FinScope
2015

fsdZambia
Expanding Financial Inclusion

Bank Of Zambia

ABOUT FSDP

The Government of the Republic of Zambia's Financial Sector Development Plan (FSDP) Project was set up in recognition of the strategic importance of the financial sector to Zambia's development and poverty reduction efforts. The FSDP project has been implemented under the coordination of the Bank of Zambia (BoZ) in collaboration with other financial services regulators, notably the Securities and Exchange Commission (SEC) and the Pensions and Insurance Authority (PIA) on behalf of the Government of the Republic of Zambia. The FSDP represents a vision statement and a comprehensive strategy by the country to address various weaknesses as well as broaden and strengthen the Zambian financial system. In this regard, the FSDP project has been aimed at guiding efforts to realize the vision of a financial system that is 'stable, sound and market-based and that would support efficient resource mobilization necessary for economic diversification and sustainable growth'.

In working with the Zambian Government, the Government of Finland, in partnership with other lead donors has been supporting the implementation of financial sector development reforms under the FSDP Phase II which ran from 2010 to 2015. It is envisaged that the development and implementation of a national financial inclusion strategy will be considered as a successor to the positive reforms achieved under the FSDP project to date.

FinScope 2015

TOP LINE FINDINGS

FOREWORD

FinScope Zambia 2015 Survey is the third cycle of a survey measuring financial inclusion in Zambia. The FinScope provides information about the usage of, demand for, and behavior towards financial services amongst adults in Zambia. It has proved to be a major source of information for policy makers, financial service providers, researchers and others connected to the financial sector, in shaping pro-poor financial policies and development.

The first FinScope survey was conducted in 2006, covering 2005, to inform the Government of Zambia's comprehensive strategy for strengthening and broadening the Zambian financial sector under the Financial Sector Development Plan (FSDP), which run from 2004 to 2009 under Phase I and 2010 to 2015 under Phase II. The findings of this survey showed that levels of financial inclusion amongst Zambian adults were low at 33.7%. A follow up survey conducted in 2009 showed that while levels of financial exclusion had reduced since 2005, financial inclusion remained relatively low at 37.3% of adults being financially included.

This report presents the findings of the FinScope Zambia 2015 Survey. The objective of this survey was to assess how the landscape of financial access has changed since 2009 and measure the extent to which various developments within the financial sector have impacted on levels of financial inclusion throughout the country.

While broad based access to financial services has remained a challenge in Zambia for many years, taking a peek into the 2015 report, the FinScope survey of 2015 has showed a significant increase of access to 59.3% - up from 37.3% in 2009. This represents a 22% upward movement in the level of uptake signifying improved awareness and usage of financial services countrywide. This is illustrated in the positive survey results shown in both rural and urban areas as well as for both the male and female populations. The results further show a strong stakeholder partnership and engagement between the public and private sectors in driving the financial inclusion agenda for all, although more still needs to be done to push the access boundary further.

As coordinators of the FSDP, the Bank of Zambia wishes to thank FinMark Trust Zambia and Financial Sector Deepening Zambia, as well as their local partners, notably the Central Statistical Office and representatives from the respective FSDP working groups, for undertaking this study. We also wish to extend our gratitude to the other financial sector regulators namely, the Pensions and Insurance Authority (PIA) and the Securities and Exchange Commission (SEC) for their invaluable input and support to this process.

By making this data available, it is hoped that policymakers, regulators and other institutional players will be encouraged to strive to build a conducive environment for the development and growth of an inclusive financial sector that supports all aspects of the Zambian economy. It is also expected that financial service providers will be motivated to identify new product opportunities and explore ways of improving service delivery to the Zambian population as a whole.

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GOVERNOR

BANK OF ZAMBIA

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ACRONYMS AND ABBREVIATIONS

ASCA	Accumulating Savings and Credit Association
ATM	Automated Teller Machine
CSO	Central Statistical Office
DFID	Department for International Development (UK)
EA	Enumeration Area
FAL	Financial Access Landscape
FAS	Financial Access Strand
FSAP	Financial Sector Assessment Programme
FSDP	Financial Sector Development Plan
GRZ	Government of the Republic of Zambia
IMF	International Monetary Fund
ZMW	Kwacha (Zambian currency)
KYC	Know Your Customer
LCMS	Living Conditions Monitoring Survey
LFS	Labour Force Survey
MFI	Microfinance Institution
NRC	National Registration Card
ODA	Overseas Development Assistance
POS	Point of Sale terminal
PSDRP	Private Sector Development Reform Programme
PSU	Primary Sampling Unit
ROSCA	Rotating Savings and Credit Association
SACCO	Savings and Credit Cooperative
Sida	Swedish International Development Agency

DEFINITIONS

Access strand	A measurement of financial inclusion across the formal-informal institutional provider continuum.
Banked	Individuals using one or more financial services supplied by banks.
Chilimbas	Informal indigenous savings clubs.
Demand-side barriers	Characteristics inherent to individuals that prevent them from accessing financial services, such as perceived insufficient income, low levels of financial literacy and lack of proximity to and/or trust in financial institutions.
Formal other	Individuals using one or more financial services supplied by formal financial institutions which are not banks (e.g. MFIs, insurance companies, formal money transfer service providers.
Formally included	Individuals using formal financial services supplied by institutions formally regulated. This is not exclusive usage as these individuals may also use informal services.
Financial access landscape	A measurement of usage of both formal and informal financial services across the four main financial services: savings, credit, insurance and transfers.
Financially served	Individuals using one or more formal and/or informal financial service.
Financially excluded	Individuals who are not using any formal or informal financial service.
Financial inclusion	People access and use appropriate financial services, such as savings, credit, insurance and transfers, whether formal or informal.
Informal services	Financial services supplied by financial service providers that are not regulated by the state
Informally Included	Individuals who are not using any formal financial services but who use one or more financial service supplied by an informal provider.
Kaloba	Informal moneylenders.
Remittances	The sending and receiving of money between a sender in one place to a receiver in another place using formal or informal means.
Supply-side barriers	Factors inherent to financial service providers that prevent individuals or businesses from accessing their services, such as proximity and the cost of services.
Transfers	Financial services that use cash or electronic means (such as cheques, credit cards, debit cards, mobile money) to send or receive payments.

1. SUMMARY

Ultimately the goal of financial sector development and increased financial inclusion is to improve the lives of Zambians. The premise is that access to secure savings products and other financial services will better enable the poor to build financial security, manage financial shocks and invest in education, health, housing and income generating opportunities—the cumulative effect being poverty reduction through greater participation in economic activities and increased quality of life. Addressing financial exclusion is therefore key to any strategy which is aimed at moving the poor out of poverty in a sustainable manner.

The FinScope Zambia 2015 survey is the third FinScope survey implemented in Zambia. The first FinScope survey was conducted in Zambia by FinMark Trust in 2005 to inform the Government of Zambia's financial sector reform programme as articulated within the Financial Sector Development Plan (FSDP). The findings of this survey showed that levels of financial inclusion amongst Zambian adults were very low—only 33.7 percent of adults being financially included. A follow-up survey conducted in 2009 showed that, while levels of financial exclusion had reduced since 2005, financial inclusion remained relatively low (with only 37.3 percent adults being financially included) and therefore of significant concern to both policymakers and financial service providers alike. In particular, the survey findings alluded to the impact of the global financial crisis in hampering Government reform efforts and highlighted the ongoing prevalence of a number of access and usage barriers that continued to prevent people from accessing and effectively engaging with Zambia's financial system.

The FinScope 2015 findings show there has been significant increase in financial inclusion since 2009 resulting in the national target of 50 percent financial inclusion having been exceeded.

- In 2009, 37.3 percent (2.4 million) of adults were financially included whilst 62.7 percent (4 million) of adults were financially excluded
- In 2015, 59.3 percent (4.8 million) adults are financially included and exclusion has dropped to 40.7 percent (3.3 million) of adults

Exploring trends in formal and informal inclusion since 2009, FinScope findings indicate that the significant drop in financial exclusion amongst Zambian adults since 2009 was driven by increased uptake of both formal and informal services.

Formal inclusion increased from 23.1 percent of adults in 2009 to 38.2 percent of adults in 2015:

- There has been increased uptake of the services of all providers in the formal sector
- Growth in the non-bank-sector was most significantly driven by uptake of mobile money services

Informal inclusion increased from 22.2 percent of adults in 2009 to 37.9 percent in 2015:

- Uptake of informal savings as well as informal credit services have increased
- There has been a slight decrease in the uptake of informal remittance services

The landscape of access provides an overview of the *types* of financial services that Zambian adults have or use. Comparing the landscape of access of 2009 with the landscape of access for 2015 reveals that currently, Zambian adults are most likely to have or use electronic payment or money transfer services (36.8 percent) and/or savings services (32.5 percent) and less likely to have credit services (22.3 percent). Only 5.5 percent of adults have or use insurance and/or pension services.

The most significant increase since 2009 in terms of the proportion of adults who have or use financial services has been with regard to:

- Electronic payment/money transfer services which increased from 15.5 percent (1 million adults) in 2009 to 36.8 percent (3 million adults) in 2015

- Saving services which increased from 17.1 percent (1.1 million adults) in 2009 to 32.5 percent (2.7 million adults) in 2015

The increase in terms of the proportion of adults who have or use credit services and/or insurance services has been less significant. The proportion of adults who have or use credit facilities increased from 17.9 percent in 2009 to 23.3 percent in 2015, whilst the proportion of adults who have or use insurance and/or pension services increased from 4 percent in 2009 to 5.5 percent in 2015.

Although the GRZ target of 50 percent for financial inclusion has been exceeded, levels of financial inclusion in Zambia remain relatively low at 59.3 percent, and point to the need to build further momentum around the financial access priority of all stakeholders. Financial service providers need a comprehensive understanding of the financial behaviour of financially excluded populations and the factors that prohibit them from using financial services. This will enable them to determine the financial services needs of those who are excluded and to develop appropriate services that will address these needs. Policy makers and regulators need an understanding of the impact of policies and regulations on both consumers and service providers to ensure that the macro environment is conducive for financial inclusion. Further research is required to address these needs.

Implementing the following recommendations could assist in building such momentum and providing the additional required understanding:

Packaging and disseminating findings to various stakeholder groups: The FinScope findings are only useful if they are utilized to effect change and increase financial inclusion. For this reason, the 2015 FinScope findings are offered in several formats to maximize audience and provide targeted messages to key stakeholders. In addition to this report, a series of targeted papers called the FinScope FOCUS Series will be produced to share in-depth findings and analysis on various topics related to financial inclusion.

Increased understanding of financial behaviour and financial service needs: Beyond the quantitative data on financial inclusion levels provided by the FinScope surveys conducted in 2005, 2009 and 2015, there is very limited qualitative understanding of the demand side—the need for financial products and services, how these are used by low-income households to manage their money, and how this is influenced or could be influenced by financial policies and regulations.

Further segmentation analysis to enhance understanding of the target groups: Further segmentation of the data based on livelihood characteristics and geography will improve understanding of the circumstances, and therefore the real needs of the population who are currently not formally served. In turn, this will facilitate the development of strategies to more effectively address these needs. As mentioned above, the FinScope FOCUS Series will do a great deal to offer segmented messages to policy makers, financial service providers and other stakeholders who contribute to the financial inclusion agenda.

Follow-up supply-side research to fill gaps in understanding: Given the evolution of the financial sector a supply-side study would contribute to updating strategies of financial service providers to improve financial inclusion. Studies such as geospatial mapping, recently carried out by FSDZ, can be used to overlay current supply points with existing infrastructure such as clinics and post offices which could serve as future access points. A comprehensive understanding of the accessibility of different financial service access points would further allow the development of solutions for the delivery of services for specific target markets through appropriate and affordable channels.

Promote financial literacy: Continuing low levels of financial literacy point to the need for a coordinated effort to improve the situation in Zambia. The Bank of Zambia is committed to implementing the Financial Education strategy for Zambia through the Financial Education Coordination Unit established in 2012. Support to implement this strategy continues to be a crucial component of its success.

2. SURVEY BACKGROUND AND METHODOLOGY

FinScope is a research tool developed by FinMark Trust[1] to address the need for credible financial sector information. It provides insights to guide policy makers and regulators to address challenges to expand financial markets. It also provides financial service providers with crucial strategic information regarding market opportunities and the financial services different markets need—enabling providers to extend their reach and broaden the range of services they offer. Implementing the FinScope survey over time further provides the opportunity to assess whether, and how, financial inclusion in a country develops.

The Bank of Zambia (as coordinators of the FSDP), in partnership with Financial Sector Deepening Zambia (FSDZ) and with advisory support from FinMark Trust, implemented the FinScope Zambia 2015 survey with the following objectives:

- To track overall trends in financial inclusion over time in terms of: Changes in the **levels of inclusion** – both formal and informal inclusion
- Changes in terms of the **type of financial service providers** and the type of **financial services** being used
- To assess whether Zambia is on track in terms of achieving national financial inclusion

Following a competitive tender process, Ipsos Zambia was selected to conduct the FinScope 2015 survey. The survey and questionnaire were developed by FSDZ and the fieldwork conducted by Ipsos Zambia with overall project management provided by FSDZ. Figure 1 outlines the stages of the FinScope survey implementation.

Figure 1: Survey implementation stages

Questionnaire design	Sample design and fieldwork preparation	Fieldwork	Data processing	Analysis, reporting and dissermination
• Focus group discussions • Stakeholder workshop • Draft preparation • Translation	• Sample design • Pre-test • Field manual preparation • Training • Piloting • Questionnaire finalisation	• Household listing • Face-to-face interviews • Supervisition and quality control	• Programme design • Training • Questionnaire checking • Data inputting • Data cleaning, weighting and validation	• Analysis • Reporting • Fsdp approval • Launch • Dissermination roll-out

2.1 Survey and instrument design

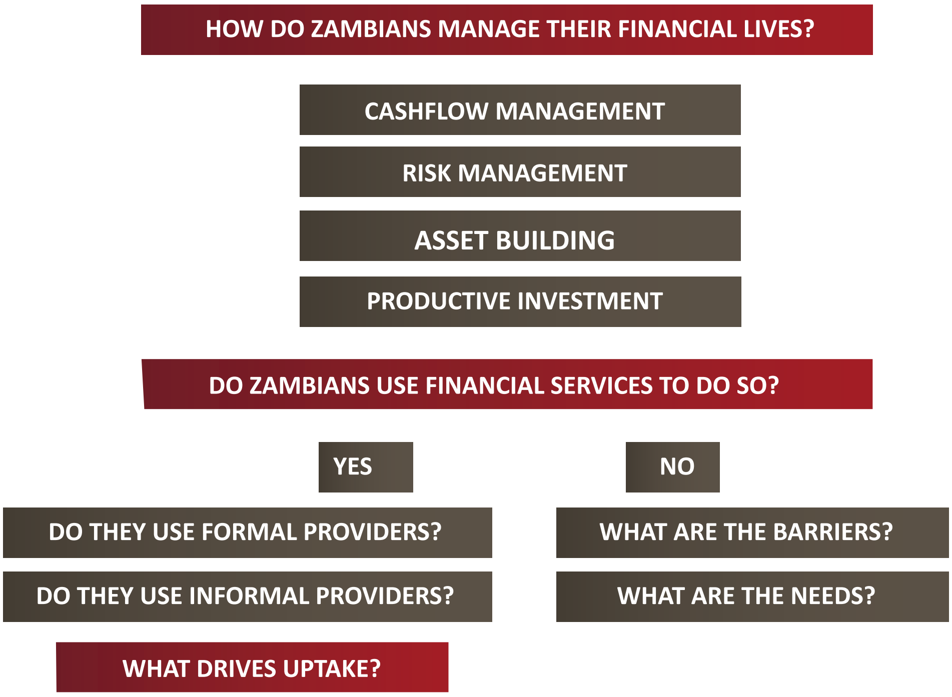
The design phase involved extensive consultation with public and private sector stakeholders which was facilitated by FSDZ. The Central Statistical Office of Zambia (CSO) provided statistical guidance in terms of sampling.

The survey instrument was a structured questionnaire aligned with the survey objectives. The final questionnaire was translated into Zambia's seven main vernacular languages—Bemba, Nyanja, Kaonde, Lozi, Tonga, Luvale and Lunda.

[1] Fin Mark Trust was established in March 2002 with initial funding from UK's Department for International Deployment (DFID). Fin-Mark Trust is an independent trust whose purpose is 'Making financial markets work for the poor, by promoting financial inclusion and regional financial integration'.

The conceptual framework summarised in Figure 2 guided the development of the questionnaire to achieve the survey objectives.

Figure 2: Conceptual framework underlying FinScope 2015



Development of the questionnaire was also based on the following principles:

- *Financial inclusion* is only **effective** or functional if consumers have physical access to financial institutions; are eligible to open an account or use a product or service; and actually open an account or take up a product or service and then use it
- Although physical access to a financial institution and eligibility to open an account or use a product are prerequisites for the uptake of financial services, the **actual uptake and usage of a financial service or product** depend on the individual. This is influenced by:
    - Characteristics of the **individual** such as demographics, attitudes and perceptions about money, financial services and institutions, income levels, income generating activities and money management strategies
    - Structure of the **household**, role of the individual in the household and the influence thereof on the decisions of the individual
    - The attributes of the **community** the individual lives in, such as the level of access to infrastructure

2.1.1 Sampling and listing

The validity of any survey depends on the reliability of the sampling framework. The FinScope sampling methodology entails three levels of sampling:

- The first level of sampling is conducted at Enumeration Area (EA) level. A sample of EAs is drawn using a "probability proportion to population size" approach. For the 2015 survey 866 EAs were selected ensuring provincial, urban-rural, as well as district representativeness
- The second level of sampling is conducted at household level. During this sampling stage,

a sample of households is selected at random from the households in each of the sampled EAs. In order to achieve this sample for each EA, the sampling process involves visiting each sampled EA and drawing up a list of all households in the EA. For the purpose of the 2015 survey, a sample of ten households was drawn at random from the compiled household list for each EA

- The third level of sampling is conducted at individual level. One individual (i.e. the intended respondent) is selected at random from all individuals 16 years or older in each of the sampled households in the EA

The sample was drawn by CSO using the sample frame of the 2010 population census. The sample was representative at national, provincial and urban-rural levels as well as or urban and rural districts within provinces (Figure 3). The household listing for each EA was conducted by Ipsos enumerators.

Figure 3: Provincial Map of Zambia

2.1.2 Fieldwork

Data collection was conducted by 150 Ipsos enumerators over a two-month period during February/ March 2015. A total sample of 8,570 interviews was achieved representing a 99.0 percent response rate.

Interviews were conducted face-to-face. Interview data was captured electronically (using mobile phones) during the interview. After completion of an interview the data was immediately uploaded onto the Ipsos server by means of the mobile network. If the network was not available at the time of completion of the interview, the data was stored on the mobile device until the network could be accessed. Once the network was accessed data that was saved on the device was uploaded to the server.

To ensure reliability of the data, extensive and comprehensive quality control measures were put in place. These measures were aimed at not only ensuring the quality and accuracy of the data collected during interviews, but also ensuring that the survey methodology was effectively implemented so that the validity and accuracy of extrapolation of the survey data could not be questioned.

Quality control measures implemented included:

- Using electronic data capture during the interview process
    - Skip routines were more effectively applied as it was built into the questionnaire script (i.e. the programmed version of the questionnaire on the mobile devices)
    - Parameter controls were enforced – invalid or obvious outlier values were either queried or rejected for specific fields
    - Questionnaire flow was enforced
    - Random selection of the respondent (based on the Kish grid) was built into the script and therefore happened automatically as far as the enumerator was concerned
    - Incomplete questions were avoided – the script would not allow an enumerator to move to a following question unless a compulsory field was completed
    - Inconsistency checks were built into the script. Inconsistent responses were flagged and required an enumerator to rectify before the script allowed continuation
- Extensive testing of the script prior to enumerator training and a final version exported to the mobile devices
- Two weeks of extensive enumerator training to ensure that field teams fully understood the requirements of the study, the survey methodology and the questionnaire. Training commenced using the paper-based questionnaire to ensure that enumerators were comfortable with the content of the questionnaire before device training was introduced
- A pilot survey to test the survey methodology and the readiness of enumerators to go to field was conducted before fieldwork commenced. The pilot survey also enabled the Ipsos-FSDZ team to conduct a final test of the questionnaire script on the devices before going to field
- Field supervisors conducted spot-checks by attending a number of interviews of each enumerator. This approach helped to ensure that enumerators followed correct procedures and that corrective action could be taken in a timely manner when enumerators experienced problems regarding any aspect of survey implementation or questionnaire administration
- Ipsos and FSDZ were responsible for data quality control. As interview data was uploaded upon completion of the interview, data quality could be assessed while enumerators were at a specific survey location. Prompt feedback allowed enumerators to address data errors before moving to a new location
- Daily monitoring of incoming data enabled identification of weak interviewers. These interviewers were visited in field by FSDZ and Ipsos field managers to ensure that weaknesses in questionnaire administration were addressed

2.1.3 Data processing

Although data quality was monitored and managed throughout fieldwork, final checks were conducted once fieldwork was completed to ensure that the data was clean. A clean dataset in SPSS format was produced by Ipsos and submitted to FSDZ at the end of March 2015.

The data was weighted (taking into account the three levels of sampling) using the 2010 census and listing data in order for the final dataset to represent the Zambian adult population (i.e. 16 years or older). CSO carried out the final validation of the data and signed off the final dataset before data analysis commenced.

2.1.4 Data analysis and reporting

The FinScope Zambia 2015 data was analysed by FSDZ using SPSS software. The analysis framework was based on the conceptual framework that guided the survey design (see Figure 2 above).

This report provides an overview of the topline findings of the FinScope Zambia 2015 survey. In addition to this report, FSDZ is producing the FinScope FOCUS series. The FinScope FOCUS series consolidates and synthesises data and information from the FinScope 2015 survey combined with other data and information, much of it qualitative, to share in-depth findings and analysis on various topics related to financial inclusion. The papers are aimed at policy makers, financial service providers, and other stakeholders who can contribute to the necessary changes that will result in greater financial inclusion in Zambia.

Papers in the FinScope FOCUS series include:

- **FOCUS Paper 1: Women and Financial Inclusion in Zambia** examines the state of women's financial inclusion, compares their financial inclusion to that experienced by male counterparts, and highlights how women's more generally disadvantaged situation leads to greater exclusion in access to and usage of financial services.
- **FOCUS Paper 2: Woman Smallholder Farmers: Managing their Financial Lives** deepens our understanding of current and potential financial inclusion of women smallholder farmers in Zambia from their own experience and perspective.

Future papers in the FinScope FOCUS series include:

- **FOCUS Paper 3**: SME Finance in Zambia
- **FOCUS Paper 4**: Understanding the Insurance Market in Zambia
- **FOCUS Paper 5**: Understanding Poverty and Financial Inclusion in Zambia
- **FOCUS Paper 6**: Opportunities and Challenges in Accessing Financial Services in Zambia
- **FOCUS Paper 7**: Barriers to Uptake and Usage of Financial Services in Zambia
- **FOCUS Paper 8**: Rural and Agriculture Finance in Zambia
- **FOCUS Paper 9**: Low-income Zambians: Managing their Financial Lives

3. CONTEXT

In order to understand the financial inclusion landscape and the future potential for increasing financial inclusion, it is important to understand the target market in terms of demographics and how they make a living. What is the demographic composition of the population? How do Zambians generate income? Where do they live and what are their circumstances? These and other questions are core to understanding people's perceptions and usage of financial services in Zambia.

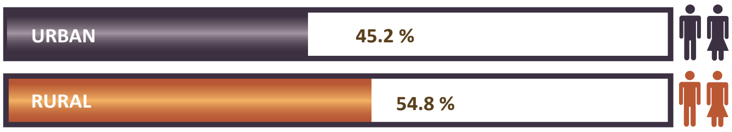
3.1 Adult population at a glance

The main demographic characteristics of the Zambian adult population of 8.1 million individuals are summarised in Figures 4 to 7 and Table 1 illustrating that the adult population is:

- Predominantly rural-based—more than half of the adult population reside in rural areas
- 51 percent female

- Relatively young with 60.1 percent (4.9 million) of adults are 35 years or younger
- Close to half (44 percent) have not achieved secondary school levels of education—almost seven percent has had no formal education

Figure 4: Urban-rural distribution of Zambian adults



As Figure 4 illustrates, just fewer than two out of every three adult Zambians live in rural areas. Thus the rural nature of the population must be taken into account when considering the overall financial access picture and developing strategies to expand inclusion, as the realities of rural life are an important driving force of uptake.

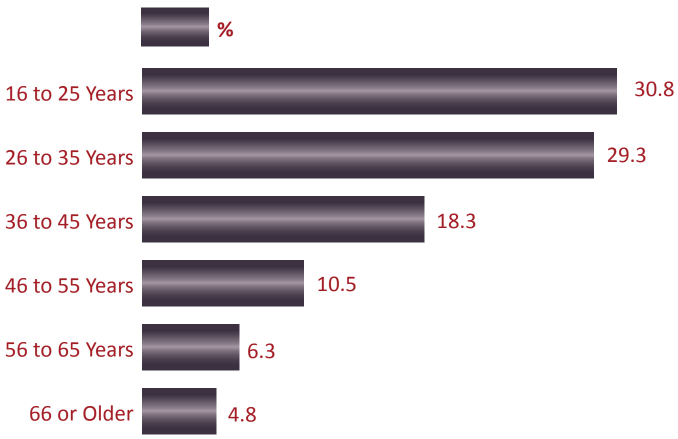
In geographic terms, the adult population is fairly evenly spread. Lusaka and the Copperbelt are the most populated provinces followed by Southern and Eastern provinces, while Muchinga and North Western provinces record the lowest adult population at 5.4 percent and 4 percent respectively (see Table 1).

Table 1: Provincial distribution of Zambian adults

Province	% of Zambian adults
Lusaka	19.3
Copperbelt	16.6
Southern	11.5
Eastern	11.3
Central	9.6
Northern	7.9
Luapula	7.0
Western	6.4
Muchinga	5.4
North Western	5.0

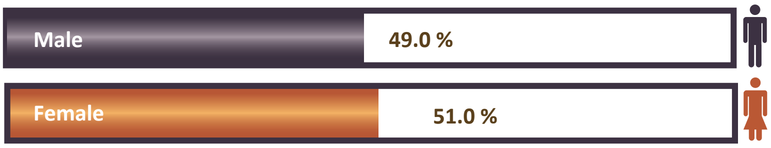
FinScope 2015 shows that the adult population is relatively young with 60.1 percent (4.9 million) adults 35 years or younger and about 6 million children below the age of 16 years (Figure 5).

Figure 5: Age distribution of Zambian Adults



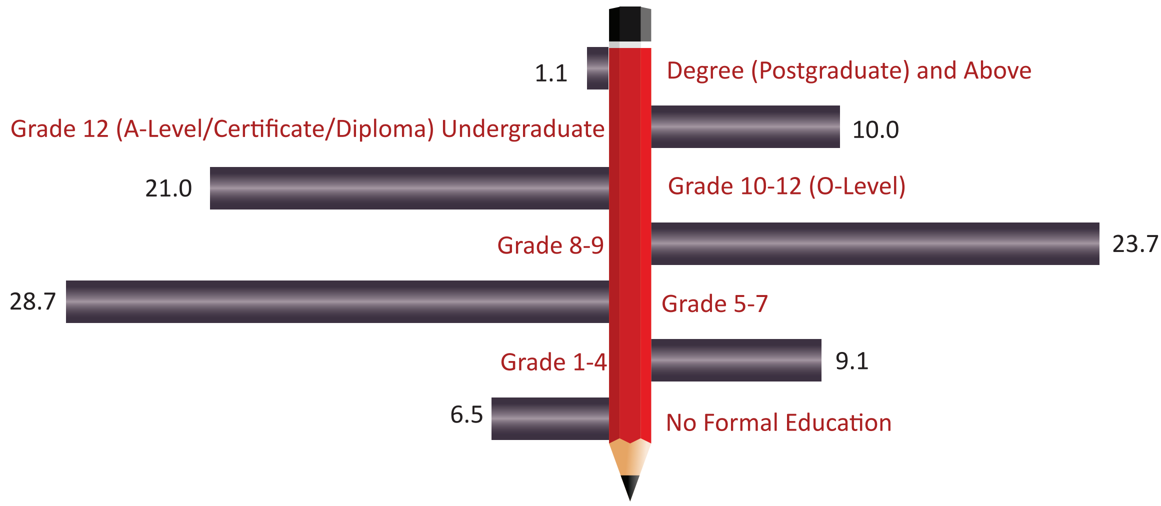
Within the adult population we see significant differences in terms of the demographic profile of women and men. There are more women than men over 16 years of age—51 percent to 49 percent respectively (Figure 6). However, the female adult population is much younger than the male adult population, with over 65 percent of women in the 16 to 35 year range compared to 55 percent of their male counterparts. On the other hand, in the adult population, men that are 35 years and older represent approximately 45 percent of total men, while only 34 percent of the adult female population are in this age group.

Figure 6: Gender distribution of Zambian adults



The overall education level of the adult Zambian population is low—6.5 percent of Zambian adults have no formal education; over half the population (68 percent) has completed up to Grade 9; and only 1.1 percent of the adult population have a postgraduate degree or above (Figure 7).

Figure 7: Education distribution of Zambian adults



These low education levels are significant as, in general, there is a direct correlation between education levels and financial behaviour and literacy. In attempting to address issues of financial inclusion, it is therefore important to understand that a large part of the population is not highly educated.

3.2 Main livelihood activities and income

Only 14.8 percent (1.2 million) adults rely on salaries/wages that ensure a consistent, regular income stream. Most adults rely on income generating activities that provide irregular and/or inconsistent inflows of money (Figure 8).

The majority of adults, 22.8 percent (1.9 million), mainly rely on farming or fishing activities for income (36.8 percent or rural adults). 1.6 million adults (19.7 percent) mainly depend on others for money or to pay their expenses and 13.8 percent (1.1 million) of adults mainly depend on piece work/casual labour for an income.

Figure 8: Main income generating activities of Zambian adults

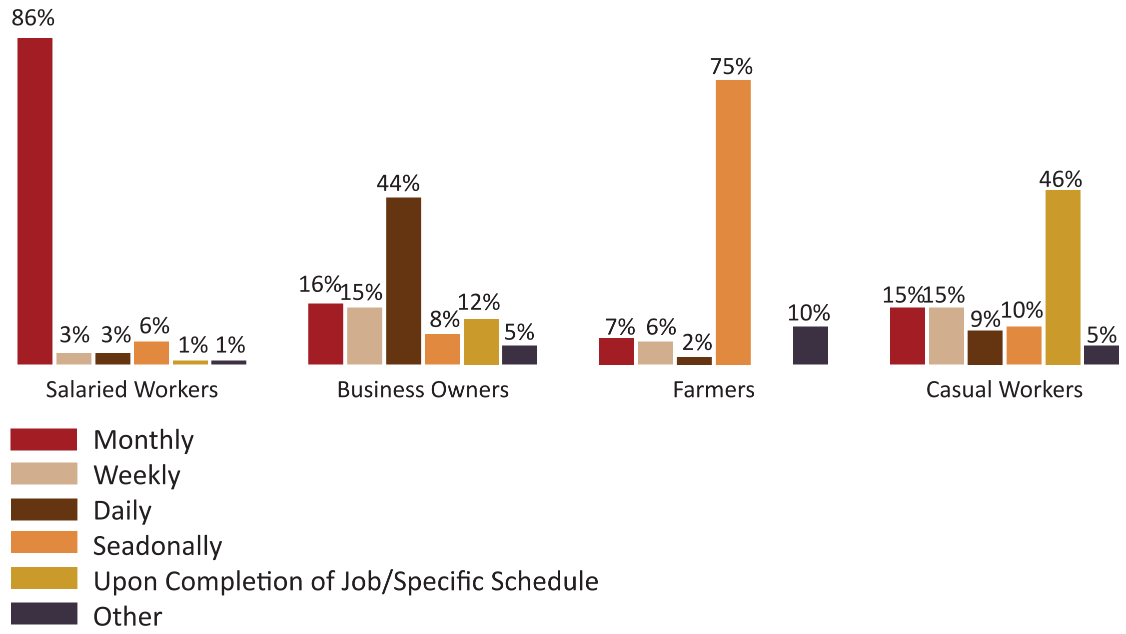
Table 2 provides an overview of the average and median income per main generating category indicating that the average and median monthly income of farmers, those who dependent on others for income, and casual workers are significantly lower than that of salaried workers and business owners**.**

Table 2: Income per main income generating activity

	ZMW	
	Average monthly income	Median monthly income
Salaried adults	1727	775
Business owners	2018	600
Farmers	856	300
Casual workers	432	200
Dependents	519	250

Figure 9 below illustrates the frequency or consistency of receiving income per main income generating activity for Zambian adults. These findings indicate that salaried workers are most likely to receive their income ***monthly*** (86 percent), business owners are most likely to take cash from the business on a ***daily*** basis (44 percent), farmers mostly rely on ***seasonal*** income (75 percent) and casual workers mostly receive income ***upon completion of a specific job*** (46 percent). Due to the significant differences in terms of consistency and regularity of receiving income, there are likely significant differences between adults who rely on different income sources with regard to the way they manage their money and the extent to which they make use of financial services. It is therefore important to assess money management practices as well as levels of financial inclusion within this context.

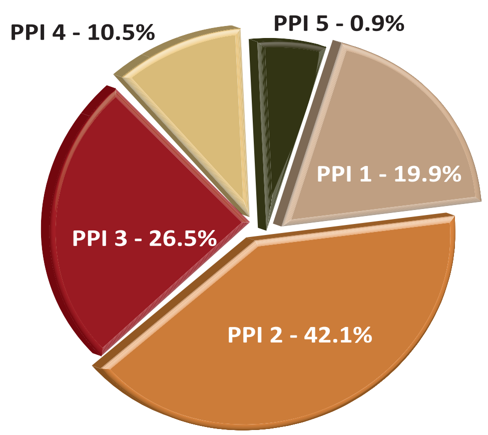
Figure 9: Frequency of receiving income - main income generating activity



The Progress out of Poverty index (PPI) is a tool used to measure household poverty levels. It is based on a set of ten questions customised and standardised for a particular country (see Annexure A). The standard set of Zambian PPI questions were built into the FinScope 2015 questionnaire. This allows FinScope data to be used as a standard wealth indicator making it comparable to other data sets which use this tool and facilitating FinScope analysis to be done by PPI level.

Dividing the FinScope PPI scores into 5 equal intervals (quintiles) allows us to determine the proportion of Zambian adults that fall into each of the quintiles.[2] The findings summarised in Figure 10 illustrate that almost 20 percent of adults fall into the first PPI quintile with more than 60 percent in the first two (i.e. poorest) PPI quintiles. Less than one-percent fall into the highest income PPI quintile.

Figure 10: PPI quintile distribution of Zambian adults



[2] PPI 1 represents adults who come from the lowest income households of the Zambian population whilst PPI 5 represents adults from highest income households. As the sample size for adults in the 5th quintile of the PPI distribution is so small as to be regarded as inadequate to allow for multivariate analysis, this category will not be included in any findings based on multivariate analysis in this report.

Table 3 provides an overview of the average and median income per month per PPI quintile illustrating the correlation between income and the PPI quintile distribution.

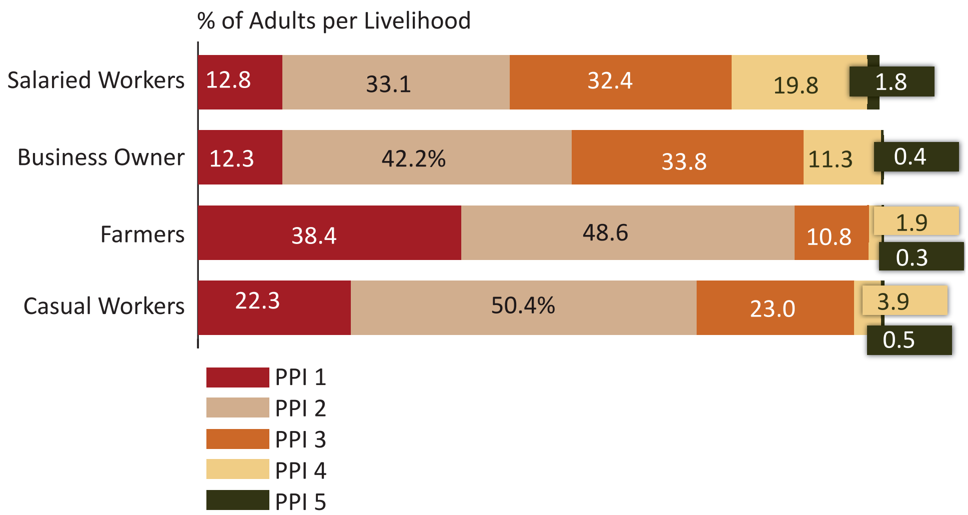
Table 3: Average income per PPI quintile

	ZMW	
	Mean	**Median**
PPI 1	542	250
PPI 2	961	300
PPI 3	1175	500
PPI 4	2707	1400
PPI 5	3274	1800

The relationship between main income generating activities and PPI distribution is illustrated by Figure 11 indicating that salaried workers are most likely to fall into the highest two quintiles of the PPI distribution (representing highest income households) and least likely to fall into the lowest two quintiles (representing lowest income households):

- Business owners are the most likely to fall into the third PPI quintile representing middle-income households
- Farmers are the most likely to fall into the lowest two quintiles of the PPI distribution (87 percent of farmers fall into these categories), followed by casual workers (73 percent)

Figure 11: Relationship between livelihoods and PPI



4. FINANCIAL INCLUSION IN ZAMBIA

The goal of financial inclusion is to improve the quality lives of Zambians through reduced financial vulnerability and increased potential for participation in economic activities. Increased financial inclusion is therefore at the core of financial sector development in Zambia.

4.1 What is financial inclusion?

The concept “financial inclusion” is core to the FinScope methodology. Financial inclusion considers that part of the adult population which use any kind of financial service, formal or informal. The term used for this part of the population, is “financially served” or “financially included”.

The FinScope methodology uses this concept to segment the adult population. All those who are not part of the “financially included” population are regarded as “financially excluded”, i.e. those individuals who use no financial services whatsoever (formal or informal) to manage their financial lives. Therefore the total adult population can be divided into two groups: the *financially included* and the *financially excluded*.

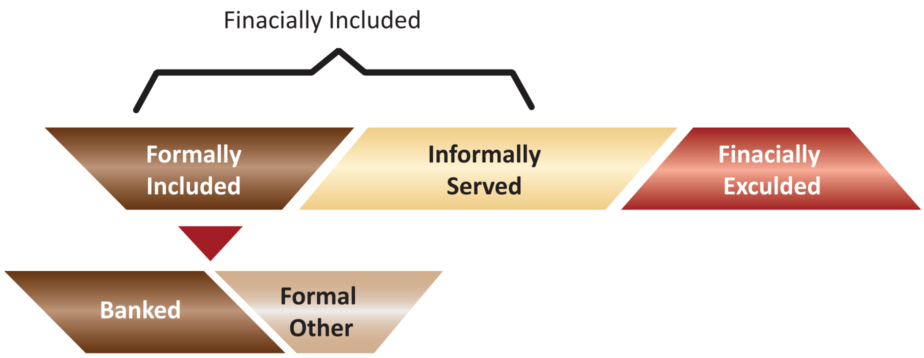
Within the *financially included* category, people can be “formally included”, i.e. use the financial services offered by formal financial institutions, or “informally included”, i.e. use informal financial services. Formal financial services are defined as any financial services supplied by institutions governed by a legal precedent of any type, and informal services are the converse. Examples of informal financial services include saving with an employer, membership in a Savings Group or borrowing from an informal moneylender (kaloba).

Formal usage is not exclusive usage, as these individuals may also be using informal services. However, the “informally included” is defined as those using only informal services, i.e. not using any formal services.

The formally included population, in turn, can be segmented into the “banked” population and the “formal other” population. The banked population is defined as individuals using traditional financial services supplied by commercial banks. “Formal other” is defined as individuals using financial services supplied by formal financial institutions which are not commercial banks such as microfinance institutions (MFIs).

These concepts are graphically depicted in Figure 12.

Figure 12: Components of financial inclusion



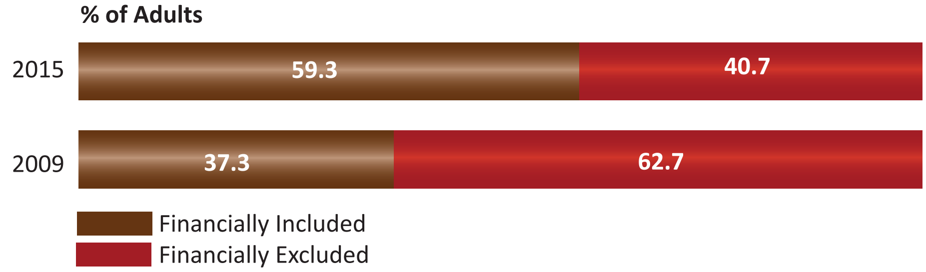
4.2 Financial Inclusion: 2009 versus 2015

As discussed, levels of financial inclusion consider the adult population divided into:

- adults who have or use financial services to manage their financial lives – ***financially included*** adults; and
- adults who do not use any financial services to manage their financial lives – ***financially excluded*** adults

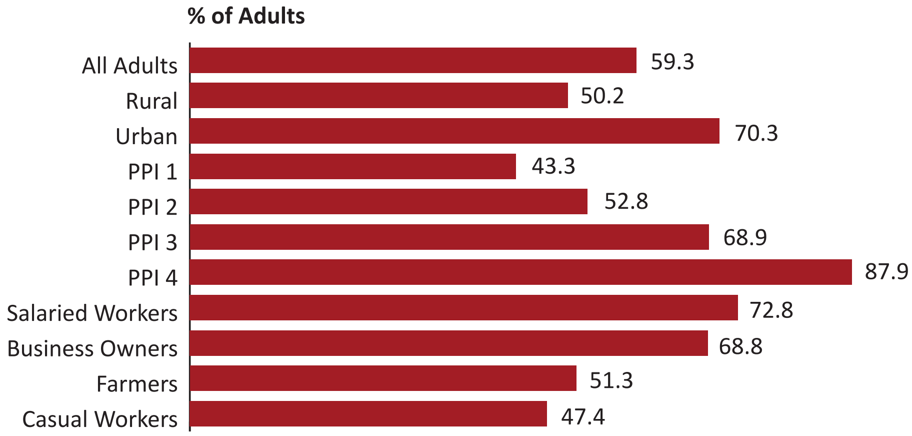
According to the FinScope 2015 findings there has been a significant increase in financial inclusion since 2009 resulting in the national target for 2018 of 50 percent financial inclusion having been exceeded (Figure 13). In 2009, 37.3 percent (2.4 million) of adults were financially included whilst 62.7 percent (4 million) of adults were financially excluded. In 2015, 59.3 percent (4.8 million) adults are financially included and exclusion has dropped from 62.7 percent in 2009 to 40.7 percent (3.3 million) of adults in 2015.

Figure 13: Trends in financial inclusion – 2009 to 2015



Findings summarised in Figure 14 show that financial inclusion is significantly skewed towards urban areas (70.3 percent of adults included), middle and higher income households (PPI 36 – 8.9 percent and PPI 48 – 7.9 percent) as well as salaried workers (72.8 percent) and business owners (68.8 percent). Rural residents and those falling in the lowest income brackets (PPI 1 and PPI 2) experience lower levels of financial inclusion: 50.2 percent, 43.3 percent and 52.8 percent respectively.

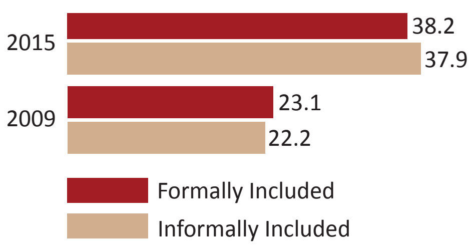
Figure 14: Percentage of adults financially included - 2015



4.3 Trends in formal and informal inclusion: 2009 to 2015

Financial inclusion could be achieved through the use of either ***formal*** or ***informal financial services.*** In further examining financial inclusion, FinScope provides the level of ***formal inclusion*** (i.e. the proportion of adults who have or use financial services provided by a service provider that is regulated or officially supervised) as well as the level of ***informal inclusion*** (i.e. the proportion of adults who use financial services provided by a financial service provider that is not regulated, excluding family and friends).

Figure 15: Trends in formal and informal inclusion: 2009 to 2015

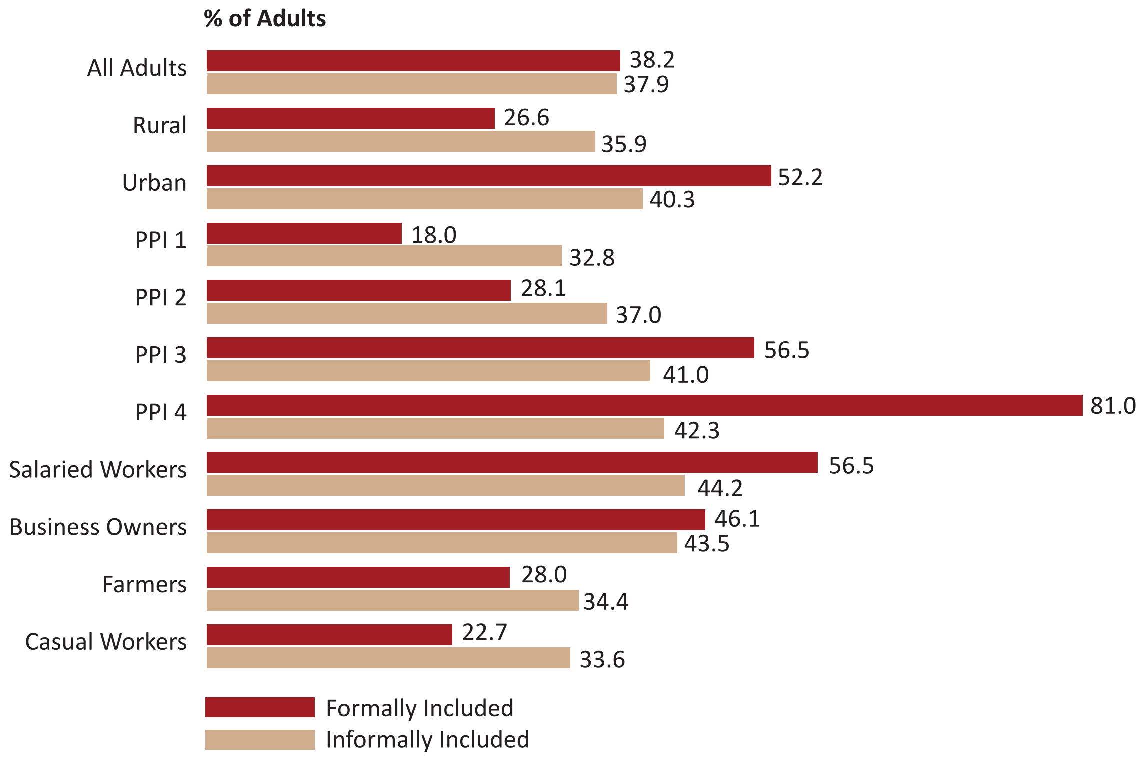


Exploring trends in formal and informal inclusion since 2009, findings summarised in Figure 15 indicate that the significant drop in financial exclusion amongst Zambian adults since 2009 was driven by increased uptake of both formal and informal services. Formal inclusion increased from

23.1 percent of adults in 2009 to 38.2 percent of adults in 2015 whilst informal inclusion increased from 22.2 percent of adults in 2009 to 37.9 percent in 2015. Both formal and informal inclusion are skewed towards adults residing in urban areas, adults from middle and higher income households (PPI 3 and PPI 4) as well as salaried workers and business owners (Figure 16).

There is much less variation in informal inclusion across demographics as compared to the much larger range across formal inclusion demographics. Notably, the rural, poor, and casual worker populations are the most excluded groups within Zambia.

Figure 16: Percentage of adults formally and informally included - 2015



4.4 Financial access strand

The FinScope Zambia access strand was designed to highlight:

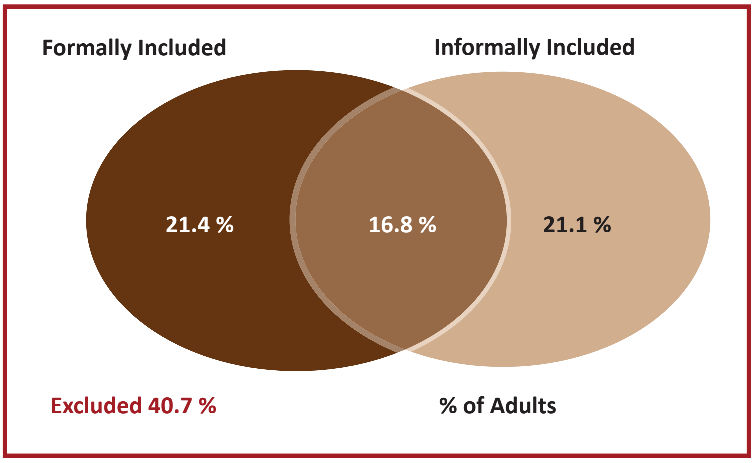
- The proportion of adults who are ***financially excluded***—i.e. they do not have or use any financial service to manage their financial lives
- The proportion of adults who have or use financial services but ***only formal*** financial services
- The proportion of adults who have or use financial services but ***only informal*** financial services
- The proportion of adults who have or use financial services and use ***both formal and informal*** services

The access strand is particularly useful to compare levels of financial inclusion across countries, over time or between different population segments.

Financially included individuals use either ***formal*** or ***informal*** services or a ***combination of formal and informal*** services to manage their financial lives. Although the concepts of ***financial inclusion, formal inclusion*** or ***informal inclusion*** as discussed in this section are significant in their own right, neither provides a full understanding within this context.

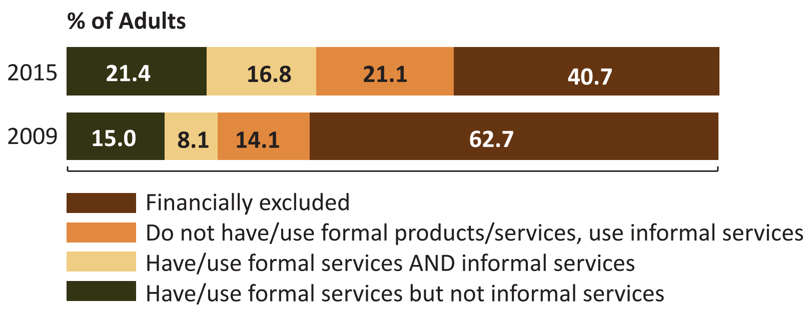
Currently 59.2 percent of adults are financially included, 38.2 percent of adults have/use formal financial services and 27.9 percent use informal financial services. Almost 1 in 5 adults (16.8 percent) however, use both formal and informal services (Figure 17).

Figure 17: Overlap in formal and informal inclusion - 2015



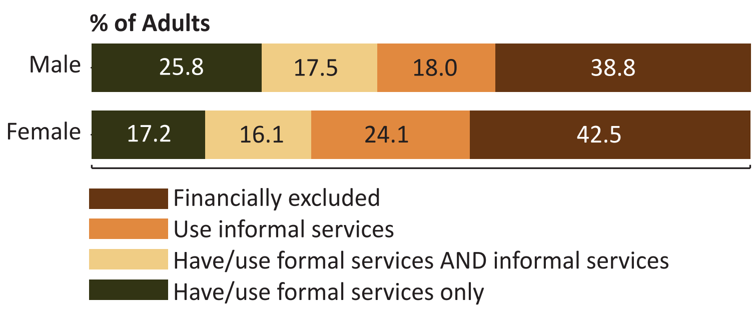
In terms of change over time, the access strand findings summarised in Figure 18 illustrate the growth in both formal as well as informal financial sectors since 2009 and the drop in financial exclusion. Significant though is the finding that the proportion of ***formally included adults***, who also use ***informal services,*** has increased from 35 percent in 2009 to 44 percent in 2015.

Figure 18: Trends in financial access strand - 2009 to 2015



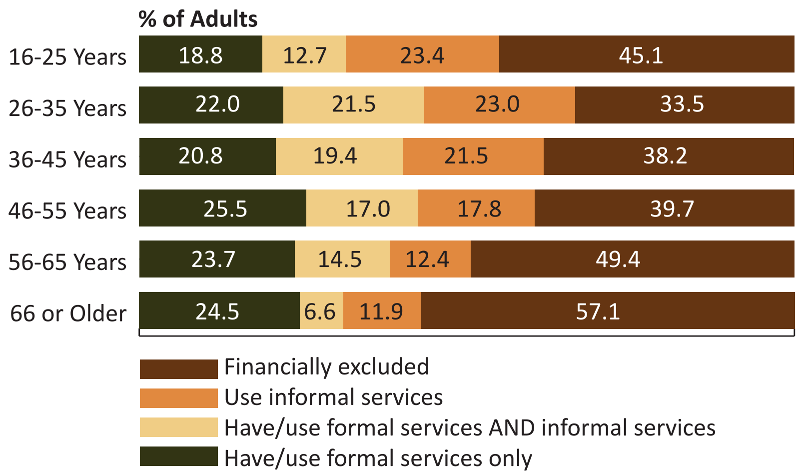
Exploring the access strand in terms of demographic trends, it is clear from Figure 19 below that formal inclusion is skewed towards male adults whilst informal inclusion as well as financial exclusion, is skewed towards females. Formally included females are significantly more likely than their male counterparts to use informal services as well—almost half (48 percent) of females who are formally included, also use informal services whilst 40 percent of formally included males also use informal services.

Figure 19: Financial access strand per gender - 2015



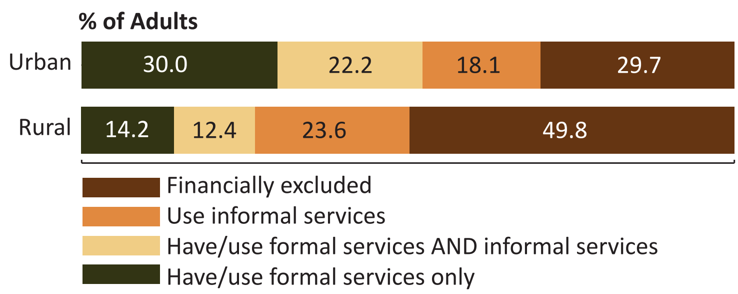
Formal inclusion is skewed towards adults in the 26 to 55 year age group, informal inclusion is skewed towards adults in the 26 to 45 year age group and financial exclusion is skewed towards adults younger than 25 years and those older than 55 years (Figure 20). Reliance on informal services is skewed towards adults younger than 26 years.

Figure 20: Financial access strand per age group - 2015



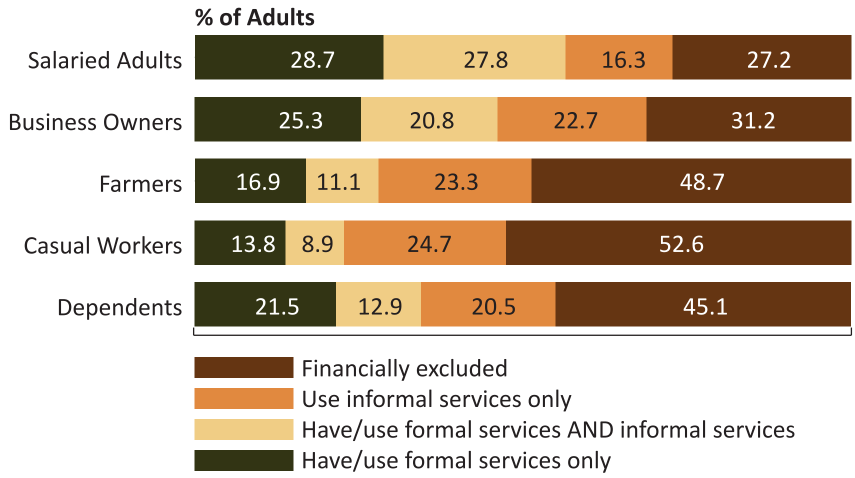
As indicated earlier, adults in urban areas are more likely to be included than adults in rural areas—both in terms of formal as well as informal inclusion. The findings summarised in Figure 21 however further indicate that ***reliance*** on informal services is skewed towards adults in rural areas and that formally included adults in rural areas are more likely than those in urban areas to be using informal services as well.

Figure 21: Financial access strand by urban-rural segmentation - 2015



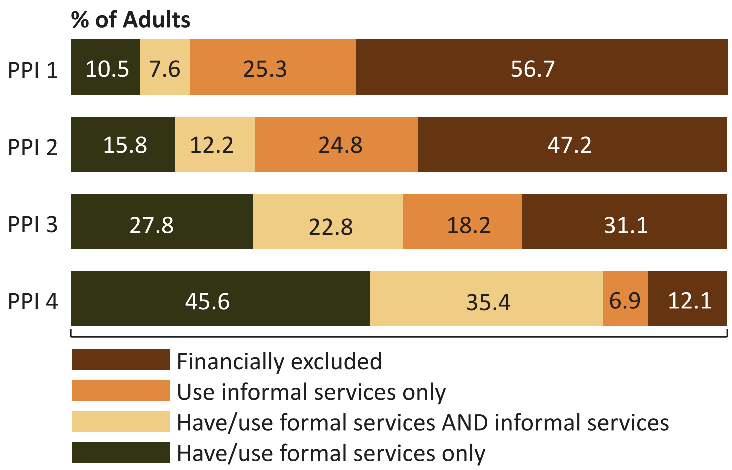
Exploring the access strand by main income generating activity, Figure 22 clearly indicates that inclusion—both formal and informal—is skewed towards salaried adults and business owners whilst financial exclusion is skewed towards farmers, adults who rely mainly on piece work for an income (casual workers) and those who depend on others for money or for paying their expenses. Although farmers, business owners and those who rely on piece work for money are most likely to ***rely on informal services only***, salaried workers and business owners who are ***formally included*** are more likely than formally included farmers, casual workers and dependents to use informal services as well formal services.

Figure 22: Financial access strand per main income generating activity - 2015



As illustrated earlier, exploring the access strand per PPI quintile, Figure 23 once again highlights the finding that inclusion—formal as well as informal inclusion—is skewed towards adults from middle and higher income households (PPI 3 and 4) whilst financial exclusion is skewed towards adults from lower income households (PPI 1 and 2). The access strand further highlights the finding that ***reliance on informal services*** is skewed towards adults from low-income households (PPI 1 and 2).

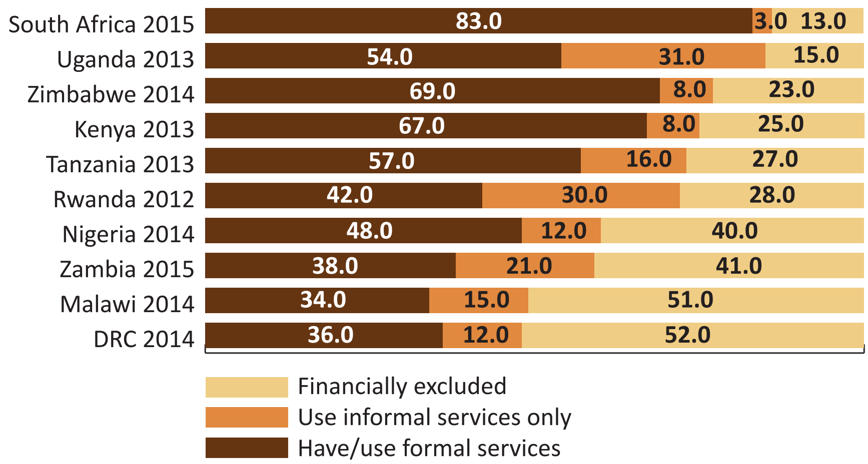
Figure 23: Financial access strand per PPI quintile - 2015



Using the access strand[3] to compare levels of financial inclusion between Zambia and other countries where the FinScope survey has recently been conducted, findings summarised in Figure 24 indicates that, irrespective of the recent increase in levels of financial inclusion, Zambia still illustrates relatively high levels of financial exclusion.

[3] For the purpose of comparing levels of inclusion across countries, the proportion of adults using both formal and informal services is included in the proportion of adults that have or use formal financial services. Differentiation as per the Zambian access strand is not done as the overlap data is not readily available for all countries.

Figure 24: Cross country comparison of acess strands



Formal inclusion levels are still low compared to neighbouring countries— only Malawi and the Democratic Republic of Congo (DRC) show lower levels of formal inclusion and higher levels of financial exclusion than Zambia. In terms of ***informal inclusion*** however, only the Ugandan informal sector (42 percent) plays a more significant role than the Zambian informal sector (36 percent).

5. UPTAKE OF FORMAL FINANCIAL SERVICES

As illustrated earlier, 38.2 percent of adults are formally included. This section of the report explores the service providers used by formally included adults.

5.1 Current levels of formal financial service use and trends since 2009

Formal financial services (provided by financial service providers that are regulated or officially supervised) are provided by two main types of service providers:

- Commercial banks – currently 24.8 percent of adults (2.0 million) have/use commercial bank services
- Non-bank service providers – currently 28.5 percent of adults (2.3 million) have/use non-bank formal services

Table 4 provides a summary of non-bank formal service providers in the Zambian financial sector as well as the current levels of uptake of the services provided by these institutions.

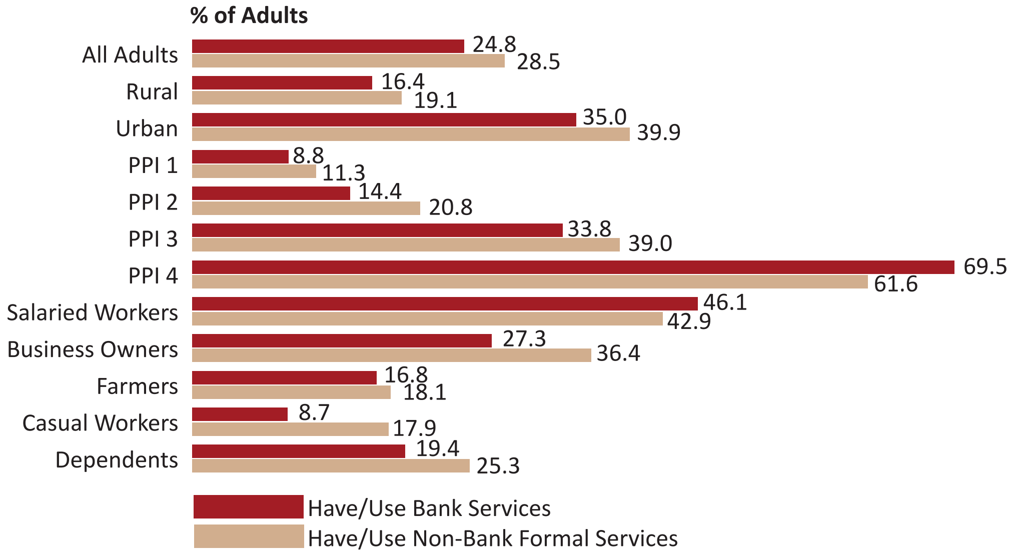
Table 4: Levels of use of non-bank formal financial services - 2015

Service Provider	% of adults who have/use services
Microfinance service providers	3.8
SACCOs	1.4
Microlenders	1.3
Insurance companies	2.8
Pension service providers	3.8
Capital markets	0.3
Money transfer service providers	3.0
Mobile money service providers	14.0

Mobile money service providers have the highest uptake levels of non-bank formal financial services at 14 percent of adults. Capital markets have the lowest uptake with only 0.3 percent of adults utilising this service.

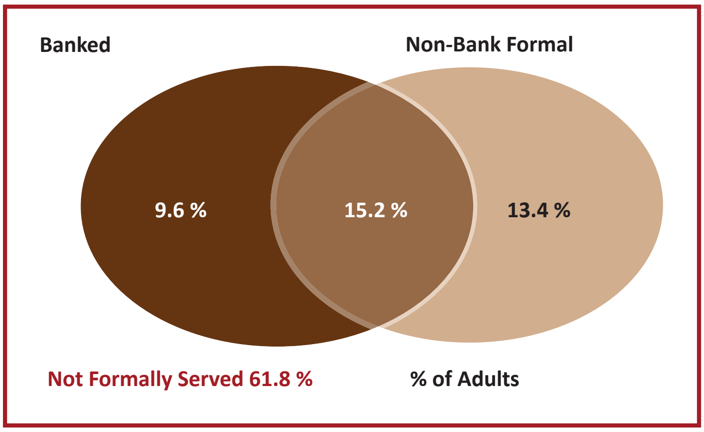
Uptake of both commercial bank and non-bank formal services are skewed towards adults residing in urban areas, those from middle and higher income households (PPI 3 and PPI 4) as well as salaried workers and business owners (Figure 25).

Figure 25: Percentage of adults who have/use bank and non-bank formal services - 2015



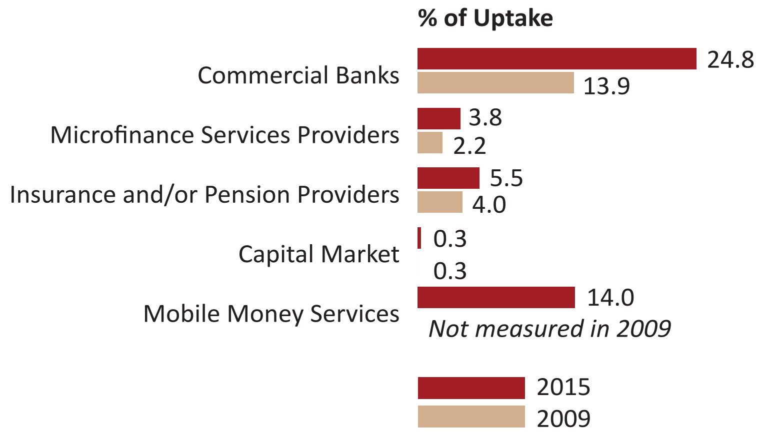
Although 25 percent of adults are banked (i.e. they have/use the services of commercial banks), only 10 percent of adults use only commercial banks. Fifteen percent of adults (i.e. more than 60 percent of banked adults) use both commercial banks and non-bank formal service providers (Figure 26)

Figure 26: Overlap in usage of commercial bank and non-bank formal services - 2015



Exploring trends in uptake of formal financial services since 2009, FinScope findings summarised in Figure 27 clearly indicate that formal financial sector growth between 2009 and 2015 was driven by increased uptake of the services of all formal financial service providers. Growth in the non-bank-sector was most significantly driven by uptake of mobile money services.

Figure 27: Trends in use of formal financial services - 2009 to 2015



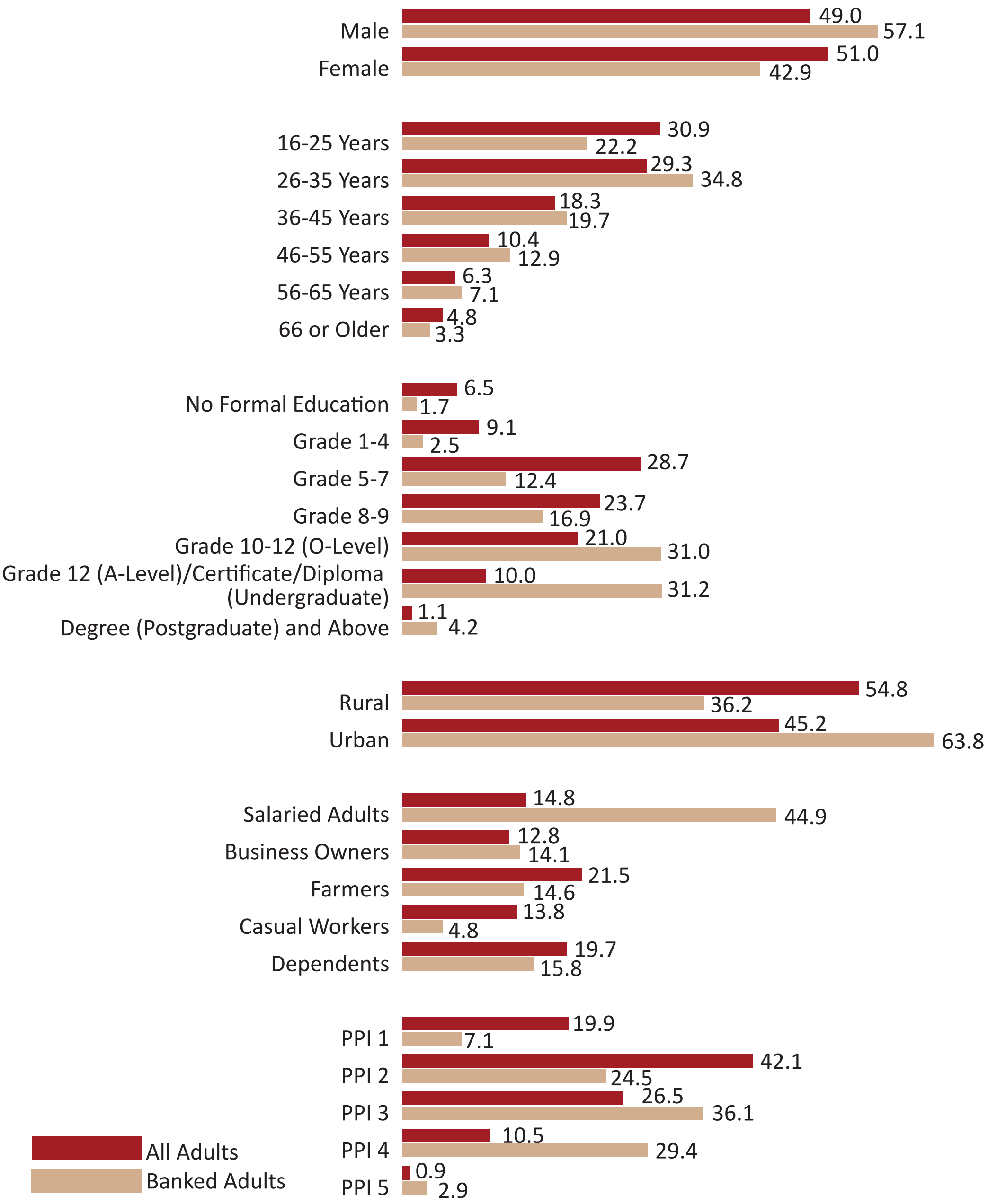
Comparing the demographic profile of adults served by a particular service provider with that of the adult population enables identification of the demographics of adults most likely to take up the services provided by the particular service provider.

5.1.1 Uptake of commercial bank services

FinScope findings summarised in Figure 28 shows that adults who have and/or use the services of commercial banks are most likely to be:

- Male
- In the 26 to 65 year age group
- Having achieved grade 8 or higher levels of education
- Urban-based
- Salaried workers
- From households in the middle to higher income quintiles of the PPI distribution

Figure 28: Comparing the profile of banked adults with the total adult population

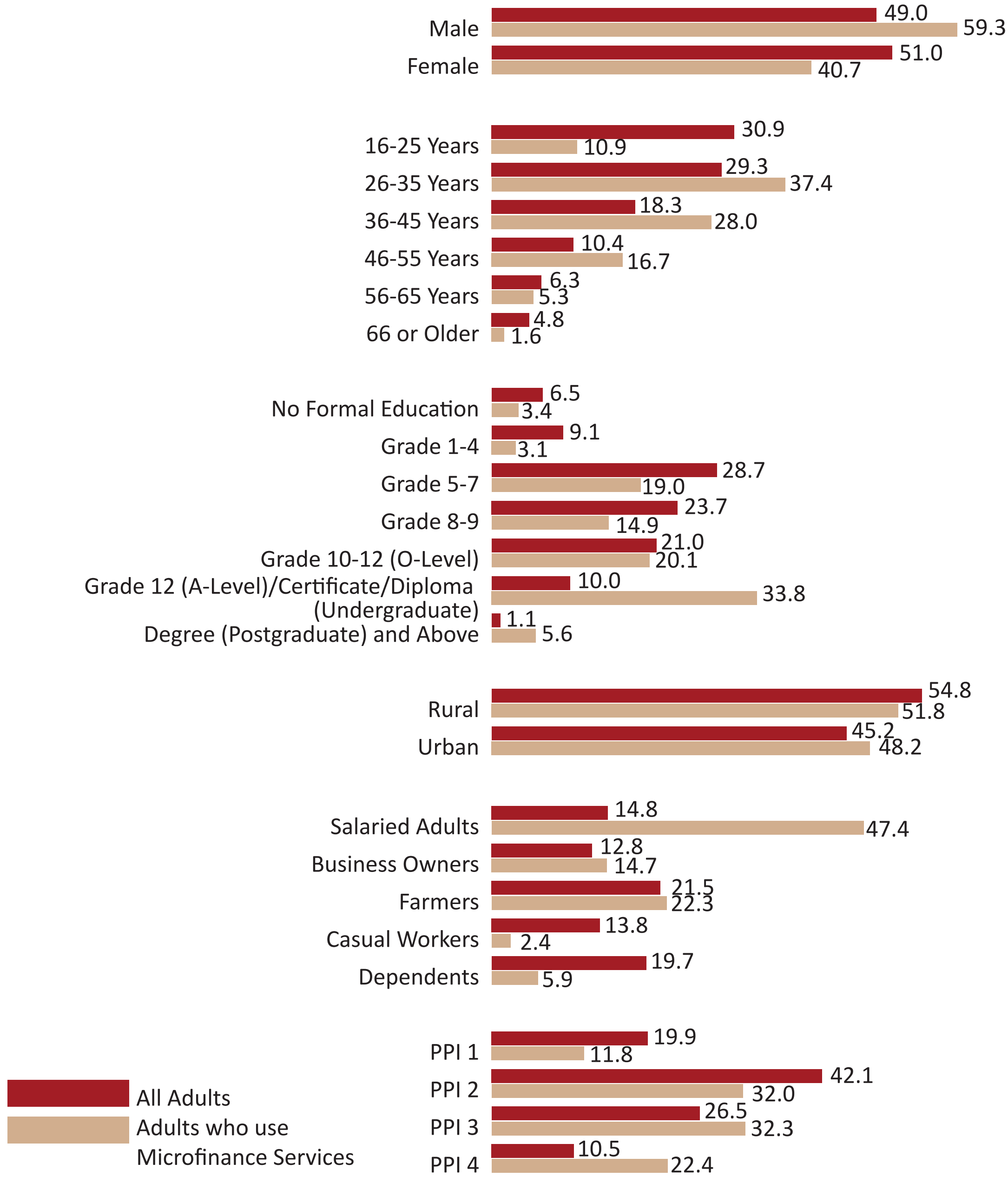


5.1.2 Uptake of microfinance services

Comparing the profile of adults who have and/or use microfinance services with that of the adult population, findings summarised in Figure 29 show that adults who have/use microfinance services are very similar to commercial bank clients. They are most likely to be:

- Male
- In the 26 to 55 year age group
- Having achieved tertiary levels of education
- Urban-based
- Salaried workers (although there is also a slight tendency towards business owners and farmers)
- From households in the middle to higher income quintiles of the PPI distribution

Figure 29: Comparing adults using microfinance services with the total adult population

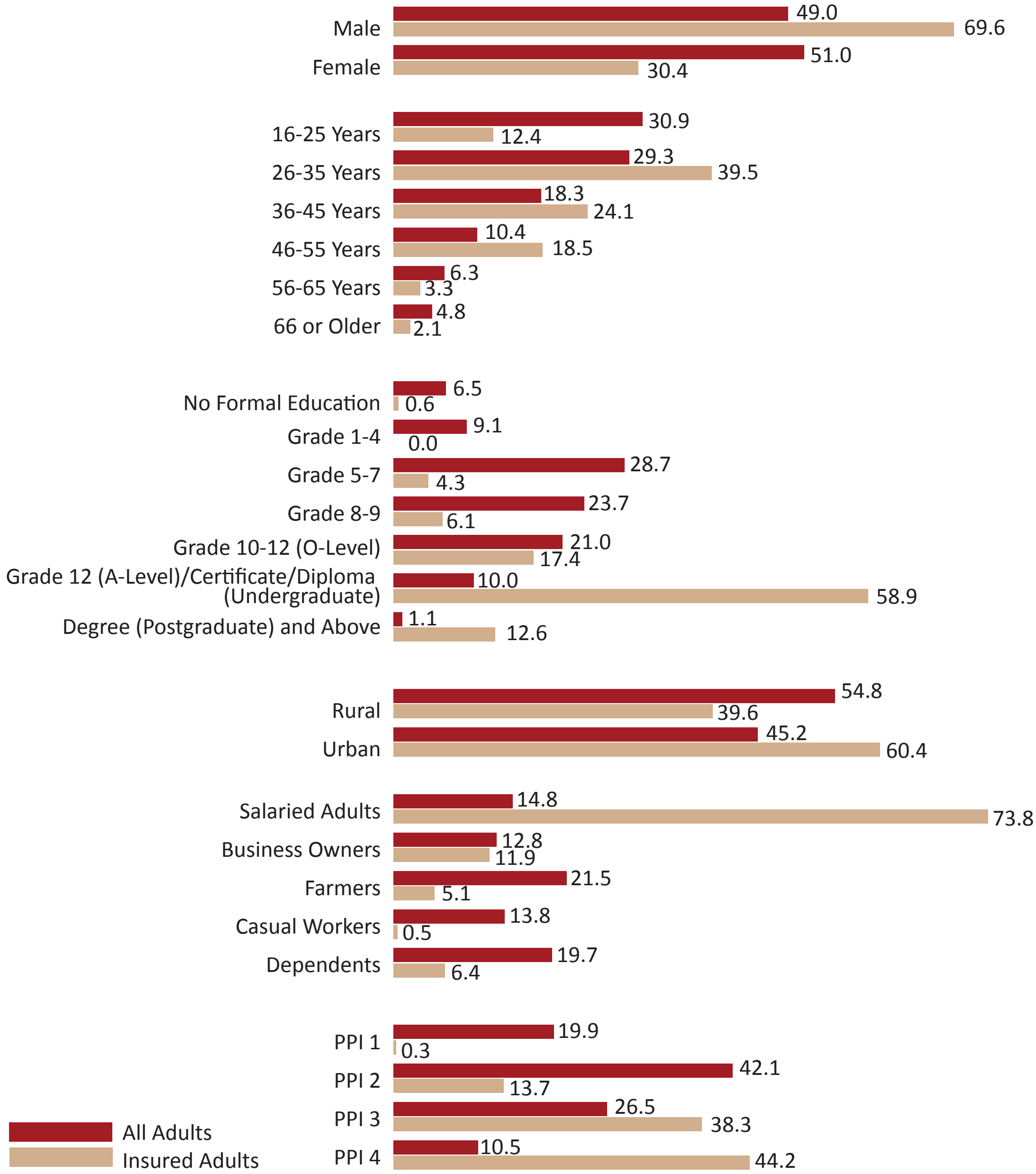


5.1.3 Uptake of insurance services

FinScope findings summarised in Figure 30 compare the profile of insured adults with that of the adult population. These findings indicate that insured adults are most likely to be:

- Male
- In the 26 to 55 year age group
- Having achieved tertiary levels of education
- Residing in urban areas
- Salaried workers
- From households in the middle to higher income quintiles of the PPI distribution

Figure 30: Comparing the profile of insured adults with the total adult population

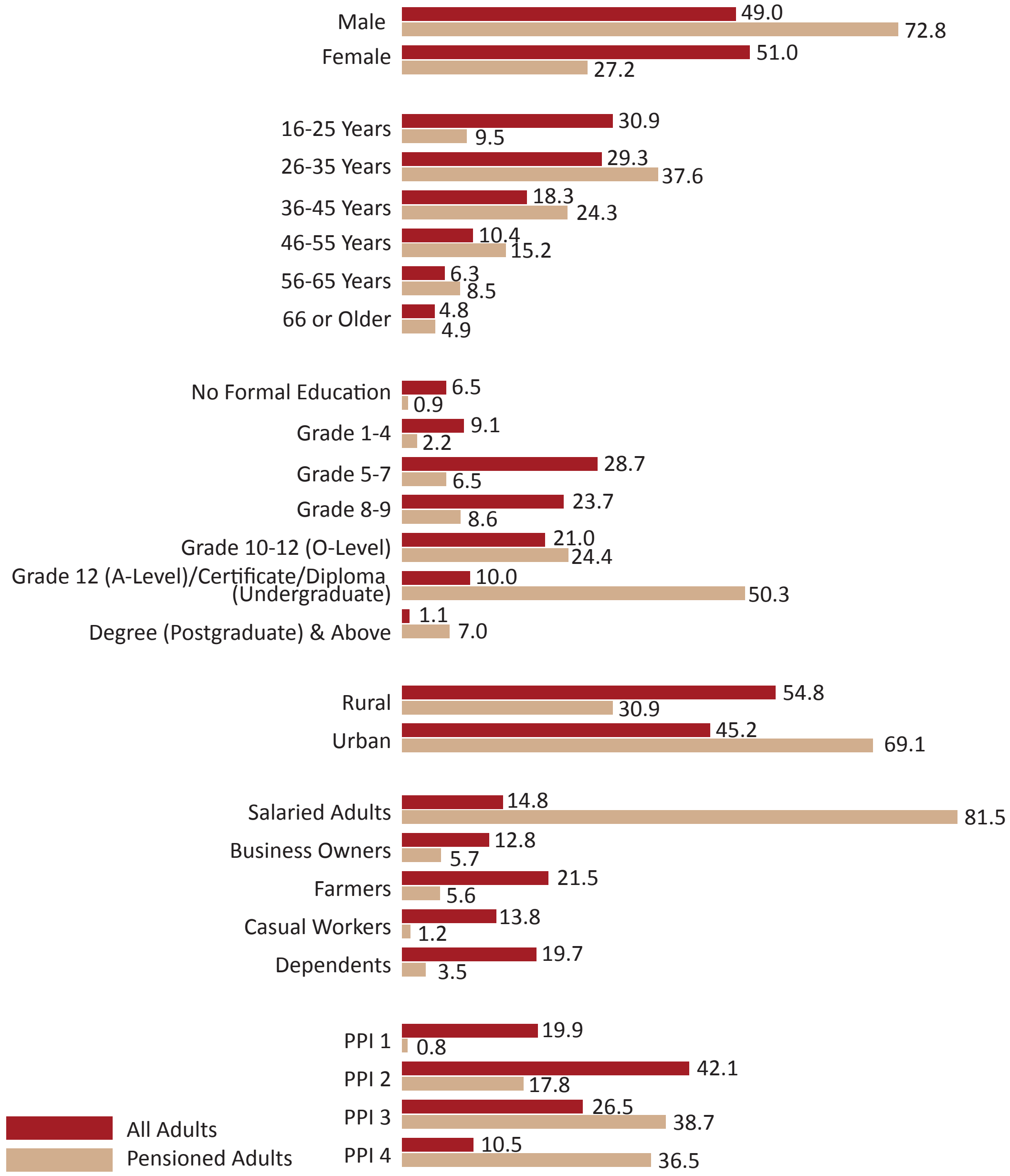


5.1.4 Uptake of pension services

Comparing the demographic profile of adults with pension services with that of the adult population (Figure 31) indicates that adults with pension services are most likely to be:

- Male
- In the 26 to 65 year age group
- Having achieved grade 10 or higher levels of education
- Urban-based
- Salaried workers
- From households in the middle to higher income quintiles of the PPI distribution

Figure 31: Comparing adults with pension services with the total adult population

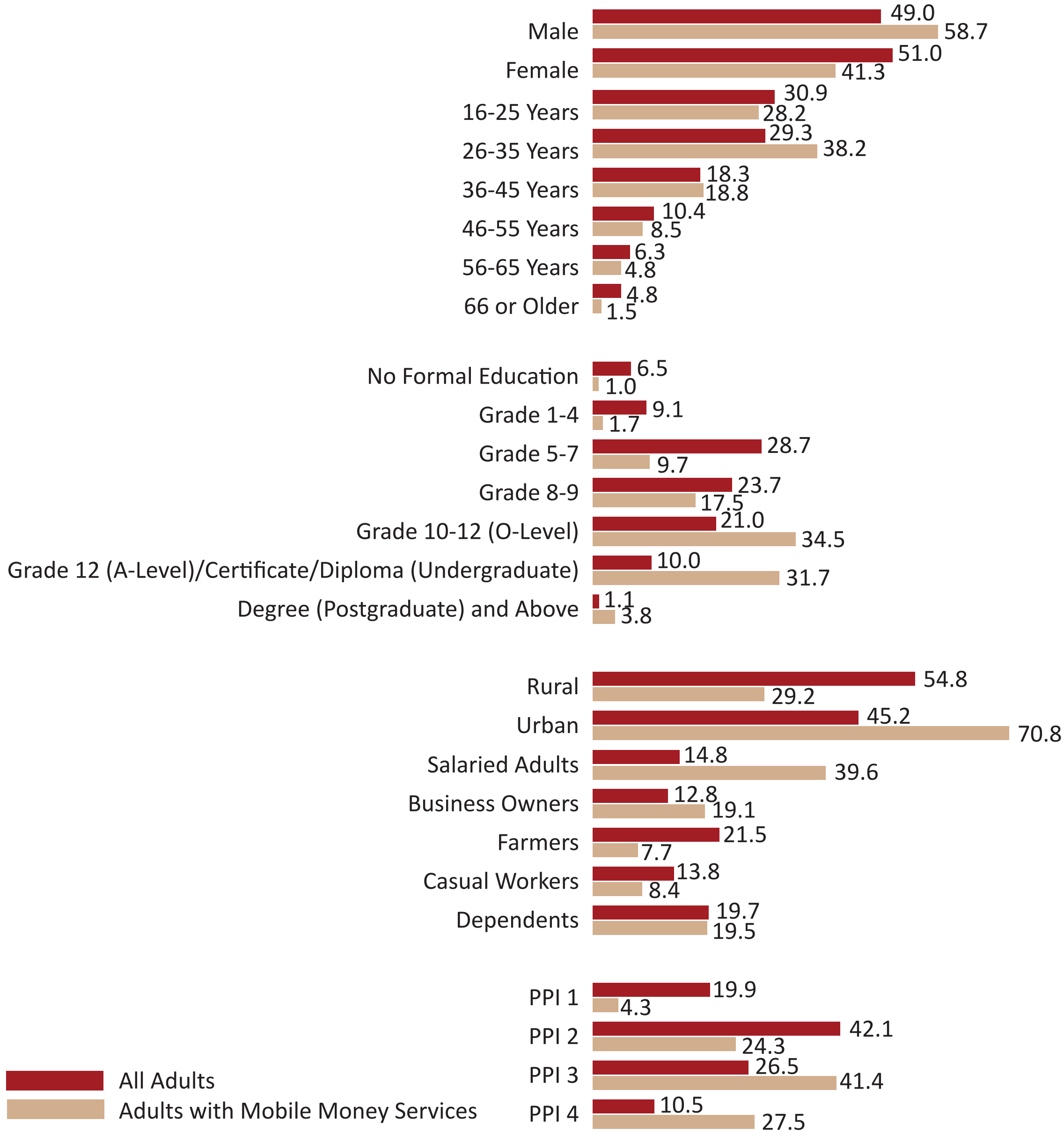


5.1.5 Uptake of mobile money services

Findings in Figure 32 indicate that adults who have/use mobile money services are most likely to be:

- Male
- In the 26 to 35 year age group
- Have achieved grade 10 or higher levels of education
- Urban-based
- Salaried workers and business owners
- From households in the middle to higher income quintiles of the PPI distribution

Figure 32: Comparing adults with mobile money services with the total adult population



5.1.6 Uptake of capital market instruments

Only 0.3 percent of Zambian adults have/use capital market instruments. The sample of these adults in the FinScope survey includes only 25 individuals. Such a small sample does not allow for any valid statistical analysis.

5.2 Perceived barriers to using formal financial services

Exploring the factors that prohibit financial inclusion, it is important to consider the demographic profile of financially excluded adults in Zambia. This profile is skewed towards:

- Adults residing in rural areas
- Females
- Adults younger than 25 and older than 55 years of age
- Farmers, adults who rely on piece work for an income

Financial inclusion surveys across Africa have illustrated that these are typical characteristics of financial excluded populations:

- **Adults residing in rural areas** are less likely than those from urban areas to have physical access to financial services access points and also less likely to comply with financial identity requirements (see section 8.2 of this report)

- **Females** are less likely than males to be aware of financial services and the benefits thereof; they are also more likely to depend on others for money and therefore less likely to have money of their own to manage as the wish

- **Adults younger than 25 and older than 55 years of age** are less likely than adults in other age categories be economically active and to have a regular and consistent income

- **Farmers and adults who rely on piece work** for income are less likely than adults who rely on salaries and wages to have a consistent income; these are typically low income households with limited investment opportunities and the value of their financial transactions tends to be small—this segment of the population tends to be less profitable for financial service providers and financial services on offer often do not meet the needs of these consumers

Table 5 provides an overview of the main factors that prohibit uptake of bank services as reported by adults who did not have and/or use these services at the time the FinScope 2015 survey was conducted. Over half, 60.9 percent of adults, who did not have a bank account stated they had insufficient money to justify an account. Only 5.5 percent stated that a bank was too far away and even fewer, 1.7 percent stated they did not have the proper documentation. This indicates that supply is not the primary barrier to accessing savings accounts in banks.

Table 5: Main barriers to using formal financial services

Commercial bank barriers	% of unbanked adults
Insufficient money to justify it	60.9
Cannot maintain the minimum balance	12.1
Banks are too far away	5.5
Does not know how to open a bank account	3.0
Bank service charges are too high	2.6
Does not understand benefits of having a bank account	2.4
Does not have the documentation required	1.7

Examining microfinance service barriers indicate an even higher percentage of adults (79.1%), who believe that they have insufficient money to open an account and who perceived the institutions were too far away (17.7%). Unlike with commercial banks, 6.8 percent or respondents felt they could not trust microfinance institutions.

Table 6: Main barriers to using microfinance services

Microfinance service barriers	% of unserved adults
Insufficient money to justify it	79.1
Cannot maintain the minimum balance	20.1
Institutions are too far away	17.7
Does not know how to open an account	10.6
Service charges are too high	9.9
Does not understand benefits of having an account	9.7
Does not have the documentation required	7.2
Does not trust microfinance institutions	6.8

The primary barrier to insurance uptake is a lack of information. As Table 7 shows, 88.3 percent of Zambian adults say they have never heard of insurance, 2.3 percent say they do not know how it works, and 1.1 percent do not know the benefits of insurance.

Table 7: Main barriers to using insurance services

Insurance barriers	% of uninsured adults
Has never heard of insurance	88.3
Cannot afford it	3.0
Does not know how it works	2.3
Does not know the benefits of insurance	1.1

Mobile money is also limited by lack of information—54.2 percent of adults who do not use the services say they have never heard of mobile money services; 12.4 percent state they do not know what it is; 7.0 percent do not know how to get it; and 2.3 percent do not understand the services/what it can be used for (Table 8). In both insurance and mobile money services, a general lack of product knowledge and usage can account for the primary obstacles to uptake.

Table 8: Main barriers to using mobile money services

Mobile money services barriers	% of unserved adults
Have never heard of mobile money services	54.2
Don't know what it is	12.4
Don't know how to get it	7.0
Don't do transactions	4.2
Don't understand the service/what you can use it for	2.3

Based on these findings it is clear that the main factor prohibiting uptake of formal financial services is not the ***type or suitability*** of services on offer. Rather self-reported barriers are most likely to be either ***income-related*** or related to ***a lack of awareness and/or understanding of the services and accompanying benefits*** (i.e. demand-side in nature)***.*** However, section 8 of this report illustrates the significance of ***perceived proximity to financial institutions*** and ***meeting eligiblity requirements*** (i.e. eligibility to take up services/open accounts) as potential barriers to formal inclusion. It is therefore important to recognise that although self-reported barriers to uptake could, to a large extent, be addressed through financial education programmes, ***accessibility*** is a significant supply-side barrier to uptake. Although not currently recognised as such, it is likely that, as the population becomes more financially educated, they will also become more aware of supply-side barriers to formal inclusion.

6. USE OF INFORMAL FINANCIAL SERVICES

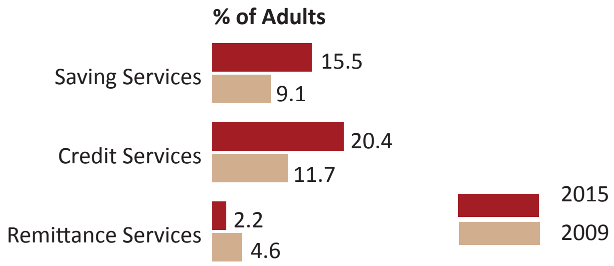
As illustrated earlier, 37.9 percent of adults are informally included. This section of the report explores the service providers used by informally included adults.

6.1 Current levels of informal financial service use and trends since 2009

There has been a significant increase in the uptake of informal financial services since 2009 when 22.2 percent of adults were using informal services. Currently 37.9 percent of Zambian adults use informal financial services. Informal service providers mainly provide saving, credit and transfer services.

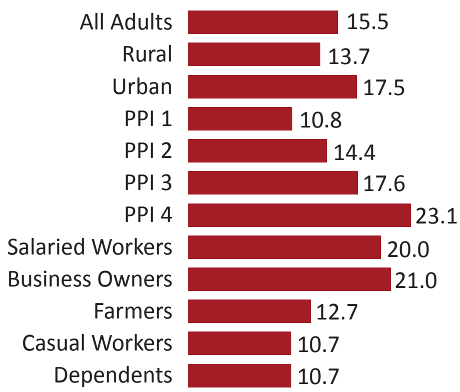
Figure 33 explores trends in uptake of these informal services since 2009 indicating that the growth in the informal sector was driven by increased usage of informal savings mechanisms as well as an increase in the uptake of informal credit. There has however been a slight decrease in the uptake of informal transfer services.

Figure 33: Trends in the use of informal financial services: 2009 – 2015



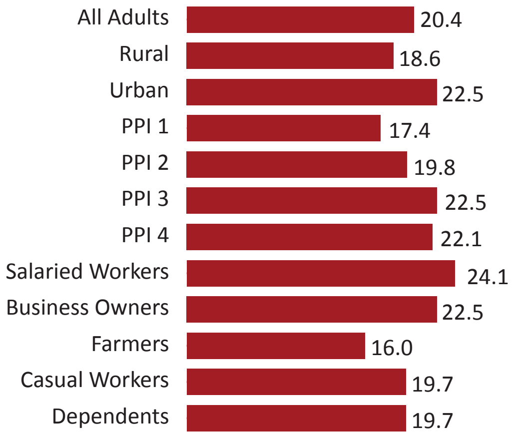
Similar to uptake of formal services, informal savings are most likely to be used by adults based in urban areas, those in the middle to higher income PPI quintiles (PPI 3 and PPI 4), salaried workers and business owners (Figure 34). Rural, poor, farmers, casual workers and dependents are least likely to access informal savings services (13.7 percent, 10.8 percent, 12.7 percent, 10.7 percent and 10.7 percent respectively).

Figure 34: Percentage of adults who use informal services - 2015



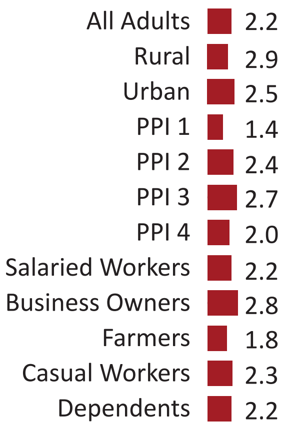
Uptake in informal credit services is comparable to informal savings. Those in the middle and high income PPI quintiles are still more likely than those in the lower two to access informal credit services, but the gap between uptake is smaller than in informal savings. Salaried workers and business owners are still more likely than farmers, casual workers, and dependents to use informal credit services, but, again, the gap is smaller than seen in informal savings.

Figure 35: Percentage of adults who use informal credit services



Uptake by Zambian adults of informal transfer services is much lower than informal savings or credit services—the highest percentage of usage is by business owners at 2.8 percent. Adults in urban areas, those in the second and third income quintiles of the PPI distribution (i.e. PPI 2 and PPI 3) as well as business owners are slightly more likely than adults in general to use informal transfer services.

Figure 36: Percentage of adults who use informal transfer services



6.1.1 Chilimba

The word Chilimba means ***strengthening***. Chilimba is an informal rotating savings scheme—a group of individuals come together at regular intervals to pool an agreed upon amount of money which is then paid out (i.e. the full sum of money pooled) to Chilimba members in turn. In Zambia, 12.4 percent of adults use Chilimba services—the main driver of usage being ***access to lump sum of money.***

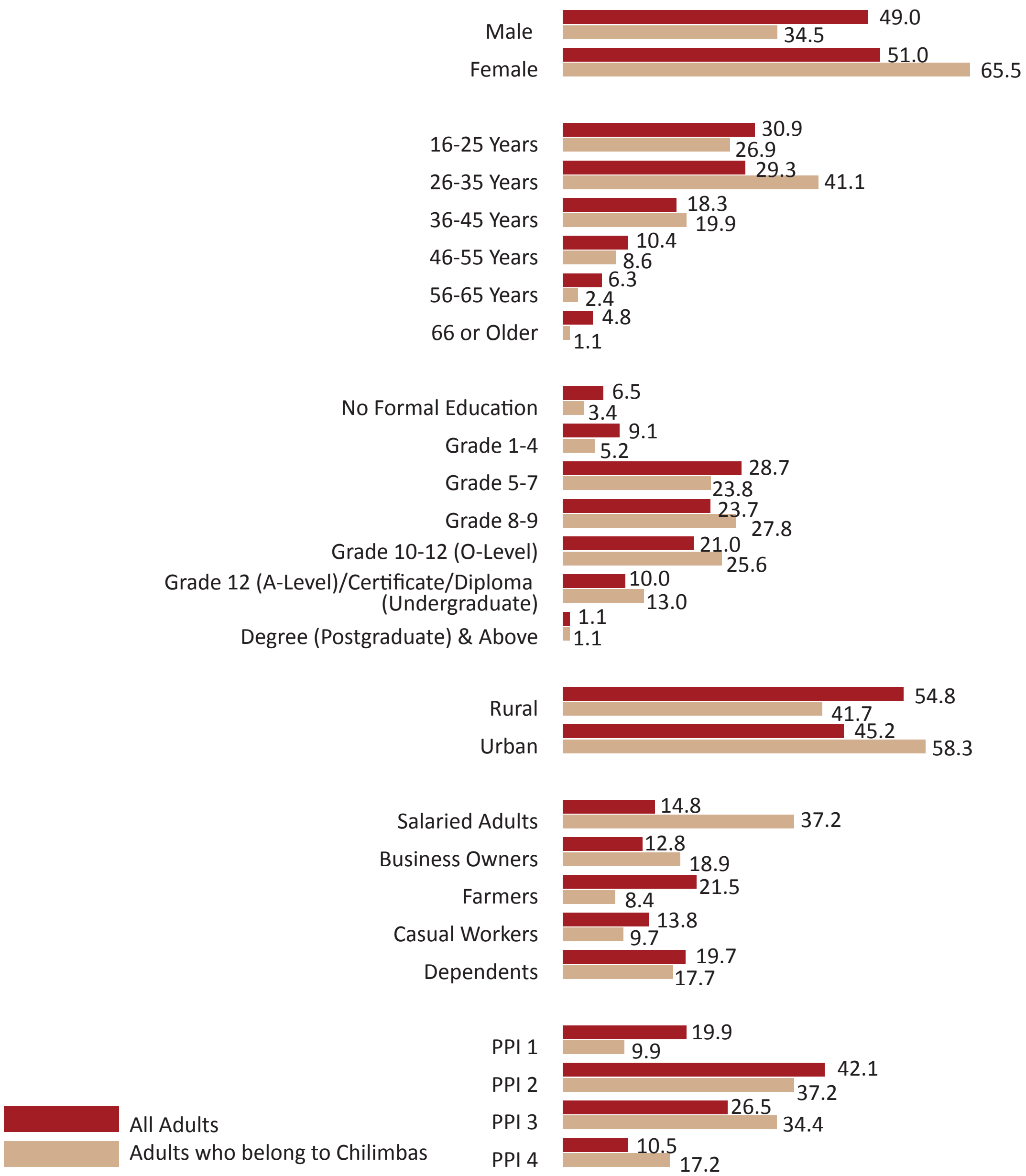
Comparing the profile of adults who belong to Chilimbas with that of the adult population, findings in Figure 37 indicate that adults who belong to Chilimbas are most likely to be:

- Female
- In the 26 to 45 year age group

- Having achieved grade 8 or higher levels of education
- Urban-based
- Salaried workers and business owners

With the exception of the lowest quintile of the PPI distribution (PPI 1) the Chilimba user profile differs from user profiles of formal services in that it is likely to include adults from lower income PPI quintiles (PPI 2) but not adults from households representing the poorest of the poor (PPI 1).

Figure 37: Comparing adults who belong to Chilimbas with the total adult population



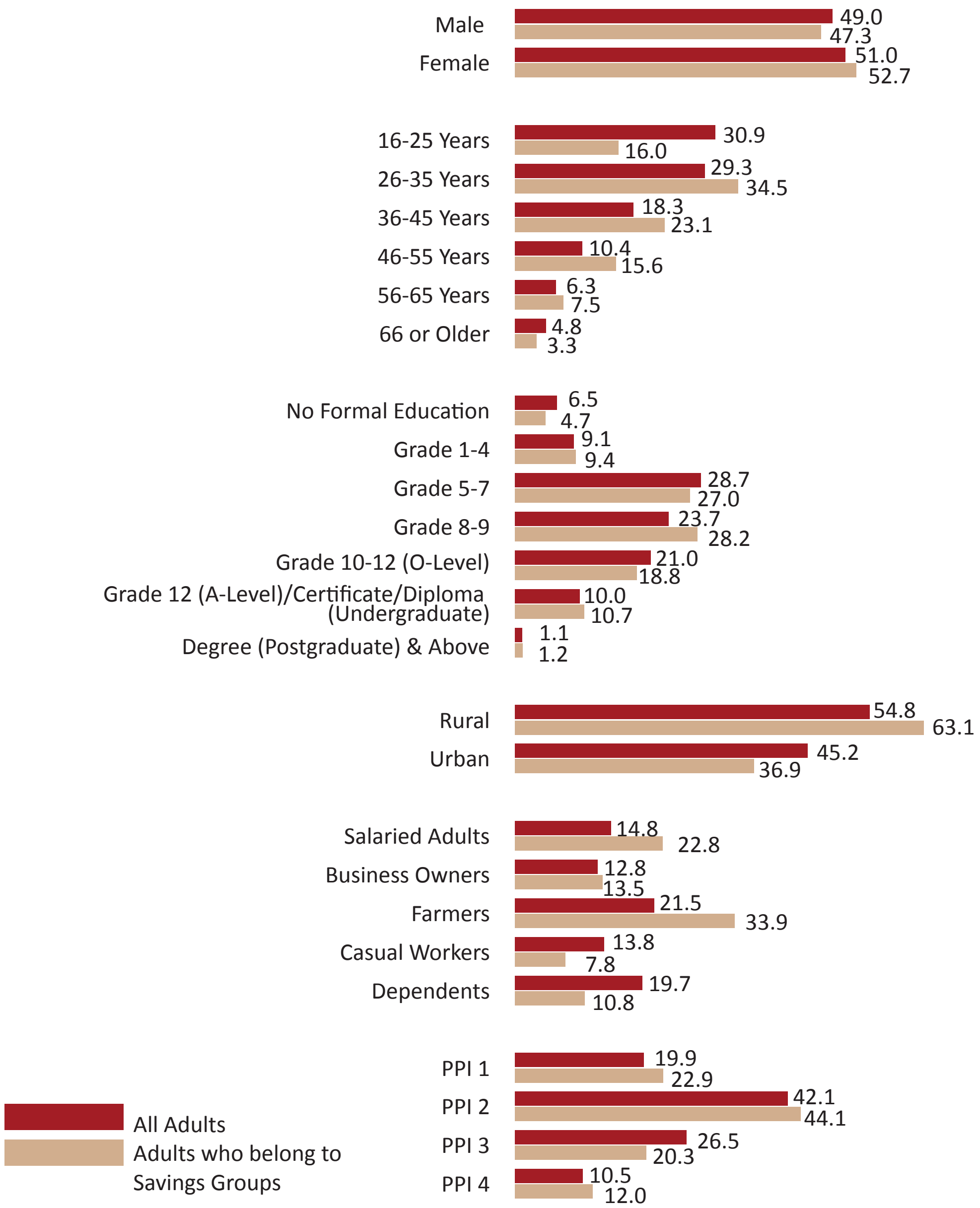
6.1.2 Savings Groups

Savings Groups (SGs) are structured, member-owned organisations established by individuals who come together in order to save and to provide small loans to each other. The main driver for SG membership is to save (usually for a pre-determined time of share-out) while a secondary driver is to have someone to turn to turn to when in financial need. There is relatively low usage of SGs services in Zambia, with only 6.5 percent of adults belonging to SGs.

According to the findings summarised in Figure 38, the demographic profile of SG members differ significantly from adults who use other financial service providers:

- Males and females are equally likely to be SG members
- SG members are representative of all age groups although adults younger than 26 years and those older than 65 years are slightly less likely to engage in SG activities
- SG members are most likely to be rural-based and to rely on farming activities for income
- SG members are most likely to be from households in the lowest two quintiles of the PPI distribution

Figure 38: Comparing adults who belong to Savings Groups with the total adult population

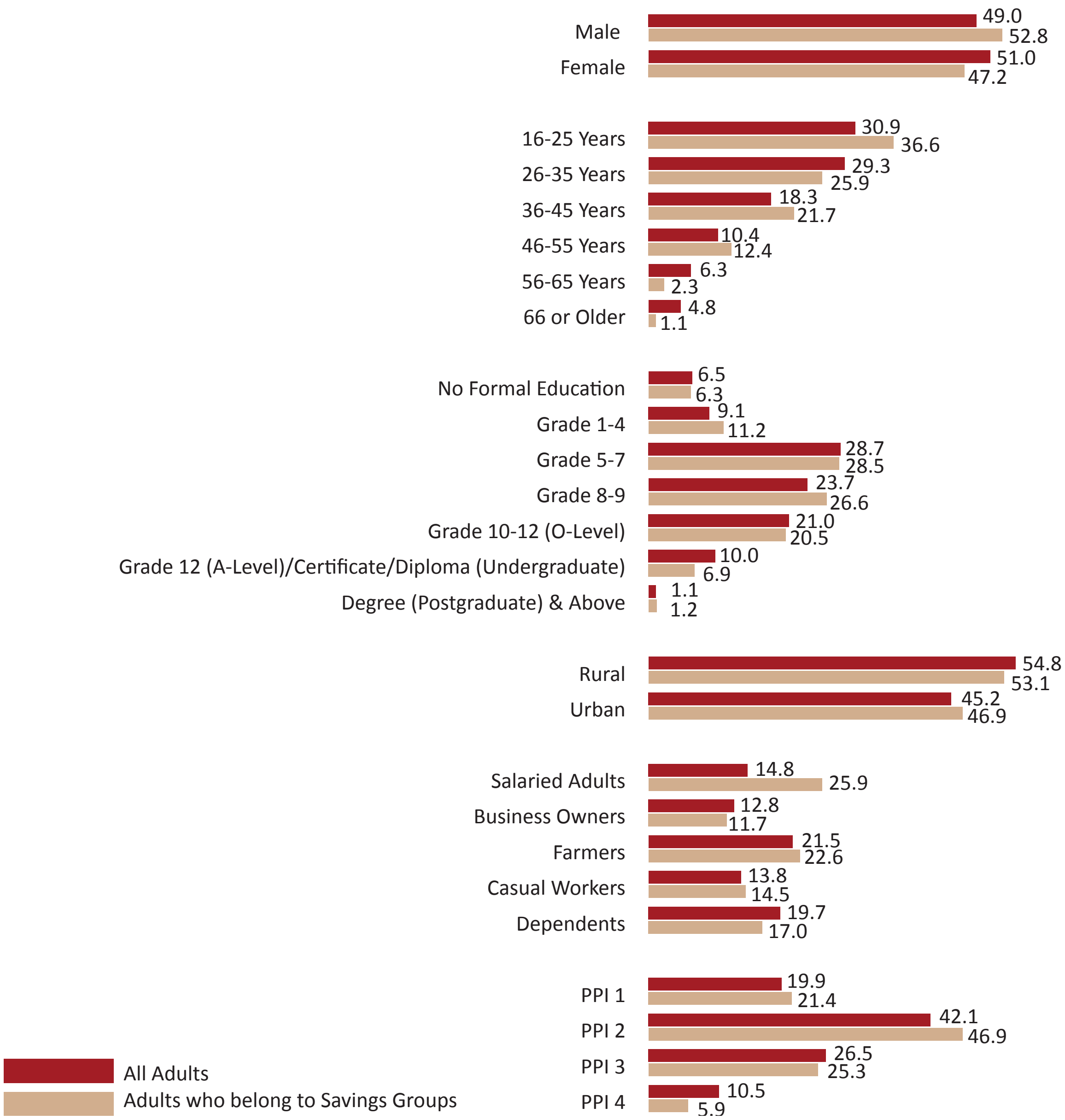


6.1.3 Kaloba

Moneylenders (Kaloba) are the predominant providers of informal credit in Zambia and are used by 5.5 percent of the adult population. Comparing the profile of adults who use Kaloba with that of the adult population (Figure 39) indicates that Kaloba is the credit provider for the poor. Adults who use Kaloba are most likely to be:

- Male
- In the 16 to 25 or 36 to 55 year age groups
- Urban-based
- Salaried workers
- From households in the lowest two quintiles of the PPI distribution

Figure 39: Comparing adults using Kaloba with the total adult population



6.2 Barriers to informal service usage

Self-reported barriers to uptake of informal financial services (Table 9) are similar to those reported for formal financial services in that demand-side barriers (i.e. not having enough money to save) are regarded as more significant than ***accessibility*** (i.e. services not being **available** in the community).

Table 9: Main barriers to usage of informal services

Main barriers to Chilimba membership	% of non-members
Do not have any money to save	33.9
There are no such groups in the community	21.6
Do not trust them	13.6
Do not see benefits in what they have to offer	6.0
Main barriers to SG membership	**% of non-members**
Do not have any money to save	30.9
There are no such groups in the community	28.4
Do not trust them	9.4
Do not see benefits in what they have to offer	5.3

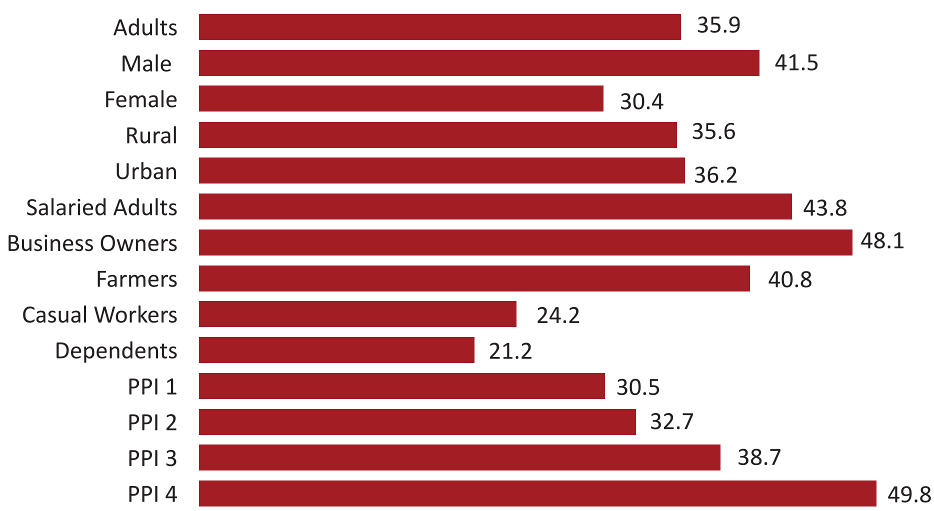
7. FINANCIAL SERVICE NEEDS

Consumers need financial services for primarily four purposes, namely: cash flow management; risk management; asset building; and productive investment.

Although the FinScope 2015 survey did not go into depth in terms of exploring the levels of financial capability and empowerment of Zambian adults, findings summarised in Figure 40 explore some dimensions of capability and empowerment, namely: the extent of individual access to money of their own to use as they wish; involvement in household decision-making; keeping track of money received and spent; seeking financial advice; and having someone to turn for financial advice.

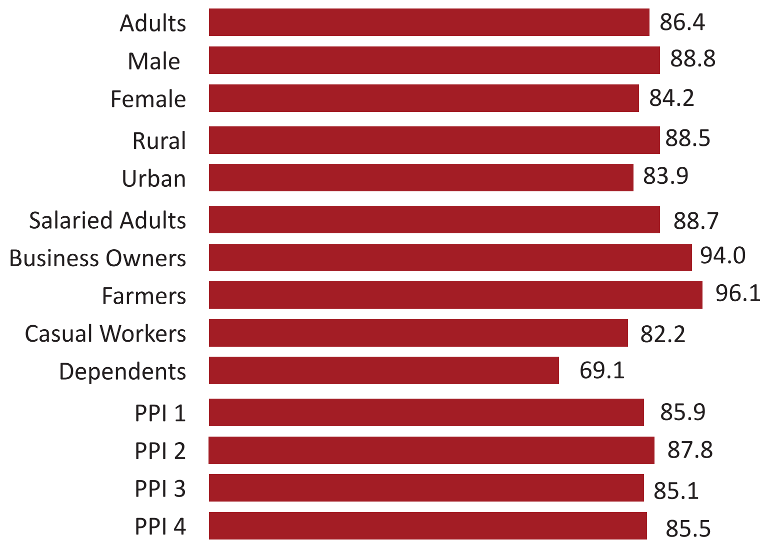
Females, casual workers, dependents and adults in the lowest quintiles of the PPI distribution (PPI 1 and 2) are significantly less likely than other adults to have money of their own. Most (40 percent) of these adults do not have access to money of their own as a result of putting their money into the household pot whilst an additional 36 percent of these adults do not earn income of their own.

Figure 40: Percentage of adults who have money of their own to use as they wish



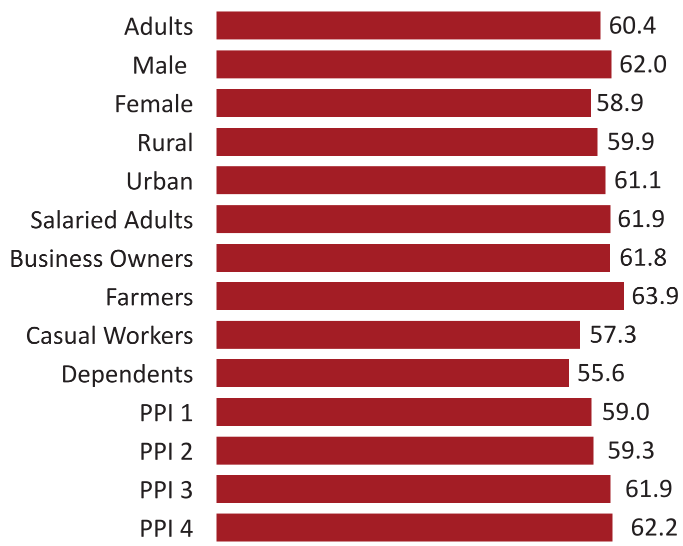
Most adults (86.4 percent) are involved in household financial decision-making although females are less likely than males to be involved and dependents are significantly less likely than other adults to be involved. Findings in Figure 41 further indicate that urban-based adults as well as adults in middle and higher income PPI quintiles are slightly less likely than other adults to be involved in household financial decision making—these findings might be indicative of individuals within these households being more financially independent and making individual decisions rather than being less empowered.

Figure 41: Percentage of adults involved in household financial decision-making



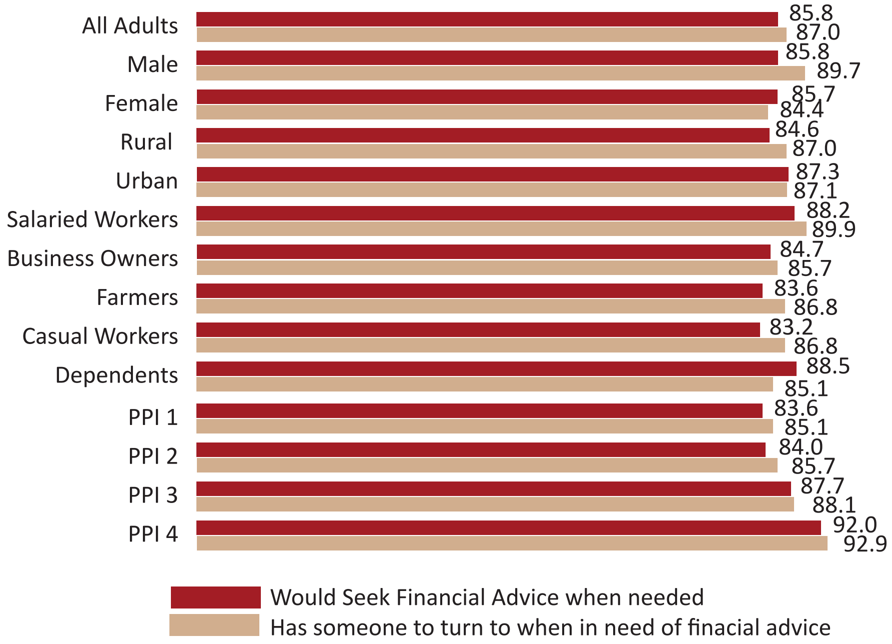
Sixty percent of adults claim to keep track of the money they receive and spend. Females, casual workers and adults depending on others for an income or to pay their expenses are slightly less likely to do so.

Figure 42: Percentage of adults keeping track of the money they receive and spend



Most (85.8 percent) adults claim they would seek financial advice when needed—87 percent claim they had someone to turn to in this regard (Figure 43). Access to financial advice is high across all segments with the lower PPIs and women only slightly less likely to seek financial advice when needed and having someone to turn to when in need of financial advice.

Figure 43: Percentage of adults seeking financial advice



7.1 Cash-flow management

The majority of Zambian adults rely on sources of income that do not provide them with a consistent and regular inflow of money. Cash-flow management is therefore crucial to ensure they can meet their day-to day needs and represents the most significant need for financial services.

Based on the income findings previously summarised in Tables 2 and 3, Table 10 provides an overview of the average and media amount of money Zambians live on per day. Using the United States Dollar (USD) exchange rate at February 2015,[4] the median income for Zambian adults is approximately 2.10 USD per day. For rural-based adults, farmers and casual workers however, this drops to below 2 USD per day. In terms of the PPI distribution, findings summarised in Table 10 indicate that adults in the lowest two PPI quintiles (PPI 1 and PPI 2) live on less than 2 USD (as indicated earlier, this represents 60 percent of Zambian adults).

[4] Based on the exchange rate as at mid-February 2015 (the time of the survey) http://www.oanda.com/currency/historical-rates/

Table 10: Income per main income generating activity and PPI quintile

	Kwacha per day		USD per day	
	Average	Median	Average	Median
All adults	38	14	5.7	2.1
Rural-based adults	32	10	4.8	1.5
Urban-based adults	45	20	6.8	3.0
Salaried adults	58	26	8.7	3.9
Business owners	67	20	10.1	3.0
Farmers	29	10	4.4	1.5
Casual workers	14	7	2.1	1.1
Dependents	17	8	2.6	1.2
PPI 1	18	8	2.7	1.2
PPI 2	32	10	4.8	1.5
PPI 3	39	17	5.9	2.6
PPI 4	90	47	13.5	7.1
PPI 5	109	60	16.4	9.0

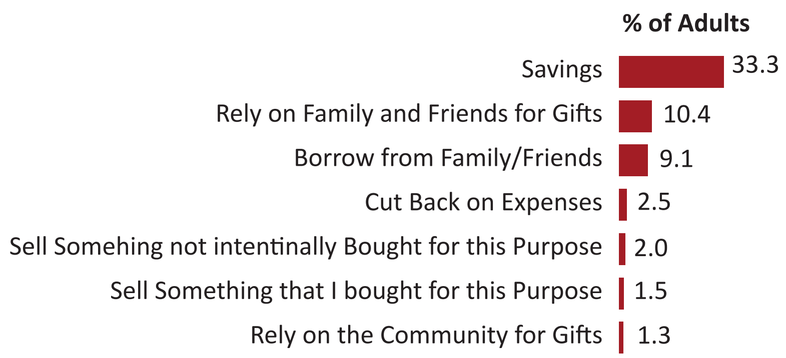
Most adults receive their income in cash. This is true even for salaried workers. Only 14 percent of adults receive income into a bank account. Salaried workers (35.3 percent), urban-based adults (19.2 percent) and adults in the middle (PPI 3 – 18.1 percent) and higher PPI quintiles (PPI 4 – 43.5 percent) are mostly likely to receive income into bank accounts. Less than one percent (0.9 percent) of adults receive income via a money transfer company whilst 0.3 percent receive income through mobile money services.

In terms of regular expenditure (excluding food and clothing), the following expenses receive priority when income is received:

- School/tuition fees
- Rent
- Fuel (charcoal/wood/paraffin) and/or electricity
- Telephone bills/talk time

Most (61.5 percent) adults regard children's education as the most costly event of their lives. Findings summarised in Figure 44 indicate that the most significant strategy to cope with these expenses is to save/put money aside for this purpose.

Figure 44: Strategies to cope with children's education costs

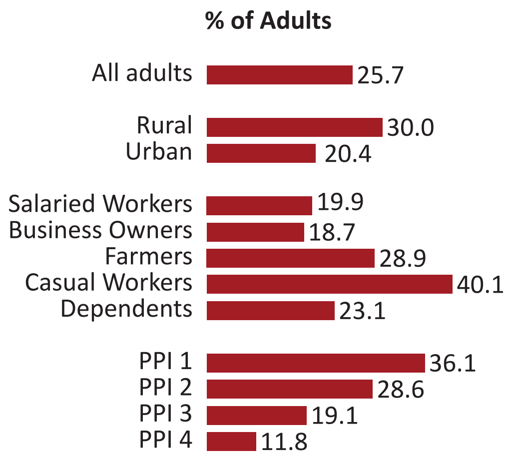


Funerals (although less so than children's education) are also regarded as a costly life event. Zambian adults are however less like likely to put money aside for funeral costs than for other unexpected events. The finding that 49.9 percent of adults perceive funeral costs to be the responsibility of family members and an additional 33.4 percent perceive finance to be a community responsibility, explains this behaviour.

Most (70.4 percent) adults claim to have made/make provision to be financially secure in old age. The strategy for 24.8 percent of these adults, however, is ***relying on their children***. An additional 21.9 percent claim to ***save*** for this purpose; another 17.5 percent plan to rely on ***agricultural activities*** for an income; and a further 10 percent to rely on income from their ***businesses***. There is, however, a significant difference between rural and urban-based adults as well as between adults from different PPI quintiles in terms of spending priorities. For adults residing in rural areas and those from low-income households (PPI 1 and 2), paying school/tuition fees receive the highest priority whilst for those in urban areas and higher income households (PPI 3 and 4); paying rent receives the highest priority.

Keeping up with regular expenses is a continuous struggle for 25.7 percent of adults who, at the time of the FinScope survey, reported that they had either fallen behind completely or that they always struggled to meet expenses (Figure 45). Adults from low-income households (PPI 1 – 36.1 percent and PPI 2 – 28.6 percent), those residing in rural areas (30.0 percent) as well as farmers (28.9 percent) and adults who rely on piece work for income (40.1 percent) are most likely to have fallen behind or to struggle to keep up with regular expenses.

Figure 45: Percentage of adults who have fallen behind/struggle to keep up with regular expenses



Saving is a cash-flow management strategy for 28.9 percent of adults whilst 15.1 percent ***borrow*** to smooth cash-flow (Figure 46). Adults who ***save*** for the purpose of smoothing cash-flow choose a savings mechanism based on the extent to which it allows ***quick access to their savings.*** Most of these adults save at home or with a household member (64.5 percent). Urban-based adults who save for the purpose of smoothing cash-flow however tend to save at a bank – 40 percent of urban-based adults who save for cash-flow smoothing purposes save at a bank.

Urban-based adults (30.1 percent), salaried workers (29.5 percent), business owners (33.1 percent), farmers (33.7 percent) and adults from the middle (PPI 3 – 31 percent) and high income (PPI 4 – 33.2 percent) are most likely to save in order to smooth cash-flow. Those who save for the purpose of smoothing cash-flow mainly save for the following purposes:

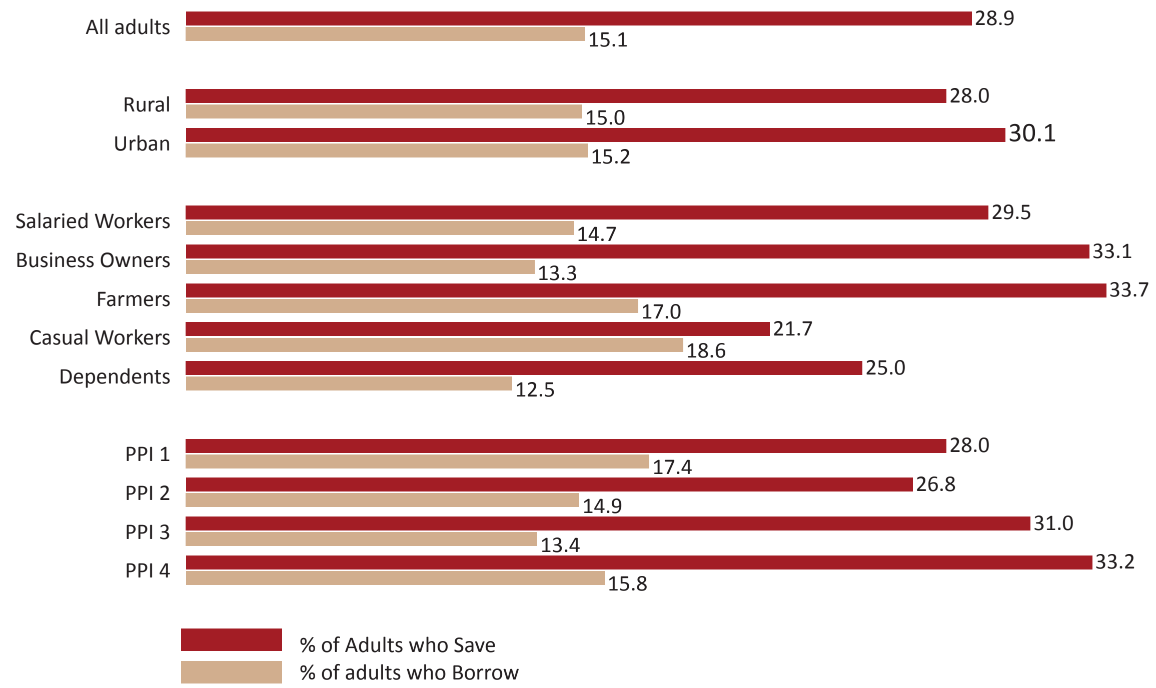
- To cover living expenses when they run out of money – 57.3 percent
- To pay school fees – 27.7 percent

- To cover farming/business expenses – 12.1 percent
- To buy household goods – 2.9 percent

Adults who ***borrow*** for the purpose of smoothing cash-flow mainly borrow from family and friends (79.9 percent) and/or Kaloba (10.5 percent) as these lenders give them quick access to cash when they need it. Farmers (17 percent), those who do piece work for money (18.6 percent) and adults from the lowest income PPI quintile (PPI 1 – 17.4 percent) are most likely to borrow in order to smooth cash-flow. Those who borrow to smooth cash-flow mainly borrow to:

- Cover living expenses when they run out of money – 43.7 percent
- Pay school fees – 31.3 percent
- To cover farming/business expenses – 21.9 percent
- To buy household goods – 3 percent

Figure 46: Cash-flow management strategies



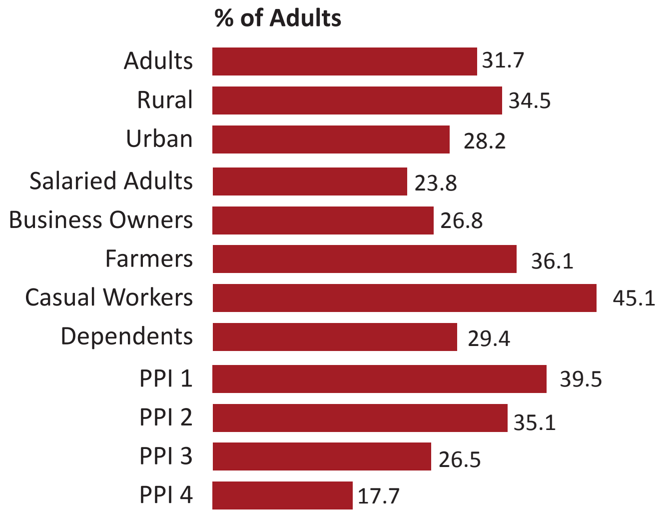
7.2 Risk management

Most households will, at some point, face an unexpected financial event that current income cannot support, leaving the household struggling to find financial resources to make ends meet. Almost 9 in 10 (89.7 percent) Zambian adults experienced such events in the 12 months prior to the FinScope 2015 survey. The most significant of which were:

- Unexpected rise in the price of goods – affecting 73.4 percent of adults
- Illness in the household that required medical expenses – affecting 60.9 percent of adults
- Death of a household/family member – affecting 35.8 percent of adults

The likelihood of falling behind/struggling to keep up with expenses linked to these kind of events is higher than for regular expenses—31.7 percent of adults have fallen behind/always struggle to keep up with unexpected expenses (Figure 47). Rural-based adults (34.5 percent), farmers (36.1 percent), casual workers (45.1 percent) and adults from households in the lowest two PPI quintiles (PPI 1 – 39.5 percent; PPI 2 – 35.1 percent) are most likely not able to manage unexpected expenses.

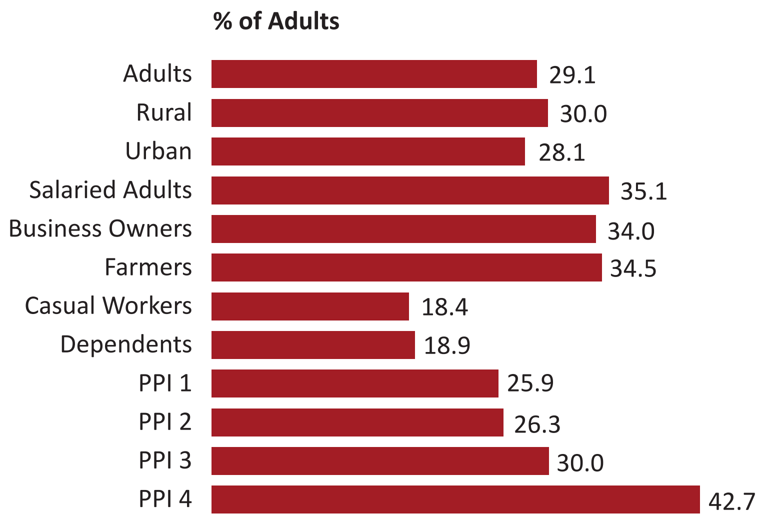
Figure 47: Percentage of adults who have fallen behind/struggle to manage unexpected expenses



Approximately one in three adults (29.1 percent) make provision for unexpected expenses (Figure 48). Those who are most likely to do so include:

- Salaried workers – 35.1 percent of whom make provision for unexpected expenses
- Business owners – 34 percent of whom make provision
- Farmers – 34.5 percent of whom make provision
- Adults from households in high income PPI quintiles – 42.7 percent of adults from households in PPI 4 make provision

Figure 48: Percentage of adults who make provision for unexpected expenses



When faced with unexpected expenses Zambian adults are most likely to ***use savings, borrow money*** or simply ***cut down on other expenses***. In terms of the unexpected events experienced by adults in the 12 months prior to the FinScope 2015 survey, 34.5 percent used savings to cope whilst

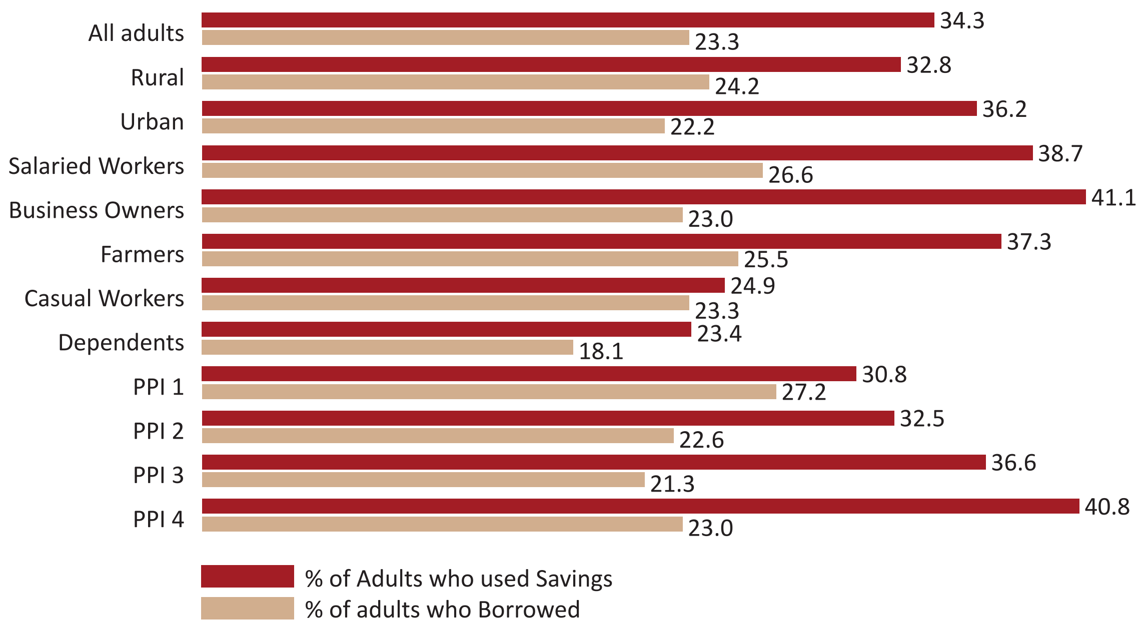
23.3 percent borrowed (Figure 49).

Those who were most likely to use ***savings*** to cope were most likely to save at home or with household members (49.2 percent of adults who saved to cope with unexpected expenses). ***Quick access to money*** and ***safety of savings*** were the most important criteria used by these individuals to decide where to keep their savings.

Adults who saved for unexpected expenses are most likely to be:

- Urban-based adults – 36.2 percent of whom used savings (these adults also have a high likelihood of saving at a bank)
- Salaried workers – 41.1 percent
- Business owners – 37.3 percent
- Farmers – 37.3 percent
- Adults from households in middle (PPI 3 – 36.6 percent) and high income quintiles (PPI 4 – 40.8 percent) of the PPI distribution

Figure 49: Strategies used to cope with unexpected expenses in the 12 months prior to the FinScope 2015 survey



Adults who ***borrowed*** to cope with unexpected events in the 12 months prior to the FinScope 2015 survey were most likely to borrow from family and/or friends (81.1 percent of adults who borrowed to cope) and/or Kaloba (10.1 percent). ***Quick access to money*** and ***trust*** were the most important criteria used by these individuals to decide who to borrow from.

Those who borrow when faced with unexpected expenses are most likely to be:

- Rural-based adults – 24.2 percent of whom borrowed
- Salaried workers – 26.6 percent
- Farmers – 25.5 percent
- Adults from households in the lowest (PPI 1 – 36.6 percent) income quintile of the PPI distribution

7.3 Assets and asset building

Asset ownership is both an opportunity for income generation, in the form of land, livestock, inventory, or machinery; and risk mitigation, as collateral, protection against inflation or possible income smoothing.

Table 11 provides an overview of asset ownership and connectivity of Zambian adults indicating that 44.5 percent of adults claim to own the dwelling they currently occupy and 48.4 percent claim to own land that they use for agricultural purposes. Claimed ownership is skewed towards rural-based adults, farmers and adults from households in the lowest two income quintiles of the PPI distribution. It is important however that this finding is interpreted within the context of only a small proportion of land held under customary tenure having been privatised—most adults in these areas claiming ownership do not have title deeds for these properties and will therefore not be able to use land or property for collateral.

A majority (76.9 percent) of adults own mobile phones. Mobile phone ownership is skewed towards urban-based adults (85.2 percent), salaried workers (86.8 percent), business owners (85.1 percent) and adults in middle and high income quintiles of the PPI distribution (PPI 3 – 85.2 percent; PPI 4 – 96.2 percent).

Table 11: Asset ownership and connectivity of Zambian adults

	% of Adults					
	Who Owns Current Dwelling	Who Owns other Dwellings	Who Owns Land that they use for Agricultural Purposes	Who Owns Mobile Phones	With Access to a Computer	With Internet Access
All Adults	44.5	16.9	48.4	76.9	11.4	15.6
Rural	57.3	14.5	64.0	63.5	7.6	9.1
Urban	29.0	19.8	29.4	85.2	16.1	23.4
Salaried Workers	30.5	18.7	35.0	85.8	22.2	28.2
Business Owners	45.3	18.9	41.7	85.1	12.9	17.9
Farmers	75.4	16.4	88.6	65.7	3.9	4.6
Casual Workers	44.9	12.6	43.1	69.6	6.3	10.6
Dependents			27.2	74.6	11.4	16.9
PPI 1	52.5	11.6	69.0	57.4	2.3	3.7
PPI 2	52.5	15.9	54.9	73.0	4.6	7.4
PPI 3	30.1	20.4	33.9	85.2	16.8	21.6
PPI 4	17.0	21.1	21.6	96.2	40.1	52.1

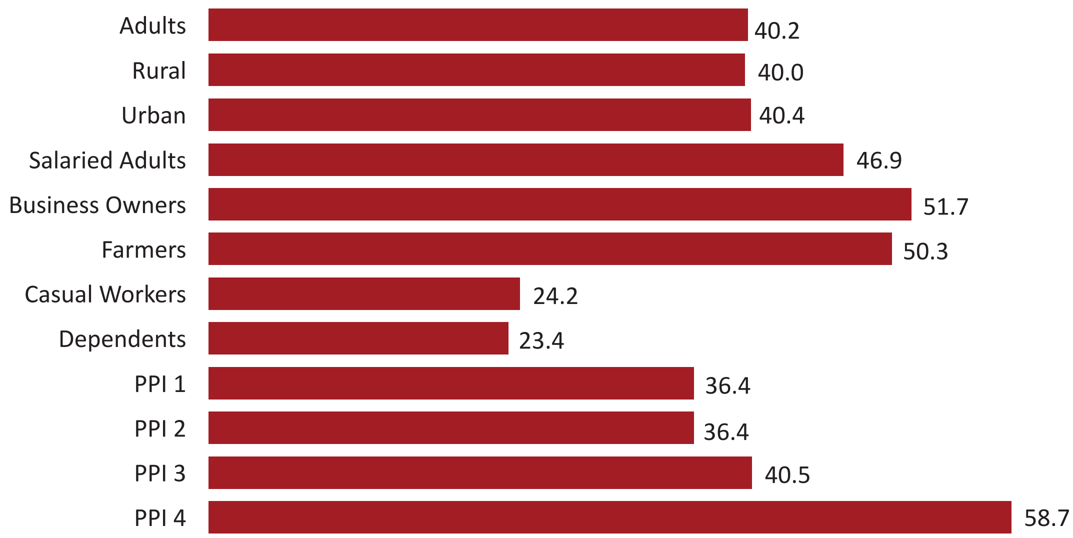
Almost half of the adult population (40.2 percent) claim to consciously make financial provision for things (assets) they want in their future (Figure 50). The most significant strategy for this purpose is ***saving*** (30.8 percent of those who claim to make provision) with farming (selling produce/livestock), trading and small business activities being secondary.

Those most likely to make provision for asset building are:

- Salaried workers (46.9 percent)
- Business owners (51.7 percent)
- Farmers (50.3 percent)

- Adults from households in high income quintiles – PPI 4, 58.7 percent

Figure 50: Percentage of adults who make provision for asset building



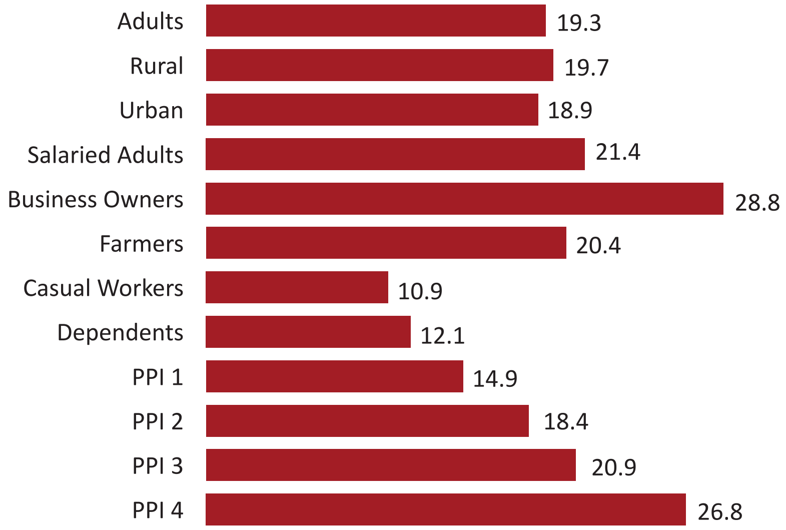
7.4 Investment in productive activities

One in five (19.3 percent) adults claim to invest in income generating opportunities. Business owners (28.8 percent), farmers (20.4 percent) and adults from middle and high income quintiles (PPI 3 – 20.9 percent and PPI 4 – 26.8 percent) of the PPI distribution are most likely to do so (Figure 51). Most (38.2 percent) of adults these adults invest in micro and small businesses.

Secondary strategies include:

- Investment in livestock (13.1 percent of adults who invest in income generating opportunities); rural-based adults as well as farmers are most likely to buy livestock for the purpose of generating additional income
- Buying and/or building apartments (10.5 percent) or land (6.4 percent) to rent out; salaried workers who invest in additional income generating opportunities are most likely to invest in property to rent out
- Buying equipment/machinery/tool to generate an income (5.2 percent of adults who invest in productivity); urban-based adults and those who rely on piece work for an income are most likely

Figure 51: Percentage of adults investing in income generating opportunities/activities



8. ACCESS TO FINANCIAL SERVICES

Access to financial services is a prerequisite for uptake and usage of services. In order to assess access to financial services, it is necessary to have a working definition of access. There are various dimensions to access—such as physical access to points of service, eligibility to take up services offered as well as the suitability, affordability and awareness of services for example— which makes it a complex concept to measure.

In terms of access, this report focuses on the following two dimensions measured by the FinScope 2015 survey:

- Physical access to points of service
- Eligibility to take up services

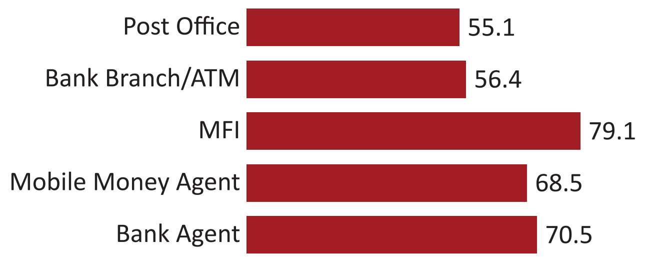
8.1 Physical access to points of service

To facilitate a good understanding of financial service ***access*** and how this influences uptake and usage of financial services, it is useful to overlay population data onto access point data using Geospatial Information System (GIS) based methodologies. As there was no comprehensive geospatial data available regarding financial service provider access points in Zambia, FSDZ embarked on a geospatial mapping exercise to collect this data after the completion of the FinScope 2015 data. This data will be integrated with the FinScope data and findings in this regard will be made available early in 2016 as a FinScope FOCUS paper.

With a survey such as the FinScope survey, it is not possible to *measure* ***actual physical access*** as responses to questions regarding access depend on respondents' awareness of financial service providers as well as of the location of these service providers. It is therefore important to note that findings in this regard represent ***perceived access.***

Findings summarised in Figure 52 suggest perceived physical access to financial institutions to be a significant barrier to uptake and usage of financial services. Most adults either do not know where their nearest financial access points are or they are of the perception that they cannot access these points within an hour. This barrier is significantly skewed towards rural areas (where it affects more than 75 percent of adults) and adults from low-income households (PPI 1 and 2 which affects more than 60 percent of adults).

Figure 52: Percentage of adults who perceive they cannot reach financial access points within an hour or who do not know where financial institutions are



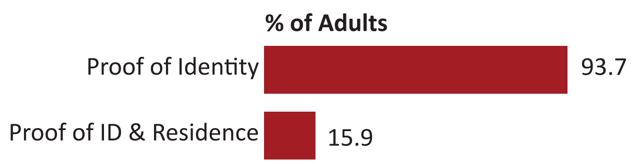
8.2 Eligibility to access services

It is often claimed that a significant barrier to uptake of financial services is regulatory in nature—specifically with regard to potential customers of financial institutions having to comply with strict "know your customer" (KYC) requirements. KYC requirements for the opening of accounts with financial institutions for individuals include:

- Proof of identity by means of a valid identification document
- Proof of residential address

The vast majority of adults say they have access to their national registration card (93.5 percent). A much smaller percentage have access to a proof of residential address document.

Figure 53: Percentage of adults able to provide valid documentation



FinScope 2015 findings (Table 12 and Figure 53) reveal that the main constraint in terms of compliance with KYC requirements is the ability of potential customers to provide valid documentation that could serve as proof of residential address. As with perceived physical access, this constraint is significantly skewed towards rural areas and adults from low-income households (PPI 1 and 2) where it affects more than 90 percent of adults.

Table 12: Percentage of adults with documentation to prove identity and/or residence

National registration card	93.5%
Bank statement	7.9%
Title deed	7.4%
Electricity/water bill	4.6%
Driver's licence	4.0%
Payslip from employer	3.6%
Subscription (e.g. satellite TV)	3.5%
Passport	3.4%
Insurance policy documentation	2.1%
Lease or rental agreement (e.g. vehicle or house)	1.1%
Tax identification form	0.9%
Telephone/Zamtel bill	0.9%

9. FINANCIAL SERVICES USED BY ZAMBIAN ADULTS

For the purpose of exploring ***usage*** of financial services amongst Zambian adults, financial services are categorised into four main categories:

- Money transfer and payment services
- Saving services
- Credit/loan services
- Insurance services

9.1 Money transfer and payment services

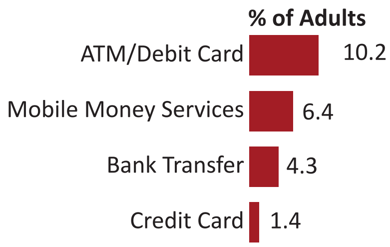
There are three primary uses of electronic money (money transfer and payment services) including the purchasing of goods and services; paying bills; and money transfers.

9.1.1 Purchasing good and services

Zambia is a cash-based society. In the 12 months prior to the FinScope 2015 survey, 14.4 percent of adults used electronic payment channels for purchasing goods or services.

Usage of electronic payment channels for purchases in this period is significantly skewed towards adults residing in urban areas (22.4 percent), salaried workers (30 percent), business owners (17.3 percent) and adults from middle (PPI 3 – 20.9 percent adults) and high income households (PPI 4 – 44.5 percent adults). The most likely channel to be used for this electronic payment during this period was ATM/debit cards (10.2 percent) with credit cards being the least utilized electronic payment channel (1.4 percent) (Figure 54).

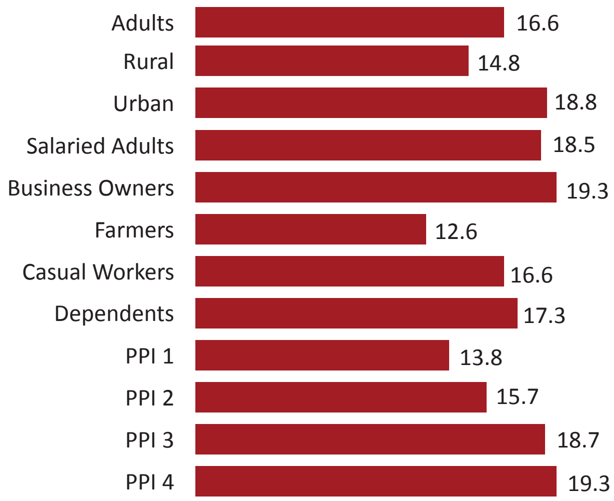
Figure 54: Percentage of adults using electronic payment channels for purchasing goods or services



In the 12 months prior to the FinScope 2015 survey, 16.6 percent of adults bought goods and/or services on credit (Figure 55). Adults who did so were most likely to be:

- Urban based – 18.8 percent of urban adults bought goods and/services on credit
- Salaried workers – 18.5 percent
- Business owners – 19.3 percent
- Dependents – 17.3 percent
- From households in middle and higher income quintiles of the PPI distribution:
    - PPI 3 – 18.7 percent
    - PPI 4 – 19.3 percent

Figure 55: Percentage of adults buying goods and/or services on credit in the 12 months prior to the FinScope 2015 survey



Most (33.1 percent) adults who bought goods and/or services on credit bought food and other groceries, 29.2 percent bought clothing, 8.2 percent household appliances and 3.9 percent bought farming inputs.

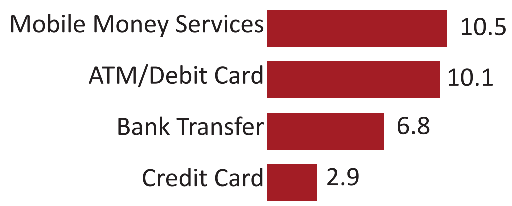
Payment for 58 percent of credit purchases were done in instalments after it was received whilst for 39 percent of these purchases the goods/services were received and payment was done in a lump sum at a later stage. For approximately 2 percent of credit purchases repayment was done in kind.

9.1.2 Bill payments

In the 12 months prior to the FinScope 2015 survey, 24.5 percent of adults had utility bills to pay—19.5 percent of whom used electronic channels to do so.

Mobile money was the most likely channel to be used for this purpose during this period (10.5 percent) while credit cards were the least utilized electronic payment channel for paying bills (2.9 percent) (Figure 56).

Figure 56: Percentage of adults using electronic payment channels for paying bills as a percentage of those who pay bills



9.1.3 Money Transfers

During the 12 month period prior to the FinScope 2015 survey, 38.1 percent of Zambia adults sent money to, or received money from, someone else. Although this behaviour was skewed towards adults in urban areas (49.3 percent sent money to/received money from elsewhere in the country), salaried workers (49 percent), business owners (47 percent), and adults from households in the middle (PPI 3 – 48.3 percent) and high income households (68.3 percent), most (62.7 percent) adults who sent or received money used formal channels to do so (Table 13).

Table 13: Money transfer channels mostly used for remittances

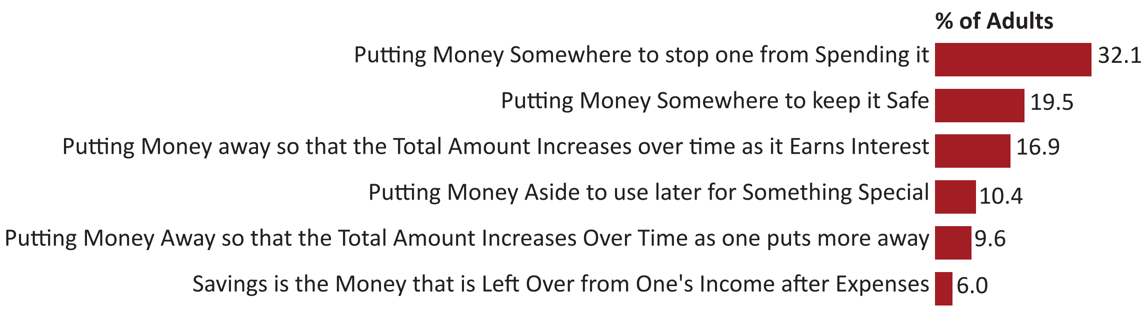
Channels used by those who *sent* money	% of senders
Through the Post Office	22.6
Through mobile phone	22.1
Bank transfer/Pay into bank account	17.0
Friends or family takes it there	16.6
Bus/taxi driver takes it there	5.0
Through Western Union/Moneygram/Swift cash	4.9
Channels used by those who received money	**% of receivers**
Through the Post Office	22.2
Through mobile phone	18.1
Bank transfer/Pay into bank account	15.4
Friends or family bring it	13.3
Through Western Union/Money gram/Swift cash	6.2
Bus/taxi driver brings it	4.4

The primary method for sending and receiving transfers was through the post office, 22.6 percent and 22.2 percent respectively with mobile phone transfers being utilised 22.1 percent (sending) and 18.1 percent (receiving). Informal methods such as friends and family or bus/taxi drivers were utilised the least.

9.2 Saving services

Zambian adults' interpretation of saving is not necessarily ***wealth accumulation***. Most adults define saving as putting money somewhere so that it will not be spent (32.1 percent) or for safekeeping of money (19.5 percent). Only 16.9 percent of adults expected their savings to increase in amount over time as it earned interest (Figure 57).

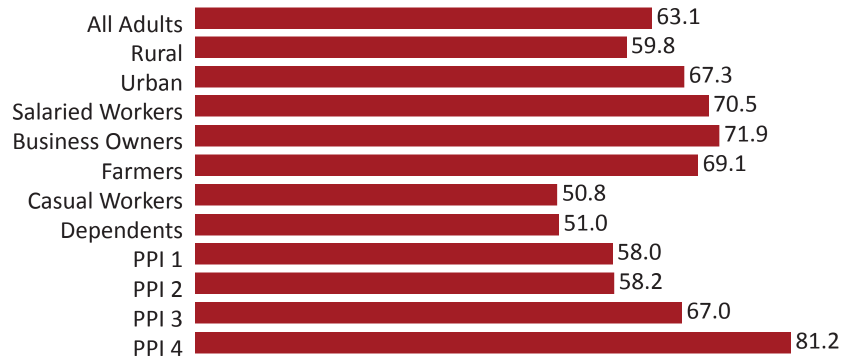
Figure 57: Zambian adults' definition of savings



Most (63.1 percent) adults claim to save or put money aside (Figure 58). Those most likely to do so are:

- Urban-based – 67.3 percent
- Salaried workers (70.5 percent), business owners (71.9 percent) and farmers (69.1 percent)
- Adults from middle (PPI 3 – 67 percent) and high income households (PPI 4 – 81.2 percent)

Figure 58: Percentage of adults who save



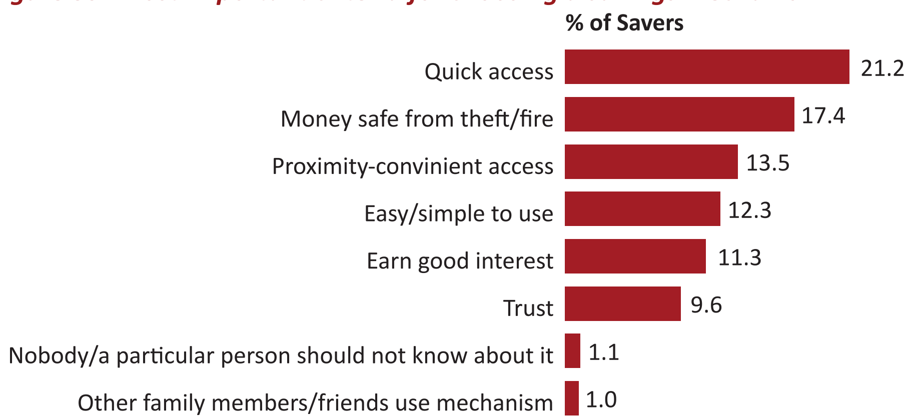
FinScope findings summarised in Table 14 indicate that Zambian adults mainly save or put money away in order to smooth cash-flow and to mitigate risk. This finding puts their definition of ***saving*** as ***putting money aside to keep one from spending it*** in context. It also explains why, for most savers, ***quick access to their savings*** is the most important criteria for choosing a savings mechanism.

Table 14: Main Drivers of Savings Behaviour

Purpose	Drivers	% of savers
Cash-Flow Management	Living expenses for when you do not have money	32.4
	Education or school fees	15.6
	Farming expenses such as seeds or fertiliser	4.7
	Business expenses such as additional stock	2.2
Risk Management	An emergency other than medical	20.8
	Medical expenses	4.8
Investing in Assets and Productive Activities	Buying or building a house to live in	3.0
	Buying household appliances, goods or furniture	1.5
	Starting or expanding business	1.8
	Buying land	1.4

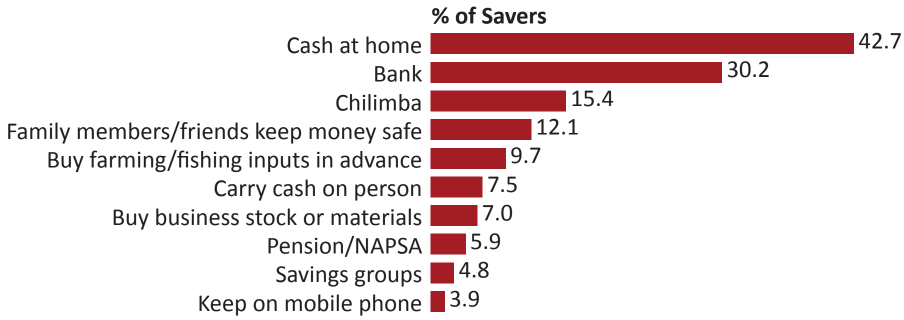
Two of the three most important criteria for choosing a savings mechanism concern ease and speed of access, quick access and proximity (Figure 59). As seen previously, in adult's definition of savings (Figure 57), earning interest is less of a consideration when choosing a savings mechanism.

Figure 59: Most important criteria for choosing a savings mechanism



As saving is mainly driven by the need to smooth cash-flow and manage risk (and therefore the need to have quick access to money). Most (42.7 percent) of adults who save, save by keeping cash at home (Figure 60). One in three (33.5 percent of savers) use formal savings services whilst one in four (2.5 percent) use informal mechanisms for saving.

Figure 60: Savings services used by Zambian savers



Those most likely to keep savings at home are:

- Rural-based savers (60.3 percent) – as opposed to 45 percent of urban savers
- Business owners (53.7 percent), farmers (79 percent), those who rely on piece work for an income (80.5 percent), as well as those who depend on others for money (67.5 percent) – only 40 percent of salaried workers save at home
- Savers from households in the lower and middle income quintiles of the PPI distribution – 83.5 percent of savers in PPI 1; 72.3 percent of savers from PPI 2; 53.6 percent of savers from PPI 3. Only 27.3 percent of savers from households in PPI 4 save at home

The second most used savings mechanism used by Zambian savers is keeping savings in a commercial bank account (used by 30.2 percent of savers). Keeping savings in a bank account is skewed towards:

- Urban-based savers (40.7 percent)
- Salaried workers (54.2 percent) and business owners (31.5 percent)
- Savers from households in the middle and high income quintiles of the PPI distribution – 39.7 percent of savers in PPI 3; 72 percent of savers from PPI 4

9.3 Credit services

Most (75.3 percent) Zambian adults claim to avoid borrowing if they can; 83.9 percent say they prefer saving for something rather than borrowing to be able to obtain it.

During the 12 month period prior to the FinScope 2015 survey, 29.8 percent of adults borrowed money (Figure 61). Most (48 percent) of those who did not borrow did not do so because they were concerned that they would not be able to meet repayment requirements. This risk averseness was significantly skewed towards adults in rural areas, farmers, casual workers dependents and those from low income households (PPI 1 and 2).

Those most likely to have borrowed were:

- Salaried workers (33.2 percent)
- Adult from households in the high income quintiles of the PPI distribution – PPI 4 (33.7 percent)

Figure 61: Percentage of adults who borrowed in the 12 month period prior to the FinScope 2015 survey

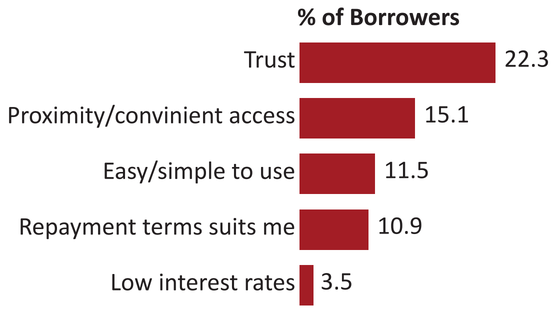
Borrowing like ***saving,*** is a mainly a means of smoothing cash-flow and dealing with unexpected expenses (Table 15). This, and the general tendency to try and avoid borrowing for fear of not being able to meet repayment requirements, results in the most important criteria for choosing a lender being ***quick access to money*** and ***trust*** which, in turn, result in most (76.9 percent) of those who borrow, borrowing from family and friends.

Table 15: Drivers of borrowing behaviour

Purpose	Drivers	% of borrowers
Cash-Flow Management	Living expenses for when you do not have money	22.2
	Education or school fees	15.9
	Buying household goods	1.5
	Farming expenses such as seeds or fertiliser	6.0
	Business expenses such as additional stock	5.1
Unexpected Expenses	Emergency other than medical	6.5
	Medical expenses/emergencies	8.7
	Funeral expenses	3.5
Investing in Assets or Productive Activities	Buying or building a house to live in	2.3
	Starting or expanding business	2.8
	Buying farming/fishing equipment or implements	1.1
	Buying a bicycle, motorcycle, car, truck or other transport	1.2

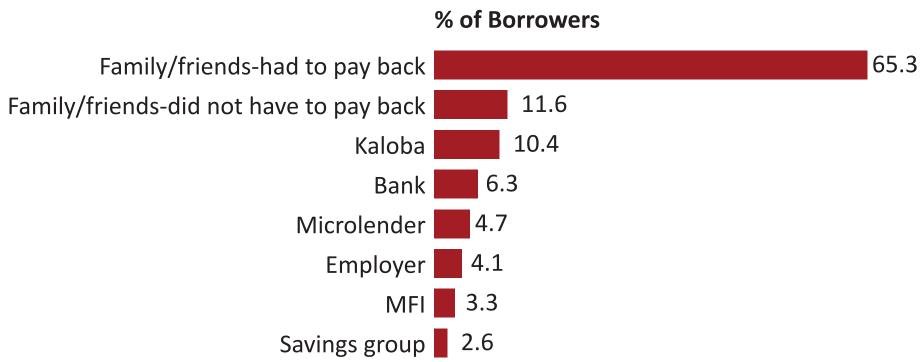
Figure 62 illustrates that trust is the most important criteria when choosing lender (22.3 percent). As seen previously, proximity and convenience is highly important to Zambian adults and 15.1 percent say it is the most important criteria for choosing a lender (this also supports the finding that family/friends are the most used source of loans). Low interest rates are the most important criteria for choosing a lender for only 3.5 percent of Zambian adults.

Figure 62: Most important criteria for choosing a lender



The primary source of borrowing for Zambian adults is family/friends, with 76.9 percent of Zambian adults who borrowed using this method (Figure 63); 65.3 percent had to pay back and 11.6 percent did not have to pay back.

Figure 63: Lenders used by adults who borrowed in the 12 month period prior to the FinScope 2015 survey



Those most likely to borrow from family and friends are:

- Rural-based – 80.9 percent of borrowers borrowed from family and friends
- Business-owners – 78.1 percent
- Farmers – 86.9 percent
- Those who rely on piece work for an income – 87.9 percent
- Dependents – 83.3 percent
- Borrowers from households in the lowest income quintiles of the PPI distribution:
    - PPI 1 – 83.8 percent
    - PPI 2 – 80.3 percent

Just under fifteen percent (14.3 percent) of borrowers borrowed from formal sources such as commercial banks, microfinance institutions and microlenders in the 12 months prior to the FinScope 2015 survey. These individuals are most likely to be:

- Urban-based – 13.2 percent of borrowers borrowed from formal sources
- Salaried workers – 24.9 percent
- Borrowers from households in the middle and high income quintiles of the PPI distribution:

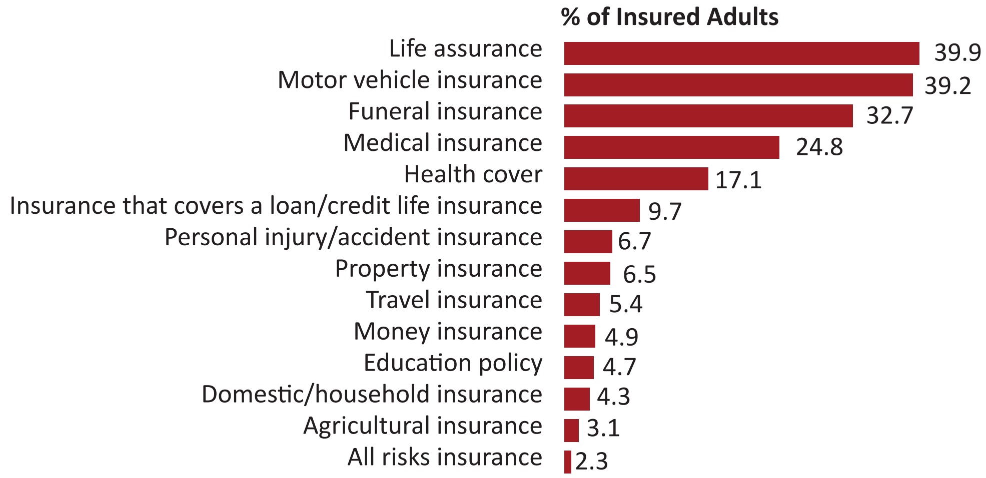
- PPI 3 – 13.8 percent
- PPI 4 – 25.6 percent

9.4 Insurance services

Section 5.1.3 of this report dealt with insurance penetration and the profile of insured adults indicating that only 2.8 percent of Zambians are insured. ***Lack of awareness*** is the most significant barrier in terms of insurance uptake. Low insurance penetration should be interpreted within the context that only 14.2 percent of Zambian adults are aware of insurance.

Figure 64 illustrates that most adults who have insurance have life cover (39.9 percent of insured adults), motor vehicle insurance which is mandatory for vehicle owners (39.2 percent) and funeral insurance (32.7 percent).

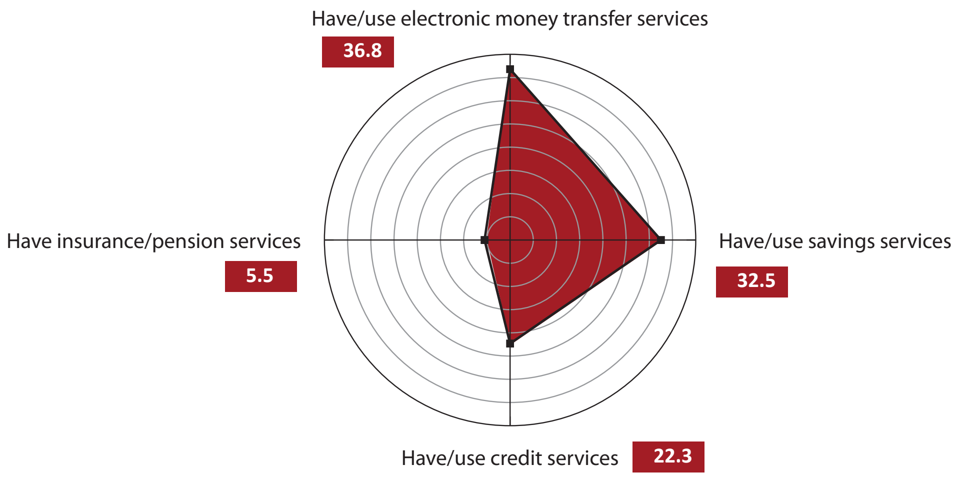
Figure 64: Type of insurance products held by adults who are insured



9.5 Landscape of access

The landscape of access (Figure 65) provides a summary of the FinScope findings discussed in Sections 9.1 to 9.4 of this report (i.e. of the **types of financial services used by Zambian adults**) indicating that Zambian adults are most likely to have or use electronic payment or money transfer services (36.8 percent) and/or savings services (32.5 percent) and less likely to have credit services (22.3 percent). Only 5.5 percent of adults have or use insurance or pension services.

Figure 65: Landscape of access 2015



The most significant increase since 2009 in terms of the proportion of adults who have or use financial services has been with regard to:

- Electronic payment/money transfer services which increased from 15.5 percent (1 million adults) in 2009 to 36.8 percent (3 million adults) in 2015
- Saving services which increased from 17.1 percent (1.1 million adults) in 2009 to 32.5 percent (2.7 million adults) in 2015

The increase in terms of the proportion of adults who have or use credit services and/or insurance services has been less significant. The proportion of adults who have or use credit facilities increased from 17.9 percent in 2009 to 23.3 percent in 2015, whilst the proportion of adults who have or use insurance and/or pension services increased from 4 percent to 5.5 percent.

10. RECOMMENDATIONS AND CONCLUSION

While levels of financial inclusion have increased since 2009, they still remain relatively low, particularly compared to other African countries for which FinScope data is available. Large disparities in financial inclusion still persist between the rural poor and urban populations. Women still face significantly lower levels of inclusion, even when adjusting for income and locale. The FinScope 2015 findings therefore emphasise the need to build further momentum around the financial access priority of government, donors and private service providers, in order for positive and significant growth in access to be realised in forthcoming years. Further, the survey shows that enhancing financial inclusion is not just a question of increasing supply, but of understanding the nature of demand and developing products and services that more effectively meet that demand.

Most financially excluded adults are from low income households (76.5 percent of financially excluded adults fall into the lowest to PPI categories – PPI 1 and PPI 2); most rely on income sources that do not provide a regular and consistent cash-flow (i.e. the financially excluded population being skewed towards earning an income through farming activities and piece work); and most (67.0 percent) reside in rural areas. Numerous FinScope surveys conducted in developing countries in sub-Saharan Africa have illustrated that these characteristics are associated with **unbanked** rather than **banked populations.**The key to increased financial inclusion might therefore not necessarily lie in the banking the financially excluded as the above-mentioned findings suggest.

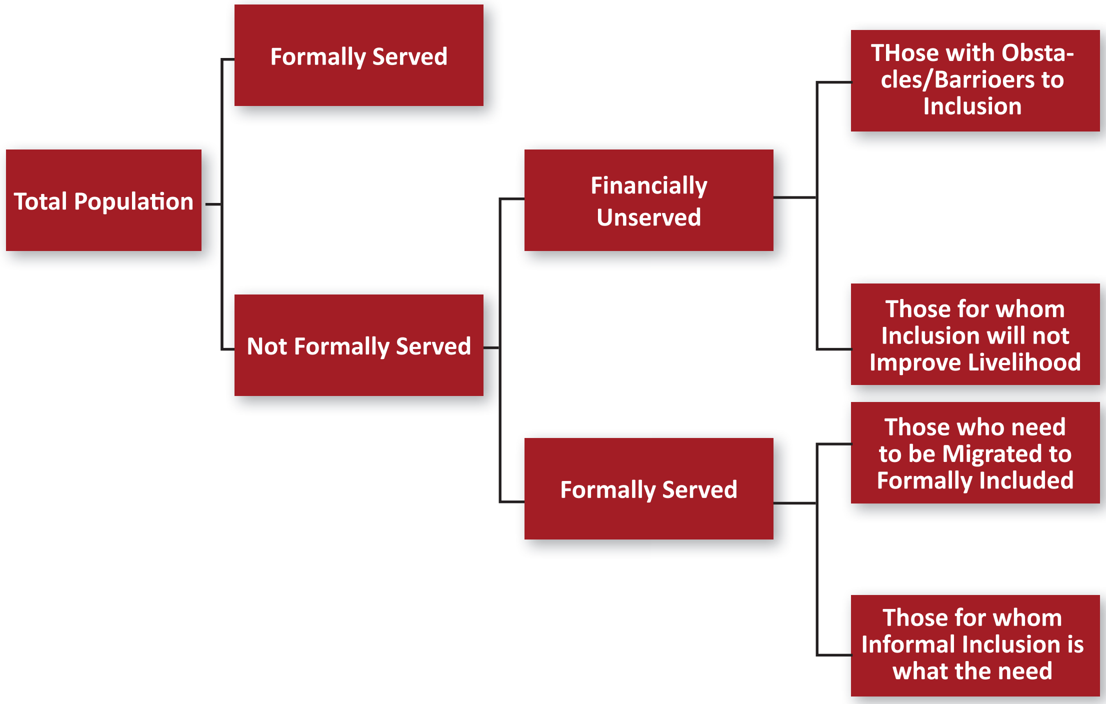
10.1 Recommendations

The following recommendations are considered to be relevant for all stakeholders and reflect the need for the survey data to be scrutinised in more detail and considered alongside other research on the financial sector.

Segmented analysis findings to various targeted stakeholder groups

The top line findings in this report provide a valuable overview of behavior and levels of financial inclusion in Zambia. However, further analysis of the data is required to better understand the circumstances, and therefore the real needs, of the large proportion of the population who are not currently formally served. This can be achieved through livelihoods segmentation, an analysis tool which separates those who are informally served from those that are not financially served at all, and further breaks down these segments into sub-groups of people (Figure 66). The results are important for policymakers, donors and financial service providers alike and need to be packaged to serve the interests of these different groups and disseminated and debated at all levels. The planned FinScope FOCUS papers will do this by offering targeted insights for specific key stakeholders making the information more relevant and useful to their aims. Such information can be useful to support the assessment of financial needs, to determine market size and location and to design appropriate services.

Figure 66: Livelihoods segmentation analysis framework



This analysis can also be applied to those who are already formally served, to assess the extent to which formal services are meeting their needs as well as to identify the livelihood characteristics that differentiate those that are formally served from those that are not.

Develop appropriate and accessible savings services to meet the needs of the unbanked

In terms of developing solutions for the delivery of services that will facilitate further increase in financial inclusion, it is important for financial service providers and policymakers to take cognisance of the fact that the FinScope 2015 survey revealed that 53.6 percent of adults and 46.7 percent of financially excluded adults are of the perception that ***savings in a bank*** would enable them to better manage their financial lives. This finding however needs to be considered within the context of ***saving/putting money aside*** being the most significant strategy applied by Zambian adults to protect themselves from financial risks (most savers save to smooth cash-flow or to cover unexpected expenses) and the perception that putting savings in a bank will ensure the ***safety*** of savings (39.6 percent of banked adults opened a bank account for this reason) as well as enable ***interest to be earned on their savings*** (24.8 percent of banked adults opened a bank account for this reason).

Thus a major element to increased financial inclusion lies in the development of saving services delivered through appropriate and affordable channels that would:

- Facilitate quick access at all times – i.e. services that are accessible in terms of proximity as the ability to deposit and withdraw as and when needed
- Facilitate putting away small amounts of money at irregular intervals but still earn interest – i.e. services that are innovative in terms of balancing charges and interest in a manner that is beneficial to both the client and the service provider
- Guarantee safety of deposits

Supply-side Survey

Given the evolution of the financial sector a supply-side study would contribute to updating strategies of financial service providers to improve financial inclusion. Studies such as geospatial mapping, recently carried out by FSDZ, can be used to overlay current supply points with existing infrastructure such as clinics and post offices which could serve as future access points. A comprehensive understanding of the accessibility of different financial service access points would further allow the development of solutions for the delivery of services for specific target markets through appropriate and affordable channels.

Financial Capabilities

Continuing low levels of financial literacy point to the need for a coordinated effort to improve the situation in Zambia. The Bank of Zambia is committed to implementing the Financial Education strategy for Zambia through the Financial Education Coordination Unit established in 2012. Support to implement this strategy continues to be a crucial component of its success.

Collaboration amongst stakeholders

With the closure of the FSDP coordination unit, it is vital that stakeholders work together to develop a financial inclusion strategy for Zambia and to commit to its implementation. In order to do this in a collaborative and effective manner to ensure buy-in of all stakeholders it will be important that a strong coordination function exists and that there is an established body with the clear mandate from all the stakeholders to ensure success of the strategy and ultimately increased financial inclusion in Zambia.

FSDZ will continue to analyse the FinScope Zambia 2015 data to inform dialogue with financial service providers, policy makers and regulators in pursuit of finding affordable and sustainable solutions for providing financial services that will meet the needs of the financially excluded in Zambia—ultimately aiming to reduce their vulnerability and improving their quality of life.

Annexure A – Zambian PPI questions

Number of people in the household		
Are all household members aged 7 to 16 currently attending school?	No	1
	Yes	2
	No one 7 to 16	3
What is the highest grade that the female head of the household (or the spouse of the male head of the household) has attained?	None, or first to fifth grade	1
	Sixth grade	2
	Seventh to ninth grade	3
	No female head/spouse	4
	Tenth grade or higher	5
What kind of building material is the floor of this house mainly made of?	Mud, wood only, or other	1
	Concrete, or covered concrete	2
What kind of building material is the roof of the house mainly made of?	Grass/straw/thatch, or other	1
	Iron sheets, or other non-asbestos tiles	2
	Concrete, asbestos sheets, or asbestos tiles	3
What is the main type of energy that your household uses for cooking?	Firewood, coal, crop/livestock residues, or other	1
	Charcoal	2
	Gas, electricity, solar, or kerosene/paraffin	3
Does your household own any televisions, DVDs/VCRs or home theatres, or satellite dish/decoders (free to air, or DSTV) or other Pay-TV arrangements?	No TVs (regardless of others)	1
	TV, but nothing else	2
	TV, and something else (DVD, dish etc.)	3
Does your household own any non-electric or electric irons?	None	1
	Only non-electric	2
	Electric, or both electric and non-electric	3
How many beds and mattresses do your household own?	None i.e. no beds and no mattresses	1
	One or more beds, but no mattresses	2
	One mattress (regardless of beds)	3
	Two or more mattresses (regardless of beds)	4
Does any member of your household own a mobile phone?	Yes	1
	No	2

Annexure B – FOREWORD FROM THE FINSCOPE ZAMBIA 2009 SURVEY REPORT

FinScope continues to be an integral part of the Government of the Republic of Zambia's (GRZ's) Financial Sector Development Plan (FSDP). The FSDP, which has since been extended under a second phase, to run from 2010 to 2012, continues to be the Government's comprehensive strategy for strengthening and broadening the Zambian financial sector. In complimenting various other national initiatives, it is also aimed at improving the business environment for private sector growth in the country by reducing the impediment of limited and costly access to finance. It targets to achieve this objective through three strategic pillars, namely, enhancing market infrastructure; increasing competition; and increasing access to finance.

In implementing the second phase of the FSDP, the Government of the Republic of Zambia has reiterated its commitment to have a dynamic and inclusive financial sector that supports all aspects of the economy.

The FinScope survey was first conducted in Zambia in 2005 with financial support from some cooperating partners as a component of FSDP Phase I. FinScope surveys are aimed at guiding policymakers, financial service providers and supporting agencies in their efforts to promote better access to financial services by all Zambians.

The FinScope Zambia 2009 survey forms an important part of FSDP Phase II. The objective of this follow up survey is to assess how the landscape of financial access has changed since 2005 and measure the extent to which various developments within the financial sector have impacted on levels of inclusion throughout the country.

As coordinators of the FSDP, the Bank of Zambia wishes to acknowledge the support of the Private Sector Development Reform Programme (PSDRP) in funding FinScope 2009 and would like to thank FinMark Trust and their local partners in undertaking this study, notably, the Central Statistical Office (CSO), M&N Associates, African Heights, 3C Consulting and representatives from the respective FSDP working groups.

This report documents some of the key findings of FinScope 2009. All information contained in this report is taken from FinScope, unless otherwise stated. An electronic copy of this report, together with a summary brochure, the survey questionnaire, and the full dataset is available on the flash disk that accompanies this report.

As with FinScope 2005, it is hoped that by making this data available, policymakers, regulators and other institutional players will be encouraged to strive to build a conducive environment for the development and growth of an inclusive financial sector. It is also expected that financial service providers will be motivated to identify new product opportunities and explore ways of improving service delivery to the Zambian population as a whole.

Dr Caleb M Fundanga

Governor

Bank of Zambia

ABOUT FSDZ

Financial Sector Deepening Zambia (FSDZ) was established in 2013 by the United Kingdom (UK)'s Department for International Development (DFID) with the mandate to increase financial inclusion in Zambia. FSDZ seeks to expand and deepen the financial market throughout Zambia. We work with financial service providers, policy makers and civil society to expand Zambia's financial sector, making the market more robust, efficient and, above all, inclusive. We use funding, research and technical expertise to strengthen the financial sector and the capacity of our partners to improve access to financial services for micro, small and medium enterprises, smallholder farmers and low-income households.

FSDZ's work is shaped by a common, central role: knowledge generation. The Zambian financial services market operates in an information-poor environment. In particular, there is very limited understanding of demand for financial services in Zambia; that is, how low-income households manage their financial lives and the type of financial services they need—and the service and policy implications that flow from this. Addressing these fundamental information constraints is at the heart of FSDZ's mission. To this end, FSDZ seeks to provide independent, high quality, insightful analyses on financial services (and especially financial inclusion). Specifically, it seeks to better understand demand and supply through research and analysis.

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