



The landscape of remittances in Zambia

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List of abbreviations

A2A	Account-to-account
AML	Anti-money laundering
B2B	Business-to-business
CDD	Customer Due Diligence
CFT	Combating the financing of terrorism
CSO	Central Statistical Office
DRC	Democratic Republic of the Congo
FSDP	Financial Sector Development Plan
GPRS	General packet radio service
IFAD	International Fund for Agricultural Development
IOM	International Organisation for Migration
KYC	Know your customer
LCMS	Living Conditions Monitoring Survey
MFI	Micro-finance institution
NBFI	Non-bank financial institution
NPS Act	National Payment Systems Act
P2B/B2P	Person-to-business/business-to-person
P2P	Person-to-person
POS	Point of sale
PSB	Payment system business
SADC	Southern African Development Community

1. Introduction

This study assesses the remittances landscape in Zambia. Zambia is a low-income country whose people are mostly poor and rural. Nevertheless, it has recently experienced significant GDP growth.

Population (2007), million	12
GNI per cap (Atlas method), US\$	800
GDP, US\$ billion	11
GDP growth (2006-2007), %	6
% of population below the national poverty line	68
Urbanisation rate, %	35
Life expectancy at birth	42
Structure of the economy, %:	
Agriculture	22
Industry	38
Services	40

Table 1. Zambia at a glance

Source: World Bank, 2008

As little hard data on remittance flows was available, we have not tried to provide an in-depth analysis of the remittances market. Rather, the sections below assemble the pieces of the puzzle to give an impression of the realities of remittances in Zambia – the trends, opportunities and challenges. The aim is to trigger debate and suggest areas for future research by sharing these findings with industry, regulators and other interested parties.

Problem statement. The intention is to improve the welfare of low-income individuals through the greater use of money transfer services. The question this study asks is whether the use of formal rather than informal channels can enhance welfare and, if so, whether the market has enough potential to make it viable for suppliers. Opportunities for welfare enhancement and, from a supplier’s perspective, increased volumes and revenue arise when improved supply meets latent demand for more affordable and accessible services. This provides an entry-point into the formal financial sector from which users can graduate to a wider range of services. It also has a valuable demonstration effect in the community.

The report is structured as follows:

- *Section 2* gives an international perspective on the definition, global flows and importance of remittances.
- *Section 3* sketches the remittances landscape in Zambia. Firstly, it defines the remittances in a way that is relevant to Zambia. Then it gives an overview of migration levels and trends in that country. This is followed by a discussion of the demand for money transfers in Zambia, formal and informal, and an overview of supply-side factors, such as the players, products and distribution mechanisms, drawn from consultations with industry and other sources. Based on this information, section 3.5 offers scenarios on the possible size of the total remittances market.
- *Section 4* gives an overview of the regulations affecting remittances in Zambia.

- *Section 5* draws out the opportunities and challenges facing the formal remittance/money transfer market in Zambia.

2. Remittances: an international perspective

International definition. Remittances are defined internationally as “monies sent from one individual or household to another” or “transfers of funds from people in one place to people in another” (Sander, 2003; International Year of Microcredit, 2005). They can be domestic (national remittances), but in most cases are funds sent across national borders to family and friends (international remittances). Remittances are, therefore, non-reciprocal transfers from one person to another across a distance. According to the United Nations,¹ remittances are usually regarded as “regular transfers between members of the same family in different countries, with persons abroad being absent for a year or longer” (emphasis added). Most often, they are linked to migration. In 2007 the International Fund for Agricultural Development (IFAD) defined remittances as “the portion of migrant workers’ earnings sent home to their families”.

Channels. Formal remittance channels include banks (such as SWIFT or domestic account-to-account transfers) and money transfer operators, such as Western Union, MoneyGram or other platforms and their agents. The formal channels have, however, been prejudiced by high costs and strict regulatory controls, leading to the proliferation of informal channels. Informal channels include returning or visiting migrants carrying money with them, returning family or friends, import-export businesses, and retail shops or currency dealerships acting as money transfer operators on the side with little or no documentation. Typically, transactions are communicated by phone, e-mail or fax to the counterpart, whether a relative’s business abroad or a partner organisation, which then pays out the money (Sander, 2003).

Economic importance of remittances. The importance of remittances to the economies of many developing countries is indisputable. On a macro-level, they have a multiplier effect on the economy and are a source of foreign exchange and capital inflows. In many poor countries, remittances are the largest and most stable source of external financing, exceeding even export revenues. Recorded remittances are more than twice as large as official aid and represent nearly two-thirds of foreign direct investment flows to developing countries (Ratha et al, 2007). At the micro-level, remittances provide many families with a livelihood, while money sent home by migrant labourers is an expression of family bonds (Leibsohn, 2004). Money transfers may also introduce a person to the financial sector² and serve as an entry-point for the use of other services.

International flows and trends. Worldwide, remittances amounted to US\$318-billion in 2007. Of this, more than \$240-billion flowed to developing countries, sent by migrant workers abroad. This has more than doubled since 2002. These amounts do not reflect unrecorded flows, and the real figure is believed to be significantly higher. The Latin American/Caribbean region received the most recorded remittances. Measured as a share of GDP, however, the North African/Middle East region is the largest recipient. India, Mexico and China accounted for nearly one-third of remittances received by developing countries in 2007 (Ratha et al, 2007). The top recipient countries, both in absolute flows and as a percentage of GDP, are indicated in the figures below:

¹ In an undated presentation on the definition of remittances published on the World Bank website.

² For some, remittance transactions are also an *alternative* to entry into the formal financial sector, as opening an account is in most cases not a prerequisite for sending a remittance. Rather, subject to certain know your customer (KYC) requirements, which differ between countries, money can be transferred by “walk-in” customers.

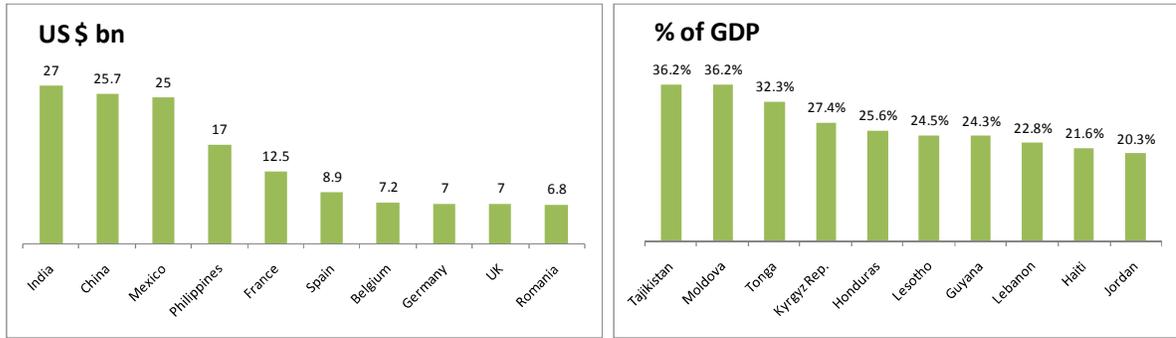


Figure 1. Top receivers of remittances, 2007

Source: Ratha et al (2007). World Bank. Based on IMF Balance of Payments Statistics Yearbook 2007.

Remittances in Africa. Official records do not accurately measure flows to sub-Saharan Africa. In many countries the volumes are grossly underestimated, with wide reporting gaps (Ratha et al, 2007). The official picture, according to IFAD's 2007 report "Sending Money Home", is as follows:

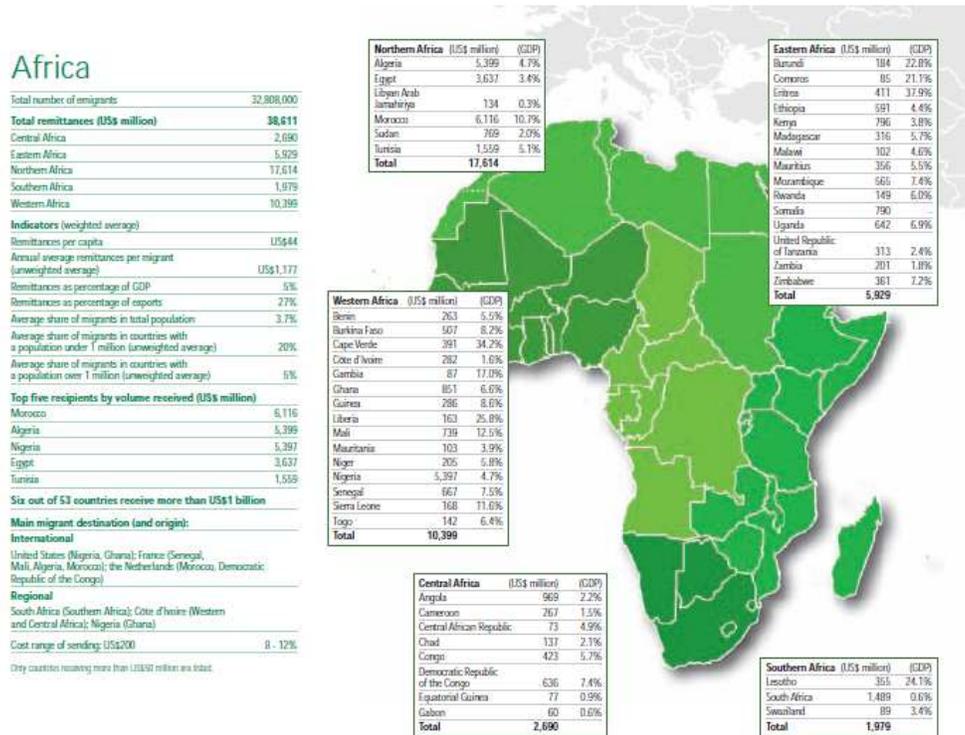


Figure 2. Remittances in Africa – official figures.

Source: IFAD, 2007

The regions which receive the most remittances in Africa are Northern and Western Africa. Eastern Africa has annual remittance flows of almost US\$6-billion, of which Zambia receives about 3%.

Remittances in the Southern African Development Community (SADC). The official figures for this region are widely considered inadequate, as no SADC country tracks remittances as a separate line item in its balance of payments estimates. However, a paper prepared for the FinMark Trust (Genesis

Analytics, 2005) estimated remittance volumes by using migration estimates and assessments of the way in which SADC migrants remit. The volume of cross-border remittances in the SADC was estimated at least R6.2-billion, or about US\$1-billion at the time. The study gave no specific estimates for Zambia.

2.1. The remittances landscape in Zambia

This section builds the picture of remittances in Zambia from various angles. Firstly, it considers the definition of remittances applied in the rest of the study. Then, given the traditional link between remittances and migration, it looks at migration patterns to see what they show about remittance behaviour and trends. This is followed by an analysis of the demand and supply sides of the money transfer market in Zambia, including available information on the informal market. Finally, the section tries to estimate the total current and potential market.

2.2. A definition relevant to the Zambian context

By international convention, remittances are defined as non-reciprocal transfers, with the beneficiary receiving the transfer as a gift; as transfers from one person to another, rather than between businesses; and, most often, as transfers by migrant workers. However, research indicates that this may be too narrow a definition for the Zambian context.

Remittances as small-value payments. People we consulted in Zambia underscored the need to consider relatively small-value payments between businesses, such as small traders, and payments for services or goods, for example, school fees for a nephew or niece living in a rural area, or groceries for a parent. It was suggested that the net should be thrown wider than migrant workers, and that what is really relevant in Zambia is the *transacting needs* of the low-income market. The consensus was that the way in which people conduct transactions should be formalised by sending person-to-person transfers, paying for agricultural inputs, or being paid for services or goods. Remittances or money transfers should, therefore, be seen as a payment mechanism which formalises cash transactions in a way that is safe, reliable, affordable and engenders trust. In the process, they can change behaviour by offering an entry-point into the formal financial sector. Once a person is familiar with electronic payments, he or she can move to other transactions, such as an account which can be used for savings.

Wider definition supported by Bank of Zambia. In planning to track remittances (see the discussion in section 2.6.1 below), the Bank of Zambia has thought carefully about what they are. It decided to focus on small-value retail payments. This definition is broad enough to include traders' remittances and payments, for example, to a school for a child's education, but narrow enough to exclude large corporate transactions or electronic fund transfers by the middle-income market unrelated to remittances. What constitutes a "small-value" payment has not been established.

Significance of definition for the rest of the report. One of this report's main findings is, therefore, that remittances or money transfers should be defined in the Zambian context as small-value payments or transactions, rather than merely as non-reciprocal person-to-person transfers by migrant workers. While workers' remittances (linked to migration, as discussed below) remain one of the drivers of the money transfer market, they are not the only driver. The need for countless transactions and payments is evident throughout the economy.

2.3. Migration patterns in Zambia

Migrant workers have traditionally been seen as fundamental to the remittances market, and this section considers patterns of migration in Zambia. As already discussed, the rest of the analysis will not confine money transfers to workers' remittances, but will consider them as one driver of money transfer behaviour.

Low international migration. Because of its political and relative economic stability, there is less emigration from Zambia than many of its neighbours³. People who do emigrate tend to be skilled, meaning that they generally come from the middle to higher income brackets. They tend to send money home via MoneyGram or Western Union, or even SWIFT transfers.

Zambia shares its border with eight countries and houses refugee groups from, among other countries, Angola, the Democratic Republic of Congo (DRC) and Zimbabwe. However, the International Organisation for Migration (IOM) estimates that economic migration into Zambia is limited⁴. This is confirmed by the Migration and Urbanisation Census of 2000 (CSO, 2003), which shows that immigration has declined steadily in recent decades. It found that 27% of immigrants to Zambia had professional or technical training, while 18% were active in agriculture or fishing.

The World Bank (Ratha & Xu, 2007) gives the following cross-border migration figures for Zambia (quoted directly):

<p>Emigration, 2005:</p> <ul style="list-style-type: none">• Stock of emigrants: 150 281• Stock of emigrants as percentage of population: 1.3%• Top 10 destination countries: Tanzania, United Kingdom, Malawi, Namibia, United States, Mozambique, Australia, Canada, Netherlands, New Zealand. <p>Skilled emigration, 2000</p> <ul style="list-style-type: none">• Emigration rate of tertiary educated: 10%• Emigration of physicians: 89, or 11.5%, of physicians trained in the country (<i>Source: Docquier and Bhargava 2006</i>)• Emigration of nurses: 1 110 or 9.2% of nurses trained in the country <p>Immigration, 2005:</p> <ul style="list-style-type: none">• Stock of immigrants: 274 842• Stock of immigrants as percentage of population: 2,4%• Female as percentage of immigrants: 50.4%• Refugees as percentage of immigrants: 55.4%• Top 10 source countries: Angola, Democratic Republic of Congo, Zimbabwe, Malawi, India, Republic of Congo, South Africa, United Kingdom, Mozambique, United States.
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Emigration from and immigration into Zambia is low. Only 1.3% of the population has emigrated and only 2.4% of the population comprises immigrants, most of them from neighbouring countries. Most immigrants are refugees, while emigrants tend to be skilled.

³ Personal communication from the International Organisation for Migration Zambia's head of mission.

⁴ Personal communication from head of mission.

Internal or domestic migration follows a unique pattern. The IOM's Zambian mission argues that Zambia exhibits a rather unique migration pattern, a view confirmed by most market players we spoke to. Whole families tend to migrate to the urban areas in search of better livelihoods. Migrant workers, therefore, send money back to their elderly parents or extended families but not to their immediate families. This sets Zambia apart from many other countries, where single migrant workers regularly send money to their families abroad or in rural areas.

Official migration data. The most comprehensive information on migration is contained in the Central Statistics Office's (CSO) migration and urbanisation census of 2000, which will be updated in 2010. According to the 2000 report (CSO, 2003):

- The stock of domestic *in-migrants* in 2000 totalled 1.68-million people, or 18% of the population. This has fallen steadily as a percentage of the population since 1980, when it amounted to 22%. An "in-migrant" is defined as someone "who changes his usual place of residence by crossing an administrative boundary and residing in a new area for a period of not less than six months, or intends to stay in the new area for a period of not less than six months".
- Total *net migration* – the balance of out and in-migration – indicates a net in-migration of 0.9% of the population in rural areas and a net out-migration of 1.4% of the urban population between 1990 and 2000.
- The upshot is that the urbanisation rate declined from 39% in 1990 to 36% in 2000.
- Nevertheless, the three most urbanised provinces (Central, Copperbelt and Lusaka) still have the highest proportion of people born elsewhere (defined as "lifetime migrants") – more than 37%. At district level, the figure was more than 38% for all Copperbelt Province districts, rising to 40% for Lusaka district and 44% for Kabwe.

Migrants show the following characteristics:

- *Education.* Only 7% of migrants to Lusaka province and 4% of migrants to the Copperbelt were educated to the highest level, while 50% of those migrating to North-West Province had no education at all. About 30% of all migrants have completed primary school, the highest category in all provinces but one.
- *Working and non-working.* The hypothesis that whole families tend to migrate is supported by census findings, which underscore the high proportion of non-working migrants still attending school or in other age groups. The proportion of working migrants is highest among those in the 20-29 age group, who apparently support family members.
- *Occupation.* The largest occupational groups among migrants are agriculture, fishing and animal husbandry. There are, however, significant numbers of migrants (4%) with professional and technical training in the Copperbelt and Lusaka districts. Migrants working in sales are also found in all provinces.

Migration was also tracked by the Living Conditions Monitoring Survey (LCMS) of 2004⁵ (CSO, 2005), which gives a more up to date picture than the census. Tracking whether a person migrated (stayed in another area for more than six months) during the 12 months before the survey, it found the following for *individual migrants*:

⁵ Note: the 2006 survey had not been released at the time of writing.

- 4% of the population migrated during the previous year, down from the 5% measured in the previous LCMS (1998). According to the CSO, the 2006 LCMS indicates a further fall to 3%.
- As the following table indicates, migrants are more likely to be female, urban, non-agricultural and non-poor, and to reside in either the Copperbelt or Eastern provinces:

Characteristics	Migration Status				Total	
	Migrants		Non-Migrants			
	Number	Percent	Number	Percent	Number	Percent
All Zambia	383,121	4	10,809,417	96	10,992,538	100
Sex						
Male	187,660	3	5,213,579	97	5,401,239	100
Female	195,461	4	5,302,694	96	5,498,155	100
Residence						
Rural	184,893	3	6,510,952	97	6,695,845	100
Urban	198,228	5	4,098,465	95	4,296,693	100
Rural Stratum						
Small Scale	145,597	2	5,862,956	98	6,008,553	100
Medium Scale	5,211	2	330,220	98	335,431	100
Large Scale	1,555	6	28,067	94	27,622	100
Fish Farming	-	-	13,808	100	13,808	100
Non-Agriculture	32,530	10	277,602	90	310,432	100
Urban Stratum						
Low Cost	128,230	4	2,904,173	96	3,032,403	100
Medium Cost	42,514	5	780,757	95	803,271	100
High Cost	27,484	6	433,535	94	461,019	100
Province						
Central	39,355	3	1,097,111	97	1,136,466	100
Copperbelt	65,598	4	1,598,572	96	1,664,170	100
Eastern	68,558	5	1,446,047	95	1,514,605	100
Luapula	23,865	3	839,631	97	863,496	100
Lusaka	52,297	3	1,481,187	97	1,533,484	100
Northern	48,875	3	1,359,494	97	1,408,369	100
North-Western	16,252	2	641,388	98	657,620	100
Southern	40,134	3	1,321,511	97	1,361,645	100
Western	28,187	3	807,438	97	835,625	100
Poverty Status						
Extremely Poor	110,952	2	4,934,635	98	5,045,587	100
Moderately Poor	51,789	4	1,389,127	96	1,440,916	100
Not Poor	220,380	5	4,192,511	95	4,412,891	100

Table 2. Migrants and non-migrants by residence, income stratum and province, Zambia 2004

Source: CSO, 2005. LCMS 2004, Table 5.1

- The data also shows that the highest migration took place in the following age groups: 20-24 (5%), 25-29 (5%) and 30-39 (4%). Migration tapers off significantly for older people.
- Migration was found to be higher within urban and rural areas than between them. A total of 32% of migrants migrated within the rural areas, while 38% were intra-urban migrants. The extent of rural-to-urban and urban-to-rural migration was roughly the same.
- The main reason for migration, listed by 35% of migrants, was the fact that the household head had to move.

The idea that whole households tend to migrate is supported by the *household migration* analysis, which found:

- That migration is strongly influenced by the movement of the household head. In fact, household migration (4% of households) is the same as individual migration (4% of total).
- That the patterns of household migration are roughly the same as for individual migration. Though the provincial spread differs slightly, rural versus urban migration shows very similar trends. Most migrating household heads tend to be between 20 and 24 years of age, followed by the 12-19 age group (the prominence of such young household heads is a new trend since 1998) and the 25-29 group.

Summary. In contrast with international migration, domestic migration seems to affect a sizeable number of Zambians. There is, however, no clear pattern of migration, though rural-to-urban or

urban-to-rural movement is less pronounced than movement within rural or urban areas. Domestic migrants tend to be less educated than emigrants, though migrants tend to have higher incomes and are less likely to be subsistence farmers than non-migrants. Furthermore, whole families tend to migrate, rather than just breadwinners. This points to a country with a coherent social structure and a more balanced economy than many other low-income countries. As the discussion below shows, remittance behaviour in Zambia matches this picture.

2.4. Demand-side insights on remittance behaviour and channels

The demand-side discussion draws on three sources:

- **FinScope™** findings⁶ on consumer behaviour and preferences.
- Anecdotal evidence and insights gained from **consultations with industry and government role-players** on channel preferences and behaviour.
- **Informal street-level interviews** conducted in four locations in Lusaka: the intercity bus terminal, Kamwala market, and Chawama and John Laing compounds. A formal survey methodology was not followed and the responses provide only anecdotal evidence. Though only 34 responses were obtained, they revealed certain trends in what is driving the market and the scope for formal market development. The full informal response matrix is given in Appendix 2.

Below, we unpack the demand for money transfers in Zambia by considering remittance behaviour, channel preferences and consumer perceptions.

2.4.1. Remittance behaviour

Sending money is common. According to FinScope (2005), **20.3%** of adults sent money during the six months before the survey. All the informal interviewees send money themselves from time to time or know of many people who send money. All the bus drivers interviewed are familiar with the idea of transporting money and are asked to do so almost every day⁷.

Profile of senders versus recipients. According to the experience of money transfer operators, senders and recipients tend to have the following profiles:

Typical senders	Typical recipients
Parents/guardians	Students and pupils
Breadwinners, such as mineworkers	Relatives living in another town/district
Cross-border and local traders	Traders' business partners or families
Companies paying wages in areas where there is no bank branch	Workers
Once off-transactors	Once-off transactors

Table 3. Profiles of typical senders versus typical recipients

Source: industry feedback

⁶ FinScope is a nationally representative study that benchmarks the use of, and access to, financial services. The first Zambian consumer survey was conducted in 2005. A follow-up survey is planned for 2009. See www.finscopeafrica.com

⁷ As the informal interviews were conducted in an urban area, all the respondents were senders rather than recipients.

FinScope reveals that remitters are more affluent⁸ and knowledgeable than their non-sending counterparts. They are also more likely to be banked and female:

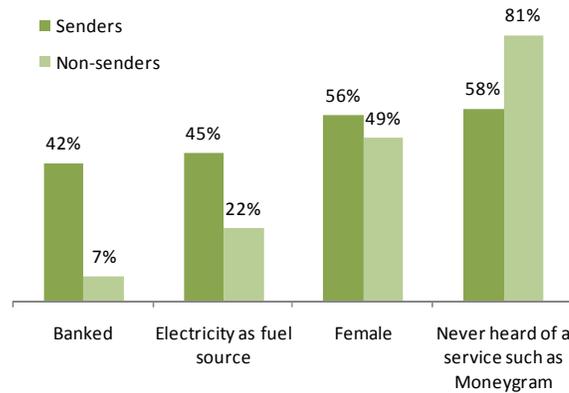


Figure 3. Profile of money remitters.

Source: FinScope, 2005

Few people send money regularly. With one or two exceptions, all the informal interviewees said they send money from time to time, rather than monthly or weekly. Most said they send money once or twice a year or three or four times a year. The frequency appears to be governed by:

- *Demand.* Most respondents send money in response to a demand or request. Common demands are school fees, sickness (if a family member needs to go to the hospital) or contributions for a funeral. There is some anecdotal evidence of money being sent at certain points in the agricultural cycle, for inputs such as fertiliser. Many informal respondents also send money as general support to family members rather than in response to a specific need.
- *Ability.* Some informal respondents indicated that they would send money more regularly if they could. One street vegetable trader, for example, tries to send something every month, but regularly misses a month because he earns too little.

The importance of income constraints is confirmed by FinScope, which indicates that about 70% of those *receiving* income from a family member receive it less often than monthly, while 78% of *senders* indicated that they do not transmit money according to a fixed pattern (see Figure 4).

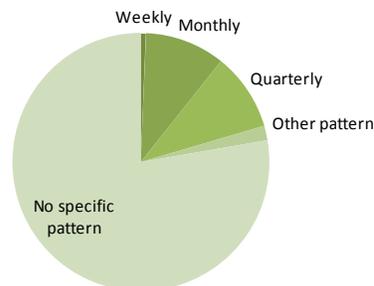


Figure 4. Sending frequency

Source: FinScope, 2005

⁸ Only 35% of the total population rarely or never goes without food, but this holds for 50% of the money senders. So remitters are less likely to go hungry than non-senders.

While some formal players indicated a peak in transactions at month-end (especially for international transactions), most agree that there is no regular monthly sending pattern.

Typical amounts vary. Though the typical amounts sent by the informal interviewees varied from about K100 000 (about \$25⁹) to as high as K700 000 (almost \$200), the typical remittance was between K250 000 and K300 000 (\$70 to \$80). Formal sector players indicated that international transactions range between K75 000 and K1.2-million.

The overwhelming majority of transactions are personal and domestic. Most people send money to family, though some send it to friends. The FinScope survey¹⁰ recorded very few business-related transactions and cross-border transactions are negligible. Informal interviews and feedback from industry confirmed the small proportion of international transactions in small-value transfers.



Figure 5. Recipients of money sent and frequency.

Source: FinScope, 2005

Difficult to isolate corridors. Transactions conducted by one market player point to the following corridors for the payment and receipt of domestic money transfers:

Region	Receiving transactions:	Sending transactions:
Copperbelt	40%	29%
Northern & Luapula	11%	13%
Lusaka & Central	30%	43%
Southern	17%	12%
Eastern & Western	2%	3%

Table 4. Corridor traffic: sending versus receiving transactions

Source: industry participant

The Copperbelt and Lusaka provinces seem to be the main senders *and* receivers, with Lusaka the largest sender (although not overwhelmingly so) and the Copperbelt the largest recipient¹¹. Other market players confirm that economic centres such as the Copperbelt and Lusaka tend to carry most

⁹ The exchange rate at the time of writing (as obtained from www.oanda.com) was used for all conversions, namely ZMK3644,66/USD. Recent depreciation may mean that the dollar amounts have changed.

¹⁰ Note, however, that the survey was constructed as a consumer-based and not business-based survey. It tracked whether consumers sent money to other consumers or to businesses and did not attempt to measure the behaviour of small businesses.

¹¹ This is counter-intuitive, given that the Copperbelt is such an urbanised province.

money transfer traffic. The traffic carried by the various corridors, however, is also linked to *seasonal factors*, making it difficult to isolate dominant corridors. According to a large domestic player, the following seasonal pattern can be observed:

- When schools close for holidays, money is sent to areas with boarding schools to enable pupils to travel home. The direction at such times could be from rural to urban areas.
- In contrast, when schools re-open, many transfers are made from urban to rural, indicating that urban dwellers send money to their extended families to pay school fees.
- When the rainy season is about to start, many transfers are made from urban to rural areas to buy agricultural inputs – a phenomenon confirmed by industry players. In some cases, people living in remote areas may also send money to towns to buy farm inputs.

General conclusions should not be drawn from these observations, as the direction of transfers changes from time to time. A town may be a net sender one week and a net recipient the next. This makes it difficult to isolate the main remittance corridors in Zambia.

2.4.2. Channel preferences

FinScope reveals the following channel preferences:

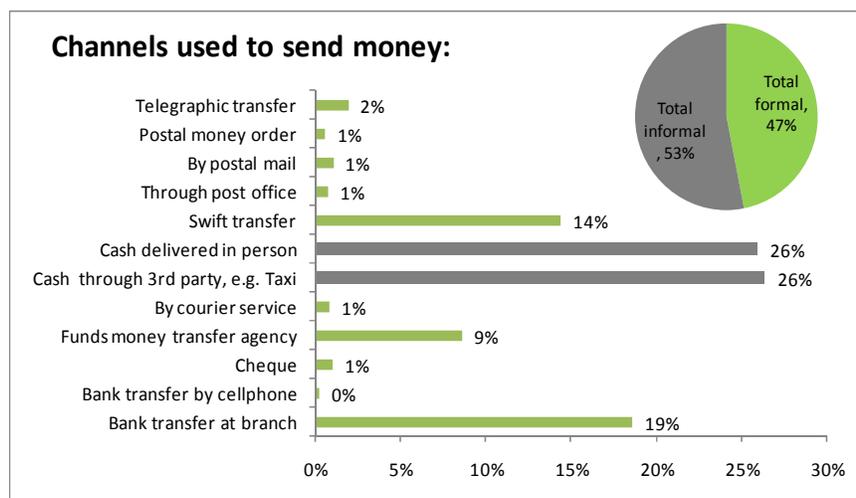


Figure 6. Channel preference of money senders

Source: FinScope, 2005

Anecdotal evidence from industry players and informal interviews¹² confirmed a preference for informal channels, and in particular for sending money via a third party, such as a taxi or bus driver, or delivering cash in person. The following patterns emerge:

Use of bus drivers/conductors common. Buses are the channel most often used by the informal interviewees, a preference confirmed anecdotally by formal sector and government role-players.

¹² The one anomaly seems to be that 14% of survey respondents indicated that they use SWIFT transfers, while only 1% indicated that they transfer money through the post office. This may indicate confusion among the respondents between SWIFT transfers (international electronic fund transfers) and Swiftcash transfers via the post office.

Typically, a person takes money in an envelope to the bus terminal, approaches a bus driver or conductor and hands over the money, with the recipient's name and phone number written on the envelope. The sender takes the bus driver's phone number and the registration number of the bus and sends this information, with the bus's expected time of arrival, to the recipient. The recipient then goes to the nearest bus stop and waits for the bus to collect the money. All bus drivers interviewed regularly transport money in this way. Some indicated that they do so a few times a day, others three or four times a week. The carrying of remittances in kind – unaccompanied goods – is also common.¹³

The fee charged by the bus driver sometimes varies according to the amount sent or the sender's bargaining power, but the norm seems to be about 10% of the amount sent.

One bus, which operates only between Lusaka and Kitwe, does not charge a fee. However, it requires passengers to become members of the bus service and then offers them money transfers as a service. The money is not physically transported, but is paid at an office at the bus terminal in one city and then claimed at the other end. In principle, the system operates exactly like Western Union or MoneyGram. Other bus companies physically transport the money.

Box 1. Case study: using the bus as remittance channel

Michael is a taxi driver who owns his own taxi. He comes from a village close to the Malawian border, where his elderly mother lives. He sends her money four times a year, each time remitting about K700 000, a relatively large sum. Michael has a bank account, though his mother does not have one and there is no bank branch in her village. Apart from sending cash, he often sends talk-time to other people using me2u. He has, however, never heard of or considered the possibility that such a transfer could be redeemed for cash.

He normally sends his remittances with a bus driver or conductor. The difficulty is that his mother does not have a cellphone and that the bus only stops at her village if a passenger wants to get off. After handing the money to the conductor, he phones somebody in the village and asks the person to tell his mother to go to the bus station. He provides the bus's licence-plate number and the bus driver's phone number. He also gives the bus driver a verification question (for example, "who sent the money and what job does he do?") which he also asks the person whom he phones to communicate to his mother. This is done to bypass the normal security procedure, whereby the bus driver phones the number provided to verify that the person collecting the money is the correct recipient. If the bus does not stop at his mother's village, she has to travel to the nearest bus stop.

Despite this rather complicated procedure, Michael sees the bus as the best channel. He says that Western Union, the only other channel he knows of, is just as complicated and would take more time. He would have to phone somebody else and send a message to his mother to travel to the post office. With the conductor, the money often goes directly to her village. Michael did not mention cost as a factor in deciding on the channel.

Sending money with a relative/friend. This is the most trusted and popular channel, even if, for practical reasons, it is not the most frequently used channel. Should a relative or friend travel to the area where the recipient lives, the sender will always prefer this method. It is the norm not to charge any fee. Among the respondents, however, most people still use the bus, as it is a more predictable and regular channel than sending money with a relative or friend.

Using formal channels. Not all informal interviewees use informal channels. Many also use Swiftcash, the most common formal channel, or Western Union, the second most common, through Zampost. One respondent uses MoneyGram through Finance Bank. This confirms the FinScope finding that a substantial proportion of money transfers are sent formally. Contrary to the FinScope findings,

¹³ While we were interviewing a bus driver, a man approached him with a bag of sugar and basic groceries to send to his sister in Harare.

however, no informal interviewee uses account-to-account transfers through a bank. Though a few respondents have bank accounts, many recipients do not, or do not have a bank branch in their town or village. Not surprisingly, recipients of money sent via Zampost live in towns with post offices. As discussed below, those who use formal and informal channels differed on their respective reliability.

Talktime transfers as informal remittance channel. Many of those interviewed in the formal and regulatory sectors said they had heard of talktime transfers being used as an informal way of remitting money. A person tops up his or her talktime, does a “me2u” transfer to somebody else and the recipient then sells the talktime balance, for example to a talktime vendor, for cash. Some said this is a particularly widespread practice among younger people and that the “fee” charged – the discount given to the buyer of the talktime – varies according to the relative bargaining position of seller and buyer (who most needs cash or talktime). According to one account, a vendor charged up to 30% commission to buy the talktime balance.

However, interviews with vendors indicated that this channel is not particularly well-known, and is certainly not as common a method of sending money as using bus drivers or relatives. Nevertheless, the channel was confirmed by a few vendors, who tend to charge about K5 000 on K20 000, a 25% fee. One vendor said she charges about K3 000 on K50 000, a 6% fee, and that she conducts transactions of this kind once or twice a week. Other vendors said they do this no more than once a week, and one said he had only conducted one such transaction. The vendors pointed out that they buy talktime wholesale at a price of K18 800 for a K20 000 voucher, a 6% discount. They make sure that they buy talktime more cheaply than from members of the public.

Sending money to a school principal or a community leader. One channel that did not emerge from the informal interviews, but was mentioned by a number of formal sector and government figures, is sending money for a child’s school fees directly or through an account to a school principal. Some people send money to the principal even if they do not want to pay school fees, asking him or her to withdraw the money and hand it to the recipient. This method is chosen because of the trust school principals enjoy in the community. The service is, however, not always free. One principal reportedly charges between 20% and 30% of the amount to withdraw the money from his account and hand it to the recipient.

Informal channels are not always cheaper, but cost was not raised as a major consideration. Informal transfers are not necessarily cheaper than formal transfers. Bus drivers charge a 10% fee, while a school principal may charge up to 30% and an airtime vendor 25% of the value of the money transmitted. For cross-border transactions, another problem is the cost of currency conversion. Though Zambia has no foreign exchange controls, it is not always easy or even possible to exchange kwachas in other countries. For this reason, people exchange kwachas for dollars, carry or send the dollars over the border, then change the dollars into the local currency, or vice versa for inward remittances. Double exchange fees apply to informal cross-border transactions. Seen in this light, account-to-account transfers and even non-account alternatives should be attractive to consumers. Yet none of the informal interviewees mentioned cost as a major consideration. What, then, determines channel choice?

2.4.3. Perceptions

Strong emphasis on convenience, but perceptions of convenience vary and tend to justify the chosen channel. It is interesting to compare the perceptions of those using buses or sending money with a friend with those of people using Swiftcash or Western Union. Without exception, the former say

they use buses because they are quicker, more reliable and more convenient, and because they trust the bus driver. They see formal channels as unreliable, inconvenient and slower. In FinScope, convenience and ease of use are by far the main considerations:

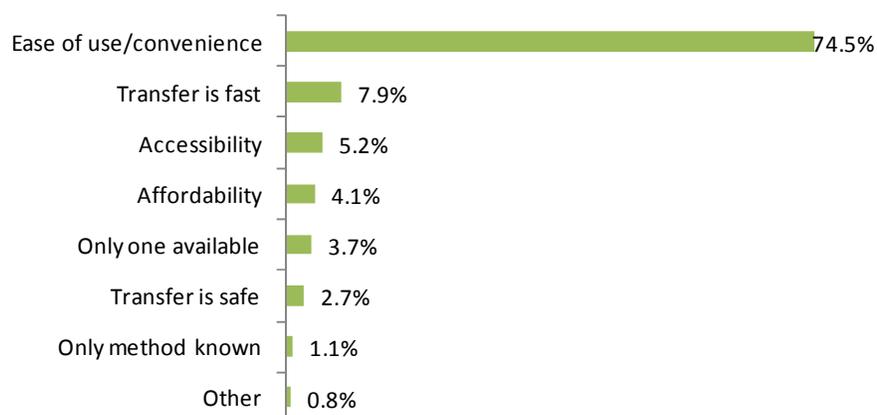


Figure 7. Reasons for channel choice among money senders

Source: FinScope, 2005

In reality, the bus may take many hours to reach its destination and arrive at any time of the day or night, requiring the recipient to stop all other activities and wait at the bus station at the designated time. If the bus is delayed, the recipient may have to spend several productive hours waiting for it.

In contrast, those who use formal channels point out that they do this precisely because they are quicker and more trustworthy than using buses. They emphasise that the money is available instantly through Zampost and that the recipient can collect it at his or her convenience. Some even said that the bus driver could not be trusted to deliver the full amount to the recipient.

Consumer awareness is the key to formal uptake. The relative popularity of informal channels can largely be explained by a lack of consumer knowledge of the features and trustworthiness of the formal system. Many people use informal channels because they know and have always used them. The formal sector could enhance its attractiveness by increasing its reach and efficiency, but must first convince the target market of its merits.

Distribution footprint. That said, distance and convenience remain major considerations. For many, bus routes are more accessible than the post office or banks. They use informal channels in the first instance because they are their only real option, and this shapes their perceptions. This will be considered in greater detail in section 2.5.2.

“Doorstep barriers”. Another factor that did not explicitly emerge from the informal interviews, but which more than one formal sector player raised, is the “hassle” or “intimidation” factor. People would rather deal with bus drivers whom they know than with a formal system that requires them to queue, fill in forms and go through an official process they may find intimidating¹⁴. There is anecdotal

¹⁴ Even a senior bank employee we consulted indicated that he finds it easier to send money to a relative by asking a colleague at the branch to withdraw the money from his bank account and give to the relative, rather than asking the relative to open a bank account and go

evidence that people may even find the security measures in banks, such as double doors, intimidating, and that the air-conditioning in formal outlets may deter some people, as they are not used to it.

2.4.4. Summary: demand-side insights

Money transfers in Zambia may be irregular and ad hoc, but they are pervasive in Zambia. They are not limited to the high-income market – low-income people also need to send money, even if they cannot do so regularly. The fact that remittance behaviour in Zambia is multi-directional (urban-rural and rural-urban, as well as intra-rural and intra-urban) points to the fact that the money transfer market is more about *transactions* than about the dependence of rural areas on urban remittances, a phenomenon confirmed by the discussion of migration patterns in section 2.3. The channel preferences and perceptions, however, indicate that the formal payment system does not have sufficient reach to service these needs. Combined with a lack of consumer awareness and distrust of the formal sector, this leads to a proliferation of informal channels, which may not be significantly cheaper or more convenient.

In the next section, the supply-side characteristics and challenges of money transfers in Zambia are unpacked.

2.5. Supply of remittances in Zambia

2.5.1. Players and products

The following **money transfer operators** are found in Zambia:

Western Union and MoneyGram. Western Union is active in Zambia through three agents: Zampost, which is by far the largest; Fredex; and Post.net. Standard Chartered also offered a service until mid-2008, but has now withdrawn. MoneyGram’s local agents are Finance Bank Zambia, Zanaco and Stanbic. Local observers indicate that MoneyGram transactions are limited to the middle- to higher-income market and that 99% of them are international, with 60% inbound. Through Zampost, Western Union conducts between 250 000 and 300 000 transactions a year – an average of almost 23 000 per month – for an average \$329 (about K1.2-million) per transaction. Some 65% of all transactions are estimated to be international, mostly inbound. Neither Western Union nor MoneyGram is considered a suitable instrument for mass-market small-value payments. Their fee structure (summarised in Table 12, page 40) is more suited to higher-value payments.

Swiftcash. The largest domestic money transfer operator is Zampost’s Swiftcash. Zampost is estimated to have at least 80% of the domestic formal money transfer market. Swiftcash averages 70 000 fairly low-value payments a month averaging between K50 000 (about \$14) and K100 000 (about \$27). Though Swiftcash is competitively priced relative to other services, fees for such small transfers can total between 30% and 15% of the amount sent (see Table 12, p.40). With 223 postal outlets, Zampost gives Swiftcash, and Western Union, Zambia’s biggest distribution network.¹⁵ As discussed

through the procedure and paperwork of an account-to-account transfer. Two other senior executives indicated that they prefer to send money with relatives or friends travelling to the rural area rather than conduct a formal transfer because of its convenience and low cost, and because there is no bank branch in the receiving village.

¹⁵ Swiftcash is available in all post offices with a telephone line. In a few of the most remote post offices Zampost is waiting for Zamtel to install phone lines before Swiftcash is introduced. Such post offices are, however, encouraged to use traditional money or postal orders.

above, the informal interviews indicated an awareness and trust of Swiftcash as the preferred channel, as long as there is a post office in the receiving town. It appears that the footprint, rather than fees, remains the biggest challenge to large-scale market penetration.

Cash4Africa (Money Express Ltd). Commercial Capital Corporation, the parent company of Money Express Ltd (the operators of Cash4Africa), was created in 2004 and is registered as a leasing company with the Bank of Zambia. Money Express was born of the realisation that most Zambians do not have bank accounts, yet need a money transfer or remittance service. The resulting money transfer product, Cash4Africa, is provided through a partnership with an organisation based in New Jersey, in the United States. It was launched in 2007 with the purpose of serving the unbanked and exclusively targets domestic money transfers. Money Express Ltd is registered as a payment systems business with the Bank of Zambia. Cash4Africa has 16 outlets, with plans for further expansion. It experimented with agents, such as internet cafés, as outlets, but found that they could not always be trusted to keep the required cash float. If cash is not available, the Cash4Africa brand suffers. For this reason, it was decided to work only through the company’s own outlets. Outside Lusaka, it targets border towns where there is a need for cash to clear goods coming into Zambia. Money is available to the recipient within five minutes of being sent. No minimum amounts are prescribed. The sender fills out a basic form without having to provide proof of identity and chooses a transaction identity number. He or she then informs the recipient of the number. The receiver goes to the outlet with the number and an identity document, such as a national registration card. If the recipient does not have a registration card, the sender has the option of including a test question which the recipient must answer to confirm that she or he is the true recipient.

Money Express plans to expand into m-payments, and is weighing the opportunities and risks through an m-payment pilot project.

How the models work. The money transfer mechanism is essentially the same for the three players above. A simplified representation of the model is provided below:

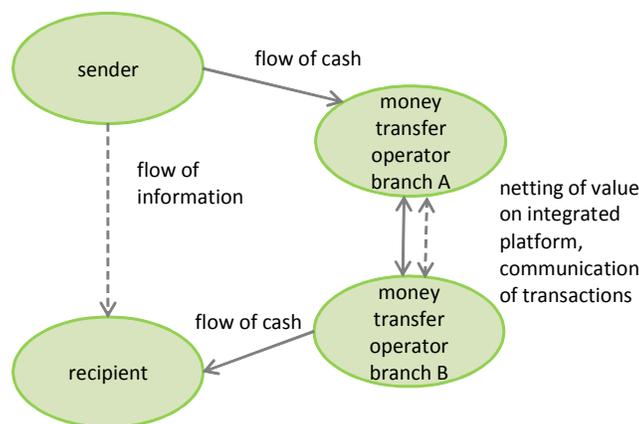


Figure 8. Model applied: MoneyGram, Western Union, Swiftcash and Cash4Africa

Source: author’s representation

National Savings and Credit Bank (Natsave) Transcash. Natsave offers Transcash as a service to customers and non-customers alike. Transactions are conducted on a non-account basis. At present,

faxes are used to transfer funds, though Natsave has now acquired a server and plans to introduce an internet platform. Apart from that, the process works much like that of Swiftcash or Cash4Africa. Among the challenges is the fact that it takes about a day to transfer money. Natsave plans to improve the efficiency of Transcash to make it more competitive. Furthermore, its branches are not yet online, meaning that money cannot be easily transferred between them¹⁶. Natsave is deemed registered under the National Payment Systems Act in respect of its Transcash operations, and must work with the Bank of Zambia to ensure that it complies with the new requirements. Registered as a savings bank, it has 26 outlets and close to 120 000 clients.

Natsave's historical context. Natsave is 100% state-owned and was formed specifically to encourage savings in the lower-income market. The difference between a savings bank and a commercial bank is that former is not on the clearing system. It cannot conduct direct transfers to another bank, but is itself the client of another bank, on which it relies for money transfers. The same holds for international transfers that are not on the SWIFT settlement system. From the client's perspective, the need for a two-step rather than direct transaction increases the cost. Historically, this disadvantage was countered by special tax treatment and the fact that Natsave could issue savings certificates which carried higher interest than the savings accounts of commercial banks. This advantage has, however, been eroded over time, and it no longer receive preferential treatment.

How the model works. Though the process of transferring money is essentially the same as in the other models described above, the fact that Natsave is not on the clearing system entails an additional step, as indicated in the diagram below:

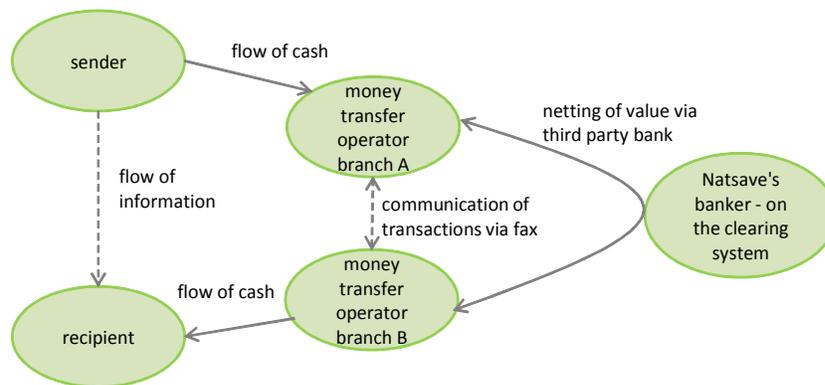


Figure 9. Transcash model

Source: author's representation

The future. Natsave's priority is to upgrade its management information systems in order to move its branches online and conduct electronic transactions. The next stage would be to branch out into other services and alternative distribution such as m-payments. It sees potential for m-payments, but implementation is a long way off.

¹⁶ It expects a connection to take some traffic from Transcash, as its own customers would then choose account-based transfers.

Celpay. Celpay has been in the market since 2002, born out of network operator Celtel, now Zain. Until recently owned by South African banking corporation FirstRand, it is now independently owned. It also has operations in the DRC and is entering Tanzania, although it conducts no cross-border transactions at present.

Business-to-business (B2B). Celpay’s initial focus was on retail payments, based on the desire to expand Celtel’s retail footprint into other services. Because of limited initial retail uptake, it decided to focus on B2B transactions. Celpay offers corporations which have a distribution network, such as Coca-Cola or Zain, the ability to collect payments without cash. It does this through a multi-bank, multi-network, multi-channel platform¹⁷ where dealers pay the company via a mobile phone instruction. The Celpay account is then linked to the corporation’s account and serves as a payment confirmation tool. Each party has an underlying bank account¹⁸ which is not an individual account opened and monitored by the bank, but a “virtual” Celpay account. Celpay has an agreement with the bank and holds a trust account with it. The individual bank account is on the Celpay platform, but remains sponsored by the bank¹⁹. A problem with this system is that a person who is already banked has to maintain two accounts, but Celpay is in talks aimed at linking the Celpay account to a conventional bank account. The ideal would be for clients to be able to deposit and withdraw money at the post office, banks and via Celpay’s point of sales (POS) network. This system has, however, not been implemented. The business-to-business transfer model can be represented as follows:

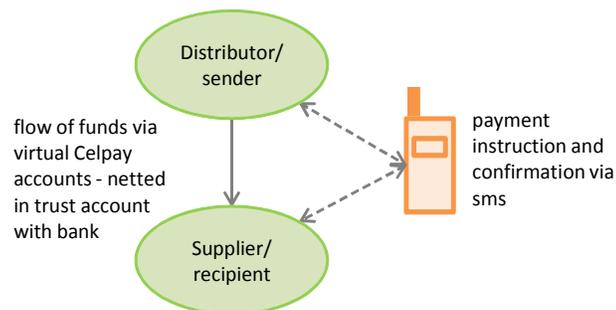


Figure 10. Celpay’s business-to-business model

Source: author’s representation

Person-to-business (P2B). Celpay is already venturing into the P2B market, offering services to companies such as utilities, Multichoice and even the Zambian Revenue Authority designed to facilitate payments by clients. It has found that the mobile-to-mobile system, as used in the B2B market, is not the best channel, as many people lack mobile phones and there is a need for cash points where cash payments can be made. As a result, the company has provided merchants in suitable areas with POS devices which work like mobile phones and carry a SIM card. A person presents cash at a cash agent, the merchant processes the payment on his or her behalf, earning a

¹⁷ The Celpay platform can work via mobile phone, POS or the internet.

¹⁸ The need for an individual bank account was a Bank of Zambia requirement. Celpay carries out KYC (“know your customer”) procedures on behalf of clients. As they currently only do business-to-business transactions (B2B), this is easy: the clients or distributors are known, with known addresses. It is easy to identify them and take pictures of them.

¹⁹ So, for example, an individual would open a Celpay Barclays account. The bank, however, sees only one account – the trust account reflecting the total balance of all individuals who have accounts. If it wants to examine individual transactions, it must request the relevant information from Celpay.

small commission, and sends an update to the relevant company billing the system. It has an auto-reconnect function if the connection goes down. The diagram below captures the essentials of this model:

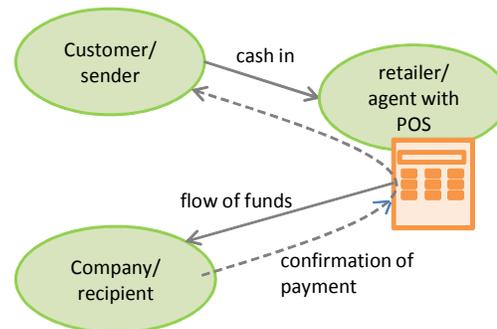


Figure 11. Celpay person-to-business model

Source: author's representation

The POS uses SMS general packet radio service (GPRS) to authorise transactions. It also has the ability to connect to Visa, but has not implemented this. Though Celpay has been talking to some banks about using its POS devices for cash transactions, this has not got off the ground. At present a merchant has a Celpay POS and a POS for one or more banks. Often the merchant uses a landline, which must be moved between POS devices. There is, therefore, a clear need for interoperability to increase efficiency and bring down costs (See section 4 below).

Person-to-person (P2P) plans. Using POS as a basis, Celpay would now like to re-enter the person-to-person (P2P) market²⁰. Creating customer awareness remains a big challenge, as a cash culture still predominates. People only use bank accounts if they have no other choice, for example, if their supplier requires them to pay into a bank account, or if their employer pays their salary into a bank account. This is why Celpay regards POS, rather than m-payments, as the fundamental channel for launching P2P. Once the POS channel is established as a purely cash payment model, people can be introduced to cash transfers, and then to money transfers using an account where they can conduct transactions directly by mobile phone. The next step would be to offer a form of savings account where they can deposit funds and earn interest. While there is definitely scope for branchless banking, Celpay's perspective is that this must be approached in a targeted fashion, focusing on trusted channels, for example by initially targeting clients of microfinance institutions (MFIs).

The secret is to have as many agents as possible. It is crucial to start with the post office, which has a wide distribution network. Furthermore, the plan is to offer m-payment channels to banks, outsourced so that they do not have to develop their own platforms.

MTZL (Mobile Transactions Zambia Limited). MTZL recently received a payment system business licence from the Bank of Zambia, and is about to start operations in Zambia, based on its successful pilot, Zoono, which focused on the 200 000 smallholder cotton outgrower industry. Agriculture, in

²⁰ Celpay argues that when it was first launched, P2P and m-payments were a new concept which the market had not warmed to. So it abandoned the model. Now, however, m-banking is an international buzz-word which has caught the attention of banks.

which more than two thirds of Zambians earn their livelihood, is the chosen route. The cotton industry welcomed MTZL's move to develop the system and integrate it with its cotton management system, as a way of simplifying and cutting the cost of payments, which were previously all conducted in cash.

From payment mechanism to money transfers to fully functional mobile financial services. MTZL's starting point is to foster, through its payment system, the adoption of a mechanism for the company to make payments to individuals. The recipient has to withdraw the payment entirely in cash. The next step will be to introduce a person-to-person transactions system, called "town transfers", whereby a person sends money via an agent to someone else. The farmer will still have to withdraw 100% of the payment in cash, but he or she will have the option of transferring any amount to another person via a network of agents. The next step will be to offer a mobile phone-based transaction account, offering similar functionality as a bank account but without a minimum balance or monthly fees. The motivation is to enable individuals to transact five times a month at a cost of less than \$3, seen as the affordability limit beyond which cash will be preferred. The required systems have been installed, but the knowledge and skills transfer needed, and consumer adoption and use, present a challenge.

How the current model works. MTZL's pilot found that many rural farmers lack cellphones – FinScope estimated that only 16% of adults had such phones in 2005. The system was, therefore, designed so that recipients do not need cellphones. The company plans to work through about 400 agents (12 companies with sub-agents). Agents include airtime resellers, agricultural input suppliers and other local organisations, and MTZL offers them a way to move cash into the banking system. The company supplies agents with wireless application protocol (WAP) phones, and payers and recipients conduct transactions via these by means of GPRS. The company registers the payee on the system via a PC or mobile phone, and the payee enters his or her personal PIN code. The company's payments are loaded into the MTZL system (confirmation of receipt can be sent to the user by SMS). The recipient then goes to the agent, who inputs the payment details on a mobile phone and the user verifies this by entering his or her PIN code. When the system verifies the payment details and the PIN code, it transfers the electronic funds from payer to agent. On confirmation of this, the agent pays the cash to the recipient. In effect, a bank account transfer has taken place between the company and the agent. Only registered bank account-holders – the company and the agent – can put money into or remove it from the system. The transactions on the recipient's account are transfers rather than cash deposits or withdrawals from the float and need not, therefore, be subjected to "know your customer" (KYC) requirements.

The following diagram provides a simplified representation of the money transfer mechanism:

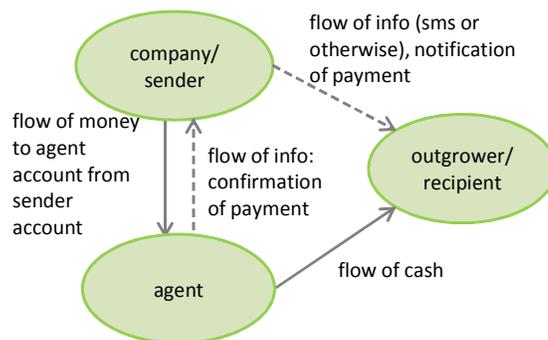


Figure 12. MTZL model

Source: author's representation

A number of commercial banks were also consulted on their remittance activities²¹. Banks transact money transfers in two main ways:

- *Non-account transfers*. Some banks (Zanaco, Finance Bank and Stanbic) act as MoneyGram agents.
- *Account-to-account transfers (A2A)*. All commercial banks also offer their clients A2A transfers.

There is limited publicly available information on the number of MoneyGram or A2A transactions conducted by banks. In the case of A2A transfers, banks cannot usually distinguish between transactions which are considered remittances and those which are not. Nevertheless, some common themes emerged from interactions with banks:

- *Non-account transfers by banks are mostly international*. MoneyGram is almost exclusively used for international transfers. Such transfers are small in international terms and are sent, by and large, by middle-class, skilled people from abroad. The banks, therefore, do not play an active role in the domestic, non-account, small-value transfer market.
- *Money transfers are not a core business*. Money transfers were not a core business of any of the banks. Some banks are hesitant to pursue m-payments or non-account transfers, because of inadequate information on the viability and scope of this market.
- *Are banks at a competitive disadvantage?* All role-players agreed that customers prefer informal channels and that when they use formal channels, they associate money transfers with Zampost rather than banks. Sometimes this stems from lack of awareness and trust, but often it is due to practical difficulties, such as the lack of a banking outlet within easy reach of recipients.
- *Yet there is market potential*. Nevertheless, all the banks consulted recognise the potential of money transfers as an entry-point for the unbanked into the banking sector. It is widely acknowledged that the unbanked still need to transact and transfer value, and that if the challenges of consumer awareness, trust, cost and distribution can be overcome, the formal sector could offer a service. Whether this can best be achieved through a non-account or account-based system is unclear, but the impression is that the banks should pursue an account-based solution. This has the potential of added functionality over time.

²¹ See the meeting list in Appendix 1.

- *A number of interesting case studies are emerging.* Two such studies are provided in section 2.5.2, one entailing m-banking and the other using retailer distribution. Both are to some extent “additive” rather than “transformational” models²² – they could expand the range of services used by existing bank clients, but their potential to expand into the unbanked market is largely confined to people already within reach of the distribution network. There is, however, an awareness of the need to use alternative distribution mechanisms and agent relationships, as discussed below.

2.5.2. Distribution

The “last mile challenge” – extending the financial sector footprint. The following data from the Living Conditions Monitoring Survey (LCMS) of 2004 (quoted in Oxford Policy Management, 2008) indicates the proximity of various facilities, including the post office and banks, to Zambian households:

Percent Distribution of Households by Proximity to Facilities, 2004

Facility	0-5 Km			6-15 Km			16 Km +		
	Total	Rural	Urban	Total	Rural	Urban	Total	Rural	Urban
Food Market	71.4	45.6	97.2	12.9	24.8	1	15.7	29.6	1.8
Postal office/agency	56.2	18.8	89.4	16.3	25.9	7.7	27.5	55.2	2.9
Community School	88.2	77	96.7	7.2	15.2	1.2	4.6	7.8	2.1
Lower Basic School	86.7	73.5	97.1	8	17.2	0.7	5.3	9.3	2.2
Middle Basic School	85	77.2	95.8	11.3	18.4	1.6	3.7	4.4	2.6
Upper Basic School	81	65	97.3	12.5	23.9	0.9	6.5	11.1	1.8
High School	54.8	18	81.6	13.2	19.4	8.7	31.9	62.6	9.6
Secondary School	53.4	20.4	85.7	14.8	21.9	7.8	31.8	57.7	6.4
Health Facility	75.5	56.7	96.9	17	30.7	1.4	7.6	12.6	1.8
Hammer mill	83.9	73.4	98.2	10.7	18.2	0.4	5.4	8.4	1.4
Input Market agriculture	54.6	26.5	86.8	18.4	25.9	9.9	26.9	47.7	3.3
Police station/post	63.9	26.5	96.5	13.6	27.5	1.4	22.5	46	2
Bank	50.8	9.6	82.4	12.8	17.5	9.3	36.4	72.9	8.3
Public transport	83.2	67.4	98.1	9	18.1	0.4	7.8	14.4	1.6
Public Phone	69	19.7	95.9	8.6	20.3	2.2	22.5	60	2
Internet	52.4	5.2	71.5	19	18.4	19.3	28.6	76.4	9.2

Source: LCMS 2004

Table 5. Percentage distribution of households by proximity to facilities, 2004

Source: Oxford Policy Management, 2008, based on the LCMS, 2004

The table shows how accessible money transfer channels are:

- *Post office.* It is clear from discussion with suppliers that the post office has the biggest rural footprint. According to the 2004 Living Conditions Monitoring Survey (CSO, 2004, quoted in Oxford Policy Management, 2008), 42.1% of all households – 28.3% rural and 58.2% urban – use the post office. Nevertheless, most rural people remain beyond the reach of the postal network. The post office is within 5km of 89% of urban households, but this holds for only 19% of rural households. Some 26% of rural households have to travel between 5km and 15km to the nearest post office and **55% have to travel more than 16km.**
- *Banks.* While the banks are constrained by their distribution network, an interoperable bank network, planned under the proposed national switch (see discussion in section 4), will have a combined footprint of about 220 branches, 247 ATMs and 656 POS devices.²³ (Bank of Zambia, 2008). Interoperability could dramatically increase the reach of each bank. Yet the post office

²² “Additive” and “transformational” are terms coined by Porteous (2007). “Additive” potential means expanding m-payments among those already banked, while “transformational” services use branchless banking to reach the previously unserved.

²³ It is not clear that this footprint is spread as equally across the country as the 223 outlets of the post office. For example, Lusaka and other major towns each have quite a number of ATMs and POS devices. Many towns may have a post office but no ATM or POS device.

remains far more accessible: **73%** of rural households and 36% of all households live **more than 16km** from the nearest banking outlet. According to FinScope (2005), 22.4% of banked individuals spend more than an hour travelling to their bank.

- *Public transport.* In contrast, 83% of all households (**67.4%** of rural households) are **less than 5km** from public transport and only 7.8% (14.4% of rural households) are more than 16km from public transport. This may largely explain the preference for using bus drivers to send money over formal money transfer mechanisms available through the bank or post office network.

Need for alternative distribution. The branch/ATM footprint is the main limiting supply-side factor. This is known in the remittances literature as the “last mile challenge” – reaching those traditionally beyond the formal sector’s distribution network²⁴. Though all players are expanding their footprint, they recognise that innovative approaches are needed to reach people who cannot afford to travel to a banking outlet. This highlights the need for new ways of extending the formal sector’s reach, through, for example, agent relationships or retailer distribution. Some market players said they were considering joint ventures with clothing or shoe retailers, cellphone network operators or supermarkets (a case study on supermarket distribution is summarised in the box below). Celpay and MTZL also use the supplier approach, whereby individuals are roped into the formal payments system through their relationship with a supplier or buyer, which introduces them to the formal financial sector. In general, however, plans for alternative distribution are not fully developed. They are also limited to the footprint of established networks such as supermarket or clothing chains. The use of smaller, non-associated agents to enlarge the footprint remains a challenge.

Box 2. The potential for retail distribution of financial services in Zambia: Shoprite and Finance Bank

Shoprite is the largest supermarket group in Zambia, with a network of 18 stores which will soon grow to 20. Some 95% of transactions conducted in-store are in cash. Though card transactions have been growing steadily, at around 0.5% a year, they make up only about 4% of transactions. Shoprite wants to enter partnerships with financial service providers which can assist the group’s management efforts. The group reached an agreement with Finance Bank Zambia whereby it will open money market counters in its stores that will, in effect, act as a branch of Finance Bank, where people can withdraw and deposit money. The concept has already been successfully applied in South Africa. The group is also looking to provide additional functionality, such as water and electricity payments and the sale of bus and air tickets. The banking services will largely be for Finance Bank clients/accounts. MoneyGram will be provided, but is unlikely to be a major business activity. Shoprite Zambia has not considered conducting domestic non-account transfers itself, as this is not its core business.

Shoprite realises the potential of a cash-back service, where withdrawals can be made from the cashier, but does not have the communications and IT platform to offer it. Using the lines of the state telecommunications company, Zamtel, may mean that the authorisation of transactions takes time or is interrupted, which can lead to queues and frustration.

Shoprite also performs some ad hoc services that are an interesting example of a potential money transfer mechanism. People sometimes ask to send a MoneyGram transfer from abroad in return for a standing order for groceries which the recipient then collects from the shop. This is not a formal Shoprite service – it only applies when someone living abroad requests it. The sender wants the cash used only for groceries, so that the recipient does not have to deal with other people’s demands for money. Sometimes the transaction is for a gift voucher rather than groceries. Shoprite believes it could develop this market, for example through a website where people transfer funds electronically and receive a reference number which entitles the recipient to a set hamper or gift voucher. However, it does not consider this core business and has no plans to pursue it.

²⁴ According to Yujuico (2008), the “last mile” refers to issues of access for remittances recipients, while the “first mile” refers to access problems for senders.

M-payments potential. M-payments were often mentioned as a potential channel for breaking open the mass market, and at least one innovation in this area has recently emerged (see the case study below). Up to three million Zambians have cellphones, representing a significant untapped market, both additive and transformational, for banks and dedicated money transfer operators. Less than 2% of the currently banked use phones to transfer money (FinScope, 2005). In addition, cellphones can be used to reach into the unbanked market. Forthcoming research by Quindiem Consulting for FinMark Trust (Kilfoil et al, 2008)²⁵ also shows that so-called “talk-talk” agents (cellphone talktime vendors), though concentrated in the same regions as banks, have a much larger reach and footprint than the banking sector in numerical terms. At present, banks mainly view m-payments as a bank account-based model where people can transact via cellphone.

Box 3. Case study: “Think out of the branch” – Xapit Instant Banking from Zanaco

This new Zanaco product, which will be available from October 1 2008, is an interesting case of m-banking innovation in Zambia. Xapit accounts are opened by agents on the go and in the branch, and accounts are activated within five minutes, with account-holder being handed a Visa Electron card. The service is also available as an added functionality for existing Zanaco account-holders. Transactions can be conducted using the handset on entering the phone number and PIN, which Xapit sends to the person concerned in a Xapit welcome SMS when he or she opens the account, and which the account-holder can change.

Once registered, the cellphone menu can be used for balance inquiries and to transfer money to another Xapit account using the recipient’s mobile phone number, or to an account with Zanaco or a different bank using the bank account number and bank code. The handset can also be used for inter-account transfers, airtime purchases and bill payments. Non-account transfers are not possible, as there is no agent network which non-account holders can use to redeem a mobile transfer for cash, though Zanaco is considering such a system.

With a fee of only K3 000 for a transfer and no monthly charges, Xapit could bring down the cost of money transfers significantly and make it possible to conduct everyday transactions without having to go into a branch. Its scope is, however, limited by the fact that cash-in or cash-out transactions must still take place through the branch networks or ATMs of Zanaco or other banks, where Visa Electron cards can be used. Its mass market potential is, therefore, restricted, especially in rural areas where recipients often lack bank accounts and must travel some distance to the nearest bank branch. However, Zanaco is setting up a wider network of agents, including Zain vendors, to expand its footprint.

International m-payment successes as a motivating factor. The interest in m-payments in Zambia²⁶ has to some extent been spurred by the success of m-payment models elsewhere in Africa and abroad. The most notable example is the Kenyan mobile phone operator, Safaricom’s **M-Pesa**, which, using an extensive network of agents, has achieved a phenomenal uptake in a short time. Other models include South Africa’s Wizzit and Globe Telecom’s GCash and Smart Telecom, and Banco d’Oro’s Smart Money in the Philippines. These and other case studies of m-payment and branchless banking models are discussed in more detail in the Oxford Policy Management study for the FinMark Trust (2008b).

Cell phone penetration still limits the scope of m-payment in Zambia. Many role-players emphasised the need not to be limited by cellphone penetration and for creative thinking about other distribution channels. FinScope indicates that most Zambians still lack access to a cellphone. The 16% of adults

²⁵ Quindiem Consulting have been commissioned to do a study on potential payment distribution mechanisms for a national social cash transfer programme in Zambia. Its final report should be available on the FinMark Trust website (www.finmarktrust.org.za) from December 2008.

²⁶ Though Celpay in Zambia was one of the world pioneers of m-payments, initial market interest was low and interest has only picked up recently.

with mobile phone access is likely to have increased significantly since the 2005 survey, but according to industry, there are no more than three million cellphones in the country.

2.5.3. Summary: players and outreach

The table below summarises the formal channels for money transfers in terms of their reach and fees²⁷:

Name	Account holders	Outlets	Cost	Involvement in money transfers
Banks				
Barclays	250 000 (retail)	47	Minimum balance K50 000; K2 000 per ATM withdrawal; no charge for transfers between branches.	Only account-to-account transfers.
Cavmont Capital Bank – community banks	Information not available at time of writing	13	No minimum balance, ATM withdrawal fees not applicable, K10 000 to transfer money to another account within the bank.	Information not available at time of writing
Finance Bank Zambia	100 000	49	K10 000 withdrawal fee, K1 500 if at ATM, no transfer fee, K50 000 minimum balance (K100 000 min. opening balance). See Table 12 for MoneyGram fees.	MoneyGram agent (though 99% international, mostly middle- to higher-income clients); account-to-account transfers.
Investrust Bank	33 000	8	Free transfers within Investrust, K2 000 for ATM withdrawal, minimum balance K50 000.	Only account-to-account, though looking to introduce MoneyGram.
Stanbic	Information not available at time of writing	13	No minimum balance, K2 000 for ATM withdrawal, free transfers inter-branch.	Account-to-account and MoneyGram.
Standard Chartered	60 000 (retail)	17	No minimum balance, K1 800 for ATM withdrawal, free transfers inter-branch.	Account-to-account and Western Union (recently discontinued).
Zanaco	200 000	52	K2 100 for ATM transaction; free funds transfer between Zanaco accounts; Xapit: no monthly fee; K2 500 for ATM withdrawal, K1 000 to purchase airtime, K3 000 for a transfer within Zanaco, K5 000 outside Zanaco. No minimum balance requirements (but only start earning interest for balance above K200 000).	MoneyGram agent; Xapit m-banking initiative launched recently.
Dedicated money transfer operators				
Cash for Africa	n/a – walk-in customers.	16 (+ 2 to open soon).	6% of the amount, plus a fixed surcharge of K12 500. Amounts to K18 500 on sending K100 000 (18.5%), K27 500 to send K250 000 (11%), reducing to about 7% to send K1-million.	Dedicated money transfer operator.
Celpay	300 corporates, 4 000 retail.	about 100 POS devices.	3% of invoiced amount on business to business transactions. ²⁸	Dedicated money transfer operator in that it provides an electronic payment mechanism for businesses; would like to expand to person-to-person transfers.

²⁷ Note: “information not available at time of writing” indicates data for organisations which we have not had meetings with.

²⁸ Other industry players gave this as the fee structure. We did not obtain data from Celpay itself.

MTZL	Up to 200 000 end-users (to be implemented).	400 agents	None to the recipient, K4 000 per transaction for the company.	Pilot: just payment mechanism for cash. Looking to introduce ability to transfer money, open an account.
Natsave - Transcash	15 000 account-holders.	26	Transcash: minimum fee of K30 000 or 5% of the amount.	Limited account to account transfers, but provides non-account cash transfer service Transcash through its outlets.
Swiftcash	70 000 transactions per month.	223	Minimum fee of K15 500 on K50 000 (about 31%). 18.5% charged on K100 000, reducing to 7% on K1.35-million.	Largest domestic money transfer player.

Table 6. Formal channel summary statistics.

Source: compiled from industry consultations and Bank of Zambia branch and fees information.

2.6. Total size of the current and potential remittance market in Zambia: some scenarios

2.6.1. Available data

International remittances. A review of the available literature yields no detailed statistics on remittances in Zambia²⁹. The Bank of Zambia does not actively measure remittances. Instead, they are captured as a residual item on the balance of payments, as in many other countries. Based on these national accounts data, the World Bank has compiled the following remittance statistics for Zambia:

Remittances (US \$ millions)		2003	2004	2005	2006
Inward flows		36	48	53	58
Outward flows		71	76	94	116
<i>Of which:</i>	Workers' remittances	54	64	77	93
	Compensation of employees	17	12	17	23
	Migrants' transfers	--	--	--	--

Table 7. International remittance flows for Zambia.

Source: D Ratha and Z Xu, World Bank, 2007.

This puts inward flows, excluding unrecorded flows through formal and informal channels, at 0.5% of GDP and outward flows at 1.1% of GDP in 2006. Remittances in both directions have increased lately, though at a faster pace for outward flows. In practice, not much can be deduced from these figures, as they are not based on the specific measurement of remittance flows.

Domestic versus cross-border? Cross-border money transfers mostly take the form of inbound remittances from higher-income, skilled individuals working abroad, though outbound transfers from more affluent traders travelling to the United Arab Emirates, the DRC or South Africa to buy goods

²⁹ Accurate measurement of remittances is a major challenge internationally. The World Bank (Ratha et al, 2007) says that, in response to a request by the G7 nations in June 2004, the World Bank, the IMF and the UN led an international working group, called the "Luxembourg Group", to improve remittance statistics. It recommended the addition of three new items – personal remittances, total remittances, and total remittances and transfers to non-profit institutions serving households – to the Balance of Payments Manual, 6th Edition (BPM6) for individual countries. To adequately measure the flow of remittances, it is, however, recognised that nationally representative surveys of recipients and senders must also be conducted.

and send money across borders to pay for them is also rising. The consensus is that most of the remittance market is domestic.

Lack of domestic estimates. There are no estimates of the exact size of the domestic remittance market. The Bank of Zambia is aware of the need to capture more accurate data, and is talking to the market about reporting to it cross-border and domestic remittances volumes, corridors and client profiles. For this reason, the definition of remittances is important. The motivation for collecting such data is the need to link money transmissions to financial services more broadly, to give banks and other financial institutions the necessary information to target the remittance market. Bank of Zambia officials believe that once that market is tapped, a second generation of financial services targeting the low-income market will develop.

However, even then the size of the informal market will not be known. This is best measured by a demand-side survey such as FinScope³⁰. Section 4 contains some recommendations on how FinScope can do this more comprehensively. Nevertheless, as discussed in section 2.4, FinScope does throw light on the number of people sending or receiving remittances and what proportion of them use informal channels.

In the absence of further data, we sketch two scenarios regarding the possible size of the remittances market below. These are “back of the envelope” calculations based on fairly strong assumptions, and should not necessarily feed directly into policy or strategy. The aim is to give an indicative picture which can lay the basis for discussion.

2.6.2. Scenarios

The following scenarios are based on calculations and assumptions of total annual transactions and average transaction values and fees on the one hand, and estimate of the total number of remitters, multiplied by the average frequency of transactions and average transaction amounts, on the other³¹:

Scenario one – based on industry feedback

Current non-account-based money transfer market. Based on data and estimates from industry players³², we estimate the current domestic market to amount to about 100 000 transactions a month, and the cross-border transfer market to about 32 500 transactions a month. Of the international transactions, about 19 500 per month (60%) are estimated to be inbound and are, therefore, excluded from the revenue-generating domestic market³³, leaving a total estimate of 156 000 cross-border transactions annually in the Zambian market. Considering that only about 1.1-million people (14.6% of the adult population) are banked (FinScope, 2005), the current non-account money transfer market would amount to up to 40%³⁴ of retail banking clients.

³⁰ The LCMS survey contains one question on the quantity of remittances sent, but because of problems with data, the survey reports do not answer it.

³¹ See Appendix 3 for an overview of the calculations and assumptions used in building these scenarios.

³² These should not be quoted as exact calculations.

³³ These transactions were excluded from the market calculations, as total market potential is estimated by multiplying average transaction values and fees by the number of transactions. This will only hold for domestically generated transactions. There may be some revenue-sharing agreement whereby revenue is still generated by inbound transactions. It was, however, assumed that this would be largely cancelled out by revenue sharing of outbound transactions to recipient agents abroad.

³⁴ Calculated by assuming an average frequency of three transactions per sender per year, rendering 452 000 remitters (1 356-million transactions divided by three). Note that the proportion is very sensitive to the assumption on frequency. For an average frequency of four, it drops to 31%.

Based on industry feedback on average transaction values, and insights from informal interviews, we have assumed that 70% of domestic transactions have an average transaction value of K75 000, with the balance averaging K250 000 per transaction. International transfers are assumed to amount to K1.2-million on average. The total market is estimated as follows:

	Total annual transactions	Estimated average transaction value (ZMK)	Total market value (K bn)	US \$ m equivalent	Total revenue estimate (K bn)
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 market	1 356 000	250 885	340	93	45

Table 8. Estimated current non-account money transfer market

Source: own calculations, based on various industry estimates

The total revenue estimates are calculated by applying the weighted average transaction fees for each transaction amount (see Appendix 3).

Total potential market. If one assumes, based on general feedback, a 60:40 informal to formal ratio, and estimating the average informal transfer at K150 000, the total potential market is estimated as follows:

	Total annual transactions	Estimated average transaction value (ZMK)	Total market value (K bn)	US\$ m equivalent	Total revenue potential (Kbn)
Total formal	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

Table 9. Estimated total potential market, including informal

Source: own calculations

This scenario is based only on current data and does not include growth projections.

Wider payments market potential. As discussed in the supply-side overview, the potential market for small-value payments and money transfers is not limited to the potential total non-account person-to-person transfer market, as calculated in the scenario above. At least five additional current and potential avenues exist for making small-value payments. These are not mutually exclusive and there may be some overlap:

- *Business-to-person payments: agriculture.* MTZL estimates that there are more than **one million** cash payments a year in the agricultural sector alone, from companies to outgrowers or employees, which could be incorporated in the formal money transfer market.
- *Business-to-person payments: other sectors.* The market for intermediated wage payments grows if one takes into account that many employees in other sectors still receive wages in cash³⁵. But

³⁵ In 2006, the Zambian economy formally employed 468 107 people (CSO, 2007). Assuming that half are paid in cash at an average wage of K1-million per month, this would yield an additional market of 234 053 people and total annual wage payments of about K2 808-billion, or \$770-million. The assumed wage was calculated from consultations on the average wage of urban workers. It roughly corresponds with double the mean monthly household income in 2004 (CSO – LCMS 2006). It is assumed that formal sector wage-earners will earn significantly more than average, given the fact that the national poverty figure is 64% (CSO, 2008).

- people have transaction needs other than receiving wages. The person-to-business transactions conducted by Celpay, including the payment of electricity bills, should be included in the picture – though we lack the information required to estimate the total size of the potential market.
- *Business-to-business transfers.* It is believed that there is still significant scope for growth in the business-to-business transfer market, particularly in the transactions between wholesale suppliers and dealers facilitated by Celpay. The retailer footprint of such dealers could also serve as distribution points for person-to-person transfers.
 - *Government-to-person transfers.* The Zambian government is planning a social cash transfer scheme which, by 2012, would pay about 10% of the population an average of K47 500 per household every two months³⁶. The payment system(s) has yet to be finalised, but some form of non-cash payment mechanism will be used. This could bring up to 250 000³⁷ people into the non-account payments net. The payments are generally too low to expect electronic transactions, but they will give many people – who are also likely to receive remittances – an entry-point into the formal sector from which they can receive money. The system will have a demonstration effect for other community members, and could extend the reach and range of services offered in an area.
 - *Account-to-account P2P transfers.* Small-value payments can, of course, be made via account transfers between bank account-holders. The number of account-to-account transfers in the banking sector which can be classified as remittances or small-value transfers is unknown. Given the large market development and enablement zone identified in the Zambian access frontier³⁸, namely 4.5-million potentially bankable people, or 60% of adults, it is safe to say that there is still significant growth potential in this market, subject to distribution and other constraints.

With all these avenues the same principle applies: electronic payment mechanisms, though not implying that a person is “banked”, can be seen as a way of introducing customers to formal financial services and familiarising them with electronic transactions. This simplifies the next step, namely person-to-person transfers, and the move to full-service branchless banking.

Moving from current to potential – what is really feasible? A final consideration is the potentially feasible market seen from the formal sector’s perspective. As discussed above, the access frontier analysis suggests the “bankable” market could be expanded by another 4.5-million people. The number of adults the formal sector could realistically reach may, however, be more limited. The following considerations are relevant:

- *Existing aggregator/touch-point approach.* Some market players argue that it is important to target people who have existing touch-points or relationships. Examples are farmers who have a relationship with a processor or buyer; people who need to make payments for stock, agricultural

³⁶ For more information, see the forthcoming report by Quindiem Consulting (Kilfoil et al, 2008) prepared for FinMark Trust.

³⁷ According to the 2000 census, there were 4.95 people per household (a total population of 9 337 425, divided by 1 884 741 household heads). Applying the same ratio to the CSO’s 2008 mid-year population estimate of 12.1-million yields 2.52-million households in 2008, 10% of which would amount to roughly 252 000.

³⁸ The access frontier methodology was developed by David Porteous (2005). It segments the market into those who currently use the product, those who do not use the product but have access to it, and those who lack all access. This last segment is further broken down into those who lack access because they appear to be too poor, and those who lack access because features of the product effectively exclude them from using it. While those who are too poor will fall into the “market redistribution zone”, those who do not have access to a product for other reasons fall into the “market development zone” – as the market develops and technology changes, they are likely to gain access in future. Those who do have access but do not currently use a product fall into the “market enablement zone” (Eighty20, 2007, quoted directly). Eighty20 (2007) estimates that the market enablement and market development zone for transaction banking comprises a combined 60.2% of the adult population, or 4.5-million people, in Zambia.

inputs or even household goods; and those who get small loans through MFIs. By focusing on the touch-points or client aggregators to bring customers on board, one can introduce end-users more easily to additional services. This also has a demonstration effect in communities.

- *Going beyond the touch-points.* It is more difficult to market payment services to individuals directly, where there is no pre-existing relationship. To do this, one must overcome knowledge barriers and build trust in the payment mechanism. Senders are likely to be more affluent and may often live within reach of the formal financial sector infrastructure, but recipients are likely to be much poorer and live in remote areas – and this determines sending behaviour (the last mile rather than the first mile challenge, as discussed in section 2.5.2). To some extent, fees and the building of consumer trust and awareness can be tailored to the more affluent sender, but improvements in convenience, speed, footprint and reliability must be extended to the population at large.

Scenario two

As analysed in section 2.4, FinScope reveals the following remittance behaviour:

Channel used – total senders ³⁹	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 10. Formal versus informal market estimates, according to FinScope (2005)

Source: own calculations

Assuming an average frequency of three sending transactions a year (based on industry feedback and responses to informal interviews), and applying the same formal versus informal average transaction amounts and weighted average fee estimates used in scenario one, the following current and potential market estimates emerge:

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

Table 11. Total current and potential market size: scenario 2

Source: own calculations

This exercise yields a total current market of K539-billion in annual revenue and a potential market, if all current informal transactions were formalised, of K904-billion, with a total potential revenue of K127-billion. This total market estimate is about 40% higher than that of scenario one.

3. Regulatory overview

The policy and regulatory framework relevant to money transmission in Zambia consists of:

³⁹ Note that the FinScope questionnaire indicates a number of possible channels and that multiple mentions are possible. The “formal” and “informal” variables were created by summing the various applicable channels. Given the possibility of multiple mention, the “% senders” represents a weighted average.

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

Zambia has no foreign exchange controls.

3.1. Financial inclusion policy

The Zambian government recognises the strategic importance of a well-developed financial sector in achieving sustainable economic growth and eradicating poverty. The Financial Sector Development Plan (FSDP) launched in 2004, embodies this commitment. This is a comprehensive strategy aimed at building and strengthening the infrastructure of the financial sector to support the efficient resource mobilisation necessary for economic diversification and sustainable growth⁴⁰.

Under the FSDP, the Bank of Zambia supported the FinScope demand-side survey of 2005. The survey clarified current levels of financial access, and the government responded by deciding to improve the landscape significantly. The government’s performance assessment framework, overseen by the Ministry of Finance and National Planning, includes indicators of financial access. These indicators, which aim to increase number of Zambians who receive financial services from 34% in 2005 to 48% in 2008 and 50% in 2009, will be used to measure the country’s overall performance, alongside other key indicators.

In addition, the Bank of Zambia’s *Strategic Plan for 2008-2011* affirms the need to “promote financial inclusion by the financial services providers supervised by the Bank of Zambia” as one of its four strategic goals. A commitment to financial inclusion permeates the bank’s operations. The bank’s main purpose will always be to combat inflation, but it recognises that it has to be relevant and is conscious of the very low usage levels and the need to facilitate greater market reach.

Under the *Citizens Economic Empowerment Act of 2006* each sector must develop a voluntary charter which sets out plans for citizens’ economic empowerment. In the financial sector, this will include a commitment to financial inclusion. The Bankers Association of Zambia has confirmed that the banking industry is developing a sector charter. As it is still under discussion and in draft form, no details are available.

Banking and Financial Services Act

The Banking and Financial Services Act (Chapter 387 of the laws of Zambia) of 1994 regulates the Zambian financial sector. Among other things, it provides for the licensing of banks and financial institutions, as well as their organisation and administration, operations, financial accountability supervision and prudential regulation. It provides for the functional and institutional regulation of both registered banks and other financial institutions.

Definition of financial institutions. The Act defines a financial institution as “a person other than a bank conducting a financial service business” and a deposit-taking financial institution as a financial institution which “in addition to carrying on financial service business accepts deposits”. Financial

⁴⁰ Quoted from the FinScope 2005 findings report.

service business is defined as a range of services including commercial or consumer financing services, credit reference services, deposit brokering, leasing, foreign exchange purchase and sale (Chapter I, section 1(a)-(q)). Also included (section 1(k)) is “money transfer or transmission services”. On registering, a financial institution is authorised to conduct some or all of these services.

Definition of banks. Section 2(1) defines a bank as a company which conducts banking business, which in turn is defined as any of the following:

- (a) the business of receiving deposits from the public, including cheque account and current account deposits, and the use of such deposits, either in whole or in part, for the account of and at the risk of the person carrying on the business, to make loans, advances or investments;
- (b) financial services; and
- (c) any custom, practice or activity prescribed by the Bank of Zambia as banking business.

In addition to taking deposits, banks may provide a range of other services (“authorised activities”) which include “providing money transfer services and facilities” (section 8 (1)(c)). Banks are distinguished from non-bank financial institutions as the only institutions that can provide cheques and cheque clearing services⁴¹.

The definition of banking business implies that both legs of financial intermediation, deposit-taking and the extension of credit, must be offered before an institution has to be licensed as a bank. The implication is that non-bank institutions may operate payments platforms which require some form of deposit-taking in exchange for electronic money, without having to register as banks.

Implications for money transfer operators. The law, therefore, allows banks and other registered financial institutions to provide money transfer services. However, in practice, it has been interpreted as limiting these services to banks. Only after the National Payment System Act was passed in 2007 (see discussion below) could any organisation, regardless of its institutional form, register as a money transmission operator. The only exception is the post office and other postal services, as provided for in the Postal Service Act, no. 24 of 1994.

Note on restriction on exchange bureaux to provide money transmission services. Section 4.2 (Part 4) of the Banking and Financial Services Act’s regulations provides for the licensing of bureaux de change, whose business is defined as “buying and selling foreign exchange”. The practical effect is that a bureau de change can conduct exchange transactions but no other business – although the regulations did not intend this. The government is now addressing this shortcoming to enable such operations to apply for licences under the National Payment Systems Act. Meanwhile, they can create subsidiaries which can apply for payment systems business licences (see below).

National Payment Systems Act

Functional regulation of money transfer business. Of most relevance to this study is the National Payment Systems Act, no. 1 of 2007. Enacted in April 2007, and effective from June 15 2007, the NPS Act is the first piece of legislation which deals specifically with payment mechanisms and creates space for the registration of dedicated money transfer operators, which the Act calls payment system businesses (PSBs). All existing and new payment PSBs must be registered under the Act and are supervised by the Bank of Zambia’s newly formed payments system department.

⁴¹ According to a consultation with the bank supervision department.

Section 2 defines a PSB as “a business of providing money transfer or transmission services or any other business the Bank of Zambia may prescribe as a payment systems business”. Where banks or postal organisations act as agents of Western Union or MoneyGram, they are the regulated entities, rather than Western Union or MoneyGram.

Bank of Zambia as a regulator and supervisor. Section 5(1) of the Act provides that “the Bank of Zambia shall regulate and oversee the operations of payment systems in order to ensure the integrity, effectiveness, efficiency, competitiveness and security of the payment systems”. As such, it is empowered to “regulate entry criteria of participants to a payment system, issue and vary guidelines to be followed by participants with respect to payment orders, prescribe rules and arrangements relating to the operation of payment systems” and “give such directives to participants as may be necessary” (section 5(3)(a) to (d)).

Registration as a payment systems business. Under section 7, operators can apply for registration as designated PSBs. Under section 8, existing operators, such as banks and Zampost, are *deemed* to be designated payment system businesses, but are required to apply for the “formalisation” of this designation within 180 days of the Act taking effect. Applications have been open since January 2008. At the time of writing 10 applications, mostly from existing providers, had been received, as well as numerous inquiries

To apply for registration or designation under the Act, one must complete a simple application form available on the Bank of Zambia website, which asks for details of the proposed money transmission business and how it proposes to comply with the legislation and manage risk. The Bank of Zambia has issued detailed requirements for designating a payment systems business or becoming a participant in a payment system, which are also available on its website. The requirements are as follows:

- Details of the type of services to be offered.
- Current licence numbers, where applicable.
- Details of risk-sharing, management and control mechanisms in place/to be put in place.
- Details of provision for operational and financial soundness.
- Directors’ questionnaires and detailed information on directors.
- A business plan with a three-year projected financial statement.
- For established businesses, audited financial statements for the past two years.

On a technical level, the applicant must show its ability to fulfil the minimum requirements for setting up a PSB, subject to inspection by the Bank of Zambia. The PSB:

- Must be effective, efficient, competitive and safe.
- Must insure finality and irrevocability of payments and settlements.
- Must have clear and adequate risk-sharing, management and control mechanisms in place.
- Must have adequate mechanisms to address operational, financial soundness and other matters pertaining to systemic risk.
- Must have clear rules and procedures for its operation in place.

Risk-based supervision. Once all the required documentation has been submitted, the Bank of Zambia has 180 days in which to approve or reject the application. Failure to respond by the deadline implies automatic approval. Registration and annual fees are levied, but the Act stipulates no minimum up-front capital requirements. Instead, it allows PSBs to assess and set their own requirements for solvency and soundness, which are then approved by the Bank of Zambia on an individual basis.

Similarly, the Act sets no blanket technical business requirements for PSBs, which can determine procedures and requirements in their own rules. The bank and the PSB jointly approve the rules after consultation to ensure they are acceptable to the regulator, but are tailored to the individual organisation's needs and clients. In this respect, the Bank of Zambia follows a risk-based supervision approach.

Compliance requirements. Once granted a certificate, the designated PSB is subject to on-site and off-site inspections and must submit returns on its operations as the bank may prescribe. Each designated PSB must also have a compliance officer to enforce adequate internal policies, guidelines and training programmes and ensure that the PSB complies with the regulations.

Impact on the market

Inclusive regulatory stance underlying the NPS Act. According to the Bank of Zambia, the NPS Act was designed to comply with the Bank for International Settlements' Core Principles on Systemically Important Payment Systems, which prescribe, among other things, the need for technical infrastructure, viability and settling arrangements. The Bank of Zambia is, however, aware that it should not be so concerned with following international principles that it loses sight of local realities and challenges. It recognises that while minimum standards cannot be compromised, regulation should be enabling, not stifling. The NPS Act was, therefore, specifically designed for local conditions.

No restrictive agent regulation. Neither the NPS Act nor the Banking and Financial Services Act regulate the distribution channels or agent relationships of banks, financial institutions and payment system businesses. It is the task of the financial institution to ensure that products are sold and services rendered by agents and retailers in a responsible way and in compliance with the relevant rules.

"Pull approach" to enforcement. The Bank of Zambia has adopted a "pull" rather than clampdown approach to PSBs by strengthening the formal sector, promoting transparency and bringing down the cost of transactions to enable the formal sector to attract customers from the informal sector. This is partly for practical reasons: it is very difficult to identify, not to mention regulate, informal channels. The authorities' inability to close down informal channels is not, however, a concern, as no consumers have complained about abuses in the informal money transfer market. Informal services continue to thrive because of their convenience and value to users. The Bank of Zambia's aim, therefore, is to remove the need for informal services by making the formal sector more efficient.

Bank of Zambia is mindful of the need to consider context-sensitive regulation of alternative channels such as m-payments and e-money. The Bank of Zambia knows that regulation must remain relevant in a fast-changing technological environment. It may not be able to pre-empt new developments, but it can ensure that it does not lag too far behind. The NPS Act is a step in this direction. In future, the bank will also consider whether sub-regulations on e-money and m-payments are needed. It is important in this respect to scrutinise what other jurisdictions have done, for example by looking at how Kenya brought M-Pesa into the regulatory net.

Anti-money laundering directives, 2004 (based on the Prevention and Prohibition of Money Laundering Act, no. 14 of 2001)

Anti-money laundering (AML) requirements in Zambia are of relevance because they apply to the opening of bank accounts and money transfer transactions. International research (Bester et al, 2007)

has shown that anti-money laundering requirements may affect people's ability to open accounts or conduct money transfer transactions, as well as the relative incentives for using formal and informal channels. For financial institutions, anti-money laundering requirements may increase the cost of opening an account or conducting money transfers and undermine the relative incentive to service low-value accounts and, by implication, low-income customers.

There are three main ways in which anti-money laundering regulations are relevant to financial inclusion:

- Through the imposition of so-called KYC (know your customer) or CDD (customer due diligence) requirements.
- Through the requirement of customer profiling and monitoring of suspicious transactions.
- Through record-keeping and reporting requirements

In Zambia, the Prohibition and Prevention of Money Laundering Act was enacted in 2001. It criminalises money laundering, sets out the principles to be applied and specifies the obligations of the financial sector (sections 13 and 14) to keep records, conduct customer due diligence, train staff on anti-money laundering procedures and report suspicious transactions. The Anti-Money Laundering Directives of 2004 provide details of what CDD should entail. This route was chosen because it is easier to change directives than legislation. For example, the directives can incorporate revisions of the FATF⁴² recommendations.

Supervision of AML. Sections 5 and 6 of the Act set up an Anti-Money Laundering Investigations Unit to collect information and prosecute money laundering cases. The supervisory authority is, however, sector-specific, for example, the Registrar of Insurance or the Registrar of Companies. The Bank of Zambia is the designated supervisory authority for financial institutions. Within the bank, KYC is divided between the departments of bank supervision, non-bank financial institutions and payment systems.

Treatment of non-account money transfers. According to the Bank of Zambia, the NPS Act implies that the supervisory priority is implementing the Act itself. For this reason, measures to counter money laundering have not been enforced in the money transmission (non-bank account) sphere to the same extent as in the banks. Some dedicated money transfer operators do not even require identification of senders. The Bank of Zambia's payment system department told us that, because the Anti-Money Laundering Directives predated the NPS Act, it did not take account of the unique needs of money transmission customers and the fact that these are often small, anonymous transactions. The department recognises that customers may become suspicious of the formal system if they are required to provide extensive identity and address verification for non-account transactions, and that this also raises the transaction costs of such low-value payments, which could become a barrier to penetrating the mass market. The payment systems department is considering ways of allowing for small-value payments, within limits, perhaps through an exemption similar to South Africa's Exemption 17. It has not yet taken steps towards this.

⁴² This refers to the Financial Action Task Force, the OECD-based body charged with compiling international recommendations and standards on anti-money laundering.

Box 4. Lessons from the South African experience on the impact of AML/CFT access to financial services – Exemption 17⁴³

In South Africa, AML/CFT (anti-money laundering/combating of the financing of terrorism) regulation requires the verification of residential addresses by means of a utility bill or other documentation. However, 30% of South Africans live in informal settlements and rural areas on communal land, making it very difficult for them to prove their residential addresses. When the banking industry developed a low-income market product, collectively called “Mzansi” accounts, it became clear that the requirement would prevent a large section of the target market from opening accounts. Subsequently, Mzansi bank accounts were exempted from the address verification requirement. They are, however, subject to account limits: the maximum balance is R25 000 (about \$3 300), while individual transactions may not exceed R5 000 (about \$660). The banks have subsequently opened more than three million Mzansi accounts, representing about 10% of the adult population, which has extended the reach of the formal banking sector.

The same regulatory exemption was also used to accommodate branchless banking. It became possible to open accounts via cellphone, subject to withdrawal limits of about \$130 a day. Banks must obtain the client’s national identity number and cross-reference it against third-party databases, including those of the department of home affairs.

Scope for financial institutions to determine their own AML system. Under section 16 of Zambia’s anti-money laundering directives, banks are required to develop their own policies on the implementation of anti-money laundering measures, which the directives call an “anti-money laundering programme”. The policies must meet the minimum requirements set out in the directives and the Act, which the Bank of Zambia reviews and approves. They must include a compliance policy, training procedures for staff and the “development of internal policies, procedures and controls with due regard to the risks posed by money laundering”. They also entail “the establishment of know your customer procedures, which shall include knowing the customer’s business, establishing systems that would recognise suspicious activities and having in place internal reporting procedures of suspicious transactions”.

In effect, this allows financial institutions to develop a risk-based approach – though the word “risk-based” is not explicitly used – allowing them to tailor their anti-money laundering programme to their own customer base and capacity and set different transaction and account limits, and suspicious transaction thresholds, for different classes of customers. The Bank of Zambia prescribes no thresholds except the minimum requirement of a limit of \$1 000 per non-account transaction conducted outside of a bank, which increases to \$5 000 for non-account transactions conducted through a bank⁴⁴. The Bank of Zambia has found that under pressure from their international parent companies, local banks often exceed the minimum requirements.

CDD requirements. The Bank of Zambia originally set out CDD/KYC requirements in its Circular 11 of 1998, but these were replaced by the 2004 directives. Under section 6 of the directives, financial institutions must verify the identity of customers by using a national registration card, driver’s licence or passport. The bank and other formal sector players we consulted believe that most people have national registration cards and that the identification requirement is not prohibitive⁴⁵. However, FinScope showed that only 55% of adults have a national registration card, which could mean that a significant proportion of the population is excluded.

⁴³ Compiled from Bester et al (2007).

⁴⁴ The one exception is Zampost’s Swiftcash, which is supervised under the Postal Act it has been allowed a limit of K7.5-million (just over \$2 100).

⁴⁵ Though there is a sizeable refugee population in Zambia, that may be undocumented, this has never arisen as an issue.

Section 7 requires address verification. In contrast with some other jurisdictions, however, there is considerable flexibility in how this is done. Several forms of verification may be used, including a reference from a professional, the customer's employer, a known customer of the financial institution or a customary (village) authority. One may also use a utility bill, a credit reference agency service or an address validation service. In this way, the Bank of Zambia has pre-empted the possible exclusion of people living in informal settlements or rural areas from financial services, as in the case of South Africa. However, the bank has found that, prompted by risk-aversion and pressure from their international headquarters, financial institutions are often too strict in applying address and identification requirements. It has, therefore, impressed on institutions the need for a flexible approach.

Record-keeping and monitoring requirements. Section 10(1) of the directives requires financial institutions to keep records of transactions and identification for 10 years. This may be done in an electronic or hard copy format. Section 11 requires institutions to report suspicious transactions to the Anti-Money Laundering Investigations Unit. Under section 12, each regulated institution must appoint a compliance officer, called a money laundering reporting officer, at management level. Although the directives do not explicitly state it, other than by stipulating that financial institutions must have systems to know their clients and their clients' business, the Bank of Zambia told us that it expects banks to ask clients about their source of income, level of income and other details which facilitate the profiling of customers.

Impact on the market. Our discussions with market players did not suggest that anti-money laundering requirements adversely affect people's ability to access financial services or financial service institutions' incentive to service low-value accounts. Though some financial institutions did indicate that KYC, compliance and record-keeping requirements affect costs, they see this as a necessary overhead which has not changed their approach to any customer segment. The Bank of Zambia indicated that at least one financial institution had approached it to complain that customers may find the KYC requirements – specifically, the need for photographic identification – prohibitive. It advised the institution to install webcams in its branches. The Bank of Zambia is willing to accommodate simplified standards and innovative ways of complying with the standards, but will not compromise on minimum anti-money laundering requirements. It encourages financial institutions actively to seek solutions that minimise the impact on access. Our impression was that the regulator has an "open-door" stance. As in other spheres, it tries to balance AML implementation with financial inclusion.

4. Opportunities and challenges for making the formal remittances market work for the poor in Zambia

FinMark Trust's core mission is to make financial markets work for the poor. This includes enhancing financial inclusion to improve the welfare of the low-income market by cutting costs and increasing security, convenience and efficiency. Our analysis shows that there is abundant demand for transactions and money transfers, coupled with plentiful supply. Furthermore, the regulatory framework is tailored to money transfers and there is wide agreement that the market should not be subjected to undue burdens. The fundamental question is: is there a need to make the money transfer market work better for the poor? Can poor people be helped by increasing their share of the formal market? And can this be done in a way that is attractive to suppliers?

Opportunities

The scale of transactions by poor people suggests significant scope for market expansion. A proportion of the market will always remain informal, but the scenario exercise and feasibility analysis conducted in section 2.6.2 indicated significant scope for the expansion of formal money transfer services in Zambia. The FinScope Zambia report (p.40) highlights the need for a payments solution for people with low or uncertain incomes. Even the poorest of the poor need to transact and send money, and could gain from electronic transactions.

Particular opportunity for non-account-based transfers. Often, the need for such transactions is best met without a formal bank account. Indeed, many of the players consulted agreed that the attractiveness of a money transfer service lies precisely in the fact that it is not account-based. Often the sender has an account while the recipient does not, or there is no a bank branch close to the recipient's residence. As discussed in the section on challenges below, the requirement of a minimum opening deposit or minimum balance associated with bank accounts may be prohibitive for people with low or irregular incomes. For practical reasons, and for reasons of flexibility, people tend to prefer non-account ways of sending and receiving money – even though the absolute cost of an account-based transfer is much lower than that of a walk-in transaction. The informal responses confirmed this. Even poor people who cannot maintain a bank account will occasionally pay quite a substantial portion of the principal amount in fees, if they are using a channel they know and trust.

Conducive regulatory stance. The Bank of Zambia sees money transfers as an entry-point into the formal financial sector and an important way of expanding financial inclusion, to which it is committed. All the role-players we consulted said the bank has a very open stance and is willing to work with industry to find a regulatory solution which accommodates new ventures and channels. This minimises regulatory risk and facilitates the innovation required to expand mass-market money transfers.

Increasing interest in alternative distribution channels. Driven in part by success stories elsewhere on the continent, “m-payment” has become a buzz-word. As recently as five years ago there was little interest in alternative channels for banking expansion. But most of the banks we spoke to are starting to see the potential for m-payments and other alternative distribution channels, and are discussing them with possible partners and agents.

Challenges

There are supply-side and demand-side challenges to increasing formal money transfer penetration. The **supply-side** challenges include:

Extending the distribution network. As discussed in section 2.5.2, the biggest challenges are the formal financial sector's infrastructure and footprint. In the quest for alternative distribution channels, cellphone m-payments offer significant opportunities. Given its current limited reach, however, this is only a partial solution.

Making agent relationships work. Agent relationships are the key to expanding the distribution footprint of money transfer services. Agents need to maintain an adequate cash flow to honour all receiving transactions and must be reliable and fast. A number of players, however, referred to difficulties in getting agent relationships right. Many indicated that people sometimes walk long distances to a cash point, only to find that it does not have enough cash and that they have to return

the next day. This taints the reputation of the money transfer organisation. More than one money transfer operator said that float requirements were an obstacle to expanding the agent network.

Limited interoperability. Many players mentioned the limited interoperability of the banking system as a significant barrier to mass market expansion. Currently, four banks are connected via a local switch, with an ATM network of about 100, of the 247 ATMs in Zambia. Other banks use the Visa platform. There is, however, no national switch⁴⁶ to which all financial institutions belong and the two switches in use are not interoperable. Celpay has its own point of sale (POS) network representing about 15% of all POS devices in the country. But it is not connected to a switch and cannot be used by other players, and vice versa.

Box 5. Definition and role of interoperability

The term “interoperability” refers to the ability of bank customers to use infrastructure provided by other financial institutions. In the case of ATMs, an interoperable network allows customers of one bank to use another bank’s ATMs. Transactions are approved and cleared through a **payments switch** used by the banks. This switch can be operated through the infrastructure of international card associations such as MasterCard or Visa; can be jointly owned by banks; or is provided by a third party (Davis et al, 2007).

There is a strong link between access to financial services and the cost of banking infrastructure. Maintaining a branch, ATM or POS network is expensive, and the economics of any point of representation depend on the number of transactions it processes. If payment services in low-value areas can operate off shared infrastructure, access can be dramatically enhanced. For example, each bank no longer has to install its own ATM, and the customers of all banks’ can use a shared service. However, the charges levied on users for using another institution’s infrastructure must be affordable. If a country wants to improve rural access to financial services, policy-makers and regulators should take measures to avoid payment networks which are not interoperable and ensure that switching is competitively priced. (Davis et al, 2007).

The Bank of Zambia acknowledges the importance of interoperability in its strategic goal of enhancing financial inclusion by extending services to the unbanked. It has, therefore, been working towards the **implementation of a national switch**, which it sees as a cheaper solution than all banks adopting Visa or Mastercard. The proposed national switch will be commonly owned; will ensure that all access points “speak to” one another; and will allow third party ATM providers to supply independent services once they can register under the NPS Act. The Bank of Zambia wants the switch to concentrate traffic as a way of bringing down costs and extending the distribution network. This would enhance the affordability, accessibility and convenience of financial services. Said one of the bank’s officials: “People live on \$1 a day. The cost must be in cents, not dollars.”

Making cost-effective use of technology. Technology is of utmost importance in making money transfer services cheaper and more accessible. However, the technological platform needed to conduct money transfers competitively remains a challenge. A platform is expensive to develop and it is easy to fall behind, given the speed of technological innovation. Operators using an external platform, such as Western Union, MoneyGram or Cash4Africa, can pay a significant proportion of user fees towards platform fees. Effective exploitation of technology is, therefore, essential in bringing down transaction costs.

Overcoming connectivity challenges. Several industry players mentioned connectivity as a challenge. Some rely on Zamtel landlines, which can be slow and unreliable – according to Shoprite, a Visa POS

⁴⁶ Note that the Bank of Zambia, through the Zambia Electronic Clearing House, is now purchasing and installing a national switch, as will be discussed below.

authorisation can sometimes take minutes, leading to queues and customer frustration. Some players mentioned internet penetration as a major challenge, as they rely on an online system to conduct money transfers. Others use GPRS mobile internet. While the coverage is generally wider than alternative internet mechanisms, it still relies on the quality of cellphone reception and is vulnerable to signal downtime. Some players, however, pointed to connectivity challenges as a motive for innovation in circumventing limitations and in the use of multi-channel platforms.

Bringing down cost. Cost did not emerge as a significant factor in the informal interviews, and some of the formal sector players said people are willing to pay for the convenience of ad hoc non-account money transfers. Informal channels are also relatively expensive, implying that formal channels are not at a severe competitive disadvantage in terms of cost. But it is vitally important to reduce the cost of formal remittances. That people often pay the required fees does not mean they are affordable or acceptably low. Especially for small amounts, the cost of formal transfers remains very high, as indicated in the fees summary below⁴⁷:

Principal amount	Provider	% fee	Weighted average %
K100 000	Western Union	18%	22%
	Swiftcash	19%	
	MoneyGram	48%	
	Transcash	30%	
	Cash4Africa	19%	
K200 000	Western Union	12%	13%
	Swiftcash	12%	
	MoneyGram	24%	
	Transcash	15%	
	Cash4Africa	12%	
K300 000	Western Union	10%	10%
	Swiftcash	10%	
	MoneyGram	16%	
	Transcash	10%	
	Cash4Africa	10%	

Table 12. Fee comparison for small-value money transfers.

Source: publicly available fee structures

Estimating the average cost of an informal money transfer at 10% of the principal amount, it is cheaper to use a bus driver to transfer amounts of less than K300 000 – the average size of a money transfer transaction. Though account-to-account transfers are significantly cheaper, minimum account balances and other regular fees associated with maintaining a bank account remain a challenge⁴⁸. As discussed above, non-account transfers are preferred because charges are regarded as once-off, even if the cost per transaction is higher.

Attractiveness for the formal banking sector. Some of the banks we spoke to indicated that they see the money transfer market, along with SME finance, as a core area for expansion into the unbanked market. Others indicated that this is not their core business, especially non-account transfers. Some banks say they lack sufficient information to establish whether this market is worth pursuing, given

⁴⁷ Weighted by assigning a 70% weight to Swiftcash, and equal weights to all the others.

⁴⁸ The supply-side analysis by Oxford Policy Management of the Zambian financial sector (OPM, 2008) indicates that bank charges are such that it would cost more than 30% of the rural population more than 10% of their monthly income to maintain a basic bank account. Only for the richest 10% of urban Zambians would this cost less than 2.5% of monthly income. To this must be added difficulties of access and the cost associated with travelling to banking outlets. The outlook for significant further bank account penetration, therefore, looks rather bleak unless significant cost-saving and distribution innovation takes place.

the challenges of consumer education, Zambia's scattered population and the fact that the public associates the post office, rather than banks, with money transfers. The supply-side study conducted by OPM (2008) also shows a relatively large spread of the banks' traditional business – suggesting that the development of models relying on transaction revenues has not been a priority⁴⁹.

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

Building consumer awareness and trust. Financial education, especially in rural areas, is of the utmost importance. A lack of consumer awareness and a general mistrust⁵⁰ of the formal financial sector militate against formal sector penetration. In addition, the low-income market often finds the financial sector daunting. Informal interviewees indicated widespread trust of informal channels – even though formal channels guarantee security and informal channels do not. There is a lack of awareness and knowledge of bank accounts, non-account money transfers and the use of technology such as an ATM or POS devices. However, in the case of m-payments, many people (though not the majority, as FinScope cautions) know how to use a mobile phone, and load and even transfer airtime. The priority is to convince the market that the mobile phone is a reliable way to send and receive money.

Changing the cash culture. Related to consumer awareness and trust is the widespread cash culture in Zambia. Most people operate in the cash economy. FinScope (2005) indicated that about 85% of adults receive their money in cash, rising to more than 90% for rural adults. Anecdotal evidence suggests that even the banked tend to withdraw their full salaries in cash⁵¹. This underscores the need to sensitise and educate consumers on the advantages of keeping money in the bank and transacting electronically rather than in cash. This is closely linked to the footprints of the banks' branches, ATMs and POS devices. Unless a critical mass is reached, most people will still find it more convenient to transact in cash.

Issues for the future

The Bank of Zambia's emphasis on financial inclusion provides a strong rationale for expansion into the unbanked market. Money transfer services are an entry-point for previously unserved consumers which can be supplied by banks and other players. As the analysis above shows, the main challenge to making this market work for the poor does not lie in regulation, but in the "last mile" challenge of reaching the poor where they live and getting the costs of dedicated transaction services right. Below, we make some recommendations to industry, government and FinMark Trust for making this market work better for the poor.

Recommendations to industry. Greater formal penetration can enhance consumer welfare, *but only if* it is more reliable, cheaper, quicker and more accessible to the low-income market than informal channels. Potential customers must be persuaded of the advantages in terms of efficiency and access, and real and perceived barriers overcome. It must be accepted that for many, informal channels are the status quo, which they know and trust. Changing perceptions and ensuring real benefits from a switch to formal services calls for additional inventiveness and effort from formal players.

⁴⁹ Given the current global financial crisis, it may, however, become increasingly vital to pursue models which rely on transaction rather than investment revenue.

⁵⁰ This refers to a general perception that "banks are not for me", but also to the negative experience towards the end of the 1990s, when some Zambian banks went bankrupt.

⁵¹ One banking executive indicated that he withdraws most of this salary once-off and then gives the cash to his wife to manage their personal finances for the month.

As part of the solution, the formal sector should think carefully about optimising the use of technology, of ways of bringing down cost and, especially, of maximising its footprint. This study does not tell suppliers how to overcome the challenges, but does show that there are significant untapped opportunities. It highlights the fact that remittances and small-value payments should be seen as dedicated services outside the traditional business of banks and other deposit-taking financial institutions. The NPS Act creates regulatory scope to occupy this space, as represented in Figure 13 below:

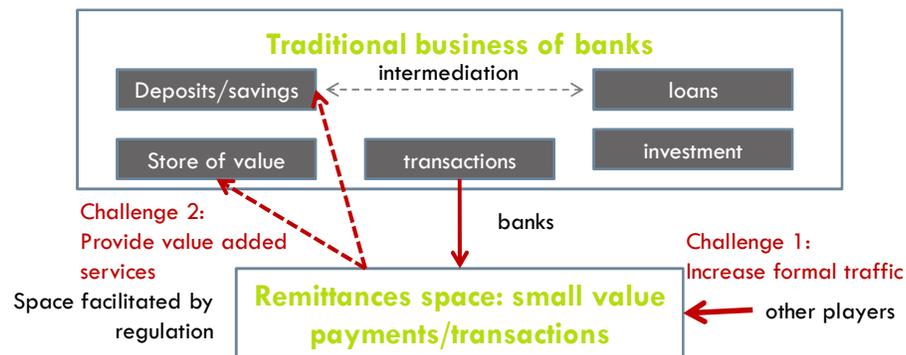


Figure 13. The money transfer space vis-à-vis the traditional business of banks⁵²

Source: authors' representation

The challenge is to expand the dedicated transactions and money transfer space by increasing volumes intermediated through the formal sector and reducing cash transactions, and to use transfer transactions as a basis for expanding the product offering to money transfer clients:

- *Step 1: unlock potential for increased volumes.* If the challenges of physical proximity and cost, and of consumer awareness and trust, can be overcome, the welfare of senders and recipients is likely to improve, leading in turn to more frequent transactions. People will no longer have to save for two or three months to make a money transfer transaction worthwhile, and will be able to transfer smaller amounts more regularly. The same holds for other payments. For the supplier or agent, this will make cash flow modelling easier, facilitate more and better agent relationships and, potentially, increase revenue. As penetration increases, the benefits to others of transacting electronically will also grow, in a positive network effect. Harnessing alternative distribution channels and making agent relationships work will, however, depend on the ability of service providers.
- *Step 2: more value-added services.* The next step will be to move beyond pure transaction and payment products, making them an entry-point for value-added services such as a secure store of value, interest-earning savings and even loans to money transfer customers⁵³. If consumers graduate to a broader range of services, it will further improve consumer welfare and enhance operators' revenue potential. This will expand the product offerings of the various players back into the traditional "banking" space.

Recommendations to policymakers and regulators. In line with its policy of enhancing financial inclusion, the Bank of Zambia has created an enabling regulatory framework for private sector

⁵² Since the introduction of the Micro-Finance Institutions (MFI) regulations in 2003, MFIs can also register as deposit-takers, allowing them to intermediate between deposits and loans (indicated as the business of a bank above).

⁵³ This is what Oxford Policy Management (2008b) refers to as "expansion of the balance sheet" versus pure money transmission (step 1).

payment system players to enter and expand their services to the unbanked market. In addition to the private sector's role, the bank has a role to play in making this market work better:

- *Continue and expand public communication role.* The main responsibility for marketing formal products and building financial literacy lies with the private sector, but the central bank has an important educational role in overcoming the cash culture and enlarging the formal market. It can achieve this through its current⁵⁴ and planned efforts to build general financial literacy, but also through public communication campaigns on such matters as how money transfers work and the advantages of formal services. Other countries have also shown that central bank education campaigns on anti-money laundering KYC procedures, what is expected of people accessing financial services and how to ensure that they are as convenient as possible can significantly affect the extent to which potential users see AML requirements as intimidating or prohibitive.
- *Collect remittances data.* Our findings support the need for more accurate remittance market data in Zambia. As discussed in section 2.6.1, the Bank of Zambia is considering requiring financial institutions and payment system businesses to report remittances and small-value payments data to it. This will mean defining remittances in the Zambian context and including a transaction limit in the definition, in consultation with industry.
- *Facilitate enhanced mobile phone penetration.* The different spheres of government should cooperate in improving mobile connectivity. This may involve several strategies, from reviewing the regulatory framework and ensuring that it is as conducive as possible to a more direct approach, such as launching access funds⁵⁵. Such interventions should be based on a detailed assessment of the current reach, scope for added penetration and government's possible facilitating role. Such an analysis falls outside the scope of this study.
- *Continue interoperability initiatives.* Interoperability has emerged as an important element in enlarging formal sector reach and efficiency. It is, therefore, heartening that the Bank of Zambia is already implementing a national switch. We recommend that the bank continues to ensure that the system is implemented in a way that maximises financial inclusion
- *Providing the framework for extending the physical payment system.* This relates to the challenge of expanding ATM and POS networks, implementing alternative distribution channels such as m-payments and making optimal use of agents. Industry players are responsible for innovation, but it is important that they have regulatory certainty, that the regulatory framework accommodates agent relationships, and that the regulator is open to new channels and technological developments, while not compromising sound regulation. All the role-players we spoke to said this is already the case in Zambia. In considering matters relevant to small-value, non-account-based money transfers, such as anti-money laundering requirements and new technological developments such as m-banking and e-money, the regulator should be conscious of its role in facilitating the extension of the payment system.

Recommendations to FinMark Trust. FinMark Trust can help to make this market work better for the poor by acting as information generator, advocate and catalyst. We recommend that the trust keeps its ear to the ground on industry and regulatory developments, and continues to play a role in bringing parties together, triggering debate, encouraging innovation and advocating conducive regulatory and other conditions for financial inclusion. In terms of information generation, we recommend:

⁵⁴ Such as the roadshows aimed at sensitising the public on the FSDP, the MFI regulations and the NPS Act.

⁵⁵ For example, making available grant funding or loans for projects aimed at enhancing mobile access, or financial inclusion in general.

- *Future research needs:*
 - To arrive at a real picture of the scope for additional uptake through the various channels, it is important to map Zambia's population distribution geo-spatially – banked versus unbanked – and to superimpose the bank and money transfer operator infrastructure (such as branches, ATMs and POS devices), as well the post office network, the bus route network and cellphone penetration and network coverage. This would make for a better understanding of the choices offered by informal and formal channels and help in deciding which areas need additional infrastructure or alternative (branchless) distribution channels. The map would also highlight areas where the existing footprint can be enlarged, for example by means of consumer education campaigns. The pending report by Quindiem Consulting for FinMark Trust already makes an important contribution in this regard. We recommend future research on how to expand this exercise, possibly in combination with the next FinScope consumer survey.
 - Further research is needed on the options for innovation available to financial institutions, strategies for harnessing agent relationships and possible solutions to the distribution challenge. In all these areas, one can draw on considerable international knowledge. It may also be worth considering the money transmission system in more detail, to understand where, how often and how people spend their incomes. For example, if it is found that low-income people typically make five transactions a month, in cash or otherwise, two of which are relatively large (for example, for food or rent), this could highlight the existing touch-points and entry-points to pursue. Focus group research and/or the next FinScope demand-side survey would help gauge spending patterns. Finally, more research is needed on consumers' financial behaviour, reasons for channel choice and what is needed to trigger a decision to use the formal system. Experience elsewhere has shown that focus group research is a useful way of qualitatively gauging what determines demand. This would complement FinScope's quantitative insights on channel choice.

Additional FinScope questions. We recommend that in addition to the questions it currently asks about money transfers, the next FinScope consumer survey, to be completed in 2008/9, does the following:

- In questions on whether people know of (question two) or have used (question five) certain organisations, they should be asked about Zampost, Western Union, Swiftcash and Cash4Africa. MoneyGram and Celpay are already included. Also include Swiftcash (and distinguish it from a SWIFT transfer), MoneyGram, Cash4Africa and any other relevant models in question 25 ("Through which channel do you send money to somebody?")
- Ask an additional question about the average amount senders transmit and recipients receive per transaction.
- In addition to the time, means and cost of getting to a bank (questions 14, 15 and 16), also gauge the distance, time spent and cost of travelling to a post office, bus stop or retail outlet, such as a grocery shop.
- To gather more information about people's financial capability – such as confidence in dealing with financial services and understanding of financial concepts, not mere familiarity with financial terms – attention should be given to the questions which measure financial literacy. .

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Appendix 1: Meeting list

We are grateful to the following organisations for meeting with us and providing the insights underlying much of this analysis. Note that we were unable to meet with some parties during our initial visit to Lusaka (15-19 September 2008) and that this list is therefore not exhaustive of all possible role players in the money transfer market in Zambia.

Organisation	Person & position
Bank of Zambia – NBFi department and FSDP	Edna Mudenda (director: NBFi), Visscher Bbuku (assistant director: NBFi)
Bank of Zambia: bank supervision	Eustace Mainza (senior inspector: bank supervision)
Bank of Zambia: payment systems	Ben Musuku (manager: payment systems department) and colleague
Barclays	Anu Banerjee (retail strategy), Silumesii Sitwala (retail expansion), Enock Bwalya (micro-finance expansion), Perry Siame (distribution)
Celpay	Miyanda Mulambo (GM: strategy and business development)
Central Statistical Office	Batista Chilopa (senior statistician), Josephine Chew Banda (population and demographics) and Mr Paulva
Commercial Capital Corporation (Money Express: Cash4Africa)	Derek Munsele (MD ComCapital), David Kambita (executive director, Money Express), Douglas Kakoma (Money Express), Lucy Sichone (operations manager: Money Express)
Finance Bank Zambia	Dick King (MD & CEO), John Machayi (senior manager: risk management & compliance)
International Organisation for Migration	Josiah Ogina (chief of mission)
Investrust Bank	Esau Mtonga (special assistant to the managing director)
Mobile Transactions Zambia Limited (MTZL – piloted as Zoona)	Brad Magrath (manager: Zambia)
National Savings and Credit Bank	Leonard Mwanza (MD) and Cephas Chabu (business development manager)
Shoprite	Pieter Swanepoel (financial manager)
Standard Chartered	Muyunda Muniyinda (director transaction banking)
Zampost	Brian Mwansa (manager: Western Union)
Zampost	Boaz Lalusha (manager: Swiftcash) – responses received via e-mail
Zanaco	Daisy Diangamo (senior manager: marketing) and Mr Phiri (marketing department)

Appendix 2: Matrix of informal interview responses

Respondent #	Who?	Where?	Sends money?	How frequently?	How much?	How?	Why?	Charges?
1	bus driver/conductor	Intercity bus terminal	yes (through them)	10 per month	some K300 000, some K150 000, it depends	By bus, give phone number, bus number, recipient comes to collect	Convenience - same day; trust	10%
2	bus driver/conductor	Intercity bus terminal	yes (through them)	3-4 per day, more on Saturdays	not disclosed	Some pay in Lusaka for ticket for relative in Kitwe who needs to travel to Lusaka, some send money. Bring to their office (they have offices in Kitwe and Lusaka - money available immediately in the other office (just phone with number); works just like Western Union (money not physically transported by bus), but no charge, because their passengers all have to become members and this service is only available to members	Convenience, the fact that it's free	Free
3	bus driver/conductor	Intercity bus terminal	yes (through them)	Daily	not disclosed	By bus, give phone number, bus number, recipient comes to collect	Not disclosed	10%
4	bus driver/conductor	Intercity bus terminal	yes (through them)	often (could not give direct estimate)	Up to \$1 500 or even \$3 000. it really varies	By bus, give phone number, bus number, recipient comes to collect; phone number of bus driver also given. You talk directly to the driver	Trust (there are witnesses as well, bus driver is known, comes back to the terminal, will not steal money); Western Union takes time, don't know that you'll get the cash	10%
5	bus driver/conductor	Intercity bus terminal	yes (through them)	3-4 times a week	It varies. Often K100 000	Give phone number, bus phone number, recipient phones the bus driver; mostly from Lusaka to other areas rather than the other way round	For traders who want to buy goods; takes 8 hours only, Zampost may take longer	35%
6	bus driver/conductor [to Harare]	Intercity bus terminal	yes (through them)	every day	it varies	Same as others; during the interview, somebody approached him to send sugar and other food to his sister in Harare. Gave the package to the driver and a note with the recipient's name and number. Driver wrote down his name, but number, his phone number.	Not disclosed	Is negotiated. Depends on what the person has and wants to send

7	bus driver/conductor	Intercity bus terminal	yes (through them)	many times a week; often also unaccompanied goods, not just cash	sometimes just for tickets – K150 000	Both ways, not just from Lusaka	Faster than Western Union; trust; negotiation between driver and customer; people trust the driver; even government officials/departments sometimes use the bus to send goods/cash	for regular customers: 5%, for others: 10%
8	bus driver/conductor	Intercity bus terminal	yes (through them)	5 times a day	it varies	Give receipt, phone number of conductor/driver, number of person who will receive; any direction, not just outbound from Lusaka	Trust etc - same as above	negotiated. Typically: for K50 000 - 5%; for K200 000 - K50 000 (25%); for K1m – K200 000 (20%)
9	taxi driver	airport	yes, to mother in village; often sends talktime to other people as well, but hasn't come across the notion of selling that talktime for cash	4 times a year	K700 000	With bus driver/conductor; sender phones somebody in the village where his mother lives. Asksthem to tell his mother to go to the bus station, gives the number plate of the bus and the phone number of the bus driver; tells the bus driver the verification questions	Western Union would take time; would have to phone somebody else, give message to mother to travel to post office; with conductor the money goes directly to the village (IF there is a passenger going to that village. Otherwise mother would still need to travel to nearest place where the bus stops). Recipient does not have a phone, can tell bus driver to ask mother a question (who sent the money and what job does he do?) as means of verifying that she is the correct recipient - can bypass the normal procedure that the person from the phone number given by sender must phone the bus driver to confirm).	Not disclosed
10	person in clothing stall	Kamwala market	yes	about every 5 months	K150 000	Zampost	Not disclosed	See formal channels charges summary
11	person in street	Kamwala market	yes	not disclosed	not disclosed	Most people use bus, but she is a finance bank client, uses MoneyGram	Most people use bus because it's efficient and they're not familiar with banks; easy to communicate with bus drivers rather than with the bank	See MoneyGram fees summary

12	vegetable trader	Kamwala market	yes	depends on when she has money, sometimes every month		Swiftcash; needs ID number of one sending to; tell him to show his registration card when going to collect	Shouldn't use bus, bus is expensive and you cannot trust it. Yet Zampost is far, family must travel, take a few hours, they have to take the bus to get there, so she must send money to cover the travel expenses as well She does not have a bank account - was somewhat annoyed when asked - how could she have money to save? She keeps her money at her market stall during the day, then "eats it".	See formal channel charges summary
13	vegetable trader	Kamwala market	Does not send money					
14	Zain talktime vendor	Kamwala market	Has never been approached to buy top-up in return for cash, has not hear of this type of money transfer, though many people do me2u talktime					
15	ditto	ditto	ditto					
16	person on street	Kamwala market	yes	in response to need: perhaps 3-4 times per year	perhaps K250 000, K100 000, K300 000	Western Union or bus	Depends on where money is going - if village is further than Zampost, but is quicker, same day.	Bus: K30 000 to send K100 000; K70 000 or K80 000 to send K500 000
17	group of 3-4 street vendors	Kamwala market	yes	Depends on need: normally 3 times a year for the 3 school terms, plus extra in response to requests. On average about 5-6 times per year	K600,000 per time	One uses Swiftcash for local, Western Union to send to brother in Botswana; (has a Barclays bank account); another uses a local bus driver	Zampost is about 85km from town; can cost K20 000 to travel to the post office, so they have to send that money as well. However, Zampost is quick, the bus can take a long time.	See formal channels charges summary
18	young street vendor of electric plugs	Kamwala market	no, does not send					
19	taxi driver	Kamwala market	yes	1-2 times a year (when the relatives ask)	Sometimes K500 000, sometimes K1-million	By bus, or by Swiftcash	Bank takes long; he had a bank account, but had to close it when he had some financial difficulties	K10 000 to send by bus

20	taxi driver	next to road on the way to the compound	yes	1-2 times a year for his father in the village	K300 000, if he has money to spare , K500 000	Through Swiftcash, that's the easiest	Can send by bus, but cannot necessarily trust the bus. Big problem: if recipient is not able to make it to the bus station in time, but bus driver sometimes comes back with the money. If you send it to the post office, the money can wait there for a week or even more, the recipient can go and collect when it suits them	Bus can charge up to K200 000, depending on amount
21	delivery van driver	next to road on the way to the compound	yes	if he has money, up to 3 times a year	last time: about K300 000	Uses the post office	There is a post office in the village he sends to	See formal channels charges summary
22	Zain talktime vendor	Chawama compound	It does happen that people approach her to sell talktime/mobile top-up for cash. She will charge K2 000 or K3 000 for buying say K50 000. It happens about 1-2 times per day.					
23	Zain talktime vendor	Chawama compound	Has never been approached to buy top-up in return for cash, has not hear of this type of money transfer, though many people do me2u talktime transfer					
24	Zain talktime vendor	Chawama compound	Has never been approached to buy top-up in return for cash, has not hear of this type of money transfer, though many people do me2u talktime transfer					
25	Zain vendor (and trades other goods from his stall as well)	Chawama compound	yes (though not via talktime)	Did not disclose	Did not disclose	If there is a Western Union outlet where he wants to send to, he prefers that over the bus; does send top-up to his family, but never heard of a vendor buying top up from somebody in exchange for cash	Did not disclose	See formal channels charges summary
26	Zain vendor	Chawama compound	He would buy airtime from somebody in the public in exchange for cash if it's a good offer. It happened once before: somebody was desperate for cash, wanted to stand next to his stall and sell his top-up to people who want airtime. The vendor told him not to do that, he would take away a potential customer. So then the person offered to sell it to him and the vendor bought K20 000 for K15 000; as a vendor, you get a wholesale discount - you buy K20 000 of talktime for K18 800; if you buy from somebody else, it must therefore be a better deal than this. He himself does this as a way of money transfer, using another vendor that he knows, in Mansa, where his brother lives: he tells his brother to go to the vendor. he sends the vendor K12 000, who then gives his brother K10 000 in cash.					
27	Hardware trader	John Laing compound	yes	about twice a year	sends K200 000 or K300 000, depending on how much he has	as above	Has not yet tried Swiftcash, is familiar with bus	K8 000 to K10 000 for sending K100 000
28	Zain vendor	John Laing compound	It has happened that he buys top-up, would give e.g. K15 000 for K20 000. It does not happen every day, perhaps once a week. The people he knows mostly send talk-time without redeeming for cash; to send money, they use western union, or send with a friend going to the village (preferably).					

29	Zain vendor	John Laing compound	no, never heard of this					
30	street trader selling maize meal and deep-fried fritters	John Laing compound	yes	did not disclose	sometimes K250 000, K300 000, sometimes K150 000	Sends with somebody who goes to the village	Can trust, no charge; no post office in the village that she sends to. She does have a bank account, but there's no branch in the village	no charge
31	checkers players in the street	John Laing compound	yes	did not disclose	did not disclose	Village is close, so just send with a relative		free
32	person on street	John Laing compound	yes	maybe at the end of the month, if has money; but now no work, so has stopped sending		Swiftcash	He sent to eastern province, the village he sends to has a post office, so Swiftcash works best.	See formal channels charges summary
33	people sitting outside the pool "hall"	John Laing compound	yes	did not disclose	did not disclose	Bus	Easier to use bus, same day delivery; they don't know the post office's services, haven't tried it	K10 000 to send by bus
34	bar tender	John Laing compound	no – salary too small, does not have money to send					

Appendix 3: Calculations and assumptions for market sizing scenarios

SCENARIO 1	Value	Calculation/assumption
Number of domestic transactions	100 000 <i>per month</i>	Swiftcash and Zampost Western Union domestic per month, scaled up as 80% of market. Renders about 98 000, rounded up to 100 000
	1.2m <i>per year</i>	
Number of international transactions	Zampost Western Union:	
	250 000 to 300 000	transactions per year
	22 917	<i>average monthly</i>
	25 000	rounded to estimate the other Western Union transactions
	16 250	of which 65% international
	x2	assume this is more or less the same for MoneyGram
	32 500	International market estimate (total <i>monthly</i> transactions)
	19 500	Number of in-bound transactions (60% of total international transactions) – excluded
	156 000	Number of outbound transactions (40%) <i>per year</i>
Average transaction amounts	<i>International</i> : assume K1,2-million	Western Union average amount
	<i>Local</i> : assume Swiftcash K75 000 average (70% of transfers), the rest (30%) K250 000	Based on Swiftcash data, informal interviews and other market players feedback
Revenue potential	Multiply weighted average transactions fees with the various average transaction amounts	Weighted average calculations/assumption: Swiftcash – assigned 70% weight – and Transcash, Western Union, MoneyGram – together equally assigned 30% weight

	8% on K1,2-million	<i>International only</i> , hence simple average of Western Union international fees and MoneyGram fees
	30% on K75 000	Small value <i>domestic</i>
	12% on K250 000	Large value <i>domestic</i>
	17% on K150 000	<i>Informal domestic</i> (see average transaction assumption below). As informal presents potential formal market, we applied formal market fees to the informal transactions.
Informal market size	Assume 60:40 informal to formal ratio – higher than FinScope, but still assumed to represent conservative estimate based on industry and informal interview feedback	
Informal average amount	assumption on likely lower informal amount, to be conservative	K150 000
Total market	Sum of formal and informal total principle amounts and total revenue estimates	
Exchange rate used	3,645 K/\$	www.oanda.com – end of September 2008. Note that significant depreciation since then may alter dollar equivalent amounts.
SCENARIO 2		
Total number of senders (formal vs informal) provided by FinScope [did not extract international – assume all domestic as international negligible]		
Assume frequency of 3 transactions per sender per year. that is, total number of transactions = senders x 3		
Assume same formal vs informal average amounts, namely K250 000 formal, K150 000 informal [this time we exclude the small value formal values, will therefore render higher values than scenario 1]		
Assume same weighted average fees estimates		