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THE LANDSCAPE OF REMITTANCES IN ZAMBIA

Introduction

This note sketches a picture of the remittances landscape in Zambia. It aims to stimulate debate and take the first step towards identifying relevant issues in making this market work better for the poor.[1]

What are remittances? Internationally, remittances are regarded as non-reciprocal transfers between people rather than businesses, most often stemming from migrant workers abroad. This may be too narrow a definition for Zambia. Migrant remittances are one driver of the market, but international migration is low in Zambia and domestic migration, though more widespread, follows a unique pattern whereby whole families tend to migrate. Migrant workers send money back to their extended families but not necessarily to their immediate family, and not regularly. This sets Zambia apart from the international migration and remittances experience, making it more appropriate to consider the transacting needs of the low-income market in Zambia, be that sending a person-to-person transfer, paying for agricultural inputs, or being paid for services. In this context, remittances, or money transfers, are small-value payments that are replacing former cash transactions.

Why are remittances important? Recorded remittances are more than double the amount of official aid to developing countries and represent nearly two-thirds of foreign direct investment flows.[2] In 2007, developing countries received more than US$240-billion in recorded remittances. For many of these countries remittances are the largest and most stable source of external financing. At the micro level, remittances provide many families with a livelihood. They also introduce people to the financial sector and may even encourage them to try other services.

Demand-side insights

Remittance behaviour

Sending money is common: All the people interviewed either send money themselves or are aware that many people send money. As the informal interviews were conducted in an urban area all of the respondents were senders.

Profile of senders and corridors used: FinScope[3] shows that remitters are more affluent and more knowledgeable than their non-sending counterparts. They are also much more likely to be banked than non-senders. Money transfer operator data indicates that the Copperbelt and Lusaka provinces are the main locations of senders and receivers. However, as the direction of transfers changes, it is difficult to isolate the main remittance corridors.

Few people send money regularly: Seasonal sending patterns, such as school terms and the rainy season, are present but few people send money on a regular, monthly basis. FinScope data confirms that 70% of those receiving income from a family member do so less often than monthly and 78% of senders follow no specific sending pattern. Informal interviews showed that people tend to send money between one and four times a year. Sending frequency appears to be affected by the demands of recipients, such as for medical expenses, school fees, agricultural inputs or a funeral, and the ability of the senders to put money aside.

Typical amounts vary: Typical amounts sent vary from around K100 000 (about $25) to as high as K700 000 (almost $200). Most respondents indicated a range of K250 000 to K300 000 (about $70 to $80) per remittance.

Channel preferences

Sending money with a bus driver: Bus drivers and conductors are the most popular channel among the people interviewed and according to anecdotal evidence among the formal sector. FinScope also identified this as a popular channel, accounting for 26% of all transactions. All of the bus drivers interviewed are familiar with transporting money and are asked to do so almost every day. The fee varies, but the norm is 10% of the amount sent.

Sending money with a relative or friend: Senders always prefer this option if available, according to the informal interviews, though it is not as regular or predictable as the bus. It's normal not to charge a fee.

Using formal channels: Not all respondents use informal channels. Some use the services offered by Zampost. No one said they make account-to-account transfers with a bank. Though a few respondents did have bank accounts, the tendency was for the recipient not to have a bank account, or there was no bank branch in the recipient's town or village. According to FinScope 53% of senders use informal channels and 47% use formal channels.

Cashing in talktime transfers as an informal remittance channel: Informal interviews with talktime vendors indicate that this may not be as common as some formal sector players think. Nevertheless, a few vendors verified this channel and charge between 6% and 25% commission but conduct this type of transaction on average no more than once a week.

Sending money to the headmaster or a community leader: Another channel mentioned by some formal sector and government players is sending money via either an account or non-account transfer directly to the headmaster for a child's school fees, or giving it to a trusted community leader. This service is not always free. In one instance a headmaster is reported to charge 20% to 30% of the amount.

1 Findings are based on industry and regulator interviews and data, as well as 34 informal interviews conducted in the intercity bus terminal, a market and two compounds in Lusaka. No formal survey methodology was followed.
2 Ratha, D. et al, 2007. *Migration and Development Brief 3. Development Prospects Group, Migration and Remittances Team November 29, 2007 Remittance Trends 2007.* Available at: siteresources.worldbank.org/EXTDECPROSPECTS/Resources/476882-1157133580628/ BriefingNote3.pdf.
3 FinScope is a national representative study that benchmarks the use of, and access to, financial services. See www.finscopeafrica.com

Informal transfers are not necessarily cheap, but none of the informal interviewees mentioned cost as a major consideration. So what determines the choice of a channel?

Perceptions

Perceptions vary and tend to justify the chosen channel: Without exception, people using the bus say that they do so because it is more reliable, more convenient, quicker and trustworthy. In contrast, those who use formal channels say they use these because money is available instantly and the recipient can go and collect it at her/his convenience. Some say that you cannot trust the bus driver to deliver the full amount to the recipient.

Consumer awareness key to formal uptake: The relative popularity of informal channels can mainly be explained by a lack of consumer awareness of the features and trustworthiness of formal channels. Others simply prefer to deal with a familiar informal channel rather than with a formal system that requires them to queue, fill out a form and go through an official process they may find intimidating. FinScope confirms that convenience and ease of use determines channel choice for about 75% of all senders.

Distribution footprint: Distance remains a major consideration. For many, the bus network is simply more accessible than formal alternatives. People transact informally as that is their only real option and their perceptions are formed by this.

Supply of remittances in Zambia

Players and products

A number of money transfer operators are active in Zambia (see Table 1). Commercial banks also offer money transfers in two ways: non-account transfers by banks acting as MoneyGram agents (Zanaco, Finance Bank and Stanbic) and account transfers. Some common themes emerge:

Non-account transfers are mostly international: MoneyGram transfers intermediated by banks are mostly international and mostly sent by middle-class, skilled individuals from abroad. They, therefore, mainly fall outside of the small-value payments market that is relevant to this study.

Money transfers are not core business: Some banks are hesitant to pursue mobile payments (m-payments) or non-account transfers as the information on the viability and scope of this market is still inadequate.

Banks are at competitive disadvantage because of consumer perceptions: All players agreed that consumers prefer informal channels, and that when formal channels are used consumers associate money transfers with Zampost rather than with banks.

Market potential: All of the banks consulted realise the potential of money transfers as an entry point for the unbanked and that banks can have a competitive offering if challenges around awareness, trust, cost and distribution can be overcome.

Table 1: Money transfer operators in Zambia

Western Union and Moneygram	Operate through a network of banks and postal agencies. Neither is regarded as an instrument for mass market small-value payments as they focus mainly on international transactions.
Swiftcash	The largest domestic money transfer operator. Provided by Zampost. With 223 postal outlets, Zampost provides Swiftcash (and Western Union) with the single biggest distribution network in Zambia.
Cash4Africa	Was launched in 2007 by Money Express Ltd with the mission to serve the unbanked; conducts exclusively domestic money transfers. Currently operates through 16 outlets, mostly in border towns.
Natsave Transcash	A non-account service currently operated by means of fax between Natsave's 26 branches. Now plan to implement an online system.
Celpay	A dedicated payment mechanism provider operating mainly business-to-business transactions, as well as person-to-business transactions through a point of sale (POS) network. Now plans to enter the person-to-person market on the basis of the POS model.
MTZL (Mobile Transactions Zambia Ltd)	About to start operations based on a successful pilot with small farmers in a cotton industry outgrower scheme. Provides a mechanism for the company to make payments to individuals via a network of agents. The next step will be to introduce a person-to-person transfer system.

Distribution

The 2004 Living Conditions Monitoring Survey[4] highlighted the physical challenges of access:

- **Post Office:** Zampost has the single biggest rural footprint. While there is a post office within 5km of 89% of urban households, this holds for only about 19% of rural households – 26% have to travel between 5km and 15km to the nearest post office and 55% more than 16km.
- **Banks:** According to FinScope 22% of banked individuals spend more than one hour travelling to the bank, and 36% of all households (73% of rural households) live more than 16km away from the nearest banking outlet.
- **Public transport:** In contrast, 83% of all households (67.4% of rural households) are less than 5km away from public transport and only 7.8% (14.4% of rural households) are more than 16km away from public transport. This may explain the popularity of this channel compared to other channels.

Alternative distribution: The branch/ATM/POS (point of sale) footprint is therefore main limiting factor on the supply side. Innovative approaches are needed to reach people. Some players are considering joint ventures with clothing stores, shoe retailers and supermarkets, while others aim to reach people through an existing relationship with a supplier or buyer. In general, though, plans for alternative distribution are not yet fully developed and remain limited to the footprint of established networks.

M-payments have potential but there are cellphone penetration constraints: Most players are considering mobile banking (m-banking) solutions. However, although the number of Zambians with a cellphone represents a significant untapped market for both banks and dedicated money transfer operators, m-banking is not the sole solution. FinScope indicates that only 16% of the adult population have access to a cellphone[5].

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[4] Quoted in: Oxford Policy Management (OPM) with PMTC Zambia, 2008. *Supply-side study of the inclusiveness of Zambia's financial system.* Report prepared for the Finmark Trust Zambia. Available at: : http://www.finmark.org.za/documents/Zambia_supply_keydata.pdf

[5] Indications are that this may have increased significantly since the FinScope survey was done in 2005 and that there are currently up to three-million cellphone subscribers.

Current and potential remittance market in Zambia: two scenarios

In the absence of hard data, two scenarios of the possible market size have been devised.

Scenario one – based on industry feedback

Non-account money transfer market: Based on data and estimates from industry players, the current domestic market is estimated to be about 100 000 transactions a month and the cross-border market about 30 000 transactions a month, of which 60% are estimated to be in-bound (i.e. no fees are generated for providers domestically[6]). Based on industry feedback and informal interview insights, 70% of the transactions have an average value of K75 000 and the rest an average value of K250 000. The figure for the informal market estimate is reached by assuming a 60:40 informal to formal ratio and estimating the average informal transfer to be K150 000. Potential revenue is estimated by applying the weighted average non-account transfer fees in the market currently to the principal amounts (see Table 2).

Table 2: Estimated current and potential non-account money transfer market: Scenario one

	Total annual transactions	Estimated average transaction value (ZMK*)	Total market transaction value (ZMK billion)	US$ million equivalent	Estimated revenue potential (ZMK billion)
Cross-border	156 000	1 200 000	187.2	51	15
Small value domestic	840 000	75 000	63	17	19
Larger value domestic	360 000	250 000	90	25	11
Total formal market	**1 356 000**	**250 885**	**340**	**93**	**45**
Estimated informal	2 034 000	150 000	305.1	84	52
Total potential market	**3 390 000**	**190 354**	**645**	**177**	**97**

*ZMK = Zambian Kwacha

As only about 1.1-million people (14.6% of the adult population) are banked (FinScope), the current non-account money transfer market amounts to up to 40%[7] of the banking market in terms of retail clients.

Wider payments market potential: The potential market for small-value payments is not limited to the non-account, person-to-person market described above. At least five additional current and potential avenues exist (these channels are not mutually exclusive and there may be some overlap):

- **Account-to-account transfers:** The number of account transfers within the banking sector that can be classified as remittances/small-value transfers is not known. As the Zambian access frontier identifies an additional 4.5-million bankable people (60% of adults)[8], there is still significant scope for growth in this market.
- **Business-to-person payments (agriculture):** MTZL estimates that there are close to one-million cash payments a year by processors/outgrower schemes to farmers or employees. This presents a potential additional money transfer market of up to 70% of the current potential market.
- **Business-to-person payments (other sectors):** Add to this that many employees in other sectors still receive their wages in cash, and the market for intermediated payments escalates. People also have transaction needs beyond receiving wages. The type of person-to-business transactions conducted by Celpay should be included in the picture.
- **Business-to-business transfers:** It is estimated that there is still significant scope for growth in the business-to-business market, such as the transactions between distributors and dealers facilitated by Celpay. The retailer footprint of these dealers also has the potential to serve as distribution points for person-to-person transfers.
- **Government-to-person transfers:** Government is considering a social cash-transfer payment mechanism through which up to 10% of the population will receive an average amount of K47 500 a household on a bi-monthly basis by 2012. Though these payments are too low to expect that people will transact part of them electronically, they provide an entry point into the formal sector from which they can receive remittances, as well as introducing the service to others in the community.

All these avenues are ways of introducing the market to formal financial services and familiarising people with electronic means of transacting. This simplifies the next step, namely person-to-person transfers and ultimately branchless banking.

Scenario two – based on FinScope

FinScope data breaks down the remittance behaviour of the adult population into informal and formal use (see Table 3).

Assuming an average frequency of three sending transactions a year and applying the same formal versus informal average transaction amounts used in Scenario one, Table 4 breaks down the current and potential market estimates for Scenario two. This total market estimate is about 40% higher than in Scenario one.

Table 3: Formal versus informal market estimates according to FinScope

Channel used – total senders	Number of senders	% of senders	Percentage of total adults
Total formal	718 053.51	47	9.5
Total informal	811 998.72	53	10.8
Total	**1 530 052.23**	**100**	**20.3**

Table 4: Total current and potential market size: Scenario two

Channel used – total senders	Annual transactions	Assumed average value (ZMK)	Total market estimate (ZMK billion)	Total market estimate (ZMK billion)
Formal	2 154 161	250 000	539	65
Informal	2 435 996	150 000	365	62
Total	**4 590 157**	**(weighted average) 196 930**	**904**	**127**

[6] These transactions were therefore excluded from the market calculations below. Note, however, that there may be some revenue-sharing agreement whereby revenue is still generated by in-bound transactions. The market size calculation may therefore be underestimated.

[7] Calculated by assuming an average frequency of 3 transactions per sender per year, rendering 452,000 remitters.

[8] Eighty20, 2007. *The Access Frontier for financial services in Zambia.* Available at: www.finmark.org.za

Regulatory environment

There is no indication of adverse effects of regulation in general or anti-money laundering requirements in particular on the ability of people to access financial services. This also applies to financial institutions servicing low-value accounts. Though the regulatory framework (see box) is based on international principles, the Bank of Zambia recognises that regulation should be tailored to local conditions and financial institutions are encouraged to be proactive in finding solutions that will minimise the impact on access. The overall impression is that the regulator has an open-door stance, and is willing to work with financial institutions to find a satisfactory solution.

Regulatory framework

The following laws and policy directives are relevant to money transmission in Zambia:

- The Financial Sector Development Plan and the Bank of Zambia strategic plan.
- The Banking and Financial Services Act and its subordinate legislation.
- The National Payment Systems Act.
- The Prohibition and Prevention of Money Laundering Act and its subordinate directives.

Making remittances work for the poor

FinMark Trust's mission is to make financial markets work for the poor. In the remittances sphere it implies increasing the welfare of the poor by decreasing costs and increasing security, convenience and time efficiency. But how can the money transfer market work better for the poor? Can the general welfare of poor people be improved by increasing the share of the formal market? And can this be done in a way that is attractive to suppliers? There are a number of opportunities and challenges to achieving this objective:

Opportunities

The low-income population has demonstrated the need to transact: This implies significant scope for market expansion. Even the poorest of the poor need to transact and send money to others and can benefit from gains in efficiency and from transacting electronically.

Opportunity for non-account based transfers: The attractiveness of a money transfer service lies in its non-account nature – for practicality and flexibility.

Conducive regulatory stance: The Bank of Zambia is perceived to be open to finding a regulatory solution for new ventures and channels that minimise regulatory risk and facilitate innovation in expanding the money transfer mass market.

Increasing interest in alternative distribution: Partly driven by success-stories elsewhere, players are starting to see the potential for alternative distribution channels, including m-payments.

Challenges

The **supply-side** challenges include:

Extending the distribution network: The limited footprint of the financial sector is the biggest challenge.

Making agent relationships work: Agent relationships are key to expanding the distribution footprint. Yet many players have difficulties in getting agents to maintain the necessary cash float to honour all transactions.

Achieving interoperability: The limited interoperability of the banking system is a significant barrier to mass-market expansion. Realising this, the Bank of Zambia is purchasing a national switch to concentrate traffic, bring down costs and extend the distribution network.

Making cost-effective use of technology: Technology is of utmost importance in making money transfers cheaper and more accessible. However, the technological platform and the associated cost and expertise needed to conduct money transfers in a competitive way remain a challenge for many.

Overcoming connectivity challenges: Several industry players mention connectivity as a challenge, such as slow and unreliable landlines, a lack of internet penetration or problems with GPRS (General Packet Radio Services) mobile internet.

Bringing down the cost: Cost did not emerge as a significant consideration from the informal interviews, and informal channels are also relatively expensive to use. That however does not mean that significant welfare gains cannot be had from reducing the cost of formal remittances. The weighted average cost of a formal, non-account transfer is 22% to send K100 000, 13% to send K200 000 and 10% to send K300 000, implying that the bus driver channel remains cheaper for amounts lower than K300 000. Many people indeed transact such low amounts.

The **demand-side challenges**, though fewer, are of equal importance:

Consumer awareness and trust: The widespread lack of consumer awareness as well as a general distrust of the formal financial sector undermines the scope for formal market penetration. The low-income market also often finds the financial sector daunting or intimidating.

Cash culture: A related issue is the widespread cash culture in Zambia. FinScope as well as anecdotal evidence suggests that even the banked tend to withdraw their full salary in cash.

Way forward

Greater use of formal products can enhance consumer welfare only if they are more reliable, cheaper, quicker and more accessible than informal channels. The target market needs to be made aware of the advantages of formal products and the options. This calls for inventiveness and an effort by formal players to change perceptions and ensure real benefits in switching to formal services.

If the challenges of distance and cost can be overcome, the welfare of senders and recipients will improve and an increase in transactions is likely. From a supplier's perspective, this will increase revenue and also facilitate better and more agent relationships. As penetration increases, the benefits to others of transacting electronically will also increase (a positive network effect). It will, however, depend on the ability of service providers to harness alternative distribution channels and make agent relationships work.

The next step will be to move beyond pure transaction/payment products to value-add product use such as interest-earning savings, or even just a secure store of value to further increase consumer welfare (and revenue potential for operators). To achieve this end-result, small-value payments and transfers are needed as an entry point into the formal financial services sector, as they are able to create awareness and build trust.

Financial Access Matters is an investigative publication on financial issues in Zambia, produced by FinMark Trust Zambia Ltd. The analysis in this publication is based on a study undertaken by Christine Hougaard of the Centre for Financial Regulation and Inclusion (Cenfri). A copy of the full report is available at http://www.finmark.org.za/documents/RemittancesZambia.pdf

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