Findings occasionally reports on development initiatives not assisted by the World Bank. This article is one such effort. The views expressed here do not necessarily reflect the views of the World Bank Group, the Government of Zambia, other donors or Credit Management Services Limiteds.

Zambia’s Credit Management Services: micro-credit schemes for women entrepreneurs

Credit Management Services Limited (CMS) was established in 1992 as a subsidiary of Molver and Company, a Zambian accounting company.* It 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. This Action Research best practice study focuses on micro-credit schemes for women entrepreneurs.**

The Lending Methodology

CMS lends to members of existing women’s clubs. These clubs are divided into cells of five members. Each cell is requested to mobilize savings from members, based upon which members are given twice the amount they have saved as a loan. The savings is held as security. CMS is able to provide loans of up to 500,000 Zambian Kwacha (about US$ 250). A club can apply for a loan after the initial savings has been accumulated, and members have attended orientation meetings regularly and successfully. Initial orientation and training is a prerequisite to qualify for loans. A participatory approach is used in the training process to ensure full comprehension by members.

Initially, the loan amount is distributed among two members of the cell, chosen by members of the cell without the involvement of the credit officer. This first set of recipients would usually not include the cell leader, who must wait until all other members of the group have been served, before taking her loan. The loan process is simple. After selection of the recipients, they are presented to the club for endorsement. They then complete loan application forms issued by the credit officer, after which the loans are distributed. Loans are repayable in full, after four months, in a single instalment. New loans can thereafter be given to other cell members. Four months after the first two members have received their loans, two other persons are selected using the same process. After a further four months, the last person (leader of the cell) receives her loan.

No detailed loan appraisal process is required. The econom-
CMS, as a registered non-bank financial institution, is not permitted by the Banking and Financial Services Act of 1994, to take direct deposits from the public. However, through its lending methodology which requires the prospective borrowers to save 50 percent of the loan amount, it indirectly mobilises group savings through the women's clubs. Savers are paid interest, currently at 45 percent per annum. With inflation at 35 percent, this represents a positive real interest rate of 10 percent per annum, as compared to a market real interest rates of minus 6.6 percent. The nominal interest charged by CMS on loans is 60 percent, which is the same as the market rate. Normally, savers are not allowed to withdraw either the interest or the principal as long as they remain members of the club. Recently, consideration for withdrawal of interest income has been given to clients who have opted to save without borrowing.

Sources of Funds and Operating Costs
Since its establishment, CMS has gained donor confidence and subsequently benefited from considerable donor goodwill. At its inception in 1992, CMS received a sum of ZK40 million from the EU for on-lending to traders supplying agricultural inputs. This fund was increased to ZK60 million in 1993 and its use expanded to include crop marketing. In 1994, CMS received ZK40 million from the EU to manage as a revolving fund for the Mpongwe "Women's Bank." In 1995, CMS was appointed by FINNIDA to manage ZK750 million for the Luapula Province Livelihood and Food Security Revolving Credit Fund.

By March 31, 1996, the major sources of funds for CMS were revolving funds from EU (ZK4.240 billion accounting for 83 percent), and FINNIDA (ZK750 million accounting for 15 percent). Internally generated funds, mainly from interest income and fees, amounted to ZK93.4 million accounted for the remaining 2 percent. This heavy dependency on grants is further reflected by a high subsidy dependence index of 100 percent. However, operating costs are low, and at the corporate level, fees and commissions collected from the various programs are sufficient to cover operating costs. CMS has therefore attained operational sustainability but not financial sustainability.

Outreach and Impact
CMS operates micro-credit CMS operates micro-credit schemes for 306 women in the rural areas of Mpongwe, Kashiba, and Miputu — all rural areas in the Copperbelt Province. In Luapula Province, CMS is operating a women's micro-credit scheme for 423 borrowers in five locations: Mwense, Nchelenge, Samfya, Mansa and Kawambwa.

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 clients and have improved their standard of living. Some clients are reported to have diversified their businesses as a result of the
loans. Elizabeth Lusambo belongs to a cell formed in 1996. She is now on her third loan, the first for ZK100,000, the second for ZK115,000 and the present one for ZK305,000. From buying groceries and selling them in her husband’s store, she has diversified into baking bread and rolls, has bought a sewing machine and hired a tailor.

The CMS clients’ knowledge regarding the benefits of savings is high. This is attributable to CMS training, and the informal savings and credit associations to which the women belong. The program’s compulsory 50 percent savings requirement is not unusual for 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 interviewed had saved over ZK600,000 (US$300), quite a feat for a rural woman in a country with GDP per capita of about US$350.

Innovations and Lessons Learned

The success of CMS is to a large extent attributable to its innovative approach to micro-credit delivery. The innovative techniques which CMS has used include the following.

- **Use of existing institutions**: CMS has successfully built on informal financial systems already being used by micro-entrepreneurs through existing women’s clubs. This has made it easier for clients to accept the methodology.

- **Transparent MIS**: CMS has an elaborate MIS that includes loan transaction documentation, in which clients actively participate. This openness has inspired confidence and trust at all levels, resulting in the observed high loan repayment rate of 98 percent.

- **Regular club meetings**: The weekly club meetings enhance group solidarity and is an underlying factor in the success of the solidarity group lending methodology.

- **Critical minimum loan size**: Loan sizes have to be above a certain critical level to achieve a positive change in the status of recipients.

* The initial task was to manage a European Union (EU)-funded project in Mpongwe: the Crop Input Supply Lending Project, which involved lending to small-scale farmers. In 1994, CMS was requested to manage a second project: the Mpongwe Community Development Women Empowerment Project. This involved a savings and credit scheme based on a modified rotating savings and credit model, and marked the beginning of CMS’ involvement in micro-finance.

** The Mpongwe Smallholder Marketing Fund was started in 1992 and lends to small and medium enterprises involved in input supply distribution to smallholder farms. The Mpongwe “Women’s Bank” was taken over from the Mpongwe Community Development Project in 1994, and lends to groups of women. The Kabwe Smallholder Development Project Agricultural Marketing Revolving Fund was initiated in 1995 and lends to small and
medium enterprises engaged in crop marketing activities in Kabwe district. The Luapula Province Livelihood and Food Security Revolving Credit Fund was taken over from FINNIDA in 1995 and lends to individual entrepreneurs, including farmers, fishermen and women who organize themselves into clubs.

The overall objective of the Action Research program is to strengthen local rural and microfinance institutions that provide financial services to the poor, through distilling and disseminating innovative techniques, and supporting networks of microfinance institutions. This study is one such effort at distilling best practice and sharing it widely within and beyond national boundaries.

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