26 FinScope Zambia, 2010 *"Top Line Findings 2009"*
27 Admongo, J (2007) *FinScope: the Potential for mobile phone banking in Zambia*
28Montez, D (2010) *AudienceScapes: Mobile Communications in Zambia: Demand side survey analysis of mobile phone access and use*. Intermedia
29 MicroNed, 2008 *"Zambia Microfinance Scan"*
30 MicroNed, 2008 *"Zambia Microfinance Scan"*
31 MIX Market. http://www.mixmarket.org/mfi/country/Zambia
32 MicroNed, 2008 *"Zambia Microfinance Scan"*
33 ILO CoopAfrica, 2009 *"Working Paper No.16: Bearing the brunt of a liberalized economy – a performance review of the cooperative movement in Zambia"*
34 Source: http://www.care.org/careswork/projects/ZMB027.asp
35 MicroNed, 2008 *"Zambia Microfinance Scan"*
36 MicroNed, 2008 *"Zambia Microfinance Scan"*
37 MicroNed, 2008 *"Zambia Microfinance Scan"*
38 Mudenda, E. (2002). *Microfinance Regulation and Supervision in Zambia*. Lusaka, Bank of Zambia. From Chiumya, C (2010) *The regulation of microfinance in Zambia*
39 Chiumya, C. (2006). *The Regulation of Microfinance in Zambia. Essays on Regulation and Supervision* No. IRIS. Centre. Washington, D. C., CGAP. From Chiumya, C (2010) *The regulation of microfinance in Zambia*
40 Chiumya, C. (2006). *The Regulation of Microfinance in Zambia. Essays on Regulation and Supervision* No. IRIS. Centre. Washington, D. C., CGAP, From Chiumya, C (2010) *The regulation of microfinance in Zambia*

41 Mudenda, E. (2002). *Microfinance Regulation and Supervision in Zambia.* Lusaka, Bank of Zambia. From Chiumya, C (2010) *The regulation of microfinance in Zambia*
42 Chiumya, C (2010) *The regulation of microfinance in Zambia*
43 Chiumya, C (2010) *The regulation of microfinance in Zambia*
44 Chiumya, C (2010) *The regulation of microfinance in Zambia*
45 Chiumya, C (2010) *The regulation of microfinance in Zambia*
46 Chiumya, C (2010) *The regulation of microfinance in Zambia*
47 Chiumya, C (2010) *The regulation of microfinance in Zambia*
48 Bank of Zambia, 1995 *"Statutory Instrument No 179 of 1995 - The Banking and Financial Services (Cost of Borrowing) Regulations 1995"*
49 Kamayoyo, K (2011) Post Newspaper, 2011 "Banking Sector in Zambia" http://www.postzambia.com/post-read_article.php?articleId=20222
50 Kamayoyo, K (2011) Post Newspaper, 2011 "Banking Sector in Zambia" http://www.postzambia.com/post-read_article.php?articleId=20222
51 Finmark Trust, 2011 *"Development of National Financial Education Strategy for Zambia"*
52 Mix Market, 2010, "Microfinance in Africa" http://www.mixmarket.org/mfi/region/Africa