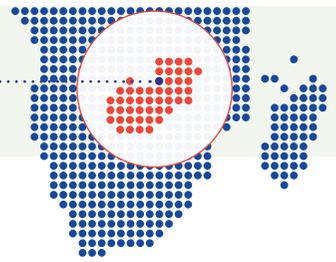


The State of the Zambian Digital Financial Services Industry, 2017



The UNCDF-MM4P State of the Zambian DFS Industry report is based on supply-side data from an annual provider survey given to industry participants. The report gives the industry and observers a more comprehensive picture of the state of the digital financial services (DFS) market, regarding customer adoption, usage and trends of DFS in Zambia.

The survey was developed by the UNCDF-MM4P team



The survey included both quantitative and qualitative questions for the dates ranging from December 2016 to December 2017



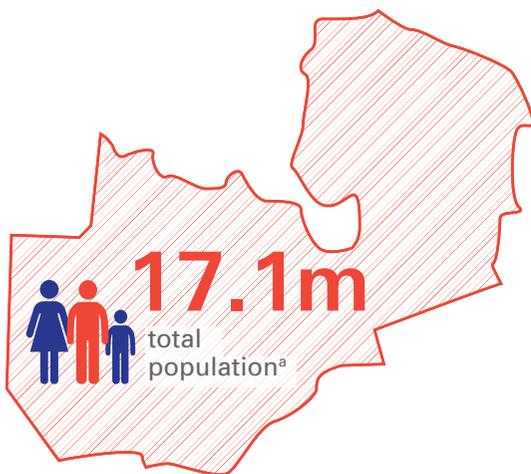
Administered to Providers



Providers offering Digital Financial Services in Zambia include:

Mobile Money Operators	Banks/Microfinance Institutions	Third-Party Operators
------------------------	---------------------------------	-----------------------

General statistics about Zambia



Adult population:^a 9.4m

Financial inclusion rate:^b 60%

Male/Female split:^a
49% Male, 51% Female

Rural/Urban split:^a
57% Rural, 43% Urban

Mobile penetration rate:^c



78%



National network geographical coverage^e

State of the Zambian digital financial service market^d

243 agents per 100,000 adults



Percentage of adults with an active DFS account (APS 2017)



Annual growth rate in active agent network (2017)



Annual growth rate of transaction volume by agents (2017)

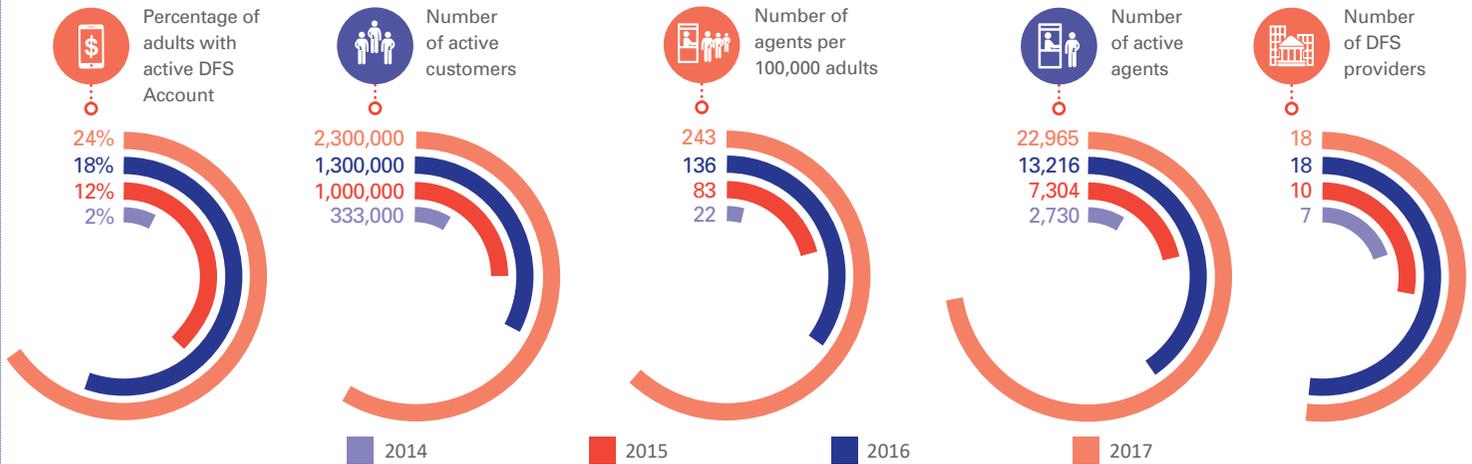
^a UN World Population Prospects, 2017

^b FinScope, 2015 (This includes both formal and informal financial inclusion)

^c ZICTA, 2017

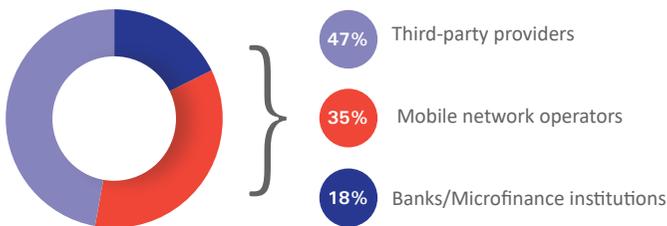
^d UNCDF, 2018 (unless otherwise noted)

State of the Zambian digital financial service market continued^e

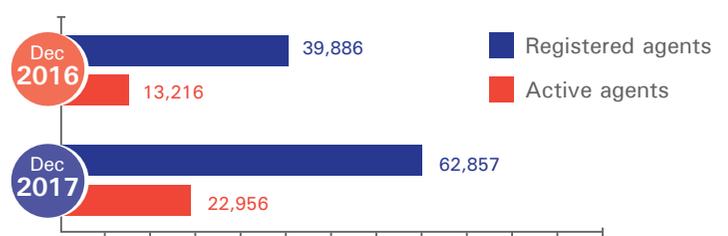


Key Findings^d

In 2017, 47% of transactions at agent locations were conducted by agents of third party providers.

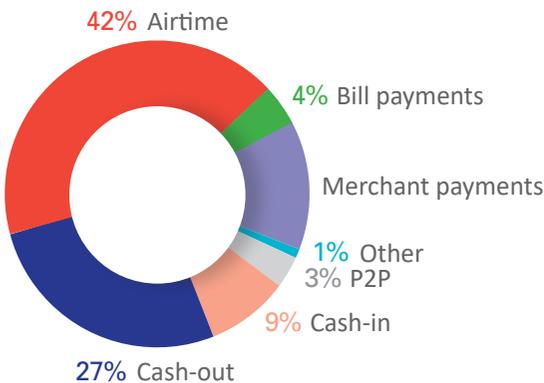


In 2017, 63% of registered agents were inactive

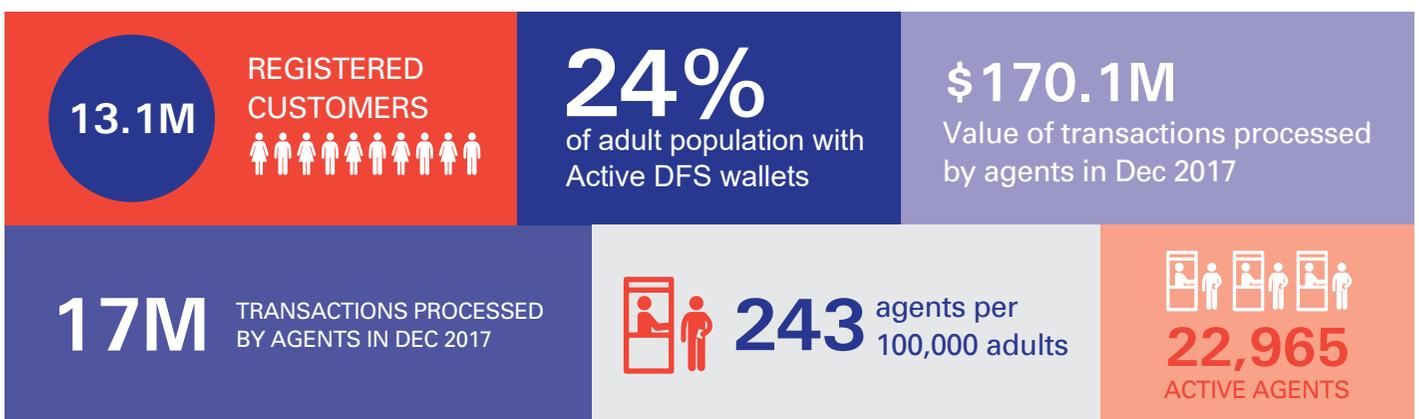
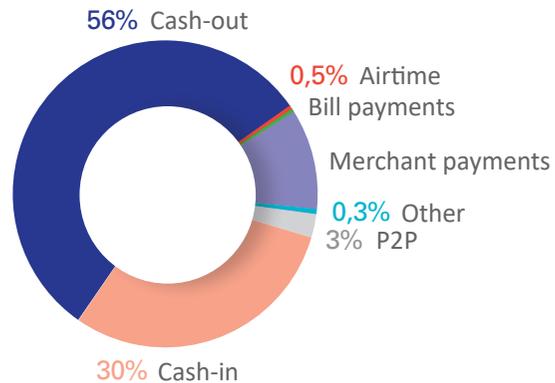


How customers are using DFS^d

Volume of transactions by product type:



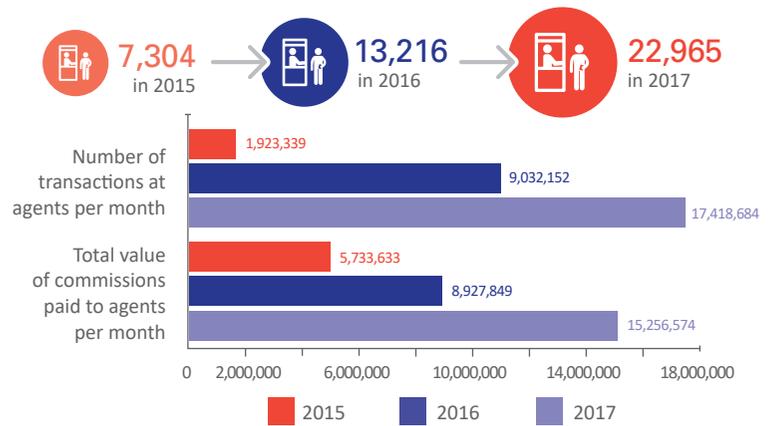
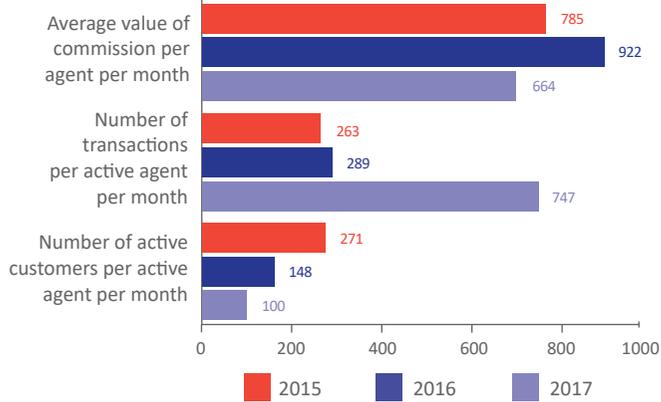
Value of transactions by product type:



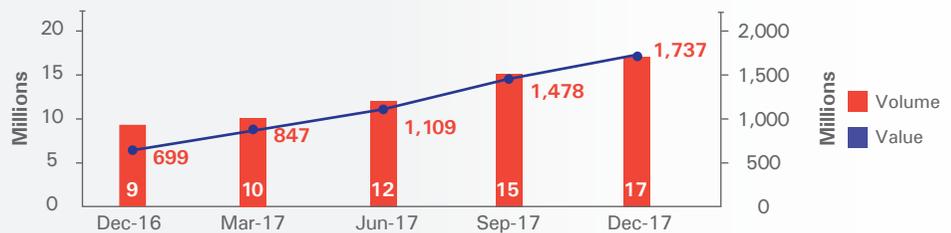
^d UNCDF 2018

^e UNCDF (Based on data collected by UNCDF in 2014, 2015, 2016 and 2017)

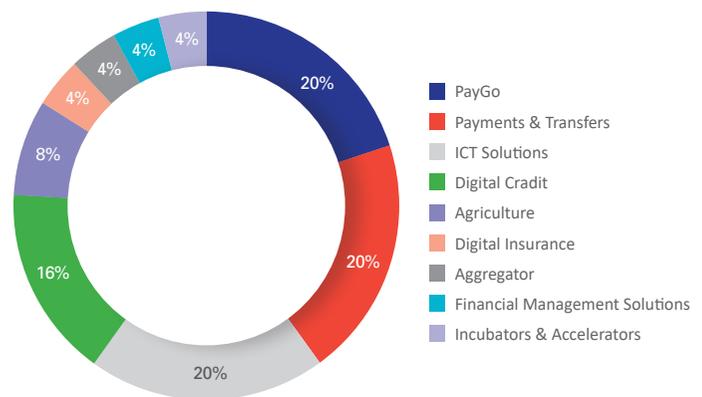
Agents^d



From December 2016 to December 2017, the number of active agents per 100,000 adults increased by 79% compared to a 77% increase in the number of active customer accounts.



FinTechs - Zambia Landscape^d



A preliminary scoping revealed that there are at least 25 FinTechs developing solutions across sectors ranging from financial services, Pay-Go Solar, health, education to agriculture.

Insights from the qualitative questions

DFS remains sustainable

Three-quarters of providers reported that DFS was a commercially sustainable business. Commercially viability was reported to have increased from December 2016 to December 2017.

DFS capacity is increasing

The average number of employees working in DFS increased by more than 70% across the various providers. Two-thirds of these employees were focused on agent distribution.

Providers are beginning to track sex- and geography-disaggregated data

Only 30% of respondents reported tracking sex-disaggregated data, with women comprising 33% of the DFS customer base. Only 35% of respondents reported tracking rural customers, with 26% of registered DFS customers residing in rural areas.

^d UNCDF, 2018

¹ Source of conversion rates: UN Treasury- Operational Rates of Exchange

Challenges



Low customer awareness of new and existing products

that is reflected in the high levels of inactivity among registered customers.

Management of the agent networks

Providers reported challenges in the development of cost-effective agent management structures in both urban and rural areas. This includes challenges with managing, monitoring and providing liquidity to agents.



Developing viable business models to support expansion into rural areas

Providers reported challenges in developing viable business models, including strategic partnerships, to expand services into rural areas.

Data analysis, reporting and usage for decision-making

Providers reported limited internal capacity to support sufficient data analysis and reporting. Improved data analytics could provide key insights to support the development of viable business models, including pricing (and incentives) changes and expansion efforts.



Early days for FinTechs

In spite of the initial growth witnessed, the innovation ecosystem is still in its infancy. FinTechs and start-ups need access to Application Programming Interfaces (APIs) of financial service providers, access to funding and a supportive regulatory framework to promote increased innovation.

Opportunities



Increase customer activity rate

Providers should develop and communicate a clear proposition for wallet users, build more accessible networks to reach rural areas and currently excluded or un-tapped segments. Product offerings should be bundled to increase "stickiness" of digital solutions and eventually digital financial services.

Strengthen the distribution network

Providers should review incentives for agent network managers to move from acquisition to focusing on usage or even on liquidity management and leveraging data for agent monitoring. They should also re-think the criteria for agent selection and on-boarding.



Increase strategic partnerships

Banks and MNOs should consider partnering with third-party providers as super agents to address existing liquidity challenges. There is an opportunity for providers to partner with FinTechs to create new business opportunities to develop new products and improve use cases for customers.

Leverage data for decision making

Providers should focus on developing their internal data analysis and management capacity to support segmentation of customers and agents, as well as monitoring usage trends which could lead to key insights for the expansion of DFS.



Supportive regulation and policy governing innovation

With the introduction and growth of second-generation products, as well as the emerging Fintech industry, regulation calibrated to enable affordable services for the financially excluded remains essential to the success of DFS.

12 DFS providers: Atlas Mara, Barclays Bank, cGrate, FINCA, First National Bank (FNB), MTN Money, Spagris Zambia (Kazang), United Bank for Africa (UBA), Zamtel, Zambia National Commercial Bank (Zanaco), Zambia Postal Services Corporation (ZamPost) and Zoono Zambia