

Use and Impact of Savings Services Among Poor People in Zambia

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Executive Summary

Background

Until recently microfinance institutions focused mainly on providing loans and largely ignored savings services. For many years the popular view was that the poor couldn't save. In recent years this view has been challenged by many researchers (see Coetzee, 1997) and notably by Stuart Rutherford who argued that the "The great irony of being poor is that you are too poor to save, but too poor not to save".²

In Zambia and indeed the rest of Africa, there is a vibrant and diverse informal financial sector. Traditional systems exist for both savings and or borrowing. The purpose of this study is *to improve knowledge and understanding of how poor people in Zambia save, how they use different savings services/systems and the impact of those savings facilities on their household budgets/lives, and thus to facilitate MFIs' efforts to mobilise savings.*

Specifically the report:

- Pays particular attention to savings services used and those not used by the poor people;
- Examines the perceived advantages and disadvantages of this variety of savings services;
- Examines the social-economic characteristics of the people using these savings services;
- Explores how savings services are used to manage household income/expenditure flow;
- Explores why some people save in-kind and what financial services might induce them to start monetized savings; and
- Draws lessons for MFIs seeking to develop poor-responsive savings services.

Methodology

This study used qualitative research methods including Focus Group Discussions using Participatory Rapid Appraisal Techniques and in-depth interviews with poor people, MFIs' officials, and other officials.

The study was conducted in a wide variety of settings, in Lusaka's planned and unplanned townships and in the rural areas of Chongwe and Chibombo districts.

Summary of conclusions and recommendations

The purpose of this study was to improve knowledge and understanding of how poor people in Zambia save, how they use different savings services/systems and the impact of those savings facilities on their household budgets/lives. In this regard we made use of qualitative research techniques to obtain information from poor people that will assist our understanding of the different savings services.

Our research findings in specific settings in Zambia are largely similar to those of other researchers on this subject. The findings indicate that the poor do save using mainly informal sector financial services and that savings have an impact on poor people in terms of:

- wealth accumulation to finance a household's long-term goals (consumer durables and business assets);

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² Rutherford S. *The Poor and Their Money*. Oxford Press 2000, New Delhi. Page 8

- ❑ insurance against illness, death and sudden income losses and other contingencies;
- ❑ safeguard against uneven income streams due to seasonal variations (savings of high income periods are used to finance consumption expenditures during low-income periods); and
- ❑ savings for future investments in education for children and other human resource development investments.

The poor people make regular savings for financing life cycle events. These events include setting up home, marriage, birth of child, school fees, setting up business, illness and death. All these events pose problems to poor people, which require lump sums of money on specific moments. In Zambia the poor people use largely the informal and to a lesser extent semi-formal savings systems to accumulate long-term lump sums in preparation for these life-cycle events.

Savings are important for smoothing out peaks and troughs in income and expenditure. For example in the rural areas the research team found marked seasonal fluctuations of income flows. The months of July through to October bring in income from agricultural produce sales, however, January through March are particularly hard months because many household experience household food insecurity and have to buy food. With the distinct seasonality of both income and expenditure flows in rural areas, there is a demand for a savings mechanism to allow households to save money when they have excess income in order to meet consumption and emergency needs during the lean months of January through to March. Presently the poor people have been meeting these needs using “saving down” (Rutherford, 2000) financial services such as reciprocal borrowing, moneylenders and also liquidating savings in livestock.

In the PRA sessions death and illness were the most frequently mentioned emergencies. These emergencies may lead to a permanent loss of revenue for the household. It is this perception of the severity of the shocks that has led to the popularity of funeral funds among MFI groups (both those organised by NGOs and ROSCAs) in Lusaka.

Offering savings services to the poor represent a tremendous opportunity for MFIs to increase their depth and breadth of outreach. Yet in Zambia the legal framework that does not allow MFIs to accept deposits from the public is a frustration. A new legal framework is now in place but not yet effective. The research team met with MFI clients who wished their MFIs accepted voluntary savings, because they felt the MFIs were closer to them than commercial banks.

Offering easier access to savings may also reduce dropouts and increases the level of voluntary savings: this has certainly been the experience of one MFI experimenting with more open access savings in Uganda. In Zambia a study on dropouts has identified lack of access to the forced savings as one of the reasons for clients exit.

The table below provides a summary of the various savings mechanisms in Zambia and the users.

Savings Mechanisms	Users
Reciprocal lending arrangement	Middle and upper poor
Moneylender	Very poor and middle poor
Rotating Savings and Credit Associations (ROSCAs)	Middle and upper poor, mostly market women
Savings at home	All classes of the poor especially elderly women in rural areas
Accumulating Savings and Credit Associations (ASCAs)	All the classes of the poor (very poor, middle and upper poor) usually members of MFIs.
In-kind savings	All classes of the poor and the rich in the rural areas
Suppliers Credit	Middle and upper poor especially women
Funeral Funds	All classes of the poor especially members of

Savings Mechanisms	Users
	MFIs and Community based organisations.
Church Savings and Loan funds	Very poor and middle poor especially those who are ardent church members
Money guards	All classes of the poor especially the youth
MFIs	Middle and upper poor especially women
Commercial banks	The rich and sometimes the middle and upper poor when cashing agricultural produce cheques and when directed by MFIs
Insurance Industry	The rich and in some cases the middle and upper poor through a microfinance institutions
National Savings and Credit Bank	All classes of the poor
Food Reserve Agency (FRA)	All classes of the poor and the rich in the rural areas
Programme Against Malnutrition (PAM)	All classes of the poor in the rural areas

Recommendations

In this section we provide specific recommendations for improving product design and methods for linking informal savings services/systems into semi-formal and formal sector financial service operations and recommendations for MFIs seeking to introduce or diversify savings products into their portfolio of services.

Product design recommendations

On the basis of the findings of this study we recommend that product design should take into consideration the following elements:

- * Proximity of the service provider to the clients;
- * Low transaction costs;
- * Flexibility and speed with which services are provided;
- * Simplicity;
- * People centred; and
- * Easy access.

There are several ways in which a mutually beneficial linkage can be established between an informal savings service and semi- and formal sector financial service. Below are just a few with some potential:

A microfinance institution:

- Could provide seed capital to a moneylender (particularly the licensed ones) and or, use moneylender as a deposit collector;
- Could use a ROSCA as a deposit collector;
- Could use an ASCA as a deposit collector or provide seed capital to an ASCA; and
- Could use an established trader to provide microcredit in the form of suppliers' credit (Pay slow).

A commercial bank and or formal bank:

- Could provide seed capital to a moneylender or engage a moneylender as a deposit collector;
- Could provide seed capital to an ASCA or use an ASCA as a deposit collector; and
- Could use a ROSCA as a deposit collector.
- Could provide seed capital to a microfinance institution or engage a microfinance institution as a deposit collector; and
- Could provide banking services to a microfinance institution and indirectly provide banking services to the MFI clients.

An insurance company:

- Could use a ROSCA or an ASCA to collect insurance premium.
- Could use a MFI to collect insurance premium.

Probably the most important recommendation for a microfinance institution seeking to introduce or diversify savings products is to **listen to the clients** and also examine the **strength of the informal savings products** and **adapt** those aspects that make the informal sector savings services attractive.

Table of Contents

EXECUTIVE SUMMARY	1
TABLE OF CONTENTS	4
1. INTRODUCTION AND BACKGROUND.....	1
1.1 BACKGROUND.....	1
1.2 RESEARCH OBJECTIVE.....	1
1.3 OUTLINE OF THE REPORT	1
2. CONTEXT.....	1
2.1 INTRODUCTION	1
2.2 THE ZAMBIAN MACRO-ECONOMIC FRAMEWORK	2
2.3 THE MICROFINANCE INDUSTRY IN ZAMBIA	2
2.3.1 Introduction.....	2
2.3.2 The Regulatory Framework	2
2.4 PAST STUDIES ON THE SAVINGS SERVICES IN ZAMBIA	2
2.5 THE FRAMEWORK FOR ANALYSIS	3
2.6 THE INSTITUTIONS THAT PARTICIPATED IN THE STUDY	5
2.6.1 CARE PROSPECT Project.....	5
2.6.2 Credit Management Services (CMS).....	6
2.6.3 Micro Bankers Trust (MBT).....	7
2.6.4 National Savings and Credit Bank (NSCB).....	7
3. METHODOLOGY AND DATA COLLECTION.....	8
3.1 TERMS OF REFERENCE.....	8
3.2 THE METHODS CHOSEN	8
4. ANALYSIS OF RESULTS AND MAIN FINDINGS	9
4.1 INTRODUCTION AND APPROACH	9
4.2 INFORMAL FINANCIAL SECTOR	9
4.2.1 Reciprocal Lending Arrangement	10
4.2.2 Moneylenders	10
4.2.3 Rotating Savings and Credit Associations (ROSCAs).....	11
4.2.4 Saving at Home	12
4.2.5 Accumulating Savings and Credit Associations (ASCAs).....	13
4.2.6 In-kind Savings.....	13
4.2.7 Supplier Credit (Pay Slow)	14
4.2.8 Funeral Fund.....	14
4.2.9 Church Savings and Loan Funds	15
4.2.10 Money Guards	16
4.3 SEMI-FORMAL FINANCIAL SECTOR	16
4.3.1 Microfinance Institutions (MFIs).....	16
4.4 FORMAL FINANCIAL SECTOR.....	17
4.4.1 Commercial banks.....	17

4.4.2 The Insurance Industry.....	17
4.4.3 Food Reserve Agency (FRA).....	17
4.4.4 Programme Against Malnutrition (PAM)	18
4.5 WHAT IS THE IMPACT OF SAVINGS ON INDIVIDUALS?.....	18
4.5.1 Life Cycle Needs.....	19
4.5.2 Emergencies	20
4.5.3 Opportunities.....	20
4.6 WHAT IS THE IMPACT OF SAVINGS ON MFIS?.....	20
4.7 MAIN FINDINGS OF THE STUDY	20
4.7.1 Introduction.....	20
4.7.2 Main findings on the basis of specific techniques	20
4.7.3 Main findings of the study	22
4.7.4 Comparison with experience in rest of East and Southern Africa	23
5. SUMMARY OF CONCLUSIONS AND RECOMMENDATIONS	24
5.1 CONCLUSIONS AND MAIN FINDINGS.....	24
5.2 RECOMMENDATIONS.....	25
6. FURTHER RESEARCH QUESTIONS.....	26
REFERENCES.....	27

Currency Exchange Rate: ZK3,680 = 1 US \$

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1. Introduction and Background

1.1 Background

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In Zambia and indeed the rest of Africa, there is a vibrant and diverse informal financial sector (Adams et al., 1992; Ardener and Sandra (eds), 1995). Traditional systems exist for both savings and or borrowing. Many researchers have recorded this across Africa (see Miracle et al, 1980).

1.2 Research Objective

How do poor people in Zambia manage their money? To answer this question we examine financial services available to the poor people in Zambia and we focus on savings services. It is the function of financial services to help people to manage money (Rutherford, 2000).

The purpose of this study is *to improve knowledge and understanding of (if and) how poor people in Zambia save, how they use different savings services/systems and the impact of those savings facilities on their household budgets/lives, and thus to facilitate MFIs' efforts to mobilise savings.*

Specifically the report:

- Pays particular attention to savings services used and those not used by the poor people;
- Examines the perceived advantages and disadvantages of this variety of savings services;
- Examines the social-economic characteristics of the people using these savings services;
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- Draws lessons for MFIs seeking to develop poor-responsive savings services.

1.3 Outline of the Report

In the first section we have provided background to the research problem and stated the research problem. In section two we provide the context within which the study took place, the reality of microfinance in Zambia and the specific micro finance institutions who participated in the study.

Section three discusses the methodology used, the collection of information and the framework for analysis. Section four discusses the analysis and the results of the analysis.

We conclude with section five in which we summarise the findings and discuss the impact that the findings have on the lives of the poor. We also attempt to identify relevant research areas for the future.

2. Context

2.1 Introduction

In this section we will provide the context within which the study took place. This will be presented on three levels, viz. the macro context, looking at the overall economy, the context of the micro finance sector, and the context of the specific firms that participated.

³ Rutherford S. The Poor and Their Money. Oxford Press 2000, New Delhi. Page 8

2.2 The Zambian Macro-Economic Framework

The Zambian Government's current macro-economic policy focuses on the key tenets of the Structural Adjustment Programme intensively implemented since 1991. Notwithstanding the existence of the Programme, Zambia has neither achieved a sound level of macro-economic stability, nor adequate economic growth even by developing country standards.

Though not as high as during the early 90s, the inflation rate (30% - December 2000) remains a major problem in attaining macro-economic stability. The GDP growth has fluctuated considerably over the past 8 years and has on the average not been high enough to stop the continued decline in real GDP per capita. In the few years when higher real GDP growth rates were achieved (1993 +6.8% and 1996 +6.4%) the single biggest contributor to growth was the agricultural sector. The high growth in agriculture came from export crops like cotton, fresh flowers and tobacco.

The financial sector in Zambia was liberalized in 1992. Prior to 1992, financial policies exhibited repressive characteristics such as: restriction on market entry, interest rate ceilings, controls on credit allocation and restrictions on capital transactions with the rest of the world.

2.3 The Microfinance Industry in Zambia

2.3.1 Introduction

The Microfinance sector in Zambia is characterised by its relative youth. The sector emerged in the middle of the 1990s. There are currently about 98 known micro-finance institutions (MFIs) of which, 45 MFIs are members of the Association of Micro-Finance Institutions in Zambia (AMIZ) established in January 1999. In addition, there is a wholesale micro-finance lending institution the Micro Bankers Trust (MBT) established in October 1996. All these MFIs in Zambia put together are reaching less than 1% of the potential clients.

2.3.2 The Regulatory Framework

In Zambia, a specific legal framework for the microfinance sector has just been passed into law but is yet to be effected. The Bank of Zambia and AMIZ jointly drafted the new legal framework. Presently, various statutes are being applied to MFIs operations including the Banking and Financial Services Act of 1994, the Money Lenders Act of 1938 (as amended), the Agricultural Credits Act of 1995 and the Company's Act of 1994. The Bank of Zambia has taken a leading role in ensuring recognition and ad-hoc regulation of this part of the financial market, mainly because of its increasing size and the resulting impact on the economy.

Due to the weakness of the legal framework financial sector authorities often adopt a liberal and flexible policy in order to permit growth in the microfinance credit market. This has been made easier by the fact that donors largely fund MFIs, especially in the initial stages. Therefore, MFIs usually do not take savings from the public at a large scale, thus reducing the risk of fraud and loss of savings. Under the existing legal framework non-bank financial institutions (ie. financial institutions which are not commercial banks) are not permitted to accept deposits from the general public. However, non-bank financial institutions operating as Savings and Credit Unions registered under the Co-operative Societies Act may accept deposits from members only. The new legal framework has a multi-tiered structure to accommodate different types and sizes of institutions and each tier has specific prudential rules applicable. This Act will enable MFIs to mobilise savings.

2.4 Past Studies on the Savings Services in Zambia

There are few studies on savings services in Zambia, these include (Roberts R.A.J 1972, Mahon D. 1996, Hospes O. 1997, Mrak M. Truijen L. 2001, Choongo G. 2001, Verstralen K. 2001, Ntalasha H. 2001,). A study on savings behaviour of the poor in Western Province of Zambia (Hospes, 1997) found that the people of the west bank of the Barotse plain, primarily saved in kind (cattle and grain). Hospes concluded that even if cash savings opportunities were offered nearby, it would make a difference but not at short notice and not for everyone in the same manner.

2.5 The Framework for Analysis

In this report we follow a specific framework of analysis as espoused by Rutherford (2000) in his publication on the “The Poor and Their Money”. Rutherford argues that throughout their lives, the poor experience many occasions when they need sums of money larger than what is immediately available to them. There are three categories of such occasions:

- **Life cycle needs.** The poor need usefully large sums of money to deal with life cycle events such as birth, death and marriage, education and home-making, widowhood, old age and death, and the need to leave something behind for one’s heirs.
- **Emergencies.** In order to cope with impersonal emergencies such as floods, cyclones, and fires, and with personal emergencies such as illness, accident, bereavement, desertion and divorce, large sums of money are again required.
- **Opportunities.** As well as needs and there are opportunities that require large sums of money, such as starting or running businesses, acquiring productive assets, or buying life enhancing consumer durables such as fans, televisions and refrigerators.

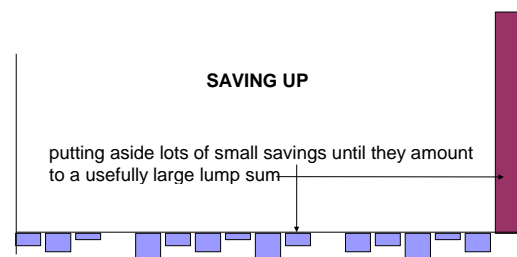
The only reliable and sustainable way open to the poor to get hold of these large lump sums of money is to build them from their savings⁴.

⁴ Occasionally the poor may receive charity or sell assets but neither of these methods is reliable nor sustainable. Charity may cease at any time, and asset disposals are limited to the number of assets that the poor hold. To replace assets sold or pawned the poor will have once again to turn to savings.

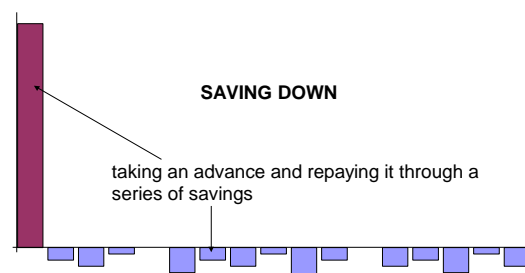
The poor themselves recognise the need to build savings into lump sums and contrary to popular belief the poor *want* to save and *try* to save, and all poor people except those who are entirely outside the cash economy *can* save something, no matter how small. When poor people do not save it is for lack of opportunity rather than for lack of understanding or of will.

There are several ways in which savings can be built into usefully large sums of money, but they fall into three main classes, as follows:

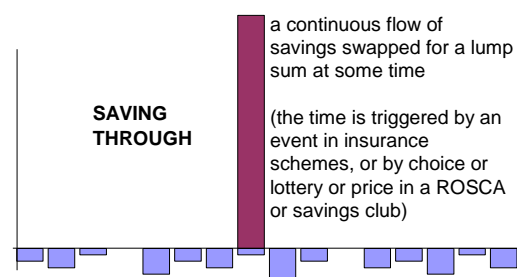
1. **Saving up.** This is the most obvious way. Savings are accumulated in some safe place until they have grown into a usefully large sum. Many poor people lack a safe and reliable opportunity to save up. As a result, they may be willing to accept a negative rate of interest on savings, in order to be able to make deposits safely. We see this in the case of the deposit collectors that work in the slums of Asia and West Africa.



2. **Saving down.** In this case the poor manage to persuade somebody to give them an *advance* against future savings. Many urban moneylenders offer this service at high cost. Bangladesh's famous MFIs, including BRAC, offer a similar service but do so at reasonable cost and with greater reliability. The recipient of a BRAC or Grameen Bank general loan makes a large number of repayments at short intervals and these repayments can be sourced from the borrower's capacity to save. The advance can therefore be spent on any of the uses in the three classes listed above⁵.



3. **Saving through.** In this third case savings are made on a continuous and regular basis, and a matching lump sum is made available at some point in time during this flow of savings deposits. The services offered by insurance (in which case the savings take the form of premium payments) are of this type, though the poor are very rarely offered formal insurance services. Many forms of savings club, including, notably, rotating savings and credit associations, or ROSCAs also offer, "Saving through". 'Saving through' therefore constitutes the most common class of device that the poor are able to provide for themselves.



Thus, *financial services for the poor* are services that help the poor *turn savings into lump sums*. Good financial services for the poor are a matter of doing this:

- In as many *different ways* as possible (saving up, saving down and saving through)

⁵ That is, it is not necessary to spend the advance on 'income generating activities' that produce an immediate stream of additional income.

- Over as many *different periods* (varying from very short term for quick needs, to very long term for old age or widowhood, for example) as possible
- In ways that are *convenient, quick, appropriate, flexible* and *affordable*

In addition the framework will include an examination on how the 8 Ps (**Annex 1**), that is, Pricing, Products/Services, Place/distributions/location of operations, Promotion of the products, Positioning, People, Process and Physical evidence are reflected in the perceived advantages and disadvantages of the service. This is important, as the end objective of this study is to inform appropriate product development.

2.6 The Institutions that Participated in the Study

2.6.1 CARE PROSPECT Project

Type of institution

CARE PROSPECT project is a community empowerment initiative sponsored by CARE International. PROSPECT was designed to build on the experiences from the previous food-for-work project called PUSH. In order to ensure relative sustainable personal empowerment for poor communities –which was not achievable in the food for work initiative- a micro-finance component was introduced in PROSPECT.

Maturity of the institution

PROSPECT project begun in 1998 and is scheduled to end in 2003. PROSPECT is at intermediate level in the sense that it has been following a specific system (a modified version of village banking model) and are seeking to reach scale through expansion using this system presently has a small outreach of 2,686 active clients. In addition, PROSPECT has limited institutional capacity to make significant changes to products and systems since this would require radical re-engineering of their MIS, training and methodology.

Purpose of the institution

The microfinance component essentially aims at providing the necessary environment and support which will enable target poor communities to have sustainable access to financial services, which they would otherwise not have, as a basis for engaging in or expanding their Income Generating Activities (IGAs). Therefore, in addition to objectives addressed by other components of PROSPECT, the microfinance component aims to establish community-based, self-managed financial services groups and systems among poor communities, to deliver efficient and sustainable micro-finance services to their members and therefore compliments other efforts of the project for reaching the goal of eliminating poverty and improves livelihoods.

The operations

The PROSPECT microfinance component has targeted 6,400 residents representing over 40,000 family members in fourteen compounds of Lusaka and one in Livingstone to form and sustain financial services groups by the end of the four-year program. These financial services groups offer various financial products namely; savings, loans and insurance (funeral fund). The project provides support through training and additional loans to the groups for on-lending to their members. Eventually, it is expected that the groups will form federated financial services societies which will manage microfinance activities, including the loan fund from PROSPECT after the phasing-out of the PROSPECT project. After the orientation of the group the group operates the following financial services:

Savings

Mandatory savings: the Group decides on how much each member will save with the Group each week when they meet. This amount is usually set within the capacity of the majority of the Group members to afford. No member may withdraw this mandatory savings because the Group uses it exclusively for loans to members. Mandatory savings are based on the Chilimba (ROSCA) where members in a Chilimba rotate savings, which are given to one member at a time. The difference between the two is that while in the Chilimba the amount saved and rotated remains static over time,

in the case of mandatory savings the amounts grow very fast and accumulate because of interest earned on loans. The average weekly saving was K1,000 per member and interest on loans was 10% at the time of this study.

Voluntary Savings: members of the Group may decide to save their extra money with the Group on voluntary basis. This money can be withdrawn by the member who saved it at any time she/he needs it, but within the general conditions set by the Group for withdrawing such savings. Because the Group may use this money to give loans to other members, the voluntary savings earn interest, which is decided by the Group. Very few of the groups that we visited had a voluntary savings scheme. This is perhaps a reflection of the scarcity of surplus cash among the group members.

The groups are encouraged to operate Chilimba alongside the above types of savings, members contribute a small amount of money during every meeting-day to be given to a member on a rotational basis. Such money does not attract any interest and is used solely, but not exclusively, for household use. This arrangement helps put the pressure off business income. This innovation was very popular among group members and partly explains the relatively high recovery rate.

The Loans

The group uses the Voluntary and Mandatory Savings to give loans to members at a rate of interest and repayment period agreed upon by the group. The loans given are primarily, but not exclusively, for income generating activities.

The group also uses the funds borrowed from PROSPECT to lend to its members at a rate of interest and repayment period agreed upon by the group. Usually the rate of interest charged by the group for these loans would be higher than the rate of interest PROSPECT charges the group for the loan. This enables the group to build up its loan fund and therefore lend to more of its members.

The group normally retains a small amount of money in a bank account or in the cash box (with the treasurer) to be given at very short notice (either during or outside of regular scheduled meetings) to a member with an emergency such as sickness, bereavement, and school fees or to buy food. The loan is given at a rate of interest and repayment period agreed upon by the group. Some groups would not charge any interest on an emergency loan, while other may charge a much lower interest rate and give a longer repayment period, yet other groups decide to charge their normal rates.

2.6.2 Credit Management Services (CMS)

Type of institution

In 1992 Molver and Company, a Zambian accounting company based in the old mining town of Kabwe in the Central Province of Zambia was requested by the European Union to manage a Crop Input Supply lending project at Mpongwe. In response Molver and Company formed a sister company called Credit Management Services (CMS) for the purpose of managing the lending project. Two years later the CMS was requested to take up the management of the Mpongwe Community Development Women Empowerment Project. This project was a savings and credit scheme based on modified Rotating Savings and Credit Association model. This marked the beginning of CMS's involvement in micro credit.

Maturity of the institution

CMS is the biggest MFI operating in the rural areas providing credit to traders and small-scale farmers with about 10,000 active clients. CMS is at the growth stage.

Purpose of the institution

The CMS has continued with its initial objective of managing credit programmes on behalf of donors and has included a microfinance component, which is fully sponsored by CMS.

The operations

Presently CMS is running two programmes, a microfinance programme and is managing a loan fund on behalf of the Cooperative League of the United States of America (CLUSA). The CLUSA fund is intended for small farmers growing high value crops such as paprika, groundnuts and soybeans. CLUSA facilitates the formation of groups including training.

The CMS gives out input loans to small-scale farmers and also enters contracts with buyers for the crop and farmers are informed of the price at which the crop will be bought in advance. When the crop is ready it is taken to CMS central depots to await the buyers. As at the time of the study the loan portfolio under this small farmer programme was K2 billion and forced savings of K200 million.

The microfinance programme portfolio, as at the time of the study was K1.4 billion and forced savings of K350 million. The majority of the clients of microfinance programme are women. CMS uses a group-lending approach.

2.6.3 Micro Bankers Trust (MBT)*Type of institution*

Established in October 1996 with support from the government, MBT acts as a wholesale lending institution, serving MFIs from both the NGO sector and the private corporate sector. MBT takes its decisions independently, as to which MFIs receive support in the form of seed capital and/or capacity building.

Maturity of the institution

The MBT could be described as being at the intermediate stage, at the time of the study the outreach was 30 community based organisations and MFIs with about 7,000 active clients.

Purpose of the institution

The mission of the Trust is to empower poor people in Zambia through promoting micro-credit delivery, savings mobilisation, group formation and training.

Major Specific Objectives of MBT are:

1. To provide seed capital for micro-enterprise credit delivery and related activities.
2. To strengthen the institutional capacity of member organisations through staff training.
3. To assist member organisations in the design and operation of micro-credit delivery in a viable and effective manner.

The operations

As at the time of the study the total loan portfolio was K1.6 billion. Most of the institutions receiving assistance from MBT use a group lending approach. The research team visited four community-based organisations (CBOs) funded by MBT. The four CBOs were using a village banking model with emphasis on savings and internal loans (to members). On average each of the CBOs had raised K250,000 from members savings which was lent to members on request, usually on the meeting day. The repayment period for these loans was on average 7 days with interest charge of 10% per week. Repayment rate was reported to be very good, with most CBOs reporting no arrears.

2.6.4 National Savings and Credit Bank (NSCB)*Type of institution*

National Savings and Credit Bank (Government owned) was formed in 1972. The bank was created to mobilize savings especially in rural areas. Initially the bank operated through the post office network countrywide. In 1992 the bank decided to establish its own branch network.

Maturity of the institution

The NSCB is the oldest financial institution with the highest number of small savers accounts. Almost all of the 40,000 account holders of this bank are small-scale savers. NSCB is in a growth stage.

Purpose of the institution

The NSCB was established to mobilise savings especially in rural areas and has recently decided to emphasise micro credit and small savings.

The operations

At the time the bank operated through the post office network it was the most popular bank among the poor and the middle income. Because it offered most extensive network and clients could access their money from any branch in the country. The popularity has declined since the closure of most branches. Presently, NSCB has 15 branches countrywide. Of these, 40% are in rural areas. At the time of the study, NSCB had a savings portfolio of K2.1 billion.

The NSCB provides a wide range of services, which include the following:

- Ordinary savings account, with minimum balance of K30,000 and interest payable at the rate of 8% per annum.
- Commercial savings account, with a minimum balance of K30,000. This account is designed for small and medium scale entrepreneurs who want to save a surplus of their income.
- Regular savings account, this account caters to customers who wish to save on a regular basis part of their income and the customer determines monthly instalments.
- Education savings account, this is intended for school boards PTAs and parents who wish to save for the purpose of developing their schools. It has a minimum balance of K150,000 and credit facility may be availed in relation to balances held.

Among the formal banking institutions the NSCB has the lowest minimum opening balance of K50,000 (US \$14) and minimum account balance of only K30,000 (US \$8).

3. Methodology and Data Collection**3.1 Terms of Reference**

The brief from the client requested that this study would use:

- Qualitative and participatory research methods, in particular in-depth interviews, with people who are clients of a variety of MFIs (formal sector banks with deepened outreach and NGO-MFIs Savings and Credit Cooperative Organisations, Village Banks) and informal financial organisations such as ROSCAs, funeral clubs etc. The study will also conduct interviews with poor people who are no longer members of these organisations to discover why they are not and how (and if) they save.
- Analysis of selected MFIs' quantitative data derived from the management information systems from the institutions themselves.

3.2 The Methods Chosen

This study used qualitative research methods emphasising Focus Group Discussions based on Participatory Rapid Appraisal Techniques and in-depth interviews (using discussion guides) with the poor people, MFIs' officials, and other officials.

Focus Group Discussions (6 sessions were conducted):

Focus Group Discussions provided the researchers with an opportunity to interview groups which provided insights into what challenges they face, the various mechanisms the poor use to save money, what they use the savings for, and the kind of products and services they want to see in a financial institution.

Life Cycle Profile to Trace Lump-sum Cash Needs Over Time (8 sessions were conducted)

Life Cycle Profile provided the researchers with insights into what life cycle events require lump sums of money. The common life cycle events include setting up a home, starting a business, marriage, sending children to school and death. Understanding the most pressing of these needs enables MFIs to design products that respond to these events that require the most money and promote them as solutions to those needs.

Financial Services Matrix (5 sessions were conducted)

Financial Services Matrix helped the researchers to understand the competitive environment both in the formal and informal sector. It allowed one to quickly have an understanding of the most prevalent financial management strategies/mechanisms and who uses them. The matrix included formal banks, Community based organisations, MFIs, Rotating Savings and Credit Associations (ROSCAs), Accumulating Savings and Credit Associations (ASCAs), money guards and saving at home. Understanding the most prevalent of the mechanisms allowed the researchers to identify the features that make them popular.

Financial Sector Trend Analysis (2 sessions were conducted)

Financial sector trend analysis is useful in determining which financial services have been used over time and thus understanding the changes in the use or availability of a variety of financial services over time and why participants used them. This exercise can also be useful in examining the level of competition and popularity among financial institutions both formal and informal.

In-depth individual interviews (7 sessions were conducted)

Allowed the researchers to get more in-depth insights regarding financial services used by the poor in Zambia and why they use them. They were also used to gather information regarding institutional aspects.

Classification of the poor

Through a participatory process we identified three socio-economic classes namely; the relatively better-off (the upper poor), the managing (the middle poor) and the struggling (the very poor). These definitions were used to discuss the characteristics of the poor⁶.

4. Analysis of Results and Main Findings**4.1 Introduction and Approach**

Each qualitative session has been meticulously recorded and the results have been summarised according to the techniques used. We present these results clustered per financial service and per sector. At the end of the section on each sector we present a summary of findings specific to that sector. Thereafter we compare also the findings of different sectors and we come to some overall conclusions where relevant.

4.2 Informal Financial Sector

The informal financial sector in Zambia is more popular than the formal financial sector. Participants in all the PRA sessions we held mentioned existence and regular use of informal financial services. Among the reasons cited for popularity are:

- proximity of the service provider to the clients;
- low transaction costs especially on the part of the borrower; and
- flexibility and speed with which services are provided.

Below we discuss the financial services that were often cited, they are presented in the order of perceived popularity. We first discuss the financial service as it operates in Zambia, secondly the users and lastly perceived advantages and disadvantages:

⁶ The sessions were conducted in three local languages and each language had local terms for the classes. Classification was based on number of meals a day, ability to send children to school, ownership and type house and asset ownership.

4.2.1 Reciprocal Lending Arrangement

Reciprocal lending arrangement is a saving through; this was the most often cited financial service in this research. Reciprocal lending takes place only between friends and relatives. Although reciprocal lending is found in both urban and rural areas it was more often mentioned in the rural areas. This is probably due to the structure of the Zambian rural society, which tends to have close social relationships, a condition that fosters reciprocal lending arrangements.

Through this mechanism the poor in Zambia are able to turn small future savings into a useful lump sum upfront. The amounts involved in this service are usually very small, rarely above K100, 000 (US \$27). These are usually interest free loans but some respondents did mention of interest rates lower than the moneylenders' rates being charged especially where the lender was in the business of money lending. Normally repayment is through instalments over a period of time. These savings are used in a variety of ways such as paying for medical fees, school fees, and funeral expenses to name a few.

Who Uses Reciprocal Lending Arrangements?

These are rarely used by the very poor since they do not have the ability to reciprocate the gesture. This facility is mostly utilised by the middle and the upper poor. Lending activity among relatives and friends surprisingly follows the same principles associated with prudent financial transactions, which includes ability to service the debt.

Perceived Advantages and Disadvantages

The advantage is that transaction costs are relatively low because relatives and friends who are the users normally live in the same locality and the application and approval process would normally take just few minutes of discussion. The main disadvantage is that this mechanism is confined to relatives and friends and amounts are usually small.

In terms of the 8 Ps, this financial service meets adequately four Ps namely; place, process, people and positioning.

4.2.2 Moneylenders

Moneylenders' financial service locally referred to, as "**Kaloba**" is (in Rutherford, 2000 terms) a saving down service. Moneylenders are individuals in the middle and upper classes of poor people and also middle-income business persons. In Zambia moneylenders are supposed to be licensed under the Money Lenders Act of 1938 (as amended) but most moneylenders are not licensed and therefore operate illegally. There are many reasons for this defiance of the law, these include ignorance of the law and or the process of acquiring a license, lack of enforcement of the law, tax evasion because the licensing documentation would expose them to the tax authority and licensing process is perceived as cumbersome.

Most moneylenders are part-time but there are some who are full-time. Moneylenders normally offer short-term unsecured loans at high interest rates of 100% per month or part thereof. Repayment is by a single instalment, failure to repay on the agreed date results in the interest due being capitalised, thus doubling the principal. Moneylenders' financial services are confined to the local markets because of the reliance on intimate knowledge of customers. Prospective customers who are not known to the moneylender must be introduced by an existing well-known customer and are in most cases required to secure the loan with a movable collateral (radios, television sets etc.)

In Zambia moneylenders are found in both rural and urban areas, but evidence from this research suggests that there are more moneylenders in the urban areas than in the rural areas. This saving down service is used to finance a wide range of needs including school fees, medical fees, funeral expenses, business assets, servicing MFI weekly repayments, food and entertainment.

Mama Mary (not real name) is a prosperous rural full-time moneylender at a fishing village at Lukanga Swamps in the Central Province of Zambia. She lends money to fishermen. The loans are all short term with a maturity period of one month. Her lending rate is 100% per month or part thereof. She is reported to be competing favourably with an MFI that operates in the area. Her strengths are ability to grant loans on the spot without bureaucratic delays, untied loans and proximity to her clients. Fishermen use this saving down service to raise upfront lump sums to enable them procure fishing nets and other household provisions.

Who Uses Moneylenders?

Using the Financial Services Matrix and discussion guides we established that moneylenders' services in Zambia are mostly used by the very poor and middle poor classes. The upper poor rarely use these services because they are the moneylenders and also have better alternative sources. Most users of moneylenders' services are men, this is probably because women have access to ROSCA which is a cheaper alternative.

Perceived Advantages and Disadvantages

Respondents said that the main advantage is that it is an instant loan facility with minimum formalities. However, the major disadvantage is that it is a very expensive saving down facility. Interest rates of 100% and above are common. Very often the poor people who use this facility have ended up in a debt trap.

In terms of the 8 Ps, this financial service meets only two Ps, Place and Process. In view of the popularity of this service, it seems Place and Process has higher rating among the Ps as far as the poor are concerned.

4.2.3 Rotating Savings and Credit Associations (ROSCAs)

ROSCAs are referred to as “**Chilimba**” in Zambia; this is a “saving through” (Rutherford, 2000) facility. This is the most popular and fastest growing form of financial intermediation among the poor market women in both urban and rural areas. The members take a periodic collection that is pooled and given to one member in rotation until everyone has got a chance to get the lump sum. ROSCAs are based on trust and ability to make the periodic deposit.

Sequencing of “prize winners” is done through a ‘lottery method’ and there are two variants. The first variant is at the beginning of the ROSCA, numbers are written on pieces of paper and each member picks one paper that bears a number. This number determines the order in which the members will receive the prize or lump sum paid out by the ROSCA. The second variant of the lottery ROSCA is where it is cast at every meeting to determine who will get the prize. Only the members who have not yet won the prize participate until the rotation ends and everybody had an opportunity.

The research team found a daily ROSCA, weekly ROSCA and a monthly ROSCA. The amount of periodic savings varied from K500 to K10, 000. We also found ROSCAs that were part of the internal arrangement of the solidarity groups promoted by MFIs. We did not find evidence of people belonging to more than one ROSCA.

Most of the ROSCAs we found were designed to keep going one cycle after another. But we were told that there are some ROSCAs that are short term and finish after one cycle. ROSCAs usually have a membership ranging from five to twenty members. They meet or collect money every day, some every week and others once a month. For example at Luburma market the research team came across a daily ROSCA with six members designed with the aim of enabling each of the women members to have an opportunity of increased capital during the week.

Who Uses ROSCAs?

In Zambia ROSCAs are found both in urban and rural areas, we did not find significant difference in the frequency of mentions between the two areas. The majority of users are poor women and mostly

those trading in markets and tends to be of relatively similar economic standing. Women's high level of participation in ROSCAs is partly explained by their willingness to work in groups. To most poor women, ROSCAs offers the only savings instrument apart from burying or placing money in mattresses (the home bank). Women who are very poor and have no means of raising the required periodic deposit are excluded from ROSCA.

These savings are used to finance a variety of financial needs including servicing MFI loans, household assets, consumption, business assets and raw materials.

Why do men shy away from ROSCA? In reply one respondent said "...men do not use **chilimba** because they are dishonest." This might appear a sweeping statement but has some grain of truth.

Perceived Advantages and Disadvantages

Among the perceived advantages identified by the participants are:

- ❑ Proximity to the users, since ROSCAs are organised among neighbours or workmates they are close to the users.
- ❑ Since ROSCAs are self managed institutions they are generally considered user friendly.
- ❑ ROSCAs are easy to join because users themselves set entry qualification.

Among the perceived disadvantages are:

- ❑ ROSCAs are unresponsive to emergency needs, however, it is possible to swap the prize amongst members to allow those facing crisis to receive it.
- ❑ If the size of the group is large it puts very high risk on the last person to receive the prize.

We did not find evidence of failed ROSCAs, generally respondents appeared embarrassed to discuss failed ROSCAs.

Regarding the 8 Ps, ROSCA responds very well to five Ps, these are Pricing, Place, Positioning, People and Process. This is not surprising as it adequately reflects the growing popularity of this service.

4.2.4 Saving at Home

This is the storage of cash at home very often buried under a tree or at the corner of the house, sometimes hidden in the mattress, in underpants called **Bombasa** or whatever secret place within the house the saver thinks she/he can keep money for a long time. This is very common savings mechanism especially in the rural areas of Zambia. At Chongwe, a rural district headquarters, the research team met an elderly woman who narrated her experience with saving at home (see text box below).

Mama Tembo (not real name) was born in a family of seven. She is last born and was the most favoured child by her mother. The old lady was a successful market woman who had spare cash to save and saved the cash at home nicely buried under a fig tree about 50 metres from her house. Before she died she showed Mama Tembo where the treasure was hidden. When her relatives arrived for the funeral they were anxious to unearth the treasure but Mama Tembo refused to disclose the site. In a desperate effort they dug a trench all around the house in vein and almost destroyed the house. Mama Tembo later used the inherited savings to start a business in the market.

Who Saves at Home?

This savings facility is used by all categories of poor people especially elderly women in rural areas and to some lesser extent in the urban areas too. The home savers are usually people with excess liquidity mostly after harvest but have little or no access to other savings facilities. It is also possible that some people do so to maintain some liquidity. The cash savings are very often used to pay for medical services, school fees, household assets, food and business assets.

Perceived Advantages and Disadvantages

The most important perceived advantage is that the savings are available at any moment (easy accessibility). Perceived disadvantages include:

- ❑ Highly exposed to loss through fire, theft and destruction by insects and animals.
- ❑ Demands from pestering relatives and friends.
- ❑ Temptation to spend.

Saving at home responds to three Ps, these are Place, Positioning and Process.

4.2.5 Accumulating Savings and Credit Associations (ASCAs)

In Zambia two MFIs, the Micro Bankers Trust and CARE PROSPECT are promoting ASCAs among their clients mainly as an exit strategy in the case of CARE PROSPECT and business strategy for MBT. The size of the ASCA varies from 10 to 100 members, some ASCAs charge annual membership fee of between K500 and K10,000. Most have fixed weekly savings per member of K1,000. There are variations in the amount for weekly savings, for example one ASCA weekly savings is K2,000 and another has in addition to a weekly savings of K1,000 a monthly saving of K10,000 per member. The loans are all short term with a maximum period of one month. The majority are weekly loans. Average lending rate is 10 percent per week.

The Waterfalls Rural Women Development Organization (WARUDO) was formed by a group of concerned women who wanted to do something to alleviate the high poverty levels in their community. “Waterfalls” is a farming community in Chongwe district 20kms from Lusaka. Presently, WARUDO has a membership of 100 women. WARUDO is an ASCA, each member pays an annual membership fee of K10,000. WARUDO meets every week and each member is expected to make a compulsory saving of K1,000 and voluntary savings of any amount from K1,000. Members may borrow at every weekly meeting as and when they have a need, minimum loan amount is K10,000. The lending rate is 10% per week. Repayment is in one instalment due the following week. Failure to pay on time attracts a penalty of 10% per week. So far all repayments have been on time. WARUDO has a savings account at Barclays Bank in Lusaka. Any surplus funds from the weekly transactions are banked.

Who Saves with ASCAs?

The poor use ASCAs for “saving up” and “saving down”, the membership of ASCAs includes all the three classes of the poor, namely, the very poor, middle poor and the upper poor. The savings are used for a number of financial needs including consumption, household and business assets.

Perceived Advantages and Disadvantages

Most respondents felt that the biggest advantage of saving through the ASCA was its proximity to the users and the generally flexible intermediation service. The disadvantage was that ASCA requires the services of a very honest treasurer and good book-keeping.

Regarding the 8 Ps, ASCA responds to five Ps these are, Process, People, Positioning, Place and Pricing.

4.2.6 In-kind Savings

In-kind savings are in form of physical items. The items used include livestock and maize grain. These items are sold and transformed into cash when the saver needs it. In Zambia, in-kind saving is most prevalent in the rural areas. These savings can be liquidated in response to a crisis. The research team found that these savings in-kind are held because of lack of a better alternative and not that they are perceived to yield higher returns than other financial savings systems.

Who Saves In-kind?

The poor rural people in Zambia use in-kind savings, mainly because there are no viable alternative savings facilities. If viable alternatives such as an MFI offering voluntary savings services is

available, the poor might be induced to start monetised savings but would not be expected to monetise all their savings because some in-kind savings such as livestock is partly held as a status symbol.

Perceived Advantages and Disadvantages

Most respondents felt that the biggest advantage of in-kind savings is accessibility. The disadvantages are that in-kind savings in livestock for example could be lost through theft or disease outbreak. The research team came across in-kind savers at Nyangwena and Kampekete areas who had lost substantially following an outbreak of tick borne disease, which wiped out 90% of cattle in both areas. There is also the problem of indivisibility of in-kind savings. Similarly, insects and animals could destroy in-kind savings in maize grain.

In-kind saving responds to three Ps these are Place, Process and Positioning.

4.2.7 Supplier Credit (Pay Slow)

Supplier credit is a “saving down” and is locally referred to as **Pay Slow** it is usually extended by hawkers (itinerant traders) who supply goods on credit to well known customers or customers that have been introduced by existing customers. They often charge interest by increasing the prices of goods given on credit (interest varies between 10 to 70%). Repayment period ranges from same day to one month. This saving down is very popular among the poor and its popularity appears to be growing as the economic situation worsens. Pay slow offers an innovative way through which the poor are able to acquire expensive goods that require large lump sums. Pay slow is also used for other household requirements such as food. Pay slow is found in both urban and rural areas but is prevalent in urban areas.

The research team found a mutually beneficial pay slow arrangement at Luburma market in Lusaka involving market women and cross border traders. An arrangement has been made through which cross border traders supply merchandise on credit to market women. Through this arrangement cross border traders are able to increase their turnover and the market women are able to carry large stocks without tying too much capital into stocks.

Recently, merchants have begun to offer supplier credit largely as an effort to increase sales in the face of a crippling recession. This arrangement is commonest between wholesalers and market women. These market women are usually known to wholesalers and mostly operating within the same geographical area. The most popular merchandise traded in this way has been second hand clothes, locally referred to as **Salaula**.

Who Saves in Pay Slow?

As discussed above the main participants in pay slow are poor women, especially the middle and upper poor. The very poor rarely participate in pay slow because most of them do not have a source of income.

Perceived Advantages and Disadvantages

The main advantages are that pay slow is accessible and low cost. The disadvantages are that the system requires that the customer is well known and has a good track record because of the heavy reliance on trust since most if not all transactions are unsecured.

Pay slow responds to two Ps these are, Place and Positioning.

4.2.8 Funeral Funds

The high death rate and ever increasing cost of funerals has forced the poor in the urban areas to devise ways of mitigating the hardships associated with funerals. Funeral associations have been formed, mainly as a component of a cultural association. Members agree to subscribe a specified amount periodically usually monthly to a fund. When death occurs among the member families, an agreed amount is paid out from the fund. Another variant of Funeral Funds are those that are formed by MFI members, the research team examined these in detail.

The research team visited seven clubs under CARE PROSPECT Project in the Lusaka peri-urban areas. Each of the seven clubs has established a Funeral Fund. Generally the conditions are similar but there are some differences. For example, Kamba Uzalema club members contribute a sum of K500 per week per member, at Tiyeseke club members contribute K1,000 per month per member and at Chisisimuso club members contribute K200 per week per member.

The funds are either kept by the treasurer in cash or loaned to members on short term, usually one week and interest is charged at the rate of 10% per week.

Chisisimuso club was formed on 26th January 2001. It is one of the clubs promoted by CARE PROSPECT Project. Chisisimuso club has twenty members. The club has established a funeral fund to which members contribute K200 per week per member. If a member is unable to pay, she can pay in arrears. In case of death of a child of a member the club pays out K15,000. In case of death of a dependant the club pays K5,000 and when a member dies the club pays out K20,000 plus two bags of mealie meal.

Who Saves in Funeral Fund?

In Zambia, Funeral Funds are a type of funeral insurance that the poor have devised as an alternative to the formal insurance company products to which they are largely excluded. All classes of the poor participate but the middle and upper poor dominate. This is a reflection of the weak position of the very poor arising from relatively limited access to resources.

Perceived Advantages and Disadvantages

Respondents said that the main advantages of the Funeral fund are that it reduces financial pressure in the event of a funeral and is accessible. The main disadvantages are that the fund requires a trusted treasurer and good book-keeping skills.

Funeral funds respond to two Ps these are Place and Positioning.

4.2.9 Church Savings and Loan Funds

As a response to the demands of their members many churches have established savings and credit associations. The research team learnt of one such association called **Titandizane**. This association was formed in the late 1980's by a Catholic parish priest at Chipata compound, one of the poorest slums of Lusaka. Parishioners were encouraged to save whatever amount they could afford and in return they had access to a variety of loans including house improvement loans. Under house improvement loan, funds were made available to facilitate borrowers to buy concrete blocks. Titandizane collapsed after the departure of the founding priest.

A church savings and credit association tends to have a life closely linked to the founder and rarely survives after the departure of the founder.

Who Saves in Church Funds?

The research team found that church funds are mostly patronised by the very poor and middle poor. This is so because churches are perceived to be very friendly to the very poor. We learnt of occasions in which the church provided or facilitated short-term employment to the very poor so that they could earn a wage part of which was saved in the church fund. This facilitated the qualification of the very poor for future loans.

Perceived Advantages and Disadvantages

Respondents felt that church funds were “people centred” and that is the biggest advantage. The disadvantage is that church funds tend to have a life closely linked to the founders and rarely survives after the departure of the founder.

Church funds respond to two Ps these are People and Place.

4.2.10 Money Guards

In the rural areas the research team came across isolated mention of money guards. These included wives, parents, and trusted relatives especially grandmothers. The respondents said that an important feature was the need to have someone from whom it may be difficult to withdraw the savings until such a time as the savings target has been achieved. A young itinerant trader at a fishing village at Lukanga Swamps told the research team that he uses his wife as a money guard because she is thrifty and very strict - so much that he has to go down on his knees to withdraw his savings.

Who Uses Money Guards?

All the classes of the poor and mostly the youths who are saving for marriages, to acquire household and business assets, use money guards. Probably this mode of saving is more prominent in the rural areas.

Perceived Advantages and Disadvantages

The simplicity and accessibility of money guard services are the main advantages identified by the respondents. The main disadvantage is that the money guard service is very risky and can lead to huge losses for the depositor in the event of dishonesty on the part of the money guard. Since money guards are very often close relatives, one cannot easily have recourse to legal protection in the event of dishonesty. For example, it would be socially unacceptable to take to court a grandmother on a theft charge.

Regarding the 8 Ps, this facility respond to two Ps these are Process and Place.

4.3 Semi-formal Financial Sector

4.3.1 Microfinance Institutions (MFIs)

There are few success stories of MFIs with good performance. Most have been beset with various operational problems among them high dropout rates.

MFIs are institutions that provide credit or savings facilities to micro and small scale business people who cannot obtain these services from the formal financial institutions because their business, saving levels and credit needs are all small. In Zambia MFIs are normally organised and operated by NGOs with initial capitalization from international donors. The lending methodology is typically through solidarity groups collateralising loans by cross-guarantee, although some MFIs also have individual lending services. Almost all MFIs in Zambia set aside a pre-determined percentage of the loan value, between 15-25% that is retained or controlled by the MFI as savings to be used as a loan insurance fund.

The MFIs in Zambia are very small even by African standards. Only recently, has one institution reached 13,000 clients⁷. In Zambia MFIs are by law barred from accepting deposits except forced savings used as collateral. As discussed in **Section 2.5** the loans MFIs extend are an advance against future savings and therefore can be considered as a way of saving for the purposes of this report.

Who Uses Microfinance Institutions?

In Zambia MFIs are used mainly by the middle and upper poor. This is probably the result of the common requirement by MFIs that applicants must be in business for at least six months at the time of application. Although this condition is not foolproof, it has prevented many very poor people from participating in microfinance programmes. The majority of MFIs clients are women.

Perceived Advantages and Disadvantages

Compared to commercial banks, MFIs are perceived to be friendlier and often the services are offered closer to the clients. The major disadvantage is that presently, MFIs in Zambia are using methodologies that were developed in other countries without reference to the local situations and environment and are not client responsive. In addition, because of the ease of entry there are risks that MFIs may cost unsuspecting people their hard earned savings. For example, recently, there was a

⁷ CETZAM a microfinance institution with headquarters in Kitwe.

fraud at Matero township in Lusaka involving a conman who formed a microfinance institution and collected just over K300 million (US \$82,000) forced savings and disappeared with the money.

As discussed above MFIs respond to two Ps these are People and Place.

4.4 Formal Financial Sector

Although participants knew the following institutions the poor people do not use many of them.

4.4.1 Commercial Banks

The formal financial sector in Zambia comprises fourteen commercial banks, one development bank, two building societies and three insurance companies. Commercial banks are licensed under the Banking and Financial Services Act to offer savings accounts; current accounts; deposit accounts and loan accounts. The building societies are licensed under the Building Societies Act to accept deposits. However, the development bank is not licensed to accept deposits from the public. The commercial banks have a national branch network of 152 branches and agencies. Of this network of branches and agencies 65% are in urban areas, this distribution of branches is a barrier to the poor people in rural areas. The account opening balances range from K50,000 to K500,000 while minimum account balances range from K30,000 to K500,000. These balances are obviously a barrier to the poor who find it difficult to set aside such amounts at once.

Who Uses Commercial Banks?

Except when cashing agricultural produce cheques or directed by MFIs that extend loans to the poor through these banks, the poor rarely use formal banks because they find them unfriendly for the following reasons:

- ❑ They require high opening balances;
- ❑ The minimum balances are too high;
- ❑ The branches are usually far from the poor people's neighbourhoods;
- ❑ They maintain inconvenient opening hours;
- ❑ Have relatively complicated transaction forms; and
- ❑ Transaction costs are usually high (in terms of travelling and waiting time etc.).

Perceived Advantages and Disadvantages

Respondents believed that the major advantage commercial banks offer is that they pay a reasonable interest on deposits, especially large deposits, interest on savings account range from 8% to 20% per annum. The main disadvantage identified is that risk of losing the savings is high. For example, over the last ten years fourteen commercial banks have been closed by the Bank of Zambia, most of them on the basis of insolvency. Of these fourteen closed banks two closed this year, Union Bank Zambia Limited (February 2001) and United Bank of Zambia Limited (June 2001). Loss incurred by depositors is not known because liquidation process still ongoing, except in the case of Zambia Export and Import Bank loss estimated at K3 billion (US \$815,000).

Commercial banks and in general formal financial institutions respond to three Ps, these are Pricing, Promotion of the products and Physical evidence, all of which do not appear to have significant appeal to poor people in Zambia.

4.4.2 The Insurance Industry

The insurance industry generally does not provide services responsive to micro-savers, except in one case an insurance company has worked in partnership with a microfinance institution to extend life insurance to clients. The product has been considered successful so far and other MFIs are actively considering introduction of the same. Generally, poor people perceived insurance products as for the people with a lot of money.

4.4.3 Food Reserve Agency (FRA)

The FRA is the main agency the government of Zambia uses for delivery of agricultural credit. In some cases the FRA subcontract to cooperatives, NGOs and Private sector agriculture finance

companies. The FRA extends loans in-kind, a typical example would be a loan of four (4) 50kg bags of fertilizer, the farmer would be required to pay K20,000 down payment and repayment would be in-kind at the rate of 2.5 bags (50kg) maize grain per 1 bag (50kg) of fertilizer. The subcontractors normally use the same repayment ratio as that set by FRA. Agricultural credit in Zambia is presently not functioning well because the main agency, FRA has persistently failed to deliver fertilizers on time, which reduces the potential yield as much as 50%. This is mainly because of failure to procure the fertilizers on time as a result of administrative problems and lack of funding.

Who Uses FRA?

All the classes of the poor in the rural areas have access to FRA loan facility, but the very poor have problems raising the down payment. Very often the very poor are unable to access the FRA facility because of failure to raise the down payment. It is common for the very poor to borrow money for down payment and repay using part of the fertilizers. This adversely affects the expected yield and results in failure to service the loan to FRA.

Perceived Advantages and Disadvantages

Respondents identified repayment in-kind as the major advantage, because very often farmers have problems finding a market for their produce. Therefore, if repayment were in monetary terms it would have been difficult to service such loans.

The main disadvantage identified is that FRA exposes the clients to default because of failure by FRA to deliver fertilizers on time. This has made FRA unpopular among the rural poor.

4.4.4 Programme Against Malnutrition (PAM)

PAM is an NGO working in the rural areas of Zambia, mainly in drought prone areas. The main objective is to ensure household food security through promotion of drought tolerant crops. PAM gives seed loans, repayment are in-kind in the ratio of 2kgs of produce to 1kg of seed. PAM distributes a variety of seeds through this loan scheme and does not require a down payment. However, to qualify for this facility a recommendation from the Agricultural Extension officer is required.

Who Uses PAM Loan Facility?

All classes of the poor in the rural areas use this saving down facility. It is a very popular facility because of the wide variety of seeds that can be accessed and the loans are packaged in small quantities that are convenient to the poor. For example, in the areas the research team visited the average loan size for maize seed loan was 10kgs and sorghum seed loan was 5kgs.

Perceived Advantages and Disadvantages

The respondents identified the repayment in-kind and the absence of a down payment as the major advantages of the PAM loan facility. The main disadvantage is that the facility does not provide fertilizer loans.

4.4.5 National Savings and Credit Bank (NSCB)

The NSCB has the highest number of small saver accounts. Almost all of the 40,000 account holders of this bank are small-scale savers. Presently, NSCB has 15 branches countrywide. Of these, 40% are in rural areas. At the time of the study, NSCB had a savings portfolio of K2.1 billion.

Who Uses NSCB?

At the time the bank operated through the post office network it was the most popular bank among the poor and the middle income. Because it offered most extensive network and clients could access their money from any branch in the country. The popularity has declined since the closure of most branches.

Perceived Advantages and Disadvantages

Respondents believed that the major advantages of NSCB were its affordable minimum account opening balance, low minimum account balance and relatively easy access to the savings. The major disadvantage is that it reduced the number of branches in 1992, which resulted into some communities losing the services.

In terms of the 8 Ps, the NSCB meets adequately three Ps namely; people, place and product.

4.5 What is the Impact of Savings on Individuals?

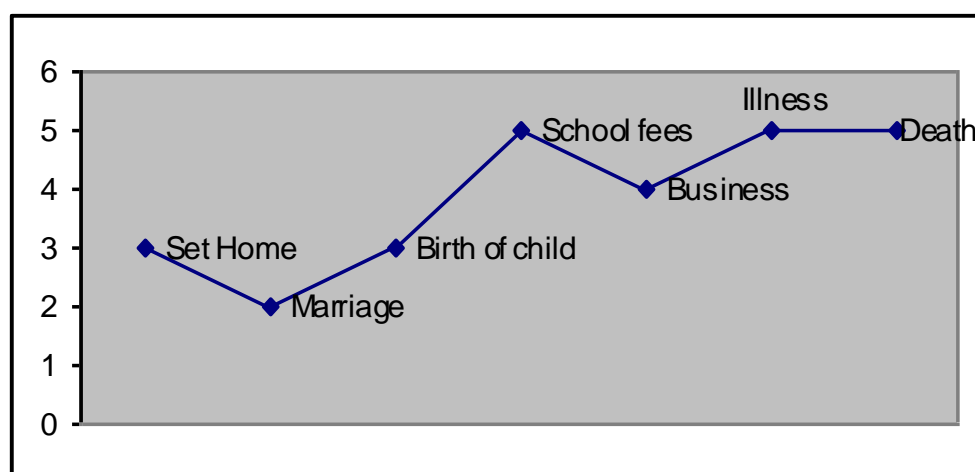
Our research findings are similar to those of other researchers in this subject (Robinson, 1994 and Wright et al., 1999) the findings indicate that savings have an impact on individuals in terms of:

- Wealth accumulation to finance a household's long-term goals (consumer durables and business assets);
- Insurance against illness, death and sudden income losses and other contingencies;
- Safeguard against uneven income streams due to seasonal variations (savings of high income periods are used to finance consumption expenditures during low-income periods); and
- Savings for future investments in education for children and other human resource development investments.

4.5.1 Life Cycle Needs

The poor make regular savings for financing life cycle events. These events include setting up home, marriage, birth of child, school fees, setting up business, illness and death. All these events pose problems to poor people, which require lump sums of money.

Life-cycle pressure profile (average scores for 8 PRA sessions)



In Zambia the poor people use largely the informal and to a lesser extent semi-formal savings systems to accumulate long-term lump sums in preparation for these life-cycle events.

Savings are important for smoothing out peaks and troughs in income and expenditure. For example in the rural areas the research team found marked seasonal fluctuations of income flows. The months of July through to October bring in income from agricultural produce sales, however, January through March are particularly hard months because many household experience household food insecurity and have to buy food. With the distinct seasonality of both income and expenditure flows in rural areas, there is a demand for a savings mechanism to allow households to store money when they have excess income in order to meet consumption and emergency needs during the lean months of January through to March. Presently the poor people have been meeting these needs using saving down financial services such as reciprocal borrowing, moneylenders and also liquidating savings in livestock.

4.5.2 Emergencies

In the PRA sessions death and illness were the most frequently mentioned emergencies. These shocks not only do they generate considerable costs, but may also lead to a permanent loss of revenue for the household. It is perhaps this perception of the severity of the shocks that has led to the popularity of funeral funds among MFI groups in Lusaka.

The poor in Zambia have been coping with these shocks through the use of informal and semi-formal financial services as discussed above.

4.5.3 Opportunities

Savings or regular swapping of savings for lump sums (whether “saving up” or “saving down”) enable the poor to acquire physical assets especially that needed for establishing or expanding a business. These swaps, among the poor in Zambia are often provided by informal financial services.

4.6 What is the Impact of Savings on MFIs?

Offering savings services to the poor represent a tremendous opportunity for MFIs to increase their depth and breadth of outreach (Wright et al., 1999). Yet in Zambia the legal framework that did not allow MFIs to accept deposits from the public has frustrated this. A new legal framework is now in place but not yet effective. The research team met with MFI clients who wished their MFIs accepted voluntary savings, because they felt the MFIs were closer to them than commercial banks.

Offering easier access to savings may also reduce dropouts and increases the level of voluntary savings: this has certainly been the experience of one MFI experimenting with more open access savings in Kampala (Wright et al., 1999). In Zambia a study on dropouts (Musona and Coetzee, forthcoming) has identified a lack of access to the forced savings as one of the reasons for clients exit.

4.7 Main Findings of the Study

4.7.1 Introduction

Although there are differences between rural and urban settings, we would like to make a few general observations on the findings that are very similar for the different settings. We do this on the basis of one common denominator that the two settings are in the same country.

4.7.2 Main Findings on the Basis of Specific Techniques

The main findings per technique are discussed below:

Discussion Guide

The guided group discussions identified eight major savings services of these the most often mentioned were moneylender, ROSCA and reciprocal lending arrangement. What is striking is that only one formal sector service was among the eight major savings services.

Table 1: Major Savings Services

Savings Service	Mention Score
Moneylender	4
ROSCA	4
Reciprocal lending arrangement	4
ASCA (Group Savings and Credit)	3
MFIs	3
In-kind	3
Home bank	2
FRA	2

Financial Sector Trend Analysis

Trend analysis showed declining use level for the services offered by the NSCB mainly because of branch network retrenchment. The use of commercial banks services also declined over the five-year

period because of the collapse of the crop markets, which used to link small-scale farmers (who are mostly poor and middle poor) to commercial banks through cheque payment system.

Considerable growth in use level was noted in reciprocal lending arrangement, MFIs, ROSCAs, moneylender, ASCAs, and suppliers' credit (Pay slow).

These PRA sessions identified five major savings services as shown in Table 2 below.

Table 2: Major Savings Services

Savings Service	Mention Score
Reciprocal lending arrangement	2
MFI	2
Moneylender	2
ROSCA	2
Suppliers Credit (Pay slow)	2

Financial Services Matrix

These PRA sessions identified, which financial services are used by which socio-economic strata of the Zambian society (see Table 6 below) and also identified five major savings services as shown in Table 3 below. Of these the most mentioned were MFI and moneylender.

Table 3: Major Savings Services

Savings Service	Mention Score
MFI	4
Moneylender	4
Reciprocal lending arrangement	3
ROSCA	3
Group Savings & Credit	3

Life Cycle Profile

These PRA sessions identified seven life-cycle events, these are: setting up home, marriage, birth of child, school fees, starting business, illness and death. Of these events, school fees, illness and death were identified as events that exert higher financial pressure. The implications for MFIs are that clients would attach priority to these three events in allocating financial resources, very often at the expense of debt servicing. There is therefore, a need for a product that would take care of the three high-pressure life-cycle events.

Also these PRA sessions identified six major savings services as shown in Table 4 below. Of these the most mentioned were reciprocal lending arrangement, MFI and moneylender.

Table 4: Major Savings Services

Savings Service	Mention Score
Reciprocal lending arrangement	8
Moneylender	7
MFIs	7
Home bank	5
In-kind	4
Group savings & credit	4

Overall Tally

These PRA sessions identified seven major savings services as shown in Table 5 below. Of these the most mentioned were MFI, reciprocal lending arrangement, MFI, moneylender and ROSCA.

Table 5: Major savings service

Savings Service	Mention Score
MFI	16
Moneylender	16
Reciprocal lending arrangement	15
ROSCA	14
Home bank	11
In-kind	7
ASCAs	7

4.7.3 Main Findings of the Study

We highlight the four main findings of the study and discuss each in one paragraph, then we conclude with a brief discussion of elements that would improve product design.

Microfinance Institutions

Although the Microfinance sector in Zambia is relatively young it is quickly becoming a major instrument for savings by the poor. Compared to commercial banks, MFIs are perceived to be friendlier and often the services are offered closer to the clients. The major disadvantage is that presently, MFIs in Zambia are using methodologies that were developed in other countries without reference to the local situations and environment and are not client responsive. In addition, because of the ease of entry there are risks that MFIs may cost unsuspecting people their hard earned savings.

Moneylender

Moneylenders' financial service locally referred to, as "**Kaloba**" is a popular saving method by the poor in Zambia. Its strength is in its simple process, accessibility and untied loan. Moneylenders, normally offer short term unsecured loans at high interest rate of 100% per month or part thereof. Repayment is by a single instalment, failure to repay on the agreed date results in the interest due being capitalised, thus doubling the principal. Moneylenders financial services are confined to the local markets because of the reliance on intimate knowledge of customers. Prospective customers who are not known to the moneylender are required to be introduced by an existing well-known customer and are in most cases required to secure the loan with a movable collateral (Radios, Television sets etc.). MFIs wishing to provide individual loans to the poor could learn something from the moneylenders approach.

Reciprocal lending arrangement

Reciprocal lending arrangement is a saving down. Simplicity of the process and reciprocity nature of this method of saving is the major strength. Reciprocal lending takes place only between friends and relatives this is the major weakness.

Rotating savings and credit associations (ROSCAs)

ROSCAs are referred to as "**Chilimba**" in Zambia this is a saving through. This is the most popular and fastest growing form of financial intermediation among the poor market women in both urban and rural areas. The strength is in its simple process and people centred.

Elements that would improve Product Design

This study has identified six elements that could improve product design these are:

- * Proximity of the service provider to the clients;
- * Low transaction costs;
- * Flexibility and speed with which services are provided;
- * Simplicity;
- * People centred; and
- * Easy access.

Proximity or convenience One of the reasons for the popularity of the informal sector financial services in Zambia is the fact that these services are near to the users. Therefore, a microfinance institution seeking to deliver financial services to the poor would have to locate the services near to the intended users.

Transaction costs arising from travelling and waiting in long queues were identified as among the reasons the poor in Zambia prefer to use informal financial services than the formal financial sector services. It follows that a microfinance institution with low transaction costs would be competitive.

Flexibility and speed the informal financial sector providers such as the moneylender, funeral fund, pay-slow, provide flexibility and speed this partly explains the high popularity of these financial service providers among the poor in Zambia. Therefore, flexibility and speed with which services are provided is an important element in a product design.

Simplicity is one of the reasons for the popularity of the ROSCAs. The ROSCAs offer a simple savings product, therefore simplicity is an important element in a savings product. Poor people do not like to complete complicated forms.

People centred the popularity of ROSCAs among the market women in Zambia is partly because ROSCAs are people centred self-managed institutions. Also the popularity of church savings and credit funds is due to being people centred. This is an important element for any financial product designed to serve the needs of the poor.

Easy access to savings is important because poor people in Zambia save for emergencies and investment opportunities, which may arise at any time. Therefore, being able to readily access their money is important and partly explains why money guards and saving at home are popular among the poor in Zambia. Therefore, easy access is an important element for the financial savings product.

4.7.4 Comparison with Experience in Rest of East and Southern Africa

As would be expected we found similarities of issues and savings mechanisms for example a study in Tanzania (Mutesasira et al., 1999) found that the poor felt that their incomes were too low, that there was too much formality at banks and that the banks were uninterested in small frequent deposits. These are same issues we found in this study. Perhaps the difference was in absence of certain informal services in Zambia such as pawnbrokers and deposit collectors.

A study in Uganda (Wright et al., 1999) found that the informal sector was far more vibrant than the formal financial sector, that commercial banks posed a very high risk to depositors. As can be seen these issues are very similar to the issues discussed in this report for example, commercial banks in Zambia were perceived as risky due to frequent bank failures.

The findings of this study regarding how the poor perceived commercial banks are not different from the Aryeetey and Gockel (1991), and Wright et al., (1999) studies. These are namely that:

- ❑ The poor feel their incomes were too low - suggesting that they expected only those with high incomes to deal with banks;
- ❑ They feel there is too much formality at banks - related to paper work which leads to an unnecessarily extended transaction time; and
- ❑ They feel that banks were uninterested in small frequent deposits of soiled notes and discouraged them from making them.

5. Summary of Conclusions and Recommendations

5.1 Conclusions and Main Findings

The purpose of this study was to improve knowledge and understanding of (if and) how poor people in Zambia save, how they use different savings services/systems and the impact of those savings facilities on their household budgets/lives. In this regard we made use of qualitative research techniques to obtain information from poor people that will assist our understanding of the different savings services.

Our research findings are similar to those of other researchers in this subject. The findings indicate that the poor do save and that savings have an impact on poor people in terms of:

- ❑ Wealth accumulation to finance a household's long-term goals (consumer durables and business assets);
- ❑ Insurance against illness, death and sudden income losses and other contingencies;
- ❑ Safeguard against uneven income streams due to seasonal variations (savings of high income periods are used to finance consumption expenditures during low-income periods); and
- ❑ Savings for future investments in education for children and other human resource development investments.

The poor people make regular savings for financing life cycle events. These events include setting up home, marriage, birth of child, school fees, setting up business, illness and death.

In Zambia the poor people use largely the informal and to a lesser extent semi-formal savings systems to accumulate long-term lump sums in preparation for these life-cycle events.

Savings are important for smoothing out peaks and troughs in income and expenditure. For example in the rural areas the research team found marked seasonal fluctuations of income flows. The months of July through to October bring in income from agricultural produce sales, however, January through March are particularly hard months because many household experience household food insecurity and have to buy food. With the distinct seasonality of both income and expenditure flows in rural areas, there is a demand for a savings mechanism to allow households to store money when they have excess income in order to meet consumption and emergency needs during the lean months of January through to March. Presently the poor people have been meeting these needs using saving down financial services such as reciprocal borrowing, moneylenders and also liquidating savings in livestock.

In the PRA sessions death and illness were the most frequently mentioned emergencies. It is perhaps this perception of a high incidence of illness and death that has led to the popularity of funeral funds among MFI groups in Lusaka.

Offering savings services to the poor represent a tremendous opportunity for MFIs to increase their depth and breadth of outreach. Yet in Zambia the legal framework that did not allow MFIs to accept deposits from the public has frustrated this. A new legal framework is now in place but not yet effective. The research team met with MFI clients who wished their MFIs accepted voluntary savings, because they felt the MFIs were closer to them than commercial banks.

Offering easier access to savings may also reduce dropouts and increases the level of voluntary savings: this has certainly been the experience of one MFI experimenting with more open access savings in Uganda. In Zambia a study on dropouts has identified lack of access to the forced savings as one of the reasons for clients exit.

Table 6 below provides an overview of the various savings mechanisms in Zambia and the users.

Table 6: Savings Mechanisms and the Users

Savings Service	Mention Score
Reciprocal lending arrangement	Middle and upper poor
Moneylender	Very poor and middle poor
Rotating Savings and Credit Associations (ROSCAs)	Middle and upper poor mostly market women
Savings at home	All classes of the poor especially elderly women in rural areas
Accumulating Savings and Credit Associations (ASCAs)	All the classes of the poor (very poor, middle and upper poor) usually members of MFIs.
In-kind savings	All classes of the poor and the rich in the rural areas
Suppliers Credit	Middle and upper poor especially women
Funeral Funds	All classes of the poor especially members of MFIs and Community based organisations.
Church Savings and Loan funds	Very poor and middle poor especially those who are ardent church members
Money guards	All classes of the poor especially the youth
MFIs	Middle and upper poor especially women
Commercial banks	The rich and sometimes the middle and upper poor when cashing agricultural produce cheques and when directed by MFI
Insurance Industry	The rich and in one case the middle and upper poor through a microfinance institution
National Savings and Credit Bank	All classes of the poor
Food Reserve Agency (FRA)	All classes of the poor and the rich in the rural areas
Programme Against Malnutrition (PAM)	All classes of the poor in the rural areas

5.2 Recommendations

In this section we provide specific recommendations for improving product design and methods for linking informal savings services/systems into semi-formal and formal sector financial service operations and recommendations for MFIs seeking to introduce or diversify savings products into their portfolio of services.

Product design recommendations

On the basis of the findings of this study we recommend that product design should take into consideration the following elements:

- * Proximity of the service provider to the clients;
- * Low transaction costs;
- * Flexibility and speed with which services are provided;
- * Simplicity;
- * People centred; and
- * Easy access.

Methods for linking informal savings services/systems into semi-formal and formal sector financial service operations

There are several ways in which a mutually beneficial linkage can be established between an informal savings service and semi- and formal sector financial service. Below is just a few having potential:

Linkage between Semi-formal and Informal savings service

A microfinance institution:

- Could provide seed capital to a moneylender (particularly the licensed ones) and or, use moneylender as a deposit collector;

- Could use a ROSCA as a deposit collector;
- Could use an ASCA as a deposit collector or provide seed capital to an ASCA; and
- Could use an established trader to provide microcredit in the form of suppliers' credit (Pay slow).

Linkage between formal and informal savings service

A commercial bank and or formal bank:

- Could provide seed capital to a moneylender or engage a moneylender as a deposit collector;
- Could provide seed capital to an ASCA or use an ASCA as a deposit collector; and
- Could use a ROSCA as a deposit collector.

An insurance company:

- Could use a ROSCA or an ASCA to collect insurance premium.

Linkage between formal and semi-formal savings service

A commercial bank and or formal bank:

- Could provide seed capital to a microfinance institution or engage a microfinance institution as a deposit collector; and
- Could provide banking services to a microfinance institution and indirectly provide banking services to the MFI clients.

An insurance company:

- Could use a MFI to collect insurance premium.

MFI's seeking to Introduce or Diversify Savings Products into their Portfolio of Services

Probably the most important recommendation for a microfinance institution seeking to introduce or diversify savings products is to **listen to the clients** and also examine the **strength of the informal savings products** and **adapt** those aspects that make the informal sector savings services attractive.

6. Further Research Questions

In this research study we focused specifically on six questions as outlined in **section 1.2**. One issue on which knowledge is limited is the issue of risks associated with informal savings services in Zambia. It would be helpful to know the extent of the losses incurred by individuals through failed ROSCAs, and ASCAs. This knowledge would help in the design of appropriate interventions.

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ANNEXES

ANNEX 1

THE 8 Ps

(Marketing for MFIs (2); from *MicroSave*, 2000)

- ✎ **pricing** - this considers the demand, profit/sustainability objective using various strategies that include cost-based, cost-plus, demand-based and break-even. It looks at behavioural attitudes, perceived value, prestige etc. It seeks to determine what the buyer must give up for the product.
- ✎ **products/services** provided to ensure complementarity where it can be achieved and avoiding cannibalization of one product by another. It examines such issues as product adaptability, idea generation, idea screening, prototype development, concept development, commercialization, product growth and quality.
- ✎ **place/distributions/location of operations** - this involves making sure that the service/product is accessible where and when it is wanted. Important lessons can be drawn from the informal sector.
- ✎ **promotion of the products** - this refers to sales communication which includes advertising, public relations etc. It informs and persuades and sometimes dissuades.
- ✎ **positioning** - it is the effort by the MFI to occupy a distinct competitive position in the mind of the target customer. This could be in terms of low transaction cost, low price, high quality, quick turnaround time, professional service, etc. It is a perception.
- ✎ **people** - includes how the clients are treated by the people involved with delivering the product, i.e. the staff of the MFI. Are they treated with courtesy and attention befitting a customer? Are they made to feel welcome? Etc.
- ✎ **process** - includes the way or system in which through the product is delivered: how the transaction is processed and documented, the queues/waiting involved, the forms to be filled etc.
- ✎ **physical evidence** - includes the presentation of the product: how the branch physically looks, whether it is tidy or dirty, newly painted or decaying, the appearance of the brochures, posters etc.

ANNEX 2

Commercial banks operating in Zambia

As at 31 July 2001

1. African Banking Corporation Zambia Limited
2. Bank of China
3. Barclays Bank of Zambia Limited
4. Cavmont Merchant Bank Zambia Limited
5. Citi Bank Zambia Limited
6. First Alliance Bank Zambia Limited
7. Finance Bank Zambia Limited
8. Indo Zambia Bank Limited
9. Intermarket Discount House Zambia Limited
10. Investrust Merchant Bank Zambia Limited
11. New Capital Bank PLC
12. Stanbic Zambia Limited
13. Standard Chartered Bank Zambia Limited
14. Zambia National Commercial Bank Limited

ANNEX 3

BRANCHES AND AGENCIES OF COMMERCIAL BANKS IN ZAMBIA AS AT 31 JULY 2001

	BBZ	NCB	C'mont	Citi	FAB	Finance	Indo	ZNCB	S/Chart	IDH	Stanbic	IMB	BOC	ABC	Total
Lusaka	7	2	1	1	1	6	4	14	4	1	2	2	1	1	47
Chisamba								2							2
Kabwe	1					1	1	1							4
Kapiri Mposhi								1							1
Mkushi								1			1				2
Serenje						1									1
Chinsali						1									1
Ndola	2	1		1	1	1	1	4	2		1				14
Luanshya	1							1	1						3
Kitwe	4				1	1	1	2	1		1	1			12
Chingola	1	1		1				1	1		1				6
C/bombwe									1						1
Mufurila	1							1							2
Samfya						1									1
Nchelenge								1							1
Kawambwa								1							1
Mansa	1							1							2
Kasama						1		1	1						3
Nakonde						2									2
Mpika						1		2							3
Mpulungu		1				1									2
Mbala		1				1									2
Isoka						1									1
Solwezi	1							1							2
Mwinilungu						1									1
Kabompo						1									1
Mongu			1					1	1						3
Sesheke						1									1
Kaoma															0
Livingstone	1					2		2	1						6
Kalomo						1									1
Choma	1					1		1	1						4
Namwala								1							1
Maamba								1							1
Monze						1		1							2
Mazabuka	1							3	1						5
Kafue								1							1
Chirundu						1									1
Siavonga								1							1
Chongwe															0
Chipata	1					1		1							3
Lundazi								1							1
Chadiza								1							1
Mfuwe								1							1
Petauke								1							1
Total	23	6	1	4	3	29	7	52	15	1	6	3	1	1	152

ANNEX 4
COMMERCIAL BANKS CLOSED SINCE 1990

Name of commercial banks	Date of closure	Main reasons that compelled Bank of Zambia to close the commercial bank	Estimated loss incurred by depositors
1. Bank of Credit and Commerce	1990	Unsafe and unsound banking practices	Loss was nil as the bank was taken over by Union Bank Zambia Limited.
2. Capital Bank Zambia limited	1991	Insolvency. After re-capitalizing bank was re-opened and renamed New Capital Bank PLC	There was no loss as the bank was re-capitalized and re-opened
3. Meridien BIAO Bank Zambia limited	May 1995	Insolvency and unsafe & unsound banking practices	It is not possible to estimate the loss as the liquidation process is still on-going.
4. Africa Commercial Bank	November 1995	Insolvency and unsafe & unsound banking practices	It is not possible to estimate the loss as the liquidation process is still on-going.
5. Safe Deposit Bank Zambia Limited	December 1996	Insolvency and unsafe & unsound banking practices. Bank merged with First Merchant Bank which has since closed.	Loss was nil as the bank merged with First Merchant Bank Zambia Limited.
6. Chase Trust Bank Zambia Limited	December 1996	Insolvency and unsafe & unsound banking practices. Bank was absorbed by Zambia National Commercial Bank Limited	There was no loss as the bank was absorbed by Zambia National Commercial Bank
7. Prudence Bank Zambia Limited	October 1997	Insolvency and unsafe & unsound banking practices	It is not possible to estimate the loss as the liquidation process is still on-going.
8. Credit Africa Bank Zambia Limited	November 1997	Insolvency and unsafe & unsound banking practices	It is not possible to estimate the loss as the liquidation process is still on-going.
9. Manifold Investment Bank	December	Insolvency	It is not possible

Zambia Limited	1997		to estimate the loss as the liquidation process is still on-going.
10. First Merchant Bank Zambia Limited	February 1998	Insolvency and unsafe & unsound banking practices	It is not possible to estimate the loss as the liquidation process is still on-going.
11. Zambia Export & Import Bank Limited	February 1998	Insolvency	Approximately K3billion owed to large depositors
12. Commerce Bank	First closed in November 1995; re-opened in December 1997; closed for the second time in April 2000.	Insolvency and unsafe & unsound banking practices	The liquidation process commenced recently so it is not possible to estimate the loss.
13. Union Bank Zambia Limited	February 2001	Insolvency	The liquidation process commenced recently so it is not possible to estimate the loss.
14. The United Bank of Zambia Limited	June 2001	Unsafe & unsound banking practices	No loss as Bank of Zambia is in the process of handing back the Bank to a new management team.