



Impact Capital
for Development



ZAMBIA

FINTECH LANDSCAPE STUDY

*TRENDS, CHALLENGES AND OPPORTUNITIES FOR
GROWTH OBSERVED IN THE ZAMBIAN FINTECH
ECOSYSTEM*

EXECUTIVE SUMMARY

ABOUT THE UN CAPITAL DEVELOPMENT FUND

The United Nations Capital Development Fund (UNCDF) is the United Nation's flagship catalytic financing entity for the world's 46 Least Developed Countries (LDCs). With its unique capital mandate and focus on the LDCs, UNCDF works to invest and catalyse capital to support these countries in achieving the sustainable growth and inclusiveness envisioned by the 2030 Agenda for Sustainable Development and the Doha Programme of Action for the least developed countries, 2022–2031.

UNCDF builds partnerships with other UN organizations, as well as private and public sector actors, to achieve greater impact in development; specifically, by unlocking additional resources and strengthening financing mechanisms and systems contributing to transformation pathways, focusing on development themes such as green economy, digitalization, urbanization, inclusive economies, gender equality and women's economic empowerment.

As a hybrid development finance institution and development agency, UNCDF uses a combination of capital instruments (deployment, financial & business advisory and catalysation) and development instruments (technical assistance, capacity development, policy advice, advocacy, thought leadership, and market analysis and scoping) which are applied across five priority areas (inclusive digital economies, local transformative finance, women's economic empowerment, climate, energy & biodiversity finance, and sustainable food systems finance).

LEAVING NO ONE BEHIND IN THE DIGITAL ERA

The United Nations Capital Development Fund (UNCDF) strategy 'Leaving no one behind in the digital era' is based on over a decade of experience in digital financial inclusion in Africa, Asia and the Pacific. Digital inclusion contributes to the emergence of digital economies, which allow for services to be provided via digital platforms in various sectors e.g., agriculture, energy, health, education, etc. UNCDF employs a market systems development approach to address the constraints that prevent the development of inclusive digital economies, by focussing on open digital payment ecosystem, inclusive innovation, enabling policy and regulation and empowered customers to unlock constraints and build digital economies that meet the needs of the underserved, particularly youth, women, migrants, refugees, and micro-, small- and medium-sized businesses.

THE UNCDF TEAM

To develop this report, the UNCDF team gathered information from various stakeholders within the fintech ecosystem in Zambia. The content of this report is based on information collected, reviewed, and analysed between November 2022 and March 2023. This study and subsequent report were led and developed by UNCDF's Digital Economies Innovation and Policy Specialist, Samantha Malambo, with support from the following team members:

- ▶ Isaac Holly – Country Lead
- ▶ Mali Kambandu – Knowledge Management and Communications Expert
- ▶ Dominic Adongo – Digital Economies Expert
- ▶ Brian Katimbo – Digital Economies and MSME Training Advisor

The UNCDF team would also like to acknowledge the contribution of all stakeholders who participated in the study through interviews or sharing documented information relevant to the fintech landscape. This includes the fintechs themselves, regulators, incumbent financial sector players, innovation hubs, policy makers, academia, and investors. UNCDF would particularly like to acknowledge BongoHive, the Securities and Exchanges Commission, and the Bank of Zambia, who also assisted in reviewing the report prior to its publication.

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Disclaimer

This report is based on information collected through interviews with fintech start-ups, key industry stakeholders, desk research and internal analysis conducted by the UNCDF team.

Fintech data

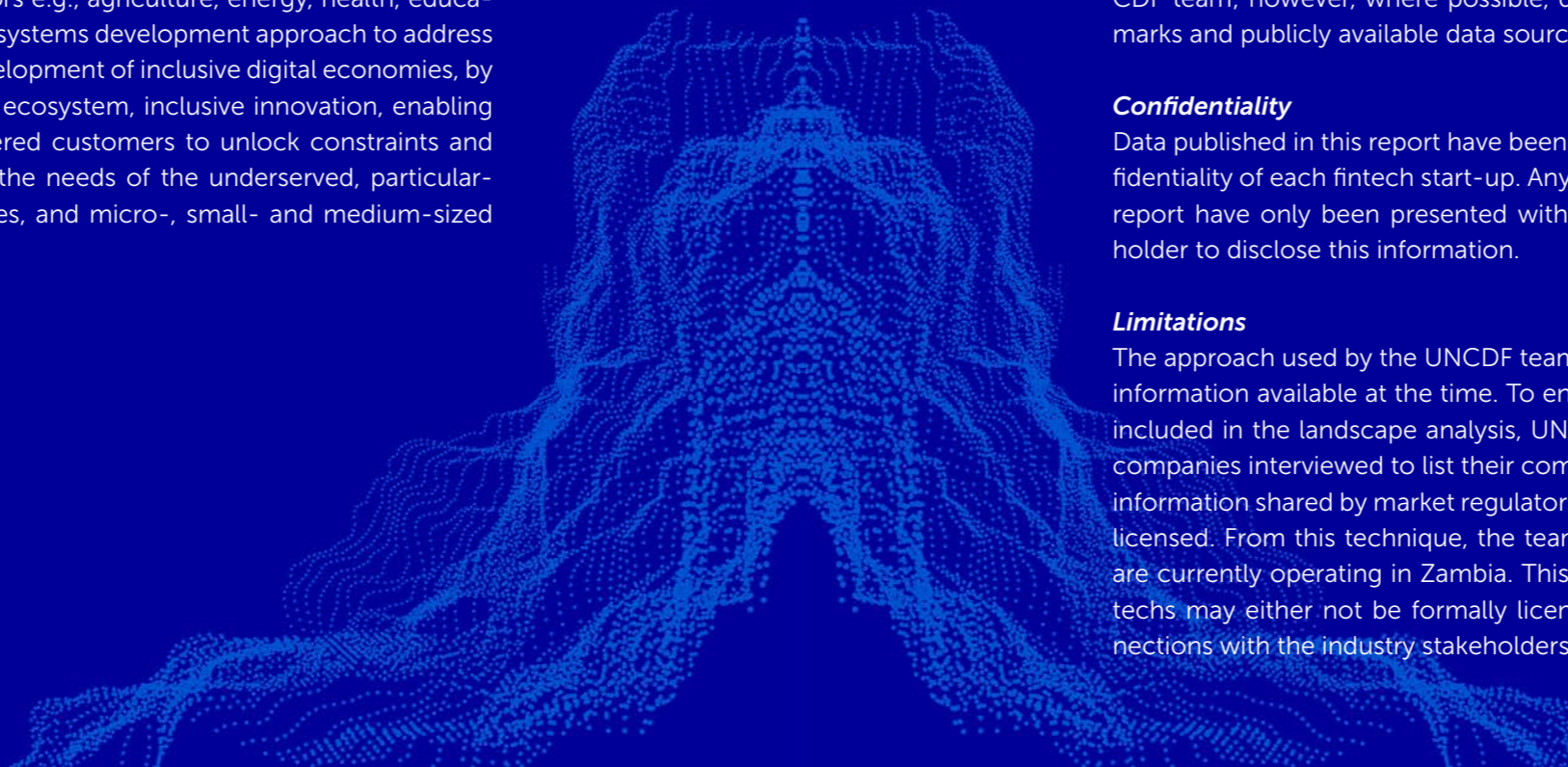
Data are self-reported and have not been verified independently by the UNCDF team; however, where possible, data are checked against other benchmarks and publicly available data sources.

Confidentiality

Data published in this report have been presented in a way to protect the confidentiality of each fintech start-up. Any specific references or highlights in this report have only been presented with the approval of the respective stakeholder to disclose this information.

Limitations

The approach used by the UNCDF team considered all the relevant sources of information available at the time. To ensure that the full range of fintechs was included in the landscape analysis, UNCDF requested referrals and asked the companies interviewed to list their competitors. Additionally, UNCDF analysed information shared by market regulators regarding fintechs they have currently licensed. From this technique, the team determined that 57 fintech start-ups are currently operating in Zambia. This figure may be higher, given some fintechs may either not be formally licensed, or have not yet established connections with the industry stakeholders interviewed as part of this assessment.



ABBREVIATIONS AND ACRONYMS

AML	Anti-money laundering
BOZ	Bank of Zambia
B2B	Business to Business
B2C	Business to Customer
CEO	Chief Executive Officer
DFS	Digital Financial Solutions
Fintech	Financial Technology
ICT	Information and Communication Technology
IMF	International Monetary Fund
KYC	Know Your Customer
LDCs	Least Developed Countries
MOU	Memorandum of Understanding
MSMEs	Micro Small and Medium Enterprises
NBFIs	Non-bank Financial Institutions
NFIS	National Financial Inclusion Strategy
PAYZ	Payments and Fintech Association of Zambia
P2B	Person to Business
P2P	Person to Person
SEC	Securities and Exchange Commission
SRO	Self Regulatory Organisation
ZICTA	Zambia Information and Communications Technology Authority

*Conversion rate: US\$1 = ZMW 19.15. Source: <https://www.boz.zm/> 1 February 2023. This report uses this rate wherever it provides US dollar equivalents for Zambian Kwacha.

EXECUTIVE SUMMARY

INNOVATION IN FINANCIAL TECHNOLOGY—referred to as ‘fintech’—is rapidly disrupting the financial services landscape across the world. Business models ranging from peer-to-peer lending to blockchain-based digital assets are revolutionising the world of digital finance. Zambia’s fintech landscape has evolved considerably in the five years since UNCDF first conducted a market scoping in 2018.¹ The 2018 study identified 25 companies as players in the fintech ecosystem. Based on information gathered during this study from various stakeholders, UNCDF identified 57 fintechs currently operating in Zambia. However, this number may be higher given the industry is constantly evolving and growing.

Many businesses that identify as fintechs in Zambia are concerned with either increasing access to financial services, improving the delivery of said services, or realising gains in efficiency on behalf of their clients. This study explored the various typologies of fintechs in Zambia, including their business activity, stage of development, type of product or service, source of funding, human resourcing, gender representation, and the location of their headquarters. Across the various typologies, fintech companies in Zambia use several technologies such as mobile applications, online platforms, and enabling technologies such as blockchain to offer financial products and services to customers. Some key principles that emerged from discussion with various stakeholders in the fintech ecosystem:

- a. A majority of fintechs rely on payment infrastructure for the delivery of various services ranging from digital credit to digital asset management. These fintechs however face challenges in efficiently utilising existing payments infrastructure due to the relatively high cost of transacting, limited agent liquidity, and frequent down times for platforms that rely on third party aggregators for cross-provider transactions. Improving the customer and business experience in using digital payments both locally and regionally is crucial to the growth of the fintech market in Zambia.
- b. There is no one size fits all solution for customer protection and maintaining integrity and trust within the financial system, as technology and innovation continue to disrupt the traditional financial ecosystem. Zambia’s regulatory environment has seen increased collaboration across regulatory units in the past few years, which is a good start given the cross-cutting nature of fintech business activities, such as lending, deposit-taking, payments, and investing. Additionally, developing open and honest relationships with emerging players in the industry, and viewing them not only as

¹ Are Fintechs Key to Achieving Zambia’s Financial Inclusion Targets by 2022, UNCDF, 2018: <https://www.uncdf.org/article/3375/are-fintechs-the-key-to-achieving-zambias-financial-inclusion-targets-by-2022>

regulatory subjects, but as potential providers of regulatory and supervisory technology, will enable the development of an appropriate and comprehensive approach that fits within the resource and capacity constraints of various institutions.

- c. There is a gap in financing and investment options available for fintechs that are post-validation, but pre-growth in their development. That is, fintechs that have achieved product-market fit, and have an initial customer base with potential for growth. These fintechs are typically too big for smaller options such as grants, but too small for larger options from commercial banks or international investors. This missing band is within the range of \$20,000 to \$500,000. The fintech sector, although promising, is still classified as high-risk by many lenders and investors, and there is a need for initial financing that can prove the business case for lending to emerging players within this sector, while catalysing or crowding in additional capital.
- d. The fintech market is seeing a blend of both collaboration and competition. Over the last two to three years, more established financial service providers have partnered with fintechs, both as service providers for their internal needs, and as co-providers on specific products such as shared digital wallets. At the same time, established financial service providers are developing their own innovation and technology-based products that compete with existing fintechs. Examples of this include commercial banks venturing into digital credit, and mobile money providers developing in-house micro-insurance products. Ultimately, each service provider is driven by what improves their customer's experience while positively impacting their bottom line. As such, players are open to both partner and compete, depending on what best serves these two interests.
- e. Zambia has a growing talent pool in both the financial and technology sector, with a limited pool that understands both these sectors. As such, there is often movement of talent between industry players. Additionally, as the world of work becomes increasingly digital, local talent is also able to participate in the global market, both through relocation and remote work assignments. Local fintechs are therefore not only competing for qualified and skilled talent amongst themselves, but with international players as well. This provides both a challenge and an opportunity. A challenge to present attractive employment packages, and an opportunity to leverage the international talent pool for the services they will need to grow and scale.
- f. Zambia's fintech ecosystem may be small in comparison to South Africa, but regionally it is bigger and, in some ways, more advanced than its neighbouring countries such as Botswana, Malawi, and Mozambique. This provides a real opportunity for Zambia as a hub and leader in fintech developments within the southern African region. Several factors such as the budding innovation support ecosystem, strong public and private tech

education programmes, and increasing local investor participation can contribute to establishing Zambia's fintech market as a leader within the region, creating opportunities for local fintechs to expand their market base beyond the country's borders.

- g. In line with the previous point, the ability of Zambian fintechs to scale both locally and regionally is considerably hindered by the limited spread of digital infrastructure, and prevalence of digital skills among the populace. Addressing this digital infrastructure and skills gap is crucial to increasing the adoption and active use of a broad range of fintech products and services. Achieving scale appears to be one of the biggest challenges facing fintechs who have managed to validate their product with the market.
- h. There is a limited representation of women within the fintech landscape, with only 5 percent of fintechs having women-only founding teams. This is compared to 33 percent of fintechs who have at least one woman in their founding team, and 62 percent of fintechs who have male-only founding teams. Improving the participation of women in the fintech landscape is a collective effort that cuts across developing skills in girls and women, investing in women-led fintech businesses, and offering adequate business development support.

Based on these insights, UNCDF has also developed the following set of recommendations on things to keep in mind for development partners, investors, academia, industry players, innovation hubs, and any other stakeholders looking to support the growth of Zambia's fintech ecosystem:

Ecosystem:

- ▶ Fintechs with seamless integration into established digital payments and mobile money infrastructure have the best customer experience, while other fintechs have to rely on third party aggregators to leverage the same benefit. As more financial service providers adopt open APIs, there is an opportunity to improve interoperability within the digital financial ecosystem through expanding the use cases within their respective APIs. Another option available is expanding use cases within the National Financial Switch (NFS) and make access easier for smaller-scale financial service providers.
- ▶ While regulators have the right intentions, keeping a pulse on financial innovation and developing appropriate regulation to support it is a human and financial resource intensive process. In a resource constrained environment like Zambia, increased regulator collaboration, enabling self-regulation, and openly communicated standards of operation are foundational building blocks for maintaining customer protection in an ever-evolving market like fintech.
- ▶ Partnerships are essential to fintech success, in areas ranging from customer acquisition to product distribution. Emerging fintech however do not have the sufficient sway needed to bring more established financial

industry incumbents to the table. For this reason, regulators, industry associations, and innovation support actors have a key role to play in helping emerging fintechs establish the necessary partnerships they need to successfully grow and scale their business.

Business model:

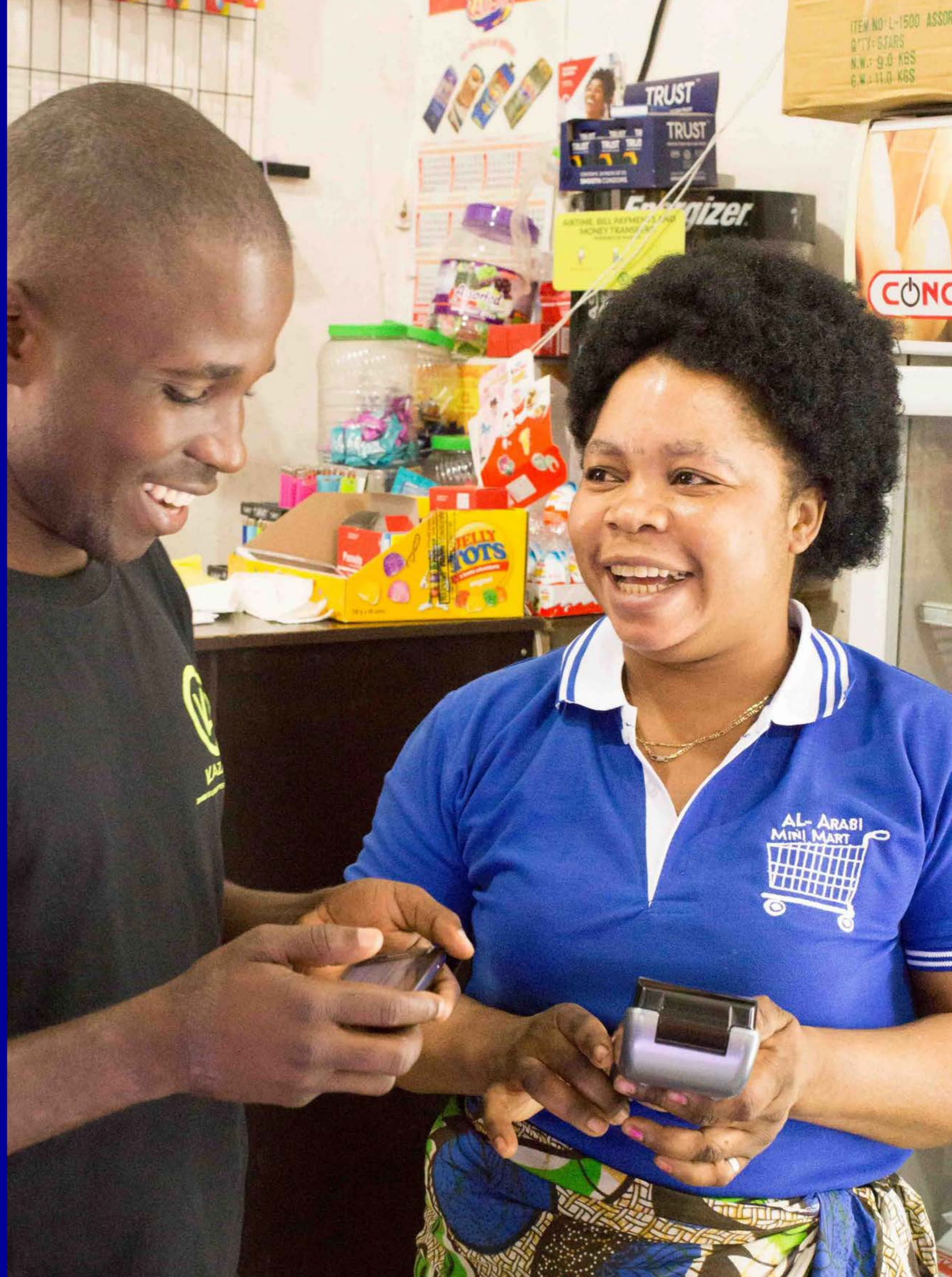
- ▶ Aside from a few exceptions, fintechs often create niche markets for themselves within the broader financial market. Fintechs provide services for which customers are willing to pay, but their average revenue per user (ARPU) is relatively low, and hence requires critical mass for them to achieve profitability. Low-cost distribution channels and adequate infrastructure are critical for fintech growth and scale.
- ▶ There are several fintech vertical such as micro-insurance and micro-pensions for the informal sector, accessible investment options for Zambia's growing base of young professionals, and targeted products for large customer segments such as smallholder farmers, are yet to be fully explored within the Zambian market. Thematic innovation challenges and regulatory sandboxes can help accelerate their development.

Talents:

- ▶ The biggest need in talent is not only qualified personnel, but personnel with practical experience at the intersection of finance and technology. Strengthening the linkages between industry and academia can help to support institutions in producing industry ready graduated with some practical experience.
- ▶ Early-stage fintechs are heavily reliant on their founder's expertise for operation, and hence need support to gain access to diversified expertise needed to run a successful business in an industry as heavily regulated as the financial services industry.

Funding:

- ▶ There is a need for specialised investment vehicles combined with technical assistance, targeting the fintech sector to meet the financing gap faced by post-validation pre-growth fintechs. These specialised vehicles have the capacity to catalyse more funding for the subsector through proving their viability.
- ▶ Successful fintechs are continuously iterating and testing new approaches, product types, and distribution models. For this reason, investment in this sector needs to be both patient and flexible in its terms.
- ▶ There is potential to tap into the Zambian capital markets to unlock additional financing for local fintechs, while simultaneously increasing local investor participation.





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