Credit Management Services Limited
Zambia

Case Study of a Microfinance Scheme

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CREDIT MANAGEMENT SERVICES LIMITED — ZAMBIA

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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.
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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 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 I 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 II, the network may opt for more in-depth studies, as in Phase I, 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 Credit Management Services Limited is one of a series of diagnostic studies being carried out in six countries. It is one of the many efforts by the rural and microfinance sector throughout Africa to reach poor producers normally ignored by the large, commercial institutions. Credit Management Services Limited is a subsidiary of Molver and Company, a private company that created CMS in response to donor demand for it to act as a credit intermediary to the rural poor. Credit Management Services Limited has adopted a double-pronged strategy to delivery of these services. First, it acts as an intermediary between donors and small agricultural producers, traders and fishing families, for a fee. Second, it borrows from the recently established Microbankers Trust to onlend to its clients. As a private company, CMS considers it necessary to ensure efficiency in the operation of its clients by providing them with training in business and financial management and providing them with legal services.

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,” 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 CMS 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
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LIST OF ABBREVIATIONS

AMRF - Agricultural Marketing Revolving Fund
CBO - Community Based Organizations
CMS - Credit Management Services
CO - Credit Officer
EU - European Union
FINNIDA - Finish International Development Agency
GDP - Gross Domestic Product
GRZ - Government of the Republic of Zambia
KSDP - Kabwe Smallholder Development Project
M&E - Monitoring and Evaluation System
MAFF - Ministry of Agriculture, Food and Fisheries
MFIs - Microfinance Institutions
MIS - Management Information System
NGO - Non-Governmental Organization
VAT - Value Added Tax
ZCCM - Zambia Consolidated Copper Mines

GLOSSARY

Chilimba - Rotating Savings Associations
Core Poor - Person with income of less than $1 per day.
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.
EXECUTIVE SUMMARY

The aim of this Action Research was to document the experiences of Credit Management Services Limited (CMS), focusing on the company’s changes in operations and performance in its efforts to deliver credit effectively to microenterprises owned by women.

ESTABLISHMENT AND EVOLUTION OF CMS

In 1992 the European Union asked Molver and Company to manage its Crop Input Supply Lending Project at Mpongwe in Ndola Rural District. In response, Molver and Company formed a sister company, Credit Management Services Limited (CMS), for the purpose of managing the lending project.

In 1994 CMS was asked to manage another project, Mpongwe Community Development Women Empowerment Project. This savings and credit scheme is based on a modified rotating savings and credit model, and marked the beginning of CMS involvement in microcredit.

OPERATIONS

Currently, CMS provides lending services through four schemes: the Mpongwe Smallholder Marketing Fund — which lends to small and medium enterprises involved in input supply distribution to smallholder farmers; the Mpongwe "Women’s Bank" (also referred to as Women’s Micro Credit Scheme) — which CMS took over from Mpongwe Community Development Project in 1994 and lends to women who organize themselves into groups; the Kabwe Smallholder Development Project Agricultural Marketing Revolving Fund — which was initiated in 1995 and lends to small and medium enterprises engaged in crop marketing activities in Kabwe Rural District; and the Luapula Province Livelihood and Food Security Revolving Credit Fund — which CMS took over from FINNIDA in 1995 and lends to individual entrepreneurs, including farmers, fishermen and women who organize themselves into clubs.

For this study, the focus is on Women’s Micro Credit Scheme at Mpongwe which targets women who need funds to finance small enterprises. Credit Management Services extends matching small loans on a 50—50 basis (i.e., the prospective borrowers are required to have saved 50 percent of the loan amount). The loans are payable in four months. The repayment is through a single installment.

Credit Management Services’ personnel work with borrowers who are members of existing women’s clubs. These clubs are divided into cells of five members each. Credit Management Services matches the savings of each cell up to a maximum of five
hundred thousand *Zambian Kwacha* (ZK$500,000$)\(^1\). The savings plus the matching fund from the CMS are then lent to two of the cell members for four months. New loans are given when the loans are repaid four months later.

**FINANCIAL PERFORMANCE**

As of March 31, 1996, the major sources of funds for CMS were the revolving fund from the European Union of K$4.240$ billion (83 percent), and FINNIDA funds of K$750$ million (15 percent). Internally generated funds of ZK$93.4$ million (interest income and fees) contribute about 2 percent. This heavy dependency on grants is further amplified by a subsidy dependency ratio of nearly 100 percent (calculated). Presently, at corporate level, the fees and commissions from various schemes cover operating costs.

**ACCESS, OUTREACH AND IMPACT**

In the Copperbelt Province, CMS operates in Mpongwe, Kashiba, and Miputu. Currently, there are 306 borrowers in these areas. In Luapula Province, CMS is operating Women’s Micro Credit Schemes in five locations: Mwense, Nchelenge, Samfya, Mansa, and Kawambwa. Currently, there are 423 borrowers in these areas.

Although no survey has been carried out, observations indicate that the loans have created a significant impact in terms of employment generation and strengthened businesses. They have had a positive impact on the incomes of the clients. Some clients are reported to have diversified their businesses as a result of the loans (Case Studies 1 and 4), while all those who were interviewed reported an improved standard of living for their families/households averaging eleven persons, predominantly of school-going age.

**INNOVATIONS AND LESSONS LEARNED**

**Innovative Techniques**

The success of CMS is to a large extent attributable to its innovative approach to microcredit delivery. The most important innovative techniques which CMS has used are as follows.

1. **Portfolio diversification**: has enabled CMS to achieve and maintain profitability.
2. **Use of existing institutions**: CMS has successfully built on informal financial systems already being used by the microentrepreneurs and on existing women’s clubs.

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\(^1\) US$1 averaged ZK$1000$ in 1997.
3. **Transparent MIS**: CMS has an elaborate MIS that includes loan transaction documentation, through which clients actively participate. This openness has inspired confidence and trust at all levels.

4. **Weekly club meetings**: this facilitates group solidarity and ensures the success of the group lending methodology.

**Lessons Learned**

Implementation of the project has thus far taught CMS management a number of lessons, the most important are as follows.

1. **High potential for rural savings**: CMS has been able to mobilize substantial savings from poor rural entrepreneurs.

2. **Close supervision improves performance**: active involvement in credit monitoring by senior head office staff improves portfolio performance.

3. **Women are a good credit risk**: CMS' experience with women clients has been good, high loan repayment rates of 98 percent have been sustained over the period.

4. **The value of strict contract enforcement**: strict contract enforcement when supervised by a staff lawyer enhances loan recovery rates.

5. **Critical minimum loan size** below which there would be no positive change in the status of the recipient.
1. BACKGROUND

INITIAL OBJECTIVES AND EVOLUTION

Molver and Company is a Zambian accounting company based in the old mining town of Kabwe in the Central Province of Zambia. Molver and Company was set up in 1968 as a response to the rising demand for accountancy services from the business community in Kabwe.

In the early 1990s, Molver and Company was contracted to provide accounting services to the Mpongwe Smallholder Project, funded by the European Union. In 1993 the EU requested a similar contract signed for provision of accounting services to the Central Province Kabwe Smallholder Development Project (also funded by the EU).

In 1992 the EU asked the company to manage a Crop Input Supply Lending Project at Mpongwe in Ndola Rural District. In response, Molver and Company formed a sister company, the Credit Management Services Limited (CMS), for the purpose of managing the lending project which is the subject of this study.

In 1994 CMS was asked to take up management of yet another project, the Mpongwe Community Development Women’s Empowerment Project. This savings and credit scheme is based on a modified rotating savings and credit model and marked the beginning of CMS involvement in microcredit.

Encouraged by its success at Mpongwe in 1995, CMS expanded its services to include management of an Agricultural Marketing Revolving Fund in Kabwe Rural District. It also attracted the attention of FINNIDA who had been running a microfinance project at Mansa in the Luapula Province. The company was appointed by FINNIDA to manage the Luapula Province Livelihood and Food Security Revolving Credit Fund.

INITIAL ORGANIZATION AND RESOURCES

As noted above, CMS was established to manage the EU funded Ndola Rural Agricultural Marketing Revolving Fund. The fund was intended to provide finance to private sector traders to enable them to supply crop inputs to and procure crops from smallholder farmers. The EU provided grant funds which CMS managed at a fee.2

A major shift in the CMS objective occurred in 1994 when the company took up management of the Ndola Rural Women's Savings and Credit Schemes, marking the beginning of the company’s involvement in microcredit delivery. This report focuses on this Women’s Micro Credit Scheme (also referred to as the Mpongwe Women's Bank), with references also made to other projects CMS is involved in.

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2 The revolving fund was about ZK750 million. The amount was loaned to six (6) traders; initially a recovery rate of 80 percent was achieved. Unfortunately in the 1994/95 season the recovery rate dropped to 30 percent. Presently all the six traders are in court.
In 1995 a minor shift occurred when the company expanded its services to include management of an Agricultural Marketing Revolving Fund for Kabwe Rural District. And also a microfinance project at Mansa in the Luapula Province.

**Socio and Macro-Economic Context**

**Initial Context**

As indicated earlier, CMS involvement in microcredit began in 1994. Since microcredit is the main subject of this study, 1994 marks the base year for the initial context.

In 1994, government policies and efforts were directed towards bringing inflation down and reducing the sharp fluctuations in the exchange rate. The annual rate of inflation was drastically reduced from an average of 187 percent in 1993 to an average of 53 percent in 1994. This achievement was mainly a result of the tight monetary and fiscal policies that the government continued to implement during the year.

As inflation abated, interest rates also declined significantly when compared to the 1993 levels. For instance, the commercial bank lending rate declined from an average level of 126 percent during the first nine months of 1993 to slightly over 76 percent during the corresponding period of 1994. Similarly, there were moderate fluctuations in the exchange rate. For example, the *Zambian Kwacha* depreciated against the US dollar, by slightly over 5 percent between January and December 1994 compared to the depreciation of 74 percent in the corresponding period of 1993.

In an effort to promote efficiency and productivity, the government proceeded with the privatization program, to sell off state-owned enterprises and relieve pressure on the budget, which continued to absorb losses incurred by these companies. In 1994, thirty companies were offered as management and employee buy-outs, which led to an amount of over ZK15 billion being realized from the sale of these state-owned companies. This move towards private ownership was positive and timely for companies such as CMS, because some of the their portfolio would have been restricted prior to this. Between January and August 1994, 224 companies in the parastatal and private sector declared a total of 5,052 workers redundant compared to 1993 when 223 companies declared 5,513 workers redundant.

In terms of the gross domestic product (GDP) in 1994, there was a decline of 8.6 percent in real GDP (Table 1). This compared unfavorably with the target for the year of 4.0 percent and the growth of 8.2 percent in 1993. The performance of the Zambian economy continued to depend greatly on weather conditions. In 1992, the real GDP declined by 3.4 percent, mainly on account of the unfavorable performance in the agricultural sector, where real value added declined by 35 percent following the severe drought of that year. In 1993, owing mainly to favorable weather conditions, there was a significant increase in the output of the agricultural sector. The sector thus provided a boost to the economy with a resulting growth in real GDP.

In 1994 total lending by the banking sector increased from the level of ZK152,328 million in January to a peak of ZK191,073 million in August 1994. This expansion was
attributed to the increased advances by the commercial banks to the non-governmental sector, including the private sector and the parastatals. The credit to the non-governmental sector rose from ZK99,549 million in January 1994 to ZK134,913 million in September 1994.

In 1995 Zambia's population was 9,233,258 and grew at an annual rate of 3.2 percent. The population sex ratio was 84 males to 100 females. The population density for the country was 9.8 persons per square kilometer. While the government remained committed to the stabilization and structural adjustment program, emphasis was also given to safeguarding the welfare of the vulnerable segments of the society. Government involved itself in the social safety net programs. Funds were further released and directed towards drought relief, resettlement schemes, and the urban self-help programs; coupled with an increased allocation of public funds to social services. The donor community and NGOs continued to supplement government efforts in alleviating poverty in Zambia.

<table>
<thead>
<tr>
<th>Table 1: Macroeconomic Indicators</th>
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<tbody>
<tr>
<td>Real GDP (ZK' million)</td>
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<tr>
<td>Real GDP growth rate</td>
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<tr>
<td>Real GDP per capita (ZK'000)</td>
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<tr>
<td>Exchange rate (ZK/US$) year end</td>
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<tr>
<td>Inflation rate %</td>
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<tr>
<td>Treasury bill rate (year end) %</td>
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<tr>
<td>Lending rate max. (year end) %</td>
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<tr>
<td>Savings rates (year end av.) %</td>
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<tr>
<td>Population density per sq. kilometer</td>
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</tbody>
</table>

SOURCE: Bank of Zambia and Central Statistics Office

Present Macroeconomic Context

During 1996, economic policies were still aimed at macroeconomic stabilization and restoring investor confidence. This was important to ensure that the economy recovered from set-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 gross domestic product (GDP).

Other measures include:

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

- 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 and increase tourists arrivals. VAT relief was also extended to small-scale business by 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;

- the privatization program accelerated in 1996. Over 95 state-owned enterprises were privatized, bringing the total number of enterprises sold to 155 since the inception of the privatization program in 1992.

Following the approval by government of the Rothschild Report on the privatization of ZCCM in May 1996, significant progress was made. In addition a total of 43 companies pre-qualified for the mining packages while 6 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 provision of the Banking and Financial Services Act of 1994 were vigorously enforced following the closure of three banks that experienced difficulties in 1995. Banks were also required to raise their minimum paid-up capital to ZKI.25 billion by end of June 1996 and to ZK2 billion by December, 1996.

Measures were taken to control monetary expansion. The statutory reserve requirement ratio was increased from 3 percent in July 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. The Bank of Zambia continued to conduct the open market operations and increased the sale of treasury bills and bonds to mop-up 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 28-day treasury bill 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 implications of these high interest rates were constrained borrowing to re-capitalize 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, emanating from 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 constraining households’ coping ability by increasing already high dependency ratios.  

Poverty in Zambia is rife. 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.”

### 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; Central Statistical Office

Although there has not been any major survey since the 1991 Priority Survey, the poverty situation does not seem to have changed for the better. 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, are characterized by high population density, low cost structures, and lack of legal status and services. Most of the urban poor in these residential areas work in informal sectors and are engaged mainly in petty trading.

As already noted, the government’s capacity to deliver social services is already strained — a situation made worse by the Government’s cutbacks on funding to the social sectors in the 1980s. This has resulted in severe dilapidation of most existing

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3 The worst affected are rural households particularly female headed households.
infrastructures, especially in the main social sectors of education, health, water and sanitation.

The rapid population growth has exerted pressure on primary school systems, resulting in a number of children not receiving basic education. Construction of new classrooms has not kept pace with the rise in enrollments, resulting in many primary classes containing over 100 pupils per class, and the introduction of triple shifts in some urban areas as an effort to cope with this imbalance. On the average, each year, more than 33,500 seven-year-old (school entry age) children are denied admission into primary school due to lack of places, leading to the present scenario of:

- more than 250,000 children between the ages of seven and fourteen not attending school;
- more than 1,000,000 illiterate adults — two thirds of whom are women; and
- more than 10,000 girls failing 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 infectious diseases, caused primarily by declining access to safe water and sanitation, is reflected in annual cholera epidemics. In recent years, AIDS has added its own weight to the already over-stretched health care system. In terms of accessibility to health care, most people in peri-urban areas live within 15 km of a health facility but indirect costs, such as transport and waiting time, discourages routine usage except in times of emergencies. The introduction of cost sharing measures further discourages the core poor.

In terms of accessibility, 85 percent of urban households have access to clean water compared to only 27 percent in rural areas. There is, however, 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 with 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 facility nationally in 1995, 31 percent of them shared with other households, with urban areas having more households (36 percent) sharing sanitary facilities than in rural areas (26 percent). Again, it is more 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, when it comes to identifying the poor, it is not as easy as it seems. Recent studies on poverty assessment in Zambia offer the following definitions.

a) **Aged** people would normally be over 60 years. There may however be exceptional cases where a community considers someone to be aged before their 60th 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** 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** refers to households headed by a single responsible adult or child, with dependents under the age of 18 (or still attending school). This head may be male or female, widowed, divorced, deserted, or never married, and may not be in formal employment.

d) **Orphans / neglected children**: Orphans are children who have lost one or both parents, although it is anticipated that "double" orphans will be found to be more needy than "single" orphans. Neglected children are those whose parents or guardians are not providing suitable care, including economic, emotional, and moral support.

e) **Displaced / disaster victims** 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 the ones that are clear candidates for microcredit. People in categories (a), (b) and (d) qualify for welfare assistance.

Making credit available to the poor has been recognized by many authors (Hotsberg 1990, Khandker, Khalilu and Khan 1995) as 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. Therefore, provision of microcredit to the poor is one effective way of combating poverty.

**FINANCIAL AND SOCIAL ENVIRONMENT**

**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, four unlisted companies, and six stock brokers in 1996.

The Central Bank (Bank of Zambia) came under pressure and scrutiny by the public in the 1990s, following the collapse of Capital Bank (1991) and Meridien BIAO (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 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), which also dominate lending activities. These are no commercial banks or any other microfinance institution operating in Ndola Rural District. Credit Management Services is the only institution providing microcredit to women in the area.

In Luapula, (the other relevant operational area), CMS has some competition from commercial banks but the Women’s Small-Scale Saving and Loans Component appears to have no competition because there are no institutions providing similar services.

**Legal Framework for Non-Bank Financial Institutions**

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

In 1992, Zambia implemented financial market liberalization, and the Central Bank no longer directly controls the fixation of interest rates. Instead, interest rates are determined by demand and supply forces in the money market.

**Social Services and Other Supports**

The areas where CMS operates are all serviced with basic social services provided by the Government such as, primary schools and clinics. The councils also provide services through their community development departments. Credit Management Services has used community based organizations (CBOs), as channels for disseminating information about itself. It has also been offered the use of Ministry of Agriculture offices for its branch operations as a way of reducing the cost of providing the services and enhancing further coordination with local institutions.
2. STRUCTURE AND ORGANIZATION

LEGAL, ORGANIZATIONAL STRUCTURE AND CONDUCT

As stated earlier, CMS is a private limited liability company under the Companies' Act and is also a registered non-bank financial institution under the Banking and Financial Services Act, 1994. The head office is in Kabwe on premises owned by the company. The company has five field offices at Mpongwe, Mwense, Nchelenge, Samfya and Kawambwa and regional offices at Mansa and Lusaka (Table 3).

Table 3: Regional and Field Offices

<table>
<thead>
<tr>
<th></th>
<th>Total Number</th>
<th>Rural</th>
<th>Urban</th>
</tr>
</thead>
<tbody>
<tr>
<td>Head Office</td>
<td>1</td>
<td>0</td>
<td>1</td>
</tr>
<tr>
<td>Regional Offices</td>
<td>2</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Field Office</td>
<td>5</td>
<td>5</td>
<td>0</td>
</tr>
</tbody>
</table>

SOURCE: CMS Database.

Credit Management Services Limited is building on existing institutions (women's clubs) in the areas where the company operates. Over the years, the company has established links with local government authorities, Ministries of Agriculture, Food and Fisheries, local schools, Kwilamba Association of Community facilitators, and women's clubs. Further links have been established with cooperatives and two donor agencies (European Union and FINNIDA).

The links fall in two categories. In the first instance are the institutions that serve to help disseminate information regarding the presence of the women's bank and its activities. They are therefore mobilization fora. This category includes local government authorities, local schools, NGOs, and cooperatives. These links are important for effective implementation of CMS microcredit program. The second category of organizations are those that work with or are partners of CMS. This has proved helpful for networking and developing complementarity in the approaches and is the foundation on which the innovative technique of using existing institutions is based. This category includes Ministry of Agriculture, Food and Fisheries (MAFF), Kwilamba Association of Facilitators (KAF), women's clubs, EU and FINNIDA. The last two are donor agencies that have provided the revolving funds which CMS manages at a fee.

Specifically, the MAFF has provided rent-free office accommodation at Mpongwe and in Mansa. In addition, it has, on behalf of GRZ, provided a revolving fund for agricultural marketing (AMRF). Kwilamba Association of Facilitators enhanced the formation of women's clubs and has provided one volunteer facilitator to assist the Mpongwe Women's Bank. As beneficiaries of the scheme, women's clubs assist CMS in group mobilization, loan supervision, and recoveries. The EU provided a revolving fund
for the Mpongwe Women's Bank, while FINNIDA provided a revolving fund for the Luapula Livelihood and Food Security project.

Table 4: Links with other Agencies

<table>
<thead>
<tr>
<th>Type of Institution</th>
<th>Nature of Links</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government Agencies</td>
<td></td>
</tr>
<tr>
<td>Councils</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td>MAFF</td>
<td>Partners/work together</td>
</tr>
<tr>
<td>Schools</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td>NGOs</td>
<td></td>
</tr>
<tr>
<td>Kwilamba Assoc. of Facilitators</td>
<td>Group training and Dissemination fora</td>
</tr>
<tr>
<td>Client Group</td>
<td></td>
</tr>
<tr>
<td>Women’s Clubs</td>
<td>Partner/work together</td>
</tr>
<tr>
<td>Others</td>
<td></td>
</tr>
<tr>
<td>Cooperatives</td>
<td>Dissemination fora</td>
</tr>
<tr>
<td>EU</td>
<td>Donor/Partner</td>
</tr>
<tr>
<td>FINNIDA</td>
<td>Donor/Partner</td>
</tr>
</tbody>
</table>

In Ndola Rural District, there are no commercial banks or any other financial institutions providing similar microfinance services as CMS. However, there are several credit coordinators providing maize inputs credit facilities to smallholder farmers.4

In Luapula, the other operational area, CMS has some competition from commercial banks but presently the Women’s Small Scale Saving and Loans Component appears to have no competition as there are no institutions providing similar services.

SERVICES OFFERED

Credit Management Services started as a company that manages donor funds at a fee. Presently CMS is managing four revolving funds on behalf of GRZ, EU and FINNIDA (see p. 19 for details). Recently it reused a loan from Micro Bankers Trust for onlending. The range of services provided by CMS are shown in Table 5 below:

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4 These are private sector businessmen appointed as agents of Cavmont Merchant Bank for the distribution of government funded maize crop inputs.
Table 5: Array of Services Provided by CMS

<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>
<tr>
<td>Fund management</td>
<td>Legal services</td>
</tr>
</tbody>
</table>

Microfinance

Credit Management Services Limited offers the following services:
- facilitates a savings scheme and provides matching loans to Mpongwe District women's clubs;
- facilitates a savings scheme and provides matching loans to women's clubs under the Luapula Province Livelihood and Food Security Revolving Credit Fund;
- business and management skills training on a one-to-one basis or workshop setting; and;
- verbal or written opinions on business issues affecting loan funds or credit schemes.

Other Financial Services

Other financial services offered include:
- loan funds management and administration;
- loan consultancy services;
- supervision and monitoring services for agricultural outgrower schemes.

The company was recently engaged to manage the Government's Inventory Credit Scheme in the Central, Copperbelt and North Western Provinces.\(^5\)

The company manages, for a fee, credit programs on behalf of donor agencies and GRZ. For example, the company has successfully managed funds for the Government of

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\(^5\) This was a proposed arrangement for crop marketing financing. Fund managers (private sector institutions) were appointed by the government to manage funds for on-lending to traders for the purpose of crop procurement from smallholder farmers. Under this arrangement traders were required to offer their stocks of crops as collateral. This proposal was never implemented, and may have been abandoned.
Zambia and the European Union under the Crop Marketing Revolving Fund Scheme, whose funds were channeled through the Kabwe Smallholder Development Project (KSDP), the Ndola Rural Agricultural Marketing Revolving Fund, and Mpongwe Women’s Bank.

These schemes involve lending money to Kabwe and Mpongwe traders to facilitate access to agricultural inputs and markets so that the traders may provide inputs to smallholder farmers and also purchase their produce.

Credit Management Services and the organization whose funds are to be lent out, outline the organization’s loan requirements in terms of target groups, business, and amounts to be lent. The program is undertaken for a specific period, and once that period elapses the initial capital with interest is supposed to be returned to the donor institution/organization, which has not happened to date. For example when the period for the EU funded Ndola Rural AMRF expired, the fund’s ownership was transferred to GRZ but remained under the management of CMS.

Besides managing their clients’ funds, the company can lend to traders and farmers. It does so under the provisions of the Money Lender’s Act, Cap 688 of the Laws of Zambia, through the following loan and credit facilities:

- **short term loans:** for working capital; and
- **medium term loans:** available to clients who want to secure business equipment, machinery, and plants.

**Other Services**

The company provides the following legal services in relation to loan funds and credit schemes:

- liaising and negotiating any agreements, contracts or leases;
- drawing up and perusing any contracts, leases or other documents;
- legal matters regarding filing annual returns, registrations and licenses;
- legal matters on debt collection;
- legal issues on scheduling and recording client board meetings;
- legal matters on business and management skills training on a one-to-one basis or workshop setting; and
- verbal or written opinions on legal issues affecting loan funds or credit schemes.

For example, CMS has provided some of the above legal services to EU funded projects at Mpongwe and Kabwe.

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6 There is no evidence on the balance sheet (ANNEX III) and Income and Expenditure Statement (ANNEX II) of this activity having taken place.
As shown in Figure 1, CMS has a full-time lawyer on its staff. The company has a proud record of handling loan legal matters. It has been able to ensure that all defaulters in the Marketing Revolving Fund schemes it manages, have been sued in courts and made to pay back the loans with interest.

**MANAGEMENT AND INSTITUTIONAL ORGANIZATION**

**Orientation**

As a private sector company, CMS's prime motive is profit. However it is mindful of corporate responsibilities to society, and therefore is committed to helping the poor in their efforts to achieve long-term social and economic well-being. Credit Management Services supports processes that create competence and become self-sustaining over time.

**Supervision**

Credit Management Services has two directors who are also the only shareholders of the company. The two are involved in the day to day operations of the company. They provide the necessary guidance to the management.

**Financial Discipline**

Credit Management Services manages its finances internally and also has access to additional management and accountancy support from a sister company, Molver and Company, Accountants and Company Secretaries.

**Autonomy**

Credit Management Services Limited is an autonomous company although it has a very close relationship with Molver and Company, Accountants and Company Secretaries.

**Internal Organization and Management**

Credit Management Services has a management team comprising (Figure 1):

- Managing director
- Operations director
- General manager
- Chief accountant

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7 Recently it successfully prosecuted a senior government official.
The decision-making process is centralized, but there is provision for delegation. For example, loan approvals and disbursements are made by head office staff. Field staff do have delegated authority to decide on how often to visit a particular client.

The company has five field (branch) offices. Each field office is managed by one credit officer (CO). The company has a total staff establishment of twenty-six. Recruitment of staff is through a competitive selection process which includes an advertisement in a local newspaper and selection interviews. The qualifications of the current members of staff range from high school certificate to university degree or equivalent professional qualification.

Most field staff have had some experience with credit management gained from previous employment. 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 CMS.

Credit Management Services has no staff incentives scheme but pays an all-inclusive salary which is generally higher than the average in the industry. Currently, CMS average salary for a field staff is ZK250,000 per month. The relatively attractive salaries have had a further positive impact on the morale and performance of the staff.
Credit Management Services encourages a high level of participation of its microcredit clients, in the implementation of its programs. The club and cell elected officials in association with the rest of the club members participate in the loan appraisal process by conducting socio-economic assessments. They also play roles in character reference verification and loan supervision. It was 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.

Management Information System

Credit Management Services has set up an appropriate accounting and loan reporting system. A computer based accounting and management information system (MIS) has been designed and installed. This comprehensive and effective MIS enables management to follow up immediately on arrears before they become problematic. The 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 which shows disbursements, repayments, interest, other fees, arrears or prepayments, default, loan balances; and
- loan repayment schedules for loan recipients and the repayment record of each borrower.

The MIS includes a pass book for each borrower, in which savings and loan transactions are entered. This ensures that CMS and the borrower have an identical record of the transactions. This openness has inspired confidence and trust at all levels.

Monitoring and Evaluation System

Credit Management Services is yet to evolve a monitoring and evaluation system (M & E). This is one aspect the management should consider soon. The M & E system is an important management tool, particularly for microfinance institutions because monitoring, evaluation and adaptability in decision-making facilitates replication of innovative processes, which is vital for the growth of an MFI.

Human Resources

At the time of the research, CMS had a total of twenty-six members of staff of whom seventeen were males. Thus while 100 percent of the CMS microcredit clients are females, only 35 percent of its members of staff are females (Table 6). However, this does not seem to have caused any operational problems.

The officers at branch level ensure a high rate of interaction with their clients by regularly attending club meetings (of their clients).
Table 6: 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>6</td>
<td>7</td>
<td>13</td>
</tr>
<tr>
<td>Regional offices</td>
<td>1</td>
<td>2</td>
<td>3</td>
</tr>
<tr>
<td>Branch field</td>
<td>10</td>
<td>0</td>
<td>10</td>
</tr>
<tr>
<td>TOTAL</td>
<td>17</td>
<td>9</td>
<td>26</td>
</tr>
</tbody>
</table>

Staff Training

Credit Management Services offers a comprehensive induction training to new COs before deployment. The initial training is composed of two parts:

- **Exposure to the economic and social situation of microentrepreneurs**: This is a field office attachment to enable the new COs to understand the circumstances under which microentrepreneurs operate.

- **Formal training**: Formal classroom training is arranged by the company occasionally. For example, at the time of the study five members of staff had just attended a microbankers course in India.

### Plans for 1997

Among the plans laid out for 1997 were:

- to expand women's microcredit operations at Mpongwe during 1997, from 306 to 600 participants. This would require the recruitment of one additional credit officer;

- to complete construction of its office at Mpongwe so as to avoid the possibility of being wrongly identified as a government institution;

- to expand microcredit operations to Kabwe Urban and Rural in the Central Province;

- to expand its involvement in outgrower schemes, where traders on-lend to peasant farmers to grow crops other than maize.

Plans were also made for the acquisition of land at Mansa to facilitate construction of an office. Currently, the company is occupying a rent-free government office, but wished to move away in order to establish a private sector image.
3. MODES OF OPERATION

SAVINGS SERVICES

Credit Management Services is registered as a non-bank financial institution and is therefore not permitted by the Banking and Financial Services Act to take deposits from the public. However, through its lending methodology, which requires the prospective borrower to have saved 50 percent of the loan amount, it indirectly mobilizes group savings from the women's clubs. Savers are paid interest, currently at 45 percent per annum. As can be seen from Table 7 below, presently CMS is paying positive real interest, while the market is paying negative real interest rates.

Normally, savers are not allowed to withdraw either the interest or the principal while they remain members of the club. Recently, when consideration for withdrawal of interest income was given to clients, they opted to save without borrowing. Credit Management Services lending methodology has a high potential for mobilizing savings among poor entrepreneurs; this appears to be acceptable.

Table 7: Savings Interest Rate

<table>
<thead>
<tr>
<th></th>
<th>Nominal Rate</th>
<th>Real Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>CMS Savings Interest Rate</td>
<td>45</td>
<td>10</td>
</tr>
<tr>
<td>Market Savings Interest Rate</td>
<td>28.6</td>
<td>-6.6</td>
</tr>
</tbody>
</table>

LENDING SERVICES

Currently, CMS provides lending services through four schemes: the Mpongwe Smallholder Marketing Fund; the Mpongwe "Women's Bank;" the Kabwe Smallholder Development Project Agricultural Marketing Revolving Fund; and the Luapula Province Livelihood and Food Security Revolving Credit Fund (a FINNIDA funded program).

The CMS has moved from a fund manager to a microfinance institution, and this has placed greater demands on the management, staff and financial resources of the organization. Credit Management Services has expanded from an initial staff establishment of three in 1992 to twenty-six at the end of 1996.

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8 This requirement was recently revised, borrowers are now required to have saved 25 percent of the loan amount.
9 Current inflation estimated at 35 percent.
10 As a founding member of Micro Bankers Trust, an apex wholesale microfinance lending institution, CMS borrows funds from MBT for on-lending.
The Mpongwe "Women's Bank"

This scheme is targeted at women who require funds to finance agricultural activities and other small enterprises. It extends matching small loans on a 50:50 basis. Income from these enterprises is used to buy essentials for the family, pay for school fees, and buy food in times of shortages. The loans are payable in four months. The repayment is through a single installment.

The interest rate charged for the loans has two components. The first component is the base interest rate. This rate is based, to the 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 that is added to the base rate. The revenue accumulated is used to meet the cost of delivering credit services.

Credit Management Services personnel work with borrowers who are members of existing women's clubs. The formation of the clubs is facilitated by community volunteers and members of a complex community organization called Kwilamba Federation of Community Facilitators. These clubs are divided into cells of five members each. Credit Management Services matches the savings of each cell up to a maximum of five hundred thousand kwacha (ZK500,000). The savings plus the matching fund from the CMS is then lent for four months to two of the cell members. New loans are given when the previous loans are repaid in full four months later.\(^\text{11}\) If loans are not repaid in full, the whole group and not just the cell, is barred from receiving new loans. This mechanism creates two levels of peer pressure to ensure high repayment rates. Each cell member is equally responsible for a defaulter or participant who fails to repay. If the cell fails to repay, the club would be required to repay the remaining balance. To this effect, a loan guarantee form is signed by all members of the club jointly with the elected committee of the club.

Eligibility Criteria

Individuals with a good "business" idea that is potentially profitable are eligible. They must meet the following criteria for loan eligibility:

- the income-generating activity must be viable and have development potential;
- the applicant is at least 18 years old;
- 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.

\(^\text{11}\) Previously loans were repaid at three-month intervals, but this has since been increased to four months.
Orientation

Entrepreneurs receive initial orientation and training as a prerequisite for loans. The initial orientation is provided by the community facilitators. The orientation includes the following topics:

- group formation and operations;
- obligations of applicants to CMS, and cells to the club;
- savings and the importance of clubs;
- credit operations, conditions and procedures;
- simple business principles; and
- cash management.

A participatory methodology is used to ensure full comprehension of the training package.

Loan Application

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

- the initial savings has been accomplished; and
- attendance of orientation meetings has been regular and successful.

Each cell (group of five) selects the first two people to receive loans. The two must not include the cell leader who must wait until every one else has gotten their loans. The credit officer does not get involved in this selection process. After the two have been selected by their cell and presented to the club, the loan application forms are issued by the credit officer to the selected participants. Four months after the first two have received their loans, two other persons are selected using the same process to receive loans, and after another four months the last one (chairperson of the cell)\(^{12}\) receives her loan.

This approach is to ensure that there is adequate peer pressure on the borrowers to pay back their loans on time. If the first lot of borrowers do not start paying back then the rest of the group does not receive their loans when their turn comes. The leader, who is usually the influential person has to wait for the others to receive first. This is meant to deter manipulation by the leader. Club meetings are held weekly to facilitate group solidarity and ensure the success of the solidarity group lending methodology.

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\(^{12}\) The cell leader is elected by cell members.
Loan Appraisal

No detailed appraisal is required. The economic activity assessment and character reference verification conducted by the club and CO are adequate for loan approval.

Loan Approval

The head office management approves applications during the field visits, usually undertaken every four months.

Loan Disbursement

After loan approval, borrowers sign their individual loan agreements. The members of the respective cell and the club sign loan guarantee forms. The club leaders sign on behalf of the club. Cash disbursement is done immediately.

Fund Management

Currently, Credit Management Services Limited manages the following funds:

**EU FUNDED**
- Central and Copperbelt Province Agricultural Marketing Revolving Funds — ZK4.2 billion (large-scale lending)
- Ndola Rural District Women's Group Micro Credit and Savings Scheme (Women's Bank) — ZK10 million.

**FINNIDA FUNDED**
- Luapula Province Livelihood and Food Security Revolving Credit Fund - Currently ZK750 million but to be increased to ZK1 billion during 1997. Also includes Women’s Small Scale Savings and Loans Component (medium and small scale lending).

For all of these funds, Credit Management Services Limited closely monitors the performance of the borrowers and the usage of the funds.

*Table 8: Nominal Lending 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>CMS Interest Rate</td>
<td>60</td>
<td>25</td>
<td>37.6</td>
</tr>
<tr>
<td>Market Interest Rate</td>
<td>60</td>
<td>25</td>
<td>44.4</td>
</tr>
</tbody>
</table>
As can be seen from Table 8, CMS charges market interest rates, presently the rate is 25 percent. In terms of real effective rate, the CMS rate is slightly lower than the market rate. However, CMS charges an arrangement fee to all borrowers as follows:

Marketing loans — 1 percent; Small enterprises loans — 3 percent.
4. OUTREACH AND IMPACT

ECONOMIC OUTREACH AND IMPACT

General Outreach

Credit Management Services operates Women’s Micro Credit Schemes in the Copperbelt and Luapula Provinces. Currently there are 306 borrowers in the Copperbelt Province and 423 borrowers in Luapula Province.

Table 9: Depth of Outreach

<table>
<thead>
<tr>
<th>Measure</th>
<th>1994</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>Average loan size (ZK)</td>
<td>100,000</td>
<td>106,698</td>
<td>67,016</td>
</tr>
<tr>
<td>Nominal national income per capita (ZK)</td>
<td>169,685</td>
<td>244,445</td>
<td>346,214</td>
</tr>
<tr>
<td>Average loan/nominal national income per capita (%)</td>
<td>59</td>
<td>44</td>
<td>19</td>
</tr>
<tr>
<td>Percentage of women’s clients</td>
<td>100</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

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

As can be seen from the average loan size of ZK91,238 (US$72), CMS reaches very small businesses that would otherwise be excluded from receiving financial services. The ability to reach the very poor is one of the many positive aspects of CMS.

Of the four indicators of depth of outreach shown in Table 9, the average loan per nominal national income per capita gives the best description of the depth of CMS outreach. The interpretation of this indicator is that the lower the percentage, the higher the coverage of the very poor. Credit Management Services’ average ratio of 41 percent suggests that the program is reaching the intended target of the rural poor. Depth of outreach ratios suggest that CMS clients are among the core poor (54 percent of Zambians).

Table 10 shows loans by type. As can be seen the share of Mpongwe Women’s Bank in the total loans managed by CMS is very small (less than one percent). This explains how CMS is able to absorb the losses on Women’s Bank’s activities.
Table 10: Loans by Type

<table>
<thead>
<tr>
<th>TYPE OF LOAN</th>
<th>NUMBER OF LOANS</th>
<th>VOLUME OF LOANS K'000</th>
<th>%</th>
<th>AVERAGE SIZE K'000</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outgrowers</td>
<td>3</td>
<td>489,000</td>
<td>16.8</td>
<td>163,000</td>
</tr>
<tr>
<td>Women's Bank (Credit &amp; Savings Scheme)</td>
<td>306</td>
<td>25,000</td>
<td>0.9</td>
<td>67</td>
</tr>
<tr>
<td>Agricultural Marketing Revolving Fund</td>
<td>29</td>
<td>1,517,500</td>
<td>52.1</td>
<td>52,300</td>
</tr>
<tr>
<td>Small Enterprise Luapula</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>1. Clubs</td>
<td>77</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Individuals</td>
<td>130</td>
<td>880,000</td>
<td>30.2</td>
<td>250</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>2,911,500</td>
<td>100</td>
<td></td>
</tr>
</tbody>
</table>

SOURCE: CMS database

ECONOMIC IMPACT

Although no survey has been carried out, observations indicate that the loans have created a significant impact in terms of employment generation and strengthened businesses, and they have had a positive impact on the incomes of the clients. Some clients are reported to have diversified their businesses as a result of the loans (Case 1).

Case 1.

Bana Juliet is a widow with a family of seven. She is a member of Mpongwe Women's Club, established in 1994. She joined in 1994 because she needed money to open a grocery store. She got a loan from CMS and opened the store. She repaid this loan and obtained a second loan, with which she added a restaurant to her business. She plans to open a beer garden and build a rest house. For her to fulfill all these dreams, she would need a loan of at least K1.5 million, which is beyond the current level of loans.

Savings

Currently, CMS has a savings and credit scheme in Ndola Rural District, in three different areas: Miputu, Kashiba, and Mpongwe. Women in these areas have formed clubs which have been divided into cells.

Credit officers visit these areas once every four months to collect savings and disburse loans. On the day of the credit officers’ visit, members meet in a central place. The credit officers then collect repayments and savings from each individual member and records them in a savings and loan book.

Once all savings have been received, the loans are immediately disbursed. Credit officers maintain a list of names, savings received, amount repaid, amount disbursed,
future interest, and due date for repayment. They make visits to these areas every two weeks to evaluate the performance of groups and individuals.

The Women's Micro Credit Scheme in Ndola Rural District mobilized ZK15.4 million (US$12,096)\(^{13}\) in savings in 1996, from women who would normally be considered too poor to save. Similarly, the scheme in Luapula province has mobilized ZK5.5 million (US$4,352). This is a commendable achievement for a program designed for poor rural women entrepreneurs.

**Gender and Poverty Awareness**

Credit Management Services microcredit is targeted at poor rural women. From observations, the efforts are reaching an increasing number of women. As stated earlier, all the CMS microcredit clients are women. Therefore, this objective appears to have been achieved (there has been a suggestion to consider men on an individual basis). The inclusion of men in the credit program should be done with caution, since it may lead to displacement of the women, especially from leadership roles.

Selection of operational areas was very appropriate in order to capture the low-income people as participants. The types of activities that clients are engaged in are also very low capital input, incapable of securing loans from commercial banks.

Besides borrowers who had performed very well, there were a few who had not (Cases 2 and 3). The main reason advanced for this was that the loan was too small. When queried further, the women explained that the group had made their own modification to the accessing of the loans meant for the first two cell members (amount was actually shared by all the cell members, thus reducing the actual amount going to each individual), a fact which was confirmed by their officer. A lesson from this is that a loan has a critical minimum size below which there would be no positive change in the status of the recipient.

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**Case 2.**

Jennifer Botai joined her group in 1992. Her initial business was buying and reselling of Chitenge (local cloth) and plates. She is now in her fourth loan but continues to run the business at the same level. However, she acknowledges that the loan has helped in improving her standard of living and ability to meet basic needs.

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**Case 3.**

Fildes Matabula joined a club in 1992. Her initial business was buying and selling of bags of maize. She has taken four loans, yet her business does not appear to have grown as a result. She attributes this lack of improvement to the small size of loans given, most of which goes into paying for her transportation to the urban centers to purchase items.

\(^{13}\) ZK1,273.05 = US $1
Savings and Credit Awareness

The knowledge of savings among CMS clients' is high. This is not all attributed to CMS training but to the informal savings and credit systems associated with women's clubs.

Credit Management Services compulsory savings requirement of 50 percent is not strange to these women who are already used to rotating savings and credit arrangements. Individual savings are reported to have increased by as much as 250 percent. One woman has saved over ZK600,000 (US$471) — quite a feat for a rural woman in a country with GDP per capita of US$341.

Impact on Individual Capacity

It was generally agreed by those who had already received loans that the loan had definitely given a much needed boost to their businesses. There were a number of examples of participants whose businesses had grown appreciably (Case 4). With this boost in their businesses, participants' ability to meet their basic necessities (such as food and educational needs) was enhanced.

Case 4.

Elizabeth Lusambo belongs to Cell 3 of Mpongwe women's group which was formed in January 1996. Elizabeth is now in her third loan, the first loan having been K100,000, the second K115,000, and the third K305,000. At the time of the first loan, she was buying and selling groceries in her husband's shop. With her third loan, she diversified into baking bread and rolls, and bought a sewing machine and hired a tailor, thus also creating employment. Elizabeth is very definite on the impact of the loan in terms of enhancing her ability to meet education needs and an improved standard of living.

Furthermore, the loans have impacted on the empowerment and assertiveness of the participants in two ways. First, the experience of belonging to a group, receiving training, and subsequently obtaining the loans increased the individuals' self image, especially as they are then able to contribute to their family's financial resources. Secondly, most of the women had never thought of themselves as being credit-worthy, especially because the agricultural input credit organizations had mostly targeted males. These loans have therefore empowered them by building in them, a sense of credit-worthiness. Most of them are aspiring to obtain bigger loans, and some would prefer getting loans for agricultural requisites, since Mpongwe is an agricultural area.
5. FINANCIAL PERFORMANCE

SOURCES AND USES OF FUNDS

Since its establishment CMS has had considerable donor goodwill and confidence. At its inception in 1992, CMS received ZK40 million from the European Union to manage, for on-lending to traders for agricultural input supply. This fund was increased to ZK60 million in 1993, and end use expanded to include agricultural marketing. In 1994, CMS begun managing the EU ZK10 million revolving fund for the Mpongwe Women's Bank. In 1995, CMS was appointed to manage the Luapula Province Livelihood and Food Security Revolving Credit Fund (ZK750 million) — a FINNIDA fund.

As at March 31, 1996, the major sources of funds for CMS were a revolving fund from EU K4.240 Billion (83 percent) and FINNIDA K750 million (15 percent). Internally generated funds of ZK93.4 million (interest income and fees) contribute about 2 percent. This heavy dependency on grants is further amplified by the subsidy dependency ratio of 100 percent. CMS hopes to bring this down by using alternate sources of funds. Presently, the fees and commissions are adequate to cover operating costs.

As a fund manager, CMS does not carry the portfolios on its balance sheet for the various programs it manages. These are reported separately under the various revolving funds. Interest income is added to the respective revolving fund. Loan application and arrangement fees are CMS income in addition to the commission (ANNEX II). Balance sheets for the various funds under CMS management were not available for more detailed analyses.

**Table 11: Loan Performance (Mpongwe Women's Bank)**

<table>
<thead>
<tr>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Volume of loans outstanding (ZK)</strong></td>
<td>8,002,331</td>
</tr>
<tr>
<td><strong>Loan growth rate (%)</strong></td>
<td>n/a</td>
</tr>
<tr>
<td><strong>Average loan size (ZK)</strong></td>
<td>106,698</td>
</tr>
<tr>
<td><strong>Number of loans</strong></td>
<td>300</td>
</tr>
<tr>
<td><strong>Loan officers</strong></td>
<td>3</td>
</tr>
<tr>
<td><strong>Outstanding loan volume per loan officer (ZK)</strong></td>
<td>2,667,443</td>
</tr>
<tr>
<td><strong>Arrears rate (%)</strong></td>
<td>-</td>
</tr>
</tbody>
</table>

*Source: CMS database*
Table 11: Loan Performance (Mpongwe Women’s Bank) continued

<table>
<thead>
<tr>
<th></th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td>On-time repayment rate</td>
<td>100</td>
<td>69</td>
</tr>
<tr>
<td>Provision for loan losses (%)</td>
<td>nil</td>
<td>2</td>
</tr>
<tr>
<td>On-lending interest rate (%)</td>
<td>75</td>
<td>75</td>
</tr>
<tr>
<td>Number of borrowers</td>
<td>150</td>
<td>306</td>
</tr>
<tr>
<td>Total disbursements (ZK)</td>
<td>32,009,324</td>
<td>30,760,391</td>
</tr>
<tr>
<td>Total disbursement per credit officer (ZK)</td>
<td>10,669,775</td>
<td>10,253,464</td>
</tr>
</tbody>
</table>

Source: CMS Database

Table 12: Loan Performance by Area (Mpongwe Women’s Bank)

<table>
<thead>
<tr>
<th>Area</th>
<th>1995</th>
<th>1996</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MPONGWE</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of borrowers</td>
<td>50</td>
<td>134</td>
</tr>
<tr>
<td>No of loans</td>
<td>100</td>
<td>201</td>
</tr>
<tr>
<td>Amount disbursed</td>
<td>13,417,420</td>
<td>17,572,420</td>
</tr>
<tr>
<td>Amount saved</td>
<td>6,708,710</td>
<td>8,786,210</td>
</tr>
<tr>
<td>Interest charged</td>
<td>2,012,613</td>
<td>4,393,105</td>
</tr>
<tr>
<td>Management fee</td>
<td>670,871</td>
<td>1,757,242</td>
</tr>
<tr>
<td><strong>MIPUTU</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of borrowers</td>
<td>100</td>
<td>92</td>
</tr>
<tr>
<td>No of loans</td>
<td>200</td>
<td>138</td>
</tr>
<tr>
<td>Amount disbursed</td>
<td>18,591,904</td>
<td>7,806,611</td>
</tr>
<tr>
<td>Amount saved</td>
<td>9,295,952</td>
<td>3,903,305</td>
</tr>
<tr>
<td>Interest charged</td>
<td>2,788,785</td>
<td>1,170,991</td>
</tr>
<tr>
<td>Management fee</td>
<td>929,959</td>
<td>390,330</td>
</tr>
<tr>
<td><strong>KASHIBA</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>No of borrowers</td>
<td>-</td>
<td>80</td>
</tr>
<tr>
<td>No of loans</td>
<td>-</td>
<td>120</td>
</tr>
<tr>
<td>Amount disbursed</td>
<td>-</td>
<td>5,381,360</td>
</tr>
<tr>
<td>Amount saved</td>
<td>-</td>
<td>2,690,680</td>
</tr>
<tr>
<td>Interest charged</td>
<td>-</td>
<td>1,345,340</td>
</tr>
<tr>
<td>Management fee</td>
<td>-</td>
<td>538,136</td>
</tr>
</tbody>
</table>

30
Table 13: 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 (%) Operating Expenses</td>
<td>n/a</td>
<td>105.9</td>
</tr>
<tr>
<td>2. Administrative Efficiency</td>
<td></td>
<td></td>
</tr>
<tr>
<td>No. of Active Loan Clients Loan Officer</td>
<td>50</td>
<td>102</td>
</tr>
</tbody>
</table>

Source: CMS Database
n/a = not available

FINANCIAL VIABILITY

A direct way to evaluate financial viability of CMS is to quantify cost structure and examine whether the cost per unit of 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. Credit Management Services receives revenue from borrower's interest payments and other fees, and its costs arise from organizing and training borrower groups, administering loans, and covering bad debts. To be financially viable, CMS 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:

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

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.

Presently, CMS is largely dependent on donor funds for financial resources so the cost of raising resources per unit of principal is very low. Using the above formula and based on the 1996 situation, it was established that the cost per unit of principal lent by CMS is ZK0.07, which is less than the annual nominal lending interest of ZK0.60 per unit lent. This compares favorably, suggesting that CMS is financially viable. However, this viability is subject to continued access to donor funds. When imputed cost of ZK0.60 per unit of principal lent (being market interest) is introduced, the cost per unit of principal lent increases to ZK0.70 implying that if CMS were to borrow funds at market interest rate for on-lending, it would be financially unviable. The microcredit operation is
reported to be running at a loss.\textsuperscript{14} This is not surprising because the microcredit operation is yet to reach a critical mass for viable operations.

**OPERATING PERFORMANCE**

Credit Management Services lending operations have grown very rapidly from ZK40 million in 1992 to ZK4.9 billion in 1996. It has recorded impressive loan repayment rates as follows:

- Mpongwe Women's Micro Credit 92 percent
- Luapula Province Livelihood and Food Security Revolving Fund 88 percent
- Marketing Revolving Funds 78 percent

Marketing revolving funds have generally performed poorly in Zambia. Average national repayment rate is below 50 percent. The main reason appears to be lack of close supervision by the lenders. An innovative technique which has helped CMS achieve a 78 percent recovery rate is close supervision of clients.

**SUBSIDY DEPENDENCE**

Although there is no direct way of estimating total economic viability, it is possible to evaluate whether CMS can operate without grants. The extent of economic subsidy in terms of the opportunity cost of the subsidized funds CMS has received needs to be identified.

The two sources of MFI's subsidy are the financial subsidy, given if the program cannot 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 derived by the CMS 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 for maintaining operations of CMS.

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:

\[
\text{FCS} = A(M - C)
\]

Where: 
- FCS is the financial cost subsidy
- A is the total annual concessional borrowed funds (outstanding)

\textsuperscript{14} Data was not available to facilitate separate evaluation of financial viability of the microcredit operations.
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 * M.

As noted on p. 29, CMS uses donor funds. Therefore, its financial cost subsidy is A * M (i.e., FCS = A * M)

The subsidy on the amount of equity is given by:

\[ ES = E \times M \]

Where ES is the equity subsidy
E is the amount of equity
M is the market interest rate.

Therefore, CMS equity subsidy is E * M, (i.e., ES = E * M)

The income subsidy (K) is defined as the amount of grants received for operating expenses. Since CMS receives grants for certain operating expenses, CMS income subsidy = K.

The economic subsidy for CMS is:

\[ SS = FCS + ES + K \]

Net subsidy (NS) for CMS is the economic subsidy less Profit (P) and is defined as:

\[ NS = A \times M + ES + (K - P) \]

The subsidy dependence of CMS is evaluated against the interest earned on 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 CMS
LP is the average annual outstanding loan portfolio
i is the average weighted on-lending interest rate paid on that portfolio.
Using the above formula we estimate SDI for CMS for the year 1996 to be 100 percent. This implies a need to double the on-lending interest rate in order to reduce the subsidy.

**CHALLENGES AND FUTURE PLANS**

Making microcredit sustainable is probably the biggest challenge confronting CMS. Microcredit operations at both Mpongwe and Luapula have been running at a loss. A diversified portfolio of CMS has enabled the company to survive, in spite of the loss from microcredit operations. As stated above, CMS portfolio includes marketing revolving funds, outgrower revolving loan funds, and small enterprises credit revolving funds. Commission and loan processing income from these funds has cross-subsidized the microcredit operations.

Dependency on donor revolving funds is yet another challenge confronting CMS. Efforts have been made to begin the process of sustainability by creating its own loan portfolio. With effect from financial year 1997/98, CMS will show a loan portfolio on its balance sheet. Credit Management Services recently borrowed ZK470 million (US $367,188)\(^{15}\) from Micro Bankers Trust for on-lending to clients in the Copperbelt and Luapula Provinces. This demonstrates CMS’s wish to become self-sustainable.

---

\(^{15}\) Exchange Rate ZK1.280 = US $1.00
6. INNOVATIONS AND LESSONS LEARNED

INNOVATIVE TECHNIQUES

Credit Management Services success is to a large extent attributable to its innovative approach to microcredit delivery. The most important innovative techniques which CMS has used are:

1. **Portfolio diversification**: has enabled CMS to achieve and maintain profitability at a time when microcredit operations were running at a loss.

2. **Use of existing institutions**: CMS has successfully built on informal financial systems already being used by the microentrepreneurs and existing women's clubs. This has ensured the acceptance of the methodology by the clients.

3. **Transparent MIS**: CMS has an elaborate MIS that includes loan transaction documentation, through which clients actively participate. This openness has inspired confidence and trust at all levels, thus ensuring the observed high level of on-time loan repayment rate.

4. **Weekly club meetings**: is a technique which facilitates group solidarity and ensures the success of the solidarity group lending methodology.

LESSONS LEARNED

Credit Management Services management has over the three-year period of implementation of this microcredit program learned a number of lessons. The most important are:

1. **High potential for rural savings**: CMS has been able to mobilize substantial savings from poor rural entrepreneurs. This confirms the high potential for rural savings.

2. **Close supervision improves performance**: active involvement in credit monitoring by senior head office staff improves portfolio performance.

3. **Women are a good credit risk**: CMS experience with women clients has been good, high loan repayment rates of 98 percent have been sustained over the period.

4. **The value of strict contract enforcement**: strict contract enforcement when supervised by a staff lawyer enhances loan recovery rates.

5. **Critical minimum loan size**: below which there would be no positive change in the status of the recipient.
ASSESSMENT OF REPLICABILITY OF INNOVATIVE TECHNIQUES

Participants to the first National Workshop on Sustainable Microfinance Institutions in Zambia discussed and concluded that the innovative techniques presented above can be replicated. However, this requires the MFI to have a suitable organizational structure.

ISSUES REQUIRING ATTENTION

Financial Indicators

At the time of the study, CMS had an accounting system which did not allow separate financial performance reports for the microcredit activities. 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 an impact. Among these are the social indicators which gauge the changes on peoples’ lives. Such indicator 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;
- Improved self esteem, assertiveness of an individual.

There are also economic indicators which have to be identified, including:

- Improvement 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;
- Ability of the business to grow.

Both the economic and social indicators are necessary for an MFI, since they are used to measure different aspects of impact on the clients. However, it is important to
identify these indicators in consultation with the participants/clients who may view their benefits differently from the MFI and their values might not necessarily be the values seen by the MFI.

Lack of Baseline Studies/Data

The need for baseline data cannot be overemphasized because the availability of this information facilitates impact evaluation during and after project implementation. It was identified as one of CMS's weaknesses.

High Cost of Service Delivery

The low population density in Zambia (9.8 persons per square km) is a major factor for the high cost of service delivery. Reduction of cost of service delivery is one of the challenges facing Zambian MFIs.
BIBLIOGRAPHY


## 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>
</tr>
<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(^\text{16})</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>
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</table>

**SOURCE:** Bank of Zambia and CSO.

n/a = Not available

\(^{16}\) Census of population, housing and agriculture, 1990.
### INCOME

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loan Application fees</td>
<td>970,000</td>
</tr>
<tr>
<td>Loan Arrangement fees</td>
<td>54,000,000</td>
</tr>
<tr>
<td>Commission</td>
<td>38,390,625</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>93,360,625</td>
</tr>
</tbody>
</table>

### EXPENDITURE

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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<tbody>
<tr>
<td>Audit Fees</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Bank Charges</td>
<td>437,000</td>
</tr>
<tr>
<td>Bank Interest on o/d</td>
<td>678,563</td>
</tr>
<tr>
<td>Depreciation</td>
<td>6,515,375</td>
</tr>
<tr>
<td>Hotel Accom.&amp; per diem</td>
<td>1,560,000</td>
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<tr>
<td>Insurance</td>
<td>1,398,205</td>
</tr>
<tr>
<td>Management fees</td>
<td>56,000,000</td>
</tr>
<tr>
<td>Office Expenses</td>
<td>1,437,896</td>
</tr>
<tr>
<td>Stationery &amp; Photocopying</td>
<td>1,345,678</td>
</tr>
<tr>
<td>Telephone</td>
<td>2,356,403</td>
</tr>
<tr>
<td>Travel &amp; Transport</td>
<td>13,987,546</td>
</tr>
<tr>
<td>Water &amp; Electricity</td>
<td>975,002</td>
</tr>
<tr>
<td><strong>TOTAL EXPENDITURE</strong></td>
<td>88,191,668</td>
</tr>
</tbody>
</table>

### Net Profit for the Year

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td><strong>Net Profit for the Year</strong></td>
<td>5,168,957</td>
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</tbody>
</table>

### Appropriation Account

<table>
<thead>
<tr>
<th>Item</th>
<th>Amount</th>
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</thead>
<tbody>
<tr>
<td>Net Profit for the Year</td>
<td>5,168,957</td>
</tr>
<tr>
<td>Provision for Taxation</td>
<td>635,000</td>
</tr>
<tr>
<td>Unappropriated Profit c/f</td>
<td>4,533,957</td>
</tr>
</tbody>
</table>
## CREDIT MANAGEMENT SERVICES LIMITED
### BALANCE SHEET
**As at March 31st, 1996**
*(currency: kwacha)*

### FIXED ASSETS
- Motor Vehicles: 16,600,000
- Office Equipment: 9,987,500
- Office Furniture: 4,220,125

### CURRENT ASSETS
- Debtors: 16,275,500
- Cash at Bank: 1,086,734

### LIABILITIES
- Accrued Charges: 1,500,000
- Bank Overdraft: 3,974,560
- Trade Creditors: 389,472
- Provision for Taxation: 635,000

### TOTAL NET CURRENT ASSETS
10,863,202

### TOTAL ASSETS (LESS LIABILITIES)
41,670,827

### FINANCED BY:
- **Share Capital**
  - Authorized 50,000,000 ordinary shares of K1.00 each
  - Issued and fully paid 25,000,000 shares: 25,000,000
- Unappropriated Profit: 4,533,957

### SHAREHOLDERS FUND
12,136,870

### TOTAL SHAREHOLDERS FUNDS
41,670,827
ANNEX IV

METHODOLOGY USED BY CONSULTANTS

1. Selection of Study MFI

The MFI under study: Credit Management Services limited was chosen by the champion; 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 for the purpose of introducing the research project, and as a strategy for establishing ownership.

2. Appointment of Contact Person

Credit Management Services was requested to appoint a contact person who would work with the consultants during data collection and to review the draft report. Ms. Tendai Ndangana was appointed and Mr. Dereck Molver was named alternate.

3. Data Collection

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

- **Secondary data collection**: Secondary data was made available to the consultants from the World Bank. This consisted of general issues in microfinancing and international experiences. Secondary data was also obtained from CMS. This data was in the form of annual reports, loan forms, MIS print-outs etc.

- **Primary data collection**: Primary data was gathered by the consultants through interviews with various project stakeholders in an effort to fill in gaps identified from the secondary data, as well as seeking clarifications on issues which were unclear. Interviews were conducted at various levels as follows:
  
  * Interviews with personnel of CMS: These interviews followed the interview guide provided in the World Bank methodology manual.
  
  * Interviews with clients: There were two levels of interviews for the clients. The first was the focus group discussions; the consultants tried as much as possible to meet the groups while the groups 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 based on 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 the 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 CMS (Program sustainability)
- Economic viability
- Innovative techniques which CMS has developed or adopted
- Lessons learned.

4.1 Financial Viability

The technique used to ascertain financial viability was 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:

\[
r > = \frac{(i+e+p)}{(i-p)}
\]

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 CMS is evaluated against the interest earned on its loan portfolio. As follows:

\[
\text{SDI} = \frac{NS}{LP * i}
\]
Where SDI is the subsidy dependence index
NS is the annual net subsidy received by CMS
LP is the average annual outstanding loan portfolio
i is the average weighted on-lending interest rate paid on that portfolio.