CARE Peri-Urban Lusaka Small Enterprise (PULSE) Project

Case Study of a Microfinance Scheme

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Dorcas M. Mbozi

April 1998
CARE PERI-URBAN LUSAKA SMALL ENTERPRISE (PULSE) PROJECT ZAMBIA

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APRIL 1998
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The views expressed in this document are those of the authors and do not necessarily represent the opinions of the World Bank or any of its affiliated organizations.
The authors thank Mr. Ezra O. Anyango, Project Manager, and Mr. Michael M. Mbulo, Deputy Project Manager, CARE PULSE, for reviewing the initial draft of this document and for providing logistical support throughout the research period. Funding for the project was provided by the Swiss Development Cooperation. Lawrence Mastri undertook the final editing.
FOREWORD

The purpose of the World Bank’s Action Research Program on Sustainable Rural and Microfinance Institutions in Africa is to strengthen local rural and microfinance institutions, and to contribute to mechanisms for supporting sustainable grassroots institutions that provide financial services to the poor. Action Research emphasizes capacity-building at the national level, by distilling and disseminating “best practices” and strengthening local networks of microfinance providers.

The program adopts a participatory approach to capacity-building or strengthening. Leading rural and microfinance institutions, mainly NGOs, oversee the process through a core group, the “champion,” one of which is normally the coordinating agency. In Phase 1 of the program, diagnostic studies of practices in two or three selected institutions are conducted and discussed at a national workshop. During this phase networks are also formed or strengthened. During Phase 2, the network may opt for more in-depth studies, as in Phase 1, or it may focus on one issue or delivery mechanism drawn from one or more institutions. These are discussed at a second national workshop. The program also supports a newsletter and periodic meetings of the network to encourage wider participation, dissemination of international best practices, sharing of experiences, development of guidelines and policy dialogue with the government. Sub-regional workshops facilitate networking and information sharing across national boundaries. At the end of three years, networks are encouraged to become self-supporting.

This report on CARE PULSE is one in a series of diagnostic studies being carried out in six countries. It is one of the many efforts by NGOs throughout Africa to reach poor entrepreneurs normally ignored by the large, commercial institutions. CARE PULSE acts as an NGO receiving money from donors for onlending to micro and small scale enterprises, mostly owned by women, in peri-urban areas of Lusaka, Zambia. CARE Zambia’s operations are rooted in five principles: participation, accountability, learning, collective excellence, and integrity. It mobilizes and works with its clients as participants in the process. The PULSE project depends on CARE Zambia and other donors for financial support. It is working towards becoming financially self sufficient and thus becoming independent of CARE.

The Action Research Program is funded by the Swiss Agency for Development and Cooperation and is managed in the Bank by a cross-sectoral team comprising Shimwaayi Muntemba (Team Leader, Environment), James Coates (Resident Representative, Mozambique), William Steel (Private Sector Finance), Carlos Cuevas (Sustainable Banking with the Poor), and Alexander Amuah (Consultant). The team has collaborated with a Bank-wide initiative, “Sustainable Banking with the Poor,” and with a team of colleagues at headquarters and resident missions working on microenterprise issues and with NGOs. In conducting this study the two consultants (financial economist and social scientist) worked closely with CARE PULSE staff and the champion team of six MFIs. The multi-disciplinary and cross-sectoral nature of the management and research teams have brought strength to this grassroots-focused initiative.

Cynthia Cook
Sector Manager
Environment

Thomas W. Allen
Sector Manager
Private Sector Finance
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<tr>
<td>APM</td>
<td>Assistant Project Manager</td>
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<td>CBO</td>
<td>Community Based Organizations</td>
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<td>CC</td>
<td>Credit Coordinator</td>
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<td>CFPP</td>
<td>Community Family Planning Project</td>
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<td>CIDA</td>
<td>Canadian International Development Agency</td>
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<td>CO</td>
<td>Credit Officer</td>
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<td>HR</td>
<td>Human Resources</td>
</tr>
<tr>
<td>ISTC</td>
<td>In Service Training Center</td>
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<tr>
<td>LIF</td>
<td>Loan Insurance Fund</td>
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<tr>
<td>M &amp; E</td>
<td>Monitoring and Evaluation</td>
</tr>
<tr>
<td>MBT</td>
<td>Micro Bankers Trust</td>
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<tr>
<td>MIS</td>
<td>Management Information System</td>
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<tr>
<td>MSB</td>
<td>Management Services Board</td>
</tr>
<tr>
<td>NGO</td>
<td>Nongovernmental Organization</td>
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<tr>
<td>ODA/JFS</td>
<td>Overseas Development Administration/Joint Funding Scheme</td>
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<tr>
<td>PM</td>
<td>Project Manager</td>
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<tr>
<td>PULSE</td>
<td>Peri-Urban Lusaka Small Enterprise</td>
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<td>PUSH</td>
<td>Programme Urban Self-Help</td>
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<td>RDC</td>
<td>Residents Development Committees</td>
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<td>SAP</td>
<td>Structural Adjustment Programme</td>
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<td>WFP</td>
<td>World Food Programme</td>
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<td>WFTZ</td>
<td>Women Finance Trust of Zambia</td>
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<tr>
<td>YWCA</td>
<td>Young Women's Christian Association</td>
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</table>

**GLOSSARY**

- **chilimba** - Rotating Savings Associations
- **gulu** - A big group of people coming together for a common goal
- **sano** - Group of five people
- **kaloba** - A loan from money lenders
- **Informal Sector** - This includes:
  - Self employed workers
  - Unpaid family workers
  - All paid employees, employers and members of cooperatives having business or employment in enterprises of five or less employees
- **Core Poor** - Person with income of less than $1 per day
EXECUTIVE SUMMARY

The aim of Action Research was to document the experiences of CARE Peri-Urban Lusaka Small Enterprise Project (CARE PULSE) and the changes in operations and performance that the project has gone through, in its efforts to deliver credit effectively to microenterprises, mostly owned by women. CARE International is a nongovernmental agency which works to improve the quality of life of people throughout the world.

ESTABLISHMENT AND EVOLUTION OF CARE PULSE

In January 1992, at the invitation of the Zambian Government, CARE commenced operations in Zambia. Initially it focused on emergency relief in response to the severe drought of the early 1990s and on interventions to mitigate the effects of escalating inflation and extreme poverty in urban areas.

In April 1994, CARE Zambia launched the PULSE Project with objective to provide working capital loans to micro and small scale poor entrepreneurs, mostly women, who reside in the peri-urban residential areas of Mtendere, George, and recently Mandevu and Chawama, all in Lusaka. The borrowers must belong to a group and reside in the four project areas mentioned above. The borrowers must accept joint liability and be willing to make a compulsory minimum saving of 10 percent of the proposed loan amount.

The overall goal of CARE PULSE is to increase household income, economic security, and employment opportunities among the families of poor microenterprise owners in peri-urban areas of Lusaka, through the provision of sustainable savings and credit services.

OPERATIONS

The CARE PULSE project is a membership organization. Participants are required to undergo an eight-week training course (of one hour per week) as a group, before being admitted as members. CARE PULSE provides short-term loans to individuals through mutually liable groups. This methodology is based on solidarity group lending, with some adaptation of the Grameen Bank (Bangladesh) principles. The project also builds on informal financial systems already being used by the microentrepreneurs. Examples of these are the chilimba groups, or rotating credit and savings associations, dominated by women.

During the project’s first year, character reference and participation in a Loan Insurance Fund (LIF) were the only requirements from borrowers. This changed during the second year to include collateral in the form of household assets such as furniture, refrigerators, and radios. The change was initiated by the clients themselves upon
realization of the inadequacy of character references and LIF as collateral. So far, this has been the only major shift in CARE PULSE policy.

The project extends small loans, ranging from ZK50,000 to ZK250,000, to first-time borrowers and up to ZK500,000 to second-time borrowers. These loans are used to finance working capital by participants who are mainly involved in street vending, small-scale manufacturing, and food processing. The loans are payable in twenty-five weeks for first loans and fifty weeks for second loans. The repayment installments are on a weekly basis for first loans and bi-weekly for second loans.

CARE PULSE project personnel work with borrowers who are members of an existing chilimba or gulu. If there is no chilimba in the area with many potential clients, the formation of a gulu of twenty-five to thirty-five is facilitated by CARE PULSE staff. Within a gulu, the borrowers form themselves into self-selected sub-groups of five persons each called a sano. This mechanism creates two levels of peer pressure to ensure high repayment rates. Each sub-group member is equally responsible for a defaulter or participant who fails to repay. If the sano fails to repay, the larger gulu group would be required to repay the remaining balance. To this effect, a loan guarantee form is signed by all members of the group jointly with the elected committee of the gulu.

A week after loans are disbursed, the chairperson for each gulu confirms purchases of materials and items on which the sano members would have used the loan. The credit officer (CO) also systematically verifies at least 25 percent of loan utilization. In the event that the money was used for other purposes, the total amount of the loan would immediately fall due. The delinquency would also jeopardize the borrowing privileges of the other sub-group members.

FINANCIAL PERFORMANCE

The major sources of funds for CARE PULSE are grants from CARE Canada (52 percent) and ODA2 (30 percent). Internally generated funds (interest income and fees) contribute less than 10 percent. This heavy dependency on grants is further amplified by the subsidy dependency ratio of 1,146 percent. Presently, the interest income is inadequate to cover operating costs. The CARE PULSE five-year strategic plan indicates that the program can be financially viable over time.

ACCESS, OUTREACH AND IMPACT

CARE PULSE's targeted participants are women who are the sole income earners in their households. However, apart from this core group, the project also allows men to participate. As at December 31, 1996, a total of 2,018 persons (average of 11 persons per

1 US$1 averaged ZK1000 in 1997.
2 ODA has subsequently been renamed DFID: Department for International Development.
household) had received loans. The total amount disbursed reached ZK421 million, out 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. The savings in the Loan Insurance Fund had accumulated to ZK122 million.

The loans have had an impact in terms of generated employment and strengthened businesses. For the female participants, the loan has enabled them to become less dependent on their spouses and given them a bigger role in their homes.

CARE PULSE has an outreach ratio of 69 percent, suggesting that the program is reaching the poor and not the core poor. This result is expected because one of the qualifications for assistance from CARE PULSE is that prior to application for membership to CARE PULSE, one should have been operating a business for more than six months on a full time basis. This condition bars the very poor from participation because they lack capital to start a business.

INNOVATIONS AND LESSONS LEARNED

Innovative Techniques

The success of CARE PULSE project is, to a large extent, attributable to its innovative approach to microcredit delivery. Probably the most important innovative techniques which CARE PULSE has used are:

Use of Existing Institutions. CARE PULSE Project has successfully built on informal financial systems already being used by the micro entrepreneurs, thus ensuring the acceptance of the methodology by the participants.

Active involvement of Participants. CARE PULSE has encouraged a high level of client participation in the decision-making and credit delivery process. This has facilitated a high level of commitment and compliance by the participants.

Transparent MIS. CARE PULSE Project has an elaborate MIS that includes loan transaction documentation, through which participants actively participate.

The Loan Insurance Fund. This is a technique that has ensured high loan repayments and encouraged participants to develop institutional savings habits.

Lessons Learned

Implementation of the project thus far has also taught the management a number of lessons, the most important of which are:

Importance of Program Flexibility. CARE PULSE has adopted a flexible approach to its credit delivery guidelines. This has enabled modifications to some procedures following proposals from the participants.

The Value of Careful Recruitment Process and Orientation Training. CARE PULSE has an elaborate and 'prolonged' recruitment process and orientation
training. The process has proved effective in sieving out those who may be motivated by an easy way to credit.

The Importance of Timely Disbursement. The experience of CARE PULSE has been that when disbursement are delayed, in an inflationary economy, the plans of the participants are upset because they can no longer purchase the original quantity of stocks, the result of this would be an increase in loan repayment arrears.

The Importance of Networking. CARE PULSE has realized that credit delivery does not operate in isolation but that it is one of many variables affecting peoples lives. CARE PULSE cannot do everything and so it collaborates with other organizations, such as its sister CARE project, the Community Family Planning Project, and others.

The Value of a Strategic Plan. The plan is a road map to institutional growth and sustainability.
1. BACKGROUND

INITIAL OBJECTIVES AND EVOLUTION

CARE International is a nongovernmental agency that works to improve the quality of life of people throughout the world. The organization began in the wake of World War II with the CARE food parcel, some 100 million of which found their way into the hands of needy people, first in Europe and later in Asia.

Since its inception in 1946, CARE has grown into one of the largest non-sectarian, non-profit development and relief organizations in the world. Currently, CARE conducts more than 350 development programs in 61 countries. Each year, over 30 million people benefit from US$600 million in emergency and sustainable development programs. The purpose of CARE's programs is to support the world's poor in finding lasting solutions to their problems. They deliver a package that encompasses programs in disaster relief, small business, primary health care, nutrition, agriculture, natural resource management, and family planning.

The coordination of CARE's operations is carried out by the CARE International Secretariat seated in Brussels. The Board of CARE International, an executive body comprising representatives of the national agencies, is responsible for the review of the total work program. Each member organization is responsible for securing its own financial base necessary to fund its development efforts. Each member is also obliged to ensure that financial and program reports are circulated to donors when required. CARE Canada has the responsibility for overseeing the development and relief work of CARE Zambia.

In January 1992, at the invitation of the Zambian Government, CARE commenced operations in Zambia. Initially, the activities focused on emergency relief in response to the severe drought of the early 1990s, and on interventions to mitigate the effects of escalating inflation and extreme poverty in urban areas. The emphasis of programming has now benefited from CARE's US$15 million investment in the social and economic development of Zambia. CARE Zambia directly employs over 200 Zambian and eight expatriate staff to carry out its programs. Close collaboration with the appropriate ministries and local government authorities is maintained in all CARE project activities.

Despite its status as a relative newcomer to the relief and development sector in Zambia, CARE has gained considerable respect from government, donors and other nongovernmental organizations for its dynamism and program achievements to date.

CARE Zambia operates according to the following core values and principles:

**Participation.** Participation permeates all the activities of CARE. In its fullest sense, participation means that CARE recognizes the perspectives and positions of all those in and out of the organization involved in a CARE project or program.
Accountability. Accountability is the effective and honest management of resources entrusted to CARE to ensure the realization of intended objectives.

Learning Orientation. This describes an ongoing participatory process for the acquisition of knowledge and empowerment. This process enables people to achieve their potential and objectives and leads to creativity and reflection.

Pursuit of Collective Excellence. This describes the personal commitment of staff members to common purposes and values, and to continuously strive to develop distinct areas of competence. The pursuit of excellence results in an organization that consistently delivers superior performance, achieves impact, and retains the confidence of all stakeholders.

Integrity. This embodies honesty, openness and truthfulness. When demonstrated, it inspires confidence and trust at all levels (e.g., participants, staff, government and donors) and creates a positive environment for fulfilling CARE's purpose and programming objectives.

Within each community, CARE Zambia collaborates with the relevant local authorities. It also works closely with existing Resident Development Committees (RDCs), and has helped foster their development in localities where they had not previously existed. In each case, the time and effort that CARE Zambia puts into cultivating relationships and building trust with local authorities, facilitates the introduction of its programs.

The principal factors shaping CARE's current program are the development needs of Zambia and CARE's capacity and expertise in those areas. The peri-urban environment, livelihood improvement, reproductive health and emergencies have been identified as sectors of critical importance to Zambia, in which CARE is able to deliver effective sustainable programs.

This paper documents one of CARE's projects in Zambia, the Peri-Urban Lusaka Small Enterprise Project. The CARE PULSE project begun on April 1, 1994.

**INITIAL ORGANIZATION AND RESOURCES**

The activities of microentrepreneurs in peri-urban areas have been constrained by poor asset bases and skills, unfavorable economic environment, and most importantly lack of access to capital at affordable rates of interest.

CARE PULSE facilitates credit delivery in some peri-urban residential areas of Lusaka. The CARE PULSE project is a membership organization; participants are required to undergo an eight week training course as a group before being admitted as members.

The methodology used in the project is based on solidarity group lending with some adaptation of the Grameen Bank (Bangladesh) principles. The model enables the
project to extend short-term loans to individuals through mutually liable groups. The groups composed of self-selecting members come together to be trained in methodology before they qualify as members of PULSE. The project builds on informal financial systems already being used by the microentrepreneurs, such as the *chilimba* groups, the rotating credit and savings associations, to which many women belong.

When the CARE PULSE project begun, the collateral required was basically character and contribution to the Loan Insurance Fund (LIF). This changed during the second year to include household assets such as furniture, refrigerators, and radios. The change was initiated by the clients themselves upon realization of the inadequacy of character and LIF as collateral.

**SOCIO AND MACRO-ECONOMIC CONTEXT**

*Initial Macroeconomic Context*

Although the CARE PULSE project begun on April 1, 1994, lending operations started in 1995. The initial context, therefore, refers to the period up to the year 1995, while the present context refers to the period after 1996.

During 1995, the macroeconomic policies were directed at promoting growth by creating an environment conducive to the attainment of high rates of investment, and the promotion of competition, productivity, and efficiency. The strategy was to maintain macroeconomic stability, enabling adequate credit to be channeled to the private sector. In terms of social services, efforts were directed at expanding access to cost effective, high quality services. This saw the development and implementation of the education sector development program, the enhanced implementation and strengthening and increased funding towards social safety nets.

Generally, the Zambian economy experienced great difficulties in 1995 that hindered its expansion. The economy registered a decline of 4.5 percent in real gross domestic product (GDP); this followed the 1994 decline of 8.6 percent (Table 1). This decline can be attributed to a number of factors, such as the drought which affected the agricultural sector output, production difficulties in the mining sector, and sluggish performance by the manufacturing sector, as well as bank failures.

Bank failures, which started with the closure of the Meridien BIAO Zambia Limited, sent shivers through the country’s banking sector. Depositors became nervous, causing runs on three more financial institutions, and these developments put upward pressure on interest rates. The average lending base rate of commercial banks rose from 38.1 percent in January 1995 to 47.4 percent in November of the same year. The Central Bank rate increased from 24.8 percent in January, 1995 to 51.5 percent in December. Other interest rates, including those on saving deposits, also registered upward trends in 1995. Unfortunately, informal sector interest rates are not documented in Zambia, and it
is difficult to give a general picture. There is, however, a common credit system of *kaloba* which charges 100 percent interest rate.\(^3\)

The shocks from the bank failures also manifested through the rapid depreciation of the *kwacha* on the foreign exchange market. This was the case particularly during the first half of the year. On the bureau market, the *kwacha* depreciated against U.S. dollar from ZK701.59 per US$1 in January to ZK913.51 in June 1995. The foreign exchange market experienced relative stability in the second half of the year with the *kwacha* depreciating only to ZK948.60 by the end of November.

The monthly rates of inflation during the twelve-month period of 1995 exhibited varying trends. The rates declined between January and May from 3.2 percent in January to 0.3 percent in inflation after June. The higher level of 8.5 percent was recorded in October 1995. Among other factors, this was attributed to the food shortage arising from poor agricultural harvest, putting an upward pressure on the prices of food. An analysis of these price movements shows that low-income groups experienced sharp rises in prices mostly for consumer goods, such as food and beverage, rent, fuel and lighting and furniture, and other household goods. Most of the participants of CARE PULSE Project fall within this low-income category.

CARE PULSE was initiated at a time when the changing economic situation in the country, despite the implementation of the Structural Adjustment Programme (SAP), continued to affect employment opportunities adversely. The year 1995 saw a total number of 6,905 employees declared redundant (by 310 companies) between January and October compared to 6,528 during the same period in 1994.

Zambia's population in 1995 was 9,233,258 people with an annual growth rate of 3.2 percent. The population density for the country is 9.8 people per square kilometer. But it ranges between 3.1 people per square kilometer in North Western Province to 45.6 people per square kilometer in Copperbelt Province. On a national scale, the government has continued to emphasize the provision of necessary services. Primary school enrollment increased by 43 percent in 1995, although 45 percent of seven-year old children were still denied admission into grade one. The pupil - teacher ratio was 49.2 pupils to 1 teacher, which was higher than the national critical ratio of 40 to 1. In the health sector, implementation of health reforms continued with the government releasing nearly 100 percent of the budgetary allocation on running costs. Table 1 summarizes the main macroeconomic indicators.

### Present Macroeconomic Context

During 1996 economic policies were still aimed at macroeconomic stability and restoring investor confidence. This was important to ensure that the economy recovered from set-

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\(^3\) *Kaloba* is a local term for a loan from usually unregistered money lenders. Operations of money lenders are supposed to be controlled by the Money Lenders Act, but in most cases *kaloba* money lenders are not registered and operate virtually outside the law.
backs experienced during 1995 when the drought, coupled with bank failures and the structural problems in the lending sectors, caused a substantial decline in the real GDP.

Other measures included:

a) Provision of incentives such as the reduction of duty on productive machinery for the agricultural and mining sectors in order to facilitate a strong supply response. A simplified legal framework was also created for licensing, reporting and taxation of small-scale mining operations.

b) Zero-rating of value added tax (VAT) with respect to packages that met specified conditions in the tourism sector. This was meant to provide relief to tourists. Relief on VAT was also extended to small-scale business through allowing for voluntary VAT registration for business with turnover below the legal threshold. This was in addition to government continuation of liberal policies aimed at attracting investments, particularly in the trade, agriculture, and manufacturing sectors.

c) The privatization program accelerated in 1996. Over ninety-five state-owned enterprises were privatized bringing the total number of enterprises sold-off to 155 since the inception of the privatization program in 1992.

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<td>Real GDP (K'million)</td>
<td>2,122</td>
<td>2,027</td>
<td>2,139</td>
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<tr>
<td>Real GDP growth rate</td>
<td>-8.6</td>
<td>-4.5</td>
<td>5.5</td>
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<tr>
<td>Real GDP per capita (ZK'000)</td>
<td>237</td>
<td>223</td>
<td>218</td>
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<td>Exchange rate (K/US$) year end</td>
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<td>878.93</td>
<td>1,273</td>
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<td>Inflation rate %</td>
<td>54.6</td>
<td>34.9</td>
<td>35.0</td>
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<td>Treasury bill rate (year end) %</td>
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<td>41.5</td>
<td>57.5</td>
</tr>
<tr>
<td>Lending rate max. (year end) %</td>
<td>36.2</td>
<td>47.7</td>
<td>69</td>
</tr>
<tr>
<td>Savings rates (year end av.) %</td>
<td>12.8</td>
<td>28.7</td>
<td>28.6</td>
</tr>
<tr>
<td>Population density per sq. kilometer</td>
<td>9.8</td>
<td>9.8</td>
<td>9.8</td>
</tr>
</tbody>
</table>

SOURCE: Bank of Zambia and Central Statistics Office

A total of forty-three companies pre-qualified for the mining packages while six international electricity companies pre-qualified for the Power Division.
With regard to the financial sector, government continued to monitor the operations of the financial system. The provisions of the Banking and Financial Services Act of 1994 were vigorously enforced following the closure of three banks that experienced runs in 1995. Banks were also required to raise their minimum paid-up capital to ZK1.25 billion by end of June 1996 and to ZK2 billion by December of that year.

Measures were also taken to control monetary expansion. The statutory reserve requirement ratio was increased from 3 percent in July and to 7 percent in December 1996. In addition, the core liquid assets ratio was increased from 30 to 35 percent in July and 40 percent in September. The ratio was further raised to 43.5 percent in December 1996. Moreover, the Bank of Zambia continued to conduct the open market operations and increased the sale of treasury bills and bonds to reduce excess liquidity from the economy. As a result of the tight monetary policy during the second half of the year, interest rates rose sharply. The twenty-eight days treasury bills yield rate averaged 52.5 percent in 1996 compared to an average of 40 percent in 1995.

The commercial banks weighted lending rate averaged 53.8 percent in 1996 compared to 41.6 in 1995. The result of these high interest rates were constrained borrowing to re-capitalization industry and to expand domestic output and generate employment. The impact on the budget was the increased domestic debt to ZK127.8 billion at the end of December 1996 compared to ZK77.0 billion in 1995.

With regard to fiscal policy, government continued to adhere to the cash budget system. During the first three quarters of the year, a budget surplus of almost 0.7 percent of annual GDP was recorded by the end of September 1996. The performance, however, declined during the months of October and November, as a result of the unexpected sharp rise in expenditures and a drop in revenues. However, to contain this, measures such as stepping up revenue collection and effecting expenditure cuts were instituted. As a result a budget surplus of ZK41.7 billion was recorded in December. Overall, the domestic budget recorded a favorable out-turn for the year with a surplus of ZK53.4 billion being registered.

**Social Context**

Zambia has moved from being one of the most prosperous countries in Sub-Saharan Africa in the early 1970s to a country of low economic development, declining incomes, and deteriorating social indicators. The poverty crisis in Zambia is a result of past inappropriate policies compounded by severe external shocks. An added constraint is the unsustainable population growth rate which is straining the capacity to deliver social services while stretching household’s coping ability by increasing the already high dependency ratios.

Poverty is rife in Zambia. According to the 1991 priority survey 1, about 68 percent of all Zambians were living in households with expenditures per adult below a level sufficient to cater for basic nutritional needs. About 54 percent of Zambians were classified as “core poor.”
Although there has not been any major survey since 1991, the situation does not seem to have changed much in favor of the poor.

While most of the poor reside in rural areas, urban areas also have a fair share of them. Most of the urban poor live in unplanned squatter settlements on the periphery of urban centers. These unplanned squatter settlements, popularly known as peri-urban residential areas, have high population densities, low cost structures and lack legal status for the provision of services. The urban poor in these residential areas mostly undertake informal sector activities dominated by petty trading.

As already noted, the government's capacity to deliver social services is very constrained, a situation worsened by the governmental cutbacks on funding to the social sectors dating back to the economic crisis of the 1980s. This has resulted in severe dilapidation of most existing infrastructures. The three main social sectors of education, health, and water and sanitation have been the worst hit.

Urban population growth has exerted great pressure on school places in primary schools, resulting in a number of children being denied basic education. Thus:

- More than 250,000 children between the ages of seven and fourteen are not attending school;
- More than 1,000,000 adults, two-thirds of whom are women, remain illiterate; and
- More than 10,000 girls fail to complete their primary school program each year.

The health sector has equally been adversely affected because it has not been able to respond to increasing demands for basic health care services. Disease and death are at new record levels: infant mortality rates are rising; the prevalence of stunting and wasting is higher than the average for Sub-Saharan Africa. Vaccination rates for children fell to an overall low of 54.8 percent in 1993. Increased vulnerability to water-borne and other infections diseases, caused primarily by declining access to safe water and sanitation, is reflected in annual cholera epidemics. AIDS has in recent years added its own weight on the already over-stretched health care system. In terms of accessibility of health care, most people in peri-urban areas live within fifteen km of a health facility but indirect costs, such as transport and waiting time, discourages routine usage except in times of

---

**Table 2: Poverty**

<table>
<thead>
<tr>
<th></th>
<th>National</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Core poor</td>
<td>54</td>
<td>76</td>
<td>29</td>
</tr>
<tr>
<td>Poor</td>
<td>14</td>
<td>12</td>
<td>17</td>
</tr>
<tr>
<td>Non-poor</td>
<td>32</td>
<td>12</td>
<td>54</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

SOURCE: Priority Survey 1, 1991
emergencies. The introduction of cost sharing measures further discourages the core poor.

Approximately 85 percent of urban households have access to clean water compared to only 27 percent in rural areas. However, there is a disproportionate access to clean water in urban areas in favor of the high and medium cost residential areas. Most peri-urban residential areas are serviced by communal pipes. The situation is almost the same for sanitation. Only 64 percent of households nationally had access to safe and convenient sanitary facility in 1995, with 88 percent access in urban areas and 43 percent access in rural areas. Of the households who used safe sanitary facilities nationally in 1995, 31 percent of them shared with other households. Urban areas had more households (36 percent) sharing sanitary facilities than in rural areas (26 percent). Again, it is mainly in the peri-urban residential areas that households share sanitary facilities.

**Linkage between Poverty Eradication Efforts and MFIs**

That many people in the developing countries are poor is widely known. However, identifying the poor is not easy. Recent studies on poverty assessment in Zambia, suggest the following definitions:

(a) **Aged** - People classified as aged would normally be over sixty years. There may, however, be exceptional cases where a community considers someone to be aged before their sixtieth birthday, or where exact age is unknown. Such people must be unable to meet their own needs on account of age.

(b) **Disabled / chronically ill** - These are people who because of physical or mental disability, or because of chronic illness (which may or may not be terminal), are prevented from meeting their own needs.

(c) **Single-headed households** - This means households headed by a single responsible adult or child, with dependents under the age of eighteen (or still attending school). This head may be male or female. They may be widowed, divorced, deserted or never married and not in formal employment.

(d) **Orphans / neglected children** - Among this group, it is anticipated that "double" orphans (losing both parents) will be found to be more needy than "single" orphans (losing one parent). Neglected children are those whose parents or guardians are not providing suitable care, including economic, emotional, and moral support.

(e) **Displaced / disaster victims** - These are people suffering the immediate effects of short-term problems. They may have lost their formal employment as a result of retrenchment.

Categories (c) and (e) are clear candidates for microcredit, while the others (a), (b) and (d) are fit for welfare assistance.
Many authors acknowledge credit availability to the poor to be a more sustainable means of generating income and employment and reducing poverty than a targeted non-credit program, such as the Food for Work Programs (Hotsberg 1990, Khandker, Khalilu, and Khan 1995). Therefore, providing microcredit to the poor is one effective way of combating poverty.

**FINANCIAL AND SOCIAL SERVICES SECTOR**

*Financial Services*

Zambia's financial sector has grown rapidly over the last five years from nine commercial banks (foreign and local), four non-bank financial institutions, one insurance company in 1990; to eighteen commercial banks, thirty-one non-bank financial institutions, five insurance companies, one stock exchange with six listed companies and four unlisted companies, and six stock brokers in 1996.

The Central Bank (Bank of Zambia) has come under pressure from the public following the collapse of Capital Bank in 1991 and Meridien BIAO in 1993. The collapse of these banks was largely attributed to inadequate central bank supervision. Consequently, central bank supervision has been strengthened through the enactment of the new Banking and Financial Services Act No. 21 of 1994. Confidence in the banking sector appears to have been reestablished.

Deposit mobilization is dominated by the three main banks: Zambia National Commercial Bank (35 percent), Barclays Bank Zambia (25 percent), and Standard Chartered Bank Zambia (24 percent). The three also dominate lending activities.

There are no commercial banks operating in these areas, CARE PULSE being the only institution providing credit. CARE PULSE has a five-year strategic plan (p. 32) aimed at developing the project into a sustainable, autonomous, non-bank financial services institution capable of providing high quality savings and credit services, and expanding to other peri-urban areas in the country.

*Legal Framework for Non-Bank Financial Institutions*

The operations of non-bank financial institutions are guided by the Banking and Financial Services Act, 1994. The institutions are required to be registered by the Registrar of Banks and Financial Institutions and must have minimum paid-up capital of ZK25 million. Non-bank financial institutions are not allowed to take deposits from the public.

In 1992, Zambia implemented financial-market liberalization, the Central Bank no longer directly controlling the fixation of interest rates. Instead, interest rates are influenced by demand and supply forces in the money market.
Social Services and other Supports

The areas where CARE PULSE is operating are all relatively well serviced with basic social services such as primary schools and clinics. The council provides such facilities as organizing women's clubs and nursery schools through its Community Development Department. CARE PULSE has used clinics and schools as fora for disseminating information on its services (Figure 1).

The council has offered CARE PULSE office space for its branch operations. This reduces the cost of providing the services and enhances coordination with local institutions. Market cooperatives, churches, and residents' development committees (RDCs) are among the community based organizations (CBOs) that CARE PULSE collaborates with.
2. STRUCTURE AND ORGANIZATION

Organizational Structure and Conduct

CARE PULSE's operational policy allows it to work with established organizations in an area to the extent possible. It has a head office and four branches. Two of the CARE PULSE branches visited (Mtendere and George peri-urban residential areas) had established links with the local government authority through its council community development officers. Further links have been established with a sister CARE project known as Project Urban Self Help (PUSH) which distributes food from the World Food Programme (WFP) through a food-for-work program. CARE PULSE also has links with the local residents development committees (RDCs).

The organizations CARE PULSE works with may be classified into two groups. First are those organizations which by the nature of their activities draw a lot of people. Clinics, churches, and the PUSH program fall in this category. CARE PULSE takes advantage of gatherings in such places to inform the populace of its activities. This method has proved very effective at the beginning of its operation. For with time, the message has been spread by its participants. Second are the more formal cooperating partners such as the RDCs, market cooperatives and councils. These relationships have proved helpful for networking, understanding the local situation, and for gaining acceptance (Figure 1).

There are no commercial banks or any other financial institutions in the areas where CARE PULSE operates. CARE PULSE has linked a few of its participants to the banks by providing them with reference letters to open savings accounts (Table 4).
FIGURE 1: LINKAGES BETWEEN THE INSTITUTIONS

CARE-PULSE HEADQUARTERS

CARE-PULSE BRANCHES

GULUs

SANOs

NGOs

KEY: Formal Linkage
Informal Linkage
Table 4: Links with other Agencies

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Nature of Links</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Government Agencies</strong></td>
<td></td>
</tr>
<tr>
<td>1. Clinics</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td>2. Councils</td>
<td>Partners</td>
</tr>
<tr>
<td>3. Schools</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td><strong>NGOs</strong></td>
<td></td>
</tr>
<tr>
<td>1. PUSH</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td>2. CFP</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td><strong>Client Group</strong></td>
<td></td>
</tr>
<tr>
<td>1. RDCs</td>
<td>Partner</td>
</tr>
<tr>
<td><strong>Others</strong></td>
<td></td>
</tr>
<tr>
<td>1. Market cooperatives</td>
<td>Partner</td>
</tr>
<tr>
<td>2. Churches</td>
<td>Dissemination fora</td>
</tr>
</tbody>
</table>

CARE PULSE project has had no major adjustments or changes to its initial objectives. However, there have been changes, especially in the mode of loan repayment and follow-up. These changes have been initiated by the participants themselves and are elaborated upon in this document.

**Services Offered**

CARE PULSE Project provides working capital loans to micro and small-scale entrepreneurs among poor people, mostly women. The borrowers must belong to a group and reside in the four project areas it covers. The borrowers must also accept joint liability and must be willing to make a compulsory minimum saving of 10 percent of the proposed loan amount.

This savings scheme, called the Loan Insurance Fund (LIF), is primarily intended to be a collateral for the loan. The scheme pays a market deposit interest rate and members may withdraw principal and interest after repayment of the loan in full. The authors observed that this scheme has encouraged the development of a savings habit among the participants who previously had little or no participation in institutional savings.

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4 CARE PULSE defines micro entrepreneur as one employing less than five (5) employees while small entrepreneur is one employing five to nine employees.
Table 5: Array of Services Provided by CARE PULSE

<table>
<thead>
<tr>
<th>FINANCIAL SERVICES</th>
<th>NON FINANCIAL SERVICES</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loans</td>
<td>Client counseling</td>
</tr>
<tr>
<td>Group savings</td>
<td>Client training</td>
</tr>
</tbody>
</table>

Non-financial services include business training and social counseling, both of which are important in helping participants who have demonstrated an inability to adjust to handling larger sums of money.

**Management and Institutional Organization**

**Supervision**

CARE PULSE Project is supervised by the CARE Zambia country director. The country director, through the two assistant directors, provides the necessary guidance to the project management.

**Financial Discipline**

The CARE Zambia finance manager, manages the project’s finances. Thus, CARE Zambia financial procedures and regulations apply to CARE PULSE Project. The project recently recruited an accountant to begin the process of establishing internal financial management capability, as the project moves towards becoming an autonomous financial institution.

**Internal Organization and Management**

CARE PULSE Project has a management team comprising:
- Project manager;
- Assistant project manager;
- Training coordinator;
- Credit coordinator;
- Project administrator and
- Accountant.
The project manager reports to the country director, CARE Zambia (Figure 2). The decision making process is centralized. This arrangement is expected to be reviewed when the project becomes an autonomous institution.

The project has four field (branch) offices. Each field office is run by one senior credit officer and three credit officers. The project has a total number of twenty-nine staff (Table 6). Recruitment of staff is through a competitive selection process that includes an advertisement in a local newspaper and selection interviews. The qualifications of the current members of staff range from high school certificate to Masters degree.

Most field staff have had some experience with credit management gained from previous employment. But upon recruitment, staff undergo an orientation course and job-related training internally and externally. The relatively high level of basic education, coupled with intensive job related training has contributed to the good performance of the CARE PULSE project.

CARE PULSE has no staff incentives scheme but pays an all-inclusive salary, which is generally higher than the average in the industry. Currently, CARE PULSE average salary for a field staff is ZK250,000 per month. The relatively attractive salaries have had a positive impact on the morale and performance of the staff.

CARE PULSE encourages a high level of participation of its clients in the implementation of its programs and to underscore this, the project refers to its clients as participants. For instance, under the guidance of a credit officer (CO), each gulu is required to formulate its own set of rules and is also responsible for enforcement of discipline among its members. We observed that this high level of participation by clients is one of the reasons for the high level of commitment and compliance by the participants in the CARE PULSE Project. Participation is a core value of CARE Zambia (p. 1).
FIGURE 2: ORGANIZATIONAL CHART OF PERI-URBAN LUSAKA SMALL ENTERPRISE (CARE PULSE)
### Table 6: Staff Establishment of CARE PULSE

<table>
<thead>
<tr>
<th>Designation/Location</th>
<th>Project HQ</th>
<th>Mtendere Office</th>
<th>George Office</th>
<th>Chawama Office</th>
<th>Mandevu Office</th>
</tr>
</thead>
<tbody>
<tr>
<td>PM</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>APM</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Credit coordinator</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Training coordinator</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Project Admin.</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Accountant</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Snr. credit officer</td>
<td>0</td>
<td>1</td>
<td>1</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Credit officer</td>
<td>0</td>
<td>3</td>
<td>4</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Accounts asst.</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Admin. asst.</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Data entry asst.</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Office helper</td>
<td>1</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Drivers</td>
<td>2</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>12</strong></td>
<td><strong>4</strong></td>
<td><strong>5</strong></td>
<td><strong>4</strong></td>
<td><strong>4</strong></td>
</tr>
</tbody>
</table>

**Management Information System**

An accounting and loan reporting system has been set up by the project. A computer-based accounting and management information system (MIS) has been designed and installed. This comprehensive and effective MIS enables the CO to follow up immediately on arrears before they become problematic. The MIS also assists the credit coordinator to monitor and forecast the project’s credit requirements. The project’s loans management system is able to produce the following quantitative reports to help analysis of performance and impact:

- Gender disaggregated data for loan disbursement and types of business;
- Loan status reports, showing disbursements, repayments, interest, other fees, arrears or prepayments, default, loan balances and loan insurance balances;
- Assets of each participant which will be used to measure changes in asset base; and
- Loan repayment schedules for loan recipients and the repayment record of each borrower.

CARE PULSE project is one of the few lending institutions in Zambia which maintains gender disaggregated data on its clients.

Monitoring and Evaluation System

CARE - PULSE Project has evolved a monitoring and evaluation system (M & E) which includes baseline surveys, and periodic program evaluation. Baseline surveys are conducted prior to the projects commencement of activities in a locality. The survey aims at establishing the socio-economic status of the proposed beneficiaries. While the specific baseline surveys are conducted to determine the impact of the project's assistance after implementation and the periodic program evaluation is a total review of the performance of the PULSE.

Human Resources

At the time of the research, CARE PULSE establishment stood at twenty-nine, six of whom were at managerial level. The majority of the staff were assigned to the training and credit components of the project. While 65 percent of the CARE PULSE participants are females, only about 20 percent of its staff are females (Table 7). However, this does not seem to have caused any problems as evidenced by the high level of female client participation. This might be because CARE PULSE operates in relatively urban settings where the traditional inhibitions of male/female interactions are somewhat relaxed.

Table 7: Distribution of Employees by Gender

<table>
<thead>
<tr>
<th></th>
<th>Male employees</th>
<th>Female employees</th>
<th>Total employees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head office</td>
<td>7</td>
<td>5</td>
<td>12</td>
</tr>
<tr>
<td>Branch offices</td>
<td>14</td>
<td>3</td>
<td>17</td>
</tr>
<tr>
<td>Total</td>
<td>21</td>
<td>8</td>
<td>29</td>
</tr>
</tbody>
</table>

Officers at branch level enjoy a high rate of interaction with clients. The officers attend participant group meetings at least on a weekly basis. Below is the schedule of a daily routine of each credit officer to illustrate the level of interaction.
<table>
<thead>
<tr>
<th>Time</th>
<th>Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>08:00</td>
<td>Office work, visits to individual participants’ business ventures, and meeting potential participants</td>
</tr>
<tr>
<td>09:00</td>
<td>Meeting established groups.</td>
</tr>
<tr>
<td>13:00</td>
<td>Lunch</td>
</tr>
<tr>
<td>14:00</td>
<td>Office work and supervisory visits continue, surrendering of money to senior credit officer, and taking money to the bank.</td>
</tr>
<tr>
<td>17:00</td>
<td>Close.</td>
</tr>
</tbody>
</table>

Friday afternoons are set aside for expansion activities such as visiting potential participants and mobilization.

Originally, CARE PULSE had set its target at forming twenty-four groups in the first year. This has been revised to forty-eight. The second year’s target had been set at sixty-one and later revised to seventy-five. These targets have already been met due to the overwhelming demand for the services. The total membership stands at 3,000 loanees which works out to about one credit officer to 231 participants.

The CARE PULSE branch level officers are required to have at least a diploma or certificate in business management, coupled with some years of experience. In reality, however, there are some officers who are overqualified and possess Masters’ degrees, while a few are under-qualified, without any vocational training beyond their school-leaving certificate. To compensate for this deficiency, the project encourages its staff to attend both internally and externally organized workshops. Staff are required to attend workshops in participatory approaches to community mobilization, and in research methodologies. Staff have attended a series of management courses in Harare, Zimbabwe. Visits have also been organized to learn from other experiences, for example the visit to Kenya.

The project has at the same time offered opportunities to staff of other similar projects to study its methodology through secondment arrangements. Projects that have benefited from this arrangement include CARE’s Livingstone Food Security Project, Mpongwe Women’s Bank and an upcoming Savings and Credit Programme by CARE Mozambique.
**Staff Training**

A comprehensive induction course is offered to new credit officers before deployment. This initial training is composed of two parts:

i. **Exposure to the Economic and Social situation of Micro entrepreneurs**

After an initial orientation workshop, COs spend a minimum of two weeks in the field before deployment. The purpose of this field attachment is to expose them to the daily operations of microentrepreneurs (MEs) and to the difficulties they confront.

ii. **Formal Training**

Formal classroom training is arranged by the project with the help of other organizations such as Small Enterprise Project under the Young Women’s Christian Association (YWCA), the management Services Board (MSB) and the Inservice Training Center (ISTC).

The training includes topics such as:

- Business opportunity identification
- Business plan preparation
- Training needs identification
- Management / costing
- Marketing and sales
- Communication and human relations
- Cash management
- Banking

In addition, a credit consultant gives a week’s training to COs in all aspects of the credit component of the project. The training session for COs takes approximately six to eight weeks. This emphasis on training is in line with CARE Zambia core value of **learning orientation**.

**Study Tours To Existing Microcredit Schemes**

Study tours were organized to see microcredit schemes in Kenya and Zimbabwe in December 1996. The five-year strategic plan includes visits to South Africa, Tanzania and Indonesia during its third year. This type of training offers opportunities for learning the “best practices” of other institutions operating under similar socio-cultural situations.
FUTURE PLANS

The management of CARE PULSE has developed plans to transform the project into an independent organization in the third year of operation. This will entail changing the role of CARE vis-à-vis the project by CARE becoming a technical assistance provider to PULSE rather than the project manager.

The project plans to increase membership from the current 3,011 to 10,000 by the year 2001. The plans include the consolidation of the Lusaka Portfolio and arrangements for expansion to other areas within Lusaka and beyond. There are also plans to develop new lending products, such as individual lending programs and wholesale of loans to groups.
3. MODES OF OPERATION

SAVINGS SERVICES

CARE PULSE Project does not provide deposit services to the public because it is not registered under the Banking and Financial Services Act of 1994.

LENDING SERVICES

CARE PULSE's lending procedures consist sequentially of group formation, training, loan application and approval, disbursement, supervision, and repayment. The project extends small loans, ranging between ZK50,000 to ZK250,000 to first-time borrowers and up to ZK500,000 to second-time borrowers. These loans are used to finance working capital by participants involved in food processing (on streets), vending, small time manufacturing, and small cottage industry activities. The loans are payable in 25 weeks for first and 50 weeks for second loans. The repayment installments are on a weekly basis for first loans, and bi-weekly for second loans.

Interest rate charged for the loans comprise two main components. The first component is the base interest rate. This rate is based, to an extent possible, on the prevailing inflation rate to ensure that the loan fund is protected against inflation. The second component is a handling or administrative charge, which is added to the base rate. This handling charge is intended to contribute towards the cost of credit-services delivery.

CARE PULSE project personnel work with borrowers who belong to an existing chilimba or gulu. The indigenous chilimba system is based on the principle of mutual trust among the participants since there are no written rules or contracts binding the group. Two to five people would come together and agree on an amount of money to be saved. Each month these savings are put together and 'lent' to one member. This rotates until each member has been through this, and the group agrees to either restart the cycle or disband. Some members whose targets have been met the first time opt out, and the group might reorganize, inviting new members. At this time, members could negotiate and agree upon the new levels of contribution.

Should a chilimba not exist in the area where there are many potential clients, the formation of a gulu of twenty-five to thirty-five is facilitated by CARE PULSE staff. Within a gulu, the borrowers self-select themselves into sub-groups of five persons (sano). This mechanism creates two levels of peer pressure to ensure high repayment rates. The risk of default can be reduced by having smaller, more intimate groups established within the framework of the larger group. Each sub-group member is equally responsible for a defaulter or participant who fails to repay. If the sano fails to repay, the larger gulu group would be required to repay the remaining balance. To this effect, a loan
guarantee form is signed by all members of the group jointly with the elected committee of the gulu.

The first two loans to each sano are disbursed on the principle of 2-1-2 within eight weeks from the date of starting the LIF contribution; the second loan is disbursed within twelve weeks and the last two loans are disbursed within sixteen weeks. For repeat loans, the first two members receive their loans after the group has been reorganized and trained, the second member after four weeks, and the last two after eight weeks. The COs make follow-up visits on a regular basis providing on-the-job advice.

A week after loans are disbursed, the chairpersons for each gulu group confirm purchases of materials and items on which the loan would have been spent. The CO also systematically verifies at least 25 percent of loan utilization. In the event that the money was used for different purposes, the total amount of the loan would immediately fall due. Any delinquency would jeopardize the borrowing privileges of the other sub-group members.

A group which has repaid the loan is eligible for additional loans. Loans start small and increase gradually, depending on the ability of the entrepreneur to repay. For borrowers who repay on time, an incentive, in terms of repayment privileges is offered. In addition, the CO is rewarded with bonuses for high repayment rates. The CO nurtures good client relations and close contact at weekly gulu group meetings to ensure high repayment rates among assisted groups.

Eligibility Criteria

Individuals must meet the following criteria for loan eligibility:

- a Zambian resident in the designated residential area for at least two years;
- must have operated a business for at least six months on a full time basis;
- the income-generating activity must be viable and have development potential;
- the enterprise should have less than five employees;
- the applicant must be at least eighteen years of age;
- there must be a personal reference from the group members; and
- the applicant must have no criminal record or outstanding debts with other loan arrangements.

Group Formation

Credit officers facilitate formation of groups. As already stated, each gulu consists of twenty-five to thirty-five members, that further sub-divide themselves into sanos. Generally, sano members would know each other well, and live or work near each other. Normally, the groups would have a strong common interest or bond in addition to gaining access to credit. However, family members are discouraged from participating as
members of the same group. Each *sano* elects a representative at the orientation meetings. The elected office holders are not given any remuneration for organizing the group activities. Their role is to represent the *sano* during the larger *gulu* meetings. Failure to do so would threaten the group's eligibility for loans.

After groups are formed a promotional meeting is held to explain to potential borrowers how the credit scheme operates, what is expected of them, and the steps required to initiate the scheme and receive loans. If the members are interested, they would enter the next step of orientation and training.

**Orientation**

Entrepreneurs receive initial orientation and training as a prerequisite to qualify for loans. The initial orientation is provided by the COs, and includes the following topics:

- background of CARE PULSE and its objectives;
- how CARE PULSE goes about achieving its objectives;
- main features of the lending model;
- definitions of the target group;
- roles and responsibilities of participants and project staff;
- discipline and trust;
- group formation and operations;
- guarantee system and peer pressure;
- credit operations, conditions and procedures;
- obligations of applicants to the project and to the *sano* to *gulu*;
- savings and the importance of *gulus*;
- cash management; and,
- simple business principles.

Eight consecutive meetings are needed to cover the aforementioned subjects. A participatory methodology is used to ensure full comprehension of the training. During the first orientation meeting, *sanos* would be encouraged to start savings for the Loan Insurance Fund (LIF) using the *gulu* method.

The *gulu* decides on the amount of individual contributions. For instance, a *gulu* intending to apply for a loan of ZK100,000 per member, would contribute ZK1,000 each at every meeting. Each member receives a pass book in which the *sano* treasurers enter all deposits. These deposits are then countersigned by the CO monitoring the *gulu* and are deposited into the bank by the senior credit officer. After the first orientation meeting, members of the *gulu* are required to verify individual economic activities. This verification includes an assessment of the financial and non-financial needs of the entrepreneur and the viability of the suggested activity.
Post-Registration Training

After a group is formally registered with CARE PULSE, it is issued with a certificate of registration and the training for the loans begin. At this stage, training includes a basic introduction to credit operations, conditions and detailed procedures of the CARE PULSE model, the obligations and responsibilities of credit, and the cost of credit. The participant is expected to:

- attend one-hour weekly meetings, spaced over eight weeks, to discuss progress.
- contribute savings during the weekly meetings.
- participate in all training activities organized for the group and utilize the skills acquired in improving their businesses.
- accept the responsibility to guarantee every loan issued to the members of the gulu and monitor use and repayment of the loans.
- understand that the loan applied for can be absorbed by the business.

Loan Application

After the eight weeks of orientation, the training coordinator tests the members using simple methods. The aim is to confirm understanding of the process.

A sano can apply for a loan after the following steps would have been taken:

- The initial savings into the LIF have been deposited.
- Attendance of orientation meetings has been regular and successful.

Each sano selects the first two people to receive loans. The two must not include the leader who must wait until every one has received their loans. The CO does not get involved in the selection process. After the two have been selected by their sano and presented to the gulu, the loan application forms are issued by the credit officer to the selected participants. The process is followed in the remaining cases.

Should the first lot of borrowers not start paying back, then the rest of the group does not receive their loans. The leaders who are usually the influential people have to wait for the others to receive first. This is meant to deter their manipulation of the groups.

Loan Appraisal

No detailed appraisal is required on the initial small loans. The economic-activity assessment and character reference verification conducted by the gulu and CO are adequate for loan approval.

All loan applications are first assessed by the leader of the sano, who presents the recommendation to the gulu during their weekly meetings. The leader informs the gulu
about the current position of the business and how the participant plans to utilize the loan. Following this recommendation, the *gulu* undertakes its own character and business management appraisal. If the *gulu* supports the application, it is then forwarded to the credit officer for his/her recommendation. Then, it goes to the credit coordinator (CC) for disbursement. If the *gulu* is not satisfied, they refer the application back to the *sano*, which they also help with further assessment of the applicant.

**Loan Disbursement**

After loan approval, borrowers sign their individual loan agreements at a *gulu* meeting. Members of the respective *sano* and the *gulu* sign loan guarantee forms. The group leaders sign on behalf of the *gulu*.

After the documents have been approved by the *gulu* and recommended by the credit officer, the credit coordinator checks them for clarity and confirms the loan insurance fund status of each applicant. The credit coordinator then prepares a statement for each applicant and processes a disbursement request. All the documents are then reviewed by the assistant project manager (APM), and the project manager (PM) who sign the final authorization. The purpose of the management review is to assess and minimize the credit risk to the program.

After the review by the PM and the APM, the CC prepares a list of all eligible participants and the amount that each is requesting. Each list is then signed (authorized) by the PM and APM. The CC then prepares a check request which is authorized by the PM before the request is submitted to the finance manager for auditing and issuing of a check in the name of the bank. The check is sent to the assistant director (support) together with a letter to the bank. The letter gives the bank instructions to pay those whose names and registration cards numbers appear on the list. All the participants whose names appear on the same list must go to the bank at the same time and be paid so that the check amount is paid in full at the same time. The recipients acknowledge receipt of the money by appending their signatures on the list.

Immediately the check is sent to the bank, all the participants whose names appear on the list sign a contract. This contract is binding to the loan applicant as well as the other group members in their capacity as guarantors. The loan contract is read in full to the participant by the area senior credit officer. His/her role is to ensure that the participant is fully aware of the contract as well as its implications. The credit policies are also repeated to all the members of that group, and their collective responsibilities reiterated. At this point, all group members whose loans would have been approved receive repayment schedules and amounts.

**Loan Repayment/Recovery**

The CO attends *gulu* meetings to monitor progress of the assisted activities and the status of repayment. During these meetings, the *gulu* treasurer collects payments to be credited to individual members’ accounts. The representative of each *sano*, with assistance from
the CO, records the loan payments in each member's passbook. The gulu treasurer then hands over the loan repayments to the CO for banking. The deposit slip is subsequently passed on to the credit coordinator who stamps with "Received" the Return form filled in by the group. This form is sent back to the gulu. However borrowers are expected to administer the loan repayment and collection procedures independent of the CO. Participants getting repeat loans are already showing this independence, because the COs seem to now spend less time in assisting them.

Representatives of the sano and the gulu are responsible for solving repayment problems internally. If a member fails to raise the loan payment, the sano and the gulu are expected to pay on behalf of the defaulting member. They also have to devise alternative ways and means of recovering the money from that member. If they fail to do so, their LIF contributions are liquidated. The project staff have developed an incentive program to reward groups for prompt repayment, e.g., awards of certificates for best paying group, group of the quarter, and graduation certificates for groups that successfully repay their loan on time. The incentives for both the groups and the COs are based on quantitative and qualitative criteria.

Loan Monitoring

Each sano leader ensures that loan conditions are complied with and that the loans are used for the intended businesses for which they were applied.

The following steps are taken to follow up loan utilization:

- Sano members monitor each participant to ensure that the loan is properly used. A report is given by the representatives during the weekly gulu meetings. If there is any problem then the gulu select other representatives to visit that participant and recommend how that participant can be assisted.

- The credit officer visits any participant whose case will have been discussed at the gulu as having problems. The role of the CO is to establish the root cause of the problem and assist in rectifying it. The CO also visits participants at random to discuss with them the general progress and their needs for training.

Arrears and Default

A participant who does not make the scheduled repayment on the day of the meeting is considered to be in arrears. If the participant makes part payment during the meeting s/he is still considered to be in arrears. If at any one time the actual outstanding balance is greater than the scheduled balance then the participant is in arrears.

A participant who has not made four consecutive payments is considered to be in default. However, if the participant is making payments but the principal repayment is behind by an amount that is equal to or greater than six scheduled principal repayments, then that loan is also classified as being in default.
Penalties

If one participant in the group is in arrears, other group members do not qualify for further loans. This is to ensure that there is peer pressure to comply with the loan conditions.

Steps in Loan Recovery

- If group members are in arrears, the credit officer asks the whole gulu to make good the loan by contributing to the members who are in arrears or by collecting money from those who are in arrears. If by the following week the group pays as scheduled and the outstanding loan is current, then the loans are removed from the arrears list.

- If the group does not pay as scheduled by the following week, and the arrears continue, the CO and the gulu officials visit all those in arrears and distribute a warning letter. At this stage, they discuss with the participant how s/he can be helped in paying back the loan. A new repayment schedule is agreed upon.

- If no payment is made by the next agreed-upon period, the CO and the senior credit officer discuss with the gulu what steps would be taken against those in arrears. At this point, the inter-gulu committee is notified and an assessment of the LIF of the individual and the sano she belongs to is made. A concrete agreement is reached with the group at this point.

- The gulu may decide to take to task those people in arrears one way or the other or to contribute to settle the arrears as agreed. The senior credit officer and the inter-gulu will facilitate the process of follow-up, and they will update management accordingly. If there is a possibility of participants turning hostile, the police are requested to accompany the group members and the credit officer to the scene.

- If the above approach fails and the participant is in more than four consecutive payments arrears, the loan is declared in default. At this point the management comprising the senior credit officer, the credit coordinator, the training coordinator, the accountant, the assistant project manager and the project manager decide on the next cause of action. The following actions could be taken singly or in some combination:
  * recovering the loan from the LIF of the participant;
  * recovery from the participant and the other sano members;
  * recovering from the whole group; and
  * taking legal action against the participant, which could include repossession of pledged security if any.

- A loan may be closed and written off. However, writing off a loan does not stop the process of recovery of the loan. It only means that the interest will not be accrued any
more and the efforts to recover are decreased. The defaulter's name is handed over to the proposed credit rating register and agency.

Second Loans

The CO visits each applicant in order to familiarize himself with the business. This enables the CO to assess whether the first loan was paid from the proceeds of the business or not. The visit also helps him to judge whether the business can absorb the amount requested as a second loan and make an assessment of the initial loan's impact on the business. Other issues considered are the potential of the business to grow and the potential for generating employment.

Training for Second Loans

Larger loans require sharper skills and management capacity. Consequently, training is essential for the acquisition of second or subsequent loans. The training program includes:

- business management skills and record keeping
- upgrading any technical skills that the participants might already have
- marketing and distribution of products
- planning and cash management
- group dynamics and leadership as well as gender issues.

Loan Application Approval Process

The loan application and approval process is similar to the first loans with minor modifications to suit additional conditions, such as a minimum of 20 percent LIF deposit.

Real and Nominal Interest Rates

CARE PULSE charges a flat nominal interest rate of 40 percent for a loan of six months maturity. On an annual basis this nominal interest rate is equivalent to 80 percent. Inflation as at December 31, 1996 was estimated at 35 percent. Therefore, real annual interest rate for CARE PULSE is 45 percent.

Besides interest charges, the organization levies other charges; for example an administration fee of 10 percent and a loan application form fee of ZK750. Real effective interest rate is estimated to be 96 percent per annum (Table 9 and Annex II). This rate
compares favorably with a market effective rate of 64.6 percent per annum.\(^5\) CARE PULSE’s effective lending rate is justifiable on grounds of the high cost involved in a small loans delivery program. It should be emphasized that charging full-cost interest rates and fees is one of the four principles of financially viable lending to poor entrepreneurs.\(^6\)

### Table 9: Nominal, Real and Effective Interest Rates

<table>
<thead>
<tr>
<th></th>
<th>Nominal rate</th>
<th>Real rate</th>
<th>Effective rate (real)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CARE PULSE (% p.a.)</td>
<td>80</td>
<td>45</td>
<td>96.8</td>
</tr>
<tr>
<td>Market interest rate (% p.a.)</td>
<td>69</td>
<td>34</td>
<td>64.6</td>
</tr>
</tbody>
</table>

SOURCE: CARE PULSE Database and Bank of Zambia

### OTHER FINANCIAL SERVICES

#### Loan Insurance Fund

Prior to receiving loans, participants are required to raise a minimum of 10 percent of the requested loan amount and deposit it into the LIF. This savings for the LIF partially serves as collateral for use as insurance against potential default due to death, disability, or other misfortune. From the different options available, groups are encouraged to select the amount of LIF they would like to pay in a week (ZK500 - ZK2500).

During every group meeting, each member contributes a fixed amount. The treasurer from the *gulu* has the responsibility of depositing the total amount saved into the LIF through the senior credit officer. The deposit is considered the individual borrower’s savings in the LIF, and these savings are controlled by the project. The LIF records reflect individual borrower’s savings. Savings are deposited into a separate investment account at a commercial bank. The project has the responsibility to invest the LIF for the benefit of borrowers. Though initially savings into the LIF should reach a minimum of 10 percent of the requested loan amount. A higher percentage rate is required as loan amounts increase (i.e., 20 percent to 30 percent). Higher loan amounts are more risky and justify a higher "collateral" in the form of savings.

Groups are encouraged to solve repayment problems internally before the LIF is used to cover an outstanding loan. Should the LIF be seized because of default, the subsequent loan requests from the group members would remain small, until they would have saved again. If a loan installment is overdue for 30 days, the defaulting borrower’s savings from the LIF are liquidated. If the savings cannot cover the amount due, the sub-

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\(^5\) Commercial banks charge an arrangement fee of between 2 and 4 percent of the loan amount, payable upfront. For this analysis a 4 percent arrangement fee is used.

group's savings within the LIF are used to cover the outstanding debt. If that amount does not match the debt, the savings of the whole group are used to cover the remaining balance. Savings (principal and interest earned) in the LIF can be withdrawn when all members of the group have cleared their loan accounts.

**Non Financial Services**

*Production Support: Training*

One of the non-financial services offered by CARE PULSE in support of the credit facility is training. CARE PULSE has an elaborate pre-loan training package for its participants. Part of the project’s success has actually been attributed to this training which instills some financial discipline and business management skills in its participants.

The training is conducted for one hour per day during the eight weeks that the gulu is being prepared for the loan, during which time they also start paying their LIF.

*Social Services*

The social support service offered by the project staff is in the form of counseling; which has developed in response to the project’s experiences. The counseling has mainly been extended to women. Women have needed the counseling as acquisition of the loan in some cases has led to misunderstandings within the families where the man felt his authority was being undermined by the apparent success of the wife. This may have been true in a few cases, but on the whole it has not been a common phenomenon. The counseling offered by COs is usually advisory and sometimes mediating.

**Strategic Plans**

CARE PULSE has developed a five-year strategic development plan to be implemented in two phases. The plan is intended to help make the organization a sustainable, autonomous financial services institution capable of providing high quality savings and credit services to microentrepreneurs. The target group will continue to be women and men operating income-generating microenterprises and activities to increase household income, economic security and employment opportunities in the peri-urban Zambia.

Among the activities planned are:

- developing an institutional framework;
- revising and fine-tuning the lending methodology to make it more responsive to the clientele;
• improving information and financial management systems including the development of CARE PULSE accounting system independent of the mother body’s overseas financial systems (OFS);
• developing Monitoring and Evaluation systems;
• strengthening the human resource base;
• expanding credit activities;
• beginning to manage project like an independent institution;
• establishing a Board;
• undertaking most of financial management responsibilities at project level;
• mobilizing necessary financial resources for the new institution;
• determining the role of CARE vis-à-vis the new institution;
• developing new lending products such as individual lending schemes;
• developing new strategic plans for CARE PULSE as an independent institution;
• developing a clear vision for such an independent financial intermediary;
• developing further the institutional capacity to respond to the expansion needs.

During the first year of operations CARE PULSE achieved the following benchmarks:
• developed an institutional framework;
• revised and fine tuned peer lending methodology;
• functioning accounting and loan tracking system;
• additional staff hired and given proper orientation;
• management team undergone financial management training;
• staff have participated in cross-visits;
• developed a criteria for establishment of Advisory Board;
• M & E, HR, financial and administrative systems established.

The implementation of the foregoing strategic plans will transform CARE PULSE from a donor managed microfinance project to an independent microfinance institution. This is expected to widen its scope to mobilize resources and outreach. It is also expected to improve program viability and sustainability. The CARE PULSE Project has a highly motivated management team whose current sponsors (including CARE Zambia), are very supportive of this initiative. Indications are that the strategy will succeed.
4. OUTREACH AND IMPACT

ECONOMIC OUTREACH AND IMPACT

General Outreach

CARE PULSE's targeted participants are principally women who are the sole source of income in their households. However, apart from this core group, the project encourages the participation of young persons including males.

As at January 31, 1997 CARE PULSE had 2,035 loanees. Mtendere Office has the largest number of participants totaling 890, of which 633 are women.

The predominant business activity among CARE PULSE's participants is trading, probably because the activity does not require large capital outlay and is relatively easy to enter. Service provision is the least pursued activity, maybe reflecting that services are less demanded in poor communities. What is surprising is that food processing is not a popular business activity among CARE PULSE participants, although demand for food (a basic need) is expected to be high in poor communities.

Table 10: General Outreach

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of participants⁷</td>
<td>2,021</td>
<td>3,011</td>
</tr>
<tr>
<td>Total number of loans</td>
<td>1,751</td>
<td>1,959</td>
</tr>
<tr>
<td>Number of loans to female participants</td>
<td>1,264</td>
<td>1,491</td>
</tr>
<tr>
<td>Number of loans to male participants</td>
<td>487</td>
<td>468</td>
</tr>
<tr>
<td>Number of loans per type of business</td>
<td></td>
<td></td>
</tr>
<tr>
<td>* Food processing</td>
<td>49</td>
<td>89</td>
</tr>
<tr>
<td>* Retail</td>
<td>697</td>
<td>234</td>
</tr>
<tr>
<td>* Manufacturing</td>
<td>80</td>
<td>154</td>
</tr>
<tr>
<td>* Trading</td>
<td>829</td>
<td>1,454</td>
</tr>
<tr>
<td>* Service provision</td>
<td>16</td>
<td>28</td>
</tr>
<tr>
<td>* Other business</td>
<td>80</td>
<td>0</td>
</tr>
</tbody>
</table>

SOURCE: CARE PULSE Database

Of the four indicators of depth of outreach shown in Table 11 below, in our view the average loan per nominal national income per capita gives the best description of the depth of CARE PULSE outreach. The interpretation of this indicator is that the lower the

⁷ Includes participants undergoing induction training prior to the receipt of loans.
percentage the higher the coverage of the very poor. CARE PULSE’s ratio of about 80 percent suggests that the program is reaching more mainstream clientele than the very poor. This result is expected because one of the qualifications for assistance from CARE PULSE is that one must have been operating the business for more than six months on a full-time basis. This condition bars the very poor from participation, because they do not have capital to start a business. Depth of outreach ratios suggest that CARE PULSE clients are not among the core poor (54 percent of Zambians), but rather among the poor (14 percent of Zambians).

**Table 11: Depth of Outreach**

<table>
<thead>
<tr>
<th>Measure</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average loan size (ZK)</td>
<td>175,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Nominal national income per capita (ZK)</td>
<td>244,445</td>
<td>346,214</td>
</tr>
<tr>
<td>Average loan/ nominal national Income per capita (%)</td>
<td>72</td>
<td>87</td>
</tr>
<tr>
<td>Percentage of women clients</td>
<td>72</td>
<td>76</td>
</tr>
</tbody>
</table>

SOURCE: Compiled from various publications of the CSO and CARE PULSE database.

As can be seen from the average loan size ZK300,000 (US$235), CARE PULSE project reaches very small businesses that would otherwise be excluded from formal financial services. This ability to reach the very small businesses is one of the many positive aspects of the CARE PULSE project. Also notable is the high women participation rate at over 70 percent.

**Savings Mobilization**

CARE PULSE does not accept deposits from the public because it is not registered under the Banking and Financial Services Act. However, group savings is an important part of the credit methodology, principally as collateral. The volume of annual group savings increased from ZK94M in March 1996 to over ZK122M in December 1996. The number of savers has risen from 2,021 in March to 3,340 in December 1996. Member savings were equivalent to 72 percent of the total volume of loans outstanding as of December 31st, 1996. This savings mobilization innovation is one of the most successful features of CARE PULSE whose impact is expected to outlive the project.

**Loans**

A total of 1,089 had received loans by the end of June 1996. The total amount disbursed was ZK358M out of which ZK22M was for repeat loans to 45 participants. A total of
ZK120M was still outstanding by the end of June. The on-time repayment rate stood at 98 percent. The savings in the Loan Insurance Fund had accumulated to K95M by June 1996.

By December 31, 1996, a total of 2,018 had received loans. The total amount disbursed reached ZK421M, out of which ZK54M was for repeat loans to 128 participants. A total of ZK170M was still outstanding. The on-time repayment rate stood at 92 percent. The savings in the loan insurance fund had accumulated to ZK122M.

Other Economic Impact

The loans have created a significant impact in terms of employment generation 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 (60 percent increase in six months) and 150 seasonal jobs (18 percent increase in six months) had been created. In addition, some family members became more productively engaged. The project also helped secure at least 1,751 jobs of the borrowers. The average income and turnover for the businesses had also increased by as much as 75 percent in some cases. Some participants have changed their businesses, while others have diversified as a result of the loans.

The CARE PULSE credit scheme appears to be an effective approach to poverty alleviation. The foregoing discussion confirms the strong belief that making credit available to the poor is a more sustainable means of generating income and employment and reducing poverty than a targeted non-credit program such as the Food for Work Programs (Hotsberg 1990, Khandker, Khalilu and Khan, 1995).

SOCIAL IMPACT

Although CARE PULSE has only been in operation for a short time, as illustrated below, the impact of its credit system is already being seen.

Client Participation

The emphasis of the CARE PULSE project is on people. To underscore this, the clients of CARE PULSE are referred to as “participants.” Within the period that CARE PULSE has been extending its credit facilities, it has demonstrated through its various approaches that its clients are indeed participants. It has accomplished this by working through already established structures, promoting dialogue and facilitating the establishment of the Residents’ Development Committees (RDCs). This strategy enables the participation of the local people on equal footing with the project staff, thus creating a sense of genuine partnership.

Participation of the loanees has developed to the stage where they are able to recommend modifications to the lending process. One example of this modification is
the introduction of the inter-*gulu* committee which draws its membership from all existing *gulus* and helps in providing leadership to all *gulus* as well as overseeing these operations. This encourages local monitoring and enforcement among members.

Another shift relates to collateral. The *gulus* suggested that each participant requesting a second loan, be required to pledge some valuable household property. Later, this was improved to allow the participant’s next of kin to countersign the pledge form to forestall any problems likely to arise if a partner would not have been fully informed of the possible consequence should there be need for confiscation. In addition, the *gulu* undertakes the confiscation process itself and as such, the project’s image is not dented (Box 1.).

One feature of the CARE PULSE Project is the transparency of its credit transactions, helping inspire confidence and trust at all levels. Transparency also eliminates the danger of group collusion given that groups are self-selected. This is in line with CARE Zambia’s core value of *accountability*.

---

**BOX 1.**

Maria Banda belongs to the Tiritonse *gulu* in George residential area. At the time of applying for the loan, Maria pledged a television set, a fan and a fridge as collateral. Maria got her loan together with nine other *gulu* members. But she failed to honor her loan repayment for about three weeks. The *gulu* gave Maria a warning to meet her obligations or risk confiscation of her collateral. Maria overlooked the warning. Two weeks later, some *gulu* representatives confiscated Maria’s collateral in the absence of her husband. When the husband asked Maria what had happened to the television set, the fan and the fridge, Maria simply stated that *gulu* members had taken them away.

In a rage, the husband confronted the *gulu* members who explained everything to him to which he responded “You mean she pledged my property.” However, the man understood that the *gulu* was not in the wrong. He asked to be given time to redeem the property. He looked for money that was needed to cover the wife’s debt and got back their property.

Such cases led to the additional requirement that the next of kin should counter-sign the collateral form.

The self-selecting process of membership at *gulu* formation stage also serves as another platform for the participants to take part and express their participation in the CARE PULSE credit delivery mechanism. Appreciation of the role that the participants play in CARE PULSE was further well articulated by participants of *Tigwilizane* group of Mtendere. In answer to the question, “What is CARE?”, they respond, “CARE is us, the people.”

However, some concerns have been expressed by the participants on the credit delivery. The first and most important was the issue of loan size. The general feeling was that the loan size was too small, considering the ever increasing prices of goods and services. To remedy this, some participants were of the view that loans could possibly be given in the form of capital equipment or inputs. This was also seen as a solution to the
problem of misuse of the loan funds once issued in cash. CARE PULSE has been receptive to these concerns and has relaxed the loan size requirements. Now the average loan size is K300,000.

Gender and Poor Awareness

Among the key strategy objectives of CARE PULSE is the need to ensure that there is some gender balance in the targeting of its participants with some emphasis on reaching more women specifically. This objective has definitely been implemented. Out of a total of 1,751 participants who had received loans by the end of March 1996, 65 percent were women. The 1996 baseline survey confirmed the higher participation of women, which it found to be 72 percent in Mtendere and 88 percent in George residential areas.

However, the level at which women are participating varies. Though women hold executive positions in most groups, there are some groups which have tended to put the few (minority) men in the group on the executive board. This might be due to their cultural orientation and the relatively higher level of illiteracy among women (Annex I).

The same training in the *gulus* is extended to both males and females alike and the supervision by the credit officers is also offered accordingly, with no special treatment for women. However, CARE PULSE offers credit even to people whose businesses are not conducted in the confines of the market but includes street vendors and those conducting business from their homes. This facilitates the participation of women since they form the majority of home-based and off-the-street vendors.

As stated, CARE PULSE credit officers are mainly males. However, this does not seem to have posed a constraint on their outreach to the female participants. This might be because these women should have been in business for six months before qualifying for the loan. Therefore, they would have already taken a step towards breaking cultural expectations of a woman’s place in relation to men who are not family members.

Savings Awareness and Opinions

The CARE PULSE participants’ knowledge of savings is very high. This is not attributed to the CARE PULSE training but to the informal savings and credit systems in the peri-urban residential areas. One such system is the *chilimba*, upon which the CARE PULSE project has partly been built. This system entails a group of people coming together and deciding on the amount to contribute each month. Members would have access to this on a rotational basis. To acknowledge the value of the system in savings and credit awareness, CARE PULSE has included this as one of the criteria for eligibility.

CARE PULSE has the LIF as a form of compulsory saving. Initially, it had planned to also have voluntary savings. However, the mechanism for making/depositing such savings was never developed, as it became clear that participants could not afford both the compulsory and the voluntary savings. A few individuals who did manage to save beyond the LIF were assisted, through references, to open accounts with commercial banks or the Post Office Bank.
Similarly, participants’ awareness of credit is quite high, although some elements of dependency may be detected in those participants who assume that the project is government-funded and therefore should provide interest-free or soft loans. However, once this misunderstanding is cleared, participants are always ready to play by the rules. In fact, participants find the CARE PULSE loan very convenient and “cheap” compared to the local credit system known as kaloba (p. 3) which requires one to repay the loan at 100 percent interest and within a very short period.

**Impact on Individual Capacity**

Those who had already received their loans generally believed that the loan had given a much needed boost to their businesses. There were a number of examples of participants, whose businesses had risen to heights they had never thought capable of reaching after the loan.

Participants expressed the view that their ability to meet basic necessities (such as food and educational needs) was enhanced because of this boost in their businesses.

However, beyond that, it was difficult to assess this impact on the business of participants because they do not keep records. It might have to suffice that each participant has no doubt as to the impact the loan has had on the expansion of their businesses in terms of increase in stocks.

For the female participants, the loan has enabled them to become less dependent on their male spouses, and they can see themselves playing an even bigger role in the home. This has raised their self image, status and increased their assertiveness and sense of achievement.

Finally, the loan has impacted on the empowerment and assertiveness of the participants in general by building in them a sense of credit worthiness which they never felt before. Most of them are aspiring for bigger loans and to access these as individuals and not as groups.

**Impact on Institutional Capacity**

The initiative to have an inter-group committee is proof that the participants are striving towards better self organization. The inter-group aims at assisting in times of conflicts within groups and to offer additional support to the leadership as well as to management. Moreover, by the time of the research, no groups had disbanded as a result of failure to resolve any emerging conflicts. This might also indicate the positive impact of leadership training. The training that participants receive is already yielding fruits as demonstrated by the ability of some former participants to co-facilitate at the orientation of potential borrowers by sharing their own experiences.
5. FINANCIAL PERFORMANCE

CARE PULSE does not prepare a profit and loss statement and a balance sheet. This is because it utilizes CARE Zambia's accounting system which is not designed for the production of financial statements. This problem is very common among MFIs. Robert Peck Christen et al. (1994), identified this as one of the issues facing microenterprise finance programs. They observed: "...without it [information management], banks will not consider an institution creditworthy and regulators will not consider it sound. Good financial reporting is thus a sine qua non of leverage and hence extensive outreach."  

SOURCES AND USES OF FUNDS

As can be seen from Annex III below, the major sources of funds for CARE PULSE are grants from CARE Canada (52 percent) and ODA (30 percent). Internally generated funds (interest income and fees) contribute less than 10 percent. This heavy dependency on grants is further amplified by the subsidy dependency ratio of 1,146 percent (p. 42). Presently, the interest income is inadequate to cover operating costs.

FINANCIAL VIABILITY

A direct way to evaluate financial viability of CARE PULSE is to quantify cost structure and examine whether the cost per unit of the principal lent is equal to the rate of interest that borrowers are charged. A microfinance institution, if it is to maintain its capital holdings, must generate sufficient revenue over a given period of time to meet its operating costs. To be financially viable, CARE PULSE should charge an interest rate that generates revenue equal to or exceeding the cost per unit of principal lent. Mathematically, this can be stated as:

\[ r \geq (1 + e + p) \]

\[ (1-p) \]

Where

- \( r \) is the interest rate charged per unit of principal
- \( i \) is the cost of raising resources per unit of principal

---

8 CARE PULSE recently recruited an accountant who has begun the process of developing a separate accounting system for CARE PULSE that will facilitate preparation of appropriate financial statements.

\( e \) is the expected cost of administering and supervising a loan per unit of principal lent.

\( p \) is the expected financial loss per unit of principal.

Presently, CARE PULSE is wholly dependent on grants for financial resources. Consequently, the cost of raising resources per unit of principal is zero.

Using the above formula, it was established that the cost per unit of principal lent by CARE PULSE is ZK0.87, which is slightly larger than the annual nominal lending interest of ZK0.80 per unit lent. As already noted, CARE PULSE’s real effective lending interest is ZK0.96 per unit lent. This compares favorably with the cost of ZK0.87 per unit, suggesting that the organization is financially viable. However, this viability is subject to continued use of grant funds. When the imputed cost of ZK0.65 per unit of principal lent (being effective market interest) is introduced, the cost per unit of principal lent increases to ZK1.56, implying that if CARE PULSE were to borrow funds at the market interest rate for on-lending, the program would be financially unviable. However, it would probably be unrealistic to expect a two-year-old microcredit program to be financially self-sufficient.

**Employee and Capital Productivity**

The time series data on cost structure of CARE PULSE is inadequate for measuring efficiency at the program level. Consequently, efficiency was not analyzed.

*Table 12: Institutional Efficiency*

<table>
<thead>
<tr>
<th>Efficiency Parameters</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Operational self sufficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating income (%)</td>
<td>74</td>
<td>69</td>
</tr>
<tr>
<td>Operating expenses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Administrative efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of active loan clients</td>
<td>159</td>
<td>89</td>
</tr>
<tr>
<td>Loan officer</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating expenses (%)</td>
<td>303</td>
<td>705</td>
</tr>
<tr>
<td>Av. loan portfolio</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CARE PULSE Database
## OPERATING PERFORMANCE

*Table 13: Loan Performance*

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Volume of loans outstanding (ZK)</td>
<td>141,976,260</td>
<td>197,818,900</td>
</tr>
<tr>
<td>Loan growth rate (%)</td>
<td>-</td>
<td>39</td>
</tr>
<tr>
<td>Average loan size (kwacha)</td>
<td>175,000</td>
<td>300,000</td>
</tr>
<tr>
<td>Outstanding loan per volume per credit (ZK)</td>
<td>12,906,932</td>
<td>11,636,406</td>
</tr>
<tr>
<td>Arrears rate (%)</td>
<td>12</td>
<td>7</td>
</tr>
<tr>
<td>On-time repayment rate (%)</td>
<td>75</td>
<td>92</td>
</tr>
<tr>
<td>Provision for loan losses (%)</td>
<td>5</td>
<td>5</td>
</tr>
<tr>
<td>On-lending interest rate (%)</td>
<td>40</td>
<td>40</td>
</tr>
<tr>
<td>Total amount disbursed during year (ZK)</td>
<td>327,950,000</td>
<td>145,050,000</td>
</tr>
<tr>
<td>Total disbursement /credit officer (ZK)</td>
<td>29,813,636</td>
<td>8,532,353</td>
</tr>
<tr>
<td>Loan/credit officers</td>
<td>11</td>
<td>17</td>
</tr>
<tr>
<td>No. of active clients</td>
<td>1,751</td>
<td>1,513</td>
</tr>
<tr>
<td>Average loan portfolio (ZK)</td>
<td>27,329,167</td>
<td>12,087,500</td>
</tr>
<tr>
<td>Operating income (ZK)</td>
<td>61,022,328</td>
<td>59,146,384</td>
</tr>
<tr>
<td>Operating expenses</td>
<td>82,696,500</td>
<td>85,206,000</td>
</tr>
</tbody>
</table>

*SOURCE: PULSE database*

*NB: Arrears defined as payment due for a period of one week or more.*
Although there is no direct way of estimating total economic viability, it is possible to evaluate whether CARE PULSE can operate without grants. The extent of economic subsidy in terms of the opportunity cost of the subsidized funds the CARE PULSE Project has received needs to be identified. The two sources of MFI's subsidy are the financial subsidy, given if the program can not break even, and the economic subsidy, given if lending is supported by grants or funds obtained at interest rates lower than the market rate.

The economic subsidy is defined as that delivery by the CARE PULSE from obtaining grants, due to the difference between the actual interest rate and the opportunity cost of these funds. Comparison of the actual and opportunity cost of these funds gives the economic cost of maintaining the project operations.

The economic subsidy can be divided into the interest subsidy (i.e., financial cost subsidy), equity subsidy and income subsidy. The interest subsidy is defined as the difference between the market interest rate and concessionary interest rate multiplied by the amount of the subsidy. As follows:

\[
FCS = A (M - C)
\]

Where, 
- FCS is the financial cost subsidy
- A is the total annual concessional borrowed funds (outstanding)
- M is the market interest rate
- C is the concessional interest rate

For grants \( C = 0 \) and the financial cost subsidy is equal to \( A \times M \).

As noted above (p. 39), CARE PULSE uses grant funds. Therefore, its financial cost subsidy is \( A \times M \) (i.e. \( FCS = A \times M \))

The subsidy on the amount of equity is given by:

\[
E_S = E \times M
\]

Where 
- \( E_S \) is the equity subsidy
- \( E \) is the amount of equity
- \( M \) is the market interest rate.

As a project, CARE PULSE has no equity. Therefore, \( E \times M = 0 \) and \( E_S = 0 \).
The income subsidy (K) is defined as the amount of grants received for operating expenses. Since CARE PULSE receives grants for operating expenses, Income subsidy = K.

The economic subsidy for CARE PULSE is:

\[ SS = FCS + K \]

Net subsidy (NS) for CARE PULSE is the economic subsidy less profit (P) and is defined as:

\[ NS = A*M + K - P \]

The subsidy dependence of CARE PULSE is evaluated its loan portfolio. As follows:

\[ SDI = \frac{NS}{LP \times i} \]

Where

- SDI is the subsidy dependence index
- NS is the annual net subsidy received by CARE PULSE
- LP is the average annual outstanding loan portfolio
- i is the average weighted on-lending interest rate paid on that portfolio.

Since CARE PULSE has a uniform on-lending rate, the (i) is not an average weighted rate. Using the above formula, we estimate SDI for CARE PULSE for the period April 1994 to March 1996 to be 1,146 percent.
6. INNOVATIONS AND LESSONS LEARNED

INNOVATIVE TECHNIQUES

The success of the CARE PULSE project is to a large extent attributable to its innovative approach to microcredit delivery. Probably the most important innovative techniques which CARE PULSE has used are:

i Use of existing institutions. CARE PULSE Project has successfully built on informal financial systems already being used by the micro entrepreneurs. This has ensured the acceptance of the methodology by the participants.

ii Client participation in the management process. CARE PULSE 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 be responsible for enforcement of discipline among its members. Each gulu is also primarily responsible for loan recoveries.

iii Transparent MIS. CARE PULSE Project has an elaborate MIS which includes loan transaction documentation for participants. This openness has inspired confidence and trust at all levels.

iv The loan insurance fund is a technique which has ensured high loan repayments and encouraged participants to develop institutional savings habits.

LESSONS LEARNED

CARE PULSE management has over its period of implementation of this micro credit program learned a number of lessons, the most important being:

i Importance of program flexibility. CARE PULSE has adopted a flexible approach to its credit delivery guidelines. This has enabled modifications to some procedures following proposals coming from the participants, practices which may have been an unacceptable practice had they come from project staff. This flexibility has also instilled a sense of ownership of the credit program among the participants.

ii The value of careful recruitment process and orientation training. CARE PULSE has an elaborate and ‘prolonged’ recruitment process and orientation training. The process has proved effective in sieving out undesirable elements. This has resulted in a low default rate.
iii  The importance of timely disbursement. When disbursements are delayed, in an inflationary economy, the plans of the participants are upset because they can no longer purchase the original quantity of stocks. The result of this would be an increase in loan repayment arrears.

iv  The importance of networking. CARE PULSE realizes that credit delivery does not operate in isolation. It is one of many variables impacting on peoples' lives. For instance, in order for credit delivery to be effective, participants have to be taught their rights. They need also to be exposed to family planning so that they can match their resources to family size. They might need social counseling to ensure that the loan does not upset the existing harmony in the home. CARE PULSE can not do everything and so it collaborates with other organizations such as its sister CARE project, Community Family Planning Project.

v  The value to the organization of having a strategic plan. The plan is a road map to institutional development and sustainability.

**Assessment of Replicability of Innovative Techniques**

Participants to the first national workshop on sustainable microfinance institutions in Zambia concluded that the innovative techniques discussed above can be replicated, provided the receiving MFI has a suitable organizational structure.

**Issues Requiring Attention**

**Financial Indicators**

At the time of the study CARE PULSE had an inappropriate accounting system, one which could not allow the development of standard financial indicators. As soon as an appropriate accounting system is in place the following financial indicators should be developed:

- return on assets
- return on equity
- operational self-sufficiency

**Social and Economic Indicators**

There are various indicators that can be checked to see whether an initiative is making any impact. Among these are the social indicators which gauge the changes on peoples' lives. Such indicators can encompass the following:
• nutritional levels of a household captured in terms of number and quality of meals;
• ability to meet educational needs;
• ability to meet health needs; and
• improved self-esteem and assertiveness of an individual.

There are also economic indicators which have to be identified and these can include the following:
• improvements in people’s income levels;
• ability to create income for others by employing them;
• ability to acquire assets both for the business and/or home; and
• ability of the business to grow.

Both the economic and social indicators are necessary for any MFI, as they are used to measure different aspects of impact on the clients. It is, however, very important to try and identify these indicators in consultation with the participants/clients because participants/clients may sometimes view their benefits differently from the MFI. Moreover, their perceived values might not necessarily be the values seen by the MFI.

**NGO Versus Private Company Approach to Microcredit Delivery**

While MFIs are trying to address poverty issues by providing microcredit, their delivery of microcredit is supposed to be approached from a strictly business point of view. This point is more relevant to MFIs that are NGOs. They consider microcredit delivery as a service provided to the community. However this should be separated from commercial activities. To enhance this, non-NGO MFIs should be encouraged to share their experience and management styles with NGO MFIs.
7. BIBLIOGRAPHY


ANNEXES

ANNEX I: ECONOMIC AND FINANCIAL ENVIRONMENT (NATIONAL LEVEL)

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP per capita (nominal) ZK'000</td>
<td>240.9</td>
<td>310.5</td>
<td>434.2</td>
</tr>
<tr>
<td>GDP per capita (real) ZK'000</td>
<td>237.2</td>
<td>222.5</td>
<td>218.1</td>
</tr>
<tr>
<td>GDP growth rate (nominal)</td>
<td>.43</td>
<td>33</td>
<td>44</td>
</tr>
<tr>
<td>GDP growth rate (real)</td>
<td>-8.6</td>
<td>-4.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Inflation rate (%)</td>
<td>54.6</td>
<td>34.9</td>
<td>35</td>
</tr>
<tr>
<td>Treasury bill rate (%)</td>
<td>20.9</td>
<td>41.5</td>
<td>60.0</td>
</tr>
<tr>
<td>Lending rate maximum (%)</td>
<td>36.2</td>
<td>47.7</td>
<td>69.0</td>
</tr>
<tr>
<td>Savings rates (year end av. %)</td>
<td>12.8</td>
<td>28.7</td>
<td>28.6</td>
</tr>
<tr>
<td>Exchange rate (ZK/US $) end-period</td>
<td>671.46</td>
<td>878.93</td>
<td>1,273.05</td>
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<tr>
<td>Population (million)</td>
<td>8.8</td>
<td>9.1</td>
<td>9.3</td>
</tr>
<tr>
<td>Population density (per square km)</td>
<td>9.8</td>
<td>9.8</td>
<td>9.8</td>
</tr>
<tr>
<td>Literacy rate&lt;sup&gt;10&lt;/sup&gt;</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Male</td>
<td>61.5</td>
<td>61.5</td>
<td>61.5</td>
</tr>
<tr>
<td>Female</td>
<td>49.2</td>
<td>49.2</td>
<td>49.2</td>
</tr>
<tr>
<td>Life expectancy (year)</td>
<td>45.5</td>
<td>45.5</td>
<td>45.5</td>
</tr>
<tr>
<td>Infant mortality (per '000)</td>
<td>80</td>
<td>n/a</td>
<td>n/a</td>
</tr>
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</table>

n/a = not available

<sup>10</sup> Census of population, Housing and agriculture, 1990.
### ANNEX II: CARE PULSE INDICATORS

<table>
<thead>
<tr>
<th>Description of poverty alleviation credit program</th>
<th>1995/96</th>
<th>1996/97</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of beneficiaries</td>
<td>1,751</td>
<td>1,959</td>
</tr>
<tr>
<td>% Grants</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>% Loans</td>
<td>100</td>
<td>100</td>
</tr>
<tr>
<td>Rate of loan repayment (%)</td>
<td>75</td>
<td>92</td>
</tr>
<tr>
<td>Exchange rate (ZK/US $)</td>
<td>878.93</td>
<td>1,273.05</td>
</tr>
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SOURCE: CARE PULSE Database
### ANNEX III: SOURCE AND USES OF FUNDS

(For the period April 1994 to March 1996) (ZK '000)

<table>
<thead>
<tr>
<th></th>
<th>Internally Generated Funds</th>
<th>ODA</th>
<th>CARE CANADA</th>
<th>DFD</th>
<th>TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Total Source</strong></td>
<td>55,336</td>
<td>210,329</td>
<td>357,460</td>
<td>66,551</td>
<td>689,676</td>
</tr>
<tr>
<td><strong>Uses</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Staff Salaries</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>International</td>
<td>43,031</td>
<td>55,332</td>
<td>1,818</td>
<td>1,001,181</td>
<td></td>
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<tr>
<td>National</td>
<td>41,229</td>
<td>34,337</td>
<td>19,775</td>
<td>95,341</td>
<td></td>
</tr>
<tr>
<td><strong>Allowances &amp; Training</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Staff Dev.</td>
<td>785</td>
<td>9,084</td>
<td>1,723</td>
<td>11,592</td>
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<tr>
<td>Monitoring</td>
<td>3,629</td>
<td>1,751</td>
<td>0</td>
<td>5,380</td>
<td></td>
</tr>
<tr>
<td><strong>Equipment</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Vehicles</td>
<td>0</td>
<td>10,486</td>
<td>16</td>
<td>10,502</td>
<td></td>
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<tr>
<td>Office Equip.</td>
<td>3,551</td>
<td>12,519</td>
<td>221</td>
<td>16,291</td>
<td></td>
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<tr>
<td><strong>Loan Funds</strong></td>
<td>76,911</td>
<td>184,673</td>
<td>40,565</td>
<td>302,149</td>
<td></td>
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<tr>
<td><strong>Operational Costs</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>Office Expenses</td>
<td>30,081</td>
<td>30,969</td>
<td>2,143</td>
<td>63,193</td>
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<td>Veh. Expenses</td>
<td>9,718</td>
<td>10,161</td>
<td>290</td>
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<td>Consultants</td>
<td>780</td>
<td>6,761</td>
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<td>Monitoring</td>
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<td>1,387</td>
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<td><strong>Total Uses</strong></td>
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<td>357,460</td>
<td>66,551</td>
<td>689,676</td>
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</tr>
</tbody>
</table>

**Contribution (%)**

|                      | 8.02                        | 30.5   | 51.83       | 9.65   | 100            |

Exchange rates:
FY 1994/95 ZK 671.46 = 1 US $
FY 1995/96 ZK 878.93 = 1 US $

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ANNEX IV: CARE PULSE STRATEGIC PLAN

CARE PULSE has developed a five-year strategic development plan (1996-2001), to be implemented in two phases. The plan is intended to facilitate the process of making CARE PULSE a sustainable, autonomous, financial services institution, capable of providing high-quality savings and credit services to microenterprises in the peri-urban areas of Zambia. This pursuit of excellence is a core value of CARE Zambia.

The target group will continue to be women and men operating income-generating microenterprises/activities intended to increase household income, economic security, and employment opportunities in the peri-urban Zambia. The following is the summary of the strategic plan:

PHASE 1 (THREE YEARS FROM APRIL 1996 TO MARCH 1999)

OBJECTIVE: To develop a solid base for the formation of an independent institution and register CARE PULSE as an independent institution.

YEAR 1:

STRATEGIES:

(a) To develop an institutional framework:

* identify and explore options regarding the form of institution PULSE will be and design suitable institutional structure
* review project goals and objectives and finalize strategic plans
* develop criteria and policies of CARE PULSE Advisory Board
* Advisory Board established (initially with CARE Zambia and ODA participation).

(b) To revise and fine-tune the lending methodology to make it more responsive to the clientele:

* review and finalize the peer group lending methodology
* review loan policies and procedures
* undertake assessment of existing participants and potential demand for services to also serve as a baseline for impact
* undertake an environmental assessment
* establish criteria for methodological review, institute a regular review process and implement changes as necessary.
(c) To improve information and financial management systems:

1. Loan tracking:
   * complete updating of loan tracking system and review processes of loan appraisal, approval, disbursement, and repayments
   * improve on information needed from the loan tracking system for adequate portfolio management
   * review the existing database system in relation to others in the market such as Micro Banker, Krep's Loan Management systems etc.

2. Accounting:
   * develop CARE PULSE accounting system independent of the CARE Overseas Financial Systems (OFS)
   * negotiate new accounting systems with CARE Finance and agree on new systems and procedures
   * hire firm to set up project level accounting system
   * test and adapt the systems.

3. Loan Projections:
   * make financial projections based on study of demand and methodology chosen
   * based on all analysis, choose how to expand.

(d) To develop monitoring and evaluation systems
   * review baseline data procedures
   * start collection of specific baseline data on participants who completed first loans.

(e) To strengthen the human resource base
   * develop human resource systems, policies and procedures
   * hire a financial and management accountant for CARE PULSE
   * hire additional credit officers
   * provide orientation for new project staff
   * provide ongoing technical training for COs, beginning with implications of refined methodology
   * ensure that the project manager, assistant project manager, accountant and coordinators receive appropriate financial management training
* plan and implement regular staff awareness programs on the institutional
development process based on needs assessment (prepare staff to begin client
awareness program)
* undertake cross-visits to Mbeya credit facility and other relevant places.

**BENCHMARKS**

* institutional framework developed
* revised and fine-tuned peer lending methodology
* functioning accounting and loan-tracking system
* additional staff hired and given proper orientation
* management team has undergone financial management training
* staff have participated in cross-visits
* financial projections for expansion completed
* criteria for establishment of advisory board developed
* M & E, HR, financial and administrative systems established.
YEAR 2

OBJECTIVE: To demonstrate the ability to effectively and efficiently manage operations

STRATEGIES:

(a) To expand credit activities

* consolidate the Lusaka Portfolio and make plans and arrangements for expansion.

(b) To manage the project as an independent institution

1. To begin to undertake financial management at project level
   * determine what financing mechanism is most appropriate to allow CARE PULSE to evolve good financial systems
   * start preparing annual financial statements and audits.

2. To undertake human resource management at project level
   * provide training for the institutional management team
   * establish performance standards for compensation
   * identify ways to manage compensation packages at project level
   * develop an appropriate organization based on structure and needs
   * make decisions for each staff position regarding promotion of existing staff, hiring new staff, and retiring existing staff
   * recruit and promote staff as necessary.

3. To establish administrative capacity to manage procurement and vehicle policies and procedures at the project level.

4. To change the role of CARE vis-à-vis the project by CARE becoming a technical assistance provider to CARE PULSE rather than its project manager.

5. Develop local leadership for the new institution
   * further develop policies for advisory board
   * identify possible advisory board members
   * select at least two independent members for the advisory board
   * provide orientation for advisory board members
   * provide board development and develop broad policies.
6. Develop the legal framework for the new institution
   * identify the possible legal structure options
   * based on a clear institutional vision, select the legal structure most appropriate to the clientele and the services offered
   * engage a legal advisor to fulfill legal registration requirements.

7. Establish institutional linkages
   * determine what type of institutional linkages would be necessary for the future institution (donors, banks and other NGO)
   * identify potential partners
   * select these organizations with which the new institution wants to develop linkages
   * begin to build relationship with the selected institutions.

BENCHMARKS
   * project begins to manage resources adequately with the new financial mechanism
   * management undergoing institutional management training
   * legal framework for new institution developed.
YEAR 3

OBJECTIVE: CARE PULSE registered as an independent institution and beginning to develop its own institutional capacity

STRATEGIES:

(a) Prepare for and conduct mid-term evaluation

(b) Board established and assumes some responsibilities currently handled by CARE

* provide orientation and training for new and promoted staff
* develop human resource policies, procedures, and systems (staff contract, recruitment, training, personnel manual, performance management).

(c) Revisit the institutional vision and undertake institutional strategic planning

* work to reconfirm the institutional vision with the advisory board
* undertake strategic planning for the new institution with the advisory board
* develop and implement regular planning processes
* prepare strategic plan for the independent institution and Phase 2 of ODA support with complete financial projections.

(d) To undertake most of financial management responsibilities at project level

* determine a new financing mechanism between CARE and CARE PULSE that allows the latter to assume financial management of project resources
* implement mechanism.

(e) Mobilize necessary financial resources for the new institution

* determine the institutional support required to enable CARE PULSE to run its operational systems
* seek donor funding as required.

(f) Determine the role of CARE vis-à-vis the new institution

* review CARE's role in the emerging institution
* determine the nature of ongoing technical and management assistance that CARE could provide to the new institution
* determine CARE's role in providing continued leadership and guidance to the new institution, through a seat on the board and with technical assistance.

(g) Develop new lending products such as individual lending scheme
* research individual lending methodology
* review and finalize the selected methodology
* begin testing the methodology with those who have a track record.

BENCHMARKS:

* An institution registered independently of CARE Zambia
* Other products of lending methodology introduced
* More financial independence achieved
* Lusaka operations consolidated.
PHASE II: (TWO YEARS FROM APRIL 1999 TO MARCH 2001)

YEAR 4

OBJECTIVE: To develop the capacity of CARE PULSE to function as an independent financial services institution.

STRATEGIES:

(a) To develop new strategic plans for CARE PULSE as an independent institution
   * revise strategic plans
   * define long-term relationship between CARE PULSE and CARE Zambia
   * establish linkages to other networks in the region.

(b) To develop a clear vision of CARE PULSE as an independent financial intermediary
   * strengthen the capacity of the board
   * define expansion strategies to other areas within Lusaka and beyond
   * strengthen the management capacity by offering appropriate training
   * offer more training for staff to prepare them for the new products of lending.

(c) To develop a range of lending products based on the experience
   * review and finalize individual lending methodology
   * define who qualifies for the individual lending methodology
   * research on wholesale credit to groups that have been together for more than two years in the solidarity scheme
   * develop policies and procedures for new lending methodologies
   * explore the legal requirements of mobilizing savings for lending.

(d) To monitor and evaluate performance of the operations
   * monitor portfolio growth in relation to the absorptive capacity of the institution
   * monitor impact and the additional need before expansion
   * prepare for final evaluation of the ODA funded phase.
YEAR 5

OBJECTIVE: To develop the capacity of CARE PULSE to function as an independent financial services institution.

STRATEGIES:

(a) To begin implementation according to the revised strategic plans.
   * clearly define expansion needs
   * implement new lending products developed in the previous year
   * begin expansion as required by the plans.

(b) To develop further the institutional capacity to respond to the expansion needs:
   * development of branch networks
   * development of MIS systems to support branch operations
   * analyze and define the capacity required to operate beyond Lusaka
   * determine the cost of operating beyond Lusaka.

(c) Conduct final evaluation of the second phase

(d) Prepare for operations beyond the second phase
   * develop new strategic plans
   * mobilize resources required.
ANNEX V: METHODOLOGY USED BY CONSULTANTS

1. Selection of Study MFI

The MFI under study, CARE PULSE Project was chosen by the champion team in Zambia. The two consultants did not participate in this process. Upon appointment, the consultants with the assistance of Progress Finance Limited (the facilitation institution) convened a meeting of all MFIs to introduce the project and develop a strategy for establishing ownership.

2. Appointment of Contact Person

CARE PULSE was requested to appoint contact persons who would work with the consultants during data collection and to review the draft report. Mr. Ezra O. Anyango (Project Manager, CARE) and Mr. Michael M. Mbulo (Deputy Project Manager) were appointed.

3. Data Collection

The data for this study was basically collected through the following two main sources:

- **Secondary data collection:** Secondary data was made available to the consultants by the World Bank, covering general issues in microfinance and international experiences. Secondary data was also obtained from CARE PULSE, in the form of annual reports, loan forms, MIS print outs etc.

- **Primary data collection:** Primary data was gathered by the consultants through interviewing various project stakeholders in an effort to fill in gaps identified from the secondary data as well as seeking clarifications on issues that were unclear. Interviews were conducted at various levels as follows:

  * Interviews with personnel of CARE PULSE: These interviews followed the interview guide provided in the World Bank methodology manual.

  * Interviews with clients: There were two levels of interviews with the clients. The first was the focus group discussions. To the extent possible, the consultants tried to meet the groups while they were having their weekly meetings so that they could observe the groups' process or dynamics before engaging the group into focused discussions. The focus group discussions were facilitated by the issues raised in the World Bank methodology manual.
Following the group interview, a few individuals were identified for individual interviews aimed at establishing the impact of the project at individual household level. This followed an interview guide developed from issues emerging from the World Bank methodology manuals.

Throughout these primary data collection processes, a participatory methodology was adopted which facilitated the backward and forward exchange of the draft report between the consultants and the MFI being studied.

4. Data Analysis

Data was analyzed with a view to determine the following:

* financial viability of CARE PULSE (Program sustainability)
* economic viability
* innovative techniques which CARE PULSE has developed or adopted
* lessons learned.

4.1 Financial Viability

One technique was used to ascertain financial viability:

* Cost structure analysis and determining the relationship between the cost per unit of principal lent and the rate of interest that borrowers are charged. Mathematically this can be stated as:

\[ r \geq \frac{(i+e+p)}{(1-p)} \]

Where:
- \( r \) is the interest rate charged per unit of principal
- \( i \) is the cost of raising resources per unit of principal
- \( e \) is the expected cost of administering and supervising a loan per unit of principal lent
- \( p \) is the expected financial loss per unit of principal.

4.2 Economic Viability

Economic viability was analyzed using subsidy dependence ratio. The subsidy dependence of CARE PULSE is evaluated against the interest earned on its loan portfolio. As follows:

\[ SDI = \frac{NS}{LP \cdot i} \]

Where SDI is the subsidy dependence index
NS is the annual net subsidy received by CARE PULSE
LP is the average annual outstanding loan portfolio
i is the average weighted on-lending interest rate paid on that portfolio.

Since CARE PULSE has a uniform on-lending rate, the (i) is not an average weighted rate.