



**THE UNIVERSITY OF ZAMBIA UNIVERSITY  
POSTGRADUATE PROGRAMMES**

**THE EFFECTS OF FINANCIAL INCLUSION ON FOSTERING  
ECONOMIC GROWTH AND WEALTH CREATION IN ZAMBIA**

*(A case study of the National Savings and credit Bank NSCB)*

**BY**

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PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD  
OF THE DEGREE OF MASTERS OF BUSINESS ADMINISTRATION**

**SUPERVISOR -MR. THOKOZANI KAMANGA**

**2017**

## **DECLARATION**

This is to confirm that the report being submitted is the original and authentic work prepared by myself in an effort to satisfy the University of Zambia (UNZA) regulations for the award of a Master's in Business Administration (MBA) under the Institute of Distance Learning. It's further confirmed that all secondary data used in this piece of work has been referenced in accordance with the University of Zambia guidelines and that the work has not been used or previously submitted to any other University for any qualification.

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## APPROVAL

This dissertation prepared by **BWALYA KALUNGA** has been approved as partial fulfillment of the requirements for the award of the degree of **MASTER OF BUSINESS ADMINISTRATION** by the University of Zambia in collaboration with Zimbabwe Open University.

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## **DEDICATION**

I dedicate my work to my late parents Mr and Mrs. JPAN Kalunga for having inspired me to be determined, prayerful and hardworking; my husband Collins Sichula, for his love and support, as well as my children Chella, Kapembwa, Kalunga, Nsama and Mwaka for their patience and understanding while I spent hours away from them.

I thank you all for being part of my achievement.

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## **ABSTRACT**

A number of studies have suggested that access to financial services may allow the poor or otherwise disadvantaged to invest in physical assets and education, reducing income inequality and contributing towards economic growth (Burgess and Others, 2005). These studies have proved that an increased access to various financial services for low income households can undoubtedly allow these low income earners to improve their social and economic well-being which can lead to both economic growth and financial development, (Morgan, 2014).

It is as a result of these studies that the research was aimed at focusing on establishing the effects of financial inclusion on fostering economic growth and wealth creation in Zambia with particular reference to the National Savings and Credit Bank (NSCB). The study therefore attempted to establish if at all financial services offered by NSCB to the rural areas of Zambia do have an effect on economic growth and wealth creation in these rural communities of Zambia. The research further aimed at gathering data and analyzing the already existing literature on financial inclusion in and outside Zambia. The NSCB was selected due to its wide branch network of 36 branches spread across all the 10 provinces of Zambia of which 21 are based in the rural communities. The research firstly concluded by establishing that NSCB financial products and services do contribute towards economic growth and wealth creation through its support towards education activities at household level through loans and savings products which are offered in the rural communities it is servicing. Secondly, it was established that NSCB products and services do have an effect at community level as they were focused on supporting economic activities such as agriculture, micro, small and medium enterprises which are a major driver towards economic growth and development as highlighted in the literature cited. The study further recommended that an improvement in customer service, financial sensitization or education of rural communities, expansion of remote banking, introduction of tailor-made products, and recapitalization of the bank as well infrastructure development in rural communities can greatly contribute to promoting financial inclusion in Zambia.

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## LIST OF ABBREVIATIONS

ATM	AUTOMATED TELLER MARCHINE
BOZ	BANK OF ZAMBIA
CSO	CENTRAL STATISTICS OFFICE
EIB	EUROPEAN INVESTMENT BANK
FSDP	FINANCIAL SECTOR DEVELOPMENT PLAN
ILO	INTERNATIONAL LABOUR ORGANISATION
IMF	INTERNATIONAL MONETORY FUND
IFAD	INTERNATIONAL FUND FOR AGRICULTURE DEVELOPMENT
MOF	MINISTRY OF FINANCE
MOU	MEMORANDUM OF UNDERSTANDING
NSCB	NATIONAL SAVINGS AND CREDIT BANK
POS	POINT OF SALE
RFP	RURAL FINANCE PROGRAMME
SME	SMALL AND MEDIUM ENTERPRENURES
SPSS	STATISTICAL PACKAGE FOR SOCIAL SCIENCES
SSA	SUB-SAHARAN AFRICA
UN	UNITED NATIONS
UNDP	UNITED NATIONS DEVELOPMENT PROGRAMME
UNZA	UNIVERSITY OF ZAMBIA

# **CHAPTER ONE**

## **INTRODUCTION**

### **1.0 Introduction**

Zambia, like any other developing country in Sub Saharan Africa and the world over has continued to experience economic challenges as a result of rural poverty rates which have continued to decline particularly in the rural areas where more than half of the population live, (FinScope, 2015). In the past two decades, these rural areas have continually received the least development support as most economic developmental programs have not incorporated the rural areas due to high costs associated with investing in these areas which are linked to very little or no benefits in terms of revenue. The Zambian total population which was estimated at fifteen Million (15m) had a total adult population of eight million (8.1m), (CSO 2011). The adult population was further estimated to include forty-five (45 %) domiciled in the urban areas while 54.8% were said to be domiciled in the rural communities. It can thus be said that the larger number of adults likely to contribute to economic growth and development were based in the rural areas of the country as further confirmed by the Central Statistics Office (CSO 2011). However, the initial (FinScope Survey, 2005) findings indicated that only 33.7% of the adult population were financially included. This meant that 66.3% of the total adult population still remained unbanked in 2005. The second (FinScope Survey 2005) saw a slight improvement of the unbanked population from 33.7% to 37.3% which reduced the unbanked population to 62.7%. There was however a noticeable improvement in the (FinScope Survey, 2015) which recorded a much more significant improvement in the number of the unbanked population to 59.3%. This position interpreted into a reduction of the unbanked adult population to 40.7% in the year 2015. However, further findings reported that inclusion in the urban areas of Zambia increased more significantly than in the rural areas of the country. The small increase of financial inclusion in rural areas has been justified by most financial services providers who cite two major reasons for not investing in rural areas. One reason being high cost of investment and the other being poor revenue generation. As a result, most financial services providers are not so

determined to invest in these areas. Potential customers in these rural areas on the other hand generally cite reasons such as high cost of financial services, lack of information on financial products and services and non-availability of financial services providers as the major hindrances to their access to financial services. The World Savings Institute (2010) asserted that, microcredit reduced poverty and had an effect on economic development and was therefore key to achieving the Millennium Development Goals (MDG).

It is therefore as a result of these findings that the research was done in order to establish the effects of financial inclusion in the rural Zambia as a result of the financial inclusion policy which the National Savings and Credit Bank (NSCB) is currently promoting in these rural communities.

The research concluded by stating whether or not and further establishing to what extent the NSCB financial services are contributing towards economic development. It further made recommendations on the improved access to financial services of low income earners based on its finding.

### **1.1. Background of the Study**

Zambia, like many other developing countries in the sub Saharan Africa has seen a lot of political changes which have ultimately resulted into changes in the social and economic policies. The late 1990s and early 2000s saw several large banks closing their rural branches in preference to corporate customers in the big cities, Kankasa (2012). This major shift was as a result of the shift from a one party state to a multi-party state which brought with it liberalization of the Zambian economy. The divestment slowly saw the private sector increasingly take up the responsibility of provision of financial services from the public sector. This, according to Kankasa (2012) saw the closure of some major state owned financial institutions such as the LIMA bank and cooperative Banks which aimed at providing financial services to the agricultural rural communities of Zambia.

It is of importance to highlight the fact that the vast numbers of people in the rural communities are still small and medium entrepreneurs who have serious potential to contribute towards the country's economic growth and development. However, these rural communities have been

excluded from the financial sector as their access is hampered due to lack of financial services and exploitation as a result of high costs of the few financial services offered by large commercial banks in some areas. The Zambian government in an effort to address this anomaly has put in place measures to increase access to a greater number of the rural population in Zambia. In this regard a lot of effort is currently underway to introduce various new measures to encourage the expansion of financial coverage in the rural areas of the country. Given the significance of this matter, the Government has taken a leading role to promote financial inclusion for the under-served, particularly in rural areas.

The Zambian government has therefore formulated the Financial Sector Development Plan (FSDP) which was formulated in the year 2004 has its major financial inclusion strategy to address the financial exclusion challenges. Among the main pillars of FSDP is increasing access to financial services. The Zambian government has therefore indented the National Savings and Credit Bank (NSCB) as one of its major tools to increase access to financial services in the rural communities of the country

Established under the National Savings and Credit Bank Act 423 of the laws of Zambia in 1972, the National Savings and Credit bank (NSCB) is still totally owned by the government republic of Zambia and controlled through the Ministry of finance supervised by a Board of Directors and other statutory supervisory authorities such as the Bank of Zambia (BOZ).(Musona and Coetzee2001) explains that, the Bank was initially run and operated under the Post Office and focused on the mobilization of savings in the rural arrears of Zambia as its main objective from inception.

The Bank has its presence in all the ten (10) provinces of Zambia with a total of 36 Branches most of which are located in the rural areas of the country. The Bank is run by a Board of Directors which is appointed by the Minister of Finance, a team of technical directors, namely the Human Resource and Administration, Information Technology, Operations, Credit, Audit, Credit risk and Finance. In addition, NSCB has currently employed a total of four hundred and fifty (455) support staff. The Bank is striving to be Zambia's Leading financial Institution in the provision of Financial Services for wealth creation. The Banks Mission's statement is focused on the promotion of increased access to financial services in rural and urban arrears through mobilization of savings and offering of prudent credit to foster economic growth.

The Bank's main objectives include the following;

- mobilization of deposits in order to create a pool of funds for lending purposes,
- to promote financial inclusion for wealth creation,
- to provide Credit Facilities for income generation and empowering customers NSCB Strategic Plan 2014-2018 (2013).

Studies by scholars such as Hermes and Lensink (2007) reveal that micro-credit and small and medium finance has the ability to reduce poverty and result into a direct positive effect on economic development. It is for this reason that it is a key to the achievement of Millennium Development goals, according to the World Savings Bank Institute, (2010). Increased access to financial services has over the years therefore become a major strategy to assist in the alleviation of poverty in developing countries. The focus has been precipitated by lack of access to formal banking services by the most marginalized groupings such as women, disabled, rural communities and the youths. According to a report by World Bank (2011), the most impoverished people are believed to be living on less than a dollar a day. It has therefore become a world concern to reduce poverty as a way of developing most economies and this can only be done through empowering the most marginalized. The target of the 2011- 2015 Millennium Goal therefore was to reduce poverty by creating 500,000 jobs out of which 88% is to create for Small and Medium Enterprises(SME's).

It is therefore on the basis of the institution's major objectives that the research aimed to establish the effects of financial inclusion on fostering economic growth and wealth creation in the rural areas of Zambia. The research thus was an attempt to identify factors which entail economic growth and wealth creation, identify specific financial services suitable for the rural areas of Zambia and highlight the challenges faced by NSCB in its provision of financial services to the rural communities and finally offer suggested solutions to some of the challenges of financial inclusion in the rural areas of Zambia.

## **1.2.Statement of the problem**

The majority of the impoverished people in Zambia are from the informal sector which constitutes 70% of the population of Zambia (FinScope, 2015). The Zambian government is supporting NSCB to reach out to the poorest sectors in unbanked areas through its branch expansion program and has a target of opening at least ten new branches in the rural areas of Zambia annually, (NATSAVE Strategic Plan 2014-2018, 2013). The strategy that NSCB is approaching to eradicate poverty is through the provision of credit and deposit mobilization in all its thirty-six (36) branch network. The majority in rural areas do not have access to financial services because the giant banks have marginalized them due to poor infrastructure in terms of passable roads, hospitals, education facilities and lack of economic activities. The bank, whose mission is to provide distinctive, customer-focused banking services in order to foster financial inclusion, economic growth, economic development and wealth creation, has developed various products and is currently expanding its service delivery channels to unbanked rural areas. The bank has also set up ambitious targets of reaching out to low income segments such as women, SMEs, the youths, adolescents and female operated small businesses.

One of the bank's major objectives is to promote financial inclusion for wealth creation by identifying and commercializing some subsistence but viable economic activities in about 10 rural districts of Zambia; introduce about 10 new products including, bureau and foreign exchange services, forge tripartite value chain partnerships for farmers; as well as establish and fully operationalize SMEs in all districts; build about 50 new branches, install about 603 Points of Sale (POS) and install about 80 ATMs in all branches by 2018, (NSCB Strategic Plan 2014-2018 2013).

NSCB has been active on the ground implementing these strategies. However, there is little evidence on what the bank has achieved with regard to its financial inclusion agenda and there is very little information on the impacts of NSCB's projects on the livelihood of beneficiaries, communities and districts where the bank operates from. It is also unclear whether NSCB's

ambitious financial inclusion campaigns have produced intended desired results and how these have contributed to the overall economic growth, economic development and wealth creation of the country as a whole. There is currently no study exclusively conducted to empirically bring out these factors.

This study therefore attempted to empirically determine how access to financial products from NSCB bank has helped communities and beneficiaries to contribute to the economic development processes of the country and how NSCB's interventions have changed the socio economic wellbeing of beneficiaries and the rural communities in which they live.

### **1.3.Purpose of the study**

The purpose of the study is to show the effects of financial inclusion in Zambia with specific reference to the role the National Savings and Credit Bank is playing in providing financial services to the low income earners in the rural areas of Zambia namely, in Kaputa, Chongwe, Chama Luwingu, Chilubi, Mwense, Kasama, Nchelenge, Lufwanyama and Petauke.

### **1.4.Study Objectives**

To establish the effects of NSCB's financial products and services on economic growth, economic development and wealth creation as a way of reducing and eradicating poverty in the rural communities of Zambia.

#### **1.4.1. Specific objectives**

- To identify factors that entail an improved welfare as a result of financial products and services which are offered by **NSCB** in the rural communities of Zambia
- To ascertain which **NSCB** financial products and services are most suited to the needs of the rural communities of Zambia
- To identify the challenges that **NSCB** is experiencing in its provision of financial services to the rural communities of Zambia.

#### **1.5.0 Research questions**

What are the effects of NSCB's financial Inclusion programme on fostering economic growth, economic development and wealth creation in the rural communities of Zambia?

#### **1.5.1 Specific research questions**

- Is there any significant effect on economic growth, economic development, wealth creation and an improved welfare as a result of NSCB financial products and services which are offered in the rural communities of Zambia?

- What type of NSCB financial services and products are suitable for the households and rural communities of Zambia?
- What challenges are faced by NSCB's external and internal customers in the provision of products and services to the rural communities of Zambia?

### **1.6.0 Delimitation**

This study will be limited to selected Natsave employees based in the targeted rural Branches specifically namely Kaputa, Chongwe, Chama Luwingu, Chilubi, Mwense, Kasama, Nchelenge, Lufwanyama and Petauke. The reason for choosing selected Branches was due to the convenience the researcher had in terms of interacting with the Branches during the period of study. It assisted the researcher to cut down on both time and logistical challenges. Focusing on selected Branches made it more convenient to conduct this study because of the small sample size.

### **1.7.0 Significance of the study**

The proposed study will assist various stake holders in establishing and understanding the role of financial inclusion as a means of economic development, economic development and wealth creation. This will be done by highlighting the major variables in terms of findings with regards to the actual effects of financial in the rural areas which NSCB is present. The findings will therefore be beneficial to various stakeholders some of which are as follows;

#### **1.7.1 The Zambian Government (Sole Shareholders)**

The Zambian government and sole shareholder of NSCB whose main objective for establishing the National Savings and Credit Bank under the National Savings and Credit Act 432 of 1971 is to promote increased access to financial services in rural areas will use the information to monitor, evaluate and assess if at all its major aims and objective of establishing the NSCB is being met. The government will further use the study to determine ways in which delivery of products and services may be improved.

### **1.7.2 The Bank of Zambia**

Government Regulators through BOZ which is the major pioneer of financial inclusion will equally use the information for reference and assessment of the performance of one of its major tool driving financial inclusion. The results will also be used as evidence of financial inclusion activities as promoted by the Central Bank.

### **1.7.3 The Financial Services Industry (Microfinance and other Bank institutions)**

The information will also benefit other Banks and MFIs which will use the information to gather more knowledge and insight on financial services activities in the rural areas of Zambia. They will also use this research to improve decision making and service delivery, and identify better ways of helping poor customers by establishing the financial needs of the rural communities. Existing and potential new entrants will also benefit in the sense that it will offer a detailed view of the potential challenges of offering financial services in rural areas and enable them to make better informed decisions.

### **1.7.4 Customers and other stake holders**

Bank customers will have a better and informed position on the financial products and services offered by NSCB, while scholars will use this literature as additional knowledge from the existing studies including other stake holders. Other beneficiaries will be future scholars who may wish to pursue studies on the same topic who may use the findings of the research as a related case study.

### **1.8.0 Ethical considerations**

The main purpose of the study was focused on making a significant contribution to the already existing knowledge on Financial Inclusion in Zambia in a purely academic way. Therefore, all data which was collected from various respondents and administrative data was used for that solely for academic purpose. The respondents were guaranteed of total confidentiality and the

researcher assured NSCB that the data collected would be used only for academic purposes. The research further guarantees that there is no violation of any Zambian Law. A clearance to study was also obtained from the University of Zambia Ethics Committee.

### **1.9.0 Scope of the study**

The research was mainly focused on establishing the effects of financial inclusion on economic development and wealth creation in the rural areas of Zambia. The focus was further inclined to the role which NSCB is playing in its provision of Financial Services to the rural communities of Zambia. The study made reference to both local and international available Literatures on Financial Inclusion, field data collected and various report findings within NSCB.

### **1.10 Limitations of the study**

The research was only based on the NSCB and therefore, all its findings are based on the responses obtained in the rural parts of Zambia where NSCB has a presence. The results can be influenced by the cultural and economic activities of people in these areas. The research further focused on ten (10) rural Branches namely Kaputa, Chongwe, Chama Luwingu, Chilubi, Mwense, Kasama, Nchelenge, Lufwanyama and Petauke due to time and logistical constraints. The limited sample size which was used in the research may not be easily generalized to other institutions as well as other parts of rural areas in Zambia.

Poor literacy levels in the rural communities also may have negatively affected some responses as some customers could not properly answer questionnaires while others completely shunned away. In some cases, both Internal and external customers on the other hand were not so willing to easily give out information as they thought some questions were too sensitive and confidential and as such, could not be answered.

### **1.11 Theoretical framework**

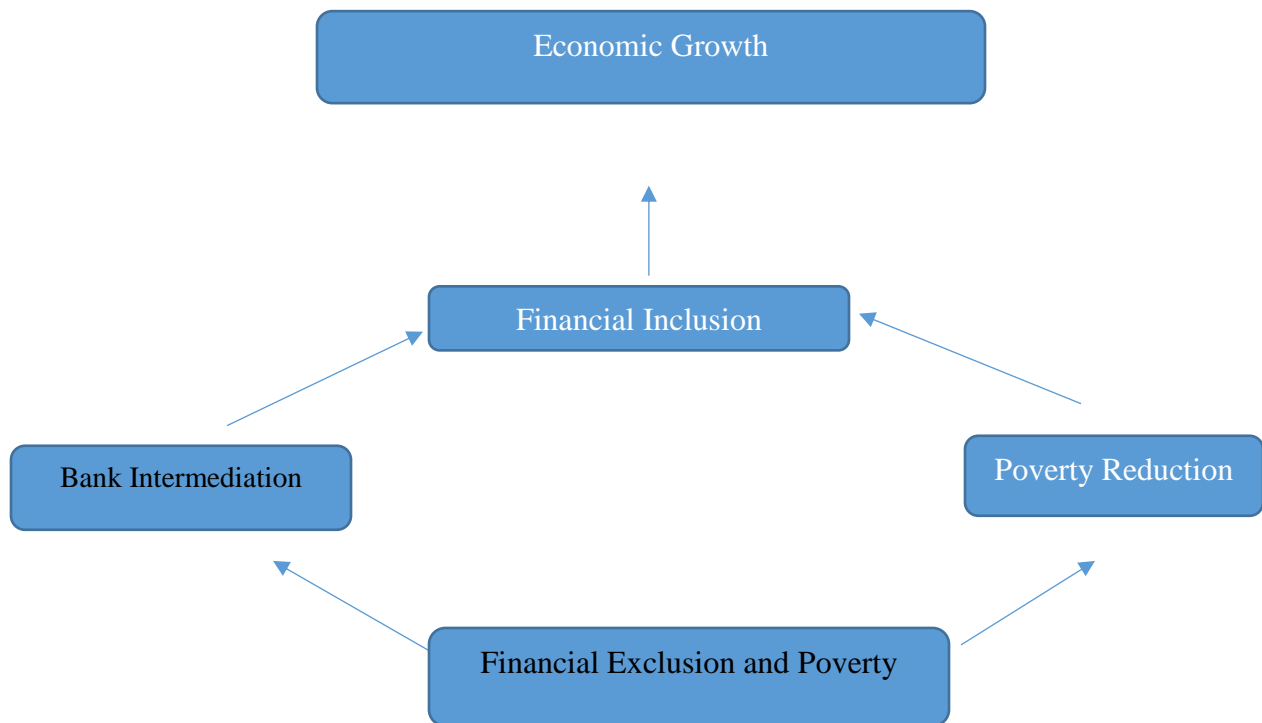
This section was an attempt to sharpen and deepen the theoretical as well as empirical framework on which the research topic was based. It was intended to familiarize the researcher with the latest developments and current knowledge on the research topic. It was expected that

theoretical framework would also assist the researcher become acquainted with the problems and challenges faced by previous research work which were used to widen and deepen the research.

### ***1.11.1 Relationship between Financial Inclusion and Economic Growth***

The research adopted the theoretical framework relationship between financial inclusion and economic growth as presented by the International Journal of Business and Management Review Vol. 3, No, PP, September, 2015 as follows;

***Figure 1: Relationship between Financial Inclusion and Economic Growth,***  
(The International Journal of Business and Management Review, 2015)



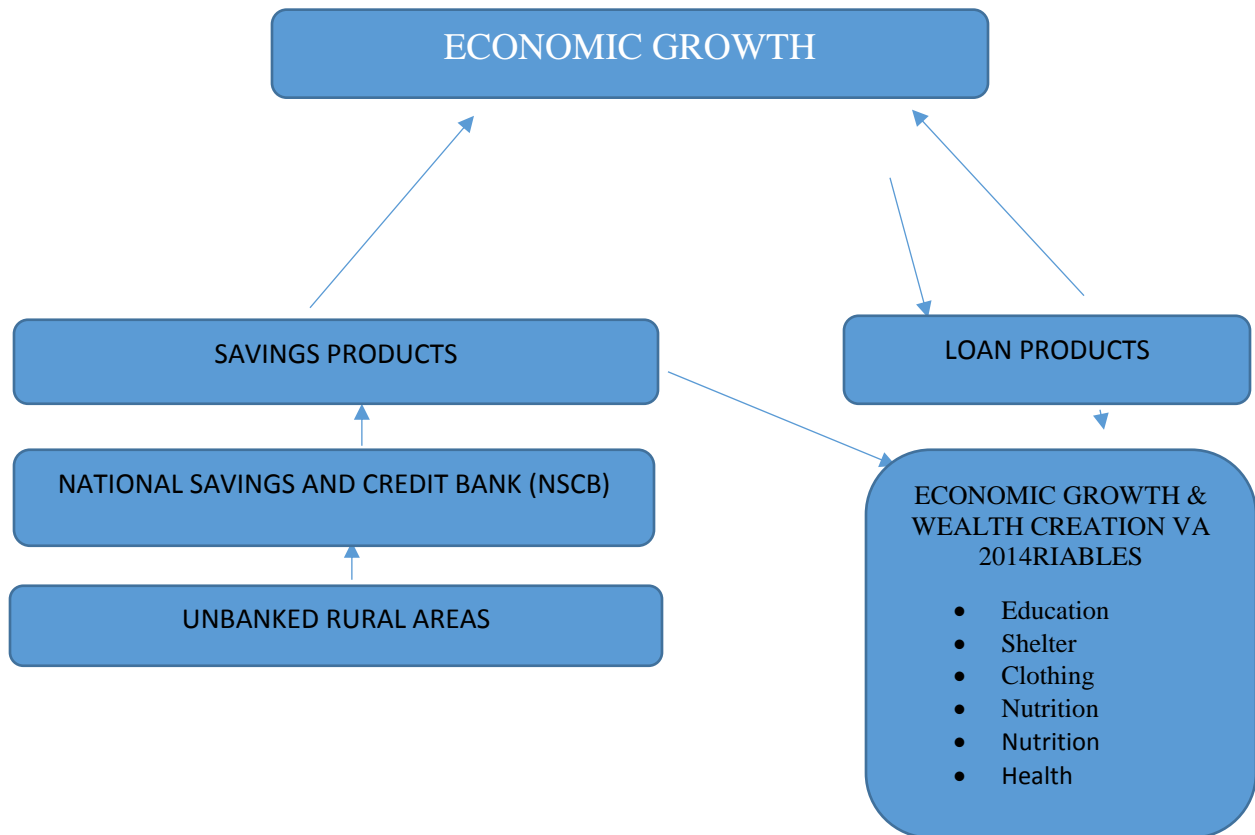
The research made reference to the theoretical framework as outlined in order to show a possible link between Financial Inclusion and Economic growth. The concept brought out a wider view of financial inclusion as it encompassed a multi-dimensional concept that entailed not only creating an increased access to financial services but also included the quality and use. This was further supported by the UN Capital Development Fund, (2006), which asserted that the notion of inclusive financial systems recognizes not only the goal of incorporating as many poor and

previously excluded people as possible into the formal financial system but also assigns financial institutions the role of reaching out to the unbanked. Therefore, the adopted concept outlined stages of financial exclusion and poverty which was synonymously linked to the rural communities of Zambia. It was further linked to two (2) main variables namely bank mediation and poverty reduction and was ultimately linked to economic growth upon incorporating financial inclusion.

**1.11.2 Relationship between Financial Inclusion and Economic Growth in relation to Economic Variables**

A further reference of the study done by UNDP, (2001) was adopted as it further highlighted the role of financial institutions in poverty alleviation by bringing out variables which were used to measure wealth such as Health, Education Decision Making, Shelter/ Housing, self Esteem, clothing, Nutrition, Asset Accumulation copying capacity and employment. These variables where used in reference to the research as follows;

**Figure 2: Relationship between Financial Inclusion and Economic Growth in relation to Economic Variables, (UNDP, 2001)**



In further highlighting the theories in relation to economic growth, economic development and wealth creation variables reference was made to the study done by (UNDP, 2001) as highlighted above. It can thus be said that, financial inclusion can likely make a substantial improvement in the lives of people in the rural areas of Zambia by helping reduce poverty through positive variables such as education, shelter, clothing nutrition and Health. Otechere (2016) further adds that, financial inclusion enables the poor to accumulate savings, be able to borrow and invest their finances in micro enterprises which ultimately creates employment, increase income and reduce poverty by fostering social and political cohesions which all are said to contribute positively towards a sustainable economic growth.

### ***1.11.3 Economic Growth and Development Theory***

The research further made reference to Todaro's economic theory, (Todaro, 2014) which was developed in order to establish and understand why certain economies were doing better than others. According to (Todaro, 2014) distinctive theories were brought together to outline economic growth and development which included, traditional economics, political economics, economic development, concepts and goal of economic development.

#### ***Traditional Economics***

Traditional economics according to (Todaro, 2014) is concerned with efficient, least costly allocation of scarce resources and optimal growth of these resources over time in order to produce an ever expanding and increasing range of goods and services. Traditional neoclassical economics is therefore suitable in the study of advanced capitalistic economies. It assumes economical rationality and purely materialistic, individualistic, self-interested and oriented towards economic decisions.

#### ***Political Economics***

Another theory which Todaro came up with is the political Economics Theory. This goes beyond traditional economics and concerns itself with the study of social and institutional processes by which economic and political elites influence the allocation of scarce resources either for their own benefits or the benefits of a larger population. Political economics is therefore concerned with relationships between politics and economics with a particular emphasis on the role of political power in economic decisions.

## ***Economic Development***

Todaro's third theory on Economic Development has a broader scope than political and traditional economics and traditional economics. In addition to being concerned with efficient allocation of scarce resources and sustained growth over time, it also deals with the economic, social, political and institutional mechanism necessary to bring about rapid and large scale improvement in the living standards of people in Africa, Asia, and Latin America. Economic development is also concerned with the economical and requirements for effecting rapid structural and institutional change of the entire societies. It focused on the mechanism that keep families, regions and entire nations in poverty traps and on strategies for breaking these traps.

It is therefore clear from what has been stated that, the theory of economic development is very important to a developing country like Zambia. The theory of economic development outlined helps to understand societies as follow;

- It helps to understand critical questions about the economies of developing nations. These questions illustrate the kinds of issues faced by almost all developing economies.
- it helps us to start thinking critically and systematically about economic problems, issues and formulate judgment and conclusions on the basis of analytical principals and reliable statistical data.
- The problems of development are often unique and not easily understood through traditional economic theories.

## ***Values, Concepts and goals of economic development***

Values are ethical or normative judgments about what is what is not desirable. The concept of Economic development and modernization are value judgments about desirable goals for achieving human development. It therefore becomes a vital concept in determining the effects of financial inclusion on economic growth, economic development and wealth creation.

The goals of economic development highlighted by Todaro therefore include, economic and social equality, elimination of poverty, universal education, raising living standards, self-reliance and personal fulfillment. Major issues of development such as these issues above convey the value of judgment that their improvement or elimination is desirable and therefore good. Value

judgments are inherent components of economic analysis and economic policy which should be evaluated on the underlining assumption of value judgments. Once subjective values have been agreed upon by a nation's decision making, specific development goals and corresponding public policies can be pursued.

There is no doubt that most African countries depend on small and medium enterprises (SME'S) in driving their economies forward. However, most of these SME's receive very little support from their government. Nevertheless a few competitive SME's are thriving and contributing positively towards economic growth, employment creation and local or rural developments in eradicating poverty and creation of wealth. The informal sector has therefore become the center of major concern in today's globalized world economy; hence a number of African governments have withdrawn from running the economic activities of their nations allowing for a more competitive market economy were a sizable portion of the nation's economy is running the major economic activities.

#### **1.12.0 Operational definition of terms**

**1.12.1 Economic Growth-** The increase in the possibility and capacity of a government or economy in its ability to produce goods and services in comparison to its previous status. This can further be explained or referred to an increase in an economies balance of payment through the increase in Gross Domestic products (GDP) and proper management of a country's Fiscal Policy. Economic growth refers to a sustained increase in the value of economic activities within a country or given economy over a given period of time. The Gross Domestic Product (GDP) is therefore a relevant tool in the measurement of the aggregate worth of an economy, (Onaolapo, 2012). Therefore an increase in production of goods and services through various industrial means such as manufacturing, agriculture and trading in a given period can be referred to as economic growth.

**1.12.2 Economic Development-** The adoption of improved and new technologies such as transition from Agriculture-Based economy to an industry based economy with latest of the art technology to foster general improvement in the citizen's lifestyle. It could also mean an innovative way of improving an economy through the use of latest of the art technology without necessarily transitioning into another industry but yet still improving citizen's lifestyles within the same industry. (Onaolapo, 2012). It can therefore be said that a successful transition of the Zambian economy from a mineral based economy to a much more innovative agriculture of industrial based economy may be said to bring economic development to the country

**1.12.3 External Customer-**According to Grant (2006), an external customer is explained as a customer who lies outside an Organisation. Thus in this research, an external customer is consistently referred to the external or customers which the institution is serving outside the organisation such as depositors and account holders who are benefiting from the organization's products and services externally. Grant (2006) further explains that an external customer is the one who buys goods and services from an organisation. Therefore, in this report, external customers are referred to as NSCB's outside customers who benefit or qualify to benefit from financial products and services which are offered by NSCB such as savings, Loans, cash transfers, guarantees, safe keeping and other related products and services on offer.

**1.12.4 Financial Inclusion-** This is said to refer to a process that ensures the ease of accessibility, availability, and use of financial systems by almost every adult members of an economy or a population, (Onaolopa, 2015). This can be explained to mean making it possible for every eligible citizen to have access to formal financial services regardless of the location and capacity. On the other hand, (Leerladhar, 2006) further describes financial inclusion as the delivery of banking services at an affordable cost to a wider section of the disadvantaged and low income groups. It is a way in which most governments are using in order to promote accessibility, availability and affordability of formal financial services to all members of a given economy. Another definition of Financial inclusion was adopted from the (Rangarajan Committee, 2009) as reported by (Raihanath, 2014) which defined financial inclusion as the process of ensuring access to

financial services such as timely and adequate credit where needed by vulnerable groups such as weaker sections and low income groups at an affordable cost. Financial services in this case refer to an entire range of financial services offered by financial institutions such as savings, credit, insurance, payments and so on. The role of a financial system in this case is to redistribute or transfer resources from those that has surplus to those that have a deficit. Financial inclusion can therefore be said to be a way in which the vulnerable such as the low income earners, marginalized groups such as women, adolescents and youths in the remote and rural areas are given an opportunity to have access to affordable financial products and services.

**1.12.5 Financial Literacy** – Financial Literacy according to Noctor et al (1992) as cited in Kebede (2015) is said to be the ability to make informed judgment and to take effective decisions with regards to use and management of finances. Kabede further explains that a combination of knowledge, skill, attitude and behavior necessary to make sound financial decisions and ultimately achieve individual wellbeing defines financial literacy. The third definition of financial literacy was adopted from (Lusardi et al, 2013) who defines financial literacy as the ability of an individual to process economic information and make informed decisions about financial planning, wealth accumulation, debt and pension. It can thus be deduced to say that financial literacy is the ability of a person to be able to acquire adequate knowledge which can enable that person to understand financial issues in terms of charges, conditions and processes. This knowledge can assist someone to make an informed decision in terms of investments of finances and choice of financial services.

**1.12.6 Internal Customer**-These are the first line customers who are expected to buy in an organization's products and services internally. The internal customers lie within an organisation as explained by (Grant, 2006). Therefore people who internally work in an organisation to ensure that the delivery of products and services to external customers are done as scheduled and planned are internal customers.

**1.12.7 Poverty**- This is referred to the lack of income and relevant resources that ensures a sustainable livelihood. The United Nations, (2016) adds that, poverty ultimately

manifests in negative variables such as hunger, malnutrition, limited access to education, social discrimination and lack of participation in decision making. It is further said to mean a lack of basics needs such as clean water, food, health, basic education facilities and lack of income which support a normal livelihood. ([www.ipc.undp.org](http://www.ipc.undp.org)). It includes lack of freedom of choice and general participation and recognition of basic human rights. The World Bank (2010) further assert that poverty has to do with a deprivation of basic human needs such as food, water, health, educations, shelter and freedom of speech.

**1.12.8 Wealth Creation-**The acquisition of various properties and assets in addition to the needs of human survival. This may include acquisition of assets such as housing units, liquid investments, and higher levels of education and so on.

### **Summary of Chapter**

Chapter One (1) gave a general over view of the whole report by outlining the general background to the study, highlighting the statement of the problem, justifying the major purpose of study, highlighting the objectives of the research and briefly brought out some of the limitations of the research which may negatively influence the findings of the research. The next chapter which is Literature Review will focus more on the various available studies such as Journals and related materials related to this research.

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.0 Introduction**

This chapter reviews various literature which were derived from the research objectives in various dimensions namely general view, Zambian historical view, Global, Regional perspective and Zambian Local financial inclusion intervention measures. Thereafter, it reviews previous comparative studies and lastly give a critical view of the works cited.

#### **2.1.1 Historical Background**

The liberalization of the Zambian economy in 1991 saw changes in the financial sector of the economy. There was a noticeable growth in the financial sector as we saw an increase in the number of financial institutions, both bank and non-bank. This growth brought with it several other challenges and opportunities to the financial sector in Zambia. The sector also saw a move from a few state owned institutions to a growth of privately owned financial institutions. However, it saw a lot of reduction of financial institutions in the rural areas of the country as the private sector preferred to operate in the urban areas, a move which resulted into limited number of financial institutions in the rural areas. The collapse of subsidized financial sectors in the 1990 such as Lima bank, Zambia Cooperative Federation Services and the cooperative banks left a wide gap resulting into loss of jobs, according to the World Bank (2004), and high poverty levels (FSDP 2004-2009). For example, most rural branches of commercial banks such as Barclays bank and Zambia National Commercial (ZANACO) banks were closed due to unsustainability. The financial distress that the country experienced in 1994-1995 after the closure of nine commercial banks led to loss of confidence (flight to quality) and a shift from indigenous, local owned Commercial banks to foreign owned banks, (Maimbo, 2001) . The gap in unbanked areas led to the rise of Microfinance industry, (Maimbo, 2001). The government saw the need to launch the FSDP in 1994 to look into the plight of such sectors. Most of the poor sectors reside in rural and urban areas, close to the line of rail where microfinance operate (Wilkinson 2003 & M&N Associates, 2003) as cited by (Chiumya, 2004). The closure of many unprofitable commercial banks was due to high bank charges and interest rates, (Chiumya, 2004).

### **2.1.2 Financial Inclusion**

Financial inclusion is broadly defined as lack of access by certain segments of the society to suitable, low cost, fair and safe financial products and services from financial services providers in the mainstream. There has been a lot of research work which has been done by various scholars to establish the effects of financial inclusion with regards to alleviating poverty and stimulating economic growth and economic development. Akhil (2015), for instance, has revealed that financial inclusion plays a major role in alleviating poverty through the provision of financial services such as microfinance. Johnson and Rogaly (1997) further explain that Microfinance plays a major role in poverty alleviation through the provision of small loans for small and medium entrepreneurs' for start-ups and expansion of their businesses. It is from these findings, therefore, that the research attempted to establish if at all NSCB's financial inclusion strategy is assisting in any way to improve the living standards of poor people in rural communities as well as economically develop the communities. Therefore, the research was aimed at trying to prove if at all NSCB is able to contribute to the findings of other researchers by establishing its contribution towards economic growth and development through financial inclusion. Some of the variables intended to be established include lifting up the standards of the rural poor communities.

Scholars who have contributed to research on financial inclusion include among others (Ahmad, 2000) who adds that, poor people are capable of coming out of poverty through their hard work if only they are given the opportunity to access small loans. Poverty affects everyone regardless of how developed a country may be. Poverty therefore comes in many different forms such as economic, social and political forms which have a very negative impact in terms of the country's economic development. According to Gobezie (2004), the impact of hunger and food security is positive therefore Micro finance plays a role in reducing risks such as natural disasters and health as borrowers are more equipped unlike before obtaining loans.

ILO however reports that despite numerous theoretical and empirical studies showing a positive relationship between a sound financial system, financial inclusion and economic growth and development, rural communities still remain highly underserved by financial institutions as the Global Findex data indicate that 62% of the world's population adult population had an account at a formal financial institution or had access to mobile money services in the year 2014. ILO, (2016) further identified a serious gap between men and women indicating 58% percent and 65% Percent respectively. ILO further stressed that the most financially excluded affected geographical regions world over are the Middle East, North Africa and the Sub-Saharan Africa. It is on this basis that we focused most of our review of literature in the most affected regions.

ILO in addition cited major exclusion restrains as being, high transactional costs due to low population and lack of infrastructure in rural areas. It can therefore be said that, lack of marketable property rights due to poor legal systems, Low financial Literacy levels in rural areas, informal and semiformal institutions and climate change impact negatively on financial inclusion in most of the rural communities in most developing countries.

### **2.1.3 Overview of the Financial Sector**

In the wake of the Millennium Development goals (MDG's), improving access to financial services in developing countries has become a very important policy objective. This goal recognize that economic growth can be accelerated by deepening and widening the financial services sector. Financial outreach is associated with giving access to capital and job opportunities to the poor, (IFC, 2008). The financial sector is the set of institutions, instruments, a market, specifically designed to offer financial services in a given sector of the economy. It also includes the legal and regulatory frame-work that permits transactions to be made through the extension of credit. The five (5) major functions of a financial system in a country are, information production forecast on possible investments and capital allocation; monitoring investments and the exercise of corporate governance after providing finance, facilitation of trading, diversification, and management of risk, mobilization and pooling of savings and promoting the exchange of goods and services, (Levin and Demirgug-Kunt, 2009).

Financial services are said to perform best in low interest rate environments. A large portion of the sector generates revenue from mortgages and loans which gain value as interest rates drops. Furthermore, when the business cycle is in an upswing, the financial sector benefits from

additional investments. Such new projects require financing which usually leads to a large number of loans increasing the portfolio of borrowing (FDEG. 2012). There is ample evidence suggesting that financial sector development plays a very significant role in economic development. It promotes economic growth through capital accumulation and technological advancement by boosting savings interest, delivering information about investments, optimizing the allocation of capital, mobilizing and pooling savings, facilitating and encouraging foreign capital flows, (Wikipedia, 2012). A meta-analysis of sixty-seven (67) empirical studies finds that financial development is robustly associated with economic growth (FDEG. 2012). It can therefore be said that countries with better developed financial systems tend to enjoy a sustainable period of growth. Studies have further confirmed the causal link between the two: financial development is not simply a result of economic growth, it is also a driver of economic growth (Levin and Demirgug-Kunt, 2009)

Financial Development in developing countries and emerging markets is part of the private sector developments strategy to stimulate economic growth and reduce poverty. Fundamentally, financial sector developments concerns overcoming “costs” incurred in the financial systems. The crisis has challenged conventional thinking in financial sector policies and sparked debate on how best to achieve sustainable development. To effectively re-assess and re-implement financial policies, publications such as the Global Financial Development Report (GFDR) by the World Bank and Global Financial Stability Report (GFCR) by the IMF can play an important role in promoting development in the financial sector. This process of reducing cost of acquiring information, enforcing contacts and exhausting transactions results into emergence of financial contracts, intermediaries and enforcement of costs in conjunction with different regulatory bodies such as legal and tax system thereby motivating distinctive forms of contracts, intermediaries, and markets across countries in different times (GFDR Report, 2012).

It can thus be concluded by saying that, financial sector development takes place when financial instruments, markets and intermediaries work together to reduce the costs of information, enforcement and transactions (GRDR, 2012). A solid and well-functioning financial sector is a very powerful engine behind economic growth. This is so in the sense that, a developed financial system generates local savings which in turn lead to productive investments in local businesses. Furthermore to say, an effective financial system can easily attract foreign investments thereby increasing of foreign exchange in a given economy. The financial sector therefore provides a

platform for job creation and income generation which ultimately leads to economic growth, economic development and wealth creation.

### **2.2.0   Zambian Perspective of Financial Inclusion**

The Zambian government is said to have significantly recorded economic growth with an average GDP growth of 7 percent since the year 2003 which is said to be way above the average of 5.5 percent compared to other Sub Saharan Africa (SSA) (IMF, 2015). The growth could be attributed to diversification of the economy supported by liberalization reforms in the early multiparty state and strong copper prices on the London Metal Stock Exchange in the period of review. The growth however has not necessary trickled down to the ordinary Zambia particularly the rural Zambian. (IMF, 2015) further reports that in contrast to this growth, the effects in the rural communities has not been the same. This is evidenced from social indicator such as poorer households, poor health, poor nutrition and poor education resulting into escalating poverty levels in the rural communities. It was reported that 2007 and 2010, prevalence of underweight children in urban Zambia dropped from 12.8 percent to 10.8 percent while the indicators in the rural areas only showed a decline 1% from 15.3 to 14.2 (UNDP, 2014). The poverty levels in the rural arrears are synonymously related to the levels of the unbanked or financially excluded population. Most recent surveys indicate that the rural population of Zambia is less banked. According to (Thouraya and Faye, 2013) 62% of farmers in the rural areas of Zambia do not use any financial services. Further research done by the (BOZ, 2015) reported that the adult population in the rural areas and those that fall under the low income earners are the most excluded representing 50.2% and 52.8 % respectively. The escalating levels of financial inclusion maybe attributed to a lot of reasons. However, one reason we may attribute in the period is non availability of formal financial services as a result of a reduction number of formal financial institutions offering financial services in the rural areas of (Zambia. Kankasa, 2012) highlights that the late 1990s and 2000s was characterized by several large banks in Zambia closing their rural Branches in preference to corporate clients in the big cities. The bigger Banks cited high costs of managing business and low economic activities in the rural areas which resulted into low revenues. Kankasa further indicates that Zambia, like

most developing countries is hugely dependent on the informal sector to drive economic activities which ultimately are said to directly contribute towards economic growth and economic development (Kankasa, 2012) adds that, Zambia has a vast number of people who are potential entrepreneurs, small enterprises and others who have been generally excluded from financial sectors. These are said to be excluded as a result of lack of easy access and often high exploitation due to high costs and fees charges by the available financial service providers. (BOZ, 2015) further adds that the situation was worsened by the closure of state owned financial institutions such as LIMA Bank and corporative Banks which provided financial services aimed at supporting agriculture and SME activities. Currently, Zambia has a total of 19 Banks and 100 Non-Bank Financial institutions (BOZ, 2016)

### **2.3.0 Regional perspective of financial Inclusion (The Sub Saharan Africa)**

There is no doubt of the acceptance that financial inclusion greatly assist in the alleviation of poverty which results into economic growth, economic development and wealth creation world over. As a result of this stance, financial inclusion has undoubtedly become a major priority in most developing countries in the Sub Saharan Africa. Governments in the Sub Saharan developing countries have made a lot of collective measures on ensuring that financial inclusion is promoted and given priority.

(Nauro et al 2010) however confirms that the levels of financial inclusion in the Sub Saharan Africa still remains lower in comparison to other regional groupings. He further attributes the status of financial exclusion to be a result of low levels of financial development in the Sub Saharan region. He explains further by highlighting that, despite the low levels of financial inclusion, the region has recorded a significant progress in the improvement and development of the financial sector in the Sub Saharan Africa. Most scholars have thus revealed that financial inclusion can be enhanced through the development of the financial sectors of the economy. This is evidenced from various research models one of which we will adopt being the Inter-generational model.

A review of a Journal article written by (Ikhide, 2015) on the Finance and Growth Debate in Africa confirms a positive relationship between financial development and growth. However, Ikhide critically highlights critical evidence indicating that the linear relationship between economic growth and financial development breaks down at a higher level of financial

development. An in-depth review adds that the effects of financial development on growth and stability shows that there is no benefit without a tradeoff as at a certain stage of financial development costs totally outweigh the actual benefits. Despite the escalating eventual increase in costs, Ikhide still concludes that most African economies will still greatly benefit from expanding access to both individuals and firms, especially small and medium enterprises and that a greater financial market access will boost financial deepening. This journal puts an emphasis on developing financial sector policies which promote financial inclusions and target the informal sectors of the economy such as SME's and farmers. This has generally resulted into birth of Micro finance institutions in most African countries as these according to Ikhide have been able to manage as they are able to meet most. The informal sector which is said to be the major contributor to the output of these economies is very key to any form of economic growth in these economies. Therefore any issues targeted at economic growth should aim to promote informal finance micro, small and medium enterprises in order to boost capacity.

### ***Inter-generational model***

The Inter-generational model as designed by (Galor, 1993) and explained by (Nauro et al, 2010) postulates that, households have a tendency of under investing in human capital as a result of an imperfect market. This means that an undeveloped financial markets has a negative effect on investments as people do not have proper systems of redistribution of income which can allow them to invest and later result into welfare improvement. A developed financial system therefore reduces conflict between equity access to financial services and efficiency.

#### ***2.3.1 Financial Development as a means of financial inclusion in the Sub-Saharan Africa***

Literature reviewed pointed at under-development in the financial sectors as the main reason for financial exclusion in the Sub Saharan Africa. (Collins, 2009) argues that financial access of the poor is largely due to inefficient supply, especially lack of appropriate financial products for the poor which is characterized by the under-developed financial sectors and low degrees of formal financial services in the Sub-Saharan Africa. Research work still indicates that irrespective of the savings behavior over a period of time, an improvement in payment technologies for example still remains vital as it can significantly reduce the costs of financial services and service delivery according to (Nauro et al, 2010). This may include debit cards, electronic payments and so on.

Most countries in the Sub Saharan Africa have embraced these findings and invested more in developing their financial sectors as a means to improve financial inclusion.

(Akhil, 2015) journal on Financial Inclusion: Issues and challenges adds by reporting that the availability of Banking facilities and a strong bank branch network are the major facilitator of developmental and expansionary activities. And that a strong and sturdy financial system is a pillar of economic growth, development and progress of an economy. (Akhil, 2015) also defines financial inclusion as delivery of financial services to the poor at an affordable cost.

### ***2.3.2 Financial Education as a means of financial inclusion in the Sub-Saharan Africa***

Financial Education which according to (Kebede, 2015) and others is the process by which financial consumers/ investors improve their understanding of financial products, concepts and services through information, instruction and objective in order to develop skills and confidence to become more aware of financial risks and opportunities, and to help them make informed choices to improve their financial wellbeing. A review of the study conducted by Messy et al, (2012) according to Kebede (2015), on financial literacy in the African context concluded that, financial education can greatly assist improve financial literacy and improve other welfare. His conclusion came as a result of his findings with regards to very low financial inclusion recorded in some African countries as a result of informal labour markets and high usage of informal financial services where majority lived in abject poverty. These people were found to be much more consistent with the use of informal financial services which were very costly and not very innovative. It was thus proved that a financially educated population can easily access formal financial services and thereby reduce on the number of people who are unbanked.

### **2.4.0 Global perspective**

Financial exclusion has also impacted negatively on a global level as reported by the European Investment Bank (EIB) (2013) which indicates that globally, only about 50% of the world adult population have one or more bank accounts and nearly equal the number are formally unbanked. A further reference reviewed that out of the world banked population, only 9% have access to credit and only 22% are saving through formal financial services. In addition, a study done by the World Bank (2014) on financial inclusion in rural India showed that 40% of households have deposit accounts, 20% have outstanding loans and only 15% have an insurance.

Having highlighted the financial exclusion levels world over, a review of literature on financial inclusion and economic growth still revealed that there is still a recognizable relationship between financial inclusion and economic development.

#### ***2.4.1 Financial Inclusion and Economic Growth in the Middle East***

One such study was conducted by Alper (2008) as report by Onaolapo (2015) who examined the relationship between financial development and economic growth in the Middle East countries which was done as a group by employing panel co-integration for a dynamic heterogeneous panel over a fourteen (14) year period between the years 1990 and 2003. The study revealed a positive and statistically significant equilibrium relationship between financial development and economic growth for the Middle East Countries under research. Levin (2005) further added by explaining that institutional infrastructure of a financial system greatly contributes in reducing financial information asymmetry which later accelerates economic growth. It can thus be said that, developing and maintaining effective financial inclusive policies and enabling environments for financial institutions to smoothly operate in unbanked areas can assist institutions to effectively and efficiently deliver their financial products and services. This is likely to encourage financial inclusion resulting into contribution to reduction in poverty and accelerate economic growth.

#### ***2.4.2 Financial Inclusion and Growth in India and South Africa***

In another study tracking the financial diaries of poor people in Bangladesh, India and South Africa, Collins (2009) found causality relationship between access to a range of appropriate and affordable financial services and improvement in poor people's welfare and income. This shows that for financial inclusion to work, there is also a great need to ensure that appropriate products and services are designed to meet the needs of the community being targeted. In addition Onaolapo (2015) reports that, financial inclusion contributes to economic growth through value creation of small businesses with positive spill-over effects on improvements in human development indicators - like health, nutrition and education – and reduction in inequality and poverty.

Another study conducted in India on the role of Commercial Banks in the financial inclusion programme by (Raihabath et al, 2014) revealed that, in order for financial inclusion to be

successful, it is important for Banks and other related financial services to provide banking services at an affordable cost to the disadvantaged and low income earners which include the rural communities.

It further stressed that banks need to play a vital role in financial literacy, credit consoling, KYC norms, Branch expansion, mobile banking and other related measures such as, Micro Insurance and Micro Credit in order for these financial services to be delivered effectively and efficiently in the rural areas. This is the only way financial inclusion may be maximized and result into economic growth and wealth creation.

### ***2.4.3 Financial Inclusion and Literacy in Developing Countries***

Literature reviewed in the Asian region particularly India, further indicated that financial inclusion has been made difficult and impossible due to literacy levels in these economies. One such study conducted in India, according to Atul (2012), revealed that a lack of access to financial services in most of the rural areas due to high informative barriers and low awareness, poor functioning and financial history of financial institutions, near absence of insurance and pension services create the need and scope of financial inclusion. Fruits of development have hardly reached to nearly half of Indian population because no access to loan and insurance and this raises most pertinent issue of financial inclusion. It can be deduced to say that financial inclusion is further hindered by the ability to effectively communicate or sensitize the unbanked in these areas. People in these areas have a tendency to shun away from innovative products and services for fear of not being able to understand the products and services. As such, they would rather keep their money at home.

### ***2.4.4 Financial Inclusion and Economic Growth in Africa: Insight of Nigeria***

The universally accepted notion that all inclusive financial systems do promote economic growth precipitated the study in Nigeria which was primarily designed to investigate the influence of financial inclusion on the growth of the economy using Nigeria as a case study. The study covered a period of thirty-two (32) years from 1981 to 2013 and was conducted by Nkwede (2015). The duration was as a result of the use of extrapolated time serious financial inclusion data from Nigeria as the basis for data collection and analysis. In conclusion, while macro exogenous variables were put under control, the results of the research showed that financial

exclusion had significant negative impact on the growth of the Nigerian economy over the years under study. The research results were further attributed to the high levels of financial inclusion of the Nigerian bankable population and in Africa as a whole. Nkwede (2015) further suggested that a sustained growth of the economy was best in Nigeria and other African countries were able to incorporate a more inclusive financial system with focus on the rural populace.

#### ***2.4.5 The Relationship between Financial Inclusion and Economic Growth in Nigerian Rural Dwellers***

Nwanne (2015) conducted a study to critically examine sustained financial inclusion in the rural areas of Nigeria as a mainstream of economic growth in the country using descriptive study and content analysis. The study revealed that the economy cannot grow fast without properly implementing financial inclusion in the rural areas of Nigeria. In these studies, a recommendation was therefore made to promote collaboration between Deposit Money banks (Commercial banks) Micro-finance institutional and communication Service providers for the enhancement of Intermediation of Financial services in Nigeria and other African countries as a whole. Sustainable financial inclusion in the rural dwellers in Nigeria was said to be made possible by expanding remote access to financial services which goes beyond the conventional branch network. Some of the delivery channels cited included, mobile or phone banking, Automated Teller Machines, Point of Sale, and agent banking. Nwanne (2015) also stressed the importance of financial inclusion as he explained that the enterprise (informal sector) is the heart of sustainable economic growth and development and therefore priority has to be given to the creation and development of rural dwellers enterprises. The conclusion of this study confirms that micro, small and medium enterprises are the major drivers of the growth and development of most economies and therefore, governments need to pay more attention not only on supporting these informal enterprises, but also to create an enabling financial environment for them to effectively and efficiently operate especially in the rural areas.

#### ***2.5.0 Financial Inclusion Intervention Measures***

In view of the escalating challenge of financial exclusion in the rural areas of Zambia, the Zambian government has put in place various measures to address the constraints of this disparity. The measures have been deliberately put in place so as to provide a lead and direction

to promote financial inclusion for the under banked not only in rural areas, but also among other marginalized groups of people such as women, (Kankasa, 2012). Some of the deliberate measures put in place include the following;

### ***2.5.1 Financial Sector Development Plan (FSDP)***

The Zambian government responded to the need to promote financial inclusion through the establishment of the Financial Sector Development Plan (FSDP). (BOZ, 2015) reports that the FSDP was established in 2004 as an international financial inclusions strategy in order to address some of the already noted challenges faced in accessing financial services by the marginalized population. It was further meant to seriously further broaden and deepen the country's financial systems. The Bank of Zambia has been coordinating the Financial Sector Development Plan which is now in phase II through three main pillars namely enhancing market structures, increasing competition and increasing access to financial services. The FSDP therefore represents a comprehensive strategy which was formulated to specifically address weaknesses in the Zambian financial system as well as guide the efforts aimed at realizing the vision of a financial system that is stable, sound and market based and would support efficient resource mobilization necessary for economic diversification and economic growth, FSDP (2015). Under the FSDP, a number of reforms were proposed one of which included recapitalization of state owned financial institutions and implementation of strategic business turn around plans among which the National Savings and Credit Bank is a part. This is to enable an increased access to financial services across the country and especially the unbanked rural areas of Zambia.

### ***2.5.2 Financial Sector Deepening Zambia (FSDZ)***

The (FinScope survey, 2015) further reports that the Bank of Zambia in partnership with Financial Sector Deepening Zambia (FSDZ) which is a national Non-profit making organisation provides information, innovation and impact to increase financial inclusion. The partnership is aimed at implementing the (FinScope Zambia , 2015) with objectives to track trends of financial inclusion in terms of levels and types of financial services offered and assess if at all Zambia is meeting its objectives and targets of Financial inclusion. The aim therefore of the Zambian

government is to address the challenges relating to ongoing poverty particularly in rural arrears where most of the population lives as it is asserted that high levels of exclusion which still exist in the country diminishes economic development.

### ***2.5.3 International Fund for Agriculture Development (IFAD)***

The Zambian government has partnered with the IFAD and established the Rural Finance Programme (RFP) whose main objective is to promote sustainable increase of financial services in the rural areas of Zambia. Sukhwinder, (2012) explains that the objective of the Zambian government is to maintain a well-funded rural finance policy and strategy to support and promote a greater financial inclusion as well as promote deeper and financial service access by rural customers. Through RFP the Zambian government has been able provide financial services in rural areas through various sector Organisations operating in rural areas such as commercial banks, non-bank financial institutions, out grower scheme , marketing, credit cooperatives and similar others through monitoring, regulation and support the said institutions. Sukhwinder, (2012) states that all this is aimed at reducing poverty levels and promoting prosperity in the rural areas of Zambia.

### ***2.5.4 Promotion of Remote Banking***

The Bank of Zambia, BOZ (2015) has further implored other measures of financial inclusions one of which includes promotion of access to financial services through alternative remote means such as remote banking. This is aimed at reducing the cost of access to financial services through use of efficient and cost effective banking methods such as internet, phone, ATM, telephone and other related ways of banking. EIB (2013) reported that introduction of innovative and cost effective financial services such as mobile and agent banking services have successfully contributed to financial inclusion. Onaolapo (2012) further adds that, delivery of financial services outside the conventional branches of financial institutions such as non-bank, retail agents such as post offices greatly assist in reaching out to the unbanked. Lyman (2008) in (Onaolapo, 2012) further adds that the idea also encompasses alternative informal payment systems such insurance products and various savings schemes.

### ***2.5.5 Creating a Stable and Effective Financial systems***

The Zambian government has stressed the stability of the Zambia's financial system as one major way in which financial inclusion may be enhanced. This is being done through the financial institutions regulator the Bank of Zambia which has been working with all financial institutions in monitoring and regulating financial institutions in Zambia and providing an enabling environment. The concept has been upheld by other scholars like (Khan, 2011) who indicates that a greater financial inclusion can also enhance economic development by contributing in several ways to maintaining a sound and very stable financial system.

### ***2.6.0 Comparative studies***

However, despite all the advantages of financial inclusion, some scholars have identified some of the detrimental aspects of financial inclusion as being too costly and complicated. (The FinScope survey, 2015) for instance highlighted the major causes of financial exclusion as being the high cost of borrowing in the rural areas. It is said that servicing rural areas is very costly as there is usually very little development in terms of roads and infrastructure. The survey indicates that investment opportunities are very low in these areas as poor households make very little revenue a situation which has discouraged most financial services providers to invest in the areas. In this avenue, the research will attempt to prove if at all these challenges are also being experienced by NSCB and further suggest the best ways in which they could be overcome.

There is however, some literature indicating that effects of financial access on the user vary with the type of financial services offered (Sahey and others, 2015) explains that for poor households, benefits are mainly derived from products such as basic payments, savings and microcredit. He further adds that small and young firms mainly benefit through access to finance, which is directly associated to innovation, job creation and growth. The key aspect to note is that the benefits derived from financial services are largely linked to the type of products or service provided and the beneficiary. In this regard, the research will attempt to establish which of the NSCB products and services are most suited for the rural communities which it is servicing.

According to the (World Bank, 2014) further evidence indicates that amongst the poor rural communities, women are the most excluded. A majority of women, especially in our developing economies are forced to rely on their own resources be it informal or semi-formal. Research indicates that women face a lot of barriers than men in the access of financial services, (World

Bank, 2014) in Sahey and others, (2015). These women contribute significantly towards managing households and have a potential to drive the economy in a positive direction if at all they are fully empowered and supported. A further attempt will be made to establish the number of female customers that NSCB is servicing as opposed to men and prove if at all women are being excluded.

### ***2.7.0 Financial inclusion Gaps in Zambia***

Although there has been overwhelming evidence showing a very strong link between financial inclusion, economic growth and economic development as indicated in most of the literature which was reviewed, the levels of financial inclusion still remain very low not only in Africa and other developing economies world over but also for Zambia as compared to other countries world over. Literature has further indicated that financial exclusion is even worse in the rural areas of these economies.

#### ***2.7.1 Data Records Gap***

Most literature reviewed did not show adequate data in terms of numbers with regards to information with regards to the size of micro, small and medium enterprises in the rural areas of Zambia. For instance, there wasn't much data on the numbers of likely consumers and size of markets in the rural areas of Zambia. Such data could have helped analyse that levels of economic activities and ultimately ascertain capacity in terms of financial services needs in the rural areas.

#### ***2.7.2 Financial Inclusion and Women Gap***

The literature reviewed indicated that amongst the rural communities who are financially excluded, women are the most hit. However, despite women being viewed as the drivers of the economy as they are more involved in most informal activities such as agriculture and trading they still remain the most unbanked in these rural areas. There is need for more research in order to establish the reasons as to why women still remain the most unbanked despite their contribution towards economic growth in the rural areas of Zambia.

### ***2.7.3 Financial Education Gap***

There was not much information to indicate if at all financial exclusion was as a result of lack of financial education in the rural areas of Zambia. There is therefore a need for further research to ascertain if at all people in rural areas find it difficult to save as a result of financial literacy.

### ***2.7.4 Lack of Social Understanding of the needs of the Rural Communities***

Most of the research done on financial inclusion has not put a lot of emphasis on establishing the financial services needs of the people in rural areas. Appropriate financial services play a great role in reducing financial exclusion in the sense that, people are only interested in financial products and services which are appropriate to the needs of their communities. For example, rural areas whose major economic activities are based on Agriculture activities would wish to have access to financial services which are aimed at promoting agriculture activities such as loans which can allow them to purchase agriculture equipment and allow them a repayment schedule which can allow them to pay back in the harvesting or marketing season.

### ***2.7.5 Challenges of offering Financial Services in the rural areas of Zambia***

Some of the literature highlighted indicated that there are some challenges which hinder provision of financial services in rural areas. Some of the challenges highlighted include, poor infrastructure development, high costs associated to servicing rural communities, poor and low economic activities in rural areas. There has not been much research with regards to establishing the actual challenges that hinder financial institutions from opening business and offering financial services to the rural communities of Zambia. A research therefore needs to be done to establish why most commercial banks withdrew and closed their operations in rural arrears of Zambia and further ascertain why most commercial banks in Zambia do not open branches in the rural areas of Zambia.

## **2.8.0 Summary of Chapter Two (2)**

This chapter focused on reviewing different literature done by different scholars and professional researchers. The studies included those done at the global and regional level mainly in the sub-Saharan Africa as well as local research work done in Zambia. The reviewed literature stressed and highlighted the importance of financial inclusion in economic growth and economic

development. The literature acknowledges the fact that most of the rural population world over still remain unbanked despite the efforts by most government economies to promote financial inclusion activities world over. It further revealed a number of gaps in the field of financial inclusion which are expected to be filled and therefore acknowledge that there is still need for more research that needs to be done in the field.

In the next chapter, the researcher will reveal and justify the Research Methodology used and indicate the research design which was selected to conduct the study. It will also give information with regards to the targeted population which was used in the research as well as indicate the sampling techniques, instruments and procedure of data collection. It will thereafter, analyze the data which was collected and finally give the ethical considerations of the research.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 Introduction**

This chapter outlines the research methods used in conducting this study. It will outline various activities used in the research such as the research design, research instruments, target population, study sample, sampling techniques, instruments for data collection, procedure for data collection, data analysis as well as ethical issues.

#### **3.1 Research Design**

The research mainly used the status survey research design to collect data. The status survey design according to Guyette (1983) is defined as a survey design method of collecting data in a consistent way within a particular community. It is further said to be a very useful method of documenting existing community conditions, characteristics of populations and opinions in a given community. Survey status research design makes it easy to compare and use data collected for different community based situations which can be used for immediate community development. (Guyette, 1983) concludes by saying that such data may be used not only for immediate community development but can also to serve the future of a particular community efforts by providing a baseline data which can be needed and used later to demonstrate progress. The data therefore can easily be used to monitor, evaluate and measure possible growth or changes of defined characteristics in a given community. Status Survey is specifically used to describe the characteristics of status of a given population and further attempts to discover relationships among variables as explained by Graziano and Raulin, (2012).

The research design was chosen due to its flexibility not only in the collection of data but also user friendly when it comes to analyzing the data as it is generally very consistent. The major reasons therefore were based on the advantages of survey designs as highlighted by (Collie and Jesse, 2009) as to why the survey research design was used as follows;

- survey designs proved to be the most efficient ways of collecting data of personal opinions from large groups of people through one on one questions and structured questionnaires;

- survey design seems to be more flexible when it comes to measuring people's preferences in terms of knowledge, attitude and behaviors as this information is already there in the communities;
- Survey designs can easily be standardized making it easy to tailor the information being collected to the exact phenomenon which is intended to be measured. For example, questions were easily structured according to the desired information which was intended to be collected and answers were structured and closed into likely options;
- The research was an attempt to investigate financial characteristics of rural communities with a view to link the characteristics to specific variables in the targeted rural communities;
- Finally, survey design makes it easy to administer research tools.

In support of this basis, (Guyette, 1983) explains that a survey research design is very useful to determine the general characterizes of a given population or community for the purposes of conducting surveys to be directly applied not only to the development, but also management and distribution of community resources. It can therefore be said that, survey research designs are very necessary and helpful in highlighting and defining already existing conditions in a given community. Survey research designs can therefore be used to systematically document opinions in a given community and can be used to compare groups of communities, in this case, the rural community's which the research focused on. Survey designs therefore assisted the researcher to collect data from the sample of the population.

However, the survey design proved to have a bit of limitations in the sense that in some cases, respondents were not too certain of their own behavioral activities and seemed to be influenced by other peers. This limitation was supported by Bell (1996) who observed that sometimes, biases may occur, either in the lack of response from intended participants or in the nature and accuracy of the responses that are received and that responses can sometimes be affected by respondents tendency to intentionally misreport their behaviors to confound the survey results or to hide particular behaviors which they may feel to be inappropriate. In this research, it was observed that some external customer respondents could not provide factual information especially with regards to their disposable income as they felt that the information was rather confidential. On the other hand, some internal customer respondents could not be sincere on

information with regards to the challenges being faced by the bank as they felt that such data may negatively expose the bank’s weaknesses. The limitations were still very minimal and could not negatively influence the findings.

The researcher further used a descriptive research design which was used was meant to assist the research to explore in-depth various existing literatures on the subject.

### 3.2 Study population

The research is mainly a survey design based on findings drawn from one specific intuition the National Savings and Credit bank (NSCB). Therefore, the target population was based on NSCB internal and external customers as highlighted in table one (1) below;

**Table 1: Target Population, Sample Population and Sample Size**

	Total Population	Sample Population	Sample Size
Branches	37	17	10
Employees	456	106	50
Customers	81,000	11,143	150

### 3.3 Study Sample

The study conveniently sampled a total of ten (10) branches namely Kaputa, Chongwe, Chama Luwingu, Chilubi, Mwense, Kasama, Nchelenge, Lufwanyama and Petauke which are all based in the rural areas of Zambia. The study sample size was mainly based on the ability of the researcher to have access to the desired respondents in the targeted rural branches. Therefore, the researcher considered the most easily accessible branches in terms of work schedule in order to cut down on costs and time. In this case, there was no clear sampling technique used.

### **3.4 Sampling techniques**

Sampling can be said to be the selection of a number of study unit from a given or defined study population. The method by which this is done is what referred to was as the sampling techniques.

The major sampling technique used to select respondents in the target branches was non-probability sampling method. This is mainly because qualitative research is usually focused on a smaller specific number of people and selection of respondents is very critical to the overall usefulness of the results. That is to say the results are expected to come from a defined or particular area or community as the research is based specifically of the community. In this case, it was the rural communities in which NSCB is present.

However, a biased selection of the branches used for the research was done and therefore, the research used convenient sampling to select which branches to collect the data from. . This was to enable the researcher manage to collect data in the selected branches within the allocated time frame as they were easily accessible at the time. It further assisted the researcher to reduce on the cost of travel as branches selected were mainly located on the same route.

### **3.5 Data Collection Instruments**

The raw data collection instruments which were used to collect primary data used in the research were as follows;

- i. first Questionnaire designed and aimed at collecting data from internal customers
- ii. second Questionnaire specifically aimed at collecting data from external customers
- iii. the rest of the data was collected from other source documents such as Administrative Data from NSCB, BOZ and MOF various reports.

The questionnaire according to Karim (2013) was designed by Sir Francis Galton and is defined to be a data collection instrument which should be consistent of a series and questions and other prompts for the purpose of gathering or collecting information of targeted respondents. The research therefore used two types of questionnaires which were specifically designed to pay particular attention to the desired objectives set in relation to the types of variables and targeted respondents. The first questionnaire was targeted at internal customers who include NSCB

members of staff. The second questionnaire on the other hand was targeted at external customers who included existing, former and potential NSCB customers. All respondents were expected to be based in the targeted rural areas. These questionnaires were designed in a well-structured and multiple choice question and answer format and were mostly close ended question which were generally asked in very simple terms prompting direct responses. This was deliberately targeted at making it difficult for respondents to avoid the questions.

### **3.6 Data Collection Procedures and time frame**

The approach which was used to administer the external customer questionnaires was a walk in approach. Front office members of staff administered questionnaires to customers randomly as they walked into the branch for their usual business activities. The internal customer questionnaire was administered directly to the respondents on a one on one basis, and through internal email structure.

An emphasis however was put on protecting respondents as they were totally assured of confidentiality. As Salant and Dillman, (1994) explains in Glasow (2005) the importance of maintaining confidentiality of individual respondents is very key. Glasow further stresses the fact that researchers need to recognize that survey participation is a voluntary event which requires the researcher to politely encourage participants without any form of undue pressure and coercion. The researcher thus adopted this theory and applied high level of confidentiality in administering research instruments. The researcher further sought exclusive permission to conduct the research from the National Savings and Credit (NSCB) management which approved the research and emphasized that all data collected will exclusively be used for academic purposes.

A further procedure of making reference to administrative reports was used in order to collect historical statistical data such as reference to public reports and research done by relevant institutions such as NSCB, BOZ, MOF and CSO.

The research was done within the time frame within which the research time table was planned and report submitted as scheduled.

### **3.7 Data analysis Instruments**

The data which was collected was analyzed using two (2) major instruments which were the data management programme under the MS Excel and partly the specialized statistical package for social sciences the SPSS.

SPSS was said to be a very comprehensive system for analyzing data. It is currently one of the most popular statistical packages which can perform by taking data from almost any type of file and use the data to generate tabulated reports, charts and plots of distributions and trends in descriptive analysis and complex analysis, [www.uwindsor.ca/its/cls](http://www.uwindsor.ca/its/cls).

SPSS was used to capture and organise the data as it proved to be very efficient in organizing the data. It further offered a wide range of option which allowed the researcher to analyse the data in several different perspectives. SPSS software was therefore used to come up with descriptive analytical results which were analysed and compared. The research results were mainly analysed qualitatively. MS Excel was further used to graphically present the findings as presented in this report.

### **3.8 Summary of Chapter Three (3)**

The chapter gave a general overview of the methodology which was used to conduct the research study. It initially gave a description of the research design which was used, and the survey design. Secondly, statistical information was given with regards to the study population and study sample. The chapter further gave an explanation of research sampling techniques which were used, which were the non-probability sampling technique and bias sampling. The selected sampling techniques were justified accordingly. The data collection instruments used were also reviewed and the data collection procedures and analysis where discussed and justified. The following chapter will thus now look at the presentation of results according to the data which was collected.

## CHAPTER FOUR

### DATA PRESENTATION

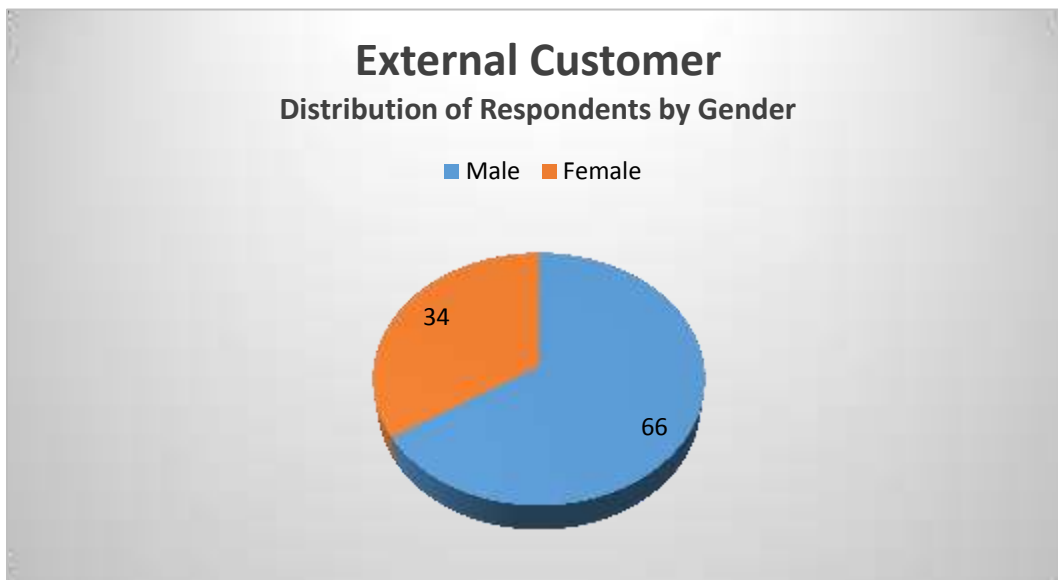
#### 4.0 Introduction

The presentation and interpretation of findings will be discussed under this chapter. The findings will be presented taking into consideration the research objectives. The findings however will thereafter be analyzed and discussed in the next chapter.

#### 4.1.0 Respondents Biographical Data (All Based on Filed Source Data)

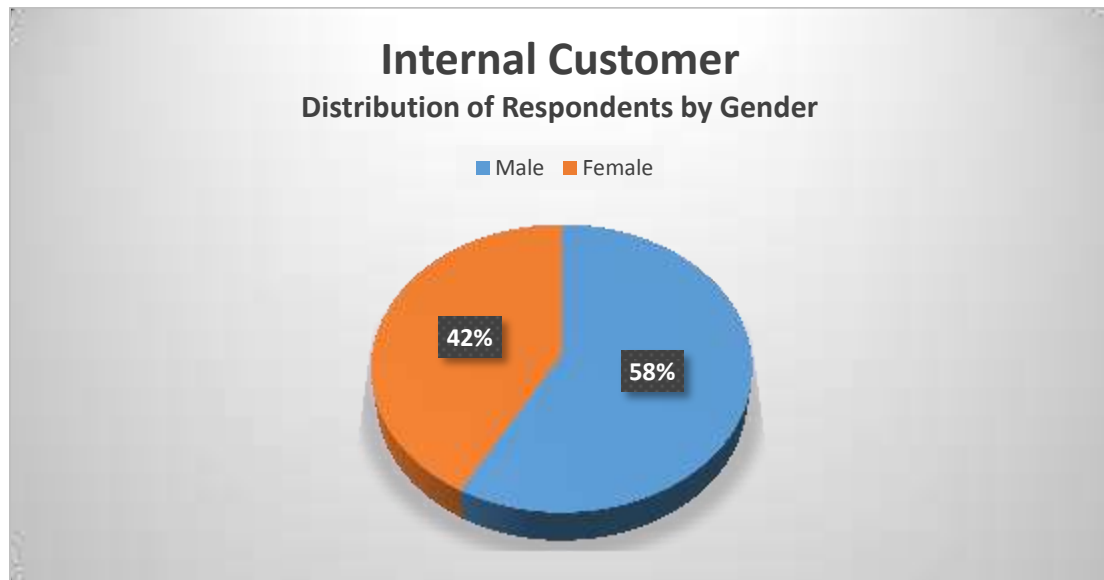
##### 4.1.1. Distribution of Respondents by Gender

*Figure 3: Distribution of External participants by Gender*



The pie chart distribution in figure three (3) of external customer respondents indicate that the larger number of customers were male representing 66% of the total participants. This could be an indication that there could either be more active external customers or that male customers were more easily approachable than female respondents.

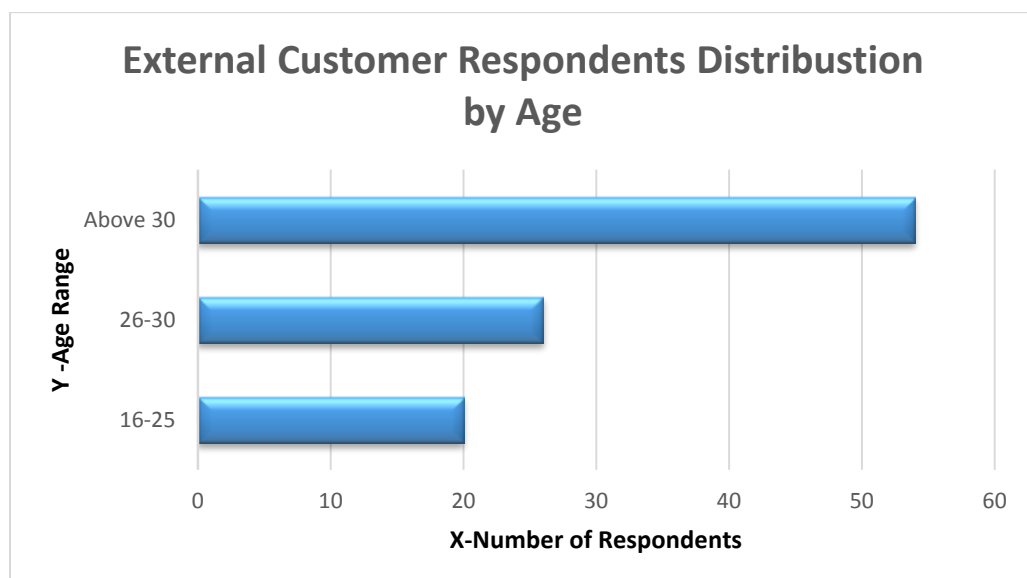
**Figure 4: Distribution of Internal participants by Gender**



It is further observed in figure four (4) which is a representation of internal customer distribution of respondents by gender shows yet again that male respondents were more represented at a 58% while female respondents were represented 42 % of the total number of respondents.

**4.1.2. Distribution of Respondents by Age Group**

**Figure 5: External Customer Age Distribution of Respondents**



**Figure 6: Internal Customer Age Distribution of Respondents**

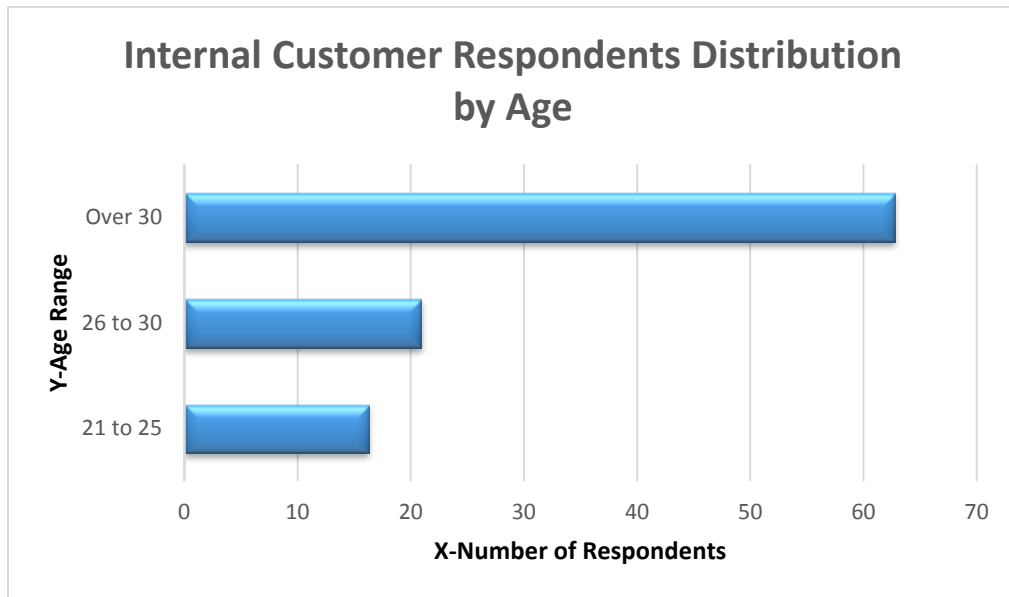


Figure five (5) and Six(6) show a distribution of respondents according to age groups. The two figures show that most of the respondents for both external and internal customers fall in the age group over 30 years representing 55% and 64% of the total respondents in each category respectively. The age category of 26-30 indicates a representation of 27% and 22% for external and internal customer respondents respectively. A further 20% and 17 % of the respondents are below the age of 25.

#### 4.1.3. Distribution of participants by their employment status

*Figure 7: Employment status of External Customer Respondents*

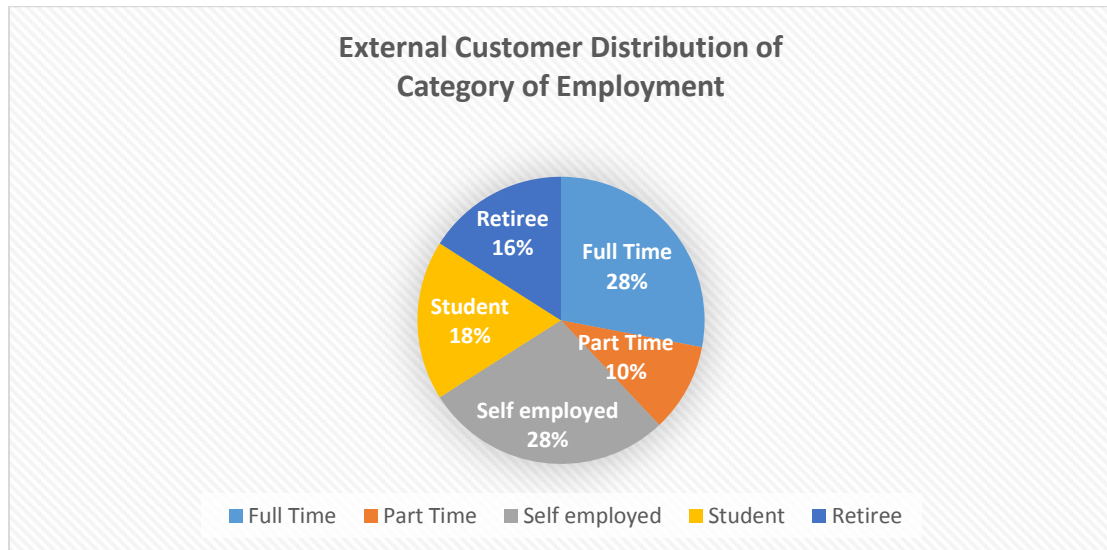


Figure seven (7) represents the distribution of external customers' employment status indicating that 28% are in full time employment, another 28% are self employed, 18 % are students, 16 % are retired while 10 % of the respondents are engaged in part time employment.

*Figure 8: Employment status of Internal Customer Respondents*

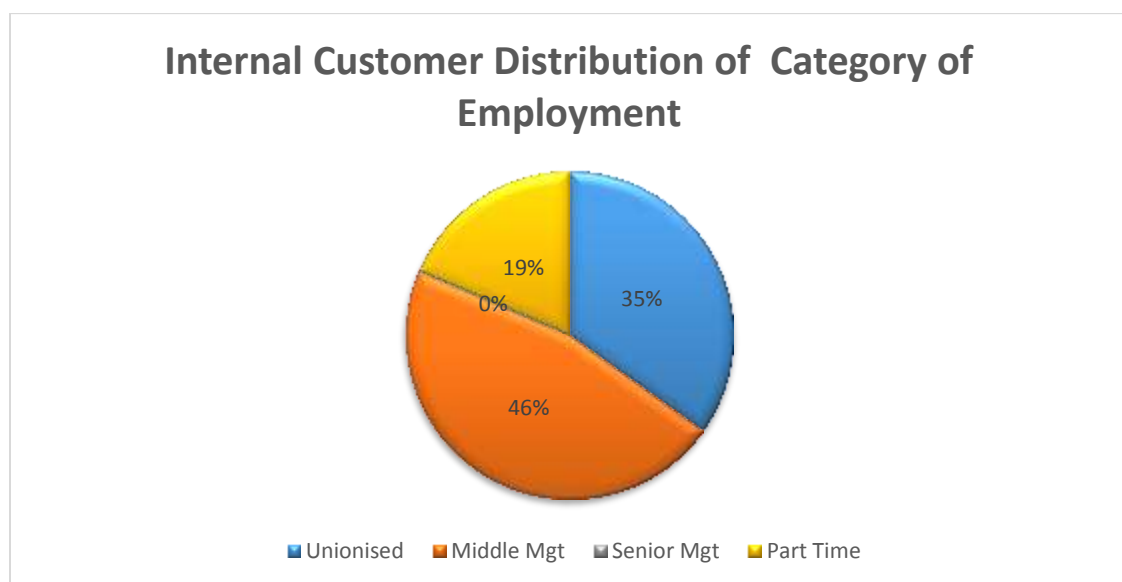


Figure eight (8) above shows different categories of employment for intrenal customer respondents. The highest participation was from the category of Middle Management Staff which include the lower and middle management staff representing 46% of the total respondents. The second highest category was the unionised members of staff represented by 35% while 19% represented part time employees at verious levels. There was no respondent from the senior management employees.

**4.1.4. Distribution of Respondents by Their Income Brackets**

*Figure 9: Distribution of External Customer respondents by Disposable*

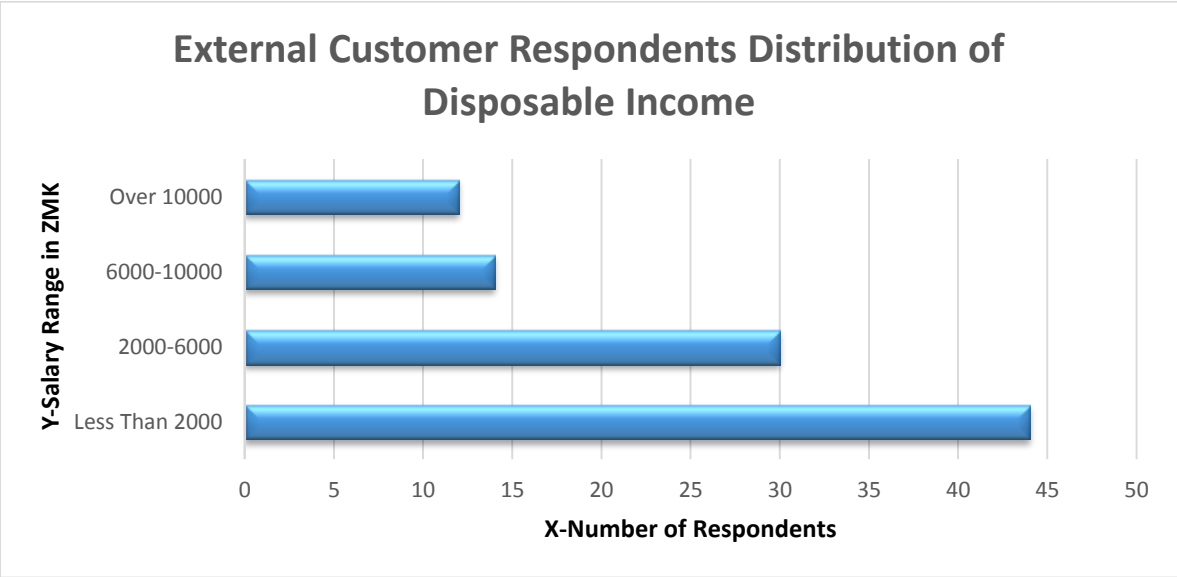


Figure nine (9) is a presentation of external customer respondents’ distribution of net disposable income brackets. The figure indicates that 44 % of the total respondents’ net disposable income falls below ZMK 2,000.00, while 30% of the respondents’ disposable income falls between ZMW 2000.00 and ZMW 6,000.00; 14 % falls between ZMW 6,000.00 and ZMW 10,000.00 and only 12 % of the total number of respondents get more than ZMW 10,000.00.

**4.2.0 Objective 1: To identify factors that entail an improved welfare as a result of financial services which are offered by NSCB in the rural communities of Zambia**

**4.2.1 NSCB Benefits According External Customer Perceptions**

*Figure 10: External Customer Perception of NSCB Household Benefits*

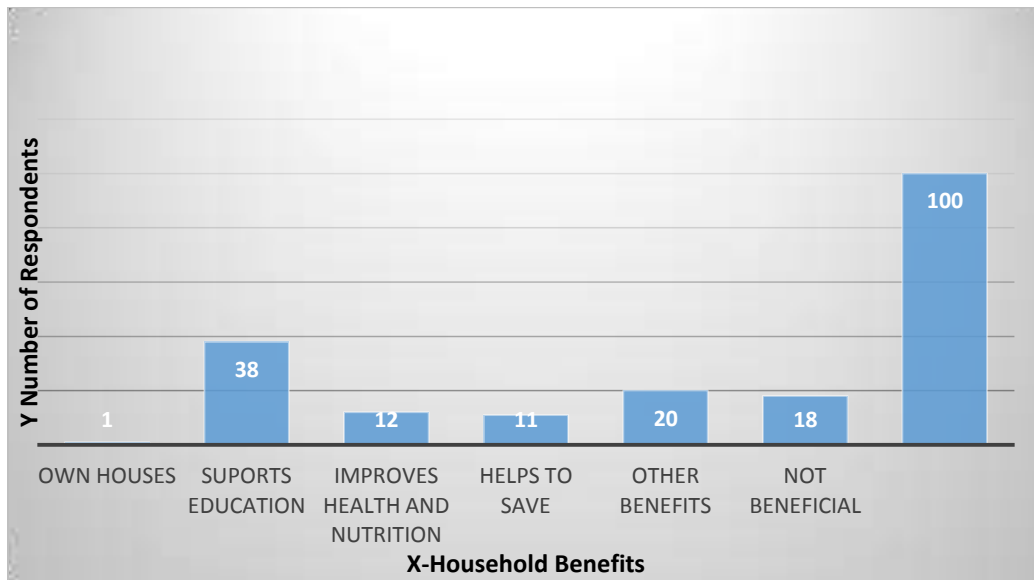
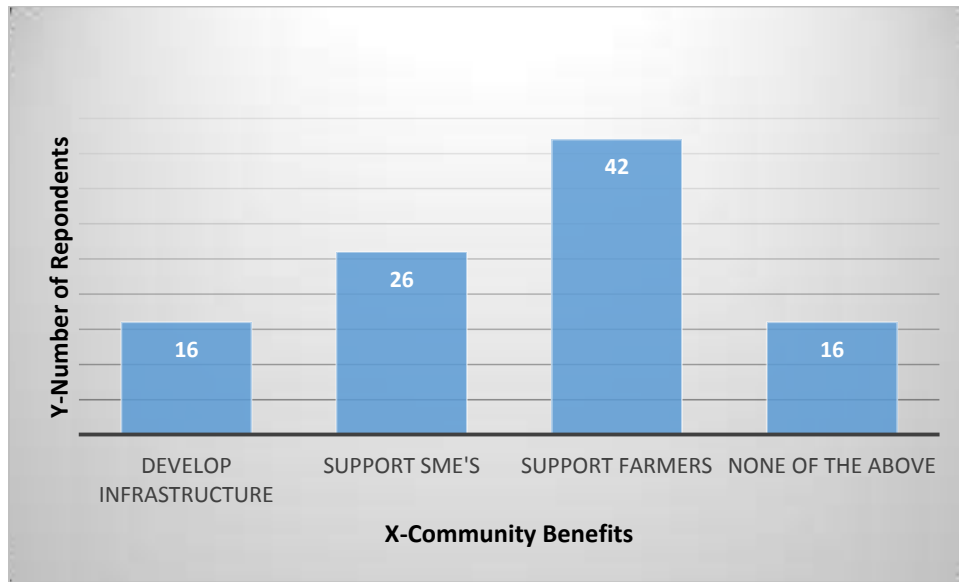


Figure ten (10) above shows the external customer perception of the NSCB household benefits. Respondents were given options of various benefits which were generally perceived to be a result of financial services in rural areas namely ownership of housing units, education support, health savings, health and nutrition improvement and others. The majority of respondents perceived educational support as the most beneficial effect of NSCB financial products and services represented by 38% of the total respondents. Respondents who perceive health and nutrition as the most beneficial effects were represented by 12% while 20% of the respondents indicated that there are other benefits as opposed to the ones indicated. However, 18% of the respondents indicated that they did not see any benefits as a result of financial services offered by NSCB. 11% of the respondents indicated that NSCB products and services assisted them to save and only 1% of the external respondents indicated that NSCB products and services assisted them to own houses or decent accommodation.

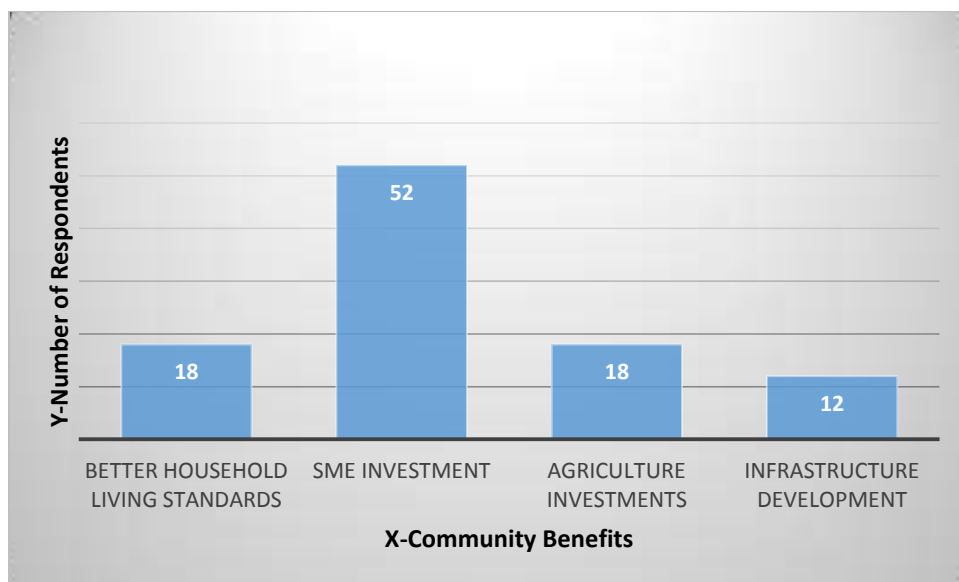
**Figure 11: External Customer Perception on NSCB Community Benefits**



When asked on how external customers thought NSCB is supporting their communities as presented in figure eleven(11), 42% of the respondents indicated that NSCB financial services support Agriculture investments, 26% indicated that NSCB services support SME investments, 16% support infrastructure development and another 16% indicated that NSCB does not support the rural communities at all.

#### 4.2.2 NSCB Benefits According to Internal Customer Perceptions

**Figure 12: Internal Customer Perception on NSCB Community Benefits**

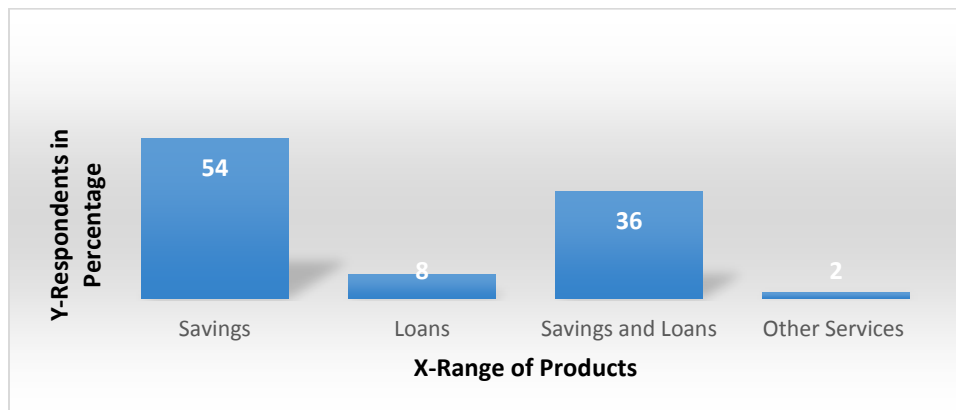


The figure twelve (12) above shows the internal customer perception with regards to community benefits. 52 % of internal customer respondents indicate that NSCB financial services are most beneficial to SME investments, 18%, indicated that the products assist to better household living standards, another 18% think that NSCB services support Agriculture Investments and 12% think that NSCB supports infrastructure development.

**4.3.0 To ascertain which NSCB financial products and services are most suited to the needs of the rural communities of Zambia (Customer Perception)**

**4.3.1 Most Preferred Products According to External Customer Perception**

*Figure 13: External Customer Perception of Most Beneficial Products*



The above figure thirteen (13) shows how NSCB products and services are currently distributed amongst external customer respondents. The most popular NSCB product was the savings product which was said to be beneficial by 54% of the external customer respondents. This was followed by a combination of loan and savings benefiting 36% of the respondents, while 8% were just benefiting from loans and only 2% of the respondents were benefiting from other types of products and services.

4.3.2 *Figure 14: External Customer Perception of Most preferred Products*

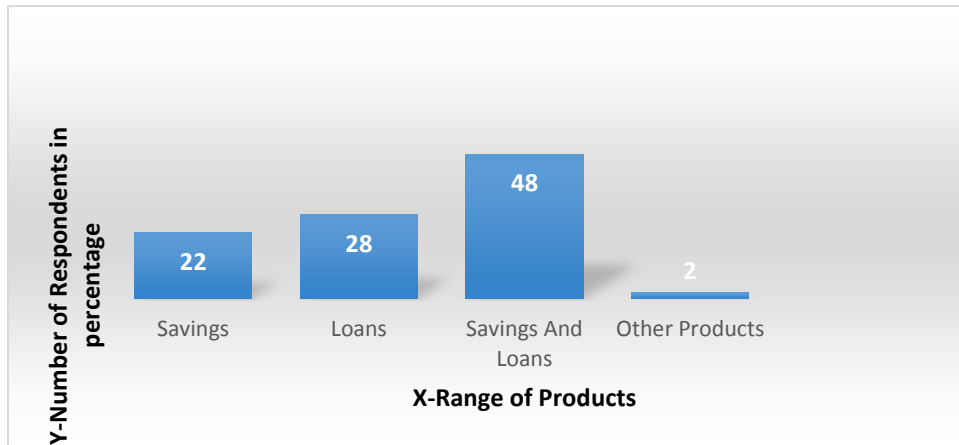


Figure fourteen (14) above indicates the perception of external customers of the most preferred products. Most external customers indicated that they would prefer to have a combination of the two most selling products namely loans and savings representing 48% of the total number of respondents; 28 % of the respondents would prefer only loan products, while 22% percent prefer savings products. A small percentage of 2% would still prefer other products and services.

**4.5.0 To identify the challenges that NSCB is experiencing in its provision of financial services to the rural arrears of Zambia.**

**4.5.1 External Customer Perception of NSCB’s Challenges in Accessing Financial Services in the Rural Areas**

*Figure 15: Challenges according to External Customer Perception*

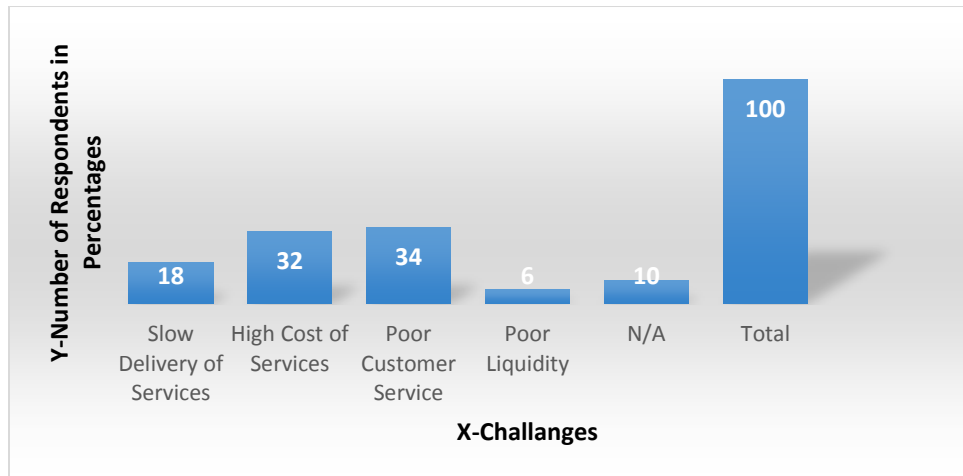


Figure fifteen (15) above shows the response of external customers with regards to challenges which they face in accessing financial services from NSCB rural Branches. 34% of the respondents indicated that poor customer service is the main challenge, 32% indicated that high cost of borrowing is the most challenging factor, 18% indicate slow delivery services, while 6 % indicated that it is poor liquidity and 10 % think that there are no challenges when accessing financial services.

#### 4.4.2 NSCB's Challenges in Delivering Services in the Rural Areas- Internal customer perception

*Figure 16: NSC's Challenges According to Internal Customer Perception*

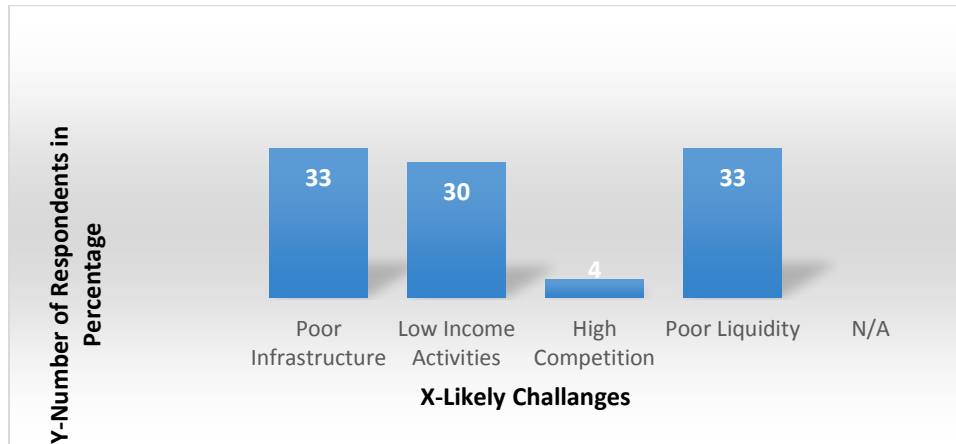


Figure sixteen (16) indicates the responses of internal customers with regards to challenges which they face in delivering financial services in rural areas. 33% of the respondents indicates that poor infrastructure development is the biggest challenge hindering effective delivery of NSCB financial services, another 33% indicated that poor liquidity was the major challenge, 30% indicated that low income activities in rural areas was the major challenge faced and 4% eluded the challenge to high competition in the rural areas.

#### 4.4.3 Suggested Ways of Improvement

*Figure 17: Suggested Ways of Improvements According to External Customers' Perception*

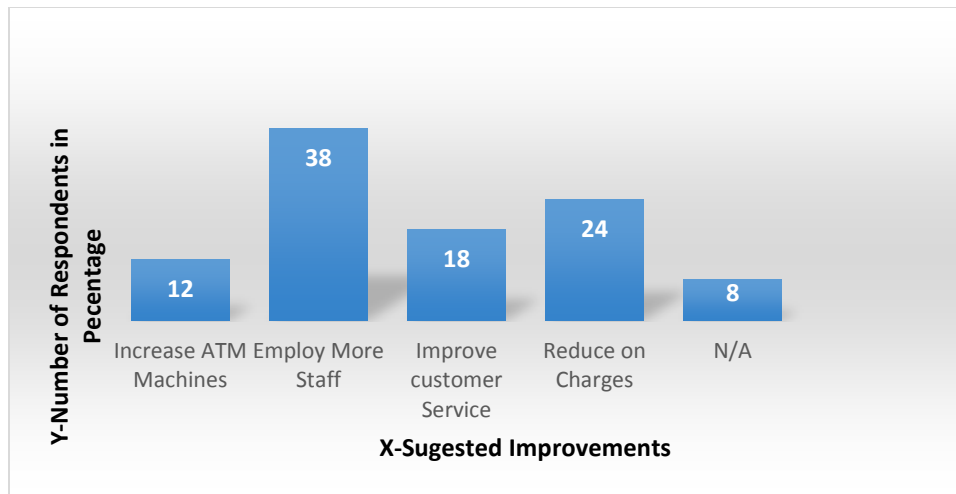


Figure seventeen (17) indicates suggested ways resolving challenges according to external customer perceptions. 38% of the respondents indicated that employing more members of staff in rural areas may reduce the challenges, while another 24% indicated that a reduction on costs such as service charges would resolve the challenges. 18% thought that the only way to resolve the challenges is to improve customer service while 12% stated that increasing ATM machines may help. A smaller number of respondents (8%) did not think that any of the suggested ways would resolve the challenges faced.

***Figure 18: Suggested Ways of Improvements According to internal Customers' Perception***

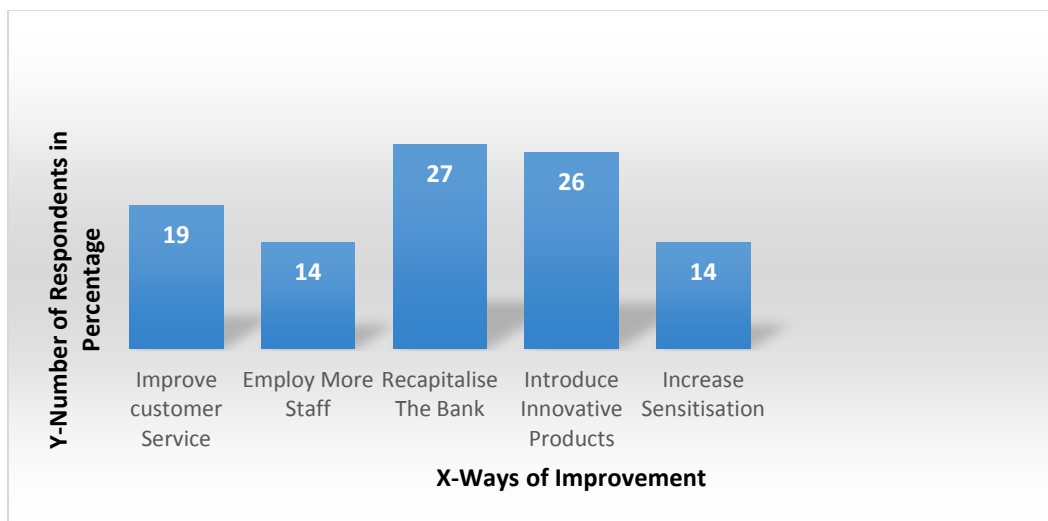


Figure eighteen (18) indicates suggested ways of resolving financial services access challenges according to internal customers. 27% of the internal customer respondents indicated that recapitalizing the institution was the only way challenges may be resolved. 26% suggested the introduction of more innovative products, while 19 % stated that improving customer service would be useful. A further 14% thought that employing more staff would help and another 14 % considered an increase in sensitizing external customers on information with regards to features of NSCB financial services and products.

## **CHAPTER FIVE**

### **DISCUSSION OF FINDINGS**

#### **5.0 Introduction**

This chapter discusses the research findings as presented in the previous chapter. In discussing the findings, the researcher will relate not only to the findings based on the field source data presented but also the objectives of the research. It will also make reference to various research work done as well as the literature which was reviewed. The evidence or data collected will therefore attempt to answer the research questions in the discussion that will follow.

#### **5.1.0 Respondents' Biographical Data**

##### **5.1.1 Distribution of Respondents by Gender**

The results on gender differences obtained from the biographical data collected from external customers indicated that the research received more responses from male respondents compared to the female respondents whose distribution indicated 65% and 35% respectively. A further review of NSCB external customer records in rural branches indicated that the ratio of male and women external customers was 6:4. This revealed that NSCB was serving more male external customers than female customers. The records revealed that 60% of NSCB customers in rural areas were male while only 40% were female. Some of the reasons cited for serving more male customers were the fact that male customers were strong enough to walk longer distances to the banks as compared to their female counterparts. In rural communities, there are customers who live in areas that are geographically distant from the banking centres.

The results were consistent with those obtained from internal customers which indicated a distribution of 58% male respondents and 42 % female respondents. NSCB Human Resource Data (2016) confirmed that NSCB employees in the targeted rural branches consisted of 64.5% male and 34.5 % female which gave us a male to female ratio of 7:3. The low number of female employees in the rural branches was mainly attributed to the fact that most female employees shunned working in rural branches citing lack of proper medical facilities and claiming to be married and committed in the urban towns.

Therefore, it can be argued that, the gender distribution for both internal and external customers can be said to have been influenced by the gender distribution of respondents who participated in the research.

### **5.1.2 Distribution of Respondents by Age Group**

Results which were reviewed in relation to the ages of the participants who took part in the research for both external and internal customers indicated that majority of the respondents fall in the age group of over 30 years represented by 55% and 64 % of the total respondents in each category respectively. This was a very good indicator to the research in terms of collecting reliable data as adults over the age of thirty were considered to be mature enough to make informed financial decisions.

The age category between 26 and 30 was represented by 27% and 22 % for external and internal customer respondents respectively. A further 20% of the external customer and 17 % of the internal customer respondents were below the age of 25 but above the ages of sixteen (16) and twenty-one (21). This was because the researcher did not target any external customer under the age of sixteen (16) as such customers were considered to be minors and therefore were not able to make informed financial decisions by law. In addition there were no internal customer respondents under the age of 21 as the Bank policy does not allow the employment of anyone under the age of twenty-One (21).

### **5.1.3 Distribution of External customer participants by their employment status and Disposable Income**

#### ***Internal Customer Distribution of Employment Category***

The research revealed that external customer employment status indicated that 28% were in full time employment, another 28% were self employed, 18 % were students, 16 % were retired while 10 % of the respondents were engaged in part time employment. The research further showed that external customer respondent's distribution of net disposable income brackets indicated that 44 % of the total respondents' net disposable income was below ZMK 2,000.00, while 30% of the respondents' disposable income was between ZMK 2000.00 and ZMK 6,000.00 another 14 % of the respondents disposable income were between ZMK 6,000.00 and

ZMK 10,000.00 and only 12 % of the total number of respondents were netting a disposable income of ZMK 10,000.00. This revelation proved that most of the respondents in the rural areas earned a net disposable income of less than ZMW 2,000.00 and that very few of the respondents earned more than ZMK 10,000.00. These findings confirm that people in rural areas were mainly low income earners.

#### **5.1.4 *Internal Customer Distribution of Employment Category***

The highest participation of internal customers was from the category of Middle Management Staff which included the lower and Middle management employees representing 46% of the total respondents. The second category was the unionised members of staff represented by 35% while 19% represented part time employees at various lower levels. There were no respondents from the senior Management employees as the researcher mainly targeted internal customers based in the rural Branches. This was because the NSCB employee structure did not have any senior Manager or Director based at any rural Branch. All Directors and Senior Managers were based at Head Office.

### **5.2.0 Objective 1: To identify factors that entail an improved welfare as a result of financial services which are offered by NSCB in the rural communities of Zambia**

#### **5.2.1 External Customer Perceptions of NSCB Household Benefits**

According to the results which were obtained from external customer perception on the benefits of NSCB products and services to their household needs, the respondents were given options of generally perceived benefits such as Education support, Health and Nutrition, savings and other benefits as adopted from the UNDP (2001). The research proved that the variable which was considered to be the most beneficial to most respondents was education support as indicated by 38% of the respondents. Most of the respondents indicated that NSCB products and services were assisting them in a very big way to meet their educational responsibilities through loans and savings. On the other hand, 20% of the respondents indicated that NSCB products and services were benefiting them in other ways other than the options which were given. However, 18% of external respondents still felt that NSCB products and services were not benefiting their

households positively in anyway, while 12% of the respondents still indicated that NSCB products and services contributed greatly towards improving their nutrition and health in their respective households. A further 11% of the respondents indicated that NSCB products and services were assisting them to save. A small number of respondents represented by 1% indicated that the products and services were assisting them to afford a decent accommodation and own houses.

### **5.2.2 External Customer Perception on NSCB Community Benefits**

When asked if at all NSCB financial products and services were benefiting their rural communities, most of the external customers showed that NSCB products and services were greatly benefiting or supporting agriculture activities in their areas. This was evidenced from the number of beneficiaries of most agriculture Loan products which enabled the customers to purchase not only agriculture equipment but also inputs such as fertilizer and seeds. Therefore, most external customers perceive NSCB to be greatly supporting farmers and agricultural activities in their rural communities. On the other hand, some external respondents reviewed that NSCB products and services support micro, small and medium enterprises in their communities as represented by 26% of the total external respondents. Some external respondents though still felt that NSCB products and Services also support infrastructural development representing 16% of the total respondents while a good 16% still felt that NSCB products and services do not benefit their communities in any way.

### **5.2.3 NSCB Benefits According to Internal Customers' Perceptions**

The study revealed that 52% of internal customers who comprised NSCB internal members of staff operating in the targeted rural branches stated that their rural communities were mainly benefiting from NSCB financial products and services through SME investments. 18% of the internal respondents further indicated that NSCB products and services generally assist to raise household living standards. Another 18 % showed that NSCB supports Agricultural Investments. The research revealed that only 12% of the total internal customer's respondents stated that NSCB products and services support infrastructure development.

### **5.3.0 Objective 2: To ascertain which NSCB financial products and services are most suited to the needs of the rural communities of Zambia**

#### **5.3.1 Most Preferred Products According to External Customers' Perception**

External customers were given options of the major financial services offered by NSCB namely savings, loans, a combination of Loans and savings and a group of other products which included safe keeping, Guarantees and money transfers. The respondents were asked to indicate which of the products they were benefiting most from. Most of the respondents showed that they were benefiting most from savings products giving a result of 54% of the total respondents. Other internal customer respondents still indicated that they were benefiting more from loan products with a representation of 36% while 8% of the external customer respondents showed that they were benefiting most from both loans and savings. However, 2 % of the total respondents still showed that they were benefiting most from NSCB other products and services.

#### **5.3.2 External Customer Perception of Most preferred Products**

When asked which of the products external customers would prefer to benefit from in the future, 48% of the respondents showed that they would prefer to benefit both from loans and savings products, 28 % of the respondents would prefer only loan products, while 22% percent prefer savings products. A small percentage of 2% would still prefer other products and services. This is an indication to say that the financial products and services which are most preferred and seem to be beneficial to the rural communities is a combination of savings and loan products and services.

### **5.4.0 Objective 3: To identify the challenges that NSCB is experiencing in its provision of financial services to the rural arrears of Zambia.**

#### **5.4.1 External Customers' Perception of NSCB Challenges in Accessing Financial Services in the Rural Areas**

External customers were then asked to give their perceptions of the challenges which they were facing in accessing financial services from NSCB. The external customers were given options for possible challenges such as poor customer service, high cost of borrowing, slow delivery of

services and poor liquidity. Most of the external respondents showed that poor customer services is the major challenge they are facing when accessing NSCB financial services in their communities representing 34% of the total respondents. 32% of the external respondents showed that high costs of borrowing such as high interest rates and high services charges are a major challenge while 18% indicated that slow delivery of services is the biggest challenge. Poor liquidity was said to be the major challenges according to 6% of the total respondents while 10% still thought that there were totally no challenges they were facing in accessing financial services from NSCB.

#### **5.4.2 NSCB's Challenges in Delivering Services in the Rural Areas - Internal customer perception**

Internal customers on the other hand were asked about the challenges they were facing in delivering NSCB's financial products and services. They were given an option of various challenges which included lack of infrastructure development, poor liquidity, low income activities and high competition in the rural communities which they are serving. 33% of the total internal customer respondents indicated that, the major challenge they were facing in the rural communities was poor infrastructure development which related to poor roads and lack of accommodation. Another 33% of the internal customer respondents showed that poor liquidity is the major challenge which rural branches are facing in their delivery of products and services. 33% of the total internal customer respondents reported that low economic activities are a major challenge while 4% of the respondents alluded the challenges to competition in the rural areas.

#### **6.1.1 Suggested Ways of Improvement**

##### ***Suggested Ways of Improvements According to External Customer Perception***

The research went further to find out suggested ways in which external customers felt delivery of products services can be approved. The researcher suggested various ways of improvement, such as employing or allocating more staff in rural areas, reducing services charges and interest costs, improve customer service and none of the above. 38% of the external respondents stated that an increase in the number of staff working in rural branches can improve the delivery of services in the rural branches. 24% indicated that a reduction on costs such as service changes would be useful; 18% thought that the only way to resolve the challenges is to improve customer service while 12% suggested increasing the number of ATM machines. A smaller number of

respondents (8%) did not think that any of the suggested ways would resolve the challenges faced.

### ***Suggested Ways of Improvements According to Internal Customers' Perception***

Most of the Internal customers who comprised NSCB members of staff based in the rural branches under the study indicated that recapitalizing the institution was the only way challenges may be resolved represented by, while 26% indicated introducing more innovative products as the best way of resolving challenges and 19 % indicated that an improvement in customer service may resolve the challenges. 14% of the members of staff showed that employing more staff would help reduce the challenges and another 14 % indicated that an increase in sensitizing external customers on information with regards to features of NSCB financial services and products may resolve the challenges being faced in managing and delivering NSCB financial services in rural areas. The options given to internal customers included recapitalizing the bank, introduction of more innovative products, improving customer's service, employing more staff and increasing sensitization of NSCB products and services to external customers as the major means and options of resolving the challenges NSCB is facing in delivering financial services to the rural communities of Zambia.

## **CHAPTER SIX**

### **CONCLUSION AND RECOMMENDATIONS**

#### **6.0 Introduction**

Chapter five attempted to discuss and analyse the results of the research as presented in chapter four (4) which basically looked at data presentation. Chapter six (6) will now therefore look at the conclusions and recommendations of the study.

#### **6.1. Conclusion**

In conclusion, the research was aimed at evaluating the effects of financial inclusion as a way of fostering economic growth and fostering wealth creation in the rural areas of Zambia. This was done by establishing whether or not the financial products and services offered in the rural areas of Zambia do contribute in any way towards economic growth and wealth creation. The research concluded by firstly establishing that NSCB financial services and products do contribute towards economic growth and wealth creation through its support towards education activities through loans and savings products which are offered in the rural communities it is servicing. Secondly, it was established that NSCB products and services do have a great positive effect on contributing towards supporting economic activities in the rural areas such as agriculture, micro, small and medium enterprises which are a huge driver towards economic growth and developments as highlighted in the literatures cited. The research further concluded that poor customer service is the major challenge which NSCB customers are facing in the access of financial services in the rural areas. Therefore an improvement in customer's service delivery would greatly promote financial inclusion in these areas and ultimately reduce on financial exclusion. Finally, the study did establish that the major challenge which NSCB is facing in its delivery of financial services to these rural were poor infrastructure development in the rural communities and poor liquidity. Internal customers therefore indicated that the only ways NSCB can improve its service delivery is to have the bank recapitalized in order to improve its liquidity

position. The research also established that even though the savings products are the most beneficial products, external customers in these areas would prefer to benefit both from savings and loan products.

## **6.2 Recommendations**

- There is great need for NSCB to focus on improving customer service through continuous training of staff and assuring external customers on improved turnaround time in the delivery of products and services in the rural areas.
- There is need also for NSCB to focus on sensitizing or educating rural communities on the relevance of banking in their communities as well as explicitly sensitize them on the nature of products and services offered by NSCB in terms of features, procedures and benefits. Considering the fact that there seems to be competition between informal and formal systems of financial services such as shylocks, ‘Kaloba’ and that most rural people would prefer to keep their money in their homes, there should be a proper and effective way of enlightening these communities in order for them to change their perceptions.
- There is need for NSCB to venture into more remote conventional means of banking such as putting up more ATM machines, increasing points of sale, venturing into internet and phone banking as opposed to just maintaining a traditional branch in a rural area. This will allow the bank to capture more customers in the most remote areas of Zambia.
- There's need for NSCB to focus more on investing in products tailored for the needs of the most beneficiaries of the NSCB products and services such farmers, micro, small and medium entrepreneurs who are said to be the drivers of economic growth and economic creation.
- The government on the other hand and being the sole owner of NSCB should consider coming up with ways of recapitalizing the bank in order to resolve its liquidity challenges.
- The government should further look into improving infrastructure in the rural areas such a road networks, markets, water and electricity supply in the rural areas as these are very key in promoting economic activities. An improvement in these facilities would easily attract people to invest in these areas and thereby improve economic activities in the areas.

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## APPENDICES

### Appendix 1 – Questionnaire for External Customers



**The University of Zambia**

*(Institute of Distance Education)*

Bwalya Kalunga

714801736

**NAME:**

*An evaluation of the effects of financial inclusion in Zambia on economic development and wealth creation in Zambia.*

**COMP**

**No:**

**Title:**

**Dear External Customer,**

The research seeks to establish if at all the National Savings and Credit Bank NSCB is positively contributed towards economic, development poverty reduction and wealth creation in the rural communities of Zambia through its provision of financial services to low income earners in these rural areas of Zambia. The objective of this study is purely for academic work. You are therefore assured that all information supplied will be treated as confidential and merely for academic purpose. Please kindly respond honestly and as carefully as you can.

Thank you for your valid contribution.

Please complete the following questionnaire with specific regard to the above enquiry, by placing a circle, cross or mark on your preferred answer as follows;

1. What is your gender

- (a.) Male (b.) Female

2. In which age group do you belong

- (a.) Sixteen (16) – Twenty-five 25  
(b.) Twenty-six (26) – Thirty (30)  
(c.) Above Thirty (30)

3. Which category do you fall under

- (a) Full time employment  
(b) Part Time Employment

- (c) Self-Employed
  - (d) Student
  - (e) Retired Employee
4. How much is your monthly disposable income?
- (a.) Less than ZMW 2,000.00
  - (b.) ZMW 2,001.00-6,000.00
  - (c.) ZMW 6001.00- 10,000.00
  - (d.) Above ZMW 10,000.00
5. How many years have you been banking with National savings and Credit Bank?
- (a.) Less than two (2) years
  - (b.) Two(2) - Five (5)
  - (c.) Six(6)-Ten(10)
  - (d.) Over Ten Years
6. What type of products and or financial services are you benefiting from NSCB?
- a) Savings i.e. Salary, Pensions, Rural Savers Easy Savers, Natflex SME or church Savings Accounts
  - b) Loans i.e. Salary, Thandizo, Natlink, Guarantees, Micro & Medium enterprise Loans
  - c) Other Services i.e. Trans cash, Safe Deposit and Invoice Discounting
7. Which of the products stated in question six (6) are the most preferred in your community?
- (a.) (b.) (c.)
8. Are these products and services helpful to your household and or business?

(a) Yes      (b.) No

9. If YES, how do these services contribute to your wellbeing, Household and/or the running of your business?

**(i) Household Benefits**

*(a.) Helps Construct Houses*

*(b.) Supports Education*

*(c.) Improves Health*

*(d.) Helps to Save*

*(e.) Other Benefits (d) Not beneficial*

**(ii) Community Benefits**

*(a) Infrastructure Development*

*(b) SME's financing*

*(c) Agriculture financing (*

*d) Not beneficial*

10. Do you think that NSCB financial services contribute in any way to better your life and develop your community?

(a.) Yes      (b.) No

11. If your answer is YES, who do you think is the largest beneficiary of NSCB products and services?

(a) Micro and SME's

(b) Farmers

(c) Households

12. Do you face any challenges in accessing Financial Services at NSCB?

(b) Yes      (b.) No

13. What type of challenges do you face when accessing NSCB Financial Services

- (a. ) Slow Delivery of Services
- (b. ) High Costs of Services
- (c. ) Poor customer Service
- (d. ) Poor Liquidity
- (e. ) N/A

14. If your answer is (d.) Other challenges. Name some of them,

.....  
.....  
.....

15. What do you think NSCB can do to improve its services in providing financial Services in your community

- (a) Improve Customer Service
- (b) Employ & Train Their Staff
- (c) Recapitalize the Bank
- (c) Introduce Innovative Products
- (d) Increase sensitization

16. Would you recommend your friends, neighbours and relatives to join NSCB?

(a.) Yes      (b) No

*Thank you for your valued time taken*

## Appendix 2 – Questionnaire for Internal Customers



### The University of Zambia

*(Institute of Distance Education)*

Bwalya Kalunga

714801736

**NAME:**

*An evaluation of the effects of financial inclusion in Zambia on economic development and wealth creation in Zambia.*

**COMP**

**No:**

**Title:**

Dear Internal Customer,

The research seeks to establish if at all the National Savings and Credit Bank (NSCB) has positively contributed towards economic, development poverty reduction and wealth creation in the rural communities of Zambia through its provision of financial services to low income earners in these rural areas of Zambia.

The objective of this study is purely for academic work.

You are therefore assured that all information supplied will be treated as confidential and merely for academic purpose. Please kindly respond honestly and as carefully as you can.

*Thank you for your valid contribution.*



## SECTION B

21. Do you think NSCB is able to achieve its mission, “to promote increased access to financial services in rural areas through mobilization of savings and offering prudent credit to foster economic growth”?

(e) Yes (b.) No

22. If yes, does NSCB find it easy to deliver its products and services in these areas

(a) Not easy  
(b) Easy  
(c) Very easy

23. Does NSCB have enough capacity to manage its rural branch expansion programme?

(f) Yes (b.) No

24. Do you think NSCB products and financial services can contribute to economic development?

(a.) Yes (b.) No

25. If YES, how do you think NSCB products and services promote economic growth in rural areas

(a) Better social lives of households through construction of houses  
(b) Promote Micro and SME investments  
(c) Contribute towards infrastructure development through the construction of new Branches

26. Is NSCB facing any challenges in its provision of financial services to rural areas?

- (b.) Yes      (b.) No

27. If so, what challenges do you think NSCB is facing with regards to offering financial services in rural areas

- (a.) Poor infrastructure in the rural areas
- (b.) Low economic activities in rural areas
- (c.) High competition the rural communities
- (d.) Poor Liquidity
- (e.) N/A

28. What challenges do Branches face in the process of delivering financial services in the rural Branches?

- (a.) Poor Liquidity
- (b.) Poor staffing
- (c.) Poor Communication Systems e.g. poor road network, poor internet services
- (d.) Others (Specify).....

29. Do you think the NSCB products and services contribute in any way positively towards improving your customers' businesses in terms of growth and better their livelihoods?

- (a.) Yes      (b.) No

30. If YES, how do you think these services contribute towards improving customers' lifestyles and businesses?
- (a.) Helps them grow their businesses
  - (b.) Helps them meet their household financial needs such as school fees, rentals etc.
  - (c.) Helps them build houses
31. Which of these do you think is the suggested way in which NSCB can improve its ways of providing financial services in the rural Branches
- (a) Increase remote banking such as ATM, internet, telephone and agent banking
  - (b) Employ and train more staff
  - (c) Improve customer service skills
  - (d) Reduce charges
  - (e) N/A

***Thank you for your valued time***

### STUDY TIME TABLE

	<b>STEPS IN RESEARCH PLAN</b>	<b>DEADLINE FOR COMPLETION</b>
1.	Submission of Research Proposal	11 <sup>th</sup> October, 2016
2.	Comments from Supervisor and review of proposal	20 <sup>th</sup> October, 2016
3.	Research Seminar Workshop	22 <sup>nd</sup> October, 2016
4.	Pre-field Work	25 <sup>th</sup> October, 2016
5.	Field Work	20 <sup>th</sup> November, 2016
6.	Data Capture	25 <sup>th</sup> November, 2016
7.	Data Analysis and Results	30 <sup>th</sup> November, 2016
8.	Data Analysis and Thesis Writing	15 <sup>th</sup> December, 2016
9.	Submission of 1 <sup>st</sup> Draft	15 <sup>th</sup> December, 2016
10.	Submission of 2 <sup>nd</sup> Draft	30 <sup>th</sup> December, 2016
11.	Submission of Final Copy	15 <sup>th</sup> January, 2017
12.	Defense of Thesis and Graduation	31 <sup>st</sup> January, 2017