

# FINMARK TRUST ZAMBIA

MAKING  
FINANCIAL MARKETS  
WORK IN ZAMBIA



## Strengthening a local process

Zambia's government has been committed to reforming the country's financial sector for several years. The Financial Sector Development Plan (FSDP) was developed in 2004, following research which highlighted fundamental weaknesses in the sector and raised concerns over low levels of financial intermediation.<sup>1</sup> The FSDP was designed to overcome these weaknesses through the implementation of a prioritised reform action plan.

For this reform process to be effective, government identified the need to strengthen understanding of the financial market's dynamics, both from consumer and supply perspectives. In 2005, FinMarkTrust was tasked with filling this information gap, through the implementation of a FinScope™ consumer survey, a review of the inclusiveness of Zambia's financial system, and the provision of advisory services.<sup>2</sup>

FinMarkTrust's intervention in Zambia so far has assisted the local reform process on a number of levels. Issues around financial product supply, usage and behaviour that were not previously fully understood are now quantified. This has helped to build a common language of financial access among local market players. More importantly, it has assisted in pushing access to the top of government's financial policy agenda at the same time as providing private service providers with valuable market information that they can, and have, used to improve service delivery and achieve greater outreach.

## Identifying a local need

With current levels of financial access more clearly defined, Zambia's government has set a target to significantly improve the landscape in forthcoming years. While the evolution of a pro-access regulatory and policy environment will be important, the motivation of private service providers will be critical if this target is to be achieved.

There are already signs that some financial institutions are repositioning their product offerings around the local mass market, as opportunities in low-risk government lending decline and competition increases. This is evidenced by an expanding range of lower-cost products that are now available.

The key to realising effective access for all will be to catalyse and guide the local processes of innovation and reform that are already underway. FinMarkTrust believes that this can be achieved in a number of ways: by strengthening dialogue between government and other players; by commissioning and sharing research on evolving local market dynamics coupled with regional experience; and by providing space within which issues of access can be debated.

<sup>1</sup> IMF/World Bank's Financial Sector Assessment Programme 2003

<sup>2</sup> For more information about FinMarkTrust's work in Zambia go to [www.finmarktrust.org.za](http://www.finmarktrust.org.za) and [www.finscopeafrica.com](http://www.finscopeafrica.com)



## Building on an existing foundation

Promoting effective access is not the primary focus of any independent locally-based organisation. FinMark Trust has therefore made a strategic decision to seed fund the establishment of a new entity in Zambia with the specific objective of fulfilling this critical role and thereby assist in stimulating local ownership of the access agenda.

The local entity, FinMarkTrust Zambia Ltd (FMTZ), is registered in Lusaka and will be managed by a chief executive officer and small administration team. The CEO will report to a Board of Directors comprised of carefully selected local business people. FinMarkTrust will provide financial oversight to FMTZ and strategic and technical guidance as required.

FMTZ will build on the success of FinMarkTrust’s market credibility in Zambia, and its strong working relationships with government and other financial sector players. FMTZ will play a co-ordinating and advisory role, supporting pro-access dialogue and research initiatives that ultimately lead to concrete action through policy change and product innovation. The key objectives of FMTZ are outlined in Figure 1.



Figure 1: FMTZ’s mandate is to make finance work for the poor in Zambia

## The building blocks of success

FinMark Trust believes that local legitimacy, independence and flexibility are the cornerstones of success in promoting local ownership and catalysing real change.

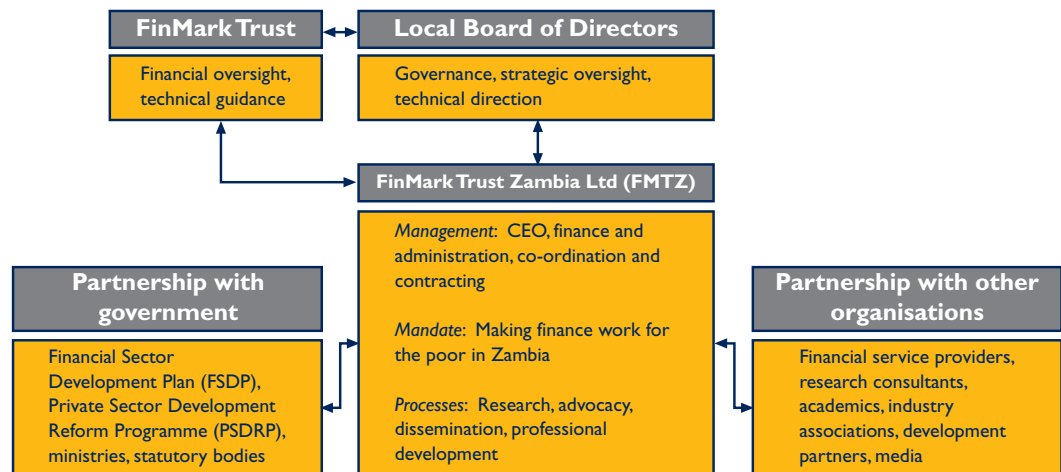
FMTZ’s management team will be made up of experienced and respected Zambians who embrace the ‘Making Markets Work for the Poor’ (MMW4P) approach, and who are well-positioned to solicit local support for the access agenda, building on local networks and legitimacy that FinMark Trust has initiated.

As a not-for-profit entity, the independence of FMTZ will be assured. This will help to promote partnerships and establish trust between public and private organisations that are critical in implementing effective change, whatever their motivation. FMTZ’s independence will also assist in achieving long-term sustainability, through its ability to access funding from multiple sources, rather than being tied to a specific donor timeframe (see Figure 2).



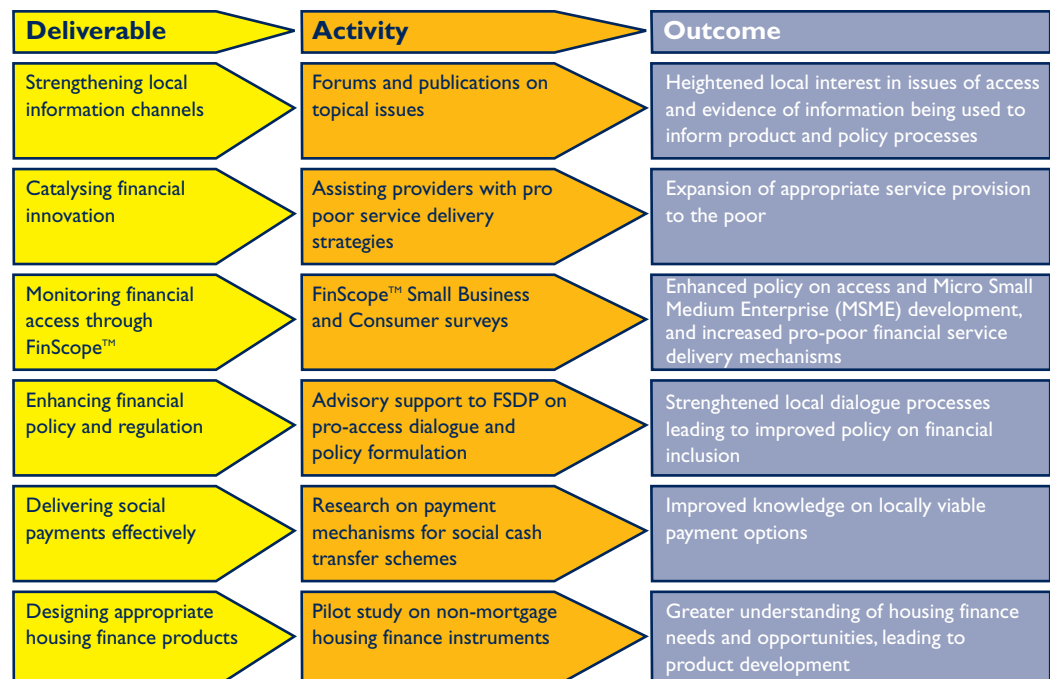
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Figure 2: Legitimacy will be assured through a locally-driven and independent structure



Flexibility will be a key factor of FMTZ's strategic approach, ensuring that ever-evolving market needs can be met through light-touch interventions that maximise local relevance and application. Figure 3 outlines some of the activities that are underway or planned for 2008/9.

Figure 3: FMTZ's interventions are designed to respond to evolving market needs





*FinMark Trust's intervention in Zambia so far has assisted the local reform process on a number of levels*

### **Funding considerations**

FinMark Trust has committed seed funding for FMTZ's first year of operation to March 2009, to cover legal establishment, orientation and remuneration for the CEO and Board of Directors, and recurrent costs such as rent, communication and transport. This contribution will also cover the cost of several activities that are underway or planned for the forthcoming year. In addition, FinMark Trust will cover the cost of providing technical oversight and support to the new local team on an ongoing basis for at least the first two years of operation.

FMTZ has already attracted funding from local partners for specific initiatives. For example, the Government's Private Sector Development Reform Programme (PSDRP) has covered 30% of the cost of the FinScope™ Small Business Survey while Cities Alliance (CA) will be co-funding a study on non-mortgage housing finance.

The target is for at least half of the cost of FMTZ's second year of operation to be covered by external funding, with the balance being made up by FinMark Trust. The long-term objective is for FMTZ to be fully funded by external funding sources within three years. These external funding sources will include local and international donors, government basket funding mechanisms, and the private sector.



### **Contact**

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