



**INNOVATIVE MICRO CREDIT DELIVERY  
SYSTEMS FOR RURAL POVERTY ALLEVIATION**

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## **INNOVATIVE MICRO CREDIT DELIVERY SYSTEMS FOR RURAL POVERTY ALLEVIATION**

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### **Abstract**

Micro Credit has been recognised by the government as a tool for poverty alleviation. The demand side of the Microfinance industry consists of small and micro entrepreneurs mostly living in rural and peri urban areas of Zambia. The Sector has contributed greatly to the growth of the informal sector. Most of the income generating activities have their hope on microcredit.

Micro Bankers Trust has been providing financial services to the poor since its inception in 1996. The first approach of reaching the poor was to use intermediary microcredit institutions which did not achieve its major objective. The reorientation of MBT in 2000 resulted in reaching more vulnerable households and this is demonstrated by the volumes of loans disbursed and the number of clients reached. MBT is to reach a cumulative number of 22,000 clients by the year 2011.

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# **INNOVATIVE MICRO CREDIT DELIVERY SYSTEMS FOR RURAL POVERTY ALLEVIATION**

## **ZAMBIA'S POLITICAL, DEMOGRAPHIC, ECONOMIC AND SOCIAL ENVIRONMENT**

### **1.1 Political Environment**

Zambia attained its independence from Britain on 24<sup>th</sup> October 1964 and the name changed from Northern Rhodesia to Zambia. The first President of the Republic of Zambia is Dr. Kenneth David Kaunda. The second Republican President who ruled Zambia from 1991 – 2001 is Dr. Fredrick F.T. Chiluba. The current President of Zambia is Dr. Levy Patrick Mwanawasa, State Counsel.

### **1.2 Demographic Environment**

#### **1.2.1 Overview**

Zambia is a landlocked Sub-Saharan country sharing boundaries with Malawi, Mozambique, Zimbabwe, Botswana, Namibia, Angola, Democratic Republic of the Congo and Tanzania. The total surface area of Zambia is about 752,614 square kilometers of which 740,724 sq km is land and 11,890 sq km is covered by water (Atlas, Insaka Press, page 91. 2004). The natural resources of Zambia are copper, cobalt, coal, emeralds, lead, uranium and hydropower.

The country has nine provinces, namely Central, Copperbelt, Eastern, Luapula, Lusaka, Northern, North-western, Southern and Western provinces. The capital city is Lusaka.

### **1.3 Population and Distribution**

Zambia's population for the year 2000 is 9,885,591 of which 4,946,298 are males and 4,939,293 females (2000 Census, Central Statistics Office {CSO}. 2004). The New Basic Education Resource Atlas for Zambia estimates the population to be 10,300,000 (Atlas, Insaka Press, page 91. 2004). The 2007 CIA World Factbook has estimated Zambia's population to be about 11,502,010 with a population growth rate of about 2.11 percent. Zambia, with a median age of 16.8 years in 2000, has a relatively youthful population. The Copperbelt has the largest population size of 1.6 million followed by Lusaka (1.4 million) and Eastern (1.3 million). The least population is found in North Western Province (583,350).

The people of Zambia speak 73 different tribes or languages. According to New Basic Education Atlas for Zambia (Insaka, 2004), Life Expectancy in Zambia is at 41.4 years i.e. 41.8 years for males and 40.9 years for females. Death rate is 24.3 (deaths per 1,000 inhabitants) while birth rate is 39.53 (births per 1,000 inhabitants).

## **1.4 Economic Environment**

### **1.4.1 Background**

Despite progress in privatization and budgetary reform Zambia's economic growth remains below the 7% necessary to reduce poverty significantly. Half the population lives in poverty and the impact of the HIV/AIDS pandemic has left high levels of orphans. The current government has put a high priority on fighting corruption and developing the agricultural sector.

In April 2005, Zambia reached the Heavily Indebted Poor Countries (HIPC) Completion Point after meeting a number of conditionalities agreed to at the HIPC Initiative Decision Point in December 2000. Most of the Paris Club creditors wrote off 100% of Zambia's debt (HIPC Study: December 2002; The Budget Speech, February 2006).

According to the 2008 Budget Speech delivered on 25<sup>th</sup> January 2008 by the Minister of Finance, Zambia's Gross Domestic Product (GDP) for 2007 is estimated at 6.2% compared to 5.4% in 2004 and 5.1 percent in 2005. The annual inflation rate in 2007 closed at 8.9% compared to 8.2% achieved in 2006 (Budget Speech 2006). Per capita GDP increased by an average of 2.3% annually from 1990 to 2001, and between 2002 and 2005 real GDP growth averaged 4.7%.

### **1.4.2 Status of Poverty in Zambia**

Poverty is a serious problem in Zambia. The 2004 Living Conditions Monitoring Survey (LCMS) undertaken by the CSO revealed that 68% of the population live below the poverty datum line, earning less than US\$ 28 per month (US\$ 1= ZK3,990). Poverty in rural areas was estimated at 74% compared to 52% in the urban areas. At national level the depth of poverty dropped to 36% in 2004 from 40% in 1998. Extreme poverty (covering people earning less than US \$20 fell from 58% in 1998 to 53% in 2004.

### **1.4.3 HIV/AIDS – Overview for Zambia**

In Zambia, HIV/AIDS has also become increasingly wide spread with an estimated adult HIV prevalence of 16% affecting ages 15 and 49 years. The peak ages for HIV among females are 25 to 34 years while that for males is 35 to 39 years. Young women aged 15 to 19 are five times more likely to be infected compared to males in the same age group. It is also estimated that 25% of pregnant women are HIV positive and that approximately 40% of babies born to HIV-positive mothers are infected with the HIV virus. By June 2000 there were 830,000 people over the age of 15 years reported to be living with AIDS, and of these 450,000 were women while 380,000 were men. According to 2008 Budget Speech of February 2008, a total of 137,000 HIV/AIDS patients accessed anti-retroviral therapy in 2007 compared to 75,000 in 2006 i.e. an increase of 45% (National HIV/AIDS/STI/TB Policy, Ministry of Health. June 2005).

## **2.0 MICRO CREDIT EXPERIENCE OF ZAMBIA**

### **2.1 Background**

The background and history of Microcredit in Zambia cannot be complete without the mention of Micro Bankers Trust (MBT) and the Association of Microfinance in Zambia (AMIZ). The two are the major backbone to the current experiences of microcredit in Zambia. AMIZ is a membership-based organization that was registered in 1998. Among the objectives of AMIZ on the onset were: -

(i) To serve as a collective voice in lobbying the government on issues of law and creating an enabling environment for MFIs; and

(ii) Liaise with the Bank of Zambia on registration, regulation and supervision (Cosmas Mukenu Mbanacele, October 2000)

#### **2.1.1 Outreach**

The microfinance industry in Zambia is relatively new having emerged in the middle of the 1990s. By the year 2000 there were about 34 organizations operating in the Micro credit Sector at different levels of operations. By 2004 there were about 43 institutions providing microcredit out of which 28 were operational with an outreach of just over 80,000. By the end of 2006 the number of institutions providing microfinance services was estimated at 50 with an outreach of about 100,000. Twenty four of these are affiliated to the Association of Microfinance Institutions in Zambia. The number of micro credit organizations increased by 32 percent between 1990s and 2006. (AMIZ Membership list, December 2005).

#### **2.1.2 Description of Microcredit Institutions Operating in Zambia**

Microfinance institutions in Zambia include both private company moneylenders and the more traditional donor-supported microfinance institutions. The different microcredit institutions that are currently operating in Zambia can be described as follows: -

##### **i. The Private Companies**

These are Limited Companies that are registered under the Companies Act and are involved in providing microcredit services for profit. Some of these are international companies that entered the market between 2000 and 2005.

##### **ii. Non Governmental Organizations (NGOs)**

These are a mix of local and international NGOs that are operating in Zambia. Some of these are operating for profit and others are non-profit making organizations.

### iii. Cooperatives and Associations

These are member based organizations that lobby for loans on behalf of their members.

### iv. Government Institutions

Among these are institutions such as National Savings and Credit Bank (NSCB), National Trust for the Disabled (NTD), Micro Bankers Trust (MBT), Peri Urban Self Help (PUSH), Programme Against Malnutrition (PAM), just to mention a few. The latter four are grant aided institutions under the Ministry of Community Development and Social Services (MCDSS).

### v. Informal Institutions

This category consists of Self Help Groups, Money Lenders, Rotating Savings and Credit Associations (ROSCAs) and Accumulating Savings and Credit Associations (ASCAs).

### vi. Banking Institutions

Few Commercial Banks are providing micro credit to low income households in both rural and peri urban areas of Zambia. Among such banks is Zambia National Commercial Bank (ZANACO). In the mid 1990s a number of commercial banks closed their branches in most of the rural and urban areas due to the poor economic environment at that time. However, as recently documented in a study commissioned by DFID<sup>1</sup>, commercial banks are still reluctant to enter the low-income market because they misunderstand the risk, overestimate the cost, and underestimate the potential returns.

### vi. The Microcredit Target Groups

The target groups of microcredit operations in Zambia are the vulnerable groups who are unable to access financial services from the conventional banks. However, the individual microcredit institutions have specific target groups depending on their mission and vision.

## 2.1.3 Lending Terms and Conditions

The lending methodology adopted by most of the microcredit organizations in Zambia is either group or individual lending. Individual lending methodology is mostly used by MFIs that target employees of various organizations such as public institutions.

The interest rates charged by the various MFIs differ from one institution to the other. For example, interest charged by MFIs targeting employees ranges between 60% and 156% per annum. MFIs targeting micro and medium entrepreneurs are charging interest rates ranging between 6% and 120% per annum.

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<sup>1</sup> DFID Financial Sector Team, Policy Division Working Paper, *Banking the underserved: New Opportunities for Commercial Banks*, April 2005.

#### **2.1.4 Financing or Funding**

The major sources of funding for the majority of microcredit institutions are: -

Donors  
The Government  
Private Capital

#### **2.1.5 Financial Services and Products**

Over the years Microfinance Institutions in Zambia have been providing microfinance financial services for the poor to access micro and small loans of various types, including savings and micro-insurance.

Various MFIs have developed products that meet the needs of the low-income households. Some of the products are provision of consumer loans for meeting the cost of funerals, school fees, weddings, medical fees, purchase of household goods such as furniture, land, building materials, cars, etc.

#### **2.1.6 The Legal Framework**

The government approved the Banking and Financial Services Regulations for Microfinance in 2006 and this is meant to facilitate the effective supervision and regulation of both deposit-taking and non-deposit taking MFIs. This regulation came into effect on 1<sup>st</sup> February 2008. By end of January 2008 three (3) MFIs out of the estimated 50 were registered under the Banking and Financial Services Act. Prior to this regulation it means that MFIs operated in unregulated market {MBT Business Plan, February, 2008; BoZ Press Statement, 20<sup>th</sup> February 2008}.

Registration requirements are: -

- a. Tier I: Deposit-taking Microfinance Institution with regulatory minimum capital of US\$ 6,578 and above (US\$ 1=ZK 3,800).
- b. Tier II: Non-deposit taking Microfinance Institution with minimum capital of below US\$ 6,578 (US\$ 1=ZK 3,800).

#### **2.2 Microcredit Achievements in Zambia**

Microfinance institutions in Zambia have played a pioneering role in providing financial services to the poor. About 5 percent of adult Zambians say they have had or now have a financial service from a microfinance institution. The Zambian government has played a major role in the promotion of microcredit in the country through the establishment of microcredit institutions such as National Savings and Credit Bank (NSCB), Micro Bankers Trust, just to mention a few. The government through the Bank of Zambia



worked closely with microcredit institutions in arriving at the current Microfinance Regulations of 2006 that came into effect on 1<sup>st</sup> February 2008.

### **2.2.1 Microfinance and its Impact on the Poor**

Studies have demonstrated that the availability of credit for micro enterprises can have positive effects on lives of vulnerable low-income households as well as sustainability of the programme. For example, studies on households which had received credit showed that credit provision could contribute to increased household incomes, thereby improving the standard of living (MCDSS, March 2007).

Microfinance industry has played a major role in employment creation through the provision of financial services to entrepreneurs who have employed not only themselves, but others too. The vulnerable low income households in rural communities have accessed micro credit for their income generating activities that includes agriculture as a business.

## **2.3 Constraints of Microcredit in Zambia**

### **2.3.1 Institutional Capacity**

#### **a. Governance**

Little progress has been made in strengthening Boards of MFIs with members who have experience in the management of MFIs. There is limited experience and knowledge in the governance of the MFIs. Most Board members either have experience in non-profit or for profit organizations.

Therefore, there is still need for training and exposure of MFI Boards and staff to successful MFIs within and outside the country. This exposure and training will facilitate efficiency and effectiveness of Board and Management operations.

#### **b. Management Information System (MIS)**

There is still room for MIS for the majority of MFIs and other stakeholder providing microcredit to be well developed. There is great need for exposure to what successful MFIs are using.

#### **c. Donor Dependency**

MFIs that depend on donors for their operations have tended to be performing well than other microcredit players who are not donor funded. This poses to be a threat to the industry because once donor funds are depleted the affected MFIs are unable to perform well.

**d. High Staff Turnover**

Most of the MFIs in Zambia have in the past decade experienced high staff turnover due to reasons associated with low salaries. Donor funded MFIs have in most cases managed to retain their staff because the salary cost is included in the funds.

**e. Lack of Sustainability**

Most of the MFIs that target the low-income households would not have been operational had it not been for the grants that they are receiving from various donors. Currently institutions that can be seen to be covering all their operational costs are those that targeting employees and are charging exorbitant interest rates.

**f. Macroeconomic Environment**

The general macroeconomic environment in Zambia has not been very favourable for micro and small enterprise development especially in the 1990s when the free market economy was introduced. Though the macroeconomic indicators have shown signs of improvement over the years, these gains have not yet shown positive impact of alleviating poverty among the majority of the poor families.

**g. Inadequate Governance and Management**

The capacity to effectively govern and manage MFIs also impedes the sector's development. Any individual or institution can easily set up an MFI, leaving the burden of due diligence to the donors that fund the institution of which some of them do not have adequate capacity. As a result, the industry has been made susceptible to unscrupulous operators who give microfinance a bad name hence waste of resources.

**h. Limited Capital Funds**

Donor fund are the major source of funding for most of MFIs. The shrinking donor funds come in small amounts, making it difficulty for MFIs to plan effectively.

**i. Limited Outreach**

Low outreach is affecting most of the MFIs in the country. The number of the poor people they are reaching is however relatively small. The major reason for this scenario is inadequate operational funds to enable them reach out to majority of the poor people in rural areas.

**j. Poor Infrastructure**

Under-developed infrastructure and poor accessibility to reach the vulnerable poor people are some of the reasons that hinder MFIs from reaching the poor in rural communities.

**k. High Interest Rates**

Commercial Banks and MFIs interest rates have been high for a number of years due to high inflation and other macroeconomics reasons.

**l. Low Population Density**

Spacely population density in rural areas leads to high cost of operations.

**3.0 CASE STUDY OF INNOVATIVE EXPERIENCES OF MICROCREDIT:  
THE CASE OF MICRO BANKERS TRUST**

**3.1 Background**

Micro Bankers Trust was established as an autonomous body to implement the Micro Credit Delivery for the Empowerment of the Poor (MCDEP) program as a joint venture of the Government of Zambia and the European Union (EU), through the Ministry of Community Development and Social Services (MCDSS) as the Settler of the Trust. It was registered as a Trust on 12th September 1996. It was set up to serve as a safety net that would mitigate the negative effects of SAP among the poor people of Zambia, especially women.

MBT was set up as a promoter of infra-structure in the field of micro finance and make an impact on the ground. It played a catalyst role in the emergence of AMIZ and has made contributions to arrive at an appropriate regulatory and supervision system for Micro Finance in Zambia.

MBT is currently governed by an independent Board of trustees. Initially, the founding members MBT became namely the Management Committee of the Trust, consisted of 4 organizations. These organizations were the first intermediaries to obtain loans from MBT to deliver micro-finance services to their target group in 1997.

**3.1.1 Vision**

“Be the best financial services provider to vulnerable population segments in Zambia to build better lives.”

**3.1.2 Mission**

Contribute to the creation of wealth at community level through access to appropriate financial and other services for enterprise development and self-employment by low income groups.”

**3.1.3 Overall objective**

### 3.1.3 Overall objective

“To build a credible and sustainable MFI that will economically empower vulnerable people by efficiently providing access to financial and other services for enterprise development, income security and employment creation in Zambia, especially for women, to build better lives.”

### 3.1.4 Specific objectives of MBT

- i. To provide financial and non financial services to low income population segment in Zambia through self-help groups and solidarity groups.
- ii. To mobilize loan funds for microfinance delivery and related activities;
- iii. To build the organizational and human resource capacity to learn, reflect and manage the institution's operations.
- iv. To promote sustainable growth of the microfinance sector in the design and operation of efficient and results oriented microfinance methodologies.
- v. To stimulate continued performance improvement by research monitoring and evaluation, applying sound lending policies and upholding best practices in microfinance;
- vi. To mainstream issues related to HIV/AIDS, gender and the environment.

Between 1997 and 2000, MBT's main functions of the Micro Credit Delivery for the Empowerment of the Poor (MCDEP) were: -

- a. To provide funding to MFIs and community groups for on-lending to the final beneficiaries.
- b. To increase outreach in terms of an expanded number of final beneficiaries
- c. To provide training and technical assistance to enterprises.

Capacity building activities were identified for MFIs and training was provided at different levels. The impact survey conducted in 2000 revealed that 75% of the interviewed MFIs' clients felt that they were better-off than before they accessed the loans. Eighty five (85%) of the clients were females and 15% were men. This better off-feeling is the result of increased incomes

By 2000 a decision was made by MBT to be providing retail loans direct to the beneficiaries that were the target of the intermediary MFIs. Since then MBT has been providing financial services directly to beneficiaries in the selected outreach areas.

### **3.2 Outreach Coverage**

Between 1997 and 1999, a total of US\$ 322,236 of wholesale loans were disbursed to four MFIs for on-lending to their target groups. By the year 1999 a total of 3,000 clients had accessed loans through the intermediary MFIs and about US\$ 400,000 was disbursed at an average of about US\$133 per client. The intermediary MFIs' loan repayments were very poor that MBT decided to stop providing wholesale loans. The wholesale loans to MFIs were guaranteed with security and in the long run MBT recovered the loans. Three of the affected MFIs closed their operations by 2001.

Between 2001 and 2007, MBT has expanded its operations to 18 districts located in 8 of the nine provinces. Meanwhile the number of operational areas as at December 2007 is 25. The number of clients who have accessed loans has reached 10,972 of which 7,556 are women and 3,416 are men (i.e. 68% females). The number of community members who have benefited in either financial or non financial services reached 21,267 members. The number of employees has grown from 8 in 2000 to 36 by December 2007.

### **3.3 Financial Services**

The financial services provided by MBT are loans and savings. Non financial services that are provided are mainly advisory and training services.

#### **3.3.1 Financial Products**

The orientation from wholesale to retail lending enabled MBT to come up with a strategy of broadening its outreach base by introducing various financial products.

##### **i. Business Loans**

These loans are facilitated in order to enable entrepreneurs expand their various businesses such as trading, simple manufacturing, service provision and food processing. The loan size for these loans is from about US\$ 33 to US\$ 1,666.



A female client before receiving a loan of about US\$ 100 in Chipata district - March 2007.

## ii. Equipment Loans

### a. Treadle Pumps

Vulnerable households are provided with simple irrigation equipment using treadle pumps. The loan size is between US\$ 150 and US\$ 260. The loan term is from 12 – 24 months. Interest is charged at 6 percent per annum.

### b. Farm Power Mechanization (FPM) Loans:

Mechanization equipment loans are being implemented in the Copperbelt, Western, Lusaka and Central Provinces of Zambia. The equipment involved is Power Tiller. The target group is emerging farmers with inadequate capital to purchase any of the various types of Mechanization Equipment for increasing yields of various agricultural produce. The loan size is between US\$ 5,000 and US \$14,000 for a loan term of 36 months. Interest is charged at 6 percent per annum.

Below, a female client weeding maize in her field by using the Power Tiller.



### iii. Irrigation Loans

Irrigation loans were piloted from June 2006 to June 2007 in Lusaka Province, covering three districts. At the end of the pilot period 47 households had accessed the loans and their repayments were progressing very well i.e. above 90% on-time repayment rates. By the end of 2007 a total of 78 people had accessed the loans with a total loan amount of about US\$ 325,000 with an average of US\$ 4,166 per client.

The positive performance of the pilot phase enabled the government through the Ministry of Agriculture (MAAC), to launch the National Irrigation Programme in August 2007 where the fund manager is a commercial bank. Meanwhile MBT has continued to manage loan funds to meet the needs of the small scale farmer.



Above, Water Pumps ready to be disbursed to successful farmers. The equipment was identified by the farmers themselves and collected from suppliers by farmers.

Below, clients are receiving final tips on how to use water pumps.



#### iv. Seed Loans

MBT also provides its clients loans in the form of seed. It has disbursed seed loans in collaboration with Harvest Help UK in Northern, Central and Western Provinces. The loan size for these loans is from US\$ 10 – US \$ 60 with a loan term of up to 7 months. The interest charged is 4 percent per month. The purpose for these loans is to increase seed production for high value cash crops. Over 2,691 households accessed the loans between 2004 and 2006.

#### v. Dairy Loans

MBT also provides dairy loans to vulnerable families many of whom have been affected by the advent of HIV/AIDS. So far the dairy loans have been disbursed to families in Southern and Lusaka provinces. The program provides both a means of income and a source of nutritional value. The number of clients reached is 33 with a total loan amount of US\$ 34,210

A client standing with his dairy cows he got through microcredit services at MBT.





#### vi. Savings

Savings has been one of the financial services provided to clients accessing loans from the institution since 2007. All loans, except for irrigation, mechanization and dairy loan, attracted mandatory savings at 20 percent of the loan amount. These savings served as clients' personal savings upon the group's graduation, and also, as partial collateral on the part of the institution. Mandatory savings accumulated to a total of US\$ 112,315 by end of December 2006. The institution decided to remove the mandatory savings from the conditions as part of the strategy for complying with the MFI regulations of 2006 that were to become effective by February 2008.

The institution has also been promoting voluntary savings since 2004 in partnership with Harvest Help UK with the main objective of encouraging vulnerable groups to be building up their own resources for use in times of various shocks. This initiative is being implemented in five operational areas and a total amount of voluntary savings reached US\$ 27,491 by end of 2007. The number of ASCAs is 97 with total membership of 1,924 (1,250 female and 674 male).

#### 3.3.2 Credit Methodology

MBT over the years has been using both individual and group lending methodology as a means for reaching the poor entrepreneurs. The size of the group ranges between 10 – 30

of women and men, and the disbursements are either staggered or one disbursement is made. Individual members of the group receive their loans as assessed by the Credit Officer. Repayments are made monthly. Individual loans are disbursed to individual entrepreneurs based on the assessment made by the Credit Officer.

### **3.3.3 MPRP and MBT Partnership**

The Micro Project for Reduction of Poverty (MPRP) is a project under the auspices of the United Nations Development Programme in Zambia. The project is the initiative of the Republic of Zambia through MCDSS, United Nations Development Programme (UNDP) and the Grameen Trust of Bangladesh. The main objective of the project is to replicate the Grameen Methodology of microcredit to female clients in peri urban areas of Chongwe and Lusaka. The project was designed to run from 2004 – June 2007 and reach at least 4,000 clients under the supervision of two Grameen staff from Bangladesh serving as Project Managers as UN international volunteers. By June 2007 the target was met and the project was extended to December 2008. One of the conditions for this project is that local organizations were to host this project in Lusaka and Chongwe. In Lusaka MBT has been hosting MPRP Lusaka Branch since 2004. MBT took keen interest in learning the Grameen methodology on the ground and using the Zambian environment.

In 2006, MBT decided to pilot the same methodology in five operational areas of in five towns. The methodology is based on peer pressure group lending. By end of 2007, a total of 934 clients accessed loans ranging from US\$ 52 and 131 (@ US\$ 1 = ZK 3,800). The total loan amount disbursed by December 2007 is US\$ 122,389 with an average of US\$ 131. The repayment rates are at 100%. Each of the areas is managed by one Credit Officer except for Fiwila that is managed by a Community Facilitator. Before implementation was started in each area staff were attached to MPRP for at least one week – two weeks.

The major challenges of this methodology are: -

Credit Officers are still learning and moving very slowly in building up their case loads (currently at 155 clients each).

The demand for loans from the women is too high and this has created a lot of pressure in building up adequate loan funds for each area.

### **3.3.4 Challenges**

#### **i. Compromising Sustainability**

The organization was established as a not for profit entity and as a result sustainability of the institution is compromised. Combining the social mission of the Settlor with the economic mission has not been possible over the years. This is evidenced by the overall on-time repayment of 79% by end of 2007.

**ii. High Operational Costs**

Under-developed infrastructure, poor accessibility to the most vulnerable households in rural areas, lack of sustainable economic activities and distances together with a host of other challenges make it difficult for any MFI to achieve reasonable scale in a short time unless you remain in urban areas only.

**iii. Inadequate Institutional Capacity**

There is still more room for improving institutional capacity in various areas such as skills, product development and improved Management Information System.

**iv. Inadequate Operational Funds**

Funds to meet operational costs are always inadequate and this requires making a lot of effort in resource mobilization.

**Low Outreach**

Outreach levels are affected by a number of reasons that include long distances, and low population density levels in the rural communities.

**4.0 CONCLUSION**

Microcredit is still in its infancy stage in Zambia and there is plenty of room for it to be fully developed by the stakeholders in the country. The government has recognized microcredit is a tool for alleviating poverty and therefore it has contributed a lot in providing the necessary support that includes the enacting of the MFI regulations that came into effect 1<sup>st</sup> February 2008. However, the challenges of microcredit in Zambia require that resources are provided for reaching the poor in rural areas while other resources can be directed towards building capacities for institutions and human resource.

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