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DIGITAL FINANCIAL SERVICES IN ZAMBIA

FinScope 2020 Focus Note
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FSD Zambia is a Zambian organisation working closely with key players throughout the economy to ensure that all Zambians are financially healthy, particularly the most excluded and underserved. We help rural families, women, youth, low-income people, and other households in Zambia to understand and access a wide range of sustainable, comparable, and affordable financial services. To expand financial inclusion, we collaborate with both public and private sector institutions to make financial markets work better. FSD Zambia enhances trust between clients and suppliers of financial services by helping to bring people together, cultivate understanding, stimulate innovation, and lower costs. This way, all women, men, girls, and boys can learn about, choose, and use a wide range of financial services that positively impact their lives.

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More information is available on our website, www.fsdzambia.org

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LIST OF ABBREVIATIONS

ATM	Automated Teller Machine
BoZ	Bank of Zambia
DFS	Digital Financial Service
FSDP	Financial Sector Development Plan
FSPs	Financial Service Providers
ICT)	Information Communications and Technology
ITU	International Telecommunication Union
MNOs	Mobile Network Operators
MSME	Micro Small Medium Enterprise
NFIS	National Financial Inclusion Strategy
NFSDP	National Financial Sector Development Policy
NSFE	National Strategy on Financial Education
OTC	Over The Counter
POS	Point of Sale
PPI	Progress Out of Poverty Index
UNCDF	United Nations Capital Development Fund
ZICTA	Zambia Information Communication and Technology Agency

EXECUTIVE SUMMARY

Zambian authorities have made substantial efforts to develop strategies that improve the enabling environment for financial sector development. For example, the Zambian Government has developed and/or implemented several policies and financial sector-focused plans in the last few years. These include the Financial Sector Development Plan (FSDP 2004-2009), which focused on several key results areas such as increasing access to finance; the National Strategy on Financial Education (NSFE 2012-2017), National Financial Sector Development Policy (NFSDP 2017) and the National Financial Inclusion Strategy (NFIS 2017-2022).

To assess the progress towards achieving the National Financial Inclusion Strategy (NFIS) targets and other financial sector-related policies and strategies, the FinScope Survey is conducted every five years. In Financial Inclusion, Digital Financial Services have been identified as one of the key drivers. Therefore, it is essential for the Government of Zambia and other stakeholders to focus on the DFS sector and cross-examine levels of financial inclusion as driven by digital platforms. This will help in determining the proportion of adults who are conveniently using digital financial products and services to make payments/transactions, savings, remittances, borrowing and other activities.

In Zambia, using the 2020 FinScope survey, it was found that only 58.4 per cent of the adult population is part of the DFS ecosystem (5.5 million). Of this total, there is a significant proportion of DFS users (4.7 million) compared to those who require the services of an agent, be it mobile money or banking (800 thousand). The study further revealed that the majority of the DFS users are active (91%). The key drivers in using DFS products in Zambia include remittances (52%) and saving (31%). Payment on DFS platforms only accounts for five per cent.

Profile of DFS users: Lusaka and Copperbelt provinces had the highest proportion of DFS users at seventy-two per cent and sixty-six per cent, respectively. Usage in other provinces ranges between forty-six per cent and twenty per cent (below the national average of 58 per cent). DFS is skewed towards males living in urban areas, affluent (PPI 4 and PPI 5), business owners and salaried adults, having tertiary education and aged between 26 and 45 years of age.

Barriers to DFS usage: Lack of a mobile phone is the most significant barrier to not being part of the DFS ecosystem. Forty per cent of the adult population, not part of the DFS ecosystem, was lacking access to a mobile phone. Nearly a tenth claimed they are not using mobile money because they do not see any need for any transaction. Although few are not using mobile money because of a lack of information, there is still room for a robust financial awareness and education programme to promote DFS usage.

In the past few years, the Zambian Government embarked on a robust communication infrastructure improvement programme to promote DFS. Though this is a necessary condition, the next phase should focus more on improving cell phone ownership and coverage, as this was the most significant barrier inhibiting the usage of DFS. Such has the potential to decrease both the gender and urban-rural gaps inherent in DFS coverage. Most of the Zambian population uses DFS for remittances (85%), and savings (45%), and only five per cent use it for payment. Policymakers, regulators and other stakeholders need to initiate a robust campaign to promote the usage of DFS for payment. This is further supported by the need to conform to the Covid-19 messaging in keeping social distance and stopping the spread of the pandemic.



INTRODUCTION

This focus report highlights access and usage of digital financial services (DFS) by the Zambian adult population, particularly the types of services used and their associated drivers and barriers. As is the case with past surveys, the 2020 FinScope Survey is not only a crucial research tool to provide credible national information on the demand, access, use of and behaviour towards financial services by the adult population but also provides a baseline for future surveys that will enable impact assessment of policy interventions in the financial sector. The DFS focus report was designed to comprehensively presents the prevalence and use of DFS.

Refer to the main report for the overall financial inclusion statistics based on the 2020 FinScope survey. Nonetheless, the summary of the levels of financial inclusion as per the 2020 FinScope survey is briefly outlined below.

Survey findings revealed that financial inclusion rose to 69.4 per cent in 2020 (Total adult population of 9.5 million adults) from 59.3 per cent in 2015 (Total adult population of 8.1 million). Furthermore, the level of financially excluded adults decreased to 30.6 per cent (3.1 million adults) from 40.7 per cent (3.3 million adults) in 2015. The improvement in financial inclusion and the reduction in exclusion can be attributed to policy reforms and interventions by the Government and other financial sector stakeholders whose interventions positively influenced the uptake and usage of financial products and services.



The Zambian adult population's access to formal financial services significantly improved as formal financial inclusion rose to 61.3 per cent from 38.2 per cent in 2015. Conversely, informal financial inclusion declined to 32.3 per cent from 37.9 per cent in 2015. The proportion of formally included adults who also use informal products/services increased to 24.1 per cent from 16.8 per cent in 2015, indicating a transition from informal to formal.

Usage of banking services among the Zambian adult population dropped to 20.7 per cent (around 1.9 million adults) in 2020 from 24.8 per cent (approximately 2 million adults) in 2015. This slight decrease can be attributed to an increase in mobile services platforms which have provided an alternative to banking services.

The usage of non-bank formal services significantly grew to 59.2 per cent (around 5.6 million adults) in 2020 from 28.5 per cent (around 2.3 million adults) in 2015. This increase is attributed to growth in the mobile money industry (58.4%), with money transfer being the lowest at 0.6 per cent.

Based on the 2020 FinScope survey, 32.3 per cent of the Zambian adult population use informal mechanisms (around 3 million). This represents a slight decrease in 2015 (37.9%). Informal financial services are argued to be an entry point to financial inclusion. This sector plays a vital role in extending the overall levels of financial inclusion, particularly in rural areas and among women. Among the variable's services in the informal saving mechanisms is the uptake of informal savings groups such as Chilimba, Savings Groups and Village banks.

Although Zambia has made some progress in increasing the level of financial inclusion, there is more to be done to ensure that the target set in the National Financial Inclusion Strategy (NFIS) of 80% by 2022 is met. Hence, policies to increase the uptake and usage of financial services, both formal and informal, should focus on vulnerable groups such as the poor, adults residing in rural areas, women, and the youth (19-24 and older than 60 years) who more likely to be financially excluded.

This DFS focus report cross-examines levels of financial inclusion as driven by digital platforms in determining the proportion of adults who conveniently use digital financial products and services to make payments/transactions, savings, remittances, borrowing and other activities. Zambian authorities have made substantial efforts to develop strategies that improve the enabling environment for financial sector development. For example, the Zambian Government has developed and/or implemented several policies and financial sector-focused plans in the last few years. These include; Financial Sector Development Plan (FSDP 2004-2009), which focused on several key results areas such as increasing access to finance; the National Strategy on Financial Education (NSFE 2012-2017), National Financial Sector Development Policy (NFSDP 2017) and the National Financial Inclusion Strategy (NFIS 2017-2022).

Although Zambia's level of financial inclusion can be attributed to DFS, Digital technology alone is not enough to increase financial inclusion. The country has done several interventions to ensure that payment systems, physical infrastructure, regulations, and consumer protection rules are well developed. To sustain this growth in DFS, there is a need for these services to be tailored to suit the needs of the most excluded individuals in the economy. For example, having ownership of a simple mobile phone, more so the internet, can possibly create opportunities to access mobile money services.

As highlighted in the United Nations Capital Development Fund (UNCDF) state of industry 2020 DFS report, the interventions and policies to develop the DFS sector are bearing fruit, as evidenced by the increase in the active DFS accounts in the 90 days to 6.5 million in 2019 from 4.3 million 2018¹.

The Zambian DFS industry has changed immensely due to increased trust in digital services/products and DFS innovations witnessed in the past decade. Specifically, the types of services on offer have expanded to the use of first-generation services (person-to-person transfers) from second-generation services, such as; merchants and bill payments, micro-loans, micro-savings and micro-insurance. To sustain this growth, the industry focuses on creating more collaborative models between and among the industry players; FinTechs, MNOs and FSPs.

1.1. Enabling Environment – Drivers for DFS Usage

An enabling environment is argued to be the key driver in promoting maximum usage of digital services. To achieve this, the Zambian Government, through the Ministry of Finance and other key stakeholders in the financial inclusion space, has policies to support improved access and usage of a wide range of financial services, including DFS. Key among the strategies and policies in place include:

- Vision 2030;
- Seventh National Development Plan;
- National Financial Inclusion Strategy;
- National Strategy on Financial Education; and
- Rural Finance Policy and Strategy.

To facilitate the smooth implementation and achieve targets set for financial inclusion, there is a need for increased uptake of digital financial services and products. DFS, as a component and a key driver of financial inclusion, offers branchless services such as; mobile banking, agent banking, internet banking and mobile money. In line with the implementation of NFIS, Zambia has all the above-mentioned financial offerings, services and channels, setting the platform for maximum usage of DFS. However, apart from the drivers of DFS, other enablers are supposed to be in place for the maximum use of financial services:

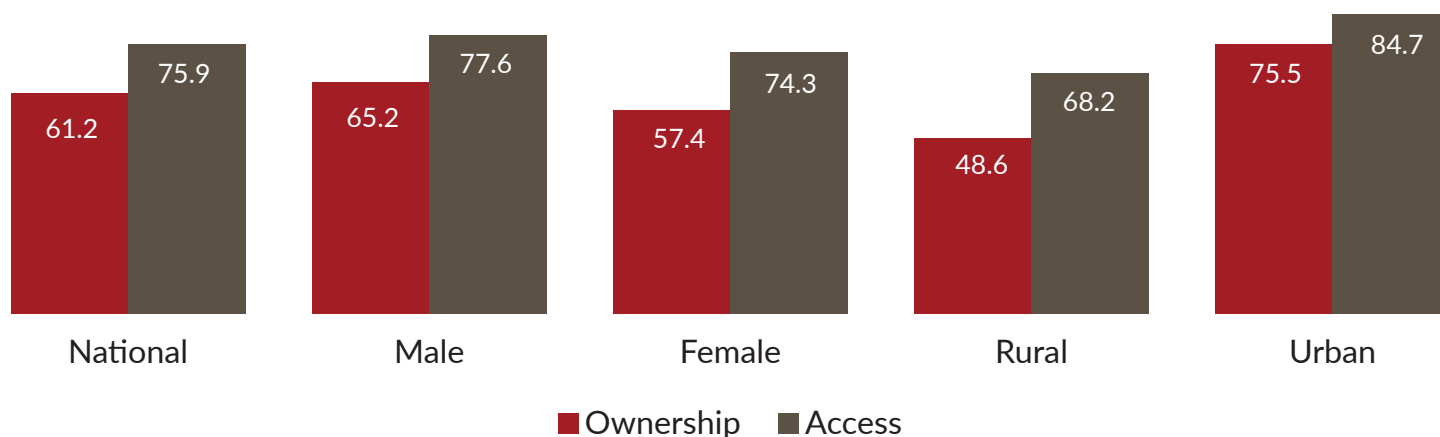
- Mobile connectivity and access to cell phones;
- Access to computers;
- Access to the internet; and
- Access to the service points (Use supply-side data from UNCDF/BoZ report).

This report focuses on cell phone ownership and computer and internet access. The other drivers of DFS are beyond the scope of the FinScope Survey.

1.1.1. Ownership and Access to Cell Phones

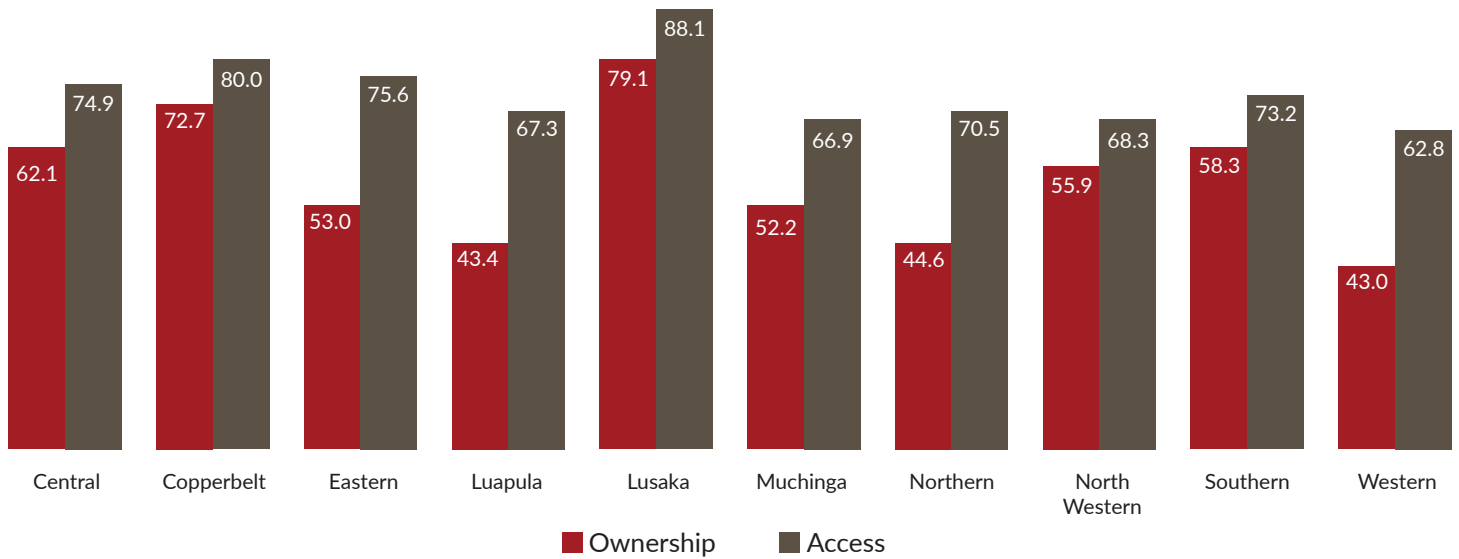
The survey revealed that 61 per cent of the Zambian adult population own a cell phone, while 76 per cent have access to cell phones. There is a gender gap in ownership and access, with the male counterpart having greater ownership/access than females. Although 76 per cent and 85 per cent own and have access to cell phones in urban areas, the rural adult population is quite behind, with less than 50 per cent owning cell phones. See Figure 1.

Figure 1: Cell phone ownership and access rural/urban and by sex (%)



At the provincial level, adults residing in Lusaka are more likely to own and access a phone (79% and 88%, respectively). The lowest ownership and access to phones among the Zambian adult population was recorded in the Western Province at 43 per cent and 63 per cent. (Figure 2)

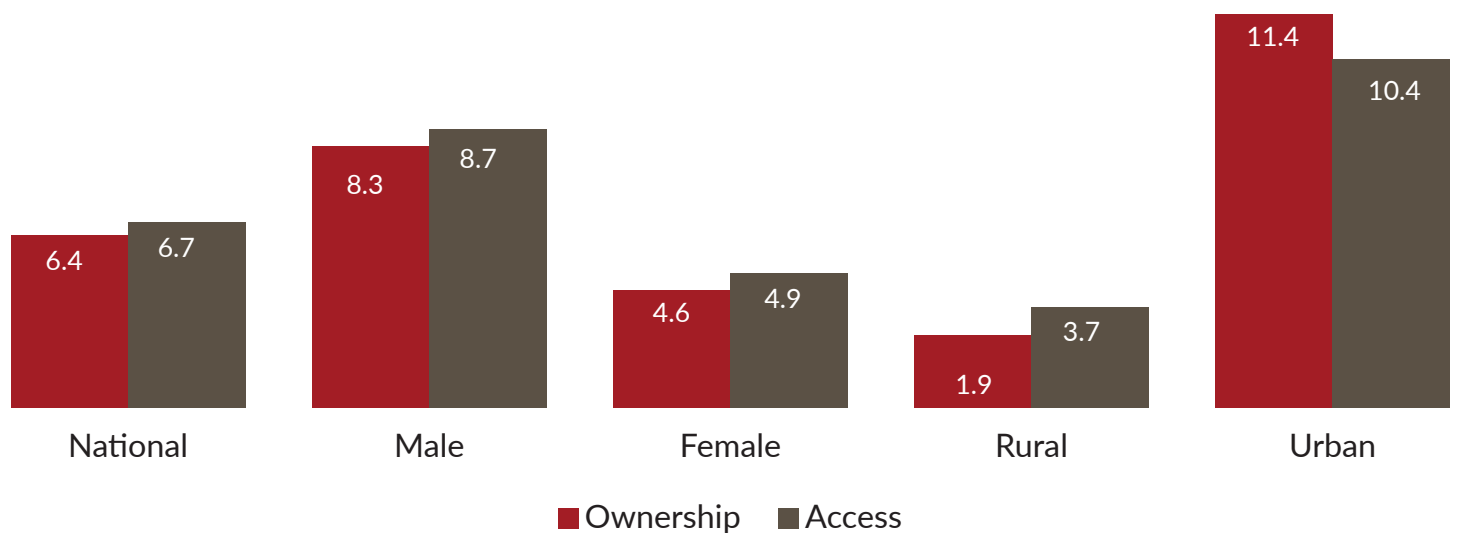
Figure 2: Cell phone ownership and access by province (%)



1.1.2. Ownership and Access to a Computer

Like cell phones, ownership and access to a computer is a medium upon which DFS can be performed. The 2020 FinScope survey revealed that only six per cent of the Zambian adult population owns a computer, while seven per cent have access. As shown in Figure 3, there is a higher probability by more than half of male adults compared to females in both computer ownership and access (9% compared to 9%). The rural/urban gap is more pronounced, with only two per cent of the adult population in the rural area who own computers compared to eleven per cent in urban areas.

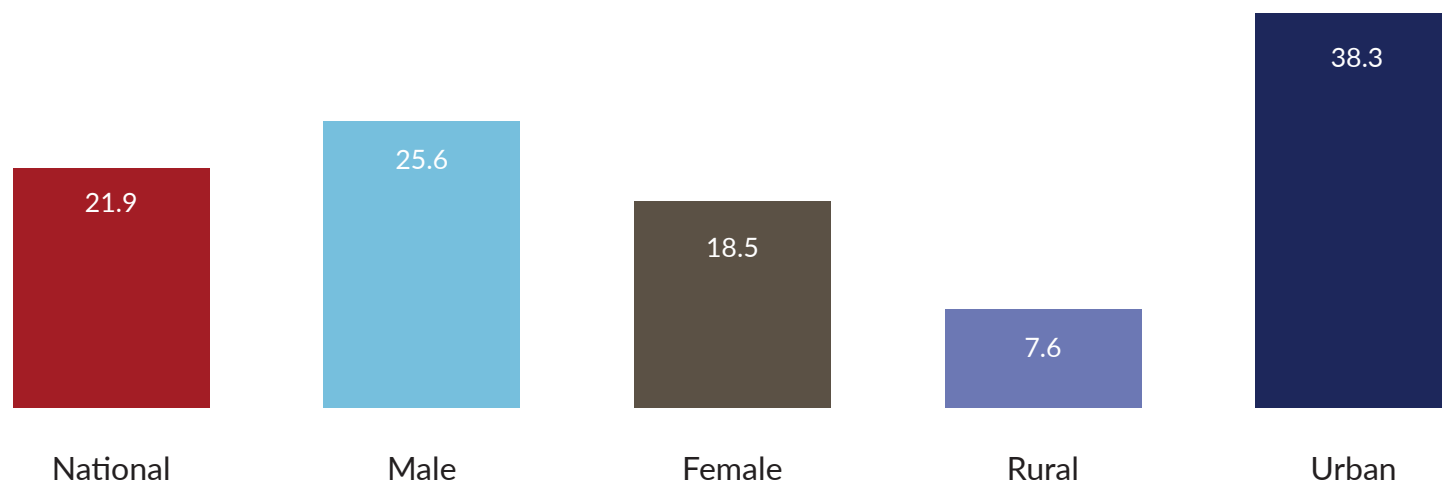
Figure 3: Computer ownership and access rural/urban and by sex (%)



1.1.3. Access to Internet

Based on the 2020 FinScope Survey results, twenty-two per cent of the Zambian adult population have access to the internet. This is a slight improvement compared to the eighteen per cent reported in the 2018 Information Communications and Technology (ICT) survey conducted by Zambia Information Communication and Technology Agency (ZICTA). As seen with both cell phones and computers, there are both gender and region gaps, with males having greater access (26%) compared to female adults (19%). The regional gap is more extensive as only eight per cent (8 per cent) have access to the internet as compared to thirty-eight per cent (38%) of urban areas. (See Figure 4).

Figure 4: Access to internet rural/urban and by sex (%)



DIGITAL FINANCIAL SERVICES

2.1. Digital Finance Ecosystem

International Telecommunication Union (ITU), a specialised agency of the United Nations on Information Communications and Technology (ICT) affairs, defines the DFS ecosystem as a system that consists of users (consumers, businesses, government agencies and non-profit groups) who have needs for digital and interoperable financial products and services; the providers (banks, other licensed financial institutions, and non-banks) who supply those products and services through digital means; the financial, technical, and other infrastructures that make them possible; and the governmental policies, laws and regulations which enable them to be delivered in an accessible, affordable, and safe manner.

As a vehicle in financial inclusion, the use of DFS is a means of assessing whether the adult population's available financial products benefit them. In the Zambian context, the term 'digital financial services' is meant to denote that Zambians are transitioning from a cash-based society to a digital society. The emergence of DFS on the market has reduced the need for traditional brick-and-mortar outlets, and one does not need to travel long distances to complete a transaction. This is because DFS transactions can easily be conducted from the comfort and convenience of one's electronic platforms such as computer, telephone, mobile phone and/or nearest bank agent, Automated Teller Machine (ATM) or mobile money agent.

As with financial inclusion, digital financial inclusion refers to access to and use of digital services appropriate to customers' needs and delivered responsibly, at a cost both affordable to customers and sustainable for providers. There are three critical pillars of DFS:

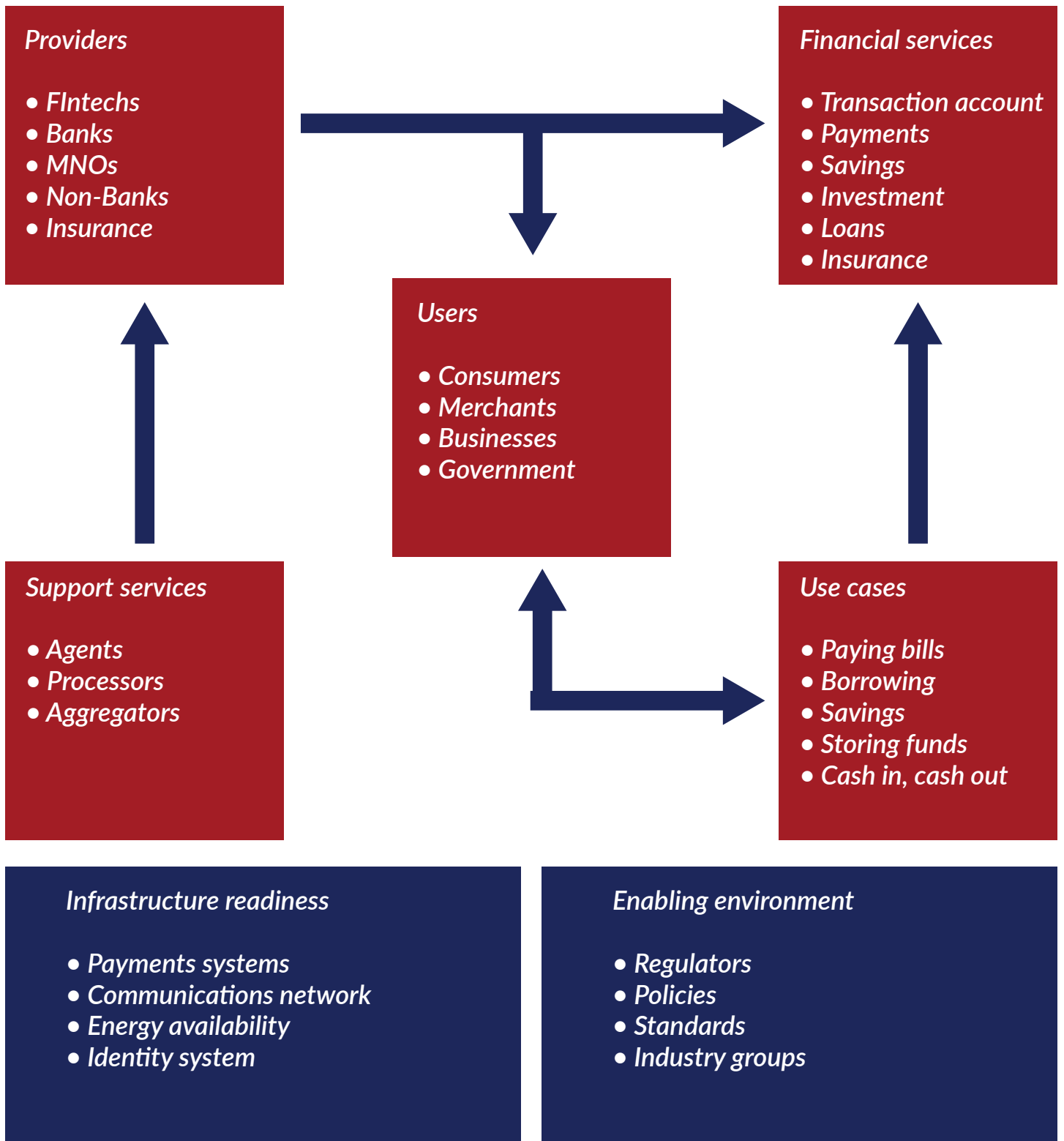
1. Digital transactional platform;
2. Retail agents; and
3. Customers and agents.

A digital transactional platform enables a customer to use a device to make or receive payments and transfers and to store value electronically with a bank or non-bank entity permitted to store electronic value.

Retail agents armed with a digital device connected to communications infrastructure to transmit and receive transaction details enable customers to convert cash into electronically stored value and transform stored value back into cash. Agents may perform other functions depending on applicable regulations and the arrangement with the principal financial institution.

The customer device can be digital (e.g., mobile phone), which is a means of transmitting data and information or an instrument (e.g., payment card) that connects to a digital device (e.g., Point of Sale (POS) terminal)

Figure 5: Digital Financial Services Ecosystem



2.1. Digital Finance Ecosystem

There exists a nexus between financial inclusion and economic growth. Most monetary economists have argued that economic growth is highly correlated with the depth of financial systems. The financial inclusion plan is there to ensure that affordable financial services critical for poverty reduction and economic growth are provided to both the unserved and underserved. Additionally, access to financial services also increases opportunities and resilience for the poor, particularly youth and women.

Globally sixty-three per cent of the adult population have access to a transaction account, which is skewed toward developed countries with ninety-four per cent. In contrast, for developing countries, only sixty-three per cent have access to transaction accounts. Poor access in developing countries is mainly driven by a combination of both demand and supply-side barriers, such as a lack of resources to justify possession of an account and proximity of access points. Possession of a transaction account is deemed to provide a gateway to broader financial services such as savings, insurance, and credit.

Fintech's emergence has accelerated development in the DFS platform, which has resulted in deepening formal financial inclusion for the adult population. The benefits of DFS include the following:

- Households are saving time which can be used for other productive and economic activities because they are spending less time on payments which are now easily made on DFS platforms;
- Increased safety as most people are able to keep their monetary resources without extra security that comes with physical cash;
- Increased speed and transparency as the tracking of the payment process is improved through more identification procedures since digital footprints are created with DFS payments; and
- An easy saving platform for households as DFS platforms facilitates access and interfaces to saving products.

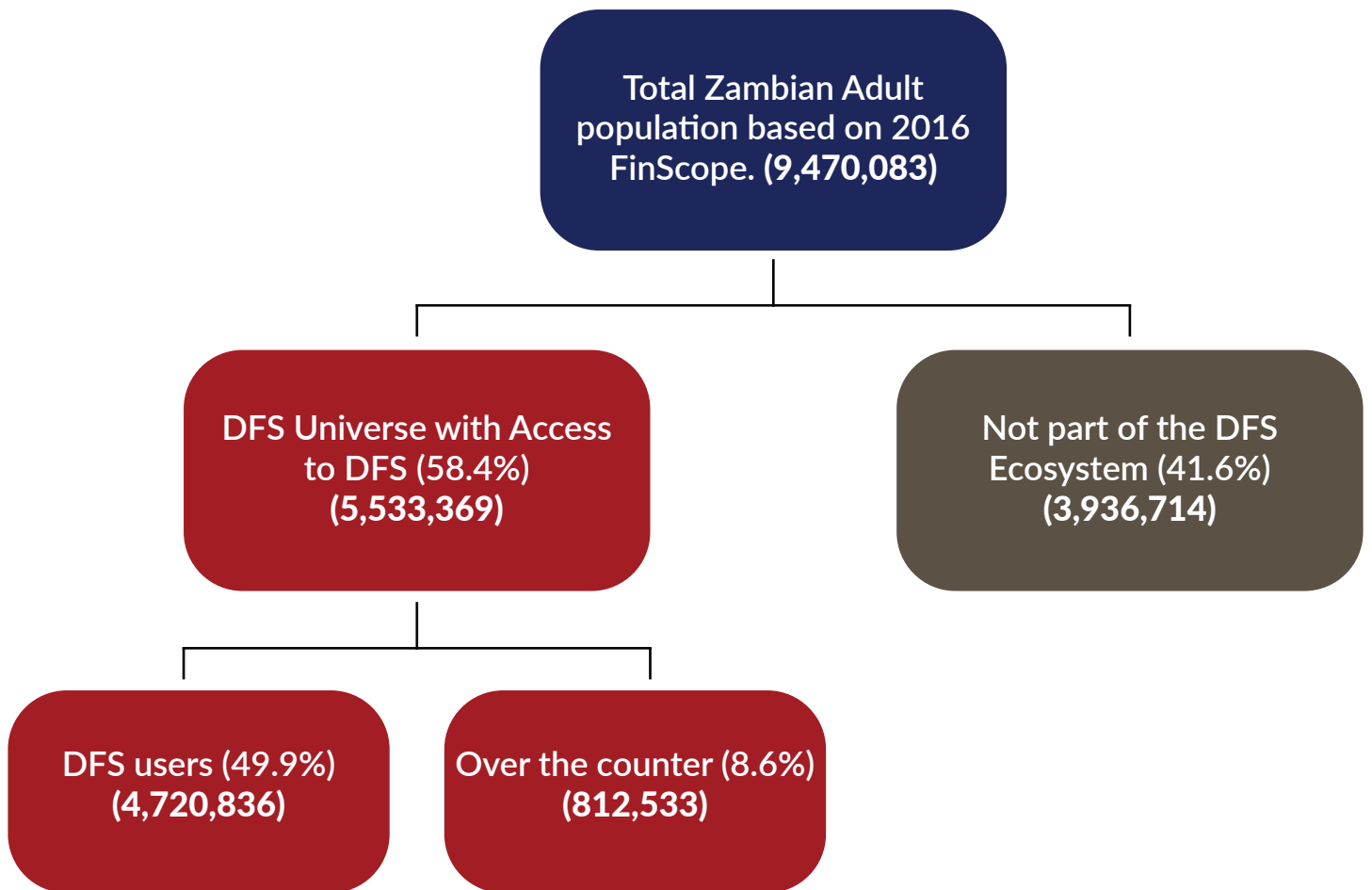
The number of registered mobile money accounts grew significantly by 13 per cent to 1.2 billion. Sub-Saharan Africa accounts for 560 million, with over 160 million active accounts in 2020. In Zambia, the number of active accounts has grown from 4.3 million in 2018 to over 6.5 million in 2020, in line with the efforts and investments in the DFS industry.

The emergence of the Covid pandemic in early 2020 has put a greater need for DFS platforms because of the need to reduce physical contacts in retail and financial transactions. This is also helping governments worldwide deal with social distance measures to reduce the spread of the pandemic. Research conducted by FSD Zambia on the impact of Covid 19 on financial inclusion has further revealed that though the pandemic has affected most drivers of financial inclusion due to subdued economic activities, it has also created an opportunity and amplified the need for DFS products to prevent face to face interactions.

USAGE OF DIGITAL FINANCIAL SERVICES IN ZAMBIA

The 2020 FinScope Survey, being a demand-side survey, tracked the Zambian adult population's usage of formal financial services such as DFS. Developments and mobile money penetration in line with other economies mainly drive Zambia's improvement in financial inclusion. Such developments are supposed to enable account holders to enjoy the benefits of mobile money accounts as adults. This report presents the utilisation of DFS channels based on the 2020 FinScope survey.

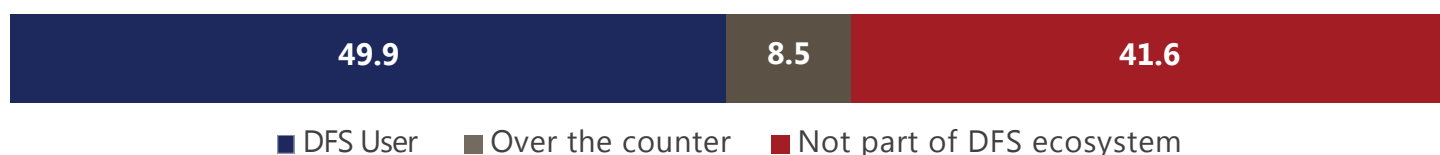
Figure 6: Overview of Zambian adult population Digital financial services categories



As shown in Figure 6, based on the 2020 FinScope survey, the projected adult population in Zambia is 9.47 million. The total adult population is deemed to be the DFS universe, with only 5.53 million being part of the DFS ecosystem. DFS users are further classified into two; 4.72 million adults who actively use DFS and 800 thousand adults who use Over The Counter (OTC) services. Active DFS users utilise internet banking, mobile banking, mobile money, and card payments for payments and are unassisted. In contrast, OTC users are those adults who require assistance from agents or tellers to conduct financial transactions.

Figure 7: Digital Financial Ecosystem strand (%)

Part of the DFS Ecosystem



Of the 9.47 million adult population, the survey revealed that half of the adults are active DFS users (49.9%). The minority (8.5%) have DFS-enabled products and services but are assisted by agents and tellers. The forty-two per cent of the adult population currently not part of the DFS ecosystem presents an opportunity for the Government and stakeholders to launch all-inclusive initiatives. (Figure 7)

3.1. Characteristics of DFS Users

More than half (54%) of the male adult population are active DFS users compared to only forty-six per cent of females. As is the trend in other surveys conducted in the past and elsewhere, adults residing in urban areas are more likely to be active DFS users than their rural counterparts (69% for urban and 33% for rural)

DFS usage is more skewed toward highly urbanised provinces such as Lusaka and Copperbelt, with more than two-thirds of their respective adults being active DFS users. There is low usage of DFS in the Central province (20%) and Northern province (33%).

Table 1: Profile of Digital Financial Services Users.

	Population %	DFS user (%)
Sex		
Male	47.4	53.6
Female	52.6	46.4
Religion		
Rural	53.4	33.0
Urban	46.6	69.2
Progress out Poverty Index		
PPI 1	24.5	23.2
PPI 2	33.1	38.8
PPI 3	21.2	68.9
PPI 4	19.0	78.8
PPI 5	2.1	80.2
Source of Livelihood		
Salaries/wages	25.1	64.7
Business owners	3.7	74.2
Traders	7.1	57.2
Casual/piece work	15.6	51.1
Farmers	21.2	32.2
It depends on family/friends	25.5	44.1
Other	1.9	60.3

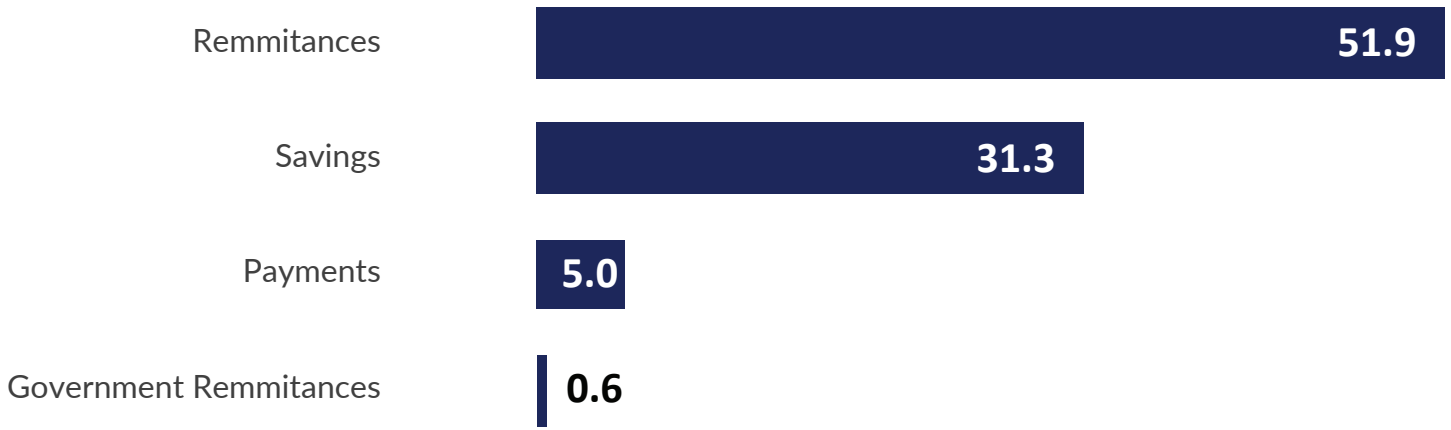
Age		
16-25 yr	38.9	45.5
26-35 yr	24.3	59.8
36-45 yr	17.1	54.6
46-55 yr	9.5	47.5
56-65 yr	6.0	43.4
66 yrs and above	4.2	27.5
Education		
No formal education	4.9	19.4
Grade 1 - 4	12.1	22.3
Grades 5 - 7	27.2	34.6
Grade 8 - 9	22.8	53.9
Grade 10 - 12	25.4	74.4
Certificate/Diploma	6.0	91.6
Undergraduate	1.4	88.0
Postgraduate	0.3	80.3
Province		
Central	10.1	45.5
Copperbelt	16.9	65.6
Eastern	11.1	36.2
Luapula	6.8	40.0
Lusaka	19.3	72.3
Muchinga	6.4	38.1
Northern	8.0	33.4
North Western	5.2	44.9
Southern	11.3	44.7
Western	4.9	20.0

DFS usage increases with the level of socio-economic status, as shown in Table 1. More than seventy-nine per cent of the adult population in both rich and most affluent categories (PPI 4 and PPI 5) are active DFS users. However, only a quarter of the poorest adults are active DFS users. In comparing DFS usage and source of livelihood, most business owners (74%) and salaried workers (65%) are active DFS users.

Like any other technology, the usage of DFS is common among the youthful population. In Zambia, 60 per cent of the adult population aged between 26 – 45 years are active users compared to those older than 66 years old, where only twenty-eight per cent are active DFS users. Furthermore, DFS usage is highly correlated with one's level of education. In the 2020 FinScope, above eighty per cent of the Zambian adult population with either a certificate/diploma or Degree and above are active DFS users. This contrasts with only nineteen per cent of those without formal education who are active users (Table 1)

As shown in Figure 8, usage of DFS is mainly driven by remittances (52%), followed by savings (31%). Only five per cent of the Zambian population uses DFS for payment purposes. With the onset of the Covid-19 pandemic, payment of the platform DFS should be highly encouraged to promote contactless

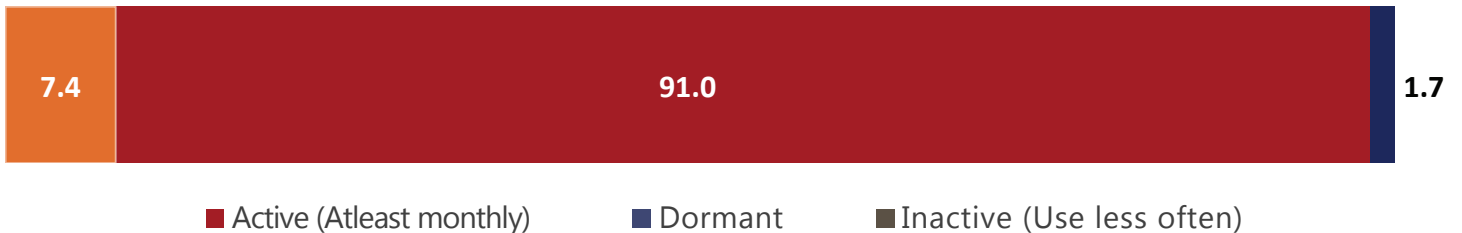
Figure 8: Drivers of DFS Usage (%)



3.2. Frequency and Channels

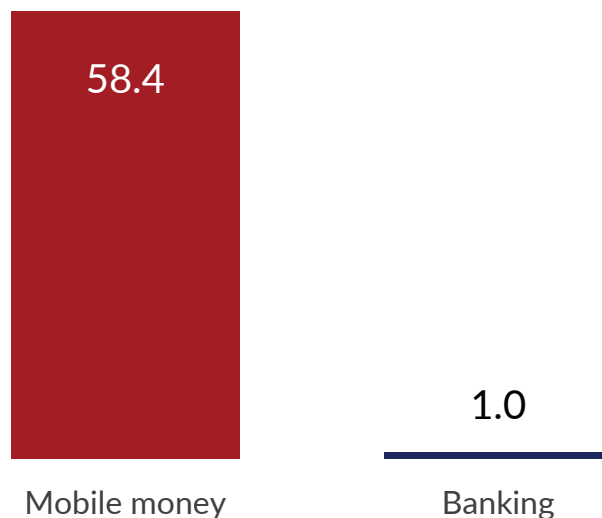
58.5 per cent of the adult population using DFS mainly uses it for various uses such as transfers, payment of bills and receiving income/salaries. Depending on the purpose, the frequency of usage among the adult population differs. The survey revealed that over 91 per cent of the 5.53 million Zambian adults are active users. Thus, they are using the DFS platform at least monthly. The survey further revealed that seven per cent of the adults are dormant users while two per cent are inactive users. These findings align with supply-side data, which reports seventy per cent of active DFS accounts (Figure 9).

Figure 9: DFS Frequency Strands (%)



DFS is mainly conducted using two platforms: mobile money and bank account. In Zambia, based on the 2020 FinScope Survey, the usage of DFS is mainly done through mobile money (58.4%). Banking only accounts for only one per cent (Figure 10)

Figure 10: DFS Usage channels (%)



3.3. Characteristics of the OTC Users

The 2020 FinScope Survey revealed that nine per cent of 5.53 million adults have access to DFS-enabled products and services but are not using them efficiently and effectively or are assisted when conducting transactions. As earlier shown in Figure 6, the OTC users translate into over 800,000 adults in the Zambian population.

Table 2: Profile of Over-the-Counter Services Users.

	Population %	DFS user (%)
Sex		
Male	47.4	7.39
Female	52.6	9.66
Religion		
Rural	53.4	8.47
Urban	46.6	8.70
Progress out Poverty Index		
PPI 1	24.5	6.58
PPI 2	33.1	10.0
PPI 3	21.2	9.76
PPI 4	19.0	7.76
PPI 5	2.1	5.07
Source of Livelihood		
Salaries/wages	25.1	8.78
Business owners	3.7	7.62
Traders	7.1	13.58
Casual/piece work	15.6	6.70
Farmers	21.2	9.55
It depends on family/friends	25.5	7.09
Other	1.9	18.40
Age		
16-25 yr	38.9	7.15
26-35 yr	24.3	6.85
36-45 yr	17.1	8.73
46-55 yr	9.5	11.72
56-65 yr	6.0	14.08
66 yrs and above	4.2	16.17
Education		
No formal education	4.9	8.07
Grade 1 - 4	12.1	8.81
Grades 5 - 7	27.2	10.01
Grade 8 - 9	22.8	9.59
Grade 10 - 12	25.4	7.58
Certificate/Diploma	6.0	4.90

Undergraduate	1.4	4.36
Postgraduate	0.3	11.15
Province		
Central	10.1	11.99
Copperbelt	16.9	7.75
Eastern	11.1	8.81
Luapula	6.8	6.82
Lusaka	19.3	8.72
Muchinga	6.4	7.61
Northern	8.0	9.14
North Western	5.2	8.72
Southern	11.3	7.88
Western	4.9	7.62

Based on Table 2, OTC users in Zambia are mainly skewed towards:

- Females – ten per cent of the female adult population as compared to seven per cent of males;
- Poor (PPI 2) – ten per cent of the poor compared to five per cent of the richest population (PPI 5);
- Traders and others with fourteen per cent and eighteen per cent, while other livelihood sources are below ten per cent;
- The older generation who are 56 years and older; and
- The central province is twelve per cent, while the rest are less than ten per cent.

As shown in Figure 11, OTC transactions are mainly driven by remitting (85%), followed by savings forty-five per cent. However, only four per cent are using them for payments, with less than two per cent being used on Government remittances.

Figure 11: Drivers of OTC transactions (%)



As shown in Figure 11, there are instances when Zambian adults go to mobile money agents and bank branches to make payments and require assistance. To encourage non-OTC payment, there is a greater need among DFS stakeholders to conduct robust campaigns in sensitising the general population to promoting self-service, which comes with DFS so long one has access to mobile phone and internet services.

Figure 12: OTC usage channels (%)

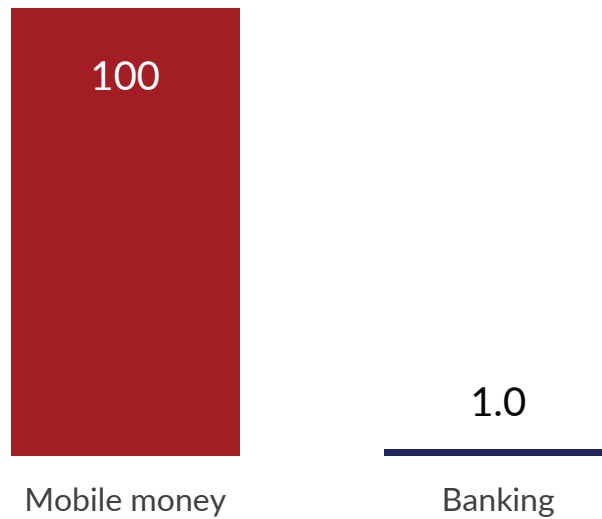
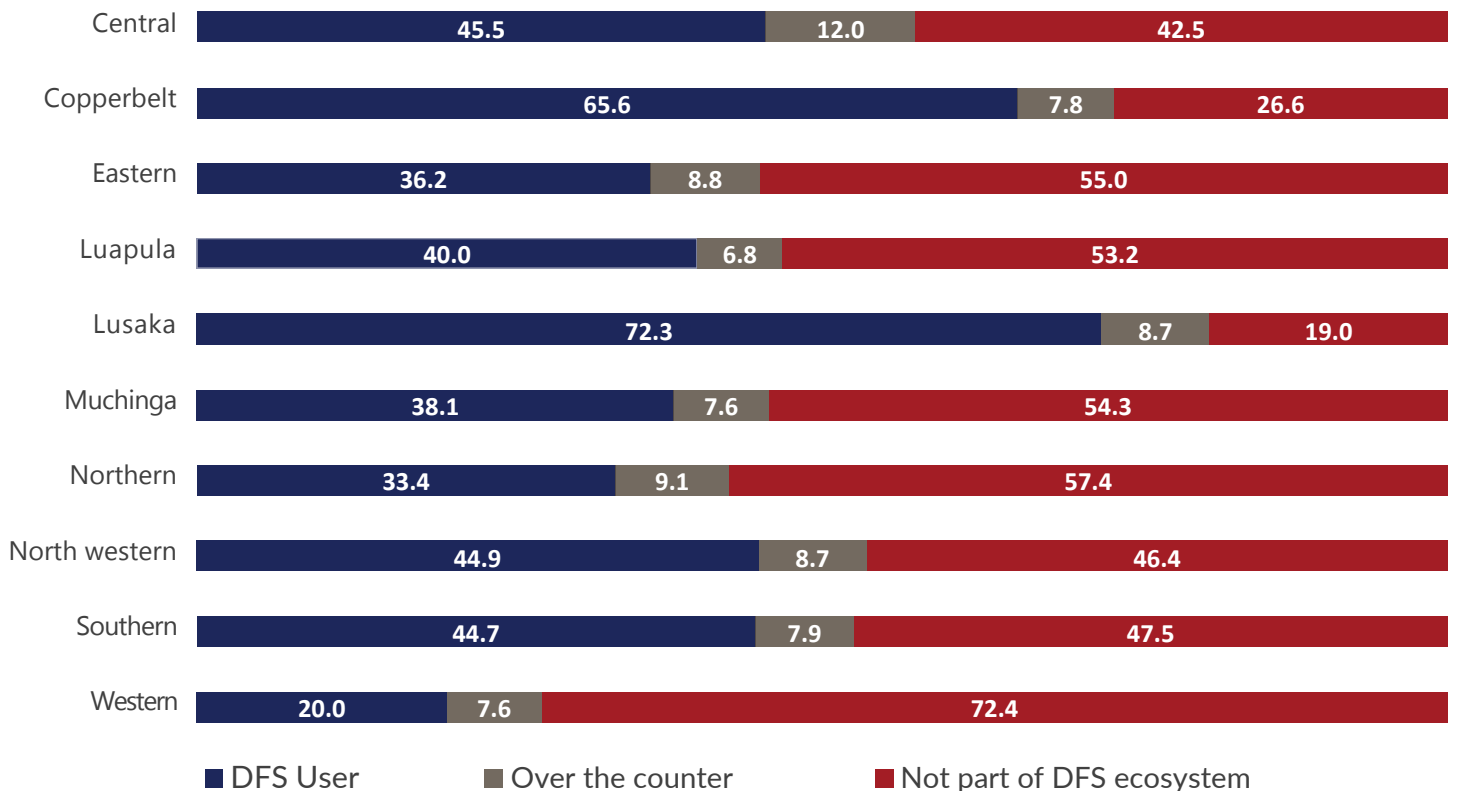


Figure 12 shows that 100% of OTC transactions conducted by adults in Zambia are through mobile money services, while only 1.0% are through banking services. This indicates that the Digital Finance System (DFS) is primarily driven by mobile money rather than traditional banking.

3.4. Overview of the Digital Finance Ecosystem

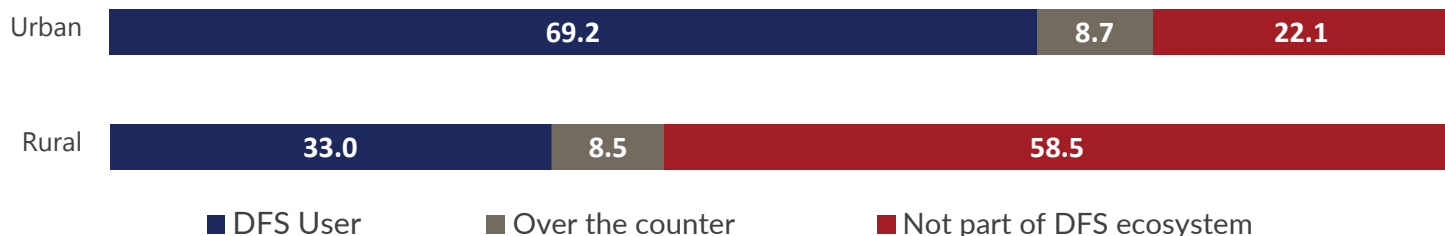
As shown in Figure 7, the DFS is a broad ecosystem. It is important to know if DFS users are self-services or performed OTC. To understand DFS usage among the adult population in Zambia, cross-tabulations were conducted by province, region, sex, education level, age, livelihood source, and poverty index progress.

Figure 13: Usage of DFS products by province (%)



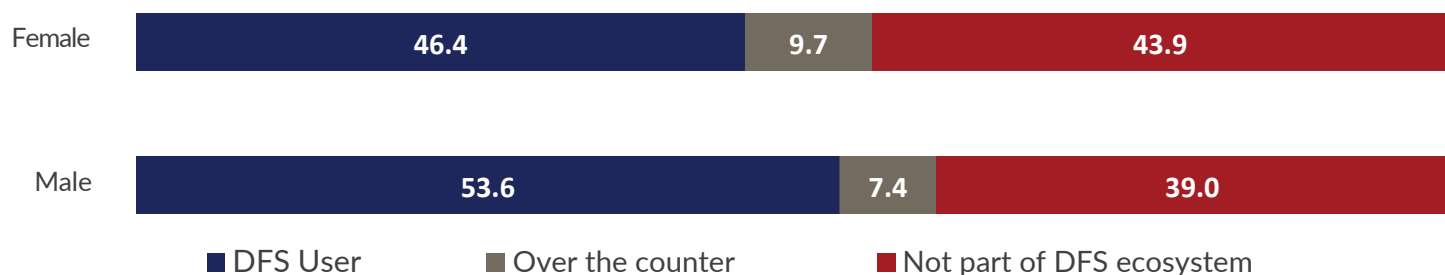
As shown in Figure 13, highly urbanised provinces such as Copperbelt and Lusaka rank the highest in terms of DFS usage at seventy-two per cent and sixty-six per cent, respectively. The lowest DFS usage was recorded in the Western province at twenty per cent, which may be attributed to poor infrastructure and low levels of cellphone ownership and access. It is worth noting that OTC transactions are below ten per cent except in the Central province. For all the provinces in Zambia, DFS transactions are higher than OTC ones.

Figure 14: Usage of DFS products by rural/urban (%)



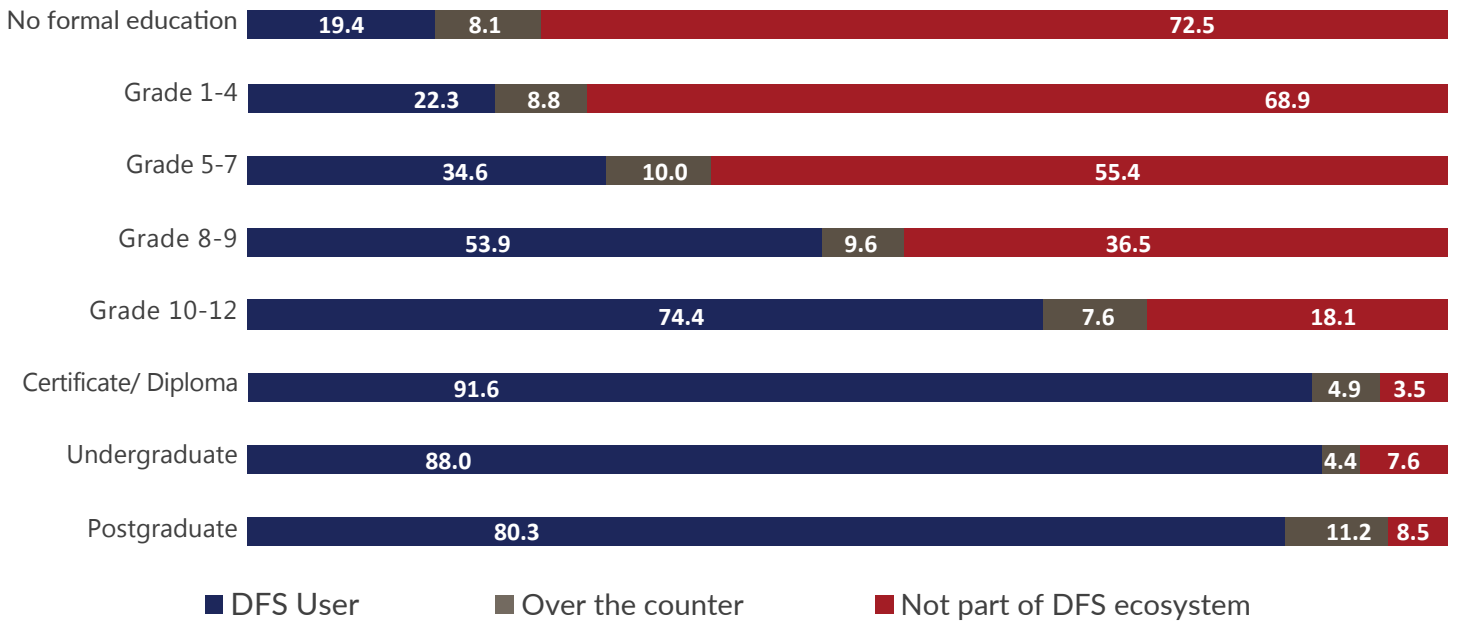
In comparing the DFS usage region (Figure 14), the 2020 FinScope Survey revealed that urban areas have higher DFS usage (69%) than their rural counterparts at thirty-three per cent. The urban-rural gap in DFS usage can be attributed to poor infrastructure and fewer economic activities in rural areas. This finding correlates with Figure 1, which revealed a substantial regional gap in ownership and access to cell phones. Figure 14 further revealed that there is not a significant difference between the urban and rural areas in terms of OTC transactions (Urban 8.7% while rural 8.5%)

Figure 15: Usage of DFS products by region (%)



Regarding sex disaggregation, the survey revealed that the male adult population are more active users of DFS (54%) than females (46%). It was also further revealed that female adults use OTC transactions more (10%) than males (7%). (Figure 15)

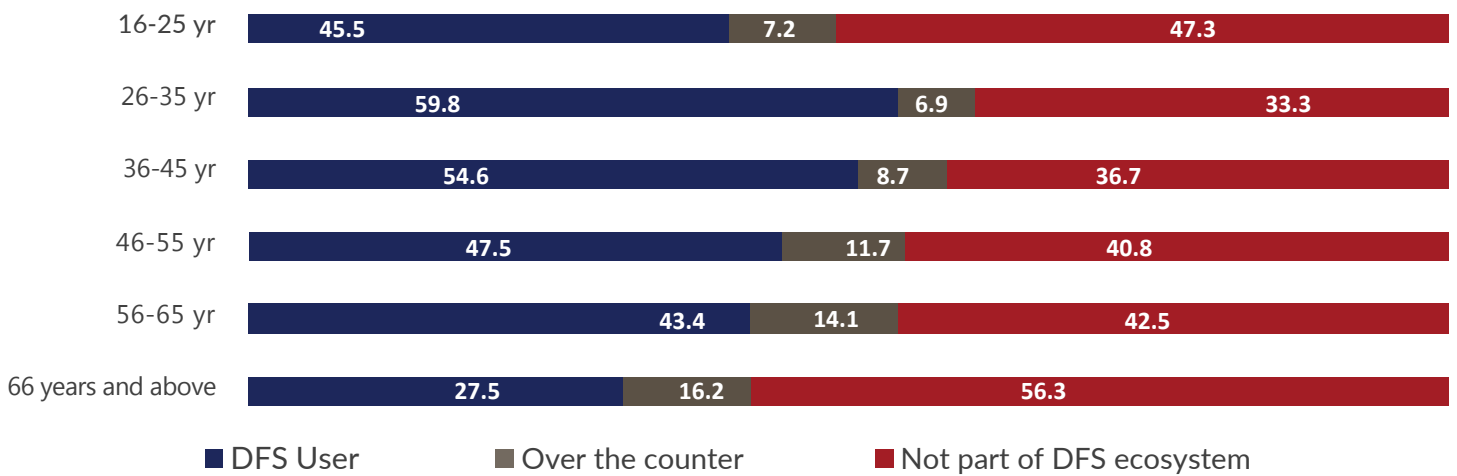
Figure 16: Usage of DFS products by level of education (%)



Based on the 2020 FinScope Survey, there is a strong relationship between DFS usage and level of education, i.e., the Zambian adult population who have attained a higher level of education are more likely to use DFS. As can be seen in Figure 16, DFS usage was highest among adults with certificate/ diploma (92%), undergraduate (88%) and postgraduate (80%). Low DFS uptake was recorded among adults with no formal education and those in grade 1-4 category, as only less than a quarter were revealed to be DFS users. The low uptake of DFS among the less educated adult population can be inferred from the fact that DFS usage comes with many complexities due to technological advancement. Only the educated segments of the population are more likely to embrace it.

Furthermore, though there have been many financial awareness campaigns, there is a need for programmes that can help individuals use and interact with technology, such as DFS. Figure 16 further revealed that OTC users are common among less-educated adults. This negative relationship entails that less educated people are less confident in embracing technology such as DFS and, in most cases, will need the support/assistance of an agent or teller to complete a transaction.

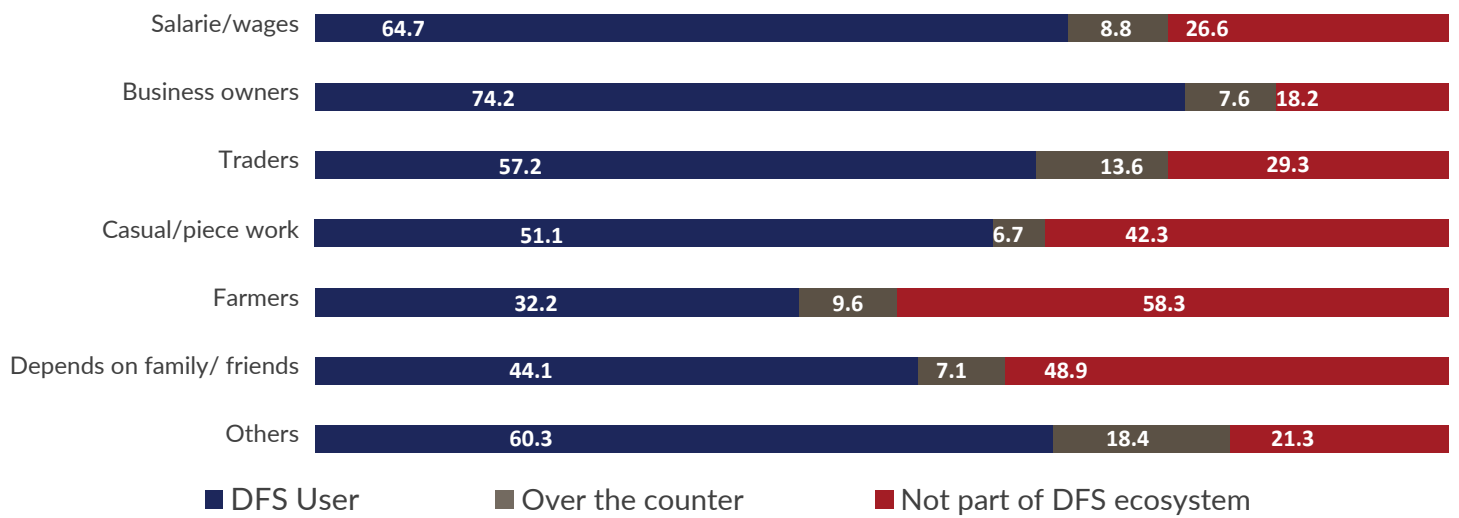
Figure 17: Usage of DFS products by age (%)



Since DFS usage is related to technological advancement, as highlighted in the previous chapter, age is a crucial indicator for DFS products' use. The survey revealed that the adult population in the age group 26 to 35 years has a higher percentage (60%) of DFS usage. This is followed by the 36-45 years category, with the lowest usage seen in adults 66 years and older. It compares DFS usage by age; it is further seen that DFS, being technology-orientated, can be a challenge that can be rolled out to the general

population. Still, only adults in the lower age categories have embraced it. Furthermore, the survey revealed that older adults require more assistance as they navigate the DFS ecosystem, where sixteen per cent of those aged 66 years and older are OTC users compared to only seven per cent for those below 35. (Figure 17)

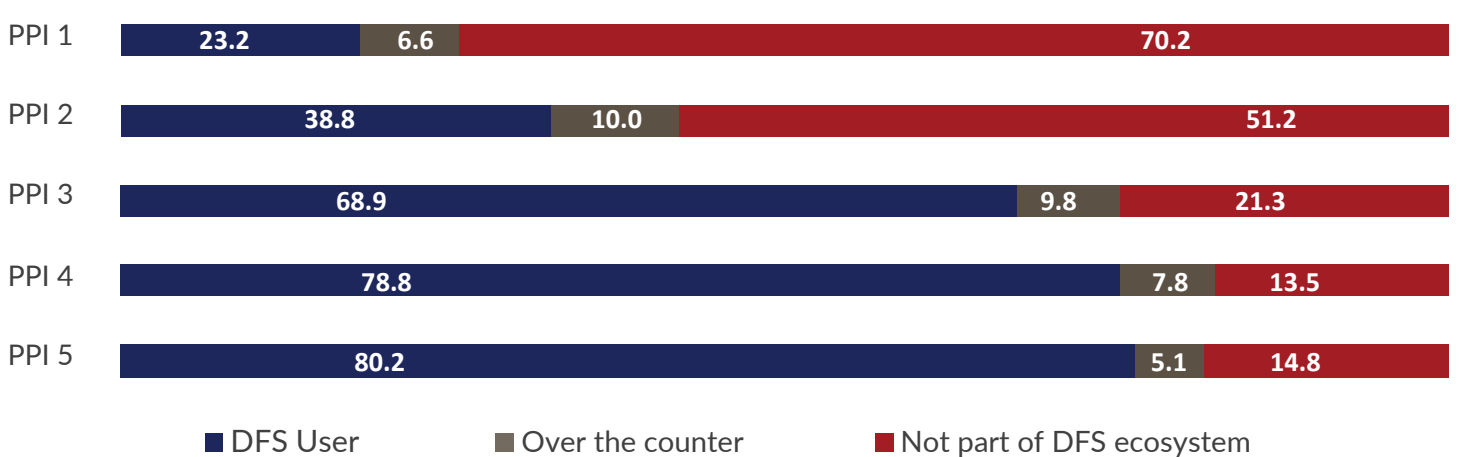
Figure 18: Usage of DFS products by source of livelihood (%)



To further understand the usage of DFS services, a cross-tabulation was done between DFS product usage and source of livelihood. The survey revealed that business owners (74%) were the highest users of DFS products, followed by adults in formal employment who rely on salaries/wages (65%). The lowest users of DFS products were farmers at thirty-two per cent.

This means that any programme to increase DFS coverage should be deliberate in targeting adults whose livelihood source is farming. (Figure 18).

Figure 19: Usage of DFS products by Progress Out of Poverty Index (%)



Based on Figure 19, the 2020 FinScope Survey revealed a strong relationship between socio-economic status as represented by PPI. The most significant users of DFS products were the richest (PPI 5) adults at eighty per cent, followed by the rich (PPI 4) at seventy-nine per cent. Only twenty-three per cent of the poorest (PPI 1) were reported using DFS products, and they were the least among socio-economic status categories. OTC transaction was the highest among the poor (PPI 2) as compared to the richest.

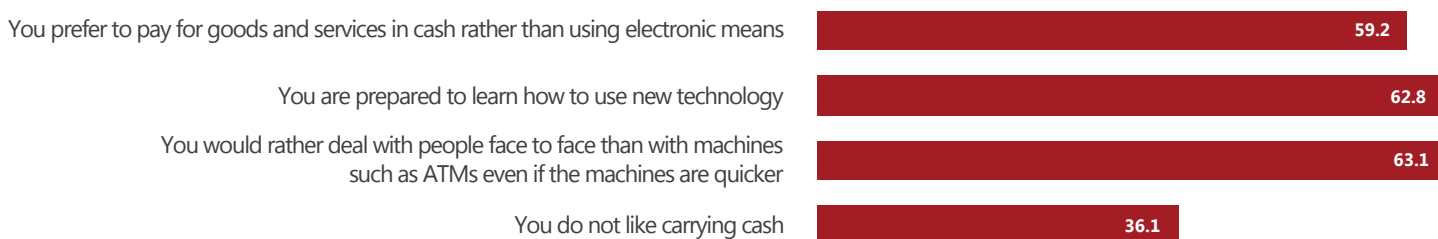
MOTIVES AND BARRIERS OF NOT USING DIGITAL FINANCIAL SERVICES

Based on the 2020 FinScope Survey in Zambia, 58.4 per cent of the adult population is part of the DFS ecosystem (Figure 7). To foster policies that can lead to increased DFS usage, it is vital to understand the perceptions and barriers of the 41.6 per cent of the adult population who are not yet part of the DFS ecosystem. This section focuses on; understanding perceptions regarding the use of technology, preference for cash, trust-related issues and barriers to usage and uptake for those not part of the DFS ecosystem.

4.1. Preference for Cash

Figure 20 reveals that of the forty-one point six per cent of adults not part of the DFS ecosystem in Zambia, fifty-nine per cent prefer cash as a means of payment, while sixty-three per cent prefer face-to-face interactions. Although the proportion is higher for those who prefer human interactions, nearly two-thirds of the adults outside the DFS ecosystem are prepared to learn new technology. This presents an opportunity for the expansion of the DFS ecosystem in Zambia.

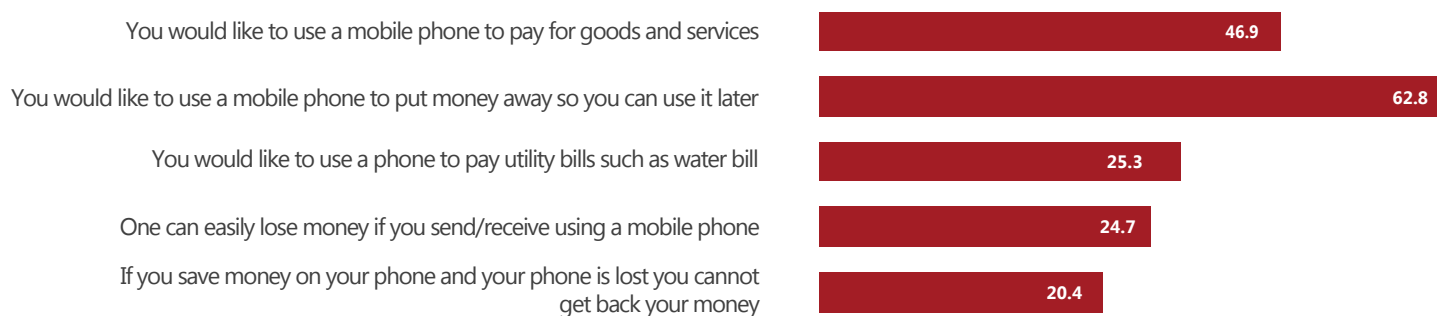
Figure 20: Adults who are not part of the DFS Ecosystem who answered true to the statement (%)



4.2. Perception of Mobile Money

Another critical parameter in the quest to understand the motives and barriers to not being part of the DFS ecosystem is people's perception of mobile money usage. The 2020 FinScope Survey captured statistics on the willingness of the Zambia adult population to use mobile money to save (63%), to pay for goods and services (47%) and for utility payments (25%). It can be seen from the results that most adults view mobile money as a platform for saving followed by payments. In terms of understanding the operation of mobile money, nearly less than a quarter of the adults understood that when one loses a mobile phone, one does not lose the saved amounts of money on the account. Similarly, only a quarter was jittery about the security that comes with mobile money transactions, as seventy-five per cent understood that one does not easily lose money when transacting using a mobile phone. Going forward, to promote further assurance and confidence in DFS, there is a need to re-emphasise the security that comes with DFS platforms (Figure 21).

Figure 21: Adults not part of the DFS Ecosystem who agreed to the statement (%)



4.3. Source of Financial Advice

The survey further sought to understand their source of financial advice for Zambian adults who are not part of the DFS ecosystem. Figure 22 reveals that most Zambians get their advice from household members (40%) and family members or friends outside the house (39%). Only less than a per cent is seeking information from experts such as banks or financial institutions. This means that most adults only trust their close associates for financial advice. This finding highlights the need for more reliable sources of financial information to be made available.

Figure 22: Adults who are not part of the DFS ecosystem source of financial advice (%)



4.4. Saving Platforms Used

In understanding the financial lives of adults who are not part of the DFS ecosystem, the survey investigated that saving practices (Figure 23) show that saving in the form of cash at home and a secret hiding place was a preference compared to other acceptable forms of savings such as informal channels (savings groups, village banks or chilimba) or even formal financial institutions.

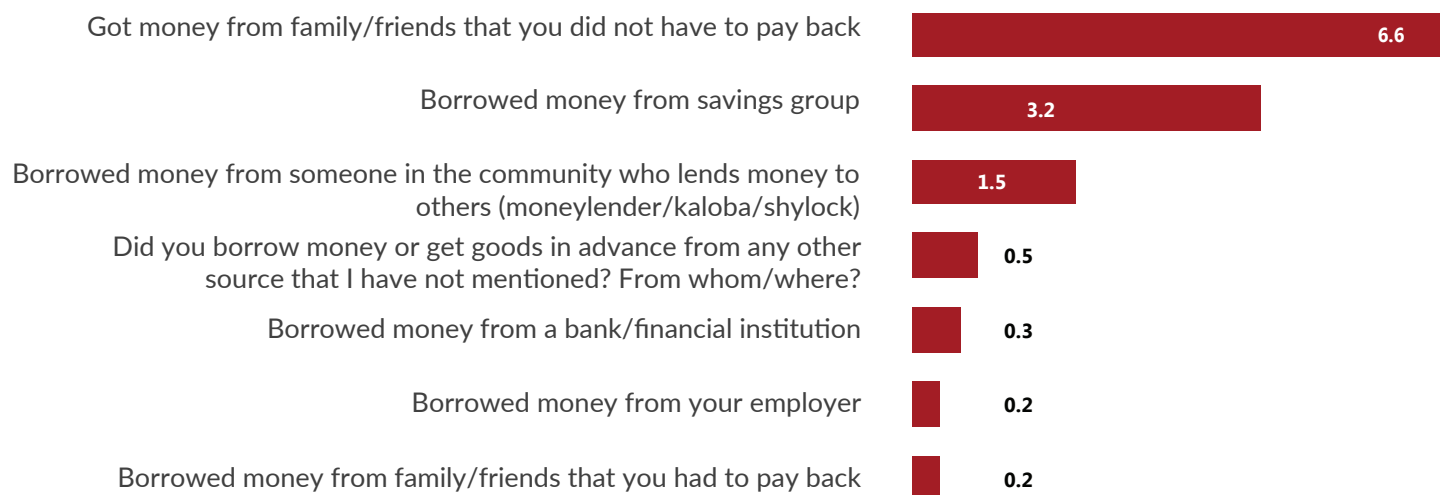
Figure 23: Saving platforms used by adults not part of the DFS ecosystem (%)



4.5. Credit Platforms Used

Figure 24 shows that adults not part of the DFS ecosystem have very few platforms as a source of credit. A few borrow from families/friends (7%) with no intention of paying back. Three per cent (3%) borrow from savings groups, while less than point five per cent (0.5%) borrow from formal financial service providers. This clearly shows a high possibility of financial exclusion for adults not part of the DFS ecosystem. It should be further understood that to increase DFS coverage, trust is a barrier that should be overturned to make any significant progress.

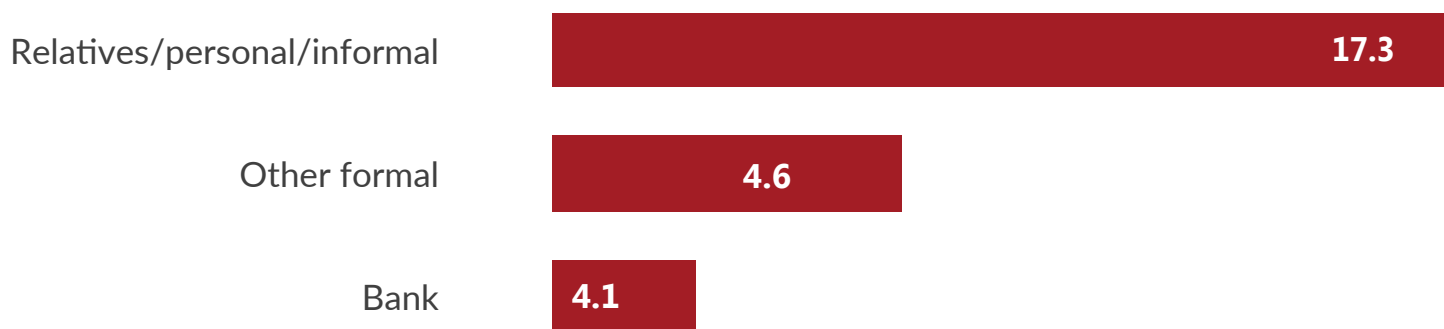
Figure 24: Credit platforms used by adults not part of the DFS ecosystem (%)



4.6. Remittance Channels

Few remittances are being performed by adults who are not part of the DFS ecosystem, as less than two per cent are involved, with 1.9 per cent using relatives and other informal services while less than a per cent using other formal and banks, respectively. (Figure 25)

Figure 25: Remittance channels used by adults not part of the DFS ecosystem (%)

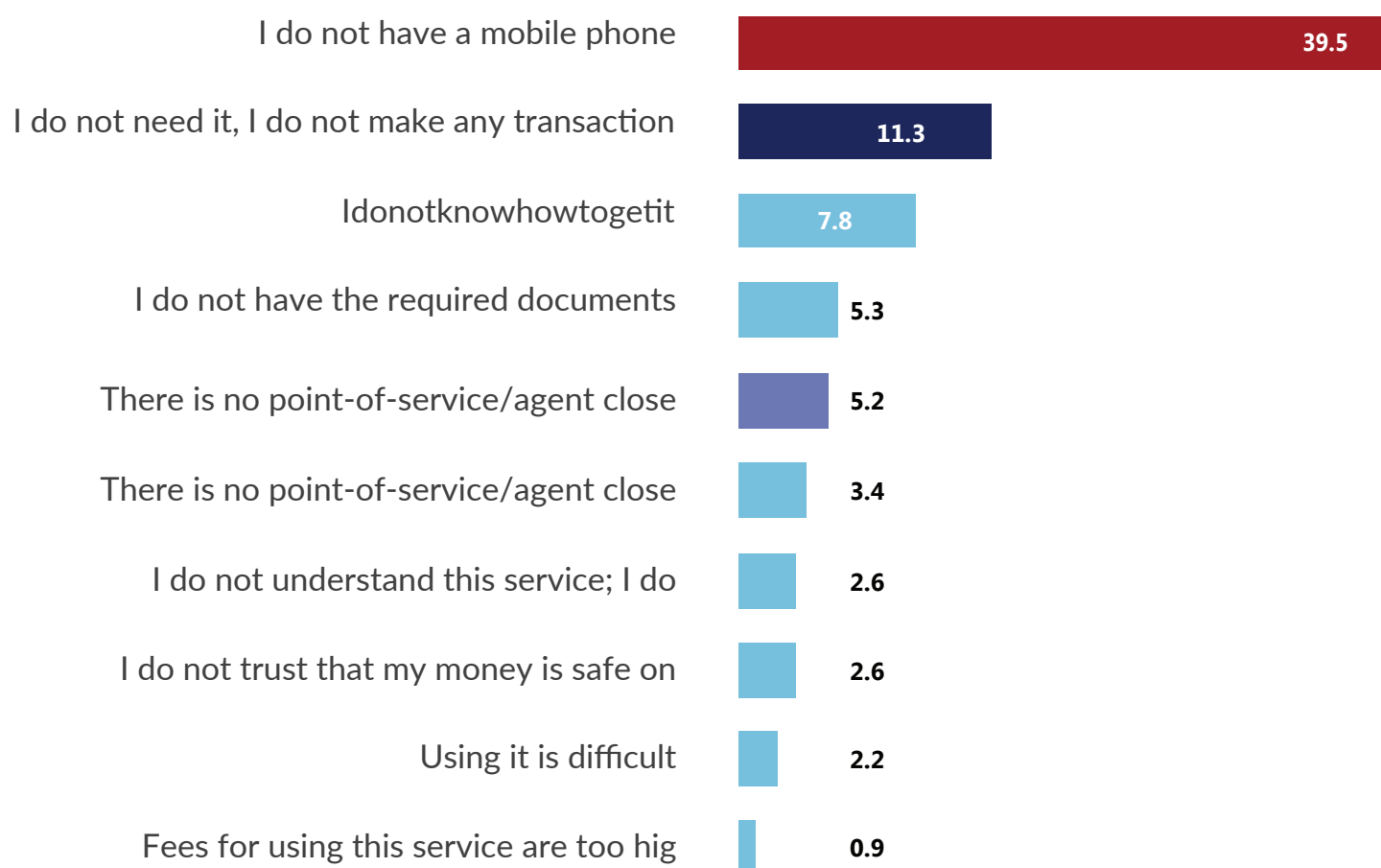


4.7. Barriers to Being Part of the DFS Ecosystem

4.7.1. Mobile Money

As shown in Figure 26, the lack of a mobile phone is the most significant barrier to not being part of the DFS ecosystem. Forty per cent of the adult population, not part of the DFS ecosystem, was on account of lacking access to a mobile phone. Nearly a tenth claimed they are not using mobile money because they do not see any need for any transaction. Although few are not using mobile money on account of lack of information, there is still room for a robust financial awareness and education programme to promote DFS usage. (Figure 26)

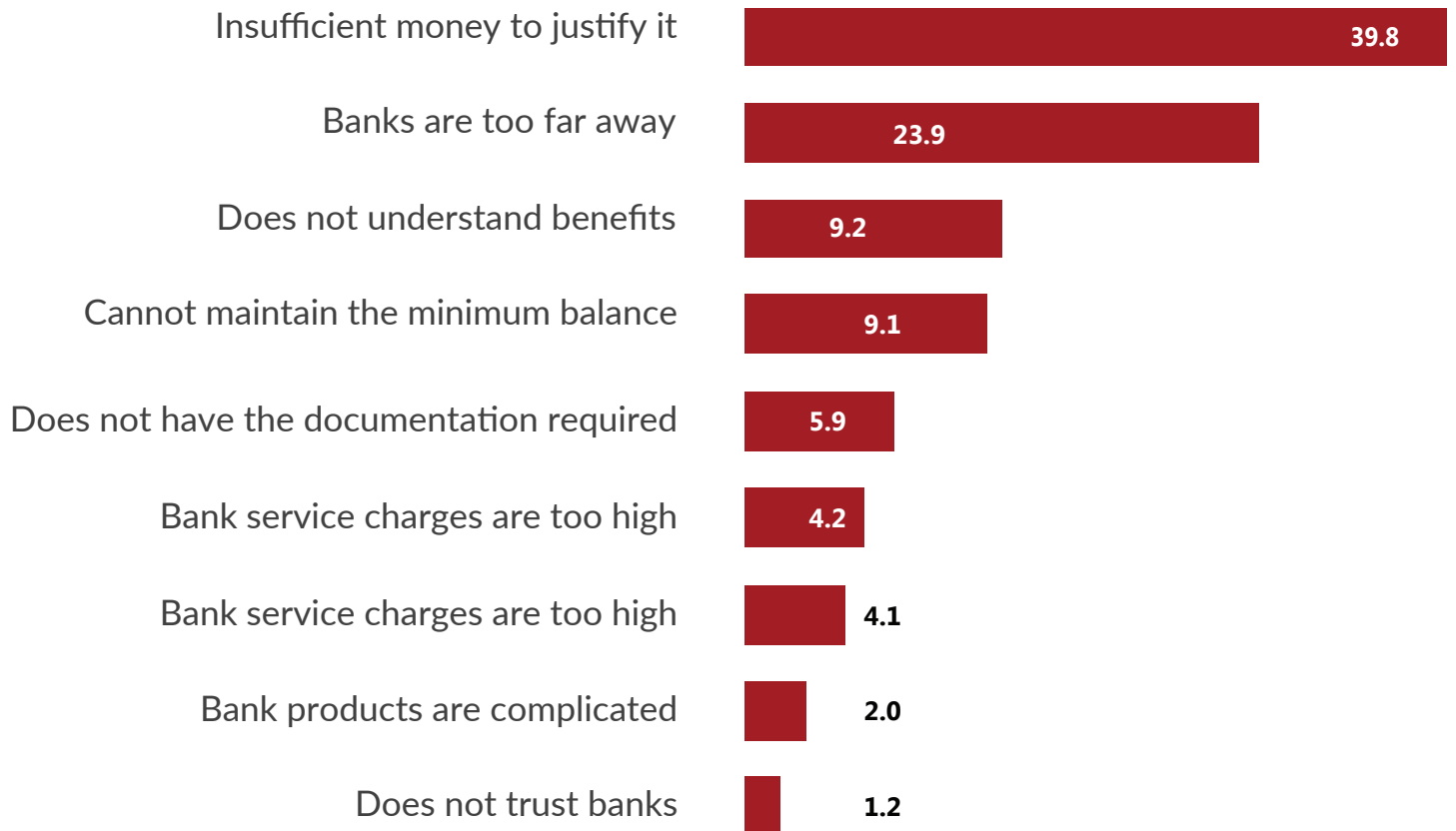
Figure 26: Barriers to using mobile money for adults not part of the DFS ecosystem (%)



4.7.2. Banking

Since having a phone and a bank account is necessary to conduct digital transactions, the survey sought to understand the barriers to not using bank accounts for adults not part of the DFS ecosystem. Figure 27 reveals that about forty per cent (40%) of adults not part of the DFS ecosystem do not have bank accounts because they have insufficient money to justify it. This was followed by those with access challenges in that banks are too far off (24%). There was only less than two per cent who did not trust the operations of banks. Although financial inclusion focuses on formal and informal, part of the challenge is fully transitioning to formal financial services such as a bank.

Figure 27: Barriers to using bank products for adults not part of the DFS ecosystem (%)



FINANCIAL CAPABILITY

As argued by other scholars, financial capability goes beyond financial literacy. The emphasis on Financial capability should also be placed on addressing the actual benefits of financial policies, instruments, and services². To promote financial inclusion, there are three critical factors, namely: access, usage and understanding. Financial capability is necessary because of its impact on both usage and understanding, with the latter highly linked to financial knowledge & skills through behaviour change.

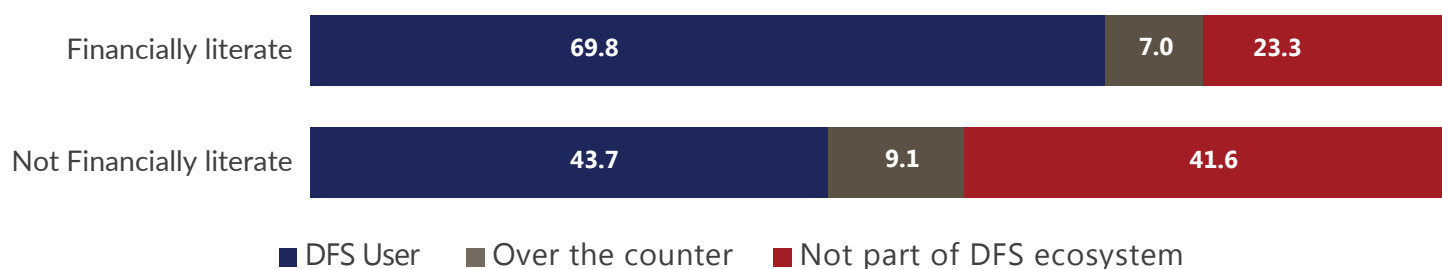
Broader literature exists in the measurement of financial capabilities, such as those discussed by Johnson and Sherraden (2007). This report adopted an approach that incorporates financial knowledge and skills, financial attitude, and financial behaviours. In understanding financial knowledge and skills further, there are related questions about knowledge and skills to link them to interest. There are also other supply factors such as; possessing or having access to a phone, technical know-how of the adult population and the existence of access points such as ATMs and point-of-sale terminals.

In this report, we will focus on three aspects such as financial literacy, phone ownership and financial health, because other aspects of financial capability were beyond the scope of the 2020 FinScope Survey.

5.1. Financial Literacy and DFS Usage

Figure 28 clearly shows that financial literacy is related to DFS usage, as more than two-thirds of the adult population who are financially literate are DFS users. In contrast, only forty-four per cent of those not financially literate use DFS-related products and services. This signifies the importance of financial literacy and education in building the financial capability of the general population.

Figure 28: Financial Literacy and DFS usage (%)

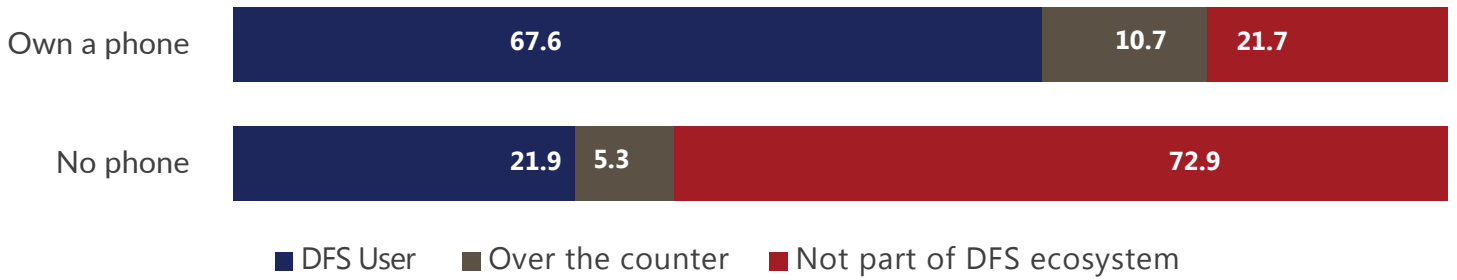


5.2. Phone Ownership and DFS Strand

The impact of the possession of a cell phone handset as a platform to conduct DFS must be considered. As earlier demonstrated in Figure 28, having a handset increases one's chances of using DFS. Figure 29 shows that adults who possess cell phones have a higher chance of being part of the DFS ecosystem. The survey shows that seventy-eight per cent of the adults who own a cell phone (whether feature or smartphone) are part of the DFS ecosystem compared to only 27 per cent without phones.

2. Johnson and Sherraden, 2007

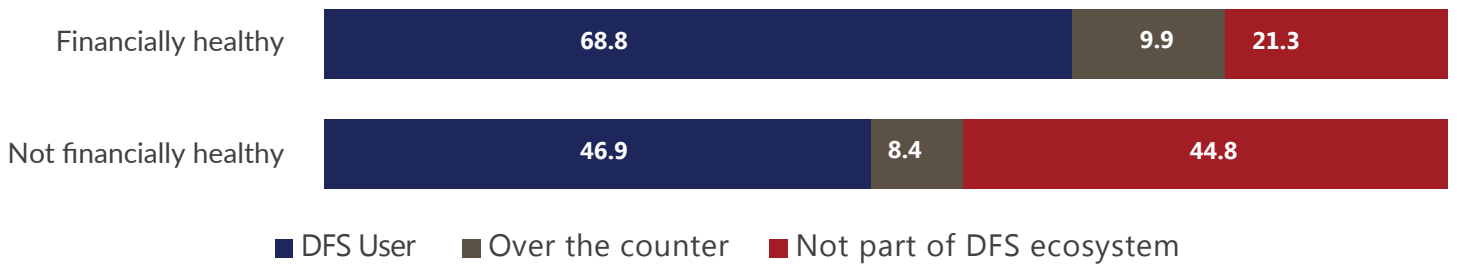
Figure 29: Cell phone ownership and DFS usage (%)



5.3. Financial Health and DFS Strand

The other financial capability issue strongly related to DFS usage is financial health status. As elaborated in the FinScope main report, financial health is defined as one's ability to manage expenses, prepare for and recover from financial shocks, have minimal debt, and ability to build wealth. DFS platform can help the adult population manage their daily lives through consumption smoothing and build their wealth stock through consistent savings. The surveys show that more financially healthy adults are part of the DFS ecosystem (79%) compared to those who are not financially healthy (55%). This demonstrates the nexus between financial health and DFS usage, and as such, DFS usage can promote financial health.

Figure 30: Financial health and DFS usage (%)





CONCLUSIONS AND RECOMMENDATIONS

6.1. Conclusions

Although the FinScope main report presented some findings on the usage of DFS, it is imperative to do a deep dive into the DFS sub-sector. This is because DFS, the world over, is a driving factor in increasing the coverage of financial services. In Zambia, using the 2020 FinScope Survey, it was found that only 58.4 per cent of the adult population is part of the DFS ecosystem (5.5 million). Of this total, there is a significant proportion of DFS users (4.7 million) compared to those who require the services of an agent, be it mobile money or banking (800 thousand). The study further revealed that the majority of the DFS users are active (91%). The key drivers in using DFS products in Zambia include remittances (52%) and saving (31%). Payment on DFS platforms only accounts for 5%.

Furthermore, the study reveals that there is a higher likelihood of DFS usage for adults who are:

- Male;
- From highly urbanised provinces such as Lusaka and Copperbelt;
- Rich (PPI 4) and Richest (PPI 5);
- Business owners and salaried;
- Aged between 26 to 45 years; and
- Highly educated.

The eight hundred thousand (800,000) adults who are OTC users are likely to be:

- Female;
- Poor (PPI 2);
- Traders;
- 66 years and older; and
- From Central province.

It is important to note that adults in the OTC category are assisted in originating or redeeming a financial transaction at the branch or by an agent. Based on the survey findings, OTC transactions are driven by remittances and savings.

The analysis performed in this report further reveals the linkage between financial inclusion indicators and digital finance. This indicates that for Zambia to increase levels of financial inclusion, DFS platforms may be the avenue through which such can be accomplished, as outlined in the National Financial Inclusion Strategy.

6.2. Recommendations

The 2020 FinScope Survey revealed that more than a third of the adult population is not part of the DFS ecosystem (41.6%). The fifty- 58.4 per cent who are part of the DFS ecosystem use DFS mainly for remittances and savings. This demonstrates that there is more that policymakers and regulators must do to achieve the goals set in the NFIS, such as the percentage of adults who use an electronic payment platform.

In the past few years, the Zambian Government embarked on a robust communication infrastructure improvement programme to promote DFS. Though that is a necessary condition, the next phase should focus more on improving cell phone ownership and coverage, as this was the most significant barrier inhibiting the usage of DFS. There is a need for policymakers to promote cell phone ownership among the Zambian adult population. Such has the potential to decrease both the gender and urban-rural gaps inherent in DFS coverage.

The survey revealed that most of the Zambian population uses DFS for remittances and savings, and only five per cent (5%) use it for payment. Policymakers, Regulators and other Stakeholders need to initiate a robust campaign to promote the usage of DFS for payment. This is further supported by the need to conform to the Covid-19 messaging in keeping social distance and stopping the spread of the pandemic.

Financial awareness and education have been identified as key to financial inclusion at large and DFS. For Zambia, the National Financial Education Strategy is in place. To increase DFS coverage and speed the implementation of the strategy where the onus should be left with the Government and all the stakeholders in transforming the mindset of the Zambian adult population from cash-based to digital. Such campaigns should be deliberate in targeting the many DFS underserved and unserved populations such as; females, rural-based households, less educated, the elderly etc.

To further understand and provide critical lessons, there is a need for a more in-depth study on both the demand and supply side to establish the benefits of using DFS and track the progress of activities aimed at improving the usage of DFS products. For financial capability and its linkages with DFS, the FinScope survey demonstrates some limitations. There is a need for the Government and other stakeholders to come up with target deep-dive studies and evaluations.

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