About FSD Zambia
Zambian Financial Sector Deepening Limited (FSD Zambia) is a Zambian organisation working closely with key players throughout the economy to ensure that all Zambians are financially healthy, particularly the most excluded and underserved. We help rural families, women, youth, low-income people, and other households in Zambia to understand and access a wide range of sustainable, comparable and affordable financial services. To expand financial inclusion, we collaborate with both public and private sector institutions to make financial markets work better. FSD Zambia enhances trust between clients and suppliers of financial services by increasing their understanding, expanding innovation, and lowering costs. FSD Zambia enjoys the active support of financing partners UK Aid, Swedish Sida, Comic Relief/Jersey Overseas Aid and Rural Finance Expansion Programme (RUFEP). More information is available on our website, www.fsdzambia.org

Acknowledgements: Financial Sector Deepening Zambia Limited (FSD Zambia) acknowledges significant contributions from Floyd Mwansa, FSD Zambia Director - Analytics and Chishala Lukwesa Siame, FSD Zambia Knowledge Manager.

Disclaimer: This document is part of a larger effort by FSD Zambia to provide insights into inclusive finance for enhanced decision making and greater impact. Such materials address challenges in both financial inclusion and in linkages between the financial and real sectors. Use of any part or all the information in this document should acknowledge FSD Zambia as the author. Any queries on rights and permissions should be addressed to FSD Zambia via email info@fsdzambia.org.
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Summary of Main Insights

1. More than 70% of MSMEs in Zambia are based in rural areas.
2. The Working Capital Access pilot (WCA) provided an initial opportunity for rural-based traders to access working capital.
3. The most widely cited benefits for the traders were related to business operations, such as increased profits and improved credit access.
4. After exposure to WCA, 87% of the traders experienced increased returns to their business, while 83% had improved access to loans for their businesses.
5. Most MSMEs are willing to continue with the WCA programme, with 62% being extremely willing and 35% very willing.
Introduction

Micro, small and medium enterprise (MSME) activities cut across many economic sectors, including construction, manufacturing, professional services, trade, and mining. MSMEs represent about 97% of all businesses in Zambia, 70% of the country’s gross domestic product (GDP) and 88% of employment. Their potential to contribute to economic development is recognised by policymakers.

In Zambia, MSMEs lack access to suitable financial services to support and grow their businesses. Although these enterprises account for the majority of employment in Zambia, small business owners find it difficult to access credit from formal financial service providers (FSPs). Financial services available to rural businesses are especially constrained (Ministry of Finance, 2017). The Zambia Business Survey published in 2010 asserts that more than 70% of MSMEs in Zambia are rural-based. MSMEs are key to stimulating economic development in rural areas and in locations that are difficult to reach. The use of informal financial services is prominent among MSMEs, as access to formal finance is limited by structural constraints such as collateral requirements, lack of financial records and credit history, and lack of company registration documentation.

This paper provides a synopsis of the results of an MSME innovation implemented by FSD Zambia. It will contribute to insights on design and delivery of better financial products and services to MSMEs.

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The Problem

MSMEs show high demand for tailor-made, appropriate and affordable financial services. Most formal financial service providers (FSPs) provide one-size-fits-all products, usually designed for their medium to large corporate company clients. MSMEs are denied opportunities to access these products as they tend to be too expensive for them to afford, not very relevant to their needs, and often come with stringent collateral and repayment conditions. There is limited analysis of MSMEs to see what other types of financial services beyond credit might be profitable and effective for FSPs in the market⁷. FSP staff also lack technical capacity and good understanding of MSME needs, to enable them to effectively deliver services to the enterprises. As a result, sources of financial services such as credit for MSMEs are at a stage where the largest source is friends and family (88.2%) followed by informal lending called Kaloba (5.6%)⁸ and microfinance institutions (MFIs) (4.7%)⁹.

Village shops are MSMEs that are dominated by rural-based traders who experience a lot of challenges during their growth cycle. Rural-based traders sell various household commodities, and demand for these is normally high as there are few shops in the communities. To satisfy increasing demand, traders require regular access to working capital financing from financial institutions, which they are usually unable to find. This denies them the opportunity to re-stock their shops or to open new shops in areas where they see growing need for their products.

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⁷Mphuka et. al. (2014). Supply-Side Opportunities and Constraints of Bank Credit to MSMEs in Zambia: Lessons and Implications for Policy. Lusaka.
⁸Moneylenders (who are now required to be licensed by Ministry of Finance).
Working Towards the Solution

Given the immense challenges in accessing working capital faced by small businesses, FSD Zambia embarked on an innovative pilot called Working Capital Access (WCA) to help small-scale rural-based traders grow their businesses and improve their livelihoods. The WCA relied on the success of savings group (SG) models in Zambia. WCA also noted the growing interest and responsiveness of formal financial institutions in the business value of MSMEs. WCA engages three categories of organisations. The first is large wholesalers, with a reliable source of commodities from large manufacturers. The second is formal FSPs, where both the wholesalers and the SGs have bank accounts. The third are groups of 15 to 30 rural-based traders who self-organise into special purpose SGs and receive support from a SG master trainer (one female trainer was initially engaged).

The Pilot
The initial pilot undertaken in Southern Province saw 103 traders (62 females, 41 males) forming themselves into self-selected SGs. A total of 4 SGs were formed and each had an average of 25 members. Each SG opened an account with a bank chosen by most of the members. The bank accounts were non-transactional accounts with no bank charges. Every fortnight, SGs members met at a selected place and each member saved between ZMW50 and ZMW1,000. Members chose to deposit funds directly into the SG account and produced deposit slips during the SG meeting or brought cash which was then collected by the group executive members. The executive members then immediately deposited the cash into their SG account at the bank. During the SG meetings, all savings were recorded in the register.

Initially, each SG member saved for at least three months before they could borrow up to three times their savings (as stipulated in their group constitution). For example, if a member had saved a total of ZMW1,000, they could borrow up to ZMW3,000. To mitigate diversion of borrowed funds by SG members, the constitution only allowed borrowing for one purpose--
The first share-out meeting for the four groups was held in December 2019. At least 90% of the members in each group had taken loans. All the groups had their loans paid off before the meeting except for one group, which had four of its members not paying and absconding from the meetings (see below for the groups’ actions)—the balances in each SG account accumulated to an average of ZMW40,000 by the end of the cycle.

The cumulative amount of money saved by the share-out time was ZMW112,000, and all members received their proportion of amount saved plus interest. The members who failed to pay back their loans brought livestock (goats), which was sold, and the amount owed recovered. The new cycle commenced immediately after the end of share-out and is currently running successfully. Potential community-based SG trainers (working on a fee-for-service basis) have been identified from the existing group members. These will be trained by FSD Zambia to scale-up the WCA innovation for other village shops in Choma area. FDS Zambia has engaged consultants to introduce WCA pilots in Chipata, Solwezi, Mumbwa and Lusaka.

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11 Some members had invested in other ventures that took long to mature.
12 Community-based trainers provide training and coaching to savings groups to ensure clear understanding of how to join, set up, operate, and share out savings groups as well as how to solve any problems, to enable quality and sustainability of each SG.
Findings from Initial Assessment

An initial impact assessment conducted by FSD Zambia revealed the following:

1. **Channels and knowledge levels about WCA**
The traders mostly relied on trainers (46%) and family/friends (38%) for more information about WCA. Sixty-two per cent of the traders said they had 'very good' knowledge of WCA and a further 31% of the traders had 'good' knowledge. Only 8% of the traders had average knowledge of WCA. These results indicated effective dissemination channels, as a total of 92% of the traders had either very good or good understanding of WCA. This is illustrated in Figure 2 below.

![Figure 2: Willingness to continue with Working Capital Access](image)

*Source: FSD Zambia 2019 Performance Assessment Report*

2. **Experience of group membership**
The traders mostly relied on trainers (46%) and family/friends (38%) for more information. Most of the traders (88%) experienced positive changes to their SGs due to access to WCA. There was also evidence of business growth, as three traders have opened new shops within their villages and in the neighbouring communities. About 96% were willing to continue being part of the WCA system, as illustrated in Figure 3 below. However, 50% of the members dropped out of the pilot as they were still skeptical about the WCA innovation's viability. On follow-up, they expressed interest in rejoining the SGs in the next cycle after seeing the benefits of continued membership.
3. **Benefits from the innovation**

Most (87%) of the traders indicated that they experienced increased returns to their business while 83% had improved access to loans for their businesses. Approximately 52% of the traders were able to invest more, and another 52% said that the financial products and services accessed from the SGs were affordable. Only 26% said financial products and services were easily accessible. This is illustrated in Figure 4 below.
Conclusion

The Working Capital Access innovation has brought benefits for different groups of market actors. Although in its initial stages, positive results are already being seen in increased returns and improved access to businesses. The majority of the members highlighted that financial products and services are still not easily accessible. FSPs have been provided with an opportunity to improve their capacity and skills to deliver appropriate and affordable financial services to micro and small enterprises, FSD Zambia’s current focus. The FSPs (banks) are also learning about the traders’ credit reliability by watching the SG lending process. This provides an immediate opportunity for linkages of informal financial services to formal financial services. This would help with increased access and usage of appropriate financial services among MSMEs in Zambia. MSMEs have been provided with a starting point for access to much-needed working capital for their businesses. Being traditionally financially disadvantaged, women as the majority owners of village shops in the test area have been provided with an opportunity to improve their businesses and their livelihoods for themselves and their households. Access to finance for MSMEs is one of the drivers of the NFIS; hence this is one step towards achieving this.