

Measuring Financial Access in Zambia

FinScope™ Zambia 2005:

Summary of
Topline Findings

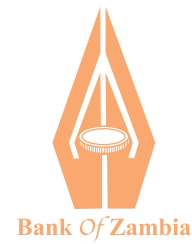


Republic of Zambia

November 2006



Bank Of Zambia



FinScope™ Zambia

FinScope™ Zambia was carried out as an integral component of the Government of the Republic of Zambia's Financial Sector Development Programme (FSDP). Funding for the survey was provided by the Department for International Development (DFID) and the Swedish International Development Agency (Sida), and technical support was provided by FinMark Trust.

The FSDP is a comprehensive strategy to build and strengthen the financial sector infrastructure to enable it to support economic diversification and sustainable growth. The FSDP recognises that accurate information about the financial infrastructure and the demand for financial services is needed to guide policymakers and financial service providers in their efforts to promote better access by all to financial services.

To support the enhancement of this knowledge, the FSDP carried out the FinScope™ Zambia survey that profiles the demand for financial services across the entire Zambian adult population. The Government wishes to acknowledge the support provided by its development partners, DFID and Sida, as well as the technical partner, FinMark Trust, in the execution of the survey.

The Government of Zambia hopes that all the FSDP partners will use the data generated by this exercise to build a more inclusive financial market in Zambia, and increase the access of the population to affordable, appropriate and accessible financial services.

This publication summarises some of the key findings of the survey and the data generated. A more comprehensive report is available on the CD that accompanies this publication. The FinScope™ Zambia dataset is also available on the CD to enable all partners supporting the development of Zambia's financial sector to conduct their own analysis. We hope that by making this data available, financial service providers will identify new opportunities to provide financial services to the majority of Zambians, and that the data will assist policymakers, regulators and other institutional players to create the enabling environment for the development of the financial sector.

Dr Caleb M Fundanga

Governor

Bank of Zambia



About FinScope™ Zambia

FinScope™ Zambia is a nationally representative survey that measures access, use, perceptions and demand patterns of financial services. It provides insights into how consumers source their income and manage their financial lives. The sample represents the whole adult population – rich and poor, urban and rural – creating a continuum of the entire market and illuminating the different market segments.

The survey has three main aims:

- to establish credible benchmarks and indicators of access;
- to provide insights into regulatory and market obstacles to growth and innovation; and
- to highlight opportunities for policy reform and innovation in product development and delivery.

The survey aims to establish credible benchmarks and indicators of access

FinScope™ Zambia will help build the information architecture that is key to strengthening the Zambian financial sector's organisational and institutional infrastructure. It will also support the government's Financial Sector Development Programme.

FinScope™ Zambia is part of a family of FinScope™ surveys being implemented by FinMark Trust. FinMark Trust (www.finmarktrust.org.za) is a nonprofit think tank that aims to support the development of financial markets that work for the poor. To date FinMark Trust has conducted FinScope™ surveys in South Africa, Botswana, Namibia, Kenya, Tanzania and Uganda, and plans are in place to conduct surveys in Nigeria and Ghana. These will begin at the end of 2006. Other countries will be surveyed during the following year. For more information see www.finscopeafrica.com.

The FinScope™ Zambia questionnaire has 215 questions grouped in 12 themes as detailed in the box below. It was administered through face-to-face interviews during November and December 2005. The full questionnaire is available on the enclosed CD.

FinScope themes

Theme	Objectives/Information sought
General banking	Knowledge of financial terms, banks and products; use of, and physical access to, bank products and services; profile of banked and unbanked people; reasons for not being banked; demand for bank services and alternative services being used; opportunities to expand banking to the unbanked.
Financial perceptions	Consumer perceptions of financial services and providers; levels of awareness of providers; consumer preferences, needs and coping strategies.
General money matters	Sources of income; methods and frequency of receiving and sending money; extent to which people deal in cash; demand for transaction facilities; ways of receiving income and paying for business activities.
Credits and loans	Use of loans and credit services and sources; repayment behaviour and determinants; product features that consumers look for; reasons for loan refusal; demand for credit and loans, and the extent to which supply terms meet needs; repayment culture and indebtedness.
Investments and savings	Consumer experience with investing and saving money; factors influencing decisions to save; alternative ways for the unbanked to save and invest; what investment and savings behaviour means for the demand for better savings services.

FinScope themes continued

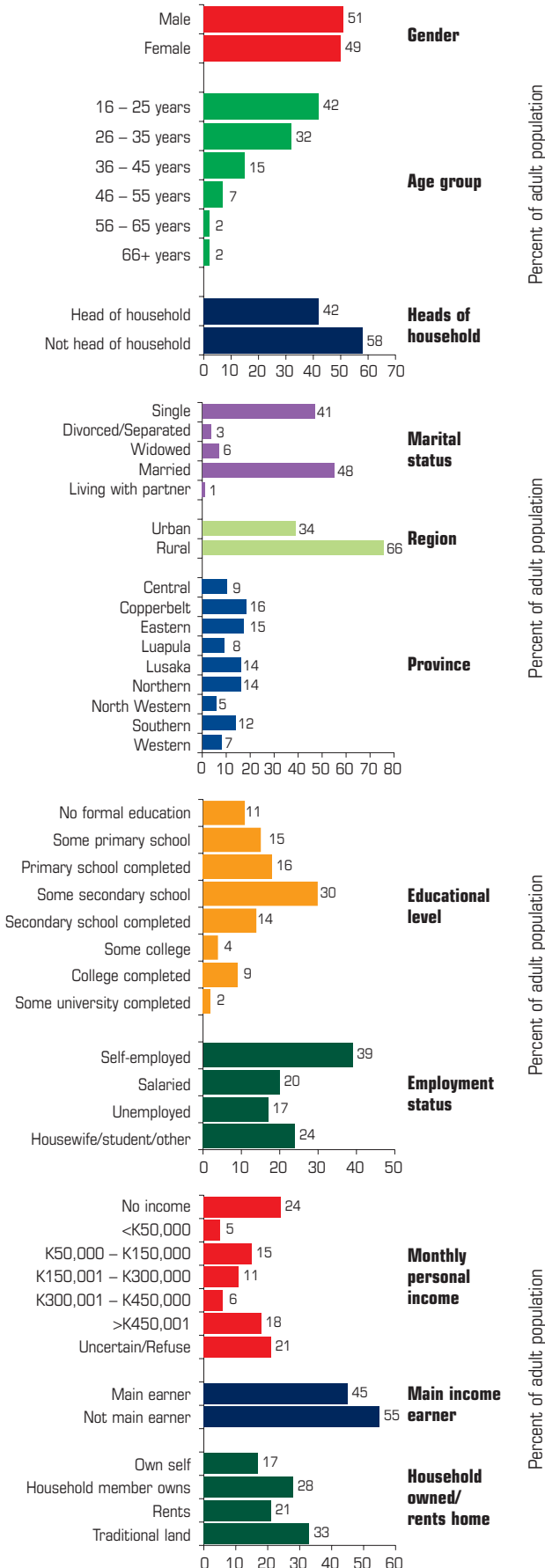
Theme	Objectives/Information sought
Insurance	Penetration of, and experience with, insurance products and sources; demand for risk-mitigating financial services vs current supply.
Business	Employment status and income-generating activities; sources of funds used to start and manage businesses; use of banking and financial services among business owners; reasons for not accessing bank loans for business; extent to which own business is an important source of income; insights into opportunities for business-related finance.
Informal finance	Consumer use of alternative informal systems; extent to which Chilimbos are used for savings and credit; insights into how Zambians manage their money, including savings culture and coping strategies.
Psychographics/ Financial sophistication	Assessing consumer knowledge of, and attitudes to, financial services; consumer beliefs, cultures, and way of life is an important determinant of demand and scope for financial services; classifying consumers into segments other than wealth.
Access to and use of communication technology	Access to and use of communication technology; cellphone ownership.
Quality of life	Ownership of household utility and luxury items; mode of transport to nearest grocery source; understanding of consumer psychology, sense of being and life values.
Demographics	Sources and volume of household income; type of dwelling, ownership of property and dwelling; perceptions of property as an asset; education, language and literacy; understanding how households influence financial behaviour.

*Access to
financial services
in Zambia is
extremely low,
though higher
than expected*

Definitions

Formal financial service providers	Banks, insurance companies, building societies, investment managers, and registered microlenders.
Informal financial service providers	Unregistered microlenders, Kaloba (informal loans) and Chilimbos (savings clubs). Does not include family and friends.
Banked and unbanked	People who do and people who do not use one or more bank product.
Formally included	People who use one or more formal financial product, either from a bank and/or other formal financial institution.
Financially served	People who use one or more formal and/or informal financial product.
Informally served	People who use one or more informal financial product.
Financially excluded	People who do not use either a formal or an informal financial product.
Transactions	Financial services using cash or other means (cheques, cards, electronic means) to make or receive payments, domestic or international.
Savings	Safeguarding wealth and accumulating wealth for future use.
Credit and loans	Obtaining funds from a third party with a promise of repayment of principal and, in most cases, with interest and arrangement charges in exchange for the money.
Insurance	Payment of premium for risk of an event happening, where payout is made if or when the event occurs.

Figure 1: FinScope™ Zambia Sample Profile



FinScope™ Zambia sample

An area-based sampling methodology was used. This takes the population census of a country as the main frame and ensures that each citizen has an equal probability of being sampled. The FinScope™ Zambia sample size was 4,000 individuals, covering all nine provinces and targeting all Zambian citizens aged 16 years and above – this being the age at which Zambians are legally eligible to open a bank account. This sample size provides reliable estimates for national and rural-urban desegregation. The Central Statistical Office (CSO) collaborated in producing the sample, and calculations were based on assumptions of a 10% margin of error and a 95% confidence level.

FinScope™ Zambia 2005 covered 160 Standard Enumerator Areas, which were detailed on maps provided by the CSO. The sample was weighted to Zambian population estimates and verified by the CSO through cross comparisons with the Zambia Census 2000 data at both a national and provincial level.

The sample has a high percentage (42%) of young people between the ages of 16 and 25; 42% are heads of household; and 45% are the main income earners (see Figure 1). Most (66%) live in rural areas, but the sample is fairly evenly distributed across all provinces. Just under half (42%) have completed primary school and an additional 30% have some secondary schooling. Self-employment is a major source of income for 39% of respondents; 24% say they have no income; and 21% refuse to give income information.

Financial Access Landscape in Zambia

The FinScope™ Zambia data confirms that access to financial services in Zambia is extremely low, though perhaps higher than expected. The Financial Access Landscape (FAL) measures the use of financial products across transactions, savings, credit and insurance. This is further broken down into the use of formal versus informal products. This demonstrates the importance of the informal sector in pushing the access frontier, in particular for savings and credit use.

Transactions and savings products from formal providers have the highest levels of use although low at 14.4% and 14% respectively. Transaction products consist of current and savings accounts, and the savings products are mainly savings accounts, with very low use of longer-term savings products. Transaction mediums such as

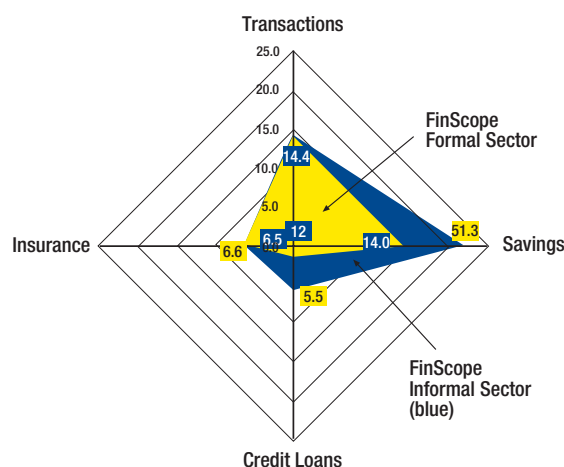
ATM/cash point cards are used by 7.5% of the adult population while other transaction mediums such as credit cards, debit cards, and DDAC (direct debit and credit) are used by less than 1% of the adult population.

Using credit products from formal institutions is very low at 1.2%. However, credit use increases significantly when informal providers are included. Loans are mainly used for consumption with purchase of food and clothing mentioned by 43% of respondents, followed by the purchase of medicine (15%).

Only 6.6% of the adult population use insurance products, mainly pensions and motor vehicle insurance.

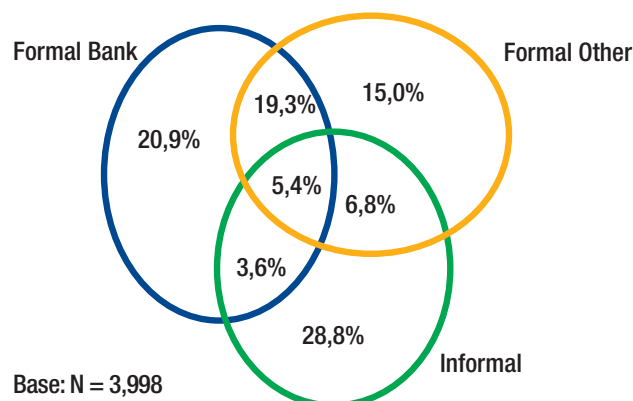
When informal products are included, the FAL expands along the credit and savings product axis (see Figure 2). Given the low access to formal financial services, use of informal services is relatively high with 14% of adult Zambians having an informal product, either a Kaloba (loan) or a Chilimba (savings). Just over 8% of adult Zambians belong to a Chilimba, and just over 2% report they have a loan from a Kaloba at present, and 12% report that they used to have one. Chilimbans can also be used for loans, with 8% of respondents saying that they had taken out a loan from a Chilimba in the past, and 1% saying that they have a loan at present. As with formal loans, the use of loans from informal providers is likely to be much higher than recorded as people usually do not want to admit they have such loans, a universal phenomenon. Those who belong to a Chilimba (7.5%) mainly do so to save for a specific planned event or purpose. Informal products are not necessarily a substitute for using formal products. However, fewer than 15% of people with a formal or an informal product will have both (see Figure 3).

Figure 2: Zambia's Financial Access Landscape



Base: Total n = 1200; Urban n = 501; Rural n = 643
Percentage of adult population

Figure 3: Overlap between use of formal, formal other and informal products



Base: N = 3,998

Financial Access Strand in Zambia

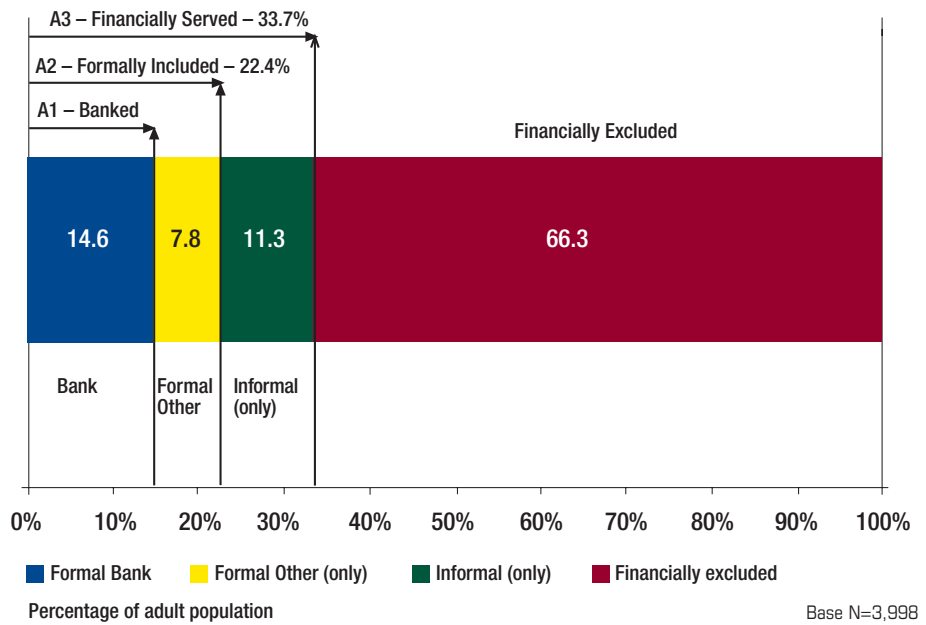
The Financial Access Strand (FAS) measures financial inclusion across the formal-informal institutional provider continuum. The hypothesis focuses on the financial system in its broadest sense and assumes the sample population will fall into one of four broad segments. These segments range from people who are formally served by formal institutions, to those people who use only informal providers, and finally to those people who do not use any provider. The access segments are colour-coded: banked (blue) formal other (yellow), informal only (green) and financial excluded (red).

Financial Access Strand

Banked:	Respondents that say they have a service from a bank, but may also be using formal other or informal providers
Formal other:	Respondents who are not banked but are using a service from a formal provider (e.g. microfinance institution). These people may also be using an informal provider
Informal only:	Respondents who use only informal providers
Financially excluded:	Respondents who are considered not to use any formal or informal provider

The FAS uses these colour-coded segments to categorise the population as banked (blue), formally included (blue and yellow), financially served (formal and informal – blue, yellow and green) and financially excluded (red) (see Figure 4). It details where provision is coming from and draws attention to the percentage of the adult population who say they do not use any financial service from a formal or informal provider, that is those who are financially excluded.

Figure 4: Zambia’s Financial Access Strand



More than two thirds of Zambians are not using any type of formal or informal financial service provider

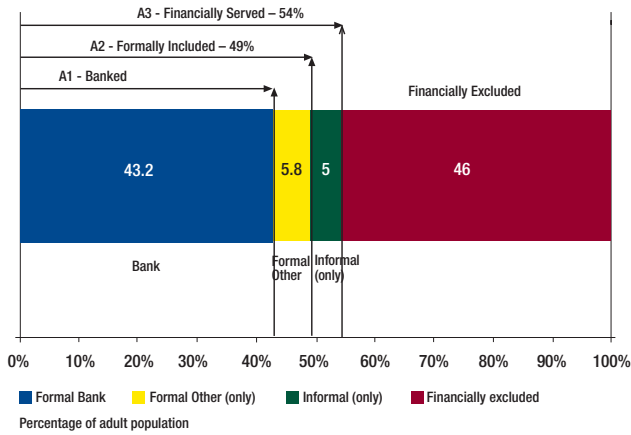
Access to the formal financial system in Zambia is low at 22.4%, with fewer than 15% of adult Zambians reporting to be banked (see Figure 4). Access improves by 7.8% when formal other institutions (e.g. microfinance institutions) are included, and further expands by 11.3% when those using only informal providers are considered. Formal other and informal providers are playing an important role in pushing the frontiers of access, resulting in 34% of the adult population being financially served.

Access differs for men and women, with women having less access to banks (11.6% banked compared to 17.5% of banked males) but higher use of informal providers (12.2% compared to 10.3% for men). Women have higher levels of financial exclusion at 68.4% compared to 64.4% for men.

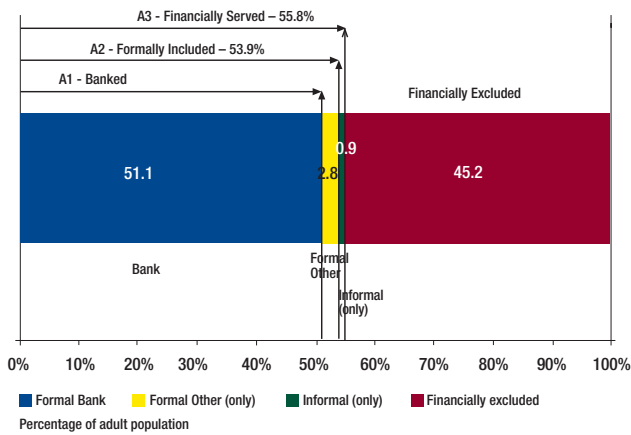
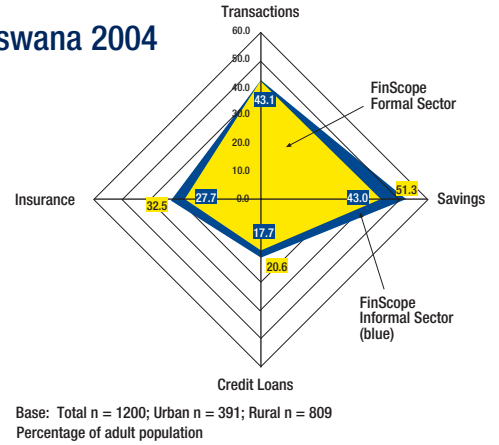
More than two thirds of adult Zambians (66.3%) are not using any type of formal or informal financial service provider. This does not mean there isn't a need, or that these people are not engaging in activities that fulfil functions of transactions, credit, savings and risk mitigation. They are probably using sub-optimal alternatives, i.e. methods with high costs, and higher risks. The financially excluded are equally male and female, but they are mainly self-employed, most having had some education, and are young (54% aged 16-25), or dependents with no income.

Comparing the FAL and FAS indicators in Zambia with other countries where FinScope™ has been conducted (see Figure 5 overleaf) shows that overall levels of access are lower.

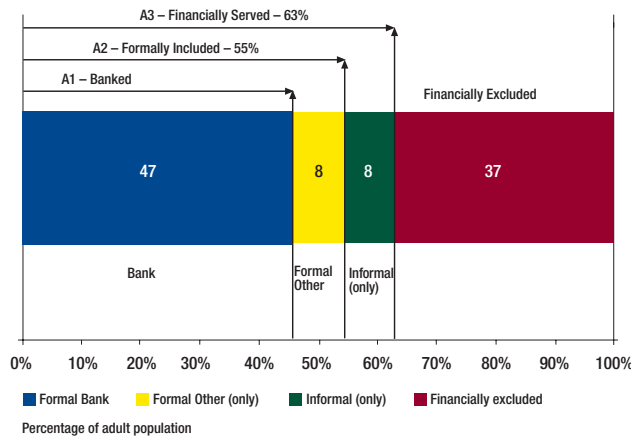
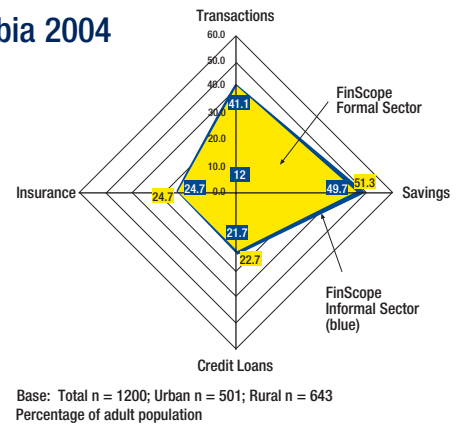
Figure 5: Comparing Zambia's level of financial access with other Southern African countries



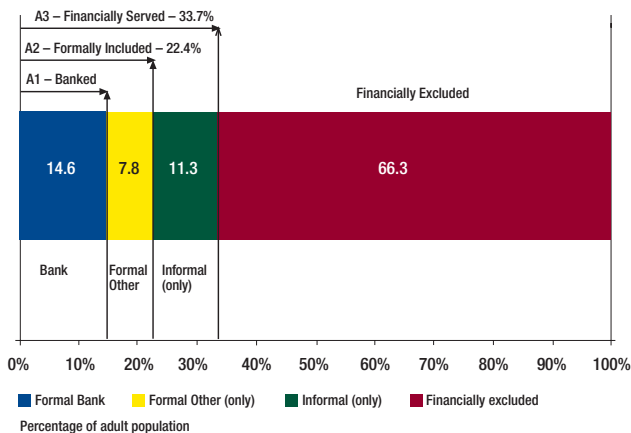
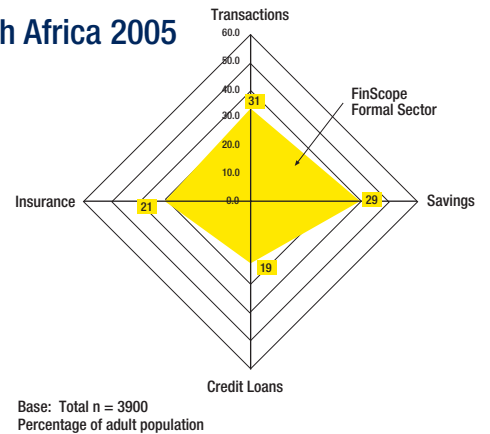
FinScope™ Botswana 2004



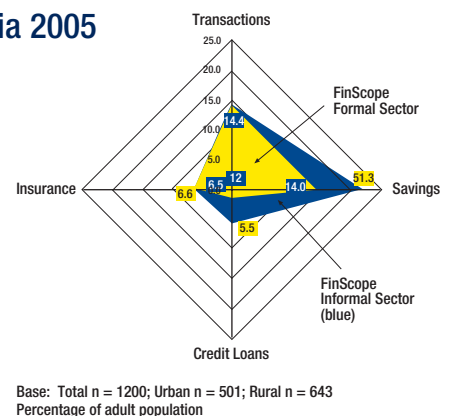
FinScope™ Namibia 2004



FinScope™ South Africa 2005



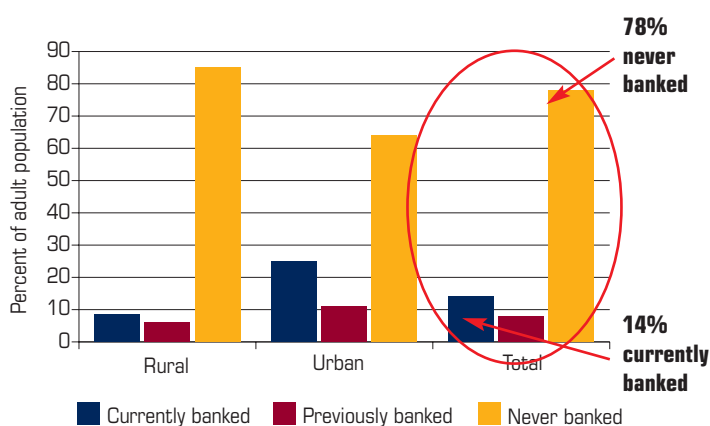
FinScope™ Zambia 2005



Using banks

The use of bank products by adult Zambians is low with 78% never having had a bank account and only 14% currently having a bank account (see Figure 6). A significant percentage (8%) used to have a bank account, but no longer have one. A higher percentage of women have never had a bank account (82%) compared to men (73%), and a lower percentage of women used to have an account (6.6%) compared to men (9.3%). Most banked and used-to-be-banked people are urban and middle-aged, and a greater number of older people are previously banked. Not surprisingly, the highest percentage of banked are salaried employees (48.6%), though a high percentage of this salaried population have never had a bank account (41.6%).

Figure 6: Use of bank products

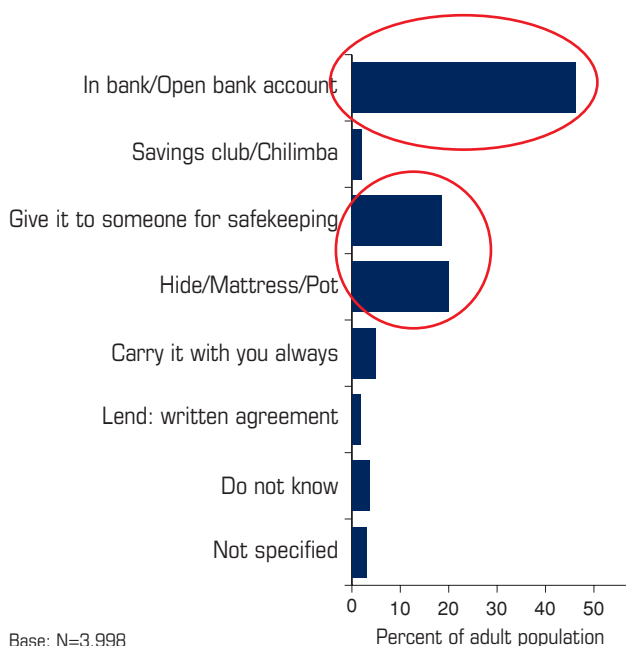


Base: N=3,998 Chi Square=246.3; p<0.01

When asked what they would do to keep a large sum of unexpected money, such as winning the lottery or getting an inheritance in cash, most respondents said they would put it in a bank account or open a bank account. A large percentage, 31%, (see figure 7) said they would keep it under the mattress or give it to somebody for safekeeping. Interestingly, the financially excluded would not behave that differently as 52% would open an account; 18% would give it to somebody for safekeeping; and 19% would put it under the mattress.

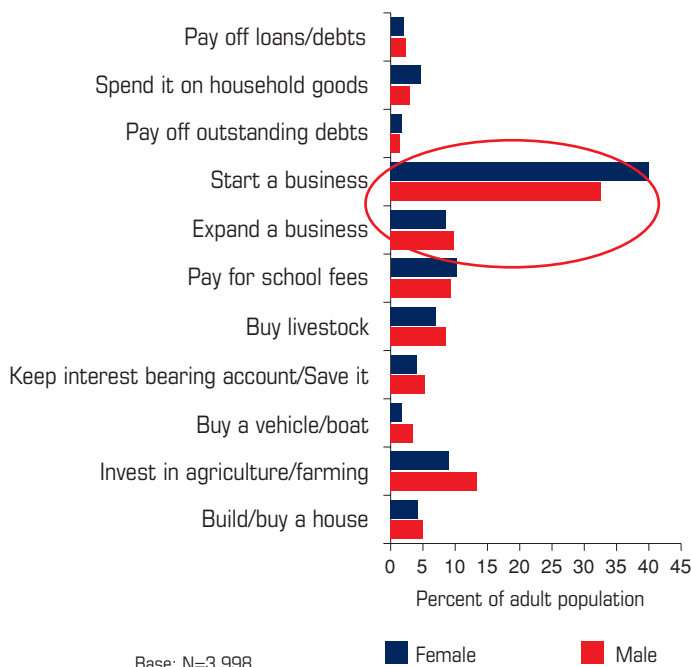
When asked what they would use the money for after keeping it safe, 36% – the majority being women – said they would use it to start a business; 9.2% would expand a business; and 19.1% would put it into agriculture or livestock. This trend also applies to the financially excluded (see Figure 8).

Figure 7: What Zambians would do with a large sum of money



Base: N=3,998

Figure 8: Selected spending preferences for a large sum of money

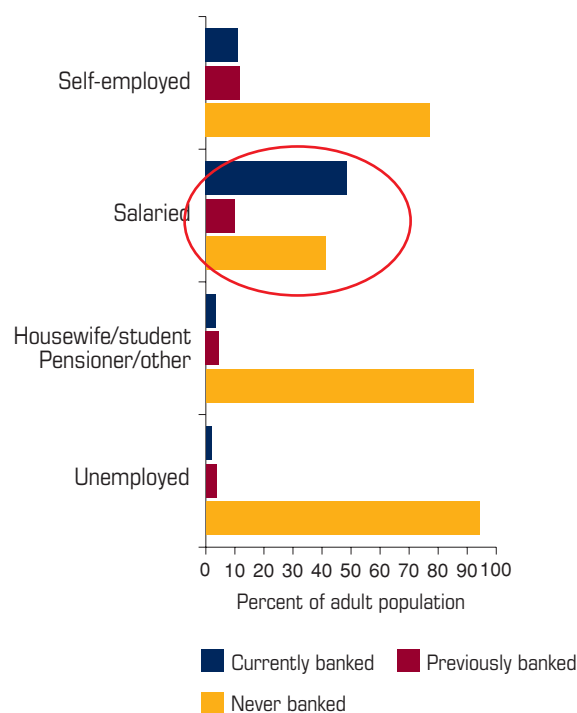


Base: N=3,998

The main reasons given for not having a bank account relate to income, such as “do not have money”; “do not have a regular income”; or “do not have a job”. Most self-employed people do not have a bank account as illustrated in Figure 9. It is therefore normal for people to give income-related responses as the main reasons for not having a bank account.

More interesting is the fact that people also mention distance, minimum balance, cost, and “do not qualify” as reasons. These responses, though mentioned by less than 10% of respondents (see Table 1), suggest that providers could reach more people if they adapted a bank product for non-salaried individuals. This is further supported by what people take into account if they were to open a bank account. Appropriateness of the service regarding the terms and conditions, as well as cost and physical access, are considered (see Figure 10). The most important factor mentioned was minimum balance, followed by the interest rate and bank charges, and then location of the bank.

Figure 9: Banking status by employment



Base: N=3,998 Chi Square=1038.4.1; p<0.01

Table 1: Reasons for not having a bank account

	% of adult population
I do not have money to put into a bank	62.0
I do not have a regular income	32.0
I do not have a job	26.2
The bank is too far	8.5
Minimum bank balance too high	6.5
It is expensive to have a bank account	5.0
I do not qualify to open an account	4.7
I do not need a bank account	4.3
I do not know how to open an account	4.3
I prefer dealing in cash	3.7
Bank charges / Service fees are too high	2.2
Lack of knowledge about banks	2.1
The bank closed my account	2.0
I do not trust banks	1.7
I do not have an identity document	1.2
I do not have a reference	1.0
I am still at school / I am too young	1.0

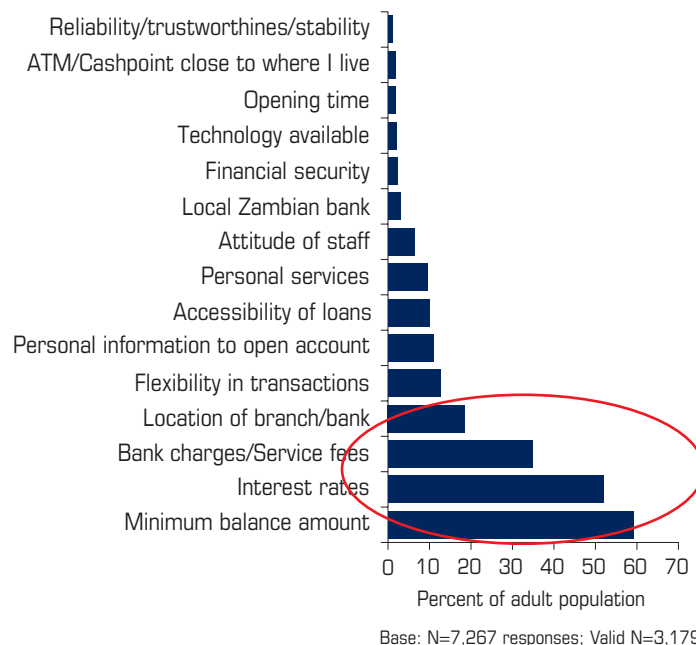
Base: N=5,754 responses; Valid N=3,350

Financial service providers could reach more people if they adapted a bank product for non-salaried individuals



Are product design factors constraining uptake?

Figure 10: Factors taken into account when selecting a bank



Receiving money

Adult Zambians receive their money (income and other receipts) in cash rather than through the financial system. (See Table 2). Less than 10% receive monies in the bank and nearly 80% receive money in cash. Among the salaried, 68% receive cash. When asked how they prefer to receive money from income, 83% prefer cash.

Table 2: How Zambians receive their money

Percent of adult population

METHOD	RURAL SAMPLE	URBAN SAMPLE	TOTAL SAMPLE	SELF-EMPLOYED (formal/informal)	SALARIED (Full/part-time)	HOUSEWIFE/STUDENT PENSIONER/OTHER	UNEMPLOYED
Cash in person	84.3	71.1	79.3	86.1	67.9	78.2	78.7
Cash third party	6.3	4.4	5.6	6.0	2.9	7.3	9.9
Swift transfer	0.3	1.3	0.7	0.4	0.6	1.4	1.5
Western Union	0.2	0.9	0.5	0.4	0.5	0.8	0.3
Cheque	1.3	2.1	1.6	1.3	2.0	2.5	1.0
Into bank account	3.3	15.77	8.0	1.5	22.3	4.2	4.1
Other	0.6	0.4	0.5	0.6	0.5	1.0	
Not specified	3.7	3.9	3.8	3.8	3.3	4.4	4.5

Bank concentration and market share

Data on awareness and bank use show that five banks capture most of the market for retail financial services. The awareness data indicated the extent to which a bank is known even if it is not used. Zambia National Commercial Bank (ZNCB) has the highest level of awareness with most people (86%) spontaneously mentioning its name when asked which banks they are aware of or had heard of. Four other banks feature prominently: Finance Bank, Barclays Bank, Standard Chartered Bank and National Savings and Credit Bank (NSCB) (see Figure 11 overleaf).

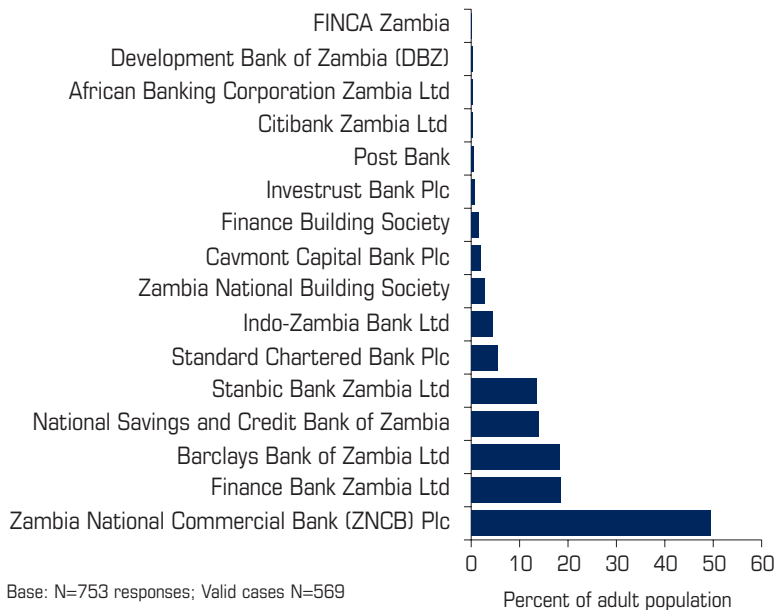
Figure 11: Awareness of banks in Zambia



The banking sector is concentrated around five banks

ZNCB has the highest market share for accounts held, followed by Finance Bank and Barclays Bank (see Figure 12). In terms of concentration index, despite the large number of banks in Zambia, five major banks dominate the market, and 3.5 products out of the 15 on offer are mostly used.

Figure 12: Use of banks in Zambia – where accounts are held

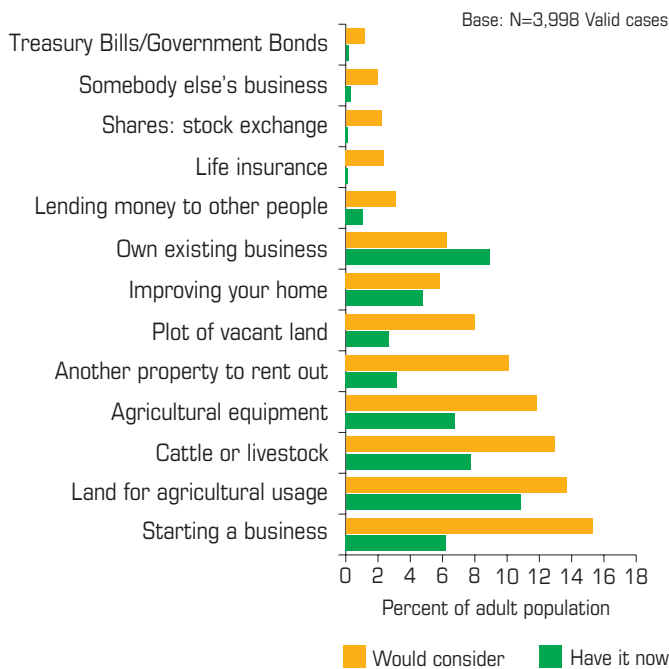


Zambians are not using banks to keep and accumulate money

Savings and investment behaviour

Zambians are not using banks to keep and accumulate money. Rather than buy Treasury bills, buy life insurance or stocks on the Lusaka Stock Exchange, Zambians report that they are, or would consider, investing in non-financial instruments such as a business, livestock, land or agricultural equipment. Currently, less than 1% of people use any formal financial instrument, while a higher percentage have investments in business, land, agriculture and property (see Figure 13).

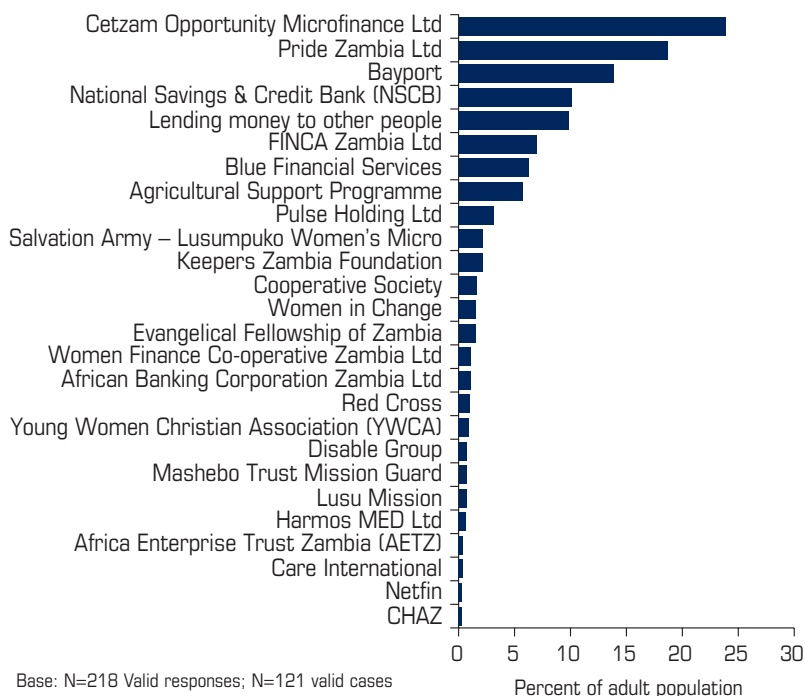
Figure 13: What Zambians would consider investing in versus the investments they have now



Microfinance institutions

About 5% of adult Zambians say they currently have, or have previously had a financial service from a microfinance institution. Microfinance institutions in Zambia include both private company moneylenders such as Bayport, and the more traditional donor-supported microfinance institutions such as Pride Zambia. Cetzam Microfinance Bank is reported to have the highest coverage followed by Pride Zambia, Bayport and NSCB (see Figure 14).

Figure 14: Coverage of microfinance institutions in Zambia



Access to technology

Most Zambians sampled have little or no access to information communication technology such as email, computer and telephone. Cellphone penetration is still low at 18% of adults, though, as expected, is much higher in urban areas. Nevertheless, 37% of adults say they use cellphones, of which 46% are urban and 23% are rural.

Possessing legal documents

Determining the legal documents people possess is also important in understanding potential barriers to financial service provision. The FinScope™ Zambia data shows that only 55% of adults have a National Registration Card. Even fewer have other documentation required for opening a bank account, such as a utility bill.

Business finance

Only a few people who say they own a business use the financial sector. Of those that say they are self-employed, 60% consider that they have their own business. For those who say they own a business, 78% of the businesses are reported to be unregistered. In 81% of cases, the owner of the business is the sole or most important decision-maker for the business and most (59%) are self-run. For the 36% that are not self-run, 93% employ between only one and five people and are very small businesses. Only 6% employ between six and 10 people. Of the 36% that are not self-run, 84% pay employees in cash and/or in kind. Suppliers are also paid in cash.

Business cash is kept at home, with 66.2% of those that consider they have their own business saying they keep it at home and only 9.4% reporting they keep the money at the bank. Most of those that do have a bank account do not have a separate business account. The main banks used for their business activities are ZNCB, Barclays Bank and Finance Bank.

When dealing with crises in their business, 27% will borrow from family, friends or neighbours, 22% will use savings, and 14% will accept a donation. Only 2.5% say they will borrow from a bank, 4% from a microfinance institution, and 7% from an informal moneylender.

Most business owners say they used personal savings to start their business. Almost all (96%) did not even apply for a bank loan. Reasons given for not applying include that they thought they would not get one, or they had the money, but also that they didn't know how to apply. Two percent did apply but their applications were turned down.

Agricultural finance

The survey tried to understand how people running an agricultural activity finance this. The findings suggest that there is also limited use of financial services in the agriculture sector. Of those who indicated that they were involved in agriculture, most (77%) say they are involved in small-scale farming, and 17% say they have a smallholding. Only 2% define their agricultural enterprise as commercial. In most cases, the agricultural enterprise or farm is reported as owned by the respondent or another person in the household. Of those who say they own their farm, only 19% claim to have title deeds.

Of those engaged in agriculture, only 15% say they finance their inputs by external means. Of these, most use co-operatives, outgrower schemes or government financing schemes. Of those that finance their inputs, 74% claim they were able to clear their obligations.

Mining the data

The data in this brochure provides a glimpse of the findings of the survey. To gain the full value of the information collected further analysis and mining of the data set is needed. There are many different ways to analyse and interpret the data and this will depend on the needs of the user. The CD rom with this publication contains the dataset in a statistical package called SPSS. The data can be converted into other statistical packages for ease of analysis. A more detailed report is also provided on the CD rom and includes more than 160 graphs and tables.

For assistance in using the data or in identifying consultants that can mine and interpret it around specific angles contact FinMark Trust at info@finmarktrust.org.za or visit the FinScope website www.finscopeafrica.com, or alternatively contact the FSDP secretariat at the Bank of Zambia.

FinScope Zambia Funders



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