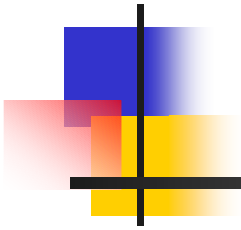


# **Improved access to financial services for the poor**

*The Challenge of Making Financial Market accessible in Zambia*



Sukhwinder S. Arora

15 February 2005



## Current Position in Zambia

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- Low trust in banking (mainly cash economy)
- <5% population have effective access to banking sector
- Low intermediation (1/3<sup>rd</sup> of even Sub Sahara Africa average)
- Only 156 bank branches (avg. one branch for 4824 sq. km and 66,000 pop.)
- Limited outreach and impact of MFIs



# Underlying causes

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- Repeated failures in financial sector
- High Govt. debt (127% of GDP), inflation (avg. 26% pa); currency devaluation (avg. 22% pa)
- Conflicting Govt. roles (regulator, supervisor, part owner, main borrower, major depositor)
- High operating costs for FIs; high lending rates and interest spreads but –ve real interest rates on deposits
- FI profitable (ROE 15% to 95% for 12 out of 14 banks) but also high risks for the private sector
- Weak Infrastructure



# Meeting the challenge

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- Central Bank, other regulators + Local stakeholders prepared FS Development Plan over 2002-04 (post FSAP 2002)
  - Sustained efforts and substantial domestic stakeholder involvement
  - Frank analysis on macro economic, regulatory and other factors
  - FSDP Draft on website for three months followed by national convention
- WB/ IMF/ FIRST technical assistance



# DFID and SIDA support

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- Move towards supporting ongoing sectoral analysis and recommendations (in past support to MFIs)
- Phase I (£ 1.0) started in October 2004, to support:
  - Revised, updated regulation
  - Improved demand side market analysis
- Phase II to consider “Financial Innovation Challenge Fund”.



# Challenge for donors

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- Capacity and speed to address 'blind spots' of the three sectors (Public, private & civil society) and build common vision of functioning markets
- Need to aggregate different components in one institution (to manage transaction costs) and its impact on matching of skills and roles, wider ownership, and implementability
- Options, if a credible catalyst is missing?
- Partnerships with the private sector (balance between discussions and delivery)