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ZAMBIA
Business Survey

Demand-side analysis of access to financial services for businesses in Zambia

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About this publication

This report forms part of the findings of the Zambia Business Survey (ZBS). The ZBS comprised two separate surveys. The MSME Survey was a nationally representative survey across all nine provinces of individuals who owned and ran their own businesses and employed up to 50 individuals. The supplementary Large Business Survey (LBS) was a survey of 161 large enterprises employing 51 or more individuals.

The results of the ZBS are in the main summary report, *The profile and productivity of Zambian businesses.* Analysis of the data resulted in four technical papers, including this one. The other papers cover:

- The business landscape, which looks at the environment in which Zambian businesses operate *(The business landscape for MSMEs and large enterprises in Zambia*)
- Productivity, which examines the productivity of Zambian enterprises (*Who's productive in Zambia's private sector? – Evidence from the Zambia Business Survey)*
- The Business Facilities Measure, a model that groups enterprises and divides the market into more manageable segments (*Segmenting the market into powerful pictures: Application of the Business Facilities Measure - BFM*)

These reports are available via the web or from the offices of the four partner agencies that produced this work: Zambia Business Forum (www.zbf.org.zm, secretariat@zbf.org.zm); Private Sector Development Reform Programme (www.psdrp.org.zm); FinMark Trust (www.finmark.org.za, julietmunro@iconnect.zm); and World Bank Zambia Country Office (www.worldbank.org/Zambia, Pyramid Plaza, Plot No 746 Church Road, Lusaka. Tel: 260-1 252 811).

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Contents

Abbreviations

ATM	Automated teller machine
FSAP	Financial Sector Assessment Programme
FSDP	Financial Sector Development Plan
GPRS	General Packet Radio Service
KYC	Know your customer
LBS	Large Business Survey
MFI	Microfinance institution
MSME	Micro, small and medium enterprise
NAPSA	National Pension Scheme Authority
NBFI	Non-bank financial institution
POS	Point of sale
Zanaco	Zambia National Commercial Bank
ZBS	Zambia Business Survey

Executive summary

The Zambian financial services sector comprises 16 commercial banks and 71 non-bank financial institutions (NBFIs), among which are 15 microfinance institutions (MFIs) and 11 leasing and finance companies[1]. The Government of the Republic of Zambia's Financial Sector Development Plan (FSDP) launched in 2002 has focused on a range of interventions to enable the Zambian financial system to become a "stable, sound and market-based financial system" that supports "efficient mobilisation and allocation of resources necessary for economic diversification, sustainable growth and poverty reduction". There have been noticeable improvements since the launch of the FSDP including an increase in domestic credit to the private sector, an expansion of the footprint of banking services, improvements to the national payments system, and the launch of the first credit reference bureau. Nevertheless a recent review of these reforms noted that further efforts are required to counter the "tendency of the Zambian financial sector to participate in but not help drive market-based economic growth"[2].

Data from the Zambia MSME Survey highlights very limited use of formal financial products. Overall, using the most liberal definition of banking access, no more than 10% of micro, small and medium enterprises (MSMEs) in Zambia are banked. Less than 2% of MSMEs say they currently have a loan for the business, other than for starting the business. Insurance product penetration for MSMEs is extremely low. According to the survey, access to finance is perceived by more than 20% of MSMEs as a "very severe obstacle" to the current operations of the business, while a further 29% rate it as a "major obstacle". It is noteworthy that large enterprises similarly rate access to, and cost of, finance as serious obstacles to doing business in Zambia.

It is crucial to acknowledge that, in the face of other significant barriers to business development, finance on its own is unlikely to engender growth. Still, an exploration of the nature and magnitude of the factors that inhibit access to finance can yield important insights into interventions required to foster market development. The primary emphasis of this study is to explore demand-side data relating to access to financial services. While some reference is made to existing supply-side analyses of the financial sector in Zambia, this paper does not incorporate a comprehensive supply-side review.

Researchers note the difference between usage, which is directly observable, and access, which is not. By definition those who use a product have access to it. The converse, however, does not hold. Non-users may in fact have access to a product, but may choose not to use it for a range of reasons. From a policy perspective it is critical to explore this nuance. In addition, it is useful to identify and where possible quantify the nature and magnitude of the various constraints to access. These include barriers such as affordability, distance from banks and lack of knowledge of banking products. The Access Frontier Methodology, developed by David Porteous[3], facilitates this analysis effectively when rich demand-side data is available. The detailed analysis of access to banking and credit therefore makes extensive use of this framework to explore ZBS data.

[1] As at June 2009.

[2] *Supply-side study of the inclusiveness of Zambia's financial system.* Report for FSDP Implementation and Steering Committees, Oxford Policy Management with PMTC Zambia, November 2007.

[3] *The access frontier as an approach and tool in making markets work for the poor*. David Porteous, 2005. See http://www.finmarktrust.org.za/Documents/AccessFrontierTool.pdf.

The Access Frontier Methodology takes into account the specifications of a particular product such as pricing, minimum deposits, distribution channels, service channels and marketing approaches. This is used to derive a set of criteria that delineate the profile of potential users from those who would be excluded from accessing the product by design or omission.

The analysis in the report covers access to three primary financial product types: banking products (transaction and savings products), unsecured credit, and insurance.

1.1 Access to banking products

The analysis highlights that while access does vary depending on product specifications, even in the best case 85% of MSMEs cannot access the banking products reviewed. The survey finds that 62% of unbanked MSMEs cite limited income as a reason for not having a bank account. It is not clear whether this reflects perceptions relating to supply-side or bank-stipulated balances or usage thresholds, possibly because of poorly informed perceptions about the potential benefits of having a bank account, or a considered and entirely rational trade-off made by the business owner.

To assess this more rigorously, a set of assumptions about an affordability threshold and a typical usage profile together with data on fee structures has been used. According to this analysis, more than 70% of MSMEs would be unable to afford the most cost-effective product reviewed. High banking fees have been highlighted in several studies on the financial sector in Zambia. The Oxford Policy Management's 2007 supply-side analysis of Zambia's financial system notes that a "heavy reliance on fees, net liquidity and high spreads results in the very high costs for users of basic bank deposit and transaction services whether they are individuals or enterprises". The report notes that "deposits are clearly priced to carry all operating costs" and that "three times as much is charged in fees on deposit accounts as is paid out in total deposit interest". In part this reflects the limited economies of scope[4] that characterise the industry. Bank lending activity is limited and by implication contributes marginally to overheads. The report also suggests that banks are unwilling to lower fees, because they simply do not believe a market for the product exists beyond the formally employed and large enterprise market they currently serve. Further, significant changes to operating models are needed to serve lower-income market segments profitably.

Aside from affordability barriers, physical access barriers are also significant. There are 15 districts, home to almost 13% of MSMEs, where there are no bank branches at all. The introduction of cellphone-based banking in Zambia can potentially enhance access. According to the survey around 40% of unbanked MSMEs own or have access to a cellphone. However, solutions introduced by existing banks rely on traditional banking infrastructure to facilitate transactions such as deposits and withdrawals. In that sense current solutions can be characterised as 'additive' in that they enhance existing solutions by providing customers with an additional channel for transacting rather than fundamentally transforming them. For cellphone banking to be 'transformational' and open up services to currently unbanked people banks would need to focus less on enabling cellphone devices to act as additional channels and more on leveraging the cellphone network to facilitate the secure exchange of transactions data.

[4] Economies of scope relate to efficiencies achieved as a result of changes in the number of products marketed. For instance a network of branches selling only one product is likely to be less efficient than the same network of branches selling many products.

GPRS-based[5] correspondent banking models where local retailers are used as bank agents to facilitate cash deposits and withdrawals have been introduced successfully in Kenya (M-Pesa) and the Philippines (G-Cash), and offer significant potential to enhance access to banking in Zambia. A recent pilot of a solution of this nature by Mobile Transactions Zambia Ltd (formerly Zoona) is now rolling out nationwide. This solution has the potential to significantly enhance access, although its current pricing structure would still place it beyond the reach of many MSMEs.

Demand-side constraints such as financial literacy and awareness also impact on access. Data in the survey highlights limited familiarity with basic terminology. While over 90% of the unbanked say they know what a bank is, less than half are familiar with terms such as "savings account" or "current account". For the banks reviewed as part of this study all application forms, statements, ATM menus and other formal communication material are available only in English. Data from the survey indicates that around 40% of the unbanked cannot read English.

1.2 Access to credit

The access to credit analysis indicates that there is limited scope to expand the current market using available solutions. Between 0.3% and 0.5% of MSMEs appear to have access to business loans offered by lenders such as Pelton Finance and Barclays. This is primarily because turnover thresholds are well above the reach of most MSMEs. In addition, the requirement that businesses be formally registered (in the case of SME loans provided by Barclays) and that businesses retain financial records are additional barriers. Like access to banking products, physical access constraints are also noticeable, as are demand-side factors such as awareness.

The analysis highlights the importance of co-ordinated interventions that address obstacles systematically to enhance access in a sustainable way from the perspective of potential borrowers (to avoid overindebtedness), lenders (to prevent losses but at the same time to increase product usage), and the financial system as a whole. Low levels of access may not reflect problems of access within credit markets themselves. Indeed, quite the opposite – higher levels of access may simply be unsustainable, ultimately leading to instability within the financial sector. In some cases factors that inhibit access reflect problems of access. Alternatively they might be entirely appropriate (for example poor capacity to repay limiting scope for further borrowing) or symptomatic of other significant deficiencies within the business.

Efforts to expand access to credit without the development of accessible savings products may create a host of additional access problems. Data from the survey highlights that while savings is a critical source of capital for MSMEs,[6] formal savings activity is currently limited. Eight percent of MSMEs save through informal savings clubs known as chilimbas, while the most frequently cited savings mechanisms include illiquid savings through agricultural products, land and livestock. Already there may be cause for concern that with the fairly rapid growth of the personal credit market, the balance between credit and savings is already out of kilter. Access to basic savings products provided by banks appears to be limited by high threshold costs, high minimum balances and high penalties, and competition may be limited by restrictions on deposit-taking activities of MFIs and the small contractual savings industry.

Providing credit is unlikely to help MSMEs grow if other requirements for success are absent. This suggests the need for a more targeted strategy to facilitate the growth of MSMEs – with finance

[5] GPRS (general packet radio service) is a type of telecommunications technology that allows fast connectivity at a relatively low cost and can be used in areas where there is a cellular network but no landlines.

[6] Almost two thirds of the MSMEs that needed start-up capital relied on personal savings.

playing a critical, but integrated role. For example, deeper analysis of this terrain may reveal scope for industry-based value-chain solutions (such as outgrower schemes), as these schemes typically provide other key inputs required for success.

1.3 Access to insurance

Insurance product penetration for MSMEs is extremely low. Less than 1% of MSMEs have vehicle insurance, the most popular insurance product. In contrast, 96% of large businesses currently have insurance for business purposes.

For those MSMEs that do not have insurance, over half say they do not understand what insurance means. Data elsewhere in the survey corroborates this; 58% of MSMEs that do not have insurance say they do not understand or have never heard the word insurance. Clearly distribution models that rely on unassisted sales will be ineffective, unless greater awareness of insurance is developed.

That so few MSMEs are banked presents another obstacle to access; premiums for life, health and funeral insurance are mainly collected monthly by debit order or direct salary deduction. General insurance premiums are often paid once a year in a lump sum, which presents its own access challenges – the ability to generate a sufficiently large lump sum to afford the product.

1.4 Conclusion

The MSME and large business data from the ZBS probably confirm much of the knowledge and many of the assumptions about access to finance for businesses in Zambia that key stakeholders may have had prior to conducting the survey,. In general, MSMEs show extremely low levels of access and usage, with no more than 10% (using the most liberal definition) having any access to any formal financial service product. On the other hand, all of the large enterprises surveyed reported having at least one formal financial service product, with many having multiple banking relationships and using multiple products.

The data points to many deficiencies in, and barriers to, the products offered. At the same time, examination of the MSMEs themselves reveals intrinsic demand-side problems too. At least two-thirds of all MSMEs are single-person entities, which are often indistinguishable from the household, and in many cases appear to be survivalist rather than viable commercial entities. Among these single-person entities, 40% generate less than $2 a day in turnover. Excluding those MSMEs which refused to answer or did not know turnover figures, only 15% of MSME owners report a turnover of $200 a month or more. The vast majority of MSMEs operate very simple and mostly agricultural related businesses (i.e. grow and sell). Overall most Zambian MSMEs would be difficult to serve, even with the cheapest and most widely dispersed products. And while the potentially transformative aspects of good financial services are acknowledged, it seems unlikely that such transformation would happen without serious investment in building the basic capacity of MSMEs and the development of other supporting infrastructure to facilitate access to markets, information and other critical inputs.

2 Introduction

2.1 Primary focus and data sources

This study summarises the findings of an extensive analysis of recent demand-side data relating to usage of, and access to, financial services for businesses in Zambia. It forms part of a broader study of businesses in Zambia.

The principle data source for the study is the 2008 Zambia Business Survey (ZBS) which comprises a nationally representative survey of 4 800 MSME[7] businesses and a survey of 161 large businesses[8] which is not nationally representative. In addition, data from the FinScope Zambia 2005 household survey[9] have been used where appropriate. While that survey is a consumer survey, the data can be useful for characterising access and living standards for those businesses that could perhaps be better described as household-based enterprises as opposed to self-standing entities.

As with all surveys, both sampling and non-sampling errors may impact on findings. Further, FinScope surveys are, by design, surveys of perceptions. In some cases this may limit the objective veracity of the data – aside from cases where respondents prefer not to disclose some issues, they may fully and truthfully report a perception that is not based on fact[10]. Through the analysis, data from other sources are used to highlight areas where this might have happened.

The primary emphasis of this study is to explore demand-side data relating to access to financial services. While a cursory overview of the supply-side conditions of the financial services industry is included in Section 3, the study does not incorporate a detailed assessment of the regulatory, institutional and competitive forces that shape the financial sector in Zambia. The study should therefore be viewed as a point of departure for further discussion and research on the issue of access to finance for businesses in Zambia, incorporating the findings of other recently conducted supply-side studies, analyses of additional supply-side data (such as spatial mapping and comprehensive product data), as well as rich qualitative demand-side studies to explore specific issues.

2.2 The importance of access to finance

The importance of access to financial services in fostering growth has been noted by researchers and policymakers. In Zambia the Financial Sector Development Plan (FSDP) has identified specific initiatives to deepen and broaden the financial sector to "support efficient mobilisation and allocation of resources necessary for economic diversification, sustainable growth and poverty reduction". The Ministry of Commerce, Trade and Industry, in its Micro, Small and Medium Enterprise strategy notes that "Finance is a crucial input for the creation, expansion and development of MSMEs".

The ZBS also highlights access to finance as a critical obstacle that hampers business success. Access to finance is cited by over 20% of MSMEs as a "very severe obstacle" to the current operations of the business, while a further 29% rate it as a "major obstacle". The cost of finance is also highlighted as an obstacle, although it is less frequently cited as a severe or major obstacle (11% and 15%

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[7] An MSME business is one that has up to 50 employees.
[8] A large business is one that has more than 50 employees.
[9] This survey of 3 998 adult respondents provides a detailed overview of perceptions of, attitudes to and stated usage of financial services. It also contains detailed demographic data to enable a rich assessment of access.
[10] Where these perceptions inhibit product adoption this can constitute an access barrier.

respectively). Large businesses are more likely to cite the cost of finance as a very severe or major obstacle, as compared to access to finance[11].

It is crucial to acknowledge that in the face of other significant barriers to business development, including low skills and limited access to information, markets and other factors of production, finance on its own is unlikely to engender growth. Nevertheless an exploration of the nature and magnitude of the factors that inhibit access to finance can yield important insights into interventions required to foster market development in that specific sphere.

2.3 Measuring access: An overview of the Access Frontier Methodology[12]

Survey data typically provides useful information on product usage or take-up. Researchers, however, have noted the distinction between usage and access. Porteous (2005) notes that many more people may have access to a product than those who choose to use it. The focus on access as opposed to usage helps identify what proportion of the target market can obtain or use a specific product, if they choose to do so; and what proportion of the market is unable to use the product because one or more aspects of the offering effectively exclude them. The distinction between those who have access and those who do not is crucial for both policymakers who wish to encourage increased usage of what are thought to be merit goods, and product providers that seek to increase the addressable market for purely commercial purposes.

An analysis of access is more complex than a review of usage. As noted, usage is directly observable either using survey data or using data from various product providers. Access, by contrast, is not. The Access Frontier Methodology described by Porteous is a useful framework to guide an analysis of access.

The methodology explores the degree of congruency between product-level supply factors and demand conditions. Key aspects of the offering defined by product providers are overlaid against the characteristics of the market to determine how many businesses could use a product as it is currently configured. The Access Frontier Methodology enables access barriers to be identified and quantified. It is a particularly useful framework for analysing demand-side data where access is the key consideration[13]. It is noted that the framework is more commonly applied to products targeting individuals rather than businesses. However, given the profile of the vast majority of business enterprises in Zambia, the methodology remains particularly effective in unpacking access constraints, although in some instances its application has been modified in line with the profile of enterprises as opposed to individual end-users.

The access frontier methodology uses a market map, comprising a number of market zones corresponding to various levels of access:

- *The current market*: This zone comprises those enterprises that currently have or use the product (who, by definition, have access to the product).

[11] 4% of large businesses say access to finance is a very severe obstacle while 21% say it is a major obstacle. 6% say the cost of finance is a very severe obstacle to doing business while 27% say it is a major obstacle. The most frequently cited severe obstacle to doing business for large businesses is electricity (14%).

[12] This section of the document is based on a paper by Illana Melzer entitled *Access to Savings in LSMs One to Five*. The framework described is in turn based on the Porteous (2005) paper.

[13] Of course a comprehensive supply-side analysis of access is critical to identify underlying drivers at a macro, meso and micro level that give rise to the status quo. It is noted that this paper is principally an analysis of demand-side data. Different, and no doubt complimentary, conclusions would arise from a supply-side analysis.

- *The market enablement zone*: Those that are within reach of the market, given the parameters of an existing product, but do not currently have the product lie in the market enablement zone. This zone can be further sub-segmented into those enterprises that actively choose not to have a product, and therefore lie beyond the natural limits of the market, and those that have not yet purchased the product but are candidates for doing so.
- *The market development zone*: This zone comprises those enterprises that cannot currently access the product but who may well be able to access the product in the near-term, given changes to the product, product innovation and/or changes in market dynamics, such as innovations in cellphone banking or changes in know your customer (KYC) requirements.
- *The market redistribution zone or supra market zone*: In Porteous's original paper this zone comprises individuals who lie beyond the reach of the market mechanism because they are too poor. People in this zone typically require non-market interventions to enable them to access the product under consideration. In other words, the state may be required to intervene, either on the supply or demand side (or both sides) of the market to close the gap between the reasonably lowest cost provision of the product or service and the reasonably highest price at which the product or service could be bought. The identification of enterprises (as opposed to individuals) in this zone presents a number of challenges. While there is no data in the survey to assess poverty levels of the individual MSME business owner, data from the survey confirms that many MSMEs are very small; over one quarter have monthly sales of less than K100 000 or around US$20, using an exchange rate of K5 140 to the US Dollar[14]. However, it can be difficult to determine where the cut-off between small but viable, and small but barely survivalist lies. Further, the delineation of this zone clearly differs by product. For example, credit products can fundamentally shift the capacity of the enterprise to generate surpluses, which can in turn be used to finance the loan. Further, the way products are priced is critically important. With banking products, pay-per-use solutions can be accessible even to those who are very poor, if they have access to a lump sum at some point. In addition, product cross-subsidies from credit products for instance to transaction banking or savings products can result in very low fees. The determination of the supra market zone therefore differs by product and is described in more detail in the analysis of individual products discussed in later sections[15].

[14] As at October 5, 2009

[15] No doubt a strong argument can be made for some form of intervention to enable such small entities to access various financial products. However, just because a market redistribution zone exists, it does not mean that intervention of any kind would be optimal. Aside from demand-side considerations incorporated in this report, supply-side considerations including the capacity of the state to intervene in markets effectively and efficiently would need to be considered. In addition, given that there are competing claims on state resources a case would need to be made that direction of funding towards some form of intervention would yield higher returns than an investment in other areas. For example, greater economic returns may be gained through investments in physical capital (e.g. roads and electricity) and human capital (e.g. education), as opposed to directly underwriting the sale and usage of a particular financial product.

3 An overview of the financial sector in Zambia

The Zambian financial services sector comprises banks and non-bank financial institutions (NBFIs). As at end June 2008, there were 14 commercial banks (as at December 2010 there were 17 registered banks) and 71 NBFIs, including 15 microfinance institutions (MFIs) and 11 leasing and finance companies. The balance sheet of the banking industry and NBFIs (excluding the Bureaux de Change) for 2008 is shown in Table 1.

Table 1. Financial Institutions Balance Sheet as at June 30, 2008

	Assets		Loans		Deposits	
	K'million	% of total	K'million	% of total	K'million	% of total
Banking industry	14 465 045		5 973 786		9 970 266	
Leasing and finance companies	195 381	17%	156 806	21%	28 033	9%
Building Societies	256 618	22%	122 622	16%	120 247	40%
Savings and credit banks	168 405	15%	79 237	10%	127 193	42%
Development finance institutions	165 031	15%	90 031	12%	N/A	N/A
Microfinance institutions	351 727	31%	308 811	41%	27 461	9%
Total	1 137 162	100%	757 507	100%	302 934	100%

K = Kwacha

Source: www.boz.zm, (Kalyalya, 2008[16])

As part of a broader poverty reduction strategy, the World Bank and International Monetary Fund in 2003 conducted an assessment of the financial system (the Financial Sector Assessment Programme or FSAP) which identified a number of weaknesses in the Zambian financial sector. The Financial Sector Development Plan (FSDP), launched in 2004 in response to this analysis, has focused on a range of interventions to enable the Zambian financial system to become a "stable, sound and market-based financial system" that supports "efficient mobilisation and allocation of resources necessary for economic diversification, sustainable growth and poverty reduction". These include:

- Fostering macroeconomic stability,
- Developing a sound regulatory framework,
- Creating a "viable pro-poor and effective" rural finance system that provides affordable financial services,
- Developing "an insurance sector that adequately protects business and individuals from catastrophic events",

[16] *Financial Access and Sustainability of Financial Services in Zambia*. Paper Presented by the Deputy Governor – Operations, Bank of Zambia, Dr. Denny H Kalyalya at the Zambia Institute of Chartered Accountants Annual Business Conference, August 7-8, 2008, Livingstone.

- Deepening and broadening the non-banking financial sector to “create a more balanced financial structure and promote competition”, and
- Strengthening the credit culture[17].

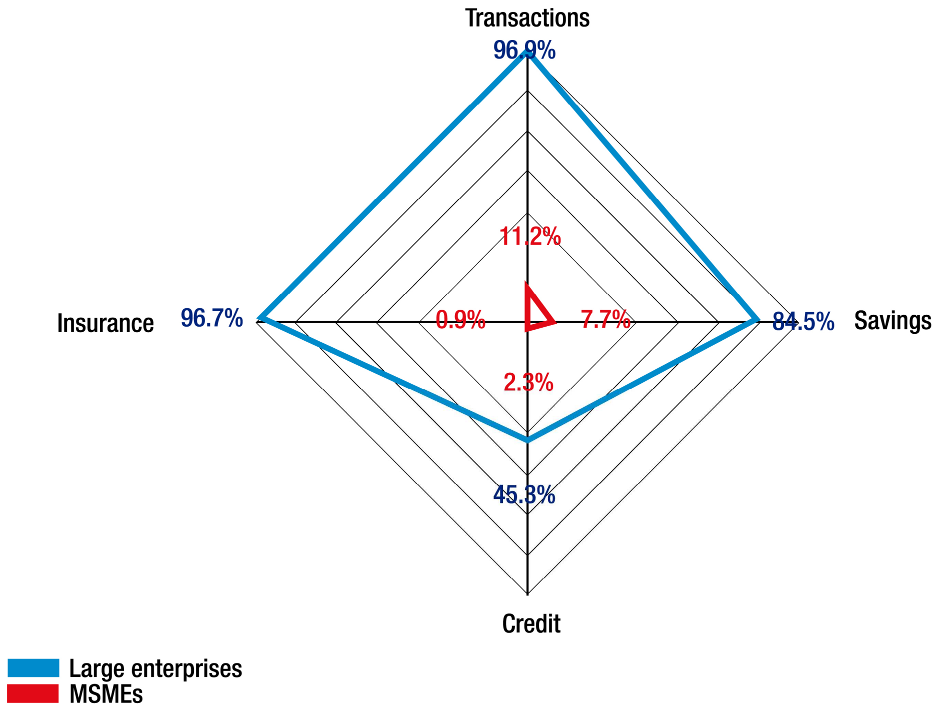
There have been notable improvements in the financial sector in recent years. Domestic credit extended to the private sector has increased sharply from US$260 million in 2004 to US$1 128.9 million in 2008, an average increase of over 44% per annum[18]. The number of bank branches increased from 173 in 2004 to 223 in 2008, and the number of ATMs increased from 54 to 295 over the same period[19]. Two banks, Barclays and Zanaco, now offer Point of sale (POS) services, with 633 POS locations in Zambia; and two banks have recently launched cellphone banking services. Improvements to the national payments system and the launch of the first credit reference bureau are also significant developments.

Nevertheless, demand-side data highlights the significant challenges that remain, particularly with reference to micro and small businesses in Zambia. These challenges are likely to have been exacerbated by the recent turmoil in global financial credit markets and the slowdown in economic growth in Zambia. While relatively few MSMEs are involved in export activity, employment in the mining industry has declined and remittance inflows are likely to have fallen, affecting domestic demand. These developments, however, came after the fieldwork for the Zambia Business Survey was completed[20].

Data on financial product usage from the recent ZBS highlights very low usage of formal financial products by MSMEs, as illustrated in Figure 1. The Figure summarises usage of four product types: transaction products (including bank accounts and money transfer services), savings (including bank accounts and other savings products), credit and insurance (including asset and life insurance) for both MSMEs and large businesses surveyed. Only 11% of MSMEs make use of transactions products compared to 97% of large businesses surveyed and only 2.3% of MSMEs use credit products compared to 45% of large businesses. The contrast between MSMEs and large businesses is most striking with insurance products. Less than 1% of MSMEs have any insurance products, compared to around 97% of large businesses.

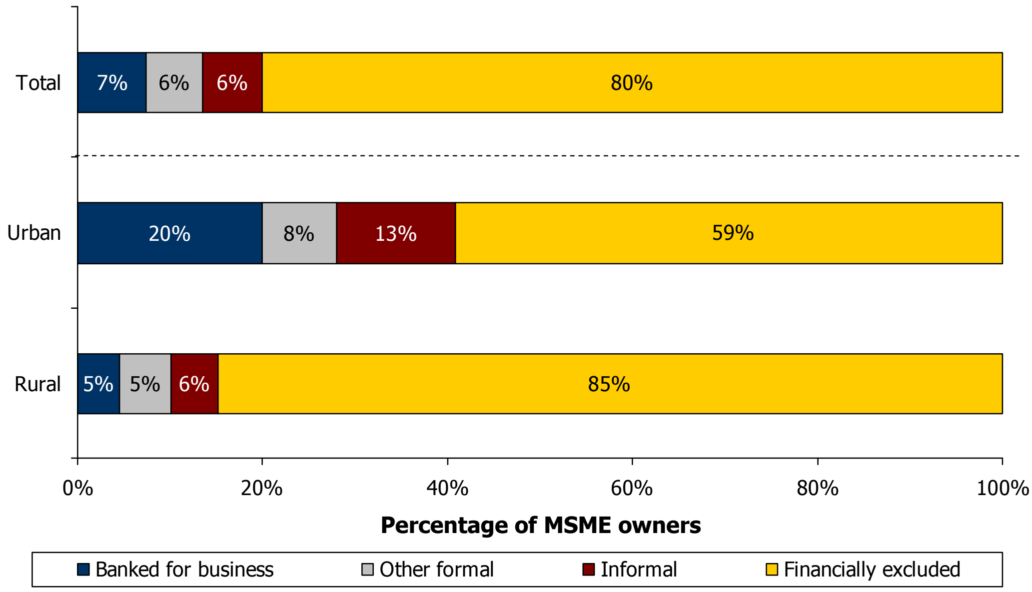
[17] Section 1, Background to the FSDP, FSDP main report.
[18] Bank of Zambia.
[19] *Financial sector development and poverty reduction*, Presentation to the Zambia UN Country Team Annual Retreat, Dr Caleb M Fundanga, Governor, Bank of Zambia. January 23, 2009, Siavonga.
[20] For example, recently published data from the Bank of Zambia indicates that credit extended by commercial banks to the private sector experienced three consecutive months of contraction between April and June 2009.

Figure 1. Product usage: Enterprises in Zambia



An alternative summarised representation of product usage is the financial strand (see Figure 2).

Figure 2. Financial strand: MSMEs in Zambia – banked for business

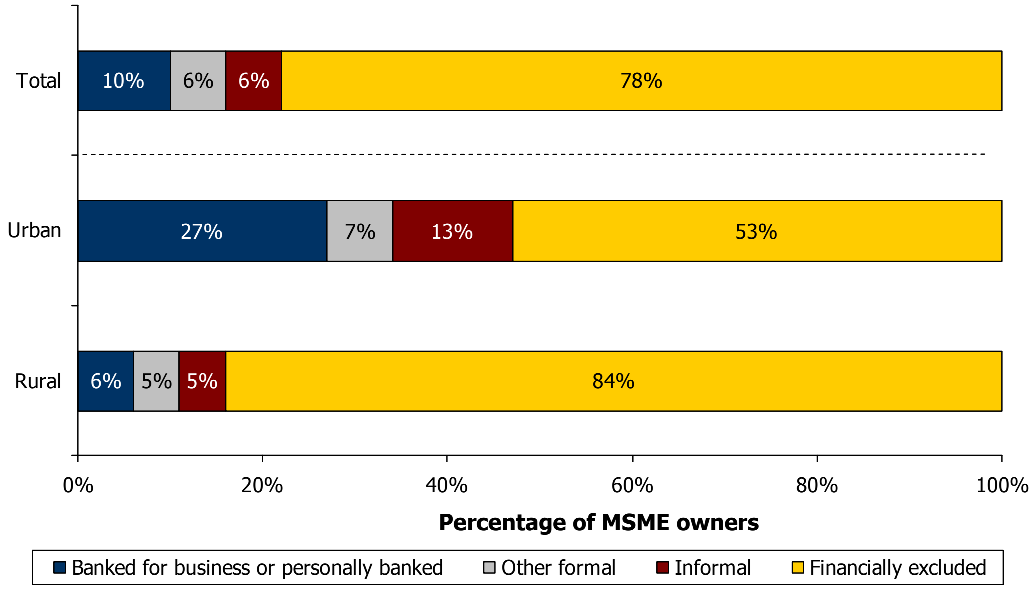


The strand segments the market into those that have one or more bank account; those that have one or more other formal products such as insurance or credit products, but no bank account; those that have informal products only; and those that have no financial products at all. Note that only those MSMEs that say they use a bank account for their businesses are regarded as being banked.

The data clearly shows the discrepancy between urban and rural MSMEs. Twenty eight percent of MSMEs in urban areas are financially included – that is they have either a bank account or some other formal financial product. The corresponding percentage for rural areas is 10% (see Figure 2).

A slightly (but by no means dramatically) more positive picture emerges if personal bank account usage is included in the definition of banked, as illustrated in Figure 3.

Figure 3. Financial strand: MSMEs in Zambia – banked for business or personally banked



Data on usage strongly suggests that access among MSMEs is limited. The balance of this report explores access to specific products in more detail and identifies, and where possible, quantifies the magnitude of access constraints.

The analysis covers access to three primary financial product types: banking products (transaction and savings products), unsecured credit, and insurance. Other important financing and financial mechanisms – including capital market instruments, secured finance and various non-bank savings products – are not explored in this study. This mainly reflects the nature of the demand-side data that is available. The survey probes usage of, and attitudes to, a core set of fairly basic financial products. Usage of these products by the large businesses surveyed tends in most cases to be high (although in some categories there is scope to increase product penetration). The analysis of access to finance is therefore skewed towards smaller enterprises.

The analysis covers products targeting businesses as well as those targeting individuals. Research from various countries highlights the importance of personal financial products in funding businesses. With banking products, according to the ZBS, of those MSME owners who use a bank account for business, 80% use their personal bank accounts for this purpose. At a more fundamental level, many of the MSMEs surveyed appear to be inseparable from the household. A range of indicators from the survey illustrate this. Only 7% of MSME owners say they pay themselves a salary, 15% operate from home, and 56% say they employ family members.

The following sections focus on the three core products. The sections on banking (Section 4) and credit usage (Section 5) begin with a brief overview of features of the products under consideration and then explore the current market, characterising users and commenting on available survey data relating to product usage. The barriers to access that prevent potential clients from accessing the product under review are then explored. The discussion on insurance in Section 6 is more general.

4 Access to bank accounts

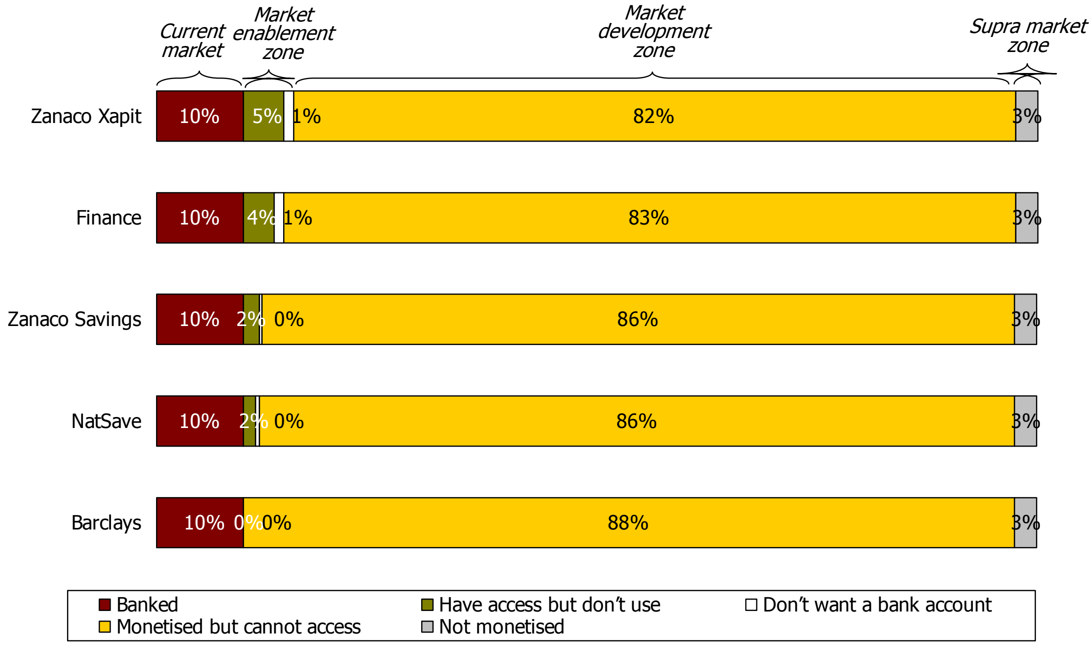
Detailed product information was gathered on a set of basic banking products offered by the most widely used institutions: the Barclays SME Current Account; savings accounts from Zanaco, Finance Bank and Zambia National Savings and Credit Bank (NatSave); and the newly introduced Xapit product offered by Zanaco. The basic features of these offerings are summarised in Table 2

Table 2. Banking product description

	Barclays SME Current Account	Finance Bank Savings Account	Zanaco Savings Account	Zanaco Xapit	Natsave Ordinary Savings Account
Requirements to open an account	Documentation: ▪ Company registration documents ▪ Identification document ▪ Proof of address	Documentation: ▪ Identification document ▪ Proof of address ▪ 2 reference letters	Documentation: ▪ Identification document ▪ Proof of address ▪ 2 reference letters	Documentation: ▪ Identification document ▪ Proof of address ▪ Reference letter Other: ▪ Mobile phone	Documentation: ▪ Identification document ▪ Proof of address ▪ 2 reference letters ▪ Application letter
Threshold costs and selected fees	Opening balance: ▪ Small: K500,000 to K1 million ▪ Medium: K1m to K6 million ▪ Large: Above K6m Fees: ▪ Monthly fee: K100,000 ▪ Cash/cheque deposit: Branch only - K10,000 ▪ Cash withdrawal: Branch - K10,000; own/other ATM – K7,500 ▪ Debit order: K25,000 ▪ Transfer: Between Barclays - free ▪ Statement: Scheduled - free	Opening balance: ▪ K100,000 Fees: ▪ Monthly fee: K2,500 ▪ Cash deposit: Branch only - free ▪ Cash withdrawal: Branch - K10,000; own/other ATM - K2,000; POS – K10,000 ▪ Debit order: K2,000 ▪ Transfer: Branch – 1% of amount ▪ Statement: Scheduled - free ▪ Penalty fee K10,000 if bal. <K50,000	Opening balance: K200,000 Fees: ▪ Monthly fee: K13,500 ▪ Cash deposit: Branch - free ▪ Cash withdrawal: Branch - K30,000; own ATM - K2,500; other ATM – K7,000 ▪ Debit order: 1% of total ▪ Transfer: Between Zanaco – free ▪ Statement: Scheduled - free	Opening balance: ▪ No opening balance. Need a starter pack for K30,000 Fees: ▪ Monthly fee: None ▪ Cash deposit: Branch only - free ▪ Cash withdrawal: ATM only: own - K2,500; other - K7,000 ▪ No debit order ▪ Transfer: Mobile Zanaco – K3,000; mobile other – K5,000 ▪ Statement: Mobile – K1,200	Opening balance: ▪ K40,000 Fees: ▪ Monthly fee: K20,000 ▪ Cash deposit: Branch - free ▪ Cash withdrawal: Branch - K3,000 ▪ Debit order: K50,000 ▪ Transfer: K30,000 ▪ Statement: Scheduled - free ▪ Penalty fee K15,000 if bal. <K40,000
Service channels	▪ 53 branches ▪ 47 ATMs ▪ Internet ▪ POS terminals	▪ 45 branches ▪ 40 ATMs ▪ Internet ▪ POS terminals	▪ 55 branches ▪ 33 ATMs ▪ Internet ▪ POS terminals	▪ 55 branches ▪ 33 ATMs ▪ POS terminals ▪ Cell-phone	▪ 27 branches

The access frontiers for each of these products is presented as a strand in Figure 4. The left-most segment of the strand reflects the size of the **current market** comprising those who already have any sort of bank account, for themselves or their business. Next along the continuum starting is the **market enablement zone**, which comprises those MSMEs that appear to have access to the product but are not current users. The **market development zone** comprises those that do not have access to the product for various reasons (these include the distances to get to a bank, lack of identity documents, lack of information about banking, and the cost of products). On the extreme right of the strand are business owners who lie in **the supra market zone**. The analysis highlights that while access does vary depending on product specifications, even in the best case 85% of MSMEs cannot access the banking products reviewed.

Figure 4. Access frontiers for bank accounts



The balance of this section explores each segment of the access frontier in more detail.

4.1 Banked: Current market

Data on bank product usage indicates that just over 7% of MSMEs in Zambia have a bank account for business purposes[21]. The vast majority of MSMEs that are banked for business appear to be using personal as opposed to business banking products – to access the latter, businesses must be formally registered, which according to the survey is not the case for around 75% of MSMEs that are banked for business. In contrast with the very limited usage of bank accounts by MSMEs, all larger entities interviewed for the ZBS Large Business Survey (LBS) were banked[22]. With regard to MSMEs, given that so many enterprises are indistinguishable from the household, use of personal bank accounts is also of interest. The survey indicates that banking penetration for business and/or personal purposes, while slightly higher than business banking penetration, remains low at around 10%. The 2005 FinScope consumer survey estimated that around 15% of all Zambian adults had a bank account. Within the self-employed[23] segment of the market, banking penetration was estimated by that survey to be around 13.5%. While the 2005 FinScope consumer survey and the 2008 ZBS MSME Survey are not directly comparable, that the 2005 estimate for banking penetration is noticeably higher would not, on the face of it, support the hypothesis that banking access has increased for small businesses.

The profile of the banked population is contrasted with the unbanked population in Table 3:

[21] The business owners were asked of their experience with various financial products and services (have now, used to have or never had) when thinking specifically about the business. A business is defined as "banked for business" (288 092 businesses) if it currently has at least one of the following: ATM / Cash point card; Debit card / Connect / Visa Electron card; Current / Cheque account; Savings account; Fixed Deposit account; 24 hours Call account; High Interest Savings account; US Dollar / Foreign Currency account; Bank account outside of Zambia; Credit card.

[22] Because of this, no analysis of access was undertaken for larger enterprises.

[23] Self-employed in business or agriculture.

Table 3. Profile of banked and unbanked businesses

	Banked Large	Banked MSME	Unbanked MSME
Paid employees			
Single person	0%	48%	83%
Multiple person	100%	52%	17%
Sector			
Agriculture	14%	48%	73%
Trade	9%	30%	20%
Other	76%	22%	7%
Location			
Urban	88%	51%	15%
Rural	12%	49%	85%
Monthly sales:			
Less than K300 000	0%	19%	52%
[K300 000, K1 000 000)	0%	23%	18%
K1 million and above	83%	37%	9%
Don't know / Refuse	17%	21%	21%
Cell phone			
Cell phone access		86%	40%
No cell phone access		14%	60%
Gender			
Male	81%	75%	66%
Female	19%	25%	34%
Registration			
Formal registration (PACRO / other)	99%	21%	2%
No formal registration	1%	79%	98%
Sample size (n)	161	654	4 147

Unsurprisingly unbanked MSMEs are more likely to be small, agricultural and based in rural areas. They are also less likely to be formally registered than banked MSMEs. With regard to gender three quarters of banked MSMEs are owned by men. This partly reflects the profile of MSME owners in general – two thirds of MSME owners are male. According to FinScope 2005 men are more likely than women to have a regular income from self-employment activities in business or farming (45% of men compared to 39% of women[24]). In addition, for MSME owners banking penetration is lower for women than for men – 7% of female MSME owners are banked compared to 11% of male MSME owners. This gender difference is unlikely to arise because of directly discriminatory practises on the part of banks – just 0.12% of the unbanked cite this as the reason they are unbanked[25].

Banking penetration for MSMEs differs markedly by both location (urban or rural) and the size of the entity measured by the number of paid employees[26]. Enterprises that pay cash wages are clearly monetised and able to pay for services (in this case labour) provided by others. It is noteworthy that while banking penetration is highest in enterprises that have at least one paid employee, banking penetration levels in this segment of the market are at about 50% for urban-based enterprises and

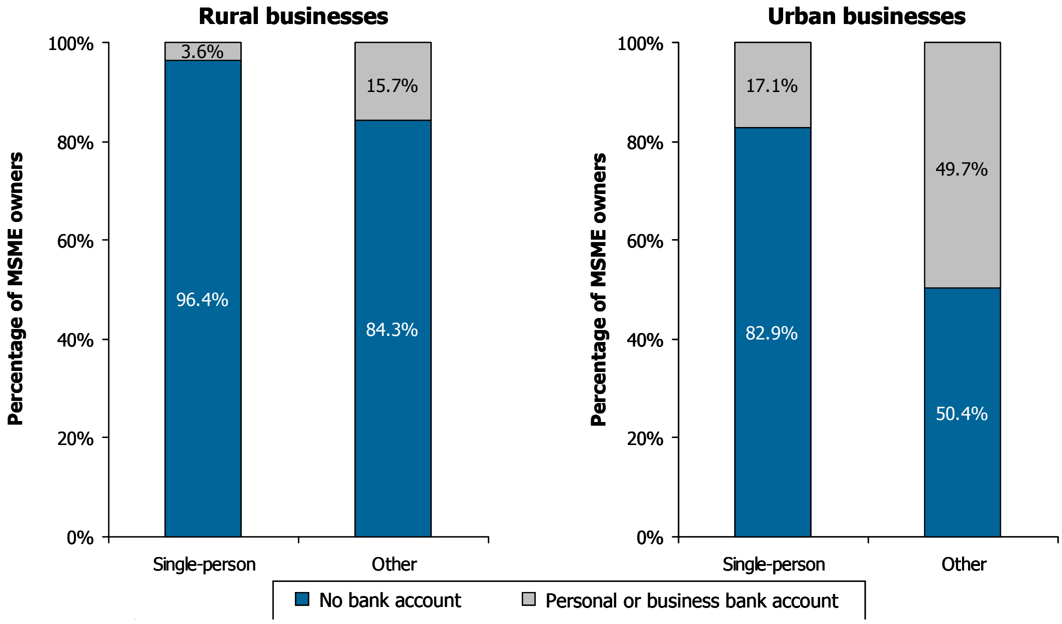
[24] FinScope 2005 contains an alternative definition of an MSME owner. The survey asks respondents whether they agree that they have their own business. 24% of females and 30% of males agree which is lower than the percentage who indicate they have regular income from self-employment.

[25] 0.12% of the unbanked say they reason they are unbanked is that banks discriminate against women.

[26] A single-person entity is defined as a business with no paid-in-cash employees. Unlike the slightly broader definition of MSME sizes applied throughout most of the ZBS analysis, a narrower definition is used based on one key assumption – namely, that businesses that can afford to pay their employees in cash would have the greatest need for, or propensity to want, a bank account.

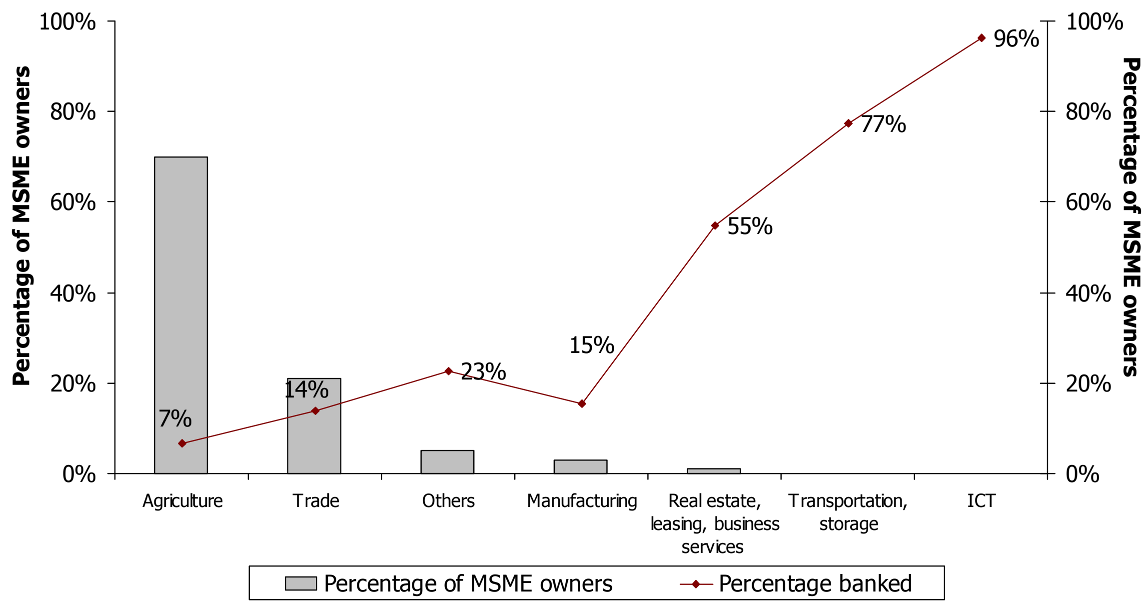
just 16% for those in rural areas (see Figure 5). Whether this is high or low depends on the perspective of the reader. Irrespective, it indicates scope for growth.

Figure 5. Banking penetration (personal and / or business bank account)



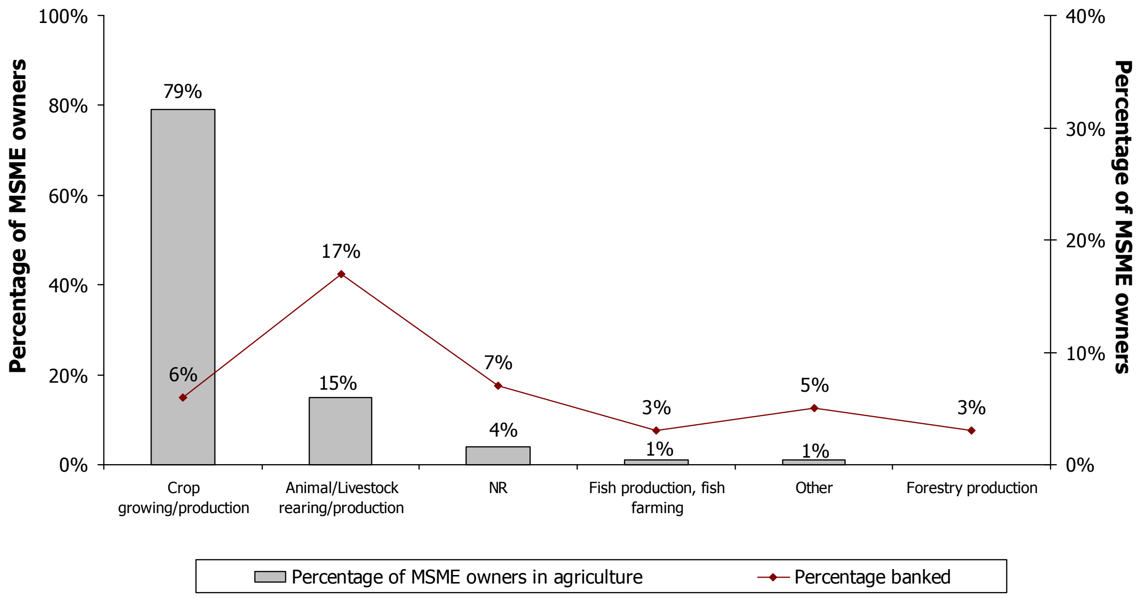
Other than business size and location being discriminating factors, there are noticeable differences in banking penetration across economic sectors. According to the survey, 70% of MSMEs are involved in agricultural production. Banking penetration in this sector is extremely low at 7%, while almost all MSMEs in the ICT sector are banked (see Figure 6).

Figure 6. Banking penetration by sector



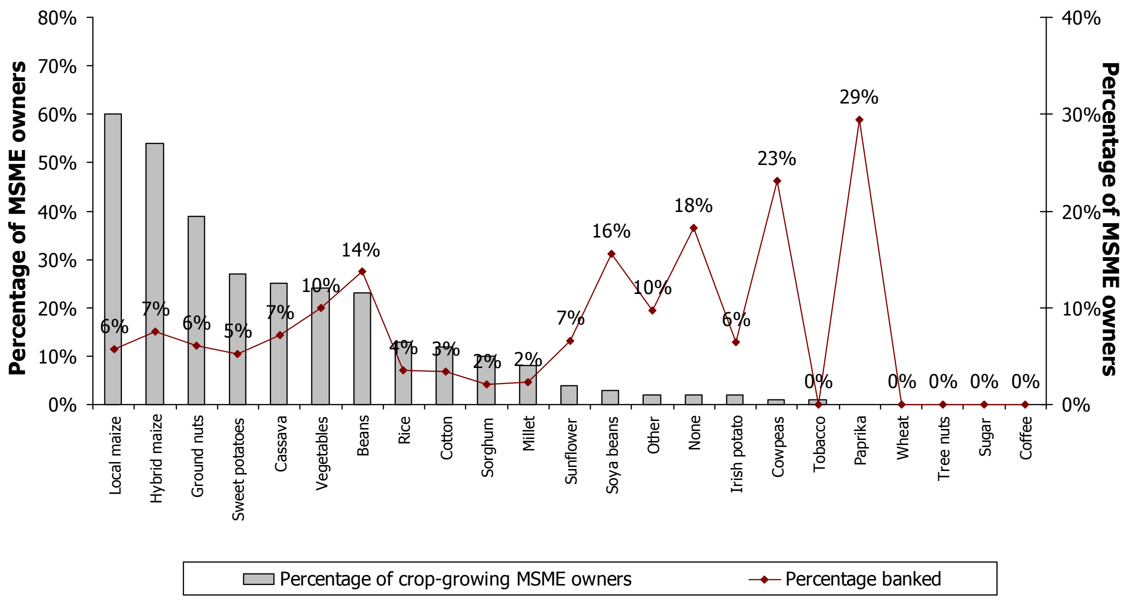
Given the importance of agriculture, a more detailed exploration of the banking status of agricultural MSMEs is warranted. Banking penetration differs noticeably depending on the primary agricultural activity of the MSME. Only 6% of those involved in crop growing are banked compared to 17% of those involved in livestock farming (see Figure 7).

Figure 7. Banking penetration by agricultural activity



Looking at the crop-growing MSMEs (see Figure 8), data from the MSME Survey indicates that while there is some variance in banking penetration across main crops, low banking penetration characterises the segment in general. Surprisingly, banking penetration at 4.5% is low even for MSMEs that grow high-value crops such as cotton, sunflowers, tobacco, sugar and coffee.

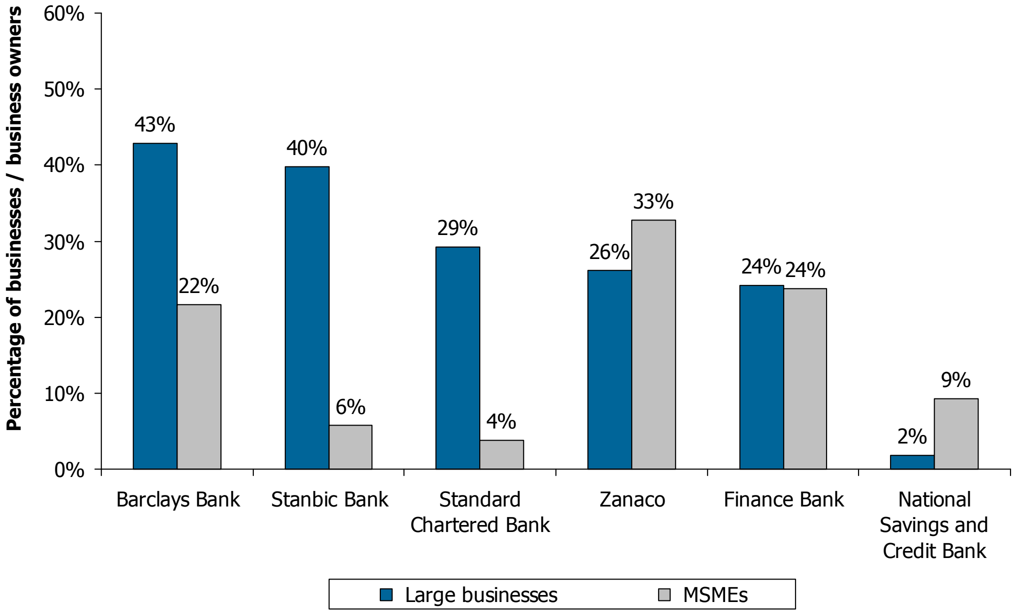
Figure 8. Banking penetration by main crop



Unsurprisingly the size of the farm appears to be positively related to banking usage. Nineteen percent of MSMEs that farm five hectares or more are banked compared to just 5% of small-scale farmers. With the former, there is significant scope for growth. While these larger agricultural MSMEs are spread across districts, about 44% of unbanked large scale crop-growing MSMEs are located in the Chilubi, Kalomo, Mbala, Mpulingu and Mumbwa districts.

While the ZBS LBS is not based on a representative sample, it is noteworthy that the institutional profile of banked enterprises differs markedly for large and small businesses. Foreign-owned banks dominate for large business respondents. In contrast the most commonly used institution for banked MSMEs is Zanaco, a formerly state-owned institution established to enhance access to finance and banking particularly in rural areas[27]. Of the foreign-owned banks, Barclays has a noticeably higher share of MSME clients than other banks (see Figure 9).

Figure 9. Bank usage: Enterprises in Zambia

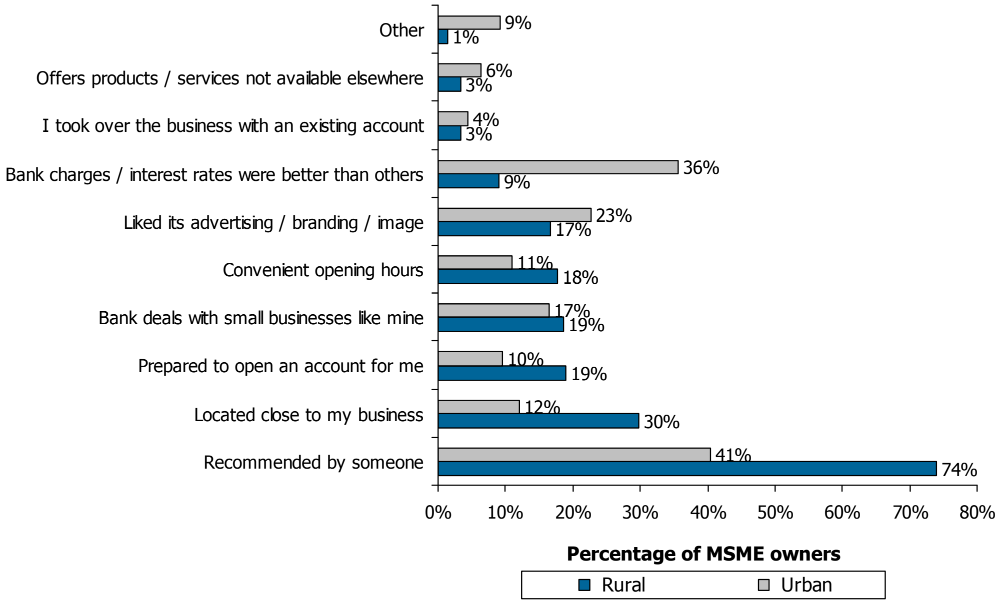


Just over 70% of the larger businesses surveyed have banking products at more than one institution (115 respondents), while this is true for just over 7% of banked MSMEs (65 respondents). Of interest too is the range of banking products used by MSMEs versus larger entities. Larger enterprises unsurprisingly make use of a wider range of banking products while MSMEs generally appear to use personal financial products, predominantly savings accounts.

The MSME Survey contains data on the reason for selecting a particular banking institution. Personal recommendation is the most frequently cited reason for both rural and urban-based banked MSMEs (see Figure 10).

[27] *Financial policies and the banking system in Zambia*. Martin Brownbridge, June 1996

Figure 10. How did you choose the bank you use for the business? (Banked for business)

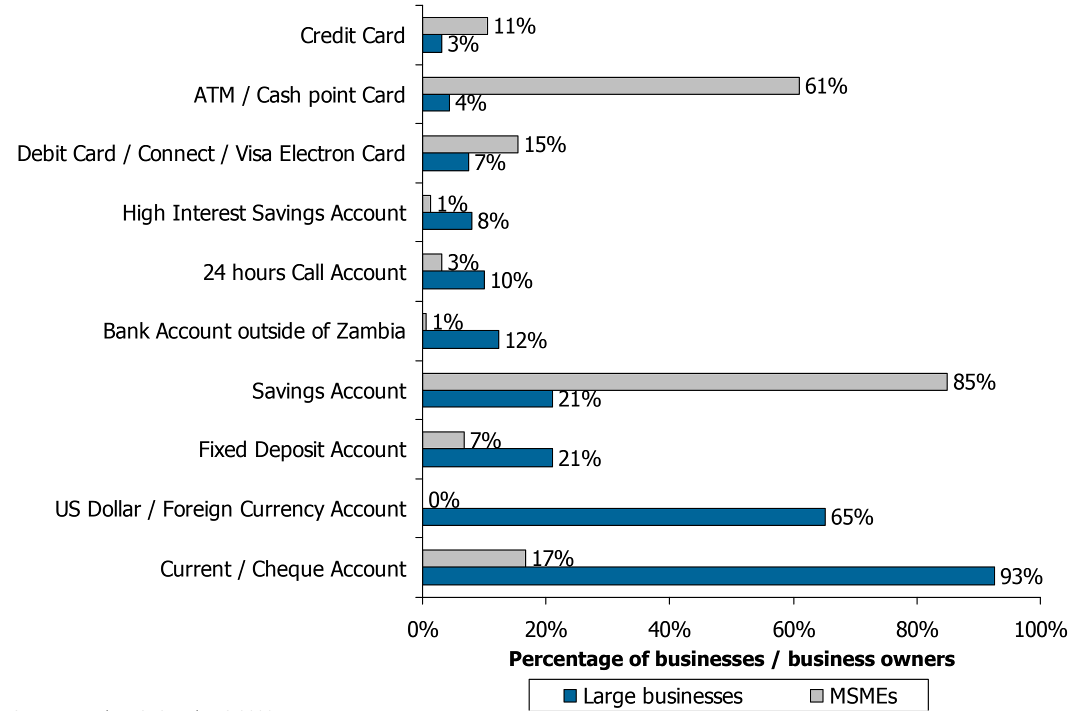


Interestingly, the cost of banking is cited by only 9% of rural MSMEs with other factors such as location and willingness to deal with MSMEs more frequently mentioned. Whether this reflects greater price inelasticity on the part of rural MSMEs, lower levels of awareness, constrained choice or limited competition is not clear.

Aside from basic transaction products, most of the larger entities have foreign-denominated accounts[28]. There is insufficient data in the survey to determine whether these accounts exist to facilitate foreign trade or whether foreign exchange accountholders have limited trust in the local currency. Larger entities are also more likely than smaller entities to make use of longer-term bank savings products such as fixed-deposit accounts and high-interest accounts (see Figure 11). The limited usage of ATM, credit and debit cards among larger entities raises some questions, for which the data does not provide sufficient evidence to draw clear conclusions. For example, it could be surmised that the low card usage arises from inadequate internal mechanisms to control usage within the enterprise. Alternatively, transaction counterparts may not be equipped to accept credit and debit cards or may strongly prefer to transact in cash or by cheque.

[28] There is insufficient data in the survey to assess whether these businesses are involved in foreign trade. Only export activity is recorded together with the location of the business's primary supplier.

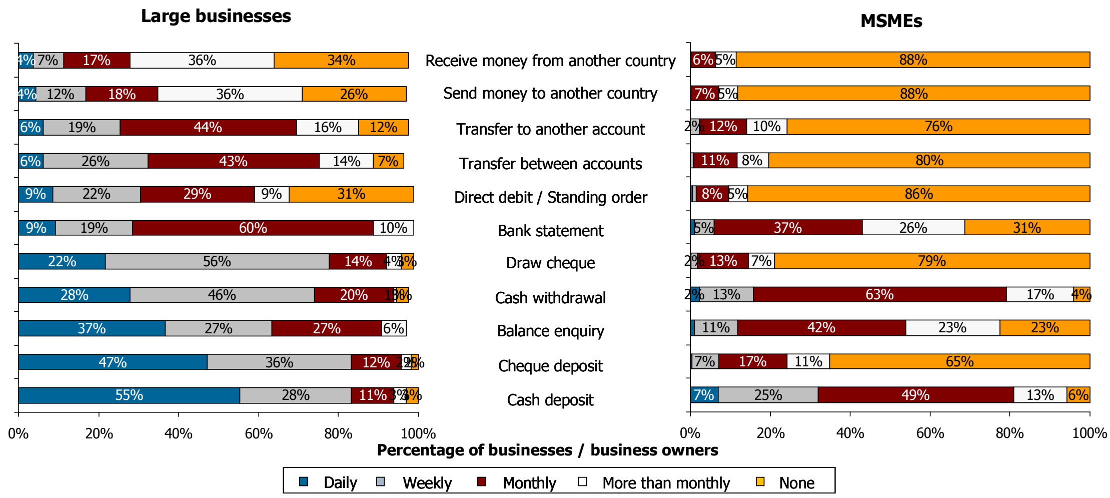
Figure 11. Banking product usage: Enterprises in Zambia



The transaction profiles for MSMEs and large enterprises also differ noticeably (see Figure 12). Larger businesses are far more likely to transact daily and appear to have a far more varied transaction profile. Generally MSMEs tend to use their bank accounts for cash deposits and withdrawals. While withdrawals can be conducted via ATMs as well as branches, for all of the products reviewed deposits can only be carried out at branches. Lack of banking infrastructure is therefore likely to be significant not only in determining access, but also in shaping usage patterns. According to the MSME survey, 42% of banked MSMEs say the bank is located too far away from their business, while 47% agree that queues in the bank are too long. For these enterprises, visits to the bank may require owners to be absent for extended periods of time, directly affecting business activity.

A sizeable minority of banked MSMEs appear not to check their balances or statements, an observation that is of interest in assessing the financial capability of these business owners.

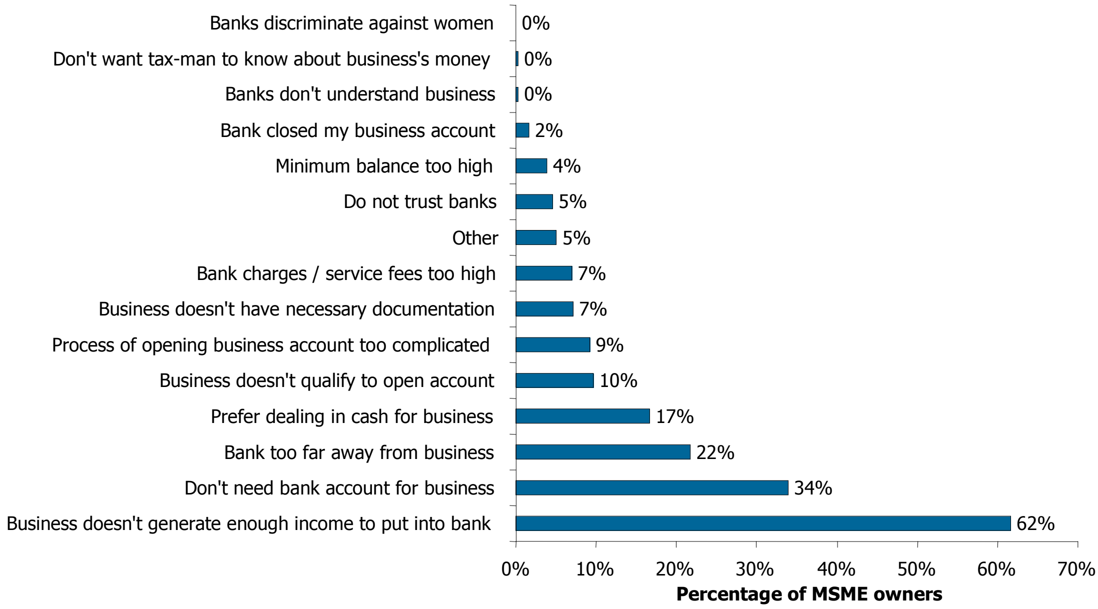
Figure 12. Bank account usage profile: Enterprises in Zambia



4.1 Unbanked: An introduction

Ninety percent of MSME business owners do not have a bank account for business or personal purposes. The data provides a useful view of the perceptions of the unbanked about the reasons they do not have a bank account; but these perceptions may not always correspond to reality. For instance just 4% of the unbanked say the minimum balance is too high (see Figure 13). In reality, this constraint is likely to impact on a far higher proportion of the unbanked. Consequently, while the analysis of access in this section refers to this data, in many cases other indicators from the survey are used to estimate the magnitude of access constraints.

Figure 13. Reasons for not having a bank account for business: Unbanked



The discussion on the access status of the unbanked begins with a look at the supra-market zone followed by the market development zone and ends with the market enablement zone.

4.2 Unbanked: The supra-market zone

This zone comprises those entities that lie beyond the realm of access primarily because they are currently not monetised. Sixty-two percent of those who are unbanked cite limited income as a reason for not having a bank account ("the business does not generate enough income to put in a bank"). It is not clear whether this reflects perceptions relating to supply-side or bank-stipulated balance or usage thresholds, possibly misinformed perceptions relating to the potential benefits of having a bank account, or a considered and entirely rational trade off made by the business owner.

To assess this more rigorously, other data in the survey has been used to identify those MSMEs that predominantly receive payment from customers in kind *and* at the same time do not pay employees in cash (either because they have no paid employees or because they pay them in kind)[29]. These enterprises are unlikely to be in the market for a bank account. According to the survey about 3% of MSMEs fall into this segment of which more than 80% are in rural areas.

[29] This is a static perspective which may in fact reflect limited access to banking and other financial services. The presence of accessible financial services is likely to impact on the way people transact and their relative preferences for cash-based versus barter-based transactions

4.3 Unbanked: The market development zone

The market development zone comprises those enterprises that cannot currently access the product but who may well be able to do so if various features of the offering are altered. Various factors prevent apparently monetised MSMEs (i.e. MSMEs that are not in the supra market zone) from accessing banking products. These include physical proximity (the distance from banks), cost of banking services, formality, and awareness on the part of the business owner[30]. While access varies depending on the product specifications, based on survey data it is estimated that even for the most accessible of the products under review (Zanaco Xapit Account) about 82% of business owners face one or more of these constraints, and therefore do not have access to the product.

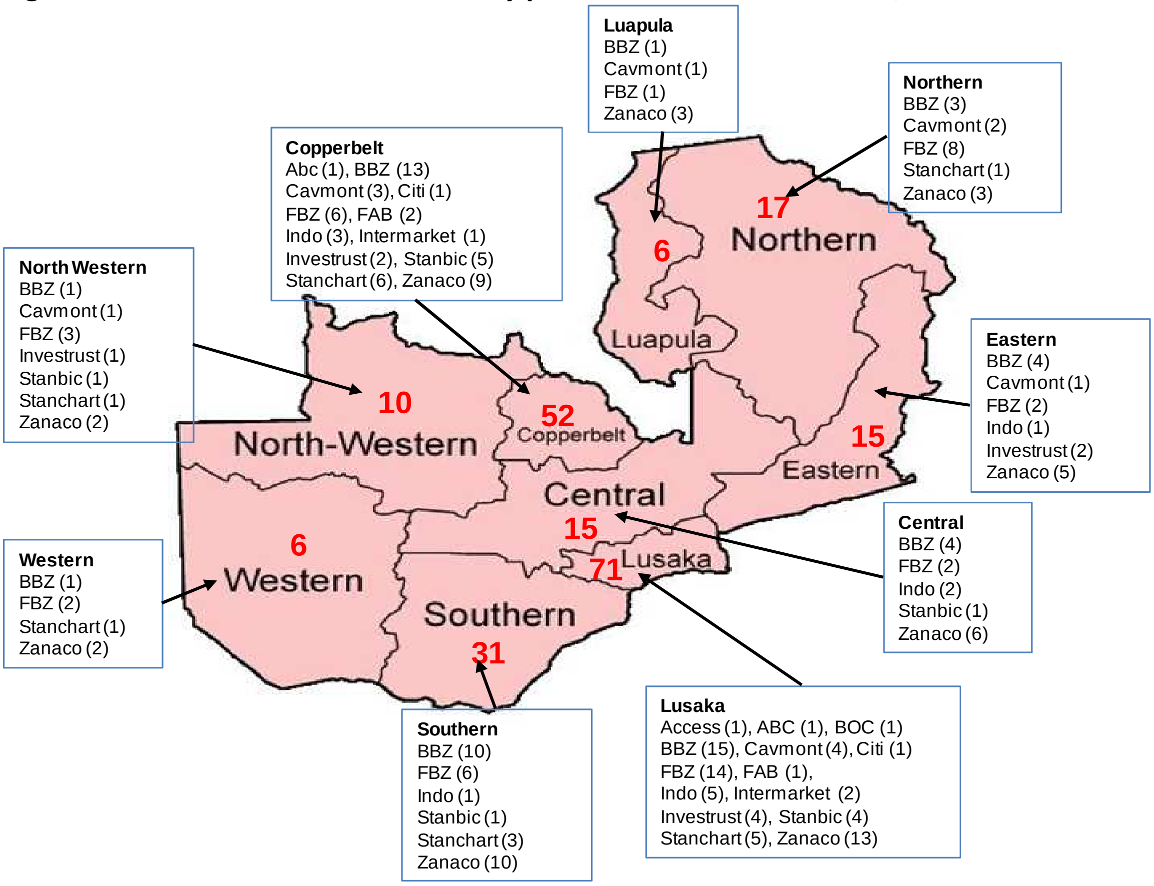
4.3.1 Physical proximity

According to data from the Bank of Zambia there are 245 bank branches across the country. The provincial distribution of bank branches is in Figure 14.

Assessing the extent to which physical proximity inhibits bank account adoption is not simple. Twenty-two percent of MSMEs that are unbanked for business give as the reason "the bank is too far away from my business". While this is the only direct statement in the survey relating to proximity, other data indicates that this probably understates the magnitude of this access constraint. Data from the 2005 FinScope Zambia consumer survey revealed that just 11% of unbanked self-employed adults agree with the statement: "there is a bank nearby" while 60% associate the statement "they are too far from where I live, work or usually go" with banks.

[30] The age of the MSME owner can also impact on access. Most banks require bank account holders to be 18 or over. The survey data indicates that relatively few MSME owners are below the age of 18. This aspect has therefore not been assessed in detail.

Figure 14. Bank Branch Distribution by province as at December 31, 2008[31]



For this analysis, a district-based indicator of banking proximity has been derived based on ZBS data. For the banking products under review, those who live in districts that contain no branches of the relevant institution are deemed not to have physical access to banking products provided by that institution. This methodology is not perfect. Banking infrastructure located in neighbouring districts may well be easily accessible. Likewise, bank branches located in a home district may not be. Nevertheless, in the absence of spatial data, this methodology would appear to provide a useful estimate. Table 4 summarises the magnitude of physical access constraints for the products under review for those entities that do not lie in the supra market zone. More generally, for the country as a whole there are 15 districts where there are no branches at all.

Physical proximity to branch infrastructure is clearly only a constraint for banking models that rely on traditional branches. There are mobile branches in Zambia, although there is no readily accessible data on the number and capacity of these branches.

[31] *Financial sector development and poverty reduction*. Presentation to the Zambia UN Country Team Annual Retreat, Dr Caleb M. Fundanga, Governor, Bank of Zambia, January 23, 2009, Siavonga.

Table 4. Proximity to branch network: MSME location (excluding those in the supra-market zone)

Zanaco	
Districts with no branches	42%
Districts with at least one branch	58%
Finance Bank	
Districts with no branches	43%
Districts with at least one branch	57%
Barclays	
Districts with no branches	43%
Districts with at least one branch	57%
NatSave	
Districts with no branches	58%
Districts with at least one branch	42%

A noteworthy development in the market is the recent introduction of cellphone-based transaction banking products. One such product is Xapit, launched by Zanaco in partnership with Zain, the country's largest mobile phone network, and the Zambia National Association of Marketeers and Credit Associations (ZANAMACA). Customers can check balances, purchase airtime and other pre-paid services, and initiate transfers using their cellphones.

Data from ZBS indicates that about 40% of unbanked MSMEs own or have access to a cellphone. These business owners are theoretically within reach of financial services; aside from being contactable, they spend at least some of their time within the GPRS network and are therefore linked into a grid which can transmit transactions data securely. On the face of it, banking products that leverage this infrastructure could shift access significantly, although clearly constraints will remain where cellphone infrastructure is absent[32].

With Xapit, however, while the need to visit branches is eliminated for some transactions, people still need to be close to banking infrastructure as essential transactions such as depositing funds must still take place exclusively at branches, and cash withdrawals remain dependent on the branch and ATM networks. The solution is thus better characterised as 'additive' – building on or enhancing, but not fundamentally changing, the nature of existing products – rather than 'transformational', which targets currently unbanked people, a distinction highlighted by Porteous[33]. For the purposes of this analysis, therefore, the product has no real impact on physical access at all.

For cellphones to enhance physical access meaningfully banks should arguably focus less on enabling cellphone devices to act as additional channels and more on leveraging the cellphone network to reduce their reliance on traditional banking infrastructure. With the latter, the introduction of GPRS-based correspondent banking models where local retailers are used as bank agents to facilitate cash deposits and withdrawals is of interest. These models, which have been introduced successfully in Kenya (M-Pesa) and the Philippines (G-Cash), offer significant potential to enhance access to banking in Zambia. A similar solution has recently been piloted in Zambia by Mobile Transactions and is

[32] The 2007 Oxford Policy Management review noted that "cellular coverage outside the main towns is largely limited to the main transport routes between them".

[33] Porteous, D (2007). *Just how transformational is m-banking*? FinMark Trust, South Africa, available at http://www.finmarktrust.org.za/accessfrontier/Documents/transformational_mbanking.pdf.

currently being implemented across the country. As at June 2009, more than 300 agents had been appointed and these numbers are increasing each month. The solution has Bank of Zambia approval as a Designated Payment System.

Spatial data is needed to provide greater clarity on the true magnitude of physical access constraints. But here too assumptions would be required as to what constitutes a reasonable distance or travel time to reach a bank branch or ATM. While policymakers could simply stipulate a threshold[34], defining an acceptable norm should ideally be probed with targeted customers directly.

Proximity is only one dimension of physical access. Service levels also affect physical access. While the data shows that those who are banked have direct experience of delays in service, the perceptions of those who are unbanked (formed perhaps by observing long queues in branches or outside ATMs) may well reduce the perceived value of having a bank account. Analytically, while it is possible to estimate density (number of branches per 100,000 population for instance), there is no data to assess branch infrastructure in detail[35]. No density ratio is therefore incorporated into the access frontier.

4.3.2 Affordability

The supra-market zone comprises those who are unlikely banking candidates because they are effectively not monetised. For those who operate in the cash economy but whose incomes are low, the costs of having a bank account are likely to impede access. It is, however, not clear how to determine precisely where an affordability threshold might lie – the assessment of whether a product or service is affordable is, of course, a subjective one based on the perceived net benefit of the service relative to those provided by other goods and services.

In the case of personal banking, researchers typically use around 2% to 3% of personal income as an affordability cut-off. Data on the income distribution of MSMEs is not available in the ZBS survey, although there is data on sales or turnover. Data on reported sales can be difficult to work with. Inaccurate reporting of financial performance[36] – a limitation that plagues all business surveys particularly those of small entities – is likely to be significant. According to the MSME Survey, 27% of MSMEs maintain financial records.

Reported sales figures provided by those that do not maintain records may well be inaccurate. The questionnaire asks respondents to provide total sales for the last 12 months[37]. Those who did not know their annual sales could provide sales data for the last month. Roughly 41% of MSMEs provided annual sales data, 38% provided sales data for the previous month, and 21% could not (or would not) provide any sales data.

A second limitation relates to variability of income over time, as opposed to the actual sales amount. It is not at all clear how stable the sales performance of MSMEs is over a year or how representative

[34] This approach was followed in South Africa where the Financial Sector Figureer initially stipulated a proximity target of 20 kilometres to an ATM or branch for 80% of the country's population.

[35] A branch with 10 tellers is quite different to one with only two.

[36] Data in the survey indicates that some respondents may not be familiar with the terminology used in the questionnaire. 56% of businesses owners have never heard of the term "turnover" and a further 18% have heard of it but don't understand what it means. It would be tremendously useful if questions about the living standards relating to poverty and vulnerability were included in future studies. Such questions might include frequency of withdrawing children in the households from school to work in the enterprise, experience of hunger, migration to seek additional employment and income by the business owner and so on.

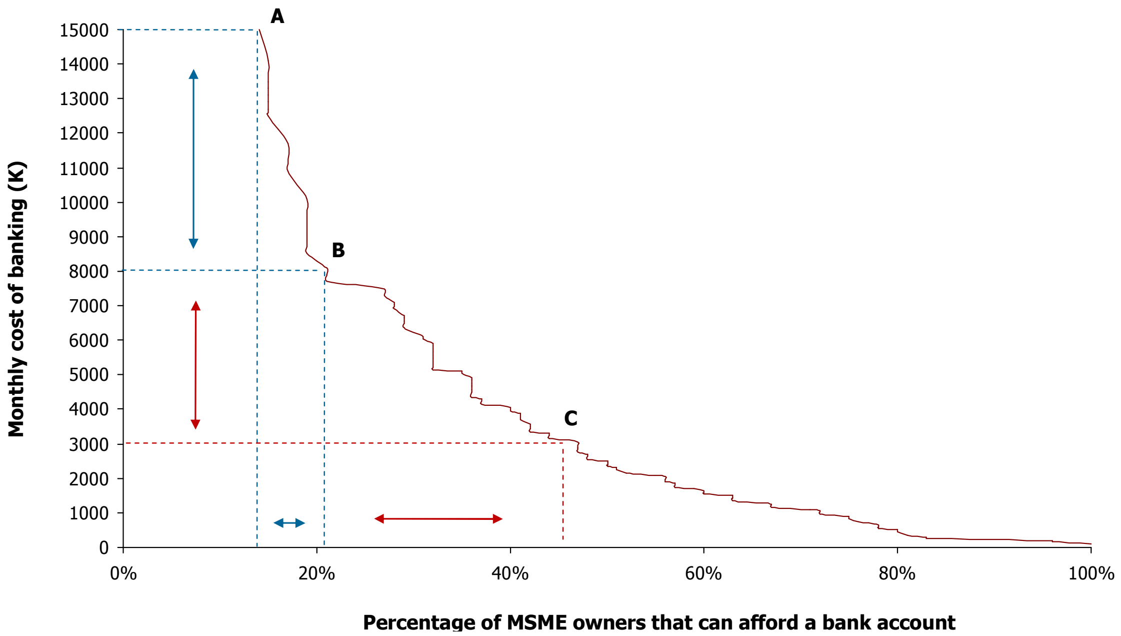
[37] The survey question (Question 1, Section O) is "What were the total sales of the business in the last 12 months or last financial year OR if you don't know the amount for the year can you tell me the total sales in the last month?"

the previous month's sales are for those that provide a monthly estimate. It is highly likely that many MSMEs, particularly those that are agricultural, have highly variable turnover profiles from one season to the next.

Aside from these data limitations, it can be difficult to use sales data, as opposed to income data, to assess affordability. Margins on reported revenues for businesses that trade (where the cost of sales is likely to be high) are vastly different from margins in businesses that are primarily transformative (such as agriculture). It is therefore likely to be problematic to use a standard percentage of revenue to assess affordability of banking services across economic sectors.

For the purposes of this analysis a range of assumptions has been made about affordability. In the first instance it is assumed that a reasonable affordability threshold is 3% of gross profit. It is further assumed that gross margins are 20% on average for retail and wholesale entities and 50% for agricultural and other entities[38]. Using these assumptions it is possible to generate a notional demand curve for a bank account (see Figure 15).

Figure 15. Demand curve for banking based on an affordability threshold of 3% of gross profit



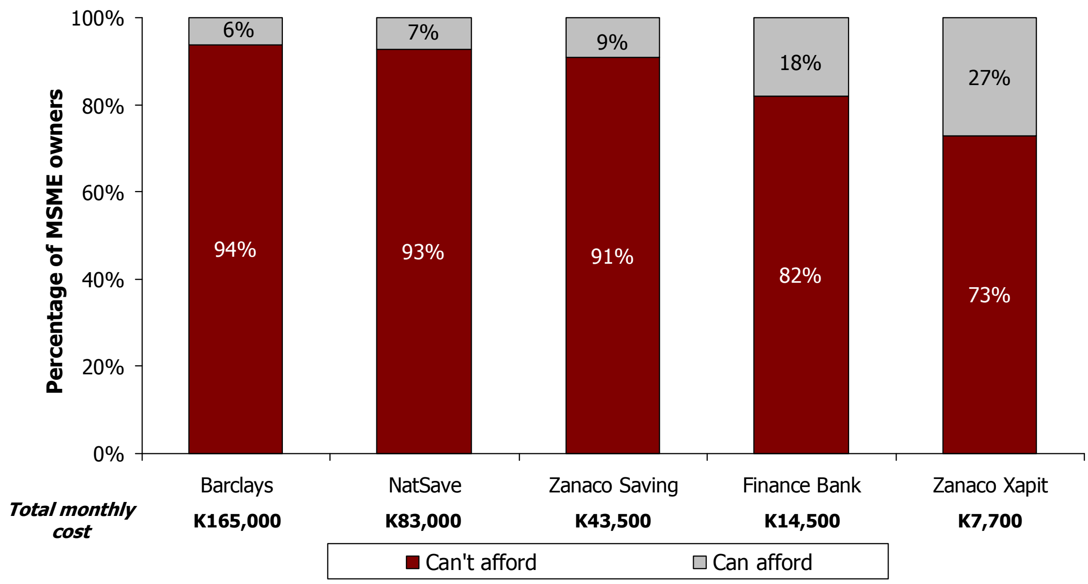
The slope of the demand curve indicates price elasticity or responsiveness of demand to changes in pricing. Between points A and B on the curve below the curve is very steep – a change in price yields a fairly small change in quantity demanded[39]. If the costs of banking fall from around K8 000 a month to K3 000 month (points B and C on the curve) quantity demanded increases noticeably[40].

To determine the impact of an affordability constraint, additional assumptions are needed about usage. As most enterprises surveyed are small, a fairly basic, but still useful, set of banking transactions has been used across all products. This profile assumes that MSMEs make two cash deposits, one cash withdrawal, one debit order or transfer, one balance enquiry and request one full

[38] This is based on a study of margins for small outgrower schemes in Ghana. *Short Term Consultancy on Outgrower Schemes*, Main Report, Agricultural Support Programme, October 2007.
[39] Based on the data price elasticity of demand between points A and B is around 1.
[40] Between points B and C price elasticity of demand is estimated to be almost 2.

statement each month. The analysis uses the costs of transactions for the various products under review and applies the affordability threshold discussed above to estimate the magnitude of affordability constraints[41].

Figure 16. Affordability: Excluding those who lie in the supra-market zone



Based on the usage profile described above (two cash deposits, one cash withdrawal, one debit order or transfer, one balance enquiry, one statement and the monthly fee where applicable), by far the most cost effective bank account is Xapit (see Figure 16). Monthly bank costs are roughly half its nearest rival, Finance Bank. On the other end of the spectrum the most expensive product, Barclays SME business bank account costs over 20 times more than Xapit. It is noteworthy that, based on the assumptions described above, more than 70% of MSMEs would still be unable to afford the most cost-effective product reviewed.

For the purposes of comparison, the cost of banking transactions is compared with the costs of cellphone calls. The cost of an ATM withdrawal for Xapit is K2 500, while transfers to other Xapit accountholders cost K3 000 and transfers to non-Xapit accountholders cost K5 000. The cost of one minute of peak talk time on Zambia's most widely used network, Zain, is K1 200 per minute within the network and K2 400 per minute to other networks. A set of prices of other basic commodities[42] is summarised in Table 5.

[41] With regard to businesses that do not provide sales data, those businesses that have no paid-in-cash employees have been grouped with those that cannot afford the product. Those that do have paid-in-cash employees have been grouped with those that can afford the product in the derivation of affordability constraints.

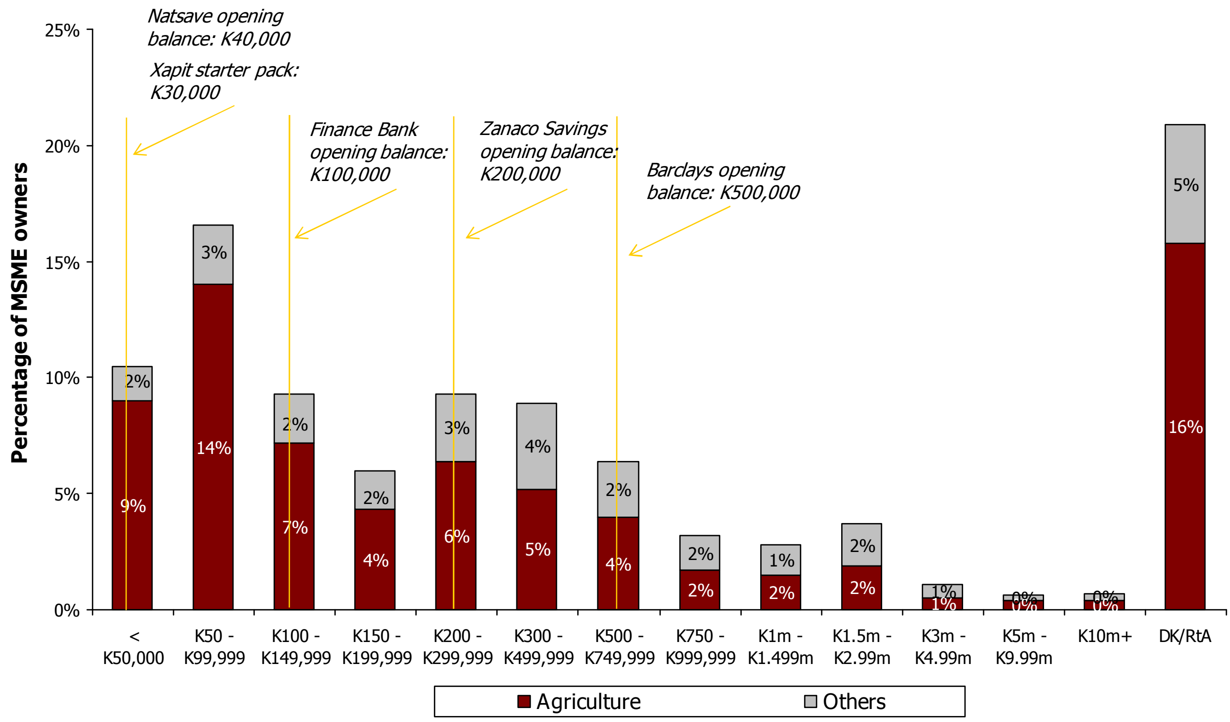
[42] *The Monthly*, CSO Zambia

Table 5. Cost of basic commodities (April 2009)

25 kg white breakfast meal[43]	K65 543
1 kg dressed chicken	K16 964
1 kg dried beans	K8 721
1 litre paraffin	K6 101

Aside from the costs of using a bank account, relatively sizeable minimum deposits are required to open bank accounts in most cases. Figure 17 summarises the monthly sales distribution of unbanked MSMEs relative to threshold costs for the products under review. Thirty-four percent of MSMEs that provide sales data generate less than K100 000 a month in sales, the opening balance required for a Finance Bank savings account. With Zanaco's savings account, the required opening balance of K200 000 is greater than the total monthly sales of more than half the MSMEs that provided data.

Figure 17. Monthly sales[44] of unbanked MSMEs relative to account opening balances (excluding supra-market zone)



There is no data in the survey to assess whether business owners might have access to a large lump sum, either through accumulation or because income is 'lumpy,' i.e. it comes it a lump sum instead of weekly or monthly (given that so many enterprises are agricultural, it may well be possible that many have access to a lump sum during harvest time). No constraint about this has therefore been modelled, although it is noted that where minimum deposits are required this is likely to constitute a significant access barrier.

[43] According to the Global Alliance for Improved Nutrition average per capita consumption of maize meal – the staple grain in Zambia – is 318 grams per day. 25kg of maize meal will provide almost 80 days worth of maize. See http://www.gainhealth.org/zambia-maize-meal-fortification-project

[44] Note where annual sales data is provided, this has been divided by 12.

Aside from the average cost of banking and threshold costs, the fee structure, specifically minimum monthly fees, a feature of all but one product reviewed (Xapit), would in most cases be unsuitable for MSMEs that have sporadic or seasonal income – a feature likely to characterise over 70% of unbanked MSMEs that are agricultural businesses. Although there is no data in the survey to assess stability of income, together with the relatively high costs (direct and indirect) of opening a bank account, monthly fees makes it unfeasible for many MSMEs to have a bank account.

In addition to monthly maintenance fees, some savings accounts levy penalty fees if minimum account balances fall below stipulated thresholds. For instance, NatSave levies a fee of K15 000 if the account balance falls below K40 000. Likewise, Finance Bank levies a fee of K10 000 if the account balance falls below K50 000. While penalty fees are not necessarily a barrier to access in themselves, they no doubt significantly diminish the attractiveness of bank savings products for the poor and strongly signal that small savers should not be using the product.

The Oxford Policy Management's 2007 supply-side analysis of Zambia's financial system notes that a "heavy reliance on fees, net liquidity and high spreads results in the very high costs for users of basic bank deposit and transaction services whether they are individuals or enterprises". The report notes that "deposits are clearly priced to carry all operating costs" and that "three times as much is charged in fees on deposit accounts as is paid out in total deposit interest". A key factor driving this outcome is the limited economies of scope within the banking environment – bank lending activity is limited and by implication contributes marginally to overheads. The report also suggests that banks are unwilling to lower fees because they simply do not believe a market for the product exists beyond the formally employed and large enterprise market they currently serve. Further, significant changes to operating models would be required to serve lower-income market segments profitably.

4.3.3 Formality and access to documentation

Documentation required by those who wish to open a bank account differs by institution and banking product. Business owners who wish to make use of dedicated business bank accounts need to provide company registration documentation, as well as official identity documents. In addition proof of address is required[45]. While 93% of business owners say they have a National Registration Card, only 3.4% say their businesses are registered with PACRO (Patents and Company Registrar Office) or another government institution responsible for commercial registration.

Those business owners without company registration documentation can access personal banking products. To do so they need to provide proof of personal identification and proof of address. Interestingly, most banks also require reference letters either from existing account holders or lawyers. It is not immediately clear why these references are required and to what extent they present a significant obstacle to those who wish to obtain the product. Nevertheless, that reference letters are required in a country where banking penetration is so low leaves the impression that the service is intended to remain the domain of a relatively privileged few.

4.3.4 Financial literacy, knowledge and awareness

The concept of financial literacy is a broad one, encompassing not only knowledge and awareness but also skills, confidence and attitudes and perhaps most importantly, behaviour. Data from the ZBS and FinScope consumer surveys indicate significant financial literacy challenges.

[45] This includes either proof of fixed address (utility bill) or proof of registered premises (even home where applicable).

Knowledge, awareness and skills are of particular concern for analysing access. Poorly informed consumers who have no knowledge of the existence of formal products or of the benefits of having them cannot be regarded as having meaningful access. Data in the survey summarised in Table 6 highlights the limited familiarity with basic terminology. While over 90% of the unbanked say they know what a bank is, less than half are familiar with terms such as "savings account"[46] or "current account".

For the banks reviewed as part of this study, all application forms, statements, ATM menus and other formal communication material are available only in English. Survey data indicates that around 40% of the unbanked who are not in the supra-market zone cannot read English. These customers would need fairly intensive assistance either from bank staff or other trusted associates to engage with the product.

[46] 46% of the unbanked who are not in the supra market zone have heard of a savings account.

Table 6. Awareness of terminology – excluding the supra market zone

	Never heard	Heard but don't understand	Heard and do understand
Bank	0.7%	5.6%	93.2%
Profit	2.5%	5.6%	90.1%
Kaloba (informal moneylender)	3.3%	4.7%	90.0%
Chilimba (savings club)	4.6%	7.0%	86.0%
Pension	7.4%	12.5%	78.0%
Budget	9.1%	12.0%	76.2%
Interest	18.8%	22.3%	56.9%
Savings	20.2%	19.7%	57.5%
Savings account	23.1%	25.4%	50.3%
Current account	25.0%	29.8%	44.0%
Tax	25.3%	27.6%	44.6%
Investment	26.5%	24.7%	46.7%
Insurance	28.7%	29.1%	40.4%
Debt	33.1%	14.5%	49.6%
Asset	35.3%	18.8%	43.3%
Working capital	38.8%	16.9%	41.5%
Exchange rate	38.9%	25.4%	33.1%
Financial statement	43.5%	23.0%	30.7%
Revenue	44.5%	20.1%	32.4%
Cash flow	46.7%	20.3%	30.0%
Microfinance	48.2%	23.2%	26.3%
Collateral	55.0%	19.5%	23.0%
Turnover	55.9%	18.3%	23.3%
Liability	55.9%	18.3%	23.1%
Liquidity	60.3%	18.1%	18.5%

For the purposes of the access frontier analysis, a constraint relating to formal education has been used to identify those who are unlikely to be able to access banking products because of limited knowledge and awareness as well as limited ability to access information. According to the survey, around 9% of those who are unbanked but not in the supra-market zone have had no formal schooling, while a further 12% have only attended lower primary school (up to four years of formal schooling). While banks are not in a position to remedy the national education deficit, they can intervene by designing their products, product education and customer interfaces specifically to meet the needs of MSME owners with limited formal education and limited ability to communicate in English.

4.3.5 Lack of trust

Various other factors may inhibit access. These include a lack of trust in the banking system in particular and in the formal financial sector in general. ZBS MSME data indicates that only 4.7% of unbanked MSME owners say they do not have a bank account because they do not trust banks. While this data would not seem to indicate a problem of trust in itself, data from the FinScope 2005 consumer survey indicates that levels of trust may be low (subject of course to interpretation). Around one third of all unbanked self-employed adults associate the statement “You trust them” with banks. It is noted that this association between banks and trust is far higher than for other formal and informal institutions (see Table 7).

Table 7. Percentage of the unbanked self-employed who associate the statement “You trust them” with various institutions

Banks	32.28%
None	23.18%
Savings clubs / Chilimbas	12.09%
Informal lenders / Kalobas	7.86%
Insurance companies	5.72%
Microfinance Institutions	5.30%
Building Societies	4.12%

Source: FinScope 2005

That banks are rated highly compared to other providers is arguably less an indication of high levels of trust in banks and more an indication of limited trust in the financial sector as a whole. Aside from specific initiatives to broaden trust in the banking sector, it would appear that a cross-sectoral strategy to improve trust in the financial sector is needed.

Financial sector reform in general emphasises the importance of adequate regulatory measures to support the rights of consumers and to build trust (including both deposit protection specifically and consumer protection in general). It is crucial to ensure that potential consumers are sufficiently aware of the existence and implications of these rights, as well as how they can access them. While this is often overlooked, it is as important as regulatory reform to build sufficient trust to encourage greater usage of financial products.

4.4 Unbanked: The market enablement zone

This zone comprises those who do not face any of the constraints described and who, by implication, therefore have access to a bank account. Using the most accessible product under review (the Zanaco Xapit bank account), over and above those who are currently banked, an additional 6% of MSMEs appear to have access to a bank account in Zambia. A comparison of the profile of enterprises in the current market, the market enablement zone and the market development zone for the most accessible product reviewed is provided in Table 8.

Table 8. Characteristics of MSMEs by banking access

	Banked MSMEs	Market enablement zone	Market development zone
Paid employees			
Single person	48%	67%	83%
Multiple person	52%	33%	17%
Sector			
Agriculture	48%	34%	75%
Trade	30%	41%	19%
Other	22%	25%	6%
Location			
Urban	51%	62%	12%
Rural	49%	38%	88%
Monthly sales:			
Less than K300 000	19%	0%	55%
[K300 000, K1 000 000)	23%	36%	17%
K1 million and above	37%	51%	6%
Don't know / Refuse	21%	13%	21%
Cell phone			
Cell phone access	86%	100%	36%
No cell phone access	14%	0%	64%
Gender			
Male	75%	59%	66%
Female	25%	41%	34%
Registration			
Formal registration (PACRO / other)	21%	5%	1%
No formal registration	79%	95%	99%
Sample size (n)	654	393	3 657

Not all enterprises that have access to a bank account will choose to use one. As already highlighted by the survey, cash transactions dominate and the limited usage of bank accounts by the general population severely limits potential network effects. This is not to say there is no benefit of having a bank account in a country with low banking penetration. Rather, benefits may relate primarily to accumulating funds safely as opposed to using the account for transactions. When monthly bank fees are relatively high and interest paid relatively low (as appears to be the case with a number of products), the cost of keeping funds in a secure bank account may be no different to, or perhaps even higher than, the expected losses of keeping cash in a less secure environment.

The survey indicates that around 17% of those unbanked (for business) cite a preference for cash as the reason they are unbanked. This indicator has been used to proxy those who might not want a bank account even if they can access one.

4.5 Banking access frontier summary

An access frontier 'tree' quantifying the magnitude of the various constraints is summarised in Figure 18 for the various products. Note that access constraints are not mutually exclusive – many MSMEs face several constraints simultaneously. Trust, awareness and identification constraints do not vary across products. However, with physical proximity the constraint reflects the different locations of bank infrastructure. NatSave for instance has only 27 branches across the country and physical access constraints for that bank are most pronounced. Likewise affordability reflects the pricing structure associated with each product.

The size of the market development zone (noted in bold in Figure 18) quantifies the number of MSMEs that face one or more of the access constraints identified. Because a number of constraints may exist simultaneously, the size of the development zone reflects the existence, combination and overlap, as opposed to the sum, of the constraints.

The best case scenario reflects a transformational cellphone-based banking model based on Mobile Transactions' 1 Account which targets the unbanked. Pricing parameters based on the product[47] have been used to derive monthly costs while physical access constraints have been removed (the model leverages corresponding banks to provide banking services). Other constraints relating to trust, awareness and required documentation have been left unchanged. It is noteworthy that this notional best case product would increase the size of the market enablement zone by around 65% compared to the best available alternative (namely Xapit). Based on the analysis almost 10% of MSMEs have access to the 1 Account product, potentially doubling the size of the banked market.

Figure 18. Banking access frontier tree

Total market (all small business owners)
- 10% Currently banked
- 90% Currently unbanked
  - Does not have access to the product
  - Has access to the product but does not use it

<table>
<tr><th></th><th>Barclays Business</th><th>Finance Bank Savings</th><th>NatSave Ordinary Savings</th><th>Zanaco Savings</th><th>Zanaco Xapit</th><th>Mobile Transactions 1 Account</th></tr>
<tr><td>Not monetised</td><td colspan="6"><---------- 2% ----------></td></tr>
<tr><td>Supra market zone</td><td colspan="6"></td></tr>
<tr><td>No trust
Reason unbanked</td><td colspan="6"><---------- 4% ----------></td></tr>
<tr><td>No awareness
Less than gr 5</td><td colspan="6"><---------- 18% ----------></td></tr>
<tr><td>No identification</td><td colspan="6"><---------- 1% ----------></td></tr>
<tr><td>Cannot afford
% sales by sector</td><td>83%</td><td>75%</td><td>83%</td><td>82%</td><td>67%</td><td>63%</td></tr>
<tr><td>Physical access
District has no branch</td><td>39%</td><td>38%</td><td>51%</td><td>38%</td><td>38%</td><td></td></tr>
<tr><td>No cellphone</td><td></td><td></td><td></td><td></td><td>53%</td><td>53%</td></tr>
<tr><td>No documents
PACRO / License / TPIN</td><td>85%</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td>Development zone:</td><td>88%</td><td>83%</td><td>86%</td><td>85%</td><td>82%</td><td>78%</td></tr>
<tr><td>Does not want the product
Prefers cash</td><td>0%</td><td>1%</td><td>0.3%</td><td>0.3%</td><td>1%</td><td>2%</td></tr>
<tr><td>Potential users</td><td>0.1%</td><td>3%</td><td>2%</td><td>2%</td><td>5%</td><td>8%</td></tr>
<tr><td>Enablement zone:</td><td>0.1%</td><td>5%</td><td>2%</td><td>2%</td><td>6%</td><td>9%</td></tr>
</table>

In reading the access frontier tree note that the numbers in the development zone reflect the estimated magnitude of specific access constraints associated with specific products. The totals for the Development Zone are calculated as the union of these access constraints and not their sum. This reflects the fact that an MSME may face more than one constraint simultaneously.

The analysis highlights the existence of multiple simultaneous constraints. Enhancing access will require a significant enhancement of the banking infrastructure, or the adoption of alternative distribution strategies, but fees will also need to be reduced significantly. To the extent that alternative channels are less costly, both objectives may be simultaneously achievable. Aside from supply-driven constraints which reflect product features, pricing and distribution models adopted by providers, the analysis highlights the importance of demand-side barriers to access. These include knowledge and awareness as well as trust. While the demand and supply side are not independent, nevertheless supply-side interventions are likely to be suboptimal if they do not explicitly

[47] Fees are as follows: Purchase airtime: K200 per sms (Zain), cash deposit: free, withdrawal: K1 500, balance enquiry: K250, P2P transfer: K4 000.

acknowledge the characteristics of the market, including education levels, attitudes to banks and needs in terms of service levels.

The 2007 Oxford Policy Management report highlights the potential for leveraging non-bank distribution partners, including clinics and schools together with cellphone-based models. This analysis of the MSME data suggests that even in a significantly improved scenario with lower fees enabled by the combination of cellphone-based technology and banking correspondents, the vast majority of MSMEs would remain beyond the frontier of access for the foreseeable future, primarily because of affordability.

In light of this, the emphasis on expanding access to banking services as a pre-cursor to the development of the financial sector as a whole may be misplaced. Rather, access to other financial services, and of course other non-financial interventions, may be required to enable MSMEs to become “bankable”.

5 Access to credit

Detailed product information was gathered on a set of basic business and personal loan products: the Barclays SME loan, the Pelton group loan product, and Blue Financial Services personal loan product. The key features of these products are summarised in Table 9.

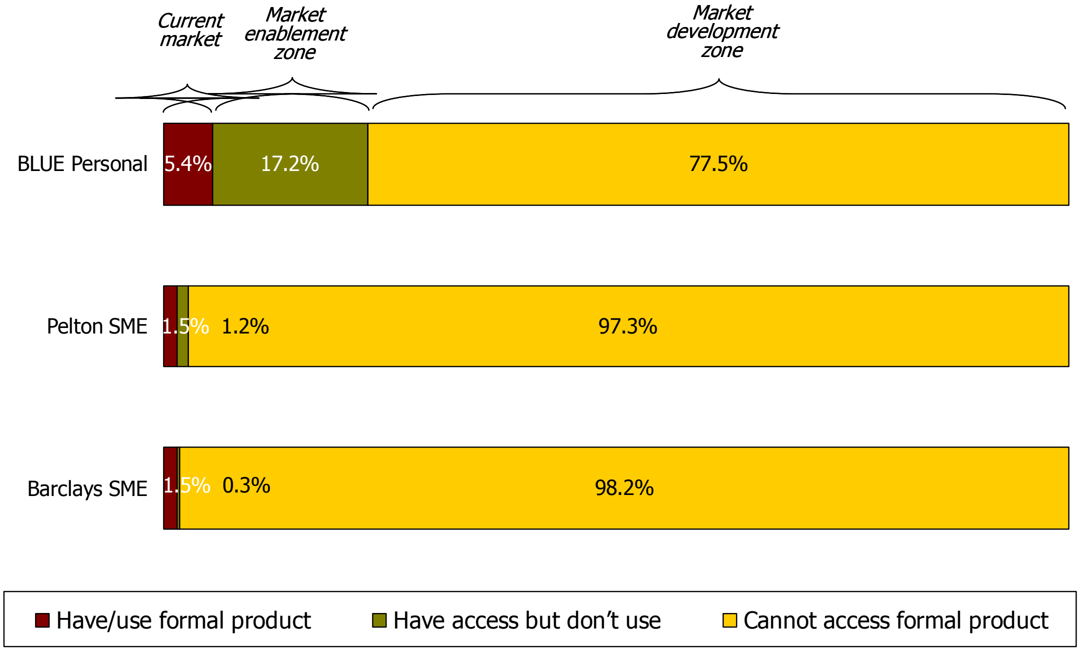
Table 9. Credit product description

	Barclays SME loan	Pelton group loan (10-15 per group)	Blue Financial Services personal loan
Basic product description and requirements	Loan size: ▪ K5m - K30m unsecured ▪ K30m - K185m secured Loan term: ▪ 1 to 4 years Documentation: ▪ Certificate of registration ▪ Identity documents ▪ Company background/profile ▪ 6 months bank statements ▪ 2 years financial statements Turnover threshold: ▪ Minimum annual turnover of £40,000 (~K25m)	Loan size: ▪ Minimum loan per member: K300,000 Loan term: ▪ 1- 12 months Documentation: ▪ Identity document ▪ Proof of premises ▪ Financial records / participation in financial education ▪ Business must have existed for at least 2 years Turnover threshold: ▪ Minimum monthly turnover of K4m	Loan size: Minimum loan: K50,000 Loan term: ▪ 1 – 12 months Documentation: ▪ Salary slip ▪ Identity document ▪ Bank statement (for those not on payroll deduction) Income threshold: ▪ Employees must earn a minimum of K250,000 per month
Costs	Fees and interest rates: ▪ Appraisal fee (new customers): 0.125% (paid upfront) or min K500,000 ▪ Facility/Arrangement Fee: 2% on value (negotiable) or min K250,000 ▪ Commercial bank interest rate for February 2009: 27% per annum	Fees and interest rates: ▪ Admin fee: 5% ▪ Interest rates: 10-15% per month ▪ Penalty fees charged	Fees and interest rates: ▪ Processing fee: 10% ▪ Interest rates: 2.6% to 10% per month
Service channels	▪ Must be banked (bank statement required to apply, instalments collected by direct debit)	▪ Instalments collected by direct debit ▪ If business is unbanked Pelton opens an account for them ▪ Loans officers meet with clients once a month	▪ Repayments are made via direct debit or deducted directly from salary payment through employer

The analysis of access for the Barclays and Pelton loan products is based on data from the ZBS. The analysis of the personal loan product relies on the FinScope 2005 survey as the product is available only to salaried income earners. While the ZBS data shows that some MSME owners have additional salaried income (11% earn a salary from another job and 7% earn a salary from an individual), other salaried household members may be able to obtain the loan on behalf of the MSME. Access to personal loans is therefore assessed for all salaried earners whether or not they own a business.

The access frontiers summarised as a strand are presented in Figure 19 first for the personal loan followed by the business loan products.

Figure 19. Access frontier for Blue Financial Services Personal Loan: Salaried market (FinScope 2005) and Pelton and Barclays SME loans (ZBS MSME 2008)

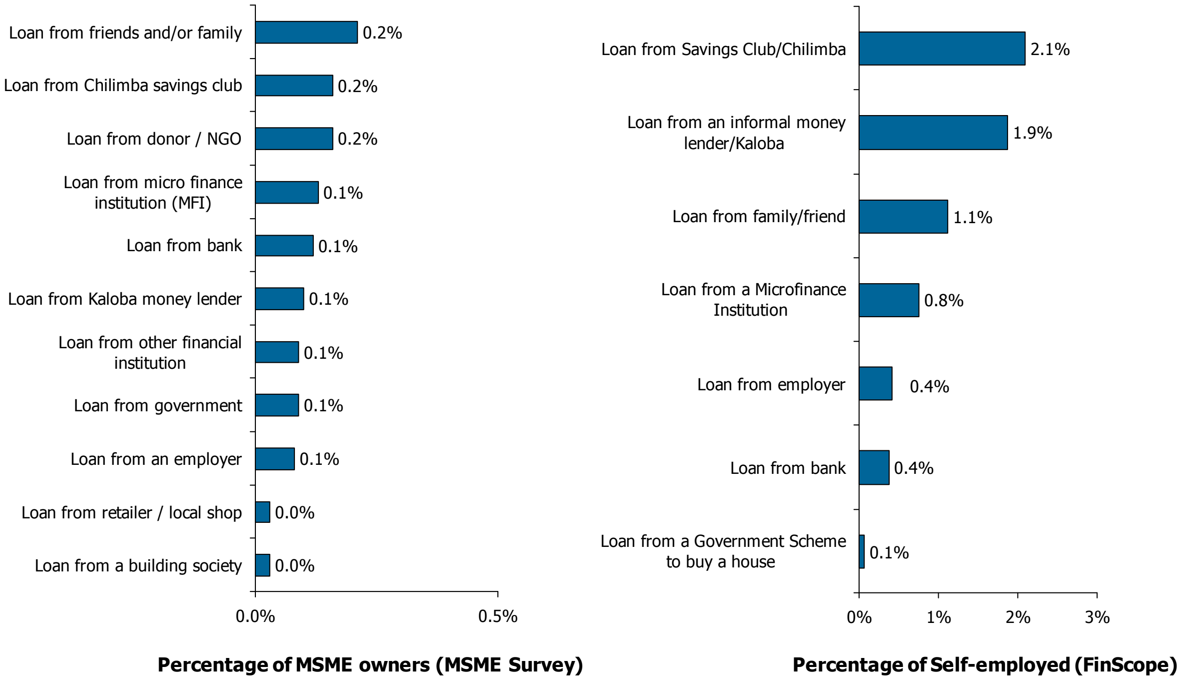


The access frontiers highlight limited usage of, and limited access to, MSME credit products, while access to personal loans is significantly higher for salaried income earners.

5.1 The current market: Credit usage by businesses in Zambia

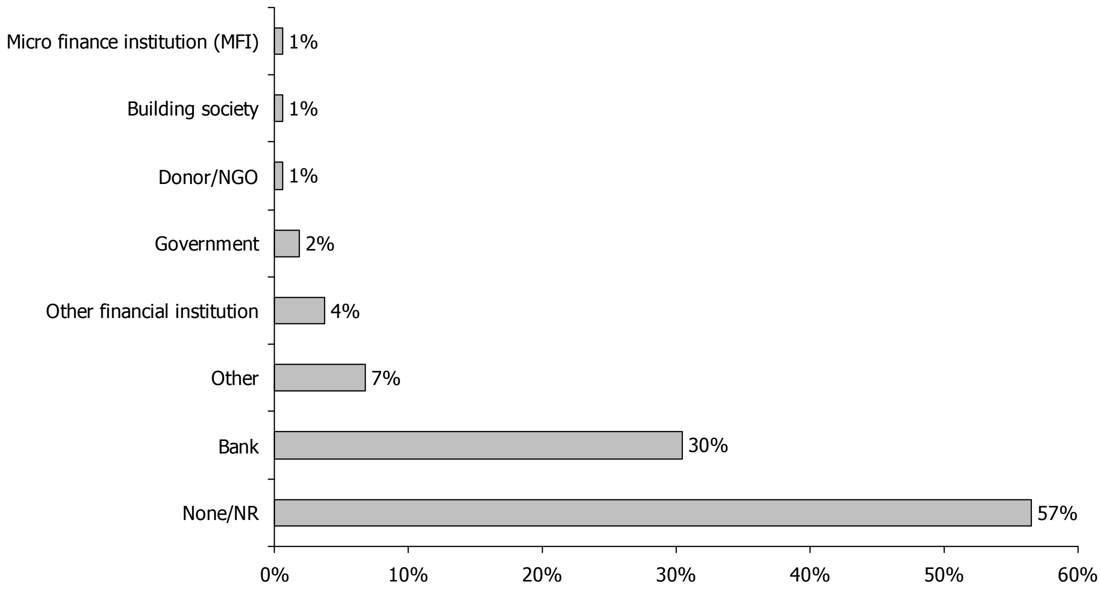
The data indicates extremely limited usage of credit products by MSMEs. According to the ZBS, less than 2% of MSME business owners say they currently have a loan for the business other than for starting the business. Data from FinScope 2005 indicates that around 5.5% of those who are self-employed currently have a loan (see Figure 20). The discrepancy between the two data sources is not surprising; FinScope explores credit usage for any purpose, not only business purposes.

Figure 20. Current use of credit products: ZBS MSME versus FinScope 2005



Data from the ZBS LBS illustrates far higher usage of credit products by the large businesses surveyed (see Figure 21). Of those that are currently accessing credit products, a significant proportion (38%) currently have at least one credit product from more than one source.

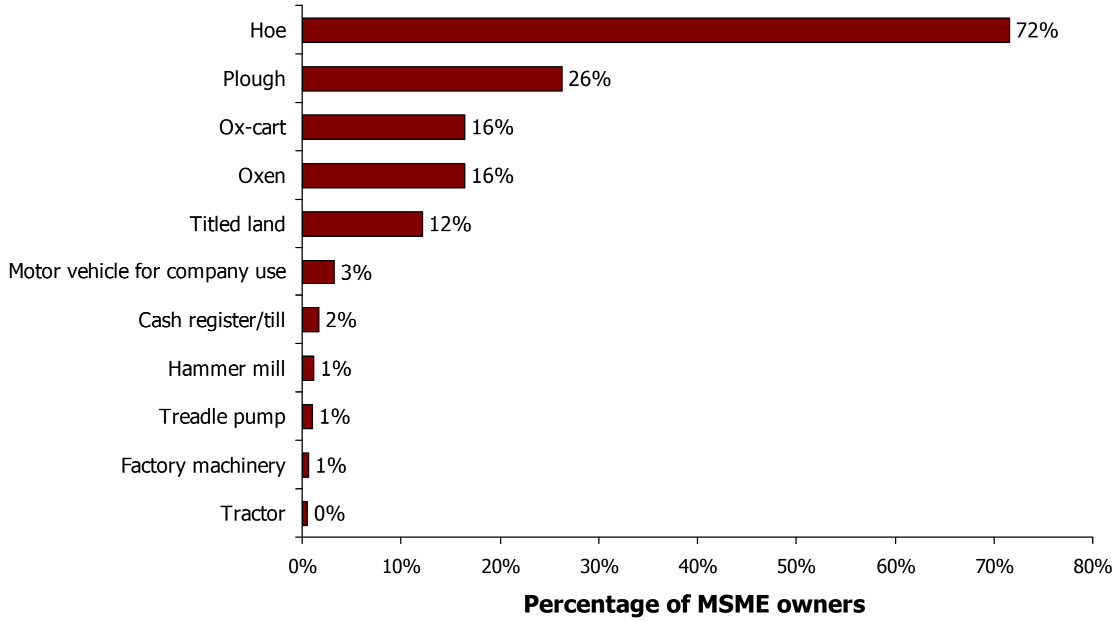
Figure 21. "Which of the following credit and loan products does the business currently have?"



Both the MSME Survey and LBS survey explore loan use. While the sample size of those MSMEs that currently have loans is small (62 respondents), the ZBS data indicates that 30% used the funds to buy agricultural inputs or livestock. In the case of large businesses interviewed only 6% (four respondents) cited this purpose. No data is provided on the term of the loans or on the stipulated repayment patterns for agricultural loans[48]. Presumably in the case of loans for agricultural inputs a relatively long period of time elapses between the purchase of inputs and the sale of product.

Asset finance and leasing appear to be relatively uncommon for MSMEs. Only 0.36% of MSMEs (18 respondents) have used loans to buy property and 0.19% (11 respondents) to buy equipment or machinery. Aside from loans, 1% says they have a lease for assets[49] (excluding business premises) such as agricultural machinery or equipment, motor vehicles or non-agricultural machinery or equipment. Limited use of asset finance is unlikely to be because of lack of need; relatively few MSMEs have assets, despite their potential to significantly enhance the productivity of the enterprise.

Figure 22. Ownership of selected assets: MSMEs

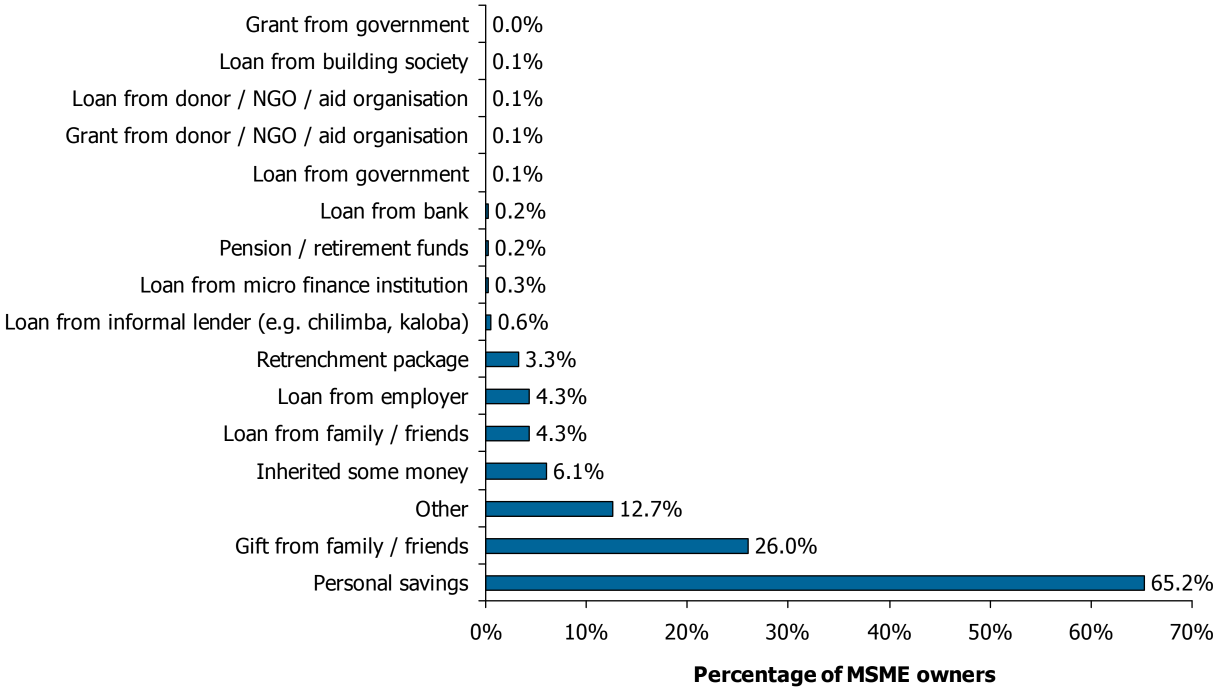


Like other loans, usage of start-up loans is rare. While over three-quarters of MSME owners required some money to set up or take over the business, few of these MSMEs used any kind of a loan, with most (65%) using personal savings. Formal financial institutions including banks and MFIs appear to play an insignificant role in funding start-ups (see Figure 23).

[48] The questions on repayment periods and interest rates charged do not distinguish between multiple loans (i.e. where an MSME has multiple loans the questions refer to "the most recent loan").

[49] A further 1% say they have a lease for their business premises but it seems reasonable to assume that this is a formal rental agreement rather than a financial lease.

Figure 23. Where did you get the money to set up or take over the business: Those who required money to set up the business



5.2 The supra-market zone

The definition of the supra market zone in the context of productive credit is not clear cut. Many MSMEs that fall into this category would be regarded as not be able to fund a loan. However, the additional capital provided by a loan should enhance the capacity of the enterprise to generate surpluses that can then be used to fund the loan. While this generation of surpluses is not generally the case for personal loans that are used for consumption purposes, the analysis of access to personal loans assumes that funds will be invested in the business. For the purposes of this analysis, no supra market zone has therefore been incorporated for any of the loan products.

5.3 The market development zone

Various factors limit access to credit. As with formal financial products in general, they include the provider's footprint, the financial literacy of the consumer and access to required documentation. Additional barriers to accessing credit include the availability of collateral for secured credit, the availability of a sufficient and stable income to finance the loan, the financial track record of the enterprise for business loans, and the credit history of the borrower.

5.3.1 Collateral

While the products selected for the analysis of access to credit are all unsecured products, it is instructive to explore how many MSMEs might have access to collateral for secured lending. Data summarised in Figure 22 highlights that around 29% of MSMEs own at least one or more of the various assets that are traditionally regarded by lenders as collateral including computers, factory and office equipment, vehicles, and titled property. Stated ownership of titled land[50] used by the business (12% of MSMEs say they own and have title) is surprisingly high and may well over-state

[50] The survey question is, "Do you/your partner/the business/family member have title deeds for these premises/the land"? It appears that at least for rural businesses, ownership based on a written agreement from the chief is deemed to be valid.

actual title. Other research estimates that around 10% of land in Zambia is registered[51]. With asset finance, the newly purchased asset serves as its own collateral, although deposits are typically required.

The data on asset ownership also highlights the potential for non-traditional forms of collateral to enhance access, including agricultural equipment such as ploughs and carts. It is noted, however, that lender resistance to accepting such collateral may have less to do with the financial value of the item and more to do with the reputational risk associated with claiming an asset whose use is critical for the very survival of the borrower.

5.3.2 Group-based lending

As a substitute for collateral, some lenders leverage group membership to improve repayment rates. Lending to groups also lowers the costs of distribution and could therefore potentially result in smaller loan sizes and lower administration fees. From the perspective of the borrower, group lending imposes additional transaction costs in terms of time (lenders typically require borrowers to attend group meetings) and increases risks (borrowers are directly liable for default of group members). Business owners also need to either be a member of a pre-existing group or to be able to find the required number of trusted colleagues who have a need for credit to form a group. According to the ZBS, membership of professional associations or business networks is limited for MSMEs at just 10%, although community-based organisational membership is far higher with more than 70% belonging to a church.

Pelton's group-lending product primarily targets traders. Given the nature of trading activity, a group-based model is arguably well suited to this segment of the market. Traders typically congregate in markets and can observe the business conduct of other traders daily. It may be less useful for agricultural businesses that are more isolated and dispersed.

5.3.3 Loan affordability and client eligibility

In the case of small business credit, both Pelton and Barclays have relatively high minimum loan sizes (K500 000 and K5 million respectively). Minimum monthly turnover thresholds for eligible clients are K4 million for Pelton and K25 million for Barclays. According to the ZBS, 92% of MSMEs would be too small for even a Pelton loan.

For personal loans the minimum loan size is K50 000 and eligible clients must earn in excess of K250 000 a month. According to the FinScope 2005 survey, 29% of salaried employees and 57% of the total adult population who are not in the current market earn less than this threshold[52] and so would be unable to access the product.

There is no data to assess the creditworthiness of MSME clients. However, data from the survey indicates that a sizeable minority are likely to find it difficult to repay loans on schedule. **Twenty percent of MSMEs provide their customers with goods or services on credit. Of these, 56% have experienced bad debts or late payments due to customers not paying as agreed**. Cleary, because their own clients are poor, MSMEs have a higher risk profile that impacts directly on their ability to access credit and the cost of credit where it is available.

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[51] *Access to Financial Services in Zambia*, José de Luna Martínez, World Bank Policy Research Working Paper 4061, November 2006.

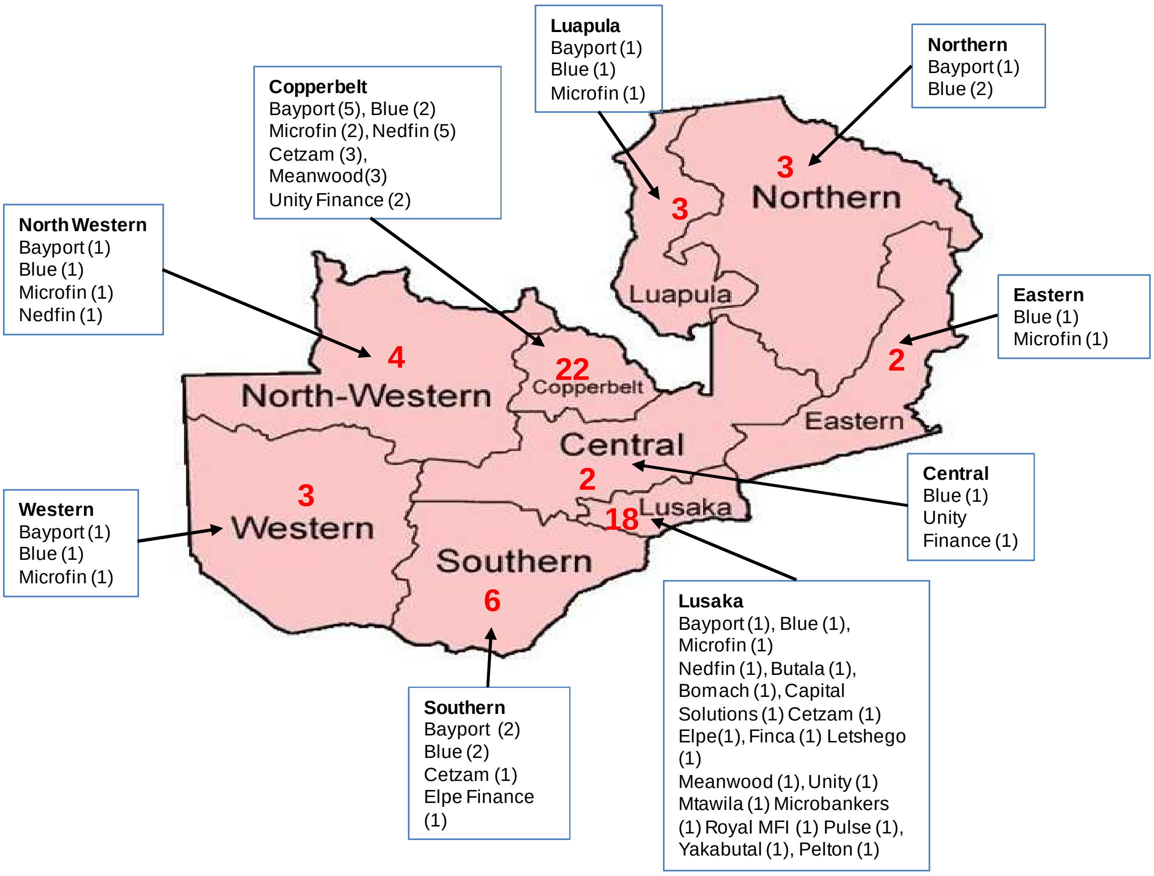
[52] Income data in that survey is banded with the closest band set at K300 000.

5.3.4 Physical proximity

As with the analysis of access to banking, the location of lenders has been used to identify a physical access constraint. It is noted, however, that this constraint may be too restrictive. Potential customers may well be prepared to travel long distances to access the product, particularly where a once-off, face-to-face meeting is required only at the time of loan application.

A recent Bank of Zambia presentation[53] highlights the limited presence of MFIs in provinces[54] aside from Copperbelt and Lusaka[55] (see Figure 24).

Figure 24. Microfinance Institutions branch distribution by province as at December 31, 2008



Of the three lenders reviewed in this report, Barclays has the most extensive footprint with branches in 28 districts. Blue Financial Services has branches in 13 districts, and Pelton has branches in Lusaka and Kitwe but intends establishing a presence on the Copperbelt in future months for the purposes of this analysis, this district is regarded as having a Pelton presence). Assuming that district location is a good proxy for physical access, the ZBS data indicates that of those who are not in the current market, about 45%, are unable to access Barclays branch infrastructure, 87% are unable to access Pelton infrastructure, and 94% are unable to access Blue Financial Services infrastructure.

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[53] *Financial sector development and poverty reduction*, Presentation to the Zambia UN Country Team Annual Retreat, Dr Caleb M. Fundanga, Governor, Bank of Zambia, January 23, 2009, Siavonga.

[54] At the time of writing detailed district data was not available for the operating presence of all micro finance institutions. This data has been gathered only for the lenders under review.

[55] Banks also provide credit. Their footprint is far more extensive as noted in the section on access to banking.

5.3.5 Documentation

Ninety-two percent of MSMEs are not formally registered and would therefore not be able to obtain a Barclays SME loan. With Pelton and Blue Financial Services, lack of personal identification would limit access for a negligible 1% of MSMEs.

With both Pelton and Barclays, businesses must have been in operation for a minimum of two years, effectively excluding around 8% of MSMEs from accessing a loan.

Lenders require financial documentation to enable them to assess business performance. Approximately 73% of MSMEs do not maintain financial records for the business[56] and would be unable to access a Barclay's loan. Pelton offers loans on condition borrowers attend a financial management course and maintain financial records for the duration of the loan. Success in obtaining repeat loans is dependent on maintenance of financial records in the future. Aside from being a barrier to accessing formal business credit, poor record-keeping is itself an important indicator of levels of financial literacy (discussed in more detail in section 5.3.6).

In the case of personal loans, lenders require a copy of a payslip. According to the 2005 FinScope survey about 50% of salaried employees who are not in the current market do not receive a payslip.

Blue Financial Services clients also need to provide bank statements for six months unless there is an agreement with an employer directly (as is the case with salary advance loans). While banking penetration in the salaried market is relatively high at 48%,[57] half the market would be excluded because of this constraint.

5.3.6 Financial literacy and awareness

Self-described awareness of terminology commonly used for formal credit products is relatively limited. Many MSME owners say they do not understand words such as 'collateral' and 'liability' (77%), 'interest' (43%) and working capital (59%). Awareness of the term 'kaloba'[58] (90%) is high, and this probably indicates that borrowing money and having to repay it with interest is familiar to the market and that the key concepts associated with lending, if not the terminology, are well understood. However, as with banking, for the credit products reviewed the loan application process is conducted in English, which may not be suitable for many MSMEs. In addition to possibly using a local language, contracts need to be kept as simple as possible.

Attitudes to credit are an important component of financial literacy. **Data from the ZBS indicates that a quarter of MSMEs think they do not have to repay government loans[59]**. There is no data to assess whether similar attitudes apply to private sector providers. Given the importance of this issue, further research is required to assess whether this attitude reflects a set of beliefs around entitlements or whether it is simply a statement of fact, reflecting poor operational capabilities and limited legal and other consequences of default.

The 2005 FinScope Survey highlights a general stated dislike of credit, with 82% of the self-employed who do not have formal loans agreeing that "you hate owning money to anyone" and 48% agreeing that "taking loans should be avoided as much as possible." Stated views often differ from actual beliefs and practice, nevertheless that so many self-employed Zambians have a stated dislike for

[56] Less than one quarter have them audited each year.
[57] Based on conversations with the lender it appears that only the largest five banks are recognised by the lender, in reality inhibiting access further.
[58] An informal money lender who usually charges usurious rates of interest.
[59] The statement used in the questionnaire is: "I feel it is not necessary to pay back a loan from Government".

credit supports those who argue for a greater focus on facilitating savings as a mechanism to enhance access to finance.

Only 27% of MSMEs appear to keep financial records. Assuming this reflects an important skills deficit, this is a significant barrier to access that is likely to require intervention by both the state and the private sector.

All these factors indicate that financial literacy is a significant barrier to access and to the development of a sustainable credit market. While the magnitude of the barrier cannot be quantified, as with the analysis on banking access, data relating to formal schooling (either no formal schooling or up to four years of schooling) has been used as a proxy for the magnitude of this constraint.

5.4 The market enablement zone

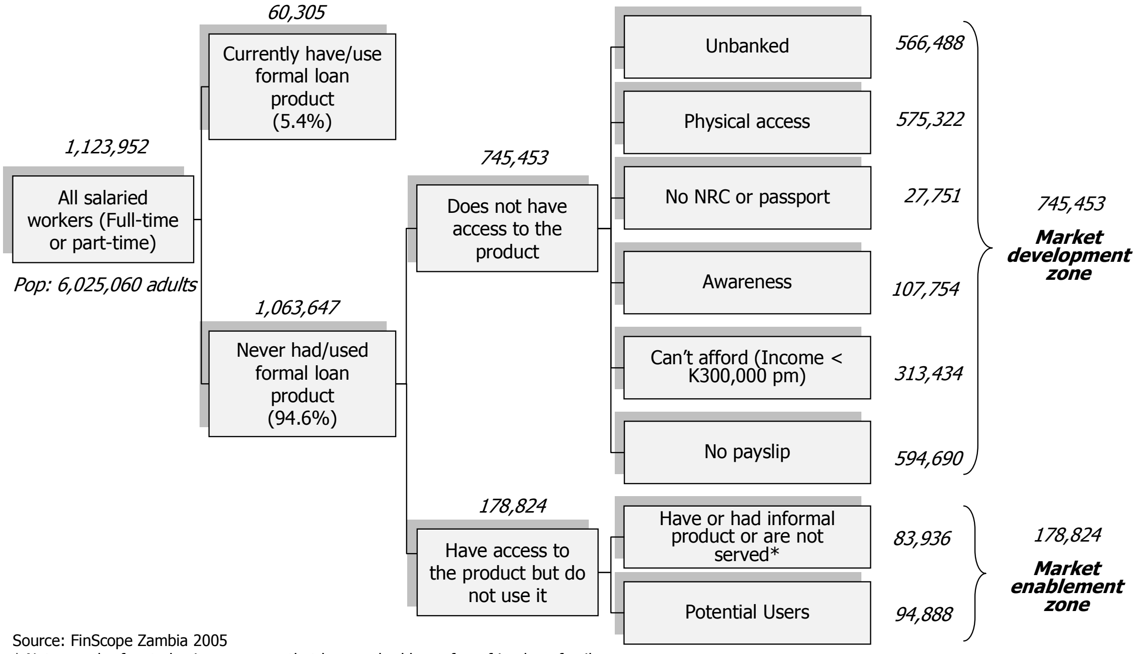
The data seems to indicate that there is exceptionally limited access to the unsecured business loans reviewed. Access for salaried workers is significantly higher for personal loans. However, the relationship between the salaried household member and the MSME owner in the household is not always obvious. A leading study on this issue shows that MSMEs with access to a regular and relatively sizeable source of income within the household in the form of a formal wage from another household member are less likely to have a need for additional credit[60].

5.5 Credit access frontier summary

The access frontier for a Blue Financial Services personal loan is summarised in Figure 25. Note that the target market for the product is salaried employees only and the numbers are therefore not comparable with those based on the ZBS MSME survey for the Barclays and Pelton SME credit products. MSME owners might be able to leverage personal loans directly if they have another job, apart from running a small business. Alternatively, a family member or sufficiently close associate of the MSME owner may be employed and may be prepared to obtain a loan on the business owner's behalf. The analysis indicates that around 17% of the salaried market in Zambia, corresponding to around 3% of the adult population, would be able to access the product.

[60] On this point see *Returns to capital in microenterprises:: Evidence from a field experiment,* Suresh de Mel, David McKenzie and Christopher Woodruff, The Quarterly Journal of Economics, Vol. CXXIII November 2008 Issue 4. The paper found that "Credit constraints bind more tightly, and thus marginal returns are higher, for more able entrepreneurs and for entrepreneurs with a high shadow cost of capital within the household, measured by the presence of fewer paid wage workers.

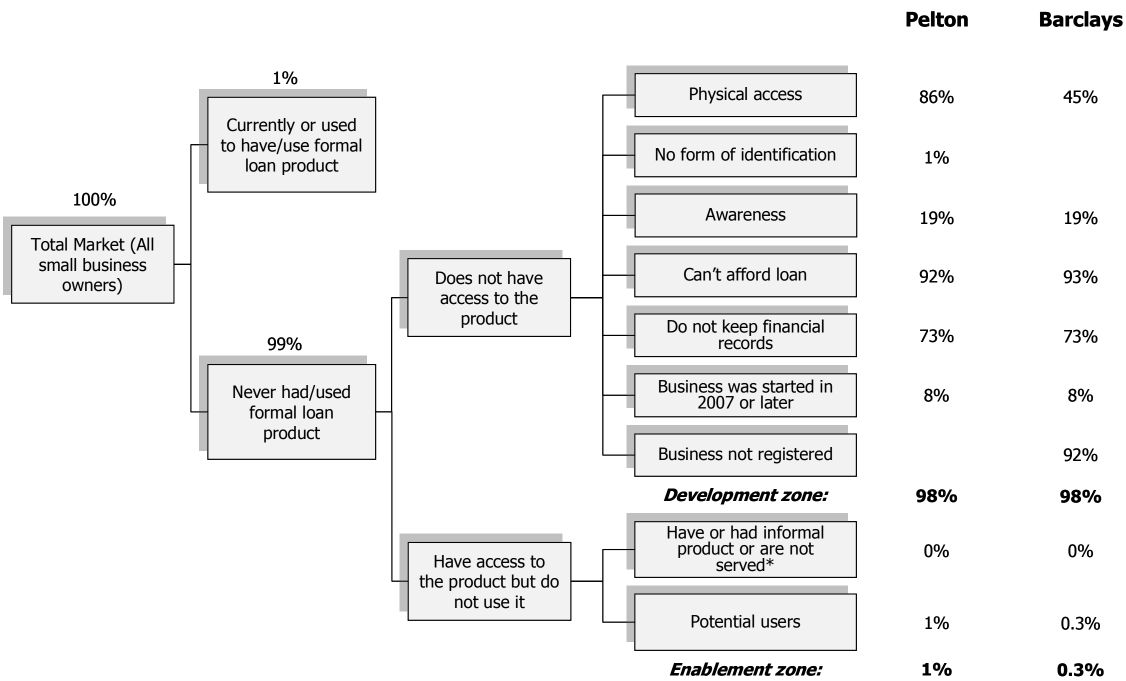
Figure 25. Credit access frontier tree – Blue Financial Services



Source: FinScope Zambia 2005
* Not served refers to business owners that have or had loans from friends or family

The analysis of access to the Barclays and Pelton loans summarised in Figure 26 presents a far more sobering picture, with effectively no MSMEs having access to the products. That may well be because the product does not target them (turnover thresholds are high even for Pelton's product).

Figure 26. Credit access frontier tree – Pelton and Barclays



A number of observations are worth noting about the potential development of credit markets for MSMEs in Zambia:

- As with banking access, there are a number of simultaneous constraints that affect access. Efforts to overcome some barriers are likely to impact on others (for example the increased physical presence of lenders in an area is likely to lead to a greater awareness of their products). However, the analysis highlights the importance of co-ordinated interventions that address obstacles systematically to enhance access in a sustainable way from the perspective of potential borrowers (to avoid overindebtedness), lenders (to prevent losses but at the same time to increase product usage) and the financial system as a whole.
- While supply-side constraints are significant, demand-side barriers are significant too. Low levels of financial literacy and record-keeping are a key concern.
- The Ministry of Commerce, Trade and Industry's draft MSME strategy notes that few MSMEs have access to collateral, although interestingly this analysis of the survey data indicates that far more MSMEs appear to have access to collateral than to the unsecured credit products explored.
- Developing the mortgage market is of interest for people to acquire collateral. MSME Survey data indicates that around 12% of MSMEs have titled land, although this estimate may well be overstated. For those that do not have title, a titling programme together with the development of an accessible and accurate land registry is critical.
- Even when collateral is not required, other constraints severely impede access.
- Some access barriers reflect limited development in other financial sectors. The link between banking access and access to credit has been demonstrated. In this regard it is thought by some that the growth of the personal credit industry has stimulated the growth of the banking industry, rather than the other way around. However, as the analysis on banking access highlights, credit providers that rely on the banking industry to provide access to clients will in all likelihood target a relatively small client base for the foreseeable future. In addition, competition for the patronage of these banked clients is likely to increase as banks respond to pressure to reduce margins on deposits by increasing the scope of their activities and look to credit products to contribute to overheads.
- The availability of suitable risk products, crucial to the development of credit markets, is often overlooked. Potential borrowers may avoid credit because they are unable to mitigate risks such as falling ill and damage to stock or crops. Lenders may also be unwilling to take on risks that cannot currently be insured – although they might well be insurable.
- The link between credit and savings is also key. Aside from the obvious need to attract funds to on-lend, the availability of accessible, attractive savings products is critical in ensuring that households are encouraged to use credit responsibly.
- The growth of the credit market without the development of a robust savings market may create access problems on its own. There may be cause for concern that with the fairly rapid growth of the personal credit market the balance between credit and savings is already out of kilter. According to a recent report[61] the payroll-lending market appears to be nearing saturation with possible over-borrowing triggering stricter regulation of lending practices.

[61] Draft report prepared by Cenfri for the UNCDF, the ILO and FinMark Trust: Towards a strategy for microinsurance development in Zambia; A market and regulatory analysis by Christine Hougaard, Doubell Chamberlain and Yoseph Aseffa, July 2009

- Access to basic savings products provided by banks appears to be limited by high threshold costs, high minimum balances and high penalties. As already noted, this is itself a function of limited economies of scope within the banking sector. In this sense the rapid growth of non-bank lenders focusing on the salaried market, together with limited activity by banks in this arena, is not only curious, but potentially undesirable to the extent that it inhibits the ability of banks to provide profitable and attractive savings products.
- This is exacerbated by limited competition from non-bank institutions as a result of restrictions on deposit-taking activities of MFIs and the small contractual savings industry.
- The Ministry of Commerce, Trade and Industry's MSME strategy suggests that government plays a more active role in stimulating credit markets to enable MSMEs to access the finance they need to grow and expand. A range of interventions relating specifically to credit markets has been identified. Some, such as strengthening credit bureaus and fostering low and stable inflation rates, focus on creating an enabling environment. Others such as establishing an apex fund and directing "commercial banks to apportion a certain percentage of their credit portfolio for lending directly or indirectly to MSMEs at reduced interest rate of 50% of the going rate" suggest a far more interventionist approach.
- In exploring which approach is most likely to lead to developing a more sustainable and accessible credit market, it is useful to reflect on the distinction made by Beck and De la Torre (2006)[62] between low levels of access and access problems. Low levels of access may not reflect problems of access within credit markets themselves. Indeed, quite the opposite – higher levels of access may simply be unsustainable, ultimately leading to instability within the financial sector. Lower levels of access may reflect rational and sensible allocations of credit to those individuals and businesses that can actually sustain the debt. This distinction is critical – as the recent turmoil in global credit markets attests.
- It should be noted that the analysis in this paper focuses on levels of access as opposed to problems of access. It estimates what access is, and not what it should be. In some cases factors that inhibit access reflect problems of access (for example, lack of credit bureaus to support business decision-making). Alternatively they might be entirely appropriate (for example poor capacity to repay limiting scope for further borrowing) or symptomatic of other significant deficiencies within the business. The danger with direct government provision (quite aside from the view held by a sizeable minority of MSMEs that government loans need not be paid back) is that while access levels increase, so too may access problems.
- Research on small businesses internationally highlights the importance of personal credit in funding small businesses. The analysis presented, based on FinScope 2005, shows that access to personal credit products, while significantly higher than business credit products, is also limited; firstly by the size of the formally employed market and again by distance from providers. However, it appears the market is growing and that this is likely to grow as an important source of finance for MSMEs.
- As the market develops it would be useful to track how much consumer credit is directed towards productive purposes, although it is not immediately clear how this might be done.
- The analysis of access to credit focused on bank and for-profit non-bank lenders. It has not incorporated an analysis of access to credit products provided by social microfinance institutions.

[62] *The Basic Analytics of Access to Financial Services*, Thorsten Beck and Augusto de la Torre, 2006, World Bank

The 2007 Oxford Policy Management report notes that this sector has performed relatively poorly attracting around 50 000 clients in total despite being present in the country for more than 10 years. The report notes the high cost structures of these organisations and the high rates of interest they charge.

- Anecdotal evidence points to poor governance within these organisations, limited capacity to develop products aligned with the needs and profile of the market, and an over-reliance on donor funding. A more detailed analysis of this sector is required to draw firm conclusions.

The Ministry of Commerce, Trade and Industry's MSME strategy notes that "MSMEs continue to face difficulties when applying for credit and they often have insufficient collateral to provide to secure loans, hence experience slow or little progress and growth". The analysis of access in this report supports the first part of the statement. However, providing credit is unlikely to help MSMEs grow if other requirements for success are absent. This suggests a more targeted strategy to facilitate growth of MSMEs with finance playing a crucial but integrated role. For example, there may well be scope for industry-based, value-chain solutions (such as outgrower schemes) as these schemes typically provide other key inputs required for success. In addition, the growing body of research on the provision of business development services by lenders together with capital is instructive[63].

6 Access to insurance

This section provides a brief overview of data on insurance usage by MSMEs as well as the larger businesses. No access frontiers are developed primarily because the same barriers that prevent access to banking and credit products also impede access to insurance.

6.1 Insurance: The current market

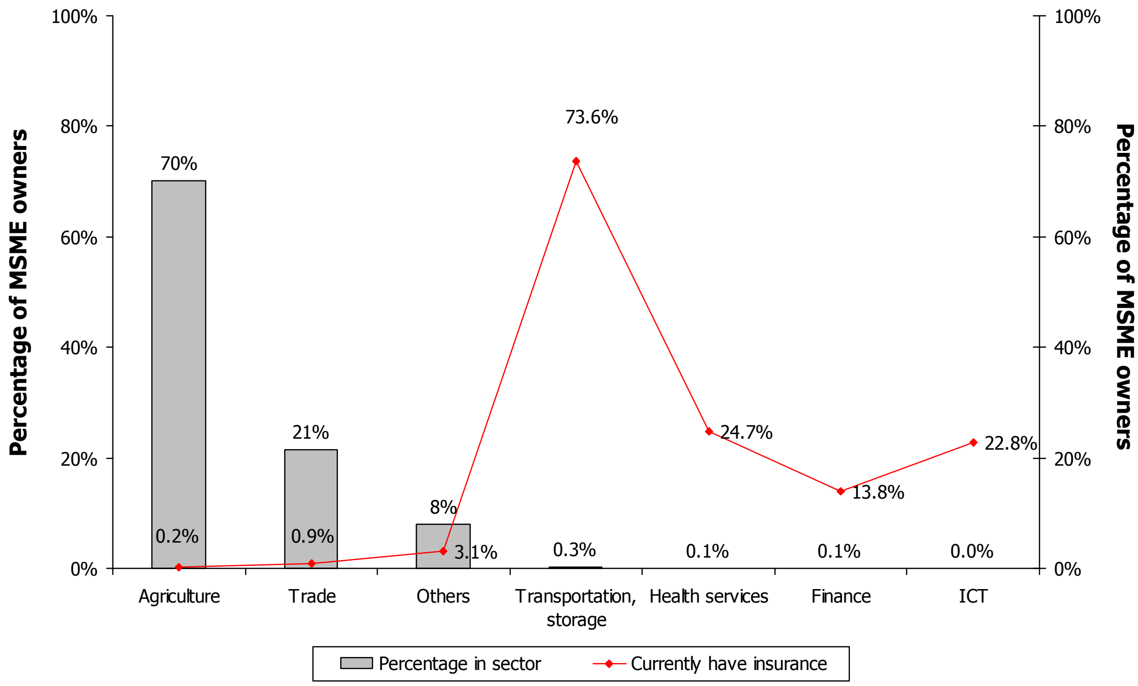
Data on insurance usage indicates that less than 1% of MSMEs currently have insurance for the business (72 respondents). In contrast, 96% of large businesses currently have insurance for business purposes.

Penetration for large businesses does not differ greatly across the dimensions that characterise businesses; it remains high irrespective of provinces and rural/urban location[64]. In contrast, while insurance product penetration for MSMEs is extremely low, there are significant differences across segments (see Figure 27). In terms of broad location, 3.5% of urban MSMEs (45 respondents) currently have insurance. This is only 0.2% for rural enterprises (27 respondents). The two provinces with the highest penetration levels are Lusaka at 4.2% and Copperbelt at 2.7%. Insurance penetration for MSMEs also differs noticeably by sector with high penetration rates for MSMEs in transport, primarily as a result of mandatory third party vehicle insurance.

[63] *See Teaching Entrepreneurship: Impact of Business Training on Microfinance Clients and Institutions*, Dean Karlan and Martin Valdivia, November 26, 2006.
http://aida.econ.yale.edu/karlan/papers/TeachingEntrepeneurship.pdf

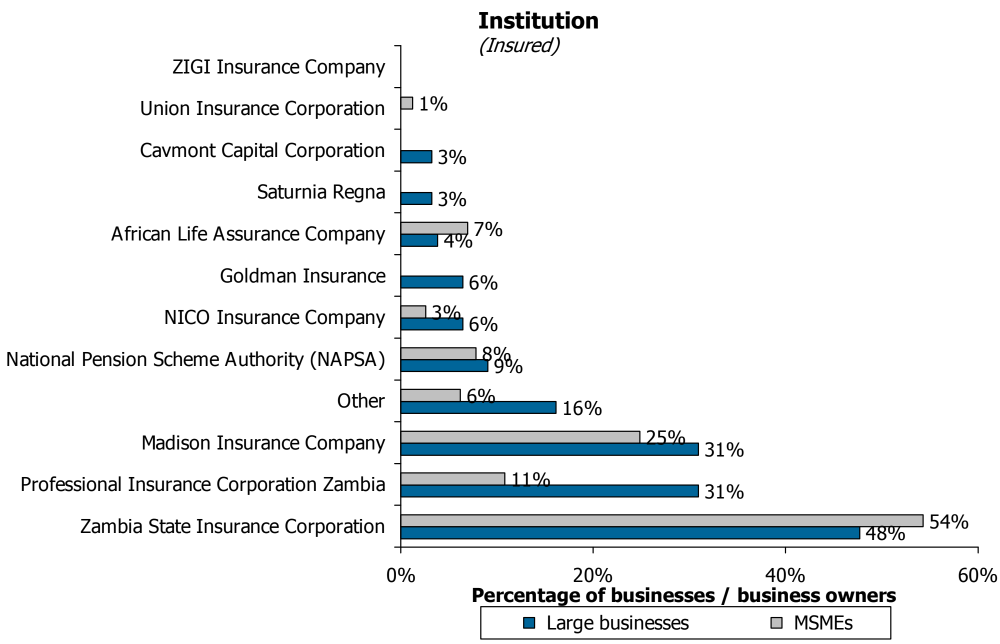
[64] For large urban businesses, penetration is at 96.5% while for those in rural areas this is 94.7%.

Figure 27. Size and insurance product penetration of MSMEs by sector



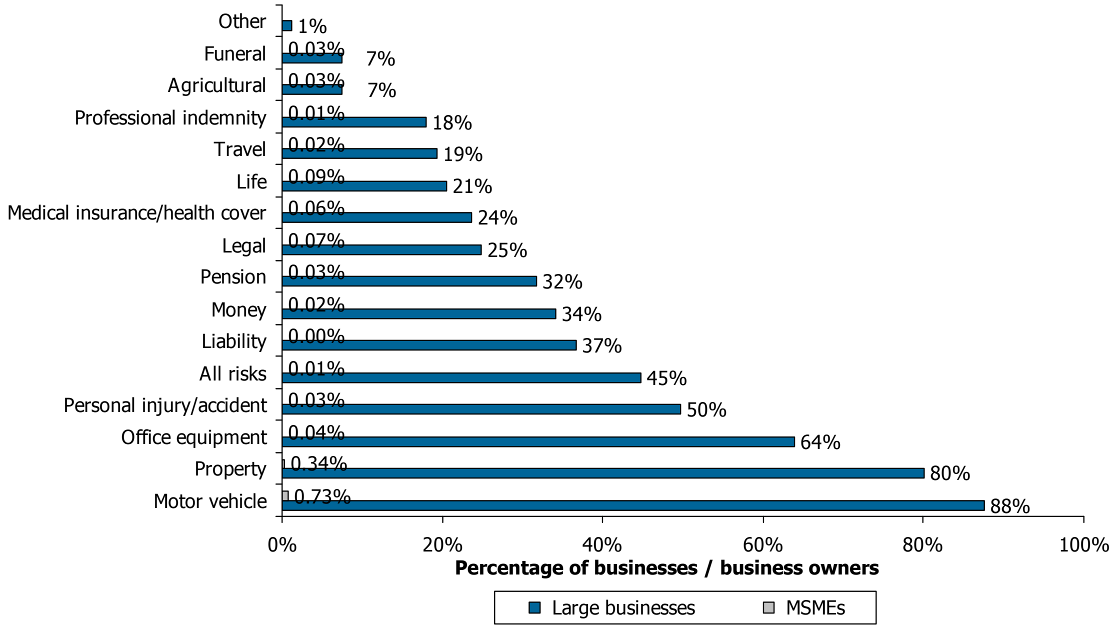
In general there is little difference in the profile of institutions used by insured MSMEs and large enterprises. In both cases, the most commonly cited institutions are the Zambia State Insurance Corporation, Professional Insurance Corporation Zambia, and Madison Insurance Company (see Figure 28).

Figure 28. Institutional profile of insured enterprises in Zambia



It is noteworthy that while it is compulsory for employers to contribute to the National Pension Scheme on behalf of formal employees, relatively few businesses indicate that they currently have insurance products with the National Pension Scheme Authority[65] (NAPSA). This appears to reflect a weakness in the questionnaire design – supply-side data indicates that most formally employed workers are NAPSA members.

Figure 29. Insurance product usage: Enterprises in Zambia



Compliance with mandatory motor vehicle insurance also appears to a problem. Ninety-six percent of large businesses and 3% of MSMEs own a vehicle. Motor vehicle insurance usage among car-owning large entities and MSMEs is 88% and 18% respectively (see Figure 29).

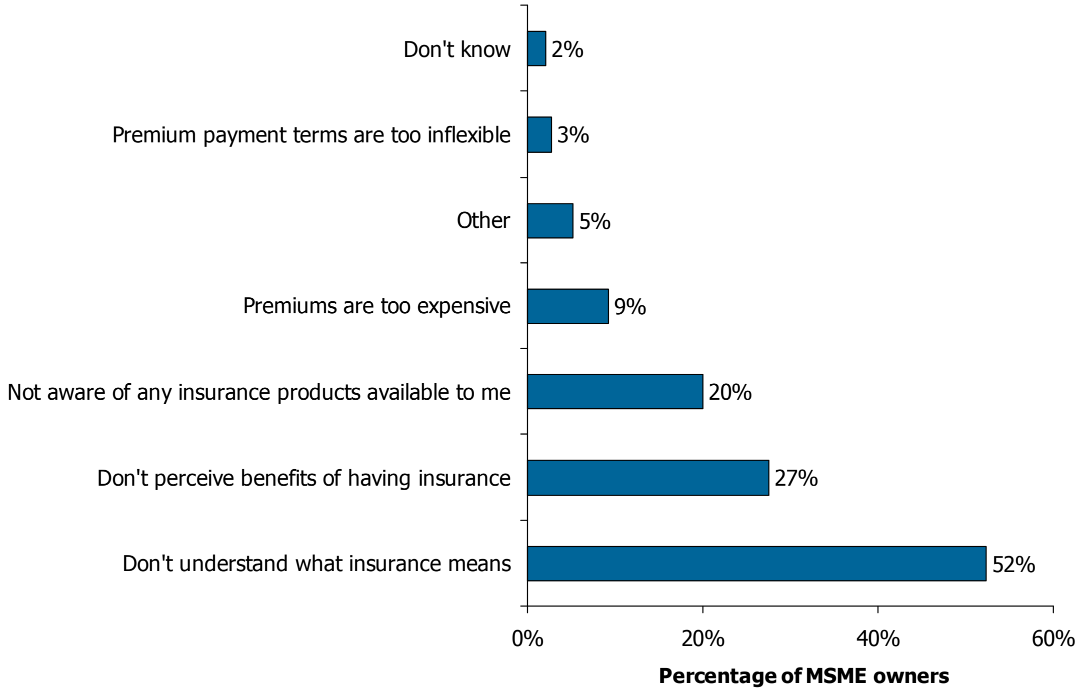
Life, funeral and health insurance coverage is extremely low (less than 1% in each case) for MSMEs. FinScope 2005 also highlights low insurance product usage in the self-employed market. That survey found that only 1% of the self-employed (in business or farming) had life insurance while less than 0.6% had funeral insurance.

6.2 The uninsured

Only six large businesses (of 161) do not have insurance. Three say they do not perceive the benefits of having insurance, and two cite expensive premiums. For those MSMEs that do not have insurance, over half say they do not understand what insurance means. Data elsewhere in the survey corroborates this; 52% of MSMEs that do not have insurance say they do not understand or have never heard the word insurance (see Figure 30). Clearly distribution models that rely on unassisted sales will be ineffective unless greater awareness of insurance is developed.

[65] The exact question is: "With which of these companies does the business currently have insurance products?"

Figure 30. Reasons for not having insurance for the business: Uninsured MSMEs



That so few MSMEs are banked presents another obstacle to access; premiums for life, health and funeral insurance are mainly collected monthly by debit order or direct salary deduction. Premiums for general insurance are often paid once a year in a lump sum, which presents its own access challenges – the ability to generate a sufficiently large lump sum to afford the product.

Closely linked to the problem of collecting premiums is the challenge of finding sufficiently efficient channels to distribute microinsurance products. In this regard, aggregators such as trade bodies, agricultural associations and outgrower schemes are of interest[66]. ZBS data indicates that only 10% of MSMEs are members of any business association. While this is a relatively low percentage, the absolute number of MSMEs that are potentially accessible through existing business networks is higher than the current market. Aside from formal business networks, social networks can also provide a useful channel to reach markets. Data from the ZBS indicates that almost three-quarters of MSME owners are members of social organisations, with churches being significant (71% of MSME owners say they are members of a church).

7 Conclusions

The MSME and large business data from the ZBS appear to confirm much of the knowledge and many of the assumptions about access to finance for businesses in Zambia that key stakeholders may have had prior to conducting the survey. In general, MSMEs show extremely low levels of access and usage, with no more than 10% (using the most liberal definition) having any access to any formal financial service product. On the other hand, all of the large enterprises surveyed reported having at least one formal financial service product, with many having multiple banking relationships and using multiple products.

[66] *Microinsurance in Zambia: towards a development strategy*, Post-country visit briefing note, Christine Hougaard, Doubell Chamberlain and Yoseph Aseffa, February 28, 2008, Cenfri, www.cenfri.org

At the same time, the data and the analysis deepen and nuance our understanding of the financial services landscape for businesses in Zambia. For example, it may surprise few to discover that rural and agricultural MSMEs generally have much lower access rates than their urban and non-agricultural counterparts. Yet, further exploration of the data reveals that even relatively larger MSMEs in higher value-adding subsectors of the agricultural industry have lower levels of banking penetration than similarly sized urban enterprises – suggesting the primacy of the physical dimensions of access. This hypothesis gains greater currency when looked at in the context of the high proportion of cash transactions (as compared to electronic-enabled means, such as ATMs and inter-bank transfers) among all businesses, large and small. In short, for the vast majority of enterprises of any size the main value or purpose in having a bank account appears to rest with the ability to store and access cash, which in turn puts a premium on being located in close proximity to a bank branch.

This thread of reasoning also finds voice in the examination of mobile phone-enabled banking services. In short, the one most closely analysed, Zanaco's Xapit, appears to be additive, not transformational, because full functionality of the account still depends on physical access to bank branches to deposit or withdraw cash. Nonetheless, some budding agency models in Zambia, and elsewhere in Africa and beyond, hold potential for a transformative leap in access for many, as they employ non-bank entities such as retail outlets as part of the network to cash-in and cash-out.

Both small and large businesses state that both access to, and cost of, finance are serious obstacles to doing business. Among MSMEs, those views seem to align closely with the data. The costs of most basic banking services, compared to reported incomes, put them far out of the reach of most enterprises. Hundreds of thousands of MSMEs, especially those in rural areas and in agriculture, find themselves well over 50 kilometres or more from any bank infrastructure, including branches and ATMs. With only 40% national cellphone penetration and much lower levels of access to electricity, most MSMEs find themselves excluded from using electronic means of effecting banking transactions. Generally, low levels of formal education, poor command of English, and tenuous familiarity with many banking and financial terms – combined with mainly English-only marketing, sales, and legal materials from the formal financial service providers – create more barriers to access for MSMEs.

The data does not reveal as clear a picture for why large enterprises rate access and cost of financial services as serious obstacles. Yet, their reported financial services behaviour may provide some clues. Even among large enterprises, daily cash and cheque deposits – typically the most expensive transactions from among an array of normal banking products – comprise the bulk of their interactions with the banks. Many large enterprises hold foreign currency accounts; but it is not clear whether this reflects a lack of confidence in holding Kwacha, a need emanating from substantial international trade as part of their business models, some combination of these, or other factors not considered in this study. Nearly 60% of the large businesses indicated that they currently had no credit products with any financial institution. Depending on a host of factors and perspectives, this may be seen as high or low credit penetration; but considering it should include working capital facilities, such as overdrafts, as well as trade and debtor finance, it may be fair to say that this figure reflects relatively low credit access (or usage) among large enterprises, which, in turn, may corroborate anecdotal information and supply-side studies about high interest rates and fees, and poor credit product choice, even for large enterprises.

The data points to many deficiencies in, and barriers to, the products offered, i.e. the supply-side. At the same time, examination of the MSMEs themselves reveals intrinsic demand-side problems too.

At least two-thirds of all MSMEs are single-person entities, which are often indistinguishable from the household, and, in turn questionable as commercial entities, as opposed to components of survival strategies. Among these single-person entities, 40% generate less than $2 a day in turnover. Excluding those MSMEs that refused to answer, or did not know turnover figures, only 15% report turnover of $200 a month or more. The great majority of MSMEs operate very simple and mostly agricultural related businesses (i.e. grow and sell). Overall, most Zambian MSMEs would be difficult to serve, even with the cheapest and most widely dispersed products. While the potentially transformative aspects of good financial services are acknowledged, it seems unlikely that such transformation would take place without serious investments in building the basic capacity of MSMEs, in infrastructure and other public goods required to enable MSMEs to grow.

Yet, reasonably achievable market penetration targets remain. Even under existing conditions, 6% of MSMEs are considered to be in the market enablement zone for a basic bank account, meaning that **simple improvements in marketing and sales** could significantly increase the banked population. More ambitiously, but still within reason, by **leveraging the cellphone network to reduce reliance on traditional banking infrastructure and lowering average costs for cellphone banking** to levels found among comparable products in Kenya and elsewhere, many more MSMEs could gain access to basic banking services. Home-grown solutions, such as those introduced by Mobile Transactions, deserve serious attention.

The analysis highlights the importance of **co-ordinated interventions that address obstacles systematically** to enhance access in a sustainable way from the perspective of potential borrowers (to avoid overindebtedness), lenders (to prevent losses but at the same time to increase product usage), and the financial system as a whole. Low levels of access may not reflect problems of access within credit markets themselves. Indeed, quite the opposite – higher levels of access may simply be unsustainable, ultimately leading to instability within the financial sector. In some cases factors that inhibit access reflect problems of access. Alternatively they might be entirely appropriate (for example poor capacity to repay, thereby limiting scope for further borrowing) or symptomatic of other significant deficiencies within the business.

The growth of the credit market without the **development of a robust savings market** may create access problems on its own. Already there may be cause for concern that, with the fairly rapid growth of the personal credit market, the balance between credit and savings is out of kilter. Access to basic savings products provided by banks appears to be limited by high threshold costs, high minimum balances and high penalties. Competition is limited by restrictions on deposit-taking activities of MFIs and the small contractual savings industry.

Providing credit is unlikely to help MSMEs grow if other requirements for success are absent. This suggests a more **targeted strategy to facilitate growth of MSMEs** with finance playing a critical, but integrated role. There may well be scope for **industry-based, value-chain solutions** (such as outgrower schemes), as these schemes typically provide other key inputs required for success. In addition by **using aggregators such as trade bodies, agricultural associations and outgrower schemes, more efficient and commercially viable sales and distribution channels can be created**.

As robust as the ZBS data is, there are limitations; and any action by the public or private sectors, as well as donors, should be further informed through **additional areas of study**. Given the primacy of the physical barriers to access, **a detailed national spatial analysis of the data could prove invaluable**. Such an analysis should map both physical (i.e. branches) and virtual (i.e. ATMs, POS, and cellphone network coverage) points of presence to the business population, and thereby create a picture of the potential service network and where the gaps remain. Qualitative focus groups among a carefully drawn sample of the large enterprises should help to nuance comments about the accessibility and cost of finance; deepen the understanding for being multi-banked and for holding foreign currency accounts; and provide insights into how transaction banking may shift from a mainly cash-based world to one involving much greater use of electronic means. Lastly, the data in the ZBS should be juxtaposed with the coming FinScope 2009 consumer survey. Given the dominance of single-person business entities, updated insights into the financial status and behaviour among individuals and consumers should enrich the picture of Zambia's MSME population.