CARE Peri-Urban Lusaka Small Enterprise (CARE PULSE) Project Zambia

In January 1992, at the invitation of the Zambian Government, CARE International commenced operations in Zambia and set up a local branch named CARE Zambia. The initial focus of its programs was emergency relief in response to the severe drought of the early 1990s and interventions to mitigate against the effects of escalating inflation and extreme poverty in urban areas.

Two years after its inauguration, CARE Zambia launched the Peri-Urban Lusaka Small Enterprise (PULSE) Project. The overall goal is to increase household income, economic security and employment opportunities among the families of poor micro-entrepreneurs in peri-urban areas of Zambia, through the provision of sustainable savings and credit services. The program provides working capital to micro and small-scale entrepreneurs, mostly women, who reside in the peri-urban areas of Mtendere and George. This service has recently been extended to Mandevu, Chawama and some peri-urban areas of Lusaka.

The Lending Methodology

CARE PULSE provides short-term loans to individuals through mutually liable groups. The borrowers must accept joint liability and be willing to make a compulsory minimum savings of 10% of the proposed loan amount. This contribution goes into a Loan Insurance Fund (LIF) which serves as the group's collateral for subsequent loans.

There are three basic methods of group formation. Existing groups are adopted from informal financial systems that are already being used by the micro-entrepreneurs, such as the rotating savings and credit associations (called chilimba), mainly dominated by women. Some new groups may be formed through members' self selection. Finally, in situations where there are several potential clients, but no existing groups such as chilimba, CARE PULSE may facilitate the formation of groups of 25 to 35 persons (called gulu). Subsequently, the gulu is broken-up into self-selected sub-groups of 5 persons each (called sano). Participants undergo eight weeks of training (of one hour per week), after which they are registered as members of the CARE
The lending methodology begins with *sano* members contributing to the LIF. After the eighth week, two loans are disbursed to the first two members of the *sano*. After the twelfth week, the third loan is disbursed. After the sixteenth week, two loans are disbursed to the remaining two members of the *sano*. For repeat loans, the group has to be reorganized and trained, after which the first two members of the group receive their loans. After four weeks the third loan is disbursed, and after eight weeks the last two loans are disbursed.

A week after loans are disbursed, the chairperson for each *gulu* confirms the purchases of materials and items for which each *sano* member has used the loan. The credit officer provides follow-up visits on a regular basis to the project participants, providing on-the-job advice and systematically verifying at least 25 percent of loan utilization. If the loan was used for a different purpose than originally indicated, then the total loan amount would immediately fall due. Any subsequent delinquency would hinder the borrowing privileges of all the members of the sub-group.

Each *sano* member is a guarantor for the loan of the other members. In turn, each *gulu* is a guarantor of the *sanos*. If a *sano* fails to repay the loan, then the *gulu* would be required to do so. This mechanism creates two levels of peer pressure to ensure high repayment rates. A loan guarantee form is signed by all members of the *gulu*, jointly with the elected committee of the *gulu*.

The loan amounts range between ZK50,000 and ZK250,000 to first applicants and up to ZK500,000 to second applicants (US$1 averaged ZK2000 in 1998). The participants use the loans as working capital in street vending, small manufacturing and food processing. Loans are repayable in twenty-five weeks for first loans and fifty weeks for the second. The repayment frequency is weekly for first loans and bi-weekly for the second.

During the initial stages of the program, no collateral was required apart from the LIF. However, from the second year, household assets were accepted as collateral: furniture, refrigerators, radios etc. The change was initiated by the clients themselves upon realizing the inadequacy of character reference and LIF as collateral. This has been the only major shift in CARE PULSE policy so far. Apart from financial services, non-financial services are also provided by CARE PULSE such as client training in business management and counseling on social issues.

### Regulatory Environment and Sustainability

Under the Banking and Financial Services Act of 1994, CARE PULSE is not permitted to accept direct deposits from the public. However, group contributions (savings) as a percentage of loan amounts (the LIF) are an important part of the credit methodology, principally used as collateral. The yearly average amount collected increased from ZK94 million in March 1996 to over ZK122 million in December 1996. The number of group savers rose from 2,021 in March 1996 to 3,340 in December 1996. Total group savings was equivalent to 72 percent of the total
volume of loans outstanding as at December 31, 1996.

The major sources of funds for on-lending are grants from CARE Canada (52 percent) and DFID (formerly ODA - 30 percent). Internally generated funds (interest income and fees) contribute less than 10 percent. This dependence on grants is reflected in a high subsidy dependence ratio of 1,146 percent.

The interest income is inadequate to cover operating costs. The cost per unit of principal lent by CARE PULSE is ZK0.87, which is slightly lower than the effective lending interest rate of ZK0.96, suggesting that CARE PULSE could cover variable operating costs. However, financial viability is subject to accounting for the use of grant funds. When an imputed cost of ZK0.65 per unit of principal lent (being effective market interest rate) is introduced, the cost per unit of principal lent increases to ZK1.52, implying that the program would not be financially viable if CARE PULSE were to borrow funds at market interest rate for on-lending.

It is to break this high dependency on grants that CARE PULSE developed a five-year Strategic Development Plan (1996-2001). The main objective is to achieve a sustainable path and become independent of CARE, the NGO, as a financial service provider.

The activities planned as part of the five-year development plan are to:

- mobilize financial resources to become an independent institution;
- develop a clear vision and establish a Board of Directors;
- develop an institutional framework;
- develop institutional capacity to respond to expanding client needs;
- revise and fine-tune the lending methodology to make it more responsive to the clientele;
- develop new lending products such as individual lending schemes;
- expand credit activities;
- improve information and financial management systems; and
- strengthen the human resource base.

Outreach and Impact

CARE PULSE's targeted participants are principally women who are the sole income earners in their households. Besides this core group, the project allows the participation of men. Out of an overall membership of 3,011, a total of 2,018 loans had been disbursed by December 31st, 1996. The total amount disbursed reached ZK421 million, of which ZK54 million was for repeat loans to 128 participants. A total of ZK170 million was still outstanding. The on-time repayment rate stood at 91 percent and savings in the Loan Insurance Fund had accumulated to ZK122 million.

The loans have had a positive impact in terms of increased employment and strengthened businesses. An initial survey carried out by the project in September 1995 found that at least 112 full-time jobs and 127 part-time jobs had been created after receiving the loans. A further survey carried out in March 1996 showed that at least 180 permanent jobs (a 60 percent
increase in six months) and 150 seasonal jobs (an 18 percent increase in six months) had been created. The project also indirectly generated at least 1,751 jobs. The average income and turnover for the businesses has also increased by as much as 75 percent in some cases. As a result of the loans, some participants have been able to change businesses and others have diversified their business holdings. Loans have also enabled female participants to become less dependent on their spouses, enabling them to play a more significant role in their homes. This has raised their status and increased their sense of achievement.

During the first year of operations, CARE PULSE was able to achieve the following benchmarks:

- developed an institutional framework;
- developed criteria for establishing an advisory board;
- revised and fine-tuned the group lending methodology;
- developed a functioning accounting and loan tracking system;
- hired additional staff and provided appropriate orientation;
- trained management team in financial management;
- engaged staff in cross-visits; and
- established a financial and administrative system for monitoring an evaluation and human resource management.

Innovations and Lessons Learned

The success of the CARE PULSE project is to a large extent attributable to the following innovative techniques.

- **Use of existing institutions**: The project has successfully built on informal financial systems already being used by micro-entrepreneurs. This has ensured acceptance of the methodology by participants.

- **Active involvement of participants**: The project has encouraged a high level of client participation in the credit delivery process, which has facilitated a high level of commitment and compliance by the participants. For example, under the guidance of a credit officer each *gulu* is required to formulate its own set of rules and each *gulu* is responsible for the enforcement of discipline among its members. Each *gulu* is primarily responsible for loan recoveries.

- **Use of a multifaceted loan guarantee mechanism**: This includes character references, a Loan Insurance Fund accumulated through collection of 10% of loan amounts, the group guarantee mechanism, and finally household items used as collateral.

- **The Loan Insurance Fund**: This Fund has enabled participants to develop institutional savings habits and has enabled participants to borrow without the traditional collateral requirements.

- **Transparent MIS**: The CARE PULSE Project has an elaborate computer-based management information system which records all loan transactions, enabling credit officers to track loans
and forecast credit requirements. Participants also actively participate in this tracking process and this openness has instilled confidence and trust among officers and participants at all levels, resulting in a high repayment rate.

The major lessons learned after the first two years of operations of this institution are as follows.

- **Usefulness of a strategic plan for an organization**: A strategic plan was found to be of great value as a road map towards the institution's growth and financial sustainability.

- **Importance of program flexibility**: CARE PULSE adopts a flexible approach to its credit delivery guidelines. Modifications are made to procedures following proposals from the participants. The modifications so far made include the introduction of collateral, which initially the project had assumed would have been unacceptable to potential participants. This flexibility has instilled a sense of ownership of the credit program in the participants, as they see themselves taking part in policy making, rather than being merely recipients of set regulations.

- **The value of careful recruitment process and orientation training**: The project has an elaborate and prolonged recruitment process and orientation training of participants. The process has proved effective in keeping out undesirable elements and persons who merely want an easy way to credit. This prolonged recruitment process has contributed to keeping the loan default rate very low.

- **The importance of timely disbursement**: The experience has been that when disbursement was delayed in an inflationary economy, the plans of participants were derailed and they could no longer afford the original quantity of stocks planned. This results in an increase in loan delinquency.

- **The importance of networking**: CARE PULSE has realized that credit delivery does not operate in isolation but is only one of the many variables affecting peoples lives. While CARE PULSE acknowledges that it cannot provide all of its clients' needs, it collaborates with other organizations that can assist, such as its sister CARE project, the Community Family Planning Project, and Project Urban Self-Help which distributes food from the World Food Program (WFP), through a food-for-work program. It has links with local government authorities and community development associations in areas where it operates. It also works with other organizations to promote its services, especially those that attract people due to the nature of their activities, such as churches and clinics.

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