Measuring Financial Access in Zambia
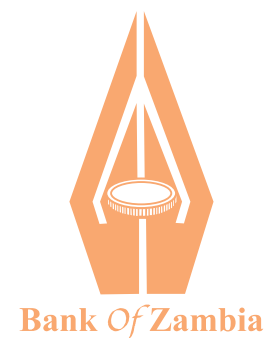
FinScope™ Zambia 2005:

Summary of Topline Findings

November 2006

Republic of Zambia

Bank Of Zambia

FinScope™ Zambia 2005

Volume I:

Background, methodology and top-line findings

November 2006
Final Report

FinMark Trust

MAKING FINANCIAL MARKETS WORK FOR THE POOR

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List of abbreviations

AML	Anti-Money Laundering
BoZ	Bank of Zambia
CSO	Central Statistical Office
DCDM	De Chazal Du Mee
DFID	Department for International Development
FA	Financial Access
FAL	Financial Access Landscape
FAS	Financial Access Strand
FATF	Financial Action Task Force
FSAP	Financial Sector Assessment Programme
FSDP	Financial Sector Development Plan
FSM	Financial Services Measure
IC	FSDP Implementation Committee
IMF	International Monetary Fund
KYC	Know Your Customer
LPI	Lived Poverty Index
MFI	Microfinance Institution
MFMW4P	Making Financial Markets Work for the Poor
NBFI	Non-Bank Financial Institution
NRC	National Registration Card
NSCB	National Savings and Credit Bank
PSU	Primary Sampling Unit
RFP	Request for Proposal
SACU	South African Customs Union
SC	FSDP Steering Committee
SEA	Standard Enumeration Area
Sida	Swedish International Development Agency
WG	Working Group
ZNCB	Zambia National Commercial Bank

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Executive Summary

The IMF/World Bank Financial Sector Assessment report, completed in August 2003, highlighted a number of weaknesses in Zambia's financial sector. In light of these findings, and in recognition of the strategic importance of the development of the financial sector in contributing to sustainable economic growth and poverty eradication, the Government of Zambia launched the Financial Sector Development Programme (FSDP) in 2004. The FSDP is a comprehensive strategy to build and strengthen the financial sector infrastructure to enable it to support economic diversification and sustainable growth.

The FSDP recognises that there is a lack of accurate information about the financial infrastructure as well as about the demand for financial services, which is required to guide policy, interventions and financial service providers in their efforts to promote better access by all to financial services. To support the enhancement of this knowledge, FinMark Trust was contracted by the UK's Department for International Development (DFID) and the Swedish International Development Agency (Sida) through a Grant Agreement to provide technical expertise to the FSDP. FinMark Trust is an independent non-profit organisation, set up in 2002 with seed funding from DFID, with a mandate to make financial markets work for the poor. FinMark Trust aims to catalyse changes around the financial infrastructure to support the building of more inclusive financial sectors in Africa.

A key role of FinMark Trust under the Grant Agreement is to provide the Bank of Zambia (BoZ) with the necessary tools to create the information architecture needed to support the building of an inclusive financial market in Zambia. This is being achieved by an analysis of the demand for financial services using FinMark's FinScope™ tool, and a supply-side review of the financial sector using a financial inclusion framework. This report outlines the methodology and key findings of FinScope™ Zambia.

The FinScope™ tool is a nationally representative survey measuring access, usage, perceptions and demand patterns on financial services and issues to create insights into how consumers source their income and manage their financial lives. The survey aims to establish credible benchmarks and indicators of access, provide insights into regulatory and market obstacles to growth and innovation, and highlight opportunities for policy reform and innovation in product development and delivery. FinScope™ therefore plays an important role in building the information architecture that is key to strengthening a financial sector's organisational and institutional infrastructure.

The implementation of FinScope™ in Zambia commenced in June 2005 with the hosting of a national stakeholder launch in Lusaka and the selection of a local market research firm to undertake the fieldwork and data inputting. The FinScope™ core questionnaire was subsequently adapted to the Zambian context in close consultation with FSDP Working Groups and other financial sector stakeholders. The Central Statistical Office (CSO) assisted in the design of a nationally representative area-based sampling frame of 4,000 respondents, covering all nine provinces and targeting all residents aged 16 years and above, this being the age at which Zambians are legally eligible to open a bank account. This sample size provides reliable estimates for national and rural-urban desegregation. The fieldwork was conducted in November and December 2005, and data was inputted from January to March 2006, with datasets produced in Excel and SPSS software packages.

The FinScope™ Zambia 2005 data confirms that levels of access to financial services in Zambia are low, though perhaps higher than expected. Using the data on usage of financial services, Zambia's **Financial Access Landscape (FAL)** has been constructed, measuring usage of financial products across transactions, savings, credit and insurance. The FAL analysis shows that there is very little use of the range of formal products on offer in Zambia. However, informal services – such as Chilimba (savings clubs) and Kaloba (informal loans) – play an important role in extending the boundaries of financial access. Any policy on financial access should therefore recognise the contribution of informal providers and ensure that consumer rights are protected without imposing regulation which could stifle these innovations.

It is also possible to measure access using an institutional dimension, as opposed to the functional (product) dimension. **The Financial Access Strand (FAS)** is a measurement of financial inclusion, measuring access across the formal-informal provider continuum, ranging from people who are served by formal institutions, to those people who use only informal providers, and finally to those people who do not use any provider. In this case, the findings also indicate that overall levels of access to the formal financial system in Zambia are low, with just fewer than 15% of adult Zambians reported to be banked. Access improves by 8% when formal other institutions – like microfinance institutions (MFIs) – are included. Access further expands by 11% when considering those using only informal providers. Formal other and informal providers are therefore demonstrated to play an important role in pushing the frontiers of access and resulting in 33% of adult Zambian's considered to be financially served.

Comparing the FAL and FAS indicators in Zambia with the three other Southern African countries where FinScope™ surveys have been undertaken[1], shows that levels of access in Zambia are the lowest overall. Whereas access comes mainly from the banking sector in these countries, in Zambia access is clearly coming equally from banks, formal other and informal sectors combined.

This report contains further analysis of the FAL and FAS findings for Zambia, in addition to:

- The FinScope™ Zambia sample profile;
- Functional and institutional definitions;
- Overview of bank usage: receipt and spending preferences for a large sum of money; banking status; understanding household income and use of financial services; ways of receiving/remitting money; access barriers; bank concentration and market share;
- Savings and investment behaviour;
- Specialised microfinance providers;
- Financial attitudes, behaviour and literacy;
- Vulnerability and coping strategies;
- Access to technology and legal documents;
- Business finance; and

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[1] FinScope™ surveys have so far been completed in South Africa, Namibia and Botswana, as well as Zambia. Data is expected at the end of 2006 for Kenya, Tanzania and Uganda.

- Agricultural finance.

These findings have been presented to and discussed with the FSDP and will form the basis of presentations to various stakeholder groups as defined during the roll-out of the dissemination strategy. As part of the Grant Agreement with DFID, FinMark Trust will provide technical support to the FSDP Secretariat in conducting further analysis of the data and in rolling out the dissemination strategy, which will commence with a stakeholder launch scheduled to take place in 2006.

1. Introduction

This report documents the background, methodology and findings of the FinScope™ survey which was undertaken in Zambia from June 2005 to May 2006. FinScope™ Zambia is a survey that profiles demand for financial services across all adult Zambians. Further analysis of the data will continue well beyond the confines of this report and will be tailored to suit the evolving information needs of the Zambian government and other stakeholders involved in supporting financial sector development.

The report is structured as follows:

- Chapter 2 provides background information on how the survey fits into the FSDP and the role of FinMark Trust under its grant agreement with DFID and Sida;

- Chapter 3 provides general information about FinScope™ and how it can be used as a tool in building inclusive financial markets, the Africa roll-out plans for FinScope™, and specific information about FinScope™ Zambia;

- Chapter 4 discusses the implementation arrangements for FinScope™ Zambia;

- Chapter 5 documents the sample methodology and fieldwork; and

- Chapter 6 provides the top-line findings of the data generated.

2. Background

2.1. Zambia's financial sector

Increasingly the interplay between finance and growth is seen as critical to poverty alleviation. Based on an analysis of concrete evidence, World Bank research demonstrates finance-led economic growth is pro-poor.[2] The range of financial institutions in an economy serves a number of key functions. They mobilise savings for investment, and they transform risk into productive and economic returns. As a result, both high- and low-income households feel the benefits of financial sector development.

Zambia's financial sector, as described in the FSDP document, "is characterised by low financial intermediation (with limited access to financial services for the rural population and the low-to-middle income earners), high costs of funds and undeveloped money and capital market". One can view Zambia's financial system, as illustrated in Figure 1, as consisting of:

- *The institutional infrastructure* – the policies, laws and regulations, and institutions that govern the functions of the financial system. These include financial regulations and policies, as well as the institutions that enforce these, including the Central Bank ,non-bank regulators, and government departments.

- *The organisational infrastructure* – the institutions that provide financial services including banks, insurance companies, asset managers, specialised financial institutions such as microfinance institutions, and informal providers.

- *The support infrastructure* – that serves the needs of both the organisational and institutional infrastructure and allows each to operate effectively. These

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[2] World Bank Policy Research Report, *Finance for Growth Policy Choices in a Volatile World*, 2001, p. 31

include providers of information, training professionals and institutions, other professional services such as audit firms, rating agents, credit bureaus, payment systems, standards bodies, industry associations, and financial and consumer advisors.

Figure 1: Three layers that define the architecture of financial markets

Financial markets work effectively when the architecture of these three layers encourages financial development, innovation and the provision of financial services to consumers that want and can use them. Without effective financial markets, expansion of financial services to low-income households will not happen.

Looking at the Zambia financial infrastructure, the following observations can be made based on the FSDP documentation.

Institutional infrastructure: Financial regulation and supervision in Zambia is structured around specialist institutions. These comprise the BoZ, the Securities and Exchange Commission, and the Pensions and Insurance Authority. The key legal and regulatory framework is described as inadequate and requiring harmonisation, along with the strengthening of existing financial legislation and the introduction of new laws. New regulations are also required to make effective existing laws such as the Prohibition and Prevention of Money Laundering Act number 14 of 2001.

Organisational structure: The providers of financial services in Zambia include commercial banks, non-bank financial institutions (comprising the three building societies, some microfinance institutions, the National Savings and Credit Bank (NSCB), the Development Bank of Zambia and 37 bureau de changes and leasing companies), insurance companies, pension funds and the capital markets. Despite the range and number, the levels of reach of these institutions is very low, and the financial system is small with the ratio of M2 to GDP being in the range of 15 – 20 percent over the last five years.

Support infrastructure: A basic support structure for the efficient functioning of the financial system is wanting. The FSDP identifies a number of gaps including the absence of information agents such as credit reference bureaus, reliable data on the financial sector, insufficient support services for financial sector skills development, weak professional audit and accounting services and standards, absence of good corporate governance codes, ethics and support, and an inefficient payment system.

2.2. The Financial Sector Development Programme

In light of the weaknesses highlighted by the 2003 Financial Sector Assessment Programme (FSAP), and in recognition of the strategic importance of the development of the financial sector in contributing to sustainable economic growth and poverty eradication, the Government of Zambia launched the FSDP in 2004. The FSDP is a comprehensive strategy to build and strengthen the financial sector infrastructure. It aims to build a stable, market-based financial system that will

support efficient resource mobilisation necessary for economic diversification and sustainable growth. The FSDP is being implemented by 12 Working Groups and an Implementation Committee within BoZ, which are overseen by a Steering Committee and supported by a Secretariat housed within the BoZ's Department of Non-Bank Financial Institutions (NBFI).

The BoZ recognises that there is a lack of accurate statistics and information about the financial infrastructure as well as about the demand for financial services. This information is required to guide policy, interventions and financial service providers in their efforts to expand the reach and depth of the financial system, thus permitting better access by all to financial services. As a result, the FSDP is being implemented in two distinct phases over five years, with the first phase focusing on improving market knowledge and defining priorities for interventions in phase two:

- *Phase I:* Improving market knowledge of the financial sector, improving the institutional and regulatory framework, and defining the scope of Phase II, supported by DFID/Sida

- *Phase II:* Implementing policy priorities identified in Phase I, to be supported by a multi-donor basket fund

2.3. Grant Agreement between DFID and FinMark Trust

To support the enhancement of market knowledge on the supply and demand of financial services as defined in Phase I of the FSDP, FinMark Trust was contracted by DFID/Sida through a Grant Agreement to provide technical expertise to the FSDP.

FinMark Trust (www.finmarktrust.org.za) is a non-profit organisation with a mandate to make financial markets work for the poor (MFMW4P). It is an independent South African trust set up in 2002 with seed funding from DFID. The organisation has operated within the countries of the Southern African Customs Union (SACU – Botswana, Lesotho, Namibia, South Africa and Swaziland), but has recently extended its mandate to work across the African continent. It catalyses changes around the financial infrastructure, as illustrated in Figure 1, to support the building of more inclusive financial sectors in Africa.

A key role of FinMark Trust under the Grant Agreement is to provide the BoZ with the necessary tools to create the information architecture to support the building of an inclusive financial market in Zambia. The first two exercises that FinMark Trust is tasked with are an analysis of demand for financial services using its FinScope™ survey method, and a supply-side review of the financial sector using a financial inclusion framework.

3. The FinScope™ Survey Tool

3.1. Information – corner stone of MFMW4P

An inclusive financial market is one that operates on the financial principles of efficiency, stability and consumer protection, but also one that provides access to financial services to the majority of the population, those that want and can use them. A financial market may be working effectively and efficiently, but may not be serving a large segment of the population. It cannot be said to be inclusive or working effectively. Within a 'making markets work' paradigm, special attention is required to make the market also work for the poor. By setting this objective, one can define specific actions required to ensure that finance-led growth has the desired impact on poverty alleviation.

A MFMW4P country strategy can only be defined by understanding the poor in the market and the complexities of the financial market. It will require interventions that are informed by good analysis and are not pre-defined. In FinMark Trust's experience, the provision of market information has been highly effective in helping processes of change among both public and private institutions towards MFMW4P. The FinScope™ survey, as well as the financial inclusion assessment framework (supply-side study), are part of the diagnostic tools for MFMW4P.

Financial access is a complex term. One can have access in terms of being physically close to a service provider but one may not be able to use the service offered because it is inappropriate or costly. MFMW4P requires an understanding of what will make access lead to effective usage, i.e. usage that allows a person to use the financial system for economic activities, good cash management, and risk mitigation. Effective access can be defined as occurring when the following three dimension of access are optimised:

- *Physical access*: Getting to the financial service is quick and cost effectively.

- *Affordability:* The service is affordable and should not cost more than a certain percentage of income per month. The concept of affordability is tricky. When there is little choice or competition, then a person may be prepared to pay more. This has been noted in microlending and microfinance. With greater competition, the amount a person is willing to pay will be lower. The important point is that price is a factor that needs to be considered in understanding access.

- *Appropriateness:* The service is designed and delivered in a manner that makes it usable. For example, low-income households want a safe place to put their money but they also want to be able to make small deposits on a regular, even daily, basis. A service that restricts transactions, where office hours do not permit deposits, is not appropriate as it does not meet needs. Understanding needs is thus very important in designing appropriate and usable financial services.

Information on the three dimensions of access is important to determine how best to improve financial access. The FinScope™ survey attempts to do this.

3.2. FinScope™ objectives and attributes

FinScope™ is a nationally representative survey measuring access, usage, perceptions and demand patterns on financial services and issues to create insights into how consumers source their income and manage their financial lives. The sample represents the whole adult population – rich and poor, urban and rural – to create a continuum of the entire market and to lend perspective to various market segments.

The survey aims to establish credible benchmarks and indicators of access, provide insights into regulatory and market obstacles to growth and innovation, and highlight opportunities for policy reform and innovation in product development and delivery. This is achieved by gathering information on a wide spectrum of financial usage and interest areas, including key product categories such as banking, savings and investment, credit and insurance.

Broad themes captured by the survey are tailored to suit local situations and information needs and can include:

• Access to, and usage of, formal and informal financial products and services;

• Household economic, financial and risk management;

• Financial discipline and knowledge;

• Attitudes to, and preference for, financial service providers;

• Features associated with products and providers;

• Asset accumulation patterns;

• Remittances;

• Access to, and usage of, technology;

• Psychographics and lifestyles; and

• Business finance issues.

In essence, the FinScope™ findings can be used to:

• Measure and track the landscape of access to financial services across key product categories – transaction banking, savings, credit and insurance – in both the formal and informal sectors (commercial banks, insurance, other regulated institutions, microfinance institutions, money lenders, and informal institutions) and across the entire adult population;

• Understand the characteristics of different market segments, including those who are currently served, those who represent potential expansion markets for existing institutions, and those who are at present beyond the "access frontier" of financial institutions, and;

• Identify opportunities for expansion of financial services to all market segments, but in particular to the unbanked and under-served segments of the market.

FinScope™'s standardised methodology ensures that the findings can complement those of other financial, social or economic studies using similar research methods. This common approach also means that a country's progress towards achieving success in improving access to finance can be compared and monitored, engendering a kind of peer pressure between countries, thereby contributing towards greater harmonisation, cross fertilisation and regional integration around financial policy.

FinScope™ therefore plays an important role in building the information architecture which is so key to strengthening a financial sector's organisational and institutional infrastructure, as illustrated in Figure 1. Supporting the development of an information infrastructure also has the important spin-off benefit of creating a society that values information and uses it to inform decisions, and that understands the importance of disclosure and transparency.

3.3. FinScope™ Africa milestones

FinScope™ was launched as a pilot study of 1,000 urban households in South Africa in 2002, funded by FinMark Trust. Since then, three comprehensive FinScope™ surveys have been completed annually in South Africa, with a sample size of the 2005 survey of 3,900 respondents aged 16 years and above. These subsequent surveys have been funded almost entirely by a syndicate of private sponsors which have appreciated the value of the data in developing new products and distribution strategies beyond their existing market spectrum.[3]

In 2003, FinScope™ was piloted in Botswana, Namibia, Lesotho and Swaziland, with FinMark Trust contributing all the required funding for these countries. Full studies have since been completed in 2004 in Botswana and Namibia, with some syndicate support, and with the findings of each of these launched in 2005. It is expected that the survey will be conducted bi-annually in these smaller economies.

FinScope™ surveys are also under way in Tanzania, Uganda, Ghana and Kenya, in addition to Zambia, while several other African countries, including Benin, Nigeria and Egypt, have expressed interest. As a one-off exercise, FinMark Trust is also extending its technical support beyond Africa to a FinScope™ exercise in Pakistan, which commenced in July 2006.

The vision of FinMark Trust's FinScope™ Africa initiative is to support the development of financial markets across Africa. By 2012 it is intended that 20 countries in Africa will have undertaken the survey, adding 12 new countries to the eight already involved with FinScope™. Repeat studies will take place on two-to-three year cycles, enabling trends within countries to be monitored and providing the basis for cross-country comparison, especially around access to finance.

A few case studies illustrating strategic application of the data by policy makers and providers in Southern Africa are summarised in Box 1 and are further elaborated in FinScope™'s information package.

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[3] Previous sponsors of FinScope South Africa include ABSA, African Bank, First National Bank, Metropolitan Life, the Microfinance Regulatory Council, Standard Bank, Teba Bank and the Life Offices' Association of South Africa.

Box 1: Case Studies in the application of FinScope for policy and product development

Application by South Africa National Treasury (SANT): SANT's financial sector policy is guided by five fundamental principles: financial stability; prudential soundness; competition; consumer protection; and financial access. To further its understanding of trade-offs between financial stability and financial access, the SANT, since 2005, has become a syndicate member of the FinScope™ South Africa survey. SANT is using FinScope™ data to benchmark and monitor financial sector developments, review the impact of legal and regulatory reform on access, and define policies to support financial sector development without compromising stability.

Supporting a mass-market retail strategy for ABSA Bank: ABSA, South Africa's largest retail bank, has committed itself to extending access of financial services to the poor. ABSA has been a syndicate member of FinScope™ since 2003 and has invested significant funds in using FinScope™ data to develop a richer understanding of this underserved part of the market. ABSA has invested over $5 million since 2003 in product development for the lower-income market. As the bank's Head of Marketing Intelligence states, "Until FinScope™ there was no single source of information that provided us with an in-depth understanding of the lifestyles of different segments of South Africa's population… [FinScope™] really gave us that edge in terms of getting such an insight that we could really develop a customer value proposition for the mass market".

Bank Windhoek – innovating savings for low income: Bank Windhoek and FinMark Trust co-funded FinScope™ Namibia 2004. Bank Windhoek wanted to gain insights into the markets and needs of existing and future clients who had traditionally been excluded from Namibia's formal banking system. Using the FinScope™ data Bank Windhoek designed the Easy Save savings product with a very low minimum balance, minimal opening requirements, low fees, and a free life insurance worth $400. This product was targeted at consumers earning less then US$240 per month and has been a tremendous success.

4. FinScope Zambia 2005

4.1. Implementation arrangements

The implementation arrangement for FinScope™ Zambia is summarised in Figure 2.

Figure 2: FinScope™ Zambia implementation structure
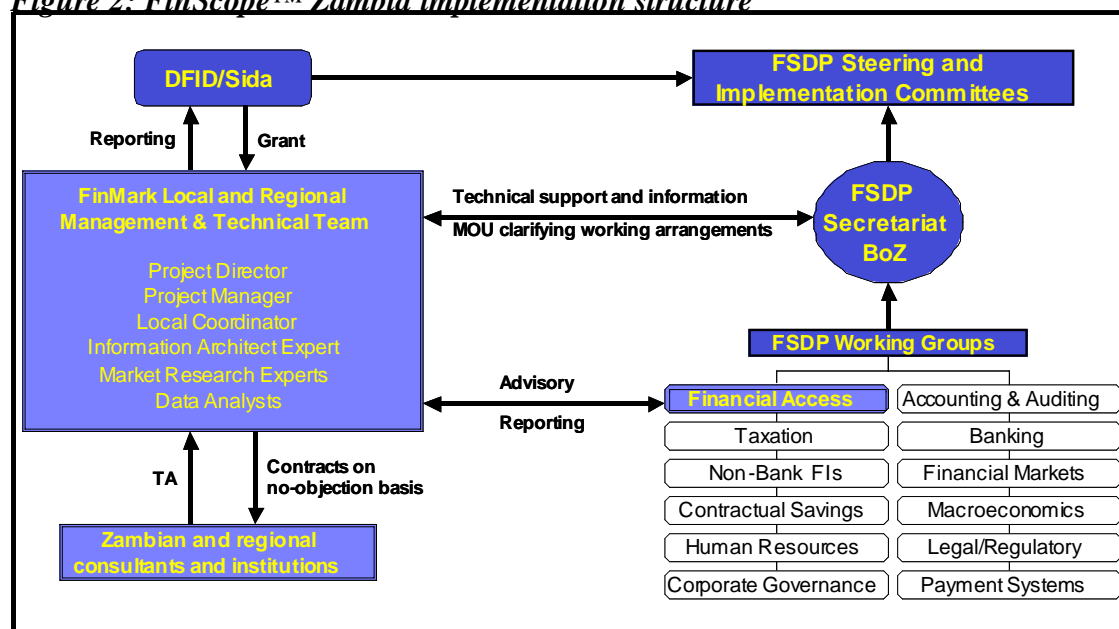
A **Financial Access (FA) Working Group** was established by the BoZ in August 2005 to assist in overseeing the implementation of FinMark Trust's work. The FA Working Group is one of 12 FSDP Working Groups and comprises individuals from various sectors and government departments who have a sound understanding of the issues surrounding financial access in Zambia. The sectors and institutions represented include: banking, insurance, pensions, microfinance, capital markets, Ministry of Finance and National Planning, Ministry of Justice, and BoZ.

The FA Working Group provides strategic guidance to FinMark Trust to ensure that FinScope™ Zambia and other planned research activities are tailored to suit the local context and yield accurate and appropriate information for the benefit of all stakeholders.

The **FSDP Steering Committee**, chaired by the Secretary to the Treasury, has overall oversight of the execution of the FSDP. The **FSDP Implementation Committee**, which is domiciled within the BoZ and chaired by the Deputy Governor – Operations, has overall oversight of the execution of FinScope™ Zambia and other research activities to be implemented by FinMark Trust.

4.2. Partnership with Central Statistical Office

FinMark Trust and its local implementation partners have established a close working relationship with CSO for this survey. The CSO staff assisted the market research firm contracted by FinMark Trust to undertake the fieldwork in designing the FinScope™ sampling frame, advising on the respondent selection criteria to be used, and preparing all the fieldwork maps required. During the fieldwork phase, eight experienced CSO supervisors were contracted by the market research firm to manage

all eight enumerator teams in the field and ensure the necessary quality control procedures were adhered to.

Since then, a CSO senior statistician has assisted FinMark Trust in the cleaning and weighting of the FinScope™ dataset, and the comparison of the FinScope™ sample to the Zambia Census 2000 data to assess the representation of the FinScope™ sample to Zambia's overall adult population.

4.3. Local ownership

Ownership of the FinScope™ dataset, reports and other materials produced as outputs of FinMark Trust's work will, on completion, reside with the Government of Zambia through the FSDP Secretariat.

5. FinScope™ Zambia Survey Methodology

5.1. Timeline

The implementation of FinScope™ in Zambia commenced in June 2005. The field work was carried out in November and December 2005 by DCDM.

5.2. FinScope™ questionnaire

The FinScope™ core questionnaire used in Botswana and South Africa was adapted by DCDM for the Zambian context in close collaboration with FinMark Trust, and following consultations with all FSDP Working Groups and other financial sector stakeholders.

The final questionnaire was approved by the FSDP Implementation Committee in November and translated into Zambia's seven main vernacular languages, in addition to English.[4]

The FinScope™ Zambia questionnaire contains 215 questions grouped into 12 themes and is designed to be administered through face-to-face interviews. The key objectives and information sought for each of these themes is summarised in Table 1. A full copy of the English questionnaire is available in Appendix B.

Table 1: FinScope™ Zambia questionnaire themes

Theme	Objectives/Information sought
General banking	• Knowledge of financial terms, banks and products • Use of bank products and services and physical access to them • Profile of banked and unbanked • Reasons for not being banked • Demand for bank services and alternative services being used • Opportunities to expand banking to unbanked
Financial perceptions	• Consumer perceptions of financial services and providers • Levels of awareness of providers • Consumer preferences, needs and coping strategies
General money matters	• Sources of income • Methods and frequency of receiving and sending money • Extent to which people deal in cash • Demand for transactions facilities

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[4] The FinScope™ questionnaire was translated into Bemba, Nyanja, Tonga, Lozi, Luvale, Lunda and Kaonde.

Theme	Objectives/Information sought
	• Ways of receiving income and paying for business activities
Credits and loans	• Use of loans and credit services and sources • Repayment behaviour and determinants • Product features that consumers look for • Reasons for loan refusal • Demand for credit and loans, and whether supply terms fit needs • Repayment culture and indebtedness
Investments and savings	• Consumer experience with investing and saving money • Factors influencing decisions to save • Alternative ways to save and invest for unbanked • What nature of investment and savings behaviour means in terms of demand for better savings services
Insurance	• Penetration of and experience with insurance products and sources • Demand for risk mitigating financial services vs current supply
Business	• Employment status and income generating activities • Sources of funds used to start and manage businesses • Use of banking and financial services among business owners • Reasons for not accessing bank loans for business • Extent to which own business is an important source of income • Insights into opportunities for business-related finance
Informal finance	• Consumer usage of alternative informal systems • Extent to which Chilimba are used for savings and credit • Insights into how Zambian's manage their money including savings culture and coping strategies
Psychographics/ Financial sophistication	• Assess consumer knowledge of and attitudes to financial services • Consumer beliefs, cultures, and way of life is an important determinant of demand and scope for financial services • Helps classify consumers into segments other than wealth
Access to communication technology	• Access to and usage of communication technology • Cellphone ownership
Quality of life	• Ownership of household utility and luxury items • Mode of transport to nearest grocery source • Understand consumer psychology, sense of being and life values
Demographics	• Sources and volume of household income • Type of dwelling, ownership of property and dwelling • Perceptions of property as an asset • Education, language and literacy • Understanding how households influence financial behaviour

5.3. Sample frame

The CSO assisted DCDM in the design of a sampling frame for FinScope™ Zambia that is nationally representative, and allows comparisons to be drawn at a provincial level and between urban and rural locations throughout the country. The sample frame was constructed using the area-based sampling methodology, which uses the population census of a country as the main frame and which ensures that each citizen has an equal probability of being sampled.[5] The Standard Enumerator Area (SEA) from the census is a geographically defined feature that can be mapped on the ground, and is used as the Primary Sampling Unit (PSU). Application of this methodology enables the data to be more effectively used for modelling and the production of maps at a small area level.

The sample size was 4,000 individuals covering all nine provinces and targeting all Zambian residents aged 16 years and above, this being the age at which Zambians are legally eligible to open a bank account. The sample size provides reliable estimates for national and rural-urban desegregation. Calculations were based on assumptions of a 10% margin of error, a 95% confidence level, a design effect of 1.5 and a response rate of 80.

Based on this sample frame, FinScope™ Zambia 2005 covered 160 SEAs, which were detailed on maps provided by CSO. Within each SEA, households were selected using the Random Route Methodology. The Kish Grid was then used to select the target respondent within each household. The sample was weighted to Zambian population estimates and verified through cross comparisons with the Census 2000 data at both a national and provincial level. This weighting procedure was verified by CSO. Further details of the sample design and selection procedures are provided in Appendix C.

5.4. Pilot and Field work

Thirty surveyors were contracted by DCDM to undertake the face-to-face interviews, and eight CSO supervisors were contracted to oversee the surveyors in the field and report to the DCDM Project Manager. A pilot was conducted in Lusaka district to test the questionnaire. The fieldwork was conducted between 7th November and 22nd December 2005. Each team was provided with detailed maps prepared by CSO of the SEAs selected with their respective province, together with all fieldwork materials necessary to complete the survey. As mentioned, the households were selected randomly using the Random Route Methodology, and the interview respondent within the selected household was identified using the Kish grid, with only one individual being interviewed per sampled household.

Two call-backs were allowed for each selected respondent in addition to the initial contact. In cases where selected respondents were not available or refused to be interviewed, substitutions were made. These substitutions were carried out by the supervisor in accordance with CSO standard procedure and involved selecting the next household in line using the Random Route Methodology. Details of the substitutions made have been provided to the FSDP Secretariat separately.

Where possible, the face-to-face interviews were carried out in English. Where use of a vernacular language was required, a native speaking surveyor carried out the

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[5] The area-based sampling methodology is recommended by the United Nations for application in developing countries.

interview. Show-cards in both English and all vernacular languages accompanied the questionnaire and were used to aid the respondent in answering several of the questions. In cases where a respondent was unable to read, the surveyor was instructed to read through and repeat each option to ensure the respondent comprehended the statement and possible options for answering the questions.

5.5. Quality control

The team of eight supervisors were responsible for monitoring fieldwork progress, ensuring adherence to quality control procedures by their surveyors, and reporting to the DCDM Fieldwork Manager. According to DCDM, the supervisors maintained quality of the fieldwork through field accompaniments, random back-checks, and daily verification of the completed questionnaires to check for adherence to sampling instructions, legibility and intelligibility of responses, and completeness of questionnaires.

5.6. Data capture and processing

Data inputting was carried out from January to March 2006, and weighted datasets were produced in both Excel and SPSS software packages.

5.7. Data analysis

A team of local and regional experts has been formed to undertake the analysis of the data, to prepare the top-line findings for presentation to the FSDP, and to assist the FSDP Secretariat in the dissemination of the findings to Zambia's stakeholders. This team includes FinMark Trust experts, as well as staff members of the BoZ's Department of Economics, members of the FSDP FA Working Group and a senior statistician of CSO.

The analysis team have subsequently presented the top-line findings to the FSDP Working Groups, Implementation Committee and Steering Committee, and will continue to work together in undertaking further data analysis and in supporting the FSDP Secretariat in the dissemination of the findings. A summary of the FinScope™ top-line findings follows.

6. Top-line Findings

6.1. Introduction

This chapter provides an overview of the FinScope™ Zambia sample and a summary of the top-line findings. These findings have been presented to and discussed with the FSDP and will form the basis of presentations to various stakeholder groups as defined during the roll-out of the dissemination strategy.

Generally the data serves to confirm and put numbers to many trends and concepts that are known, such as the low use of bank accounts, the high use of cash for transactions, and the importance of informal and microfinance services. The data set is dense and rich and the analysis provided in this report is only the tip of the iceberg. The value to be derived from this exercise will come from further data mining for specific questions and concepts by academics, financial market researchers and policy makers.

For example, the data could be used to define Indicators of Financial Inclusion and financial access standards/targets for financial institutions. In South Africa, FinScope™ SA was used to define access standards as part of the Financial Sector Charter[6] score card. The World Bank, DFID and FinMark Trust[7] have jointly proposed eight core indicators of financial access that would be derived from FinScope™ type surveys, which are summarised in Box 2. These indicators will be captured globally and serve to inform policy in terms of a financial sector's contribution to achieving millennium development targets.

> ***Box 2: Core Indicators of Financial Access***
> **A1**: Banked – Percent of adult population with a bank account
> **A2**: Formally Included Headline Indicator – Percent of adult population which uses any formal institution (A1 plus percent with formal non-bank products only)
> **A3**: Financially Served – Percent of adult population that uses any formal and/or informal services (A2 plus percent with informal services only)
> **A4**: Payments – Percent of adult population receiving money regularly through formal financial instruments
> **A5**: Savings – Percent of adults who keep money in formal financial instruments that allow them to safeguard and accumulate money
> **A6**: Loans and Credit – Percent of adults who have obtained/have outstanding a loan or credit facility from a formal institution in the last 12 months
> **S1**: The proportion who are formally included among the poor
> **S2**: The proportion who are formally included with direct access or indirect access through other household members

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[6] Signed in October 2003 the Financial Sector Charter (a copy can be downloaded from www.banking.org.za) committed the financial industry to achieving specific targets in key areas; black ownership and management; procurement, lending in targeted areas (housing, small business, agriculture, infrastructure) and access to finance.

[7] The World Bank, Financial Sector Vice Presidency, *Indicators of Financial Access: Household Surveys*, 2005. http://www.finscope.co.za/documents/2006/WB_indicators.pdfwww.finmarktrust .org.

6.2. Definitions

A number of definitions are used in the analysis and are explained in Table 2. Definitions for additional institutional and functional dimensions are provided in Appendix D.

Table 2: Definitions of terms used to segment and analyse the data

Segmentation term	Definition
Formal financial service providers	Banks, insurance companies, building societies, investment managers, and registered micro-lenders
Informal financial service providers	Unregistered micro-lenders, e.g. Kaloba, Savings Clubs/Chilimba. Does not include family and friends
Banked/Unbanked	Those that do/don't use one or more bank product
Formally included	Those that use one or more formal financial product, either from a bank and/or other formal financial institution
Financially served	Those that use one or more formal and/or informal financial product
Informally served	Those that use one or more informal financial product only
Financially excluded	Those that do not use either a formal or an informal financial product
Function term	**Definition**
Transactions	Financial services using cash of other means (e.g. cheques, cards, electronic means) to make or receive payments, domestic or international
Savings	Safeguarding wealth and accumulating wealth for future use
Credit/Loan	Obtaining funds from a third party with a promise of repayment of principal and, in most cases, with interest and arrangement charges in exchange for use of the money
Insurance	Payment of premium for risk of an event happening, where payout is made if or when the event occurs

6.3. Sample profile

As shown in Graph 1, the sample consists of a large percent, 42%, of young people between the ages of 16-25, with 42% being heads of household and 45% main income earners. The majority, 66%, live in rural areas, but the sample is fairly evenly distributed across all provinces. Just under half, 42%, have completed primary school and an additional 30% have some secondary schooling. Self-employment is a major source of income for 39%, but 24% say they have no income and 21% refused to give income information.

As Tables 3 and 4 show, the FinScope™ sample corresponds with CSO's Census definitions of the population. The sample of 16 years and above represents 7.5 million people of a total population of 10.9 million according to the Zambia Census 2000 data. The comparison with the population census data validates the robustness of the FinScope™ sample.

Graph 1: Sample profile

Gender
- Male: 51
- Female: 49

Age Group
- 16-25 years: 42
- 26-35 years: 32
- 36-45 years: 15
- 46-56 years: 7
- 56-65 years: 2
- 65+ years: 2

Head of Household
- Head of H/H: 42
- Not head of H/H: 58

Marital Status
- Single: 41
- Divorced/separated: 3
- Widowed: 6
- Married: 48
- Living with a partner: 1

Region
- Urban: 34
- Rural: 66

Province
- Central: 9
- Copperbelt: 16
- Eastern: 15
- Luapula: 8
- Lusaka: 14
- Nothern: 14
- North Western: 5
- Southern: 12
- Western: 7

Educational Level
- No formal education: 11
- Some primary school: 15
- Primary sch. completed: 16
- Some secondary school: 30
- Sec. school completed: 14
- Some College: 4
- College completed: 9
- Some Uni/Completed: 2

Employment Status
- Self-employed: 39
- Salaried: 20
- Unemployed: 17
- Housewife/student/other: 24

Monthly Personal Income
- No income: 24
- <K50,000: 5
- K50,000-K150,000: 15
- K150,000-K300,000: 11
- K300,001-K450,000: 6
- >K450,001: 18
- Uncertain/DNK/Refuse: 21

Main Income Earner
- MIE: 45
- Not MIE: 55

Household Owns/Rents House
- Own self: 17
- HH Member owns: 28
- Rents: 21
- Trad. land: 33

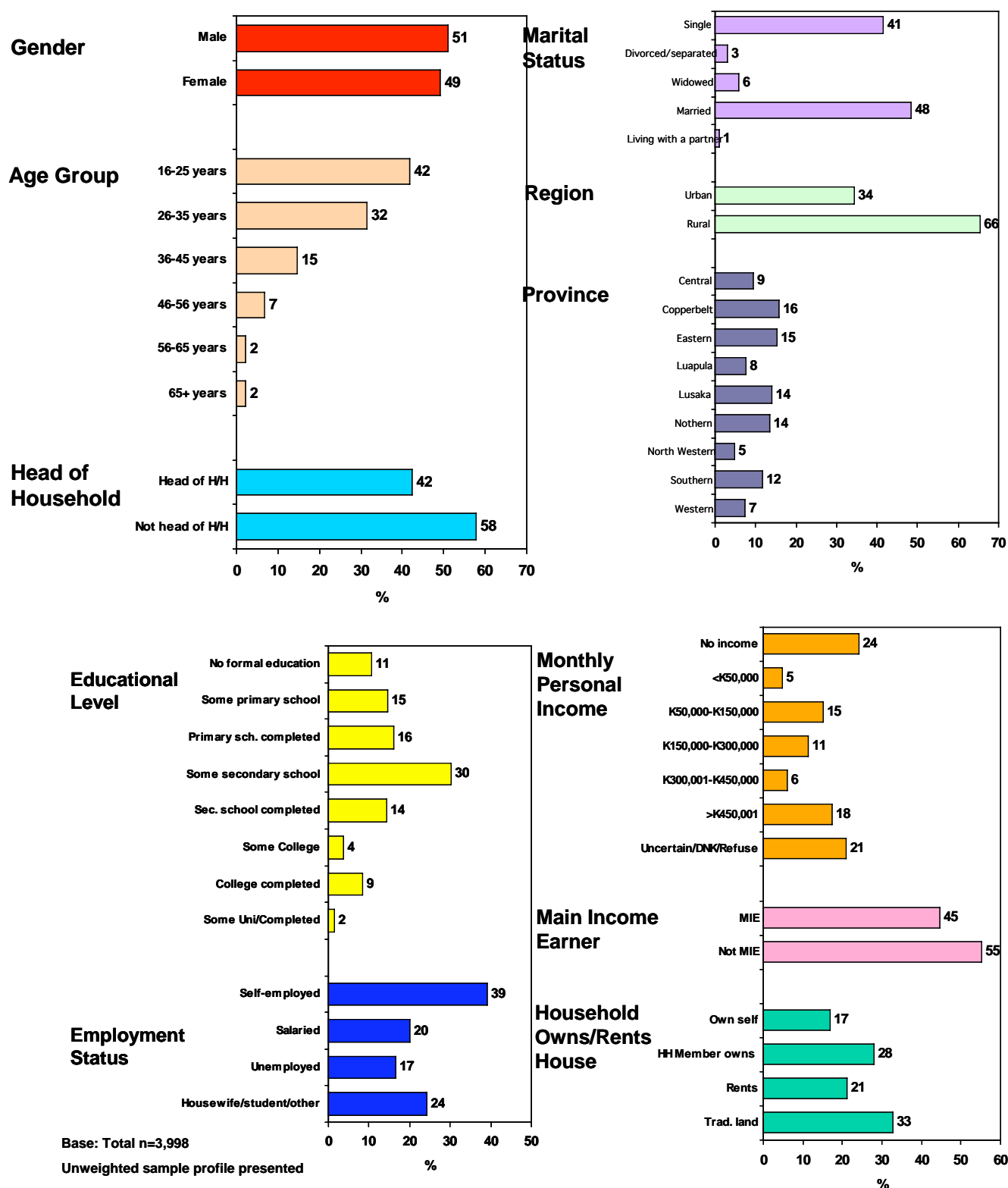**Base: Total n=3,998**
Unweighted sample profile presented

Table 3: Comparison between FinScope™ sample and the Zambia Census 2000

FinScope Sample	Zambia Census 2000
51% Male, 49% Female	**Total Population:** 50% Male, 50% Female **16+:** 50.1% Male, 49.9% Female
41.8% 16-25 years, 73.4% 16-35 years	**Total Population:** 21.1% 16-25 yrs, 34.5% 16-35 yrs **16+:** 40.4% 16-25 yrs, 65.9% 16-35 yrs
68% Rural, 32% Urban	**Total Population:** 65% Rural, 35% Urban **16+:** 64% Rural, 36% Urban
16.8% owns the accommodation they live in; 28% lives in accommodation owned by household member	**Total Population:** 77.9% lives in accommodation owned by household member
74.4% uses coal/wood/charcoal	**Total Population:** 62.3% uses coal/wood/charcoal
36% self-employed in informal sector; 16% full-time salaried; 11% housewives, 11.7% students	**Economically active population (12 years+):** 39.7% self employed, 30.6% salaried, 16.1% housewives/home makers, 18.9% full time students
24% no income, 55.6% K300,000 or less	**From 2004 Living Conditions Monitoring Survey:** 24% earning on average K150,000 and K300,000, 7% less than K50,000
51% Married, 36% Single	
42% Head of Household	
44.5% main income earners	
10% no formal education, 29% some secondary education	
43% in traditional/low cost rural accommodation; only 2.7% in high cost urban accommodation	

Table 4: The comparison between FinScope™ Zambia and Census data in terms of percentage adult population by province

PROVINCE	CENSUS	FINSCOPE
CENTRAL	10	9
COPPERBELT	15	16
EASTERN	14	15
LUAPULA	8	8
LUSAKA	14	14
NORTHERN	13	14
NORTH-EASTERN	6	5
SOUTHERN	12	12
WESTERN	8	7

6.4. Overview of the indicators of financial access in Zambia

6.4.1. The Landscape of Access

The FinScope™ Zambia 2005 data confirms that levels of access to financial services in Zambia is very low, but perhaps higher than expected. Using the data on usage of financial services it is possible to construct the Financial Access Landscape (FAL) measuring use of financial products across transactions, savings, credit and insurance as defined in Table 2. The FAL can be further broken down into usage of formal vs informal products. This representation of the data serves to illustrate the importance of the informal sector in pushing out the envelope of access. As illustrated in Graph 2, the informal sector plays a significant part in savings usage as well as credit.
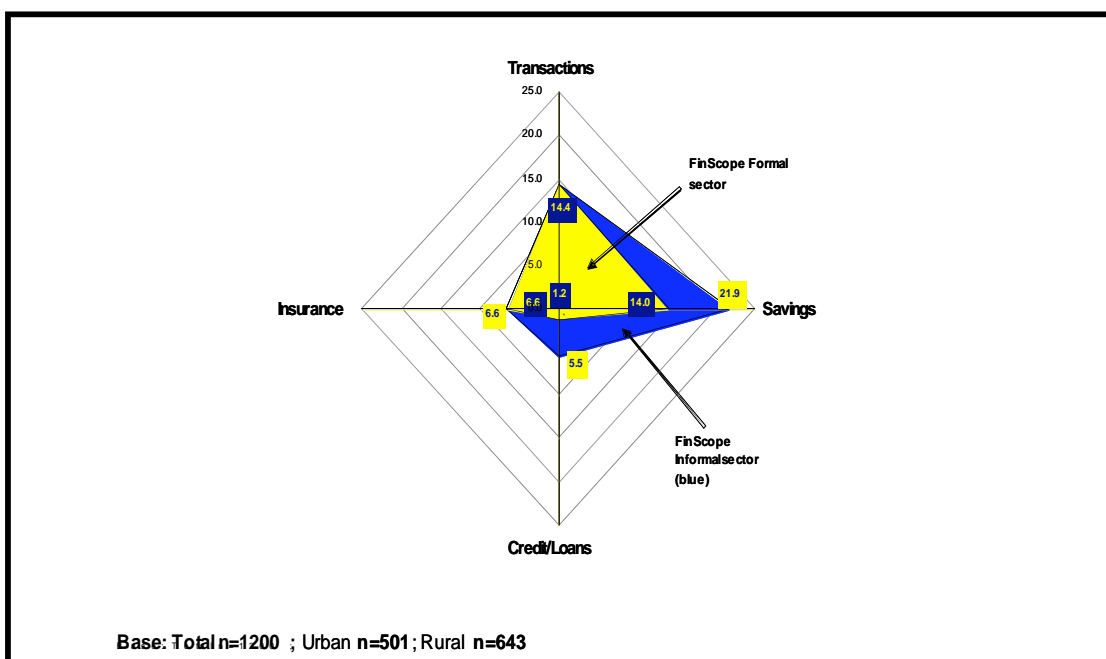
Graph 2: Zambia's Financial Access Landscape (% adult population)

Usage is a proxy measure of access as usage is the easiest measure of access given the complexities of defining access.[8] Having a bank account does not necessarily translate into effective usage. A person may have a bank account because their employer requires them to have one to receive their pay. Once funds are received they are withdrawn in full at the end of the month. It is questionable whether this is effective usage or access.

Table 5 breaks down usage by each formal product category. Transactions and savings products from formal providers have the highest levels of usage although low at 14.4% and 14% respectively. Transaction products consist of current and savings accounts, and the savings products are mainly savings accounts, with very low use of longer-term savings products. Transaction mediums such as ATM/cash point cards are used by 7.5% of the adult population while other transaction mediums such as credit cards, debit cards, DDAC are used by less then 1% of the adult population. As illustrated below, cash is used as the medium of transaction where people pay for and receive payment for, or deliver or receive funds mainly in cash.

Table 5: Breakdown on product usage across formal only

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[8] DFID, *Financial Access Indicators Stock Take*, EME, www.emergingmarkets.co.uk, May 05.

Bank Products % adult population	Never had it	Used to have it	Have it now and use	Have it now but do not use
ATM / Cash Point Card	91.3%	1.3%	7.0%	.5%
Debit Card / Connect Card	97.1%	1.1%	1.7%	.1%
Current / Cheque Account	94.8%	2.8%	2.2%	.2%
Savings Account	78.4%	8.2%	12.8%	.6%
Fixed Deposit Account	96.9%	2.1%	.9%	.1%
Visa Electron Account	99.1%	.3%	.5%	
24 Hours Call Account	99.2%	.4%	.4%	.0%
Unit Trust Account	99.7%	.3%		
High Interest Savings Account	99.2%	.6%	.2%	
US Dollar / Foreign Currency Account	99.6%	.3%	.0%	.0%
Bank Account outside of Zambia	99.8%	.2%		.0%
Credit Card	99.2%	.5%	.3%	
Bank overdraft	98.8%	.9%	.3%	
Standing Order	99.1%	.6%	.2%	
DDACC	99.1%	.2%	.6%	.0%
RTGS (Real Time Gross Settlement)	99.8%	.2%		
Swift Transfer	97.2%	2.3%	.5%	.1%
Celpay	99.7%	.2%	.0%	.0%

Loans % adult population	Never had it	Used to have it	Have it now and use	Have it now but don't use
Personal loan from bank	97.0%	2.6%	.4%	
Loan from bank to buy a vehicle	99.3%	.7%	.1%	
Loan from bank to buy a house	99.3%	.6%	.1%	
Loan from a Government Scheme to buy a house	99.1%	.8%	.1%	
Loan from a Microfinance Institution	96.5%	3.0%	.5%	
Loan from an employer to buy a house	99.2%	.6%	.2%	
Loan from an employer to buy a vehicle	99.3%	.5%	.2%	
Other loan from employer	96.3%	3.1%	.6%	
Loan from family/friend to buy a house	99.6%	.4%		
Loan from family/friend to buy a vehicle	99.6%	.4%		
Other loan from family/friend	87.4%	11.0%	1.5%	.0%
Loan from an informal money lender/Kaloba	85.3%	12.3%	2.3%	.1%
Loan from Savings Club/Chilimba	90.1%	8.2%	1.5%	.2%

Insurance % adult population	Never had it	Used to have it	Have it now
Motor Vehicle Insurance	96.7%	1.1%	2.2%
Travel Insurance	99.3%	.5%	.2%
Domestic / Household Insurance	99.3%	.5%	.3%
Funeral Insurance	98.8%	.4%	.7%
All Risks Insurance	98.8%	.8%	.4%
Medical Insurance	97.7%	1.0%	1.2%
Health Cover (Doctor)	98.5%	.6%	.9%
Agricultural Insurance	99.4%	.3%	.2%
Life insurance	98.2%	.7%	1.1%

Insurance % adult population	Never had it	Used to have it	Have it now
Personal Injury / Accident Insurance	98.4%	.9%	.6%
Property Insurance	98.8%	.3%	.8%
Money Insurance	99.7%	.2%	.1%
Pension / National Pension Scheme Authority	95.3%	1.1%	3.6%

Use of credit products from formal institutions is very low at 1.2%. However, use of credit increases significantly when taking into consideration informal providers. Ideally this data should be compared with credit bureau data to verify credit levels. Loans are used mainly for consumption purposes as illustrated in Table 6 where purchase of food and clothing was mentioned by 43% of respondents, followed by purchase of medicine (15%).

Table 6: Breakdown on use of loans

| Use of loan	%% adult population
For house renovation / extension	7.3
To purchase land	.9
Money for my education	3.7
To pay for children's school fees	13.4
To start a business	8.5
To expand business	13.0
For a burial / funeral	2.8
For medical expenses	15.1
For travel or holiday	1.5
To buy food / clothing	43.3
To buy furniture / electrical appliances	5.1
To pay for water / electricity / telephone	2.2
To pay off debts	5.3
To purchase livestock	2.9
To purchase agricultural equipment	8.7
To care for a sick relative	3.3
To finance working capital of my business	4.2
To buy a vehicle	3.6
To buy a house	3.2
To buy agricultural inputs	.6
To pay rentals	.3
To buy timber	.5
To save for something	.5
To send to a family member	.3

Insurance products are used by only 6.6% of the adult population and main products are pension and motor vehicle insurance.

When including informal products, the FAL expands along the credit and savings product axis. Given the low levels of access to formal financial services, use of informal services is relatively high with 14% of adult Zambians having some form of informal product, either a Kaloba (loans) or Chilimba (savings). Just fewer than 8% of adult Zambian's belong to a Chilimba, while just over 2% report currently having a loan from a Kaloba and 12% report that they used to have one. Chilimbas can also be used for loans, with 8% of respondents saying that they have taken a loan before and

1% saying that they have a loan now. As with formal loans, the use of loans from informal providers is likely to be much higher than recorded as people usually do not want to admit they have such loans, a universal phenomenon. For those who belong to a Chilimba (7.5%), the main reason for doing so is to be able to save for a specific planned event or purpose. See graphs of the launch presentation.

Informal products are not necessarily a substitute for formal product usage. As illustrated in Graph 3, of those that have a formal and/or informal product, just fewer than 15% will have both an informal and formal product (formal bank and/or formal other).

Graph 3: Extent of overlap between formal and informal product use
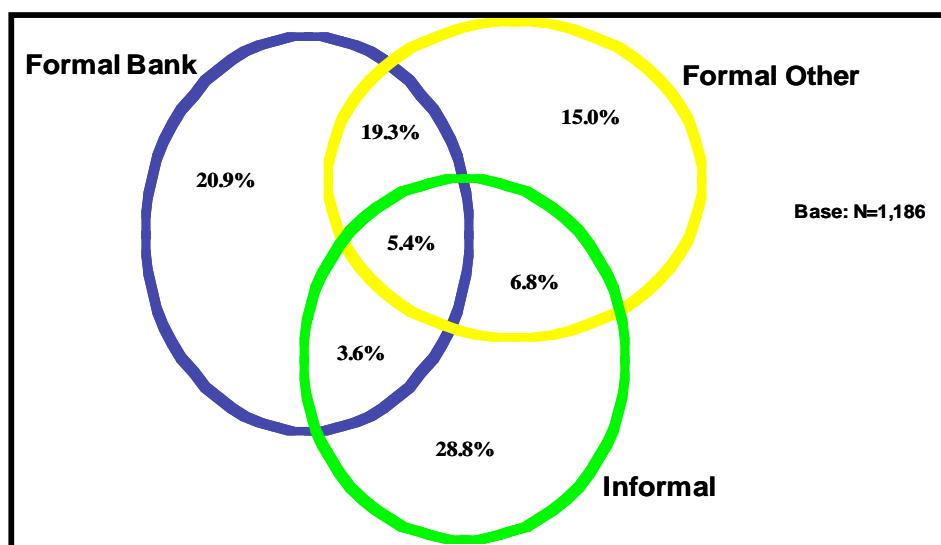
In summary, the FAL analysis shows that there is very little use of the range of formal products on offer. Informal services play an important role in extending the boundaries of financial access. Any policy on financial access should recognise the contribution of informal providers and ensure that consumer rights are protected without taking the route of regulation which could stifle these innovations.

6.4.2. The Financial Access Strand

One can also measure access using an institutional dimension, as opposed to the functional (product) dimension of the FAL. The Financial Access Strand (FAS) is a measurement of financial inclusion, measuring access across the formal-informal provider continuum. The hypothesis focuses on the financial system in its broadest sense and assumes all adults in a country will fall into one of four broad segments across the access strand (blue, yellow, green, red as defined in Table 7). The segments are differentiated by institutional usage indices ranging from people who are formally served by formal institutions, to those people who use only informal providers, and finally to those people who do not use any provider. The data allows us to place the adult Zambian population along a continuum of usage of financial services from bank, formal other to informal. This gives a picture of where provision is coming from, and draws attention to the number of adults that say they do not use any financial service from a formal or informal provider, i.e. those that are financially excluded.

Table 7: Definitions of the Financial Access Strand

Colour code	Definition
█	**Banked:** Percentage of respondents that say they have a service from a bank, but may also be using formal other or informal providers
█	**Formal other**: Percentage of respondents who are not banked, but are using a service from a formal provider (e.g. microfinance institution). These people may also be using an informal provider
█	**Informal only:** Percentage of respondents who only use informal providers
█	Remaining respondents are considered not to use any formal or informal provider

The access strand can be used to categorise the adult population as banked (blue), formally included (blue and yellow), financially served (formal and informal – blue, yellow and green) and financially excluded (red). The core indicators of financial access presented in Box 2 are derived from the FAS.

The findings, as illustrated in Graph 4, indicate that overall levels of access to the formal financial system in Zambia is low at 22.4%, with just fewer than 15% of adult Zambians reported to be banked. Access improves by 7.8% when formal other institutions – like MFIs – are included. Access further expands by 11.3% when considering those using only informal providers. Formal other and informal providers are therefore demonstrated to play an important role in pushing frontiers of access, resulting in 33% of adult Zambian's considered to be financially served.

Access differences exist between the genders, with women having less access to banks (11.6% banked compared to 17.5% of banked males) but higher usage of informal providers (12.2% compared to 10.3% for males). Women have higher levels of financial exclusion at 68.4% compared to 64.4% of males.

*Graph 4: Zambia's Financial Access Strand (% adult population)*
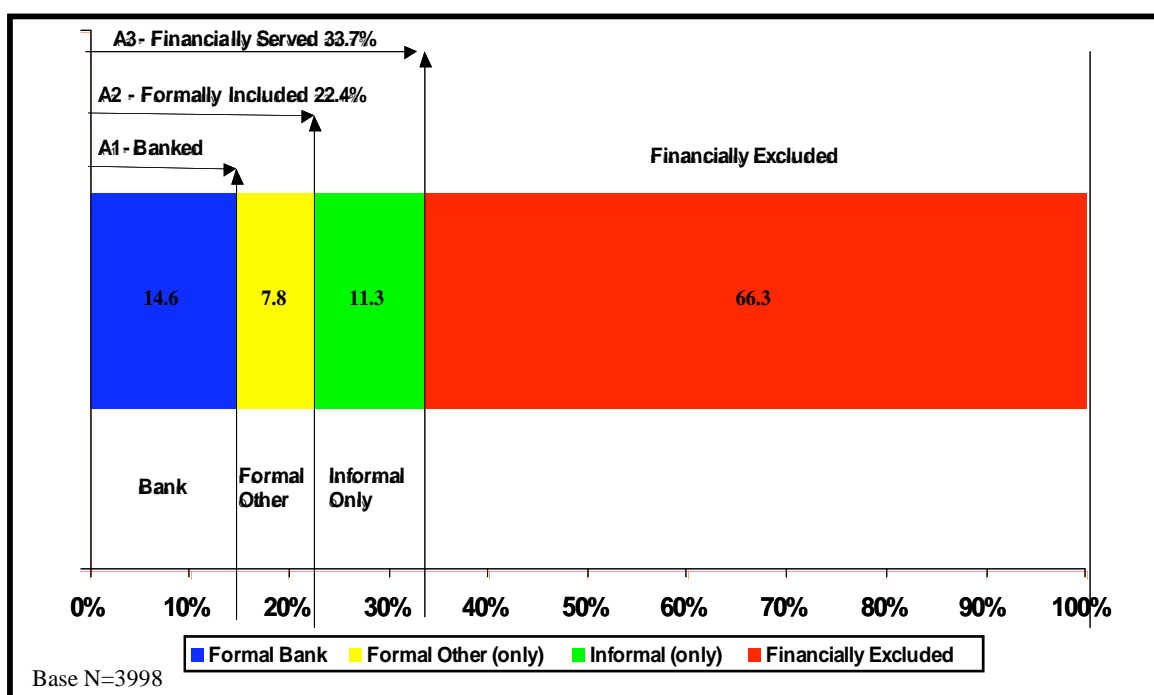
Over two thirds of adult Zambians (66.3%) are not using any type of formal or informal provider. This doesn't mean there isn't a need, or that these people are not engaging in activities that fulfil functions of transactions, credit, savings and risk mitigation. They are probably using sub-optimal alternatives, i.e. high costs, and higher risks as demonstrated in Figure 3.

Figure 3: Sub-optimal financial behaviour by financially excluded
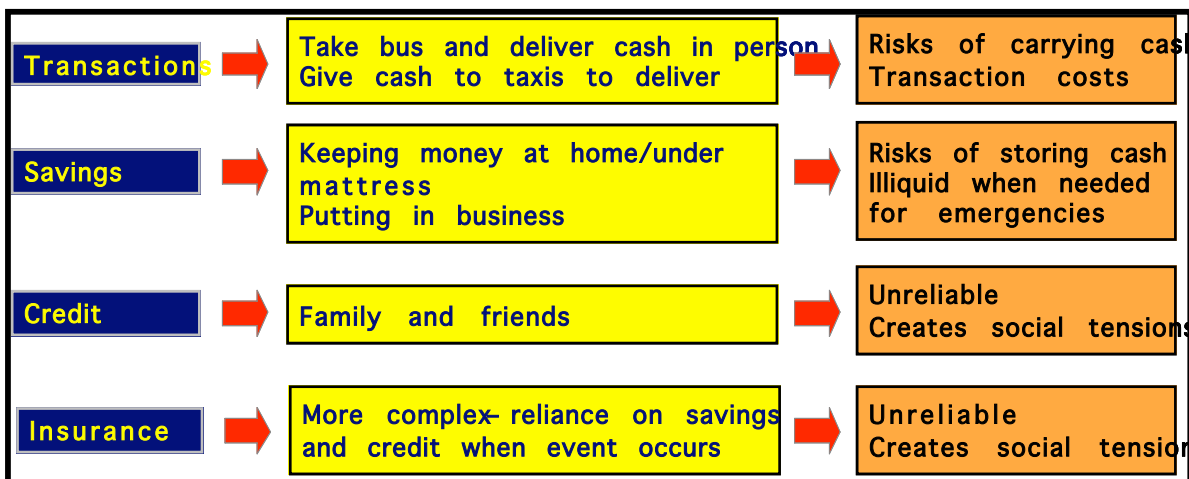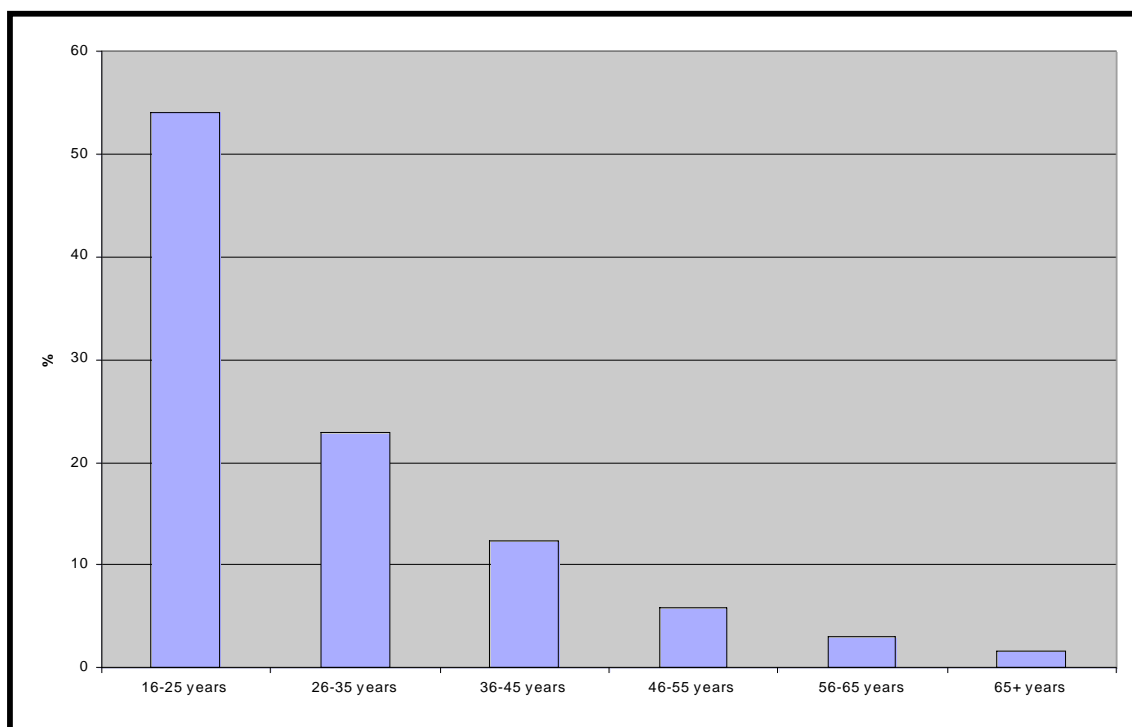

As Graphs 5 and 6 show, the financially excluded are equally male and female, but they are mainly self-employed, most having had some education, and are young (54% aged 16-25), or dependents with no income.
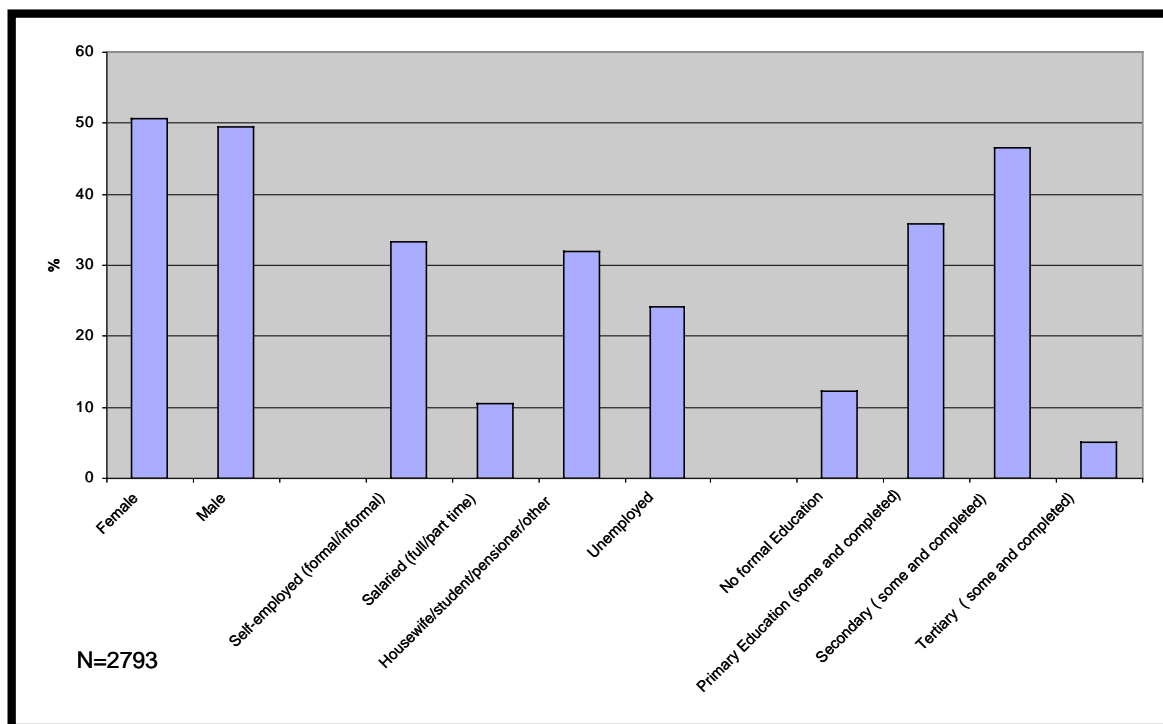
Graph 5: Who are the financially excluded?

Graph 6: What age group is more financially excluded?

Base N=2793

The data on the financially excluded would suggest potential markets among the younger population who represent the future income earners and whose financial needs are likely to evolve, as well as those who are self-employed.

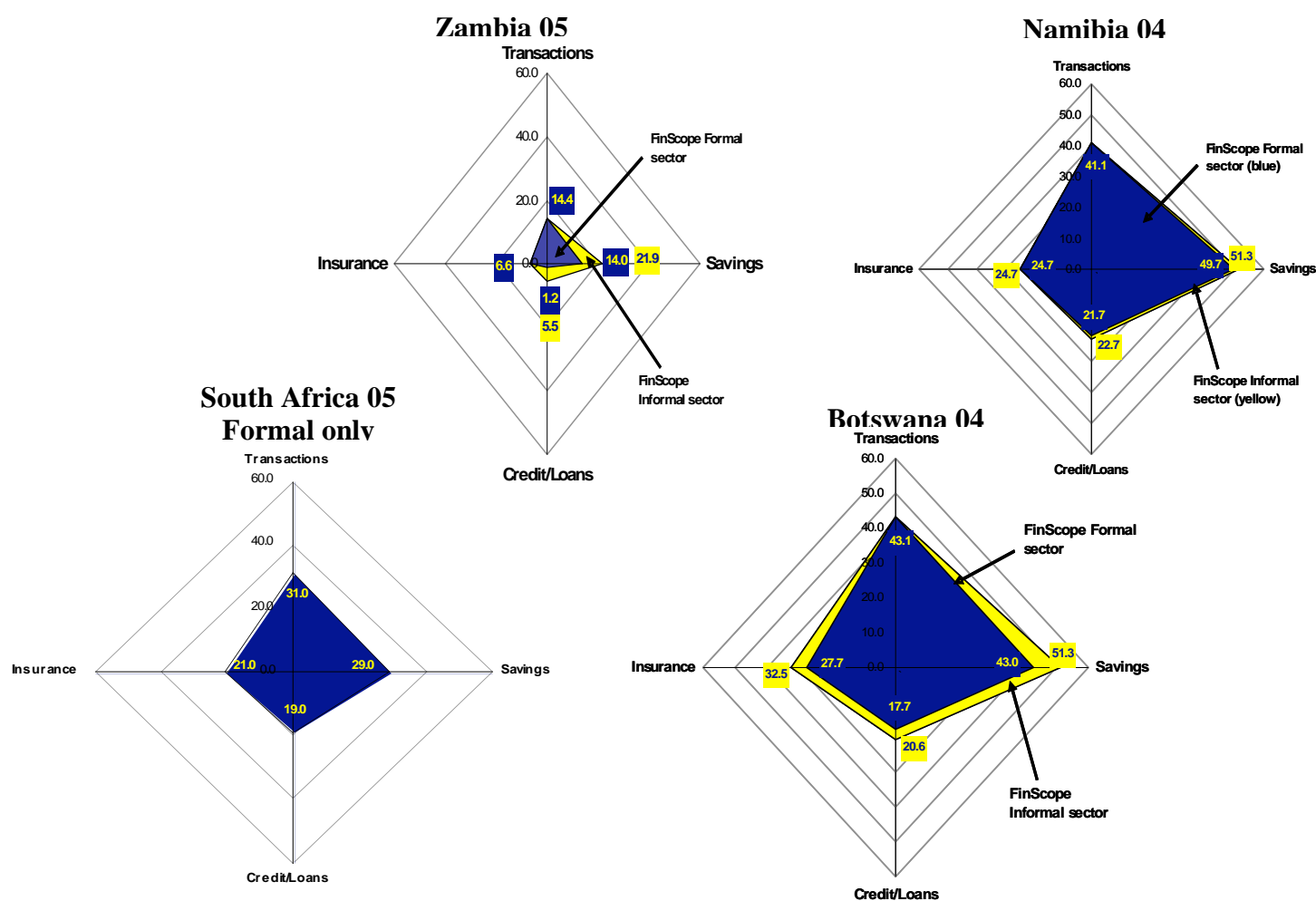## 6.5. Benchmarking Zambia with other SADC countries

Comparing the FAL and FAS indicators in Zambia with other countries, as illustrated in Graphs 7 and 8, shows that overall levels of access are lower. Although it would better to benchmark Zambia's performance against similar economies, the FAS and FAL indicators are only available for the three Southern African countries that have run the FinScope™ survey.

Core indicators of access have also been plotted by the World Bank, as illustrated in Table 8, for Mexico, Brazil and Colombia, again very different economies to Zambia. It is expected that by the end of 2006 such indicators will be available for Kenya, Tanzania and Uganda. It is important to note that, whereas access comes mainly from the banking sector in the three Southern Africa countries, in Zambia access is clearly coming equally from banks, and formal other and informal sectors combined.

Table 8: Core indicators of financial access for selected countries [9](% of adult population)

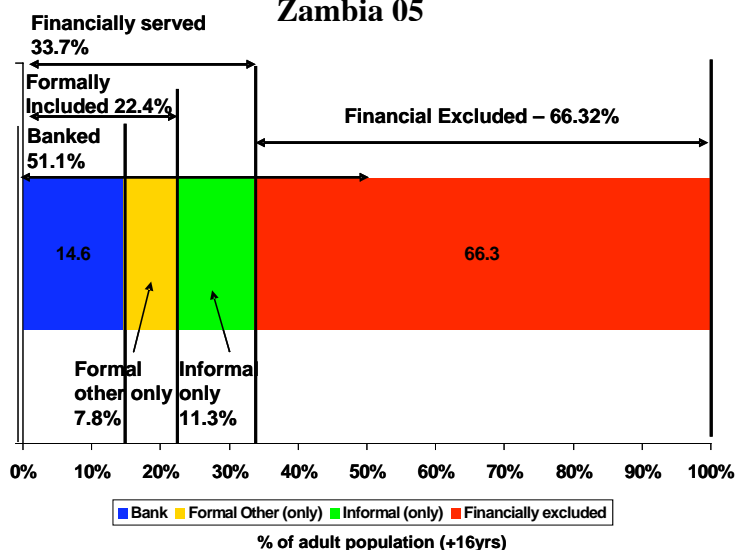| Indicator	Zambia '05	Botswana '04	Namibia '04	South Africa '05	Brazil	Colombia	Mexico
Banked A1	14.6%	43.2	51.1%	47%	43%	39.2%	31.6%
Formally served A2	22.4%	49%	53.1%	55%	79.3%	48.1%	53.6%
Financially included A3	33.7%	54%	55.8%	63%	83.8%	50.6%	69.7%
Excluded	66.3%	46%	45.2%	37%	16.2%	49.4%	30.3%

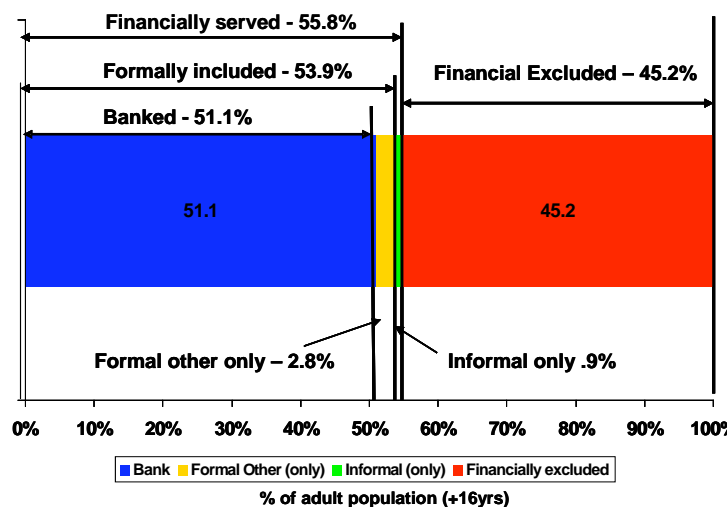*Graph 7: Financial Access Landscape compared (% adult population)*

[9] Source of Brazil, Colombia and Mexico data are World Bank financial access surveys conducted over 2002 and 2003. See joint paper by Chidzero, Ellis, Kumar, *Indicators of access to finance through household level surveys: Comparisons of Data From Six Countries*, May 2006, presented at the World Bank/Brookings Institute Conference on Building Inclusive Financial Markets, Washington D.C., May 2006.

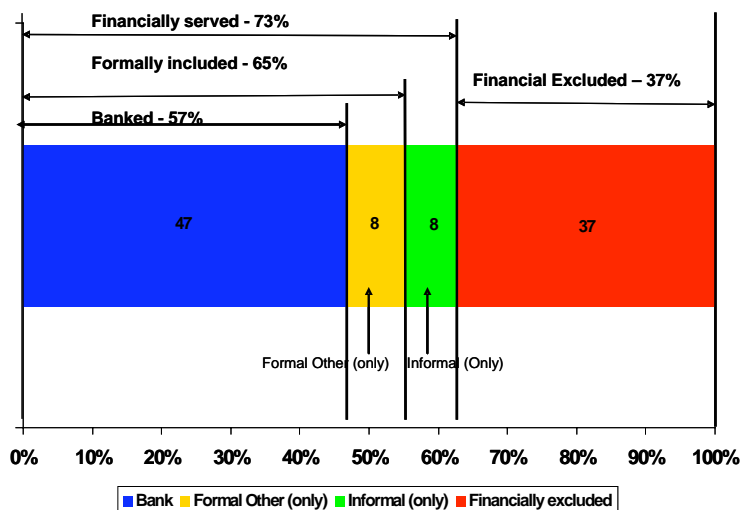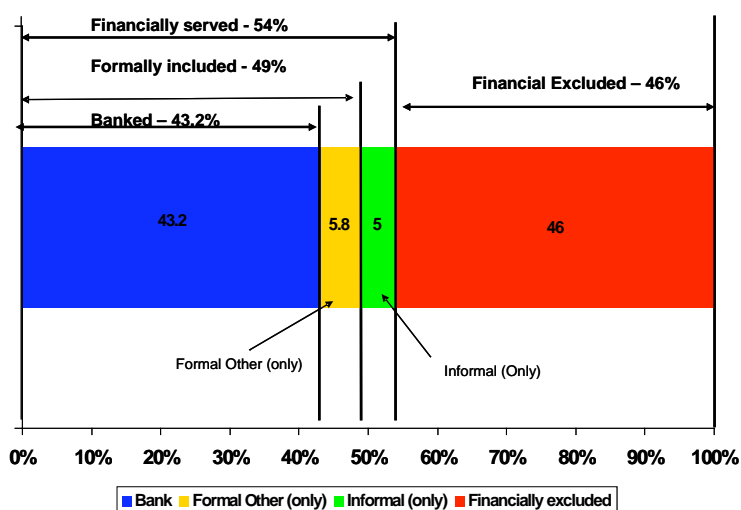*Graph 8: Financial Access Strand compared (% adult population)*

Zambia 05

Financially served 33.7%

Formally Included 22.4%

Banked 51.1%

Financial Excluded – 66.32%

14.6

66.3

Formal other only 7.8%

Informa only 11.3%

■ Bank ■ Formal Other (only) ■ Informal (only) ■ Financially excluded

% of adult population (+16yrs)

Namibia 04

Financially served - 55.8%

Formally included - 53.9%

Banked - 51.1%

Financial Excluded – 45.2%

51.1

45.2

Formal other only – 2.8%

Informal only .9%

■ Bank ■ Formal Other (only) ■ Informal (only) ■ Financially excluded

% of adult population (+16yrs)

South Africa 05

Financially served - 73%

Formally included - 65%

Banked - 57%

Financial Excluded – 37%

47

8

8

37

Formal Other (only)

Informal (Only)

■ Bank ■ Formal Other (only) ■ Informal (only) ■ Financially excluded

Botswana 04

Financially served - 54%

Formally included - 49%

Banked – 43.2%

Financial Excluded – 46%

43.2

5.8

5

46

Formal Other (only)

Informal (Only)

■ Bank ■ Formal Other (only) ■ Informal (only) ■ Financially excluded

6.6. Overview of bank usage

6.6.1. Receipt and spending preferences for a large sum of money

When asked what they would do to keep a large sum of unexpected money (such as winning the lottery or getting an inheritance in cash), most respondents said they would put it in a bank account or open a bank account. A large percentage, 31%, would keep it under the mattress or give it to somebody for safekeeping. Interestingly, the financially excluded do not behave too differently as 52% would open an account, while 18% would give it to somebody for safekeeping and 19% would put it under the mattress. These findings are illustrated in Graph 9.

One conclusion is that there is confidence in banks and that people would use a bank to keep their money safe. But since the mattress and giving it to another person are still viable options, it's important to understand what makes the mattress more attractive than the bank. Clearly the attributes of a bank account in terms of fees, distance and opening requirements may still make it more attractive to use a mattress, where money is easily accessible, there are no charges, and where it is convenient.

Graph 9: Intent with a large sum of money
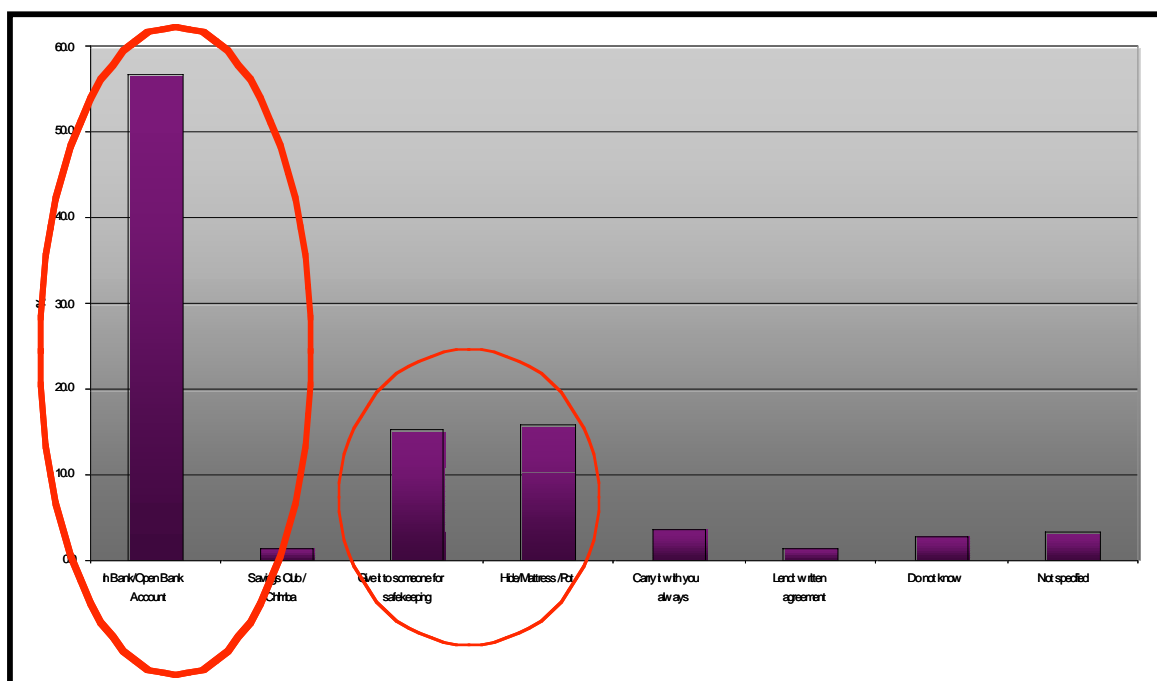
Base N=3998

When asked what they would use the money for after keeping it safe (Graph 10 – multiple response possible), 36% of people said they would use it to start a business, with more women saying this than men, another 9.2% would expand a business, and another 19.1% would put it in agriculture/livestock. This trend applies to the financially excluded as well (see graphs of the launch presentation). The data suggests a trend of using excess funds for income-generating activities as opposed to consumption activities. This information is useful in looking at how to match

financial service offerings to spending or fund utilisation behaviour and decision making.

*Graph 10: Selected spending preferences for a large sum of money*
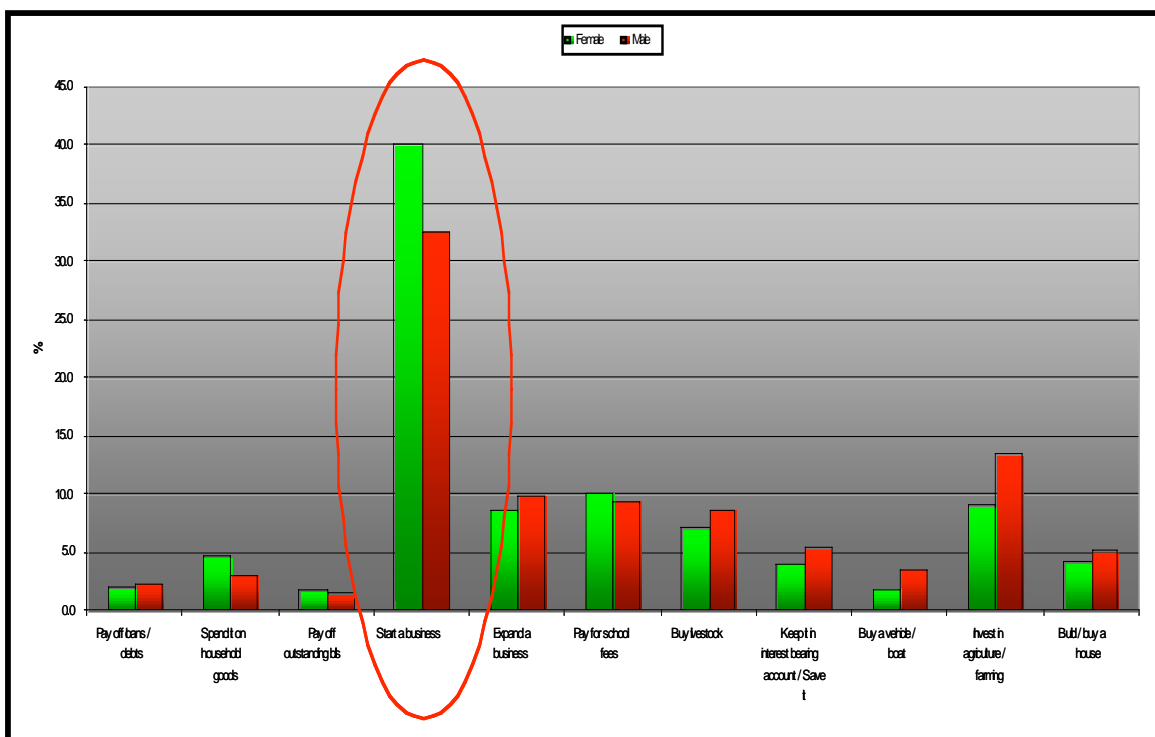
Base N=3998

6.6.2. Banking status

The data illustrated in Graphs 11, 12 and 13 shows that there is generally low usage of bank products by adult Zambians with 78% never having had a bank account and only 14% currently having a bank account. A significant percentage (8%) used to have a bank account, but don't have one any more. A higher percentage of women have never had a bank account (82%) compared to men (73%), and a lower percentage of women used have an account (6.6%) compared to men (9.3%). The majority of banked and "used to be banked" are urban and middle-aged, and a greater number of older people are previously banked. Not surprisingly, in terms of employment status, the highest percentage of banked are salaried (48.6%), though a high percentage of salaried people have never had a bank account (41.6%).

The data can be further analysed to determine who "the used to be banked" people are, to shed light on why and what opportunities might exist to bring them back into the banking system. Although the question was not asked, a possible reason for no longer having a bank account could be the closure of rural bank branches. Similarly, digging deeper into the segment of the salaried but unbanked population could reveal opportunities to provide basic banking services to those with a regular income.
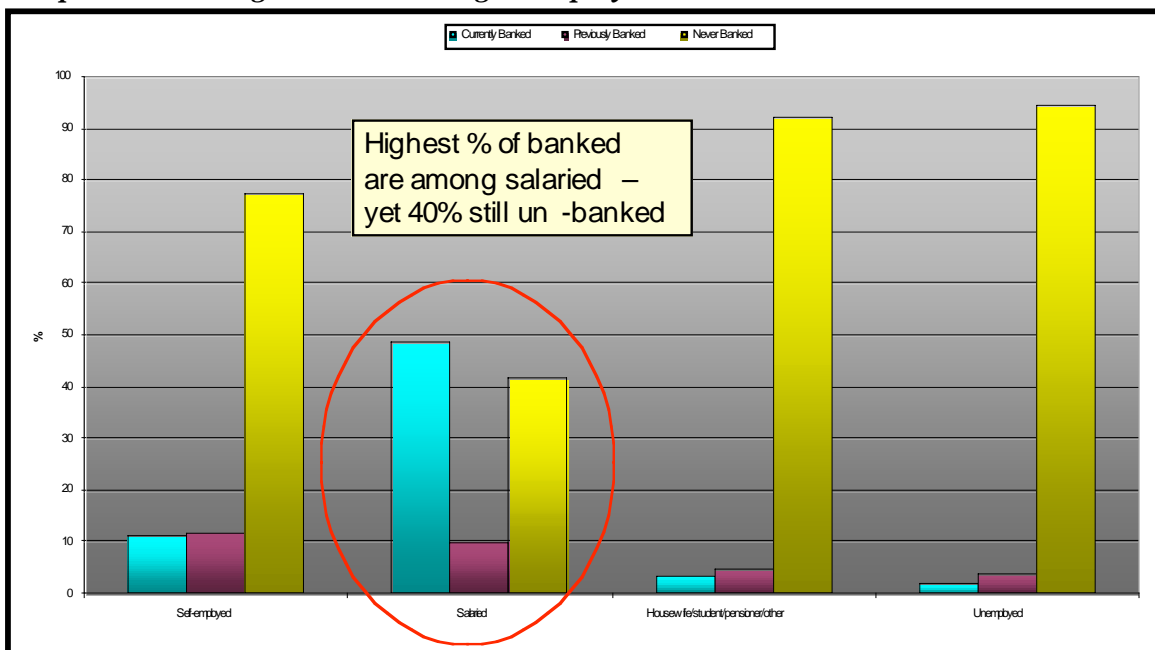
Graph 11: Banking status of adult Zambian population
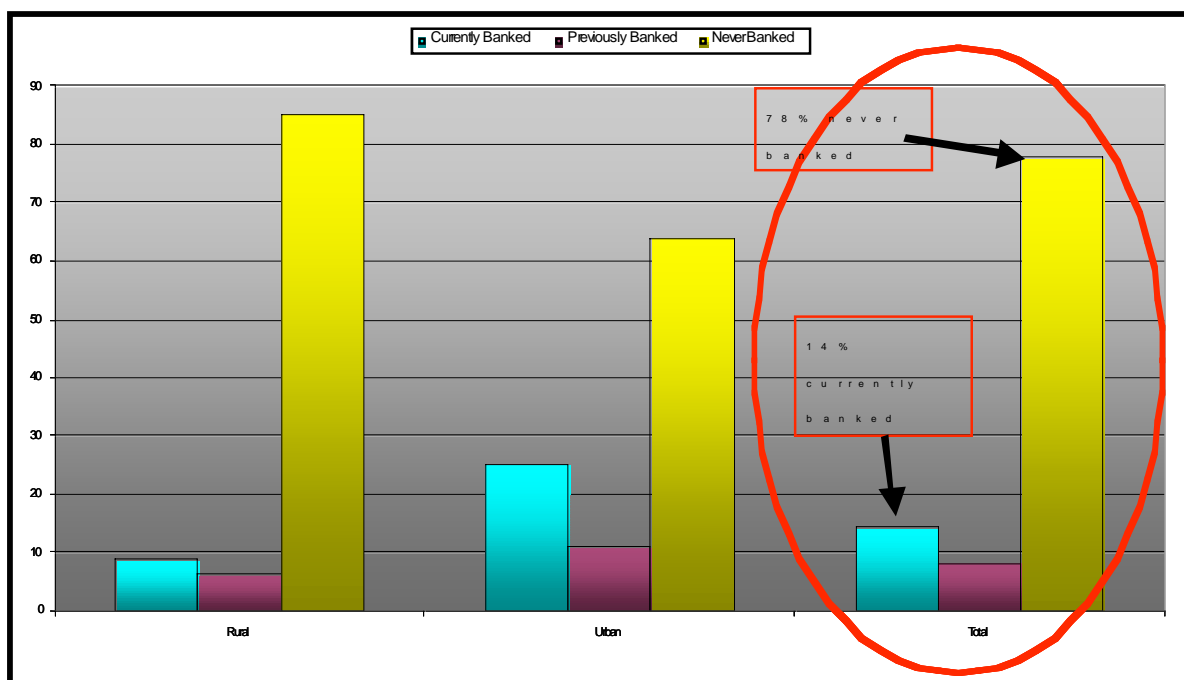
Base N=3998

Graph 12: Banking status according to age
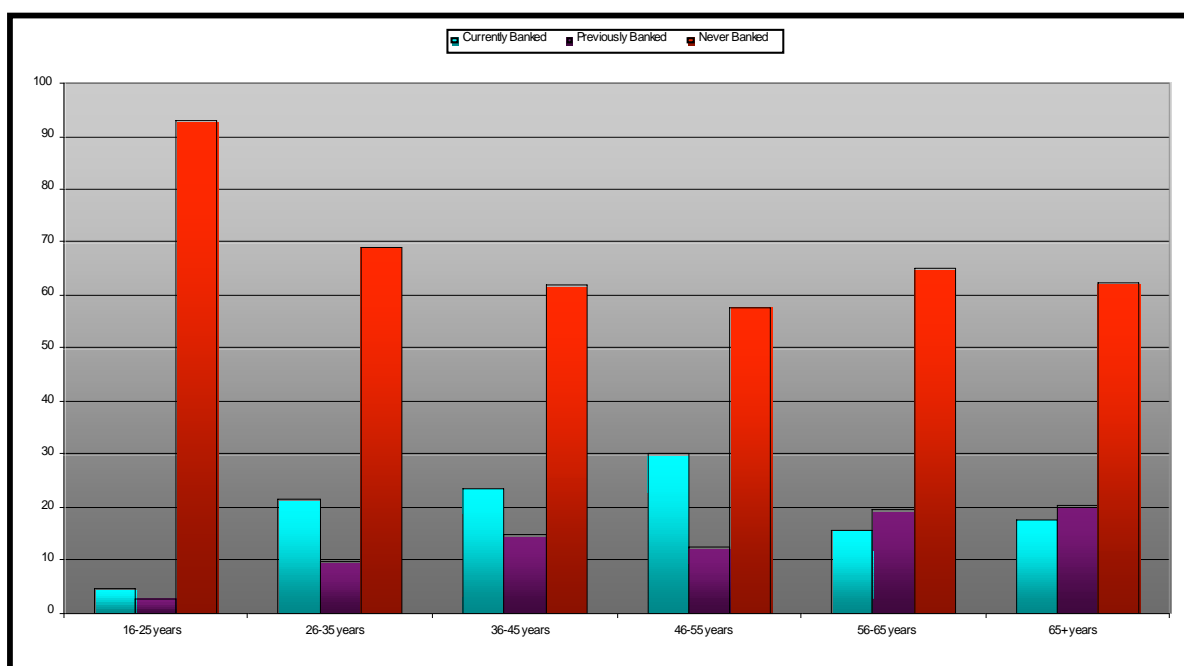
Base N=3998

Graph 13: Banking status according to employment

Base N=3998

Bank product and service uptake usually starts at around ZMK450,000–600,000 per month. As shown in Graph 14, multiple bank product usage is high among a very small percentage of high-income earners. About 0.45% of the adult population, who are earning over ZMK5 million/month, have 6.5 bank products or more. Use of multiple bank product drops sharply for those earning between ZMK1 million and ZMK5 million/month, and again drops to an average of two products for those earning between ZMK800,000-ZMK1 million/month. In total, multiple bank product usage (i.e. two or more) occurs among 5.24% of the adult population earning more than ZMK600,000/month. The entry level for bank product usage occurs at monthly incomes of ZMK600,000–800,000.

Graph 14: Multiple use of formal product by income level
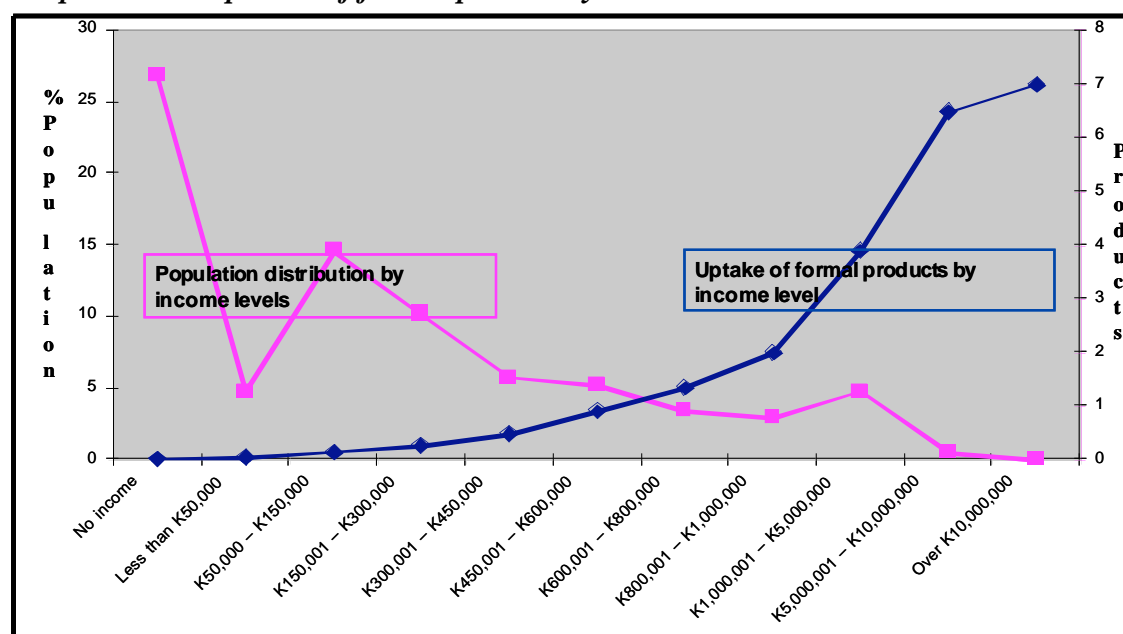
6.6.3 Understanding household income and use of financial services

If the bankable market is viewed as only representing those with a salaried income, this will considerably limit the opportunities to expand financial services. A person usually forms part of an economic household unit where there are multiple sources of income. An adult student, dependent on household income, still requires financial services, such as student loans or the ability to make payments. The same applies to a housewife. Understanding the household income situation makes it possible to develop profiles of potential clients, particularly those without a regular income. Furthermore, the analysis of household income is useful for unpacking how best to improve access along the appropriateness (matching products with cash flow) and affordability (determining a price threshold for an affordable product) dimensions.

Although 32.3% of adult Zambians say they have no income (Graph 15), household income is likely to be an important source for survival. The average household size is six and each household has an average of two income earners. Sixteen percent of respondents report having more than two sources of income. Non-salaried income represents a main source of income for 37.5% of adult Zambians, while salaried income is a main source for 30%. This data suggests scope to expand financial services to those that are not salaried, or do not receive a regular income, but it will require thinking differently about needs as well as product design and delivery. For example, the ability to make payments or to receive money is a need. Box 3 provides an example of how financial services can be provided to fill this need without a bank account.

> **Box 3: Virtual banking – reaching the unbanked**
> Cellphone technology provides a platform for full banking functionality. WIZZIT Bank in South Africa has created a virtual bank that allows a person to receive, send, and withdraw cash at ATMs without having a bank account. This pay-as-you-go banking system operates without branches. Through points of sale in shops clients can receive cash and they open accounts through WIZZIT sale agents. Deposits are also facilitated at the Post Office. Service fees are low and convenience is maximised.
>
> See www.finmarktrust.org for more examples of how to meet the needs of the unbanked who have irregular and uncertain incomes.

Graph 15: Sources of income

(Base: N=3,988 Valid responses)
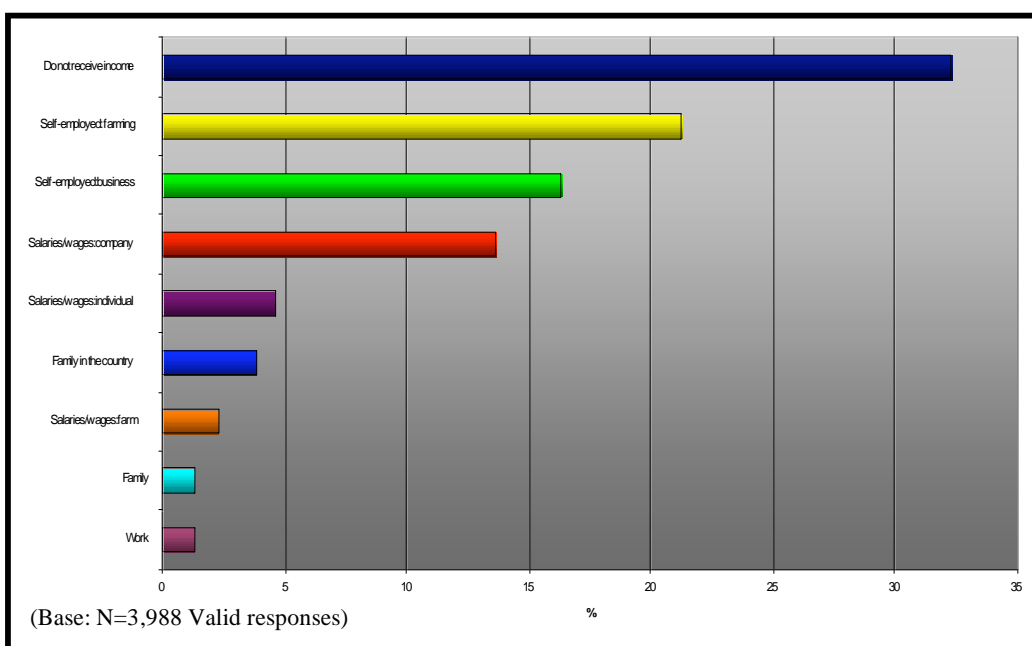
6.6.4 Ways of receiving/remitting money

As shown in Tables 9 and 10 and Graph 16, in most cases Zambians receive their money (income and other receipts) in cash rather than through the financial system. Less then 10% receive monies in the bank with nearly 80% receiving money in cash. Among the salaried, 68% receive monies in cash. When asked how they would prefer to receive money from income, 83% would prefer to receive it in cash.

Why do people use cash and prefer cash? Answers could be tax related, or because bank accounts are too expensive, hours are inconvenient, or that banks are not close enough. Further light is shed on possible answers to this question in subsequent sections. Providing alternatives for cash transactions through more efficient and less risky mediums may present opportunities for innovations in financial services, as highlighted in Box 3.

Table 9: Ways of receiving money

Method	Rural Sample	Urban Sample	Total Sample
Cash in person	84.3	71.1	79.3
Cash third party	6.3	4.4	5.6
Swift transfer	0.3	1.3	0.7
Western Union	0.2	0.9	0.5
Cheque	1.3	2.1	1.6
Into bank account	3.3	15.77	8.0
Other	0.6	0.4	0.5
Not specified	3.7	3.9	3.8

Base: N=2,706 Valid responses

Table 10: Ways of receiving money by employment status

Method	Self-employed (formal/informal)	Salaried (full/part time)	Housewife/student/ pensioner/other	Unemployed
Cash in person	86.1	67.9	78.2	78.7
Cash third party	6.0	2.9	7.3	9.9
Swift transfer	0.4	0.6	1.4	1.5
Western Union	0.4	0.5	0.8	0.3
Cheque	1.3	2.0	2.5	1.0
Into Bank Account	1.5	22.3	4.2	4.1
Other	0.6	0.5	1.0	
Not specified	3.8	3.3	4.4	4.5

Base: N=2,706 Valid responses

Graph16: Payment preferences for income
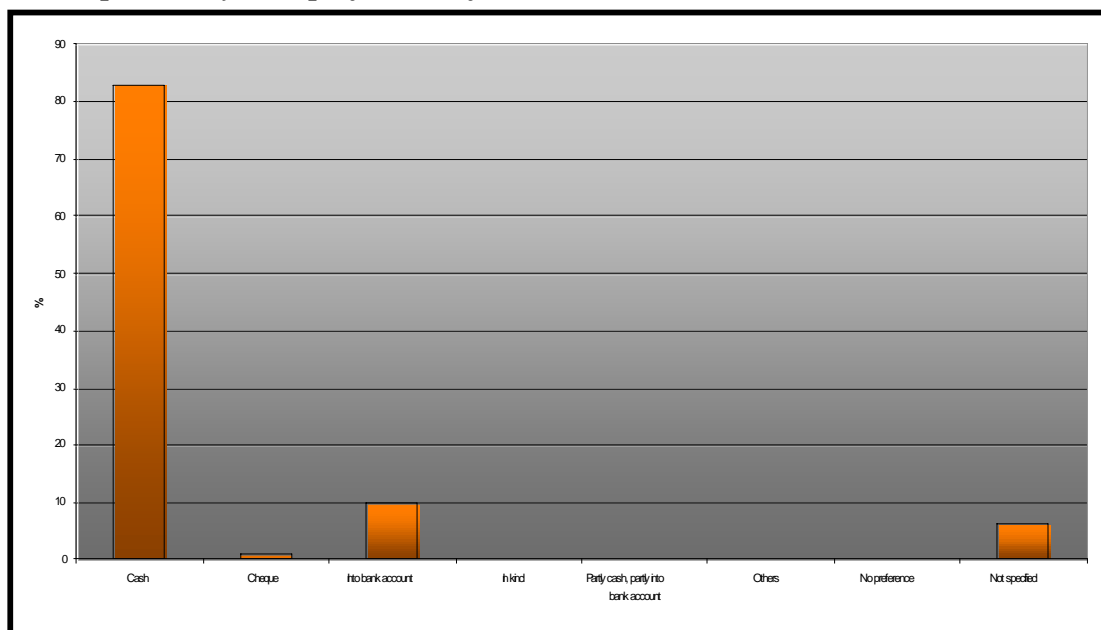
Base: N=2,707 Valid responses

Graph 17 illustrates banking activity among the banked. Despite the use of, and preference for, cash for those that do have bank accounts (14.5%), the data shows that banks are used for cash withdrawals and deposits, as well as cheque deposits and cashing. A small percentage (5.9%) of the previously banked and unbanked (85.5%) also use bank services in the form of cashing cheques and depositing money in someone else's account. As an aside, the levels of access to transactions accounts would thus be slightly higher if one considers indirect access.

Graph 17: Banking activity among the banked
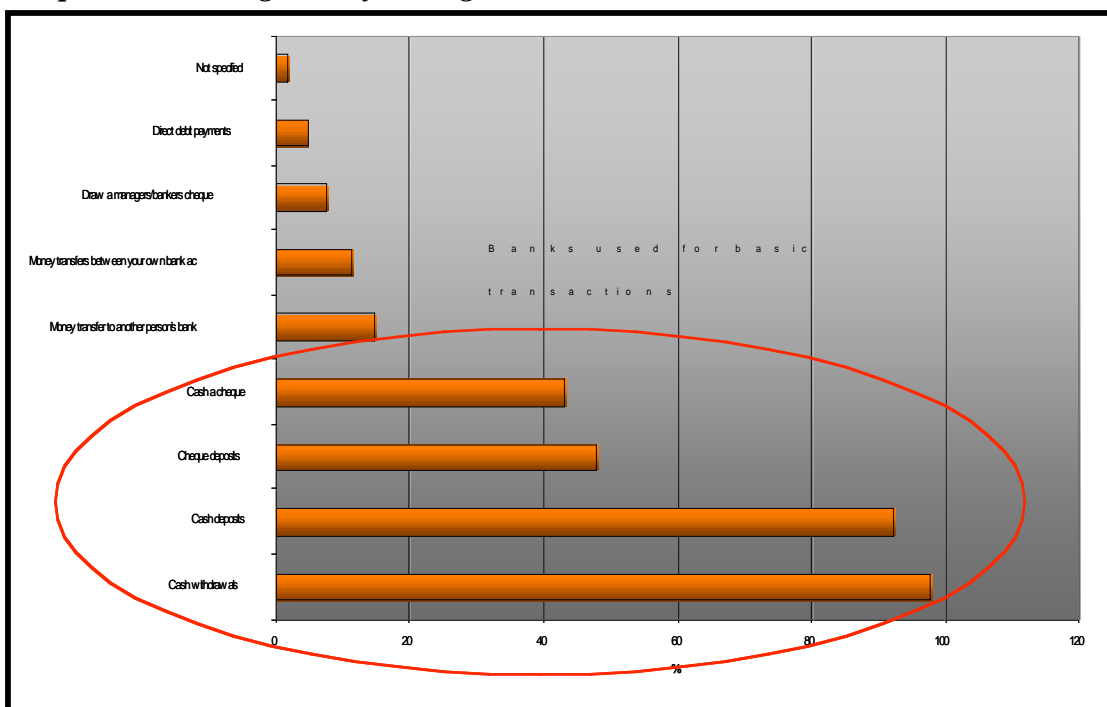
Base: N=1,864 responses; Valid cases N=578

6.6.5 What FinScope™ tells us about access barriers

In a study commissioned by FinMark Trust, affordability, product appropriateness, and regulatory barriers were seen as the major barriers to access to financial services in countries of the Southern African Customs Union. Box 4 highlights the methodology used to measure access. A similar analysis could be done on the FinScope™ Zambia data, which already suggests that affordability, appropriateness and physical access are also potential barriers to expanding financial access.

> **Box 4: Using FinScope™ data to measure barriers to access to financial services**
>
> This study evaluates the use of indices to measure the key factors impacting on access to financial services in the Southern African Customs Union (SACU). Using FinScope™ 2003 data, a primary access index was developed using three sub-indices quantifying affordability, regulatory barriers and eligibility barriers. A secondary measure is used to illustrate not easily quantifiable aspects of access on product features and service characteristics (i.e. appropriateness). The access affordability scores for all five countries indicate that affordability forms a significant obstacle to the extension of banking services to lower-income households, even more so if travel costs are included. On the product and service features component of access, Lesotho scored particularly low because of issues of timely access (long queues) and service levels offered by banks. The banking system is mainly used for cashing salary cheques, with few people opting to have their salary directly deposited into their account. This results in crowding of bank branches on paydays. See www.finmarktrust.org, *Measuring Access to Transaction Banking Services in the Southern African Customs Union – an Index Approach,* Genesis Analytics, November 2005.

The FinScope™ Zambia data shows the main reasons given by respondents for not having a bank account relate to income, i.e. do not have money, do not have a regular income, do not have a job. Care must be taken in interpreting this. Bank accounts are associated with being formally employed and salaried. Most people who are self-employed do not have a bank account, as illustrated in Graph 13. It is therefore normal for people to give income-related responses as the main reasons for not having a bank account. More interesting is the fact that people also mention distance, minimum balance, cost, and "do not qualify" as reasons. These responses, although only mentioned by less then 10% of respondents, as illustrated in Table 11, do suggest that by adapting a bank product to non-salaried individuals, providers may find opportunities to reach more people. This is further supported by what people take into account if they were to open a bank account. Appropriateness of the service in terms of the terms and conditions, as well as cost and physical access, are considered, as illustrated in Graph 18. The most important factor mentioned was minimum balance, followed by the interest rate and bank charges, and then physical location of the bank.

Table 11: Reasons for not having a bank account

Reasons	Responses >1%
I do not have money to put into a bank	62.0
I do not have a regular income	32.0
I do not have a job	26.2
The bank is too far	8.5
Minimum balance in the bank is too high	6.5
It is expensive to have a bank account	5.0
I do not qualify to open an account	4.7

| Reasons	Responses >1%
I do not need a bank account	4.3
I do not know how to open an account	4.3
I prefer dealing in cash	3.7
Bank charges / Service fees are too high	2.2
Lack of knowledge on banks	2.1
The bank closed my account	2.0
I do not trust banks	1.7
I do not have an identity document	1.2
I do not have a reference	1.0
I am still at school / I am too young	1.0

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

*Graph 18: Factors taken into account when selecting a bank*
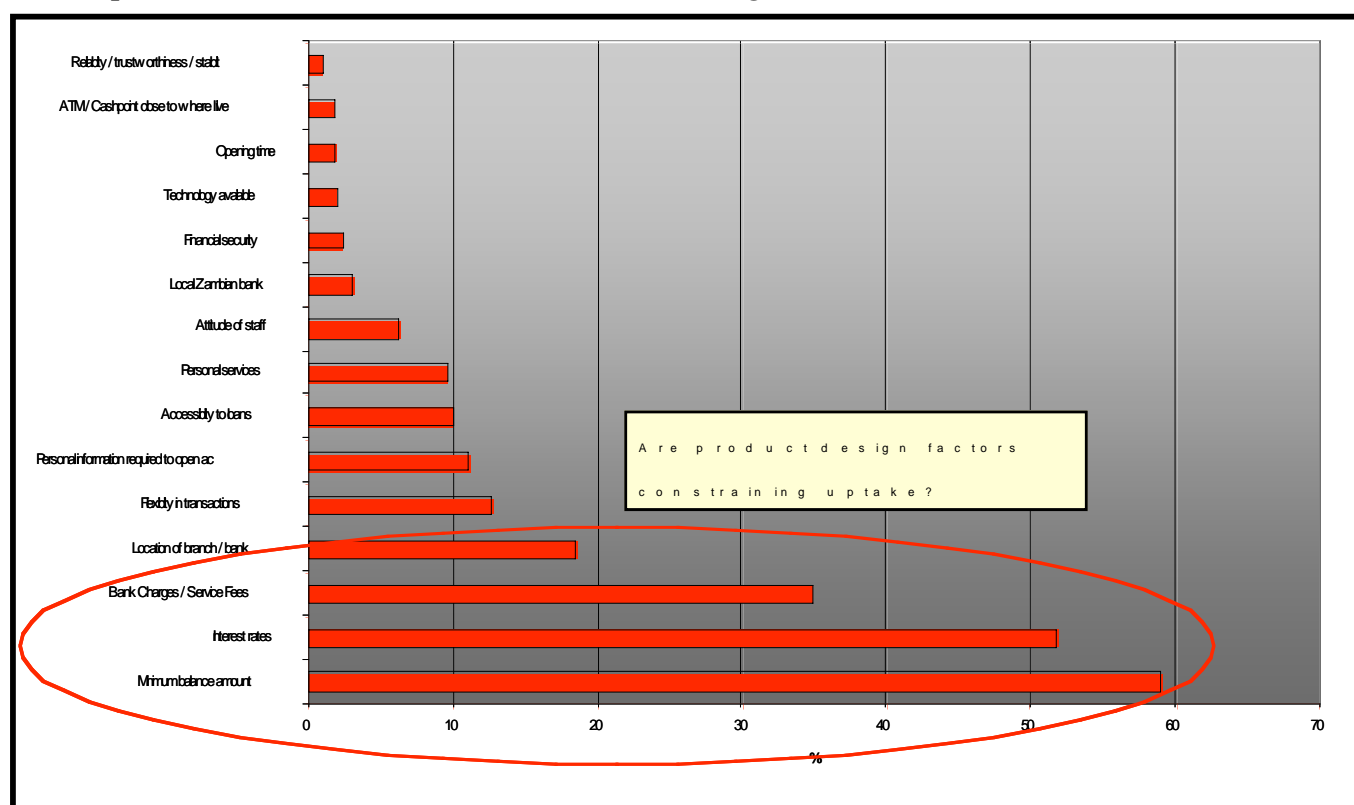
Base: N=7,267 responses; Valid N=3,179

Looking at physical access, the data for Zambia shows that among both the urban and rural sample, the most popular means of getting to a bank is by local minibus, followed by walking, and thirdly by use of own car. After these, there are distinct differences between urban and rural. Physical access becomes a barrier as it takes time and money to get to the bank, and this is particularly pronounced in rural areas, as illustrated in Graphs 19, 20 and 21. Innovative solutions to bringing banking to the people would help remove this barrier and expand access.

Graph 19: Means of getting to a bank
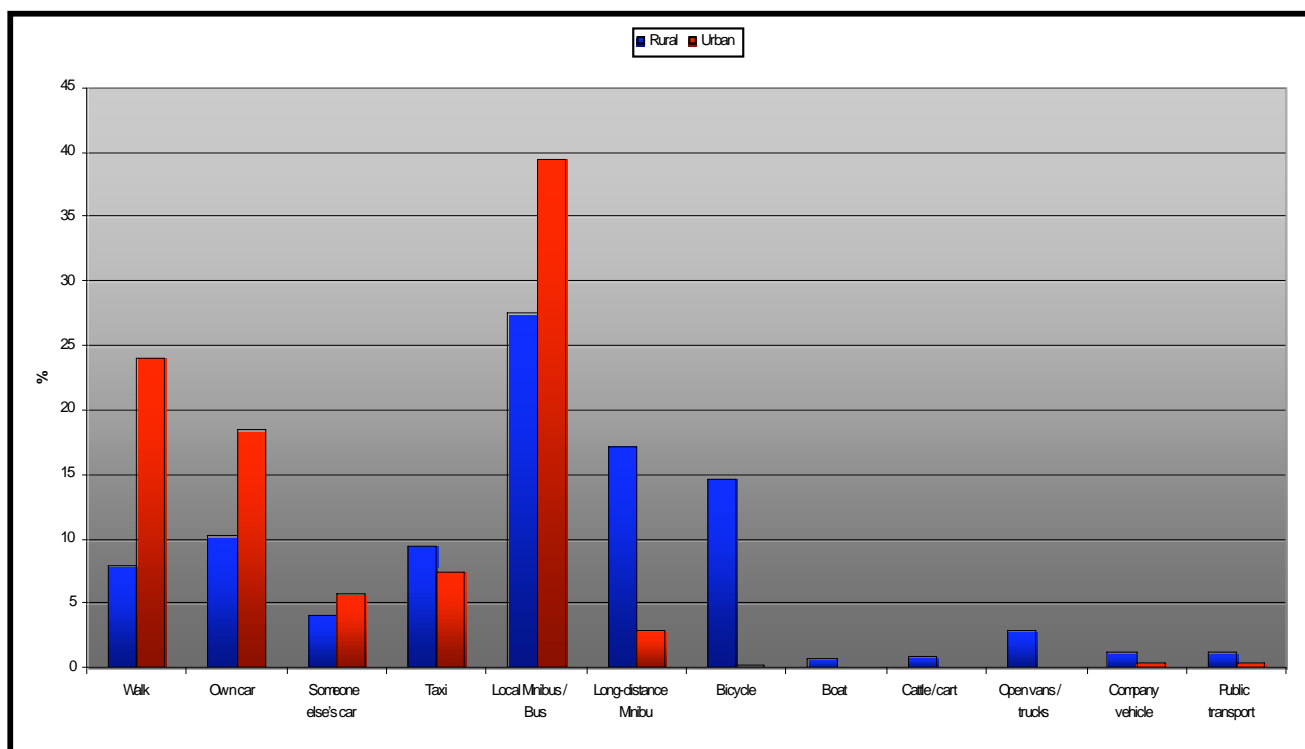
Base: N=694 Responses; N=578 valid cases

Although the number of responses to the cost of getting to the bank question was low (365), based on this small sample, it costs anywhere between ZMK0–25,000 to get to a bank. Cost differs between urban and rural, where rural is generally more expensive, and it also takes more time for rural dwellers to get to a bank.

Graph 20: Cost of getting to a bank
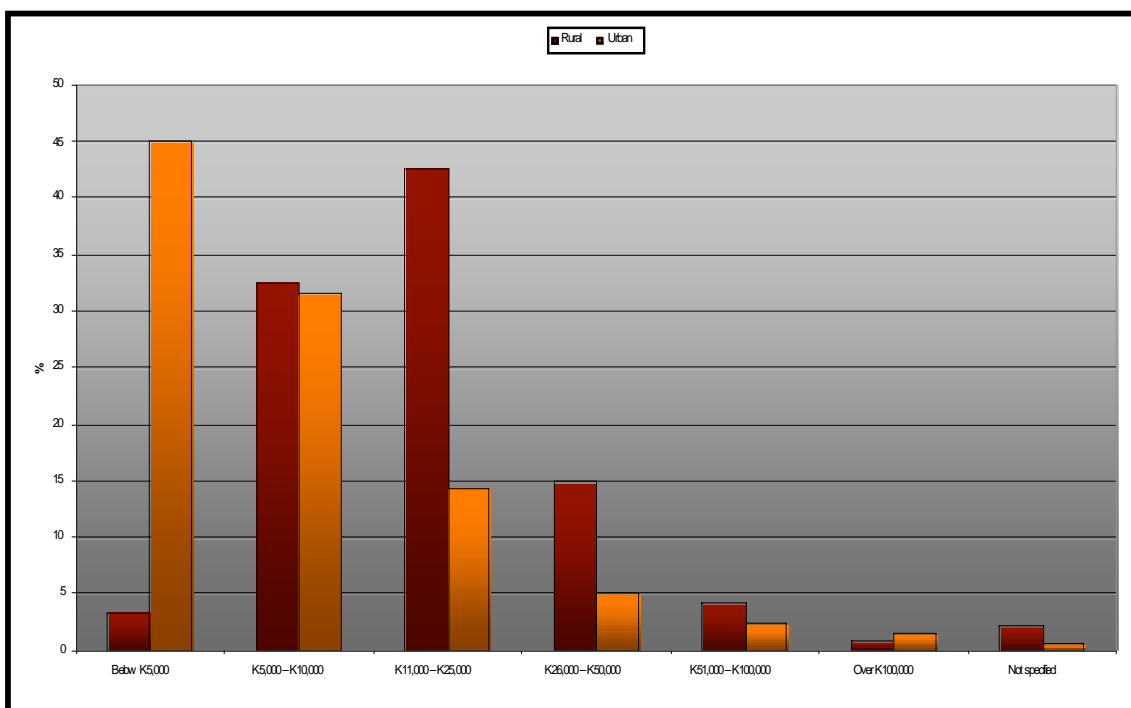
Base: N=365

Graph 21: Time spent getting to a bank
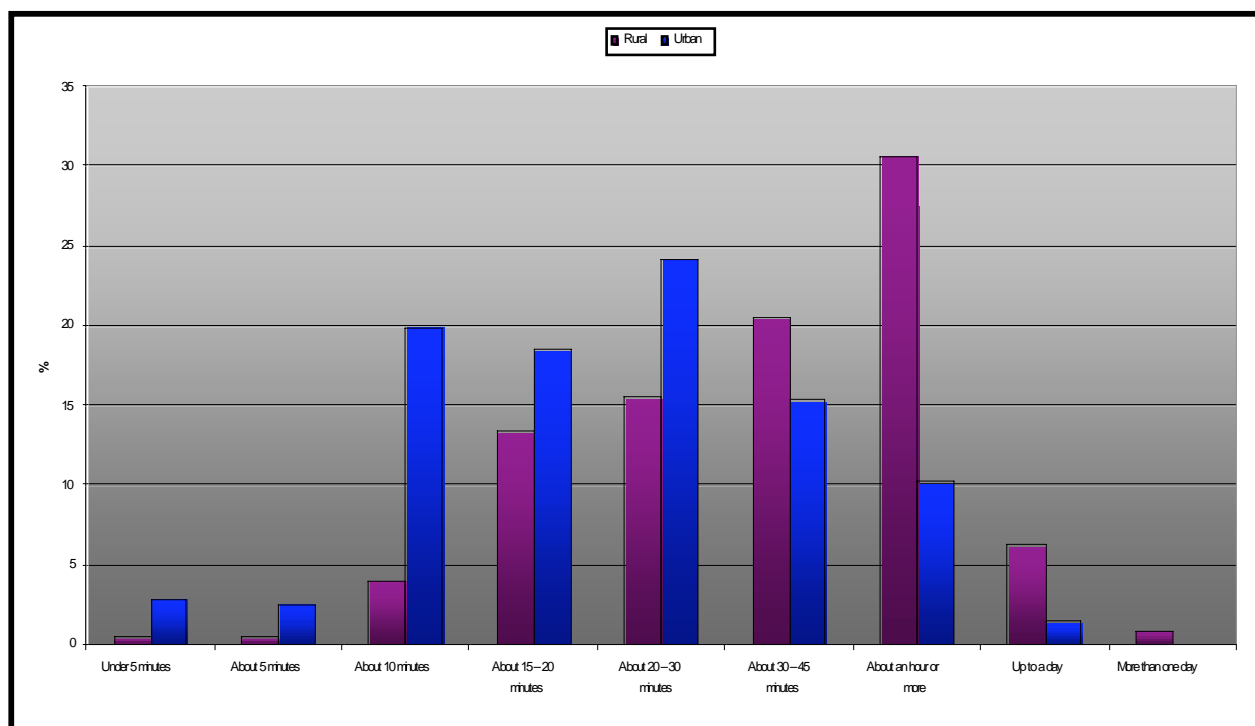


Base: N=578

6.6.6. Bank concentration and market share

Data on awareness and actual use of banks indicate that five banks capture most of the market for retail financial services. The awareness data will indicate the extent to which a bank is known even if it is not used.

Zambia National Commercial Bank (ZNCB) has the highest level of awareness with the majority of people (86%) spontaneously mentioning its name when asked "which banks are you aware of or have ever heard of". Four other banks which feature prominently in terms of awareness are Finance Bank, Barclays Bank, Standard Chartered Bank and NSCB, as illustrated in Graph 22. In terms of where accounts are held, ZNCB again has the highest market share, followed by Finance Bank and Barclays Bank. This pattern is the same in terms of which banks are reported as being the main banks that people use, as demonstrated in Graph 23.

Graph 22: Awareness of individual banks
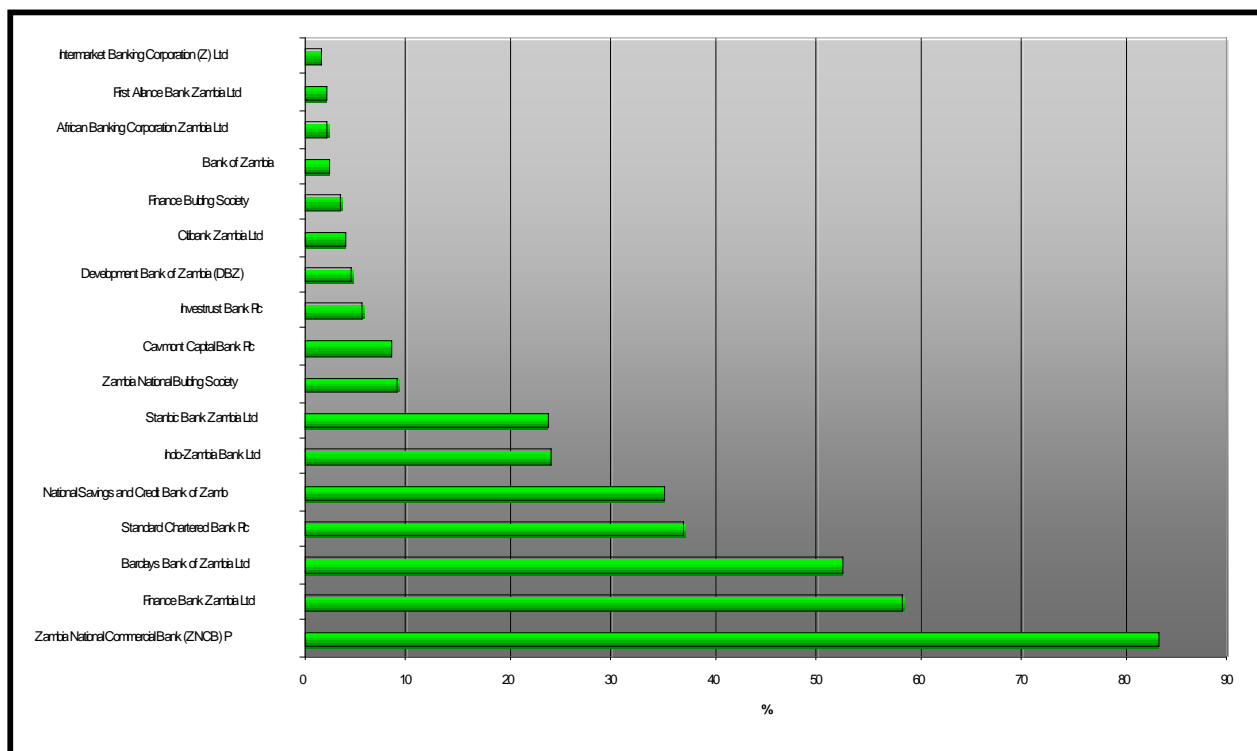
Base: N=12,873; Valid N=3,560

Graph 23: Usage - Banks at which accounts are held
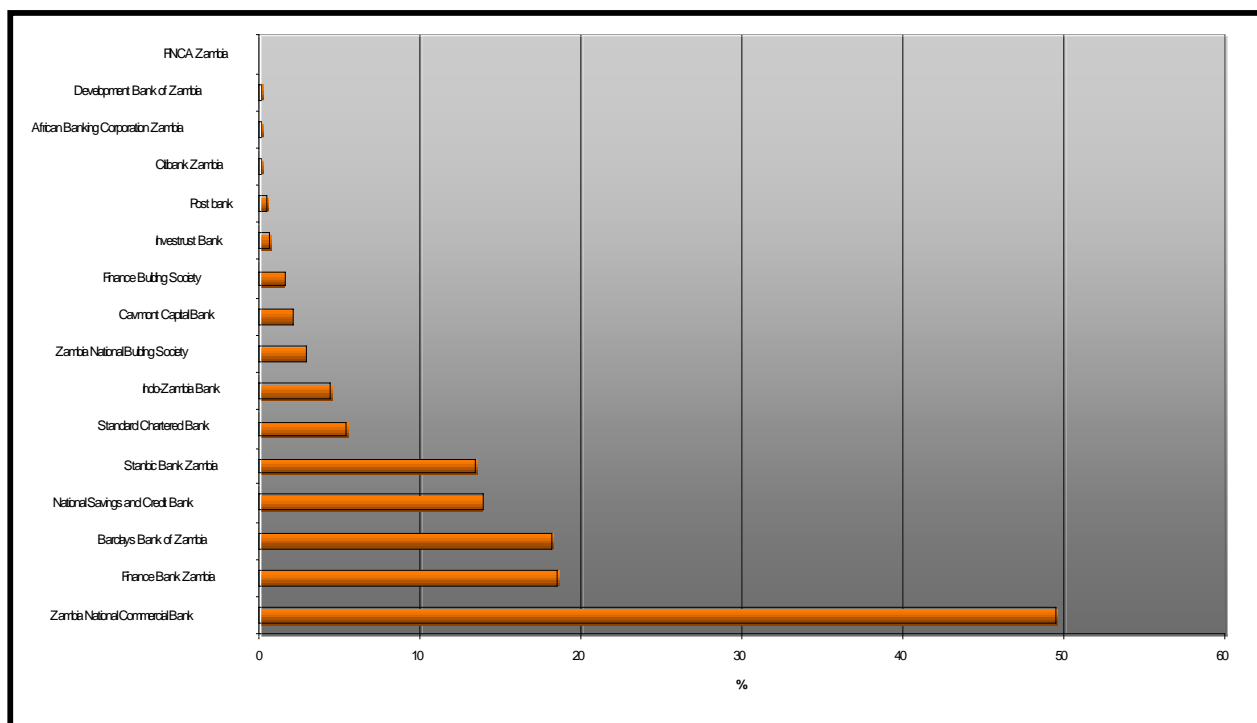

Base: N=753 responses; Valid cases N=569

A concentration index can be developed using this data to measure the extent to which the banking sector is concentrated (or fragmented) by taking into consideration the

market share of each bank in the market. Concentration indices thus measure the extent to which specific markets are competitive or not. They are commonly used to assess the impact of mergers on the competitiveness of existing markets. If a banking sector were to consist of four banks with more or less equal market share (this could be measured by various means: sales figures, account volumes, public awareness, etc.) then the sector would be deemed competitive (or fragmented). If, however, there are 100 banks and two banks hold between them 98% of market share, the market would be considered uncompetitive (or concentrated). The effective number of banks indices is a figure that describes the number of agencies (banks in this case) that are more or less equal in size. The larger the number the more competitive the system, and the lower the number the more uncompetitive or concentrated the system.

The concentration index for Zambia's banking sector using the FinScope™ data is illustrated in Graph 24. As highlighted, the Zambian case has a large number of banks currently registered to undertake various banking activities. However, the effective number of banks is significantly lower, indicating that the system has only a few banks of equal size. This also indicates that there may be an oversupply of banks, serving a small market, while at the same time there is a huge unserved population. The concentration index shows – on the basis of awareness and usage – that five major banks dominate the market while there are over 35 banks, and that 3.5 bank products dominate the 15 products on offer in terms of usage.

Graph 24:   The concentration index of the banking sector in Zambia based on access variables
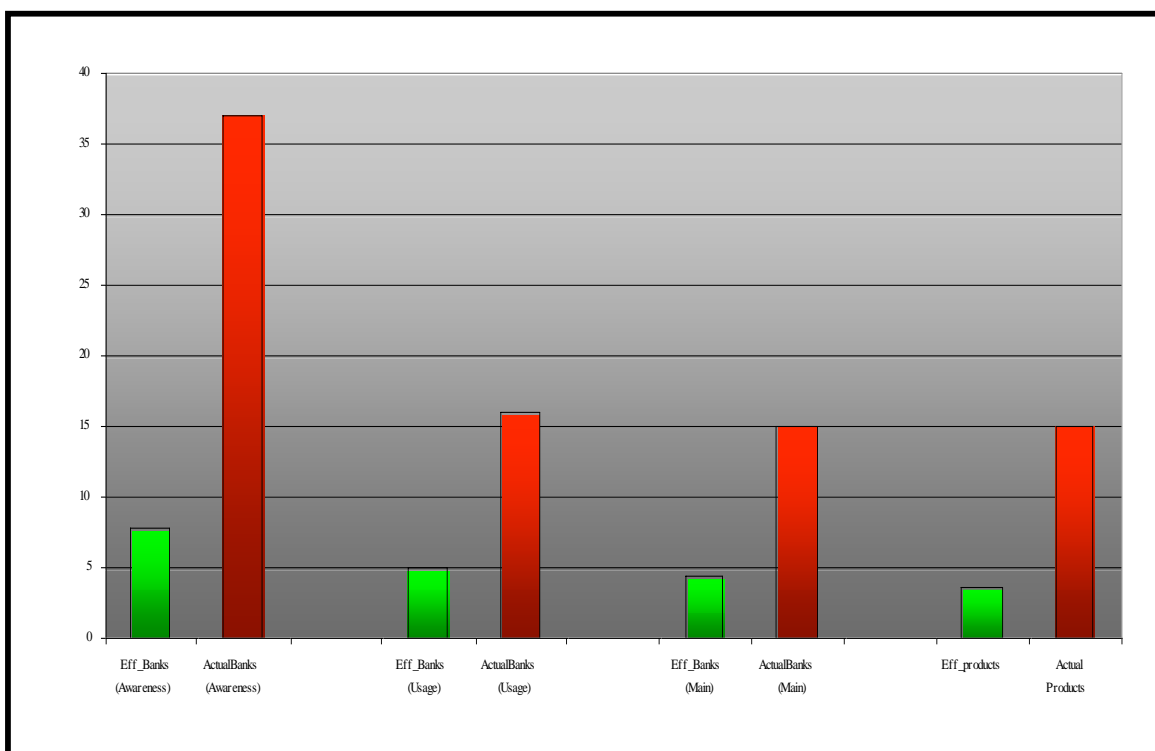

6.7. Savings and investment behaviour

The FinScope™ Zambia data, as highlighted in Graph 25, suggests that Zambians are not using banks to keep and accumulate money. Based on questions on where to save

or invest, rather than purchase T-bills, buy life insurance or stocks on the Lusaka Stock Exchange, Zambians report to be or consider investing in non-financial instruments such as a business, cattle, land or agricultural equipment. Currently less then 1% use any of these formal financial instruments, while a higher percentage have investments in business, land, agriculture and property.

Graph 25: Investments – would consider vs have now
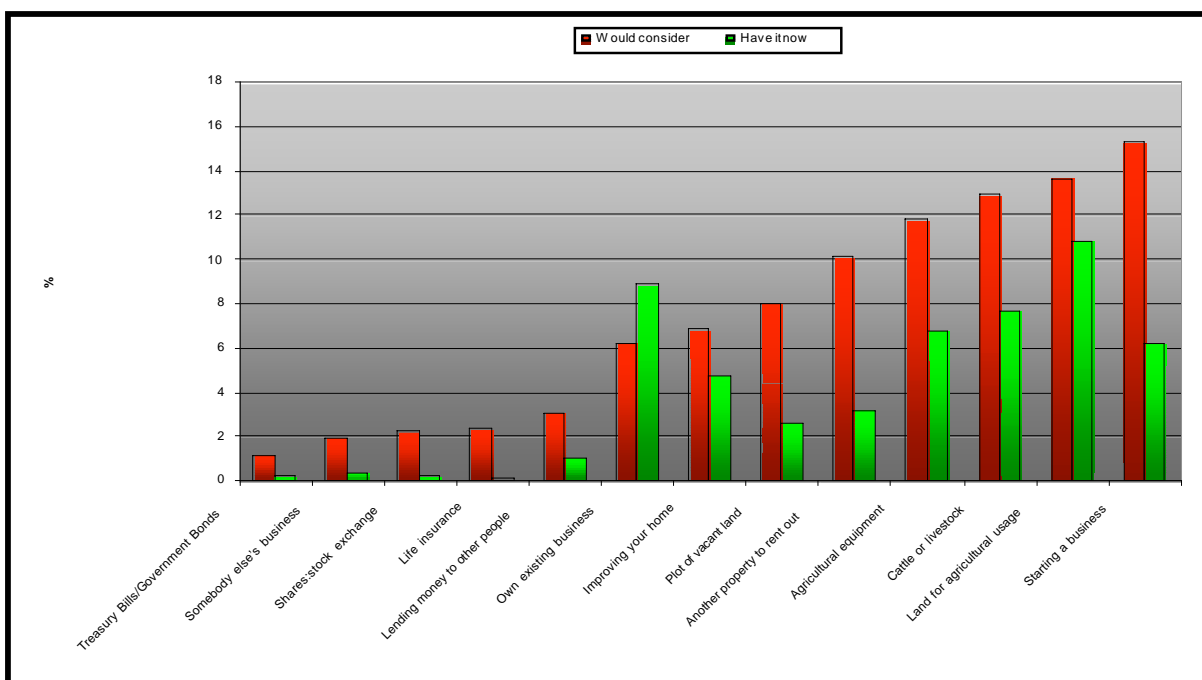
Base: N=3,998 Valid cases

When asked whether they save regularly, only 22% of adults say they do and, of this, 59% save monthly. Safety was reporting as being the most important consideration (25%) given when deciding with which institution to save money, as illustrated in Graph 26. This is followed by ability to get money frequently and at any time, and interest rate received. The data also suggests that economic conditions such as the price of goods and services will influence decisions regarding saving, investing or spending money.

Graph 26: What is considered when deciding when to save
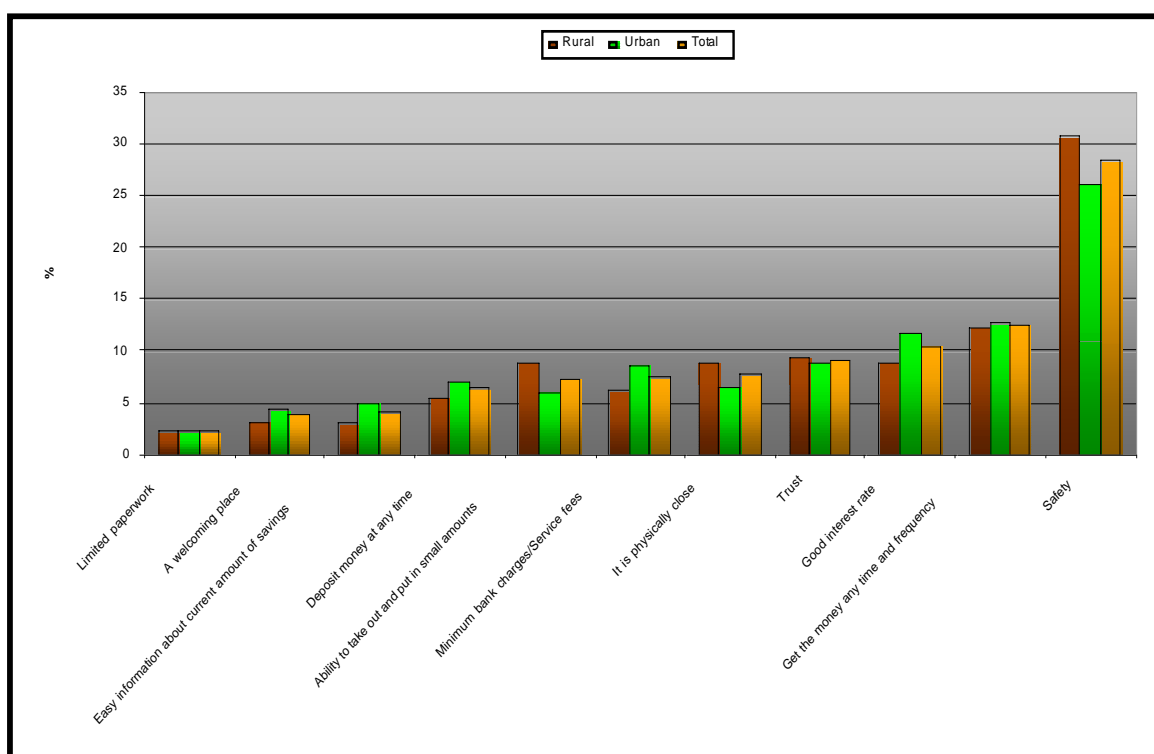
N=822 Valid cases

6.8. The specialised microfinance providers – at a glance

Section 6.6 discusses the banking sector at length, as banks are key players in the financial sector. However, as recently documented in a study commissioned by DFID[10], commercial banks are still reluctant to enter the low-income market because they misunderstand the risk, overestimate the cost, and underestimate the potential returns. The study examines the business case for banks to enter the microfinance market and concludes that banks that have ventured into this market, perhaps for social reasons or pressure from government, have been profitable. So there is scope to support expansion of the financial sector through banks.

Microfinance institutions on the other hand are also key players. In Zambia, they have played a pioneering role in providing financial services to low-income households. It is mainly because of their current levels of outreach that levels of financial access, as illustrated in the FAS, increases from 14.6% banked to 22.4% formally included. About 5% of adult Zambians say they have had or now have a financial service from a microfinance institution. Any policy supporting the provision of financial services to low-income households and the building of an inclusive financial sector in Zambia should therefore consider the role of both the banking sector and the microfinance institutions.

As illustrated in Table 12, microfinance institutions in Zambia include both private company moneylenders such as Bayport, and the more traditional donor-supported microfinance institutions such as Pride Zambia. Cetzam has the highest coverage followed by Pride Zambia, Bayport and NSCB.

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[10] DFID Financial Sector Team, Policy Division Working Paper, *Banking the underserved: New Opportunities for Commercial Banks,* April 2005.

Table 12: Coverage of Microfinance Institutions

Institution	%
Cetzam Opportunity Microfinance Ltd	23.9
Pride Zambia Ltd	18.7
Bayport	13.9
National Savings and Credit Bank	10.1
FINCA Zambia Ltd	9.9
Microfin Africa Zambia Ltd	7.0
Blue Financial Services	6.2
Agricultural Support Programme	5.7
Pulse Holdings Ltd	3.2
Salvation Army – Lusumpuko Women's Micro	2.2
Keepers Zambia Foundation	2.2
Cooperative Society	1.7
Women for Change	1.6
Evangelical Fellowship of Zambia	1.5
Women Finance Co-operative Zambia Ltd	1.1
African Banking Corporation Zambia Ltd	1.1
Red Cross	1.0
Young Women Christian Association	0.9
Disable group	0.8
Lusu Mission	0.7
Mashebo Trust Mission Guard	0.7
Harmos MED Ltd	0.6
Africa Enterprise Trust Zambia	0.4
Care International	0.4
Netfin	0.3
Church Health Association of Zambia	0.3

Base: =218 valid responses; N=121 valid cases

6.9. Financial attitudes, behaviour and literacy

A better understanding of the financial attitudes and behaviour of individuals can be used in the development and marketing of financial services. The FinScope™ Zambia survey asks respondents to agree or disagree with a number of statements about financial behaviour, such as "you hate owing money" and "you do not like carrying cash". The responses to these questions are summarised in Table 13. The purpose of the statements is to understand psychological trends with respect to people and their money. Understanding these trends could be useful in beginning to understanding credit, savings, and cash-management behaviour.

Table 13: Financial behaviour

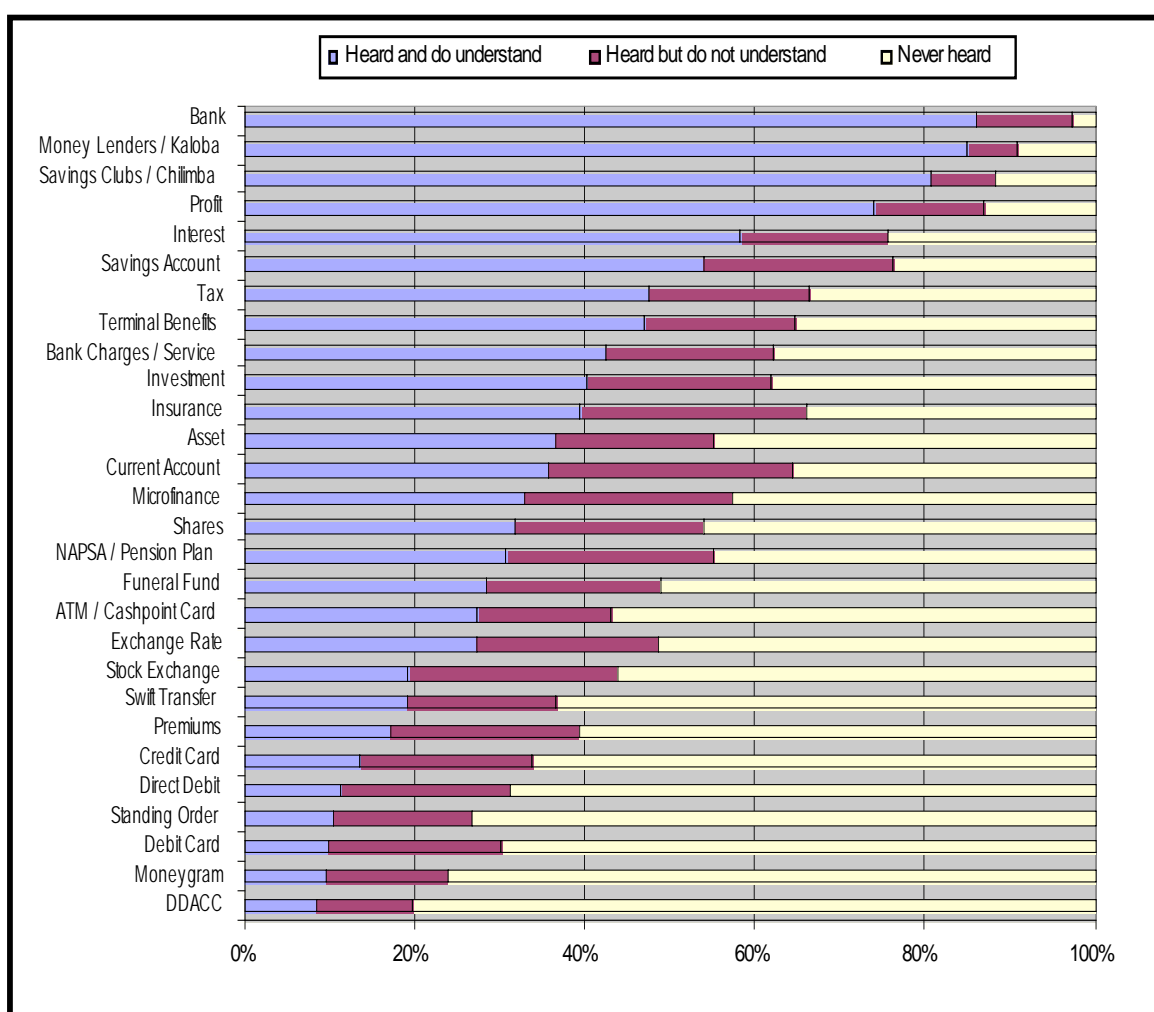| Statement	%
Hate owing money	81.4
Credit ends up being more expensive than thought	70.8
You work to a budget	65.5
To get ahead in life one needs to take some risks	64.2
When make financial decisions, like to get advice from family / friends	60.4
You prefer to save where money is safe, even if the interest rate is lower	55.4
You know about money and finances	53.7
You do not like carrying cash	52.7

Statement	%
You try to save regularly	50.3
Hard to get a loan these days	48.3
Bank account makes it easier to get credit	46.3
You consider yourself to be a business person	43.2
People often ask your advice on financial matters	41.0
You are worried that you won't have enough money for old age	40.7
You have a good idea of what interest / returns you get on savings	33.3
You consider yourself to be an entrepreneur	31.8
You are saving for something specific	26.3
You go without basic things so that you can save	23.6
You move your money around to get the most growth	23.5
You usually read the finance pages	22.0
For you, using a credit card is an easier way to pay	20.9
You avoid banking machines	18.5
Put your money into accounts with higher interest rates, even if not as safe	16.4
For financial decisions, you get advice from a financial broker	14.7
Without credit/loan, you would not be able to feed your family	14.5
You tend to take most of your money out of your bank account as soon as you get it	13.0

The respondents were asked another set of questions to determine what they associate with different service providers. For example, the statement "it is difficult to withdraw money" was associated with banks, insurance companies, building societies, microfinance institutions, Chilimba (savings clubs), and Kaloba (money lenders). The data was analysed using correspondence analysis – a way of visualising the relationship between two types of variables – to highlight the extent to which institutions correspond to particular statements. The correspondence analysis for FinScope™ Zambia is illustrated in Graph 27 and the analysis rationale is further explained in Appendix E.

The FinScope™ Zambia data shows clear attributes that distinguish formal providers from informal providers (Dimension 1). Informal providers are associated with simplicity, ease, rapidity and absence of bureaucracy. Banks and insurance companies are in a category of providers that are associated with more bureaucratic procedures. MFIs are somewhat in the middle, between informal and formal providers.

The data also puts banks apart from other providers (Dimension 2). People associate "too few branches", "far away", "difficult to withdraw" and "slow service" with insurance companies and MFIs, suggesting a distinction between these services providers and banks. Banks are associated more with the need to comply with certain administrative requirements (e.g. payslip), with high interest rates and low returns, but are trusted and a preferred provider.

Graph 27: Correspondence analysis – attributes associated to categories of financial institutions

To give some insights into financial literacy, respondents were asked whether they had heard and understood various financial terms. The findings illustrated in Graph 28 show that bank product names – such as ATM, debit card, funeral card – are often not known, and some technical terms, such as premiums, are also not known. Concepts such as business, profit, and interest are known terms.

Graph 28: Self-reported knowledge of banking and financial terms

6.10. Vulnerability and coping strategies

Towards understanding need for financial services, the FinScope™ questionnaire asked respondents about events that could affect finances and how they would cope if such an event would happen. Most respondents view death and illness as an event that can destabilise financial security. The top three sources of vulnerability for both rural and urban populations – as shown in Graph 29 – are: death of a household/family member; serious illness of a household member that requires expensive treatment; and theft, fire or destruction of household property.

Graph 29: Sources of vulnerability
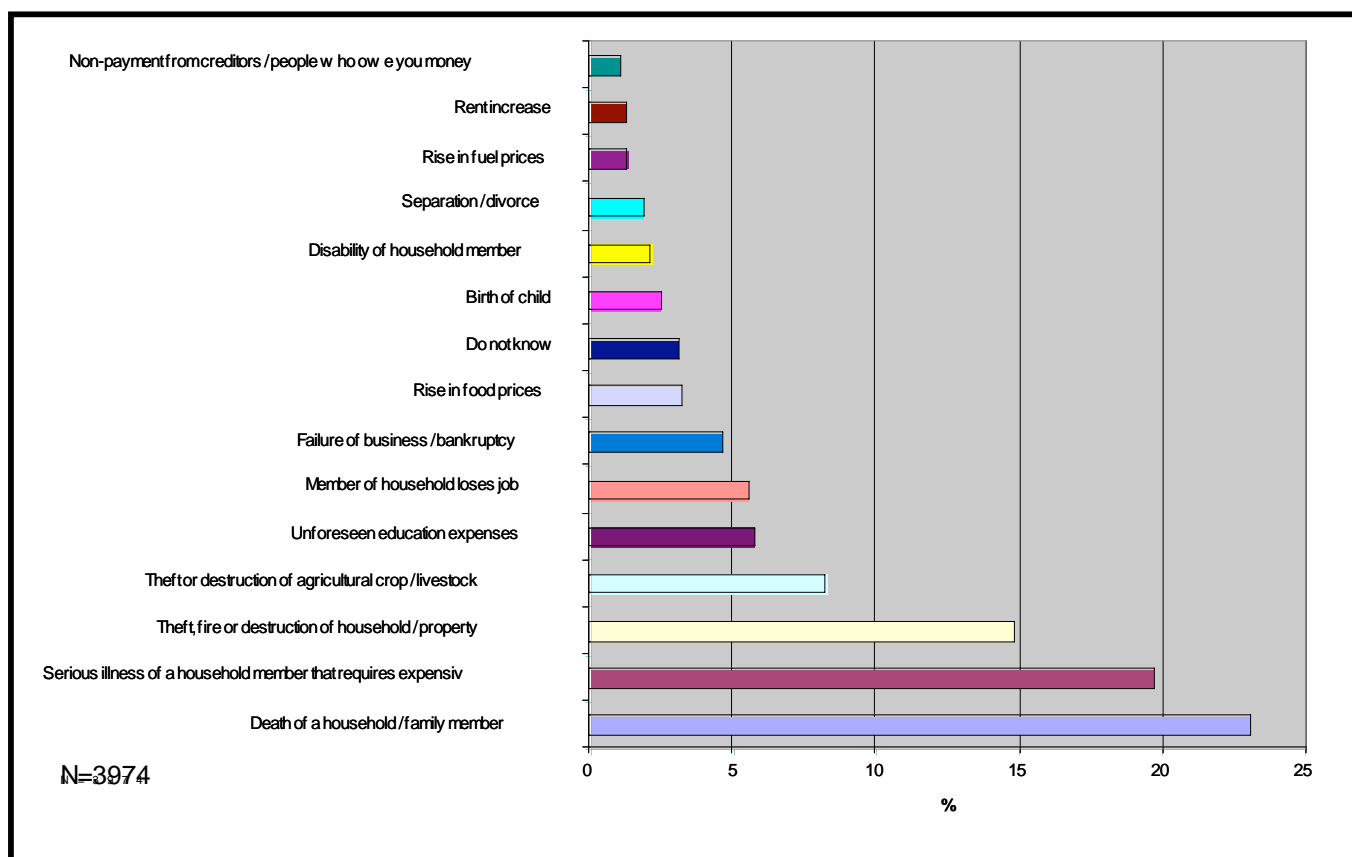
The findings in Graph 30 show that both rural and urban populations rely on family and friends to borrow money from in times of need. The urban sample then asks the church for assistance, while the rural population would rather sell assets, dispose of agricultural crops and/or livestock and/or wait/ask for donations.

Either way, there is a heavy emphasis on borrowing money and a heavy reliance on interspersed sub-optimal solutions. In terms of support networks, both rural and urban populations see family/relative followed closely by friend/neighbour as their support network. Taking out savings or borrowing money from a bank are quite low on the list, particularly for the rural population. The informal moneylender, while quite low, does feature higher than other financial institutions. This perhaps presents opportunities for better savings and insurance products to help households to deal with the unexpected or even expected (life cycle) events.

Graph 30: Coping with an unexpected event
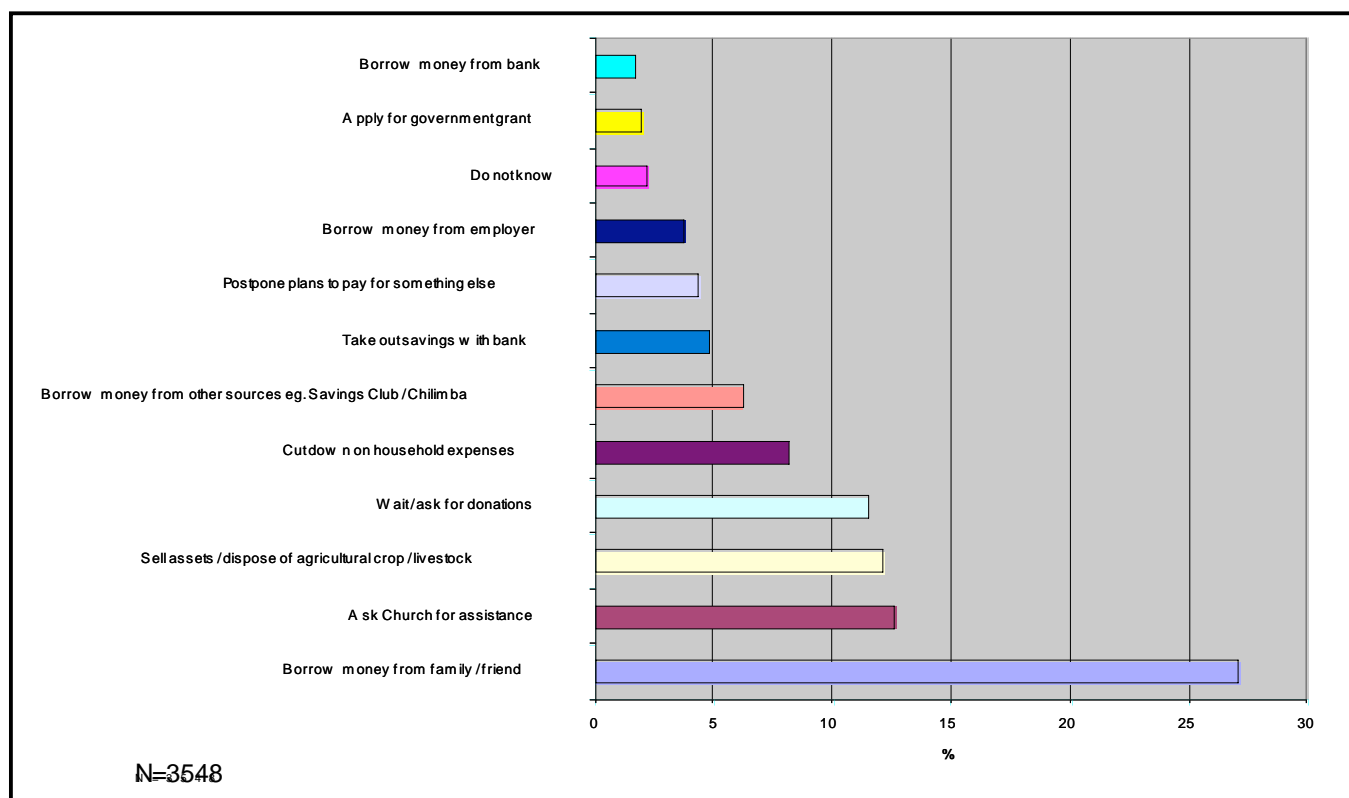
The data can also be used to calculate a Lived Poverty Index (LPI), which is a measure of real-time deprivation. The LPI is useful in understanding the poverty profiles of segments of the market and is further elaborated in Appendix E. Comparing the various subgroups on the LPI, the following trends are statistically significant:

• The unbanked are significantly poorer than the banked;
• Rural dwellers are significantly poorer than urban dwellers;
• Those citizens with lower levels of formal education are significantly poorer than those with higher levels of formal education;
• Larger households are significantly poorer than smaller households;
• There is no significant correlation between age and lived poverty; and
• There is no difference between the lived poverty scores of male and female respondents

6.11. Access to technology and legal documents

Access to technology is important, both in terms of identifying barriers to expanding access and in identifying potential opportunities to diversify transaction modes. In the WIZZIT case of Box 3, the business was driven by an opportunity to serve the unbanked market and the business model was facilitated by technology. Understanding levels of cellphone penetration and people's attitudes could assist service providers in finding ways to innovate in reaching the unbanked market using technology.

As the findings in Graph 31 illustrate, most of the Zambian population sampled have little or no access to technology such as email, computer, telephone etc. Cellphone

penetration is still low at 18% of adults though, as expected, is much higher in urban areas. Nevertheless, 37% of adults say they use cellphones, 46% in urban and 23% in rural.

Graph 31: Access to technology – urban and rural
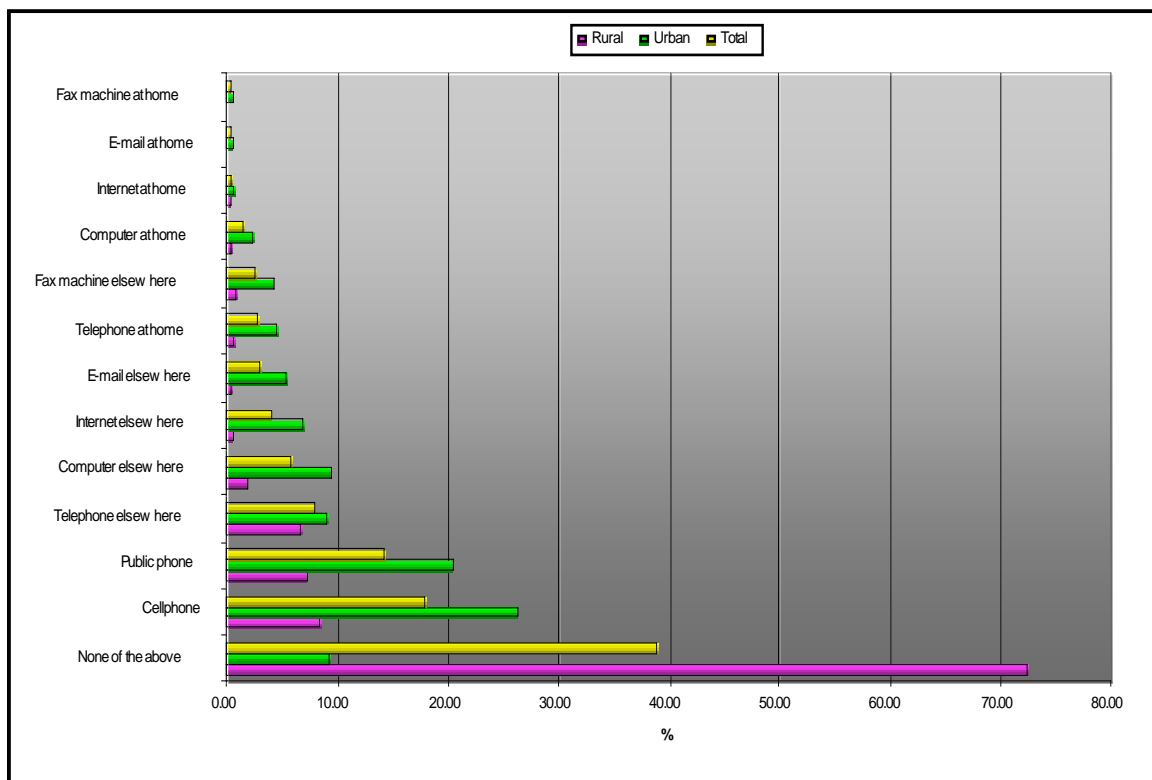
Base: N=3998

Determining the kinds of legal documentation in people's possession is also important in understanding potential barriers to financial service provision. The FinScope™ Zambia data in Graph 32 shows that only 55% of adults have a National Registration Card (NRC). Even fewer have other documentation required for opening a bank account, such as a utility bill. This poses a significant constraint for expanding access to bank products and services particularly in view of pending Anti-Money Laundering (AML) / CFT regulations that require banks to "know your customer" (KYC). Box 5 discusses some of the issues relating to the AML/CFT laws and access to financial services.

> ### Box 5: Anti-Money Laundering regulations
> To counter the financing of terrorism, AML legislation has been given a high priority in the aftermath of the September 11 tragedy. The international Financial Action Task Force (FATF) has been further strengthened and its recommendations have been adopted by the IMF and World Bank as standards to be included in assessment of country governance regimes. The application of the FATF recommendations has a number of challenges in terms of institutions' ability to reach clients who are unable to provide the KYC documentation, but also for small institutions, compliance will be costly and difficult. For more information on the impact of AML see www.cgap.org, Focus Note No.29.

Grap
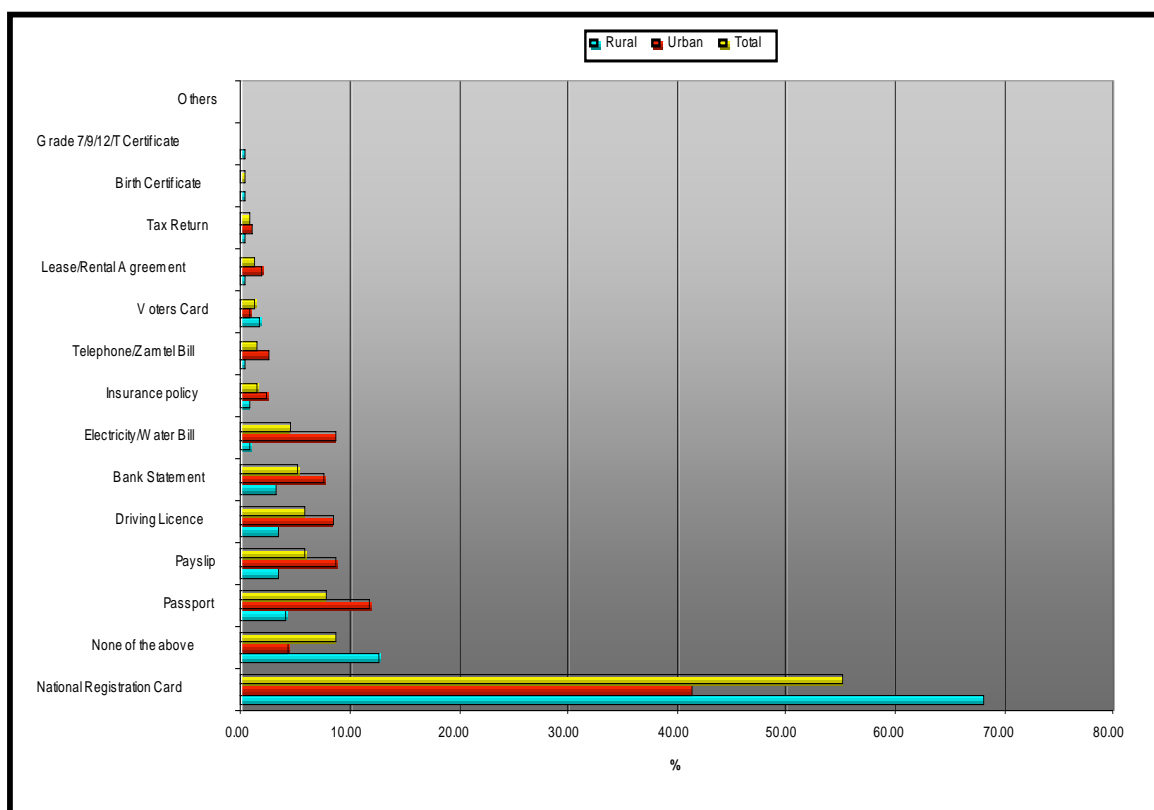
Base: N=3961

6.12. Business finance[11]

The FinScope™ Zambia survey is not a business survey. It is about understanding the individual as a consumer in the financial market. However, it is possible to ask questions about how the business uses financial services and evaluate the extent to which that individual is self-employed or owns a business. This section looks at the use of financial services in the running of a business by those who say they are self-employed and consider that they have their own business.

Generally, the data shows that there is very little use of the financial sector by these businesses. Of those that say they are self-employed, 60% consider that they have their own business. Looking at the rural/urban split, 77% of the self-employed in urban areas consider they have their own business, compared to 54% in rural areas. Eighty-five percent of the self-employed who say they have their own business only have one business activity. Most of these businesses (78%) are unregistered. In 81% of cases, the owner of the business is the sole or most important decision-maker for the business and most (59%) are self-run. For the 36% that are not self-run, 93% employ only between 1-5 people, i.e. they are very small businesses. Only 6% employ between 6-10 people.

Almost all self-employed that say they own a business report that they pay their employees in cash (assuming they have any). Of the 36% that are not self-run, 84% pay employees in cash and/or in kind. Suppliers are also paid in cash.

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[11] See Appendix J for more graphs and data on business finance.

As Graph 33 illustrates, the business cash is kept at home since 66.2% say they keep it at home and only 9.4% say they keep the money at the bank. For those that do have a bank account, most do not have a separate business account. The main banks used for their business activities are ZNCB, Barclays Bank and Finance Bank.

*Graph 33: Where self-employed business owners keep their cash*
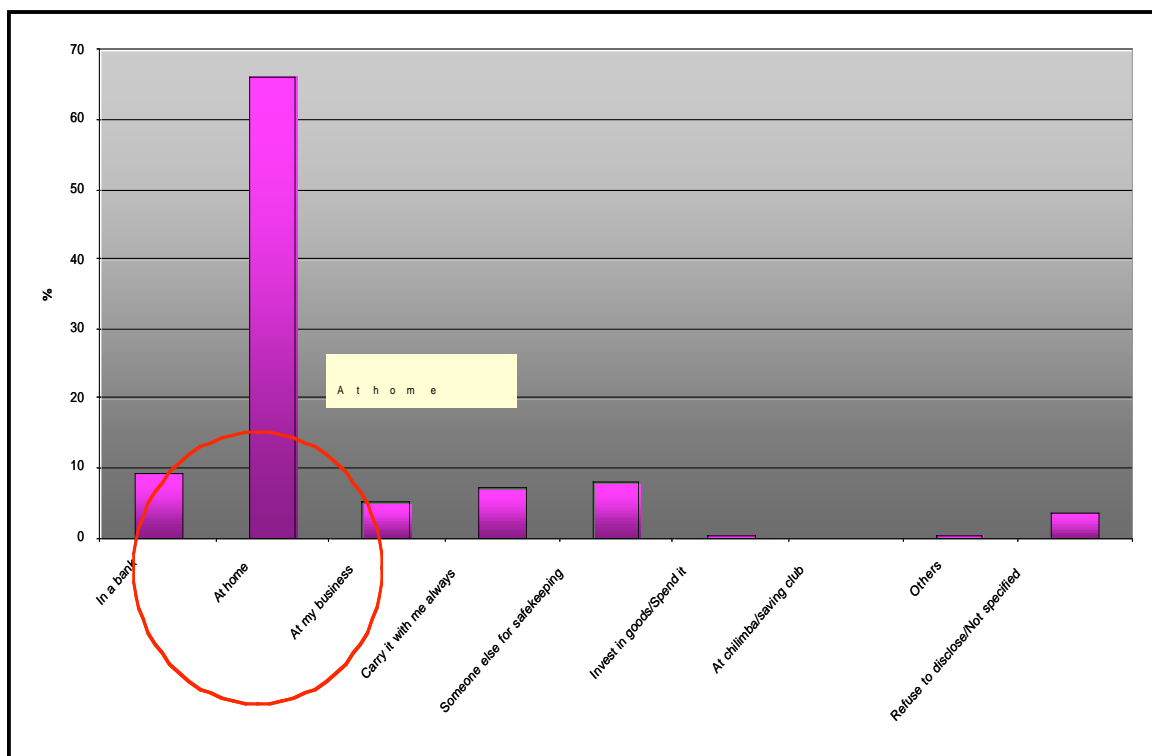
Base: N=1060 Valid responses

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

As illustrated in Graph 34, most business owners report that they rely on personal savings to start their business. The vast majority (96%) did not even apply for a bank loan. Reasons given for not applying, as shown in Graph 35, included the fact that they did not think they would get it or had the money, but also that they didn't know how. Two percent did apply but their applications were turned down.

Graph 34: How did they start their business?
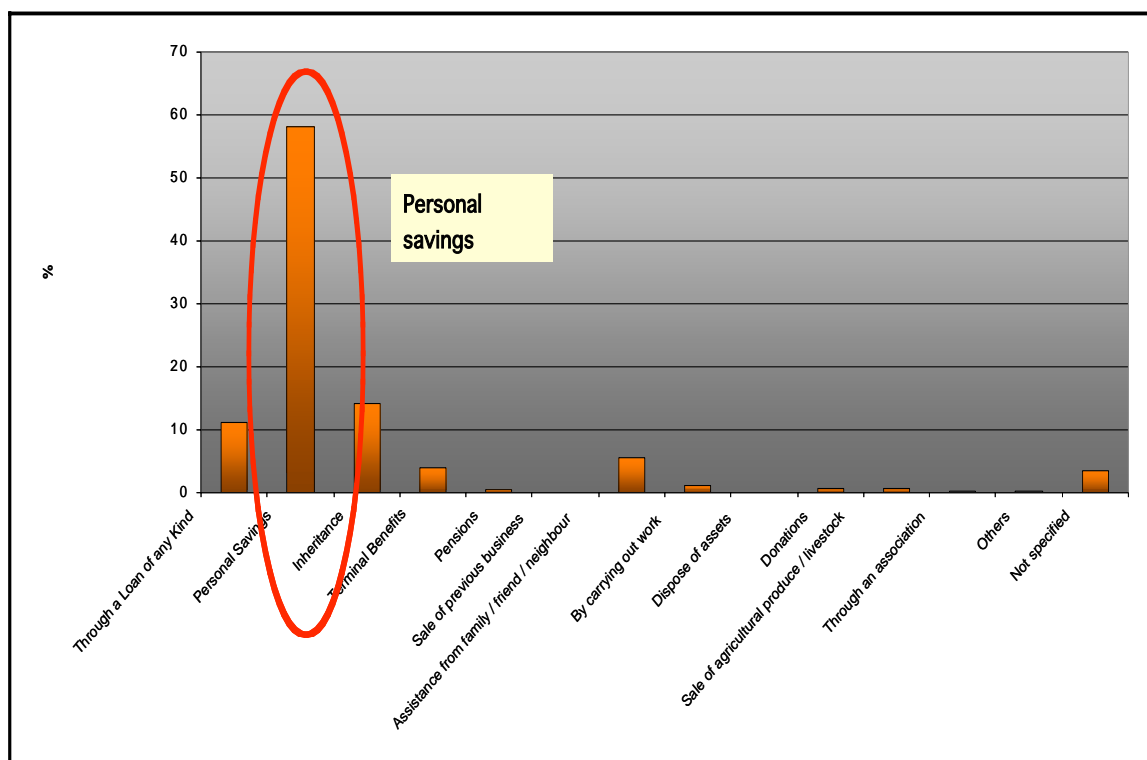
Base: N=1060 Valid responses

*Graph 35: Why they did not apply for a loan*
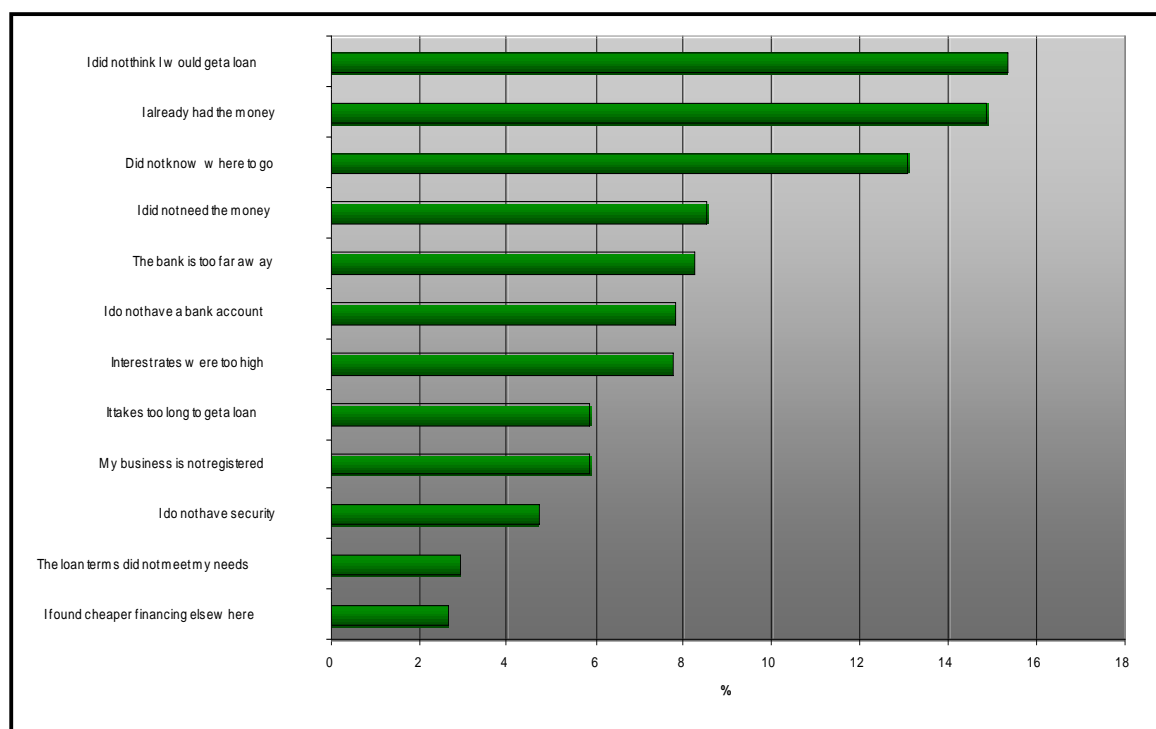
Base: N=858 Valid responses

6.13.   Agricultural finance[12]

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

Of those engaged in agriculture, only 15% say they finance their inputs by external means, as shown in Graph 36. Of these, the majority use cooperatives, out-grower schemes, or government financing schemes. Of those that finance their inputs, 74% claim to have been able to clear their obligations.

Graph 36: Sources of finance for inputs of those that use finance

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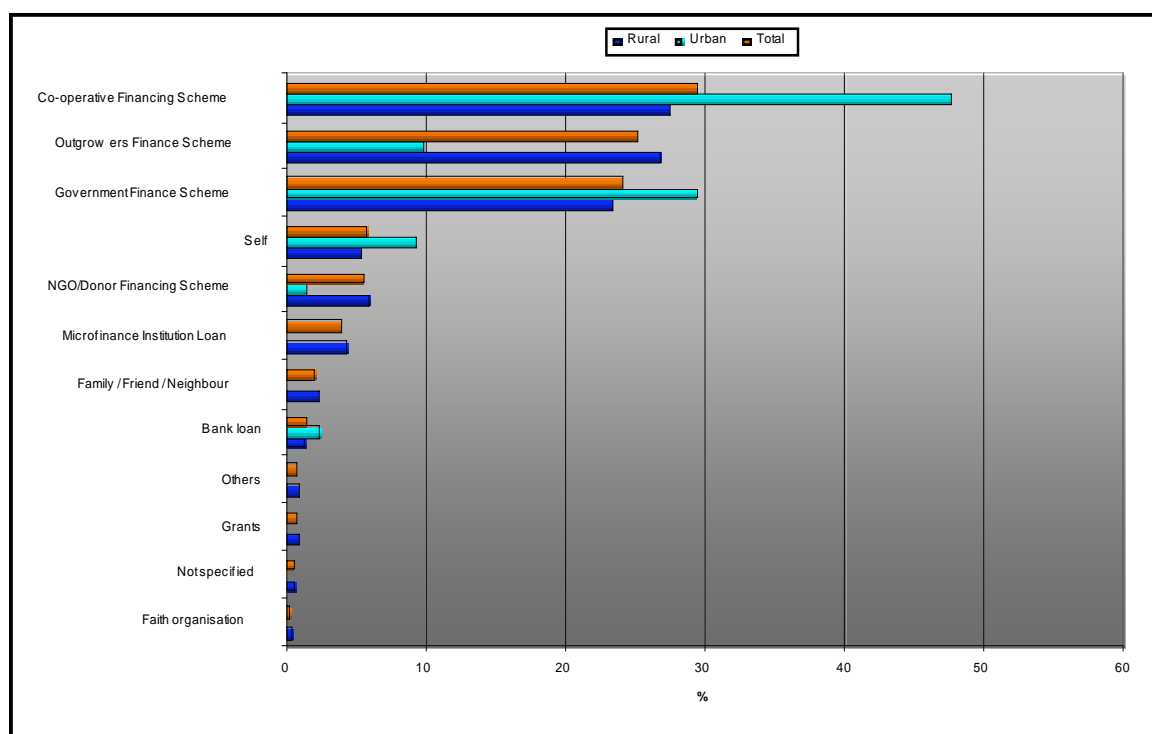
[12] See Appendix J for more graphs and data on agricultural finance.