

EFC Zambia Branch Interconnectivity

Improving banking services and rural outreach

1. Development relevance

Economic and poverty context: Zambia gained independence from the United Kingdom in 1964. With thirty years of weak economic performance, Zambia lost its position as one of the most prosperous countries in Sub-Saharan Africa. Over the last decade Zambia recovered and experienced relative macroeconomic stability and increased economic growth, to around 6% per annum.ⁱⁱ In 2001, the government improved its fiscal discipline and developed more prudent monetary policy through which it managed to cut inflation from 32% in 2000 to 6,6% in 2012 and to reduce domestic debt and interest rates. During this period, Zambia received debt relief reducing the debt burden. During the global economic crisis, the country's economy proved resilient thanks to increased outputs in construction, mining and agriculture sector. Economic growth has been increasingly led by the private sector. The fastest growing sectors are mining, energy (hydro power), construction, agriculture and tourism. Nevertheless, Zambia has a highly undiversified economy and is dependent on copper mining, which accounts for about 80% of exports and only 6% of total revenues, and copper prices. In 2006, the Zambian government launched the Vision 2030 geared to transforming Zambia into "a prosperous middle-income nation by 2030", embedded within is an economic diversification programme.ⁱⁱⁱ

Indicator	Value
Population (Mid 2013)	14'200'000
GDP growth (average 2009-2012 / 2013)	6,9% / 6,0%
Inflation (average 2009-2012 / 2013)	8,7% / 7,6%
Trade balance (% of GDP, 2013)	-1,3%
Foreign Direct Investment (net) (% of GDP, 2013)	8%
Net ODA & official aid received (% of GDP, 2011)	5,5%
Workers' remittances (% of GDP, 2011)	1,2%
Economic Freedom Index (Rank among 189 countries) ¹	88

Zambia ranked 94th among the 185 countries covered under the World Bank Ease of Doing Business 2013 Index, slipping four places from its previous position.^{iv} Zambia scored better on the parameters of getting credit (12th) and paying taxes (47th), while its ranking on parameters of dealing with construction permits (151st), getting electricity (151st) and trading across borders (156th) were relatively poor. Political stability, absence of violence as well as control of corruption and government effectiveness has increased significantly. Nevertheless, there is a serious need for greater structural reforms to increase the legal framework's efficiency and transparency, to improve law enforcement and rule of law.^v

Indicator	Value
GNI per capita (current USD) (2011)	1'358
Gini Index (0= equality 100= inequality) (2008)	57,5
Multidimensional Poverty Index (1=poor 0=not poor) (2010)	0,328
Gender Inequality Index	0,623
International (at 1,25 USD/day), national and rural poverty headcount ratio (2002-2012)	59,3%
Human Development Index (out of 187 countries) (2012)	163 (0,448)

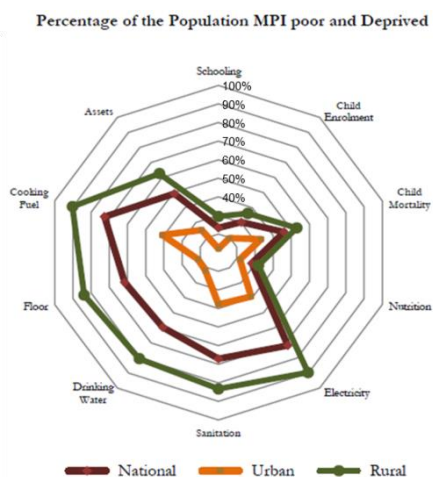


Figure 3: Poverty Distribution Spider Web

Zambia is one of the most urbanized countries in Africa with 40% of its population living in urban areas.^{vi} The population of 14,2 million people (46% under 14 years old) is largely concentrated around the capital of Lusaka in the centre and in the Copperbelt region in the North West. The poverty headcount remains high, with about 60% of the population living below the poverty line and 42% considered to be in extreme poverty. Zambia's trend of inequalities in incomes, assets, and social services is rising. The Gini coefficient increased to 0.65 in 2010 from 0.60 in 2006. Due to limited job opportunities, especially for young people, the level of unemployment worsened to 23,4% in 2011, with 6% increase in five years. For those who are employed, 95% are estimated to be in vulnerable work, mostly in low productive informal activities. 85% of the labour force is employed in the agricultural sector and only 10% of the population is employed in the formal sector. The Human Development Index (2012) ranks Zambia 163 out of 187 countries – as one of the world's poorest nations. 64,2% are considered to be living in multi-dimensional poverty,^{vii} especially in rural areas. Around 13% of adults are diagnosed with HIV/AIDS. This high rate has a devastating impact on the population.

Financial Sector Context: Following the adoption of the financial-sector liberalization policy, Zambia witnessed growth in the number of banking players from 13 in 2007 to 19 in 2013. Despite the growth, Zambia's banking system exhibits a high level of concentration with the five largest banks dominating the financial landscape. Financial access points (branches, ATM's etc.) are mainly located in the more densely populated urban hubs.^{viii} Few commercial banks are actively engaged in microfinance activities. Currently, the Association of Microfinance Institutions of Zambia (AMIZ) has 23 MFI members. The top five MFIs by loan portfolio are: CETZAM, PRIDE, FINCA, EFC, Micro Banker Trust. Rankings by deposits or clients are not publicly available.^{ix}

The microfinance industry in Zambia is young and still plays a relatively small role in financial inclusion, with approximately 100'000 clients as of 2012. According to the Bank of Zambia, consumption lending accounts for 90% of the microfinance sector's portfolio (as compared to 30% in the banking sector).^x Total assets under management by MFIs do not represent more than 2% of banking institutions. Financial inclusion stands at about 37% (2009).^{xi} This low level is driven by the fact that the majority of the population works in the informal sector, earning income on an irregular, inconsistent basis as well as the absence of bank branches in rural areas and cities outside Lusaka and the Copperbelt. It is estimated that there are approximately 924'000 MSMEs in Zambia and that only 10% have access to appropriate financial services as they are often considered inherently risky ventures. As a result, there is an untapped market potential of over 800'000 MSMEs in the country.

Partner Financial Institution: Established by CARE Zambia as a project supported by the Department for International Development (DFID) in 1996, Entrepreneurs Financial Center (EFC) Zambia (former PFSL) has evolved into a leading deposit-taking MFI in Zambia, licensed and supervised by the Bank of Zambia with a share capital of ZMK 33,3 million (USD 6,1 million) as of December 31, 2013. EFC Zambia is supported by following equity investors:

Développement international Desjardins (DiD) (29%), Africinvest (25%), Bamboo Finance (25%), Triple Jump (18%) and Client/Employee ownership (3%). Furthermore, various partners have accompanied the MFIs development such as FMO, CIDA, dbz, AfDB and now SCBF.

EFC Zambia currently operates a main branch at its headquarters in Lusaka, plus five other branches/points of sale including Kitwe and Chipata located in rural/peri-urban areas. EFC Zambia also operates business loan centres in markets within Lusaka. EFC is offering specialized financial services (various loan and saving products for business and personal use) to formal and semi-formal MSMEs in rural, peri-urban and urban areas and from various industries (including agriculture). EFC Zambia is an important player in the industry as a lender to MSMEs (catering to an estimated 22% of the financially included MSMEs¹) as well as a financial services provider, serving the missing middle which is neither served by commercial banks nor traditional MFIs. EFC Zambia pays particular attention to women entrepreneurs (e.g. Women Market Trader Loan²) whose impact on improving household living conditions is considered to be especially important. As of December 31, 2013, 36% of the loan portfolio based on volume (41% based on number of loans) had been disbursed to women. Women represent 39% of EFC Zambia work force and 36% of its total clientele.

EFC Zambia has registered significant growth since 2009. As of end of 2013, the gross loan portfolio amounted to USD 16,2 million, an increase of 58,3% for the year. 2'905 loans amounting to USD 17'5 million were disbursed. At the close of the year, the institution had 2'621 active loan accounts. The total number of clients reached 20'767, an increase of 47,3% for 2013. Deposits amounted to USD 4,9 million, an increase of 32,4%. EFC Zambia is targeting a client base of 34'000 with 6'847 active loans by the end of 2015.

Figure 4: EFC Zambia Financial Performance (data in USD, based on annual reports)

	2009*	2012*	2013*	2015 ¹
Total assets	3'515'579	14'478'075	18'969'500	25'605'179
Gross loan portfolio	890'017	10'217'852	16'179'726	22'022'378
# of men loan portfolio	352	1'106	1'496	n/a
# of women loan portfolio	347	904	1'125	n/a
% of GLP (value)	51,3	42,9	36,1	n/a
# of women market trader loans	n/a (USD 36K)	215 (USD 96K)	270 (USD 0.2m)	n/a
Total deposits value	185'949	3'709'881	4'913'737	8'753'617
# of women regular savings	n/a	5'825	8'145	n/a
% of total deposits value	n/a	7,3	8,1	n/a
# of men regular savings	n/a	8'269	12'622	n/a
Total staff/women	49/n/a	168/67	217/85	255/102
Total branches (Incl. business loan centres)	4	11	11	12

* Based on Audited Annual Accounts

¹Y+3 Based on the 2011-2015 EFC Zambia BP. In 2013, EFC Zambia registered robust growth and is one year in advance of its original Business Plan. A revised Business Plan (2015 -2019) is currently being prepared to factor in higher growth expectations.

Exchange rates (2009: 4597, 2012: 5185, 2013/14: 5.4985. Note Zambian Kwacha rebased in 2013 (1000 = 1)

¹ Zambia has an estimated 924,000 MSMEs, 10% (92'400) have access to formal financial services. EFC Zambia with a client base of 20'700, caters to 22% (20'767/92'400) of the financially included MSMEs. The extent of the financially excluded MSMEs indicates significant potential for growth.

² The product provides smaller loans tailored to the needs of women MSMEs (different collaterals, term, repayment conditions etc.).

The company accounts for 40% of total deposit-taking MFI assets, 53% of total voluntary savings, and 36% of total outstanding net loans.^{xii} As of December 2013, EFC Zambia was the only MFI that could be considered as financially sustainable. EFC Zambia has been recognised as the “Best SME Organisation of 2013” by the Zambia Institute of Marketing.

2. Intervention approach

Capacity building needs: In April 2011, the shareholders and Board of Directors approved an updated five-year Business Plan (2011-2015) taking into account a faster growth phase resulting from solid performance of the operations so far. This includes a more diversified product offering and savings mobilization plan to increase access to finance by unbanked MSMEs in rural and urban areas in response to clients’ demand. The Interbranch transactional system was one step of the implementation of the Business Plan for which know-how transfer and capacity building was needed and necessary.

Intervention approach: The overall aim of the implementation of the Interbranch transactional system is to interconnect EFC’s branch network and thereby “improve banking services for existing and potential EFC clients, improve rural outreach, both in terms of access as well as the degree of utilization of services – by facilitating the execution of transactions through the interconnectivity of transactions (funds) and diversifying the supply of financial services”. The system as a transactional switch will allow EFC Zambia branches to securely share financial data. This interconnectivity will enable the MFI to increase the product offering and to join the local ATM network at a later stage, further increasing access through availability of more access points.

<p>Interbranch system adjustments to local specifications</p>	<ul style="list-style-type: none"> • Completion of technical specifications of the Interbranch transactional system and translation of the system into English • Development of several documents for the Interbranch transactional system • EFC production integration • EFC Smart card implementation • EFC Interbranch web portal adjustment
<p>Urban and rural implementation</p>	<ul style="list-style-type: none"> • Head Office database preparation • Head Office System installation and update • Head Office employees training • Branches configuration • Branches employees training • System adjustments

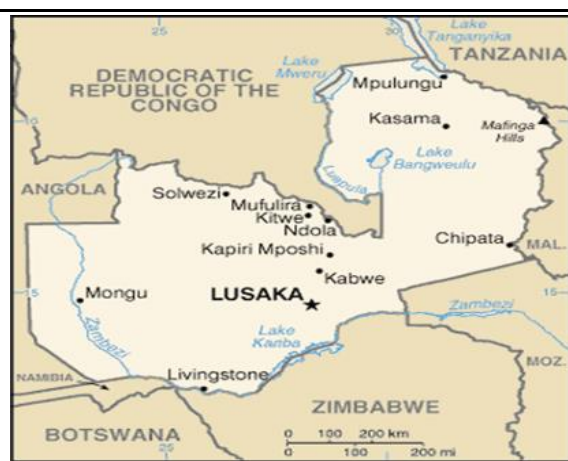


Figure 5: Activities for the Interbranch Implementation

Figure 6: Map of Zambia

The consultant team from DiD were mandated to adapt the system to the Zambian specifications and support the implementation during two missions. The first part of the Interbranch project consisted of the separation of the Downtown branch database to remove the head office accounting data. As a result, a new database for the head office was added to the existing six. This separation had major accounting implications. The Chief Financial Officer (CFO) and the accounting team were involved in the process to explain the approach, determine which accounts to transfer and ensure that accounting was up to date. Validation of transferred amounts was performed before and after the transfer by the local team. For the implementation and running of the transactional system afterwards, training materials have been developed and local staff trained. To develop ownership and understanding, a “project team” and a “validation team” comprising of employees from operations, accounting and internal control were heavily involved in the implementation. The implementation team had two key performance objectives: 1) successfully rolling out the interconnectivity system; 2) ensure the local team is capable of scaling up (adding new branches to the system as the institution expands its branch network), management, maintenance of the system and training EFC Zambia staff without external assistance.

3. Results achieved

EFC Zambia officially launched the Interbranch transactional system on June 25, 2013 with extensive media coverage of the event both on the National broadcaster and the Zambia Daily Mail. Overall, the Interbranch implementation has been successful and is today fully functional in six branches, in Lusaka (Downtown, Chawama, Kamwala, Kanyama), and in the rural/peri-urban areas of Kitwe and Chipata.

3.1. Client level

The interconnectivity project has enabled EFC Zambia to address needs expressed by clients. Thanks to the project, clients can now use the different service points of the branch network for transactions, deposits and withdrawals. Outreach and access to financial services has improved, enhancing convenience, flexibility and reducing the cost of doing business/undertaking transactions. Thanks to the funds transfers and Interbranch transactions, clients can travel without carrying large amounts of cash with them, thereby solving a basic need tied to security, expressed by people in these communities. Furthermore, the rural-urban connectivity increases the banking literacy of clients, mainly in rural areas, in terms of outreach and intensity of use of the services. Future advantages will be:



Satisfied MSME clients at the official launch, 26.05.2013

- Access to new services (e.g. client to client transfers and other services that will be rolled out seamlessly across branches in the future);
- Clients will benefit over the medium term from many other advantages linked to the strengthening of their institution (more professional and integrated) that may be less visible to clients, but just as important.
- Over a longer horizon, clients will have access to a sound Interbranch network for diversified products and services, for example with the internal infrastructure set up, the MFI will in future link into the local ATM network greatly increasing access points for our clients.

“The product will now allow customers seamless financial services to do business in Zambia. The introduction of this service goes towards addressing the challenges that EFC clients face in their daily transactions such as high user fees and costs to conduct Interbranch business. The system facilitates greater customer affordability for financial services”

Mr. James Chembe Chipungu, Chief Operations Officer

“The unique business model being undertaken by EFC provides flexibility and remains a clear competitive advantage in today’s economic environment”

Mr. Ghislain Belanger, Chief Executive Officer

Since implementation of the Interbranch transactional system, 4'907 transactions have been processed. Of these, 153 were made in rural/peri-urban areas (Kitwe and Chipata). The number of transactions is expected to

Type of transactions	Number of transactions			% of rural transactions		
	09/2013	01/2014	2016	09/2013	01/2014	2016
Deposits and Withdrawals	2'664	3'715	6'000	3	2	6
Money Transfers	954	1'181	2'500	5	7	10
Client-to-client transfers	32	32	32	28	28	28
Total of transactions	3'650	4'907	8'532	3	3	3

Figure 7: Summary of the types of transactions used (up to January 2014)

increase as Interbranch offers a significant advantage for customers regarding funds transfers. The most common transactions are deposits and withdrawals amounting to 3'715 transactions in the period from May 2013 to January 2014. The second most used service is money transfer, totalling 1'181 transactions within the same period. This type of transaction allows non-customer to make deposit into an EFC customer account. This function is also used by many debt collectors and helps to quickly lower the delinquency rate of the network.³

Figure 8: Outreach table	2009	2012	2013	2015
Number of loans	699	2'010	2'621	6'847
Number of female borrowers	347	904	1'125	4'108
% of female borrowers (Number)	50	45	43	50
Average loan balance per borrower (USD)	1'273	5'084	6'173	3'216
Number of savings accounts	1'136	14'094	20'767	34'000
Regular savings amount (USD)	54'126	823'697	1'140'042	4'891'444
Number of female depositors	n/a	5'825	8'145	17'000
% female depositors (Number)	n/a	41	39	50
Female regular savings amount	n/a	266'598	399'924	n/a
% of female savings amount	n/a	32	35	n/a
Average balance USD per depositor (*Excludes term deposits)	48	58	55	144

n/a = Not Available

urban areas, growth in urban initiated transactions might be more pronounced. As EFC Zambia increases its branch network, rural initiated transactions will increase.

³ The percentage of loans within a loan portfolio that have delinquent payments. The delinquency rate is simply the number of loans that have delinquent payments divided by the total number of loans an institution holds. Typically, delinquency rates on loans are affected by the credit quality of the borrower and macroeconomic factors such as unemployment. <http://www.investopedia.com/terms/d/delinquency-rate.asp>, accessed 27/01/2014.

3.2. Financial Intermediary (EFC) level

Thanks to its involvement, EFC Zambia staff is now able to implement and manage the system in-house. Head office staff (IT, operations, accounting, and internal control) and branch level employees (see figure 10 for profiles), including staff from rural branches have been trained on the system. Headquarters staff was trained on implementation, tools, monitoring, management and control of system, as well as general usage of system. Branch staff was trained in usage, transactions accounting, administrative monitoring reports.

In the course of the training, several documents were developed and given to the employees in charge of the various departments: User manual head office and branch, cancelling transaction procedure, accounting entries, operational configuration, correction request and the addition of the new control in the register of internal control. Final scripts for the Interbranch were also given. At the same time, the documentation for the IT team was updated and distributed.

Job category	# of employees/women
Operations	3/2
Accounting	4/1
Internal control	3/3
Disbursement	1/1
IT	2/0
Total of employees	13/7

Figure 9: Head office employees trained

During the project, the consultants also analysed the issue of accounting for transactions between the different branches. Based on discussions with managers and the different departments involved and impacted by these transactions, it was concluded that the creation of a new accounting tool would help EFC Zambia to better manage and reconcile the accounting accounts. The new tool fits the institutional needs better than the accounting transactions developed in the Interbranch (see lessons learnt and challenges below).

Category of employees	Number of employees	Women	Rural employees
Tellers	9	5	2
Administrative agents	8	5	2
Branch managers	6	1	2
Branch employees	21	11	6
Total	44	22	12

Figure 10: Branch employees trained on Interbranch

Employees were trained on the new tool and Excel tools were developed to ease the daily reconciliation of the financial accounts. The Excel tools for the preparation of daily and monthly figures have also been changed accordingly. All information has been verified and validated to ensure that the database separation was correctly handled in the Excel tools.

Figure: 11 Key Measures/Ratios	Y-3 2009	Y0 2012	Y+1 2013	Y+3 2015*
Profitability				
ROE	-0.3%	12.5%	14.3%	23.0%
ROA	-0.3%	3.6%	4.6%	9.7%
Par30	2.0%	2.8%	3.0%	3.0%
Sufficiency				
Operational Sufficiency	99.0%	113.4%	117.0%	122.0%
Financial self-sufficiency:	42.0%	108.0%	114.0%	116.0%
Social				
Client Protection Principles	Adherence to the client protection principles promoted by the Smart Campaign.			Continue commitment to the Smart Campaign
Social Performance	EFC Zambia undertakes social performance reviews, last Impact Assessment conducted in May 2013.			ASPIRE Ratings

With more than 4'907 transactions made via this system as of January 2014, EFC Zambia can state that the system is well appreciated by employees and customers, is user-friendly and connects the urban and rural branches optimally. Rural-urban interconnectivity brings EFC Zambia into closer contact with clients and ensures institutional sustainability for the future. As new branches are rolled out, they will be connected to the EFC network by the local team. The EFC management team is currently preparing a branch opening in Lusaka in the second quarter of 2014. Additional branches will be rolled out in future.

3.3. Industry Level

Through this project, EFC Zambia is demonstrating that 1) microfinance interconnectivity in Zambia is possible and essential for breaking down the isolation of rural areas in terms of access to financial services; 2) Branches, due to their presence in rural as well as urban areas, can play a major role in ending rural isolation; 3) The Interconnectivity platform can be leveraged in order to introduce new products and services in a uniform and professional manner throughout the branches.

4. Lessons learnt and further challenges

Lessons learnt: During the implementation phase, the team faced challenges integrating the Interbranch system with the Institution's accounting system. Firstly, the initial accounting solution in the Interbranch was not suited for the particular needs of the institution. The new feature proved to be a bottleneck affecting the

operations of several other departments. The consultant consequently had to redevelop a simpler tool which was more aligned to the client’s procedures and needs. Through this, the need to extensively engage users during the design phase became evident: By consulting key users as extensively as possible in the early stages of the design lifecycle, and then continually throughout the implementation and testing phases, the deployment efficiency is improved.

Secondly, during the project implementation the consultants recognised that there is need to improve the existing accounting infrastructure to fully leverage on the capability of the Interbranch system. Currently, to make transactions in different branches, the accountants have to connect to different databases remotely. The current methods are tedious and prone to errors. Enabling the accounting department to make simultaneous transactions with interconnectivity would improve the operations greatly. With increased volume of accounting transactions for all branches, addressing the above challenge is critical.

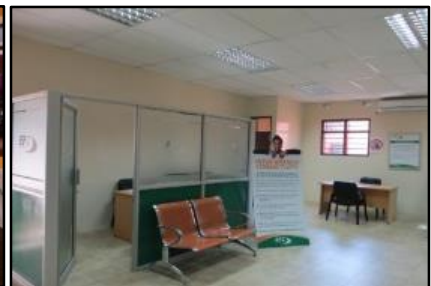
Further challenges: The system is operational, but some elements should be added and/or improved so that users can benefit from its full potential. Some reporting functions will need to be rethought and customized. Moreover, new features, such as centralised accounting transactions should be added to the software. Overall, the system will need to evolve with the Institution’s growth. Going forward, investment in the Institution’s IT capabilities and IT developments to match the needs of the Interbranch system will be key to ensuring that the system remains a key business/efficiency enabler.



Training session



The official launch



Information about the product in branch

ⁱ Economic Freedom Score, Zambia, <http://www.heritage.org/index/ranking>, accessed 20.03.2014.

ⁱⁱ IMF Zambia Country Report No. 14/5, <http://www.imf.org/external/pubs/ft/scr/2014/cr1405.pdf>, accessed 20.03.2014.

ⁱⁱⁱ African Economic Outlook, <http://www.africaneconomicoutlook.org/en/countries/southern-africa/zambia/>, accessed 16.12.2013.

^{iv} Zambia Doing Business 2013, <http://www.doingbusiness.org/~media/GIAWB/Doing%20Business/Documents/Annual-Reports/English/DB13-full-report.pdf>, accessed 28.05.2014.

^v Worldwide Governance Indicators, 2010, Zambia, <http://info.worldbank.org/governance/wgi/index.aspx#reports>, accessed 16.12.2013.

^{vi} Central Intelligence Agency USA, 2013, World Factbook Zambia, People and Society, <https://www.cia.gov/library/publications/the-world-factbook/geos/za.html>, accessed 17.12.2013.

^{vii} Oxford Poverty and Human Development Initiative, 2013, Country Brief Zambia, <http://www.ophi.org.uk/wp-content/uploads/Zambia-2013.pdf?3f40f1>, accessed 17.12.2013.

^{viii} Middle Africa Insight Series: Banking-Zambia May 2013, <http://www.ecobank.com/upload/20130503061750892102nNuFPJXgzH.pdf>, accessed 20.03.2014.

^{ix} MfTransparency, <http://www.mftransparency.org/wp-content/uploads/2012/05/MFT-RPT-108-EN-Country-Survey-Zambia.pdf>, accessed 20.03.2014.

^x Zambia Map of Financial Inclusion, <http://www.themix.org/publications/mix-microfinance-world/2013/08/zambia-map-financial-inclusion-national-efforts-tackle-financial-inclusion-goals>, accessed 20.03.2014.

^{xi} Finscope, 2009, Zambia, http://www.finscope.co.za/finscope/pages/Initiatives/Countries/Zambia.aspx?randomID=8b1174d1-2ef7-4c68-bb07-ee205f740531&linkPath=3_1&IID=3_1_16, accessed 17.12.2013.

^{xii} Management estimate from analysis of published accounts of top MFIs in Zambia.