UNIVERSITY OF DERBY

Microfinance in Zimbabwe: social performance and coping strategies

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PREFACE

This is the original work of Joseph Toindepi submitted to the University of Derby for consideration for the award of Doctor of Philosophy in 2015. The rules outlined in *the Regulations for the New Route PhD* (2014) guided the preparation and writing of this thesis.

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ACRONYMS

ACCION	Americans for Community Co-operation in Other Nations
ADRAI	Association for the Development by Research and Integrated Action
AFC	Agricultural Finance Cooperation
AGRIBANK	Agricultural Bank of Zimbabwe
APR	Annual Percentage Rate
AUSAID	Australian Agency for International Development
BLSS	Bank Licensing, Supervision and Surveillance
CERISE	Committee for Research and Exchange of Information(French translated)
CGAP	Consultative Group to Assist the Poor
CIDA	Canadian International Development Agency
CIT	Cash in Transit
CMD	Capital Market Driven
CRB	Credit Reference Bureau
DFID	Department for International Development
ESAP	Economic Structural Adjustment Program
FINCA	Foundation for International Community Assistance
FPD	Food Poverty Datum
FPL	Food Poverty Line

FSP	Financial Service Providers
GDP	Gross Domestic Product
HPI	Human Poverty Index
IGAs	Income Generating Activities
KAF	Konrad Adenaur Foundation
KYC	Know Your Customer
M-CAP	Credit Against Poverty-Masvingo
MDC	Movement for Democratic Change
MDC-T	Movement for Democratic Change -Tsvangirai
MFI	Microfinance Institution
MF-PAIs	Microfinance for Poverty Alleviation Institutions
MII	Microfinance Investment Intermediaries
MIS	Management Information Systems
MIV	Microfinance Investment Vehicles
MNO	Mobile Network Operators
MPI	Multidimensional Poverty Index
MSE	Micro and Small Enterprises
NACSCUZ	National Association of Cooperative Savings &Credit Unions of Zimbabwe
NFC	Near Field Communication
NFS	Non-Financial Services
NGO	Non-Governmental Organisation
ORAP	Organization of Rural Associations for Progress
PDA	Payroll Deduction Agreement
PDA	Personal Digital Assistants
PDL	Poverty Datum Line
POSB	People’s Own Savings Bank
PRD	Poverty Reduction Driven
RBZ	Reserve Bank of Zimbabwe
RCT	Randomised Controlled Trials
REA	Rapid Evidence Assessment
ROSCAs	Rotational Savings and Credit Associations
SDM	Savings Development Movement
SEWA	Self-Employed Women's Association
SHDF	Self-Help Development Foundation
SPI	Social Performance Indicator
SSB	Salaries Services Bureau
TCPL	Total Consumption Poverty Line
UNDP	United Nations Development Programme
USSD	Unstructured Supplementary Service Data
ZAMFI	Zimbabwe Association of Microfinance Institution
ZANU-PF	Zimbabwe African National Union-Patriotic Front
ZAPU	Zimbabwe African Peoples Union
ZBZ	Commercial Bank of Zimbabwe
ZECLOF	Zimbabwe Ecumenical Church Loan Fund

ZimStat	Zimbabwe national Statistics Agency
ZMWF	Zimbabwe Microfinance Wholesale Facility

ABSTRACT

This study is an investigation into poverty coping strategies of microfinance and its social performance in crisis environments using empirical evidence from Zimbabwe.

Microfinance has close association with informal microcredit, mainly self-help schemes and Government led rural agricultural credit, which was based on the idea of lending for the poor up to the 1960s through to the early 1970s. Whilst informal microcredit was viewed to be a success on many forms for some decades, it was clear that tailor-made changes were needed to respond specifically to the poor's financial needs and help them fight poverty. Thus, it was seen as necessary to experiment on an institution based/formal financial service sector for the poor in the late 1970s through to the 1990s, which could perhaps tackle poverty reduction more systematically and effectively. In this, microcredit transformed into microfinance having incorporated more financial services on offer in addition to credit

and was regarded as the new step forward and backed by several development agencies including the United Nations. In fact, microfinance was hailed as the most innovative poverty alleviation tool, able to deal with poverty whilst at the same time generating sufficient extra income to cover operating costs. Over four decades on since its inception, the microfinance sector has grown tremendously but, as is commonly acknowledged, the shackles of global poverty are just as visible as ever and in some cases are even stronger. This study critically explores and analyses the state of the microfinance sector in Zimbabwe following a recent political, economic and social crisis characterised by hyperinflation reaching six figure digits, which led to a revamp of the microfinance sector in 2009.

The findings this study reflect a systematic departure of the original hopes and ideals of microfinance as a poverty-reduction centred programming to that of a profit-led business approach and the emergence of a new breed of microfinance institutions (MFIs).
In this new world of “microfinance”, very poor social performance causing distressful situations for borrowers where in certain instances have been known to take their own lives (as In India) due to debt pressures has been witnessed. Ironically, also visible are the microfinance millionaires and successful MFI banks floating on the stock. Not surprisingly, as a result, microfinance has attracted a lot of public scrutiny particularly among academics and policy makers with its credibility as a poverty alleviation tool being seriously questioned. Consequently, both the supporters of microfinance wanting to prove that microfinance reduces poverty as well as the critics of microfinance wishing to discredit those results have carried out several randomised-control trials (RCT) impact studies. In some cases previous studies that had claimed that microfinance reduces poverty were revisited by opposing academics in an effort to refute findings. However, both supporters and critics each found

just as much evidence for both positive impact in reducing poverty in some places as well as the negative impact on poverty elsewhere. Neither side could be conclusive about whether microfinance actually does help to reduce poverty. As discussed in the literature review, this resulted in a surge in the number of available studies on the subject of microfinance impact, prompting even more systematic reviews of such studies in an attempt to reconcile the critical question of the role of microfinance in poverty reduction. As before, the systematic reviews also confirmed just as much evidence in favour of microfinance positive impacts on poverty as those against in the negative impacts, thereby failing yet again to provide conclusive evidence on either side of the argument.

Such arguments suggest that microfinance delivered in a certain way and under certain conditions can help reduce poverty, but may equally have little effect at all on poverty or can even worsen the poverty situation of individuals when delivered under certain conditions and in a certain way.

To the best of my knowledge, no known previous studies have attempted to associate the model of microfinance delivery and conditions to ascertain whether different forms of microfinance operations can produce different impact on poverty even where conditions are similar in order to inform best practice for social performance and help poor individuals to cope with high income-risks.

High income-risk is part of life for most people in Zimbabwe as in other developing countries. Zimbabwe was affected by frequent droughts, political turmoil, extreme economic challenges due to sanctions and questionable economic policies between 2000 and 2008, and finally the global financial crisis of 2007/8, creating extraordinarily harsh operating environment for microfinance institutions, characterised by depleted loan portfolio investment, skyrocketing inflation eroding the loan book value and growing default rates.

The country's GDP declined by about 40 percent during the period. Hyperinflation in 2007-2008 peaked at 500 billion percent leading to the collapse of the national currency in February 2009. The Zimbabwean dollar disappeared from circulation in instant literarily forcing MFIs and other financial institutions to freeze all balances in their books which was in local currency and raise new capital in the US dollar and South African Rand.

The political and economic challenges negatively affected the Zimbabwean microfinance "industry," causing the sector to suffer significantly. Both the number of microfinance institutions (MFIs) in the country and the quality and range of services were eroded. Capital, social performance, and viability concerns plagued the microfinance sector forcing the government to introduce sector specific regulation with immediate minimum capital requirement for MFIs resulting in small institutions leaving the market, increasing monopoly by large institutions.

Within this uncertainty of the role and effectiveness of microfinance in poverty reduction, and the difficult political and economic circumstances that Zimbabweans have experienced recently, this study looked at the coping strategies of microfinance stakeholders including practitioners and regulators. It employed an exploratory inductive approach using mixed methods methodology. This included a survey questionnaire using both closed and open-ended questions randomly administered to 60 registered microfinance clients and potential clients collecting both qualitative and quantitative data. In addition, comprehensive case assessments were carried out on 3 MFIs.

The assessments concluded that there exist two different approaches to microfinance: (1) the Capital Market Driven (CMD) approach characterised by private equity investments and (2) the Poverty Reduction Driven (PRD) approach characterised by emphasis on poverty alleviation and social performance. This thesis argues that the two approaches may have

very different impact on poverty. Therefore, a clear distinction between the CMD and PRD are necessary in debates about microfinance impact, whether positive or negative.

1 INTRODUCTION

OVERVIEW

Microfinance is an umbrella term that denotes the sector, which provides financial services to the poor and low-income, and any form of financial service targeted at the financially excluded client group (Armendáriz de Aghion & Morduch, 2005). The term microfinance also refers to small-scale financial services, which includes micro-credit, micro-savings, micro-insurance, money transfers, and other financial products tailor made to suit the needs of poor and low-income individuals (Robinson, 2001, p. 9). The term is sometimes used interchangeably with micro-credit as microfinance started originally as a single service sector offering only small loans, hence the name “micro-credit.” Traditionally, the purpose of microfinance has been to help poor individuals escape from the shackles of poverty (Armendáriz & Szafarz, 2009). However, recently the focus seems to have shifted from poverty alleviation to the notion of financial inclusion, which is a broader concept of widening the financial sector as a whole in order to ensure the financial needs of poor individuals are included in the mainstream financial planning and delivery of services

(Armendáriz & Szafarz, 2009). Chapter 3, section 3.3 explores and discuss in detail the evolution of microfinance from micro-credit and the progression into the current financial inclusion discourse.

The concept of microfinance has its roots in theoretical views and paradigms of (a) who the poor are and (b) how they can be assisted out of poverty (Hulme & Arun, 2009; Lenton & Mosley, 2011).

For centuries, the dominant approach to helping the poor out of poverty involved development efforts requiring on-going funding resources provided predominantly in the form of developmental grants mainly through Government agencies prompting big questions about the long-term sustainability of this approach to poverty alleviation (Potter, et al., 2008; Desai & Potter, 2002).

However, in the 1970s a financial innovation to fight poverty through social and economic empowerment of the poor, microfinance, also known as micro-credit began its official evolution journey emerging from East Asia and Latin America (Hulme & Arun, 2009). In the late 1990s, micro-credit took a global centre stage as the most innovative and promising tool for poverty alleviation the world had ever seen (Mcguire & Conroy, 2000).

In 2005, the United Nations acknowledged the role of microfinance in the battle for poverty reduction by declaring "2005 the Year of Micro-credit". Microfinance banks began going public, raising money on stock exchange (Hermes & Lensink, 2007). In 2007, Compartamos Banco in Latin America joined other microfinance institutions such as Bank Rakyat Indonesia and Equity Bank in going public and raised $450 million for existing shareholders (Bateman, 2010). The bank was valued at $1.5 billion in 2007 at over 12 times more than the original book value.

The original investors, who provided funding of $6 million in 2000, benefited from a return rate of 100% per year compounded over seven years, leading to an astounding return of more than 100 times their initial investment. Therefore, now over four decades on, microfinance proved to be a very profitable business but no visible dent on poverty could be decisively proven, (Copestake & Williams, 2011) raising serious questions about whether the original inspiration of poverty alleviation is still the driving force for microfinance.

Just as scepticism about the promise of microfinance started growing, in 2010, 6 microfinance borrowers committed suicide in the state of Andhra Pradesh in India due to rapid growth, leading to over-indebtedness and unscrupulous practices of some microfinance providers (Results, 2011). This just highlighted how much damage microfinance activities can cause to the unsuspecting poor borrowers if focus on social performance is subordinated to financial performance.

Nevertheless, the debate about microfinance social performance remains a contested subject to this day (Mosely, 2001; Roodman & Morduch, 2009), particularly in the wake of the modern forms of microfinance, which tends to be highly market driven (Cull, et al., 2008) as opposed to original poverty oriented practice of the 1970-80s. Theoretically, the potential role of microfinance in aiding economic development through entrepreneurship, employment creation and consequently helping improve the overall wellbeing of masses of poor individuals around the world is beyond questioning (Hulme & Arun, 2009). In practice, however, microfinance has become a subject characterised by uncertainty, and ambiguity particularly on what suite of services and mode of delivery constitute microfinance and its primary focus should be (Duvendack, et al., 2011). For example, INGOs, which over the years have been involved in the microfinance sector through supporting local MFIs with funding for loan portfolio and technical assistance (Wilson, 2001), have recently largely

changed their strategy and now prefer to support communities directly through promoting Self-Help savings groups (CARE, 2011). Examples of major players in the Zimbabwean microfinance sector includes the CARE Zimbabwe's Village Savings and Loans Associations (VSLAs) and CRS's Savings and Internal Lending Communities (SILC) (CARE, 2011).

Nevertheless, although such INGOs have left a significant foot print in rural microfinance initiatives through savings and internal loans approach, the INGOs themselves are by legal definition and set up not MFIs and are legally not allowed to engage in any formal microfinance activities in Zimbabwe as defined by the regulator, Reserve Bank of Zimbabwe (RBZ) except to provide technical assistance (Wilson, 2001). This forms part of the complexity and ambiguity in specifying what constitutes microfinance activities in Zimbabwe as literature and publications includes efforts by both registered and unregistered players in the sector. Furthermore, evidence shows that some INGOs continue to promote themselves as microfinance practitioners although their activities are only limited to technical support. The next section presents the main problem statement for this study and sets the platform for the articulation of the research aim and specific objectives to be covered in section Research aim and specific objectives.

Problem statement

As suggested above, microfinance is still evolving. Its landscape is, however, already marred with serious questions about its relevance as a poverty alleviation tool and capacity to reduce poverty (Mosely, 2001, p. 102). Numerous impact evaluation studies have failed to provide conclusive positive evidence. In some cases, negative impacts on the poor were recorded (Stewart et al, 2010, p. 6), and these include over-indebtedness through multiple

borrowing and victimisation of borrowers by MFIs exercising coercive debt collection practices (Results, 2011). Historically, the promise of microfinance was tied to its potential for poverty alleviation through enterprise loans and other support services. The sector was dominated by social driven development players with the primary goal of moving millions of poor people out of poverty (Melsom, 2010).

However, the last few years has seen a significant paradigm shift from this perspective of microfinance with a new emphasis on liberating microfinance from the burden of poverty alleviation to making it an obligation free service to the lower end of the financial market rather than specifically targeting the poor (Ledgerwood, et al., 2013; Bateman, 2010).

In addition to these challenges, Microfinance Institutions (MFIs) often operate in very hush economic and political environments and in most cases without appropriate sector regulation. Under such circumstances, MFIs and their clients are forced to adopt various coping strategies to deal with those challenges. In Zimbabwe, the operating environment for MFIs suffered several drawbacks including global economic slowdown triggered by the 2007/8 global financial crisis, constraints in the domestic economy resulting from the negative effects of sanctions, adverse and unpredictable weather conditions and underlying liquidity shortages (Gono, 2013).

In 2003, the governor of the Reserve Bank of Zimbabwe identified the main challenges faced by the Zimbabwean economy. Zimbabwe was affected by frequent droughts, political turmoil, extreme economic challenges due to sanctions and questionable economic policies between 2000 and 2008 (Fowler & Panetta, 2011). The country's GDP declined by about 40 percent during the period. Hyperinflation in 2007-2008 peaked at 500 billion percent leading to the collapse of the national currency in February 2009 (Monyau & Bandara, 2014). The Zimbabwean dollar disappeared from circulation in instant literarily forcing MFIs and other

financial institutions to freeze all balances in their books which was in local currency and raise new capital in the US dollar and South African Rand (Monyau & Bandara, 2014).

This created an extraordinarily harsh operating environment for microfinance institutions, characterised by depleted loan portfolio investment, skyrocketing inflation eroding the loan book value and growing default rates

The political and economic challenges negatively affected the Zimbabwean microfinance industry, causing the sector to suffer significantly. Both the number of microfinance institutions (MFIs) operating in the country and the quality and range of services decreased. Capital, social performance, and viability concerns plagued the microfinance sector forcing the government to introduce sector specific regulation with immediate minimum capital requirement for MFIs resulting in small institutions leaving the market, increasing monopoly by large institutions.

Banks on the other hand were characterized by high lending rates that discourage borrowing by key productive sectors of the economy and high bank charges, which also discourage meaningful savings mobilisation, thereby arguably affecting negatively the country's economic growth prospects (ZimStat Quarterly Digest , 2013). However, the banking sector stability hinges on adverse liquidity conditions that are inseparably linked to external economic conditions due to the country's reliance on multiple foreign currency system (Gono, 2013).

Most importantly, the cost of capital has remained high as evidenced by high lending rates as well as high bank charges. The Reserve Bank Governor, Dr Gono argued that none of the country's economic and social challenges identified in 2003 were addressed (Gono, 2013).

Interest and exchange rate distortions, reduced corporate sector viability, declining levels of both local and foreign investment, under-utilization of the industrial production capacity, diminished export performance, the growing informal sector threatening to replace the formal sector and the reduced confidence among investors and the citizenry of the country.

Furthermore, the country suffered from weaker economic empowerment especially of the poor and marginalized, high poverty levels, contradictions between official policies and actions on the ground, the HIV/Aids pandemic, high-perceived country risk and reduced international creditworthiness. In addition, strained relations with some countries and international donor community and brain drain and disintegration of social structures and norms of existence due to various pressures posed a significant threat to the Zimbabwean economy.

It is therefore important to investigate the impact of these challenges on the microfinance sector in Zimbabwe over the years, impact on social performance and establish what coping strategies both MFIs and their target clientele adapt because of these extreme operating environments.

Research aim and specific objectives

The study aims to establish the impact of prolonged political and economic crisis environment on the microfinance sector in Zimbabwe.

Specific research objectives are:

1. To explore and establish the current state of the microfinance sector in Zimbabwe
2. To establish how the economic and political crisis of 2000 to 2008 affected the microfinance sector's social performance.

3. To establish the coping strategies adapted by the MFIs and their target clientele during and after the economic crisis in Zimbabwe.

Research questions

In order to achieve the research aim and objectives, the study seeks to explore key research questions outlined below:

1. What is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?
2. To what extent did, the economic and political challenges impacted on microfinance social performance in Zimbabwe?
3. What strategies do MFIs and their target clientele employ in order to cope with the crisis situations of both pre and post 2009 microfinance revamp?

The next section discuss the thesis context as it relates to microfinance social performance, microfinance best practice principles and the significance of this study not only in the Zimbabwean context but also in the global microfinance sector.

Thesis context

This section presents the contextual background on microfinance social performance and overall study significance. Establishing the state of the microfinance sector and MFI social performance in Zimbabwe requires an understanding of the standard 'best practice models' and social performance discourse in the global microfinance. According to Cornford, (2001), microfinance 'models' refer to the products and services provided as well as the method in which they are provided.

Some of the most well-known microfinance models include the Grameen Bank solidarity group, the Latin American solidarity group, the rural financial systems approach as epitomised by Bank Rakyat Indonesia's (BRI) *unit desa* system, community-owned village banks, savings and loans associations, credit unions, and self-help groups (Bhatt & Tang, 2001; Robinson, 2001).

Reviewed literature suggests that there is a lack of consensus among the academics and practitioners as to what suite of services and products microfinance service providers should provide as a minimum and for what desired purposes (Cull, et al., 2008). This is mainly because two distinctive views about the role of microfinance both as a sector and as services emerged recently with one view taking the position that microfinance must continue to embrace its original role of poverty alleviation through providing both financial and non-financial services to the poor (Bédécarrats, et al., 2011; Cull, et al., 2009). The other view takes the position that microfinance should be freed from the burden of poverty alleviation and provide only financial services based on market systems (Cull, et al., 2008). Therefore, these models depend very much, on what microfinance providers believe to be the role of microfinance causing the social performance best practice discourse to be a rather contentious subject. The thesis explores various forms of microfinance approaches and delivery models and discusses the possible impact of these different approaches on social performance. The concept of social performance is linked to the best practice discourse in microfinance and this is briefly introduced in section Social performance and microfinance best practice principles below and is revisited in more depth in the literature review chapter 2 in section Review of what constitutes Microfinance for poverty alleviation? and in the results, in chapter 9 of the thesis.

Social performance and microfinance best practice principles

Social performance in microfinance is largely considered part of best practice and just as important as financial performance to ensure focus on client benefits is promoted and maintained. However, Zeller, (2003) argues that the attempt to establish best practice in microfinance for poverty alleviation was based on practices only relevant and applicable in rural areas and therefore fails to acknowledge the full context of contemporary poverty, which often now has an urban face as well (Zeller, 2003).

The End Poverty Foundation argued that though select microfinance institutions (MFIs) following international best practice have been able to demonstrate the potential for sustainability and scalability (End Poverty Foundation , 2002), the vast majority of MFIs still have a long way to go in reaching levels of efficiency and size that will produce a significant dent in global poverty.

Regulation of microfinance activities also plays an important role in creating an enabling environment for social performance. Mwenda & Muuka, (2004) gave a broad survey of literature on the regulation and supervision of MFIs and concluded that, there is not only a dearth of literature, but also there are no well-established and developed international standards and principles of best practice regulation for poverty alleviation. However, the few available references to microfinance ‘best practice models’ such as the work of Simanowitz & Walter, (2002) argue that the microfinance industry has established clear best practice models for measuring and reporting financial performance, but has not established comparable standards for social performance in poverty outreach and impact.

Microfinance social performance also seeks to address gender inequality in economic development.

As such, Mayoux (2006) brings in a gender dimension to the social performance and 'best practice' discourse by contending that there is need for a serious rethink of many currently accepted 'tenants of best practice' in the light of existing evidence of gender inequalities. There is evidence of significant potential for microfinance to enable women to challenge and change gender inequalities at all levels if the industry adopts a strategic gender focus (Mayoux, 2006). Arguably, 'best practices' have also been developed for services focusing on poverty alleviation, but admittedly to a lesser extent than for financial sustainability.

In many of the debates on microfinance and microenterprise development, there is a tendency to label the poor as a homogenous group and to strive to develop one set of "best practices" to address the needs of what is actually a diverse population with a wide spectrum of needs (Bhatt & Tang, 2001). In addition to the diversity of service needs among the poor, the microfinance providers themselves are equally as diverse as discussed earlier with two diverging motivations (profit making and poverty reduction).

In order to design and deliver poverty-focused microfinance, Simanowitz & Walter, (2002) state that programs need to be designed to include the poorest, and to facilitate mechanisms that will lead to poverty impacts. Through increasing their understanding of poverty, MFIs can take simple steps to improve their outreach and their effectiveness for the poorest. Social performance in microfinance ensures financial and non-financial services are designed to help the poor particularly women achieve economic sustainability, develop self-confidence and self-esteem, practise group and leadership skills, and access the resources and services they need to become more effective individuals, family members, income earners and community members (Giordano Dell'Amore Foundation, 2009). Section Why investigate microfinance social performance and coping strategies below explores briefly, why it is important to investigate microfinance social performance and coping strategies.

Why investigate microfinance social performance and coping strategies

It is important to investigate microfinance social performance and coping strategies for several reasons. Microfinance as an innovation was inspired by the desire to transform the un-bankable into the bankable through a range of financial and non-financial services to poor individuals. The microfinance sector's ability to achieve this is measured and monitored through social performance indicators.
It is therefore very important to understand how different contexts such as economic crisis situations affects the social performances and what coping strategies the industry and individuals can adopt in order to protect their lives and investments. Furthermore, the reviewed literature suggests very limited coverage of the subject of social performance and coping strategies in microfinance social performance and “best practice” research as noted by several authors.

For example, Murduch (2000) contends that previous microfinance ‘best practice’ studies have centred on important but general aspects of institutional performance, such as maintaining financial transparency, standardizing products, and achieving scale. Hence, the need for more research in microfinance social performance and coping strategies. The above argument is supported by (Simanowitz & Walter, 2002) who also argue that the original microfinance premise was based on a compromise between social and financial objectives. However, to date most emphasis has been on financial and institutional performance, while the social and environmental dimensions are increasingly disappearing.

In agreement with Murduch’s observations on mainstream best practice’s focus on institutions, Walia & Monika, (2012) state that the significance of bringing the focus back to

‘people’ from ‘institutions’ and the adoption of a localized people centric approach can hardly be overemphasized.

Research on microfinance social performance and coping strategies will help the sector to understand the impact of prolonged political and economic crisis situations on the microfinance sector. It also helps to highlight and avoid some bad practices in the sector such as the case of Andhra Pradesh, India, where brisk commercialisation of microloans by profit seeking private investors led to abusive practices (Results, 2011). Initially, most microloans in India came from non-profits exclusively intended to helping the poor. However, with an unprecedented growth in microfinance provision at a rate of 200 percent per year, several for-profit institutions soon got into the business (Lützenkirchen & Weistroffer, 2012). This included some unscrupulous MFIs who lent more than what clients could afford to repay and used strident practices to collect loan repayments (Results, 2011). The Government instituted a crackdown on the sector, which in turn led to a severely regulated micro lending environment in India as a whole. Sriram & Upadhyayula, (2004) refer to such bad microfinance experiences as those of the Andhra Pradesh case, an indication of what would happen when the social performance and client’s well-being considerations are left out of the ‘best practice’ discourse. However, maintaining focus on social performance when the operating environment is fragile and hostile economically may be difficult for the microfinance sector.

Such was the crisis environment in Zimbabwe between 2000 and 2008 hence the need to investigate social performance and coping strategies in the microfinance sector during this

period and beyond. Section The significance of Zimbabwe as the research location below discusses the significance of Zimbabwe as a research location for this study.

THE SIGNIFICANCE OF ZIMBABWE AS THE RESEARCH LOCATION

The significance of Zimbabwe as a research location is based on two main reasons; (1) the country's crisis socio-economic position at the time of the study design and (2) the researcher's own extensive knowledge and familiarity of the local context and languages to aid the primary data collection part of the study. Zimbabwe's formal economy and formal labour market had shrunk by over 70% in 2007 due to extremely harsh political and economic environment (Monyau & Bandara, 2014; ZimStat Quarterly Digest , 2013).

Chapter 4 provides a more detailed discussion on the socio-economic and political background of Zimbabwe. The majority of the Zimbabwean population had their livelihoods in the informal sector with unmet demand for microfinance estimated to be nearly 1 million in borrower numbers (Klinkhamer, 2009).

The microfinance sector and the rest of the economy was recovering from the 2007 economic meltdown which wiped out any conceivable economic prospects under the local Zimbabwean currency forcing the Government to later take drastic measures of adopting wide usage of foreign currencies in February 2009 in order to save the economy from total collapse (Monyau & Bandara, 2014).

A combination of high unmet demand for microfinance services due to prolonged economic crisis (Gono, 2009) and limited capacity for development NGOs created a massive opportunity for private investors to enter the microfinance sector leading to increased

commercialisation of the sector threatening the quality of social performance (Mzumara, 2012; Zacharias, 2008). Furthermore, Zimbabwe is the researcher's home country. It therefore made perfect sense to take advantage of that to eliminate the usual logistical challenges of local knowledge familiarity and language barriers associated with studies of this magnitude. In addition, the researcher has extensive direct practical knowledge of micro-credit practice in the Zimbabwean context. An overview of the methodological approach is briefly explained in section An overview of methodology and a more detailed analysis of the overall methodology is explored in chapter RESEARCH METHODOLOGY.

An overview of methodology

The study employed a combination of quantitative and qualitative methods to collect and analyse the data. In order to address the first research objective of exploring and establishing the current state of the microfinance sector in Zimbabwe, qualitative approach was utilised. Specific methods included Key Informant Interviews with the 3 representatives from the sector regulator, 7 representatives of MFI senior leadership, 1 representative of the APEX body and extensive document review of both local grey literature and published sources. The collected data was manually sorted and analysed taking note of key themes emerging. To address the second research objective of establishing how the economic and political crisis of 2000 to 2008 affected the microfinance sector's social performance, the study employed both the qualitative and quantitative methods.

Firstly, the study employed a robust excel based quantitative data collection tool for MFI social performance called CERISE SPI tool (CERISE, 2013) to gather data from 3 types of MFIs (Developmental, Private and Bank related). The comprehensive evidence of MFI operations and their social performance statistics was analysed using the tool's inbuilt

analysis capability to provide social performance scores based on standard indicators for the sector. A copy of the tool is accessible from the CERISE website (http://www.cerise-microfinance.org/-impact-and-social-perfomance-).

Secondly, a survey questionnaire randomly administered to 60 microfinance clients and potential clients collected both qualitative and quantitative data concurrently using both closed and open-ended questions. The quantitative responses were extracted and entered into the SPSS software version 22 for statistical analysis to provide a descriptive and cross-tabulation statistical analysis. The qualitative responses were analysed using the Nvivo 10 software for qualitative analysis to provide a deep insight and context to the employed coping strategies triangulate, augment and validate the quantitative analysis results.

Data from both the first and second approach presented above provided sufficient evidence to address the third study objective of establishing the coping strategies adopted by microfinance stakeholders in Zimbabwe particularly the regulator RBZ, MFIs, donors and target clientele. The thesis presentation and structure is outlined in section Thesis structure below providing a quick tour of the thesis map.

THESIS STRUCTURE

The thesis is organised into 10 chapters comprising introduction chapter 1; literature analysis chapter 2; contextual background on the global microfinance chapter 3; background on the reaserch location “Zimbabwe” chapter 4; methodology chapter 5; study results and interpretation split into 4 separate chapters (results on microfinance state

chapter 6; results from MFI SPI case analysis chapter 7; quantitative result from MFI client survey chapter 8; and qualitative results on MFI client survey chapter 9) and finally the conclusion chapter 10. A full bibliography and appendix list is provided at the end (Error: Reference source not found). Chapter 1 provides the thesis introduction and is subdivided into five sections (-5).

The first section, (section) presents the study overview starting with a brief introduction and evolutionary history of microfinance and then moving on to outlining the problems which prompted this study under the problem statement sub-section Problem statement. This is followed by an outline of the research aim and specific objectives to be achieved by the study. It ends with a highlight of the main research questions which guided the study. The second section (section Thesis context) briefly discusess the research contextual background in relation to best practice, social perfomance and coping strategies in microfinance with the full background on microfinance and the research location Zimbabwe covered later on in the thesis in chapters BACKGROUND ON GLOBAL MICROFINANCE and BACKGROUND ON ZIMBABWE respectively.

The two subsections (Social performance and microfinance best practice principles and Why investigate microfinance social performance and coping strategies) locates the contextual definition of best practice and social perfomamnce microfinance for the purpose of this study and further explores the significance and rationale for studying microfinance social perfomance and coping strategies.

The third section of Chapter 1 (section The significance of Zimbabwe as the research location) presents the uniqueness of Zimbabwe as an ideal research location for this study while the fourth section, (section An overview of methodology) presents briefly all the methodological considerations suitable for this type of study leaving a more detail discussion on

methodology to chapter RESEARCH METHODOLOGY which is dedicated for the exploration of the research methodology. It also presents the specific methods addopted and justification for each approach. Chapter 1 ends with the fifth section, (section Thesis structure) which is a presentation of the whole thesis structure with an overview of the research design process and how the thesis is organised on Error: Reference source not found below.

Chapter 2 is an exploration of relevant literature on microfinance, social perfomance, poverty alleviation and best practice and is devided into 8 sections. The chapter begins with an overview covering the chapter introduction and outlining its main purpose in section Overview before moving on to present a review of connections between microfinance, poverty and poverty alleviation theories as well as concepts of poverty reduction applicable to microfinance in section Reviewing connections between microfinance and poverty alleviation. Section Review of background of microfinance and poverty alleviation aspirations explores the background of microfinance and poverty alleviation aspirations covering the motivations for main players in microfinance in sub-section Motivations for main players in microfinance, the regulation of microfinance for poverty alleviation in sub-section Regulation in Microfinance for poverty alleviation and an analysis of concepts of measuring poverty reduction which are applicable to microfinance. These sections provides useful insight into the relationship between microfinance and poverty alleviation theories and concepts from published literature. This also sets the stage for a better understanding of what constitutes microfinance for poverty alleviation which is covered in section Review of what constitutes Microfinance for poverty alleviation?. The section discusses the notion of microfinance's original purpose being to alleviate poverty in sub-section Microfinance services for reducing poverty. Section Measuring poverty reduction and microfinance social performance explores the concept of microfinance social perfomance covering the main perfomamnce indicators in sub-section Product development, innovation and services (SPI), Pricing and product costing (SPI) and Client targeting and outreach (SPI) before discussing sustainability and impact assessments in microfinance in sub-section Sustainability in microfinance discourse and section Review of impact assessments in microfinance respectively. The chapter ends with a review of the existing microfinance models in section Review of existing microfinance models covering a discussion on the poverty reduction driven (PRD) microfinance model in sub-section Poverty reduction driven (PRD) microfinance approach and the capital market driven

(CMD) microfinance model section Capital market driven (CMD) microfinance approach before summarising the whole chapter in section Summary.

Chapter 3 provides some contextual background information on Global Microfinance and is divided into five sections including the chapter summary. Section Overview begins with an overview of the global microfinance sector. Section Theoretical underpinnings of different microfinance approaches provide theoretical underpinnings of 3 different microfinance approaches and is divided into three sub-sections.

Sub-section Feminisation of microfinance provides the microfinance context from a feminisation pespective, sub-section Microfinance profitability and the mission-drift debate provides context from the profitability and the mission drift debate pespective and lastly, sub-section Microfinance identity crisis explores the dilemmas of microfinance identity caused by the mix between the commercialisation drive and the legacy of original poverty alleviation focus. Section The history of microfinance development, provides the historical context of microfinance ideological development and an overview of the evolution of ideas from micro-credit to microfinance and finally to financial inclusion. Section Microfinance paradigm shift looks at the contextual background of the paradigm shift in microfinance focus and is sub-divided into two sub-sections. Sub-section From poverty alleviation to building inclusive financial markets explores the paradigm shift from the explicit strategic goal of poverty alleviation to that of building inclusive financial markets and sub-section From grant funding to private investments looks at changing funding environment from grants and donor funding to private investments and commercial funding sources. Section Summary is a summary of the contextual background on global microfinance.

Chapter 4 provides a detailed and comprehensive contextual background to Zimbabwe covering a general country description, a historical overview of the colonial and pre-colonial eras, the poverty situation, social capital, an over view of the financial sector and the evolution of microfinance in the country. The chapter begins with section 4.1 which gives a

brief overview and general description of the country in section Country description and general overview. Section 4.3 explores the pre-colonial and colonial eras and their impact on modern day Zimbabwe. This section is sub-divided into five sub-sections, with sub- section 4.3.1 exploring Zimbabwe's pre-colonial era; sub-section 4.3.2 discussing the colonial era and how it has shaped the present day Zimbabwe. Sub-section 4.3.3 delves into ethnic and tribal divisions, particularly, the tensions that exist between Ndebele and Shona people.

Sub-section 4.3.4 explores how the racial identities have generally been used as criterion for land distribution and the implications of this for the current political and social landscape of Zimbabwe are covered in sub-section 4.3.5.

Poverty in Zimbabwe and social capital as a coping mechanism for most Zimbabweans is covered in sections 4.4 and 4.5 respectively. Section 4.6 explores in detail Zimbabwe's economic development and it is sub-divided into three sub-sections. Sub-section 4.6.1 analyses the economic challenges, 4.6.2 discusses the Informal sector in Zimbabwe and lastly, 4.6.3 explores the Income Generating Activities (IGAs) in Zimbabwe which form the backbone of the informal sector. Zimbabwe's financial sector is covered in section 4.7, which is also sub-divided into four sections with 4.7.1 delving into the formal financial sector in Zimbabwe; sub-section 4.7.2 discussing the banking sector; 4.7.3 covering the non-banking but formal financial sector and lastly, the informal financial markets in Zimbabwe covered in sub-section 4.7.4.

Section 4.8 presents the history and development of Microfinance in Zimbabwe covered in 6 sub-sections. Sub-section 4.8.1 explores the evolution of microfinance in Zimbabwe; sub-section 4.8.2 discusses the beginning and evolution of friendly societies in pre-colonial and colonial era while sub-sections (4.8.3; 4.8.4; 4.8.4; 4.8.5 and 4.8.6) explores Self-Help movement: evolution of savings clubs in the colonial era, expansion of Self-Help Microfinance services in Zimbabwe, challenges by communal famers to access

agricultural credit and the transforming of savings organisations into credit organisations respectively.

Section 4.9 explores the key role played by INGOs in early microfinance development in Zimbabwe with examples of CARE Zimbabwe covered in sub-section 4.9.1 and Catholic Relief Services (CRS) in sub-section.

Section 4.10 presents examples of Key Local NGOs innvolved in the early Microfinance development in Zimbabwe covering the brief profile for the Zimbabwe Ecumenical Church Loan Fund (ZECLOF) MFI in sub-section 4.10.1 and Zambuko Trust MFI in sub-section 4.10.2. Section 4.11 discusses the 2000-2008 economic crisis and the subsequent 2009 microfinance sector catastrophic revamp in 2 sub-sections. Sub-section 4.11.1 presents the post 2009 microfinance sector in Zimbabwe as characterised by what the thesis consider to be the new breed MFIs and sub-section 4.11.2 covers an overview of current post 2009 microfinance coverage in terms of MFI distribution across the country. Section 4.12 presents a summary of the chapter.

Chapter 5 is an in-depth discussion of the research methodology and key methods employed in the study. The chapter has five main sections; overview, main research approaches, data collection methods, data analysis and ethical considerations. The first section, 5.1 provides an overview of the chapter and research methodologies and contains four sub-sections covering; the thesis theoretical argument and generation of a hypothesis in sub-section 5.1.1; analysis of relevant research methodologies in sub-section 5.1.2; the rationale for using mixed methods approach in sub-section 5.1.3 and an exploration of research population and sample size sub-section 5.1.4.

Section 5.2 discusses the main research epistimological approaches adopted. The section is sub-divided into two sub-sections. Sub-section 5.2.1 examines the macro and meso levels of exploratory situational analysis while 5.2.2 looks at exploratory concurrent

triangulation mixed methods design. Data collection methods are covered in section 5.3 with the different assessment tools explored in more detail in the sub-sections that follow.

Sub-section 5.3.1 describes the CERISE SPI quantitative assessment tool (CERISE, 2013), sub-section 5.3.2 covers the quantitative questionnaire survey tool and sub-section 5.3.3 explains how the qualitative questionnaire tool is utilised. Section 5.4 explores in detail the data analysis methods that were used for each data collection method. Sub section 5.4.1 looks at the quantitative data analysis using SPSS version 21 and CERISE SPI tool (CERISE, 2013), while 5.4.2 explores the qualitative data analysis using Nvivo 10. Ethical considerations are explained in section 5.5.

Chapter 6 covers the study findings from an exploration of the microfinance sector in Zimbabwe. The chapter is sub-divided into six sections with section 6.1 covering the chapter overview. Section 6.2 presents the scope and scale of coverage of microfinance services, sub-divided into two sub-sections; 6.2.1 microfinance providers and their services and 6.2.2 state of microfinance regulation in Zimbabwe.

Section 6.3 covers key challenges the Zimbabwe microfinance sector faced during the regulation development. It is sub-divided into three sub-sections. Sub-section 6.3.1 lack ofrelevant sector specific skills, experience, and competence, 6.3.2 inadequate ICTinfrastructure and weak record management and 6.3.3 challenges of information asymmetry now also affecting MFIs.

Section 6.4 presents the New microfinance legislation: Microfinance Act Chapter 24.29 and how this was developed. The section is split into two sub-sections; 6.4.1 the developmet of microfinance policy and 6.4.2 how the Act promotes microfinance intergration into the overal financial system in Zimbabwe.

Section 6.5 presents an overview of the New microfinance regulatory environment in Zimbabwe

6.5.1 regulation of mobile money services, 6.5.2 implications of the new microfinance regulation in general, 6.5.3 implication on national social perfomancegoals and 6.5.4 implications on financial inclusion goals while section 6 summaries the chapter.

Chapter 7 presents findings and discussion on the MFI case study looking at social perfomance based on the CERISE SPI audit tool. The chapter is divided into five sections; section 7.1 targeting the poor and financially excluded, 7.2 service adaptation to suit poor clientele needs, 7.3 economic and social benefits to clients and 7.4 social responsibility with a chapter summary in section 7.5.

Chapter 8 results from quantitative client survey analysis and discussions based on SPSS descriptive and cross tabulation analysis results. The chapter is sub-divided into eight sub-sections; 8.1 presents the results overview, 8.2 presents the nature of MFI clients in Zimbabwe and their various sources of income, 8.3 covers the typical MFI loan services and interest charges, 8.4 presents different levels of financial vulnerability among the poor and sample study respondents, 8.5 presents the surveyed sample's perceived financial discipline based on how they would respond to windfall, 8.6 presents the findings which suggests that MFI loans in Zimbabwe are not targeted at the low income clients or the poor, 8.7 covers how MFI clients and potential clients in the survey sample saved their money while 8.8 provides the chapter summary.

Chapter 9 presents study results from MFI qualitativesurvey based on Nvivo 10 qualitative data analysis tool and is sub-divided into eleven sections.

These cover; 9.1 chapter introduction and overview, 9.2 impact of MFI loans on borrowers (self-reporting) from the survey, 9.3 how the poor in Zimbabwe save money for emergencies, 9.4 most popular method of savings for the poor in Zimbabwe, 9.5 evidence of what enables the poor to save money and reasons why some find it difficult to save

money, 9.6 technological innovation and mobile money services, 9.7 the relevance of MFI services in improving the standard of living for the poor, 9.8 how MFI services are adaptated to suit client needs, 9.9 microfinance social and economic benefits from client perspective, 9.10 social capital analysis based on qantitative and qualitative study results and 9.11 chapter summary.

Chapter 10 concludes the thesis presentation and is sub-divided into six sections; section 10.1 is a re-cap of the study aims and objectives and overall summary of study achievements against the declared study aims. Section 10.2 covers the research findings on microfinance sector in Zimbabwe, section 10.3 summarizes results on social performance and coping strategies, section 10.4 presents a summary of key study findings, 10.5 presents study contribution to the body of knowledge while section 10.6 presents key recommendations for further study. This is followed by a list of references and the appendix section.

Summary

In summary, the study explores the microfinance crisis environments, poverty coping strategies and social performance issues. The recent economic and social crisis in Zimbabwe makes the country a perfect location for the study to address the main aim and objectives.

A broad and comprehensive review of literature on microfinance covering, contextual and historical backgroung, 'best practice' and social perfomance provides the necessary insight and understanding of the available body of knowledge on the research subject. Therefore, chapter LITERATURE REVIEW below will focus on critical review of relevant literature in microfinance, poverty and strategies for poverty alleviation associated with microfinance social perfomance debates. This will set the scene for more detailed discussion on global microfinance in chapter BACKGROUND ON GLOBAL MICROFINANCE and on microfinace

in Zimbabwe particularly in chapter 4 section History and development of Microfinance in Zimbabwe.

2 LITERATURE REVIEW

Overview

A review of microfinance literature shows a growing academic interest in knowledge development within the microfinance sector although the scope is arguably still very limited particularly on the subject of best practice, social performance and coping strategies in crisis environments. A significant proportion of published literature on microfinance tends to

focus on evidencing impact of microfinance on the poor, either negative or positive (Duvendack, et al., 2011). However, to the best of my knowledge, no specific work adequately addressed the question of best practice in microfinance as it relates to social performance. Also to my best knowledge, the subject of how microfinance stakeholders cope with prolonged crisis environments has not been explored through academic research.

Social performance in microfinance best practice context as a theme seems very rare. The concept is partially covered in few publications on double and triple bottom line discourse (Sivalingam, et al., 2012; Tulchin, 2003; Tulchin, 2003). The double bottom line approach focuses on the economic and social impact of microfinance activities on the poor while the triple bottom line approach goes a step further to also consider the environmental impact (Tulchin, 2003). This chapter critically analyses and explore the current arguments and debates on microfinance best practice in general and social performance as well as commenting on differences in approach and focus between commercial and developmental microfinance provision.

Understanding the connections between microfinance and the challenges of poverty alleviation helps highlight the underpinning assumptions behind the social performance discourse in microfinance. Section Reviewing connections between microfinance and poverty alleviation below begins by introducing the concepts of poverty and its measurements before moving on to draw connections with microfinance.

Reviewing connections between microfinance and poverty alleviation

This section explores the concepts and established indicators for measuring poverty, what determines poverty reduction, and whether the specific contribution of microfinance to poverty reduction in a given population can be measured. Measuring poverty reduction on a specific population after a certain period of targeted intervention is far from simple. The

discourse on what constitutes poverty has been going on for decades and definition varies from one region to another and so does the context and thresholds (Desai & Potter, 2002).

Concepts of poverty reduction applicable to microfinance

Due to the multidimensional nature of poverty, the concepts that seek to explain and measure it are varied. Poverty is conceived as either absolute (lack of income to provide necessities) or relative (failure to attain capabilities necessary for sustaining a good life) (Adato, et al., 2006; Sen, 1984). Individuals in absolute poverty live below minimum, socially acceptable living conditions based on established minimum nutritional requirements and other essential goods (Burra, et al., 2005). Relative poverty compares the lowest segments of a population with upper segments measured in income quintiles. Development discourse associates poverty with concepts of inequality, vulnerabilities, and various forms of exclusion (social, financial and recently digital) (Ehrenpreis, 2006; Sen, 1984).

As microfinance is just one of several tools for addressing some of the dimensions of poverty, not all concepts used to define poverty are relevant to how the impact of microfinance on poverty can be measured.

Nevertheless, a contextual exploration of other concepts of measuring poverty is useful in establishing the relevant indicators. Indicators for measuring poverty are underpinned by the specific concepts adopted in defining poverty (Ehrenpreis, 2006). Poverty is also understood in terms of its perceived causes, such as physiological and sociological (Sen, 1984). The former view asserts that people are poor because they lack income, food, clothing, and shelter and underpins both the income and basic needs concepts of poverty (Abbott, 1993; Ehrenpreis, 2006).

Strategies to reduce this type of poverty focus on increasing the income/consumption of the poor through employment creation or entrepreneurism and enabling them to satisfy their basic needs, such as health and education through targeted services. The ideas of poverty

being caused by sociological deprivations are rooted in underlying structural inequities and inherent disadvantages such as cultural, gender or class disparities (Ehrenpreis, 2006; Abbott, 1993). They are rooted in the observations that even when resources are flowing into sectors dominated by the poor, structural impediments may still prevent the poor from taking full advantage. These ideas come from the view that availability does not necessarily imply access as various constraints hamper ability of the poor to access available services (Ehrenpreis, 2006).

However, the human capability analysis of poverty focuses on expanding people's opportunities based on the assertion that poverty is not merely in the impoverished state in which the person actually lives (Abbott, 1993).

The view takes the position that the lack of real opportunity due to social constraints as well as personal circumstances lead to lack of valuable and a valued life, which is critical to microfinance (Ehrenpreis, 2006). In practice, this translates into an emphasis on empowering the poor, facilitating their participation in society, and enabling them to move upward on the socioeconomic ladder as evident in most NGO based microfinance initiatives (Fowler & Panetta, 2011). These are central to the human capability approach to poverty reduction.

Although microfinance as a tool for poverty alleviation cannot be applied to every poverty dimension, it is applicable in addressing the income and basic needs, human capabilities and some aspects of vulnerability.

Microfinance for Poverty Alleviation Institutions (MF-PAIs) can help reduce poverty in one or more of the following ways:

1) **Improve household income and help meet basic needs of a poor client through the provision of productive loan services-**

By providing credit, the MFI enables the poor individual to engage in productive activities

and fight their way out of poverty. This opens up an opportunity for raising income but for the majority of poor people, credit only is like a drop in the ocean. Without additional support, many engage in unprofitable or risky ventures where they lose all the initial capital in some cases.

2) **Reduce vulnerability through the provision of consumer loans to smoothing short-term consumption needs and financial shocks.**

MF-PAI can help poor individuals with a regular income avoid devastating financial crisis by providing emergence consumer loans.

Most poor people have no savings and therefore are vulnerable to financial shocks which in most cases will require a long time to recover from. However, traditionally, developmental MFIs such as the MF-PAI offered only production loans resulting in some clients who desperately needed consumer loans to cover such essential expenditure such as school fees for children, diverting loans for that purpose instead.

3) **Reduce vulnerability through the provision of micro-insurance services**

MF-PA can, in addition to loan services provide affordable insurance for their clients to reduce their vulnerability to financial shocks. Research shows that although several MFIs offer insurance services to their clients, the majority provide the service as security measure against default not as a tool to help the individual's vulnerability

4) **Provide services that build human capabilities as part of the loan services to empower the poor economically and socially so they can be effective not only in utilising the loans but also in their lives in general.**

Skills training and development among the MFI clients has a positive correlation to quality portfolio and good repayment rates. Where loans are provided without relevant client training and other support services, it is either the target group in the non-poor or debt problems and high default rates usually emerge followed by bad debt recovery practices in

most cases.

In practice, evidence suggests that the first option presented above is the most preferred to poverty reduction model through microfinance, which only seeks to address one poverty dimension (Income poverty). This minimalist approach to microfinance where interventions are limited to addressing household income needs is unfortunately a dominant model among most MFIs around the world.

This is usually followed by impact assessments that are traditionally carried out based on baseline and end-line household surveys on both treatment/client group and a comparison group composed of individuals of similar characteristics. However, this often does not take into account a myriad of other variables individuals will be exposed to which could as well explain the differences between the two periods.

Therefore, microfinance for poverty alleviation should seek to address at least three poverty dimensions of (i) income/basic consumption, (ii) vulnerability and (iii) human capabilities of every individual client they meet. However, even when the MF-PAI tick all the three boxes as discussed above, they can only make a contribution to each dimension as one of several factors influencing that individual's life at that given point. Key indicators therefore should enable us to estimate potential contribution based on both the "means" and "ends" or "inputs" and "goals" (Ehrenpreis, 2006). As evident in the above discussion, there strong conceptual connections between microfinance and poverty alleviation school of thought. Sections Review of background of microfinance and poverty alleviation aspirations below explores these connections further into the historical background of microfinance evolution as it relates to poverty alleviation aspirations.

Review of background of microfinance and poverty alleviation aspirations

The concept of microfinance has its roots in theoretical views and paradigms on who the poor are and how to assist them out of poverty. Therefore, contextual appreciation of the

meaning of poverty helps clarify the philosophy behind the principles, which underpinned the early development of microfinance activities. The World Bank described poverty as pronounced deprivation in well-being (IEG (Independent Evaluation Group), 2011).

However, Sen, (1984) defined poverty as deficiency due to a lack of resources, both material and non-material, e.g. income, housing, health, education, knowledge, and culture. Hayne, (2008) added that poverty requires a threshold to measure it. Quite often poverty leads to social exclusion, which according to Kakkadan & Sameeksha, (2006), refers to the inability to participate in society due to lack of resources that are normally available to the general population. Therefore, the process of lifting the poor out of conditions of poverty involves transforming the economic capacity of those poor individuals. Thus, as Hulme & Mosley, (1997) put it, the principle of microfinance focuses on equipping the poor people to take an active role economically in their lives through financial and technical support that encourage enterprise development.

Microfinance started as a single service sector offering micro-credit exclusively and therefore was originally known simply as micro-credit. Micro-credit is thus the most popular microfinance service for the poor and low-income people and term is still used interchangeably with microfinance to denote financial service sector for the poor in low income communities.

A more detailed discussion on the definition and origins of microfinance, its transition from micro-credit and transformation into inclusive finance is presented in chapter 3, sub-section 3.3.1. The term itself, “microfinance” in its modern usage has the roots in the 1970s owing to successful pilot micro credit lending programs in Asia credited Mohamad Yunus of Bangladesh (Lenton & Mosley, 2011; Bateman, 2010). Literature evidence shows that, although the modern microfinance lending activities of the 1970s were credited to the Grameen Bank of Bangladesh, this type of credit activity existed for hundreds of years in Africa, Asia and other parts of the world (Srnec & Svobodová, 2009, p. 467).

In Ghana, for example, the original Yoruba term, "susu," for micro-credit is still in use today though it back dates centuries of years. In India, the Chit fund was effectively a micro-credit operation practiced for centuries too while credit unions started in Europe as early as the18th century (Srnec & Svobodová, 2009).

There are several notable pioneers of successful microfinance schemes in existence today across the world. Microfinance became prominent on the world stage after its perceived ability to reduce poverty while paying for itself captured the world's imagination in the 21st century. By this time, microfinance was seen as the leading innovative tool to alleviate poverty. Nevertheless, the extent to which microfinance really helps to reduce poverty remains a highly contested subject to this day (Mosely, 2001), particularly in the wake of the modern forms of microfinance, which tends to be highly market driven as opposed to the original poverty oriented practice of the 1970-80s. Theoretically, the potential role of microfinance in aiding economic development through entrepreneurship and employment creation and consequently help improve the overall wellbeing of masses of poor individuals around the world is beyond questioning (Hulme & Arun, 2009). In practice, however, microfinance has become a financial sector characterised by, uncertainty and ambiguity as to whether its primary focus should be poverty alleviation, program profitability or both (Duvendack, et al., 2011).

The fight to reduce global poverty dates back many centuries and many development strategies were tried over the years but none caught the world's attention more than microfinance, originally known as micro-credit (Mcguire & Conroy, 2000, p. 90).

Nevertheless, although microfinance is still evolving, its landscape is already marred with serious questions about its relevance as a poverty alleviation tool and capacity to reduce poverty (Mosely, 2001, p. 102). Numerous impact evaluation studies failed to provide

conclusive positive evidence and in some cases negative impact on the poor were recorded (Stewart et al, 2010, p. 6). Literature suggests that microfinance provisions is through various players ranging from NGOs, private individuals and companies and banks themselves in some cases and these may have mixed motivations for entering into microfinance sector as explored in section Motivations for main players in microfinance below which may explain the challenge of establishing conclusive evidence of impact.

Motivations for main players in microfinance

The underpinning philosophical approaches, operating models and motivations for engaging in microfinance activities vary significantly among practitioners (Hulme & Arun, 2009). Arguably, contemporary microfinance practice can be anything from a purely commercial micro bank operating strictly on conventional banking principles driven by profits, to a small community based organisation driven purely by social motives and managed by non-bankers, and everything in between (Brau & Woller, 2004).

Microfinance has indeed attracted the interests of various stakeholders in the last four decades, from multinational bodies such as the United Nation and the European Union, Governments and the voluntary sector, to the private sector (Imran, et al., 2002). These all tend to have competing interests in the sector though. For example, recent evidence has shown increased Government interest in microfinance either through regulation of the sector or a direct involvement through various funding schemes to promote innovation, entrepreneurship development and employment creation (Mirko, et al., 2012).

Often Governments are least concerned about social impacts of practice and more interested in increased economic activity as evidenced by reluctance to regulate microfinance social performance (Mirko, et al., 2012).

On the other hand, the private sector involvement in microfinance exploded from the 1990s with an increasingly growing number of microfinance operations financed through private

equity (Robinson, 2001). Critics argue that the private sector's primary preoccupation and motivation lies in the ability of microfinance to generate profits and there is currently no evidence to suggest that poverty alleviation is a priority for private investors in microfinance (Brau & Woller, 2004). Some private investors, however has shown appreciation for the need to support efforts for increased MFI social performance but it remains unclear whether a significant proportion of the private sector players are genuinely committed to the double bottom line agenda of both economic and social performance (Gueyié & Fischer, 2009).

On the other hand, the not-for-profit sector players such as NGO-MFIs who used to enthusiastically advocate for social performance and poverty alleviation now face increased pressure to commercialise their operations due to liquidity challenges resulting from depleted funding sources (Imran, et al., 2002). Although practitioners' motivations for entering into microfinance can arguably significantly influence the sector's drive towards increased social performance and poverty alleviation, the operating regulatory environment can have just as much impact. We shall consider the challenges of regulation in microfinance for poverty alleviation in the following section.

Regulation in Microfinance for poverty alleviation

Microfinance regulation for social performance or poverty alleviation is a silent subject in most microfinance literature. Every country requires institutions that mobilize savings from the public to be regulated to protect the interests of depositors and the financial sector (Staschen, 1999). However, microfinance specific regulation has always lagged behind practice in several places around the world creating a situation where regulators are always playing a catching-up game as far as microfinance service innovation is concerned. The majority of MFIs were still not subject to Government regulation even after 2005 when the

United Nations officially recognised microfinance by making the 2005 the Year of Micro-credit.

The rapid expansion of microfinance around the world resulted in the sector claiming a significant share of the financial transactions in some countries while promising to do so in others (Basu, et al., 2004). This expansion created a huge demand for funding prompting serious questions about the sustainability of donor funds in the microfinance sector (Hulme & Arun, 2009). Without regulation, MFIs could not raise funds from the public through savings mobilization like banks (Staschen, 1999). Therefore, regulation could allow them access to refinance by wholesale financial institutions.

For the purpose of this thesis, the term regulation refers to a set of enforceable rules that restrict or direct the actions of market participants, altering, as a result, the outcomes of those actions (Meagher, 2002). This includes Government regulation and self-regulation as well through groups of institutions via networks or associations. Advocates for MFI regulation presented very compelling arguments as to why MFI activities should be regulated (Meagher, 2002).

Firstly, they argued that the prospective MFI target group is several times larger in deposit business than in lending (Staschen, 1999). Therefore, where the poor have no access to savings facilities MFIs should also take up deposit business to provide this important service as well. Secondly, MFIs' available funds may not keep pace with growing demand from their lending business; therefore, access to external funding sources is very important. Thirdly, the rapid growth in MFI activity means that they can potentially claim a significant share in the financial market (Cull, et al., 2009). The bad reputation of MFIs in a country can affect the public's perception of the financial system in that country and potentially destabilise the financial system. For example, the case of Andhra Pradesh in India where microfinance bad practices threatened the reputation of the country's financial system (Results, 2011).

The public's lack of confidence can force the financial institutions into bankruptcy as highlighted by Diamond and Dybvig (1983) cited in Staschen, (1999) through instinctively running to their banks to withdraw their savings all at the same time. Fourthly, by a significant proportion of microfinance impact studies highlighted a worrying scale of exploitative tendencies by several for profit MFIs some of whom were even trading on stock market and making huge profits from the poor (Hulme, 2000; Copestake & Williams, 2011; Cull, et al., 2008). This resulted in even more calls for regulation in order to protect MFI clients from such exploitative and abusive practices. Therefore, market forces, rapid MFI expansion, the entrance of commercial players and the desire by some MFIs to be formally recognised led to calls for the formal regulation of the global microfinance sector.

In 2003, the CGAP (Consultative Group to Assist the Poor), a consortia of global leaders in financial markets including the World Bank, published some guiding principles on Regulation and Supervision of Microfinance activities to help regulators formulate their own country specific regulatory frameworks (CGAP Consensus Guidelines, 2012). This guide was revised in 2012 to reflect continuing developments in the global state of microfinance. The developments included; increased attention to financial services beyond micro-credit, explosion of new providers and financial service delivery mechanisms, changing funding landscape from donor dominance to increasing funding from the private sector and quasi-commercial public investors and more (CGAP Consensus Guidelines, 2012). It can be argued that, the biggest driver for regulation was the commercialisation agenda, which began around the 1990s, focusing on the markets and opening up an influx of private investors most of whom had little interest in the welfare of the poor but were simply interested in doing business (Basu, et al., 2004).
Unsuspecting poor individuals became exposed to the unfair practices of some MFIs prompting the need for regulation to protect these vulnerable individuals (Meagher, 2002).

Due to the sheer volume of microfinance transactions, a regulatory agency's basic overriding objective is to protect the financial system from unsound practices by deposit-taking institutions and thereby protect a country's payments system. In addition, it aims to protect the interests of the uninformed depositors (CGAP Consensus Guidelines, 2012). This position may be sufficient for the regulation of traditional financial intermediaries such as banks whose purpose is to do business on behalf of their shareholders. However, traditional microfinance institutions with a dual purpose of both business and social impact on the poor, those objectives alone may not be sufficient to create an enabling environment. However, Staschen, (1999) argues that if a regulatory agency adds other objectives to that, it may spread its resources too thin, thus deflecting the necessary attention to meet its major objectives. This view subordinates the original purpose of microfinance over commercialisation, hence the suggestion that it will be a waste of resources to try to address the regulatory requirements for promoting social impact. Due to the broad range of various types of microfinance institutions, different countries have developed different regulatory frameworks relevant to their operating environments and their ideological convictions of which aspects to prioritise (Meagher, 2002; Staschen, 1999).

The main regulatory frameworks are regulation by banking law, regulation by MFI special law and Self-regulation. Regulation by banking law assumes that MFIs doing bank-type business such as mobilizing private savings and lending should be subject to existing banking legislation and Government banking supervision, just like all other financial institutions (Staschen, 1999).

This position takes the view that this will create a level playing field for all financial players negating the fact that MFI client risk profiles are very different to the typical bank client. Most developing countries lack their own regulatory framework for MFIs and do not allow them as unregulated institutions to mobilize savings from the public (Cull, et al., 2009). Therefore, the only choice open to MFIs is to continue as credit-only institutions or meet the requirements of banking legislation (CGAP Consensus Guidelines, 2012). The regulation by

a special MFI law takes into account MFI's specific features including the type of clients, their risk profiles and the size and volume of transactions (Meagher, 2002). The adoption of a MFI law pre-supposes sufficient interest on the part of the legislator in regulating the sector and a readiness on the part of MFIs to submit to statutory regulation (CGAP Consensus Guidelines, 2012).

In self-regulation, MFIs will have a desire for formal recognition by outsiders but not receiving sufficient support from the Government. This can be due to lack of interest, insufficient capabilities or inadequate knowledge of the Government regulatory authority about the microfinance sector (Meagher, 2002). MFIs organise themselves through a network or association to collaborate and highlight their success to outsiders and thus command respect and credibility to gain access to certain external finance facilities (CGAP Consensus Guidelines, 2012).

Regulators have focussed on setting up conditions around who should be allowed to operate MFIs based on specific minimum capital thresholds. A very high minimum capital limits entry and hence creates monopoly by the few with sufficient resources. This also limits competition and the workload of the regulatory agency. On the other hand, a very low limit allows a proliferation of small institutions with less chances of success (CGAP Consensus Guidelines, 2012; Staschen, 1999).

However, most traditional socially driven microfinance institutions cannot meet the high capital requirement, leaving traditional banks and other private investors to take on the mantle of microfinance. The result is a new breed of microfinance institutions with a different focus and purpose to that of poverty reduction or social impact. Under such a regulatory environment, poverty alleviation and client benefits will be the least priority for MFIs. These will be bi-products of expanding financial services to the low-income market.

Bank law regulation and supervision frameworks were adopted by many countries as the basis for formulating microfinance regulation. There are three distinct approaches to bank supervision—bottom-up, top-down, and risk-based (Meagher, 2002). Bottom-up supervision

requires a great deal of technical knowledge and skill but is the least sophisticated approach to financial institution supervision.

It is labour intensive and strains the resources of most regulators that employ it. The approach is primarily audit based, focusing mainly on the accuracy of the balance sheet, including the loan loss reserve, the income statement, and the adequacy of traditional internal controls that are primarily designed to prevent fraud (CGAP Consensus Guidelines, 2012).

The top-down approach relies on an overall financial analysis and review of policies, procedures, systems, and management practices. Unlike the bottom-up approach, transaction testing is carried out to test compliance with stated policies, procedures, systems, and practices (Staschen, 1999). The Risk-based supervision enhances top-down supervision in three ways. It focuses supervisory resources on the areas of highest risk within individual financial institutions. Risk-based supervision requires an understanding of the risk profile of the institution under examination in order to identify areas of greatest risk and therefore to determine which areas deserve greatest attention (Meagher, 2002). Risk-based supervision looks at how well management identifies, measures, controls, and monitors risks.

Although the CGAP provided a guide for regulatory frameworks, different MFIs have faced a number of challenges in achieving the desired regulatory outcomes. In many cases, regulation has led to more relegation of social objectives of microfinance with increasing evidence of focus on more profitable products, such as consumer loans to the salaried individuals as opposed to entrepreneurs. Arguably, reaching the poorest markets is the least profitable option for any MFI drafting a strategic plan for microfinance services provision and the literature provides no evidence of regulatory incentives to encourage MFI operations in the poorest communities.

The existing regulatory frameworks discussed do not adequately stimulate the microfinance operating environments to encourage increased social performance.

Nevertheless, the impact of microfinance is difficult to assess without understanding the concepts of measuring poverty reduction. Arguably, the question of what determines poverty reduction is a very difficult one. According to Haynes, (2008), if the answer was known we would be one-step closer to eliminating poverty in the world. Furthermore, finding causal connection to specific policy instruments is problematic too.

Poverty reduction requires specific knowledge, benevolence, resources, and the will power (Kumar, 2005). Considering the will power for example, quite often for one or two of the requirements to reduce poverty, there are known instruments to work best or to benefit the poor but the benefits would not necessarily benefit some others or the instruments may even harm them(Haynes, 2008). If those less likely to benefit are influential powers, either policy makers or interested private investors, the result is lack of support for the initiative (Ehrenpreis, 2006). They will in fact fight to protect their interests in some cases.

To give another more practical example, it is well established in microfinance literature and evidence from around the world that, providing training and support services to micro-entrepreneurs significantly increases their loan utilisation efficiency and empowers them economically in addressing the key poverty dimensions of Income, vulnerability, and human capabilities. However, although empowered borrower means reduction of default rates, this also involves additional costs to the MFI and reduced profits for the shareholders. MFIs as a result avoids the additional services route and uses other means to deal with the problem of defaults, such as lending to the less risky and employing professional debt collectors (Lawson, et al., 2009; Islam, 2009).

Evidence shows that individuals and groups will work to oppose policies and interventions that hurt them regardless of whether these interventions may benefit others, even the poor (Ehrenpreis, 2006). However, the main point to remember is that very few individuals if any will object to the need to reduce poverty but the main question is about who bears the responsibility and who should meet the costs? Another interesting question is whether the

market forces can be trusted to deliver poverty reduction through commercial approaches (End Poverty Foundation , 2002). Arguably, there is no business sense in investing in less productive services such as borrower empowerment initiatives. A full cost recovery approach and pass on all costs to the borrower makes the service too expensive (Armendáriz de Aghion & Morduch, 2005). On the other hand providing subsidised services distorts the markets and may be counterproductive. A high level of social performance is expected where microfinance services are provided with a specific purpose of alleviating poverty.

The following section explores ideas about what activities and approaches constitutes microfinance for poverty alleviation. This is important in understanding practices likely to produce the best social performance results on the poor.

Review of what constitutes Microfinance for poverty alleviation?

Microfinance approaches are influenced by the underlying motivations and philosophies of different players (Gueyié & Fischer, 2009; Morduch, 2000; Mcguire & Conroy, 2000), whether to focus on social or economic performance or both with others adding the environmental dimension as well, making it difficult to establish a universal 'best practice' model for microfinance (Mwenda & Muuka, 2004).

The overall agreed microfinance 'best practice' position include; social, economic and environmental considerations covering sustainability, product innovation and services, pricing and product costing and clientele targeting and outreach as key underpinnings of 'best practice' models (Barnes & Sebstad, 2000). These will be discussed in later section Measuring poverty reduction below. Furthermore, 'best practice' aims to achieve international standards of sound financial performance, program transparency through reliable reporting systems and minimise environmental impact while effectively promoting wide social impact on the poor (Duvendack, et al., 2011). In practice, social performance in microfinance

requires the provision of suitable financial and non-financial services aimed at reducing poverty. A closer look at microfinance services for reducing poverty as covered in the following subsections is necessary to provide clarity on what microfinance for poverty alleviation may look like in practice.

Microfinance services for reducing poverty

Often very important questions are asked on how the poor can progress out of poverty and significant amount of literature has attempted to resolve this question including the role of microfinance to that cause (Burra, et al., 2005; Bédécarrats, et al., 2011). Three key elements are required to ensure sustainable progression out of poverty. First, is the ability to generate regular income, second is the ability to deal with urgent short term personal financial needs, and third is the ability to deal with significant financial shocks such as bereavement costs (Armendáriz de Aghion & Morduch, 2005). Enterprise loans help the poor to run income-generating activities (IGA) to increase their household incomes (Christy, et al., 2000).

Business training and advisory services will ensure that the loan recipients can effectively interact with the market and business environment leading to successful IGAs and increased ability to repay loans (Basu, et al., 2004).

The poor like everybody else, face urgent personal expenditure needs such as educational expenses for children or health expenses (Bédécarrats, et al., 2010). Faced with such urgent financial demands research evidence has shown that most will simply divert monies from IGAs to meet the urgent needs leaving them both unable to pay back the enterprise loan and continue with the IGA for future household needs thereby shattering any hopes of progress out of the poverty trap (Adams & Pischke, 1992; Abbott, 1993). In some cases, clients are forced to borrow from moneylenders who will charge very high rates eating all their profits from the IGA leading into serious debt problems. Access to consumer loans can

prevent this and contribute to sustainable poverty reduction (Armendáriz de Aghion & Morduch, 2005).

Unfortunate issues such as losing a close relative resulting in expensive burial costs can cause major financial shocks (Cornford, 2001). For most poor clients the hope of recovering from such an event is almost non-existent. The previous efforts to increase household incomes through enterprise loans under these circumstances can be wiped away in an instant (Barnes, 2001). For the majority savings are hardly accumulated to levels sufficient to cover such huge expenditure outlays. However, an appropriate insurance product through the MFI or the affiliate partner will ensure sufficient consideration for minimum and sustainable poverty reduction (Goldberg, 2005). Because of the competing demands for MFIs to achieve both financial and social performance, portfolio diversity becomes very important.

Diversifying portfolio involves proportionate targeting, that is targeting (i) the poor, (ii) the marginally poor, and (iii) the near poor at the same time. This allows the MFIs to minimise over exposure but at the same time ensuring minimum poverty targeting (Bédécarrats, et al., 2011). As illustrated on earlier, the microfinance market is composed of those three categories of individuals based on average annual incomes.

Several previous studies showed evidence of growing sector wide drift from targeting the poor at the lower end of the spectrum to exclusively targeting the near poor at the higher end of the poverty spectrum (Armendáriz & Szafarz, 2009). These represent the most secure and profitable market segment but have also raised questions and criticism about the role of microfinance in poverty alleviation (Cull, et al., 2009). The main dilemma is that although appropriately designed products and services for the poor and marginally poor ensures increased social performance (Cull, et al., 2008), these service are costly to run and therefore less profitable (Armendáriz de Aghion & Morduch, 2005).

On the other hand, products and services designed for the near poor are less expensive to run and more profitable but have very limited social and economic benefits for the client according to the study results (Bédécarrats, et al., 2011). Therefore, balancing the need for both social and financial performance in microfinance becomes very crucial while understanding how to measure poverty reduction and social performance helps to promote 'best practice'.

Measuring poverty reduction and microfinance social performance

Measuring the overall level of poverty reduction in an individual's life or community is just as complex as the definition of poverty itself (Ehrenpreis, 2006); never mind ascertaining the specific contribution of microfinance in the mix of several other potential factors (Goldberg, 2005). As a result, most assessments on poverty reduction have tended to rely on simple and statistically measurable indicators such as improvements in household incomes, increases in consumption etc. (Goldberg, 2005; Tulchin, 2003). Although this is probably the single most reliable measure of poverty reduction, in several cases individuals under assessment are likely to have been subjected to more than one intervention, formal or informal during the assessment period. Even when using randomised control trials (RCT), which are considered the gold standard for impact assessments in microfinance, it is not possible to eliminate all factors that may affect the control group or to have full control of social and economic factors that cut across the whole population throughout the project period (Copestake & Williams, 2011).

Even when there seems to be clear evidence that individuals who borrowed from MFIs have indeed increased household incomes and increased consumption levels, this does not necessarily mean that the increase in household income and consumption was a direct

result of them borrowing from the MFIs (Copestake, 2000). On the other hand, where evidence shows that actually most people who borrowed from the MFI in a study sample had their household incomes shrinking, this also does not necessarily mean it was because of them borrowing from MFI.

The indicators for measuring poverty reduction tend to be either “means” or “ends” based. The former refers to indicators of inputs intended to achieve an “end” result, while the latter measures the ultimate outcomes (Armendáriz de Aghion & Morduch, 2005; Ehrenpreis, 2006). For example in most microfinance assessments, increase in household income is an important indicator for increased economic activity. This is an “ends” or outcome indicator (Ehrenpreis, 2006). What are usually missing are the inputs likely to have contributed to the outcome, that is input indicators, the “means.” A combination of both input and outcome indicators provides a better and more reliable estimate of the impact on poverty although there is a risk of portraying inputs as exclusively responsible for the outcome. For example, a minimum food basket is an input indicator, so if individuals are provided with basket of food daily for a certain period, they are expected to attain a certain health standard, which is the outcome, based on established nutritional value of the food portions supplied.

Poverty has traditionally been measured using “means” indicators (as proxies for “ends”), of which the most common have been the money metric family (Desai & Potter, 2002). However, in microfinance, this is slightly different as money (increase of it) is usually the intended outcome (Ehrenpreis, 2006). The inputs are the prerequisites for that increase (what facilitates the increase). Using “means” indicators implies that one is relying on a set of proxies specific for their definition of poverty and dimensions of it the intervention is trying to address (Ehrenpreis, 2006).

Household surveys provide data for most microfinance impact measurement on poverty and the most widely utilized income poverty indicators are the headcount index and per capita GNP.

The headcount index is based on a poverty line (or set of lines) that are established by costing a minimum basket of essential goods for basic human survival, using income, consumption or expenditure data of non-poor households (Ehrenpreis, 2006). The incidence of poverty is then calculated as the percentage of the population whose incomes fall below that threshold. Income indicators can also be used to measure the depth and severity of poverty (Desai, 2006). The poverty gap index measures the degree to which the mean income of the poor differs from the established poverty line (depth of poverty) (Desai, 2006; Desai & Potter, 2002). Distributional sensitive measures, such as the squared poverty gap index, capture differences in income levels among the poor (severity of poverty) (Ehrenpreis, 2006).

Another set of indicators is based on measuring changes in the ability of individuals to meet their basic needs (Desai, 2006). The basic needs indicators provides additional measurement data to the income indicators focusing on evidence of borrower empowerment which is outcome based (Barnes, 2001; Barnes & Sebstad, 2000). The measurement includes access to such necessities as food, shelter, schooling, health services, potable water and sanitation facilities, employment opportunities, and even touches on opportunities for community participation (Barnes & Sebstad, 2000).

The third set of indicators, the human capability indicators are a further refinement to the borrower empowerment approach, which attempts to measure poverty in terms of outcomes (End Poverty Foundation , 2002; Ehrenpreis, 2006). A reduction in poverty is measured in positive changes in people's abilities and opportunities to enjoy long, healthy lives, to be literate and to participate freely in their society. Indicators include life expectancy, literacy rates and malnutrition (Desai & Potter, 2002).

The biggest advantage of capability indicators, as a whole, is that they measure wellbeing in terms of outcomes rather than as proxies for those outcomes and long time measures. The discussed poverty reduction measurement indicators are all based on measuring change mostly at individual or household level. However, the ability or likelihood of institutions implementing poverty reduction interventions such microfinance to deliver the anticipated social performance results is equally important. The Social Performance Task Force defines social performance as “the effective implementation of an institution’s social mission into practice (Bédécarrats, et al., 2009). The literature identifies the main components of microfinance social mission and these includes serving large numbers of poor and excluded people; delivering high-quality and appropriate financial services; creating benefits for clients; and improving the social responsibility of an MFI (Bédécarrats, et al., 2011; Bédécarrats, et al., 2009). Understanding the key Social Performance Indicators (SPI) relevant to this study will help to build important connections between literature and study results. Therefore, the next three sections are dedicated to exploring these SPIs.

Product development, innovation and services (SPI)

Product development is important to both MFI sustainability and impact on poverty as this can determine levels of access and profitability. Simanowitz & Walter, (2002) argue for innovation to create services that maintain high standards of financial performance, while setting new standards in poverty impact. They also state that the design of products should be based on their potential to reduce poverty, risk and vulnerability as opposed to simple attractiveness to clients.

Bhatt & Tang, (2001) also address the issue of product development with particular emphasis on the various schools of thoughts regarding the actual delivery of services to the poor.

The controversial debate in microfinance product development is where MFIs' focus should be, whether to design and deliver financial services only, or whether they should provide non-financial services as well such as training and other essential support services (Bhatt & Tang, 2001). Count, (2008) argues that non-financial products can be quite profitable as well although not every new product or service needs to be. The non-financial services such as business training and marketing are complementary services to the poor who often lack sound business management skills. In practice, access to business training among the poor can determine the loan portfolio quality as support services often leads to a better portfolio quality (Tulchin, 2003).

However, as in many commercial spheres, some products are “loss leaders” that exist to attract clients, to strengthen relationships with existing clients, or to help clients take advantage of other, profitable products (Mosely, 2001). For example, an educational loan to a client’s child may enable that student to use profitable financial products in the future. Likewise, MFIs that use the platform approach to educate, strengthen, and win the loyalty of clients can generate long-term profits for investors and customers alike (Sivalingam, et al., 2012).

Pricing and product costing (SPI)

Cracknell & Messan (2006) refer to pricing a financial service as both an art and a science. The “art” of pricing is in choosing a combination of fees and charges acceptable to customers, that are fair and transparent, and in determining if the product has any unique attributes that deserve premium pricing (Cracknell & Messan, 2006). It is true also, in careful and considered communication to and feedback from customers and staff to ensure

that pricing messages are delivered appropriately. The “science” of pricing is in ensuring that the product is profitable and is competitive in the market and that, aside from very few specific and chosen loss leaders, that each product returns a profit (Cracknell & Messan, 2006).

The poor people who are the customers should be treated well by designing products to the evolving needs of clients (Wright, 2004). An organization can build client loyalty through customer service and thereby increase its profit. This means that the financial services offered by an MFI must be designed in response to the needs and capacities of the clientele (Rahman, 2000). Wright, et al., (2001) review the context of microfinance pricing and argue that as with the formal sector banking industry several decades ago, the microfinance industry is largely characterised by top-down or “bath-tub” product development. This model of product development typically comprises a senior manager having what appears to be a good idea in the bath and then instructing all branches to offer the resulting new product as of a specified date.

Under this model, there is little or no market research, inadequate costing/pricing of the new product, no attempt to describe the product in clear, concise client-language, no pilot-testing and no attempt at a planned roll-out of the new product (Wright, et al., 2001). Therefore, the introduction of new products is simply dictated from above.

Client targeting and outreach (SPI)

There is consensus that microfinance services should not be extended to individuals who have access to conventional bank services as the service was designed for the financially excluded poor (Schreiner, 2002). However, the question is how can these poor people be identified and served. Mathie, (2001) described targeting as a term associated with delivering a particular service or intervention to an identifiable set of clients.

Targeting the poor involves two broad strands; one side will be strategies for identifying, attracting, and reaching the poor while on the other will be strategies for excluding and discouraging the non-poor (Armendáriz de Aghion & Morduch, 2005). The Figure 2 below shows a typical poverty pyramid based on 2013 World Bank statistics. Although almost half of the world's population is considered poor, there are different levels of poverty with at bottom of the pyramid more than 4 billion people earn up to $730 per year.

Figure 2: Microfinance client targeting poverty pyramid

Source: World Bank data (2013)

This group of poor people includes the ultra-poor or destitute in which the expectation for running a successful income generating activity is unrealistic (Armendáriz de Aghion &Morduch, 2005). Within this group are the labouring poor who are mainly the least paid workers such as domestic workers, house cleaners etc. Most MFIs find it difficult to provide services to individuals in this category as the majority live in remote villages with limited infrastructure and economic activity. According to CARE International, MFIs whose commercial viability depends on cost-efficiency and have a mission that encompasses both the social performance and financial performance spheres, achieving this historical mission of reaching the poor and even the poorest with their services is problematic (CARE, 2011).

Although the poor and the poorest in the bottom line are the most deserving, in most cases, they lack essential capacity to effectively utilise the loan for productive purposes to enable them to pay back the loan (Mathie, 2001; CARE, 2011). However targeting this group is possible if the MFI is able to invest hugely in non-financial services and empowerment initiatives to build their capacity to participate in economic activities. Evidence suggests that international NGOs which used to support MFIs such as the CARE and Catholic Relief Services (CRS) (Wilson, 2001) have recently shifted their focus to supporting community based self-help microfinance schemes using various approaches to promote savings and loans associations (CARE, 2011). A more detailed discussion on the role of NGOs in microfinance and savings development particularly in Zimbabwe is covered later in chapter 4 section History and development of Microfinance in Zimbabwe.

Therefore, based on the illustration on Figure 2 above, the poverty levels most relevant to the registered MFIs for targeting are;1), the self-employed or upper poor, 2) the entrepreneurial poor and, 3) the near poor who are not necessarily poor but their financial position is such that they are at significant risk of falling back into poverty. However, the challenge for MFIs is that, potential clients could be anyone with an annual income between US$730 to over US$20,000. The cost of lending and associated risks tend to decrease as the income level increases resulting in the low income target group being less economically attractive for commercially driven MFIs. It is argued that, socially responsive MFIs should aim to reach more from the lower end of the spectrum than the higher end where the majority are non-poor (Armendáriz de Aghion & Morduch, 2005). On the contrary, it is also argued that, the higher you go up the pyramid the less costly and the more profitable and greater chances of financial sustainability for the MFI (Hulme & Arun, 2009). The effort to extend microfinance services to the people who are underserved by financial institutions is technically referred to as "outreach" (Armendáriz de Aghion & Morduch, 2005). Outreach can be measured in terms of breadth which is the number of clients served and volume of services; that is, the number of available services to each client or depth

which is the poverty level of clients reached by the MFI (Figure 2-1) (Lafourcade, et al., 2005). To illustrate this, an MFI can choose to provide just one service such as micro loans to clients or can choose to provide complementary services as well such as micro savings and insurance (Cull, et al., 2007; Schreiner, 2002). Greater breadth is achieved where a large number of clients can access a diverse range of complementary services from that same provider. On the other hand, greater depth is achieved when these services are provided to the most deserving of the poor in terms of income and poverty levels (Schreiner, 2002; Cull, et al., 2007).

Brau & Woller, (2004) identify two primary challenges in client targeting: first, the rationale of “gender targeting" which is lending to women versus lending to men and second; the rationale of poverty targeting which is lending to the very poor versus the poor and lending to the marginally poor versus non-poor or near poor. Simanowitz& Walter, (2002) argued that conventional microfinance excludes the poorest deliberately or through unintentional mechanisms such as products attractive to the non-poor and difficult for the poor to access. Simanowitz & Walter, (2002) further argued that through increasing their understanding of poverty, MFIs could take simple steps to improve their outreach and their effectiveness for the poorest (Simanowitz & Walter, 2002). Mathie, (2001) argued that outreach debate should consider the extent to which microfinance services are able to reach the poor client for whom they are intended and the impact such outreach is likely to have.

However, Schreiner, (2002) contended that outreach should be considered in light of six key variables namely; Worth to clients, Cost to clients, Depth, Breadth, Length and Scope. While outreach is traditionally conceived as consisting of two dimensions; breadth and depth as discussed earlier, Schreiner proposes that outreach consists of six dimensions, each of which is also arguably a component social value (Woller & Schreiner, 2002). However, although the discussion on social performance indicators is very important in assessing MFIs contribution to poverty alleviation, the sustainability of both the MFI activity

and positive impacts on the poor is also very crucial. The next subsection explores the sustainability debate in microfinance.

Sustainability in microfinance discourse

The discussion on MFI sustainability is a contentious subject according to Beaudry, (2008, pp. 6-10). Firstly, it is important to clarify what sustainability means in the microfinance context. Without contextualising the meaning of sustainability in microfinance, it is difficult to establish what this sustainability might look like in practice.

Beaudry, (2008) argued that it is important to clarify whether sustainability discourse is in reference to the MFI (institutions that provide loans) or the clients (people who receive loans and other services). There is little consensus as to whether sustainability should refer to the institution or to their client. As a result, some institutions embrace the approach of institution sustainability while others focus on client sustainability and some claim they consider both institution and client sustainability equally important. However, this model is yet to be tested.

Sustainability of MFIs is one of the most important issues raised in microfinance literature. Littlefield, et al. (2003) state that financial sustainability measures whether an institution would be profitable in a fully commercial environment, adjusting operating revenues down for factors such as inflation, subsidized loan fund and in-kind donations. The question of sustainability in microfinance started to cause serious concern among both practitioners and supporters of microfinance in the 1990s when it became increasingly evident that donor funding was unreliable for sustained service provision to the poor. It gave rise to an important debate on whether MFIs should prioritise the sustainability of clients or that of the institution (Hermes & Lensink, 2007). Rhyne, (1998) argues that the fundamental questioning the sustainability debate is whether services can be delivered at a cost that is affordable to clients meaning client sustainability should be the key factor in microfinance

sustainability debate. Arguments for client sustainability assert that MFIs should pay close attention to sustainability of access, competitive efficiency, and responsiveness to client needs.

Failure to pay closer attention to these issues will result in negative outcomes on poverty, making it even more difficult for poor households to graduate into the mainstream of the financial sector in either the formal or the informal economy (Remenyi, 2002).

However, achieving a degree of MFI sustainability is fast becoming a pre-requisite for microfinance programmes to gain access to further funding required over time to serve the poor. This means MFIs have to demonstrate a practical and reasonable plan to achieve programme sustainability in order to be attractive to both donors and private investors. Nevertheless, arguments for institutional sustainability contend that client sustainability is difficult to achieve without donor subsidy.

This can only result in dependence on increasingly unreliable donor funding environment and therefore lead to failure to help the poor (Copestake & Williams, 2011).

Consequently, scale can hardly be achieved as donors are unlikely to continue subsidizing microfinance indefinitely and are not wealthy enough to do so on a major scale. Arguably, to assure continued access by the poor to financial services, the private sector must take an active role in the provision of profitable financial services to the poor (Gueyié & Fischer, 2009). Although it is desirable for MFIs to embrace client sustainability and practical capital constraints have forced many MFIs to reluctantly prioritise the sustainability of the institution using private financial markets. Overall, the best practice on microfinance sustainability ensures that the activities of the MFI recovers all costs for running such activities with additional income for reinvestment and continued sustenance of the MFI.

Review of impact assessments in microfinance

The effectiveness of finance provision to the poor people in terms of helping them to establish financial shock resilience and progress them out of poverty has generated a lot of

debate in recent years (Littlefield, et al., 2003). Impact assessments including systematic reviews carried out on microfinance across the world produced conflicting results with some studies showing negative impacts on the poor while others showed positive impact on the poor's poverty situations (Duvendack, et al., 2011). Barnes & Sebstad, (2000) define an impact assessment (IA) as a study to identify changes that result from a program by employing methods to establish plausible association between changes experienced and participation in the program. The prevalence of microfinance impact evaluations has increased in recent years, with programs using studies not just to prove the effectiveness of microfinance, but to improve it as well (Goldberg, 2005).

Copestake, (2000) explored the effectiveness of impact assessment and says it is not just about producing timely, reliable, cost-effective, and relevant information about the impact of services on clients, but is also about producing this information in a way that contributes constructively to policy debates among internal and external stakeholders. Simanowitz, (2004) argued that, impact assessments used to be seen as the requirements of donors to prove impact and effective use of resources.

However, practitioners now appreciate the relevance of impact assessments as a way to improve understanding of their clients in addition to generating information to improve MFIs' services, and client impact (Simanowitz, 2004). According to Karlan, (2001, p. 2) some microfinance organisations assess their impact through a cross-sectional impact methodology that compares veteran to new participants and then calls any difference between these two groups the "impact" of the program. Such studies have risen recently in popularity because they are cheap, easy to implement, and often encouraged by donors (Karlan, 2001).

Review of existing microfinance models

Arguably, two main approaches exist in modern microfinance as observed by (Morduch, 2000) in what he referred to as microfinance schism. On one hand is the broad approach where the capital market demands seems the most important determinant factor in how microfinance services are delivered, with private investors as the major source of capital (Morduch, 2000). Consequently, the majority of MFIs following this approach strive to be attractive to private investors while drawing their motivation from the need to satisfy investor demands through maximising MFI profitability.

For the purpose of this study, we shall refer to this approach as the capital market driven (CMD) model. On the other hand, lies another approach, which seems reluctant to respond to the capital market demands and prefers to maintain the traditional focus on poverty reduction through primarily donor capital grants.

However, in the wake of dwindling donor support in the sector, MFIs are increasingly seeking to make their operations financially viable by adopting sound business modelling while at the same time striving to maintain their primary goal of poverty alleviation (Morduch, 2000). We shall refer to this broad approach as poverty reduction driven microfinance (PRD) model.

Although microfinance started with the sole purpose of poverty alleviation through the notion of economic and social empowerment, it can be argued that commercial players as observed by Graziosi, (2010), globally currently dominate the contemporary practice. Evidently, the two main approaches, the CMD and the PRD demonstrate varied commitment to direct poverty reduction. The CMD microfinance approach argues that the goal is to build inclusive financial markets while the PRD microfinance approach contends that direct poverty reduction should be at the core of microfinance activity (Lützenkirchen & Weistroffer, 2012). Reviewing literature on ‘best practice’ microfinance models and social performance proved very difficult for two main reasons. First, no readily available resources could be found addressing the subject specifically. Second, there seems to be little interest

among researchers and academics to focus on best practice models of microfinance in general and social performance and coping strategies in particular.

Few publications that focused on best practice models in microfinance failed to make a clear distinction between the two microfinance approaches described above, resulting in ambiguity and confusion in contextualising the discourse.

As part of the researcher's conceptualisation of the best practice discourse in microfinance, a rapid evidence assessment (REA) review of microfinance publications between 2000 and 2012 covering more than 150 publications was carried out as part of this literature review to establish which microfinance approach, the CMD or the PRD was responsible for either the negative or positive impacts. The assessment result showed no evidence of an attempt in reviewed literature to distinguish between CMD and PRD models for microfinance (Copestake & Williams, 2011). The literature treated all microfinance models and activities as designed to alleviate poverty, contrary to reality, where the majority and most dominant MFIs across the whole world are trading on the open market unapologetically, purely on commercial basis (Duvendack, et al., 2011; Copestake & Williams, 2011).

This suggests that the motivations of microfinance providers; whether to seek profits or seek direct poverty reduction may have either escaped the imagination of academics involved in microfinance impact assessments or the issue may have been viewed as insignificant as a determinant. Nevertheless, regardless of the apparent lack of interest to distinguish between microfinance providers seeking to alleviate poverty from those seeking to maximise profits, assessing the impact of microfinance on poverty was the dominant theme in over 80% of microfinance publications (Duvendack, et al., 2011).

There is a significant gap in knowledge about the impact of microfinance on poverty particularly clarity on which approach is responsible for what results or to what extent is which approach responsible for what results.

According to Duvendack et al, (2011, p. 2), there is no consensus among academics and commentators about the impact of microfinance on poverty. The reviewed literature seems to suggest inconclusive evidence that microfinance reduces poverty (Roodman & Morduch, 2009).

Just to illustrate this point, David Roodman and Jonathan Morduch claimed that rhetoric in microfinance had outpaced evidence. As a resulted they, resolved to replicate the two most-noted studies on the impact of microcredit, both based on survey data from Bangladesh collected in the 1990s (Lascelles, et al., 2014). According to Roodman & Morduch, (2009)'s arguments, the problem is that Pitt & Khandker, (1998) found that microcredit raises household consumption, especially when lent to women and Khandker (2005) further found similar evidence and concurs that microcredit has more impact on the extremely poor than on the moderately poor. However, Morduch, (1998) finds no evidence for impact on consumption levels, but does find that microcredit decreases the volatility of consumption.

Roodman & Morduch, (2009) further argues that RCTs studies by McKenzie and Woodruff, (2008) on male-run businesses in Mexico and McKenzie & Woodruff, (2008) on male- and female-run businesses in Sri Lanka established that access to capital increases average profitability of male-run microenterprises, but questioned the claim that it does so for female-run businesses. Therefore, they decided to replicate and reanalyse the most influential study of microcredit impacts by Pitt & Khandker, (1998). According to Roodman & Morduch, (2009), this replication found no evidence that 5% of Grameen Bank's clients get out of poverty every year as earlier claimed by the previous study and concluded that the claim by Pitt & Khandker, (1998) was based on a faulty methodology.

In further defence of their position, Roodman & Morduch further argued that even, other RCTs a few years later by Banerjee et al., 2013; Karlan & Zinman, (2011); Crépon et al., (2011); Attanasio et al., (2011); Augsburg et al., (2012); Angelucci et al.,(2013) found no evidence to support the claim that microcredit increases household consumption within a

few years. In defence of their position, Pitt & Khandker also published their response to Roodman & Morduch (Pitt & Khandker, 2012); prompting a further replication of the study in 2013 in which Roodman & Morduch argued this time any shred of evidence for poverty alleviation had now disappeared after using more advanced analysis methods. The battle seems to be still ongoing as a considerable number of randomised controlled trials (RCTs) revealed conflicting results.

Literature evidence suggest that scepticism about the impact of microfinance on poverty may be in part due the commercialisation drive brought to public scrutiny by Compartamos Bank's going public in 2007 and the subsequent growing repayment crisis which flowed in Morocco, Pakistan, Bosnia, Nicaragua and the second India crisis between 2007 and 2010 (Lascelles, et al., 2014). According to Lascelles, et al., (2014) the observed challenges of negative impacts of microfinance on borrowers particularly over-indebtedeness were emanating from industry-specific risks at a particular phase on MFI development. They further argued that, the microfinance expanded rapidly causing a fatal combination of excessive competition, inadequate regulatoryinfrastructure (including credit bureaus), overstretched MFI systems and controls, and erosionof lending discipline in the maicrofinance market.

This prompted a surge in systematic reviews on the impact of microfinance including reviews carried out by Sebstad & Chen, (1996), Gaile & Foster (1996) and Goldberg (2005) with the most recent being reviews by Stewart et al, (2010), Duvendack, et al, (2011) and Copestake & Williams, (2011). The systematic reviews also found conflicting results with just as much reviews claiming no evidence as were studies showing some evidence of poverty impact, thereby failing to resolve the most important question in microfinance, which is whether microfinance reduces poverty or not, or at the very least to what extent and under what circumstances. As a result, academics and researchers remains divided on

this subject, with both supporters and critics of microfinance continue to search for conclusive evidence to back up either side of the argument. A closer look at the two different approaches to microfinance (Poverty Reduction Driven –PRD and Capital Market Driven – CMD) may be helpful in understanding the potential impact MFIs flowing either approach may have on poverty.

Poverty reduction driven (PRD) microfinance approach

As discussed earlier, scholarly interest in microfinance models has lagged behind practice and industry development as observed by Brau & Woller, (2004). Poverty reduction driven approaches of microfinance particularly in developing countries are based on interventions believed to have a direct positive impact in reducing poverty (Barnes, 2001). Direct intervention focuses on addressing specific identified poverty conditions through microfinance related services such as tailor made loans, savings or insurance services (Rhyne, 1998). At the heart of product, development is the desire to directly improve the wellbeing of microfinance clients.

Services may include but are not limited to remittances and any other new inventive products or practical supportive services to further the same purpose (CGAP, 2012).

Complementary services are usually provided as well, ranging from financial literacy training and entrepreneurship development to health care and women's empowerment programs (Adams & Pischke, 1992). However, critics argue that where these additional services are integrated directly into microfinance programming, this can lead to dependency and greater vulnerability to abuse (Graziosi, 2010). For example, individuals who are interested in an MFI's complementary services but who have no need for a loan may end up borrowing in order to access these programs, or MFIs may use the threat of losing essential services to encourage repayment, and borrowers requiring critical services may lose access to them if they miss a loan payment (Beaudry, 2008).

Microfinance practice under this approach tends to value client over institutional sustainability (Beaudry, 2008, p. 9). Advocates for this approach argue that providing only financial services, including credit, are not enough to eliminate poverty (Morduch, 2000). As Beaudry (2008, p. 8) puts it, the approach incorporates and emphasizes the importance of "economies of scope" as opposed to "economies of scale" insofar as it strives to maximize the necessary benefits to people instead of maximizing the number of people who can receive the minimum benefits (Beaudry, 2008). However, arguably, most MFIs following this approach struggle to cover their costs from operations and therefore require subsidies and gifts from Governments and other donors to be able to continue doing their business (Hulme & Arun, 2009; Hulme & Mosley, 1997; Mcguire & Conroy, 2000; Brau & Woller, 2004).

This approach, although paying less attention to financial self-sufficiency, embraces strongly the notion of organisational sustainability (Brau & Woller, 2004). Supporters of the approach contend that, organisational sustainability can be reached without achieving financial self-sufficiency (Morduch 2000). They further argue that donations serve as a form of equity, and as such, the donors can be viewed as social investors (Morduch, 2000). They further argue, that these social investors are willing to accept a lower financial return because of intrinsic return of not investing in firms that they find offensive. However, Brau & Woller, (2004) described this approach as "welfarism paradigm," arguing that the overall approach is welfare based and therefore lacks the essential tenets of economic fabric for driving organisational efficiency.

Capital market driven (CMD) microfinance approach

Capital market driven (CMD) microfinance approaches are characterised by a determination to follow and respond to the capital market forces in order to attract private investment and maximise investor returns from microfinance activities (Gueyié & Fischer, 2009). In practice this often, translate into focusing mainly on providing credit and in limited

cases, minimal additional support services to clients and targeting the less risky and easy to manage clientele (Brau & Woller, 2004). In contrast to the PRD approach discussed above, the CMD approach, also referred to as the "institutionist paradigm" has a preoccupation on organisational self-sustainability as observed by Brau & Woller, (2004). Services are mostly limited to financial products arguing that MFIs are most effective when they stick to their core competency of providing financial services (Beaudry, 2008, p. 7).

Advocates such as one of the pioneers of this approach, the ACCION, argue that providing the best possible financial services enables a stable and sustainable base for the institution to continue providing services to more people (Marulanda, et al., 2010). This notion is based on the belief that lack of credit is the primary structural condition of poverty but Beaudry, (2008, p.8) argues that, contrary to reality, this assumption misses the fact that conditions of poverty, such as hunger, lack of business know-how or restricted market opportunities often prevent recipients from effectively using their loans for entrepreneurial ventures. Although the financial sustainability of the MFI is the ultimate goal of this approach, evidence shows that not all MFIs following this approach are entirely financially self-sufficient (Beaudry, 2008).

Critics of the approach argue that focusing on MFI sustainability only, subordinates the needs of borrowers to those of institutions (Beaudry, 2008). As a result, MFIs end up looking more like debt collectors than service providers look. In such conditions, MFI sustainability will be secured at the expense of the livelihoods of its clients (Bateman, 2010). However, this argument, though very strong, is based on the rhetoric that all microfinance programs are or should be for poverty alleviation when evidence suggests that the role of microfinance has changed significantly since gaining global recognition, with more priority being placed on profitability than social performance.

This begs the question as to whether microfinance is still only a service for the poor or has also evolved into an ideology. As a service, microfinance represents financial services for the lower end of the financial market. Under this view there are no promises or guarantees for improving social indicators or impact on poverty. The goal is simply that of providing financial services to the traditionally excluded market segment.

However, microfinance as an ideology represents a tool for poverty alleviation where there is a historical inherent expectation for improved well-being of microfinance recipients. Nevertheless, the microfinance industry is dominated by CMD institutions according to Morduch (2000), contending that MFIs should be able to cover their operating and financing costs from their own revenues.

Therefore, this discussion shows that both the Poverty Reduction Drive (PRD) and the Capital Market Driven (CMD) approaches to microfinance have strengths and weaknesses. At best, they both help to create access to financial services for poorer clients (Robinson, 2001). But at worst, they can both contribute to conditions of poverty.

However, the argument that there are two main approaches in microfinance as presented in this discussion and the approaches themselves are yet to be widely accepted as two distinct forms of microfinance models with their impact on poverty assessed and evaluated separately (Morduch, 2000). Furthermore, currently, the distinctions between these two approaches are blurred due to lack of a clearly spelt out definition of each. Several MFIs that previously applied a strict, CMD approach to microfinance have begun to adopt pro-consumer pledges and consumer protection strategies to appear pro-poor and minimise negative on their clients (Cull, et al., 2009). On the other hand, some MFIs known for following the strict PRD approach to microfinance have now gravitated towards a more CMD approach due to capital pressures (Armendáriz & Szafarz, 2009).

It can be argued therefore that, it is possible that one model of microfinance may be responsible for either the negative or the positive impacts.

Until a clear distinction is made on which microfinance approach is being assessed in empirical research, contradictory results on the impact of microfinance on poverty are likely to continue (Duvendack, et al., 2011; Copestake & Williams, 2011; Cull, et al., 2009). It can be further argued that failure to recognise, differentiate, and or account for the differences between the PRD and CMD microfinance models may pose a fundamental flaw in ascertaining the effectiveness microfinance on reducing poverty.

Summary

In summary, microfinance 'best practice' should achieve international standards of sound financial performance, program transparency through reliable reporting systems and minimise environmental impact while effectively promoting wide social impact on the poor(Duvendack, et al., 2011). However, Cornford, (2001), quoting Seibel, (1998) specifically challenges the use of the adjective 'best' and the implication that there is only one optimal way of doing things. Instead, he argues for the need to talk of 'sound practices' (Barnes, 2001). According to Marulanda, et al., (2010), the one-size fits all approach to microfinance have led to many mistakes being made in the past when trying to replicate successful experiences from one context directly into different context without adjusting practices to take into account the specific characteristics of each case.

The literature review has demonstrated that microfinance ideology and practice of the 1980s and 1990s may now be a distant history. The race is no longer about proving that the poor are bankable since major banks across the world are now actively involved in providing services to the poor population in one form or another.

The world of microfinance is now a jungle of financial innovation and market exploitation ranging from organisations and individuals committed to providing sustainable services to the poor to anyone with spare cash willing to try their luck. Regulation seems to be playing catch up in most markets, marking it difficult to establish reasonable order in the local microfinance sector until the appropriate regulation takes full force, which in some countries have taken years.

However, in this entire somewhat chaotic environment, one thing is very clear; that is the new phenomenon is does not seem to be about poverty alleviation. Unfortunately, the research community and academics are still using the default ideology of poverty alleviation when discussing microfinance. This creates a lot of confusion as commercial and developmental microfinance providers behave very differently to a given poverty scenario which also has implications for how the individual poor person concerned experiences the intervention. Although evidence shows that developmental MFIs are being forced by difficult circumstances to become more commercially oriented, it is very unlikely that all microfinance activities will be on purely commercial basis.

Evidence also suggests a growing involvement of INGOs such as CARE, World Vision, CRS and Plan just to mention a few, in community and village savings development particularly the self-help schemes where INGOs only provide technical assistance and not credit as they used to do in 1990s. In the 1990s, INGOs supported microfinance development through collaborating with local NGOs and MFIs in providing credit to the poor.

Evidence now suggests that INGOs' involvement in microfinance seems limited to supporting the less formalised village savings associations where efforts are believed to

benefit the most deserving and less likely to be supported by MFIs as the majority lives in very remote and hard to reach rural areas.

A more detailed discussion on microfinance development and evolution is covered in the next chapter (Chapter BACKGROUND ON GLOBAL MICROFINANCE). The chapter provides an overview of the global microfinance sector and explores theories underlying the development of microfinance and its evolutionary history.

3 BACKGROUND ON GLOBAL MICROFINANCE

Overview

In late 1970s, the first formal micro-credit loan of US$27 was received by each member of a small group of poor women in Bangladesh (Christy, et al., 2000). On that day even the term microfinance was unknown but in just over three decades, over 100 million poor people have benefited from microfinance around the world (Ledgerwood, et al., 2013). Over $44 billion in loans were disbursed to around 86 million borrowers between 2008 and 2009. Microfinance is best understood as a parallel finance model to the conventional banking system where, loan services are offered to individuals able to demonstrate, both the ability to pay and provide acceptable collateral security for the loan (Imran et.al*,* 2002, p. 10).

Microfinance in contrast to the mainstream banking sector is understood both as a sector and as a service where individuals who cannot get loans or other financial services from the bank can receive these services in micro sizes with little or no collateral security (Robinson, 2001, p. 9-10). Although microfinance begun with the sole purpose of helping the poor to progress out of poverty, with programs funded mainly through not-for-profit donor investment, as of 2013, over 90% of the total estimated US$9 billion microfinance market was funded through Microfinance Investment Vehicles (MIVs), independent investment entities with more than 50% of their non-cash assets invested in microfinance. The MIVs grew from almost zero in early 2000 to 111 in 2013 with a total portfolio US$8.7 billion (Symbiotics MIV Survey , 2013).

The microfinance sector varies significantly between regions; Eastern Europe, Central Asia, Latin America and South Asia have the most mature and sophisticated microfinance markets while the Middle East, North Africa, and Sub-Saharan Africa are the regions with

the lowest level of microfinance assets (Symbiotics MIV Survey , 2013). Microfinance is now a global phenomenon with diverse forms and players making the whole subject confusing, if not complicated. For anyone new to the subject of microfinance, several key questions immediately come to mind. Questions such as; the difference between micro-credit and microfinance, the evolution of the microfinance idea over the years, the rationale for microfinance as poverty alleviation tool and whether this rationale is still relevant. This chapter seeks to provide a comprehensive overview of microfinance and its evolution from inception in the 1970s to the current state including popular debates on the subject.

Theoretical underpinnings of different microfinance approaches

Microfinance refers to financial services designed to meet the needs of the poor and low income individuals, particularly in developing countries, with a view to fighting poverty and financial exclusion (Robinson, 2001, p. 9). Lenton and Mosley (2011) described financial exclusion as the inability of low-income people to access the mainstream financial services.

The banking sector, for years could not extend their services to poor people due to serious challenges associated with information asymmetry, which refers to the problem of making decisions on transactions based on incomplete information about the other part to the transaction (Cull, et al., 2007). This happens when a bank is faced with a decision to approve credit to an applicant whose credit worthiness cannot be verified (Cull et.al, 2007).

Microfinance demonstrated innovative contracting that both in theory and in practice made commercial lending to the poor possible and viable though various mechanisms aimed at addressing the challenge of credit worthiness while also reducing the risk of adverse selection (Cull et.al, 2009). The mechanisms include as a strategy limiting loan sizes to typically between US$50-US$1,000 and limiting the loan term periods from 3 to 18 months.

Regular loan repayments (weekly, fortnightly or monthly) and monitoring is required as part of risk management. Loan repayment incentives such as the promise of a larger loan are also used to manage risk (Christy, et al., 2000). The typical forms of collateral used are social and reputational, not assets. Often joint and several liability contracts are used where a group is responsible for repayment, even if one or two members of the group fail to earn sufficient return on their individual investments (Christy, et al., 2000). This encourages peer loan credit worthiness evaluations and monitoring to reduce adverse selection and ensure full and timely repayment. In some instances, community elders and respected third parties are used to identify "creditworthy" clients solely based on character and managerial ability (Christy, et al., 2000).

The rationale for developing microfinance services is very convincing as evidence suggests that the microfinance market is crucial to poor economies, where there is high unemployment and high poverty levels (Ledgerwood, et al., 2013). In such circumstances the poor, whose personal economy is small by every measure, with very little or no income at all, is considered costly to service and too risky a market for banks who then design products beyond the reach of the poor and low-income people. As a result, by default, they are excluded from the mainstream financial market.

Not only are the poor financially excluded which means they cannot borrow or save, but they are also often permanently excluded from the labour market forcing them to rely on the informal sector (Desai & Potter, 2002). In most poor countries, the formal and the informal sectors can be observed working parallel to each other. Arguably, the formal sector hosts formal labour markets, often accommodating only a small percentage of the country's population in formal employment (Desai & Potter, 2002). It is supported by the formal financial markets dominated by the conventional banking sector (Hulme & Mosley, 1997).

On the other hand, the informal sector is where those who are not fully or partially incorporated into formal employment structures attempt to make or enhance their living. They sometimes comprise up to 80 % of the country's population but are excluded from the formal financial systems because they are considered un-bankable (Chimhowu et.al, 2009).

Consequently, the informal sector has to rely on informal sources for finance, which includes neighbourhood and kin networks, moneylenders and private loaning agents. The poor also resort to self-employment efforts in the informal system through running self-help income generating projects and this is where microfinance can make a real difference in their lives through financial support. Without access to credit and saving facilities, their hopes for self-improvement and poverty relief would remain a distant dream (Hulme & Arun, 2009). Because the banks do not serve this market, efforts to provide financial services to the poor are often left to NGOs and other pro-poor practitioners who experimented with different services.

Thus, the theory behind microfinance innovation developed in response to the growing poverty in developing countries where also lack of access to financial products was perceived as a major barrier for poor individuals to enhance their well-being and livelihoods.

Microfinance emerged from a realisation that the poor have the capacity to run income-generating activities that will help them fight the challenges of poverty (Hulme & Arun, 2009). In addition to enterprise development, microfinance is also seen as a means for meeting household priorities through generated income from funded business activities. This enables the poor to pay school fees for their children, pay for medical bills, and acquire assets like livestock thereby reducing their vulnerability to poverty shocks. Commenting on the popularity of microfinance, Hulme & Arun, (2009), argued that microfinance provides a win-win situation by promising both to reduce poverty and to develop the institutional capacity of financial systems to cost-effectively lend money to poor households while creating employment in the financial sector as well (Hulme & Arun, 2009).

Microfinance and the notion of providing specialist financial services to the poor and low-income people originated from the 1970s as a poverty alleviation innovation (Imran, et al., 2002). It is important, however, to note that microfinance is an umbrella term that denotes the sector that provides financial services to the poor and low-income and any form of financial services targeted at this group. Microfinance includes a range of financial services covering credit, savings, insurance, money transfers, and other financial products tailor made to suite the poor and low-income people (Robinson, 2001). Nevertheless, the term is often used narrowly to refer to loans and other services from providers that identify themselves as "microfinance institutions" (MFIs). However, increasingly these loans are available to salaried individuals as well (Robinson, 2001).

More importantly, although the interest rates charged are quite high when compared to, bank rates (average 12% per month); they are significantly less expensive than the moneylenders, thereby offering a better alternative.

Micro-credit is thus the most popular microfinance service for the poor and low-income people. The amounts involved are no longer significant in the academic discourse as a determinant factor in deciding what is or is not micro-credit. This is mainly because some mainstream banks also extend similar loan amounts in the form of overdrafts. Therefore, small consumer or business loans offered by banks or other financial providers such as moneylenders to salaried or unsalaried workers through automated credit scoring system are not part of the original definition of micro-credit (Imran, et al., 2002). The significance of micro-credit lies in the delivery method of the service, the purpose of the loans and the institution delivering the services (Hulme & Arun, 2009). Micro-credit aims to help the poor and low-income people to raise income by running an income generating activity.

Therefore, the service is usually limited to business purposes only; although increasingly

more loans are also given out for consumption purposes as well such as medical, education or emergency loans to cover costs of funerals and other challenges faced by poor people (Armendáriz de Aghion & Morduch, 2005). Practitioners recognise that if loans are denied for such vital expenditure, resources meant for income generation may be diverted to cover these immediate needs and in turn affect the individual's ability to continue generating the necessary income for ongoing living costs (Armendáriz de Aghion & Morduch, 2005).

An important feature of micro-credit loans is the fact that they usually depend on trust and require no collateral security, no credit history, no evidence of regular income, no business experience, and not even a bank account (Adams & Pischke, 1992; Cornford, 2001; Mcguire & Conroy, 2000; Mosely, 2001).

Typically, microfinance clients are often self-employed and household-based entrepreneurs operating in a wide range of microenterprises including small retail shops, street vending, informal manufacturing, and service provision (Adams & Pischke, 1992; Brau & Woller, 2004; Counts, 2008; Imran, et al., 2002; Fidler & Malhotra, 1999). In rural areas, activities often include food-processing, trade and agriculture related activities (Imran, et al, 2002, p. 8).

However, the microfinance debate has become extremely complicated over the years with controversy over almost everything from defining what constitutes microfinance to its impact on poverty, approaches, and models of best practice (Yousif, et al., 2012). The controversy has been fuelled by the recent commercialisation of microfinance, which divides the discussion between supporters and critics (Morduch, 2000).Three main paradigms dominate the socially driven microfinance debate. The first paradigm focuses on efficiency and financial self-sustainability of microfinance programs. Hulme & Arun, (2009), argue that financial self-sustainability is the most dominant view respected by several donor agencies particularly USAID, World Bank, UNDP, CGAP, and the micro-credit Summit Campaign. The paradigm asserts that financial self-sustainability must be embedded in the microfinance model design and should be part of the MFI operating motto (Hulme & Mosley, 1997).

Moreover, Fidler & Malhotra, (1999) argue that, the focus in this approach is on setting of interest rate-appropriate to cover costs. In addition, Mosley & Hulme, (1998) also argue this approach separates microfinance from other interventions to enable separate accounting and to expand programmes to capture economies of scale as well as using groups to decrease costs of delivery. Furthermore, gender lobbies have been able to argue for targeting women on the grounds of high female repayment rates and contribution of women‘s economic activity to economic growth (CGAP, 1998). The view also assumes, that increasing women‘s access to microfinance services will in itself lead to individual economic empowerment, well-being and social and political empowerment (Chandler & Fuglesang, 1986).

The second paradigm focuses purely on poverty alleviation through increasing access to savings and loans to as many poor and low-income individuals as possible. The main goal is maximum outreach in extending the services (Adams et al, 1984). This paradigm justifies some level of subsidy (Error: Reference source not found) for programmes working with particular client groups or in particular contexts. According to Fidler and Malhotra, (1999), some programmes have developed effective methodologies for poverty targeting and/or operating in remote areas using this approach. Gender lobbies in this context have argued for targeting women, because of higher levels of female poverty and because of women‘s responsibility for household well-being (Barnes, 2005).

The third paradigm focuses on women's empowerment with the view that microfinance provides an entry point into the broader strategy for women‘s economic and socio-political empowerment. The focus is on gender awareness and feminist organization. This enables women to increase expenditure on the well-being of themselves and their children.

Women‘s control over decision-making is also seen as benefitting men through preventing leakage of household income to unproductive and harmful activities such as alcohol drinking and gambling (Imran et.al, 2002). This paradigm is closely linked to the poverty alleviation paradigm. Both paradigms include other welfare interventions advocated in addition to microfinance, typically nutrition, health and literacy campaigns to further decrease vulnerability and improve women‘s skills. Moreover, poverty alleviation and women‘s empowerment are seen as two sides of the same coin (Fidler & Malhotra, 1999). The main argument in this view is the assumption that, increasing women‘s access to microfinance will in itself increase household income which will then translate into improved well-being for women and enable women to bring about wider changes in gender inequality (World Bank, 2000). Access to savings and credit facilities and women‘s decision about what is being done with savings and credit strengthens women‘s say in economic decisions of the household (Burra et.al, 2005).

However, in contrast, the financial self-sustainability paradigm, regards improved well-being as an assumed outcome from increasing women‘s economic activities and incomes (Montgomery, 1996). Arguably, in practice most microfinance programmes or organisations cannot be neatly grouped under any one of these three paradigms. MFIs following the same model of microfinance provision may have very different gender policies and/or emphases and strategies for poverty alleviation (Montegomery, 1996).

Feminisation of microfinance

Microfinance is a gender-biased poverty alleviation tool as evidenced in several MFIs who explicitly target a certain percentage of women clients, which in most cases is well above 90% of total borrowers (CGAP, 1998). The argument is that women spend much of their income on household well-being, including a daughter‘s education and their own health (Hulme & Arun, 2009). Therefore, targeting support towards women ensures maximum benefit to the rest of the family (CGAP, 1998). Even where women do not directly control incomes, perceptions of their contribution to the household have changed (Robinson, 2001). Also, increased confidence through interaction with program staff and groups has improved women‘s role in decision making within the household. Furthermore, some programmes with an explicit gendered women empowerment focus have effectively supported women‘s microfinance groups to challenge unequal property rights, domestic violence, and alcoholism and dowry demands (Adams & Pischke, 1992). Therefore, it is assumed that any support that goes to a poor household through a woman is likely to benefit the family more than any support through a man.

However, critics question this view owing to some reported cases where men used their women to take up loans for them (Morduch, 2000). In extreme cases, women did not even know that men have taken a loan in their names. Even where women control decisions over loan use, arguably, this may not result in significantly increased incomes (Morduch, 2000).

First, microfinance programmes may accelerate market saturation by increasing the numbers of women competing in the same activities, and second, very poor women working within the same range of activities may be further disadvantaged, because

they do not have the resources or contacts to get access to credit (Hulme, 2000).

Or even where there is an increase in income from women‘s or household economic activities, there may be no effective control by women over income going into the household and no material benefits for women. One can argue that men may still control the income even from women‘s economic activities and/or may expect women to use all their income for pre-determined household expenditure (Morduch, 2000). Arguably, this allows men to use their own previous contributions to the household for their own personal expenditure and, in some cases, for setting up new households (Graziosi, 2010). Critiques further argue, men may be very supportive of women‘s microfinance and other income generation activities for this very reason.

Microfinance profitability and the mission-drift debate

As discussed earlier in the first chapter, striking a balance between social and commercial goals of microfinance to create a “win-win” situation is currently a highly debated subject in the sector. Zacharias, (2008) argued that there is a relative absence of reliable data to suggest a model for a win-win proposition between social goals and profitability. He further argued that previous studies show a clear bias towards the neo-liberal CMD approach. Morduch, (2000) argued that instead of harmonious microfinance sector where MFIs work towards both organisational profitability and increasing social impact on the poor, what we have is a schism.

He argued that the sector is split into two camps, one focusing solely on profitability and institutional sustainability while the other focuses on direct impact on poor people to reduce poverty with little attention to either profitability or institutional sustainability. Cull et.al, (2009) provided evidence that most MFIs are moving away from the social efforts to reduce poverty to focus on institutional financial viability, a

phenomenon known as “mission-drift” as further elaborated on Box 3 .

Box 3: Trade-offs and mission drift in microfinance

Economists have written extensively on the trade-offs that result from the combination of (i) customers’ lack of assets which can serve as collateral and (ii) banks’ lack of cost-effective monitoring and information gathering mechanisms. These costs are of limited theoretical interest, but they can make all the difference to how the banks function and whom they serve—and whether banks are even viable. The average loan size that is provided by the median Non-Governmental organization (NGO) is less than a quarter the size of the average loan provided by the median commercial microfinance bank. That difference in loan sizes translates directly into differences in relative costs. While the NGOs in the sample economize on costs, their median operating costs are still roughly double that of the median commercial microfinance bank (when costs are taken as a share of loan value). Even if information asymmetries were not a major problem, the high transactions costs mean that reaching the very poor with small-scale services remains a tough business and often entails charging high fees or depending on steady subsidies. This structure of costs leads to practical trade-offs: Should the institution move up-market to provide larger loans and improve financial performance? If they do, they are no longer able to reach the very poor which means drifting away from original mission “mission drift” of poverty alleviation. If they remain loyal to their original social mission, can they survive commercial competition and regulation without re-defining their missions? A trade-off may seem a reasonable solution in theory, where compromises can be made on both the social and commercial goals to create a win-win situation but in practice commercial goals soon takes precedence leading to mission drift rather than a trade-off. .

Source: Cull et.al, (2009, p. 1)

Morduch demonstrated the delicacy of the balance between efficiency and depth of outreach on one side and sustainability on the other showing that the perceived “win-win” microfinance approach requires a carefully designed new model (Morduch, 2000).

Zacharias, (2008, p. 6) pointed out that there is a need for more studies on microfinance operations and efficiency as previous studies have focused on outreach and perceived impact on poverty. In elaborating the delicacy of the matter, Cull et.al, (2009, p 1) argued that, non-profit microfinance institutions make far

smaller loans on average and serve more women as a fraction of customers than do commercialized microfinance banks, but their costs per dollar lent are also much higher.

However, there remains consensus that there are potential trade-offs between social and economic goals of microfinance which can be the basis for a win-win situation by creating a hybrid approach (Montgomery, 1996). This arise when selecting contracting mechanisms, level of commercialization, rigor of regulation, and the extent of competition all meet to establish a purposeful model.

Microfinance identity crisis

Microfinance over the last four decades has evolved significantly both as a concept and as a service. It used to be synonymous with non-Governmental organisation (NGO) operations to alleviate poverty but this transformed to be a service and a concept recognised by a wide range of financial services providers from banks to private companies (Copestake & Williams, 2011; Copestake, 2000). Defining microfinance is no longer straight forward leading to confusion about what constitutes microfinance and how should this be determined. Different institutions to suite their specific aims and objectives have adopted different versions of microfinance definitions. In several publications, the term is used loosely in reference to any financial service whose target market is the poor (Stewart, et al., 2010).

While in most literature for impact evaluations, the implication of the term suggests it refers to microfinance services provided for the purpose of poverty alleviation. For example, the Systematic Review conducted by (Stewart, et al, 2010) entitled, “What is the impact of microfinance on poor people” defines microfinance as a term used to describe financial services for those without access to formal banking.

Although the authors went on to explain how such intervention is expected to alleviate poverty, no aspect of poverty alleviation was reflected in the definition (Stewart, 2010, p. 8) which means activities of money lenders can be viewed as microfinance according to this definition.

The Grameen Bank founder Mohammad Yunus was quoted as saying, the terms micro-credit and microfinance did not exist before 1970s but now has become buzzwords for development practitioners, inclined to mean everything and anything to anybody whose target market is the poor (Hulme & Arun, 2009). Gueyié & Fischer, (2009) agrees with the view that microfinance definitions vary across the whole sector although they argue that, in fact one definition is just as good as the others.

This presents a key problem this thesis is trying to highlight. Without the precise definition of what constitutes microfinance, it is hard to perceive how impact evaluations provide reliable results on the effectiveness of microfinance as a tool for poverty alleviation as activities of moneylenders can potentially distort the results. There is however, one significant similarity and consistency in all definitions presented in the literature including (Copestake & Williams, 2011, Duvendack, et al, 2011; Elahi & Rahman, 2006; Lützenkirchen & Weistroffer, 2012; Mosely, 2001).

They all define microfinance simply as a financial service to the low-income market or the poor or the financially excluded individuals whichever the case may be.

Assuming that all microfinance initiatives are for poverty alleviation may lead to misleading and confusing impact evaluation results and conclusion (Stewart et al, 2010; Duvendack, et al, 2011; Copestake& Williams, 2011). Failing to differentiate between CMD and PRD microfinance approaches is like failing to recognise that although donkeys and horses belong to the same family, they are very different in

many ways. According to Morduch (2000), it is comparing oranges with apples. There is therefore a justifiable need to put into context which form of microfinance is being referred to when dealing with impact evaluations and policy discourse about the future of microfinance.

The history of microfinance development

The idea of providing credit to individuals whose risk profile is difficulty to establish due to lack of information or adequate guarantee for loan repayments (microfinance) can be traced back to the 15th century when pawnshops began in Europe as alternatives to usurious money lending according to Mago, (2013). In Ireland, the Irish Loan Fund System started around the 1700s.Around the 1800s, Friedrich Wilhelm Raiffeisen and supporters in Germany started experimenting with financial cooperatives to improve rural and urban poor populations (Mago, 2013). Indonesia started developing the idea of banks for poor people in 1895 when they established the Indonesian People's Credit Banks.

The 1900s saw the emergence of savings and credit activities in Latin America and elsewhere in the early (Helms, 2006 cited in Mago, 2013). According to Helms, the 19th century marked a wide scale realisation of the need for the development of new kind of banks accessible by the poor (Helms, 2006). Unfortunately, Governments initiated and managed these banks.

Historically Government institutions everywhere were inefficient, corrupt and politicised in some instances (Adams & Pischke, 1992). Since agriculture was the main source of livelihood for the majority of the poor, the idea evolved into agricultural credit spearheaded by Governments and donors between the 1950s and the 1970s (Helms, 2006). Agricultural credit aimed to raise productivity and income

levels for small and marginalized farmers through the provision of credit to buy essential farming implements (Hulme & Arun, 2009). Again, because the approach was welfarist, Government owned financial institutions provided credit at below-market interest rates.

As a result, clients who were accustomed to receiving welfare support from various Government departments and programs considered loans to be the same welfare handouts and thus affected seriously the repayment rates and success of the initiatives (Armendáriz de Aghion & Morduch, 2005). In other circumstances, credit did not reach the poor; it ended up in the hands of the rich politicians and the influential elite causing once again disappointing failure (Mosely, 2001).

According to the "Microfinance Focus," a knowledge platform for microfinance, the notion of micro-credit and microfinance as a formal financial service was first initiated by Muhammad Yunus of Grameen Bank in Bangladesh in the 1970s.

Microfinance as understood in the 21st century started as an experimental project to deliver credit facilities to the extremely poor whom the banks had no hope in serving because of their poverty conditions (Zacharias, 2008). The project began providing small loans of US$ 27 to a destitute group of 42 families in Bangladesh in 1976. The lending model removed all conventional strings to the loans, such as collateral security, credit history, income or asset based assessments and lending was solely reliant on mutual trust, accountability, participation, and creativity (Zacharias, 2008).

Most importantly, the model acknowledged the survivalist nature of poor people's economic activities as opposed to banks and their entrepreneurial view of the ventures (Beaudry, 2008, pp. 5-6). The approach respected and acknowledged any income generating activity the poor engaged in as legitimate businesses to be financed. Whatever these poor people were doing to earn a living, as long as it was

legal, they were eligible for a loan from the program.

After successful completion of the pilot project, the Grameen (Village) Bank was launched to extend the program to a wider population in 1983 and currently has over 2100 branches across Bangladesh.

The lending model was replicated in more than 100 countries around the world and encouraged the World Bank to take an initiative to finance Grameen-type schemes. As a result, the Grameen founder, Mohammad Yunus was awarded a Nobel Peace Prize in 2006 (Srnec & Svobodová, 2009). Almost at the same time but prior to the Grameen model, in a similar initiative, Elaben Bhatt founded the Self-Employed Women's Association of India (SEWA) in 1972 (Abbott, 1993).

The scheme however, was India specific in its relation to mainstream banks and did not quickly gain global recognition as did Grameen model although it was older (Robinson, 2001). The SEWA program is, nevertheless strongly supported by the World Bank, which recognises it as a model to be replicated elsewhere. At the same time the Americans for Community Co-operation in Other Nations organisation, (ACCION) decided to experiment with small loans to a group of individuals in Recife, Brazil in 1973 (Christy, et al., 2000). This came about when team of international aid workers involved with ACCION in a bid to better understand how the organization could most effectively support poor families and communities in Latin America. They identified lack of access to capital among the poor households as the number one problem because banks were not prepared to assist causing them to accept the terms of loan sharks, which were outrageous (Christy, et al., 2000).

Also in 1988, a new lending model Self-Help Group (SHG) was launched by Aloysius P. Fernandez through MYRADA and now reaches over 6.2 million SHGs in India with

a membership of 90 million women, making it the largest micro credit and women's empowerment program in the world. In addition, John Hatch founded the Foundation for International Community Assistance (FINCA) in 1984 (Hulme & Arun, 2009). He pioneered the village banking method, which uses the philosophy "Give poor communities the opportunity, and then get out of the way!”

The program provides the poorest families, particularly those headed by single-mothers, with loans to finance self-employment activities capable of generating additional household income (Hulme & Arun, 2009). It also gives full responsibility and autonomy to borrowers in running their banks as a community and the model is currently replicated in 23 countries while adapted in 60 other countries worldwide.

Microfinance evolution: from micro-credit "to" microfinance “to" financial inclusion

Microfinance as a sector evolved from being known as "micro-credit” and providing just credit only in 1970s to the provision also of; micro savings, micro-insurance and several other mobile based financial service such as remittances in the 21st century (Cull, et al., 2008; Christy, et al., 2000). The 1970s through to 1980s was characterised by major appeals for poverty reduction, which inspired the introduction of micro-credit and witnessed the development of the initial ideas (Srnec & Svobodová, 2009, pp. 467-470). It became evident before long that, the poor needed not just credit but were also just as vulnerable to life disasters and uncertainties as the rich, who prepare for these through savings, investments, and insurance products of all sorts (Cornford, 2001; Srnec & Svobodová, 2009).

Therefore, the period from the mid-1980s through to 1990s witnessed rapid expansion of formal MFI development and provision of additional financial services

such as micro-savings, evidenced by different types of MFIs and models being initiated in South –East Asia and Latin America such as the introduction of FINCA and SHG lending models (Hulme & Arun, 2009).

The addition of more services to the originally credit only service necessitated the adoption of the term microfinance and thus the new era of microfinance began although some still continue to use the term micro-credit interchangeably with microfinance even to this day (Hulme & Arun, 2009).

As the microfinance expansion targeted the poor areas of economies, MFIs became more visible in rural areas where often most poor people lived creating a separate financial system to the traditional one mainly accessible in towns and cities.

This resulted in what is commonly known as financial dualism in developing countries (Robinson, 2001, p. 54). Microfinance development accelerated around the world from mid-1990s to the 21st century, with a major boost in 2005 after the year was declared the International Year of Micro-credit by the Economic and Social Council of the United Nations (Ledgerwood, et al., 2013). This represented a call for the financial sector to “fuel” the strong entrepreneurial spirit of the poor people around the world (Robinson, 2001, p. 54).

The endorsement of microfinance by United Nations may have also contributed to a further global shift in developmental polices among donors and Government agencies, which was evidenced by a growing tendency to favour the global development and expansion of microfinance organisations from the late 1990s onwards. The shift was a market based focus on building inclusive markets as

opposed to simply working directly on reducing poverty, which required endless donor support (Cull, et al., 2008). This was characterised by a drive to transform MFIs into self-reliant businesses committed to continue reaching out to the poorer market end (Christy, et al., 2000; Ledgerwood, et al., 2013).

The move added an additional goal on microfinance organisations to commercialise their services while opening up a completely new world of untapped opportunities for social investors whose primary motives are nothing more than profit making.

Because of this boost and change of focus, microfinance in recent years has fast developed into a sector and an industry in its own right with diverse models, providers and approaches (Cull, et al., 2008). A report published by the Micro-credit Summit Campaign in 2006 estimated over 113 million poor people received microfinance services from over 3,000 Microfinance Institutions (MFIs) worldwide in 2005 (Daley-Harris, 2006, p. 21). Another paper submitted at the same summit reported a further 28.8 million microfinance recipients reported from 378 MFIs for the same year (Otero & Rhyne, 2006, p. 10). The global penetration of microfinance services stood at just 10% of the estimated $300 billion global demand in 2004 (Tulchin, 2004, p. 4). Of this demand, donors only account for less than $1 billion a year leaving MFIs with no option but to take an enterprise approach in their operations and boost their cash flow to meet funding shortfall (Cull, et al., 2009; Otero & Rhyne, 2006).

This however poses complex strategic challenges to MFIs as they struggle to strike a balance between the sustainability goals and the original social vision of reducing poverty by offering relevant low cost financial services to the poor (Cull, et al., 2008; Tulchin, 2004). Considering the evidence from the pioneering microfinance schemes

discussed earlier, the aims and motives of the original programs focused on social goals of poverty alleviation.

However, as microfinance reached wider global acceptance, rapid growth and diversity emerged with very distinctly visible parallel methodological philosophies.

One approach lies on the extreme left advocating for the maintaining the social mission of microfinance characterised by heavy Government subsidies as in the case of the Grameen Bank (Ledgerwood, et al., 2013; Christy, et al., 2000). The other approach lies on the extreme right, driven by the market dynamics and financed on private equity while motivated by profitability and sustainability of the institutions. The Compartamos Bank in Mexico is a typical example. A clear divergence from an unquestionable social venture, once prominent as a tool to fight poverty through empowerment of poor entrepreneurs, to a profitable commercial enterprise became visible among several leading microfinance providers. Zacharias (2008) in his investigation for microfinance economies of scale highlighted a clear example of this.

After building a $400 million loan portfolio and reporting $80 million in profits, the Compartamos Bank decided to go public in 2007 (Zacharias, 2008). Many, including the Grameen Bank founder Yunus questioned as to how such a move to the far right can be sustained without dropping the social mission.

Microfinance paradigm shift

Historically, the promise of microfinance was tied to its potential for poverty alleviation through micro-credit and other support services. The sector was dominated by social players and the goal being that of moving millions of poor

people out of poverty (Melsom, 2010). However, the last few years have seen a significant paradigm shift from this perspective of microfinance with a new emphasis on liberating microfinance from the burden of poverty alleviation to making it an obligation or purpose free service at the lower end market rather than specifically targeting the poor (Ledgerwood, et al., 2013).

This new goal has been advocated as the goal for increasing access to finance or building more inclusive financial markets underpinned by a strong focus on strengthening the capacity of institutions to provide such services.

This also meant that the poor who used to be viewed merely as loan borrowers were now viewed as clients or customers (Ledgerwood, et al., 2013). The terminology also changed from micro-credit and microfinance which were synonymous with the poverty alleviation agenda to expressions more compatible with commercialisation and wider financial market systems such as "inclusive finance, access to finance, financial ecosystems, and financial inclusion" (Ledgerwood, et al., 2013). Another major shift was seen in the funding environment which shifted from the once donor driven to being dominated by private commercial investments.

From poverty alleviation to building inclusive financial markets

The post 2000 literature defines microfinance as a vehicle for promoting financial inclusion by extending financial services to the unbanked poor individuals while making no claims on the intentions to reduce poverty (Copestake & Williams, 2011). In contrast, most literature prior to 1999, defined or referred to micro-credit or microfinance not as a financial inclusion tool, but expressly as a poverty alleviation tool through promoting self-employment and income generation (Rahman, 2000; Bhatt & Tang, 1998). It can be argued that this represents a paradigm shift in the

microfinance approach from that of direct intervention where programs actively seek to reduce poverty, to an indirect approach where programs simply seek to promote financial services access to the previously excluded lower end market (Christy, et al., 2000; Cull, et al., 2008; Ledgerwood, et al., 2013).

It can also be argued that, this shift means that the microfinance role is slowly moving away from development related interventions to a financial market tool for harnessing and widening the reach of the financial institutions to tap into more of the lower-end of the financial market (Ledgerwood, et al., 2013; Christy, et al., 2000). The move saw the emergence of purely commercial microfinance initiatives. However, regardless of this major paradigm shift, the original expectations of microfinance remained unchanged with impact evaluations being carried out at various stages to establish the evidence of poverty reduction (Duvendack, et al, 2011).

From grant funding to private investments

The development of the microfinance sector has historically depended on funding from non-commercial investors such as religious and other NGOs through donations. Non-commercial investors motivated by (sustainable) investment to alleviate poverty, opposed to purely profitability (Melsom, 2010). However, since the commercialisation of the sector, the role of commercial investors has led to an increase in competition, particularly for funding of well performing microfinance institutions (Ledgerwood, et al., 2013). Commercial investors inspired by profitability, prioritised investment in the most lucrative investments. With the establishment of MIVs, investors either lend money to a fund (i.e. debt) or buy a unit or share in the fund (i.e. equity participation)

and invest in MFIs according to predefined terms (Ledgerwood, et al., 2013; Melsom, 2010). The entrance of commercial investors rendered the role of non-commercial investors irrelevant, forcing them to scale down their investments in microfinance or even consider exiting the microfinance market altogether (Lützenkirchen & Weistroffer, 2012).

It is argued that, the non-commercial investors, who used to fund a diverse portfolio of high and low margin microfinance institutions now finds they are slowly being pushed to the low margin end due to competition from commercial investors who now dominate the higher end margin portfolios (Melsom, 2010). Traditionally, non-commercial investors used high margin investment returns to subsidise the more socially orientated low margin investments but with shift in the funding regime, this important role becomes difficult.

On the other hand, for commercial microfinance it makes sense to cease profit redeployment to lower yielding investments and repatriate profits to investors by means of dividend or redeployment in other high margin areas (Melsom, 2010). This means the role of poverty alleviation in this model of microfinance is completely lost, leaving the most socially and financially excluded subject to rising funding costs or even more excluded.

Summary

In summary, the concept of microfinance has travelled a perilous journey of trial and error since the 70s and has evolved to what is increasingly called financial inclusion (Ledgerwood, et al., 2013). Financial inclusion is a multidimensional, pro-client concept, encompassing increased access, better products, and services, better-

informed and -equipped consumers, and effective use of products and services. Financial inclusion incorporates effective policies, legislation, industry and consumer protection standards, and financial capability (Christy, et al., 2000; Cull, et al., 2008). Several developments have converged to refocus thinking about best practice in financial services for the poor.

However, because financial inclusion is a product of the commercialization drive in microfinance, concerns about mission drift, eliciting calls for paying attention to social performance and the "double bottom line," which relies on strong financial performance to fulfil a social mission has already been raised (Zacharias, 2008; Melsom, 2010).

Further concerns have emerged with regard to high interest rates and private gains from public offerings of MFI shares and the concentration of investments in a small number of countries and institutions (Copestake, 2000). Furthermore, in some countries, client over-indebtedness is attributed in part to market saturation, with a narrow range of credit products and competition among MFIs pushing lenders to make increasingly risky loans and pursue harsh collection practices when repayment has faltered (Bhatt & Tang, 2001).

Over-indebtedness can increase financial and social vulnerability as borrowers take new loans to repay old ones or resort to extreme measures to make their payments, including reducing their consumption of food and selling productive assets. Such measures can lock borrowers into a downward spiral with severe consequences (Ledgerwood, et al., 2013; Demirguc-Kunt & Klapper, 2012). At the same time, innovation is bringing new customers and new service providers into the market.

4 BACKGROUND ON ZIMBABWE

Overview

This chapter presents an analysis of the country of Zimbabwe. It begins with a general overview and description of Zimbabwe, looking at its geography, climate, population, the people (languages, tribes and ethnic groups) and a snapshot of the country's current economic and political situation. This is followed by a section analysing Zimbabwe's pre-colonial era, the colonial era and the impact these periods had on shaping the modern day Zimbabwe. The section pays particular attention to the political, social and economic legacy left, such as the origins of the dualistic nature of Zimbabwean economy, the ethnic and tribal tensions that exist between the Shona and Ndebele people and the racial origins of land ownership and redistribution.

The next section explores the current stated poverty in Zimbabwe focusing mainly on the importance of social capital as a coping mechanism for Zimbabweans. The economic development and other challenges faced by the country are presented

after the poverty section and this is followed by an exploration of different economic sectors and the difficulties they face. In particular, the formal sector, the informal sector and the survivalist sector of the Income Generating Activities (IGAs) are considered. The subsequent section discusses, the nature of Zimbabwe's financial sector, exploring the banking sector, the non-banking sector and the informal financial sector before commenting on the role of microfinance in the Zimbabwean economy.

Country description and general overview

Zimbabwe is a land locked Southern African country surrounded by Mozambique on the East, Zambia on the North, Botswana on the West and South Africa on the South as shown on Figure 4 *.*

Figure 4: Map of Africa showing the location of Zimbabwe

The country has a land mass of 390 580km^2 covering three regions (Lowveld, Middleveld and the Highveld) distinguished based on their general elevation. That is;

Lowveld below 900 m, Middleveld between 900–1200 m and the Highveld, from 1200–1500 m above sea level (Chimhowu, et al., 2009). Zimbabwe also lies in the tropics extending from 15°30'S to 22°30'S and from 25°E to 33°E (Simson, 1979). The raining season covers five months a year from November to March with rainfall ranging between 200mm to just over 1200mm per year, making most parts of country dry and prone to occasional drought spells (Chimhowu, et al., 2009).

Zimbabwe is among the poorest countries in Southern Africa but the poverty rates differ significantly between the country's 10provinces, cities, and rural areas according to Malaba, (2006). Matabeleland province that covers rural areas around the city of Bulawayo (Figure 4) has the highest poverty rate in the country (Malaba, 2006). Poverty is also concentrated in the south-eastern rural provinces of Manicaland and Masvingo. These areas are the least productive areas in the country due to drought (Malaba, 2006). In 2008, the country was in a state of food emergency with over 85% of the Zimbabwean population being categorised as poor according to Bird & Prowse, (2008). Over seven million people were receiving food emergency assistance from international food programs in 2009 (Bellmon Estimation Studies , 2012). Zimbabwe's economy had a GDP of 6.8 billion US$ in 1999 (UNDP Zimbabwe, 2008) but shrunk by over 45% to 4.4 billion US$ in 2008. The country's unemployment rose to over 88% by the same year according to Mzumara, (2012).

During this period, forced economic reorganisation could be observed (Table 4).

Some sectors which are traditionally the backbone of the economy such as agriculture, manufacturing and tourism declined significantly between 2000 and 2008

while sectors such as mining, distribution, trade and telecommunications particularly mobile communications were growing (UNDP Zimbabwe, 2008). The middle-income segment of society deriving income from domestic employment, skills, enterprenuership, quality and branding were diminishing fast while the low income segment of the society receiving diaspora remittances and having low-skills and low technologies was increasing (Mzumara, 2012).

Table 4: Zimbabwe's economic outlook between 2000 and 2008

Declining	**Growing**	**Diminishing**	**Increasing**
Agriculture	Mining	Middle-income segment	Low-income segment
Manufacturing	Distribution and trade	Income from domestic employment	Diaspora remittances
Tourism	Telecommunications, finance, real estate	Style, quality, branding	Down-trading and cost leadership
Private sector	Public sector	Skills and entrepreneurship	Low skills and low technologies
Formal economy	Informal sector		
Domestic output	Foreign trade		
'Real' investment	Financial investment		
Large formal firms and farms	SMEs/subsistence farming		

Source: (Mzumara, 2012; UNDP Zimbabwe, 2008)

However, more recent statistics shows that Zimbabwe has dramatically improved and is now on the road to full economic recovery (ZimStat Quarterly Digest , 2013). The economy started recovering in 2009 and registered a GDP of US$ 9.6 billion in 2011 (Mzumara, 2012). The socio-economic situation has also improved from requiring emergence food aid assistanceto requiring recovery and development aid

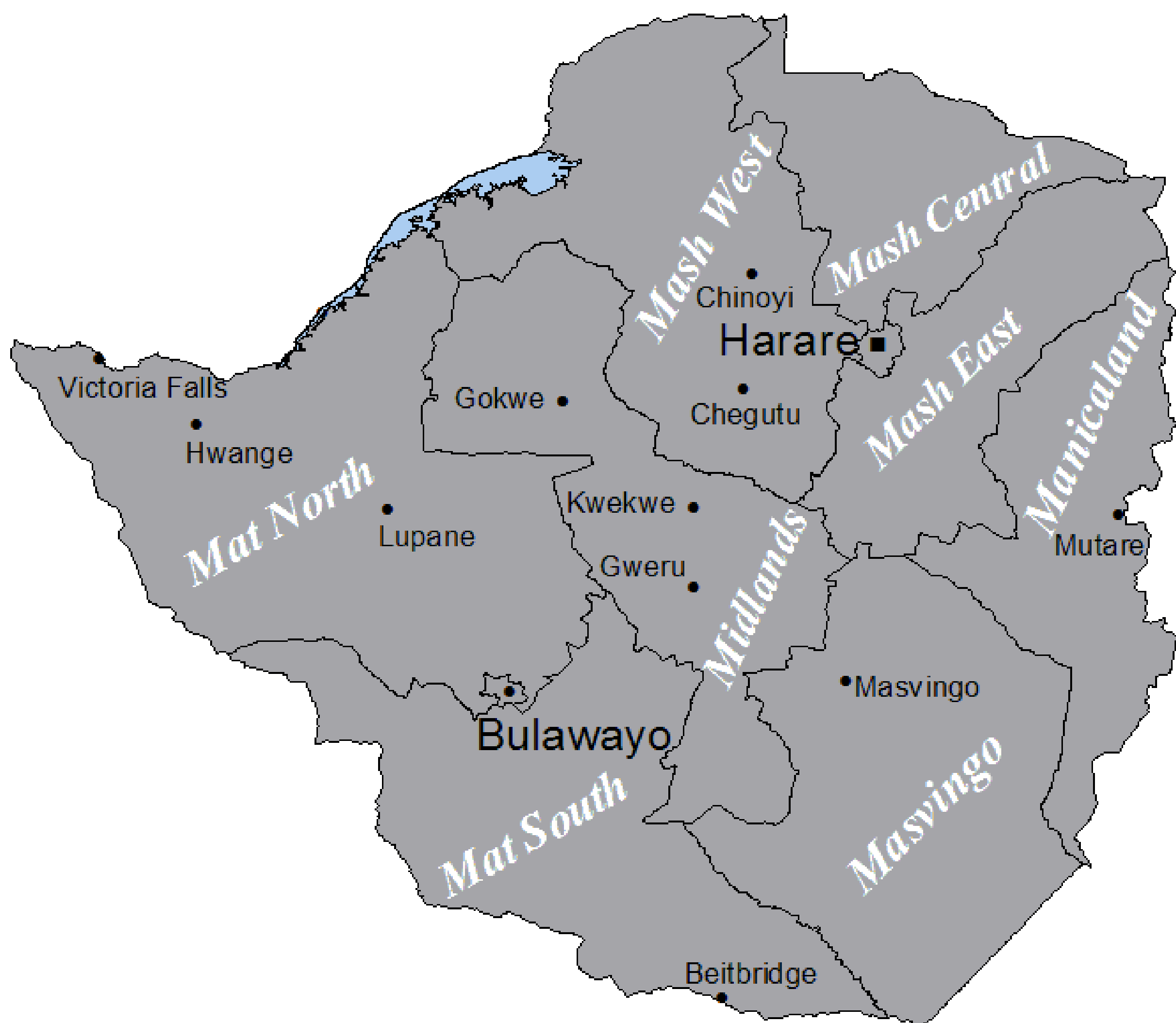
by early 2012.

By then with only 1 million Zimbabweanswere still in receipt of emergency food assistance (Bellmon Estimation Studies , 2012), as compared to seven million who received food aid in 2008 (Chimhowu, et al., 2009). This period of economic recovery was largely the result of an agreement for a unified Government between all major political parties in Zimbabwe which calmed down the political turmoil that had characterised the country's political landscape for almost a decade. The agreement led to the subsequent replacement of the local currency with the US dollar and the South African Rand. This cured the previously uncontrollable inflation which had reached 9 digit figure by 2008 causing any meaningful economic activity to be extremely difficult (Chimhowu, et al., 2009).

In terms of local governance, Zimbabwe is divided into ten provinces for administrative purposes (Figure 4). The country has two major dominant regions, which covers five provinces in total and are characterised mainly by language and tribal differences. The first region is the Mashonaland, divided into three provinces, Mashonaland West (Mash West), Mashonaland Central (Mash Central), and Mashonaland East (Mash East), (Figure 4). The second region is the Matebeleland, divided into two provinces; Matebeleland South (Mat South) and Matebeleland North (Mat North) (Figure 4). These two regions are separated by the sixth province, the Midlands, which lies between them stretching from North to South. On the South and South East, part of the country lie the seventh and the eighth provinces of Masvingo and Manicaland respectively. The last two provinces are the big cities of Harare and Bulawayo, which have been upgraded to provincial status due to population size in these major cities.

Since 2009, the country has been governed by a Government of national unity formed by all main political parties in Zimbabwe, namely, the Movement for Democratic Change (MDC-T), the Zimbabwe African National Union-Patriotic Front (ZANU-PF) and a faction of the MDC until 2013 when ZANU-PF regained total control in the highly disputed general elections.

Figure 4: The administrative Map of Zimbabwe showing provinces and big cities



The MDC-T lead by Morgan Tsvangirai had hundred parliamentary seats while ZANU-PF lead by Robert Mugabe had ninety nine seats and the MDC faction lead

by Mutambara had ten seats with one seat occupied by an independent (Chimhowu, et al., 2009; Raftopoulos & Mlambo, 2009).

Prior to this Zimbabwe was governed by ZANU-PF party, led by President Robert G. Mugabe after the country gained independence from the British colonial rule in 1980 (Gowland, 2002).

The population of Zimbabwe is12.9 million people (60% female and 40% male) according to the 2012 official census report (Zimbabwe National Census, 2012), with an annual population growth rate of 1.4%. In addition, the consumer survey conducted the by Zimbabwe National Statistics Agency (ZimStat) in 2011 established that 65% of the population lived in rural areas while only 35% were in urban areas (Makanjee & Chirongwe, 2012). This distribution is partially influenced by the Government's forced urban-rural migration, which took place in 2005, famously known as "Operation Clean up" where thousands of illegal structures in all urban areas of Zimbabwe were destroyed and nearly a million people displaced into rural areas (Gowland, 2002). These people were later resettled in the farming areas controversially taken from white commercial farmers during the Government's widely condemned chaotic fast track land redistribution program which started in 2000(Chimhowu, et al., 2009).

Zimbabwe has two major tribes and languages, the Shona speaking people constituting 80% of the population and the Ndebele speaking people accounting for 18% of the population (Political Risk Services, 2012). The word Shona is a linguistic term describing a group of dialects spoken by several ethnic groups in Zimbabwe. Therefore, the Shona speaking people, who are often loosely referred to as the Shona tribe includes; the Karanga (25%), Zezuru (22%), Tonga (5%), Korekore (6%),

Kalanga (5%), Ndau (5%) Rozwi (2%) and Manyika (12%) (Simson, 1979).The remaining 2% is composed of ethnic white and Asian population (Jacobs, 1995). There is not much cultural or religious diversity in Zimbabwe. Half of the population (50%) believes and practices both Christianity and indigenous traditional values, the remaining half is divided between pure Christianity (25%), indigenous traditional beliefs (24%) and (1 %) representing other beliefs (Jacobs, 1995).

Pre-colonial and colonial eras: impact on modern day Zimbabwe

Zimbabwe's political and economic history has deep roots in the colonial era, which ended in 1980, and the pre-colonial period which can be traced back to 400,000 years BC and even beyond according to Simson, (1979). It is arguable that these two periods and largely shaped the current socio-political, economic, racial and tribal landscape in Zimbabwe (Raftopoulos & Mlambo, 2009). This section explores how the historical legacy influences everyday life today.

Zimbabwe's pre-colonial era - earliest existence (50 000 BCE - 1889 AD)

The earliest inhabitants believed to have lived in Zimbabwe according to archaeological evidence were ancestors of the Khoi-San peoples also known as Bushmen who still live in parts of Botswana, Namibia, and South Africa (Gascoigne, 2001). Evidence suggests, the Khoi-San from as long ago as 50 000 BCE through to around the stone age era possibly around 100 BCE. These inhabitants were hunters and gathers and lived in very small groups ideal for moving from place to place in search of fresh supplies of food (Gascoigne, 2001; Raftopoulos & Mlambo, 2009).

Evidence of the Khoi-San inhabiting in Zimbabwe is contained archaeological artefacts they left behind in the form of stone tools, weapons and paintings which depicts their lifestyle (Raftopoulos & Mlambo, 2009). These are found on cave walls

and in rock shelters in several places throughout Zimbabwe and other parts of Southern Africa.

It believe that between 0 CE - 1800 AD, approximately 2000 years ago, a new groups of people collectively known as the Bantu migrants arrived in Zimbabwe from the north. Bantu is a group of languages historians believe originated from west-central Africa (current day Cameroon, Central African Republic and the Congo.) Bantu languages all share the word "ntu" for person (Gascoigne, 2001).

The *Bantu-speaking* migrants brought significant changes to the land of Zimbabwe. Their life style was different from Khoi-Son in that the practiced domestication of animals instead of hunting, cultivation of crops instead of gathering, smelting and making tools and weapons from iron and other metals instead of using stone tools (Gascoigne, 2001). Evidence suggests that early civilisation begun through mineral extraction early trading development in Zimbabwe during this period (Raftopoulos & Mlambo, 2009). One such evidence is the trading centre at Mapungubwe on the bank of the Limpopo river where it is believed that in 1075 Mapungubwe king decided to separate his own dwelling from those of his people and built his court at the top of a sandstone hill where he ruled from an extraordinary stone palace. This was known as "zimba-bwe", which literally means a "big stone house" in local Shona language (Gascoigne, 2001). Mapungubwe ruler's, “zimbabwe" became the first several dwellings constructed by various rulers throughout the ancient history of the country. The "zimbabwe" structures became synonymous of chieftain's dwelling and over 100 hilltop ruins of such structures have been discovered with the most impressive being the one known as the Great Zimbabwe located in Masvingo area and constructed around the 13th century (Gascoigne, 2001). Therefore, the modern day Zimbabwe derived its name from the ancient term "zimbabwe.”

Traces of metal age cultures in the first century A.D, associated with the ancestral origins of the Shona people (Bantu- speakers) were discovered suggesting habitation from a very primitive stages of human development (Simson, 1979).

Their continued settlement is traced through to the 1830s evidenced by the famous Great Zimbabwe stone structures still standing to this day which these old empires built as discussed earlier (Raftopoulos & Mlambo, 2009). However, the Shona kingdoms were later in the 18th century invaded and subsequently subdued by the Ndebele kingdom while fleeing from the Zulu leader Shaka in South Africa (Simson, 1979). Up until the beginning of the colonial era, the Shona people suffered serious oppression under the Ndebele rule and forced to pay tribute or systematically raided to collect agricultural harvest each year. This resulted in tribal tensions (section Ethnic and tribal divisions: below) which exist to this day (Mzumara, 2012). As will be explored in section below, the story of Zimbabwe's colonisation presents intriguing insight into the structural challenges the country has faced even up to the present time. This was a nation run by a commercial company whose sole interest was to make as much wealth as possible for itself and its supporters by any means possible, including taking military action to protect its interest if necessary (Raftopoulos & Mlambo, 2009).

The colonial era : how Zimbabwe was shaped

The story of Zimbabwe's colonisation began with the British colonialist Cecil John Rhodes who arrived in the region and obtained a concession for mineral rights from the Ndebele King, Lobengula in the late 18th century (Simson, 1979).

Rhodes formed and funded a company - the British South African Company (BSAC) and requested that the British government provide the BSAC with a royal charter that would give the Company the right to make treaties with African rulers north of the Limpopo on behalf of the British government (Raftopoulos & Mlambo, 2009). These treaties would serve as the basis for the colonization of these areas on behalf of Britain (Youngblood, 2015).

Rhodes proposed that, his company the BSAC would administer the new colonies on behalf of the British government and would in return be given mineral and land rights in the new colonies (Gascoigne, 2001; Raftopoulos & Mlambo, 2009). This would give his company the right to sell and distribute all the land confiscated from the Ndebele and Shona peoples (Raftopoulos & Mlambo, 2009). In what historians believed was a deceitful conduct, the BSAC signed a treaty with the Ndebele king, Lobengula and claimed that the vast majority of what is today Zimbabwe was under the effective control of Lobengula and were incorporated into the Ndebele kingdom when this was clearly not the case (Gascoigne, 2001). Historical record shows that the Ndebele kingdom controlled the south-western region of Zimbabwe and had tributary relationships with Shona peoples in adjoining areas, they never controlled more than a third of current day Zimbabwe. It is believed the BSAC acted in this manner to avoid having to sign treaties with each and every single Shona kingdoms which would have been time consuming (Gascoigne, 2001).

In the early 1890s, the Company then began moving in European settlers and investors and used the treaty to justify claiming political control over “Southern Rhodesia" arguing it was necessary to guarantee the protection of their miners and the export of minerals (Youngblood, 2015; Gascoigne, 2001).

The most important of these BSAC settlements were Fort Victoria (now Masvingo) and Salisbury (now Harare) in the north east, which was to become the capital of the new colony of Southern Rhodesia (Gascoigne, 2001). Important to note is the fact that the BSAC was a commercial company and not a government. It therefore had neither an army nor citizens to recruit for the invasion of Zimbabwe. The BSAC announced that it would give significant mining claims in Zimbabwe to any healthy European adult male who would join the BSAC project (Raftopoulos & Mlambo, 2009).

Earlier discoveries of massive gold deposits in surrounding areas made many to believe there were similar deposits in Zimbabwe and consequently, many Europeans people responded to the BSAC's invitation. Therefore, the early settlers were not trained soldiers and neither were they part of a legally structured army, but they were willing to join the Company project, and to potentially go to battle so they could prospect for gold that they believed existed in abundance in Zimbabwe (Gascoigne, 2001).

Volunteer soldiers fighting on behalf of the BSAC were richly rewarded for their efforts. In addition to receiving additional mining claims, they were each given the right to claim land. After defeating Lobengula in 1893, the BSAC began setting up a system for governing the territory, which they now called Southern Rhodesia in honour of Cecil Rhodes, and was 3 times bigger than Britain (Raftopoulos & Mlambo, 2009; Coleman, 2015). The evidence suggests, that as a commercial company, the BSAC was interested in keeping their administration government as small as possible and making money, not spending money on supporting administrative offices of government (Gascoigne, 2001).

Justifiably, the company was only willing to spend money in two areas of security and transportation. Making profits depended on the safety of European settlers and their economic activities, particularly mining. Therefore, the BSAC was willing to spend revenue on developing a police force that could protect their interest from Shona and Ndebele communities and to spend money on the development of rail transportation (Raftopoulos & Mlambo, 2009).

As a result, both the Shona and Ndebele people staged prolonged but unsuccessful resistance against colonial invaders as Rhodes continued to mobilize thousands of Europeans to help him subdue the local kingdoms in return for mineral rights and land ownership in the new African paradise (Raftopoulos & Mlambo, 2009).

By 1897, both the Ndebele and the Shona people had become subjects to Rhodes's administration and the country was then named after Rhodes becoming "Southern Rhodesia" (Simson, 1979).

The century that followed was characterised by systematic racial discrimination and suppression of the black majority by the ruling white minority (Raftopoulos & Mlambo, 2009). Corporate development legislation and frameworks were designed to concentrate on, and foster the interest of whites and large corporations owned by Europeans and the development of urban areas where the colonial powers lived. The regime actively blocked investment or economic development in rural areas where the majority of black African people lived resulting in a dual economic system, which exists to this day (Simson, 1979).

However, the current economic and political landscape was also influenced by the period after the Second World War, which fuelled the global capitalist Industrial Revolution (Raftopoulos & Mlambo, 2009).

The colonial Government actively participated in the post-world war boom that led to economic liberalisation and increased export production through improved technological innovation. Due to racially skewed policies, this period was characterised by year on year impressive economic growth and development but in urban areas only (Raftopoulos & Mlambo, 2009). According to Simson, (1979), the modern sector received 97% of the annual investment while the tribal trust lands where Africans lived received only 3% during this period.

The development pattern coming out of this approach is no surprise, economic growth increased in urban areas with big manufacturing companies expanding their production capacity while rural areas remained stagnant (Raftopoulos & Mlambo, 2009). Consequently, unemployment among Africans was increasing year on year as growing technological innovation meant that companies brought in new machinery to replace manual labour leading to structural economic growth with a tendency of creating fewer employment opportunities for Africans (Raftopoulos & Mlambo, 2009). For example, the economy grew by 8.5% GDP between 1945 and 1974 but only 16% Africans were employed in colonial Zimbabwe (Simson, 1979).Therefore, the economic system created an inherent structural deficiency to absorb surplus labour supply in major economic drivers; manufacturing, distribution and the service sectors (Mzumara, 2012).

Arguably however, the economic development and policies in Zimbabwe were shaped to a large extend by the Unilateral Declaration of Independence (UDI) period which began in 1965 rather than the entire colonial era. The colonial Government under the leadership of Ian Smith desiring independence from the British Government announced UDI in 1965, which resulted in the Government suffering international economic sanctions and isolation (Raftopoulos & Mlambo, 2009).

The colonial Government responded by adopting an import substitution and inward looking economic approach (Mzumara, 2012). This economic reorganisation led to the development of agriculture (see section Zimbabwe's economic development) through great expansion in commercial farming for local and regional markets and making agriculture the most important economic driver.

This remains the case in the current Zimbabwean economy today (Raftopoulos & Mlambo, 2009).The colonial era did not only shape the economic landscape in Zimbabwe, but also left a big dent in the ideological landscape of local politics. The legacy of the armed struggle for independence is almost synonymous with patriotism.

However, right from the beginning of colonisation, both the Ndebele and the Shona people staged several revolts and resistance including an armed guerrilla war with the help of neighbouring countries which heightened in the 1970s (Sibanda, 1990, p. 7). The most successful resistance was organised by mainly two nationalist movements; the Zimbabwe African Peoples Union (ZAPU) formed in 1961under the leadership of Joshua Nkomo and the Zimbabwe African National Union (ZANU), formed in 1963 after splitting up from ZAPU. Reverend Ndabaningi Sithole was the first ZANU leader before he was replaced with Robert G. Mugabe in 1975.In an effort to consolidate their struggle for independence, an alliance between the two nationalist movements, ZAPU and ZANU was established in 1976 called the Patriotic Front (Simson, 1979). The new formation was successful in forcing the colonial Government to take part in meaningful negotiations to address terms of independence.

In September 1979, a conference was agreed to discuss a new constitution drawn up by the British Government to address the inequalities particularly in land redistribution (Simson, 1979; Huyse, 2003).The result of the meeting was an agreement now famously known as the Lancaster House Agreement.

This outlined the pre-independence arrangements, the terms of land redistribution, and a ceasefire that led to the declaration of the independent Zimbabwe on the 18th of April 1980 with Robert Mugabe as the Prime Minister, having won the first post-colonial general election (Sibanda, 1990, p. 7; Raftopoulos & Mlambo, 2009).

Ethnic and tribal divisions: tensions between Ndebele and Shona

Zimbabwe is an ethnically divided country with hostilities and tensions mainly between the Ndebele and Shona speakers. Academics hold different views about how it all started but historical evidence suggests that hostilities started with the arrival of the Ndebele and their subsequent violent takeover of the Shona kingdoms in the 18th century (Huyse, 2003).

Mzilikazi, the Ndebele king was one the important allies of Shaka Zulu who after falling into disfavor gathered his regiments of soldiers loyal to him and left to settle in the provinces of Guateng and Limpopo in South Africa in 1821 (Gascoigne, 2001). Historians believe that the Ndebele kingdom grew to become one of the most powerful African kingdom in South Africa before the European (Afrikaners) migrations arrived from the south fleeing from the British and waged a fierce confrontation for years (Raftopoulos & Mlambo, 2009). Consequently, in 1836 Mzilikazi moved his kingdom to the area north of the Limpopo River into now south western Zimbabwe and was fully established having faced little to no resistance from Shona communities. Cattle raising was central to the Ndebele economy.

They also grew crops, but subsidized their grain and vegetable consumption through food received as “tribute” from defeated Shona communities. The expected to payment of regular tribute included cattle, grain, salt, and iron tools (Raftopoulos & Mlambo, 2009).

A system of compulsory military service was the basis of the Ndebele kingdom's power. All young men were forced to serve in age-group regiments for up to period of five years along with other young men of their same age (Youngblood, 2015; Gascoigne, 2001). The age-regiments had the responsibility of defending the kingdom, but also they had the responsible for increasing the cattle wealth of kingdom through raids on the neighbouring Shona and Tswana communities. Often, these attacks were carried out on Shona communities as far as hundreds of kilometres from the Ndebele kingdom (Gascoigne, 2001).

The Ndebele caused profound trauma and fear among Shona villages as they systematically carried out regular raids on villagers to collect annual harvests and animals for decades before the arrival of the European colonialists (Huyse, 2003). It is further argued that colonial settlers fostered their rivalry deliberately as an instrument of “divide and rule” (Raftopoulos & Mlambo, 2009). The settlers tilted the existing power structure by empowering the Shona who were the former Ndebele subjects and gave them positions of authority over their former masters, thereby giving them an opportunity for revenge resulting in bitter tension between the two tribes (Simson, 1979). Furthermore, the victory of Zimbabwe African National Union - Patriotic Front (ZANU- PF) and Mugabe as a Shona leader in the 1980 election may have been perceived as a real tribal threat among the Ndebele people for fear of possible further revenge (Huyse, 2003).

Arguably, having historically enjoyed a superior position over the Shona people, there are suggestions that the Ndebele people may not have accepted or imagined an independent Zimbabwe where their tribal position was perceived to be inferior (Raftopoulos & Mlambo, 2009).

Consequently, tribal hate and distrust continued into the new Zimbabwe. Tensions became apparent when the Government's intelligence security exposed huge supplies of arms and ammunition found hidden on properties owned by the Ndebele dominated PF-ZAPU political party (Raftopoulos & Mlambo, 2009). As a result, its leader Joshua Nkomo and his followers were suspected of planning to topple the Mugabe Government or a conspiracy against the Shona people and subsequently were expelled from the Government cabinet (Huyse, 2003). Supporters of Patriotic Front- Zimbabwe African Peoples Union (PF-ZAPU) perceived this as persecution and started a dissidence campaign against the Government personnel and installations through armed banditry aimed at disrupting security and economic life in Matabeleland and parts of the Midlands rural areas (Raftopoulos & Mlambo, 2009). Dissidence continued for three years between 1983 and 1985, culminating in what could be called undeclared civil war (Huyse, 2003).

Thus, the Government declared a curfew in areas where dissident activity was believed to be originating and sent a special army unity in an operation called “Gukurahundi” which literally means killing indiscriminately in Shona language. Widespread violence and disregard for human rights were reported and left twenty thousand dead (Raftopoulos & Mlambo, 2009). This caused serious trauma in those regions and therefore increased ethnic awareness and deepened the divide between Ndebele and Shona.

Thereafter the Government's stance towards the people in the Ndebele regions took a less violent course but could be observed as characterized by neglect and discrimination (Huyse, 2003).

Racial identities as criterion for land distribution

Zimbabwe has 39.1 million hectares of agriculturally productive land (Simson, 1979). A total of 5.1 million hectares were reserved for national parks and forests leaving a total of 34 million hectares for farming purposes according to Scoones,(2011). Of the 34 million hectares, 15.5 million of the available agricultural land were allocated to large-scale commercial farms owned by whites up to the time the country gained independence in 1980 (Scoones, 2011).

Land ownership and race in Zimbabwe are two almost inseparable concepts, as often in other countries, which originated from the country's colonial era. The new colonial administration, soon after colonising the country in the 18th century, forcibly grabbed land from the indigenous people and redistributed it as reward to the European settlers who helped the administration to realise the colonisation dream (Simson, 1979). The colonial Government then went on to divide the country into three economic areas characterised by tribal and racial divisions (Raftopoulos & Mlambo, 2009). These included zones where white European, Shona, or Ndebele could own property and zones that were held in trust for indigenous peoples on a collective basis. This resulted in the Zimbabwean whites who were only less than 1% of the population, owning more than 60% of the arable land (Gowland, 2002).However, the recent controversial land reforms have reversed the situation and reduced the number of white owned farms from 4500 in year 2000 to around 500 by 2008 (Raftopoulos & Mlambo, 2009).

The colonial era and land reform: reasons for controversy

Land ownership and land re-distribution has been a highly contested subject for years both before and after Zimbabwe became independent (Gowland, 2002). Before independence, the question was whether blacks should be allowed to own productive land at all.

After independence the controversy shifted to how much land blacks should hold (Raftopoulos & Mlambo, 2009), how this land should be transferred from whites and how the whites were to be compensated (Sibanda, 1990), whose responsibility was it to compensate and when land re-distribution was to begin. Although the land redistribution remains controversial, the Government of Zimbabwe and supporters of the initiative now consider this a done deal and are only worried about ensuring that the process remains irreversible. Critics however, believe the whole process was nothing but a politically motivated land scandal, blaming the ZANU-PF Government for using the genuine need for land redistribution as a campaign strategy to remain in power (Raftopoulos & Mlambo, 2009).

However, despite condemnation of the way land redistribution was done in Zimbabwe, there were legitimate challenges that may have affected the ability of the Government to organise a smooth and equitable land redistribution. For political reasons, the ZANU-PF Government was reported on several occasions as deviously taking advantage of these constraints to justify their irrational programs such as the 2000 fast track land resettlement program (Raftopoulos & Mlambo, 2009; UNDP Zimbabwe, 2008). The main constraints emanated from the colonial era through the Lancaster House Agreement as noted by UNDP Zimbabwe, (2008).

As pointed out earlier (section The colonial era (1890 AD - 1980 AD): how Zimbabwe was shaped), the Lancaster House Agreement became Zimbabwe's first constitution and only legal document governing the independent Zimbabwe (Sibanda, 1990). It stipulated that no radical restructuring of the economy or land could be done within the first ten years of independence, thereby protecting existing racially skewed land ownership (Raftopoulos & Mlambo, 2009).

More significant was that the "willing seller willing buyer" principle was enshrined in the constitution restricting compulsory land acquisition for redistribution and leaving it in the hands of the colonial farmers to give up any surplus land for sale (Gowland, 2002; Raftopoulos & Mlambo, 2009). This stipulation brought two problems; first, being well informed of the protection guaranteed by the Lancaster house agreement, the colonial farmers were reluctant to relinquish their inherited privileges (Sibanda, 1990) and only gave up the least productive land most of which was unsuitable for resettlement (Raftopoulos & Mlambo, 2009). As a result, only 19% of the land acquired between 1980 and 1991 was suitable for agricultural production. Secondly, the Government did not have funds to purchase the land so had to rely on donated funds (UNDP Zimbabwe, 2008). Consequently, although the Zimbabwean Government pledged to acquire 9 million hectares, and resettle 162,000 black families in the first ten years, only 3.5 hectares of land had been acquired with funding from British Government and 52,000 households were resettled (Scoones et.al, 2011).

Moreover, the British Government, having provided most of the funding for land redistribution, decided to stop funding land resettlement in Zimbabwe, citing that some ZANU-PF Government officials were allocating themselves land meant to be for the general poor (Raftopoulos & Mlambo, 2009).

Ten years later, in 2000 the Government having amended the Lancaster house agreement to remove all restrictions and prerequisites for land acquisition, particularly the willing seller and willing buyer close and the requirement to pay full compensation to make compulsory acquisition legal, announced its fast track land redistribution program (Mzumara, 2012; UNDP Zimbabwe, 2008). Some argue that although this approach was condemned for its chaotic nature, a large number of black Zimbabweans for the first time now own a piece of land (Scoones, 2011).

POVERTY IN ZIMBABWE

Malaba, (2006) described poverty, as a multidimensional phenomenon characterized by low incomes and very poor overall wellbeing. Arguably, at the root of poverty is limited or lack of access to basic infrastructure, essential services and productive resources such as land and credit facilities. The multidimensional aspect of poverty makes the monetary measurement of poverty inadequate though necessary (UNDP Report, 2013). Poverty can be structural/chronic and/or transient. Structural poverty is rooted in socio-economic, political and cultural institutions and transferable from generation to generation usually forming a vicious circle (Malaba, 2006).

Typically, the majority of rural populations in Zimbabwe and the rest of the developing countries experience this type of poverty, characterized by chronic underemployment and/or unemployment (Bird & Prowse, 2008; ZimStat Labour Force Survey, 2011).

On the other hand, transient poverty is triggered by often temporary factors induced by macro-economic policy shifts, economic reforms, natural disasters, etc. (Malaba, 2006).

Over 80% of Zimbabwe's population was experiencing both structural and transient poverty in 2008 and arguably, women carried the heaviest burden as observed by Malaba, (2006).

The percentage of the population below the Food Poverty Line (FPL) increased from 29% in 1995 to 58% in 2003 (UNDP Zimbabwe, 2008). The Human Poverty Index (HPI) (a holistic measure of the multiple dimensions of poverty and deprivation) increased from 23 % in 1995 to 33% in 2003 (UNDP Report, 2013; ZimStat, 2013). In line with the steady economic recovery, the poverty situation in Zimbabwe is beginning to show signs of improvement. The life expectancy which had fallen down to 33 in 2008 rose to 50 in 2010, rose again to 51.4 in 2011 (ZimStat, 2013) and further to 52.1 by the end of 2012 according to UNDP Report, (2013).

A more comprehensive measure for poverty is the Multidimensional Poverty Index (MPI), introduced by the UNDP in 2010 to identify and measure multiple deprivations in the same households. It particularly measures improvements in education, health and standard of living. The MPI weights various development indicators to compute deprivation scores for each household. A cut-off of 33.3% or $^{1}/_{3}$ of weighted indicators is used to distinguish between the poor and non-poor. If the household deprivation score is 33.3 percent or greater, that household (and everyone in it) is multidimensional poor. Households with a deprivation score greater than or equal to 20 percent but less than 33.3 percent are vulnerable to becoming multidimensional poor (UNDP Report, 2013). Therefore, according to a UNDP survey carried out between 2010 and 2011, Zimbabwe had 39.1% of the population living in conditions of multidimensional poverty while an additional 25.1% were vulnerable to multiple deprivations, making a total of 65% population currently experiencing poverty.

Structural poverty is more prevalent in Zimbabwe and can be linked to prolonged systematic economic discrimination of the poor right from the colonial era.

The Zimbabwean Government during the first decade of independence managed to make some improvements in working conditions (Raftopoulos & Mlambo, 2009), but the fundamental dualist nature of the economy characterised by inherent limited capacity to absorb surplus labour, meant that the rate of employment creation remained at a very low pace. According to Raftopoulos & Mlambo, (2009), the economy created an average of 10,000 jobs per year during the first decade, but population growth and the Government's ambitious education program produced 100,000 school levers each year (Chidoko, et al., 2011). Consequently, with the labour market only absorbing just 10%, unemployment rose sharply in this period (Malaba, 2006).

Rural dwellers relied primarily on subsistence agriculture but no meaningful land re-distribution was effected to move them to better productive lands for up to twenty years between 1980 and 2000. Therefore, poverty increased significantly in rural areas of Zimbabwe as the poor continued to have inadequate access to productive land (Malaba, 2006). With dwindling prospects in rural areas, large numbers of people began migrating to urban areas increasing pressure on the Government, which was already struggling to provide necessary support to urban areas experiencing intensified transport problems and shortages of housing (Raftopoulos & Mlambo, 2009). The Government‘s inability to deal with structural dualism led to the majority of the small black businesses failing to break the monopoly of large

enterprises in urban areas as predicted by Simson, (1979) resulting in increased structural poverty in cities.

Despite serious poverty conditions in the country, the majority of poor people manage to sustain life through various coping mechanisms including the use of social capital as discussed in the next section.

Social capital as a poverty coping mechanism

Social capital for most poor people in developing countries is the only lifeline in times of serious emergencies (Grootaert, 1998). In an ideal world when an urgent financial need arises or a serious family problem requiring money, most people will have some savings to turn to or a bank to get a loan from or a social benefit fund to cushion the financial shock. However, this ideal world may be very distant away in most poor countries and poor individuals in desperate situations will require helpful people around them. The more people they have to them the better, and that becomes their social capital (Grootaert, 1998). When a nation faces serious economic problems, often-public funded support systems disappear and the poor become increasingly exposed to poverty and starvation (Bird & Prowse, 2008). It is under these circumstances that the importance of social capital becomes evident. Box 4 explores the meaning of social capital in the global context as described by Desai & Potter, (2002).

In political science, sociological and anthropological literature social capital is generally referred to as the set of norms, networks, and organizations through which people gain access to power and resources, and through which decision making and policy formulation occur (Grootaert, 1998; Desai & Potter, 2002). However, Gregson, et al., (2011) describes social capital as community cohesion, which results from

positive aspects of community life. Gregson, et al, (2011) captures the nature of social capital in the context of poverty resilience through community cohesion that is a common feature in most poor communities including the Zimbabwean poor population.

Box 4: What is Social Capital?

Definitions of social capital vary substantially. The World Bank (1997a;114) has defined social capital as 'the informal rules, norms and long term relationship that facilitates co-ordinated action and enable people to undertake ventures for mutual advantage'. Who coined the term social capital is uncertain, although what is clear is that the idea of social cohesion as a kind of resource with multiple functions has been implicit in much of sociology and anthropology for a long time. Indeed Wall et al. (1998:303) have suggested that social capital is merely a new term for a long idea. Current usage of the term has been classified into three different approaches within social sciences. Firstly, Pierre Bourdieu (1985) regards it as a social resource that enables individuals to navigate their position within hierarchical social structure, through the exchange of symbols within established group boundaries. In other words, 'it is what ordinary language calls "connections" '(Bourdieu 1993: 32). Secondly, James Coleman (1988) considers social capital within the context of the family in school-community collaboration. In this way, social capital is intimately connected with human capital and the accumulation of education and various skills. Both Bourdieu and Coleman emphasise the importance of the potential benefit accruing to actors because their insertion to the networks or broader social structures (Portes, 1998:18).The third approach, however, regards social capital as a property of communities and nations, rather than individuals. The political scientists Robert Putnam is the most vocal supporter of this approach and deserve much of credit of the popularisation of the term, social capital`. According to Putnam (1993: 35), social capital can be defined as the features of organisations such as networks, norms, trust that facilitate action and cooperation for mutual benefit`. Each of these three perspectives involves distinct series of assumptions and values, and therefore different methods, scales of analysis, and interpretations of social capital (Wall et al, 1998).

Source: Desai & Potter, (2002, p. 140)

Zimbabwe has a very sophisticated and diverse form of social capital composed of various formal and informal groupings.

These are based on tradition and culture through extended family practices, politics through local Government structures, religion, and NGO induced social support networks and systems. The poor in Zimbabwe have no access to any form of formal insurance. Therefore, social capital provides an informal substitute through kinships where a series of mutual obligations and rights flow.

A typical example is the rural-to-urban migrant relationship where the family members in urban areas send money back to the village of origin (remittances) and can count on food shipments from the village if they encounter hardships later in town (Grootaert,1998). A recent phenomenon can be observed in the increase in diaspora remittances as family members and connections abroad send money to their loved ones to help them cope with poverty challenges. According to FinScope consumer survey conducted in 2011, (ZimStat, 2012), a significant number of poor households's family income was predominantly remitances from abroad. Zimbabwe by and large holds on to the traditional and cultural norms of African values which asserts that the well-off members of the extended family take on the responsibility of helping the less fortunate family members. Therefore, the Zimbabweans, who leave the country to work abroad automatically, assume the role of helping family members back home to cope with challenges of the economic crisis by sending regular remittances. This provided a major cushion for poverty during the economic metldown of 2007/2008.

Furthermore, social capital in Zimbabwe is also institutionalised in a sense. The governance system is characterised by the existence of hereditary chieftainship in an otherwise proclaimed republic (Visser, et al., 2010). This type of traditional leadership is active at all levels of governance in Zimbabwe from, the national level to the village level.

Through village leaders, the rural Zimbabweans who constitute the majority poor are organised into community village groups (Visser, et al., 2010). The village is the main and most important social structure in rural Zimbabwe. People live in a well-organised community setting where they share most resources and community facilities.

Development agencies and NGOs also use the village settings to identify and co-ordinate humanitarian relief in communities (Grootaert, 1998). The villagers hold regular meetings to solve issues affecting their community or simply to hold traditional celebrations or community social events. This keeps the village in a closely-knit social unit enabling villagers to perfectly identify themselves as one family and respond to serious poverty and starvation issues in not just a community spirit but also a family spirit (Desai & Potter, 2002, p. 140).

However, the Government and politicians also exploit these village structures to extend their political influence. The ruling party ZANU-PF, for example has a record of manipulating the community structures for political gain in some cases blocking humanitarian assistance to certain villages to punish non–supporters (Raftopoulos & Mlambo, 2009). Nevertheless, villages remain the most important form of social capital in Zimbabwe.

Zimbabwe's economic development

Zimbabwe has significant volumes of natural wealth with over 40 exportable resources which include rich platinum reserves, copper, chrome, nickel, asbestos, gold, diamonds, and the largest known coal-bed methane reserve in Sub-Saharan Africa (Mzumara, 2012; Political Risk Services, 2012; UNDP Zimbabwe, 2008). In addition to mineral resources, Zimbabwe has large area of arable agricultural land

(Raftopoulos & Mlambo, 2009). Despite the country's riches, the economy of Zimbabwe suffered several setbacks and shocks since the early 1990s and began a serious downward spiral from 1999 (UNDP Zimbabwe, 2008). This was mainly due to the effects of Economic Structural Adjustment Program (ESAP), which the Government was forced to abort in 1996, and the Government's own bad economic decisions (Mzumara, 2012).

As highlighted on Figure 4 Zimbabwe's economy declined by an annual average GDP growth rate of -5.7% between 2001 and 2006 and in 2007/2008 with a negative GDP growth of -17% (UNDP Zimbabwe, 2008). The impact of the year on year negative growth (Figure 4) was felt across all sectors causing economic reorganisation as discussed earlier. The inter-sectoral linkages such as, the once important link between the manufacturing and agricultural sectors was compounding the impact through increased unemployment as observed by Mzumara (2012).

Figure 4 shows that, although the percentage of unemployed people in Zimbabwe was fairly high in the 1980s averaging 50%, stunted GDP growth over the period pushed the unemployment to 95% by 2008 (Bird & Prowse, 2008).

Figure 4: Zimbabwe percentage GDP rate from 1980-2012

Source: (Mzumara, 2012; UNDP Zimbabwe, 2008; Political Risk Services, 2012)

However, current official figures suggest that the economy has recovered by 6% in 2009, 9.6% in 2010 and 10.3% in 2011 before slowing down to 4.4% in 2012 as estimated by the Zimbabwean Finance Minister, Hounorable Tendai Biti (Political Risk Services, 2012).

Figure 4: Zimbabwe's historical average GDP growth and unemployment

Source: (Mzumara, 2012; UNDP Zimbabwe, 2008; Political Risk Services, 2012)

Frequent drought spells, weak global economy and various chronic domestic constraints were believed to have suffocated the recovery process forcing the GDP growth rate to fall according to Mzumara, (2012) & Political Risk Services, (2012). The Zimbabwean economy is expected to grow by an average of only 3.3% between 2013 and 2017 according to IHS Global Insight, (2012), Political Risk Services, (2012) and Mzumara, (2012). Compared to neighbouring countries, Zimbabwe's economy in relation to 2012 GDP figures is relatively small (Figure 4).

Figure 4: How Zimbabwean economy compared to selected countries in 2012

Source: World Data Bank, (2012) and Reserve Bank of Zimbabwe, (2012)

Of the seven countries selected in Southern Africa, with similar economies, Zimbabwe is second smallest withUS$ 9.9 billion GDP in 2012 after Malawi with US$ 5.7 billion GDP (Figure 4). However, as shown in (Figure 4) the country's economy is currently on an upward trend in GDP output as observed between 2009 and 2012, with a sustained rate of 5% although this growth islargely confined to the agriculture, mining and trade sectors (ZimStat Quarterly Digest , 2013). According to official figures for 2012 from the Zimbabwe National Statistics Agency (ZimStat), agricultural production accounted for 23% of GDP, followed by manufacturing and trade at 19.2% and then mining and energy at 7.7%, (Figure 4).

Figure 4: Zimbabwe's GDP output in the first 4 years of recovery (2009-2012)

Source: Reserve Bank of Zimbabwe 2009-2012 data

Although mining's contribution to the overall annual GDP is still small compared to agriculture and manufacturing, the Government of Zimbabwe expect the sector to be one of the main growth drivers (Mzumara, 2012).

Figure 4: Zimbabwe's main economic drivers as a % of GDP contribution in 2012

Source: Zimbabwe National Statistics Agency 2012 data

Challenges facing the economy

Although the overall economic outlook by the 4th quarter of 2012 appeared very promising, there are a number of challenges and drawbacks the Zimbabwean Government needs to overcome. Firstly, Zimbabwe lacks crude petroleum, which must be imported through Mozambique or South Africa, leaving the country extremely vulnerable to world price fluctuations (Political Risk Services, 2012). Secondly, the economy is susceptible to periodic droughts, although not all regions are affected in the same way (UNDP Zimbabwe, 2008). Thirdly, there are structural problems in the agricultural and mining sectors because of weak land tenure system and the Government's Indigenisation programme which restricts foreign ownership of businesses and mines to 49% making the country less favourable and less attractive to foreign investors (Mzumara, 2012). Fourthly, the economy suffers from depleted infrastructure, frequent electricity disruptions, limited access to long-term borrowing, and a dwindling skills force (Political Risk Services, 2012). Fifthly, the economic crises, which lead to the collapse of economic activity in the formal sector, resulted in an on-going contraction of state revenues, according to Mzumara, (2012). However,

there is more activity in the informal sector, which may require the Government to find ways of formalising the informal sector in order to expand the revenue base.

Informal sector in Zimbabwe

Increasing volumes of economic activities in Zimbabwe are taking place outside the formal economy creating a parallel informal sector (Mzumara 2012). However, the term informal sector generally refers to the small-scale, often low-productivity, economic activities that largely lie outside state regulation or recognition (Chidoko, et al., 2011).

The informal sector in Zimbabwe is composed of Micro and Small Enterprises (MSEs). The Government of Zimbabwe (2000a) cited in Ngwenya & Ntando, (2003)described the medium enterprises as any business employing upto 100 people, a small enterprise as any business that employs less than 50 people and a micro enterprise as any business that employs upto 5 people. Micro enterprises are futher divided into two major categories namely, the off-farm and on farm oriented activities (Ngwenya & Ntando, 2003).

Off farm are typically urban based activities ranging from, cross border trading, retailing, dress making, capentry and welding. On-farm enterprises are mainly peri-urban and rural based business activities including poultry farming, market gardening, animal husbandry and other related activities (Maseko, et al., 2012). As argued in Ranis and Stewart, (1999) cited in Chimhowu et.al, (2009), the informal sector has two sides; one part is dynamic and reasonably productive while the other is traditional and mainly subsistence in nature with limited capacity for growth. Unlike in the formal sector, where workers especially the ones in top positions can prosper

and live off their wages, the majority of those working in the informal economy have very low average wages often insufficient to live on (Chimhowu et.al, 2009).

As a result, they have to find other sources of income such as engaging in either legal or illegal informal activities or trading in order to survive. The contextual meaning of the informal sector is explored in (Box 4).

Box 4: Defining the Informal sector

Informal Sector

Informal sector refers to the small-scale, often low-productivity, economic activities that largely lie outside state regulation or recognition. Found in both industrial and developing economies, informal sectors demonstrate a wide variety of participants, remuneration levels, linkages into formal activities and levels of technological development (Portes et al., 1989). Such differentiation suggests that informal activities (ranging from petty street trading to unrecorded services and unregulated manufacture) run along a continuum with other economic sectors. Informal activities are primarily associated with urban areas, although they share characteristics of low capitalisation, risk- aversion, use of family labour and no-regulation with small scale-agrarian production. Just as in formal work, gender segregation operates in informal sector activities, resulting in wages differentials by gender. Women's lack of access to credit and lesser mobility compared with man between formal and informal activities (resulting in fewer skill and sources of capital), have been identified as limiting female opportunities in the informal sectors participating in South. The domestic location of many female informal workers (domestic service, laundry, outwork, etc.) reflects ideologies of FEMININITY and DOMESTICITY as well as discrimination against women in gaining access to higher productivity in formal work or formal employment. Indeed the male bias of the ideal –typical model of the informal sector conceals the degree of gender differentiation within the sector (Scot, 1991). Deregulation associated with economic neo-liberalisation is further blurring boundaries between formal and informal activities, just as feminisation of the labour market occurs. Ideologies of domesticated femininity are being reworked as production, and to lesser extent services, are restructured (Wilson, 1993).

Source: McDowell & Sharp, (1999, p. 137)

McPherson, (1998) as cited in (Klinkhamer, 2009) established that, Zimbabwe in 1998 had 860 000 MSEs operating in the manufacturing, commercial and service sector, with over 1.6 million employees. Although these figures may be out of date,

they provide a useful base to understand MSE distribution across various sectors as shown on Error: Reference source not found below.

Over 90% of the Zimbabwean households operated at least one MSE making the MSE sector the most important sector in the poverty alleviation agenda and the overall well-being of Zimbabwean population (Klinkhamer, 2009).

The informal sector provides a market and a pool of surplus labour to the formal sector (Chimhowu et.al, 2009).

Therefore, the informal sector has become the safety net for the majority of Zimbabweans who depend on it directly or indirectly. The majority of informal activity in Zimbabwe is concentrated around the manufacturing sector that constitutes 42.4% and the trade sector that accounts for 45.2%. Only 11.4% informal activity is found in the service sector. However, the majority of informal activity in Zimbabwe can be best described as Income Generation Activities (IGAs) as discussed on section Income Generating Activities (IGAs) below.

Income Generating Activities (IGAs) in Zimbabwe

It can be argued that an IGA in the context of poverty coping strategies refers to any business activity too small, informal or irregular to be categorised as a business (Abbott, 1993; Due, 1991). Often IGAs are confused with small or micro enterprises (Shah & Butt, 2011). The main difference is the nature of business activity. Small or micro business activities are more long term than IGAs (Abbott, 1993; Due, 1991), which in many cases will be composed of a series of different one off business activities depending on what opportunities are available at each time (Jones, 2010). IGAs are driven by opportunities and urgent need for making an income rather than

a desire to run a small business (Abbott, 1993). Activities can range from buying and selling anything to short-term manufacturing or agricultural activity (Jones, 2010). Very few IGAs grow into small business, as their primary aim is to generate an immediate income needed for consumption and not to do business as observed by Jones, (2010) in what he described as the culture of "*Kukiya-kiya*", in Shona language, meaning doing whatever needs to be done to make ends meet.

For example, a poor widow wanting to raise US$80 for her child's school fees may sell a goat to raise US$60, and then take US$20 and buy some fruit and vegetables to sell on the market for a week, raising US$3 a day in profit to make an additional US$20. By the end of the week the widow will have raised the required US$80 and pay it all in school fees. Her face will not be seen again at the market at least for some time until she has another urgent need for an IGA, possibly this time selling used clothes. It can be argued, why would not the widow continued with the IGA?

This is crucial in understanding of the nature of IGAs, the activity could not continue because she did not intend to run a small business activity but simply needed to raise the required money (Jones, 2010). Even if she had wanted to run a small business, she did not have the capital to start with. She took a major risk in using part of the money raised for school fees to sell vegetables and it would be foolish to risk it again having at least recovered it with enough profit to now pay full school fees.

The majority of poor people not only in Zimbabwe but also in most developing countries are too poor to run a successful business no matter how small. They face multiple challenges ranging from, lack of opportunities, capital, skills and several

other structural barriers (Desai & Potter, 2002). However, in Zimbabwe just like elsewhere in the developing world, it is the poor people who form the dominant face of the informal sector.

Zimbabwe's financial sector

The financial sector in Zimbabwe experienced a rapid increase in the number of both formal and informal non-bank financial services providers across all financial services sectors between 1998 and 2008 due to the reluctance of the banks to serve a wider market including the low-income sector (Makanjee & Chirongwe, 2012).

The financial sector in Zimbabwe is regulated and supervised by the Reserve Bank of Zimbabwe (RBZ). Therefore, the increase of informal providers that also came with shocking cases of fraudulent activity forced the Government to step in and regulate all forms of financial activity in Zimbabwe by requiring every finance provider to register with the Reserve Bank of Zimbabwe (Reserve Bank of Zimbabwe, 2012; UNDP Zimbabwe, 2008).

However, due to lack of real incentives for registration or strict disciplinary action for non-compliance, the informal financial sector prevailed alongside the formal sector. Nevertheless, the economic stabilisation that began in 2009 caused several informal financial players to disappear resulting in the overall market now being dominated by the regulated financial providers (Chimhowu, et al., 2009). The stabilisation was also characterised by organic structural reforms within the financial sector through several mergers, acquisitions and consolidations, as well as “migration and upgrading” of licenses between 2008 and 2012 as finance players set out to reposition themselves in the revived economy (Makanjee & Chirongwe, 2012). This period witnessed the finance houses or discount houses upgrading their licenses to merchant banks and

merchant banks upgrading to a commercial banks. However, the informal sector demonstrated a high level of innovation by pioneering innovative products such as funeral assurance and money transfers which has now been adopted by the formal sector.

The formal financial sector in Zimbabwe

The formal financial sector in Zimbabwe is composed of bank related institutions (institutions which offer conventional banking services such as deposits and credit), credit only institutions (Moneylenders and Microfinance institutions), investment based institutions and risk management related businesses. These can be categorised as the banking and non-banking formal financial sectors.

The banking sector

The banking sector is composed of discount houses, commercial banks, merchant banks, finance houses, building societies and the People's Own Savings Bank (POSB) (UNDP Zimbabwe, 2008, p. 61).

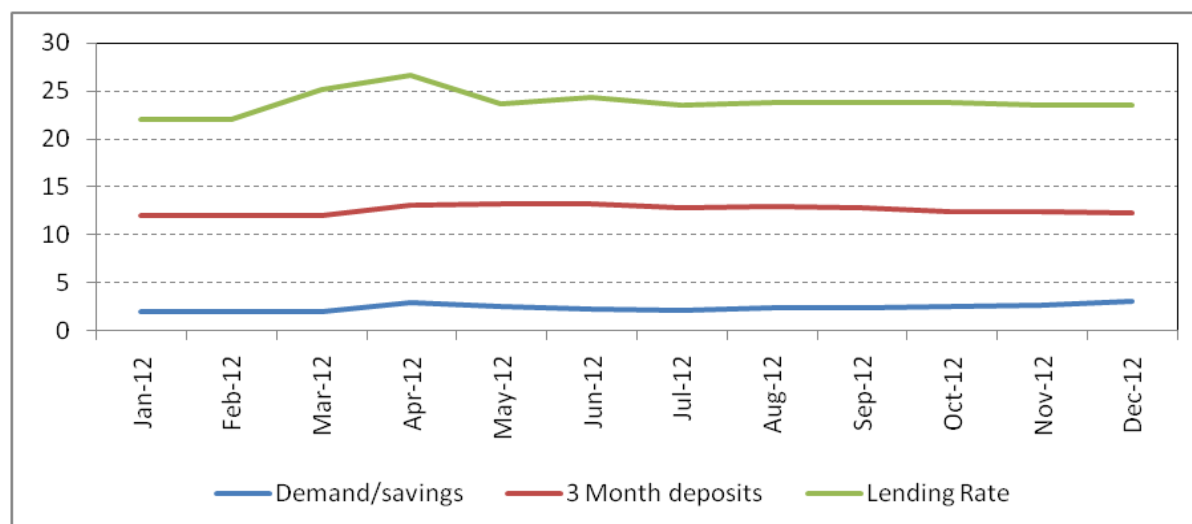
According to Gono, (2013) in monetary policy statement, Zimbabwe's banking sector was considered generally safe and sound despite liquidity shortages coupled with the absence of an active inter-bank market and limited access to affordable external credit lines. A total of 19 banks including the POSB and 3 building societies (Table 4) registered with the Reserve Bank of Zimbabwe were operating in the country by the beginning of 2013 (Gono, 2013). The banking sector loans were charging average interest rates of over 22% per annum in 2012 as shown in Figure 4 while deposits attracted only 4% interest per annum (Gono, 2013).

Table 4: Financial Institutions in Zimbabwe in 2012

Type of Institution	Number
Banking financial sector	
Commercial Banks	16
Merchant Banks	2
Building Societies	3
Savings Banks	1
Total banking Institutions	**22**

Source: (Makanjee & Chirongwe, 2012 ; UNDP Zimbabwe, 2008 ; Klinkhamer, 2009)

Figure 4: Average deposit and lending percentage rates



Source: Reserve Bank of Zimbabwe Monetary Policy Statement: 31 January 2013

At the same time, Zimbabwe had other 4 troubled banks which experienced serious liquidity and corporate governance problems (Makanjee & Chirongwe, 2012).

The troubled banks included; Interfin Bank, which went under recuperative curatorship in 2012 and expected to end by June 2013.

In addition, the Genesis Investment Bank went under liquidation in 2012 after failing to meet minimum capital requirements, Royal Bank, surrendered its license also in 2012 due to several management and recapitalization failures and the Barbican Bank failed to meet the minimum capital requirements (Makanjee & Chirongwe, 2012).

The top five commercial banks in Zimbabwe by capital size as shown on Table 4 below are CBZ Bank, Stanbic Bank, Standard Chartered, BancABC, and Barclays Bank. The banking sector remains hugely undercapitalised despite efforts by the RBZ to raise the minimum capital requirement of all banks by the end of December 2012 (Gono, 2013).

In addition to commercial banks, Zimbabwe also has 2 merchant banks (Table 4) which offer wholesale banking services to complement those offered by commercial banks but cannot take deposits from the public (Makanjee & Chirongwe, 2012).They are specialists in money and capital markets as well as fee-based services such as corporate finance, underwriting of securities and portfolio management.

They also provide trade financing through acceptance credit, offshore financing facilities, and foreign exchange facilities (Gono, 2013). The inability to take deposits has resulted in a decline in the number of merchant banks in Zimbabwe from 9 in 1997 to 5 in 2005 and only 3 in 2012 (Makanjee & Chirongwe, 2012). These three currently operating are Capital Bank, Eco Bank and Tetrade Bank as of January 2013 (Gono, 2013).

According to Klinkhamer, (2009), there were 4 building societies in 2007, namely; CABS, CBZ Building Society (formerly Beverly Building Society before being taken over by CBZ), FBC Building Society (formerly Zimbabwe Building Society) and ZB Building Society (formerly Intermarket Building Society).

However, by January 2013 only three were operational as the CBZ Building Society merged with the CBZ Bank to become Zimbabwe's largest Bank (Gono, 2013). Building societies are involved in savings, fixed deposits, share deposits, and mortgage lending. They have been capturing the largest share of deposits in Zimbabwe, exceeding both commercial banks and the POSB in 1998, 1999 and 2000 (Klinkhamer, 2009, p. 26). Traditionally, they lend for residential and commercial mortgages, purchase treasury bills, place funds in the money market, and finance low-income housing projects (UNDP Zimbabwe, 2008).

Table 4: Banking Institutions in Zimbabwe

No	**Banking Institution**	**Capital**
1	CBZ Bank Limited	$111.79 million
2	Standard Bank	$56.50 million
3	Stanbic Bank	$45.62 million
4	BancABC	$38.42 million
5	Barclays Bank	$34.30 million
6	ZB Bank	$32.34 million
7	Kingdom Bank	$28.79 million
8	Ecobank	$28.18 million
9	FBC Bank	$27.97 million
10	MBCA Bank	$27.14 million
11	TN Bank	$26.90 million
12	CABS	$26.76 million
13	Tetrade Bank	$25.19 million
14	NMB Bank	$25.01 million
15	Agribank	$22.64 million
16	FBC Building Society	$18.97 million
17	Trust Bank	$18.70 million
18	Metbank	$17.70 million
19	ZB Building Society	$14.56 million
20	ZABG Bank	$15.80 million

21	Capital Bank	$7.50 million
22	POSB	?

Source: Reserve Bank of Zimbabwe Monetary Policy Statement: 31 January 2013

The Post Office Savings Bank (“POSB”) has been around since the establishment of the central/state postal system in Zimbabwe according to Klinkhamer, (2009). It was renamed the People’s Own Savings Bank, thus retaining the same acronym POSB, used since 1 January 1905 (UNDP Zimbabwe, 2008).

POSB is one of Zimbabwe's largest financial institutions, in terms of deposits, because of its association with the Post Office distribution offices with branches all over the country.

Zimbabwe’s formal financial sector traditionally also included discount houses, whose main business was to discount and hold bills with funds borrowed at call from banks but according to Makanjee & Chirongwe, (2012), all discount houses in Zimbabwe upgraded their licenses to become merchant banks and commercial banks between 2005 and 2011 leaving the country with no operating discount house. The sector, however, also has financial houses that are deposit-taking institutions and specialise in offering asset based financial instruments in the form of hire purchase and lease hire advances to individuals and corporations (Gono, 2013). Historically, due to low minimum capital requirement for setting up a finance house, this has been used as a route to establishing a merchant or commercial bank (Makanjee & Chirongwe, 2012).

Non-banking but formal financial sector

The non-banking but formal financial sector in Zimbabwe comprisesasset management companies, insurance companies, pension funds, venture capital companies, microfinance institutions, money lenders, and money transfer agencies (UNDP Zimbabwe, 2008, p. 61). Asset management companies (ACMs) invest money on behalf of their clients, on the money market and on recognised stock exchanges or by purchasing immovable property on behalf of the clients but are prohibited from taking deposits (UNDP Zimbabwe, 2008). Zimbabwe had 16 asset management companies in 2012 as shown in (Table 4) below according to the monetary policy Statement of 2013 by the Reserve Bank of Zimbabwe (Gono, 2013).

Table 4: Non- banking formal financial Institutions in Zimbabwe in 2012

Type of Institution	**Number**
Discount Houses	0
Finance Houses	1
Assets Management Companies	16
Microfinance Institutions (MFIs)& Money Lenders	150
Total Non- banking formal financial sector institutions	**167**

Source: (Makanjee & Chirongwe, 2012 ; UNDP Zimbabwe, 2008 ; Klinkhamer, 2009)

The most popular investment vehicles in Zimbabwe historically have proved to be the Unit Trusts (or mutual funds) (Makanjee & Chirongwe, 2012). Unit trusts are collective investment schemes which involve the pooling of funds on behalf of a large number of investors, with each investor buying a certain number of units in the total fund, representing their proportional investment (Klinkhamer, 2009). The capital pool is invested in carefully selected shares listed on the Zimbabwe Stock Exchange as

well as money market instruments. The income or capital appreciation from these investments accrues to each investor in proportion to the amount invested (Makanjee & Chirongwe, 2012). The non-banking financial sector also includes Medical Savings Funds which receive money on a monthly or quarterly basis from various individuals, corporations or groups as contribution towards future medical or health expenses (Makanjee & Chirongwe, 2012). Most insurance companies now sell this product and the number of medical savings institutions since 2009 is on the increase as observed by Makanjee & Chirongwe, (2012).

The insurance sector in Zimbabwe comprisesinsurance companies, insurance brokers, agents, and re-insurance companies but is traditionally dominated by a few giants mainly Old Mutual, ZIMNAT, and First Mutual Limited (FML) (Klinkhamer, 2009). There are nine life insurance firms, twenty-seven general short-term insurance companies, and six re-insurers (Table 4) (Klinkhamer, 2009). Short-term insurance also known as temporary insurance is a product that provides cover for 12 months or less. The cover only compliments comprehensive insurance plans and is used as an option to fill a temporary gap in coverage (UNDP Zimbabwe, 2008).

There are also life assurance companies and societies that provide life assurance, pension, and asset management services. These target both the formal and informal sector customers although the bulk of the employee benefits business is derived from the formal sector (Klinkhamer, 2009).There are funeral assurance companies as well which offer savings plans to cover bereavement costs (Makanjee & Chirongwe, 2012).

Table 4: Insurance Providers in Zimbabwe in 2012

Type of Institution	Number
Life Insurance firms	9
General Insurance firms	27
Re-Insurers	6
Total formal Insurance providers	**42**

Source: (Makanjee & Chirongwe, 2012; UNDP Zimbabwe, 2008; Klinkhamer, 2009)

Apart from insurance and investment services in the non-banking formal financial sector, there are credit and money transfer service providers as well.

All non-banking credit facilities in Zimbabwe are provided under Money Lending and Rates of Interest Act (Chapter 14:14) and are licensed and regulated by the Reserve Bank of Zimbabwe (Gono, 2009). Providers are required to hold a valid moneylenders licence according to the act. Traditionally, moneylenders offer small personal loans at high rates of interest, usually higher rates than the market rate charged on credit cards or on bank overdrafts (Klinkhamer, 2009). Moneylenders are an important source of credit to a category of borrowers who would normally be refused credit by most financial institutions due to having little or no credit rating (Makanjee & Chirongwe, 2012).

The Money Lending and Rates of Interest Act was the only piece of legislation regulating non-banking financial activities in Zimbabwe until the introduction of Microfinance Bill in 2012, intended to regulate MFIs operations from 2013. There was a lot of ambiguity in this sector as to who is the moneylender. Different players operated with the same license, from development NGOs providing non-banking

financial services to the poor, private moneylenders lending purely for profits and microfinance institutions extending financial services for poverty alleviation and financial inclusion (Makina, et al., 2014). Some sections of the formal banks offering non-traditional banking services to the lower end of the market were also holders of moneylender's licences. Traditionally, moneylenders' licence could be obtained by anyone in Zimbabwe from individuals operating as sole traders to large institutions such as banks but dominated by small private players (Gono, 2009).

The rise of the microfinance sector and a vigorous campaign by MFIs against them being viewed and treated as typical for profit private moneylenders, prompted the need for new legislation to govern microfinance activities.

The Government responded by raising the bar for licensing money lending by introducing minimum capital and governance requirements for lending institutions. Therefore, the Microfinance Bill introduced in 2012 restricted money lending activities to institutions with a minimum capital of US$25,000.

Nevertheless, there are still over 150 registered moneylenders in Zimbabwe according to Gono, (2013).There are also money transfer agencies (MTA) that offer various ways for sending and receiving money in Zimbabwe. They are also regulated by the Reserve Bank of Zimbabwe and the service is regarded as a secure way to send and receive money locally or abroad (Klinkhamer, 2009). The number of money transfer agencies boomed in the 1998-2008 decade, when the Zimbabwean economy significantly deteriorated according to Klinkhamer, (2009).

Technology has brought about various innovations including the ability to transfer money or pay utility services via the mobile phone. The leading mobile phone company offering money transfer services in Zimbabwe is the Econet through their

EcoCash product service. The EcoCash mobile money transfer service (Figure 4) is arguably becoming a game changer in not only the Zimbabwean financial sector but also regionally in relation to advancing a cashless society.

Figure 4: EcoCash mobile Debit Card and POS

Source: Econet Wireless Zimbabwe and Reserve Bank

ECONET Wireless Zimbabwe, the company which owns EcoCash heavily invested in mobile technology and in a superior gateway platform, the Unstructured Supplementary Service Data (USSD) for mobile transactions including the EcoCash point of sale (POS) device, (Figure 4), installed with Near Field Communication (NFC) to accept VISA and MasterCard cards. The innovation allows mobile phones to operate as a virtual debit card, something even the known leader in Africa's mobile money industry, Kenya's M-PESA or the developed world are still contemplating. The Econet mobile network attracted over 8 million subscribers in 2012 and the EcoCash platform already had 2 million subscribers by 2012. Offering a similar service is the Bureau de Change (foreign currency bureau or currency exchange) which provides

customers currency exchange. These make profit by manipulating the exchange rate they use to calculate transactions, and an explicit commission for their service (Makanjee & Chirongwe, 2012).

However, these institutions have lost their market to unlicensed individuals in the streets who offer more convenient and competitive rates. Consequently, there are only very few foreign currency bureaus operating in Zimbabwe as people prefer to transact informally on the streets (Makanjee & Chirongwe, 2012).

Informal financial markets in Zimbabwe

A consumer survey by the Zimbabwe National Statistics Agency in partnership with the FinMark Trust in 2011 established that 40% of the Zimbabwean population, which is equivalent to 5.1 million based on the 2012 census results, operated outside the formal banking system (Makanjee & Chirongwe, 2012). Unverified independent estimates suggest that nearly US$3 billion was circulating outside the formal banking system in 2012 (Makanjee & Chirongwe, 2012). The informal financial sector in Zimbabwe is just as vibrant as the formal sector though most activities are legal. This sector includesInvestment clubs, community risk management and social safety clubs, credit schemes, savings clubs, money transfer and some Illegal practices.

Investment clubs

Investment clubs are organized around investment opportunities, farming and housing challenges (UNDP Zimbabwe, 2008). The most popular investment clubs are investment syndicates where groups of individuals invest in a particular business or investment opportunity with the expectation of recouping their return on the

investments at a specific future date (Klinkhamer, 2009). The reason for syndication is to pool resources together in order to meet the minimum transaction size required to invest. Examples investment clubs are those designed to invest on the stock exchange and/or money market.

There are also housing cooperatives formulated when a group of individuals contributes a certain agreed sum of money towards the purchase of property; usually demarcated pieces of land constructing residential houses (Makanjee & Chirongwe, 2012). Cooperatives are encouraged to be registered as welfare organisations, but this is not mandatory and there is no specific regulation mechanism for their activities (UNDP Zimbabwe, 2008). In rural areas farmers in the same area or village often form farmer clubs where they contribute money on regular agreed terms to purchase farm inputs at discount prices or to arrange transport for their produce to the market (Klinkhamer, 2009).

Community risk management and social security clubs

The absence of national social security system in Zimbabwe means that in times of tragedies or serious emergencies, individuals have to find their own ways of preparing for such eventualities. These include burial or village societies and various social clubs for mutual and practical support (Bird & Prowse, 2008). A burial society is a self-provided funeral assurance where society members create a fund to meet expenses associated with a member’s bereavement. They are a response to a deep sense of vulnerability as observed in the origins of such societies (Makanjee & Chirongwe, 2012). For example, the migrant labour communities first introduced burial societies in Zimbabwe mainly from Malawi, Zambia and Mozambique who had

limited social capital that could help in times of bereavement (Makanjee & Chirongwe, 2012).

When the Zimbabwean urban population became detached from its rural background, thereby losing the social capital fabric and benefit of social networks, people started their own burial societies (Klinkhamer, 2009).

Historically burial societies were not–for-profit entities restricted to social gains for member's only but currently most of their business has been taken over by private formal businesses, which provide funeral insurance as observed by Makanjee & Chirongwe, (2012).

On the other hand, social clubs consists of people who enjoy partaking in a certain social activity together so they contribute money in a common fund regularly to provide financial assistance to members in times of need and also simply as a means of saving (Klinkhamer, 2009). Another form of social club is a village society, which is made up of members of the same village who contribute money or goods to raise money for common good such as village improvements or to assist other village members in financial need (UNDP Zimbabwe, 2008).

Credit Schemes

Informal credit schemes operate as community lenders usually in remote rural areas of Zimbabwe where there are no alternatives for borrowing money elsewhere. These are mostly local traders or food stores, who provide credit facilities for the purchase of food and other needs in their shops, payable at an agreed interest rate and date (Klinkhamer, 2009). They lend to mainly salaried employees in the locality, more like pay day loans.

Community lenders flourished in Zimbabwe between 2005 and 2008 when basic commodities were scarce, lenders provided credit and cheque encashment facilities for farmers, teachers and nurses in rural district hospitals and clinics (Makanjee & Chirongwe, 2012).

Savings clubs

The financially excluded Zimbabweans usually earn very small amounts so it is almost impossible for them to buy any asset goods unless they save up first. As a result, many join savings clubs. Club members contribute agreed sums into a common fund to be redeemed at a certain agreed time with interest if the money was invested in bank or other regulated facility (Klinkhamer, 2009).

The most common form of savings club in Zimbabwe is the credit round ("mukando", in local Shona language), popularly known elsewhere as Rotational Savings and Credit Associations (ROSCAs). A group of workmates usually does credit rounds or friends who agree on a fixed amount, which they will contribute towards a common fund and lend the whole amount to a member of the group in turns. Intervals could be weekly, monthly or bi-monthly depending on the group's agreement. The credit rounds help the individuals to have a lump-sum amount for buying big consumer items or pay for large expenditures, which would not normally be possible to afford with one's pay (Makanjee & Chirongwe, 2012).

With the introduction of salary-based loans in various banks in Zimbabwe, though still very limited, credit rounds are no longer as popular as they used to be (Makanjee & Chirongwe, 2012).

Informal money transfer

Informal money transfer in Zimbabwe includes bus operators who are often regarded as the most convenient way of sending money from town to rural and often remote areas. Recipients of the money are informed in advance to wait for the particular bus on a certain date and spot where the bus passes by (Makanjee & Chirongwe, 2012). This form of transfer of money may appear risky as often parcels get lost but in the absence of a safer alternative, the practice is still very common.

The practice relies heavily on faith that as the bus operator is usually the only operator on the route and needs the community's support to renew the route permit; they will do everything in their power to ensure parcels are delivered safely. However, with the introduction of mobile based technology such as the EcoCash discussed earlier, the informal money transfer system is on the decline.

Illegal Money lending

There is an illegal but old money lending practice in Zimbabwe known as "chimbadzo" in local Shona language. It refers to a situation where one lends money to a friend or community member on very strict and high interest rate terms. Lenders prey on desperate circumstances where immediate cash is needed. This practice, in other places such as the United Kingdom is known as "Loan Sharks". It is prevalent due to its convenience.

History and development of Microfinance in Zimbabwe

The Zimbabwean microfinance sector in its contemporary form is traceable back to the 1960s (Pearson & Hungwe, 1997). However, literature evidence suggests informal credit sources, such as family members and friends, moneylenders and

group-based Rotating Savings and Credit Associations (ROSCAs) including savings clubs have been providing credit facilities in Zimbabwe for centuries (Raftopoulos & Lacoste, 2001).

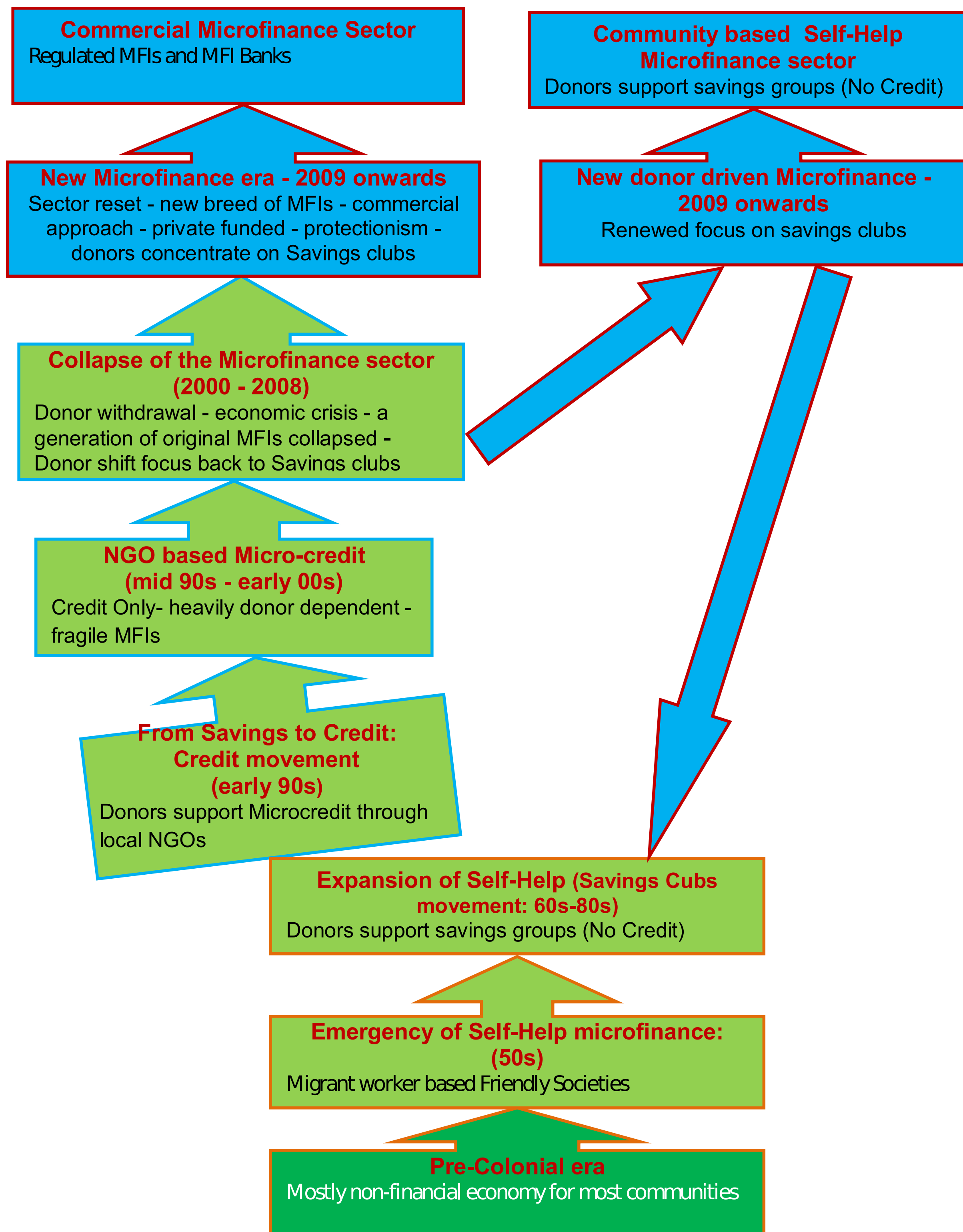
Although the basic concept of microfinance and the language is a recent development of the 1970s and 80s, the practice is not new (Robinson, 2001). The practice of microfinance in its very basic form is dealing with small amounts of cash in borrowing, lending or safekeeping for future use either for oneself or for another. The driver for this in any society is the need to meet emergency financial needs or prepare for future important expenditure (Ledgerwood, et al., 2013). Therefore, it is evident that there are pre-conditions for any form of microfinance activity to begin which includes the existence of a trading environment where financial value is important to livelihoods and access being limited or difficult.

Following from this pretext, microfinance development in Zimbabwe is traceable from the pre-colonial era when the inhabitants of what is now Zimbabwe lived in a non-financial economy (Gascoigne, 2001; Raftopoulos & Mlambo, 2009). If there was any trade it would have been limited to barter between members of different clans as the early inhabitants, the Khoi-Son people were hunters and gatherers. However, new migrants of the land, the Bantu speaking people whose economy was broader to include domesticated animals, agricultural production, and iron tool making brought trade in Zimbabwe around the 1st century AD (Raftopoulos & Mlambo, 2009). Although evidence of trading and prosperity exists through to the 16th and 17th century AD, colonialists forced the establishment of a financial economy, who came to Zimbabwe in 1888 from Europe where financial economies were already established (Raftopoulos & Mlambo, 2009). Throughout the 18th and the 19th century,

the Zimbabwean communities whose livelihoods depended on subsistence farming in an increasingly financial economy where their participation was very limited due to colonial structures, like in other African communities relied on social safety nets through Self-Help initiatives.

These included various forms of informal and ad-hoc cooperatives to provide collective loubor support to fellow village members where major laborious household work was required (Raftopoulos & Lacoste, 2001; Raftopoulos & Mlambo, 2009). The Figure 4 below illustrated the evolutionary journey for microfinance in Zimbabwe past and present.

Figure 4: Zimbabwe microfinance evolutionary journey - past and present



Sources: (Chimedza, 1995; Raftopoulos & Lacoste, 2001; Chikoko & Kwenda, 2013)

The ad-hoc cooperative "Humwe" in Shona language, is a very old tradition in Zimbabwe where a cooperative arrangement is agreed with a selected number of village members or the whole village in some cases to collectively provide labour support to a fellow village member. This was mainly driven by a community spirit, which was highly revered by most community village members of the day. The arrangement was only for a specific task, no contract or formal organisation was required. This concept was also used to solve the problem of purchasing farming inputs and other financial needs people faced from time to time(Raftopoulos & Lacoste, 2001).

The ad-hoc cooperative is probably the first observed form of self-organised microfinance in Zimbabwe when the old tradition of asking for cooperative help was applied in a financial economy. Ad-hoc cooperatives dealing with financial challenges takes many forms but the most popular is the "mukando" which refers to the rotational savings scheme where members set aside an agreed amount at regular intervals specifically to help another member of the group to purchase something until all group members have had their turn (Chimedza, 1995). It is ad-hoc in the sense that this arrangement only takes place to solve a specific need. The pressure for more planned and organised Self- Help became evident when villagers continued to struggle to meet the financial requirements for purchasing agricultural inputs each farming season (Raftopoulos & Lacoste, 2001).

The development agencies in the colonial era mainly the missionary organisations such as the Catholic Church began experimenting on supporting the more organised Self-Help groups (Figure 4) to save money for agricultural inputs and in some cases experimented on giving out credit to groups who demonstrated a level of maturity as early as the 1950s.

By the 1970s, the agricultural cooperatives had became the most common and successful form of Self -Help microfinance although the phrase obviously did not exist at the time (Bratton, 1985). As is often the case, the rate of savings could not match the demand, in most cases the planting season would start while communities were still battling to raise just enough to purchase half of the required inputs. This became the springboard for launching agricultural credit schemes by the government agencies using the existing agricultural cooperative structures (Bratton, 1985; Raftopoulos & Lacoste, 2001).

After several failed attempts to establish a sustainable agricultural microfinance system due to poor organisation governance, frequent droughts and corruption among other things, the focus returned back to the original savings ideas of the 1950s which were left underdeveloped. The late 1970s through to 1980s saw the emergency of revolutionary ideas on the development of more organised Self-Help savings schemes spearheaded by the Catholic Mission and later by the Savings Development Movement (SDM) organisation (Raftopoulos & Lacoste, 2001). International Non-Governmental Organisations (INGOs) provided significant support to steer up the savings development movement and supported the establishment of local NGOs to facilitate this process. Organised microcredit as we know it as a formal financial service was not known in Zimbabwe until the early 1990s after the SDM failed to meet the anticipated results of mass reduction of poverty among the peasant communities for the same reasons encountered during the agricultural cooperatives (Raftopoulos & Lacoste, 2001). The typical organisation and methodology of Self-Help savings clubs is explained in Box 4 below.

As discussed earlier one of the major challenges the agricultural cooperatives faced was the volume of savings the members could raise which was too small to meet the purchase demand for agricultural input. It was evident, both savings and credit was needed but a viable vehicle to provide that proved difficult to establish (Bratton, 1985; Chimedza, 1995).

Box 4: Savings clubs methodology and organisation

Membership:
A Savings Club is a group of people who gather regularly in order to save and to put their individual savings in one bank account. Savings clubs are mostly composed of relatives and friends. There are three procedures in forming a new club: the first one is informal: one or a few women happen to have friends who are members, and they are interested in becoming members. If the club is not too big (more than 30 members), they could be invited to join. During the Savings Management Training session, members are asked to write their own constitution and to elect a committee, composed of one chairperson, one secretary, one treasurer and usually 2 other committee members.

Saving methodology:
Meetings are held generally once a week, but they can be cancelled due to funerals, during the ploughing season or simply because the chairperson is absent. They always start with a prayer. Members are then asked to bring their savings one by one and the secretary and the treasurer fill in the relevant forms. While members are obliged to attend meetings, they are free to save or not, and to choose the amount that they want to save. Members receive stamps with the relevant value and they stick them in their individual savings book. The treasurer goes periodically to town to put the money saved into the account held at a Bank. Savings Clubs are thus intermediate structures between individual savers and formal financial institutions.

Organization of savings clubs:
Savings clubs are organized in a pyramidal structure: clubs within the same ward elect their ward representative, who will attend district meetings and elect their district representative. All district representatives gather regularly in provincial meetings, where they elect a provincial representative who attends national meetings.

Source: (Chimedza, 1995; CARE, 2011; Raftopoulos & Lacoste, 2001)

The SDM came with the same concept of mobilising savings but did not limit the purpose to agricultural activities only. Savings could be mobilised for any form of livelihood activity including income generating activities (IGA).

By the beginning of the 1990s after significant progress was made in establishing over 1500 savings clubs, donors began showing signs of frustration as savings alone

proved significantly inadequate to enable a reasonably quick turnaround of the poverty situations which several poor individuals were facing (Bratton, 1985). Consequently, the funding availability for local NGOs shifted from savings development to microcredit which was believed to be working elsewhere particularly in Bangladesh where the Grameen Bank had paraded success stories across the world and was promoting the replication of their model by providing seed funding to local NGOs to start micro-credit (Raftopoulos & Lacoste, 2001). It is important to note that in the early 1990s MFIs did not exist in Zimbabwe, microfinance services were provided through local NGOs who often were involved in other donor funded development interventions and microfinance services will be part of a suite of services provided (Raftopoulos & Lacoste, 2001). When donors shifted their focus to microcredit, they advocated for NGOs to transform into MFIs by streamlining their services to focus only on specialising in providing financial services often with the view for self-sustainability within five years (Wilson, 2001). It was believed to be easier to transform existing NGOs into MFIs because they already had experience working with the grassroots than establishing new institutions, which will take years for them to be fully established.

One such example is an employment benefit organisation, which was based in Masvingo around the early 1990s called Zimbabwe Unemployment Benefit Fund (ZUBF). ZUBF was a registered NGO, which provided employability services to the unemployed youth in the city of Masvingo. In mid 1990s, the organisation was awarded seed capital in the form of a grant and loan to replicate Grameen microcredit model by the Grameen Bank.

Because of limited funding in the unemployment services, most of the organisation's energies became invested more towards the microcredit opportunity, as a result of

this new focus, ZUBF was further awarded significant funding for an extended microfinance program by another donor, the Catholic Relief Services (CRS) in late 1990s. Consequently, in 1996/7 ZUBF begun the process of transforming from being an NGO to becoming an MFI and changed its name to Masvingo- Credit Against Poverty (M-CAP).

Several NGOs during this time share a similar story to M-CAP. However, this created a generation of fragile MFIs, which had a dual nature of business and charity in their DNA. Despite strong efforts by donors to make such institutions financially viable and self-sustainable, the majority if not all remained donor depended for years after the initial seed funding. By year 2000 the microfinance sector in Zimbabwe had exploded with more than 400 registered MFIs across the country (Klinkhamer, 2009). However, the controversial land reform programme in the same year led to economic sanctions and alienation of Zimbabwe from the international community. Section The 2000-2008 economic crisis and 2009 microfinance sector below explores how the microfinance sector was impacted negatively by this between 2000 to 2008. Section The evolution of microfinance in Zimbabwe below explores in detail the different stages and main challenges encountered in the development of the microfinance sector in Zimbabwe.

The evolution of microfinance in Zimbabwe

The history of microfinance development in Zimbabwe shows that efforts to provide sustainable credit to the poor both during the colonial and pre-colonial periods have for the most part failed (Chimedza, 1995). The reasons are fundamentally related to several factors including, the gross inequalities in resource allocation.

The political and legal structures encouraged the leading financial institutions in the country to direct capital away from the credit requirements of the poor in favour of

the most profitable areas of investment. Where the colonial state extended any form of credit facility to the rural poor, these were carried out to foster political dominance as opposed to the reduction of poverty (Chimedza, 1995). Attempts to provide credit to African farmers during the colonial period included the setting up of the Native Development Fund in the 1950's funded through a 10% tax on goods marketed by black farmers (Raftopoulos & Lacoste, 2001). The establishment of the African Loan and Development Company in 1961 to support black farmers in the African Purchase areas followed this. As argued before, these credit facilities offered more interest rates that are favourable to white farmers causing the marginalisation of most of the poor rural communities (Chimedza, 1995). As a result, the rural poor remained largely without access to credit and sought to establish their own institutions mainly in the form of friendly societies to meet their borrowing and savings requirements leading to the evolution of friendly societies discussed in the following section.

The beginning: evolution of friendly societies in pre-colonial and colonial era

History also suggests strong links between early development of informal savings and Microfinance (savings and credit) with the emergence of migrant worker based burial societies traceable from the early 1890s (Raftopoulos & Lacoste, 2001). This is strongly linked to the British colonial influence, which started in 1888 according to the Country Watch publication (Youngblood, 2015).

These burial societies started out of necessity as migrant workers outside the then Rhodesia faced difficulties in meeting burial costs for close family members who die away from the rest of the usual social networks available at home (Bratton, 1985).

Though informal, most of these burial societies had good management structures such as a chairperson, secretary and treasurer as well as constitutions in some cases (Bratton, 1985; Raftopoulos & Lacoste, 2001). Members will agree on a certain joining fee and monthly subscription in return for an agreed lump-sum payment in the event of the death of an immediate family member (Chimedza, 1995). As the idea of burial societies became fully developed and operations more organized, historical records show that in addition to the original goal of helping with funeral costs, credit facilities become incorporated into the main official aims of the burial societies (Raftopoulos & Lacoste, 2001). For example, the United Central African Burial Society formed in 1953, as observed by Raftopoulos & Lacoste, (2001) had part of the aims reported in the weekly publication of the time (African Weekly, 25/3/53) as follows;

"...aims shall be to establish a central fund by means of street collection and various other sources- so that loans can be issued from this fund on such easy terms as shall enable those so loaned to pay back as they work" (Raftopoulos & Lacoste, 2001).

Throughout the colonial period in Zimbabwe, several self-help financial schemes ranging from burial societies to mutual savings associations were attempted by the financially excluded black population (Chimedza, 1995). However, the majority of these schemes failed due to restrictive and repressive colonial legislation, which favoured development investment in settler occupied areas only.

The failed attempts to provide self-financing schemes included the Bantu Trading Cooperative Society established in 1938, the First African Friendly Society

established in 1960, and the United Consumer Cooperative Society established in 1964 all of which were short lived (Raftopoulos & Lacoste, 2001).

These attempts by emerging black professionals aimed to provide credit ranging from small household loans to more ambitious financial projects. A near success one was the Central African Mutual Association once chaired by a leading nationalist politician Joshua Nkomo and was able to raise £50,000 in deposits (Raftopoulos & Lacoste, 2001). Thus, it is evident from the literature that, two major challenges affected the poor communities in the pre-colonial and colonial period. These challenges were, (1) lack of readily available financial resources to meet routine household expenditure such as buying farming inputs and, (2) in ability to meet the emergency and important expenditure such as funeral costs. The early attempts to establish friendly societies aimed to find an institutional solution to these two main problems by developing the infrastructure for mobilising savings and issuing out institutional credit.

The next phase of microfinance development in Zimbabwe following these failed attempts started from 1963 as a localised self-help movement in the establishment of savings clubs (Raftopoulos & Lacoste, 2001). As noted by Chimedza, (1995), most literature on microfinance development in Zimbabwe often misses the point that the evolution begun with friendly societies before the savings movement. The failure of formal institutional rural credit services to provide sustainable access to credit for the communal farmers as discussed in the following section contributed to the expansion of the savings clubs.

Self-Help movement: evolution of savings clubs in the colonial era

The formalised self-help initiatives in Zimbabwe are synonymous with the Savings Development Movement (SDM) instituted by the Catholic Missionary Church in 1963 (Raftopoulos & Lacoste, 2001).

The Self Help was the idea that the poor individuals needed to rely on themselves through pulling together their local resources and managing them for the good and benefit of all participating members. Savings Clubs as a self- help initiative helped participating members regularly put together small amounts of money into one pool so members will use at later date as a big lump sum or borrow from the group to invest in small income generating activities of their choice (Raftopoulos & Lacoste, 2001). Although the idea seems logical and good for poor rural individuals, it only works when the individuals are organised into well-functioning groups. This takes a lot of investment in community sensitisation, mobilising group members and equipping them with the necessary skills and competencies to self-manage the operations of those groups for the achievement of a locally based microfinance service where members save and borrow effectively. Therefore, although the initiative is meant to be self-managed by group members, external technical support from NGOs, or the government is often key to the establishment and maintenance of these self-help savings as will be discussed later.

In Zimbabwe, this innovation (Savings Development Movement) is credited to Brother Francis Waddilove, a Jesuit Missionary who came to Zimbabwe then Southern Rhodesia in 1937. He is said have been influenced by a prominent advocate for Credit Unions, Pat Bailey, an international representative of the Credit Union International Association, to test the initial savings club ideas with the hope of scaling up to credit unions later(Bratton, 1985; Chimedza, 1995).

The SDM was registered as the Wycomb Foundation NGO prior to 1980 to operate more like a saving and credit cooperative.

Literature suggests that initial ideas for self-help savings development developed in response to identified problems faced by communal famers in purchasing agricultural inputs when the rain season begins due to lack of readily available funds (Bratton, 1985). Each year communal farmers found it difficult to buy inputs due to lack of readily available cash at the beginning of the farming season. No credit facilities could be made available to them. Thus, a savings club will help members to accumulate enough money in preparation the new farming season through micro-savings (Raftopoulos & Lacoste, 2001).

A pilot project was first established in Chiweshe Communal where it is reported a small group of about twenty communal farmers benefited in 1963 (Raftopoulos & Lacoste, 2001; Chimedza, 1995). The pilot was facilitated through agricultural extension officers who already had easy access to communal farmers. In order to simplify the system and make the service easy to understand by the target beneficiaries who were mainly illiterate poor communal farmers, the pilot scheme used stamps which most individuals were familiar about to represent the value of savings placed by each member. After a two year savings record, members were allowed to receive loans for productive purposes; not exceeding 10% of the borrower's accumulated savings (Chimedza, 1995). Because of its simplicity and the appreciated value of preparing for the farming season, the savings clubs pilot was well received and become very successful and popular among communal farmers.

The popularity of savings clubs was further promoted by both the colonial and post-colonial governments of Zimbabwe as the gatherings of communal famers allowed the state agencies to manage important communication on agricultural production issues and in some cases establish political control and hegemony (Raftopoulos & Lacoste, 2001).

Thus, the savings clubs were drafted into the colonial policy on rural governance in the 1960's, which was based on establishing 'traditional' control over community self-help activities using traditional authorities (Chimedza, 1995). Therefore, the colonial state contributed significantly to the development of the savings clubs and community self-help activities in Zimbabwe through policy influence. As will be discussed in the following section, the self-help rural microfinance services expanded rapidly as an alternative to institutional credit, which lacked among the poor, due to support and promotion by both the government and NGOs.

Expansion of Self-Help Microfinance services in Zimbabwe

The Savings Development Movement (SDM) contributed significantly to the expansion of Self-help microfinance in Zimbabwe although the initial was skewed towards savings development only due to leading NGOs' own development theory of change. The SDM's approach focused on encouraging savings mobilization while discouraging borrowing (micro-credit) (Raftopoulos & Lacoste, 2001). This initial success led to a gradual growth in the number of savings clubs over the years; reaching 30 clubs between 1960 and 1970 and 1500 clubs by 1974.

However, the SDM later registered as a non-profit company to become known as Self-Help Development Fund (SHDF) soon after independence in early 1980s (Chimedza, 1995).

The NGO's main aim was to promote savings mobilization through the stamp system and internal borrowing only. It achieved this by providing technical assistance to savings clubs (Raftopoulos & Lacoste, 2001).

However, in 1996, SHDF introduced an external micro-credit scheme to its members to address the obvious unmet borrowing demand among members prompting serious criticism mainly from the founding members who viewed the move as potentially dangerous to both members and the organisation itself.

Unsurprisingly, Credit Union enthusiasts welcomed this early success of savings clubs as an ideal launch pad for Credit Union movement in Zimbabwe in order to better organise and coordinate the operations savings clubs. The result was the formation of the National Council for Credit Unions (NCCU) in 1968 by the government but unfortunately, the move was hampered by members' lack of both administrative and management skills to successfully run Credit Union operations (Raftopoulos & Lacoste, 2001). This also caused friction between the NGOs who had been the leading controllers of the savings movement and the involvement of the state actors. As a result, the state eventually took over the control of the SHDF through the Ministry of Community Development and Women's Affairs.

Following, the takeover of SHDF, the government established the National Association of Cooperatives Savings and Credit Unions of Zimbabwe (NACSCUZ) in 1986 to provide technical, support services to savings and credit coops, and provide training for the leadership of such coops. Nevertheless, NACSCUZ faced corporate governance problems impacting on the organisation's capacity to effectively support its members as is often the case with most government controlled establishments in Zimbabwe.

Challenges by communal famers to access agricultural credit

In 1930, the Southern Rhodesian (Now Zimbabwe) government for the first time extended credit to peasant rural farmers who were on Trust Land Irrigation Schemes (Chimedza, 1995). The credit was made available on a very small scale and was provided in the form of physical inputs and services (Chimedza, 1995). No credit facilities were made available to the dry–land where the majority on rural famers lived until later in 1956 through the African Development Fund and African Co-operative Societies. This continued until 1979 when the Agricultural Finance Corporation (AFC) started providing loans rural communal farmers often called Trust Land Farmers (Chimedza, 1995).
However, the majority of rural communal farmers could not qualify for the AFC loans prompting the microcredit innovation by the Catholic Mission at Silveira House through a revolving loan fund established in 197O (Bratton, 1985). Records suggest that this was the first microcredit scheme in Zimbabwe. The scheme sought to help the needy through production loans aimed at helping families improve incomes and nutrition intake (Bratton, 1985). Prior to this around the 1960s, the Catholic mission had been helping the subsistent farmers qualify for the national AFC loan program only. However, due to the nature of NGO interventions, which are based on ever changing waves of philosophical ideas about how, best to do development work, the initiative did not last long. In just 13 years, the Catholic Mission at Silveira House decided to phase out the revolving credit fund in order to adopt a different approach of promoting the formation of producer cooperatives and credit unions in 1983 (Bratton, 1985).

Therefore, between 1964 and 1978, the Agricultural Loan Fund (ALF) gave loans, through a network of established savings clubs through the Savings Development Movement (SDM) and referrals from the Catholic Mission (Bratton, 1985). In 1979, rural smallholder farmers received less than 2% of the total agricultural loan fund. After the end of the colonial rule in1980, the new government sought to change this and by 1983, the share had increased to 17% (Bratton, 1985). However, during drought years such as 1981 and 1982, credit facilities disappeared and the AFC lost almost all the loan portfolio through loss of harvest leaving the rural communal farmers excluded again from formal source of finance (Bratton, 1985).

The Agricultural Finance Corporation (AFC), a government scheme was responsible for providing agricultural loans to communal farmers in the 1980s with the assumption that the use of credit will be an effective tool for overcoming underdevelopment and addressing the colonially induced inequalities. However, structural challenges in the delivery of the scheme and market failures resulted in rising debt at household levels and high rates of loan defaults. Owing to these operational difficulties and a change in policy under Economic Structural Adjustment Programme (ESAP), the government decided to commercialise the AFC by forming a new bank called AGRIBANK in the 1990s. However, lack of funding resulted in additional constrains for the poor communal famers in accessing new credit (Bratton, 1985). Similar government initiatives such the Small Enterprises Development Corporation (SEDCO) and the Zimbabwe Development Bank (ZDB) were also commercialised resulting in a radical shift lending methodologies, requiring collateral security for loans which in turn excluded most communal famers (Bratton, 1985). Therefore, most donor agencies came in the country to support local initiatives by NGOs during the late 1990s.

These included the Konrad Adenaur Foundation (KAF), CARE International and the Belgium based Association for the Development by Research and Integrated Action (ADRA) (Mago, 2013). Because the savings organisations although they were very popular with communities, capital limitations from several of these groups impacted on the members' ability to increase production. This led to NGOs changing their focus from savings development to the provision of external credit facilities (Raftopoulos & Lacoste, 2001). This marked the beginning of NGO based institutional micro credit schemes in Zimbabwe discussed in the following section. Nevertheless, the microfinance sector remained volatile and largely unreliable for the majority of poor communal farmers.

First, the NGOs microcredit schemes, being dependent on repayment into a revolving fund, are unstable and prone to collapse when large number of subscribers defaults. The exact thing happened after the 1982/83 drought when NGO microcredit schemes lost their entire loan portfolio. Second, the government sponsored microcredit schemes were often oversubscribed and poorly managed and some instances influenced by politics. Because of the political appeal of cheap credit, the AFC was reluctant to charge an economic interest rate causing obvious sustainability problems.

Transforming savings organisations into credit organisations

The appetite for promoting external credit to savings clubs became evident at the end of the 1990s. Impact studies on savings clubs showed that income generated by members financed from their savings produced poor returns, and that with slightly higher amounts invested, the returns on capital and labour time could be substantially increased (Chimedza, 1995).

This empirical evidence propelled the donor community towards promoting institutionalised micro-credit for the poor in Zimbabwe. The SHDF for example started discussions with the Konrad Adenaur Foundation (KAF) on this issue in 1995 resulting in a feasibility study being carried out in Mashonaland Central area the following year in 1996.

In 1997, CARE International in Zimbabwe partnered with the SHDF to develop a credit programme leveraging on the huge potential base which existed in the SHDF membership (CARE, 2011). CARE had gained a key interest for savings clubs from the organisation's experience in Niger where CARE where in 1991 discovered a way to harness the ancient practice of group savings and create a sustainable system of home-grown microfinance called Village Savings and Loan Associations (VSLAs). The VSLA is built entirely on member savings and interest from loans. The associations receive no direct capital investment from CARE but members receive a comprehensive capacity building support through up to a year of intensive training in group dynamics, governance, and financial literacy (CARE, 2011). According to CARE, the VSLA methodology meets the need for savings and credit at the very bottom rung of the world's economic ladder.

It is important at this point to note that CARE is a not-for-profit NGO and not a microfinance institution. The NGO promotes the development of a platform where gain skills to engage in a local financial market for them to graduate into taking the more sophisticated financial services from registered MFIs and banks. Because of CARE's strong linkages with the microfinance sector and its involvement in VSLA, the organisation is often confused as an MFI. A more detailed profile of CARE past and present will be discussed in section CARE Zimbabwe below.

Therefore, using CARE’s VSLA experience and SHDF’s huge membership base, a pilot was launched through the support from USAID funding which aimed at transforming the SHDF from a savings to a credit organisation over a five-year period (Raftopoulos & Lacoste, 2001). Other donor agencies also pulled in their resources to support this initiative, which saw the Association for the Development by Research and Integrated Action (ADRA) part of the programme over 3 years concentrating in the areas of Wedza, Murehwa and Makoni and the Japanese government providing SHDF with a loan fund.

Other donors included, the Australian Agency for International Development (AUSAID), the Austrian Government, and the British Department for International Development (DFID), the Canadian International Development Agency (CIDA),and the German Development Co-operation (GTZ) just to mention a few.
Their support included capacity building, human resources development, technical assistance, monitoring, evaluation, and funding for revolving loans. Partnerships were established with local NGOs and Banks in some cases (Klinkhamer, 2009). A good number of local NGOs and Banks contributed in the initial stages of mid-scale microfinance program development in Zimbabwe. Banks include Barclays Bank, the Commercial Bank of Zimbabwe (CBZ), the Agricultural Bank of Zimbabwe (AGRIBANK), the Post Office Savings Bank (POSB), and the Kingdom Bank through its subsidiary Micro King (Klinkhamer, 2009).
NGOs included, the Organization of Rural Associations for Progress (ORAP), the Phakama Savings and Credit Cooperative Society, the Zambuko Trust, and the Zimbabwe Ecumenical Church Loan Fund (ZECLOF) and the Credit Against Poverty-Masvingo (CAP) just to mention a few.

As discussed on section History and development of Microfinance in Zimbabwe above, both INGOs and local NGOs played a significant role in the development and expansion of microfinance sector in Zimbabwe. Section Key INGO players in microfinance development in Zimbabwe below explores the contributions of some of the key players who have supported the sector since the beginning and have continued to play a significant role to the present day although different from the early days.

Key INGO players in microfinance development in Zimbabwe

As discussed earlier, International Non-Governmental Organisations (INGOs) played a significant role in the inception and development of microfinance in Zimbabwe. Two such INGOs are CARE and CRS whose profiles are discussed in more detail in subsections below.

CARE Zimbabwe

CARE, (Cooperative for Assistance and Relief Everywhere) originally called the (Cooperative for American Remittances to Europe) was established formally in 1945 to temporarily offer relief assistance to starving families and individuals emerging from World War 11. The organisation was initially a consortium of twenty-two American charities from civic, religious, cooperative, and labour organizations. Over the years CARE transformed into a confederation of fourteen CARE National funding Members, each of which is registered as an autonomous non-profit non-governmental organization in the country. The fourteen national members include Australia, Canada, Danmark, Deutschland-Luxembourg, France, India, Japan, Nederland, Norge, Österreich, Thailand, UK, USA, and Peru.

A Country Office registered as a local NGO usually manages CARE programs in developing countries.

In the early 1990s, CARE developed what would become an important model for Self-Help cooperative microfinance. This model is called the Village Savings and Loans Associations (VSLAs) and it began in 1991. However, CARE was not established in Zimbabwe until 1992 in response to a severe regional drought. After establishing a drought mitigation program, CARE began longer-term developmental programs with local partners in building small dams, strengthening local microfinance institutions, and launching projects to assist small businesspersons in the rural areas. CARE Zimbabwe's overall goal is to empower disadvantaged and poor households to meet their basic needs. Programs promote sustainable livelihoods of poor and vulnerable people.

Using the VSLAs microfinance model, CARE began promoting savings groups in Zimbabwe in late 1990s. In 1997, the Commercial Bank of Zimbabwe, in cooperation with CARE, initiated a pilot effort. It established a community-banking window at the Highfield (a section of Harare) branch in an effort to reach micro entrepreneurs, albeit the upper end of this segment. By the end of March 1999, the community-banking program had disbursed 2,873 loans.

In general, members self-select to form savings groups and agree on a monthly contribution per member toward the group fund. By combining their savings, groups create an internal loan fund. Members borrow money from the internal fund at an agreed interest rate and the fund continues to grow through monthly contributions and revenue from interest rates charged on internal loans. The savings fund pool also serves as a source of emergency loans. Members also have an opportunity to gain business literacy through SPM (Select, Plan and Manage), a training program

run by CARE. Access to small loans allows members of the savings groups to start or improve their investment in economic activities.

Since the group manages the fund, they incur little to no administrative costs. CARE's costs are limited to training infrastructure, which builds the capacity of individual groups to manage their funds.

In 2000, CARE launched their flagship project "Kupfuma Ishungu Rural Microfinance Project (KI-RMFP)" which ran for four years ending in 2004. The project was designed to build the capacity of communities to mobilize and manage savings that can then be used to grant loans to meet the production, consumption, and social needs of vulnerable members (mainly women) of the communities. The project covered areas of Zvishavane, Mberengwa and Shurugwi districts, part of the Midlands and Masvingo provinces of Zimbabwe.

As of mid-2004, the program had 49,086 individual members in 7,114 groups; of which 40,929 individuals (85 percent) were women and 7,167 (15 percent) were men. At that time, 350 groups overall were engaged in asset-based savings, and 1,300 groups had created social funds to assist their members with funeral, medication, and illness-related expenses. An impact study of the expansion of the Kupfuma Ishungu intervention was carried out in June 2002 and again in February 2004. The latter evaluation reported continued increases in productive and protective assets among village savings and loan groups, as well as a marked strengthening of their social capital and standing in the community at large. CARE continues to support the development of community based Self-Help microfinance schemes across Zimbabwe and Southern Africa. However, as discussed earlier, CARE operations remains in the NGO sector as opposed to the MFI sector where formal

regulation is required to carry out microfinance activities. Similar to CARE, is the contribution of Catholic Relief Services (CRS) to the development of microfinance in Zimbabwe as discussed in the next section.

Catholic Relief Services (CRS)

Catholic Relief Services (CRS) first began its work in 1943, during World War II focusing on the resettlement of war refugees in Europe. The Roman Catholic Bishops of the United States established CRS to help war-torn Europe and its refugees recover from this great conflict (Wilson, 2001). In the 1950s, as Europe regained its balance, the agency began to look to other parts of the world, seeking out those who could benefit from the assistance of Catholics in the United States extending its operations in Africa, Asia, and Latin America through partnership working with civil society thereby helping to establish local NGOs. CRS maintained its tradition of providing relief in emergency situations and began to seek ways to help people in the developing world break the cycle of poverty through community-based, sustainable development initiatives (Wilson, 2001).

However, it was not until 1989 when CRS began operations in Zimbabwe at the invitation of Catholic Bishops' Conference. CRS Zimbabwe was established and built strategic partnerships with more than 20 local organizations, bringing humanitarian, recovery, and development programming to Zimbabwe's urban and rural communities (Wilson, 2001). Around the 1990s, CRS increased their focus in social and economic empowerment through enterprise development. The move saw significant support and collaborating with local NGOs to provide the early microfinance/credit programmes in Zimbabwe. CRS provide loan portfolio fund to

local NGOs as well as extensive technical assistance and capacity building as mentioned earlier in previous sections.

Around 2003/4, the microfinance sector was still at its infancy, progress towards self-sustenance for NGO/MFIs increasingly seemed very unlikely due a number of challenges as discussed in previous sections. CRS began exploring sustainable alternatives for supporting microfinance activities and developed its own savings led self-help microfinance scheme, the Savings and Internal Lending Communities (SILC), modelling it after CARE's VSLAs microfinance model.

The SILC is a holistic programming approach that offers households a strategy to protect assets, smooth cash flow, and increase income (Zheke, 2010). In comparison to traditional microfinance institutions that face limitations in servicing the financial needs of vulnerable groups such as women, poor farmers, orphans and youth, SILC is able to provide flexible financial solutions to these marginalized groups in a sustainable manner (Zheke, 2010). SILC is a savings model promoted by Catholic Relief Services (CRS) with its roots in traditional Rotating Savings and Credit Associations (ROSCAs), and Accumulating Savings and Credit Associations (ASCAs). SILC improves upon the ROSCA/ASCA methodology and on the traditional systems by creating accessible, transparent, and flexible accumulating savings and credit groups (Zheke, 2010). Just like CARE, CRS's visibility in the Zimbabwean microfinance in post 2009 is limited to self-help savings schemes despite being one of the pioneer funders of the early microfinance development in Zimbabwe. On the other hand, the key pioneering local NGOs in microfinance also went similar transformation and strategic refocus as discussed in the next section.

Key Local NGOs in Microfinance development in Zimbabwe

The key pioneering local NGOs in microfinance faced several challenges in over a decade as the microfinance sector experienced a prolonged crisis with which ended with a catastrophic revamp of the sector in 2009. This section discusses two of such NGO/MFIs, the Zimbabwe Ecumenical Church Loan Fund (ZECLOF) and Zambuko Trust.

Zimbabwe Ecumenical Church Loan Fund (ZECLOF)

The Ecumenical Church Loan Fund (ECLOF) was incorporated in 1946 in Geneva, Switzerland to grant loans outside Switzerland to assist with the rebuilding of destroyed and damaged churches in Europe during the Second World War. In 1959, this mission was expanded when the first National ECLOF Committee was formed outside Europe, in Burma, followed by Tanzania in 1960 and Argentina in 1961.

It was not until 1995 when the Zimbabwe Ecumenical Church Loan Fund (ZECLOF) was established as a local non-profit organization. ZECLOF was initiated by the Zimbabwe Council of Churches to facilitate a revolving loan fund for use by churches, affiliated solidarity groups, and community grass roots organizations. ZECLOF supported the original mission of church building, education, training and housing but with the majority of the capital resources channelled towards the loan capital for a variety of income generating projects, predominantly in rural communities where access to formal commercial banks was limited thereby becoming one of the first NGO/MFI to operate in Zimbabwe. Although, ZECLOF

began embracing best practice in started submitting the NGO's portfolio data to the MIX market global platform in 2000, this only lasted until 2003, the time when crisis began to deepen.

By 2007 virtually no data or publication about ZECLOF could be found on the public domain neither is among the dominant players of the post 2009 MFIs. A similar story could be told of Zambuko Trust as discussed in the next section below.

Zambuko Trust

Zambuko Trust emerged from the collaborative efforts of a group of Zimbabwean businesspersons, community and church leaders who joined together in 1990 to establish a microenterprise lending organization (Barnes, 2001). Zambuko Trust is a Christian microfinance institution that seeks to transform the lives of the underprivileged in Zimbabwe through microfinance products and services. The name Zambuko means a bridge in the Shona language and reflects the mission of the organization: “to be a bridge between the marginalized, the unemployed and opportunities for enterprise and income generation.”

In October 1992, Zambuko received funding from Opportunity International and registered for moneylending licence in accordance with the provisions of the Money Lending and Rates of Interest Act, as there was no specific microfinance regulation at the time. Zambuko's goal was centred on creation of employment and generation of income for the underprivileged through microenterprise business activities and to become a self-supportive, viable organization was part of the organisation’s stated goal (Barnes, 2001). The services included the provision of loans, training in business practices and administration, and on-going business support services to clients.

Over the years, Zambuko's organizational structure and geographic coverage have undergone changes that reflect expansion of the program, lessons learned, and utilization of best practices in the microfinance industry.

In its initial stage, Zambuko served Harare and Domboshawa, a rural agricultural area approximately 20 kilometers from Harare (Barnes, 2001). The experience in Domboshawa, which coincided with a prolonged period of drought, led Zambuko to focus on urban and peri-urban settings, and to shy away from loans for crop production activities. This focus was partly influenced by a burgeoning of microenterprise firms in urban rather than rural areas. Thus, Zambuko's approach became apparently biased towards the urban entrepreneurs with a sound commercial rationale (Barnes, 2001).

After its start-up year, Zambuko began establishing branch offices, to which smaller, satellite offices were linked. Branch offices were staffed with a branch officer, loan officers and an accounts clerk. Potential clients would receive a half-day of training at the branch office prior to formal application for a loan, and clients within a branch's catchment area were required to travel to the branch office for all financial transactions.

In 1997, Zambuko changed its organizational structure to decentralize several functions. Branch offices were relocated to areas with a high concentration of clients (and potential borrowers) for ease of monitoring by loan officers and to lessen the distance clients must go to transact business. In the fall of 1997, there were five regional offices and 18 branch offices. These were staffed with approximately 56 individuals, supported by a Headquarters Unit of 10 individuals. In 1999 Zambuko had 25 branch offices under five regional offices. By the end of the year 2000, the

full-time personnel numbered 130, including 19 in the headquarters office that contains the audit and accounts officers. By this time loan officers had been renamed business development officers to reflect both the lending and training features of Zambuko's program.

Initially Zambuko provided loans to individuals, but in 1995, it started providing group guaranteed loans. By late 1996, the policy was to provide loans only to members of groups, but continue with individual loans to repeat, individual loan clients. Potential clients were encouraged to form a group of 5 to10 members. At an initial one-half day orientation session prior to receipt of the loan, the requirements were explained and good basic management practices encouraged. Up to the year 2000, individuals within a group would pay their instalments and the group guarantee was not strictly enforced. After being in a group scheme, a client might ask and be approved for an individual loan product. Resistance to group-guaranteed loans outside of Harare and Chitungwiza, however, led Zambuko to continue to issue loans to individuals who would pledge a non-essential asset and have a co-guarantor. In 1997, Zambuko did not exclude women who were not poor from joining this program, although in 1998 they did. Also later men were able to join the program.

As discussed earlier, Zambuko was one of the hardest hit by the economic crisis yet from the profile presented, the organisation's history shows that financial self-sustainability and business viability was at the forefront right from the organisation's inception. Most NGO based MFIs began by targeting groups then later reluctantly accepted individual lending but Zambuko was a pioneer in individual lending. At the time of data collection, the only evidence of the organisation's existence was limited to the head office, which remained open. The officials felt uncomfortable to discuss the status of their organisation's operations, which say a multitude considering that

most of the publications of the microfinance in the 1990s in Zimbabwe were often based on Zambuko's work. Without cooperation from the organisation, it remains unclear how such a pioneering player in the sector, with best chances of success ended up in the shadows of the new breed MFIs.

Major challenges, which befell the microfinance, sector following the economic crisis provides some insights into what might have happened as discussed in the following section.

THE 2000-2008 ECONOMIC CRISIS AND 2009 MICROFINANCE SECTOR CATASTROPHIC REVAMP

Zimbabwe faced a major economic crisis begun in 2000 and ended in 2008 triggered by the controversial land reform program, which started in 2000. Donors withdrew funding from all sectors including the microfinance sector except for humanitarian purposes. Following the country's land reform programme, Multilateral Financial Institutions also imposed sanctions on Zimbabwe. Private companies in Zimbabwe could not access foreign lines of credit essential for the country's exports. Financial flows such as aid, short and long-term loans also stopped reducing foreign exchange flows to Zimbabwe significantly leading to shortages of fuel and imported raw materials. The shortage of fuel had a debilitating impact on all sectors of the economy, causing a continuous decline in economic activity and severe shortage of all basic commodities triggering a hyperinflationary environment.

The continuing problems brought a bad country image on Zimbabwe attracting high-risk premium on offshore lines of credit, and eventually scared away alternative creditors. This negative perception about Zimbabwe by the world at large made it difficult for the private and public enterprises to secure funding, as donor-funding agencies were no longer willing to support projects in Zimbabwe. The figure below

illustrates a sharp decline in loan inflows between 2000 and 2006 according to RBZ and the Zimbabwe Ministry of Finance.

Figure 4: Average Loan Inflows to Zimbabwe between 1980 and 2006

Source: Reserve Bank of Zimbabwe

As shown on Figure 4 above, the loan inflows increased from an average of US$134.3 million in 1980s to US$480.3 million in the 1990s. However, loan inflows declined to an average of US$49.3 million between 2000 and 2006. A similar effect was observed in foreign direct investments (FDI) during the same period as shown on Figure 4 below. Most multinational corporations such as Anglo-American were strongly discouraged from investing in Zimbabwe by their home countries.

Figure 4: Average Foreign Direct Investment in Zimbabwe between 1980 and 2006

Source: Reserve Bank of Zimbabwe

As a result, foreign direct inflows although was on the increase from an average of US$8 million in the 1980s to an average of US$95 million in the 1990s, it declined to averages of US$20.4 million between 2000 and 2006 according to the Reserve Bank of Zimbabwe.

On the other hand, International Non-Governmental Organizations (INGOs) whose role was a cornerstone for most poor communities could no longer operate in the country. The Government being accused of spying on behalf of Britain and America, the Government's perceived worst enemies, banned some. In addition, others being funded by Western Governments realigned their policies in consultation with their

donors. The result was that, some donors either withdrew their programs or froze further development assistance programmes in the country.

Other donors, through various NGOs who chose to continue working in Zimbabwe changed their focus to only provide humanitarian assistance and social issues mainly HIV/AIDS, social protection, and human rights. Therefore, the donor funding declined significantly as shown on Figure 4 below, and severely affected the microfinance sector, which heavily depended on donor support as discussed earlier.

Figure 4: Average donor funding inflows to Zimbabwe between 1990 and 2006

Source: Reserve Bank of Zimbabwe

In addition, several NGOs, donor agencies, and most foreign businesses relocated their offices from Zimbabwe to neighbouring countries. One example is the pulling out of DANIDA and the Canadian International Development Agency (CIDA) from Zimbabwe in 2001 and 2003, respectively, terminating all projects in progress, and retrenching their employees. Therefore, as shown on Figure 4 above, donor support and developmental assistance declined significantly from an annual average of US$138 million in the 1990s to US$39.9 million between 2000 and 2006 according to the Reserve Bank of Zimbabwe.

This economic crisis caused several challenges including in the Zimbabwean microfinance sector and operations of MFIs in particular causing them to resort to various forms of coping strategies (Chikoko & Kwenda, 2013). Hyperinflation meant that it was impossible for business to have fixed prices for their products and difficult to do business for several reasons as will be explored below.

The hyperinflationary environment in Zimbabwe was characterized by daily increases process of basic goods and services. At the peak of the hyperinflation around 2004/5, prices were rising on an hourly basis to such an extent that it was no longer necessary or possible to display price lists or have price tags on goods as prices literally changed 3 or 4 times while customers were waiting to pay on the till. On several occasions, shop customers will enter into a supermarket with enough money to buy 3 loaves of bread, by the time they get to the tile the money will not be enough to pay for a single loaf of bread. It was at least possible for the commodity traders to exercise fluidity in pricing of their products but this difficult if not impossible for MFIs to respond in the same manner. Legal and regulatory barriers were the immediate challenges for MFIs before even considering the practicality of adjusting loan interest charges on an hourly basis. Furthermore, high interest charges attracted criticism from the Reserve Bank of Zimbabwe, which was on an anti-inflation war and exposed MFIs to great default risk.

The worsening economic conditions resulted in a dwindling market for the small enterprise, reduced disposable income both for the borrower and for small business. As MFIs struggled to cover their costs with no additional funding from donors, may resorted to cutting as much costs as possible including minimal loan appraisal. This led to exacerbated problems of poor lending practices, multiple borrowing by clients, eventually over-indebtedness, and heavy defaults.

It was a "loose" "loose" situation by MFIs. Streamlining the lending process to cut costs led to high defaults while maintaining rigorous assessments meant more costs far more than the MFIs able to recover through all loan charges.

In addition to these challenges discussed above, MFIs lost significant expertise as experienced staff migrated out of the country. During the period prior to the start of the crisis in 2000, donor agencies invested heavily in MFI capacity building to develop skills at all levels, staff management and board. The microfinance sector lost visionaries mostly senior staff and board members some of whom would have nurtured the various institutions from infancy. These either went abroad or joined the private sector and banks. Losing senior level staff and board members was possibly the most devastating loss in the Zimbabwean microfinance sector. As will be discussed in section Post 2009 microfinance in Zimbabwe: the new MFI breed, this left the sector without custodians and a clear vision giving way for a new breed of MFIs and a new world order in the Zimbabwean microfinance sector post 2009.

This significant loss of essential skills and expertise brought further challenges to the microfinance sector which manifested in the form of severely inadequate systems, management failure, faulty controls and increased fraud. Underdeveloped policies and procedures in a hyperinflationary environment compounded by MFIs' failure to pay employees the inflationary adjusted salaries led to increased cases of fraud.

Furthermore, access to money from the bans become a serious problem for MFIs whose business is to lend money as a result of the Government's strategic decision to limit withdrawals from banks in an effort to control the speculative behaviour and other illegal business activities which was being partly blamed for causing inflation.

The Central Bank introduced the use of plastic money and the use of Real Time Gross Settlement (RTGS) in order to reduce money in circulation and contain money supply growth. The impact of this on MFIs was inability to meet disbursements demands to due to limited cash available and inability to collect repayments from

clients as some took advantage of the situation to default claiming that they could not access their cash from the banks. Consequently, MFIs lost their capital through default, inflation and employee fraud among other causes discussed.

The remaining donors most of whom had been advocating for MFIs to quickly graduate to self-sustainability and had already started to show signs of frustration as it was taking longer than anticipated for MFIs to stand on their own, took this opportunity to refocus their attention back to original revolutionary ideas of Self-Help savings clubs. This focus transformed the INGOs into Facilitating Agencies (FA) where they work directly with communities as opposed to the previous approach of reaching communities through funding local MFIs and NGOs (CARE, 2011). However, their services became limited to providing only technical support to savings groups without any credit granting which is ideal as they will not be required to get licensed as MFIs (CARE, 2011; Zheke, 2010). As discussed earlier and already observed this approach and model have its own limitations but nevertheless presented a more practical approach to donors agencies who invested significantly in microfinance development in Zimbabwe to maintain connections with the sector. Such organisations include but not limited to CRS and CARE.

It was observed that the hyperinflationary environment caused rapid changes in the business environment, which required all players to respond accordingly.

Unfortunately for MFIs, due to problems discussed above their ability to change at the same pace was extremely limited forcing most of them to adopt various copping strategies just to survive as explored below.

The most obvious copping strategy was the attempt to pass on the cost of lending to the borrowers by applying high interest charges although this was heavily criticised

by regulators. It meant that borrowers also passed on the cost to their customers there by contributing to the rising inflation. This strategy faced resistance and resulted in default increase as well. With high demand for credit but very limited supply, MFIs in Zimbabwe as would be expected under similar circumstances started credit rationing and cherry picking. The result of the reorientation of the microfinance sector was a tacit agreement among MFIs to avoid certain business sectors, certain geographical regions, certain economic sectors, and certain borrower groups. This redefinition of target group was driven by a sense of protectionism on the part of MFIs to avoid exposure to risks. In line with this new approach, MFIs moved their operations to exclusively to towns and cities where there was increased economic activity. Under this new strategy, some MFIs closed less profitable branches and offices while others only dealt with few good existing clients.

This new approach meant the product offering had to be revised as well. MFIs used to provide enterprise loans predominantly now joined private moneylenders in the salaried and consumer lending considered being less risky. The portfolio share of consumer and salaried loans in the microfinance sector became nearly 100% by end of 2006.

MFIs with an NGO background had always offered non-financial services such as business development, a legacy of the previous donor funded microfinance era of the 1990s. Because of this reorientation, most of these MFIs were forced to choose to focus on one aspect and the majority either dropped business development services completely or offered very limited basic training aimed at fostering repayments. Nevertheless, without access to additional funding from donors and

limited innovation and resilience of private sector operators only 4 MFIs remained active by end of 2007 according to Klinkhamer, (2009). The rest either had closed completely or had only left the head office admin running while trying to redefine and rethink their position. Some big names in the Zimbabwean microfinance of the 1990s disappeared without trace. Zambuko Trust is one such example as discussed earlier in section Zambuko Trust . Zambuko Trust was by far the most successful MFI 1990s. The organisation applied a commercial approach and offered both enterprise and a consumer loan at a time when consumption loans in microfinance sector were unpopular. Several academic studies on microfinance in Zimbabwe were based on Zambuko Trust and the organisation was very attractive to donors and investors alike due to transparency and publicity. For several years, the organisation published reports on the MIX Market database. Therefore, Zambuko's contribution to microfinance development in Zimbabwe cannot be over emphasised. However, by the 2013 at the time of this research, Zambuko Trust was now confirmed to its head office in Harare and could not entertain outsiders or provide any details of its remaining operations in the country though at one point the MFI had branches across the whole country. That can only be the tip of the iceberg when considering the challenges faced by small MFIs who could hardly match Zambuko microfinance sector expertise and capital base at the time.

The final blow to the remaining MFIs happened in 2009 when after serious considerations by the Government about the way forward in rebuilding the economy after the crisis decided to scrap the local Zimbabwean dollar currency and start using multi-currency dominated by the $US and SA Rand (Chikoko & Kwenda, 2013; Klinkhamer, 2009). Any hopes to recover the outstanding loans in local currency were shattered and the microfinance sector was reset for a fresh start. This became

a catastrophic revamp of the microfinance sector in Zimbabwe which gave birth to a new breed of MFIs and a new kind of microfinance sector very distinctive from the microfinance sector of the 1990s as be discussed in section Post 2009 microfinance in Zimbabwe: the new MFI breed below.

Post 2009 microfinance in Zimbabwe: the new MFI breed

A new breed of MFIs was born by the coming in of the multi-currency economic regime in Zimbabwe. All MFIs had to reconfigure their operations in preparation for a forced and abrupt new start and new capital was required. With donors less interested in funding MFIs and now focusing on what they consider to be community microfinance (Self-Help savings groups) unreached by MFIs (CARE, 2011), this created a huge opportunity for private investors to establish MFIs. Even the existing institutions coming out of this crisis were no less than private investors in their approach were. The result was a complete wipe out of the old generation of MFIs and replaced by a new wave of microfinance in Zimbabwe dominated by private institutions from banks and individuals. Unlike the MIFs of the 1990s who started form a charitable foundation of NGO support and subsidised credit, the new breed a purely commercial approach.

Unlike the previous generation of MFIs most of whom started from the grassroots and rural poor offering first enterprise loans to the unemployed as dictated by the donor funding requirements before moving to the urban poor, the new breed's approach is starting with the less costly, less risky and more profitable consumer loans to the employed in urban areas mainly the big cities of Harare and Bulawayo. This constituted a complete reshuffle of the mentality and perception of microfinance,

its role and relevance in the poverty alleviation mission within the Zimbabwean context. A major shift is observed in the profitability expectations between the old and the new MFI generation. The old generation approached profitability as a long-term goal to be achieved through economies of scale by significantly increasing client outreach, which could take more than 5 years. Until then, the MFI relied on heavy subsidies from donors and supporters. As for the new generation, profitability needs to be justified at day one to convince investors and outreach is determined by profitability not the other way round which means unless the MFI is profitable enough, outreach will be limited but sustainable.

While the commercialisation of microfinance was taking place through the new breed of MFIs, donor agencies and NGOs intensified their efforts in promoting Self-Help savings groups in rural areas. Quite justifiably, with the new approach, very few if any MFIs prioritised the rural clients in services development and provision. NGOs filled this gap and established a sub sector with microfinance focussing only on facilitating the formation and management of savings clubs through technical assistance but no external credit to these communities.

Therefore, the microfinance landscape in Zimbabwe post 2009 as illustrated on Figure 4 above is characterised by two main approaches, (1) commercial microfinance dominated by private funded institutions and operate mostly in cities and towns and (2) charitable microfinance provided mainly in rural communities by local and international NGOs and limited to supporting Self-Help savings groups. These two different microfinance sectors can also be described as (1) the registered and regulated microfinance sector and (2) the unregistered and unregulated

microfinance sector respectively. This re-organisation is very significant in the understanding of microfinance in Zimbabwe because most literature about microfinance in Zimbabwe before 2009 may present a different picture to new reality of this new breed of MFIs and the environment they operate in. This distinction is very important for the purpose of this thesis as it focuses only on registered and regulated post 2009 MFIs. The evolution of microfinance in Zimbabwe as shown Figure 4 above faced a series of disappointing failures.

Overview of current post 2009 microfinance coverage

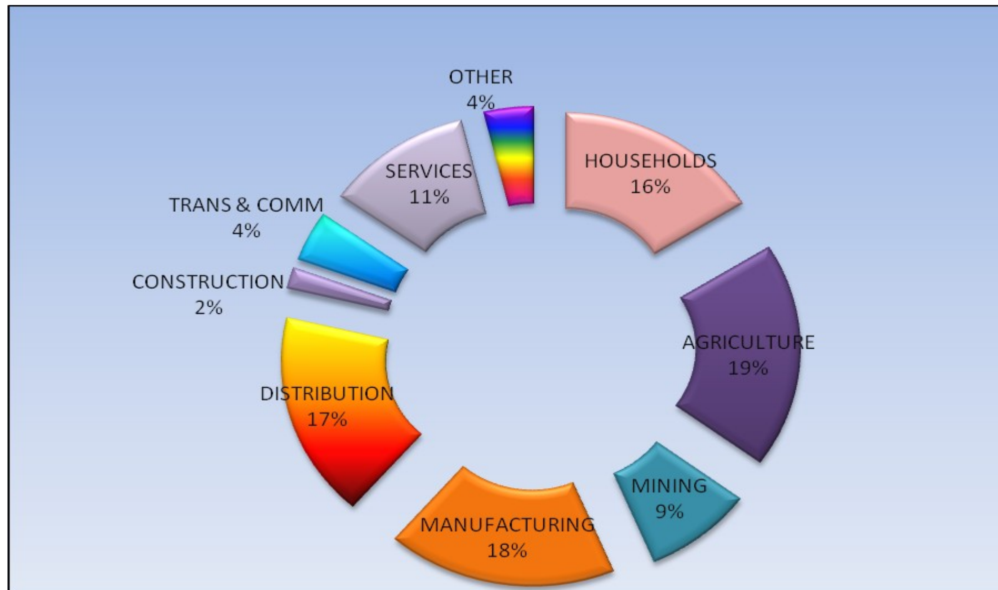
Microfinance plays a major role in closing the financial exclusion gap created by formal banking financial institutions. Formal banks target individuals with a regular salary or wage but only 14% of Zimbabweans satisfy this condition (Makanjee & Chirongwe, 2012). Furthermore, most rural dwellers lack the documentary requirements to open a bank account even if they had reasonable regular income. Banks require a National Registration Card, and a utility bill for proof of residence, which 77% of the population do not have (Makanjee & Chirongwe, 2012).

The consumer survey report by ZimStat and Fin Scope in 2012 established that 40% of the Zimbabwean population is financially excluded from the mainstream financial sector which means over 5 million Zimbabweans rely on family or friends for borrowing and save at home if they have something to save (Makanjee & Chirongwe, 2012).

However, an earlier independent survey by Ernst & Young commission by the Reserve Bank of Zimbabwe in 2006 concluded that 70% of the of the population was excluded from the formal financial system (Ernst & Young, 2006). Of those with

banking services, only 3% had access to bank loans in 2011. Figure 4 shows how the bank loans were distributed in 2012 across all sectors (Gono, 2013). A very small proportion, 16%, went to individual households.

Figure 4: Composition of Credit provision by banks in 2012



Source: Reserve Bank of Zimbabwe 2013

Consequently, more that 60% of urban dwellers use informal financial services, according to the survey that might explain why US$3 million circulates outside the formal financial system (Klinkhamer, 2009).

As a result, the majority of Zimbabweans use informal mechanisms for savings, insurance, and borrowing; meaning microfinance can play an important role in extending the boundaries of financial inclusion deeper into the unbanked masses (Makina, et al., 2014).

SUMMARY

In conclusion, although the Zimbabwe's economy reached rock bottom in 2008 with deep economic, social and political problems, in 2009 following the political deal

between all the major political parties to form a unity Government, the country started to recover, gaining momentum between 2010 and 2011. However, the country's economy slowed down in 2012 with the governor of the reserve Bank of Zimbabwe Dr Gideon Gono warning on an even more difficult 2013. The country faced several economic challenges in 2012 including falling commodity prices due to global economic slowdown, constraints in the domestic economy resulting from the negative effects of sanctions, adverse and unpredictable weather conditions and underlying liquidity shortages (Gono, 2013).

Zimbabwean banks on the other hand were characterized by high lending rates that discourage borrowing by key productive sectors of the economy and high bank charges, which also discourage meaningful savings mobilisation, thereby arguably affecting negatively the country's economic growth prospects in 2012. Currently, Zimbabwe's financial sector depends on six main sources of liquidity, which includes exports, diaspora inflows; foreign direct investment; lines of credit; and portfolio inflows (ZimStat Quarterly Digest , 2013).

However, the banking sector stability hinges on adverse liquidity conditions that are inseparably linked to external economic conditions due to the country's reliance multiple foreign currency system (Gono, 2013). Although Zimbabwe continues to enjoy the first period of political peace and tranquillity in more than a decade, according to Gono, (2013), the Inclusive Government has not addressed the bulk of underlying economic challenges that brought the country on its knees in the last decade. Most importantly, the cost of capital has remained high as evidenced by high lending rates as well as high bank charges. The Reserve Bank Governor, Dr

Gono argued that none of the country's economic and social challenges identified in 2003 was addressed (Gono, 2013). In 2003, the Zimbabwean economy faced several challenges as outlined in Box 4 below.

Box 4: Identified economic challenges facing Zimbabwe in 2003

1. *Interest and exchange rate distortions*
2. *Reduced corporate sector viability*
3. *Declining levels of both local and foreign investment*
4. *Industrial production capacity under-utilization and diminished export performance*
5. *Low savings and "short-termism" in investment decisions*
6. *High unemployment levels*
7. *Accelerated informalisation of the formal sector*
8. *Reduced confidence among investors and the citizenry of this country*
9. *Weaker economic empowerment especially of the poor and marginalized*
10. *High poverty levels*
11. *Contradictions between official policies and actions on the ground*
12. *The HIV/Aids pandemic*
13. *Structural weaknesses at policy implementation levels*
14. *Unstable energy supplies*
15. *Persistent high Government budget deficits and debt overhang*
16. *Growing incidents of public and private sector corruption*
17. *High perceived country risk and reduced international creditworthiness*
18. *Deteriorating and over-burdened urban and rural infrastructure*
19. *Strained relations with some countries and international donor community*
20. *Strained telecoms and housing infrastructure*
21. *Unpredictable weather patterns and related droughts*
22. *Quasi-fiscal indebtedness*
23. *Under-utilization of some acquired land due to resource constraints*
24. *Brain-drain and disintegration of social structures and norms of existence due to various pressures*

Source: (Gono, 2013)

However, Zimbabweans are a very resilient people, tolerant, hardworking, highly literate and resourceful (Klinkhamer, 2009). The country has a resilient economy

which is still working, albeit, at a lower capacity than its full potential. According to Gono, (2013), despite their frustrations with resource constraints Zimbabweans have a strong agrarian culture and love for the soil, which gripped the country and its people. In addition, the country has a strong and growing high-level business mentality and entrepreneurial spirit amongst the local population with highly educated people and most able workforce (Gono, 2009). The country's infrastructure base is fairly developed and functional and requires minimal investment to raise its standard (UNDP Zimbabwe, 2008). According to Mzumara, (2012) the ingredients exist for a strong economic base founded on intellectual capital, a diverse mineral base, tourism, banking, and manufacturing sectors with unparalleled potential.

Furthermore, according to Gono, (2013) Zimbabweans are a generally peaceful and highly tolerant people who have often displayed an ability to solve their own social and political challenges, whatever the magnitude (Gono, 2013). Despite high levels of HIV/Aids infections, the country's HIV/Aids prevention programs remain effective and credible internationally (UNDP Zimbabwe, 2008). The financial sector remains sound with strong regional and international links and above all Zimbabwe has a reputation of quality as a country – from climate to the quality of agricultural produce, tobacco, sugar, coffee, beef, flowers and many other products as well as a determined and growing indigenous private sector.

To conclude this chapter, a reminder of the main objectives of this thesis as outlined in section Research questions necessary setting the scene for the next chapter, which explores the research methodology and empirical part of the thesis.

These objectives are; (1) to explore and establish the current state of the microfinance sector in Zimbabwe, (2) to establish how the economic and political

crisis of 2000 to 2008 affected the microfinance sector's social performance and (3) to establish the coping strategies adapted by the MFIs and their target clientele during and after the economic crisis in Zimbabwe. The thesis has so far explored extensive literature on global microfinance and specific analysis of the microfinance sector in Zimbabwe to partly address objective 1. The empirical study results covered in chapters 6 to 9 is based on 3 sampled new breed MFI types (Private, Developmental, and Bank related MFIs) to address objectives 2 and 3 in full as well as addressing part of objective 1.

In the reorientation of microfinance in Zimbabwe discussed above, 3 types of MFIs emerged in the commercial approach. These are MFIs officially recognised as MFIs in Zimbabwe through registration and licensed to operate microfinance business under the Microfinance Act 2013. Although these MFIs hold similar authorisation and licensed to carry out similar business activities, their funding models and aspirations makes them very distinct from each other and the way they deal with their customers which is of essence to this thesis.

The private MFI type are newly established MFIs most of them established after 2009 and mostly owned and funded by director's private funds. These types of MFIs were attached to the microfinance sector by the huge opportunity, which existed during the reorientation phase. Most set ups resemble professional finance companies committed to corporate social responsibility as opposed to the double or triple bottom-line social performance advocated by the original microfinance aspirations.

These MFIs focus more on consumer loans and establishing sustainable markets in the low income employees who traditionally could hardly get loans from either the

banks or the donor funded MFIs whose primary focus was the unemployed entrepreneurs.

The developmental type MFIs are those MFI whose primary focus is to support entrepreneurial development. Most of these MFIs are had established operations before the reorientation and their funding model is a combination of private funds and donor support. Although some have significant portfolios in the consumer lending markets, their real passion seems to be in enterprise loans. The bank related MFI type are MFIs established by banks to provide microfinance services. These MFIs are fully funded by banks although they have separate operations from the mother companies. Like the private type MFIs, most MFIs unsurprisingly resemble professional financial institutions established to do business with no obvious aspirations about social performance except the standard principles of cooperate social responsibilities. In addition to exploring the 3 MFI types, evidence gathered from a sample of MFI clients helps address object 3 and highlight social performance issues for MFIs from client perspectives as well as the clients' own copping strategies during the crisis period.

5 RESEARCH METHODOLOGY

Overview

The chapter will explore and critically analyse relevant research methods, philosophies and design approaches considered before presenting the adopted methodological approach and specific methods employed. This study carefully considered both qualitative and quantitative methods but none could completely address the research aims and objectives. Consequently, the researcher chose a mixed methods approach in agreement with Creswell, (2009)'s assertions.

Mixed methods research is a combination of qualitative and quantitative research methods, for example, combining a survey with case study analysis in the same project (Bryman, 2008:603). According to Yin, (2010) and Creswell, (1998) research credibility is determined by the demonstration of appropriate understanding and use of procedures, methods and techniques that have been tested for their validity and reliability to be unbiased and objective. Having identified and explored the main challenges faced by the Zimbabwean economy, the microfinance sector, and MFIs in section Challenges facing the economy, the following section Generating thesis hypothesis below outlines the thesis hypothesis before exploring the detailed methodological approach.

Generating thesis hypothesis

The governor of the Reserve Bank of Zimbabwe in 2003 identified major challenges that were affecting the economic situation in the country three years into the crisis as shown on Box 4.4 above. In 2008, these problems had not been addressed but had in fact deepened to in imaginable levels as explored in the previous chapter.

The challenges identified included, interest and exchange rate distortions, reduced corporate sector viability, declining foreign investment, diminished export performance, high poverty levels, high perceived country risk and reduced international creditworthiness, strained relationships international donor community and brain-drain. In addition to the above challenges, MFIs faced sector specific challenges as well as explored in section The 2000-2008 economic crisis and 2009 microfinance sector catastrophic revamp earlier. The challenges included loss of sector specific skills and expertise, loss of visionary leadership due to brain drain on senior executives and board members and loss of capital through inflation and fraud.

Hypothesis

Therefore, the thesis hypothesises that; "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services".

Analysis of relevant research methodologies

A good research enquiry requires an appropriate methodological approach and effective research methods (Mikkelsen, 2005). Research requires either qualitative, quantitative, or both types of data as argued by Creswell, (2009) and much others.This research aimed to establish the state of the microfinance sector in

Zimbabwe with specific focus on sector regulation, visioning, and organisation. In order to do this, profiling of the regulatory body and key service organisations was necessary to collect the relevant data.

The study also sought to test the impact of current models of operation on poverty, which required collecting data from a sample of MFI clients both in rural and urban areas of Zimbabwe.

Qualitative data is what often shapes the body of the research as it depicts the world as having several realities rather than one "truth" (David & Sutton, 2004). Qualitative research's primary goal is to discover or generate meanings held by respondents through transcending facts and causal analyses in order to investigate how they are constructed (Wolcott, 1994). This research methodology usually begins with observation or intuition, followed by searching for data that supports, contradicts, or leads other directions. The search for supporting or incongruous data better equips a researcher to defend a position or further examine the processes (Charmaz, 2006, Desai, 2006). Qualitative research is often deemed rigorous when it is triangulated, able to be replicated, and is expressed with thick description (Wolcott, 1994).

It provides a more holistic examination of research, usually based on interviews, observations, or focus groups, and focuses (Creswell, 2008; Bryman, 2008). This methodology relies on text and image data, has unique steps in data analysis, and draws on diverse strategies of inquiry (Charmaz, 2006). Creswell, (1998) believes that qualitative research requires certain essential skills typified by the ability to recognize and avoid bias, while being able to think abstractly and critically analyse situations primarily on life experiences, social processes, and organizational structures and settings.

On the other hand, quantitative methods allow the use of data, which enables numeric measurement and ratios. This approach has been criticised for assuming that structures do not change or evolve.

Balnaves, (2001) and Creswell, (2009) argue that the approach oversimplifies the contexts in which people live. It is not always easy to determine when to use either qualitative or quantitative research although as a rule a researcher can manage a great amount of data better, through quantitative research methods while in-depth descriptive questions dealing with human experiences and perceptions requires qualitative research methods (Desai, 2006; Creswell, 2008; Wolcott, 1994; Cho & Trent, 2006).

Two main factors according to Creswell, (2009), can influence the results of any piece of research. The first is the researcher's own underlying perspective of the world based on different set of beliefs or belief systems, which they may hold. Individuals hold different belief systems, also called philosophies, paradigms, worldviews, epistemologies, and ontologies, or broadly conceived research methodologies through which they interpret the world around them (Creswell, 2009). The second is the way researchers go about finding and processing the information, also referred to as research approach, strategy or design (Denscombe, 2007; Bryman, 2008; Creswell, 2008). Philosophically, either research can be phenomenological or positivist while in some cases a combination of both approaches is used.

Different views or underlying theories of how knowledge is generated (epistemologies) play a key role in how different researchers decide on which

philosophical perspective to align their research activities (Bryman, 2008; David & Sutton 2004).

A quantitative epistemological position, which asserts that there is an “objective truth” or a reality existing in the world, which can be revealed through scientific method where the focus is on systematic, statistically measured relationships between variables, underpins positivist research design.

The main principle of positivism is the assumption that reality exists in the world and this reality can be deductively ascertained (Bryman, 2008). A qualitative research design on the other hand, is a phenomenological philosophy, which assesses information based on the principle that reality is independently perceivable and understandable from objects and events (Bryman, 2008). Phenomenology gives information a more humanistic perspective by paying attention to meanings, values, feelings, interpretations, perceptions, and understandings of individuals who are the subject of study (Creswell, 1998). Therefore, qualitative research develops through inductive reasoning and focuses on understanding the complexity of meanings and specific contexts. In contrast to the positivism philosophy, phenomenology does not rely on established theories to generate knowledge but rather adopts the socially constructed themes and factors of phenomena to generate a hypothesis and inductively generate a theory (Bryman, 2008).

Nevertheless, phenomenology has its limitations in the eyes of many academics and researchers particularly positivists. It is difficult to apply the results of one study to a different situation or context (Denscombe, 2007; Yin, 2010).

Rationale for using mixed methods approach

Determining whether to use qualitative or quantitative methods should become more apparent as the research process unfolds (Balnaves, 2001).

However, it is argued that multiple methods provide construct validity, as well as internal and external validity, while allowing complex issues to be examined (Loizos, et al., 2003; Pratt, 1992).

Both qualitative and quantitative research methods have individual strengths and weaknesses. Therefore, qualitative data often needs to be supplemented with quantitative methods, and vice versa, in order to reveal different learning from the research (Creswell, 2009; Yin, 2010; Loizos, et al., 2003).

There is an arguable case for both quantitative and qualitative research, as the relative strengths of one complement the weaknesses of the other although most academics and social researchers have typically been educated to favour quantitative over qualitative methods due to the ability to show validity on a numeric scale with the aid of statistical tools (Yin, 2010; Creswell, 1998).

Validity is a term used in both qualitative and quantitative research, asserting that a finding can never truly be proven, only argued (Cho & Trent, 2006). Cook and Campbell (1979) believe that “validity is the best available approximation to the truth or falsity of propositions, including propositions about cause; at best, one can know what has not yet been ruled out as false” (Cook & Campbell, 1979, p. 37). There are two types of validity in research: internal and external. External validity describes how well a research finding can be applied to the population from which a sample is drawn, while internal validity speaks to factors that influence the estimation of accuracy in terms of conclusions drawn about the sample itself (Cho & Trent, 2006;

Malterud, 2001). This study employed triangulation techniques to reinforce internal validity.

Triangulation refers to the incorporation multiple sources for data and/or several methods of analysis to address credibility and validity concerns (Cho & Trent, 2006). Transferability was also addressed in the research design to deal with external validity and a range of potential limitations of the study findings to be applied beyond the context in which it was done (Malterud, 2001).

According to Malterud, (2001), factors that affect transferability in a study include the presence of an adequate and sufficiently varied sample. This study was based on a fully representative sample, which covered all key players (regulator, apex bodies, funders, providers, and clients) in the microfinance sector in the target research location to ensure the transferability of results. Validity threats characterize the ways in which a researcher can be incorrect about the interpretations or other explanations for the findings. The use of triangulation therefore, provided useful checks and balances in this research process in line with best practice in qualitative research (Cho & Trent, 2006; Malterud, 2001; Loizos, et al., 2003).

Creswell (2008) asserts that mixed-methods research allows informants to provide information that is both measurable and analysed through rich description thereby assist in making better interpretations. Therefore, mixed-methods approach aids in reducing researcher bias by allowing different sets of data to be measured and analysed to build a wider and deeper understanding of the research results (Creswell, 2009). As argued by most social researchers, the mixed methods approach makes knowledge claims of a more pragmatic nature, and assumes that

the best understanding of the research problem can be achieved by using diverse types of data (Bryman, 2008; Balnaves, 2001; Charmaz, 2006; Creswell, 2009).

Research population and sample size

The research populations were composed of organisations with a stake in microfinance as either regulators, promoters or service providers and individuals who either were potential MFI clients or had taken some loans from an MFI before. At the time of data collection in November 2013, Zimbabwe had (1) microfinance regulator, (3) microfinance apex bodies, (1) microfinance funding body and (162) registered microfinance providers. The market size for microfinance services was 40% of the population (5.1 million) economically active people outside the formal financial market according to the 2012 census results (Makanjee & Chirongwe, 2012). The Table 5 below outlines the sample size for the study and the data collection methods used.

Table 5: Research sample distribution

Case/Unit	Details	Data collection methods used
1=Regulator	Reserve Bank of Zimbabwe (RBZ)	1= Review of secondary sources 2= Semi-structured interviews with staff
1=Apex body	Zimbabwe Association of Microfinance Institutions (ZAMFI)	1= Review of secondary sources 2= Semi-structured interview with the Executive Director
1=Funding body	Zimbabwe Microfinance Wholesale Facility (ZMWF)	1= Review of secondary sources 2= Semi-structured interview with the Executive Director
1= Bank MFI (credit only)	MFI (1)	1= Review of internal documents 2= Semi-structured interview with the Executive staff member 3= Social performance tool (CERISE SPI)
1=Development NGO MFI (credit only)	MFI (2)	1= Review of internal documents 2= Semi-structured interview with the Executive staff member 3= Social performance tool (CERISE SPI)
1=Private investor MFI (credit only)	MFI (3)	1= Review of internal documents 2= Semi-structured interview with the Executive staff member 3= Social performance tool (CERISE SPI)
75= MFI clients/potential	Potential clients and clients of MFIs in (urban) Harare and Masvingo and (rural) Chirumanzu	1= Structured survey questionnaire

The research sample composition was purposefully designed to be representative of the entire microfinance sector in Zimbabwe to provide credible answers to the research questions. The study explored best practice perspectives at four different levels (grassroots, micro, meso and macro) as elaborated on Figure 5 below.

Figure 5: Microfinance sector key levels of participation

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MAIN APPROACHES

This study adopted two main approaches most relevant to the type and nature of research questions. The research aimed to gain a full understanding of the microfinance sector in Zimbabwe and the benefits for the poor clients in order to build recommendations for best practice microfinance models for poverty alleviation. An exploratory design and a situational analysis methodology was the most appropriate approach to achieve this. This approach included a range of key methods of collecting both quantitative and qualitative data to understand wider issues in the microfinance sector from all key stakeholders (regulators and supporters, practitioners and clients).

A survey design method was adopted to explore the benefits of MFI services to their client and gain an overall understanding of the sector from the perspective of people who use microfinance services. The survey also gathered both quantitative and qualitative data. However, this approach had its limitations. The approach was not suitable for an in-depth and comprehensive understanding of the specific operations of individual MFIs. Therefore, in addition, a case study approach was adopted as

well and three MFI cases were explored in extensive detail using a specially designed tool for collecting both qualitative and quantitative data about MFI operations and their contributions to the social and economic well-being of their clients.

Macro and Meso level exploratory situational analysis

The study conducted semi-structured interviews with the microfinance regulator and apex bodies in Zimbabwe. An interview session was arranged with senior executives at the Reserve Bank of Zimbabwe (RBZ) to administer a regulatory exploratory study. Both open and closed questioning techniques were utilised to collect both qualitative and quantitative data. More information was provided on a statistical profoma supplied to the RBZ. After the interview, further data was received through email correspondence in the form of supervision reporting templates and important grey literature from previous commissioned research. Apex bodies mainly the Zimbabwe Association of Microfinance Institution (ZAMFI) support the microfinance sector in Zimbabwe. Although ZAMFI does not represent all MFIs in Zimbabwe, nearly 50% of the registered MFIs are members.

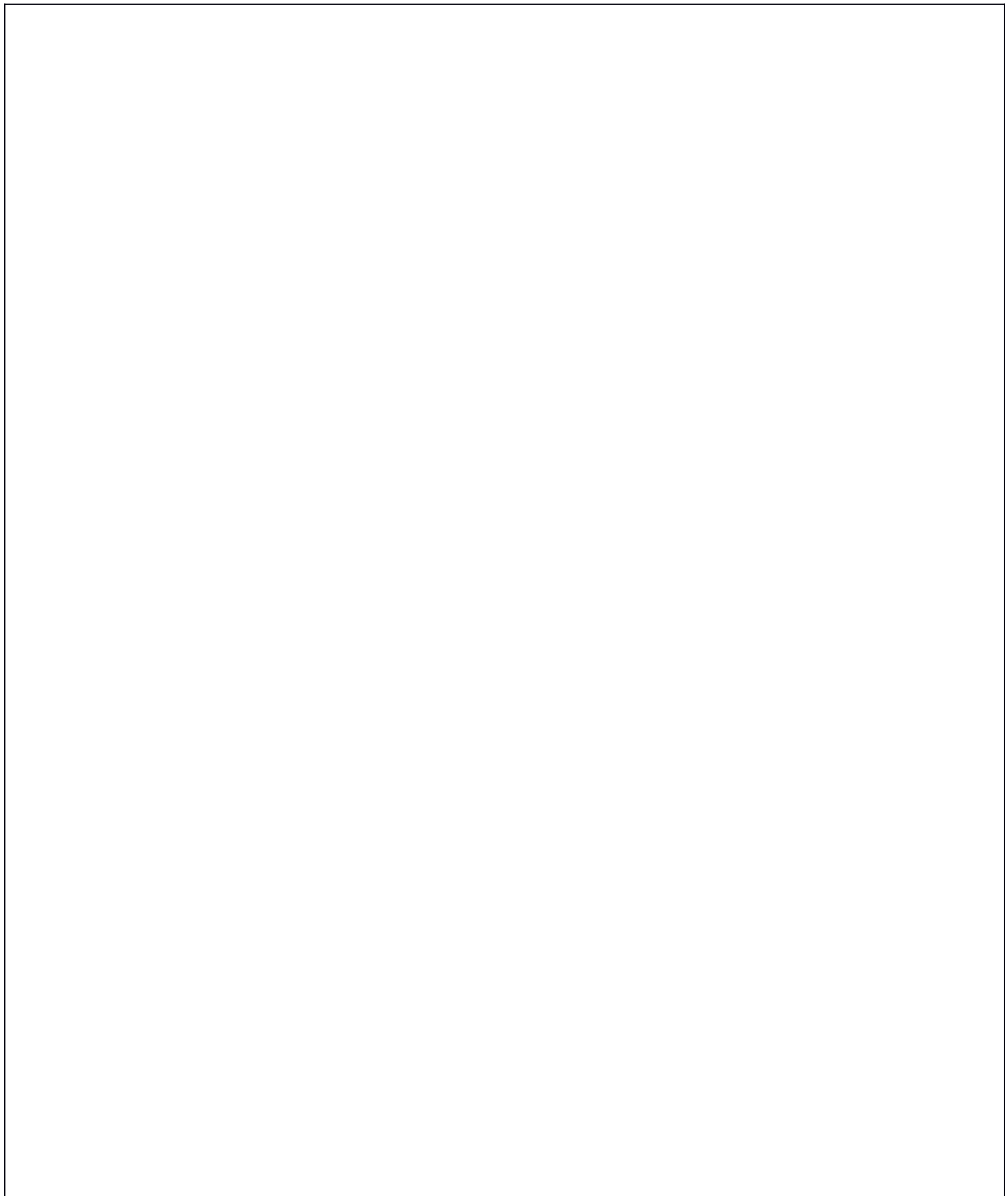
A semi-structured interview session was conducted with the top executive of ZAMFI and further complementary data was later provided through email correspondence. Another interview session was conducted with Zimbabwe Microfinance Wholesale Facility (ZMWF) which is the main fund created by multi-stake holders to promote social performance through financial loan incentives to socially responsive MFIs. Analysis of all this data provided a holistic view of the regulatory environment and its impact or influence on best practice models of microfinance for poverty alleviation as

well as the macro and meso level landscape of the micro finance sector in Zimbabwe.

Exploratory concurrent mixed methods design

The data collection and analysis at micro and grassroots level involved handling qualitative and quantitative data concurrently with equal weight. The process took place in two stages. In stage, one, three MFIs were purposefully selected based on maturity, type, and availability. The microfinance sector in Zimbabwe is dominated by three categories of providers namely; 1) Bank subsidiary MFIs, 2) Private investor MFIs and 3) Development or NGO based MFIs. Over 80% of these MFIs operate in Harare capital city although they have branches across the country. Therefore, the selected sample was from Harare.

Figure 5: Concurrent quantitative-qualitative Mixed Methods research design



Two MFIs were approached for participation in the study from each category and successful interviews and comprehensive data collection taking an average of three full days per case study MFI was completed with one from each provider category.

A specialist closed ended questionnaire Social Performance Indicator (SPI) tool discussed below was administered to the participating MFIs.

The senior executive from the MFI provided answers to the questionnaire with the guidance of the researcher. The MFI reports and confidential documentation verified important statistics. Further data was provided in the form of reports and literature. To triangulate and complement the quantitative data collect through the SPI tool, follow up semi-structured interview was conducted with each MFI to collect relevant qualitative data.

Data collection methods

The study collected data using mainly three collection methods; 1) interviewer observations by capturing insights and key observations in the field using daily logbook, 2) In-depth interviews with Key Informants and MFIs and 3) survey questionnaire based interviews. The in-depth interviews with MFIs used a specially designed social performance assessment tool further explored in detail below.

CERISE SPI quantitative assessment tool

CERISE is a French acronym translated Committee for Research and Exchange of Information on Micro-credit Systems and is a leading international expert in microfinance research (CERISE, The Microfinance Knowledge Network, 2012). Founded in 1998, CERISE brings together a variety of practitioners, researchers, donors, and investors around the world to continuously develop and improve social performance measurements in the microfinance sector.

In 2001, CERISE and partners were the first to pioneer a social performance indicator (SPI) assessment tool for microfinance.

The tool provides a comprehensive evaluation a microfinance institution's social impact (CERISE, The Microfinance Knowledge Network, 2012).

To date the tool has been administered by over 500 MFIs either alone, with their network or with social investors. The CERISE SPI tool is free for academics, researchers and practitioners to use but the developers later introduced regulated usage to discourage malpractice and ensure consistency and quality application of the innovation by way of certification and accreditation (CERISE, The Microfinance Knowledge Network, 2012). The SPI tool is open access, but users send their findings to CERISE along with comments on the tool enabling regular improvements to the SPI version. From 2011, formal certification began resulting in several MFIs being recognised as CERISE SPI assessors including big players such as PLAN International, Oikocredit, and Grameen Credit Agricole Microfinance Foundation. Part of this study utilises the SPI tool to collect social performance data from selected MFIs (CERISE, The Microfinance Knowledge Network, 2012).

This section of the study was in two main stages. Part One collected MFI data on the context and social strategy of the MFI including major financial indicators. The MFI executive was guided by the researcher in completing the questionnaire at the MFI's head office while all relevant figures were verified with the MIS officer or accountant depending on the nature of the information required. Most of the figures were compiled from audited reports and annual reports with the verification and clarification of relevant key staff members.

Part 2 explored the social performance indicators for the MFI using four key dimensions (Outreach, Social responsibility, Adaptation of products and Social capital).

The outreach dimension focused on collecting evidence for targeting the poor and excluded individuals particularly the use of lending methodologies that enables the participation of the poor such as social collateral, specific approach for remote areas and loan sizes (CERISE, 2013). The adaptation of products dimension explored the range of services, the diversity of loans and voluntary savings, quality of services, decentralisation, rapidity, transparency, adaptation to clients' needs and client dropouts (CERISE, 2013). The social capital dimension collected data on creation of local capacities, addressing issues beyond access to financial services, client advocacy among local or national authorities.

Finally, the social responsibility dimension explored the MFI's social responsibility to staff, (salary policy, health insurance, career advancement, training plans for all, participation in decision making and staff turn-over) and consumer protection (grievance procedures, over-indebtedness, death insurance, code of conduct regarding interest rates, collateral, etc.) (CERISE, 2013). It also analysed the social responsibility to the local community and the environment (respect of local culture, local economic development, and social responsibility towards the environment).

Questionnaire survey tool

The second stage of data collection involved structured survey interviews with randomly identified and selected MFI clients or potential clients as described by MFIs during stage one interviews. A random walk was carried out in market places where a wide range of income generating activities were going on and where MFIs would normally go out to seek clients. Individuals, of either gender were randomly asked to participate in the study.

Those who agreed received full details of the study and asked to complete a questionnaire covering both open and closed questions to collect both quantitative and qualitative data. The questionnaire was also administered in areas popular with salaried employees likely to take up loans from MFIs at lunch times and the same approach of random selection was used to identify and interview respondents. 75 questionnaires were administered in five suburbs of Harare (Chitungwiza, Dzivarasekwa, Sunningdale 2, Mbare and Kuwadzana), in Masvingo city and in 2 rural locations (Chaka township and Charandura growth point).

Data analysis methods

Data analysis process took three different approaches and tools. The study used two complementary methods to analyse both the quantitative and qualitative data. Sixty-(60) valid cases of quantitative data from the client survey interviews identified after quality assurance checks were captured into the SPSS software version 22 for sorting and analysis. The qualitative responses from the same 60 cases formed 15 nodes for each case in Nvivo 10 software and these were further categorised and sorted based on common themes or threads for analysis. Additional qualitative information from key informants and in-depth interviews was analysed manually and data used to triangulate the more systematic analysis. Further quantitative data from MFI cases used the CERISE analysis tool for analysis as explored in more detail below.

Quantitative data analysis using SPSS version 21 and CERISE SPI tool

Two sets of quantitative data were collected as already discussed using the CERISE SPI tool and the questionnaire survey tool. The CERISE tool, which is Excel based containing a built-in data analysis functionality, makes the process of data analysis straight forward (CERISE, 2013). The second data set was analysed using SPSS software version 21. Descriptive statistics analysis techniques were used to summarize data frequency and measures of central tendency (mean, median and mode) in line with Field's (2013) assertions on getting intimate with the data set.

Qualitative data analysis using Nvivo 10

Qualitative data analysis involved the transcription of interview and observational notes into word-processed documents. The transcribed data was then uploaded into the Nvivo 10 qualitative data analysis software where coding and developing categories was instituted. The transcribed data was considered line by line to divide this data into meaningful analytical units or segments for coding.

LeCompte and Schensul (1999) as cited in Kawulich, (2004) described qualitative data analysis as the process by which a researcher reduces data into a story and its interpretation. The process involves arranging data and identifying themes,patterns and their links(Marshall & Rossman, 2010; Kawulich, 2004). Marshall & Rossman, (2010)identified seven phases in qualitative data processing as: (1) organizing the data, (2) immersion in the data, (3) generating categories and themes, (4) coding the data, (5) offering interpretations through analytic memos, (6) searching for alternative understandings, and (7) writing the report.

Each phase entails: (a) data reduction to bring collected data into manageable chunks, and (b) interpretation, as the researcher brings meaning and insight to the words and actions of the participants in the study(Bazeley, 2007; Wolcott, 1994; Ishak & Bakar, 2012). However, this study condensed the phases into just four: (1) developing a narrative, (2) data coding, (3) interpretation, and (4) results validation or confirmation. Figure 5 below outlines the key stages in the data analysis process and specific aspects covered at each stage.

Figure 5: Qualitative data analysis with Nvivo 10

Ethical Considerations

The University of Derby's Research and Ethics committee approved the study for ethical compliance based on the University's guidelines and policy on ethical issues. All participation in this research was by informed consent only in order to recognize both the participants 'physical and personal autonomy (Almond, 1995). The consent form explained explicitly the purpose of the study and participants' right to withdraw from the study at any point in line with best practice (Hay, 2006).The participating MFI organisations received full study details by email a week before the interview. The grassroots participants received an oral briefing before the interview to confirm their consent to being part of the inquiry. The researcher explicitly told participants when verifying consent, before the interview and during the interview that they were free to leave the study at any time without jeopardy (Almond, 1995). The research process did not pose any perceivable risks to participants, physical, psychological, or emotional harm greater than encountered in ordinary life.

Study limitations

The original plan for data collection intended to conduct up to six (6) MFI case studies, two from each of the following MFI types; 1) developmental and not-for-profit institutions - MFI types, 2) private and for profit institutions- MFI types and 3) bank related institution- MFI types.

However, the depth of the enquiry meant that MFIs needed to disclose some of their sensitive official documents, which was considered too intrusive by some and were therefore later reluctant to fully participate. The precise details of the nature of the enquiry were well communicated to the identified MFIs and informed consent declaration forms processed as well.

Nevertheless, agreeing a time for the interviews proved difficult for some. The availability of data was also a big problem among several MFIs as noted from Key Informant interviews. MFIs who had already confirmed their willingness to participate months before during preparatory stages suddenly could not avail themselves for the interview and with the time running out new MFIs were identified for the study.

Of the six identified MFIs, only four agreed to scheduled interviews. Out of the four, two ended up participating as Key Informants rather than case MFIs as they were either uncomfortable with the level of detail required, the time to complete the whole assessment, which needed a minimum of one day or simply did not, have all the data available. Of the two MFIs that participated, one from the developmental and not-for-profit institutions - MFI type did not have all the data available and could not provide the additional data even after several days of follow-ups. Only one MFI from the private and for profit institutions- MFI types successfully completed the assessment and a minimum of three, one from each MFI type was necessary at the very least so another well-established MFI from the bank related institution- MFI type was successfully recruited to the study. In addition, although the combined MFI client sample represented by the 3 MFI case study sampled was over 25,000 clients, the actual client survey was based on a small sample size of 60 respondents of which only 35 of them had actual experience of dealing with MFIs.

Although, the findings from this sample when triangulated with the SPI scores from the case study MFIs suggests that the findings are generalisable to the experiences of MFI clients in Zimbabwe as a whole, a bigger sample size will be required to substantiate this.

Summary

In summary, despite the limitations discussed above, the study managed to collect enough varied and representative data to provide reliable and credible evidence required for addressing the study questions and achieving the study aims and objectives. The study hypothesis presented on section Generating thesis hypothesis above states; "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services."

A full discussion on the study results in relation to the study hypothesis is presented in the next four chapters (6-9), beginning with the state of microfinance sector in Zimbabwe through evidence from both quantitative and qualitative data analysis.

6 RESULTS: STATE OF MICROFINANCE SECTOR IN ZIMBABWE

Overview

This chapter presents detailed study results from observations and qualitative and quantitative data analysis. The study asked specific questions about how MFIs in Zimbabwe address the critical concerns about how MFIs target the poor, adapt their services and products to suit the needs of poor clients, ensure their clients realise both economic and social benefits from MFI services and finally ensure their services and operations are sensitive to appropriate social responsibility expectations. Specific questions asked were; (*1) what is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?" (2), to what extent did the economic and political challenges impacted on microfinance social performance in Zimbabwe? and (3, What strategies do MFIs and their target clientele employ in order to cope with the crisis situations of both pre and post 2009 microfinance revamp?*

To address the first research question data was collected from the microfinance regulator, sample MFIs, MFI clients, and MFI support organisations. The data collected included a range of services provided by MFIs in Zimbabwe as well as their coverage in terms of space and clientele targeting. Also collected was information about social performance best practice and legislation including available support services to establish the overall status of the microfinance sector in Zimbabwe.

The data revealed that the main providers of microfinance post 2009 in Zimbabwe are largely profit seeking private individuals, companies, or subsidiary units of the main banking institutions.

The results show overwhelming evidence for capital markets being the main determinant force for the sector's development, which suggests the capital market driven (CMD) model of approach as argued in section Capital market driven (CMD) microfinance approach. Consistent with the CMD microfinance model, almost all registered microfinance providers in Zimbabwe (except for two) operate in urban areas with the majority in metropolitan cities such as Harare and Bulawayo. Service provision is also mainly targeted to the less risky salaried employees for consumption purposes. Production loans for enterprise development are very limited, and mostly provided by the few remaining poverty reduction driven (PRD) MFIs. The Reserve Bank of Zimbabwe, the country's only regulatory board introduced new regulations in 2013 (Microfinance Act Chapter 24:29). However, this Act did not make distinct provisions for promoting PRD microfinance models. Microfinance providers in Zimbabwe can either operate as licensed moneylenders, deposit taking MFI or credit only MFI.

Although there is regulatory clarity between the legal operational parameters of different microfinance licence holders, in practice there was no obvious distinction between moneylenders and credit only MFIs other than that they held different licences. According to the figures released by the RBZ, Zimbabwe did not have a single registered deposit taking MFI by December 2014. The first deposit taking MFI was registered in January 2015.

Furthermore, the results show overwhelming evidence of a new breed of MFIs in Zimbabwe, very different and distinct from the pre-2009 microfinance revamp. These are characterised by profit seeking private investors, responsive to capital markets and “mission drift” by the originally development based MFIs succumbing to capital market pressures and competition from aggressive profit seeking players.

The findings from this study shows that Zimbabwe has a well-articulated vision of the microfinance sector which recognises microfinance as an important tool for poverty alleviation but the realisation of this vision lies in the hands of all stakeholders making it no one’s responsibility. However, the Key Informant interviews with microfinance sector experts in Zimbabwe revealed that the country has limited or no sector specific academic and or professional microfinance training opportunities in local educational establishments. Further evidence showed that the sector is failing to attract international microfinance funding opportunities through (microfinance Investment Intermediaries) due to lack of robust MFI performance monitoring, accountability and transparency systems.

The analysis of the regulation of microfinance in Zimbabwe established that the regulatory framework provides a potential competitive disadvantage for developmental MFIs as it lacks the impetus for poverty alleviation seeking MFI who wish to maximise their social impacts. More evidence suggests that MFIs sampled do not target the poor geographically, either individually or through pro-poor targeting resulting a very low social performance indicator score on the CERISE SPI tool as will be discussed in detail in later.

Furthermore, the study results from sampled MFIs shows that the service provision and products offered by all sampled MFIs are not adapted to suit the needs of poor

clientele and the results of the SPI assessment found no evidence of economic or social benefits to clients either. These findings are not surprising considering the protectionist nature of the post 2009 MFIs as discussed in chapter 4 earlier and seem to partly confirm the study hypothesis outlined in section Generating thesis hypothesis.

Results from the MFI client survey qualitative data analysis shows that the perceptions and expectations of the public and private individuals on microfinance as a poverty alleviation tool are fast changing. This is consistent with findings on the regulatory requirements, which sets out no demands for MFIs to demonstrate social performance other than observing client protection principles. The results further suggests that the hopes and focus for poverty alleviation by policy makers and donor institutions has moved away from microfinance to a wider and far-reaching but indirect goal of financial inclusion. This finding is also consistent the earlier observations of changing focus by INGOs such as CARE and CRS whose contributions to the Zimbabwean microfinance in post 2009 is now only visible in self-help community savings clubs.

The study found that the microfinance role in poverty alleviation seems to have shifted from direct intervention where products and services are designed to be socially responsive to the needs of the poor; to indirect intervention where the main goal is to provide financial services to the low-income groups with no burden of poverty alleviation attached.

The study results show that the capital markets have shaped the new microfinance landscape in Zimbabwe dominated by profit seeking MFIs (the new breed) with easy

access to private funding. Regular salaried income and collateral security is now a prerequisite for getting most microfinance loans in Zimbabwe according to findings from the sample MFIs and overall sector observations. Social capital and social solidarity is no longer as important in the post 2009 microfinance lending as salary income and lenders often now require collateral of some sort.

The study results suggests that the poorest of the poor in Zimbabwe, the majority of whom are in rural areas are less likely to have access to microfinance as 86% of the registered MFIs operate in towns and cities only and are reluctant to open new branches in remote areas. The next section presents findings on the scope and scale of microfinance coverage in Zimbabwe post 2009 revamp of the sector covering the main service provides and nature of service provision as well as the overall regulatory framework.

The scope and scale of coverage

The scope of microfinance provision is consistent to the minimalist tendency of CMD models, which seeks to provide few services to many clients to achieve economies of scale within the shortest period possible. Table 6 below provides a summary of microfinance providers registered with the RBZ between 2009 and March 2015. Although there are three types of licences for microfinance operations in Zimbabwe, specific figures on the breakdown of the total registered MFIs by licence category was not available from the sector regulator.

Nevertheless, the collected data established that, the RBZ's register of licensed MFI providers had 95 businesses conducting microfinance business activities as defined by the regulator in 2009 with the figure rising to 146 by 2011.

Table 6: Total number of MFIs in Zimbabwe for years 2009 - March 2015

Time Period	**Total No. of MFIs: HQ**	**No. of MFIs submitting Returns**	**No. of Branches (excluding HQ)**	**No. of Clients**	**% of consumer lending**
2009	95	43	23	N/A	N/A
2010	114	60	90	48,507	N/A
2011	146	72	82	58,325	N/A
2012	150	95	131	96,749	N/A
2013	143	106	191	150,188	70.87%
2014	147	116	326	205,282	53.30%
2015 (March)	143	119	356	189,028	53.88%

Source: Data supplied by the Reserve Bank of Zimbabwe

The regulator issued five more licences in 2012 to make total net number of MFI operators 150 after one lost the licence. In November 2013 at the time of fieldwork 163 MFI were on the licence register but the number dropped to 143 by December same year according to the official sector update by the regulator (RBZ, 2014). Reliability of information on microfinance activities is very questionable; therefore, figures provided are close estimates rather than totally accurate statistics. The research validity strategy through triangulation revealed a number of discrepancies in information provided by the same source.

Therefore, the study could not establish how many registered microfinance providers were moneylenders, as the regulator could not provide this information. The Table 6 and Table 6 show details of the information requested from the regulator during the interviewing stage. During the data collection officials from RBZ reported that in

December 2012 there were 151 registered MFIs in Zimbabwe but the official March 2014 publication from the regulator stated 150 registered MFIs in the same period.

The figure for registered MFIs by December 2013 according to RBZ officials interviewed was 163 but the March 2014 official publication stated 143 registered MFIs during the same period, a difference of 20 (RBZ, 2014).These differences suggests that some MFIs may have failed to renew their licences by the end of the licensing period.

The study results revealed that information sharing, transparency and accountability is still a major challenge in the Zimbabwean microfinance sector. This significantly affects the ability of MFIs and the regulator to make informed decisions on how to improve services or respond to common threats to the sector. Consequently, problems and serious blunders are replicated in the sector due to limited collaboration or information sharing among players.

According to the official records of the RBZ, 99% of the registered MFIs in 2013 disclosed they had no operations in rural areas and Key Informant interviews with sector experts confirmed this position. The distribution of MFIs between urban and rural soon after the 2009 revamp was much skewed with 99% of all registered and licensed lenders operating in urban areas and only 1% operating in rural areas in as shown on (Table 6) below, much reflecting the protectionist tendency resulting from the experiences of the crisis as hypothesised by this thesis. Results show that MFI first restricted operations from head office, which in several cases will be in big cities such as Harare and Bulawayo but mostly Harare.

Table 6: Self-disclosed areas of operation by registered MFIs in 2013

Areas	Total No. of MFIs
Urban	161
Rural	2

Source: Data supplied by the Reserve Bank of Zimbabwe in 2013

MFIs then expanded their operations further outwards from the city centre opening branches in neighbouring city suburbs and other smaller cities around the country before opening branches in semi-rural areas such as growth points. The number of MFI branches opened in addition to head offices increased from 23 in 2009 to 356 in March 2015 serving 189,000 clients. This distribution and expansion model and pattern, which seems very commercially driven with no connection with the poverty distribution in the country suggesting little or no focus on social performance or poverty reduction supports the thesis hypothesis for the post 2009 MFIs in Zimbabwe.

A nationwide comprehensive poverty survey carried out by Zimbabwe's national statistics agency concluded that 82% of the country's rural dwellers live in poverty while 26% live in extreme poverty conditions (ZimStat, 2013). However, the study results shows that the post 2009 microfinance sector led by the new breed MFIs are less likely to focus their service provision on this client group.

The study also found that the INGOs, CARE and CRS in particular have identified this gap in service provision and are scaling up Self-Help alternative in rural areas though promoting and supporting savings and internal loans schemes. The data shows that the microfinance sector in Zimbabwe is structurally located far away from the reach of the majority of the country's poor in rural areas.

The urban distribution of MFIs is also not even across provinces, cities, and towns as shown in Table 6 below. There is a high concentration of MFI activity in affluent cities of Harare and Bulawayo. Harare, the capital city had 117 registered MFIs operating in 2013, which is 72% concentration Table 6 .

Table 6: MFI distribution in relation to regional poverty levels
(Total No. of MFIs =162)

Province	No. of MFIs per province	% MFI Concentration	% Household poverty
Harare	117	72%	36%
Bulawayo	23	14%	35%
Midlands	5	5%	67%
Mashonaland West	6	4%	72%
Masvingo	5	3%	64%
Manicaland	4	2%	70%
Matabeleland South	2	1%	70%
Mashonaland Central	0	0%	75%
Mashonaland East	0	0%	67%
Matebeleland North	0	0%	82%

Source: Poverty and Poverty Datum line Analysis in Zimbabwe 2011/2012 (ZimStat, 2013)

The second largest city Bulawayo had 23 registered MFIs in the same year amounting to 14% of sector share although the city's population is relatively small and has one of the lowest poverty rates across the ten provinces.

The poorest provinces of Mashonaland Central, Mashonaland East, and Matebeleland North have no single MFI operating in these areas both in urban or

rural areas. Harare province has the highest MFI concentration despite the province being the least poor and Bulawayo follows the same pattern. The table highlights that the more affluent a province is, the more likely it is to attract MFI activity. The data also shows that population distribution per province is not a key determinant factor in the uneven MFI distribution.

Source: Data supplied by the Reserve Bank of Zimbabwe in 2013

Table 6 below compares the population size per province against the number of MFIs in each province. Mashonaland Central, Mashonaland East, and Matebeleland North have combined population of over 3 million people but no single MFI was operating in any of the provinces while Bulawayo province has 23 MFIs yet the population of far less than a million people.

Table 6: MFI distribution in Zimbabwe by Province, City, or Town

Province	Area, Town or City	No. of MFIs per City	Total Population
Harare	Harare	117	2,123,132
Mashonaland West	Chegutu	2	1,501,656
	Kariba	1	
	Chitungwiza	1	
	Kadoma	2	
Manicaland	Mutare	3	1,752,698
	Rusape	1	
Masvingo	Masvingo	5	1,485,090
Bulawayo	Bulawayo	23	653,337
Matabeleland South	Matobo	1	683,893
	Beitbridge	1	
Midlands	Kwekwe	2	1,614,941
	Gweru	2	
	Gokwe	1	
Mashonaland Central	None	0	1,152,520
Mashonaland East	None	0	1,344,955
Matebeleland North	None	0	749,017
Total		**162**	**13.72 million**

Source: Population figures (Zimbabwe National Census, 2012) and MFI distribution statistics provided by the Reserve Bank of Zimbabwe (December 2013)

The poor provinces are vulnerable and exposed to dangerous lifestyles as demonstrated with high rates of new HIV cases illustrated on Table 6 below. Provinces of Mashonaland Central, Mashonaland East, Matebeleland North, Mashonaland West, Masvingo and Manicaland showed both high poverty levels and high rates of new HIV cases in 2011.

There is also a negative association between the poverty level of the province and MFI activity. The higher the poverty level the less attractive the province is to microfinance providers and the lower the poverty level the more attractive the province is for MFIs to set up operations.

Table 6: The relationship between level of household poverty and new HIV cases (Total new HIV cases in 2011=249 399)

Province	% Household poverty	% New HIV cases per total regional pop	% New HIV cases per total 2011 record
Harare	36%	1%	9%
Bulawayo	35%	1%	4%
Midlands	67%		-
Mashonaland West	72%	4%	24%
Masvingo	64%	2%	13%
Manicaland	70%	2%	12%
Matabeleland South	70%	2%	6%
Mashonaland Central	75%	3%	14%
Mashonaland East	67%	3%	17%
Matebeleland North	82%	1%	3%

Source: The Zimbabwe National Health Profile report of 2011(ZimStat, 2011)

The overall results show that post 2009 microfinance activities in Zimbabwe are concentred in urban areas with a deliberate focus on the not so poor individuals of the society. The results do not show any evidence of poverty alleviation mission in the microfinance sector characteristics in Zimbabwe. There is also no evidence from the data that a double bottom-line approach is a preoccupation of microfinance providers in the country. External triangulation through specific case studies also confirmed this result. The next subsection presents and discusses the main findings on the various types of microfinance service providers in Zimbabwe and the type of services they provide.

Microfinance providers and their services

Microfinance service providers in Zimbabwe offer various types of microfinance products and services. Although the microfinance sector as formally understood today is a relatively new phenomenon in Zimbabwe with the early activities traceable as far back as 1990s, micro savings and lending practices such as the rotational savings and credit associations (ROSCAs) has been a popular tradition among Zimbabweans for centuries.

The practice of ROSCAs in Zimbabwe is not limited to monetary transactions but also the exchange of essential goods such as household utensils or other large

assets. Typically, the ROSCA members can jointly purchase an agreed physical asset item and give to it one member each month or week depending on the interval arrangement until all members have received same asset. This allows members to purchase large items that would be almost impossible without the help of others. As in several struggling economies, microfinance expansion in Zimbabwe has a strong correlation with the high levels on unemployment that influenced rapid informalisation of the economy and became very evident around year 2000.

The providers of microfinance are identifiable by their main areas of lending interests. Two lending models are visible, (1) the entrepreneurship lending and (2) consumer lending. The study confirmed the microfinance schism elaborated by Morduch, (2000). The enterprenuership lenders are mostly NGO based financiers who consider themselves development MFIs with a moral mandate to help reduce poverty through promoting and supporting business activity (PRD model). They target established self employed business owners who have sufficient collateral security, in most cases.

However, the study results shows that these MFIs also provide consumer loans to diversify their portfolio but try to limit it within 20% of their total loan book.

This study further revealed that such MFIs although they used to be the majority between 1990s and 2000, after the 2009 revamp they are now the minority and almost squeezed out of the market by the consumer lenders and new breed MFIs who are now the new face of the Zimbabwean microfinance landscape. The consumer lenders (CMD model) provides loans to salaried employees only, with reletively high interest rates although evidence shows that most of them are slowly but cautiosly opening up to enterprise lending. Theoretically, consumer lenders have more than 80% of their loan portfolio constituting loans for pure consumption

purposes, but the study revealed that most loans taken under this product were actually used for business investment insteady as that is where the real demand for loans lies according to the study findings. This demonstrates a significant supply gap, where salaried individuals wanting to invest in businesses to subsidise their meagre employment incomes could not be served by the enterpreneurship lenders whose target excludes those in formal employment.

This study shows that a large number of consumer lending institutions grew substantially in response to the high and growing demand for consumer loans during the early 2000s by employed individuals. Zambuko Trust was one of the leading consumer lender of the time having been very commercially responsive to the market needs as discussed earlier on section Zambuko Trust. Most MFIs back then being NGO based and heavily donor influenced lenders were strongly opposed to this development as evidence from consumer lending markets suggests that consumption loans usually encourage non-essential spending and can perpetuate debt traps for unsuspecting borrowers thereby brewing poverty.

However, this study found that most loans taken out as consumer loans in the sample MFI client survey were used for business investment.

This finding provides grounds for questioning whether there is actually a high demand for consumer loans as earlier suggested by an upsurge in consumer lending operations in Zimbabwe particularly in post 2009 era. Consumerism, which is the driver for high demand in consumer spending and therefore need for consumer credit is commonly characterised by a boom in economic activity and a significant increase in disposable incomes. This is not the case for Zimbabwe, therefore, there has to be another explanation for this reorientation of microfinance provision towards consumer lending as opposed to traditionally business lending.

The study concluded that, lack of funding for business lending and lack of flexibility in not allowing salaried employees to also access business loans from MFIs meant that enterprise lenders left a massive service gap creating an opportunity for alternative lending to enter the market. Also, consistent with this thesis hypothesis of a post 2009 microfinance sector in Zimbabwe, the new breed MFIs who are largely privately funded and having emerged from the pre 2009 crisis are extremely cautious and protective of their investment resulting in lending model models perceived to be safer and more secure such as lending to the formally employed only. As a result, individuals who would have been borrowing from traditional MFIs now have no choice but to borrow from consumer lenders although the cost of borrowing is very high so they can invest in their business ventures. To conclude this section, the microfinance providers in the post 2009 era are pre-dominantly the new breed MFIs as discussed above (143 registered MFIs as of March 2015) with services mostly limited to consumer loans (71% in 2013 and the down to 54% in March 2015). The next sub-section presents the findings on the regulatory framework for the microfinance sector in Zimbabwe post 2009.

The regulation of Microfinance in Zimbabwe

This section of the thesis presents and discusses the results on the regulatory framework for the microfinance sector in Zimbabwe post 2009. This study also sought to establish the regulatory structure of the microfinance sector in Zimbabwe. A wide range of official publications on the regulatory framework for the microfinance sector in Zimbabwe was reviewed and interviews were conducted with representatives of the Reserve Bank of Zimbabwe, ZAMFI, the microfinance Apex board, and a sample of individual MFIs.

The study established that in August 2013, the Government of Zimbabwe approved the Microfinance Act Chapter 24:29 to provide for the registration, supervision, and regulation of microfinance businesses in Zimbabwe. Previously, a myriad of fragmented pieces of legislation regulated the microfinance activities creating a rather confusing working environment where operators needed to be a range of all relevant sections of various Acts (Mago, 2013). A national microfinance survey conducted by Ernst &Young between 2005 and 2006 established that 12 different pieces of legislation was applicable to microfinance activities before August 2013. They included the Moneylending and Rates of Interest Act Chapter 14.14, Banking Act Chapter 22.10, Building Societies Act Chapter 24.02, POSB Act Chapter 24.10, Small Enterprises Development Act Chapter 24.12, Zimbabwe Development Bank Act Chapter 24.14 and Consumer Contract Act Chapter 8.03 (Ernst & Young, 2006).

The Zimbabwean Government recognised the key role microfinance sector played in the economy to support the informal sector that became the backbone of the country's economy after the collapse of the formal sector due to economic sanctions and internal political unrest as discussed earlier in section 4.11.

This is evidenced by the full involvement of the Government in consultations and design of the sector specific regulation as opposed to either self-regulation or existing Bank law regulation opted for by other countries where Governments have little appetite to invest resources directly in the microfinance sector (Meagher, 2002). In-depth interviews with the Reserve Bank of Zimbabwe's key staff members dedicated to the regulation and supervision of the microfinance sector in Zimbabwe

established key challenges that faced the sector in the run up to formal regulation in 2013.

These challenges included; external funding constraints and poor capitalisation strategies, weak risk and record management systems, inadequate ICT infrastructure, absence of a Credit Reference Bureau (CRB), counterproductive commercialisation through excessive interest rates and fees and the upsurge of un-registered moneylenders (Loan Sharks). These are discussed in more detail in the next section but it is important to note that most the identified challenges persisted well after the formal regulation.

Key challenges in the run up to microfinance regulation in Zimbabwe

External funding constraints and poor capitalisation

Sources at the Reserve bank of Zimbabwe acknowledged that during the hyperinflationary period of 2006-8, most MFIs suffered severe capital erosion.

A separate survey by Chikoko & Kwenda, (2013) also established that over 75% of MFIs experienced severe capital losses and had no alternative sources for recapitalising their businesses.

Most NGO based MFIs who had for years been receiving financial support from international donors were left exposed when the Government banned some of the international donors in 2008 (Mago, 2013; Chikoko & Kwenda, 2013). In 2009 when the Government adopted a multicurrency regime, MFIs could not recover anything from their loan portfolios that was in Zimbabwean Dollars. Everything that was in local currency was frozen overnight and whole economy started afresh with new currencies. MFIs needed to raise capital from private sources locally and

internationally. This created a huge opportunity for private players with ready capital to enter the market focusing mostly on consumer salaried loans and significantly changing the entire landscape of the microfinance sector.

This study established that capital funding in the Zimbabwean microfinance sector is the biggest single challenge to the development of the sector. There are a number of issues affecting the funding market for the Zimbabwean microfinance sector. Interviews with representatives of MFIs and the Apex organisations suggested that a lack of understanding among several MFIs on how the commercial funding markets operate might be one of the major problems in Zimbabwe. Also important was the failure to recognise that the microfinance funding environment had changed globally and that, there are fewer available donor grants for microfinance provision even in countries with stable political environments where all donor partners are free to operate. Evidence from key informant interviews showed that a large proportion of the blame could be apportioned to the hostile political and economic situation. Although the argument seems logical and relevant, the microfinance funding environment globally moved away from being donor driven to commercial markets.

This study has also identified the lack of appetite by most MFIs to participate in improved information sharing and transparency. The sector suffers from high levels of distrust for each other prompted by lack of respect for personal ideas and innovation. This could also be a manifestation of limited desire for cooperation and collaboration by various participants resulting in them viewing each other as enemies steeling each other’s ideas rather than being positive collaborators.

Having just emerged from the economic meltdown of 2008, the microfinance sector was still in the initial stages of ideological shift from the donor-funded sector to

commercial funding streams. While MFIs in Zimbabwe perceive lack of funding as their major barrier to providing sustainable microfinance services, evidence shows the Sub-Saharan region has become one of the top priorities for microfinance investment by most international funders as of 2012. The CGAP Funders Survey suggests that funders do not perceive lack of funding as the barrier to extending financial services to the poor but the unpreparedness of MFIs. This study confirms this position particularly for the Zimbabwean microfinance. During data collection, most MFIs including banks were unwilling to disclose or share vital information about their operations even for research purposes. Lack of transparency and a culture of secrecy seem to be the main obstacle in gathering and validating the sector's actual performance indicators for investment decisions. The study results suggest that most MFIs in Zimbabwe do not seem to recognise the important link between transparency, accountability, and access to external international funding (Dashi, et al., 2013).

The multicurrency system in Zimbabwe resulted in serious liquidity problems affecting the local financial market.

This shift, which forced a revamp on the microfinance sector requiring new capital injection and the limited availability of donor funding, has been blamed for the poor capitalisation in the Zimbabwean microfinance. Although this may have affected the capacity of MFIs to raise funds locally, it is highly unlikely with the issues identified and discussed above that the capitalisation situation for MFIs in Zimbabwe would be significantly different without MFI preparedness to attract external private investment.

Considering the minimum capital requirements of say $5 million for the deposit taking MFIs according to the 2013 microfinance regulatory requirements, very few

private individuals in Zimbabwe are able to raise it. The possible alternative source of funding is getting wholesale loans from the local banks but study results shows that banks consider MFIs to be competitors so are less likely willing to help. Banks themselves lack the necessary sector specific expertise to meet the demands of the MFI clientele. Collaboration is hampered by lack of trust among microfinance players and therefore difficult. Real opportunities for meaningful investment in microfinance lie in the international microfinance funders who meet the foreign investment requirements in Zimbabwe.

However, MFIs must meet the minimum investment requirements through a due diligence exercise which test the investment readiness of the MFI which will require MFIs to invest heavily in transparency and generating reliable performance indicators. The next section presents findings on the challenges of sector specific skills, experience, and competencies in the post 2009 microfinance sector in Zimbabwe.

Lack of relevant sector specific skills, experience, and competence

This study revealed a serious shortage of relevant skills in microfinance sector blamed mainly on brain drain and lack of sector specific training opportunities locally. Limited or lack of funding also contributed to this problem particularly critical skill sets such as accounting, credit analysis, and administration. Key Informant interviews with MFIs senior executives showed that MFIs could not retain or attract qualified and experienced individuals. An estimated 3 million Zimbabweans left the country between 2000 and 2008 due to political and economic challenges. These were mainly highly qualified and experienced middle-income individuals of working age searching for better opportunities outside the country. Although all sectors of the

economy were affected by this problem, the study results shows that the microfinance sector was hit the hardest for several reasons.

Firstly, with no sector specific qualification, entrants in the sector are from a wide range of disciplines and they acquire expertise in microfinance through years of practice and professional development from attending various conferences, events, and vocational training. Once lost it is difficult to replace that skill and competence. Secondly, donor funding through capacity building schemes carried out the majority of training and skills development in the pre-2009 microfinance era. With limited new donor activity in the post 2009 era, the new breed MFIs said they could not replace the lost skills. Thirdly, competition for remaining skilled staff in the sector from large banks entering the microfinance sector resulted in head hunting for experienced personnel.

A small study by Chikoko & Kwenda, (2013) which reviewed the survival strategies of MFIs in Zimbabwe during the hyperinflationary period of 1999 – 2008 also concluded that over 80% of the MFIs reported significant loss of skilled personnel and professionals due to worsening economic conditions. The loss of skills ranged from senior staff, management, and even board level according to Chikoko & Kwenda, (2013), further confirming the findings of this study. Interviews with officials from the Reserve bank of Zimbabwe established that rebuilding the skills and capacity of the Microfinance sector in Zimbabwe should be a priority for the sector.

The Government of Zimbabwe demonstrated great commitment to the development of the microfinance sector by committing resources for regulation and supervision. At the time of data collection, five people were directly involved in the licensing and

supervision of moneylenders and microfinance institutions according to the Reserve Bank of Zimbabwe. This involved a Chief Bank Examiner, Principal Bank Examiner, Senior Bank Examiner and Bank Examiner although all staff members in the Bank Licensing, Supervision, and Surveillance (BLSS) were involved in the supervision of microfinance and moneylending institutions.

This study however found that, although there was a dedicated team for licensing and supervision of microfinance, the wider sector specific skills and knowledge is still very limited. The minimum qualification for a licensing and supervision officer was a graduate degree in any commercial subject area such as banking, law, finance or accounting with a minimum of five years' experience in microfinance. Staff had access to training opportunities mainly run by the Boulder Institute of Microfinance in Italy. Although Boulder is a well-established microfinance training institute, training is mostly delivered in the form of thematic based international conferences targeted at a wide range of audience.

As a result, it may not be possible to provide in-depth and comprehensive coverage of all the relevant topics in a two week or eight week period. In addition, it was stated by MFIs that the cost of attending is also a barrier for many MFIs. The next sections presents findings on the sector's ICT challenges and record management.

Inadequate ICT infrastructure and weak record management

The study results revealed that inadequate ICT infrastructure and week record management is among the key challenges faced by the post 2009 microfinance sector in Zimbabwe. Technological innovation has revolutionised the delivery of financial services to the poor in several countries in Latin America, Asia and even in some parts of Africa such as Kenya's M-PESA mobile money. The innovation ranges

from offline Management Information Systems (MIS), cloud based loan monitoring and accounting systems and mobile technologies. This improves MFI's cost efficiency, transparency, reporting and reduces most operational risks. However, the study results show that inadequate funding has affected MFIs' ability to acquire robust ICT systems to support their operations in Zimbabwe.

When interviewed for this study, officials from the regulation and monitoring of MFIs section of the Reserve Bank of Zimbabwe said most institutions rely on Excel Spreadsheets to store customer information and produce management reports such as loan monitoring reports and financial statements. The regulator lamented that the weak ICT systems and poor record management practices have negatively affected MFIs' ability to submit regulatory returns and information. Consequently, the non-submission of regulatory returns by the majority of MFIs has affected compilation of data and information on the performance of the sector, which is critical for impact and financial stability assessments.

The study results shows that an average of 30% of all registered MFIs failed to submit returns to the regulator annually between 2009 and March 2015 although there study shows clear evidence of significant improvement from less than 50% submission in 2009 to 80% by early 2015. The study also found the challenge of information asymmetry in the microfinance sector becoming one of the sector's challenges as presented in the next section.

Information asymmetry now an MFI problem

The study results found a rather unusual challenge of information asymmetry in the Zimbabwean microfinance sector. Microfinance innovation was engraved in sector's ability to successfully address the problem of information asymmetry (limited

available verifiable information on which to base lending decisions) using social capital when lending to the poor. It is well documented and established that, the reason conventional banks could not lend to the poor is the lack of information to ascertain the level of risk each potential borrower represents to the bank before lending the money. Microfinance used informal systems of gathering this vital information by involving peers in lending decisions and sharing risks with those peers. Various models were implemented in different contexts ranging from peer based loan appraisals to simple referrals. Continuing lending activities where these social functions of the society no longer exist leaves the MFI portfolio exposed to information asymmetry and may destabilise the sector.

This study established that the microfinance sector in Zimbabwe moved away from the traditional social system based lending risk management to a more conventional approach of individual salaried lending without accompanying risk assessment and management tools such as the credit reference bureau (CRB).

When interviewed, RBZ officials identified the absence of a credit reference bureau in Zimbabwe as a key barrier on MFIs ability to evaluate the credit worthiness of potential borrowers. As a result, the sector suffered from multiple borrowings by some clients causing high delinquency levels in the sector. This problem is usually associated with unchecked rapid commercialisation of microfinance where increased competition among MFIs lead to liberal lending systems luring unsuspecting borrowers to borrow from multiple sources far beyond their capacity to repay.

Consistent with the characteristics of excessive commercialisation drive elsewhere, the regulatory authorities in Zimbabwe noted an apparent trend in the microfinance sector where some MFIs insist in levying usurious interest rates and exorbitant

initiation fees. The RBZ officials revealed that for the majority of these cases, fees are inadequately disclosed to the prospective borrowers and this does not only result in heightened default risk for the MFI but also is contributing to the marginalization of the population as opposed to poverty alleviation which used to be the motto of microfinance. The sector has witnessed proliferation of a number of unregistered moneylenders “Loan sharks” who were involved in unscrupulous loan recovery practices such as illegally selling borrowers’ pledged immovable properties and overcharging. The study results show that the already identified and discussed challenges of the period leading to 2009 drove most lending activities away from the traditional group solidarity type risk management strategies to mostly if not exclusively individually based risk management which most MFIs are less familiar resulting in serious malpractice and increased calls for a sector specific piece of legislation as present in the next section.

The New legislation: Microfinance Act Chapter 24.29

The new legislation for microfinance sector was introduced in 2013 through the Microfinance Act Chapter 24:29. Having realised and acknowledged the importance of microfinance in the economic development, the Government of Zimbabwe initiated the formation of the National Microfinance Taskforce between 2005 and 2006 to spear head the development of the microfinance sector in Zimbabwe. The taskforce included, Government Ministries, apex organizations of microfinance and moneylenders, MFIs, development partners and the central bank. A consultant firm, Ernest and Young conducted a nationwide survey of microfinance sector operational environment and provided policy recommendations. The microfinance policy set out

key strategies for bringing the fragmented financial sector in harmony by encouraging cooperation between the formal and informal financial providers.

Preamble on microfinance policy development

A national microfinance policy was developed in 2008 by the reserve bank of Zimbabwe (RBZ) following recommendations from microfinance baseline survey (Ernst & Young, 2006). The policy identified key objectives as outlined below:

1. Development of a robust inclusive financial sector in Zimbabwe
2. Promotion of synergy and mainstreaming of microfinance into the formal national financial system
3. Enhancing the delivery of MFI services to the economically active poor and MSEs
4. Contributing to rural transformation and promoting linkages between established formal financial institutions such as commercial banks, building societies, development banks etc. and informal sector financial institutions such as Microfinance (Institutions, banks and other microfinance stakeholders.

Key regulatory strategies were laid out highlighting the proposed supervisory framework towards achieving the objectives outlined above. An important feature of the policy is the express intent to bridge the gap between formal and informal financial service provision in Zimbabwe. As elaborated earlier, the commercial banks dominate Zimbabwe's formal financial system and their services revolve around the permissible regulated activities under the Banking Act. This leaves the majority of

Zimbabwean citizens in the informal sector financially excluded. An important contributor to this is the respective regulatory framework for the formal financial system, which does not accommodate tailor made, service provision to the informal sector.

On the other hand, the microfinance sector evolved around the needs of the poor and the informal sector to respond to the service gap or emerging demand for financial services among the poor. However, without regulation, this service developed into a parallel financial sector, alongside the mainstream financial system. The Government recognised the existence of this dualism and as a result proposed to address the problem using the new sector specific regulation; the Microfinance Act, chapter 24.29.

The next section presents details of how the Government of Zimbabwe went about addressing the identified challenge of dualism in the financial sector through promoting and developing an integrated financial system by building a regulatory bridge between the banking and microfinance sectors to enable MFIs to upscale while banks can also downscale as necessary.

Towards the Integrated Financial System

The Zimbabwean Government took a stance against the financial system dualism and through the Reserve Bank of Zimbabwe, drafted the regulation to create a single, inclusive, and integrated financial system in Zimbabwe. It was hoped that, through purposeful regulation the mainstream financial system service providers (Banks) would be encouraged to look down stream and adapt their services to accommodate the needs of the microfinance sector clientele. Scenarios of when and

how this could happen included options for Banks to either provide wholesale finance facilities to MFIs for on lending to the low-income markets or Banks retailing direct to MFI clients. Banks going downstream through direct retailing will be required to establish a subsidiary to be regulated by the microfinance act.

Microfinance operators in Zimbabwe suffered various drawbacks because of the absence of a specific regulation for the sector. Firstly, traditional MFIs were originally set up as NGOs and due to their legal structure and lack of regulatory clarity, they could not attract private investment to expand their loan portfolios when donor funding started dwindling in the late 1990s. Secondly, they could not collect deposits from the public to finance their loan portfolio like banks, making it hard for them to compete. As a result, their capacity to continue with lending operations was severely reduced creating a massive hole in the low-income market.

This created a very harsh operating environment for MFIs who only relied on their own investment. Another reason for regulation was the need to achieve financial stability. Deposit taking MFIs are connected to other financial players and as such, failure of one will likely affect others.

The study results also established that regulation was also required to safeguard depositors' funds, borrowers against exploitation and enhance investor confidence on the safety on their investments in microfinance. However, considering the small size of most MFIs, compliance costs have a negative impact on their operations. Firstly, annual license renewal is costly and a cumbersome procedure for MFIs. This also causes uncertainty to funders, as they will fear that some of the MFIs will not have their licenses renewed as the study has already revealed that each year a number of MFIs surrendered their licenses or failed to renew. It is arguable that,

longer licenses of at least five years license would have been ideal given the liquidity challenges in the Zimbabwean economy. Secondly, meeting prudential reporting requirements will involve a lot of costs, time, and resources. The MFIs will also have to pay for the inspection fees depending on the period and work done by the regulatory inspectors.

The contribution of microfinance in poverty reduction globally is no longer debateable. The rush to regulate MFIs by Governments is meant to improve the enabling environment to increase financial services accessibility to the economically active low-income population by ensuring MFIs increase outreach sustainably. However, the microfinance regulator's challenge is how to balance financial access, social performance, financial market stability, and consumer protection. This complicated and ever-changing balance requires on-going cost benefit analysis.

The performance of the microfinance sector, in terms of outreach, is largely driven by investments from equity and debt capital. These sources of investments were adversely affected by negative economic developments prevailing in the country. Without investments, it becomes difficult for MFIs to increase their lending activities. The subdued investment levels forced MFIs to borrow from expensive sources translating into unsustainable interest rates. The policy recommended that MFIs on the other hand will have to be encouraged to go upstream and formalise their operations to meet the acceptable minimum professional banking standards within the financial sector. The policy proposed prudential regulation on such up scaling MFIs based on the banking act to create MFI banks. The policy proposed these regulatory positions with the hope that this will ensure full financial integration between the formal and informal financial sector. The next section presents the study findings on the overview microfinance regulation in Zimbabwe.

An overview of the new microfinance regulation in Zimbabwe

The microfinance Act outlines the general conduct expected of anyone conducting microfinance business in Zimbabwe, it also articulates more specifically how corporate microfinance business are expected to behave. The Act provides for the registration and licensing process and procedures for microfinance business as well as how regulation compliance will be supervised. Only registered companies can carry out microfinance business in Zimbabwe. However, the company must hold a relevant annually renewable licence as stipulated in the Microfinance Act. Details of specific regulatory requirements of different MFI types are summarised on Table 6 .

Table 6: Regulatory requirements of different MFI types in Zimbabwe

Deposit – taking MFI Regulatory requirements (MFI Banks)

Credit Only MFI Regulatory requirements

Money Lending regulatory requirements

- Regulated under the Microfinance Act 24:29
- Registered Companies only
- Minimum capital $5 million
- Deposit –taking microfinance licence renewed annually
- Comply with the general stipulated microfinance conduct
- At least 5 approved directors
- Keep mandatory business records and accounts in approved form
- Maximum of 25% shareholding per individual and 50% if that individual is a corporate
- Transfer of shares more than 10% subject to approval
- Restrictions on insider trading
- Requirement to appoint principal officer approved by the regulator
- Governing documents approved by the regulator including changes
- Mandatory financial annual financial audit by a public Auditor
- Restrictions on other business activities (sec 25 & 29)
- Stipulated lending requirements (sec 26)
- Ensure regulatory training of employees and agents (sec 27)
- Restriction on payment of dividends (sec 28)
- Submission of statements and reports (sec 42)
- Regulated under the Microfinance Act 24:29
- Registered Companies only
- Credit Only Licence renewed annually
- Minimum capital $20,000

- Comply with the general stipulated microfinance conduct
- At least 3 approved directors
- Keep mandatory business records and accounts in approved form
- Maximum of 25% shareholding per individual and 50% if that individual is a corporate
- Transfer of shares more than 10% subject to approval
- Restrictions on insider trading
- Requirement to appoint principal officer approved by the regulator
- Governing documents approved by the regulator including changes
- Mandatory financial annual financial audit by a public Auditor
- Restrictions on other business activities (sec 25 & 29)
- Stipulated lending requirements (sec 26)
- Ensure regulatory training of employees and agents (sec 27)
- Restriction on payment of dividends (sec 28)
- Submission of statements and reports (sec 42)
- Regulated under the Microfinance Act 24:29
- Individuals or Partnerships
- Minimum capital $20 000
- Comply with the general stipulated microfinance conduct
- Submission of statements and reports (sec 42)

The Act provides that microfinance activities can only be provided under two broad licence categories, 1) Deposit taking licence and 2) Credit Only licence (Table 6). Individuals wanting to engage in microfinance activities can register under the Act as moneylenders but it is not clear in the regulation how their activities differ from credit only microfinance institutions. Table 6 shows very few noticeable regulatory advantages between deposit taking and credit only microfinance institutions. The regulation of microfinance created a framework for consumer protection with mandatory full disclosure by microfinance institutions of the terms and conditions of their services, adequate pre-lending assessment to avoid over indebtedness of clients, and ethical business conduct among several other things. The administration of the Act lies with the Registrar of Microfinanciers appointed by the Reserve Bank of Zimbabwe. Registered moneylenders or credit only Microfinanciers in terms of the Act cannot conduct deposit-taking microfinance. With the new technology, mobile money services play a vital role in extending financial services to the poor communities but under the Microfinance Act, this does not fall under MFI activity but Mobile Network Operators and therefore regulated separately as presented in the following section.

Regulation of mobile technology money services

Mobile technology has allowed the transfer and receipt of money which raises questions as to whether these activities should be regulated as microfinance activities or not. The complexity arises because Mobile Network Operators (MNO) provides these mobile money services, and not MFIs. The nature and scope of their core business does not meet the requirements to offer financial products.

As a result, the RBZ require MNO to collaborate with banking institutions in order to offer the mobile money products and the RBZ ensures that Mobile Money products do not include ‘credit’, or other products outside the regulated activities.

The study results shows that the MNOs are required to maintain a trustee account with a registered financial institution with real money deposits that backs balances in the e-money virtual account. A limit on bank balance is imposed and when reached a separate account must be opened with a different bank to spread the risk. In addition, the RBZ requires the MNO to comply with minimum bank regulatory requirements of Know Your Customer (KYC) though somewhat relaxed in order to allow the marginalized people to participate in these products. A register of all subscribers is also required as a regulatory measure, regular checks are made in collaboration with relevant authorities such as the Registrar General’s Office to ensure an accurate record of all mobile phone users, and that no sim-cards are registered under dead people’s names. The following section presents study results on the implications of the new microfinance regulation on the sector in general.

The implications of microfinance regulation

Before the introduction of the Microfinance Act, MFIs could not raise capital through savings mobilisation from the public. The regulation opened up new opportunities for eligible MFIs to transform themselves into banks and access new capital streams. However, by December 2014 over 12 months into the new regulatory regime, not a single MFI had registered for deposit taking in Zimbabwe (RBZ, 2014). The study results show that ten microfinance institutions controlling 84% of the market share in terms of total loans and having a total asset value of $194 million as at 31 March 2014 dominated the industry.

Those ten largest microfinance institution had a collective asset value of $52 million way above an average of $5 million each, which is the minimum capital requirement for upgrading into MFI banks. Therefore, for regulatory purposes, the minimum capital requirement is not an obstacle for them to upgrade to deposit taking.

One of the main arguments for regulation and recognition of the microfinance sector by campaigners was the need to open up opportunities for deposit taking by MFIs. Another goal for introducing the Microfinance Act was to create a level playing field for all microfinance players. It may be too early to draw conclusions as to how the regulation is affecting the sector. However, the study results suggest that, the Act may have reinforced the monopoly that existed before. Banks created subsidiaries to provide microfinance services directly to the poor as opposed to working with existing MFIs and providing wholesale finance. All clients of the Bank MFI subsidiary in the study sample had bank accounts with the respective bank. This may explain why the top ten MFIs whose capital base is sufficient to upgrade into deposit taking are not in a hurry to do so. They can still collect savings from their clients using their banks without incurring additional regulatory costs. In addition, other large credit only MFIs, which are not subsidiaries of any bank, have not upgraded to deposit taking. The possible explanation for this may be market saturation.

As indicated on Table 6 , over 70% of MFIs operate in cities and provide predominantly consumer based salaried loans. The RBZ MFI industry report of March 2014 confirmed the research results that MFIs in Zimbabwe are targeting the most affluent of the poor with regular salaried income resulting in high competition and market saturation as evidenced by over indebtedness, high delinquency, and low repayment rates.

Therefore, for the large credit only MFIs with a capital base of over $5 million, upgrading to deposit taking presents no immediate benefit but additional regulatory costs. The next section presents study results on regulatory implications of poverty alleviation goals.

Regulation implication on national poverty alleviation goals

The study results reveal that the Microfinance Act is underpinned by three evident pre-occupations namely, risk management, client protection and institutional competency (Table 6). The regulatory framework expressly seeks to promote financial inclusion as a vehicle for poverty alleviation. Of the several causes of persistent poverty, lack of sustainable access to financial services among the poor population is what defines the social rationale for microfinance provision. If suitable financial services are purposefully targeted to the marginalised, a significant reduction in poverty levels is expected. However, purposeful targeting to reduce poverty as a social goal cannot be achieved through market forces. Unless there are regulatory incentives for MFIs to target poorer individuals and promote more productive lending as opposed to consumption loans, access may not translate into poverty reduction and in some cases may even contribute to increased poverty and social distress. The goal of building an inclusive financial system although noble may not necessarily translate into tangible poverty reduction unless there is specific regulatory provision to promote social performance for MFIs.

Under the donor led MFI funding regime, social performance was a precondition for microfinance operations. In the absence of donor influence in the sector, regulation may provide for more than client protection if real contribution to poverty alleviation is to be achieved.

Traditionally, micro lending through moneylenders registered or unregistered has always been available as a commercial service since records begun. Zimbabwe introduced moneylending regulation in the 1960s and this allowed companies or individuals to provide loan services.

Microfinance only started in the 1990s but there was a clear distinction between moneylenders and MFIs although both operated under the same regulatory framework. The main difference between the two was the motive; MFIs sought to alleviate poverty while moneylenders were simply doing business. As a result, moneylenders provided less risky but high returns loans including salaried consumer loans with repayments through secure platforms such as the Salaries Services Bureau (SSB). MFIs provided mainly productive loan for economic activities such as small business loans and targeted the economically marginalised poor individuals. Currently, the microfinance regulation makes no clear distinction between the functions of moneylenders and MFIs. The only difference is the regulatory requirements that make it easy and less expensive to start and operate a money lending business than microfinance.

The name microfinance is associated with ethical lending for social purposes while moneylending carries many negative connotations. As a result, most moneylenders will prefer to operate as microfinance business even if it means additional regulatory requirements. The current regulation does not sufficiently encourage, incentivise, or enable socially driven MFIs to deliver cost effectively their services to the real poor. The poverty alleviation goal seems inadequately provided for in the regulatory framework.

Concentration of services in urban areas has led to multiple borrowing and increased defaults with many MFI clients losing their movable assets and consequently falling deeper into poverty. The next section presents findings on the regulation implications on financial inclusion goals.

Zimbabwe microfinance regulation implications on financial inclusion goals

It is important to highlight that the microfinance regulation in Zimbabwe follows the sector's best practice principles globally. The regulation promotes fair competition among the finance institutions and is committed to the internationally agreed client protection principles (Reserve Bank of Zimbabwe, 2012). There is no interference in the market through interest capping and places equal importance to the institutional competence and the fitness of key individuals responsible for micro financing business (Reserve Bank of Zimbabwe, 2012). Overall, this study confirms claims that sufficient stakeholder consultations were carried out during the process of formulating the regulatory framework (RBZ, 2014; Mago, 2013; Reserve Bank of Zimbabwe, 2012) and that a completely commercial approach was adopted to preserve the integrity of the financial sector and encourage the inclusiveness of the whole financial system in Zimbabwe.

The research results showed that, the cost of borrowing is a major barrier to building inclusive financial markets as most poor cannot afford expensive loans even if these are easily accessible. Putting an interest cap on loans will be considered as interfering with the market as the overriding assumption is that high interest will not be sustainable and before long competition from other players will eventually drive the interests down (Sinclair, 2012).

An example of this was seen in Bolivia where interest rates fell from 30% to 21% between 1998 and 2005 according to Sinclair, (2012). However, in most countries including Zimbabwe, there seems to be no evidence of the same thing happening.

A logical explanation is the size of competition, which if not big enough will have no or little effect on driving down interest rates. There is also evidence of competition having no impact at all on the interest charges in other places as well due to tacit agreement. This according to Sinclair, (2012) can happen where a tacit agreement among microfinance providers exist and it becomes industry standard to charge excessively high interest rates.

In the UK for example, micro-lending regulation provides a perfect example of what leaving the question of loan affordability to the market can lead. The Office of Fair Trade until March 2014 was the sector regulator for consumer lending with over 50,000 registered consumer credit licence holders (National Audit Office, 2012). According to the National Audit Office, (2012), the UK consumer credit market is one of the largest in Europe with an outstanding debt balance of £156 billion in October 2012 (National Audit Office, 2012). A total of £8 billion was for payday loans or salary based loans as they are called in Zimbabwe. Logic will have us believe that with such a huge number of consumer lenders competing against each other, the market forces will exert their influence and drive down the cost of borrowing to achieve a true inclusive financial market.

Although almost anyone can get a loan from a lending institution quite easily in UK, those from poor backgrounds can only access expensive loans from subprime lenders with interest rates up to over 4000% APR (Lenton & Mosley, 2011).

The registered consumer lenders operate under very strict regulatory framework with a specific focus on customer protection and institutional competency,(FCA, 2014) but they are free to charge whatever interest they want and it has almost become an industry standard among most payday or short-term lenders to charge excessively high interest rates. The regulators focused more on clamping down on unscrupulous practices and promoting more transparency through legibly displaying the Annual Percentage Rate (APR) to enable potential borrowers to shop around and compare loan prices before taking out loans.

This is where the theory of tacit agreement is most visible in the micro lending market, lenders are least concerned about what other lenders are charging and so are borrowers. As a result, interest rates in UK remained excessively high despite increased focus on consumer protection and transparency. Therefore, the Financial Conduct Authority (FCA) as soon as they took over the regulation of consumer lending in March 2014 announced an interest cap of 0.8% per month on consumer loans and a 100% cap on the total cost of borrowing beginning the 2nd of January 2015. This means borrowers will never have to pay more than what they borrowed in interest and charges.

This is an example of a complete market failure in regulating the cost of borrowing through competition prompting regulatory intervention. When borrowers approach a lender seeking a loan, it is often a result of a financial emergency because they do not have savings to cushion financial shocks. What they need at that point is access to money and the cost often is not their priority consideration.

This study confirms findings from several previous studies showing that because of the urgency of the need of borrowers and the convenience of the solution offered by most consumer micro lenders though expensive, poor borrowers rush into taking out excessively expensive loans without giving sufficient thought about implications. Borrowers in financial difficulties often have no time to compare loan prices, they will accept any loan offer made to them and in most cases will not even bother to read the loan terms and conditions before signing a loan contract. As a result, most micro lenders, knowing their market very well seems to understand that the cost of their loans have no direct bearing on demand so have no real incentive for lowering their charges.

In Zimbabwe, this study found no evidence of or appetite for reduced interest charges among MFIs because of regulation or market forces. The size of competition is relatively small and very few major players dominate the market. According to the evidence gathered in this study, financial inclusion goals are less likely to benefit significantly from the microfinance regulation as neither “carrots” nor “sticks" are proposed for social performance. The cost of borrowing is likely to remain relatively high due to lack of effective drivers for lower rates. Default rates are already high because of multiple borrowing and over-indebtedness. There are discussions among microfinance key stakeholders about the role of credit reference clearing service driving down default and multiple borrowing.

From interviews with MFIs, regulator and other participants, it can be argued that, although credit reference clearing service has its place in promoting responsible lending, this may have a huge negative impact on financial inclusion aspirations and goals.

In more developed financial markets where credit reference checks are mandatory prior to accessing any form of credit, the system itself is a major contributor of financial exclusion.

This is mainly because those new to the credit market and have no credit histories are just as risky as individuals with bad credit history are as their credit worthiness can hardly be established. Therefore, the subprime consumer credit market is mainly for individuals considered bad risk by the credit rating agencies so most subprime lenders do not do credit history checks and if they do, it is only for identity verification and not to inform lending decisions. It is interesting to note that the system partly responsible for financial exclusion in other financial markets is being considered a potential solution to the microfinance sector challenges in Zimbabwe.

Summary

In summary, this chapter presented study results on the state of the microfinance sector in Zimbabwe to address the first study objective and laid the foundation for testing the study hypotheses as stated in section Generating thesis hypothesis above. The chapter also addressed the study's first question; "What is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?" by exploring the sector, regulation framework and implications on social performance with examples and connections with practices elsewhere. The next two chapters (Chapter 7 and Chapter 8) will test the hypotheses announced on page 230 using quantitative data analysis results from sample MFI case study data in chapter 7 and the MFI client survey data in chapter 8.

7 RESULTS: MICROFINANCE SOCIAL PERFORMANCE - BASED ON CASE STUDY ANALYSIS OF 3 MFIs

Overview

In this Chapter, we re-visit the research aims, objectives and questions before testing the hypothesis. As stated on page 29 section 1.1.2, the study aims to establish the impact of prolonged political and economic crisis environment on the microfinance sector in Zimbabwe. The specific research objectives are: (1) to explore and establish the current state of the microfinance sector in Zimbabwe, (2) to establish how the economic and political crisis of 2000 to 2008 affected the microfinance sector's social performance and (3) to establish the coping strategies adapted by the MFIs and their target clientele during and after the economic crisis in Zimbabwe. Three key questions guided this study in order to achieve the research aims and objectives. The questions asked are; (1) what is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?, (2) to what extent did the economic and political challenges impacted on microfinance social performance in Zimbabwe and, (3) what strategies do MFIs and their target clientele employ in order to cope with the crisis situations of both pre and post 2009 microfinance revamp?.

The thesis hypothesis presented on page 230 section 5.1.1 states that, "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services". This chapter present results from sample MFI case study based on the social performance quantitative data analysed using the CERISE SPI tool (CERISE, 2013) to test the thesis hypothesis. The next section presents the MFI case profiles while keeping the MFI names anonymous due to the sensitivity of data collected and the promise by the researcher to the participating MFIs to keep their names anonymous.

Sample MFI Case Profiles

The case study sample as discussed earlier in the methodology chapter included three MFIs. One MFI was from each of the three main categories of MFI providers in the country; 1) bank related institutions usually as subsidiary of a commercial bank; 2) Private and commercial institutions established sorely for doing business and 3) Developmental institutions established in response to a developmental need in the target areas.

Microfinance Institution - MFI (1)

MFI (1) is a bank subsidiary MFI and one of the leading microfinance institutions in Zimbabwe. It is 100% owned by one of the leading Financial Services Group in the country. The MFI was registered and incorporated as financial institution in 1988 but only begun operations in 2011 as a strategic business unit of the bank. The MFI is a member of the Zimbabwe Association of Microfinance Institution (ZAMFI).

It reported impressive performance since it opened its doors for business to become the third largest MFI in Zimbabwe. The MFI is based in Harare where its head office is located but also operates a network of branches across the country including Mutoko, Gwanda, Chiredzi, Masvingo, and Mutare. It also takes advantage of its affiliate bank's branches to reach out to strategic business locations. The MFI stated mission is to make a substantial contribution to the growth and development of Zimbabwean individuals and communities particularly the marginalised, through initiative and implementation of practical small-scale business solutions applicable across all sectors in the business environment.

Despite the economic challenges in Zimbabwe, the MFI reported an impressive 37% growth in 2013 with recorded profits of US$1.2m from a total outreach of over 10,000 active clients worth US$12,9m in outstanding loan portfolio value. During interviews, the senior management stated that the success came because of continuous innovation and swift responses to market challenges and changes adapting to the immediate demands of the prevailing market conditions. The evidence of troublesome beginnings substantiated this where up to US$1.7m of under performing loans from the initial liberal lending approach was on special measures for collection. Because of the troublesome beginning, the MFI has now adopted a stricter lending model based on secure lending, employer guaranteed and deducted at source facilities. This confirms the protectionist tendency of the post 2009 MFIs and consistent with the thesis hypothesis.

Although this brought positive news to the group and shareholders, the study's case analysis will seek to explore the impact on clients and unemployed/self-employed individuals (social performance).

The study hypothesised that, "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services."

The MFI provides a wide range of products and services to a diverse range of consumer and enterprise loans. Products include civil servant loans, motor vehicle and housing, salary based loans, travel loans, laptop credit scheme and micro-enterprise loans. The loan term ranges between 1 and 12 months with annual interest rate starting from 10% to 84%. The MFI offers both individual and group based enterprise loans although the majority of the loans are consumer and individual based enterprise loans where collateral security is mandatory. The loan sizes ranges from UD$100 to US$5,000.

Microfinance Institution - MFI (2)

MFI (2) is a developmental microfinance organisation legally registered as a private company. The MFI has demonstrable passion for real social impact on their clients. The MFI began operations in 2010 with a strong focus on lending to the micro and small enterprises. The initial funding came from shareholders and development aid organisations. The organisation is led by women with 88% of the company's shareholding owned by women professionals. The MFI's stated mission is to be the provider of tailor made financial service solutions to marginalized communities in Zimbabwe through cooperating with organizations of similar leanings.

Their vision is to be a professional and credible MFI that is able to stimulate development and create jobs in the informal sector through the provision of relevant tailor-made financial products. Their loan products cover working capital loans for businesses, agriculture loans for small-scale farmers that include asset finance as well as housing needs for individuals whose income streams are not regular through incremental housing loans.

The lending model is a mix of both group and individual lending approach with a visible desire to provide holistic coverage of all different income groups. Product range is divided into four main areas based on perceived level of acceptable risk and enterprise size. The first level provides loans of up to US$500 to individuals running very small income generating activities for survival sake living from hand to mouth. These are organised into groups to receive group based solidarity loans with no collateral security. The second level caters for individuals who are a step better than the first level clientele. These could be either individuals or businesses employing up to 5 employees. The loan sizes range between UD$500 to US$1,500.

The third level provides loans ranging from US$1,500 to US$3,000 to individuals that are more affluent and have fairly established micro-business. This level is an individual based lending model only and collateral security is mandatory. The fourth level supports the small business requiring loans ranging between US$3,000 and US$5,000 through strictly individual lending model.

Loan types include; (1) Social Loans – medical expenses, household, education, emergency loans that have nothing to do with enterprise building but mostly limited to existing client base and not salaried individuals;

(2) Agricultural Loans – working capital (horticultural, seasonal, animal) and farm development (equipment) and (3) **Enterprise loans** - for micro and small enterprise development, working capital, asset finance for all other sectors. The MFI's loan products cover all sectors of small-scale productions, these include activities such as food production, poultry, piggery, market gardening, cattle fattening and horticulture. The average loan term is three months although the MFI stress that the client's circumstances will be considered for a suitable term.

Microfinance Institution - MFI (3)

MFI (3) is private commercial microfinance institution and possibly Zimbabwe's most forward thinking and aggressive microfinance provider with a high drive for excellence in the sector. MFI (3) serves over 11,000 clients with a portfolio size of over US$ 5 million spread over 26,000 small loans. The MFI push for top class professionalism, using effective IT systems to process and manage their loan portfolio with calculated lending design precision aimed at minimising loan loss while at the same time maximising profits.

The MFI is a private non-bank commercial microfinance provider registered with the Reserve Bank of Zimbabwe in 2010 when founding shareholders identified a golden opportunity to enter the market soon after the 2009 re-orientation of the financial market which left some of the remaining MFIs at the time incapacitated due to lack of capital. The MFI strategically targeted the working poor, a group of individuals who traditionally faced double exclusion from both MFIs and formal banks.

Historically, MFIs only provided loans to the unemployed individuals running micro or small enterprises.

Their services were limited to business loans although increased evidence showed that just like other citizens, the poor also needs consumption loans. MFIs with appropriate risk assessment systems will do better in allowing in certain circumstance reasonable consumer loans as often borrowers in desperate need for such loans divert business loans for emergency personal needs. The formal financial services sector dominated by large commercial banks on the other hand provide a wide range of services, including, credit, deposit taking, treasury, trade, and finance etc. mainly to large corporates and, in some cases, High Net worth Individuals. Banks have been reluctant to lend to individuals even the working class. MFI (3) recognized a permanent service gap created by both traditional MFIs and banks and set themselves up to respond to the needs of the employed low-income individuals. The MFI provides short-term loans primarily to employees in the formal sector but have also later diversified to support SMEs as well using a solidarity lending model. The MFI's head office is located in the capital city Harare but operates a wide network of branches across the major cities around the country. The loan size varies based on the net salary with a 40% cap per month but top up loans can be provided to the individual once the agreed repayments are met. The MFI's delivery model relies on strategic relationships with employers who agree to help with loan collections through Payroll Deduction Agreement (PDA). Alternatively, an effective Direct Debit Agreement (DDA) must be arranged before loans are paid out. In this case, the employer undertakes to ensure the employee does not change the bank account without notifying the MFI. The interest on loan is charged on a monthly rate of 17.5%. Group lending caters for the self-employed individuals prepared to co-guarantee each other for the purposes of receiving a loan.

Group size ranges between 3 and 5 individuals who had been in trading for at least six months prior. Group members must complete a compulsory training of 4 sessions within a 30-day period before receiving a loan. Because of the MFI's efficient ICT system, once the necessary documentation is complete, loans are processed and disbursed within 24 hours.

CERISE SPI score results generation

The SPI tool is designed to assess the intentions, actions and corrective measures implemented by an MFI to achieve its social mission. It is composed of three main elements (CERISE, 2013):

1. First element provides a description of the MFI to situate it within its peer group including key financial performance data
2. Second element collects data on the MFI's context, social mission and strategy
3. Third element uses data collected from the second element through a series of indicators to assess the organizational processes underlying four dimensions of social performance: 1) outreach to the poor and excluded; 2) adaptation of products and services to target clients; 3) improvement of the economic and social situation of clients and their families; and 4) social responsibility.

Each of the four dimensions of social performance outlined above contains a maximum of 25 points and is sub-divided into three subcomponents with score points ranging between 7 to 10 each all contributing to the 25 points collectively.

The first dimension (Targeting and outreach) is made up of 1; Geographic targeting which evaluates whether the MFI provides services in poor or isolated areas, or in areas where no other formal financial services are available, 2; Individual targeting which evaluates whether the MFI selects and/or screens out clients based on poverty level or exclusion and 3; Pro-poor methodology which examines the specific design of services that target the poor or excluded, including forms of guarantee and loans and deposits size. The SPI tool then generates a total score for the three sub components combined this Targeting and outreach dimension

The second dimension (Products and Services) is made up of 1; Range of traditional services which evaluates the diversity of the traditional services (savings and loans) offered by the MFI, 2; Quality of services which evaluates quality through objective and verifiable proxies and 3; Innovative and non-financial services which evaluates the MFI's efforts to adopt innovative approaches and adapt its services to a wide range of client needs. Similarly, the SPI tool generates a total score for the three sub components combined for this Products and Services dimension.

The third dimension (Benefits to clients) is made up of 1; Economic benefits for clients which evaluates the systems designed to promote and measure improvement in clients' economic situation, 2; Client participation which analyses to what extent clients are involved in decision-making (at the client level as well at the MFI level) and 3; Social capital/client empowerment which assesses activities designed to strengthen social capital of clients, i.e.: activities that reinforce social ties and client capacities, such as group formation, collective action, working together to reach common goals, fostering links with other programs and facilitating access to previously inaccessible services. Again the SPI tool generates a total score for the three sub components combined for this Benefit to clients dimension.

The fourth dimension (Social Responsibility) is made up of 1; Social responsibility to employees which evaluates working conditions of the MFI,2; Social responsibility to clients which evaluates six principles of consumer protection widely accepted in the microfinance sector: prevention of over-indebtedness, cost transparency, collection practices, employee conduct, grievance procedures and client confidentiality and3; Social responsibility to the community and environment which evaluates the actions of the MFI in terms of local economic, social and cultural development as well as environmental protection. In the same manner, the SPI tool generates a total score for the three sub components combined for this Social Responsibility. The SPI tool then adds together all the total point scores from each of the four dimensions to give the overall score for the MFI over 100, the maximum possible.

SPI score results compared to regional sores for similar MFIs

Based on all four social performance indicator dimensions; (i) targeting and outreach, (ii) products and services, (iii) benefits to clients and (iv) social responsibility, the MFIs with a connection to a banking institution scored better than other microfinance lending institutions in the study sample with a score of 60/100. As illustrated on Table 7 below, surprisingly, the private and commercial MFI (3) in the sample score 46/100 more than the developmental MFI (2) also in the sample which scored only 28/100.

Table 7: Post 2009 MFI SPI results show little focus on social performance

Type of MFI Institution	MFI Age in Years	Total SPI score out of 100
Bank related – MFI (1)	3	60
Developmental/ Not-for-profit - MFI (2)	4	28
Private and Commercial/ For profit – MFI (3)	4	46
Average Score		45

Source: Study results from CERISE SPI Tool computation, (2014)

The very low SPI score on developmental MFIs is mainly due to lack of information or statistics and limited appreciation for the importance of transparency and accountability among developmental microfinance institutions in Zimbabwe.

Out of four developmental institutions approached in this study, only one was willing to provide data (although very limited). According to the Zimbabwe Association of Microfinance institutions (ZAMFI) and the Reserve Bank of Zimbabwe (RBZ) the unavailability of credible microfinance data is a major hurdle in the development of a vibrant microfinance sector in Zimbabwe. This problem lies in lack of capital and funding opportunities to establish sound management and information systems (MIS) in the sector.

Unavailability of recorded data may explain why most developmental MFIs were unwilling to participate in this research but without research-based knowledge of the sector, it is difficult to gain investor confidence and attract the much need capital investment. In order to respond to the desire for inclusiveness of financial services, the operational bases of microfinance institutions (MFIs) hinges on social links and proximity to beneficiaries.

As observed by Bédécarrats, et al., (2011) in their conference paper to the 2011 Global Micro-credit summit, the global mean SPI score is around 57/100.

Because the SPI tool takes a holistic and comprehensive assessment of all key variables and that different institutions may prioritize different facets of social performance, depending on their objectives and context, most MFIs who value social performance regardless of their type can score more than half. Therefore, there is a strong basis to suggest that MFIs falling below the 49 percentile are barely pursuing a social strategy. This position is consistent with the study findings which shows that the sample MFIs' collective average score falling below 50% confirming part of the study hypothesis as well which stated that the post 2009 MFI as a result of their protectionist tendency have little focus on social performance issues.

Table 7: Sample MFI SPI results falls below regional averages for similar MFIs

Descriptor	**Category**	**SPI average % score**
Region	Asia	66
	Latin America	59
	Africa	54
	Zimbabwe (**Sample)**	45
MFI Type	Developmental/ Not-for-profit (Global)	59
	Developmental/ Not-for-profit (Zimbabwe- MFI (2))	28
	Private and Commercial/ For profit (Global)	54
	Private and Commercial/ For profit (Zimbabwe – MFI (3))	46
	Bank related/ Banks, NBMFI (Global)	56
	Bank related/ Banks, NBMFI (Zimbabwe – MFI (1))	60

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

In comparison to global social performance scores, Table 7 shows that the sample MFIs in Zimbabwean except for bank related institutions scored very badly with 46 for Private and Commercial/ For profit institutions against the global average of 54 on similar institutions and 28 for developmental/ Not-for-profit institutions against 59 global average for similar institutions.

Figure 7 below shows commercial banks operating microfinance activities either through a subsidiary wing or directly in the sample MFIs have managed to promote social performance up to 4 points above global average score of 56, and 1 point above the regional average of 59. As will be discussed later, achieving a high average score does not reflect that the institution's social performance policies are working for the poor. Very high score of 100 in social responsibility, for example, may bring up the average score but the same institution may be performing badly on other areas such as benefits to clients or poverty targeting. According to the study results on social performance, the second performing institutions in represented in the sample are the private and for profit institutions, which scored an average of 46 but fell well below the global score of 54 and regional averages of 59 for Africa and 66 for Asia by 8, 13, and 20 points respectively.

Figure 7: SPI scores in comparison to global averages

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

Based on this study sample, the least performing institutions according to the SPI audit results are the developmental and not-for-profit institutions, which scored 31 points below the global average of 59 as highlighted on Figure 7 above. The overall

score for the whole MFI sample is also well below both global and regional averages by 9, 14, and 21 points respectively (global, Africa and Asia).

This study compared SPI scores across the three different microfinance types (Bank related, private and commercial or for profit and developmental or not-for-profit) represented by MFIs 1, 3 and 2 respectively on each of the 4 specific social performance dimension (targeting the poor and excluded, adaptation of services, benefit to clients and social responsibility). Table 7 compares the SPI score results for the three MFI sample against each other and the average regional scores in Africa on each dimension and sub-dimensions.

The results are compared to the average scores in Africa, as most conditions and models of operation are similar with scores from Asia where microfinance operations are more mature and diverse. MFIs generally score highest on targeting and outreach dimension with a global average of 63 according to Bédécarrats, et al., (2010). Regional scores stand at 77 for Asia and 53 for Africa (Table 7).The bank related MFI in the sample scored 56 in targeting and outreach dimension slightly below the private and for profit institutions with more robust targeting scoring 60 and way above the global average but falling short of the Asian average score. The results showed a very weak score for the developmental or not-for-profit microfinance institutions on all sub-dimensions (Table 7).

Products and services adaptation is the next highest dimension with a global average score of 62, 68 for Asia, and 55 for Africa. The bank related institutions in the study sample scored 64 while the private and for profit, institutions had the second highest score of 48, well below both global and regional averages. The

developmental and not-for-profit institutions, scored significantly below both regional and global averages as illustrated of Figure 7 . The social responsibility dimension receives the third highest score globally at 54 while the benefit to clients dimension is usually the lowest with an average score of 48.

A healthy distribution of scores should have all four dimensions fairly distributed well above the 50 percentile as exemplified by the Africa scores on Figure 7 and striving for higher scores in each dimension as demonstrated by Asia scores.

Figure 7: SPI score results compared to regional averages

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

The sampled MFIs scored, 36 for bank related, 4 for development and not-for-profit and 20 for private and for profit institutions in the benefits to clients dimension all well below both the global and regional averages.

Table 7: Overall Sample SPI results show most scores below regional averages

Social performance Indicators	**MFI (1)**	**MFI(2)**	**MFI (3)**	**Asia**	**Africa**
Targeting the poor and excluded	56%	24%	60%	77%	53%
Adaptation of services **	64%	32%	48%	68%	55%
Benefits to clients ***	36%	4%	20%	55%	54%
Social responsibility **	84%	52%	56%	62%	56%
	60%	**28%**	**46%**	**66%**	**54%**
Targeting the poor and excluded					
Geographic Targeting	56%	22%	44%	66%	48%
Individual targeting	60%	30%	60%	67%	40%
Pro-poor methodology	33%	11%	56%	67%	51%
Average Score	***56%***	***24%***	***60%***	***77%***	***53%***
Adaptation of services					
Range of traditional services	86%	14%	57%	67%	58%
Quality of services	56%	22%	33%	76%	62%

Innovative and non-financial services	56%	56%	56%	62%	46%
Average Score	***64%***	***32%***	***48%***	***68%***	***55%***
Benefits to clients					
Economic benefits	38%	0%	50%	56%	48%
Client participation	22%	11%	11%	50%	64%
Empowerment	50%	0%	0%	60%	50%
Average Score	***36%***	***4%***	***20%***	***55%***	***54%***
Social responsibility					
SR towards staff	78%	78%	67%	67%	60%
SR towards clients	78%	33%	89%	71%	59%
SR towards community and environment	100%	43%	0%	41%	33%
Average Score	***84%***	***52%***	***56%***	***52%***	***52%***

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

However, the bank related sample MFI scored 84 on social responsibility while the developmental and not-for-profit scored 52 and the private and for profit 52.

The results are consistent with both global and regional averages according to previous research by Bédécarrats et al (2010, 2011) and others. The scores vary significantly from one MFI to the other as demonstrated from the study sample results depending on type of institution, geographical location, and age. The sampled MFIs are all located in urban areas, in the capital city and all were relatively young, established three years prior to the study. The only difference likely to explain the wide gap in scores is the size and type of institution.

The bank related MFI is the largest in terms of client numbers (10,000 active borrowers) and portfolio size (US$ 12,9 million) while the private and for profit institution had a slightly smaller portfolio value of just over US$ 5 million and 11,000 active clients. The developmental and not-for-profit institution had a smaller portfolio

size and clients. Rural MFIs tend to score higher than urban or mixed institutions, mainly on targeting and benefits to clients dimensions particularly the criteria on participation and innovative/non-financial services (Bédécarrats, et al., 2011).

The MFI sampled suggests that bank related institutions in Zimbabwe are doing very well in products and services, and social responsibility. This is consistent with results from previous SPI assessments in other regions such as Asia, Latin America, and Africa (Bédécarrats, et al., 2010). There seems to be a possible relationship between economies of scale and improved social performance as compared with the study sample results for large MFI portfolios (MFI 2 and 3). MFIs with the largest loan portfolios scored highest in range and quality of services and social responsibility as shown on Table 7 above.

Considering regional variations, according to Bédécarrats, et al., (2010), Asia has the best scores, particularly for targeting and outreach.

Latin American institutions also score well, especially in adaptation of services with a wide range of traditional services and with good quality of services. Africa scores high in benefits to clients with strong results in terms of client participation. As observed in this study, social performance increases with both size and age.

At the beginning, MFIs rely on a small and committed team and flexible processes with social mission embedded in routine practices often not documented or measured in SP assessments. As institutions grow, social performance and accountability becomes more formalised through polices and systems. Large MFIs score better in adaptation of services and social responsibility but may be weaker in targeting the poor and excluded, and benefits to clients.

Targeting the poor and financially excluded SPI dimension

Targeting and outreach dimension refers to the MFI's strategies to reach the poor and excluded. This is sub-divided into three sub-dimensions covering the industry established targeting mechanisms. The first is geographic targeting, such as when an institution decides to operate in isolated, remote, and poor areas where often no financial services are available (Bédécarrats, et al., 2011). The second is individual targeting which involves purposeful selection of clients based on poverty levels or exclusion. The third is methodological targeting which refers to pro-poor approach such as when services are appealing to the poor or excluded by design and easily accessible (Bédécarrats, et al., 2010).

The rationale for targeting the poor and excluded dimension lies in the historical motivation of MFIs as institutions generally set up to reach populations excluded from the conventional financial system.

Therefore, MFIs may aim to reach socially excluded populations, the poor, persons rejected by banks (but who are not necessarily poor or socially excluded), or simply to offer financial services in a region where banking systems are absent. Table 7 below presents the scores for the three MFIs in the study sample on this dimension and its subdivision categories. The maximum possible scores for this dimension are 25, 9 points for geographic targeting, 10 points for individual targeting and 9 points for pro-poor methodology.

Table 7: Targeting the poor and excluded: SPI score results falls below average

Targeting the poor and excluded ***		SPI Scores out of 25		
		MFI (1)	MFI (2)	MFI (3)
		14	**6**	**15**
Geographic Targeting		**5**	**2**	**4**
1.1	Areas of intervention	1	1	2

1.2	% of branches from underdeveloped areas	1	0	2
1.3	Verification of poverty level	2	1	0
1.4	% of clients in rural areas	1	0	0
1.5	Service in areas with no other MFIs	0	0	0
Individual targeting		**6**	**3**	**6**
1.6	Tool for targeting of poor clients	1	0	1
1.7	Ensuring adequate use of targeting tool	1	0	1
1.8	Targeting incentives	1	0	2
1.9	% of poverty of new clients	0	0	2
1.10	% of woman clients	2	2	0
1.11	% marginalized clients	1	1	0
Pro-poor methodology		**3**	**1**	**5**
1.12	Unsecured loans	1	1	2
1.13	Alternative collateral for productive loans	1	0	0
1.14	Small loans	0	0	2
1.15	Small instalments	1	0	1
1.16	Small saving amounts	0	0	0
1.17	Cross-subsidization	0	0	0

Source: Study results from CERISE SPI Tool computation, (2014)

Geographic targeting evaluates whether the MFI provides services in poor or isolated areas, or in areas where no other formal financial services are available. The study considered poor or excluded areas to be those with a higher than average percentage of poor people; areas that lack access to basic services such as water, electricity, education, health, sanitation, infrastructure; areas with basic services but that are far removed from urban centres. These included remote rural areas characterized by poor infrastructure (roads, markets), lack of access to public services, and subsistence farming; or urban areas characterized by a high concentration of poor people, lack of access to public services, high unemployment (such as migrant settlements).

Bank related institutions –MFI (1) as shown on Table 7 above had very few clients and branches in rural areas and exercised little poverty verification in considering lending decisions. The developmental and not-for-profit institution-MFI (2) had neither branches nor clients in rural areas. The private and for profit institution had some branches in underdeveloped areas but no clients in rural areas as well. All MFIs in the sample had no services in areas with any other MFIs. As a result, only MFI (1) scored half while MFI (2) and MFI (3) fell below average causing the overall score for geographic targeting to also fall below regional average as shown on Figure 7 below. Individual targeting sub-dimension evaluates whether the MFI selects and/or screens out clients based on poverty level or exclusion.

The assessment included a review of targeting tools; any method used to improve outreach to the poor by collecting information on living standards, to screen out the "rich" or select the "poor." As shown on Table 7 and the targeting triangle (Figure 7), all three MFIs scored above average for individual targeting particularly on the sub-dimensions, targeting incentives and percentage women clients.

Figure 7: Targeting the poor and excluded comparison chart

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

The pro-poor methodology sub-dimension examines the specific design of services that target the poor or excluded, including forms of guarantee, and loans and deposit sizes. This includes loans secured only by "social" collateral such as group solidarity or a recommendation by trusted third party, or by physical guarantees that have a commercial value inferior to the loan amount.

The results showed that private and for profit institution MFI (3) scored highest in unsecured loans criteria suggesting that private and for profit, institutions in Zimbabwe have a potential of reaching more poor and excluded individuals than both bank related and developmental institutions. However, bank related institution MFI (1) provided more alternative collateral for productive loans than developmental and not-for-profit institutions MFI (2) and private and for profit institutions MFI (3). Small loans are very important in attracting the very poor and in ensuring ability to repay while allowing the MFI to spread the risk as widely as possible.

Both bank related institution MFI (1) and developmental and not-for-profit institutions MFI (2) fell short on this criteria as shown on Table 7 while private and for profit institutions, MFI (3) scored fairly well on this criteria.

The size of instalments also is a key determinant in targeting the very poor as too big instalment sizes may choke the repayment ability of the client forcing them into delinquency or even default. Except for the developmental and not-for-profit institutions MFI (2), the results shows appropriate instalment setting for the target client. Small savings and cross-subsidization was lacking in all MFI types although bank related institution MFI (1) used the connection with the bank to facilitate savings accounts for clients.

Figure 7: Comparison triangle for targeting the poor and excluded SPI scores

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

Figure 7 above compares the overall scores for each MFI type on targeting the poor and excluded by joining the three sub-dimensions, geographic targeting, individual

targeting and pro-poor methodology to form comparison triangles and putting it in the context of regional scores for targeting the poor and excluded.

Using Asia scores (blue triangle) and Africa scores (brown triangle) as our comparison benchmarks, the private and for profit institutions- MFI (3) scores (light blue triangle) is the highest performing in sample. The size and shape of the triangle mirrors the Asian scores, which are currently the best in the whole microfinance sector in the world, and is better than the African average scores (brown triangle).

The private and for profit institutions- MFI (3) demonstrated a strong focus on all three sub-dimensions making a balanced targeting the poor and excluded triangle. The second performing institution type on targeting the poor and excluded is the bank related institution- MFI (1), (the green triangle) which demonstrated strong focus on geographic targeting but not so much focus on individual targeting and places less priority on pro-poor methodology. The developmental and not-for-profit institutions - MFI (2) were the least performing, (purple triangle) showing no evidence of pro-poor methodology and very limited focus on both individual and geographic targeting.

Service adaptation to suit poor clientele needs SPI dimension

Adaptation of services dimension assesses an institution's ability to provide products tailored to client needs. This entails offering a range of financial services of high quality as well as innovative and non-financial services. The rationale for this dimension is to explore how accessible are the MFI products and services to the poor and excluded.

Standardized services often are a mismatch to the specific needs of microfinance target clients. Therefore, adaptation and innovation plays a key role in making

services more accessible to poor and excluded. The adaptation of services dimension has three sub-dimensions as well, similar to targeting the poor and excluded dimension and a total of 25 points. These sub-dimensions are, range of traditional services (7 points), quality of services (9 points) and innovative and non-financial services (9 points) making a total of 25 for the dimension. Scores indicates that bank related institution- MFI (1) performs better than both developmental and not-for-profit institutions - MFI (2) and private and for profit institutions- MFI (3) on adaptation of services dimension as shown on Table 7 below.

Table 7: Adaptation of services: SPI score results falls below average

Adaptation of services		SPI Scores out of 25		
		MFI (1)	MFI (2)	MFI (3)
		16	8	12
Range of traditional services		**6**	**1**	**4**
2.1	# of loan products	1	0	1
2.2	Emergency loans	1	0	1
2.3	Loan tailored to social needs	1	1	1
2.4	Loans tailored to productive needs	1	0	1
2.5	Local adequacy of services	0	0	0
2.6	Saving products	1	0	0
2.7	Saving tailored to social needs	1	0	0
Quality of services		**5**	**2**	**3**
2.8	Decentralization	0	0	0
2.9	Timely delivery	0	1	1
2.10	Interest rate	0	0	0
2.11	Feedbacks from clients	2	1	1
2.12	Client retention rate	2	0	0
2.13	Study on drop outs	1	0	1
Innovative and non-financial services		**5**	**5**	**5**
2.14	Innovative services	1	0	2
2.15	Mobile services	0	1	2
2.16	Strategic alliances	1	1	1
2.17	Management NFS	1	1	0
2.18	Social NFS	0	1	0
2.19	Adaptation of NFS to clients' needs	2	1	0

Source: Study results from CERISE SPI Tool computation, (2014)

The first sub-dimension is the range of traditional services which evaluates the diversity of the traditional services (savings and loans) offered by the MFI.

For products to be considered different, at least two of the following characteristics must be different: purpose, disbursement conditions, minimum-maximum amount, term, collateral, interest rate, and repayment schedule. The range of traditional services dimension has seven assessment categories carrying one point each.

This asked more specifically about the number of loan products on offer by MFIs sampled, whether these loans are tailored to either productive or social needs or both, and most importantly, whether MFIs were able to respond to clients' emergency needs through emergency loans. Further questions were asked about how MFIs respond to clients' savings needs either through facilitating savings through other institutions or providing services themselves. Either way MFIs were asked about whether these services are tailored to clients' social needs. Lastly, the study asked whether these services are adequate at the local level. Bank related institution MFI (1) scored highest with 6 points out of 7 as shown on Table 7 above.

The study showed that bank related institution MFI (1) in the sample provide clients with a wider range of loan products tailored to both productive and social needs than both private and for profit institutions MFI (3) and developmental and not-for-profit institutions MFI (2). They also provide a range of savings products tailored to social needs through their affiliated banks. However, although bank related institution MFI (1) scored high earlier, on geographical targeting of the poor and excluded, their services are still not adequate at local level.

The private and for profit institutions MFI (3) scored 4 points out of 7 in range of traditional services to be the second MFI type in the sample to offer clients various product options.

Unsurprisingly, due to non – affiliation with banking institutions and also not a deposit taking institution themselves, the private and for profit institution MFI (3) in the sample have capacity to provide clients with any savings products. It also failed a local adequacy test although they scored high in targeting the poor and excluded dimension. The developmental and not-for-profit institution MFI (2) in the sample had no capacity collect savings, no affiliation with any banking institution to facilitate savings for clients and had very limited product range.

The scores represented on these findings do not reflect the true nature of developmental and not-for-profit institutions MFI (2) in Zimbabwe as it is based on very limited information. This study has shown that there seems to be a structural weakness among most developmental and not-for-profit institutions MFI (2) in Zimbabwe. Nevertheless, the limited data available suggests that the developmental and not-for-profit institution MFI (2) may be the poorest in the providing a range of traditional services for the poor and excluded.

In addition to exploring the range of traditional services provided by MFIs in the sample, the study also assessed the quality of those services as shown on Table 7 above. The sub-dimension caries 9 points covering how services are decentralised and delivered timely, affordability based on interest rates charged, client retention rates, dropout rates, and whether MFIs actively collect feedback from clients on the quality of their services.

This criterion evaluates quality through objective and verifiable proxies such as how long it takes to disburse a first loan once the application is submitted, for all new clients over the last 12 months.

This takes into account any required training and unexpected delays due to constraints such as liquidity shortages, lack of availability of loan officers, etc.

The bank related institution- MFI (1) scored 5 out of 9 mainly due to two key areas of client retention and collecting regular client feedback. The institution also monitors dropout rates through formal studies. However, bank related institution MFI (1), fell short on decentralisation, timely service delivery, and affordability by international and regional standards. All decisions about operations and services for the bank related institution MFI (1) came from the head office in the capital city Harare. Because MFI (1) had branches in major cities as well, this unsurprisingly impacted on delivery times as branches waited for head office approval.

The interest rates charged on loans that ranged between 60% and 80% per year and although very competitive, favourable and certainly lowest in the Zimbabwean context is still way above the international microfinance best practice rate of around 24% APR on average. Nevertheless, the study results shows that the poor and excluded in Zimbabwe are better served by bank related institution MFI (1) in terms of quality of services than either developmental and not-for-profit institutions MFI (2) which score 2 points out of 9 or private and for profit institution MFI (3) which scored 3 out of 9 points. The private and for profit institution MFI (3) in the sample also had branches in major cities around the country and centralised operations similar to bank related institution MFI (1) that scored well on timely delivery due to a robust investment in IT systems enabling real time loan processing across all branches.

Private and for profit institution MFI (3) fell short on client retention and loan affordability with average interest rates of 180% APR. Nevertheless, according to available data, private and for profit institution MFI (3) offers second best quality of services in Zimbabwe. Developmental and not-for-profit institution MFI (2) fell short on all the criteria for quality of services except on timely delivery and collecting feedback from clients. The study observed that developmental and not-for-profit institution MFI (2) are the least capitalised in the sector and this has an impact on their ability to improve the quality of services offered to clients.

Innovative and non-financial services play a key part in adaptation of services to suit the specific needs of the poor and excluded. This sub-dimension also carries 9 points based on MFI's level of innovation such as mobile services, provision and adaptation of non-financial services (NFS) and strategic alliances with other service providers to enhance better service provision to the targeted poor and excluded. The innovative and non-financial services sub-dimension evaluates the MFI's efforts to adopt innovative approaches and adapt its services to a wide range of client needs. This covers new information technologies permitting clients to conduct transactions without coming to the MFI, such as ATMs, point of sale terminals, internet, mobile phone banking and use of Personal Digital Assistants (PDA). It explores whether the MFI provide innovative financial services to more than 5% of its clients (directly or via other specialized organizations). This includes, for example, mobile banking for regular financial transactions. Questions asked included whether loan officers have to leave the MFI's premises to visit clients or can the clients conduct transactions without coming to the MFI (via visits or new information technologies).

It also considered whether MFIs utilise partnering with other institutions to offer services related to financial management such as enterprise training, financial literacy, management of family budget, etc. Additional consideration was given to services that address social needs such as health care, literacy training, access to social workers, awareness raising on gender issues, etc.

All three MFI types in the study sample (bank related institution- MFI (1), developmental and not-for-profit institutions - MFI (2) and private and for profit institutions- MFI (3)) score 5 points out of 9 but points were not necessarily earned on similar assessment areas of service provision. The bank related institution- MFI (1) picked up points on designing innovative services such as tailor made housing and car loans. They also have good strategic alliances with banks, which enhances their capacity to offer better services to their clients including arranging for specially designed savings and insurance products. Bank related institution- MFI (1) also provide non-financial services adapted to client needs although these tend to lack a social dimension and focus only around management of loans and business skills. The developmental and not-for-profit institutions - MFI (2) on the other hand did not have innovative services or non-financial services adapted to client's needs but established strategic alliances with other NGOs in the sector to enhance better service provision including using existing client structures established by other NGOs as opposed to reinventing the wheel by trying to establish their own. Similar alliances were established with local agencies to deliver services instead of opening branches in those locations enabling the MFI to expand operations with less capital outlay.

Developmental and not-for-profit institutions MFI (2) in the sample also provided non-financial services such as training and client capacity building covering both the business and social dimensions of client needs.

The private and for profit institutions- MFI (3) do not provided any non-financial services as shown on Table 7 . However, they established successful strategic alliances with various employers and other partners to enable a better service for their clients (mostly salaried employees). Figure 7 below provides a contextual view of how each the three MFI types in Zimbabwe, compared to the regional scores (Africa and Asia) on adaptation of services in terms of all three sub-dimensions.

Figure 7: Adaptation of service SPI score-comparison triangle

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

The biggest triangle in yellow marks the maximum possible score where MFIs achieve 100% in all three sub-dimensions (range of traditional services, quality of services and innovative and non-financial services).The Asia triangle (blue) and Africa triangle (brown) provides regional benchmarks for comparison.

Figure 7 below presents the scores in a bar chart and compares each MFI type with regional scores on each sub-dimension.

Figure 7: Adaptation of Services SPI score-comparison graph

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

The bank related institutions- MFI (1) in the sample provides better adapted services to the poor and excluded than private and for profit institutions- MFI (3) or developmental and not-for-profit institutions - MFI (2).

Figure 7 shows that bank related institution- MFI (1) exceeded both the Asian and African averages on range of traditional services while maintaining high scores on both quality of services and innovative and non-financial services sub-dimensions and within the regional averages for Africa. The overall performance of bank related institutions- MFI (1) is represented by the green triangle on Figure 7 above, which is bigger than both the African and Asian triangle, brown and blue respectively.

However, the shape of triangle shows that although the bank related institution- MFI (1) has strong focus on adaptation of services to meet client needs, sub-dimensions are not equally weighted and prioritised. This suggests that the bank related institution in Zimbabwe prioritised the development of a wide range of traditional services for clients.

The light blue triangle for private and for profit institution MFI (3) is smaller than both the Asian and African triangles. This means the institutions are operating under the regional averages for adaptation of services to meet client needs. The shape of the triangle that is stretched on both range of traditional services and innovative and non-financial services but a bit skewed on quality of services suggesting that less priority is given to the quality of services. The developmental and not-for-profit institution MFI (2) triangle in purple is the smallest of them all and is stretched towards the innovative and non-financial services sub-dimension. This result suggests that the developmental and not-for-profit institution in the sample either put less priority on both developing a range of traditional services to meet client needs and providing quality of services or they lack the ability to collect relevant data about their operations.

However, consistent with most developmental and not-for-profit institutions, Figure 7 shows a commitment on the provision of innovative and non-financial services to meet the needs of the poor and excluded.

Economic and social benefits to clients SPI dimension

The rationale for economic and social benefits to clients dimension (Table 7) is based on the need for MFIs to ensure that clients are reaping benefits from the services provided.

Table 7: Economic and social benefits to clients: SPI score results below average

Benefits to clients		SPI Scores out of 25		
		MFI (1)	MFI (2)	MFI (3)
		9	**1**	**5**
Economic benefits		**3**	**0**	**4**
3.1	Tracking changes in client situation	0	0	0
3.2	Staff training in social performance management	1	0	1
3.3	Social performance appraisals	0	0	0
3.4	Corrective measures	1	0	1
3.5	Reducing costs strategy	1	0	1
3.6	Formal benefits policy	0	0	0
3.7	Measures in case of collective disaster	0	0	1
Client participation		**2**	**1**	**1**
3.8.a	Decision making at the client level	1	1	0
3.8.b	Decision making at the board level	0	0	0
3.9	Representation of clients in committees	0	0	0
3.10	Involvement of clients at the management level	1	0	1
3.11	Women representation	0	0	0
3.12	Training of representatives	0	0	0
3.13	Effectiveness of participatory bodies	0	0	0
Empowerment		**4**	**0**	**0**
3.14	Problem solving beyond financial services	1	0	0
3.15	Woman empowerment	1	0	0
3.16	Transparency to clients/members	2	0	0
3.17	Support for client influence	0	0	0

Source: Study results from CERISE SPI Tool computation, (2014)

While economic benefits are what justify efforts to extend access to financial services, building social and political capital can enhance forms of social organization (collective action, political lobbying, etc.) and self-confidence, thus facilitating economic and social development. Moreover, a relationship of trust between the MFI and its clients can reduce transaction costs and improve repayment rates.

Economic benefits alone justify access to financial services but need an effort from the MFIs to track and monitor changes and to implement practices to ensure that the benefits are geared towards the clients.

MFIs may also seek to strengthen social networks, involving clients in their governance or promoting their empowerment. Therefore, economic and social benefits to clients dimension has three sub-dimensions with 25 points in total namely, economic benefits to clients (8 points), client participation (9 points) and empowerment (8 points). Table 7 above shows how each of the three sample MFIs scored on all three sub-dimensions.

The economic benefits to clients sub-dimension evaluate the processes implemented by the MFI to promote and measure improvement of the economic situation of clients. It asks whether MFIs track changes in the poverty levels or economic status of its clients. Economic status for the purposes of this study is based on assets, income, housing conditions, education, food security, access to services, vulnerability etc.

MFIs were asked whether they conducted impact studies over the last 3 years and impact studies again for the purpose of this study refers to any in-depth surveys at

the client level that use a control group to assess social and economic impacts attributable to the services provided by the MFI. If the MFI had carried out such a study, further questions are asked as to whether the MFI has taken corrective measures (like modifying products) whenever causing negative effects on social cohesion or client welfare. It also probed whether the MFI has a formal policy on how clients benefit from profits generated by the MFI.

This study considered a formal policy to be a written document for use by MFI in strategic planning. This should outline policies on reducing interest rates, investing part of the profits in the community, etc.

This study also asked how sample MFIs tracked changes in the situations of their clients, whether staff receives training in social performance management and how the institution conducted their own social performance appraisals. Further questions were asked on how corrective measures would be implemented resulting from any assessment or appraisal, what measures would be taken in case of collective disaster, whether the MFI had a formal benefits policy and finally whether the MFI had a formal strategy for reducing costs.

None of three MFI types in the sample, bank related institution MFI (1), developmental and not-for-profit institution MFI (2) and private and for profit institutions MFI (3) tracked or measured changes in client situations either formally nor informally.

In addition, none carried out a social performance appraisal and had no formal benefits policy for clients. Bank related institution MFI (1) provide training to all staff members as part of the institution's staff development policy and this training included social performance management. The MFI also operated a formal cost

reduction strategy as well as clear plans to implement corrective measures in the event of serious changes required in the operations of the MFI. However, in the case of client collective disaster such as the effects of floods or severe drought, clients would still be required to pay back their loans. The MFI did not have measures in place or policy to deal with such a predicament. As a result, overall bank related institution MFI (1) scored 3 points out of 8 which is below average. The developmental and not-for-profit institution MFI (2) did not have available data for all the criteria on economic and social benefits to clients resulting in a zero score on this dimension. The private and for profit institutions MFI (3) provide regular training to all staff including social performance management.

The MFI reported that measures to deal with cases of collective disasters were available in the form of insurance and employer guarantees and that clear strategies of responding to situations requiring corrective measures were in place to guide senior management and staff. The MFI also had a strategy in place to reduce operating costs. This included a robust IT system to improve efficiency, but it remained unclear how much of these cost savings benefited the clients as the MFI's interest charges on loans are among the highest in the country.

Nevertheless, private and for profit institution MFI (3) scored 4 points out of 8, the highest score on this sub-dimension among the three sample MFIs. The second sub-dimension, client participation explored the extent to which clients are involved in decision-making at client level as well MFI level.

MFIs were asked whether client voices had representation during decision making at the board level and whether respective sub-committees or committees had opportunities for representation. Further elaboration was required on women's

representation as well and whether training of representatives was available where possible. All MFIs in the sample; bank related institution MFI (1), developmental and not-for-profit institution MFI (2) and private and for profit institution MFI (3) had no client representation either at board level, client level or in various committees. No women representation or training was available in any of the three MFI types as shown on Table 7 above. Bank related institution MFI (1) and private and for profit institution MFI (3) had, some level of decision making involving clients though limited. Therefore, bank related institution- MFI (1) scored 2 points out of 9 while both developmental and not-for-profit institutions - MFI (2) and private and for profit institutions- MFI (3) scored only 1 point out of 9 for client participation.

This low level of client involvement across all three MFI types sampled in Zimbabwe suggests a sector wide lack of consideration for empowering the poor and excluded.

Client empowerment sub-dimension assesses activities of MFIs designed to strengthen social capital of clients (Box 4). The study asked what activities MFIs provide to reinforce social ties and client capacities, such as group formation, collective action, and working together to reach common goals, fostering links with other programs and facilitating access to previously inaccessible services. It also asks whether the MFI help clients to resolve problems beyond access to financial services.

This may include any actions taken by the MFI that help clients foster relationships among themselves, with other socioeconomic factors in the community or local networks. Examples include creating forums to address common problems regarding access to public services (e.g. health, education, electricity) and public goods (e.g.

natural resources, pasturelands) or addressing legal and security issues in the community, for instance.

Further questions explore the MFIs' rationale for involving women clients, whether they do it for social or commercial reasons. From a commercial point of view, women clients in microfinance have proved to be better at keeping up repayments and maintaining a quality portfolio. For this reason, some MFIs have adopted a specific policy to target women clients in order to reduce the loan risk. From a social point of view, most women in poor communities suffer severe structural deprivation and are among the poorest. As a result, some MFIs target women with a view to empowering them and enhancing their overall well-being.

Therefore, MFIs may target women a neutral objective that implies no specific strategy beyond capturing female clients or they may have the mission to identify and address constraints facing women (such as mobility, market access, literacy, access to skills training), by offering them opportunities for income generation or leadership. This sub-dimension explores whether MFIs offer support services that specifically aim at women's empowerment. Specific questions included whether MFIs attempts to respond to client needs beyond the provision of financial services, promote transparency to clients and support clients in influencing decisions about matters affecting their lives.

Bank related institution- MFI (1) had the highest level of commitment to client transparency demonstrated by clear displays and disclosure of all relevant product information where clients can easily access.

Figure 7: Benefits to clients SPI score comparison triangle

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

The MFI also helped clients in solving non-finance problems such as skills development and a reasonable commitment to empower women clients. As a result, the bank related institution MFI (1) scored 4 out of 8 points on empowerment as shown on Figure 7 above.

However, both developmental and not-for-profit institution MFI (2) and private and for profit institutions- MFI (3) scored zero points on all assessment areas headings (problem solving beyond financial services, woman empowerment, transparency to clients/members and support for client influence) Figure 7 . In order to put this into perspective, Figure 7 below shows some comparison triangles for the three MFI types compared with the regional averages. Figure 7 shows a bar graph comparing sub-dimension scores per MFI type against regional averages to provide a better picture of how each MFI type performs in comparison to regional average scores.

Out of the potential maximum score of 100 in all three sub-dimensions, bank related institution MFI (1) scored an average total of 36, private and for profit institution MFI (3) 20 and developmental and not-for-profit institution MFI (2) only 4. The regional averages for Africa and Asia for the economic and social benefits to clients dimension are 54 and 55 respectively (Figure 7). The bank related institution MFI (1) triangle (green) though biggest of the Zimbabwean sample is significantly smaller than both the African and Asian benchmarks. The private and for profit institutions- MFI (3) triangle (light blue) is even smaller with only two sides (economic benefits to clients and client participation) and missing the empowerment angle.

The developmental and not-for-profit institution MFI (2) triangle (purple) is not even showing because two sides (empowerment and economic benefits to clients) are missing.

Figure 7: Benefits to clients SPI score comparison graph

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

As highlighted on Figure 7 above, microfinance services in the sampled MFIs fails significantly to provide the minimum possible economic and social benefits to clients. All MFI types are still a long way from delivering real benefits to the poor and excluded although, bank related institutions are providing better results for their clients than private and for profit institutions and developmental and not-for-profit institutions.

Social Responsibility SPI dimension

Social responsibility is inherently connected to the principle of fairness, an ideological commitment that co-exists with individualism and capitalistic tendencies according to Bobo, (1991), cited in Nair, (2010).

Capitalism is also often responsible for most sucessful businesses but the success is also the reason why businesses are under pressure to give back to the community through responsiveness to societal issues. Commercial businesses are thus often obliged to demonstrate commitment to fairness towards customers, employees and the whole community in general. Social responsibility in microfinance seeks to

ensure that MFI actions are at least transparent that they contribute to developing the financial services on offer and that they have no negative effects on stakeholders which means decent work of employees, protection of consumers, protection of the environment.

For the purposes of the study, the social responsibility dimension extends to employees through appropriate human resource policies, to clients by guaranteeing respect of consumer protection principles and to the community and the environment by taking care to respect the culture and context in which the MFI operates. The rationale for this dimension is to test whether socially responsible MFIs take into account all the stakeholders they work with (staff, clients and community members) in view of respecting their economic, social and environmental interests.

Social responsibility involves effective human resource policies, a corporate culture adapted to the socio-economic and cultural context, and a proactive relationship with clients (in particular regarding the client protection principles), with the community and the environment in which it operates. As with other social performance dimensions, social responsibility carries a total of 25 points through 3 sub-dimensions.

These include social responsibility to employees with a maximum score of 9 points, social responsibility to clients with a maximum score of 9 points as well and social responsibility to the community and environment with a maximum score of 7 points as shown in Table 7 below.

Table 7: Social responsibility: SPI score results falls below average

Social responsibility		SPI Scores out of 25		
		MFI (1)	MFI (2)	MFI (3)
		21	13	14
SR to employees		**7**	**7**	**6**
4.1	Salary scale	1	1	1
4.2	Permanent contracts	1	2	0
4.3	Access to training	1	0	1
4.4	Participation in decision making	0	1	0
4.5	Health coverage	1	1	1
4.6	Specific policy for woman staff	1	0	1
4.7	Staff rotation	2	2	2
SR to clients		**7**	**3**	**8**
4.8	Avoiding over-indebtedness	1	1	2
4.9	Cost transparency	1	0	1
4.10	Credit conditions and collection practices	2	1	2
4.11	Code of conduct	1	0	1
4.12	Grievance procedures	1	0	1
4.13	Client confidentiality	1	1	1
SR to community and environment		**7**	**3**	**0**
4.14	Social responsibilities to the community	2	1	0
4.15	Local social and economic development	1	1	0
4.16	Environment policy/financed activities	2	0	0
4.17	Environment policy/MFI activities	2	1	0

Source: Study results from CERISE SPI Tool computation, (2014)

The social responsibility towards employees sub-dimension evaluates working conditions of the MFI in terms of salary scale, training programs, employment terms, and contracts, employee participation in decision-making, health care benefits, gender specific policy for woman staff etc.

The study asked whether the MFIs in the sample had a salary table or salary scale, which defines the salary, ranges for each position, and was available to any employee. It also asked whether training programs were regularly accessible to all types of employees. This covers loan officers at the branch level; back office staff at the different levels (local, regional, or headquarters); senior management; in some

cases, voluntary workers may also be included. Training programs may be provided by the MFI or an external entity, either paid by the MFI or subsidized.

The study established that all MFI types in the sample had well defined salary scales for their employee roles and provided some form of health coverage to all employees as well as practicing staff rotation. However, only developmental and not-for-profit institution MFI (2) involved employees in decision-making process. Both bank related institution MFI (1) and private and for profit, institution MFI (3) said employees did not take part in decision making scoring zero points on this respective criterion as shown Table 7 above. Surprisingly, the developmental and not-for-profit institution MFI (2) did not have data on gender specific policy for women and access to training for staff although the MFI is women led. It is not clear whether the unavailability also meant non-existence of such policies. On the other hand, both bank related institution- MFI (1) and private and for profit institution MFI (3) said they had specific policies for women scoring one point each. However, the developmental and not-for-profit institution MFI (2) offered more employment security for staff with the majority of staff members on permanent contracts.

Bank related institution MFI (1) also offered permanent contracts but had a good number of contract staff while the private and for profit institution MFI (3) offered far less secure employment tenure.

Overall, the bank related institution MFI (1) and developmental and not-for-profit institution MFI (2) both scored 7 points out of 9 while the private and for profit institution, MFI (3) scored 6 points out of 9 on social responsibility towards employees.

This social responsibility towards clients sub-dimension evaluates six principles of consumer protection widely accepted in the microfinance sector: prevention of over-indebtedness, cost transparency, collection practices, employee conduct, grievance procedures, and client confidentiality. It asks how MFIs prevent over-indebtedness in clients. The Client Protection Principles are the universally agreed minimum protection microfinance clients should expect from providers. Consensus among all microfinance stakeholders emerged that providers of financial services to low-income clients should adhere to the six core principles as outlined below:

1. **Avoidance of over-Indebtedness**: Providers will take reasonable steps to ensure that borrowers have demonstrated an adequate ability to repay and loans will not put borrowers at significant risk of over-indebtedness. Similarly, providers will take adequate care to ensure all products and services to the low-income clients are appropriate.

2. **Transparent pricing**: The pricing, terms, and conditions of financial products (including interest charges, insurance premiums, all fees, etc.) will be transparent and adequately disclosed in a form understandable to clients.

3. **Appropriate collections practices**: Loan providers must commit to avoid abusive or coercive debt collection practices.

4. **Ethical staff behaviour**: Staff of financial service providers will comply with high ethical standards in their interaction with microfinance clients and such providers will ensure that adequate safeguards are in place to detect and correct corruption or mistreatment of clients.

5. **Mechanisms for redress of grievances**: Providers will have in place timely and responsive mechanisms for complaints and problem resolution for their clients.
6. **Privacy of client data**: The privacy of individual client data will be respected, and such data cannot be used for other purposes without the express permission of the client.

The study established that all three MFI types in the sample took considerable heed to adhering to client protection principle 1, 3, and 6 above, which are (Avoiding over-indebtedness, Credit conditions and collection practices and Client confidentiality). The best performing of the MFI types on these criteria is the private and for profit institution MFI (3) which score 5 points against 4 points for bank related institution-MFI (1) and 3 points for developmental and not-for-profit institution MFI (2) as shown on Table 7 . The developmental and not-for-profit institution MFI (2) scores zero points the remaining criteria, 2, 4 and 5 above (Cost transparency, Code of conduct and Grievance procedures). Bank related institution MFI (1) and private and for profit institution MFI (3) score one point each on each of those criteria (Table 7).

Overall, private and for profit institutions- MFI (3) scored 8 out 9 points, bank related institution MFI (1) scored 7 out of 9 points while developmental and not-for-profit institution MFI (2) scored only 3 points out of 9 on social responsibility towards clients sub-dimension.

The last sub-dimension asked about the MFI's social responsibility towards the community and the environment. This sub-dimension explores the actions of the MFI in terms of local economic, social, and cultural development as well as

environmental protection. It asks whether the MFI verify that its actions reflect local culture and values. This may involve socio-anthropological studies, discussions with local authorities or key resource persons; working with loan officers who can speak the local language and know the local culture; active participation in the community. Four criteria areas used includes, what the MFI does in response to social responsibilities to the community, in response to local social and economic development needs, in response to environment policy in relation to both financed and MFI's own activities.

The environmental policy on financed activities relates to MFI's policy on funding activities that have a harmful impact on the environment such as riverbank farming. Only bank related institution MFI (1) had specific policies guiding both MFI activities and clients in relation to good environmental practice. The developmental and not-for-profit institution MFI (2) did not have the financed activities but had a policy for its own activities. The private and for profit institutions- MFI (3) did not have an environmental policy to guide funded activities and neither did it have the MFI's own activities environmental policy or evidence for the remaining criteria. Private and for profit institution MFI (3) therefore scored zero points on all four criterion.

The bank related institution MFI (1) was very strong in social responsibilities to the community and local social and economic developments while the developmental and not-for-profit institution MFI (2) demonstrated reasonable commitment to both criteria. Overall, bank related institution MFI (1) scored 7 points out of 7, developmental and not-for-profit institution MFI (2) scored 3 out of 7 and private and for profit institution MFI (3) scored zero points out of 7 in social responsibility dimension. Consistent, with the findings of Bédécarrats, et al., (2010), bank related institution- MFI (1) in the study sample scored highest in social responsibility

dimension.Figure 7 compares the performance of the three MFI types in the study sample on social responsibility against regional average scores as represented by the Blue triangle for Asia and the Brown triangle for Africa.

Figure 7: Social responsibility SPI score comparison triangle

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

The yellow outside triangle represents the maximum possible score at 100% on each of the three sub-dimensions; that is social responsibility towards clients,social responsibility towards the community and the environment and social responsibility towards staff. The bank related institution- MFI (1) triangle (green) is by far the biggest of them all including the Asian and African triangles as shown on Figure 7 . Also as illustrated on the bar graph (Figure 7) the bank related institution MFI (1) scored very high on each of the three dimensions. Therefore, suggesting that this type of the bank related institutions in Zimbabwe may provide well-balanced socially responsible services far beyond regional average benchmarks.

Figure 7: Social responsibility SPI score comparison graph

Source: Study results from CERISE SPI Tool computation, (2014); Bédécarrats, et al., (2010); Bédécarrats, et al., (2011).

However, evidence shows that these types of MFIs place less priority on social responsibility towards clients although still significantly very responsive when compared to private and for profit and developmental and not-for-profit institutions, triangles light blue and purple respectively.

The developmental and not-for-profit institution MFI (2) provides balanced social responsible services when considering the three sub-dimensions of social responsibility towards, staff, clients and community and environment.

The study evidence shows that this MFI type priorities social responsibility towards staff and environment over clients as shown on Figure 7 above and the purple triangle on Figure 7 . On the contrary, private and for profit institutions demonstrated social responsibility sensitivity only towards clients and staff and did not have anything aimed at the environment and community as shown by the light blue triangle on Figure 7 and the bar chart (Figure 7).

Summary

I summary, this chapter presented the results of the special performance assessment for three sample MFI. The SPI analysis helped to test the thesis hypotheses which asserts that the post 2009 MFIs are protectionist in nature to avoid risk exposure which also leads to very little focus on social performance resulting in limited poverty alleviation targeting and social impact. The quantitative data on SPI score results for all three sample MFIs confirms the study hypothesis. All social performance dimensions; 1) outreach to the poor and excluded; 2) adaptation of products and services to target clients; 3) improvement of the economic and social situation of clients and their families; and 4) social responsibility show score results of less than half of 25 points required for each dimension. According to Bédécarrats, et al., (2010), because of the comprehesiveness of the CERISE SPI tool, the SPI score of less than 49% for an MFI provides sufficient grounds to suggest that the MFI is barely pursuing social performance.

Therefore, the results of the quantitative data analysis on MFI sample shows that

post 2009 MFIs in Zimbabwe are commercially driven and less focused on social performance most likely reflection of a protectionist nature inherited as a coping strategy from crisis situation leading up to the sector's revamp discussed earlier. Further results from quantitative data collected through the MFI client survey is presented in the next chapter to further test the thesis hypothesis on the MFI client poverty coping strategies and evidence of limited special performance from client perspectives. The MFI client survey quantitative analysis result helps triangulate the CERISE SPI tool analysis results on MFI social performance with evidence of client experiences.

8 RESULTS: MICROFINANCE SERVICES IN CRISIS ENVIRONMENT AND COPING STRATEGIES - A QUANTITATIVE ANALYSIS

Overview

In this Chapter we re-visit the research aims, objectives and questions before testing the hypothesis as earlier presented on chapter 7 above. The study aims to establish the impact of prolonged political and economic crisis environment on the microfinance sector in Zimbabwe. The specific research objectives are: (1) to explore and establish the current state of the microfinance sector in Zimbabwe, (2) to establish how the economic and political crisis of 2000 to 2008 affected the microfinance sector's social performance and (3) to establish the coping strategies adapted by the MFIs and their target clientele during and after the economic crisis in Zimbabwe. Three key questions guided this study and these are; (1) what is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?, (2) to what extent did the economic and political challenges impacted on microfinance social performance in Zimbabwe and, (3) what strategies do MFIs and their target clientele employ in order to cope with the crisis situations of both pre and post 2009 microfinance revamp?.

The thesis hypothesis presented on page 230 section 5.1.1 states that, "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in

nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services".

This chapter present results from the MFI client survey quantitative data analysis to further test the thesis hypothesis using MFI client experience of MFI services and establish poverty coping strategies they applied during crisis situations. The chapter also presents results on social performances dimensions discussed in chapter 7 from client perspectives to triangulate the CERISE SPI tool analysis results.

The data was collected using survey questionnaire where 60 respondents participated in the interviews to capture both quantitative and qualitative responses through both open and closed questions. The quantitative responses were analysed using the SPSS version 21 while the qualitative ones were analysed with the help of Nvivo 10 software. This section of the thesis presents the findings from the SPSS statistical analysis. The study used descriptive statistics due to the nature of the questions, which required exploration, and description of the MFI conduct and services in relation to questions asked. As illustrated on Table 8 below, the study respondents' gender split was 62% female and 38% male representing 37 female and 23 males respectively.

Table 8: Number of study respondents by gender

MFI Client survey study sample			
Gender of Respondent		**Frequency**	**Valid Percent**
	Male	23	38
	Female	37	62
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Traditionally, microfinance clients are poor and low-income people that do not have access to other formal financial institutions. They are mostly often self-employed, household-based entrepreneurs. Types of microenterprises range from small retail shops, street vending, artisanal manufacture, and service provision. In rural areas, micro-entrepreneurs often have small income-generating activities such as food processing and trade; some are farmers.

Data on the poverty status of clients is often limited, but tends to suggest that most microfinance clients fall near the poverty line, both above and below. This study survey on microfinance clients comprised randomly selected interviews in public places popular with low-income poor individuals. Places visited included Zimbabwe's busiest market place Mbare Musika and several markets in high-density suburbs of Harare, Chitungwiza, and Masvingo. Table 8 below shows the study sample by nature of respondent's involvement in microfinance services; that is, consumer borrower, business or enterprise borrower and non- borrowers study respondents.

The nature of MFI clients in Zimbabwe and their various sources of income

The borrowers (business & consumer) were those respondents who took out loans from MFIs within three years prior to the study, this constituted 58% of the total sample (Table 8). The respondents who received MFI loans were further categorised into two groups by type of loan borrowed. The first group constitute loans offered by MFIs for consumption purposes. Results show that these loans were based on employment income and had a very short repayment period ranging from one to three months in most cases.

Table 8: Survey respondent type based on nature of relationship with MFIs

Type of respondents by nature of relationship with MFIs			
Respondent's nature of relationship with MFI		**Frequency**	**Percent**
	Consumer borrower	13	22
	Business borrower	22	37
	Non-Borrower	25	42
	Total	60	100

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The interest rates were quite high but the loan process was fairly straightforward and easy as long as evidence of salary was provided and a credible repayment method agreed for payments to be collected directly from employer. Twenty two percent of all respondents and almost half of respondents who had recently borrowed from MFIs said they took out a consumer loan (Table 8).

As shown on Table 8 , 37% of respondents took out business loans while 42% respondents said they did not receive any loan from MFIs at all. The non-borrowers were all mostly small enterprise owners running various income generating activities and said for one reason or another they could not get enterprise loans or could not qualify for consumer loans. The table show a huge unmet demand for enterprise loans in Zimbabwe. However, as shown in Table 8 , it is interesting to note that a significant proportion of MFI clients took out consumer loans.

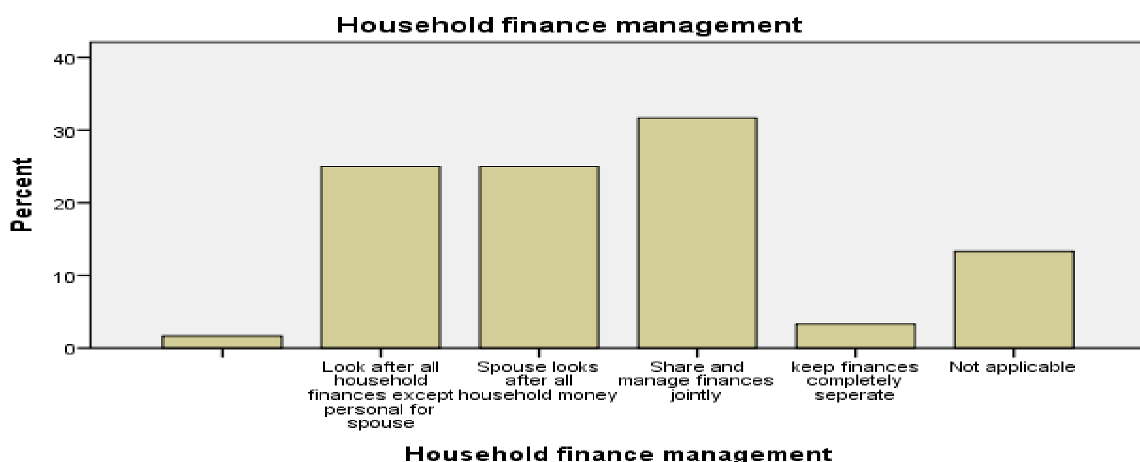
An interesting question is why consumption loans are on the rise at a time when the national economy is struggling and productive loans such as enterprise loans known

to help increase income generation among poor individuals are becoming hard for the target group to access.

Further questions include whether these consumption loans were indeed meant for consumption or borrowers took them simply because they are the only available type of borrowing and used them for business purposes instead, as is usually the case in circumstances where client needs are not at the centre of MFI product developments.

Most people in Zimbabwe had very negative experiences with the banks in 2008/2009 when the country changed the local currency to multi-foreign currencies causing all bank accounts to be frozen and people losing everything they had deposited in those banks. There was speculation of Government having promised some form of compensation at some point in future but no official undertaking evident. As a result, the Zimbabwean people remained very sceptic of the banking system.

Figure 8: How respondents manage their household finances



Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Most study respondents said they preferred to save their money informally at home or with friends and relatives. As illustrated on the Figure 8 , nearly half of the respondents had no active bank accounts. Figure 8 shows the level of financial decision-making powers among respondents in the way they manage their household finances.

Over 95% of the respondents were either married or living with a partner. The average household size was five people including the man and woman of the house. The respondents' children were mostly of school going age or younger. The common practice among the respondents is that the female spouse looks after all the household finances. All the male respondents said that their spouse looks after all the household finances while 25% of the female respondents said they manage all the household finances and over 30% said they jointly manage finances with their spouses.

Traditionally in Zimbabwe, the man goes to look for work and brings money home and the woman manages the money to meet all household necessities. This practice is still common in most poor households but in more affluent areas, both man and woman are engaged in employment activities and both bring money home for the family.

In such families, sharing and managing finances jointly is increasingly becoming the most preferred alternative as shown of Figure 8 . The evidence above shows that MFIs in Zimbabwe are targeting the more affluent section of the society. Where people cannot rely on formal financial institutions for financial services and products,

they create their own informal security systems. Social capital as discussed earlier becomes increasingly important for managing short-term financial distress.

The respondents' ways of income generation were spread across six broad categories, that is, paid employment 22%, flea market business activity 22%, food, and drink business activities 7%, manufacturing 12%, small shops 12%, and petty trading (Vendor) Table 8 . The most common income generating activities for MFI clients in this study was petty trading on the open streets or designated vegetable or clothes markets. More than 50% of the study respondents were involved in some form of petty trading.

Table 8: Respondents' income generating activities

Different ways respondents raised household incomes			
Income generating activity		**Frequency**	**Percent**
	Employee/Other	13	22
	Flea Market	13	22
	Food and drink	4	7
	Manufacturing	7	12
	Shop	7	12
	Vendor/Trader	16	27
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Only 46% of the study respondents running income-generating activities accessed loans from MFIs compared to 100% of study respondents on paid employment who accessed loans from MFIs.

Table 8: Most worrying spending for households in the study sample

Household spending respondents worry about most			
Type of spending		**Frequency**	**Valid Percent**
	Food and clothes	9	15
	Household bills	25	42
	Children's education	19	32
	Loan repayment	5	8
	Other (Birthdays etc.)	2	3
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

This result shows that it was easier for respondents in paid employment to get a loan from an MFI than those running a small business enterprise. Most MFI clients said they worried most about their spending on children’s education and household bills. As shown on Table 8 above, a significant proportion, 42% of the respondents in the survey said their top spending worry was household bills mainly rent, electricity, and council rates. Spending on children’s education contributed to 32% of spending worries for MFI clients in this study. In Zimbabwe, the cost of living calculation is quarterly to mark the national poverty datum line and provide a rough guide of how much a family of five needs to live on monthly. The poverty datum line (PDL) represents the cost of a given standard of living attained if a person is not too poor according to the Government of Zimbabwe’s poverty thresholds.

The food poverty datum line (FDP) represents the minimum consumption expenditure necessary to ensure that each household member can (if all

expenditures were devoted to food) consume a minimum food basket representing 2,100 calories (ZimStat, 2013).

The national food poverty line (FPL) at the time of fieldwork in 2013 stood at US$31.00 per person per month while the figure for a household of five stood at US$157.00.The total consumption poverty line (TCPL) for Zimbabwe stood at US$505 for an average of five in December 2013. This was the minimum monthly figure the Government believed families needed to purchase both food and non-food items if they were above the poverty line.

As illustrated in the respondent's income table below (Table 8), the study sampled four classes of respondents by poverty levels. The first class of respondents sampled was the poorest of the poor, that is, families earning less than US$3,000 per annum and representing 8% of the total sample.

Table 8: Respondents' total annual income

Annual household income per class of survey respondents			
Annual Household Income		**Frequency**	**Valid Percent**
	Under $3000	5	8
	$3001-$5999	21	35
	$6000-$9999	8	13
	$10000-$14999	9	15
	$15000-$24999	5	8
	$25000 or more	2	3
	Refused to disclose	10	17
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The second class was a sample of the poor, composed of families whose total annual household income ranged between US$ 3,001 and US$ 5,999.

This class of respondents represented 35% of the total study sample. These two classes make up 43% of the study respondents who had an annual average household income below the national poverty line and therefore officially poor by national standards. The third class of respondents was a sample of the near poor composed of families with annual household incomes ranging between US$6,000 and US$9,999 representing 13% of the study sample.

The forth class was a sample of the high-income households representing 43% of the total study sample. This class had a further split as well into four groups by level of income. Respondents from families with household incomes between US$10,000 and US$14,999 representing 15% of the total study sample. Another group representing the high income constituted 8% of the total study sample with annual household incomes ranging between US$15,000 and US$24,999.

Table 8: How respondents were managing financially at the time of interviews

Taking everything into account, how respondents were coping financially			
Response		**Frequency**	**Valid Percent**
	Very well	5	8
	Quite well	12	20
	Get by alright	25	42
	Do not manage well	3	5
	Experiencing financial difficulties	13	22
	In deep financial trouble	2	3
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The high-income individuals took part in the survey only if they had received a loan from an MFI while respondents who did not take any loan from MFIs participated only if they were from low-income poor households representing typical traditional MFI clients. Another group constituting 3% of the respondents had incomes of US$ 25,000 and more. Respondents with significantly high annual household incomes often refused to disclose their income and these represented 20% of the total study sample.

The Table 8 confirms the different respondent classes as discussed above with 28% of the study sample saying they were managing well financially taking everything into consideration. Of the 28%, 5% said they were managing very well. The rest were either just getting by all right, 42% or in financial difficulties ranging from 5% not managing well to 25% having some sort of financial problems.

The typical MFI loan services and interest charges

The Table 8 below shows where the study respondents received loans. Up to 43% of the study respondents received loans from Micro King, a subsidiary of Kingdom Bank, 23% received loans from Untu Finance, 23% took loans either from Collar Hedge, FMC, Micro Plan a subsidiary of FBC Bank, employer or bank while 11% took loans from unregistered money lenders.

Table 8: The sources of loan borrowing for respondents

The sources of loan borrowing for respondents			
Loan source		Frequency	Valid Percent
	Bank	1	3
	Collar Hedge (MFI)	1	3
	FMC	4	11
	Micro King (MFI)	15	43
	MicroPlan	2	6
	Other (moneylender)	1	3
	Unlicensed ML	1	3
	Untu (MFI)	8	23
	Work Loan	2	5
	Total	**35**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The loan amounts taken ranged from US$100 to US$2,500 with an average loan size of US$665 as indicated on Table 8 . More than half of the borrowers took out loans above US$500 and only 25% borrowing US$200 and below which is a typical loan size for the MFI target client or micro entrepreneur.

All respondents who had a loan said the assessed collateral security value pledged determined the loan amount. In order to obtain a loan the borrower pledges to the MFI concerned a valuable movable household asset such as a television or any such high value item as security for the loan. The MFI loan officer will then carry out a valuation assessment and fix the value believed to be what the item is likely to fetch in the open market. More than half of the borrowers said they received not more than a third of what was believed to be the value of the pledged item.

Table 8: Loan sizes borrowed by the study respondents

Sizes of loan amounts borrowed by survey respondents from various MFIs			
Loan Amount		Frequency	Percent
	$100	2	6
	$150	2	6
	$200	5	14
	$300	4	11
	$400	4	11
	$500	10	29
	$700	4	11
	$800	1	3
	$1,000	2	6
	$2,500	1	3
Total		**35**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

All the borrowers in the study said they did not have confidence in the assessment of their items and felt that in most cases they were significantly undervalued. In the event of the borrower failing to repay the loan, some MFIs sold the pledged items to recover their monies and borrowers lost out especially where an item was under-valued. Once an item of value in the household is lost in that manner, it is usually difficult to replace it leaving the individual worse off. Table 8 below shows the interest rates charged by various MFIs on their loans.

Table 8: Interest rate charged on different MFI loans

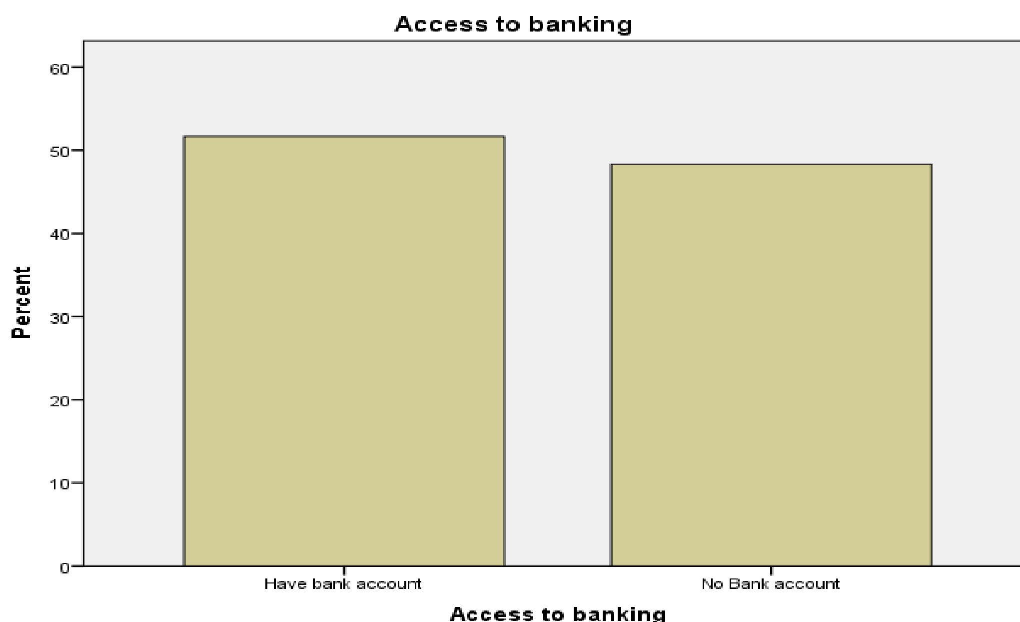
Percentage interest rate charged per borrowed MFI loan			
Annual percentage rate charged		Frequency	Percent
	100%	1	3
	144%	4	11
	180%	5	14
	240%	2	6
	60%	7	20
	72%	1	3
	84%	1	3
	90%	13	37
	Unknown	1	3
	Total	**35**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The average annual percentage rate (APR) for all the loans given in the study sample was 121% with most loans payable within 3 months. The minimum APR charged was 60% while the maximum was 240%. The results show that in the sample microfinance sector, MFIs provides very short term but expensive loans to an individual who has either collateral security or are in full time employment. This study asked respondents whether they had access to banking services as most poor people are excluded from the mainstream financial sector.

Typical MFI clients usually do not have a bank account firstly because they often cannot produce the required documentation such as evidence of regular income or proof of residence in form of a utility bill. In Zimbabwe, the majority of poor people live in rural areas or in rented accommodation making it difficult to have utility bills in their name. Secondly, the cost of running a bank account, which is often prohibitive. Banks in Zimbabwe charge for all transactions and most bank accounts are subject to a fixed monthly service charge. However, for salaried employees whose wages have to be paid direct in to a bank account, they have no choice but to open a bank account.

Figure 8: Respondents with Bank accounts at the time of interviewing



Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Nevertheless, even in those circumstances, people minimise the volume of transactions to reduce transaction costs by making a single lump sum withdrawal once the salary is paid.

Figure 8 Figure 8 shows study respondents with banking access through active bank accounts at the time of interviewing. Over 52% of the respondents said they had active bank accounts (Table 8). The Zimbabwean Government pushed through banking regulation requiring banks to supply a debit card for every bank account opened in order to promote easy access and thereby encouraging people to keep their money in banks and a wider usage of banking services.

Table 8: Total annual income: Access to banking Cross-tabulation

Total annual income: Access to banking Cross-tabulation				
Total annual income		Access to banking		Total
		Have bank account	No Bank account	
	Under $3,000	2	3	5
	$3,001-$5,999	9	12	21
	$6,000-$9,999	1	7	8
	$10,000-$14,999	7	2	9
	$15,000-$24,999	5	0	5
	$25,000 or more	1	1	2
	Not sure	6	4	10
Total		**31**	**29**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

However, the survey results in this study showed that 90% of the respondents with a bank account never used their debit cards while the remaining 10% rarely used it.

The respondents who never used their debit cards said they use their bank account for receiving wages from their employment and then take out the money all in one go which they prefer to do in the branch. Respondents cited two main reasons; the first is the cost of transaction and the second is lack of trust.

Financial vulnerability among the poor and MFI clients

The survey for this study asked respondents whether they had anyone, they would trust in case they were in trouble and needed help. As shown in Table 8 , 42% said they knew several people they would trust should they needed help while 47% said they had some people they trust will come to their aide in times of distress. Only 12% said they trusted no one.

Table 8: Social capital (Trusted family and friends)

The level of support from family and friends in times of financial difficulties			
Volume of trusted people		**Frequency**	**Percent**
	Several people I trust	25	42
	Very few people I trust	28	47
	No one I would trust	7	12
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Social capital has been the backbone of microfinance innovation in harnessing and using it in place of collateral security in order to reduce the risks of lending to the poor (Hulme & Mosley, 1997). Social capital translated into social solidarity for or against something, enabled the first microfinance programs to lend to the poor successfully using peer pressure to control loan repayments (Hulme David, 1996).

The survey results show that in this sample microfinance market is very rich in social capital. However, it would appear that, the MFIs have moved away from solidarity lending models. The average loan sizes and the targeting of salaried employees and those with collateral security can explain this. Friends and extended families in Zimbabwe play a very important role in social stability.

Their social circles can influence the lives of individuals greatly. There is strong evidence from the study results that social solidarity may still play a key role in Zimbabwean society and MFIs can if they choose to, harness this for improving their social performance. In addition, social capital is the poor individual's social security net as evidenced from the survey results shown in Table 8 below.

Table 8: How respondents would cope with an emergency requiring $100 in a hurry

Respondent's ability to cope with an emergency requiring $100			
Method of coping		**Frequency**	**Percent**
	Use savings	9	15
	Borrow from friends	40	67
	Borrow from family	9	15
	Would not cope	1	2
	Sell goods	1	2
	Total	**60**	**100**

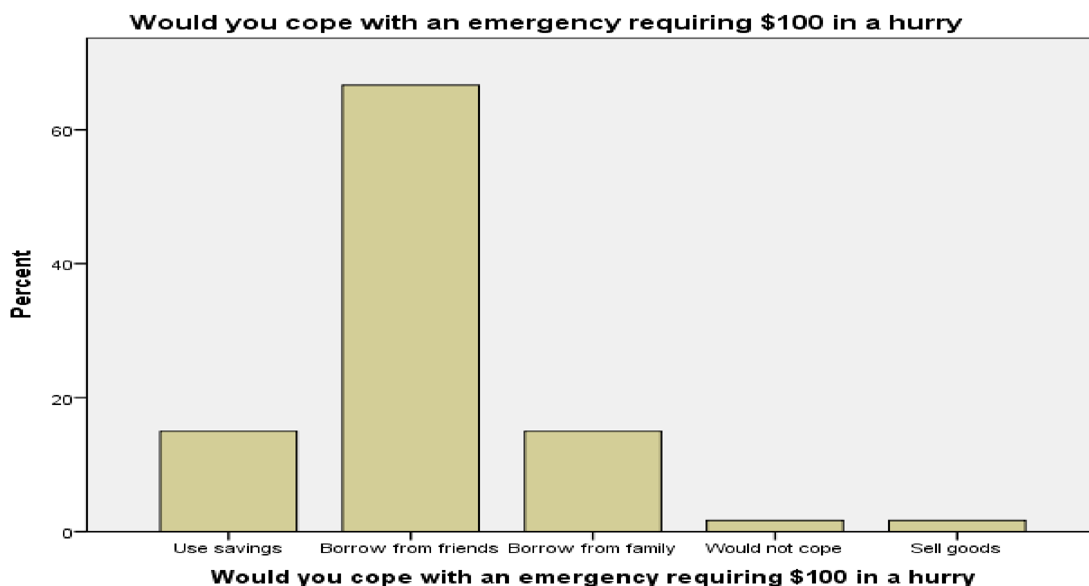
Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Respondents were asked how they would cope with an emergency that required US$ 100. Only 15% said they would use their informal savings. The majority, 67% were confident friends would come to their aid and lend them the required money.

Another 15% said they would appeal to family members for cash advances, which they will pay back later. A minority of just 2% said they would sell some of their household items while another 2% also said they simply would not cope. It is interesting to note that, none of the respondents thought of approaching a bank or an MFI to borrow a soft loan.

Contrary to the original inspiration of microfinance were the poor would dream of MFIs developing into their own bank to respond to their financial needs, this survey seems to suggest that in Zimbabwe microfinance is no longer viewed as such. The study results shows that informal lending among friends and family members is the main source of microfinance borrowing in Zimbabwe (Figure 8).

Figure 8: The main source of microfinance borrowing in Zimbabwe



Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Organic homogeneous groupings happen at work places where colleagues form informal credit associations and lend each other money for vital purchases on a rotational basis.

The principle of these groupings is trust and solidarity because of living or working in the same environment for long enough to know each other fairly well. Loan terms vary from one solidarity group to the next. Figure 8 shows that over 75% of the study respondents rely on friends and family for emergency borrowing as opposed to formal institutions such as MFIs.

When asked how they will cope with an emergency requiring US$1000, most respondents, 70% (Table 8). Only 5% of the respondents said they would use their informal savings. A small proportion of 12% said they would borrow from friends and family while 10% said they would approach a bank for a loan. Interestingly, 3% of the respondents said they would sell goods to cushion the financial storm.

Table 8: How respondents would cope with an emergency requiring $1000 in a hurry

Respondent's ability to cope with an emergency requiring $1000			
Method of coping		**Frequency**	**Percent**
	Use savings	3	5
	Borrow from friends	4	7
	Borrow from family	3	5
	Would not cope	42	70
	Sell goods	2	3
	Borrow from Bank	6	10
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

No respondent felt they could approach an MFI for a loan. It is worrying to note that MFIs do not feature in the MFI client target group's list of potential sources of funding.

The summary shows that most individuals within the MFI client target do not seem to believe that MFIs are there to serve their interests. All respondents in the study viewed MFIs as a money lending institution not necessarily seeking the betterment of their lives but simply doing business. There was no evidence of the respect and value usually placed on MFIs as promoters of poverty alleviation by their target client base.

Responses on reactions to a sudden windfall

The previous question was flipped over to allow respondents to comment on how their spending response would be if they had a sudden windfall of the same amounts.

Table 8: How respondents said will spend a windfall of $1000

Respondents' spending habits in times of plenty ($1000 windfall)			
How the windfall will be spent		**Frequency**	**Percent**
	None Response	2	3
	All on necessities (Food etcetera)	1	2
	Part on consumer goods	7	12
	Part on investment (assets, education etcetera)	22	37
	Save part	15	25
	Save all	6	10
	Invest all of it	7	12
	Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Table 8 below illustrates how respondents said would spend a windfall of US$1,000. An overwhelming majority of 85% respondents said they would invest or save either part or the whole amount. Only 14% respondents said they would spend it on food necessities or consumer goods.

The statistics suggest that MFI target clientele in Zimbabwe may be committed to improving their well-being income through entrepreneurial investments and that their poverty situation is not a result of misplaced financial priorities. This is finding is contrary to the MFIs' focus on consumption loans. The results show a disconnection between MFI loan offerings and client's needs. This may explain why the respondents did not consider approaching MFIs for loans in times of serious financial distress.

MFI loans in Zimbabwe not targeted at the low income clients or the poor

The study explored the question of poverty targeting by MFIs in Zimbabwe. The study analysed the value of loans received by the sample respondents collectively and used SPSS cross-tabulation to establish the loan distribution among the four respondent classes identified earlier. Table 8 below shows the number and value of loans received representing the first two study respondent classes, which is, the poorest of the poor and the poor as indicated by annual household incomes of up to US$9,999.

Out of a total loan value of US$ 17,500, only US$ 4,900 went to this portion of the study sample representing 28% of the total loans disbursed. Of this small proportion of loans made available to the poorer clients by MFIs in Zimbabwe, the study results shows that only 12% went to individuals and families living under the national poverty datum line.

Table 8: Loan amount: Total annual income Cross-tabulation –poorest and poor

Loan amount : Total annual income Cross-tabulation for the poorest of the poor and the poor				
Loan amount	**Total annual income**			
	Under $3,000	$3,001-$5,999	$6,000-$9,999	Total Loan Value
$100	0	1	0	$100
$150	0	0	0	$0
$200	1	0	1	$400
$300	2	0	0	$600
$400	0	2	0	$800
$500	0	1	2	$1,500
$700	0	1	0	$700
$800	0	0	1	$800
$1,000	0	0	0	$0
$2,500	0	0	0	$0
Total	**3**	**5**	**4**	**$4,900**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

In loan value terms, only US$ 2,100 out of US$17,500 made available for microfinance loans in the sample respondents went to poor clients. The results show no evidence of poverty targeting by either income or geographical location. Table 8 presents the cross tabulation results of loan amounts against annual income for the last two sample respondent classes composed of near poor and high-income individuals. MFIs disbursed more loans in both numbers and value to the near poor and high income individuals than the poorest and the poor sample class surveyed.

Table 8: Loan amount: Total annual income Cross-tabulation-near poor/ high income

Loan amount * Total annual income Cross-tabulation for the near poor and high income households					
Loan amounts	**Total annual income**				Total Loan Value
	$10,000-$14,999	$15,000-$24,999	$25,000 or more	Not sure	
$100	1	0	0	0	$200
$150	0	0	0	2	$300
$200	0	1	0	2	$600
$300	1	0	0	1	$600
$400	0	1	0	1	$800
$500	5	1	0	1	$3,500
$700	1	0	1	1	$2,100
$800	0	0	0	0	$0
$1,000	0	1	0	1	$2,000
$2,500	0	1	0	0	$2,500
Totals	**8**	**5**	**1**	**9**	**$12,600**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

MFIs disbursed US$12,600 to the near poor and high-income class out of the total amount of US$17,500 disbursed representing 72% of the whole fund. Some loans taken out included amounts as little as US$100. This further demonstrates MFIs' bias towards the less risky affluent clientele at the expense of the poor borrowers.

When comparing the volume of loans with the level of annual income, the study shows that the more affluent clients (those with annual income of US$6,000 and

above) received twice as many loans than clients with annual incomes of US$5,999 and less. As shown in Table 8 below, only three consumer loans went to individuals with annual incomes under US$5,999 compared to 8 loans borrowed by individuals with annual incomes of US$6,000 and above.

Table 8: Total annual income and Respondent Type Cross-tabulation

Total annual income: Respondent Type Cross-tabulation				
Total annual income	Respondent Type			Total
	Consumer borrower	Business borrower	Non-Borrower	
Under $3,000	0	3	2	5
$3,001-$5,999	3	2	16	21
$6,000-$9,999	0	4	4	8
$10,000-$14,999	3	5	1	9
$15,000-$24,999	4	1	0	5
$25,000 or more	1	0	1	2
not sure	2	7	1	10
Total	**13**	**22**	**25**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Business borrowing figures confirm a similar trend where only five individuals with annual incomes under US$6,000 received business loans from MFIs compared to seventeen individuals with annual incomes of US$6,000 and above who received loans from MFIs in the same period of study (Table 8).

In order to assess the validity of survey responses in relation to poverty levels, a cross tabulation of access to banking and income confirmed consistence in the respondents' responses.

In several developing countries such as Zimbabwe, access to banking services has a positive correlation with the level of income an individual has. The more income an individual earns the higher the chances of that individual using one or more of the formal banking services and the reverse is true. As shown in Table 8 below, nearly two thirds of the individuals with annual incomes of less than US$10,000 did not have bank accounts compared to only less 20% of the individuals with annual incomes of US$10,000 and above who did not have bank accounts.

How MFI clients and potential clients in the survey sample saved their money

Thirty-one respondents out of 60, over 50%, had bank accounts according to Table 8 above, Table 8 below shows that only 35%, that is 11 out of 31 were using banks for their savings needs. Over 65% of the respondents did not use banks for savings. This confirms earlier assertions that banking services are not adapted to the specific needs of the poor clientele although other reasons for people not saving with banks could be down to issues of trust and confidence in the country's whole banking sector.

Table 8: Respondents using banks for savings

Number of respondents using their bank accounts for savings		
Saving with Banks	**Frequency**	**Percent**
Yes	11	35
No	20	65
Total	**31**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The survey asked about the respondents' alternative savings methods. Table 8 below shows a cross tabulation of respondents' participation in Credit Unions as a way of saving by gender of respondents.

Table 8: Credit Unions as a savings method for MFI clients and potential clients

Credit Union saving method: Respondent's gender Cross-tabulation			
Credit Union saving method	Respondent's gender		Total
	Male	Female	
Yes	6	5	11
No	17	32	49
Total	**23**	**37**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The figures indicate that some respondents utilised services of Credit Unions for purposes of saving their money as an alternative to using formal banks. One in five (1:5) respondents said they had active Credit Union membership with a positive savings balance at the end of 2013. Interestingly, more man than women participated in Credit Unions although the overall number of male respondents in the sample was less than the number of female respondents.

The majority of respondents participated in informal savings schemes such as rotational savings clubs (Mukando). Table 8 below shows that 48 out 60 respondents were active members of *mukando* schemes. Of the 48 respondents, 32 were female representing 67% of members of *mukando* savings club. Only a very small proportion of respondents (11 out of 60) were not using the *mukando* schemes for savings. The *Mukando* is the most common and popular scheme based on very strong social capital among peers.

Table 8: Respondents using ROSCA or Mukando savings scheme

Mukando: Respondent's gender Cross-tabulation				
Mukando		Respondent's gender		Total
		Male	Female	
	No response	1	0	1
	Yes	16	32	48
	No	6	5	11
Total		**23**	**37**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Other forms of informal savings practised by respondents in the study include putting large sums under the pillow or in a jar etc. The study asked respondents whether they considered this as a preferred form of saving than the banks and a third of the respondents; one in three admitted they used one of these informal ways of saving as shown in Table 8 . The results also show that female respondents mostly practice this form of saving although some male respondents also admitted the practice of hiding money in the house for future use.

Table 8: Putting money in a jar or under a pillow as a form of savings

Putting money in a jar etc.: Respondent's gender Cross-tabulation			
Putting money in a jar etcetera	Respondent's gender		Total
	Male	Female	
No response	0	1	1
Yes	6	14	20
No	17	22	39
Total	**23**	**37**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

In some cases, a trusted relative or friend is asked to keep a sum of money as a form of saving where access to formal banking facilities is limited or lacking sufficient adaptation to specific client needs. Table 8 presents responses from study respondents on their use of friends and or family members as a form of saving money for future use. Only a very small number of respondents admitted having used friends or a member of their families as a form of savings comprising four respondents, three female and one male (Table 8).

It is interesting to note that only one female responded used this in comparison to three male respondents. For generations in Zimbabwe, it was a common tradition for man to bring money home to the wife either from formal or informal employment. The woman would keep this money safe and bring it out in small amounts as required for use under the instruction of her husband.

Table 8: Savings through friends and family members

Asking a trusted relative or friend to keep money for you * Respondent's gender Cross-tabulation			
Asking a trusted relative or friend to keep money for you	Respondent's gender		Total
	Male	Female	
Yes	3	1	4
No	20	36	56
Total	**23**	**37**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

One can argue that this worked more like saving as far as the man was concerned as opposed to giving the money to the spouse to manage household expenditure, as she would see fit. This might explain why fewer women than men who used this form of saving as it is likely those male respondents in the survey gave money to their spouses for safekeeping as a way of saving for future expenditure. Some individuals among the respondents chose to lend money to friends and family members as a form of saving.

Table 8 below shows that 13 out of 60 respondents in the study admitted lending money to friends or family as an alternative way of saving. The results show no significant differences between male and female respondents on this form of saving although proportionally more men admitted using the method than women did.

Table 8 : Lending money as a form of saving

Lending money to friends or family as a form of saving * Respondent's gender Cross-tabulation			
Lending money to friends or family as a form of saving	Respondent's gender		Total
	Male	Female	
No response	1	2	3
Yes	7	6	13
No	15	29	44
Total	**23**	**37**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Table 8 presents the total value of savings each respondent said they had in their combined savings accounts both informal and formal. As illustrated on the Table 8 , the value of savings ranged from US$ 10 to US$ 2,000. All respondents had a combined value of UD$ 20, 097 in savings and an average of US$ 447 for the 45 savers.

Table 8: Respondents' value of savings by gender

Total savings * Respondent's gender Cross-tabulation			
Total savings	Respondent's gender		Total
	Male	Female	
$0	2	6	8
$10	0	1	1
$30	0	1	1
$50	1	2	3
$100	3	1	4
$120	1	0	1
$127	1	0	1
$140	1	0	1
$200	1	6	7
$220	0	1	1
$300	1	0	1
$400	3	0	3
$500	1	3	4
$600	3	4	7
$800	0	6	6
$900	0	1	1
$1,000	0	1	1
$1,100	0	1	1
$2,000	0	1	1
Total	**18**	**35**	**53**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Nearly half of the total value of savings, (US$ 9,597) 48% of the total value of savings never reached the formal financial system (Table 8). Only US$ 10,500 (52%) of the total value of savings reported by respondents was saved with formal banks.

Table 8: Total value of bank savings

Total savings * Bank Saving method Cross-tabulation					
Total savings	Bank Saving method				Savings Value
	No response	Yes	No	Total	
$0 - $200	3	5	16	24	$900
$220-$600	2	6	8	16	$3,200
$800-$2,000	0	7	3	10	$6,400
Total	**5**	**22**	**26**	**53**	**$10,500**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The survey also looked at how the respondents managed their household finances. As illustrated in Table 8 , 50% of respondents said their spouse managed all the household finances while 32% said they manage household finances jointly with their spouses. Where one spouse managed all finances, 67% of the households had all finances managed by a female spouse while the remaining 33% of households had a male spouse managing all finances.

Table 8: How Sample MFI borrowers repaid their loans

Loan repayment methods for sampled MFI clients in Zimbabwe

Method of loan repayment	Frequency	Valid Percent
Non –Borrower	35	58
Bank deposit	19	32
Salary deduction	2	3
EcoCash	1	2
SSB	3	5
Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

This shows that the majority of the respondents in the sample live in households where female spouses manage all household finances. Therefore, this may support the rationale for some MFIs target to women borrowers. As indicated on below, 43% of male respondents said they manage all household finances in comparison to 54% female respondents who admitted managing all household finances. Therefore, among the respondents, very few families prefer to manage household finances separately.

The most preferred method of keeping household finances is through sole responsibility by either male or female spouse with most man preferring their spouses to look after all household finances. The study results suggests that the level of income has little effect on how families choose to look after their house hold finances as varied preferences of household finance management was evidenced across different income levels.

Table 8: How respondents manage their household finances by gender

Household finance management * Respondent's gender Cross-tabulation			
Household finance management	Respondent's gender		Total
	Male	Female	
No response	1	0	1
Look after all household finances except personal for spouse	3	12	15
Spouse looks after all household money	8	7	15
Share and manage finances jointly	9	10	19
Keep finances completely separate	1	1	2
Not applicable	1	7	8
Total	**23**	**37**	**60**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

The study further explored whether MFI activities resulted in noticeable client economic benefits. Where there is economic benefit, the client is expected to consider themselves economically better off because of their receiving services from a microfinance institution. Study respondents were asked to comment on their current economic situation in comparison to the previous two years and whether or not they were happy with services they received from MFIs. As shown on Table 8 , only 5% reported a significant increase in their household income amounting more than 50% between 2011 and 2013, 63% reported up to 20% increase while 13% reported no change, another 15% said their income was a worse than the previous two years.

Table 8: Study respondents' financial situation compared to two years prior

Changes in the respondents' financial situation over the years		
Change in financial situation	**Frequency**	**Valid Percent**
None response	2	3
Significantly better off (more than 50%)	3	5
A bit better off (up to 20% increase)	38	63
No change	8	13
A bit worse off (down by up to 20%)	8	13
Far worse off (more than 20% decrease)	1	2
Total	**60**	**100**

Source: Study SPSS descriptive and cross tabulation statistical analysis, (2014)

Of the 63% who reported an increase in household income, a further question was asked as to what was responsible for this increase. The respondents believed this was a result of increased economic activity in the country following the multi-currency economic regime introduced in 2009 by the inclusive Government. Probed further as to whether borrowing opportunities from MFIs played a part, those who received MFI loans said the loan terms were too short to be effective and the charges almost wiped off all the profits and in most cases they incurred losses (Table 9 and Table 9). Some borrowers reported having lost their goods pledged against the loans after having defaulted on their loans as discussed earlier. Some respondents admitted having to borrow from multiple sources in order to service the existing loans.

The study further suggests that the MFI services sampled in Zimbabwe have very limited economic benefits to the clients mainly due to short repayment period, high interest charges, and inappropriate loan products short of client centred adaptations (Table 9).

Summary

In summary, we remind ourselves of the research aims, objectives, questions and the hypothesis tested by the MFI client survey quantitative data analysis. As outlined at the beginning if this chapter, the study aims to establish the impact of prolonged political and economic crisis environment on the microfinance sector in Zimbabwe. The specific research objectives are: (1) to explore and establish the current state of the microfinance sector in Zimbabwe, (2) to establish how the economic and political crisis of 2000 to 2008 affected the microfinance sector's social performance and (3) to establish the coping strategies adapted by the MFIs and their target clientele during and after the economic crisis in Zimbabwe.

Three key questions guided this study and these include; (1) what is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?, (2) to what extent did the economic and political challenges impacted on microfinance social performance in Zimbabwe and, (3) what strategies do MFIs and their target clientele employ in order to cope with the crisis situations of both pre and post 2009 microfinance revamp?. The first question was addressed in chapter 6 which explored results on the state of microfinance sector in Zimbabwe while chapter 7 addressed the second question with a presentation of the sample MFI social performance results from CERISE SPI quantitative data analysis.

Chapter 8 has just addressed the third question by presenting results of the MFI client survey quantitative data analysis showing limited social performance by MFIs from client perspective thereby substantiating the CERISE SPI quantitative data analysis results presented in chapter 7. This chapter also presented various poverty coping strategies adopted my MFI clients in response to challenges of the crisis situations imposed on their lives by the harsh economic situation of both the pre and post 2009 microfinance era. The coping strategies which include increased reliance on social capital and self-help informal savings and borrowing arrangements confirms the thesis hypothesis as stated on page 230 section 5.1.1.

The hypothesis states that, "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services.” The following chapter, chapter 9 presents results from MFI client survey qualitative data analysis providing qualitative evidence for MFI social performance as experiences by MFI clients. The chapter triangulates results presented in both chapter 7 and chapter 8 and help further test the thesis hypothesis.

9 RESULTS: MICROFINANCE SERVICES IN CRISIS ENVIRONMENT AND COPING STRATEGIES - A QUALITATIVE ANALYSIS

OVERVIEW

This chapter present results from the MFI client survey qualitative data analysis to triangulate the sample MFI SPI quantitative data analysis and the MFI client survey quantitative data analysis results presented in chapters 7 and 8 respectively, thereby helping to further test the thesis hypothesis.

The MFI client survey qualitative section of the questionnaire explored in more depth the wider issues about the poor's involvement in MFI activities and what impact this may have had on those individuals' lives. Specific insights were drawn on how MFI loans impacted on borrowers in Zimbabwe, how the poor individuals prepare for unforeseen future emergence financial needs through various methods of informal savings. The qualitative survey also asked key questions about whether MFI clients and or the poor perceived themselves as having the ability to improve their own standards of living without MFI financial services such as loans in particular. As will evidenced from the results, a wide range of feedback on MFI services from the clients and potential clients was collected highlighting key insights into what types of services clients want or need but could not get from MFIs at the time of the interviews.

THE IMPACT OF MFI LOANS ON BORROWERS (SELF-REPORTING)

The question of what impact did the MFI loans had on the 35 borrowers brought both positive and negative responses as illustrated on the summarised sample responses on Table 9 below. Because of access to the MFI loans, respondents revealed that they were able to take care of some of the incidentals that had arisen. A number of respondents said they were able to pay education fees for their children while others said they were able to complete part of their building projects.

Other respondents said their standard of living had significantly improved because of the loans. While others said, they managed to acquire some assets, such as a car or a residential stand. Some respondents said that following the MFI loans, they were able to improve their business ventures, with some using it as start-up capital for some business proposal they had always wanted to venture into, such as buying and selling.

However, the majority of the respondents lamented that their standard of living actually reduced since taking out MFI loans (Table 9). The high interest charges left some far much worse than they were prior to taking out the loans. Whatever extra cash they were able to raise was now going towards the agreed loan repayments. Some actually indicated the pressure of loan repayments affected the household financial priorities for basic upkeep. One respondent said,

> "*My standard of living was reduced since loans attract interest, I will end up my property attached, when I default to pay my debt."*

Table 9: The impact of MFI loans on borrowers

In general, do you feel the MFI loan has made you more confident in managing your money? (Sample study responses)	
Responses for MFI positive impact	**Responses for negative impact on borrowers**
"Yes, managed to pay fees for children." *"Yes, I managed to complete part of my building project."* *"Standard of living raised"* *"Ability to save money strengthened."* *"My standard of living raised"* *"I am now able to buy and sell goods on my own."* *"Managed to acquire an asset and this improve my status."* *"Managed to pay fees for my child."* *"Standard of living improved, I am a proud owner of a Stand."* *"I am able to employ other people in my business"*	*"Ability to save money decreased a bit due to the loan repayment amount."* *"The loan did not make a difference in my life. …"* *"Standard of living did not improve."* *"Still I have few friends."* *"My standard of living was reduced since loans attract interest, I will end up my property attached, when I default to pay my debt."* *"Due to economic hardships my standard of living reduced.* *"Standard of living reduced."* *"Losing of personal property due to attached money lenders."* *"Community relationships worsened."* *"I am not able to manage money."* *"Slight improvement in standard of living."* *"Less disposable income."* *"Financially it did not, but in terms of education it has helped a lot."* *"Yes negative difference, managed to buy stock for my business but after paying off loan I found out that I am actually worse off."* *"I have discovered that I was actually better off businesswise before taking a loan so this time around I will not borrow, I will just work hard and use proceeds from my business."*

Source: Nvivo 10 based qualitative data analysis results, (2014)

While some respondents said, their standard of living remained unchanged after accessing the loans others indicated that their standard of living had improved slightly. Interestingly, some respondents did not attribute the decline of their standard

of living to the MFI loans but to the general economic hardships in the country (Table 9 ; Table 9). Owing to the loan repayments, some respondents indicated that their ability to save money had actually decreased a bit, as they had to adhere to the agreed payment terms, which left them with nothing to put towards their savings. Some respondents said that since taking out the loans, they were left with less disposable income and while others said, they had lost some personal property, which had been attached as collateral security for the loans (Table 9).

Some respondents commented on the state of their businesses before and after they had completed servicing the loans and concluded that after paying off the loan they realised their business situation was actually worse off.

One such respondent said,

> "*I have discovered that I was actually better off businesswise before taking a loan so this time around I will not borrow, I will just work hard and use proceeds from my business."*

It would have been interesting to know whether the loan was consumer or business loan as the evidence showed that several expensive consumer loans were taken out for business purposes. Individuals were desperate for business loans but could not access them. As discussed from earlier evidence, it will seem microfinance services in Zimbabwe may offer no real economic benefits other than convenience, which some clients may later regret.

Nevertheless, some respondents who, despite the negative impacts experienced appreciated some non-financial benefits.

> *"Financially it did not, but in terms of education it has helped a lot."*

Some respondents said their community relationships had actually worsened and others said despite taking out the loans, they still had few friends, and that the loans had not made any significant difference in their lives. The points raised above indicate that a MFI loan can have impact on an individual's economic, personal, and even social life either negative or positive.

How the poor in Zimbabwe save money for emergencies

The qualitative results revealed that a vast majority of poor individuals despite their circumstances, are still able to save and some could actually develop a culture of saving.

As shown in Error: Reference source not found, one respondent said;

> *"I save money every day and I use it for other things (e.g.) in times of need at the moment I have $200 in savings."*

Another also said they were able to save as an individual and had made saving an everyday habit.

> *"I manage to save at least $10 every day and every month end, my savings amount to $300 and above."*

Source: Nvivo 10 based qualitative data analysis results, (2014)

Not everyone was able to embrace a savings culture when the income levels were significantly low. The results show that in such circumstances, social capital through saving clubs becomes crucial (Error: Reference source not found).

“We are five in the group and I save $50 a week”

Results from the study also indicated that the respondents were not discouraged by the amount they earned in order to start saving but rather had started saving from whatever they were getting. They actually understood the concept of saving, as it is not about how much one saves that is important, in other words, they did not have to wait until they earned more for them to start saving as one respondent stated,

“We save $2 per person every day, we are 39, and we deposit the money in a bank account.”

It also is very interesting to note that a group has opened up a bank account to help with their savings needs. Considering the size of amounts, it is evident that, individually, members of this group will not afford the bank charges.

Source: Nvivo 10 based qualitative data analysis results, (2014)

This demonstrates a demand for savings that MFIs could satisfy. Considering the implications of technological innovation in microfinance, the evidence show that, the poor embraced Mobile Money technology to enhance their well-being (Error: Reference source not found).

EcoCash is a state-of-the-art mobile payment that has given an opportunity for the poor who previously were not eligible to open or hold any bank accounts.

The study shows that the poor individuals are actively utilising these platforms as one respondent said,

"Yes, I have an EcoCash account which I put money weekly at the moment; I have no savings because I withdrew money to cover up an emergency problem."

Another participant also said,

"Yes I have an EcoCash account which I put money weekly. My savings amount to $600."

Some respondents also revealed that although they had heard of Mobile Money technologies, such as EcoCash, they were more comfortable using the traditional savings banks such as the Post Office Savings Bank like the Smart Save Account. When asked to explain the motivations behind saving when the average incomes are so low, the most cited reason was to aide more income capacity through business (Error: Reference source not found).

Respondents revealed that after making some savings they usually invest them back into their businesses. Respondents also disclosed that they do understand the concept of saving for that rainy day so that in case of depression they can always put that money into their business.

"I always have money that I have aside to use during emergencies. I can also use this money to re-boost my business in times of a depression."

Source: Nvivo 10 based qualitative data analysis results, (2014)

Some respondents also expressed that despite having a culture of saving and having a good knowledge of how to do it; they also possess good business acumen and understand the difference between working capital and savings.

"What I used to have in terms of working capital and savings has changed for the better over the last couple of years."

Some respondents also revealed that even though they may not have liquid cash in terms in their savings but will have plenty of stock invested as their form of savings.

"I have my savings but usually I use my savings to re-boost my business, so in other words I might not have money but I will be having plenty of produce to sell."

THE MOST POPULAR METHOD OF SAVINGS FOR THE POOR IN ZIMBABWE

Amongst the respondents, the main form of informal savings seems to be ROSCA (Mukando) (Error: Reference source not found). Majority of respondents in the study reported that they found it easier to save through committee savings system (Mukando). One respondent said,

"I use the committee savings system (Mukando) as a way of saving"

The research also revealed that although the committee savings system helped them to make extra savings they already understood the importance of saving, and were able to make some savings on their own.

"The committee savings system is helping in saving money. Used to withdraw all my money in the past but now I leave some money in case of emergency."

Eight respondents, said although they took part in the committee savings system, they were still disciplined enough to make their own personal savings for other personal expenses, such as saving for their children's school fees as well as rentals.

> *"I am involved in a committee savings system, that's how I save but most of the money I make is directed towards paying rent for my business and fees for my child."*

Source: Nvivo 10 based qualitative data analysis results, (2014)

Although some respondent did not disclose how they kept their personal savings, other respondents said they were disciplined enough to keep their savings at home.

One respondents disclosed,

> *"I have my savings at home; I keep a small amount of money that I reserve for other uses (e.g.) during an emergency.*
>
> *I am also involved in a committee savings system; we have an account for the committee in which we deposit money daily."*

Although the committee saving system (Mukando) was a very popular way of saving money, some respondents were not interested in being a part of it. Cited reasons included internal fighting and conflicts among the group members. As discussed earlier, one of the vulnerabilities the poor face involves having to deal with funeral expenses, which in most case families hardly recover financially, unless they had some significant savings. After making their contributions through the committee savings system (Mukando) the money is usually kept in a group or communal bank account and withdrawals done at a later point, after six months in some cases.

"I have my savings at home; I keep a small amount of money that I reserve for other uses (e.g.) during an emergency. I am also involved in a committee savings system; we have an account for the committee in which we deposit money daily."

"I save my money via a social committee (Mukando) we deposit money in the bank account every day and withdraw the money after six months."

What enables the poor to save money and reasons why some find it difficult

The reasons for some poor individuals failing to save can be divided into three, health-related, family related and business-related according to the study findings.

Sickness comes with all sorts of financial demands including medical expenses and loss of income due to inability to continue with work.

"I don't save money since I was sick for quite a long time."

One respondent said they could not save because of the huge burden of supporting their extended families.

"I have not been saving money lately. I have an extended family and the demands are quite huge since I am the only person who is employed in the household."

Another group of respondents cited the expenses incurred in running their businesses as being the major reason why they were unable to save too.

"No, I am not saving money, everything I make I use to buy inputs for my business, cloths, wool and servicing my sawing machine."

TECHNOLOGICAL INNOVATION – MOBILE MONEY SERVICES

This study also shows that mobile technology is already having a positive impact on how the poor individuals access and use financial services. In October 2013, EcoCash launched a new product known as EcoCash Save to complement its remittance services. Although Zimbabwe has other mobile money services such as NetOne's One-Wallet, the study survey showed wide usage of EcoCash among respondents. This may be partly because Econet has the largest share of network subscribers and widest network coverage. EcoCash is primarily used for sending and receiving money while other users also frequently use it to buy airtime and pay merchants. Some respondents said that they use mobile money services for savings. In terms of comparison with other alternatives to financial services options, EcoCash seems most preferred due to speed, convenience, safety, and cost.

Respondents revealed several ways in which they were able to save money. Some said access to EcoCash accounts made it possible for them to save money while others said; they kept their money at home making routine deposits in a jar or pot.

> *"I have a jar that contains my savings, I add to the savings every day. When the savings reach a considerable figure I withdraw and use it to buy some ingredients for beverage production."*

It will seem from the study evidence that, instant access to savings is a key determinant in deciding which model of savings the poor individuals will use. For some, a combination of various informal methods with easy access to their money when needed was key. There are some respondents who expressed that by changing their money to South African Rands, this helps them to save it and that the committee system was the one that was helping them to save their money.

"I change my money from US$ to South African Rand. I have managed to sustain my business. I am also involved in a committee system and my savings increase everyday though it increases with a small amount."

Although some respondents said they were able to save, this was for helping them with taking care of their family needs as well as reinvesting into their businesses.

"I have managed to generate profit since I run a flea market. I sell my goods and use my profit for my family' wellbeing and I reinvest the rest. I have managed to maintain this for three months now."

Only a small number of the respondents said saving has helped them to come out of financial difficulties, and that they were happy to see their savings going up every week.

"After getting a loan I invested it and got a significant profit which I used to start a chicken (poultry) business. Ever since my savings increase weekly and I rarely have any financial problems."

Some respondents revealed that they did not have any problems with saving as they already had a culture of saving and had been doing it for years.

"I have a culture of saving. I have been saving money for years, when my savings reach a significant amount I withdraw and reinvest the money into my business."

Lastly, there were respondents who said although they did not have savings at the time, they had plans to do so in the future.

"I have not been saving at the moment. I have just started running my business, its two months old. However I have plans of saving money in the future with an EcoCash Account."

One of the arguments for best practice microfinance models of poverty alleviation is to embrace what works best for the poor when designing products. It is evident from the study results that the ability to save money plays a very important role in poor individuals' lives.

Responses revealed that most who managed to save on a regular basis had received some advice on savings from various sources on the importance of saving and ways in which one can save.

These sources include;

(i) Colleagues

"Yes, A work colleague. He educated us on saving with a number of ideas and the benefits of saving."

(ii) Friends

Some said friends had given them ideas of how they can start saving and they were happy to say they were now realising the benefits of saving and had started acquiring some assets from their savings.

"Yes, friends in the form of a committee system (members) Can now buy assets from the money received from the committee system."

(iii) Family members;

Other respondents said their family members had helped them with ideas on how they could start saving.

"Yes, my mother assisted me with some ideas of saving; she is the one who gave me the idea of an EcoCash account which I am currently using."

One of the respondents acknowledged that her child is the one that had given them information on how they can start saving using the new technology (mobile money)

"Yes, my child, EcoCash saves A/C and a bank saving account."

(iv) Banking institutions;

Some respondents received their training from formal institutions such as banks or the POSB through the Smart Save account and Econet EcoCash save account.

However, some respondents said although they had received some advice and had found the training quite relevant and meaningful, they still had not started saving any money.

"Yes, Metbank Econet via EcoCash save Account. Metbank advised to save using the fixed A/C. The advice was meaningful, but I did not manage to save."

(v) Financial advisors;

Those who had received advice from financial advisors seemed to be aware of other ways of saving money, other than the obvious ones that everyone seemed to be using, these include, life insurance policies and the money market.

> *"Yes a financial advisor with Fidelity Life Insurance, in the form of a life insurance policy and investments in money markets."*

(vi) Others

Some respondents said they had received formal advice from employers through a company representative on the importance of saving and ways in which one can save some money.

> *"Tiens it's a company that sells herbal products and they educated us on saving money and the benefits of saving."*

From the advice that some respondents had received, it seems they were now aware of the advantages and disadvantages of keeping their savings safe in the bank. Some of the informal savings such as through the committee system mostly ended up in a formal bank account. Despite this, some respondents were still not following that advice.

"Yes, banks deposit money into account for safekeeping and saving. No, I did not follow it (advice)."

The ability to save instils confidence in the poor that they can improve their well-being. Some respondents said whilst their businesses were doing well, they were able to save and therefore confident that their standard of living would have improved in a year.

"I am saving money as well as getting some profit from my business and I am confident that my standard of living will improve in the next year."

There were a few respondents, who painted a different picture in that they indicated that their businesses had some seasons when it was good and at times when it was not so good. Despite this they were still able to save and were confident that their business was running well.

"Yes, I am currently experiencing seasonal fluctuations towards holidays only. I am saving money and I am able to keep my business running thereby giving me some noble confidence that my business is profitably running."

It is evident from this study that, in addition to access to credit facilities, enabling the poor individuals to save alone could transform their lives. Most seem to believe that with a bit of savings they can continue to improve their own lives without the need to wait for external support. Although a majority of the respondents were confident that they would be able to improve their standard of living with their own means, based on how good their businesses seemed to be doing, a small number said they could do with a bit of help.

"Yes, I am making a considerable amount of profit and I am saving money that I use to keep my business running.

I am confident that I can improve my standard of living over the next year. However with financial assistance, I can even do much better than I am doing at the moment."

Another said,

"Yes, I always have plenty of produce to sell and I make money every day. I have confidence that if the situation remains like this, I think I can greatly improve my way of life. If I get financial assistance, I can do even better in the coming year."

Why the poor people need MFI services to improve their standard of living

The rationale behind microfinance intervention lies in its ability to enable entrepreneurship through access to financial services particularly loans for income generating activities. When asked if the respondents felt it is within their ability to improve their standard of living by their own efforts over the next year, nearly all the respondents gave positive responses and revealed that they were indeed able to improve their standard of living since their businesses seemed to be doing well. One respondent said,

"Yes, I am saving money and my business is generating profit for me. Without any complication in my business. I have the confidence that I can improve my standard of living"

Some respondents disclosed that based on the profits that they were generating in their businesses, they were able to pay for their bills without any difficulties and based on what they were making from the business they were quite confident that their standard of living would have improved within a year.

"Yes, my business is booming and I make a very significant amount of profit. I am able to pay all my bills without failure at most times. With the rate at which I am making money, I am confident that my standard of living will improve greatly over the next year."

A significant number of respondents revealed that by running their own businesses they had managed to acquire some household assets through their own means and thereby improving their standard of living.

> *"I am making profit and I have managed to acquire a number of properties from my income. I have three cars and a stand. If business continues like this, I have confidence that my standard of living will improve greatly. I have been running my business since 2005."*

However, others were not confident their businesses were actually doing so well to make any significant change to their standard of living without any assistance from outside.

> *"I do not think my standard of living will improve over the next year, because I am making a very small profit. Without financial intervention, I think my situation will grow even worse of the next year."*

The other reason cited for lack of confidence was the prevailing harsh economic situation in the country, which was affecting the businesses negatively.

As a result, they were not realising as much profit to grow their businesses or to improve their standard of living. One respondent said,

> *"I make a small profit and there is too much competition around me.*
>
> *Therefore, I need financial assistance in order to improve and grow my business to make a better profit. If the situation remains the same, I do not think my standard of living can improve. 2013 has proven to be a very difficult for me, salary did not increase. "*

Some respondents disclosed that they were always in debt and expressed their need for financial assistance to help their businesses grow so they can realise bigger profit margins. This therefore made it impossible for their standard of living to improve the following year.

> *"No, I need financial assistance to invest in my business and be able to make a larger profit. I am not confident that with the way things are I can improve my standard of living. I am always in debt and I really need to cover the debts."*

There are some respondents who said although they were not confident that their standard of living would have improved in a year as their businesses were not doing so good, they were however, able to keep afloat, but would still need loans from MFIs to boost their businesses

> *"No, with the way my business is going I do not think my standard of living will improve, I can maintain it, but I need financial assistance to boost my business in order to make a larger profit."*

For those respondents who solely depended on their salaries they revealed that their salaries were hardly sufficient to sustain them and so needed to go back to banks or MFIs for more financial support.

> *"Still need more financial support from MFI or banks. My salary is not adequate to meet all my basic needs…"*

In terms of improving their standard of living, some respondents disclosed that based on their salaries alone they were not confident that their standard of living would have improved in a year, and so will need to visit the MFIs for some loans.

“Still need some financial assistance from lenders, with my on salary my standard of living will not improve”

Why respondents borrowed from MFIs instead of banks was explored and reasons cited included;

(i) Collateral

The majority of respondents said they prefer to borrow from MFIs instead of banks because banks require one to have collateral although MFIs have also begun asking for the same. This suggests these poor individuals will now suffering double exclusion.

> *“Bank needs collateral security. Banks only give loans to civil servants. I do not have access to banks, they need collateral security.”*

(ii) Pay slips

Respondents revealed that in order for one to apply for a loan from the bank they need to produce a current payslip, but MFIs will give out loans even to applicants who are not formally employed this is the reason why they would prefer borrowing from MFIs compared to banks.

(iii) Bank account

To apply for a loan from the bank, it is required to be an account holder at that bank. However, the majority of the poor who require loans do not hold any bank accounts, which automatically rules them out from accessing the bank loans.

The MFIs do not require one to hold any bank account and so respondents said this is why they tend to borrow from MFIs instead of banks. One respondent lamented

“Since I do not have a bank account, they will not give me money”.

(iv)Convenience

The majority of respondents revealed that one of the advantages that MFIs had over banks was access to instant cash.

“I need instant cash. MFI provide instant cash”

“Loan turnaround period for MFI shorter than that of banks”

It is important to note that it is mostly private and for profit institution type of MFI providing consumer loans whom the respondents were referring to as some MFI loans can take longer than the bank loans to process.

(v) Requirements for loan application

The stringent requirements to apply for a bank loan, such as a current payslip, collateral, bank account and proof of residence actually acted as a deterrent for the applicants. Most of them did not have access to those so as a result they went to MFIs who will go ahead and process the loan even when one does not have them. One respondent said,

“Terms and Conditions of MFI are better than those of banks. Easier to borrow from MFI instead of bank”

Other respondents said,

“MFI are less strict in terms of requirements compared to banks.”

“I don’t have collateral security and also a proof of residence.”

Despite the ease on the loan application at MFIs, some respondents however said they did not go there for loans as they were aware of the implications for defaulting

loan repayments, they were afraid of losing their assets to unscrupulous money lenders who attach properties.

> *"If I borrow money I will lose property to money lenders who attach property."*

Other respondents said they did not borrow from MFIs because they had learnt to make do with whatever they were getting from their salaries as expressed by one respondent

> *"I survive solely on my monthly salary. I have managed to maintain my standard of living but I am failing to improve on it. However I have not been experiencing any financial problems of lately."*

Respondents wished MFIs would provide some education about the goods and services that are offered by the MFIs, it would seem the majority of clients are actually unaware of their terms and conditions as expressed by one

> *"They do not educate us on the goods and services they offer."*

Some said although it was good that they have access to instant cash, it would be better still if they could have an option to have their loans deposited into a bank account as revealed by one respondent

> *"Needs an account to deposit cash".*

Most respondents said it was their wish for MFIs to train their clients on business management skills, business insurance, and information on how to access business loans.

> *"Business training, Insurance, Accessible long-term business loans at low interest rates"*

A few respondents indicated that the terms for accessing MFI loans were actually strict and thus making it very difficult for them to access the loans.

> *"Loans are difficulty to access; if accessible the terms are strict."*

MFI service adaptation to suit client needs – client perspectives

The study asked specific questions about how services can be adapted to meet client needs from service user perspective. The respondents emphasised in the need for MFIs to communicate with their clients and ensure that both parties have a mutual understanding of the loan conditions. Some respondents felt that the system of collateral was exploitative. The responses to questions also suggest that in most cases the loans dispensed were either too big or too small. Some clients felt that at times, they were given much less, than they had applied for, yet their payslips were evident enough that they could afford more. Other respondents felt that MFIs were not considering whether the person could afford the repayments based on how much their salary was. One respondent even said,

> *"Give loans according to our monthly salaries."*

Some respondents felt that the APR was rather too high and that the loans were too low, they recommended for MFIs should offer bigger loans at reasonable rates.

> *"We need bigger loans at reasonable interest rates."*

There are respondents who felt that some MFIs did not process their loans with the urgency that they deserved. At times, one needs a loan for an emergency and the loans may not be readily available to the dismay of the applicants.

> *"Give loans in emergency, readily available loans."*

The results showed that clients who require both consumer and business loans could not get both from the same MFI provider, as they tended to focus on one or the other.

Individuals who took out loans from private and for profit MFIs that have been set up for consumer lenders have indicated that they would like to access to business loans. In addition, clients for developmental and not-for-profit institutions recommended that the MFIs that are for business lending only should also offer consumer loans as well as other loans such as loans for medical bills, educational loans and housing loans.

> *"Should provide consumer loans to cover other expenses like school fees and medical bills"*

Some respondents recommended that the average amount that is offered for business loans should be increased to $1, 000 and others even said up to $5, 000 and that the interest rates on those loans should be affordable, as expressed by one respondent.

> *"We would want larger long-term business loans (e.g.) $5000."*

In relation to the above point, respondents felt that the interest on business loans was excessively high and made recommendations for them to be reduced as well as increase the repayment terms as expressed by one respondent

> *"Reduce interest rates, increase repayment term, and give adequate business training on running our business effectively"*

Some respondents made recommendations for MFIs to provide some training on how to set up a business, business management, marketing, and book keeping as

reiterated by one respondent. Other respondents recommended that MFIs provide insurances for life and business as one respondent said.

Some respondents recommended for MFIs to reduce loan disbursement periods for their repeat customers as a way of retaining customers and as a gesture of good will as expressed by one respondent

"Reduce loan disbursement period to repeat clients."

A common problem raised was how the MFIs charge for the cost of loan processing. Most respondents said institutions should charge administration fees separately instead of deducting the from the loan that one would have applied for. It was just frustrating that when applying for a certain amount, they would have budgeted for it to the last cent and so for one to receive the money with part of it already deducted as administration fees was something that MFIs should consider revisiting. As one respondent pointed out:

"Add administration cost to the loan amount not deducted from loan disbursed."

On the same note, MFI clients felt that the administration fees charged were excessively high, and also needed to be revised. The other issue raised by most, was problem of losing valuable items due to loan default as on commented.

"Stop property attaching when borrower is not able to pay the debt in time."

Respondents also recommended that MFIs also embrace mobile banking technologies like Eco Cash in dispensing the loans as this was not only convenient but had a sense of security as expressed by this statement,

"Mobile services/ relationship between the MFIs and Ecocash"

Microfinance social and economic benefits –client perspective

The study sought to investigate to what extent the microfinance services had contributed to clients' financial well-being and their level of satisfaction. As primarily discussed in the literature review, both negative and positive feedback came from the respondents. Some were satisfied and actually happy with the financial assistance they had received from MFIs as one respondent said

"They provide us with cash assistance and how to manage money effectively".

On the contrary, some MFI clients had negative feedback about the loans as they felt that the loans actually left them worse off, sometimes they were not able to make the repayments for the loan or pay for the loan all together.

"It worsened the situation since I end up failing to pay the debts."

On another positive note, some respondents said they had benefitted immensely from the loans because they felt their wellbeing had improved. Some revealed that they had managed to invest into their business ventures as stated below;

"I am now well up, managed to accomplish my business projects at the farm".

On the other hand, there are clients who felt that the loans had not contributed anything to their business, as they did not have enough time to realise any significant change and stability to their businesses due to very short repayment period.

"They did not contribute anything since they did not provide me with enough time to make my business stable."

Some clients were of the opinion that loans were quite good as they always came in handy and were available whenever one was cash strapped and in need of some financial assistance.

> *"Yes, they are always there to add money into my pocket when I am a little short of money and needing financial assistance".*

An the opposite end of the spectrum there are others who thought borrowing from MFIs was not a good thing because once you start it is difficult to stop, it can end up being addictive which subsequently became a burden for the clients.

> *"Borrowing can be addictive sometimes, once you start borrowing it becomes difficult to stop and this has a very negative impact on my income"*

On a positive note, some clients felt that the loans had helped them to build their confidence and had enabled them to save money as well as manage their businesses better.

> *"They made me confident, I am now able to save money and manage business."*

Also on another hand, some clients felt differently and lamented that because of the loans they now found it hard to save, as they had to use a part of their income to go towards loan repayments.

> *"Borrowing is a bit expensive and made it difficult to save as part of income was going to loan repayment."*

Some clients were grateful for the MFIs that gave them an opportunity to borrow money, thereby helping them to keep their finances stable, as expressed by one respondent who said,

"By allowing us to get capital, I am able to keep my financial position stable."

Others, on the other hand, said loans left them with no disposable cash, and they felt burdened with the loan repayments.

"Loan instalments are heavy to repay, was left with less disposable income."

Some respondents said their businesses benefitted a lot from the MFI loans and they had realised some significant growth in their businesses as expressed by one respondent who said,

"I managed to buy my inputs for tobacco farming. The tobacco yielded me a significant amount of profit."

On the contrary, some respondents said they had not personally benefitted from the loans as the loans had been taken out to assist family members, or to pay for their education, like one participant said:

"No not at all, loan was only for the benefit of my relative."

This shows that, those who cannot get loans for whatever reason can use others to borrow on their behalf. On the same note, some respondents felt that the loans were providing them a place that they were comfortable to borrow from, rather than borrowing from friends and relatives. They were able to use the loans to invest into their businesses and that they had started to realise profit from their businesses.

"Yes, no longer borrowing from other individuals since loans are helping me boost my business, therefore there is more income" (Table 9).

On the other hand, some respondents felt that loans were actually a burden and that based on their experiences, with enough discipline and better financial management, they could actually do without the loans.

As expressed by one respondent;

> *Yes, discovered I can manage better financially without a loan. In fact, experience was the best teacher; a loan is actually a burden.*

Some respondents revealed that the loans had been a confidence booster for them and that they had benefitted immensely from the business management training that they received from the MFIs as one respondent said,

"They made me confident since they provide business training."

On the other end of the continuum, there are respondents who differed with this point and said they had no confidence boost actually, because the MFIs only provided moderate training to their clients and that the interest rates that were charged were quite high (Table 9).

> *"No confident due to short term services, high interest rates, they provide moderate training for how to run business.*

Table 9: Tabulated responses on how MFIs can improve their services

<u>If you were to advice your MFI in service improvement, what would you say?</u>		
Feedback for private for profit institutions - MFI (3)	Feedback for developmental and not-for-profit institutions - MFI (2) or business lending only	General feedback for all MF lenders
“They should communicate with our employers.” *“Abolish the system of collaterals”* *“Give loans according to our monthly salaries.”* *“They should educate us on how their system works.”* *“We need bigger loans at reasonable interest rates.”* *“Give loans in emergency, readily available loans.”*	*“Should provide Consumer loans / educational loans”* ***“We want accessible business loans at low interest rates ($1000).”*** *“Reduce interest rates, increase repayment term, and give adequate business training on running our business effectively”* ***“Education on their services, business set up, management, marketing and book keeping”*** ***“Long-term business loans ($1000- $5000) at payable interests rates”*** *“Training on how to manage and run a business effectively.”* *“Give money individually; provide Insurance, life and business”* *“Consumer loans to cover other expenses like school fees and medical bills.”* *“Reduce loan disbursement period to repeat clients.”* *“Outreach programmes – community sensitisation and make consumer loans available eg educational loans.”* *“Housing loans/consumer loans to cover other expenses”*	*“We want them to abolish the issue of collaterals.”* *“Loans should be of low interest rates and longer time of repayment”* *“Add administration cost to the loan amount not deducted from loan disbursed.”* *“Reduce administration fees.”* *“Allow clients to pay off loans before loan term expires”* *“Stop property attaching when borrower is not able to pay the debt in time.”* *“Mobile services/ relationship between the MFIs and Ecocash”* *“They should educate us on the services they offer.”*

Source: Nvivo 10 based qualitative data analysis results, (2014)

Table 9: Comparative analysis between satisfied and dissatisfied MFI clients

Overall comments on microfinance service's contribution to clients financial well-being and levels of client satisfaction	
Feedback from satisfied clients	Feedback from dissatisfied clients
They provide us with cash assistance and how to manage money effectively.	*They did not contribute anything since they did not provide me with enough time to make my business stable.*
They made me confident, I am now able to save money and manage business.	*It worsened the situation since I end up failing to pay the debts.*
I feel that MFI have made me confident since they provide me with little business training.	*Loan instalments are heavy to repay, was left with less disposable income.*
I am now well up, managed to accomplish my business projects at the farm	*Borrowing is a bit expensive and made it difficult to save as part of income was going to loan repayment.*
By allowing us to get capital. I am able to keep my financial position stagnant.	***No not at all, loan was only for the benefit of my relative.***
Yes, they are always there to add money into my pocket when I am a little short of money and needing financial assistance.	*Borrowing can be addictive sometimes, once you start borrowing it becomes difficult to stop and this has a very negative impact on my income.*
I managed to buy my inputs for tobacco farming. The tobacco yielded me a significant amount of profit	*No confident due to short-term services, high interest rates, they provide moderate training for how to run business.*
Yes, no longer borrowing from other individuals since loans are helping me boost my business, therefore there is more income.	*No not as such, only borrowed to finance my educational costs.*
	Yes, discovered I can manage better financially without a loan. In fact experience was the best teacher, a loan is actually a burden.

Source: Nvivo 10 based qualitative data analysis results, (2014)

MFI clients rely on Social Capital: quantitative and qualitative evidence

The quantitative data analysis results presented in chapter 8 and the qualitative data analysis results presented in this chapter shows that MFI clients relied on social capital as the main coping strategy in crisis situations. Quantitative data analysis results presented on page 372 section 8.7 shows that in some cases, respondents used trusted relatives or friends for informal savings borrowing instead of MFIs as summarised on Table 8 .

A qualitative analysis of MFI client survey data present in section 9.3 9 of this chapter page on 388, substantiating the quantitative results on social capital as show (Error: Reference source not found) where most respondents indicated that informal savings clubs played a key role in MFI clients' coping strategies. Using social capital, some respondents were able to save up to $50 a week, through solidarity and mutual respect individuals in groups saved as little as $2 a day throughout the whole week.

When we re-visit, the thesis hypothesis which states that, "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services".

Further evidence to support the hypothesis is demonstrated by the verbatim qualitative results shown on Table 9 and Table 9 above. Some of the respondents needed some financial assistance to help them in both their personal lives and in

their businesses but could not qualify for MFI loans offered on very cautious and protectionist stance.

The study also revealed that although running their own businesses, some respondents were actually struggling and living from hand to mouth due to lack of capital finance to increase productivity. Business loans were in short supply in comparison to consumer loans. On average, most business activities required business loans of between $800 to $1,000 to help individuals boost or expand their businesses; which will ultimately help improve their standard of living.

The study results shows that after the 2009 microfinance revamp, visibility of MFIs and their services in areas where the traditionally typical MFI clients live was very limited as most potential clients did not always know the existence of MFIs. Some respondents had an obvious need for MFI services as they were struggling to keep their businesses afloat and needed some financial assistance, but were not aware of the existence of MFIs (Table 9 and Table 9). Interestingly, some respondents who were struggling in their businesses were also reluctant to go and apply for loans from MFIs because of issues like the high interest rates that are charged as well as their strict terms on loan repayments, which confirm the thesis hypothesis about post 2009 MFIs being commercially driven and protectionist in nature. As a result, the majority of respondents expressed their views on the need for MFIs to scrap collateral arrangements, which will help make loans more accessible to the bottom poor (Table 9 and Table 9).

Summary

In summary, the study results revealed six key issues that affect the MFI clients in the survey. These includes, access to financial assistance, information, and awareness of available MFIs, loan risk management through collaterals, the cost of loans and interest rates, access to essential skills through training and developing and nurturing the culture of saving.

The cost of borrowing is the single biggest barrier to taking out a loan expressed by most respondents. Most felt the interest rates were too high and not really, fair. In addition, the short loan repayment period caused many repayment problems and some clients lost their valuables (Table 9). Many mentioned the need for business training time after time. They felt the need training on how to run and manage a business, bookkeeping, marketing, and business insurances. It was felt that this would make loans more beneficial to the clients. With enough training, they could effectively run their businesses (Table 9 and Table 9).

It is interesting to note that a few of the respondents had a culture of saving and had been saving money for quite some time. Respondents had savings up to $2,000 and some were using them to reinvest into their businesses, such as restocking for the shop while others were acquiring important household assets. While some respondents expressed that the loans had not made any significant change in their lives, others were actually worse off because of high interest rates, and some had lost their assets, which had been attached as collateral (Table 9 and Table 9).

To conclude the results presentation, section of the thesis (Chapters 6, 7, 8 and 9), as presented on the above section, the quantitative data analysis results and the qualitative data analysis results as presented in chapters 8 and 9 respectively shows that MFI clients relied on social capital as the main coping strategy in crisis situations.

The two chapters also show through both quantitative and qualitative data analysis results that the post 2009 MFIs in had very little social impact on their clients and a further quantitative data analysis on MFI social performance using the CERISE SPI tool (CERISE, 2013) shows that MFIs may be barely pursuing social impact at all according to SPI score benchmarks by (Bédécarrats, et al., 2010).

The next chapter presents the thesis conclusion covering an overview of study aims, objectives and hypothesis analysis, a summary of the study findings, study contribution to knowledge and recommendations for further study.

10 CONCLUSION: STATE OF MICROFINANCE, SOCIAL PERFOMANCE AND COPING STRATEGIES

Re-visiting study aims and accounting for achievements

In conclusion, it is important to re-visit the study aims, objectives, research questions, thesis hypothesis and comment on progress to this end. As stated on page 29 section 1.1.2, the study aims to establish the impact of prolonged political and economic crisis environment on the microfinance sector in Zimbabwe.

The specific research objectives are: (1) to explore and establish the current state of the microfinance sector in Zimbabwe, (2) to establish how the economic and political crisis of 2000 to 2008 affected the microfinance sector's social performance and (3) to establish the coping strategies adapted by the MFIs and their target clientele during and after the economic crisis in Zimbabwe.

Three key questions guided this study in order to achieve the research aim and objectives. The questions asked are; (1) what is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?, (2) to what extent did the economic and political challenges impacted on microfinance social performance in Zimbabwe and, (3) what strategies do MFIs and their target clientele employ in order to cope with the crisis situations of both pre and post 2009 microfinance revamp?.

The thesis hypothesis presented on page 230 section 5.1.1 states that, "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services". The study examined the state of Zimbabwean microfinance in post 2009 and the challenges faced by both MFIs and clients in coping with the crisis of both pre and post 2009 microfinance revamp.

The study assessed MFI social performance based on the four dimensions of social performance: 1) outreach to the poor and excluded; 2) adaptation of products and services to target clients; 3) improvement of the economic and social situation of clients and their families; and 4) social responsibility. As earlier discussed in section Client targeting and outreach (SPI), targeting the poor and financially excluded is an important element of social performance. The overall contribution of service delivery to help address both long and short-term social, economic, and environmental challenges affecting the wellbeing of the poor is what underpins social impact in microfinance.

In order to maximise positive impact on the poor, microfinance services and products must be adapted to the specific needs of the poor or target clientele. The service delivery model needs also to target the poor and financially excluded individuals. To achieve appropriate poverty targeting, MFIs must have a well-defined strategy outlining targeting techniques.

Targeting the poor for poverty alleviation can be achieved through; (1) ensuring the service design (products and pricing) and delivery mechanising are adapted to be accessible by most poor people.

(2) Ensuring the mode of delivery encourages the majority poor to participate, for example delivering services such as loans and savings products in places where the poor live such as in rural areas or poor locations. (3) Ensuring the MFI service is relevant to its target clients, that is, clients realise real economic and social benefits through increased incomes and social and economic enhancement of their lives. Lastly, (4) ensuring minimum negative economic, environmental and social impacts on employees, clients and the general community in which they operate. Section 10.2 below presents a summary of the study findings on the first study question; "what *is the state of microfinance sector in Zimbabwe in relation to regulatory and operational practices that promote social performance and poverty reduction?"*

Microfinance sector in Zimbabwe

The study results concluded that the state of microfinance in Zimbabwe post 2009 sector revamp presents a new breed of MFIs and operating environment, which is commercially driven and has little appetite for social performance or impact on poverty. The data revealed that the main providers of microfinance post 2009 in Zimbabwe are largely profit seeking private individuals, companies, or subsidiary units of the main banking institutions. The results show overwhelming evidence for capital markets being the main determinant force for the sector's development, which suggests the capital market driven (CMD) model of approach as argued in section Capital market driven (CMD) microfinance approach. Consistent with the CMD microfinance model, almost all registered microfinance providers in Zimbabwe

(except for two) operate in urban areas with the majority in metropolitan cities such as Harare and Bulawayo.

Service provision is also mainly targeted to the less risky salaried employees for consumption purposes. Production loans for enterprise development are very limited, and mostly provided by the few remaining poverty reduction driven (PRD) MFIs.

As discussed earlier in section The regulation of Microfinance in Zimbabwe above, the Zimbabwean Government invested considerable energy and resources in the process of formulating appropriate regulation for the promotion of inclusive financial systems in the country, which saw the introduction of the Microfinance Act in 2013.

The study results highlighted that the microfinance sector in Zimbabwe is highly driven by profit-making motive and is dominated by private players (banks or MFIs). The products or service offerings are concentrated around the most profitable and low risk areas, predominantly consumer loans and collateral based business loans in some cases. The cost of borrowing remains extremely high by world standards (60-180% APR) and the most loans are secured by wage income which excludes the majority unemployed poor.

Most of the country's MFIs are located in towns and cities and the study found no evidence of intentionally seeking to include the rural dwellers in the near future. The country's microfinance sector regulation is geared towards protecting the integrity of the financial sector as a whole by regulating and supervising the behaviour of micro-lenders to ensure they uphold acceptable institution financial health while respecting client protection principles.

Poverty alleviation as an agenda has disappeared from the microfinance discourse at both regulation and operational level. This has been replaced with financial

inclusion agenda, which is a broader and indirect approach to social and economic development of the poor and excluded.

This financial inclusion approach assumes that exclusion is the root cause of poverty so developing inclusive financial markets is the best way of fighting poverty.

With the burden of poverty alleviation taken off the shoulders of microfinance sector in Zimbabwe, the sector identity is currently blurred. The microfinance movement which begun in the 1990s was led by NGOs focusing on poverty alleviation. The Government did not demonstrate appreciation or understanding of the role of microfinance in reducing poverty directly through regulations. For more than two decades, the socially motivated Microfinanciers were subjected to a number of unsuitable regulatory frameworks.

Most importantly, there was no distinction between socially motivated Microfinanciers and traditional moneylenders in the eyes of the regulators except that the Microfinanciers had a self-imposed mission of reaching the poorest and reducing poverty. The new sector specific regulation introduced in 2013 did not included provisions for socially motivated Microfinanciers to be recognised as such but rebranded them as “Credit Only” Microfinanciers with again no clear distinction between them and the traditional money lenders motivated by profit only. Therefore, the microfinance sector’s identity remains unclear particularly to the clients as evidenced by the study results on client feedback where several respondents said they would want MFIs to educate them about what services they provide.

The Savings and Credit Cooperative Societies (SACCOs) although not fully explored in this study is now the torchbearer of the microfinance poverty alleviation agenda in the country. Although the SACCOs are not under the same constraints of the microfinance regulation, they have their own limitations. The SACCOs’

competitiveness in the microfinance sector relies on their ability to mobilise savings from their members.

Since the country was hit with liquidity crisis just after the adoption of the US$ in 2009, SACCOs' ability to raise savings from households became significantly reduced. Furthermore, the "Know Your Client" requirement for banking regulation means that most SACCOs find it difficult to open and maintain functional bank accounts for savings purposes due to the nature of their clients being people mostly living in rural areas where proof of address and other forms of identification are hard to impose. Know your customer (KYC) is a universal anti-money laundering regulatory requirement compelling all finance service providers to verify the identity of their clients.

With the microfinance sector not intentionally seeking to provide socially responsive financial services to the poor, most rural dwellers face further marginalisation from the sector invented specifically to deal with their cause. The banks, despite the new drive for creating inclusive financial markets, are still grappling with how to accommodate the marginalised and poor communities who do not have adequate documentation in terms of proof of resident or payslips. The majority of Zimbabwe's population (over 82%) is informally employed which makes a greater part of population unbanked and financially excluded unless some changes to the Know Your Client requirements are relaxed for specific clientele. This is more relevant for MFIs if the poverty alleviation agenda remains a top priority.

SOCIAL PERFORMANCE AND COPING STRATEGIES IN POST 2009

Following the economic meltdown of 2007 and complete collapse of the microfinance sector, revival was promoted based on the mantra of building inclusive financial markets in Zimbabwe, which lacks intentional focus on social impact of microfinance.

Financial inclusion can be defined as the delivery of financial services at affordable costs to sections of disadvantaged and low-income segments of society, in contrast to financial exclusion where those services are not available or affordable. In the simplest terms, it refers to a financial system where everybody has access to an appropriate range of financial products and services, which allows them to effectively manage their money; regardless of their level of income or social status and most importantly that, these services are affordable. There are several reasons why individuals face financial exclusion and the most cited is the unwillingness of financial service providers to seriously consider the poor as a viable target market. The least cited reasons include the inability of most poor to effectively utilise financial services mainly due to financial illiteracy.

Therefore, it can be argued that, for financial inclusion to be achieved, appropriate action is required for both the financial service providers and the excluded poor at various levels. The people need to be supported to have, as a minimum, some basic financial skills, product knowledge and understanding while the financial service providers need to factor in affordability in addition to accessibility, a key ingredient in making their services inclusive. There has been significant pressure on financial providers around the world to make their services accessible to the unbanked population in recent years but new evidence including from this study shows that the cost of these services is proving to be one of the biggest barriers.

In Zimbabwe, the study shows there are limiting factors being faced both by the service providers and by the excluded target markets. As evidenced form qualitative results presented earlier, the major factors inhibiting the access to financial services by the poor are the high charges being charged by financial service institutions.

These high costs deter the unbanked access to financial services resulting in their lack of participation in the mainstream economy. Where they choose to participate evidence shows a negative impact on their lives and well-being. This study also revealed serious lack of confidence in the financial sector, and the financial services and products offered as evidenced by high popularity of informal financial services such as ROSCAs.

Service adaptation to meet the needs of the poor clients

There is strong evidence from the sample MFI study results that MFI services and products in post 2009 MFIs in Zimbabwe may not be adapted to the specific needs of the clients. The results showed that although the opportunity to open bank accounts was available to the poor clients, the type of accounts and cost pricing was inappropriate for poor individuals. This was evidenced by limited service usage, such as only using the bank account to receive monthly salary, which is withdrawn all in one, go. This meant the individual only used the service once each month as opposed to regular usage. It would appear that if employers were to relax the requirement to pay salaries into banks, most bank accounts would be abandoned by the low-income individuals. Service adaptation can include appropriately priced bank accounts specific for the low income individuals.

Furthermore, the loan products available for the MFI clientele were inappropriate in most cases. Consumer loans were taken for the purpose of entrepreneurial

investment. The average consumer loan product in Zimbabwe is typically a very short-term loan (maximum repayment, 3 months) with monthly average interest rate of 13%. Enterprise loan offers a longer loan repayment periods ranging between 6 and 12 months with an average interest rate of 6.5% per month.

Where a consumer loan is taken in place of an enterprise loan, the individual pays twice as much in loan costs while the MFI profit margin triples. A short-term loan means a reduced loan loss risk and a quick turnaround for the MFI.

The study therefore established that because of MFIs' reluctance to offer enterprise loans, poor microfinance clients in Zimbabwe are borrowing expensive consumer loans in order to invest in their small enterprises.

Most respondents reported significantly reduced profit margins but said only consumer loans are easily available on the market. Although it makes economic sense for MFIs to provide the most profitable product, study evidence shows that this is creating poverty among some MFI clients rather than helping reduce it. It is almost like a trap for the poor who takes out such loans out of desperation and then lose their hard-earned household goods after failing to repay the expensive loans.

To conclude this section it would appear that:

a. Most respondents indicated that they need enterprise loans but only consumer loans were available, though limited to salaried individuals only

b. A significant number of study respondents indicated having used a loan taken out for consumption purposes to invest in business. This shows inappropriate product offering by MFIs leading to significantly reduces profit margins for entrepreneurs as consumer loans are twice as expensive.

c. The post 2009 MFIs offer mostly short-term loans despite their clients need for long-term loans.

d. Study evidence shows that whether a loan is taken out as consumer or enterprise loan, most of them end up being invested in an income generating activity, a short loan term of typical 3 months can hardly result in real benefits to the client both social and economic.

e. Either most post 2009 MFI loans are based on approved collateral security in the form of an undertaking from employer to attach a portion of the employee's salary towards loan repayment or a physical valuable item pledged to the lender.

Effective targeting of the poor and financially excluded

MFIs can target the poor by offering services in places easily accessible by poor individuals as discussed earlier. Appropriate targeting can be achieved by adapting services to meet the needs of the poor and most importantly taking services to the poor (geographic targeting). In Zimbabwe the majority of the poor people lives in rural areas but 98% of MFIs are located in urban areas where the non-or near-poor live. This makes it difficult if not impossible for the rural poor to access MFI services. The study established strong evidence that targeting the poor and financially excluded individuals does not seem to be a priority for most leading and major post 2009 MFIs in Zimbabwe.

The regulatory authority RBZ and the Apex board ZAMFI indicated that they were aware of this unfortunate position taken by most MFIs. In an interview, a

representative member of the RBZ's microfinance regulation and supervision section said the problem is caused by a lack of public or donor funding for microfinance activities. Since the donor funding started dwindling in the microfinance sector, individuals started investing their private funds into microfinance operations.

The RBZ officers said the regulator had no resources to be influential in the sector. If the regulator had funds to support the MFI loan portfolios, then it will be empowered to promote outreach social performance in the sector, they argued. If individuals are using their personal money then you cannot demand the funding to be used in this way or the other. Although there is some merit in this line of argument, evidence elsewhere suggests that regulatory powers can be effective in promoting services that work for the poor by offering regulatory incentives for operating in rural areas or targeting the poor and financially excluded for example.

Therefore, in summary:

a. Targeting the poor by providing services in geographic locations where most poor individuals does not seem to be a priority for most post 2009 MFIs in Zimbabwe according the study results.

b. Most post 2009 MFI services are located in cities and towns leaving the majority rural poor excluded from MFI service provision and supported by INGOs such as CRS and CARE through promotion of Self-Help savings schemes.

c. Study evidence shows that the new MFI regulation in Zimbabwe falls short in effectively promoting MFI social performance as fails to make concrete provision for mandatory service provision to the deprived areas to ensure

microfinance positive contribution to poverty alleviation although it provides a robust framework for client protection and MFI financial competence check.

d. The study results shows that the MFIs have neither regulatory incentives to take their services to the poor nor penalties for not doing so.

e. Therefore, the expected outreach to the poor populations in Zimbabwe is at the mercy of market forces, which at the time of data collection had not been merciful to the poor rural dwellers.

Social and economic benefits of MFI services to clients

Social benefits for clients are derived from the microfinance delivery mechanism that utilise and increase social capital among the poor. Although poverty knows no gender, the majority of extreme poverty situations involve women as they face multiple disadvantages in the society.

In Zimbabwe, women by default, are expected to carry the burden of providing for the family. Although men also contribute to the family's day-to-day essentials, their role tends to be limited to supporting and enabling activities such as going out to seek employment opportunities. Because of this role, women from poor households go out daily to seek income through all sorts of petty trading ranging from selling fruit and vegetable to cross border-trading activities. These activities are often without either formal or informal training. Responsive microfinance providers provide such clients with opportunities for a wide range of business skills training as part of the lending service package aimed at empowering clients to successfully utilise the loans in most productive ways.

The training and regular meetings offers MFI clients a wide range of social benefits.

Firstly, clients as they meet regularly have an opportunity to socialise and develop positive relationships to enhance their social capital, which is very important in a society where social security system does not exist. Secondly, evidence has shown that MFI clients who have opportunities to meet up regularly improve self-confidence and self-esteem through regular interaction with others.

Thirdly, real life mentorship has been observed between older and younger women in feminine issues pertaining to family relationships especially with their husbands. Counselling sessions happen at several MFI group meetings, usually before or after the formal meeting as clients use this opportunity for social interaction with each other.

However, this study found no evidence of any of the above discussed social interaction or meetings resulting from MFI activity. The study established strong evidence of social capital among the MFI client respondents. A significant number of respondents reported that they knew and trusted at least one friend or family member who can come to their aid should they needed financial support urgently. However, none of the respondents placed any hope in their MFI of choice.

Most survey respondents reported that their loans were not group based and repayments were direct to the MFI or bank with no need to meet up with other MFI clients, as is often the case in traditional microfinance operation. As shown on Table 8 , 32% of study respondents representing 54% of borrower respondents used direct bank deposits for loan repayments. The rest paid through salary deductions, which indicates that these were individual loans. The study concluded that typical MFI services in Zimbabwe do not provide the poor or clients with noticeable social benefits due to model of service delivery, which does not encourage or present

opportunities for client interaction.

Summary of research findings

The study focused on the original vision of microfinance as a poverty alleviation tool to establish evidence of this on the Zimbabwean microfinance sector after the 2009 sector revamp due to economic crisis and hyperinflationary environment which brought the whole economy activity in the country to a halt in 2007. This section presents a summary of key study findings based on the three research questions presented at the beginning of this concluding chapter.

The key study findings are;

1) The study found overwhelming evidence of “microfinance takeover” by the new MFI breed driven mostly by profit seeking and the demands of the capital markets.
2) Originally developmental based MFIs in the post 2009 seem to have succumbed to the capital market pressures and competition from aggressive profit seeking players and have therefore digressed towards biased priority on financial performance and little attention to social performance as well.
3) Evidence suggests that the post 2009 MFIs in Zimbabwe may have very little focus poverty targeting; either geographically, individually or through pro-poor methodology targeting.

4) The study also established that most service provision and products offered by post 2009 MFIs are not adapted to suit poor clientele needs, resulting in limited or no economic or social benefits to clients according to the CERISE SPI data analysis results.

5) Over 50% of the MFI client survey respondents who had bank accounts used informal savings rather than their bank accounts and over 80% said they rarely or never used their debit cards.

   They use the bank account to receive wages from their employer and withdraw the whole amount on the payday to keep it at home (under the pillow, jar or other traditional savings methods).

6) The study noted that this was mainly because banks charged for each withdrawal so the poor prefer a single charge to minimise transaction cost. Because the service is not adapted to meet the needs of the poor, although the facility to save and use banking services is available, the poor are still excluded due to the prohibitive nature of the service.

7) Just as the majority poor are excluded from the mainstream financial services in Zimbabwe, they are also excluded from MFI services.

8) There is evidence of the microfinance sector's commitment to social goals – no express or implied intent to design or deliver products for social performance.

9) The study results suggest that microfinance is no longer viewed as a developmental program but a commercial service offered by a wide range of institutions including banks and building societies.

10) The evidence from the study results suggests that the hopes and focus for poverty alleviation by policy makers and donor institutions has moved away from microfinance to a wider and far-reaching goal of financial inclusion.
11) The microfinance contribution to poverty alleviation has shifted from direct intervention through designing socially responsive products and services to indirect intervention through participating in financial inclusion agenda by mainly lending to the low-income groups on commercial basis.
12) The regulation of microfinance in Zimbabwe provides no impetus for poverty alleviation and therefore leads to competitive disadvantage for developmental MFIs seeking to maximise social impacts.
13) Capital markets have shaped the new microfinance landscape dominated by profit seeking players with easy access to private funding.
14) Regular salaried income and collateral security is now a prerequisite for getting most microfinance loans in the post 2009 era.
15) Social capital and social security no longer viewed as important in the post 2009 microfinance lending as majority of loans now require salary income and collateral as loan guarantee.
16) The poorest of the poor in Zimbabwe, the majority of whom are in rural areas have limited access to formal microfinance from MFIs as 86% of the registered MFIs operate in towns and cities only.
17) Zimbabwe has a well-articulated vision of the microfinance sector which recognises microfinance as an important tool for poverty alleviation but the realisation of this vision lies in the hands of all stakeholders making it no one's responsibility.

18) There are limited or no sector specific academic and professional training opportunities in local educational establishments.

19) There is inability to attract international microfinance funding opportunities through (Microfinance Investment Intermediaries) due to lack of robust MFI performance monitoring, accountability and transparency systems.

In conclusion, the operational challenges faced by MFIs in a bid to serve poor households and marginalized areas include high financial illiteracy and the high cash in transit (CIT) cost involved in moving cash to remote areas.

Insurance service providers also face similar dilemmas in trying to extend their services to the marginalised communities in the informal sector. Managing premium collections in the informal sector for social protection schemes is costly unlike in the formal sector where insurance providers deal with employers representing their employees keeping transactions costs down.

While the microfinance regulation goes a long way in terms of reflecting international best practice, the poverty alleviation agenda is fast fading away from the microfinance mission statements of several MFIs. The evidence presented in this study shows that this is not necessarily a problem, as not all forms of micro lending should carry the burden of poverty alleviation. However, it becomes a problem if new model of capital market driven microfinance model replaces the poverty reduction driven model and totally becomes the new face of microfinance.

The socially motivated microfinance entrepreneurs have always existed and will always be there. They will continue to seek the maximum exploitation of microfinance’s ability to reduce poverty through social and economic empowerment. Therefore, in the global microfinance sector at any given point there will always be

two broad categories of MFIs operating, that is 1) MFIs seeking profits and 2) MFIs seeking the social and economic empowerment of the poor. These are the two broad models identified in this study as the Capital Markets (CMD) driven and the Poverty Reduction (PRD) driven respectively.

This study argues that the two models (CMD and PRD) are very different in approaches and motives, so their impact on clients cannot be expected to be the same even if MFIs following these different models are operating in a similar economic and social environment.

To illustrate this, the sample MFIs in this study represented both the CMD, and the PRD models and their clients brought experiences from interacting with each model. Just as in RCTs, the results of client experiences were conflicting with just as much reported negative experiences as were for positive experiences. However, because of the unique economic situation of Zimbabwe, there was limited evidence of the PRD model except in the mission statements.

Nevertheless, disaggregating responses by MFI model showed that client experiences varied significantly by MFI model type. For example, most respondents who had taken loans from a CMD MFI complained about high loan charges, no access to business loans or training, and the problem of losing valuable property items placed as collateral security after failing to repay.

Respondents who took loans from PRD MFI complained about the MFI's failure to respond to emergency financial needs such as providing consumer loans and not adapting quickly to client needs with services being too rigid. Clients also complained about loans taking too long to be processed costing them business opportunities. There were also positive responses for each specific model. For example, the CMD

MFIs were commended for providing a convenient service, more professional approach, and short loan turnaround times.

The PRD MFIs on the other hand were praised for providing additional essential business skills development services such as targeted training and mentoring. Although this study was not intended to comment on which model is responsible for what impact results on the poor, it does however highlight the importance of recognising the existence of two different approaches to microfinance, which may have very different effects on the poor individuals at different times.

This may also lead to reaching a decisive conclusion as to why the search for evidence of microfinance impact brings conflicting results. The study findings may also encourage other researchers to try to model specific impact assessments to ascertain the global impact of each MFI approach rather than assuming different approaches will have the same impact on poverty.

Turning back to the study hypothesis, the study findings confirmed that , "the post 2009 MFIs in Zimbabwe have very little focus on social performance issues leading to limited poverty targeting due to them being commercially driven and risk-averse in nature and therefore resulting in clients having to rely on various informal coping strategies to deal with financial crises as opposed to formal MFI services".

Research contributions to the body of knowledge

The thesis makes key contributions to the body of knowledge as outlined below.

1. **Reconfirms and affirms microfinance schism as first argued by Morduch (2000) and highlight that the sector for years ignored the implications**

resulting in ambiguity and confusion in assessing and communicating the impact of microfinance on poverty.

The study established strong evidence from both existing literature and empirical data sources that microfinance practice currently follows two distinctive broad approaches, which requires official recognition both at policy level and in academic discourse.

2. **Presents evidence and strong arguments that the conflicting results of microfinance impact assessments is in part caused by failure to recognise and accept the existence of the two broad microfinance approaches (PRD and CMD) and establish their specific impacts on the poor.**

The thesis study identified fundamental flaws in the debate about whether microfinance is still relevant as a poverty alleviation tool because the debate does not distinguish between the two approaches.

3. **Argues that interest caps can hurt the poor and so does the open market**

There cannot be a one-size fits all solution to determining how microfinance institutions should charge for services. It is important to recognise that both the interest caps and the open market can hurt the poor as presented in this thesis. Therefore, advocating for one or the other may produce unintended results for the sector but instead the local context should dictate. The study challenges the popular

rhetoric that the competition in an open market can effectively regulate interest rates to sustainable levels for the poor.

The argument is purely theoretical and there is very limited evidence to back it up, yet it is considered best practice even when evidence shows that the law of supply and demand in the subprime lending market does not work. The market thrives on convenience rather than value of the service.

4. **Further argues that the goal of building inclusive financial markets if not contextualised and carefully monitored can lead into double exclusion for the poorest of the poor with MFIs responding to the pressures of the capital markets end up also deserting the very poorest.**

Evidence from the study shows that promoting building inclusive financial systems as a poverty alleviation strategy cannot and should not replace the poverty reduction based microfinance model as this has so far produced limited positive results for the poor. Building inclusive financial markets (Capital Market Driven –CMD) is good for long-term equal opportunities in the financial markets but cannot be the panacea for poverty.

Regulators need to promote long-term solution by building inclusive financial markets while at the same time allowing and promoting the poverty reduction driven (PRD) based interventions to operate for short-term poverty reduction on the marginalised communities.

The example of Zimbabwe illustrates the challenges of building inclusive financial markets in poor economies. It was hoped that the banking institutions in Zimbabwe

would invest in technology and provide mobile banking services that would enable people in rural areas to access banking services through mobile-based platforms. However, this study has established that banks faced huge challenges in raising the required capital for such investments. Mobile technology giants such as the Econet have their own platforms, but they also cannot provide banking services due to regulatory restrictions on mobile network providers. Despite the practical challenges of lack of investment capital for adopting ICT as a strategy to reach out to the poor, the study revealed that most banks lacked the appetite to do so anyway.

Rural areas are characterised by dispersed and intermittent demand for financial services, seasonality of deposits, lack of collateral and poor infrastructure. Therefore, a purely commercial reasoning could not justify investing huge capital into ICT for extending banking services to the poor who are predominantly rural dwellers. As a result, this study concludes that, without regulatory incentives it is very unlikely that banks will prioritise their scarce capital resources in making their services accessible by the least profitable sector of the society. It also has provided the platform for a clear distinction between the CMD and the PRD microfinance models of approach and potentially further research to understand further, how the two approaches interact with their clients.

Recommendations for further study

I. **To establish the impact of CMD microfinance model on the poor in Zimbabwe with a large client survey sample size**

This thesis established evidence that CMD MFIs in Zimbabwe may not be helping the poor clients to progress out of poverty and in some case may be responsible for negative client experiences (loss of personal items of value, over-indebtedness,

etc.). Despite the availability of this evidence, conclusive judgements as to whether this model of microfinance in Zimbabwe is causing such negative impacts on microfinance clients could not be reached because of the small sample size. It is recommended therefore, that further study needs to focus more on assessing the impact of CMD specifically, on their clients using a larger sample size, representative of the whole sector.

II. **To understand the new role of developmental MFIs in post hyperinflationary / 2009 microfinance environment**

This thesis also established that the Zimbabwean microfinance is currently dominated by the CMD type MFIs operating mainly in urban areas. Very little evidence was discussed in this thesis about the current operations of PRD MFI types such as the SACCOS and NGO based institutions. This was partly because they were less visible than the CMD MFIs and their operations seemed very limited.

Further work is required to understand their current role in Microfinance Act regulated environment and what impact if any their activities are having on the poor. The study should also seek to establish whether the scale of PRD MFI operations and impact on poverty if any can provide hope for poverty reduction in Zimbabwe.

III. **To understand the economic impact and role of mobile money services as one of the potential poverty alleviation drivers in microfinance**

This thesis discussed the coverage of mobile money services in Zimbabwe particularly in rural and remote areas where for the first time in history of Zimbabwe's money transfer services, rural dwellers are able to receive remittances instantly from relatives and family in cities and even abroad. Assessing the potential economic

impact of these mobile based money services though very important to poverty reduction discourse, the subject was not explored in depth because it was not part of the thesis's main objectives. Further research in this area is highly recommended to help understand whether the mobile money services can be tailored for poverty reduction goals in Zimbabwe.

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12 APPENDIX

SAMPLE RESPONSES: WHAT ENABLED SAVINGS AMONG SOME MFI CLIENTS

"I have managed to generate profit since I run a flea market. I sell my goods and use my profit for my family' wellbeing and I reinvest the rest. I have managed to maintain this for three months now."

"I change my money from US$ to South African Rand. I have managed to sustain my business. I am also involved in a committee system and my savings increase everyday though it increases with a small amount."

"After getting a loan I invested it and got a significant profit which I used to start a chicken (poultry) business. Ever since my savings increase weekly and I rarely have any financial problems."

"I have not been saving at the moment. I have just started running my business, its two months old. However I have plans of saving money in the future with an Ecocash Account."

"I have a culture of saving. I have been saving money for years, when my savings reach a significant amount I withdraw and reinvest the money into my business."

"I have a jar that contains my savings, I add to the savings every day. When the savings reach a considerable figure I withdraw and use it to buy some ingredients for beverage production."

SAMPLE RESPONSES: HAS ANYONE EVER OFFERED YOU ADVICE ABOUT SAVING?

If yes, describe who, and the form in which the advice was given:

"Yes, A work colleague. He educated us on saving with a number of ideas and the benefits of saving."

"Yes it has, He is the one who gave us the idea of saving money as a group and pitting it in a bank. I am able to save money every day."

"Yes, friends in the form of a committee system (members).Can now buy assets from the money received from the committee system."

"Yes, Metbank Econet via Ecocash save Account. Metbank advised to save using the fixed A/C. The advice was meaningful, but I did not manage to save."

"Yes, POSB through the Smart Save account."

"Yes, my child, Ecocash saves A/C and a bank saving account."

"Yes Econet Ecocash save account."

"Yes, I was educated by my friends on how to save money."

"Tiens its a company that sells herbal products and they educated us on saving money and the benefits of saving."

"Yes a financial advisor with Fidelity Life Insurance, in the form of a life insurance policy and investments in money markets."

"Yes, my mother assisted me with some ideas of saving, she is the one who gave me the idea of an Ecocash account which I am currently using."

"Yes, friends through the committee system and the safe, which is under, lock and key."

"Yes, banks deposit money into account for safekeeping and saving. No, I did not follow it."

SAMPLE RESPONSES: POSITIVE RESPONSES"OPEN-ENDED INTERVIEW QUESTION"

Do you feel it is within your ability to improve your standard of living by your own efforts over the next year?

Positive Responses

"Yes, I sustain my business though it's quite small and I am never drowned in debts. I can also buy my own personal needs (eg) clothes, food, cosmetics (etc). my savings are also increasing significantly and I am rarely worried about monetary issues. I have also managed to help my less privileged relatives and friends."

"Yes, I am saving money and my business is generating profit for me. Without any complication in my business. I have the confidence that I can improve my standard of living"

"Yes, I have a thriving poultry business which generates income. I am also employed with a small family so I do not have many necessities to cater for. I plant tobacco seasonally with also generates money for me. I am rarely out of money so I think I can improve my standard of living."

"Since I started my business two months ago, I have been making a significant amount of profit. If the situation remains the same I am confident that my standard of living will improve greatly."

"I am making profit and I have managed to acquire a number of properties from my income. I have three cars and I stand. If business continues like this I have

confidence that my standard of living will improve greatly. I have been running my business since 2005."

"Yes my business is running very well, I am saving money and I am also making profit from my business. If thing remain like this I am confident that my standard of living will improve greatly over the next year."

"Yes, my business is booming and I make a very significant amount of profit. I am able to pay all my bills without failure at most times. With the rate at which I am making money, I am confidant that my standard of living will improve greatly over the next year."

"I am saving money as well as getting some profit from my business and I am confident that my standard of living will improve in the next year."

"Yes, I am making a considerable amount of profit and I am saving money that I use to keep my business running. I am confident that I can improve my standard of living over the next year. However with financial assistance, I can even do much better than I am doing at the moment."

"Yes, I am currently experiencing seasonal fluctuations towards holidays only. I am saving money and I am able to keep my business running thereby giving me some noble confidence that my business is profitably running."

"Yes, I always have plenty of produce to sell and I make money every day. I have confidence that if the situation remains like this, I think I can greatly improve my way of life.If I get financial assistance, I can do even better in the coming year."

"Yes , I am making profit from my business and I am able to save money though the profit is little I am managing my standard of living, may improve but not up to my expectations."

Sample responses: negative responses on"Open-ended interview question"

Do you feel it is within your ability to improve your standard of living by your own efforts over the next year?

Negative responses

"I do not think my standard of living will improve over the next year, because I am making a very small profit. Without financial intervention, I think my situation will grow even worse of the next year."

"At the moment I am making profit and things are quite consistent. I am not overly confident that my standard of living will improve over the next year. It can improve if I get financial assistance and boost my business."

"Still need more financial support from MFI or banks. My salary is not adequate to meet all my basic needs…"

"Still need some financial assistance from lenders, with my on salary my standard of living will not improve"

"Need more support from financial institutions, income not adequate to meet all my financial needs…"

"I make a small profit and there is too much competition around me. Therefore, I need financial assistance in order to improve and grow my business to make a better profit. If the situation remains the same, I do not think my standard of living can improve 2013 has proven to be a very difficult for me, salary did not increase. "

"No, I need financial assistance to invest in my business and be able to make a larger profit. I am not confident that with the way things are I can improve my standard of living. I am always in debt and I really need to cover the debts."

"No, with the way my business is going I do not think my standard of living will improve, I can maintain it, but I need financial assistance to boost my business in order to make a larger profit."

"No , with the way my business is going I don't think my standard of living will improve, I can maintain it but I need financial assistance to boost my business in order to make a larger profit."

Sample responses: why borrowing from MFI instead of banks

"Since I do not have a bank account, they will not give me money. They provide instant cash or they do not need collateral security. I do not have payslip or collateral security."

"Bank needs collateral security. Banks only give loans to civil servants. Advertising at the bank if payslip, MFI advertised on their payslip.Advised by the bank to borrow from their MFI.I do not have access to banks, they need collateral security. Bank not giving loans."

"I needed instant cash. I do not have collateral security, Loan turnaround period for MFI shorter than that of banks, Bank not offering service so refereed me to its MFI."

"I don't have a payslip or collateral security. They quickly respond to my problem. I do not have collateral security. I need instant cash. MFI provide instant cash. In banks they require pay slips and collateral security."

"Is the only way to supplement my business. MFI less strict in terms of requirements compared to banks. I do not have collateral security. I had an outstanding loan with the bank. They provide instant cash. Terms and Conditions of MFI are better than those of banks. Easier to borrow from MFI instead of bank"

"No, I don't have collateral security and also a proof of residence in town. Banks and money lenders need current payslips, also bank didn't give enough time to pay off our debt."

"I don't have enough education and effective methods of saving money. Sometimes I make successive losses due to market flooding, so if I borrow money I will lose property to money lenders who attach property."

"No, I do not save money at the moment. I survive solely on my monthly salary. I have managed to maintain my standard of living but I am failing to improve on it. However I have not been experiencing any financial problems of lately."

SAMPLE FIELD OBSERVATIONS AND LOGBOOK NOTES

Interview (1)

This respondent really needs financial assistance. She has managed to keep her business operating but on a hand to mouth basis. Respondent saves money through a committee system but is certain that her standard of living will not improve without financial aid. Respondent wants the MFIs to give their loans on firmer terms and abolish the issue of collaterals. Respondent also wants the MFIs to make their loans accessible. She also needs business training and insurance.

Interview (2)

The respondent is saving money through ecocash and a group account that they have. They deposit money in a group bank account and withdraw it twice a year. The respondent also emphasised that he needs financial assistance to boost his business and this will help improve his standard of living. He is aware of the MFIs and looks forward to getting a loan in the future. He expect a loan of $800 up to $1000 to boost his business and hopefully expand it. The respondent also needs education on running and managing a business (ie) book keeping and marketing.

Interview (3)

Loan used for housing project, training only done for those who are borrowing loans for business, respondent not in good health but managed to repay the loan within 10 months with the help from spouse.

Interview (3)

Respondent not happy with interest rate and time for loan repayment, Business training received before given loan.Loan borrowed due to peer pressure.

Interview (4)

Not happy with the service received. "Loans did not make any change to my standard of living." Respondent feels that they have capability to improve but because of high interest rates, they stand still. There is a need to reduce interest rates.

Interview (5)

This respondent is a tailor, so is her husband and eldest son. She works hard and is making a significant amount of profit. Since she started her business in 2005, she has managed to buy herself 3 cars, a house and a residential stand on which she has plans of building another house. However in her kind of business there is now too much competition and she needs financial assistance to start another business different from tailoring.

The respondent was involved in a group which took a group loan from a bank called Trust Towers. They paid back their loans through their group leaders. However the group leaders misused the money they were given to pay back the loan so the loan is still in arrears.

Interview (6)

This respondent is a tailor, so is her husband and eldest son. She works hard and is making a significant amount of profit. Since she started her business in 2005, she has managed to buy herself 3 cars, a house and a residential stand on which she has plans of building another house. However in her kind of business there is now too much competition and she needs financial assistance to start another business different from tailoring. The respondent was involved in a group which took a group loan from a bank called Trust Towers. They paid back their loans through their group leaders. However the group leaders misused the money they were given to pay back the loan so the loan is still in arrears.

Interview (7)

This respondent is doing quite well and is confident that she can improve her standard of life with her business. However she is not even aware of the services offered by MFIs. Respondent needs to be educated on the services MFIs offer and the advantages of associating her business with them. The respondent however after a bit of explaining expects short term accessible loans from MFIs, insurance and business training, in particular marketing and book keeping.

Interview (8)

This respondent is doing very well and saving money through a committee system. The respondent also associates with other people who are quite successful and can help her in times of need. With financial assistance this respondent can do so much better. She knows about the MFIs but has not been able to access a loan because of quite a number of reasons, one of which is the fact that she is not salaried. The respondent expects to be given long term business loans at low interest rates, consumer loans, mainly educational loans and be taught on running a business effectively.

Interview (9)

Respondent has a culture of saving and has been saving money for quite some time now. He uses his savings to boost his business (ie) buy stock for his shop. Respondent emphasised on the fact that MFIs should educate people on the services they offer. They should also train people on business management, record

keeping and marketing. MFIs should also make loans easy to access at payable interest rates. He also expects the MFIs to make housing loans accessible so that he may be able to build his own house and hopefully stop renting.

Interview (10)

Respondent has a registered beverages company, which is doing very well. He is saving money which he uses to buy ingredients for his beverages. Respondent is aware of the existence of MFIs but is unaware of the services they offer. He is making a considerable sum of profit and is confident that his standard of living will improve. As a person with a registered company the respondent emphasised on the issue of insurance and that the MFIs should make business loans easy to access.

Interview (11)

This respondent is doing very well and he is saving money. He has a culture of saving and has been saving money for a long time now. His saving amount is up to $2000. The respondents' business is doing very well and he is confident that his standard of living will improve greatly over the next year. The respondent wants the MFIs to improve on the accessibility of their loans as well as train people who have SMEs how to run and manage their businesses effectively. If loans are made accessible they should be of low interest rates and firm terms.

Interview (12)

Respondent is a farmer who sells his own produces; he saves his money by buying other goods (stock) that he does not produce himself for trading. He might have no money, he will be having a lot of goods to sell. The respondent however is not aware of the services offered by the MFIs. Respondent is doing well by himself, but his business has the potential of doing so much better with financial assistance. Since the respondent is a farmer he emphasised very much on insurance. He wants the MFIs to insure his crops in case of fire or bad rain.

Interview (13)

Respondent definitely needs financial assistance. He has managed to keep his business running but he is in debt. However though he is in debt, he is managing to save some money. He says his household income has actually decreased in the past two years. He is aware of the MFIs to assist him with accessible long term loans at low interest rates and firmer terms on loans emphasizing that they should abolish the issue of collaterals or attaching peoples properties.

Interview (14)

Respondent is making a small profit but however she is managing to save some money. Her savings amounts $600 and is kept in Ecocash account. She withdraws her money there to cover most of business's expenses. The respondent knows the existence of MFIs but has not been able to access a loan. The respondent also needs to be trained on the fundamentals of running a business effectively (ie) book

keeping and marketing. The reason she has not been able to access a loan is because she did not approach the MFIs for support. She is afraid of the issue of collaterals and high interest rates over a short period of time.

Interview (15)

This respondent is running two struggling businesses. He has been able to maintain them and keep them running for almost five years now. He is making very little profit and is doubtful if his standard of living will improve over the next year. He has been unable to boost his business with his own savings. He has knowledge of the services offered by MFIs but has not approached any for financial assistance. The respondent has his own fears (ie)large interest rates charged by MFIs and their strict terms on loan repayments, that's why he has been reluctant to approach them for financial assistance.

Interview (16)

Respondent is saving money but is struggling to make ends meat business wise. She is saving money through a committee system. Her financial status has actually decreased over the last two years. She is aware of MFIs' but is not aware of the services that they offer and she has not been able to access a loan. She expects a loan of up to $1500 to expand her business. She also expects a longer period of repayment and very low interest rate. The respondent also emphasised that MFIs' should stop asking for collateral property.

Interview (17)

Respondent repair not replace household goods, Monthly income approx. $400.The only service client needed was loan. Client feels that if he had gone to business school he could have been able to manage his business better. Loan did not make much of a difference in his life. He applied for a loan due to peer pressure.

University of Derby

Investigating a best Practice model of microfinance for poverty alleviation

Client

THIS QUESTIONNAIRE ASKS FOR CLIENT EXPERIENCE

REFERENCE:

DATE:

INTERVIEWER:

This questionnaire is completely confidential. The reason for asking you this information is to enable MFI to give a better service. No information from this form will be released to any third party.

Name……………………………………………………

Address: ……………………………………………….

………………………………………………………………

………………………………………………………………

MALE / FEMALE (Interviewer to code)

Loan History

First Loan: (date)……………… (value $)……………Loan Term …………… Interest…….....

Second Loan : (date)…………………(value $)……………Loan Term …………… Interest…….....

Third Loan: (date)………………… (value $)……………Loan Term …………… Interest………......

Fourth Loan: (date)………………… (value $)……………Loan Term …………… Interest……....

Fifth Loan: (date)………………… (value $)……………Loan Term ……………Interest…….....

1. Household Information

1. Can you tell me who else lives with you in your house?

(please state relationship to other adults)

Spouse ……..……………1 Other adult..........……2 Other adult………………3

Child 1……………………4 Child 2 …………………….5 Child……………………6

Child 4……………………7 Live alone..…..…………8

2. **How many children do you have and how old are they? If none enter '0'.**

Children aged 0-4	
Children aged 5-10	
Children aged 11-18	
Young people aged 18+ living with you	

3. Which of these options best describes your current position?

Married ……..…………………………………………1

Single ……………………………………………………2

Divorced/Separated…. …………………………..3

Widowed ……………………………..................4

Other, please specify……………………………..5

2. Education and Training

4. **Have you received practical training in any subject, including running a business?**
Yes ………………1

No ……………….2

If yes, please give details of that training

--

In particular, did it include any training in financial management (budgeting/assessment of income and expenditure/record keeping/debt management/savings/ understanding of bank charges/)? Yes/no………………………………………………………………………….

If yes give

details……………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

5. **What educational qualifications do you or your spouse have?**

		7. You	**8. Your spouse**
A	***Vocational qualifications*** *please state level and subject*		
C	**GCSEs** (please state number of passes)		
D	**University degree (please state subject)**		
E	**Other qualifications (please state)**		
F	**No qualifications**		

3. **Personal Finance**

Do you have a bank or building society current account?

Yes ………………1

No ……………….2

6. **Which of these descriptions best applies to you?**
I have a debit card which I use regularly for making purchases

I have a debit card which I rarely use

I do not have a debit card

7. **(if applicable) Does your spouse have a bank or building society current account?**
Yes …………..…..1

No ……………….2

8. Have you ever tried to open an account and been refused?

Yes …………………………………………… 1

No …………………………………………….. 2

9. IF YES, How long ago was this? *………………….. years ago*

10. I'm going to read out a list of some of the ways that people save money. For each one, please tell me whether it is a method that you use.

READ OUT EACH OPTION

		Yes (=1)	No (=2)	Not sure (=3)
A	Bank or Building Society Savings or deposit account			
B	Credit Union			
C	A Christmas Club or similar run by a local shop			
D	Informally with work colleagues, friends or the committee system (Mukando)			
E	Putting money in a jar or envelope			
F	Asking a relative or friends to save or look after money for you			
G	Lending money to friends or family as a way of saving			

Note total value of savings in all these different accounts $……………

***11.* If you don't save money in any of these ways, do you save money in another way?**

Yes …...1 please specify ……………………………………

No ………………2

12. Do you feel that your ability to save has changed over the last couple of years? Yes/no

***Please describe how*……………………………………………………………..**

………………………………………………………………………………………………
………………………………………………………………………………………………
………………………………………………………………………………………………

Borrowers (ie Loans clients): prompt – did the loan make a difference and if so how?

………………………………………………………………………………………………
……………………………………………………………………………………………..

…………………………………………………………………………………………….

13. Has anyone ever offered you advice about how to save in the last few years?
If yes, describe who, and the form in which the advice was given:

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

If yes, describe whether the advice helped, and if you can,

also explain how it helped you manage your money better, or failed to do so:

…………………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

14. If you are not saving now,
Did you ever save, in any form, at any point in the past? Yes/no

(if yes: probe reason for saving eg to afford particular wanted items……………………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………
………………………………………………………………………………………………

Can you explain why you gave up saving?………………………………………………………………………………………………
…………………………………………………………………………………………………
…..

15. Can you please tell me whether or not you have any of the following types of credit or borrowings at the moment? Just tell me the letter by the item.
For each ask, do you know how much you currently owe? (write in)

		Q16	**Q17**		*Circle the interest rate you believe applies to your loan. If reluctant to make even an estimate please leave blank.*				*Amount Outstand ing ($)*	*Amount paid each month in interest and debt service charges ($)*
	Do you have this type of credit?	Yes	Yes	No	0-9.9%	10-24%	25-49%	50-99%	100% +	
H	Loan from a licensed finance company - registered money lender	01	1	2	1	2	3	4	5	*Are any of these loans in arrears? Y/N*
I	Companies such as shops etc - Cash Converters	09	1	2	1	2	3	4	5	
J	Loan from a moneylender (unlicensed) or 'tally man'	02	1	2	1	2	3	4	5	
K	Pawnbrokers (somewhere where you borrow money and leave goods).	10	1	2	1	2	3	4	5	*Are any of these loans in arrears? Y/N*

K	Bank/building society loan or overdraft	03	1	2	1	2		3	4	5	
L	Credit Union or cooperative	04	1	2	1	2		3	4	5	*Are any of these loans in arrears? Y/N*
M	Microfinance Institution (MFI)	05	1	2	1	2		3	4	5	*Are any of these loans in arrears? Y/N*
N	Local shops	07	1	2	1	2		3	4	5	
S	Loan from family or friends	12									
	Total (please remember to fill in last two columns)										

***16.* For each YES (WHERE INDICATED) ASK – And do you know the rate of interest?**

17. Open-ended question
Do you feel it is within your ability to improve your standard of living by your own efforts over the next year?

Yes (1)/No (0)

Whether the answer is yes or no, please give reasons for your answer…………………………………………………………………………………………………
……
……
……
……
……………………………………………

4. Social networks

18. Do you belong to any of the following organisations?
READ OUT EACH TYPE OF ORGANISATION

19. For each organisation the participant belongs to, ask: are you involved in the organisation of this group?
For example, secretary or treasurer of organisation

		Member (=1)	Involved in organisation (=2)	Member since 2006?
A	Social club			
B	Community group – choir, toddler group			
C	Women's Institute			
D	Sports club/team			

E	Community organisation – tenants assoc etc			
F	Church, Mosque or religious organisation			
G	Other groups			

20. If you have money worries, who are you able to share your problems with?
DO NOT PROMPT, CAN MULTICODE

Your spouse …………………………………………………………………………………..1

Your parents …………………………………………………………………………………2

Your children…………………………………………………………………………………3

Other family member………………………………………………………………………..4

Friends…………………………………………………………………………………………5

Other, please state….…………………………………………………………………………..6

No-one………………………………………………………………………………………7

21. Do you have family or friends you would trust in the event of a serious personal problem?

Yes, there are several people I would always trust……………………………………1

There are very few people I would trust………………………………………………..2

No, there is no one I would trust……………………………………………………3

Not sure…………………………………………………………………………………..4

22. People organise their family finances in different ways, which of these is closest to yours?

I look after all the household's money (except personal spending money for my spouse, if any).1

My spouse looks after all the household's money (except my personal spending money, if any) 2

I am given a housekeeping allowance, my spouse looks after the rest of the money……………3

We share and manage our finances jointly……………………………………………4

We keep our finances completely separate…………………………………………….5

Some other way, please specify……………………………………………………………6

Not applicable – live alone…………………………………………………………………7

***23.* If you had a financial emergency and needed $100 in a hurry, what would you do?**

AT FIRST DO NOT PROMPT. If the answer is 'borrow' specify here from what source you would hope to borrow…………………………………………………………………………………
…………………………………………………………………………………………………
…………………………………………………………………………………………………

24. If you had a financial emergency and needed $1000 in a hurry, what would you do?
AT FIRST DO NOT PROMPT.

If the respondent replies 'I couldn't cope', record this here:

…………………………………………………………………………………………………

………..

25. Suppose you suddenly had a windfall and received $1000, what would you do?
Again, do not prompt. As before, you can multi-code.

Spend it all on necessities(food, rent etc)	***1***
Spend part of it on consumer goods/luxury items	***2***
Spend part of it on investment goods e.g. business assets, own or children's education	***3***
Save part of it	***4***
Save all of it	***5***

26. **How often would you say you have been worried about money during the last few weeks?**
READ OUT, CODE ONE ONLY...

Almost all the time ………………………...1
Quite often…………………………………2
Only sometimes ……………………………3
Never………………………………………4

27. **Taking everything together, which of the phrases best describes how you and your family are managing financially these days?**

manage very well……………………………………………….1

manage quite well………………………………………………2

get by alright……………………………………………………3

don't manage very well…………………………………….4

have some financial difficulties…..........................5

are in deep financial trouble………………………………6

28. **What sort of spending do you worry about the most?**

Food & Clothes ………………………………………………….1

Household bills…………………………………………………..2

Children's Education ………………………………………….3

Loan repayment …………………………………………………….4

Birthdays & Christmas…………………………………………….5

29. **In the past 4 weeks has there been a time you went without food?**

Frequently (almost every day)………………………………. 1

Sometimes (once a week)………………………………………. 2

Occasionally (less than once a month)……………………. 3

Never……………………………………………………………….. 4

30. **In the past 4 weeks has there been a time your children time you went without food?**

Frequently (almost every day)………….. …………………… 1

Sometimes (once a week)………………………………………..2

Occasionally (less than once a month)……………………. 3

Never………………………………………………………………… 4

***31.* Looking at the list, which option best describes how often you find it difficult to meet the cost of the following *for your children*:**

	Very often	Quite often	Occasionally	Never	Don't know or N/A
School uniform					
School fees					
School lunch and materials					
School trips					
Activities and days out with friends					
After school activities – e.g. drama and sports clubs					

***32. Can you afford the following items* for yourself?**

	Very often	Quite often	Occasionall y	Never	Don't know or N/A
A Rent or mortgage					
B Repairs, maintenance etc					
C Holidays					
D Replacing household goods					
E Attending special events					
F Birthday celebrations					

5. Personal assets

***33.* Which of these descriptions best describes how you pay for your accommodation?**

Owned by you or member of household ……..1

Rented …………………………………………2

Other ……………………………………………..3

34. If your house is <u>owned</u>, please give an estimate of its market value (to the nearest $5,000)

Now	

35. If your house is <u>owned with a mortgage</u>, how much is your monthly mortgage payment?

36. If your house is <u>rented</u>, how much is your monthly rental?

37. Do you have regular access to a car, van, motorcycle or scooter for your own personal use?

	Now	*Three years ago*
Yes…………………………. 1		
No 2		

6. Work or business

38. Which of the following descriptions applies to you?
and your spouse?
What is the situation of any other adults over 16 in the household?

	You	Spouse	Other adult 1	Other adult 2
Employee in full time job (30 hours or more)	1	1	1	1
Employee in part time job (less than 30 hours)	2	2	2	2
Self employed – full or part time	3	3	3	3
Unemployed and available for work	5	5	5	5
Wholly retired from work	6	6	6	6
Full time education – school, college, etc	7	7	7	7
Looking after family/home	8	8	8	8
Permanently sick or disabled	9	9	9	9
Currently ‘on the sick’ but may return to work	10	10	10	10
Other, please state	11	11	11	11

***39.* If respondent is working, ask, What is your occupation?**

……………………………...

***40.* How much do you take home per month from this job, after tax have been deducted?**

…………………………………………………………………………………………………..

***41.* If spouse is working, ask, What is your spouse’s occupation?**

……………………………………………………………………………………….

***42.* How much does your spouse take home per month from this job, after tax deducted?**

....

7. Income

***43.* What is the total income coming into this household, after tax, including any profits from the business.**

IF THEY ARE UNSURE PROBE FOR A BEST ESTIMATE

Weekly	Annual	
A Nil	Nil	1
B Under $60	Under $3000	2
C $60 - $119	$3000 - $5999	3
D $120 - $199	$6000 - $9,999	4
E $200 - $299	$10,000 - $14,999	5
F $300 - $479	$15,000 - $24,999	6
G $480 or more	$25,000 or more	7
Refused to say		8
Not sure		9

***44.* Which of these statements comes to closest to describing how your household income has changed compared with two years ago?**

We are significantly better off financially (household income increased by more than 50%) 1

We are quite a bit better off financially (household income increased by between 20- 50%. 2

We are a bit better off financially (household income has increased by up to 20%)............. 3

Our financial situation is about the same as two years ago (household income unchanged)... 4

We are a bit worse off financially (household income has decreased by up to 20%)…............... 5

We are quite a bit worse off financially (household income decreased by between 20- 50%... 6

We are significantly worse off financially (household income decreased by more than 50%)... 7

Don't know…………………..……………………………………………………………… 8

8. Microfinance Services

***45.* Why did you borrow from an MFI instead of bank?**

....

***46.* How do you make your loan repayments?**

Bank deposit (MFI) …………………. 1

MFI loan officer comes to collect……… 2

At group or centre meeting…………… 3

47. **What sort of services do you get from your MFI? (loans, savings, training etc)**

1. ....
2. ....
3. ....
4. ....

48. **What services do you need but cannot get from your MFI?**

1. ....
2. ....
3. ....
4. ....

49. **If you were to advice your MFI provider in service improvement, what would you say?**

1. ....
2. ....
3. ....
4. ....

9. Health and Wellbeing

Your Wellbeing

50. **In general, would you say your health is:**
*(please circle **one** number only)*

Excellent……………………..1 Very good……………………2

Good……………………….. 3 Fair…………………………….4

Poor…………………………..5

51. **During the last 4 weeks, to what extent have your physical health or emotional problems interfered with your normal social and business activities**
*(Please circle **one** number)*

Not at all…………………………1 Slightly………………………………………...2

Moderately………………………3 Quite a bit………………………………………4

Extremely………………………..5

52. **How much bodily pain have you had during the last four weeks?**
(Please circle one number)

None…………………………………1 Very mild....................................... 2

Mild…………………………………..3 Moderate…………………………… 4

Severe……………………………… 5 Very severe………………………….. 6

10. Personal details

53. What did you use your loan (from MFI) for?

(Do not prompt, can multicode)

Pay off debts	
Buy consumer goods	
Holiday	
Invest in business	
Educational costs	
Medical costs	
Other, specify	

54. How do you rate the overall service you have received fromMFI:

Excellent	1
Good	2
Satisfactory	3
Inadequate	4
Bad	5

55. In general, do you feelthe MFI loan has made you more confident in managing your money? (*write down any comments the respondent makes)*
……………………………………………………………………………………………
……………………………………………………………………………………………
………………………………………………………………………………………

***56.* How old are you? ……. Years**

***57.* How old is your spouse? ……. Years (if applicable)**

58. OPEN-ENDED QUESTION

Looking back over the two years or so since you received your loan.. what difference do you feel the loan has made to your life?

(open-ended answer, possible prompts:

- standard of living; employment possibilities; social and community relationships; ability to manage money.

Thank you very much for your time.