

Zambia was the earliest adopter of digital financial services (DFS) in Africa. The country has a diverse and competitive market, primarily focused on payment services, but faces a diversity of challenges to reach its full potential.

Despite being on par with East African countries on transaction volumes, research shows Zambia to have the lowest agent revenue and profitability in the 11 countries surveyed, which explains the slow growth of agents. A number of providers offer services or would like to offer services using digital channels, but there has been little success or growth due to low internal capacity to meet growing customer needs. As agency banking takes shape in Zambia, financial service providers and mobile financial service providers are testing a number of different models. These models include building proprietary agent networks to facilitate banking transactions and developing a range of partnerships with the two largest mobile network operators (MNOs)—Airtel and Mobile Telephone Networks (MTN)—to leverage existing agent network channels to perform transactions on behalf of bank customers. Zoono has a large share of the market, providing attractive over-the-counter (OTC) services as well.

The United Nations Capital Development Fund (UNCDF) programme Mobile Money for the Poor (MM4P) uses a **theory of change** approach to DFS development, which focuses on making **shifts** between phases of market development, moving from Inception to Start-Up to Expansion and eventually to a mature market known as Consolidation. Through each phase, MM4P takes into account the entire DFS ecosystem. This means MM4P plans activities at the levels of Policy & Regulation, Infrastructure, Providers, Distribution, High Volume and Customers to improve market conditions and facilitate shifts. Zambia is currently in the Start-Up phase of DFS market development.



Zambia Annual Monitor

2015



MM4P joined hands with Financial Sector Deepening Zambia (FSDZ) to launch its programme in Zambia in 2015 focused on accelerating uptake and usage of DFS.

Since 2015, MM4P has supported market development through the following activities:

ECOSYSTEM DEVELOPMENT:

- ✓ Recruited and hired MM4P Country Technical Specialist and a DFS Expert.
- ✓ Provided support to several market players (AB Bank, FINCA, others) on partnership discussions with DFS providers.
- ✓ Launched the Digital Financial Services Working Group.

POLICY & REGULATION:

- ✓ Sponsored a study tour to South Africa for two members of the Bank of Zambia to learn more about how government-to-person (G2P) payments are executed in practice.
- ✓ Co-designed the request for proposals to improve BoZ DFS capacity-building and data-collection processes.

CUSTOMERS:

- ✓ Provided data and facilitated InterMedia's qualitative research and analysis on Zambian Customers insights, with a focus on women and those living in rural areas.

DISTRIBUTION:

- ✓ Provided data and facilitated necessary agreements with DFS providers for the seminal Helix Institute Agent Network Accelerator (ANA) research.
- ✓ Commissioned the Helix Institute to conduct a training on agent networks, for the DFS ecosystem. The training was attended by agent network managers from 9 organizations including 3 financial Services Providers offering agency banking, 3 Telecommunications Services Providers offering mobile money through agency channels and 3 third party providers.
- ✓ Assisted FSDZ with the research for the geo-spatial mapping exercise to determine the location of financial service access points in Zambia.

PROVIDERS:

- ✓ Provided technical support to review and provide recommendations for agency banking strategy to InvesTrust.
- ✓ Provided technical advice to AB Bank and FINCA on partnership discussions with DFS providers.

HIGH VOLUME:

- ✓ Conducted a workshop with Bankable Frontiers institute with Government stakeholders on how to carry out a payments flow diagnosis. Workshop was attended by 34 participants.
- ✓ Signed a Memorandum of Understanding with UNHCR Zambia and agreement to jointly conduct research on the financial lives of those in Meheba Refugee Camp.

Over the next three years, the MM4P-FSDZ partnership aims to grow registered active users of DFS to at least 15% by 2019 (active use is defined as having used the account at least one time in the past 90 days).

In 2016, MM4P has planned the following activities:

ECOSYSTEM DEVELOPMENT:

- Catalyse the application of applicants to the Digital Frontiers Institute and made recommendations on scholarship recipients.
- Conduct meta-analysis of all DFS-related research in Zambia, leading to concentrated learning questions that will be shared with ecosystem players.
- Launch geographic information system (GIS) map (co-funded by FSDZ) on all financial access points as well as access points for education (schools, universities, etc.), agriculture (input dealers, etc.) and health (clinics, hospitals, etc.).

POLICY & REGULATION (IN PARTNERSHIP WITH FSDZ):

- Deliver an initial set of DFS trainings to six BoZ divisions as well as conduct analysis of their data collection efforts (co-led with FSDZ, paid for by FSDZ).
- Support BoZ (and DFS providers) on the DFS-provider-created Customer Awareness Roadmap, using the interest earned on their trust fund accounts.
- Increase Policy & Regulation capacity-building.
- Improve DFS data collection methods and outcomes.
- Improve Policy & Regulation gaps between multiple regulators.

CUSTOMERS:

- Finalize InterMedia analysis on Zambian Customers' Needs, Wants & Aspirations (secondary analysis on FinScope 2015 and qualitative research).
- Deliver InterMedia analysis via a workshop with ecosystem players.
- Deliver tailored InterMedia analysis to top three DFS providers.
- Co-host breakfast roundtable focused on creating DFS products for Zambian women with FSDZ.
- Conduct human-centred-design (HCD) work with 17 Triggers and several DFS providers.

DISTRIBUTION:

- Work with DFS providers to address challenges with agent networks, with a focus on liquidity management and agent training.
- Complete Helix Institute agent network accelerator research; deliver country report to ecosystem players (very popular, positive reviews and feedback on event).

- Deliver tailored agent network accelerator research to top three DFS providers.
- Ensure attendance of representatives from two banks in Helix Institute agent network accelerator training.
- Give presentations on Meheba Refugee Camp (population 19,000) to regional managers of Airtel, MTN and Zoon.

HIGH VOLUME:

- Respond to requests from government ministries to assist in their use of DFS for social cash transfers.
- Conduct a diagnosis of government payments.
- Conduct study of opportunities for DFS in Meheba Refugee Camp.
- Recruit consultant to focus on diagnosis of government payments.
- Conduct desk review of existing government payments research.
- Support AgriFin Accelerate to analyse opportunities for a Zambian programme.

INFRASTRUCTURE (in partnership with FSDZ):

- Assist BoZ and ZECHEL in creating a process-and-rule architecture around the National Financial Switch that can lead to low-cost, comprehensive buy-in of all (or almost all) financial service providers in Zambia.
- Support the Swedish Embassy's Beyond the Grid Fund, which intends to establish performance-based agreements with Off Grid energy providers (many of which are likely to have a DFS component).

PROVIDERS:

- Support providers to address their needs at an operational level, within the organization, and possible partnerships between providers.
- Provide one-on-one training by MIX Market with Airtel, First National Bank (FNB), InvesTrust, MTN and Zambia National Commercial Bank (Zanaco) on the GIS mapping tool, facilitating changes in resource allocation and other decision-making based on that data.

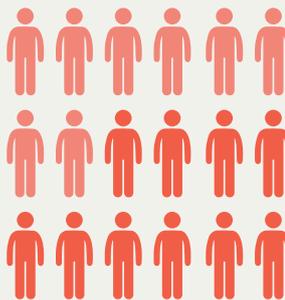


Facts and figures Zambia

16,212,000

Population

UN World Population Prospects, 2015



8,768,000

Adult population

UN World Population Prospects, 2015

Where we were
2014

Where we are
2015



Active DFS registered users

90 days

2%^a

of adult population

184,000^a

total

4%^{b, c}

of adult population

333,373^{b, c}

total



Active agents

30 days

22%^a

per 100,000 adults

1,656^a

total

37%^d

per 100,000 adults

3,225^d

total

^a UNCDF scoping mission, 2014

^b BoZ, 2015 (supply-side data: defined as number/share of active registered mobile money accounts [wallets]) and UN Population Statistics, 2015

^c Demand side data shows that 18% of the adult population actively uses DFS (90 days), including OTC transactions. This corresponds to 1,578,240 Zambians of 15 years and older.

^d MIX Market Agent Mapping, 2015 and UN Population Statistics, 2015



73%

Mobile penetration rate

GSM, 2014

Providers engaged in DFS



MNOs

Airtel
MTN



Main banks

Ecobank
FNB
InvesTrust
Zanaco



Others

Bayo
cGrate
Kazang
Zoono



36%

Financial inclusion rate

Global Findex, 2014

Opportunities

Challenges



Policy & Regulation

- Regulators acknowledge uneven levels of knowledge and un-harmonized regulatory guidance on DFS, especially on agency banking.
- There is real openness from BoZ, Competition and Consumer Protection Commission (CCPC, the competition regulator) and Zambia Information and Communications Technology Authority (ZICTA, the telco regulator) for assistance.

- There are uneven levels of knowledge and regulatory gaps regarding DFS in BoZ and other relevant regulators (CCPC, Financial Intelligence Centre [FIC] and ZICTA), which is important as unstructured supplementary service data (USSD) becomes more of a utility.
- DFS data collection is not effectively leveraged for decision-making amongst regulators.



Infrastructure

- BoZ has asked for help on the National Financial Switch and its design, especially rules and governance.

- The National Financial Switch is being designed primarily with banks and less so with DFS providers.



Providers

- DFS providers have varied levels of support within their larger organizations for DFS and/or agency banking.
- There is great demand for support on agency banking.

- It takes time to develop the trust required to share and address needs for strategic planning with DFS providers, especially the top three providers.



Distribution

- The top three mobile money providers are all pursuing strategies to enlarge and strengthen their agent networks.

- OTC transactions by agents dominate the local DFS landscape, whereas services (e.g., digital credits and deposits) are still struggling to take off.
- Agent networks, while expanding, continue to have challenges with liquidity and consistent, continuous, meaningful training.



High Volume

- There is demand from ministries for support on how to procure and assess the use of DFS for social cash transfer programmes.

- Bulk payments are still nascent in the market and service providers may still be struggling to find a business case for them in semi-urban and rural areas.



Customers

- The Zambian population shows a positive saving attitude.
- Research findings from FinScope and InterMedia reveal that Zambians truly want to use formal financial services, and they want to engage with their financial accounts digitally.

- Awareness, meaningful awareness and access are the top three barriers to DFS usage.

Where we are Start-Up phase 2015

Where we want to be Expansion phase 2019



Policy & Regulation

- Tiered wallet/transaction sizes (but uneven across providers).
- Banks and non-banks allowed, with agents enabled to launch.
- Un-harmonized regulation amongst relevant regulators.

- Updated tiered wallet/transaction sizes and know your-customer approach.
- Gazetted agent banking policy.
- Customer protection enabling policy created.
- Harmonized regulation amongst relevant regulators.



Infrastructure

- National Payment Switch and interoperability not yet occurring.

- National Payment Switch and interoperability in place.



Providers

- Basic services.

- Several transformative enabling services.
- Credit, insurance and savings available.



Distribution

- Agent networks insufficiently liquid and not often distributed geographically in a strategic manner.

- High-quality, well-trained and liquid agent networks.



High Volume

- Nascent bulk payment system.

- Bulk payments conducted regularly in a sustainable manner to DFS providers.



Customers

- Only 53% of Zambians have heard of mobile money, three quarters of whom have NOT used it¹.

- HCD (with a focus on iteration in the field) used by the majority of DFS providers.

¹ FSDZ and MM4P, 'Consumer Behaviors in Zambia: Analysis and Findings,' February 2016. Available from http://www.intermedia.org/wp-content/uploads/2016/03/zambaiintermedia_consumerbehaviours.pdf