

INCLUSIVE DIGITAL ECONOMIES SCORE ZAMBIA 2020

AUGUST 2020

THE UN CAPITAL DEVELOPMENT FUND

The UN Capital Development Fund (UNCDF) makes public and private finance work for the poor in the world's 46 least developed countries. With its capital mandate and instruments, UNCDF offers "last mile" finance models that unlock public and private resources, especially at the domestic level, to reduce poverty and support local economic development. UNCDF's financing models work through two channels: financial inclusion that expands the opportunities for individuals, households, and small businesses to participate in the local economy, providing them with the tools they need to climb out of poverty and manage their financial lives; and by showing how localized investments—through fiscal decentralization, innovative municipal finance, and structured project finance—can drive public and private funding that underpins local economic expansion and sustainable development. By strengthening how finance works for poor people at the household, small enterprise, and local infrastructure levels, UNCDF contributes to SDG 1 on eradicating poverty and SDG 17 on the means of implementation. By identifying those market segments where innovative financing models can have transformational impact in helping to reach the last mile and address exclusion and inequalities of access, UNCDF contributes to a number of different SDGs.

The Inclusive Digital Economy Scorecard (IDES) is a policy tool to help governments set the priorities for their country's digital transformation. It identifies the key market constraints hindering the development of an inclusive digital economy and helps set the right priorities with public and private stakeholders to foster a digital economy that leaves no one behind.

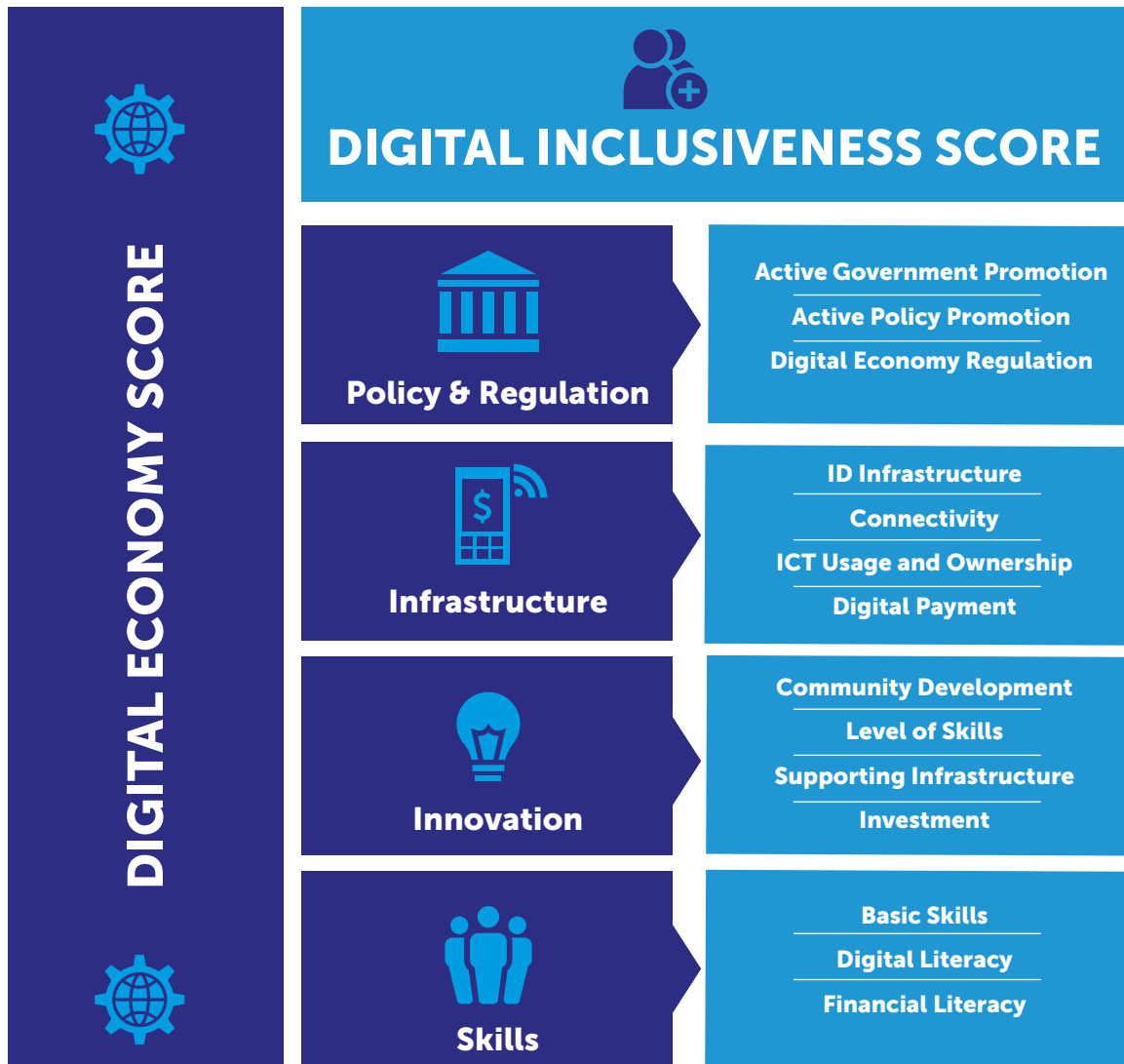


Figure 1 : Foundations of Inclusive Digital Economy Scorecard

IDES provides an overall score for the development of a digital economy based on various indicators for the main components of a digital economy (Policy and Regulation, Infrastructure, Innovation and Skills). It also provides scores for the inclusiveness of the digital economy for marginalized segments (rural population, women, youth, MSMEs, refugees, elderly, people with disabilities). The inclusiveness of the digital economy is primarily measured through a qualitative assessment of the efforts made by the public and the private sector to include specific segments in the expansion of the digital economy.

The UNCDF team recently completed an initial IDES scoring for Zambia, based on UNCDF's knowledge of the local economy through past and current initiatives. The score is a quickfire analysis of Zambia's digital economy, and its level of inclusiveness for traditionally excluded segments of the population. The UNCDF team is currently in the process of validating Zambia's IDES through consultation with key stakeholders in both the public and private sector. From this process, we hope to identify key areas of intervention for building an inclusive digital economy in Zambia. The initial scores are detailed in this brochure, giving a synopsis of Zambia's digital economy as of the end of 2020.

IDES - ZAMBIA 2020/2021

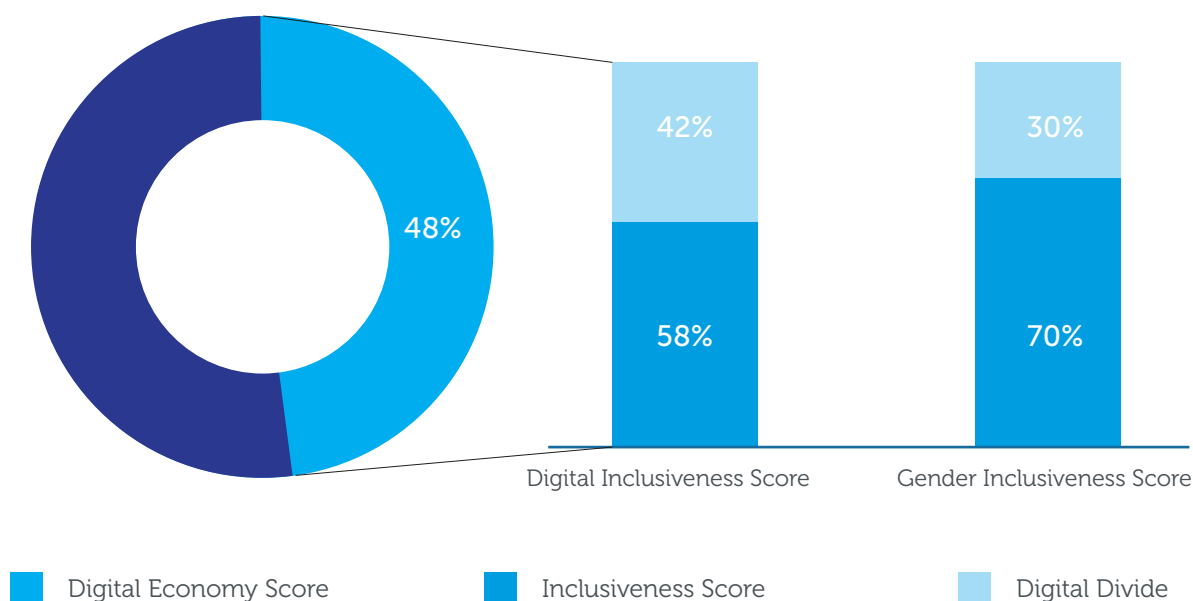


Figure 2 – Overall Zambia IDES Score

Zambia's Digital Economy score stands at 48 percent. This score places the country at the top end of the start-up phase, almost at the limit to the expansion phase. The score is reflective of the emphasis the Zambian government places on advancing digital inclusion, particularly in the financial sector. This is thanks to digital innovation and the development and advancement of ICTs being a key focus in national development policies such as the 'Vision 2030, the '7th and the 'National Financial Inclusion Strategy. These documents form the bedrock off which various government ministries and agencies have piloted and implemented a number of efforts that drive the digital agenda forward. National policies provide a platform for a multi-sectoral approach to digital solutions and initiatives that improve access to products and services that improve livelihoods.

The country's efforts in growing the digital economy have, so far, relied mainly on increased public-private cooperation, enabling policy and building financial infrastructure. Government sets out an admirable aim in the 7NDP of "accelerating development efforts towards making Zambia a prosperous middle income country by 2030, without leaving anyone behind." The country's national development plan also makes mention of using ICT to promote access for all Zambians and saw the launch of the e-governance platform, Smart Zambia, which has the goal of digitising the government's own initiatives and enabling digital transformation in crucial sectors.

Given the groundwork laid by these overarching policy initiatives, Zambia has made significant progress in building the necessary foundation for the building of a digital economy that incorporates all marginalised segments: the rural population, women, youth, MSMEs, smallholder farmers, refugees and people with disabilities. As laid out in the 7th National Development Plan, inclusive development is a top government priority, ensuring that no one is left behind as Zambia makes progress towards becoming a prosperous middle income country. While there is still a lot of work to be done, especially in laying the digital infrastructure to enable effective last mile delivery, (e.g. cell towers for increased rural connectivity and a profitable agent network) Zambia is ready to begin channelling some effort towards utilising the existing digital infrastructure for increased economic inclusion. From the piloting of mobile health clinics in rural areas to e-Education platforms, each sector has some of the necessary foundations for increased innovation and digital inclusion.



¹ Vision 2030: https://www.mndp.gov.zm/wp-content/uploads/filebase/vision_2030/Vision-2030.pdf

² 7th National Development Plan: https://www.moe.gov.zm/?wpfb_dl=43

³ National Financial Inclusion Strategy, 2017 – 2022: <https://www.boz.zm/National-Financial-Inclusion-Strategy-2017-2022.pdf>

⁴ Smart Zambia Institute: <https://www.szi.gov.zm/>

The country is beginning the process of crafting the 8th National Development Plan, which presents a unique opportunity for the streamlining of digital inclusion in the national agenda. UNCDF expects a continued focus on increasing financial inclusion and driving digital transformation in critical development sectors such as health, agriculture, education, and energy.

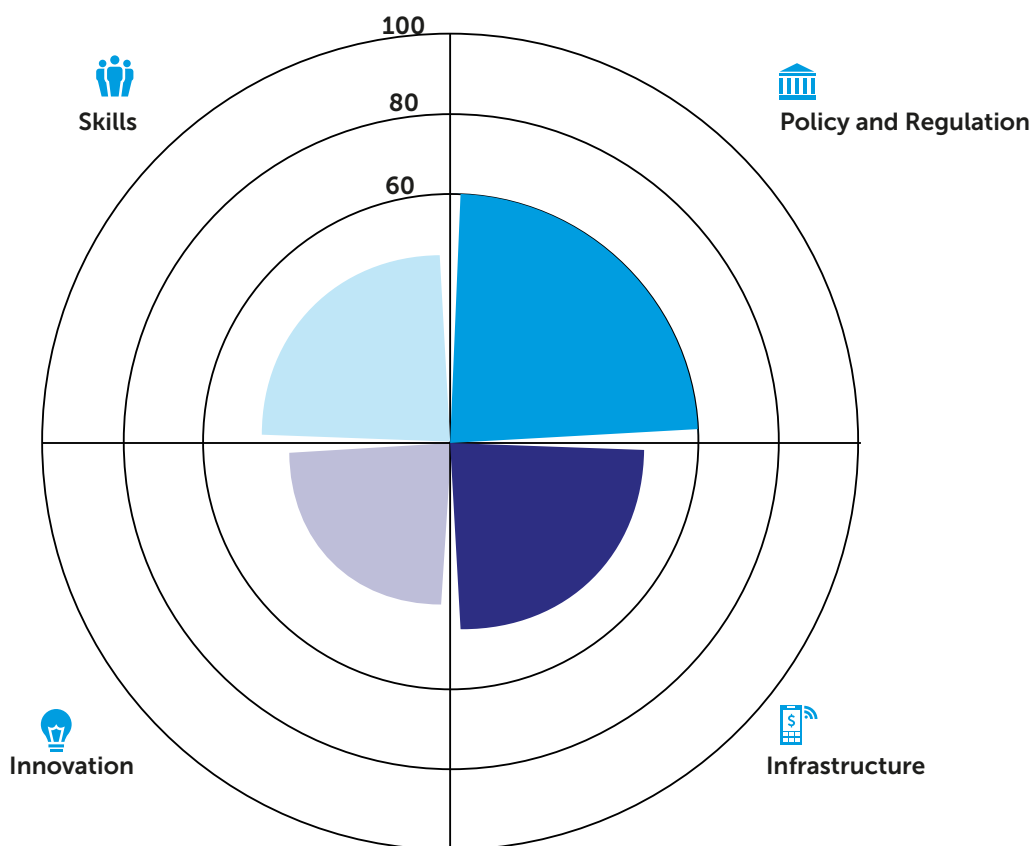


Figure 3: Chart of Zambia IDES Score

As identified in the introductory section, Zambia scores relatively high on policy and regulation, with a number of initiatives being in existence - from tiered non-bank e-money issuance non-bank e-money issuance, to tiered know your customer (KYC) requirements and a framework for digital ID infrastructure. The score of 59 percent on policy and regulation indicates that while many of the foundational areas are catered for, there is room for increased intentionality in order to drive holistic digital inclusion. With key national policies such as the NFIS and the 7th National Development Plan coming to an end in a year and a half, this opens up an opportunity for a more targeted strategy that outlines how the levels of digital and financial inclusion reached so far can be further scaled and integrated into each sector of the digital economy.

Zambia fares less well on the digital infrastructure score, with a figure of 47 percent. This figure indicates that while some advancement has been made, Zambia's digital infrastructure still needs to develop more to enable more individuals in the mass market to access digital products and services, especially when considering that approximately 55 percent of the country's population lives in rural areas.

Zambia scores even lower on innovation, with 39 percent. Zambia's innovation ecosystem has seen significant development over the last two to three years, but there are still only a few incubators and startup support programs in the country. While Zambia's financial start-up ecosystem has grown considerably, the market still has a heavy concentration on payments infrastructure with limited open APIs.

These scores reveal some constraints, but also shed light on some initial areas upon which the government can focus to advance access to digital and financial solutions for all. For example, rolling out an interoperable payments ecosystem, strengthening digital delivery channels especially in rural communities, and developing holistic national policies for the integration of digital and financial tools and services in every aspect of the economy can be actions that advance access to digital and financial solutions.

Digital Inclusiveness by segments

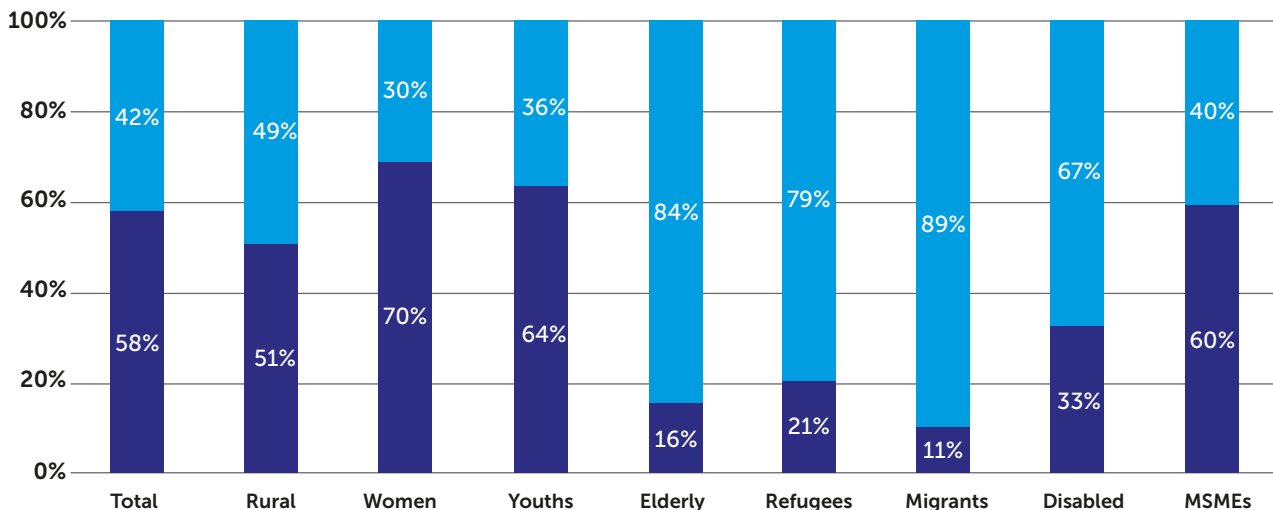


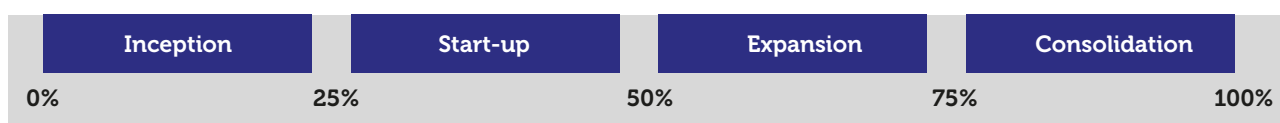
Figure 4: Digital Inclusiveness by Segment in Zambia

Zambia's Digital Inclusiveness Score is 58 percent and the Gender Inclusiveness Score is 70 percent. These initial figures indicate 42 percent of the overall population, 49 percent of the rural population, and 30 percent of women do not participate in the digital economy. This is what UNCDF refers to as the 'digital divide', i.e. the percentage of the population that does not currently participate in the digital economy. This figure represents people at risk of falling further behind if the barriers limiting inclusiveness in the four dimensions of the IDES are not addressed by both the public and private sectors.

Leveraging the digital inclusiveness scores for women (70 percent), youth (64 percent), the rural population (51 percent), MSMEs (60 percent), the Zambian government and the private sector should develop strategies and action plans to focus on these important segments. Zambia has one of Africa's youngest populations, with 48 percent of the population being below the age of 14, which presents a unique opportunity to drive digital transformation and streamline digital tools and services into the everyday lives of young people in particular. This opportunity needs to be leveraged on both the demand-side, i.e., building of digital skills and the supply-side.

Increasing access to finance for MSMEs was one of the core goals of Zambia's NFIS, which is still being implemented. The digital divide of 40 percent shows there is still room to leverage technology to build a digital ecosystem around MSMEs that links them to various products and services, including finance. Digital technology has the potential to increase the visibility of MSMEs to financial service providers and other market players who can provide the critical services that MSMEs need.

The IDE Scorecard score of 48 percent means the country stands at the top-end of the start-up phase and on the brink of entering the expansion phase for an inclusive digital economy.



¹ Zambia Demographic and Health Survey, 2018: <https://dhsprogram.com/pubs/pdf/FR361/FR361.pdf>

⁶ Zambia Demographic and Health Survey, 2018: <https://dhsprogram.com/pubs/pdf/FR361/FR361.pdf>

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A Focus on the Key Components and Sub-Components of Zambia's Digital Economy

4.1. Policy and Regulation

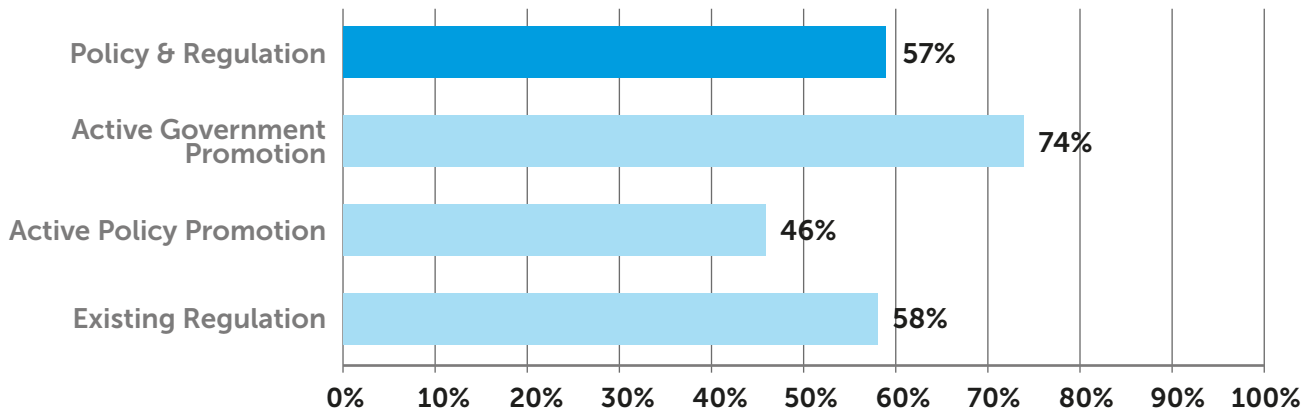


Figure 5: Policy and Regulation IDES breakdown

Zambia's overarching regulatory framework provides a strong foundation for establishing an enabling environment for the development of the digital economy. Spearheaded by the Ministry of Finance and Cabinet Office, the Smart Zambia Initiative is a valiant effort to digitise government processes with the aim of improving service delivery. The Smart Zambia Initiative is a multi-sectoral, multi-ministerial enterprise to advance the use of digital tools within government spaces and programmes. One of the projects under Smart Zambia is the development of a digital ID, a project which started in 2017 but remains to see implementation. However, under the leadership of the Ministry of Finance and the Bank of Zambia, other key policy initiatives have been implemented to drive financial inclusion, especially through digital channels. These include, but are not limited to:

- Development of agency banking guidelines to enable both bank and non-bank financial service providers to maximise agent network strength and profitability;
- Guidelines on sex-aggregated data to enable better KYC and customer targeting; and
- The piloting of regulatory sandboxes to reduce barriers to entry and encourage responsible innovation.

All of the above lay significant groundwork for the development of a more inclusive digital economy. To this effect, a National Digital Economy Strategy (NDES) for Zambia must build on the efforts of policy and institutional initiatives such as the NFIS and Smart Zambia. Given that the 7th National Development Plan is coming to an end, there is a unique opportunity to introduce the NDES in line with the upcoming 8th National Development Plan, which would provide an opportunity for other government agencies to actively promote and support diverse sectors (agriculture, energy, education, health, etc.) to embrace the digital age and leverage technology for increased economic development.

A regulatory priority for the government should be the development of a wider public-private dialogue on the digital economy to make sure the current policies and regulations have the expected impact in the market. The findings from these policy dialogues will help the government learn more about the impact of policy actions, to continuously improve current frameworks and to develop new regulations that respond to the dynamic development of the digital sector. A major focus of this dialogue should be on the marginalized segments to increase the focus on reducing the digital divide in the country.

Specific policy recommendations include the following:

- Promote a forum for collaboration with external stakeholders (public-private dialogue) to further assess regulatory constraints to the development of an inclusive digital ecosystem and gauge the need to adapt the regulatory framework accordingly to deliver better results and policy outcomes, with a clear focus on the inclusion of marginalized segments.
- Formulation of a multi-sectoral and multi-ministerial policy to provide guidance and agree on a common vision of how to prepare for and leverage digital opportunities to create public value in a long-term perspective.
- Strengthen institutional capacities of the Ministry of Finance to adopt and drive the Inclusive Digital Economies agenda, with the establishment of an effective coordination mechanism to monitor the implementation of the NDES.
- As part of the implementation of the NDES, encourage ministries to launch action plans and set strategic objectives for the digital transformation of key sectors of the economy (i.e., agriculture, energy, education, health, etc.). Alternatively, identified ministries could integrate digital transformation into their general sectoral strategy.
- Assess, design, develop and implement the requisite digital skills training programs for civil servants with commensurate investment needed to support the shift to e-government.
- Foster innovation in governance and leverage digital technologies to improve public service delivery, especially in rural areas.
- Through a whole-of-government approach, develop frameworks to enable the collection, access to and use of gender-disaggregated data.



4.2. Infrastructure

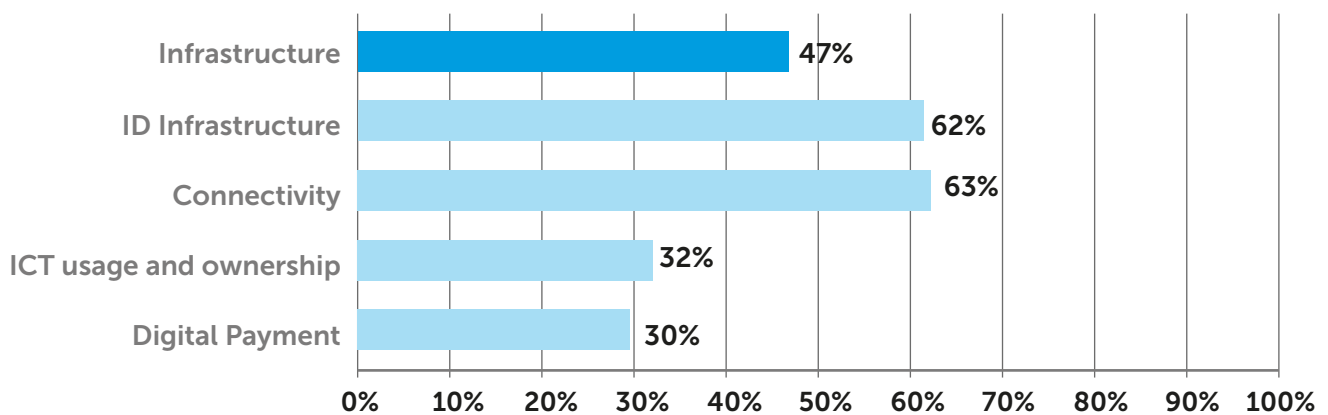


Figure 6: Zambia Infrastructure IDES breakdown

In order to build an inclusive digital economy, Zambia has to focus on all aspects of digital infrastructure, i.e. a digital ID, network coverage (especially in rural areas), ICT usage and ownership, and digital payments. Continuously improving connectivity, enabling more citizens to own a phone, have a SIM card, easily access relevant financial services and to start using digital payment services will remain a priority.

As of June 2020, the Zambia Information and Communications Technology Authority (ZICTA) pegged the mobile penetration rate at 100.2 percent, with 17.9 million registered SIM cards. This, however, does not take into account multiple phone ownership by individuals, SIM card activity, and overall usage. Global GSMA data on Zambia puts mobile broadband connection at 40 percent. The IDES score of 32 percent on ICT usage and ownership is more reflective of national development indicators, with a population of 55 percent living in rural areas with limited network and internet coverage. ZICTA's 2018 Survey on Access and Usage of ICTs found that only 14.3 percent of the population have internet access.

A score of 30 percent on digital payments infrastructure is reflective of the fact that while a significant segment of the population own bank accounts and mobile money wallets, the movement of funds between these digital value stores is still largely manual. Achieving interoperability is one of the goals the Bank of Zambia Payment Systems vision and strategy, which has the overall goal of achieving a cashless society.

The aforementioned scores suggest that the government should continue to focus on increasing ICT usage and ownership, with a particular focus in rural areas, in addition to the following infrastructural priorities:

- Development and adoption of digital ID by both public and private sectors stakeholders;
- Incentivising the private sector, by public sector, to increase access and usage of smartphones and internet, particularly for marginalized segments of the population (women, rural households, micro entrepreneurs);
- Acceleration of the near-term focus on implementing open and interoperable payment systems.



4.3. Innovation

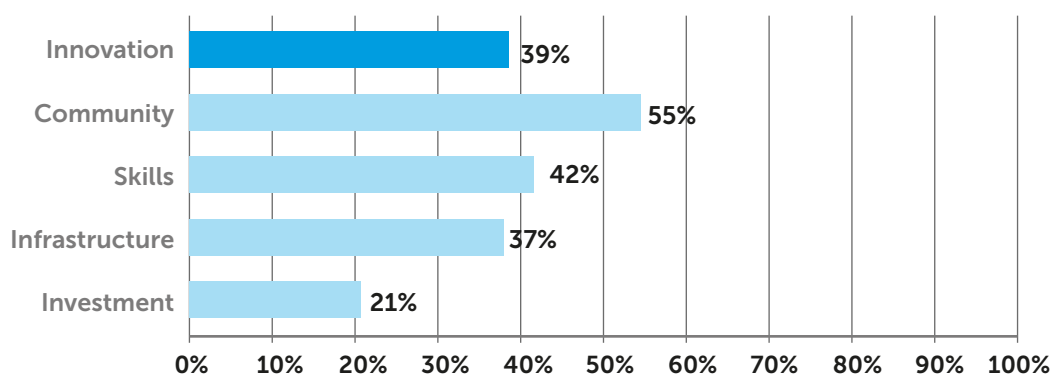


Figure 7: Zambia Innovation IDES breakdown

At 39 percent, Zambia's innovation score within the IDES is the lowest of the four components. Although the innovation ecosystem within Zambia has seen increased growth over recent years, it still remains at a fairly nascent stage. There is strong support for Zambia's startup ecosystem through incubators such as BongoHive Technology and Innovation Hub and Jacaranda Hub, reflected in the relatively high score of 55 percent for community. Skills fare slightly less well at 42 percent, and infrastructure even less so at 37 percent.

UNCDF has witnessed these figures first-hand through the FinTech4U Accelerator Programme run in collaboration with BongoHive. The program revealed that while fintech founders have specific skillsets e.g. medical doctors or ICT professionals, they have limited experience in what is required when running a business in the financial sector. There is also a low availability of financing at all stages of the innovation journey, reflected here with a score of 21 percent. Furthermore, the innovation ecosystem



GSMA Data: <https://www.mobileconnectivityindex.com/#year=2019&zonesocode=ZMB&analysisView=ZMB>

⁸ 2018 National Survey on Access and Usage of Information and Communication Technologies by Households and Individuals: <file:///C:/Users/saman/Downloads/2018%20ICT%20Survey%20Preliminary%20Report.pdf>

⁹ National Payments Systems Vision and Strategy, 2018-2022: <https://www.boz.zm/VisionandStrategy2018-2022.pdf>

cannot rely on strong and open digital infrastructure to develop mass-market products or digital services.

The innovation ecosystem could benefit from more cohesive organization and linkages of all stakeholders (incubators, entrepreneurs, mentors, investors, etc.) to benefit from more synergies and greater visibility.

A fintech ecosystem mapping conducted in 2018 revealed approximately 25 fintechs within Zambia. This figure has grown considerably since then, with the first cohort of the FinTech4U Accelerator Programme receiving approximately 77 applications from self-identifying fintechs. An updated mapping of the fintech and startup ecosystem will provide a starting point to build upon. Likewise, data collection on the effectiveness of different innovation-driven programs, a keen analysis of the incubator/accelerator business models as well as financing/investment opportunities can contribute to building the pipeline of locally-driven technology solutions for the benefit of marginalized populations.

Some of the issues identified in the 2018 scoping conducted by UNCDF remain relevant, such as:

Fintechs need support establishing mutually-beneficial long-term partnerships with industry incumbents such as banks and mobile money providers:

- Access to affordable long-term financing is the biggest challenge faced by fintechs within the Zambian ecosystem;
- Fintechs have the potential to drive innovation through developing products that meet the needs of traditionally excluded customer segments, including smallholder farmers, women and youth;
- Financial inclusion efforts will be hindered and innovation limited unless more financial service providers are willing to provide open APIs.

Any targeted effort on this component must take the above listed challenges/issues into account. Specific recommended interventions include:

- Partnering with and providing technical assistance to innovation hubs and promising fintech startups to build the support and skills base for innovation in Zambia.
- Strengthening the investment environment to provide access to affordable financing for promising startups leveraging digital in critical sectors such as education, energy, health and agriculture.
- Fostering public-private partnerships with a focus on scalable and sustainable solutions for innovators.



4.4. Skills

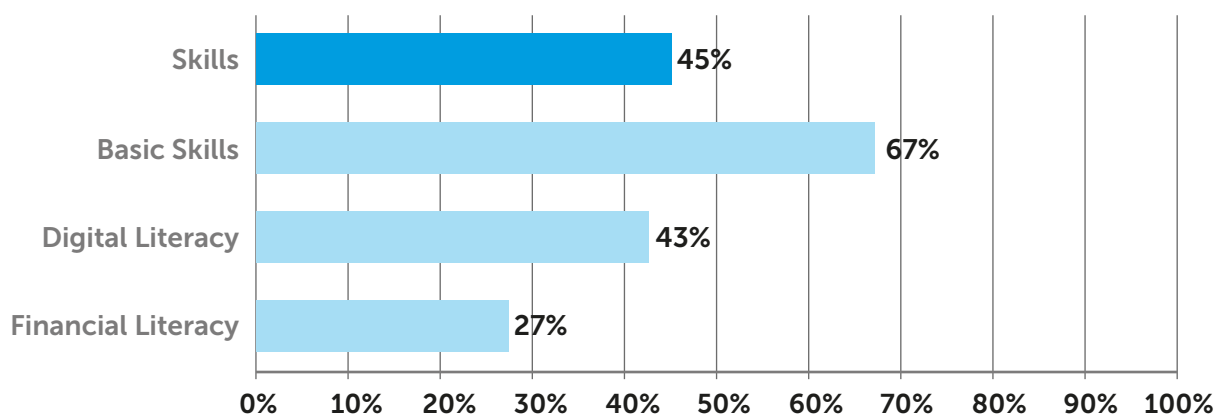


Figure 8: Zambia Skills IDES breakdown

The Skills component score for Zambia stands at 45 percent, indicating that foundational skills for the building of an inclusive digital economy exist and could be developed further. Within this, basic skills score relatively high at 67 percent, while financial and digital literacy trail at 27 percent and 43 percent respectively. Increasing financial literacy is a primary goal of the Ministry of Finance, as embodied in the National Strategy on Financial Education, which has the overall objective of seeing the Zambian population “have improved knowledge, understanding, skills, motivation, and confidence to help them secure positive financial outcomes.”

While the government should continue its efforts to increase basic skills and financial literacy, a key priority is to develop strategies and plans to increase the development of digital skills in the population. This can be achieved via schools, in partnership with the private sector and also by leveraging digital channels. This is particularly achievable given Zambia’s relatively young population, with a majority of the population being of school-going age. Through collaboration between the private sector and the Ministry of Education, schools can build on the apparent strengths to further develop financial education and digital skills within the school curriculum.

5 Conclusions

When it comes to Policy and Regulation, Zambia has laid impressive groundwork for the building of an inclusive economy which is less so in the other components of the IDES such as Innovation and Digital Skills. The discrepancy provides background for Zambia to focus on laying the digital rails (policy and regulation, infrastructure, innovation and skills), while simultaneously riding the digital rails, ensuring that the benefits advancements in each of these components materialise in specific sectors such as health, agriculture, education, energy, etc.

For Zambia, a focus on advancing infrastructure and innovation will be crucial to building an inclusive digital economy. Through UNCDF’s suite of financial tools that includes grants, loans and guarantees, the innovation component of IDES can be strengthened by offering blended finance and technical assistance to the start-up ecosystem. With a digital divide of 42 percent, there is a need for Zambia to concentrate on bringing marginalised segments of the population (rural, women, youth and MSMEs) into the digital economy.

Some country-level recommendations:

- Develop deliberate policies around advancing digital tools and financial services in key sectors such as health, education, energy, etc. Policies such as an NFIS II that identify key sectors in which digital financial solutions can provide for increased inclusion.
- Validate the Zambia’s IDES score with key public and private stakeholders and lay the groundwork for developing a comprehensive strategy on building Zambia’s digital economy.
- Begin the process of developing a National Digital Economy Strategy for Zambia, in collaboration with the Ministry of Finance, the Ministry of Planning and Development and other key line ministries and government institutions.
- Work closely with private sector to enhance innovative and affordable financing to promising start-ups in each priority sector (health, education, agriculture, energy, etc.) through loans and guarantees.
- Advocate and develop policy recommendations and use cases for a national digital ID and supporting infrastructure, in collaboration with Smart Zambia, Cabinet Office and the Ministry of Information and Broadcasting.
- Advocate for the formulation of projects and programs that address challenges that have a strong impact on accelerating the digital inclusion of marginalized populations.





LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The UNCDF strategy 'Leaving no one behind in the digital era' is based on over a decade of experience in digital finance in Africa, Asia, and the Pacific. UNCDF recognizes that reaching the full potential of digital financial inclusion in support of the Sustainable Development Goals (SDGs) aligns with the vision of promoting digital economies that leave no one behind. The vision of UNCDF is to empower millions of people by 2024 to use services daily that leverage innovation and technology and contribute to the SDGs. UNCDF will apply a market development approach and continuously seek to address underlying market dysfunctions.



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Written by Samantha Malambo & Isaac Holly



For more information, contact: malingose.kambandu@uncdf.org

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