RUFEP
RURAL FINANCE EXPANSION PROGRAMME

ZCAS UNIVERSITY

ZIPAR
Zambia Institute for Policy Analysis & Research

State of Financial Cooperatives in Zambia: A viable option for increasing financial inclusion?

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1. Background of the study

This policy brief presents the summary findings of a study on Promoting Financial Cooperatives (FCs) in Zambia that was conducted between 2017 and 2018 with financial support from the Rural Finance Expansion Program (RUFEP), Ministry of Commerce Trade and Industry (MCTI) and the Zambia Center for Accountancy Studies (ZCAS). The study used both qualitative and quantitative approaches which included a situational analysis of FCs in Zambia, a study tour to Kenya and a census of Financial Cooperatives (FCs) eight provinces.

The main objective of the study was to contribute to the development of FCs in Zambia by generating information on their performance. The secondary objectives of the study were to:

1. Undertake a situational analysis to develop a clear understanding of the landscape for the FCs in Zambia in terms of the regulatory framework, support institutions and the nature and level at which the FCs operate.

2. Undertake a Census of cooperatives to understand the opportunities and constraining factors for the growth of the Cooperatives movement in Zambia.

It was envisaged that the study would provide evidence about FCs that could be used in the revision of the Cooperatives Act currently underway, aid MCTI understand the nature of Cooperatives and devise strategies for monitoring FCs. The study also aimed at providing information about the state of FCs that can used by the apex body of FCs and stakeholders such as Bank of Zambia.

2. Introduction to FCs in Zambia

Cooperatives in general play a significant role in improving the livelihoods of communities especially in the rural areas. Schneider (2005) reports that in Kenya, the country with the strongest cooperative movement in Africa, 63% of the population earn their livelihood from cooperative enterprises which accounts for 45% of the country's Gross Domestic Product. About 303,455 or 2% of the employed population in Kenya are directly employed by cooperatives

(ILO, 2009). Through cooperatives, people, especially in the rural communities in Africa manage to generate employment, boost food production, empower themselves, promote social cohesion and integration, thereby improving their livelihoods, incomes and reducing poverty.

The Government of Zambia, through the Seventh National Development Plan (7NDP) has acknowledged the important role cooperatives play in national development. The 7NDP, emphasizes the use of cooperatives as a model to contribute to job creation and poverty reduction. The Government also seeks to diversify the cooperative model into sectors other than agriculture with emphasis on realigning the cooperatives to operate as business entities that can create employment and income generating activities.

Since 2015 all cooperative activities have been transferred to MCTI from the Ministry of Agriculture (MoA). This was towards ensuring diversification away from agriculture to other sectors of the economy.

With this shift, the Government embarked on an exercise to revise the Cooperatives Act as the first step in revamping cooperatives and enhancing the legal framework governing FCs. This process needed fresh empirical insights into the actual situation on the ground regarding the operations of FCs; hence the study. It also became necessary to know the exact number of FCs that exist in Zambia and their geographical location. This therefore became one of the rationales for conducting a Census of FCs in Zambia.

3. Role of Financial Cooperatives in Financial Inclusion

This section presents insights about the role of FCs in financial inclusion mainly drawn from desk review and key informant interviews.

Zambia has made tremendous strides in increasing financial inclusion.[1] The number of financially included adults has increased from 33.7% in 2005 to 59.3% in 2015, exceeding Zambia's national target of 50% by 2013. The new

1 Financial inclusion refers to access to financial products and services both formal and informal.

target now has been set at 80% by the year 2022.[2]

However, the increase in financial inclusion has been higher in urban areas where it moved from 42% in 2009 to 70.3% in 2015 compared to the rural areas which moved from 34.4% to 50.1%.

Interestingly, financial inclusion has mainly been driven by informal financial services such as savings groups and *chilimbas*.[3] Informal financial inclusion has increased from 22% in 2009 to 38% in 2015. For most people, informal financial services are more approachable, accessible and offer better incentives than formal financial services. Informal groups are easy to form, have no service charges except for a negligible membership fee and all the interest earned accrue to the members.

Savings groups are a form of informal cooperatives. The FCs, also known as Credit Unions (CUs) or Savings and Credit Cooperatives (SACCOs) on the other hand provide formal financial services. FCs are usually distinguished from the ordinary cooperatives mainly because they offer savings and credit services while several others offer more sophisticated financial services such as leasing, payments, and insurance services.

Importantly, the levels at which FCs operate and the services they provide depend on the level of development of a country. In some countries they range from formal cooperative banks to semi-formal FCs. In others, they range from credit unions to informal village-based Accumulating Savings and Credit Associations (ASCAs) or savings groups.

Having access to financial services for an individual means that he or she is able to store funds safely, invest them productively, or use them when needed as a means of exchange for goods and services. An increased level of access to financial services is associated with economic growth and better income distribution, which ultimately leads to greater social cohesion and to poverty reduction. Therefore, the success of any group of people seeking to improve their own prospects for prosperity largely depends on their access to mainstream financial institutions that can help them save money, access loans and mortgages to buy homes, access credit, start businesses, and otherwise generate wealth.

2 The new target as specified in the National Financial Inclusion Strategy 2017-2022 is to increase financial inclusion from 59% to 80% by 2022

3 This is an informal rotating savings and credit association comprised of individuals who agree to meet at a specified time.

FCs provide an alternative mechanism to increasing financial inclusion and must be explored. Until recently, the idea of Cooperatives in Zambia was largely associated with agricultural activities as they have been a conduit for transmitting agricultural inputs to farmers. However, as stated earlier, in the recent past, there has been renewed interest and focus on the general use of Cooperatives by the Zambian Government. This is because the Government now sees Cooperatives as an effective vehicle to mop up rural capital for investment and contribute to national development.

4. Situational analysis of Financial Cooperatives

The situational analysis of FCs is informed by key informants and desk review. It provides a history as well as recent developments on FCs.

At the time of independence, Zambia had approximately 6 FCs registered during the colonial era. By 1976, the number of registered FCs had risen to approximately 500. The growth in FCs provided the impetus for the creation of an apex body to coordinate their interests and as such the Credit Unions and Savings Association (CUSA) was created in 1977. CUSA grew into a formidable entity and became the engine for developing the FC sector in Zambia. CUSA mobilized resources that FCs accessed to supplement their resource pool. According to key informants, CUSA also performed the role of lender of last resort and provided capacity building activities to its membership. During this period, FCs grew in excess of 1,000 FCs nationwide (Ojamark & Chabal, 1994).

However, CUSA collapsed in 1992 after involving itself in agricultural credit which failed due to severe droughts and the Government's subsequent declaration of an amnesty to the borrowers. CUSA funds as well as those of its members were lost. Following this, most FCs collapsed.

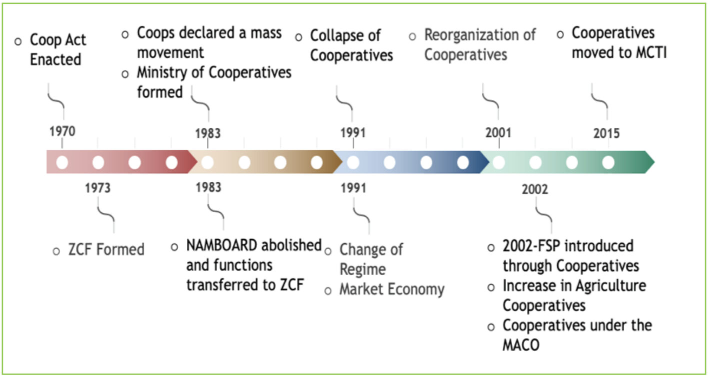
CUSA then rebranded to what is now the National Association of Savings and Credit Unions (NASCU) in 2012. NASCU is now making frantic efforts to stimulate the existence and sustenance of FCs including extending credit to FCs. However, the collapse of CUSA has dented the reputation of financial cooperatives and is among the reasons people do not have confidence. NASCU currently has 30 affiliated members despite the many FCs that currently exist.

Its capacity to reach out to all the provinces is limited and so is its capacity to provide pertinent services to the FCs.

From the foregoing, a lot will clearly have to be done to rebuild confidence in NASCU as well as in FCs themselves. As a starting point, efforts should be made to reform the legal and regulatory framework for FCs as it is reportedly weak. This is one of the areas under consideration in the national financial inclusion strategy 2017-2022 and the revised Cooperatives Act underway.

The Registrar of Cooperatives estimates that there is a total of 1, 198 entities registered as FCs in Zambia with the majority being in Eastern province and the least in North Western province. Figure 1 shows the evolution of FCs in Zambia.

Figure 1: The evolution of FCs in Zambia



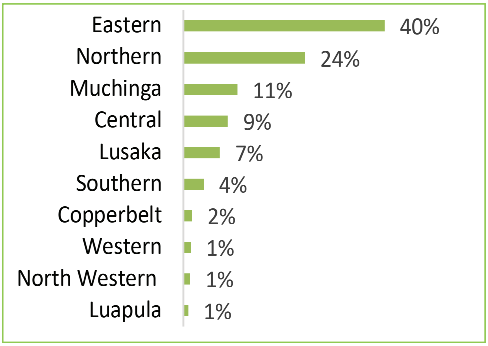
5. Descriptive of FCs in Zambia

The Census covered FCs in all ten (10) provinces, at the time of enumeration there were a total of 749 FCs in these provinces with varying sizes vis-à-vis membership, financial performance and other features. The FCs range from groups of 10 members usually using the accumulating and revolving fund

principles[4] to groups of over 18,000 members. Among the bigger ones, some of them are actually operating some form of bank managed by a Manager, Accountant and Cashier/Teller. This provides proof that FCs can indeed grow into successful financial institutions.

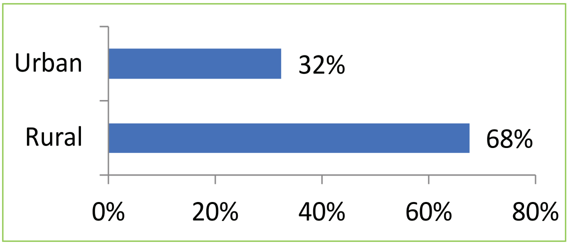
Distribution of Financial Cooperatives by Province

The Census established that Eastern province accounts for the largest proportion of FCs in the eight provinces with an estimated 298 FCs compared to 7 FCs in Luapula province. This is consistent with the Registrar of Cooperatives data base. The large number of FCs in Eastern Province has been attributed to Non-Governmental Organizations (NGO) support to promote FCs in the area prior to the Census.

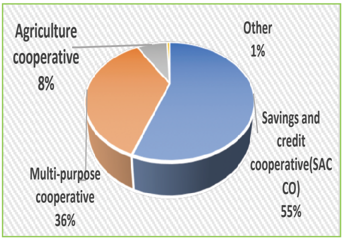


Distribution of FCs by region

There are more FCs in the rural areas compared to urban areas. This is because, they provide an easier, convenient and sometimes only source of financial services for the individuals



Distribution of cooperatives by registration type



Typically, FCs are registered as SACCOs but there are also other types of Cooperatives with savings and credit activities as the main activity and these have been accepted as FCs in the Registrar of Cooperatives data base. The Census established that 36% of FCs were

4 These principles include a defined period/cycle for savings and lending culminating into sharing out, a defined number of people required in a group and usually do not keep money for the cooperative or in a financial institution.

Multi-purpose Cooperatives while 8% were Agricultural Cooperatives that had savings and credit as the main activity of the Cooperative. Among the reasons for this occurrence include; lack of knowledge among members of FCs prior to registration and differences in registration requirements as other Cooperatives have less stringent requirements compared to FCs. Other reasons include that it is cheaper to register FCs compared to ordinary Cooperatives.

6. Demographics of the Cooperatives

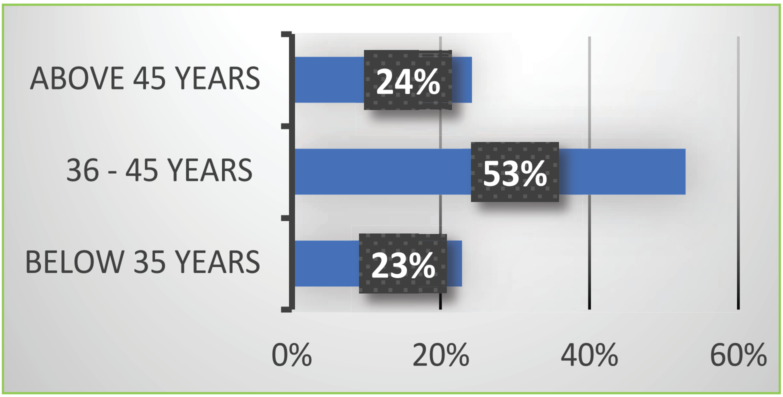
Gender distribution

Male: 50.2% Female: 49.8%

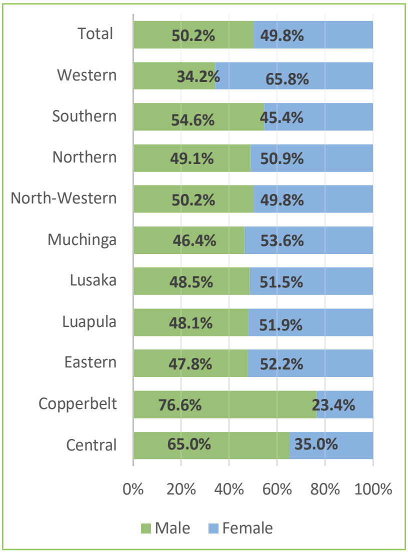
There was a total of 46,332 females compared to 46,704 males in the enumerated FCs.

Age distribution

Over 50% of the Cooperatives members were between the ages of 36 and 45 while 23% were youths.

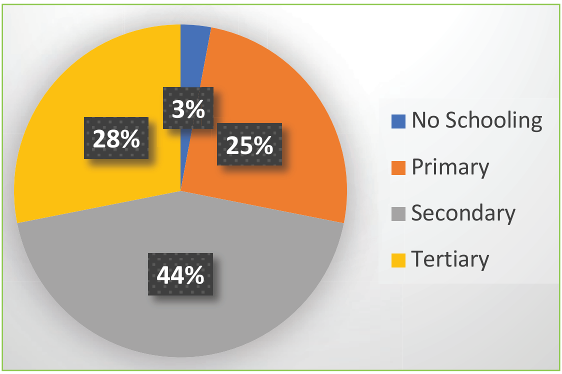


Gender distribution of members by province



There are more female members in all provinces compared to males except for Copperbelt, Southern, North Western, and Central Provinces.

Education



The majority (44%) of FCs members have tertiary education compared to 3% who had no education at all. A significant number of Cooperative members were retired while others belong to work-based FCs.

7. Features of the Cooperative

The Census was also interested in tracking selected important features of FCs namely proximity to Central Business Districts (CBD), the services offered by FCs, share capital values, interest rates charged and the mode of money transfer among members.

Proximity to central business district

Median: 24km

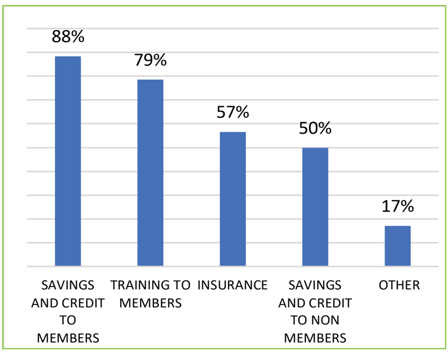
Average: 31km

Furthest: 200km

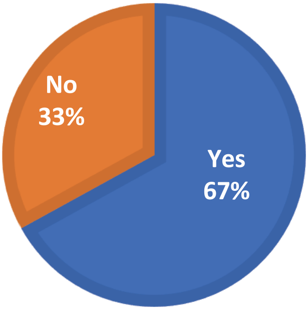
Most FCs were domiciled far from the CBD and hence from basic facilities such as financial institutions. As much as 63% of FCs were located more than 16 kilometers away from CBD with about 26 FCs domiciled 200km away from CBD. On average, FCs were 31 kilometers away from CBD. Proximity to the CBD is an indicator of remoteness. Remote populations are likely to have FCs as the only source of financial services compared to those near the CBD. This is an important factor when analyzing the strength of FCs to reach marginalized populations.

Services offered by FCs

The main service offered by FCs was savings and credit to its members while the least offered service was savings and credit to non-members. Although 79% of the FCs reported offering training to members, it was clear that most FCs especially their Boards required training in various aspects.



FCs with Savings account



The FCs require a Savings account to safeguard the savings from members but 33% of FCs reported not having a savings account which could mean they are keeping money at home or were lending all the funds out.

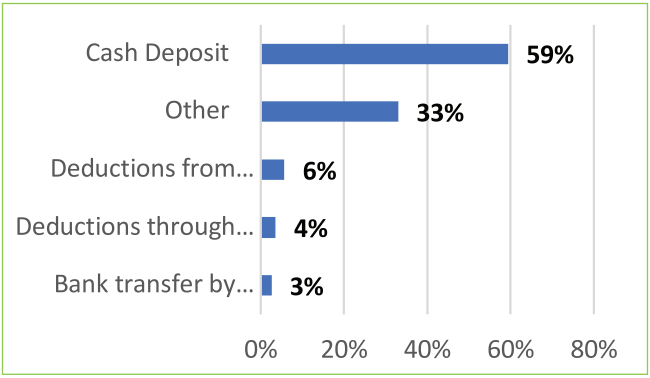
Share capital value

Measure	Quantity
Average	K 64,998
Median	K100
Number of FCs	710
Standard deviation	1,671,230
Minimum share capital value	K1
Maximum share capital value	K 44,500,000

The huge variations in the share capital value among FCs is due to several reasons including inability by some FCs to distinguish between shares and savings[5] but also due to a few worker-based FCs that have high share capital value compared to smaller FCs. The other reason is that some old FCs have maintained the share capital value since the registration of the FC such as a FC that was registered in 1994 which has maintained the value of a share at K1. The share capital value is the value of a share.

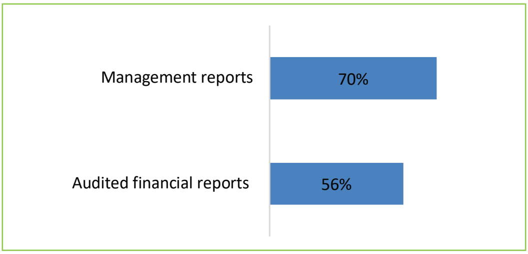
5 Shares are often non-redeemable while savings can be withdrawn by members

Mode of money transfer within the FCs



Cash deposit is the most frequently used mode of funds transfer which is a cash payment to a Treasurer or Board Member. Other modes included cash deposits into the FCs' bank account.

Audited financial and management reports



Management reports which are financial statements prepared by the FCs management for internal use were more common than audited financial reports. This is because audited financial reports attract a cost which most FCs said they could not afford while others did not simply see the need for the reports. However, most FCs prepared management reports which were also presented to ordinary members.

8. Financial performance

The FCs financial performance includes the amount of savings and loans held by the cooperatives, income from other sources mainly from livestock and the assets owned such as land, buildings and equipment.

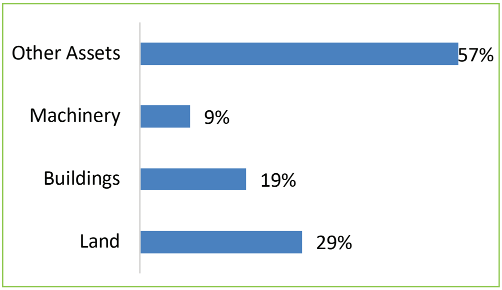
Savings, Loans and Other Income in 2017 and 2016

	2016	2017	Change
Savings	K 115 m	K 140 m	22%
Loans	K 41.3 m	K 73.4 m	77.7%
Other Income	K 2.3 m	K 2.8 m	21.7%

The amount of savings held by FCs have increased by 22% between 2016 and 2017. The amount of loans has also increased by 77.7% in the same period. Other income earned by FCs mainly from livestock has also increased by 21.7%.

Asset ownership

There were only 29% of the FCs that owned land. Majority at 57% owned other assets including livestock, harmer mills and grocery shops.



Loan products

The main loan products offered by FCs included ordinary loans, emergency or soft loans and agricultural loans. FCs charge interest rates on their loans ranging from 0% to as high as 100%. The following statistics summarize the interest rates charged, average savings sizes as well as the repayment duration for the FCs.

Interest rates on loans

Interest rates are charged based on the repayment duration which on average was 3 months for most FCs.

Average: 14%

Median: 10%

Lowest: 0%

Highest: 100%

Average minimum savings allowed per member

Average: K1,312

Median: K400

Smallest: K30

Largest: K25,000

Repayment duration

Average: 5 months

Median: 3 months

Smallest: 1 month

Largest: 36 months (3 years)

9. Employment created by Cooperatives

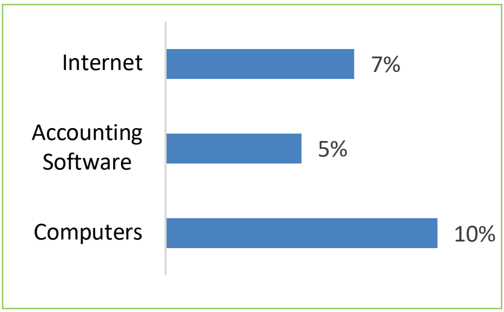
Approximately 16% of the Cooperatives had full time employees dedicated to the day to day management of the Cooperatives. These typically include shop keepers and for the more affluent SACCOs, a manager, accountant and cashiers. This is an indication of the potential for FCs to create jobs.

Type of Employment	Total Employment	No. of Cooperatives
Full-time	212	98
Part-time	153	99

About 98 (13%) of FCs have created full time employment while 99 (13%) FCs have part-time employees. There are some FCs that have created jobs and mostly these are worker-based FCs. The FCs have created two jobs on average. However, of the total full-time employment created, three FCs account for 35% of the employment; and these are in urban areas.

10. Usage of Information Communication and Technology (ICT) by FCs

As FCs grow and demand for modern services rises, it becomes important for them to invest in the use of ICT to respond to the changing needs of members. Front office services that can allow for the deposit and withdrawal of funds directly from the Cooperative,



money transfers, remittances, insurance and long-term savings become important. Unfortunately, only 11% of the FCs enumerated owned computers and majority of these were in Lusaka.

11. Challenges faced by FCs

The FCs were asked to rank the challenges they face on a scale of 0 to 100 with 0 being the least difficult challenge and 100 the most difficult. The most challenging issue that FCs face is the legal framework, followed by lack of accounting skills. Others are lack of access to finance, agricultural input and business training services.

The Census also found that most FCs are not operating as such. Instead, they have adopted the accumulating and Savings union or savings group methodology. This means that they were keeping money informally and were limiting the size of the FCs to avoid difficulties associated with managing large groups.

Conclusion

This policy brief has highlighted some of the key findings from the Census conducted in eight provinces and the situational analysis. The brief has highlighted that FCs in Zambia have evolved overtime from vibrant ones before 1992 to what they are now. The collapse of CUSA and shifts in the Cooperatives department from a stand-alone Ministry to a department under MoA contributed to the dwindling participation of FCs in Zambia. This is because the focus of Cooperatives shifted from all the other forms of Cooperatives to Agricultural Cooperatives. However recent developments such as the movement of the Cooperatives department from the MoA to MCTI has necessitated the promotion of a wider range of Cooperatives including FCs. This has led to the revision of the Cooperatives Act which will have a dedicated and more enhanced section on FCs.

However, information on FCs and in particular, data on the size, financial performance and employment has been limited until now. This information is required in the promotion of FCs as a viable and feasible mechanism to increase financial inclusion especially in the rural areas.

The Census further observed that although there appears to be a number of FCs registered by the Registrar of Cooperatives, most of them are very small, mostly inactive and non-viable. The performance of the few elite work-based FCs and dairy farmers' FCs in Southern province demonstrate the potential that the sector has as a complementary vehicle for increasing financial inclusion and intermediation in Zambia. There has been very little guidance that FCs have received and as such most of them have had to adopt the Accumulating Savings and Credit Association Model. From the findings of the Census it suffices to say that FCs have the potential to increase access to financial services by the rural poor which can have a positive impact on poverty reduction in Zambia if they are properly managed.

Recommendations

Based on the findings of the Census, the situational analysis and lessons learnt from the study tour to Kenya, the following are some of the recommendations to revive FCs in Zambia:

i. As a general observation it is important to ensure that as the Government revises the Cooperatives Act; the new regulatory framework is user-friendly and supports the growth of the sector rather than constrain it.

ii. The Government should take lead in FC public sensitization and promotion programs with support from NASCU and other relevant stakeholders such as the Bank of Zambia's Financial Sector Development program. This will create awareness about FCs. Such a program should have an inbuilt monitoring and evaluation mechanism to track progress.

iii. There is need to train people on the proper modalities for managing financial cooperatives in order for them to be sustainable. This can be done by developing a good practice manual that is tailor made and translated into various local languages that can be used by FCs.

iv. The Government should invest in capacity building especially for Cooperatives Officers in MCTI on the operations of FCs as the focus in the past has mainly been on agricultural cooperatives. Cooperative officers need training on FCs.

v. NASCU needs to enhance its in-house capacity to be able to provide appropriate support services to FCs.

vi. Finally, there is urgent need for the Government to improve its data base and general tracking of FCs. There should be an information system of FCs using modern ICTs to be able to keep track in terms of their progression and development in general.

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