The role of microfinance institutions in poverty alleviation in developing economies: the case of Zimbabwe

By

Student: Munyaradzi Chakatsva
Reg. No.: R9917565
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Dissertation submitted in partial fulfillment of the requirements for the degree of Master of Business Administration, Graduate School of Management, University of Zimbabwe
Supervisor: Mr S. M. Chimwara
DECLARATION

I, Munyaradzi Chakatsva, do hereby declare that this dissertation is the result of my own investigation and research, except to the extend indicated in the Acknowledgements, References and my comments included in the body of the report, and that it has not been submitted in part or in full for any other degree to any other University.

________________________  _______________________
Student’s Signature          Date

________________________  _______________________
Supervisor’s Signature       Date
DEDICATION

To my Lovely Wife Vimbayi and our daughter Makanaka Emily!!!
ACKNOWLEDGEMENTS

Very special thanks to my dissertation supervisor Mr. S. M. Chimwara for guidance and advice that he gave. I am also grateful to Mrs. C. Tsikirayi for the valuable dissertation clinics which proved to be vital as referencing material throughout the process of conducting this study.

I am also grateful to my close friends Albert Munhamo, Clive Kopera and Innocent Madziva for their encouragement, support and contribution to this piece of work. Last, but not least I do appreciate my wife Vimbayi and our daughter Makanaka, who endured long hours without their father as I attended to this project.

I am truly thankful to you all, may the Lord Almighty bless you.
ABSTRACT

One critical aspect faced by developing economies the world over is that of poverty and economic security. The issue is so critical to such an extent that its eradication is mentioned as the first of the United Nations initiated Millennium Development Goals. The microfinance sector is seen as one powerful tool that can be used to reduce poverty especially in developing economies. The major question at hand is whether microfinance institutions are playing their role is reducing poverty and spurring economic development. The overall aim of this research project is therefore to ascertain the role of microfinance institutions in poverty alleviation in developing economies, focusing on Zimbabwe.

The research objectives and questions are guided by the research topic with specific focus on the products and services offered by MFIs, their business conditions, their impact as well as legislations that govern their conduct. Two sets of questionnaires were used to collect data from sixty randomly selected MFIs (Fifty MFIs and ten SACCOs) as well as one hundred randomly selected MFI clients. In as much as MFIs have the products and services that assist in alleviating poverty, the challenge is that the very poor people in rural and urban areas are not being reached and the products and services are too expensive to such an extend that the poor people are being sunk into more poverty.

Regulatory authorities are recommended to come up with interest rate caps on all MFIs to avoid borrowers being charged unsustainable interest rates. They are also recommended to ensure MFIs adopt internationally best practices for microfinance in the conduct of their business. APEX bodies like ZAMFI are encouraged to institute capacity building programs for MFIs to strengthen and equip the institutions so that they are in compliance with Laws and Regulations governing their conduct. MFIs are also encourage to offer capacity building training sessions to their clients as well as broaden their product offerings to include micro insurance.
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<th>Description</th>
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<tbody>
<tr>
<td>BNS</td>
<td>Basic Needs Strategy</td>
</tr>
<tr>
<td>CETZAM</td>
<td>Christian Enterprise Trust of Zambia</td>
</tr>
<tr>
<td>DFID</td>
<td>British Department for International Development</td>
</tr>
<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MF</td>
<td>Microfinance</td>
</tr>
<tr>
<td>MFI</td>
<td>Microfinance Institution</td>
</tr>
<tr>
<td>NACSCUZ</td>
<td>National Association of Credit and Savings Co-operative Union of Zimbabwe</td>
</tr>
<tr>
<td>NBFIs</td>
<td>Non Bank Financial Institutions</td>
</tr>
<tr>
<td>NGO</td>
<td>Non Governmental Organization</td>
</tr>
<tr>
<td>PDL</td>
<td>Poverty Datum Line</td>
</tr>
<tr>
<td>PPP</td>
<td>Purchasing Power Parity</td>
</tr>
<tr>
<td>PRSP</td>
<td>Poverty Reduction Strategy Papers</td>
</tr>
<tr>
<td>RBZ</td>
<td>Reserve Bank of Zimbabwe</td>
</tr>
<tr>
<td>SACCO</td>
<td>Savings and Credit Co-operative Societies</td>
</tr>
<tr>
<td>SAP</td>
<td>Structural Adjustment Programs</td>
</tr>
<tr>
<td>SEDCO</td>
<td>Small Enterprise Development Corporation</td>
</tr>
<tr>
<td>SMEs</td>
<td>Small to Medium Scale Enterprises</td>
</tr>
<tr>
<td>ZAMFI</td>
<td>Zimbabwe Association of Microfinance Institutions</td>
</tr>
<tr>
<td>ZAMLA</td>
<td>Zimbabwe Money Lenders Association</td>
</tr>
</tbody>
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CHAPTER ONE

1.0 Introduction

1.1 Introduction to the study

This study is aimed at ascertaining the role of Microfinance institutions in poverty alleviation in developing economies, with a focus on Zimbabwe. There is a general agreement amongst various scholars and researchers that in the right circumstances microfinance can increase household incomes, but however, its impact on poor clients remains controversial (Shaw, 2004, p.1247).

The world over since inception the microfinance sector or rather industry has been aimed at helping to end poverty and spur economic development through offering microloans. These microloans average a few dollars and help mainly impoverished people who lack security for conventional loans. The Microfinance industry has actually gained acceptance throughout the whole world, with the declaration of 2005 as the ‘International Year of Microcredit’ by the United Nations, the endorsement by the G8 at the Gleneagles’ Summit and the Commission for Africa Report (2005), all demonstrated its official support as a means of increasing access to financial services. The World Bank and the International Monetary Fund have also embraced it as part of their strategy for alleviating poverty (Microfinance Matters, November 2005, p.3).

Paul Wolfowitz, World Bank President, 2005, said this concerning microfinance:

“It is a powerful tool for reducing poverty. It enables people to increase their incomes, to save and manage risk. It reduces vulnerability and allows poor households to move from everyday survival to planning for the future”.

Nobel Prize winning economist Muhammad Yunus, who established the first micro finance bank in Bangladesh and launched the modern micro lending movement claims microloans have lifted millions, especially women out of poverty and spurred economic growth. The micro lending sector started as an experiment on Bangladeshi villagers in
the 1970s; the experiments gave some startling discoveries that turned standard economic assumptions on their head

In February 1998, Chen Junsheng, Head of the Chinese National Poverty alleviation project, stated that:

“Micro finance is an effective tool to reduce poverty. We should experiment with micro finance projects in some areas and then spread these projects to other areas. The key characteristic of micro finance operations is that funds directly reach the poorest rural households and that the rate of repayment is high”.

1.2 Background to the study

1.2.1 Poverty and Economic Insecurity in Developing Economies

According to the estimates of Chen and Ravallion (2008), about 1.4 billion people (25.7 percent of the population) were poor in 2007 as measured by the international poverty datum line of $1.25 per day per person in purchasing power parity (PPP) terms. According to the same study, another 1.751 billion people (32.1 percent of the population) were between $1.25 and $2.50 income lines, who are therefore very much at risk of getting pushed down to poverty by negative shocks of even small order. Using the $2.50 yardstick, a total of 3 140.2 million (60.1 percent of the population) are suffering from the scourge of poverty and economic insecurity. Therefore, the magnitude of the problem of poverty in the world, especially in developing economies is overwhelming. Poverty has many implications on the poor, chief of them is economic insecurity. Poverty makes it difficult for the poor to take ex-ante measures against possible misfortunes. Poverty also makes it difficult for them to cope with misfortunes ex-post when they actually befall them.
1.2.2 Overview of the Micro Finance Sector

Microfinance has proven to be an effective and powerful tool for poverty reduction. Like many other development tools, however, it has insufficiently penetrated the poorer strata of society. The poorest form the vast majority of those without access to primary health care and basic education; similarly, they are also the majority without access to finance.

While there is no question that the poorest can benefit from primary health care and from basic education, it is not as intuitive that they can benefit from microfinance, or that microfinance is an appropriate tool by which to reach the Millennium goals.

The World Bank Publication on Microfinance and Poverty Reduction of 1998, highlight that many Microfinance Institutions have tended to focus foremost on their financial survival, and have generally been reluctant to invest substantially in evaluations. The majority of MFIs neither determines the composition of their clientele upon intake nor evaluates the effectiveness of their program in terms of poverty reduction. The development and use of new tools for market analysis and evaluation suggests that failure to monitor and evaluate can cut costs in the short run at the expense of achieving long term social and economic goals.

It is therefore, important to evaluate the role of MFIs in poverty alleviation as well as drawing lessons from the research.

1.2.3 Micro Finance and the Millennium Development Goals

All along, the world development agenda was dominated by the World Bank and the IMF, who initiated the Structural Adjustment Programs (SAP) and the Poverty Reduction Strategy Papers (PRSP). There was however a paradigm shift to some extent on the eve of the new millennium, when the United Nations entered the scene through the formulation of the Millennium Development Goals. The Millennium Development Goals (MDGs) are therefore, a United Nations initiative and they were developed out of the
eight chapters of the Millennium Declaration, signed in September 2000. Where Basic Needs Strategy (BNS) and PRSP treat reduction of poverty and insecurity as a separate and independent goal, MDGs move further in the same direction and define developmental goals almost entirely in terms of specific targets regarding reduction of poverty, hunger, malnutrition, amongst others without any reference to income level or aggregate growth rate.

Commenting on the MDGs in July 2002, the then UN Secretary General Kofi Annan said:

“We confront a world divided between the rich and the poor as never before in humanity history. Around one sixth of humanity has achieved levels of well being that were impossible to contemplate even a few decades back. At the same time another one sixth of humanity struggles for daily survival, in a life and death battle against disease, hunger and environmental catastrophes. In between are around 4 billion people in developing countries who no longer live on the cliff edge of disaster, but who remain very far away from security capabilities and material well being enjoyed by people of the developed world”.

There are basically eight goals with twenty one targets and a series of measurable indicators for each target. Listed below are the eight MDGs:

i) Eradicating extreme poverty and hunger
ii) Achieving universal primary education
iii) Promoting gender equality and empowering women
iv) Combating HIV/AIDS, malaria and other diseases
v) Reducing child mortality rates
vi) Improving maternal health
vii) Ensuring environmental sustainability, and
viii) Developing a global partnership for development.

Poverty eradication or rather reduction is therefore such an important component to such an extent that it is listed as the first of the UN initiated MDGs. The Microfinance
industry therefore enables the poor to improve their standard of living as they are availed an opportunity to various factors of production.

1.2.4 The Zimbabwean Case

As per the SNV Netherlands Development Organization, Zimbabwe, Report on Microfinance Sector Recovery Study (2009, p.6), Zimbabwe is home to a population of 13.2 million, of which 70% live in rural areas and at least 72% live in poverty. The country witnessed an increase in activity by microfinance players as a reaction to a steady decline in the country’s economic fortunes since 1997. This is basically because microfinance tends to thrive in developing countries where there is an increase in unemployment and poverty. As people seek to engage in informal sector activities to survive there is a growing demand for small loans for business, education, low income housing, agricultural inputs, micro-leasing and also for micro insurance.

A survey conducted by the National Task Force on Microfinance, between December 2005 and March 2006, highlights that only 30% of the economically active population is assisted via the formal financial system, whereas the remaining 70% is served by the informal sector. This is mainly through microfinance institutions, moneylenders, relatives, friends as well as credit unions. (Zimbabwe National Microfinance Policy, 2006, p. 5).

1.2.5 Micro Finance Policy in Zimbabwe

Zimbabwe has a National Microfinance Policy which was developed in 2006 through collaborative work by various organizations namely Government Ministries, Apex Organizations, Non Governmental Organizations, Developmental Partners, RBZ, MFIs and Moneylenders. The policy was aimed at coming up with a roadmap as well as a strategic framework for the development of a sustainable microfinance sector in Zimbabwe. In accordance with international best practice in micro finance, the policy had its main thrust in promoting poverty alleviation and economic development.
1.2.6 Micro Finance Institutions in Zimbabwe

The number of Microfinance Institutions in Zimbabwe is growing tremendously, as of December 2010, the country had 105 registered MFI and the number has risen to 157, all these under the supervision of the Central Bank, as per Reserve Bank of Zimbabwe Monetary Policy Statement presented by the Governor Dr G. Gono in January 2012. As of April 2012, the number had risen to 172.

There is a diversity of institutions serving as MFIs, all operating in the lower income market segment. The country is now witnessing some commercial banks also penetrating the market. The following provide a range of organisations which can be classified as MFIs:

   i) Banks,

Traditionally, banks have been heavily oriented towards financing private durables, manufacturing inputs, raw materials, distribution of goods and agriculture. A number of banks provide special credit to the tobacco industry, Zimbabwe’s main commodity export product. Banks have however downscaled into the micro finance market segment, two major examples being, FBC through Microplan Financial Services Private Limited and Kingdom Bank through MicroKing Savings and Credit Company Private Limited.

   ii) Non Bank Finance Institutions

In Zimbabwe there are three categories of non-bank financial institutions: building societies, asset management companies and money lending institutions. Moneylending institutions include moneylenders that are primarily offering consumption lending services and microfinance institutions (MFIs) that usually started as NGO (NGO-MFIs) with enterprise lending products.

   iii) Government Owned institutions,
The Zimbabwean Government has set up various development finance institutions to service micro, small and medium enterprises, examples include POSB and SEDCO.

iv) Semi formal institutions (SACCOs),

These include Credit Unions and Cooperatives, and they draw their membership from the local community or from a similar employer. Examples are Masvingo Teachers Association Savings and Credit Society, Women’s Savings and Credit Society.

Table 1.1: Distribution of Microfinance Institutions in Zimbabwe

<table>
<thead>
<tr>
<th>City / Town</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harare</td>
<td>115</td>
</tr>
<tr>
<td>Bulawayo</td>
<td>26</td>
</tr>
<tr>
<td>Gweru</td>
<td>4</td>
</tr>
<tr>
<td>Mutare</td>
<td>7</td>
</tr>
<tr>
<td>Masvingo</td>
<td>10</td>
</tr>
<tr>
<td>Other</td>
<td>10</td>
</tr>
<tr>
<td>Total</td>
<td>172</td>
</tr>
</tbody>
</table>

*Source: Reserve bank of Zimbabwe (Appendix No 1)*

From the table above more than half (67%) of the registered MFIs are domiciled in Harare, 15% are based in Bulawayo, with the remainder spread within smaller towns and cities.
Savings and Credit Cooperatives Societies (SACCOs)

Table 1.2: Distribution of Registered SACCOs

<table>
<thead>
<tr>
<th>Province</th>
<th>Number</th>
</tr>
</thead>
<tbody>
<tr>
<td>Harare</td>
<td>14</td>
</tr>
<tr>
<td>Bulawayo</td>
<td>6</td>
</tr>
<tr>
<td>Midlands</td>
<td>19</td>
</tr>
<tr>
<td>Mashonaland East</td>
<td>4</td>
</tr>
<tr>
<td>Mashonaland Central</td>
<td>1</td>
</tr>
<tr>
<td>Mashonaland West</td>
<td>5</td>
</tr>
<tr>
<td>Masvingo</td>
<td>6</td>
</tr>
<tr>
<td>Matabeleland</td>
<td>8</td>
</tr>
<tr>
<td>Manicaland</td>
<td>5</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>68</strong></td>
</tr>
</tbody>
</table>

Source: Ministry of SMEs and Cooperative Development (Appendix No 2)

From the Table 1.2 above, there are a total of 68 SACCOs registered with NACSCUZ. Of the registered SACCOs, 28% were affected by the economic turmoil that affected the nation between 2006 up to 2009, hence are not currently operational. Midlands province boost the largest number of registered SACCOs at 28%, followed by Harare at 21%.

1.3 Research Problem

The pioneers of Micro Finance in the 1970s, as alluded to earlier, Muhammad Yunus, where of the view that MFIs should uplift the lives of people, especially woman, out of poverty as well as spurring economic growth. However, the question is, are Micro Finance Institutions really alleviating poverty or they are putting people into more poverty?

Are the lives of poor people in developing nations, like Zimbabwe better off with the services and conditions being offered by MFIs or Microfinance is actually putting
hundreds of millions of people into deeper debt, poor people are being actually encouraged to take out loans, miring them in a cycle of debt that they can never pay. There is a scenario wherein poor people are over indebted, as a result they pay Peter from what they borrow from Paul – who in most cases is a high priced local moneylender. Hasheni (1997, p. 250) states that Professor Muhammad Yunus, founder of the Grameen Bank,

“discovered that while the credit market through Microcredit Organisations was the scene of the most brutal exploitation of the poor (with high interest rates leading to persistent indebtedness leading to forced sale of assets and destitution) it was also the arena where interventions were easiest for allowing the poor to break out of their cycle of poverty (ibid).”

Appendix 1, is showing examples wherein the Deputy Sherriff is auctioning on public different assets of microfinance clients. There are various cases some of which include:

i) Fidelity Life Financial Services vs Millicent Madzima and Another, Case No HC8637/11
ii) SEDCO vs M KUVIMBA Case No SS141/11
iii) SEDCO vs T MUTEEKA Case No SS168/11

The highlighted cases are just examples, we have these appearing weekly in our print media. It therefore entails that in 52 weeks, with an average of 10 such cases per week, 520 microfinance clients are losing their assets by way of public auction after failing to services their debts, in other words these clients are left in a worse off position and are poorer. In essence these are only the recorded cases, there are other unrecorded cases wherein the poor people are saddled with various debts, adding weight to the notion that microfinance institutions are actually adding more poverty on poor people, than alleviating the same.

The Salary Services Bureau in Zimbabwe highlights that 70% of the country’s Civil Servants, are having more than half their salaries deducted at source to pay various MFIs and Money lending Institutions. Owing to the economic hardships the Zimbabwean economy has endured, most if not all Civil Servants Salaries are below the
poverty datum line which is at $510 as per The Zimbabwe Consumer Price Index (March, 2012) publication by the Consumer Council of Zimbabwe, hence they are being sunk into more poverty when those meager salaries have to pay MFIs for loans accessed. At the end of the day, it becomes a vicious circle, where civil servants who are the country’s largest labor force remain in that debt trap.

1.4 Research Objectives

The research has four main objectives as defined below:

1. To establish the role being played by Micro Finance Institutions in poverty alleviation in Zimbabwe.
2. To establish whether Micro finance Institutions Business conditions assist the poor.
3. To carry out an assessment of the products and services offered by Micro finance institutions and their contribution in poverty alleviation in Zimbabwe.
4. To establish whether there is any legal framework that governs and supervises Microfinance Institutions as well as ascertaining its conditions.
5. To come up with recommendations regarding Micro Finance Institutions best practices and how they can help alleviate poverty and spur economic development.

1.4.1 Research Questions

1. What role is being played by Micro Finance Institutions in alleviating poverty in Zimbabwe, and how?
2. What legal framework governs the operation of Micro Finance Institutions in Zimbabwe?
3. How do Micro Finance Institutions business conditions assist the poor?
4. What products and services are being offered by microfinance institutions and what are their contributions in poverty alleviation?
1.5 Research Proposition

There is a general belief that Microfinance institutions in Zimbabwe are actually not playing any role as far as poverty alleviation is concerned. In Zimbabwe MFIs through their activities are adding more poverty on poor people, in other words they are making the poor people poorer.

1.6 Justification for Research

The researcher aims that, based on the findings of the research, policy implications may be derived that will find ways into policy formulation of future MFI policies in Zimbabwe. The study also builds on lessons in other developing nations and how these can be modeled into the Zimbabwean economy.

The research is also intended to:

i) The study will assist the Reserve Bank of Zimbabwe in policy formulations as well as in its surveillance and monitoring exercises.

ii) The research will assist Micro Finance Institutions in their role of sustainable economic development as well as poverty alleviation to the low income urban and rural clients.

iii) The research will also add to the body of knowledge to the public, key industry players in this case, donor community, micro finance institutions and ZAMFI.

iv) The research will also benefit those contemplating entering the MFI sector, on how best the can model their institutions at the same time remaining in operational and meeting the needs of their clientele.

1.7 Scope of Research

The research is centered on the role of Micro finance institutions in poverty alleviation in developing nations. In as much as there is no internationally recognized definition of a developing nation, for the purpose of this study, the researcher will take developing nations as countries with low levels of material well being. In this case, countries like
Zambia, Zimbabwe, Uganda, Kenya, Malawi fall in that category, however, the researcher will zero in on Zimbabwe.

i) Due to time and cost constraints the research will be conducted in Harare, that is, focus will be on Micro Finance Institutions based in Harare.

ii) Respondents in the research will be registered Micro Finance Institutions and Zimbabwe Association of Micro Finance Institutions members.

Respondents in the research will be various Microfinance institutions staff and management, the public (micro finance clients), Management of key industry players like ZAMFI, ZAMLA and RBZ.

1.8 Ethical Issues

Saunders et al (2003, p.147) say ethics refers to the appropriateness of an individual’s behavior in relation to the rights of those who become the subject of his/her work, or are affected by it. Wells (1994, p.284) define ethics in terms of a code of behavior appropriate to academics and the conduct of research. The researcher therefore ensured all the respondents that the data being provided will be used entirely for academic purposes only. No names of respondents or institutions will be recorded or noted for other purposes other than the research.

1.9 Limitations to the study

In as much as the research topic looks at the ‘Case of Zimbabwe’, the research was done in Harare due to time and funding constraints. Other respondents do not necessarily value the research and there is always that suspicion that the information supplied may be used for other purposes to their detriment.
1.10 Dissertation Structure

The research will be split into five distinct sections viz;

Chapter One

The first chapter outlined the background to the study, the problem definition, aims and objectives of the research, the significance and scope of the research.

Chapter two

This chapter outlines the theoretical background laying the foundation for the research. It outlines the contributions of previous researchers and authors to the field under study.

Chapter three

The third chapter focuses on the research methodology, that is, the approach and strategy employed by the researcher in gathering data, data analysis as well as limitations encountered in the course of the research.

Chapter four

The chapter looks at the response rate, interpreting and analyzing implications as well as making intellectual inferences. Overlay the chapter’s main thrust is discussing the results and marching them to existing literature.

Chapter Five

The last chapter summarizes and draws conclusions as well as recommendations of the study. The chapter also details the actions to be undertaken so as to solve or rather improve the situation.
1.11 Chapter Summary

The chapter outlined the role of microfinance institutions in poverty alleviation as well as spurring economic development. It also highlighted the research objectives as well as the significance of this study as there are many beneficiaries to the findings, conclusions and recommendations of the study.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction
Project assessment criteria usually require you to demonstrate awareness of the current state of knowledge in your subject, its limitations, and how the research fits in the wider context (Gill and Johnson, 1997). In Jankowicz's (2000, p. 159) words:

"Knowledge does not exist in a vacuum, and your work only has value in relation to other people’s. Your work and your findings will be significant only to the extent that they’re the same as, or different from, other people’s work and findings."

Any research topic or subject matter should have theoretical underpinnings from which it is derived, hence literature review discusses the various theories and also acknowledges prior researches done by others. The researcher will review literature under the following main areas.

1. Definition of terms, Microfinance, MFIs and Poverty.
2. Development and Expansion of the Microfinance Industry
3. Regulation of MFIs and the Microfinance Sector
4. Sustainability of MFIs.
5. Previous Microfinance Surveys in Zimbabwe.
6. MFIs and Poverty Alleviation in Developing Economies
7. Microfinance Impact Studies in Developing Economies
8. MFIs and Various Microfinance Programs
9. A critical assessment of Microfinance as a Poverty Alleviation Tool
10. Criticisms of Microfinance
2.2 What is Microfinance?

The Zimbabwe National Microfinance Policy (2005, p.5) defines microfinance “as the provision of a range of financial services, including savings, small loans, insurance, and money transfer services to marginalized members of the population and SMEs that do not have access to finance from formal financial institutions.” According to United Nations (2005) microfinance is the sustainable supply of small scale financial services such as credit, savings accounts, and insurance to poor and low income people.

Onyuma and Shem (2005, p.199), assert that microfinance is the provision of savings, credit and/or other financial and business products that are micro in size to poor clients, who are conventionally believed to lack the capacity to save and the ability to pay the high interest rates charged by commercial banks on credit. They also highlight that most microfinance programs exclusively target the poor in the community, the majority of who are women because of the belief that they are the most poverty prone members of the community.

The Task Force on Supportive Policy and Regulatory Framework for Microfinance constituted by NABARD as cited by Sen (2008, p.78) take microfinance as “the provision of thrift, saving, credit, and financial services and products of very small amount to the poor in rural, semi-urban, and urban areas for enabling them to raise their income levels and improve their standard of living”. Robinson (2001), echoes the same sentiments as well as further highlighting that microfinance entails small scale financial services for both credits and deposits, that are provided to people who farm or fish or herd; operate small or microenterprises where goods are produced, recycled, repaired, or traded; provide services; work for wages or commissions; gain income from renting out small amounts of land, vehicles, draft animals, or machinery and tools; and to other individuals and local groups in developing countries, in both rural and urban areas.

Senanayake and Premaratne (2006, p.145), assert that, in time past microfinance was easily understood, it entailed a credit methodology which employed effective collateral substitutes to deliver and recover short term, working capital loans to micro and small
entrepreneurs. However, in today’s world the concept has become complex and far less clear, it now applies for all poor and low income people, not just small entrepreneurs, it is actually beyond just working capital loans, such as savings, credit, insurance, and other money transfer services.

2.3 What are (MFIs) Microfinance Institutions?

Microfinance institutions (MFIs), in turn are the banks / organisations which provide the financial services. The primary role of many thousand MFIs, or “banks for the poor”, that currently operate worldwide is to support the strong but often untapped entrepreneurial spirit that exist in poor corners around the world through building of an “inclusive financial system” (UNCDF, 2006, as cited in Bystrom, 2007). Murray and Boros (2002, p.10), in the same vein highlight that MFIs give access to financial and non financial services to low income people, for starting or developing an income generation activity.

Of late many governments, businessmen and academicians have shown great interest in microfinance for its potential role in poverty alleviation activities. The World Bank’s World Development Report of 2000, highlight that, MFIs have been expected to reduce poverty, which is considered as the most important development objective. According to The State of the Microcredit Summit Campaign Report 2008, at the end of 2007, 3 164 MFIs reported reaching 92, 270, 289 clients, 66 614 871 of whom were among the poorest (living on less than US$1/ day, or bottom half of those below national poverty line) when they took their first loan. Data from 330 institutions, representing 87.7% of the poorest clients, was verified by the Campaign.

With MFIs, if financial liquidity problems are seen as the central reason of poverty, the organization will more or less confine its role to the provision of credit. Such MFIs will evaluate their success in terms financial indicators of outreach and repayment. However, if on the other hand, poverty is viewed as a result of a more complex process involving liquidity problems as well as other factors, the MFIs’ objectives will tend to incorporate the provision of a larger range of financial, economic, social and organizational interventions. As Copestake (2006, p.420), argues, the immediate goal in
this case is not service provision in itself, but rather the provision of services that will have a positive and observable impact on poverty.

Hulme and Moore (2006, p.2) say microfinance providers are most often Non governmental organizations (NGOs). However, there are also a number of government sponsored MFIs, as well as statutory banks involved in micro lending, and institutions that act as intermediaries between banks and borrowers. Furthermore, different types and amounts of non-financial inputs, from skills training and marketing, to organizational support, health and education are also provided by many MFIs in accordance with their particular goals (ibid).

2.4 What is poverty?

According to Lipton and Ravallion (1995, p.2553), “poverty exist when one or more persons fall short of economic welfare deemed to constitute a reasonable minimum, either in some obsolete sense or by standards of a specific society”. In broad terms poverty can be defined as an absence of well-being or of capabilities that are generally accepted as being desirable or valuable. Lack of wellbeing therefore implies severely curtailed human capabilities (Sen, 1997).

It should however, be noted that, the human capability of doing and being are not themselves measurable, even though attributes of their lack such as hunger, under nutrition, physical weakness, illness, lack of shelter, being dressed in rags among others are recognized as descriptions of the many facets of being poor.

Poverty research has further revealed much about the characteristics that are widely shared by poor people and families with the most fundamental of these being lack of assets. According to Moser (2006) looking at the assets of the poor is essential in understanding upward mobility, that is, the transition out of poverty. In a rural context, landlessness is seen as a highly accurate predictor of poverty as is low human capital resulting from poor health and inadequate education provision (Haan and Zoomers, 2005). Otero et al (2004, p.13) observe that, “the families that operate micro-enterprises typically lack assets, especially marketable assets”. The World Development Report
2000 further states that, for one to appreciate poverty in all its dimensions, it helps to think in terms of people’s assets, the returns or rather the productivity of those assets and the volatility of those returns (World Bank, 2000). Poverty is seen as a multi dimensional phenomenon, with consumption based measures supplemented by other welfare indicators such as ownership of household durables as well as access to services including education and health care (Adjei, Arun and Hossain 2009, p.268).

The 1997 Microcredit Summit Declaration and Plan of Action defined the poor as those living below the poverty line established by each country, and the poorest as those people in the bottom 50% of that group. Schneider (1997) as cited by Onyuma and Shem (2005, p.202) identifies the poorest of the poor as the hard-core poor who represent about half of the poor and subsist on a per capita income that is less than half of that of the poverty threshold.

2.5 Development and Expansion of the Microfinance Industry

Hulme and Moore (2006, p.1) highlight that the microfinance industry has its roots in Bangladesh with the Grameen bank. The industry now has a global outreach, with more that 92 million clients reported in developing countries (ibid). Rutherford et al (1999) highlight that the logic underpinning much of the recent innovation in microfinance originates from a set of beliefs about the financial services needs of the poor. It is very difficult to find a Poverty Reduction Strategy that does not include microfinance as an element of national development (Hulme and Moore, 2006, p.1). What started as small experiments in Bangladesh has now spread to all corners of the world to such an extent that the Bangladeshi Prime Minister Begum Khaleba Zia had this to say in 2006:

“We have received a lot of things from the international community, but we have given the model of microcredit to the world”

Dichter (2006, p.114) in trying to explain and summarize the phenomenal expansion of the microfinance movement over a short period of three decades says:
“The UN’s 2005 ‘Year of Microcredit’ marked the long journey of microcredit from an obscure experiment in the mid-1970s to the status of a worldwide movement. Microcredit has captivated not just the entire development aid industry, but journalists, editorial writers, policy makers and much of the general public in both the North and the South. Virtually every development project I see these days, from maternal and child health, to women’s education, to soil conservation, to social forestry, to old fashioned integrated rural development, has a ‘microcredit component’, and everyone from camel herders in Mauritania to peasants in rural China can speak the lingo.” (ibid)

According to the estimate of the Microfinance Summit Campaign (2008), highlights that there are close to 3000 Microfinance institutions with a clientele base of approximately 100 million people in developing nations and their cash turnovers are estimated to be in the $2.5 billion mark. (Chowdhury, 2009, p. 7) highlights that such success stories in the microfinance movement has attracted established and renowned financial institutions, such as Morgan Stanley, Deutsche Bank and Citigroup.

Roodman and Qureshi (2006, p. 4), are of the opinion that the success of the microfinance industry or rather sector boils down to product innovation as well as an enabling environment. Their assertions are derived from analyzing various literatures at hand as well as interactions with leading market players. They therefore conclude that, just like all credit, microfinance helps some people at the same time when pushed hard by service providers and suppliers also hurts some people. They further highlight that the traditional focus of microfinance more on credit at the expense of other products like savings appears to have arisen for practical business reasons as opposed to credit helping poor people more. It is therefore of paramount importance for microfinance investors to understand MFIs business models and how they succeed on two fronts, that is, as business as well as agents of development.
2.6 Regulation of Microfinance Institutions/ Sector

2.6.1 Rationale for Regulating the Microfinance Sector (Microfinance Policy, 2006)

The Zimbabwe Microfinance Policy (2006, p. 9) says developing economies are usually trapped in vicious cycles of poverty, with limited economic participation of the majority of the citizens and a greater proportion of SMEs to formal financial services. High levels of unemployment in Zimbabwe have created a huge informal sector. As a result there is potential for the microfinance sector to play a pivotal role in fostering economic growth and development by increasing productivity and employment opportunities. The realization of the benefits accruing from microfinance activities to poverty alleviation and economic development therefore calls for proper regulatory systems and structures for the sector to effectively foster economic development and financial stability.

- **Financial stability** – requires that all systematically important institutions be adequately regulated and supervised. While only a small portion of the providers of microfinance currently under the regulation of the RBZ may be of systemic importance on a global basis, the microfinance industry’s impact on financial stability and economic development is significant (ibid).

- **Financial Conglomeration** – many economies, Zimbabwe included, have witnessed an increase in financial conglomeration with banking institutions establishing unit trusts, asset management companies, microfinance and insurance subsidiaries. In addition, some big MFIs are planning to transform into deposit-taking MFIs, and also offer money transmission services. The rapid growth of the microfinance industry has an impact on the financial markets due to its sheer size and close ties with the formal financial sector. Regulation of MFIs therefore closes regulatory gaps and fosters orderly development of the sector (ibid).

- **Legitimacy and Confidence** – regulation of MFIs will build confidence in the eyes of customers and investors. Regulation provides a benchmark of acceptable behavior, which increases certainty, transparency and levels the
playing field. A well regulated MF sector will help in attracting capital in the sector. Providers of capital view safety and soundness as very important investment considerations (*ibid*).

- **Consumer protection** – this is a critical issue of consideration in the regulation of MFIs, because their clients usually have very limited choice or bargaining power. Some MFIs employ abusive and reckless lending practices to increase the likelihood of loan repayment and/or overcome contract enforcement problems, which exposes them to high reputation risk (*ibid*).

### 2.6.2 Reserve Bank of Zimbabwe Circular to Micro lending and Microfinance Institutions

**Dated: 17 June 2012 (Appendix 5).**

The circular centered on Regulation of the said institutions in light of various complains being received from members of the public regarding:

- Unethical, objectionable and unscrupulous business practices by some MFIs and Money lending Institutions.
- Inadequate disclosure of business conditions, usurious lending rates going as far as 50% per month.
- Abusive debt collection practices, including disposal of pledged collateral without due legal processes.

In the same Circular, The RBZ urged all MFIs to seriously observe International best practices and uphold the internationally agreed Core Client Protection Principles (CCCP) for microfinance in conducting their business. MFIs are sternly warned to comply with the various Laws and Regulations governing the conduct of their business including directives and Instructions issued by the RBZ, failure upon which will result in imposition of appropriate supervisory action, including cancellation of operating licenses.
2.6.3 Section 3(3) of Banking Act [Chapter 24:20] in Zimbabwe

The Finance Minister through General Notice No. 101 of 2005 gazettes the invocation of Section 3 (3) of the Banking Act, [Chapter 24:20] on 11 March 2005. The notice states that certain provisions of the Banking Act now apply to MFIs, Building Societies, POSB, Money lending Institutions and Asset Management Companies. This was meant to address the supervisory gaps which existed in the Statutory Instrument governing the mentioned Non Bank Financial Institutions. In principle, the invocation of Section 3(3) has created a conducive environment for direct supervision by the RBZ.

2.7 Sustainability of (MFIs) Microfinance Institutions

Institutional sustainability of MFIs has lately become a priority, if they are in any way going to fulfill their role of poverty alleviation and economic development. It is of paramount importance that MFIs should be economically viable and sustainable in the long run (Srinivasan et al, 2006). Various studies have found strong linkage between the financial sustainability of MFIs and achievement of their social objectives. Low income customers are more likely to borrow from institutions they see as financially viable (Zeller et al, 2003).

As Arsyad (2005, p. 399) highlights, a lot of questions are being raised over the cost of funds for these MFIs and their ability to earn margins sufficient to cover operational costs and still leave some profit. Therefore to attain sustainability, MFIs should align their operations in line with their objectives as well as cost of funds. Business models of these institutions involve huge operational costs since a lot of contact is required with the intended beneficiaries. Therefore in as much as their scale of operations goes up, MFIs need funds beyond the grants or rather soft loans that they get in some instances. This is why, Morduch (1999) as cited by Crabb (2008, p. 211), describes the need for more empirical work on the sustainability of MFIs. He points out: “Empirical understandings of microfinance will also be aided by studies that quantify the roles of the various mechanisms in driving microfinance performance”. All this idea of cost and
sustainability is coming in response, to the growing donor ‘fatigue’ so to say, in continually subsidizing developmental work.

Barr and Fafchamps (2006, p. 622), highlight that developed MFIs of South Asia and Latin America are now facing the challenge of becoming more commercially viable, emerging MFIs in Sub-Saharan Africa face other challenges to their very survival and core methodology. In this backdrop the sustainability of MFIs is a critical point even from a social performance standpoint. It is important to realize that the results achieved in poverty alleviation by MFIs cannot be an event and given the endemic nature of poverty, requires a continuous and long term commitment from these enterprises. This is why, Rhyne (2005, p. 14) highlights as a reflection of the apparent shift from ‘charity’ to ‘commercialization’. That shift to commercialization draws with it some criticism as it entails that MFIs are therefore diverting from the poverty alleviation motive into profiteering motives.

MFIs are seen to be prioritizing repayment rates, creating good loan books, and managing client numbers rather than social intermediation. Repayment performance is a particularly key variable for the donors and international funding agencies on which many MFIs, especially in Sub Saharan Africa still depend for their funding (Godquin, 2004, p.1909).

Disappointing performance characterizes MFIs in Southern Africa (Lafourcade, Isern, Mwangi, and Brown, 2005, p.5). Basu, Blavy and Yulek (2004) as cited by Dixon, Ritchie and Siwale (2006, p.48), highlight that various evaluations of microfinance projects throughout Africa suggest that they have been less successful than they have been in Asia and Latin America. These evaluations have however been centered on impact assessment, program replication, client outreach and financial sustainability (ibid). In Zambia, for instance, microfinance performance is problematic and MFIs are particularly confronted with the problem of default, which threatens their own sustainability and further provision of financial services to the poor (Likulunga and Simonda, 2007, p 4).
2.8 Previous Microfinance Surveys in Zimbabwe


A survey conducted by the National Task Force on Microfinance in Zimbabwe between December 2005 and March 2006, revealed a number of critical issues on the sector which are:

i) Weak Institutional Capacity- the prolonged sub-optimal performance of existing Savings and Credit Cooperative Societies (SACCOs), microfinance and development institutions was largely attributed to incompetent management, weak internal controls and lack of bespoke deposit protection scheme. Other factors identified include poor corporate governance, lack of well defined operations and restrictive regulatory/ supervisory requirements. *(ibid)*

ii) Weak Capital Base – The existing MFIs had weak capital bases which could not adequately provide a cushion for the risk of lending to micro-entrepreneurs without collateral. *(ibid)*

iii) Existence of a Huge Un-served Market – The size of the unserved by existing financial institutions was large. The average banking density in Zimbabwe was one financial institution outlet to 17 000 inhabitants. In the rural areas, it was 1: 63 000, that is less than 3% of rural households had access to financial services. *(ibid)*

iv) Employment Generation and Poverty Reduction- the survey noted that improved access and an efficient provision of savings, credit and insurance facilities enable the poor to be self sufficient by providing them with self employment opportunities. The micro-enterprises accessing microfinance also create employment opportunities for other people. This supports the notion by Littlefield (2003) who highlights that the availability of financial services is a critical factor in reducing poverty and its effects, resulting in
positive impacts on nutrition, education, health, gender equity as well as the environment.

v) Economic Growth and development- without permanent access to institutional microfinance, most poor households rely on meager self finance or risky and expensive informal sources of finance. This would limit their ability to actively participate in and benefit from development opportunities. MFIs assist in the formalization and integration of the informal sector into the formal sector thereby facilitating economic growth and development.\(\text{(ibid)}\)

vi) The Interest of Local and International communities in Microfinance - Many international investors have expressed interest in investing in the microfinance sector. The establishment of a well defined microfinance framework for Zimbabwe would provide an opportunity for them to finance the economic activities of low income groups and the poor.\(\text{(ibid)}\)

vii) Weak regulatory framework – due to the diversity of institutions that provide microfinance services, coupled with a fragmented regulatory framework; regulation and supervision of the sector, has provided challenges for the regulatory authorities.\(\text{(ibid)}\)

2.8.2 MICROFINANCE SECTOR RECOVERY STUDY IN ZIMBABWE

The Study was carried by Zimbabwe Association of Microfinance Institutions (ZAMFI) and AYANI – Inclusive Financial Sector Consultants in May 2009. It is a two week assessment of the needs for rebuilding the microfinance sector in Zimbabwe. As per The Zimbabwe National Microfinance Policy (2006; p.7), Poverty reduction, Improvement in the Standards of living and Social intermediation are some of the critical roles of Microfinance, hence there was an urgent need to work on a Recovery Package as well as Building an Inclusive Financial Sector.

The major findings of the study are:

**Funding** - The lack of funding is by far the biggest obstacle for all financial institutions, including those in the lower income markets. There is therefore need for loan capital,
grants for operations and medium term finance. This supports notions by Dixon et al (2006, p. 53), who highlights that CETZAM in Zambia acquired funding from DFID, and as such is Zambia’s best known MFI. In 1998, DFID provided $2.29 million in financial support for a 5 year period from February 1998 (Copestake, 2002).

**Removal of Regulatory Obstacles** – this is a serious constraint especially the aspect of renewing licenses every year. The study recommended that any MFI with a 2008 license should be allowed to operate without relicensing again.

**Efficiency** – The study highlights that Zimbabwe is somehow behind in terms of piloting and introducing innovative new products and delivery channels. Microfinance service providers need to revamp their business models to ensure efficiency. They should focus on training new clients, chasing delinquent clients to avoid loan provisioning expense as well as study other efficient microfinance service providers in Tanzania, Kenya and Ethiopia which would help in determining how efficient gains would be made. The findings agree with Musona (2004), who argues that Zambian MFIs are generally slow in product innovation, loan processing and disbursement, which itself increases client dissatisfaction thus encouraging clients to borrow elsewhere instead.

**Staffing** – there is need to ensure training of staff as well as recognizing performance through bonus payments. For the successful running of operations staffing is a key component which cannot be overlooked.

### 2.9 MFIs and Poverty Alleviation in Developing Economies

#### 2.9.1 Sinapi Aba Trust (SAT) – Ghana

SAT established in 1994, is an MFI in Ghana which has a nationwide coverage and is a partner in Opportunity International Network. The organization serves as ‘the bank for the poor’ for over 50,000 poor clients, offering credit, savings, insurance, and training services (SAT, 2007). SAT adopts a group based lending methodology called Trust Banks, designed to reach the poorest of the self employed poor. Conditions and procedures for extending credit to clients are more simplified and essentially include a
regular cash flow from the business for which the loan is being sought and attendance of the SAT organized business orientation and training programs.

**Purpose of research**

The research was aimed at assessing the extend to which SAT has contributed to poverty reduction among rural and urban poor by supporting them with small loans to expand their businesses, generate income, and build up their asset base in the form of financial, human and physical capital.

**Findings**

Financial capital has been identified as one of the effective tools to escape poverty. The results reveal that participation in SAT’s microfinance programs is strongly associated with increased expenditure by established clients for the acquisition of household durables. The findings indicate that established clients reaped significant benefits through participation in the program. Overall, the results showed appreciable improvements in the accumulation of financial, human and physical assets. Established clients managed to diversify their asset holdings which provided protection against risk and vulnerability.

The findings are therefore agree with Hulme and Mosley (1996) and Murdoch (1999), who argue that microfinance programs that have attained financial sustainability provide the most impacts on participants’ standards of living. Snodgrass and Sebstad (2002) as cited by Adjei, Arun and Hossain (2009, p. 266) note three main program effects which can be measured as a result of providing the poor with access to microfinance services, and these are economic (such as income and productive assets including savings, insurance and household durables), well being (such as access to education, health, food and clean water), social and political (this includes the ability to participate in decision making, access to social networks and participation in collective actions to take control over resources that affect their lives). These effects are generally assessed at the individual, household, enterprise and community level.
2.9.2 Grameen Bank: Micro-Credit and Poverty Alleviation Program in Bangladesh

Grameen Bank started as an action research project by Muhammad Yunus, a Bangladeshi economist in Chittagong in 1976. The objective of the project was to test whether the poor people are creditworthy and if credit can be supplied without any collateral. Later with the help of Nationalized Commercial Banks (NCBs), Yunus was able to provide a formal structure to help his experiment essentially serving as an intermediary lender, by lending bank funds, collecting payments and depositing them with the NCBs. With time Grameen Bank was established as a specialized bank with its own charter to work exclusively with the poor, that is, individuals owning less than half an acre of land. The idea came after support from The Finance Minister, though commercial banks were against the idea (Yunus, 1999, p. 118-119).

Onyuma and Shem (2005, p. 202) highlight that The Grameen Bank is actually considered as the most successful microlending model, which has been replicated worldwide. It is one of the best known intermediaries that target the poor because in Bangladesh one cannot own more than half an acre of farmland. Borrowers were organized into small ‘peer monitoring’ groups of four or five people that met weekly to make loan repayments (Hulme et al, 1996). Demand for credit grew rapidly and repayment rates were good, so the project was able to secure loans for on-lending from state controlled Bangladesh Bank and other commercial banks.

In 2001-2, all Grameen Bank branches began to operate the new, simpler and much more flexible ‘Grameen Generalised System’, which offers four types of loan products: basic, housing, higher education and struggling members (beggars) loans. There is also a facility for larger small enterprise loans, and a range of companies (commercial and not for profit) in the ‘Grameen family’. In March 2005, the Grameen Bank was working in almost 51,000 villages. It claimed over 4.3 million members, over 95% women, and a cumulative disbursement of over US$4.7 billion. (Grameen Bank at a Glance, March 2005).

Muhammad Yunus (2010) highlights:
“In a traditional bank, the richer you are, the more important you are. With Grameen Bank, the poorer you are, the more important you are. In fact, if you have absolutely nothing, well you are our best customer. Banks spend a lot of time looking at people’s credit history. Our bank is more interested in your future.”

Rubinstern (1996) as cited by Onyuma and Shem (2005, p. 202), however, argues that out of the long term Grameen Bank borrowers about 54% had moved close to the poverty line but not crossed it as response to family needs had eaten into their loan. Hulme and Mosley (1996) support this argument and further conclude that, Grameen’s micro lending programs benefit mostly those just on the poverty line rather than those well below it.

2.9.3 The CETZAM Case – Zambia

CETZAM Opportunity Microfinance Limited, was founded by the British Department for International Development (DFID), and has been one of Zambia’s best known MFIs. CETZAM was founded in 1995 and it has a strong vision to fulfill a social agenda driven by Christian principles to transform the lives of the poor by providing opportunities to create employment and generate income through credit and training services. Dixon et al (2006, p. 419), highlight that the MFI takes a missionary perspective and utilizes the Christian biblical framework to shape a threefold (economic, social and spiritual) transformation development. Its first loans were disbursed in July 1998, and DFID agreed to provide $2.29 million in financial support for a 5 year period from February 1998 (Copestake, 2002, p. 747).

CETZAM offers its clients two main types of loan products, solidarity group lending and individual based loan product. Its group based lending methodology is intended to target the poorest of the economically active population especially women (CETZAM Brochure, 2001). Borrowers form groups which jointly share liability for loan delinquency or default (Jurik, 2005). No family members can join since close relatives may not be willing or able to impose social sanctions. The group members together guarantee one
another’s loans ranging from $80 to $200. Client’s businesses include, food vending, retail in general, tailoring, chicken rearing, fruit and vegetable selling, fish and used clothes selling amongst others. CETZAM officers train potential clients and groups in basic book keeping skills for ten weeks before disbursing loans to them. The self selection of group members is a critical element of the methodology along with joint mutual guarantees (Matin, 2000, p. 149).

In addition group lending programs operate in a way whereby the work of screening, monitoring, and enforcement of repayment are all to a large extent progressively transferred from the MFI’s agent (loan officer) to the group members themselves (Hermes, Lensink and Mehrteab, 2005, p. 153). Navajas et al (2003, p. 751) states the advantages of such collective action in the actual screening of loan applications and monitoring of borrowers. One resulting argument is that group members can obtain, at low cost, an understanding of the reputation and indebtedness of the loan applicant to underscore their efforts to ensure repayment (Bastelaer, 1999 as cited by Dixon et al 2006, p. 54) and thereby socially obligate rather than formally compel, due repayment. Bhatt and Tang (2001, p. 1112) argue that the joint liability mechanism has been a major methodological breakthrough for lending to the poor. Jain and Moore (2003, p. 109), however question whether the mechanism operates as intended as certain factors not considered in the models, such as enforcement of loan officers, are also important for the MFIs success.

2.10 Microfinance Impact Studies in Developing Economies

2.10.1 An assessment of Zambuko Trust, Zimbabwe (October, 2001)

Zambuko Trust

Zambuko began in 1992 and is a partner in the Opportunity International Network. Its mission is “to be a bridge between the marginalized, the unemployed and opportunities for enterprise and income generation” in Zimbabwe. It offers group co-guaranteed loans and individual loans backed by guarantors to individuals who have a microenterprise that is at least six months old, are not employed fulltime elsewhere, and have an
enterprise that is deemed to be financially viable. Zambuko also has a special loan product targeted at the very poor. Zambuko’s microfinance program is therefore centered on microcredit and is supplemented by business management training.

Findings

The findings were in three categories viz household level, enterprise level and individual level.

i) Household level

The assessment found out that continuous participation in Zambuko had an impact on client households acquiring assets. Continuous participation resulted in clients acquiring durable assets like stoves, refrigerators which improved the quality of life of participating households. Barnes et al (2001) as cited by Adjei, Arun and Hossain (2009, p. 283) highlights that repeat clients have a significantly higher valued asset base of consumer durables than new clients. It must be noted that the acquisition of household durables not only indicate a higher standard of living, but also as a store of wealth that can be rented out or sold in case of extreme financial crisis (Sherraden 1991; Barnes, 1996) as cited by Adjei, Arun and Hossain (2009, p.283)

Results also show that the program has had positive impacts on the value of funeral related assistance the participating households provide to other households, which is an indicator of improved ability to make lump sum expenditures.

Results show that in 1999 the proportion of household’s boys aged between 6 and 16 attending school was higher for the continuing and departing clients than the non clients. The same pattern was apparent when analyzing only those households that were extremely poor in 1999. The results suggest that Zambuko’s program had an impact on the education of boys aged 6 to 16 in client households. The findings are therefore consistent with earlier studies in Africa which argue that participation in such microfinance programs results in enhancement of human capital such as children’s education and health status (Mosley and Rock, 2004) as cited by Adjei, Arun and Hossain (2009, p. 283).
Participation in Zambuko’s program also appeared to have had a positive impact on the frequency nutritious foods were consumed in extremely poor households and the diversification of income sources among departing clients. Better management of financial resources is likely to explain the higher consumption levels among extremely poor continuing clients, compared to non clients, in the frequency that meat, chicken or fish, and milk were consumed in their households. The results on the diversification of income sources among departing clients imply that loans enabled these households to gain an additional income source. The findings support the claim that microfinance programs promote investment in human capital such as schooling, and raise awareness of nutrition as well as reproductive health issues among poor families (Khandker, 1998, p. 12). In their study, Pitt and Khandker estimate that the marginal impact of microfinance on consumption was 18% for women and 11% for men (Pitt and Khandker, 1998, p. 958-96).

The results also suggest impacts that relate to selective allocation of financial resources. The following aspects were not affected by participation in the microfinance program: the value of assistance given to non-household members, education of household’s girls aged 6 to 16, expenditures on housing improvements and acquisition of a television, electric fan or means of transport.

ii) Enterprise level

An analysis of the survey shows that Zambuko had a positive impact on the inflation adjusted value of monthly net revenue of the matched enterprise of repeat continuing clients. In spite of the unfavorable economic environment, they earned an estimated Z$1,380 a month more than the non clients in 1999. The findings support the assertions by Aideyan (2009, p.295), who says, microfinance programs can increase incomes, lead to significant growth in business profits, decrease vulnerability and lift families out of poverty.

Participation in the microfinance program did not have an impact on employment in the matched enterprise and in all household enterprises. The results are more of a reflection of the unfavorable economic conditions for microenterprises in 1999.
Transaction relationships refer to ways micro entrepreneurs organize and manage their businesses in reference to others. Results in this aspect, suggest the influence of training by Zambuko.

iii) Individual level

Participation in Zambuko’s program appears to have had a positive impact on clients having an individual savings account and on the number of ways extreme poor continuing clients’ saved. This is therefore enhanced by Robinson (2001, p. 21) who says:

“deposit services are more valuable than credit for poorer households. With savings, not only can households build up assets to use as collateral, but they can also better smooth seasonal consumption needs, finance major expenditures such as school fees, self insurance against major shocks, and self finance investments”.

The findings support the hypotheses that participation in a microfinance program can lead to greater self esteem and self confidence, and enhances clients’ ability to plan for the future. This is because of clients’ ability to manage their enterprise, meet the financial demand of the household and acquire assets.

2.10.2 Development Impact Study: South Asia

An impact of Microfinance on economic development, particularly in terms of poverty alleviation, in South Asia has been studied and produced different results. The Table below details the various recent studies and results on the impact of microfinance in South Asia including Sri Lanka.

Table 2.1: Microfinance Impact Studies South Asia

<table>
<thead>
<tr>
<th>Study</th>
<th>Coverage</th>
<th>Methodology</th>
<th>Major Findings</th>
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</thead>
<tbody>
<tr>
<td>Amin et al (2003)</td>
<td>Bangladesh (Grameen Bank, BRAC, ASA)</td>
<td>Nonparametric test of stochastic dominance of average monthly consumption of</td>
<td>Members are poorer than nonmembers. Programs are more successful at reaching</td>
</tr>
<tr>
<td>Source</td>
<td>Country</td>
<td>Control Group</td>
<td>Findings</td>
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<tr>
<td>Chen and Snodgrass (2001)</td>
<td>India (SEWA Bank)</td>
<td>Control group from same geographic area.</td>
<td>Average income increase rises for bank clients in comparison with control group. Little overall change in incidence of poverty, but substantial movement above and below poverty line.</td>
</tr>
<tr>
<td>Coleman (2004)</td>
<td>Thailand (Village banks)</td>
<td>Double difference comparison between participant and non-participant households and between villages in which programs are present and villages where programmes are not yet present.</td>
<td>No evidence of program impact. Village bank membership has no impact on asset or income variables.</td>
</tr>
<tr>
<td>Hulme and Mosley (1996)</td>
<td>Indonesia (BKK, KURK, BRI), India (Regional Rural Banks), Bangladesh (Grameen, BRAC, TRDEP), Sri Lanka (PTCCS)</td>
<td>Borrowers and Control samples, before and after</td>
<td>Growth of incomes of borrowers always exceeds that of control group. Absolute increase in borrowers income larger for better-off borrowers.</td>
</tr>
</tbody>
</table>

Source: Montgomery and Weiss, 2005

Using data from Bangladesh, Amin, Rai and Ropa in 2003 find that microfinance programs have reached the poor. Nevertheless, according to their findings, the very poor and vulnerable do not appear to be reached. Chen and Snodgrass in 2001 study the operation of the Self Employed Women Association Bank (SEWA Bank) in India, which provides low income households in the informal sector with microfinance services, and find that average income increase rise for SEWA bank’s clients in comparison with the control group. In Thailand, Coleman (1999) employing data on villages that participated in village bank microfinance schemes and control villages that were yet to introduce microfinance schemes, finds that the village bank membership has no impact on poverty. One of the reasons for such a weak poverty impact is that...
there was a tendency for wealthier households to self select into village banks. The wealthier households control the village banks, that is, they become committee members of village banks. Ackerley (2005, p.203) concurs with Coleman and says most micro lending programs are actually not serving the poorest of the poor, but those a little better off. Bauman (2002) also echoes the same sentiments when he highlights that finding in South Africa shows that micro lending institutions have failed to deliver poverty reduction mechanisms. These sentiments are also shared by Weber (2003).

In 2004, Coleman using the same data set concludes that the impact of microfinance programs on committee members’ wealth is positive, but on ordinary members’ wellbeing is insignificant. Hulme and Mosley (1996) employing a control group approach looking at the changes in income for households in villages with microfinance programs and changes for similar households in non-program areas in selected South Asian countries find that growth of incomes for borrowers always exceeds that of the control group. Nevertheless, gains are larger for non-poor borrowers.

Therefore, in as much as microfinance programs are deemed to play a vital role in poverty reduction among the poor, there is need to emphasize that knowledge about the achievements of such initiatives is to a greater extent partial and in some instances contested. Adams and von Pischke (1992); Montgomery et al (1996); Buckley (1997), caution against much optimism on microfinance programs buy pointing to the negative impact of the programs. For instance, Adams and von Pischke (1992, p 1468) argue that “many of the loans being made to micro-enterprises will not be repaid, most of these programs are likely to be transitory, and many of the targeted borrowers will not be materially assisted in the long run through programs that increase their debt.” They further argue that debt is not an effective tool for helping most poor people to enhance their economic conditions, be they operators of small farms or micro-enterprises.

If ever microcredit is to have sustainable impact on poverty reduction in developing nations, it calls for a holistic approach to the whole subject. Access to borrowing facilities on its own might not have recognizable impact, just as Pollin (2007, p 2), rightly puts it, “microenterprises run by poor people cannot be broadly successful simply because they have increased opportunities to borrow money.”
Hulme and Mosley (1996, p 134), also conclude from their studies of various micro-credit programs that “most contemporary schemes are less effective than they might be”. They argue that microcredit is not a panacea for poverty reduction and that in some cases the poorest people have been made worse off. Buckley (1997, p 1091) also states that, ‘despite the growth over the last decade in micro-enterprise credit programs throughout Africa, there appears to be little evidence to suggest significant and sustained positive impacts on the supposed beneficiaries. The same findings of marginal improvement on the borrowers of microfinance came out of a World Bank sponsored study involving 1,800 households in Bangladesh. Commenting on the findings, Roodman and Qureshi (2006, p 38) highlight that a $250 per year loan increases a borrower’s annual income by $12.50. Taking an individual surviving on $2 per day, this is basically a 1.5 percentage increase which naturally does not live up to the microfinance billing.

2.11 MFIs and Loan Delinquency Management

Hashemi (1997, p 250) states that Professor Muhammad Yunus, founder of the Grameen Bank,

“discovered that while the credit market was the scene of the most brutal exploitation of the poor (with high interest rates leading to persistent indebtedness leading to forced sale of assets and destitution) it was also the arena where interventions were easiest for allowing the poor to break out of their cycle of poverty”

Dixon et al (2007, p 58) in their findings of an MFI based in Zambia, highlight that in January 2003, the branch had 2 024 clients, by December 2003, the number had fallen to 825 clients (others being ‘written off’), and loan officers were reduced from seven to five. They went further to say, the MFI had problems in enforcing repayment, since it did not have a clear legal framework to prosecute defaulters. Johnson et al (2003) concurs in that most MFIs face difficulties in handling defaulters, because there are problems with costs. In Bangladesh (Grameen Bank, BRAC) were there is group lending, loan
officers would not use police to recover loans, they asked influential locals to exert pressure (Jain and Moore, 2003).

Aryeetey 1996 as cited by Bastelaer (2006, p 13) points to some harassment endured by defaulters as MFIs try to recover their loaned funds as well as signaling publicly how the consequences of becoming a defaulter can be made to be socially embarrassing, especially in a society where credit and debt are considered intensely private issues. Other studies have also reported defaulters losing household items such as wall clocks, hand sewing machines, fridges, sofas amongst others and humiliated by police call outs (MKNelly and Kevane, 2002). The RBZ in their Circular to Micro Lending Institutions and MFIs dated 17 June 2012, highlights of the abusive debt collection practices by MFIs, including disposal of pledged collateral without due legal process.

2.12 MFIs and Microfinance Programs

2.12.1 Insurance Role of Microfinance Programs

In as much as microfinance programs are not insurance programs per se, the poverty and to some extent economic insecurity vicious circle amongst the poor, generally implies that they can play the insurance role too. In fact, to a greater extent the insurance role outweighs its income generation role. Islam (2009, p. 8) highlights that there are two main channels through which the insurance role of microfinance works viz the timing effect and the income effect. The timing effect, comes in mainly because a loan is provided in cash, recipient can easily divert it towards consumption if times are bad. The income effect, as households are able to withstand shocks on the basis of increases in income levels.

Morduch (1999, p. 1606) asserts that microfinance borrowings generally improves the ability to smooth consumption across seasons, and entry into the program is partly driven by insurance concerns. Morduch goes on to say that his own investigation vindicates the consumption smoothing effect of microfinance programs and concludes that “Substantively, the results suggest that benefits from risk reduction may be as important or rather more important than direct impacts on average levels of
consumption”. Dercon (2005) concurs with Morduch regarding the insurance role of microfinance, suggesting that while the income effect still has to be documented conclusively, there is no doubt about its insurance role working via the timing effect. Clarke and Dercon (2008, p. 11) echo the same sentiments with other researches and highlight of the strong evidence that access to microfinance facilities leads to reduced vulnerability, in the sense of a lower threat of fluctuations in the incomes or consumption. They therefore conclude that, microfinance may then offer a means for reducing risk exposure, while keeping costs and incentives aligned. Rutherford (1999) as cited by Adjei et al (2009, p.275) also notes the importance of insurance when he says, poor people need financial products in the form of loans, savings and insurance schemes to smooth out their household cash flow, deal with emergencies and other unforeseen requirements of cash and augment income through investment in a gainful way.

There are however, limitations to the insurance role of microfinance. As Clarke and Dercon (2008) note, microfinance programs are not primarily geared to be insurance programs, so that their role is only an unintended consequence, so to say. Microfinance programs do not also represent an efficient way to pool risk, because though it allows an individual to spread the effect of a shock over time, the individual still bears the brunt of it. The shock is not actually shared by other members of the group, in the case of group lending, so that microfinance provides only a crude method of risk pooling. Microfinance can actually aggravate insecurity by requiring the loan repayments be made even when negative shocks hit the borrower (ibid).

2.12.2 Micro Savings Programs and potentiality of the poor

It is generally accepted that one of the primary motives of savings is to a greater extent ‘precautionary’; hence they can act as a method of ‘self insurance’. In actual fact, Hulme, Moore and Barrientos (2008) do regret the switch of attention from savings to microfinance (credit) in recent years. They actually think micro savings is “the neglected element of micro financial services”. According to these authors, in response to the vast unmet demand for formal micro finance services from the poor, it is mainly
micro credit (debt) that is getting the attention, and micro insurance is the “new kid on the block” so to speak. Micro savings by contrast, remains neglected and there is much less concerted effort to experiment and innovate with micro savings services and regulation than micro credit and micro insurance. The authors further think that national governments and NGOs have contributed to this neglect by highlighting Micro credit (debt) in their PRSPs, when in actual fact a more complete range of micro financial services, including, credit, savings and insurance are needed. Hulme, Moore and Barrientos view this omission as a serious error, given the capacity of micro savings as an insurance mechanism for all sorts of shocks and vulnerability on the poor, and also as a means of creating lump sums for investment.

In as much as the aspect of micro savings have been neglected or rather have not been given the publicity compared to micro credit (debt), Morduch (1999, p. 1607) note two institutions that have been offering micro savings. Bank Rakayat Indonesia (BRI) by 1996 was offering saving services to over sixteen million households. Though the deposits were small as they mainly targeted at the poor households, the total volume of savings amounted to over $3 billion, giving BRI a cheap source of funds for re-lending. There is also Bangladesh’s MFI named “Safe Save”, whose staff solicits savings from members on a daily basis, helping poor households convert their ability to save in regular but small amounts into a useful lump sum of money.

2.12.3 Micro insurance programs to the poor and economic insecurity

Islam (2009, p. 12) assert that, some earlier attempts to provide insurance services to the poor have generally faced various problems, including difficulties in administration, high transaction costs, and the usual problems of moral hazard and adverse selection. Mosley (2008) concurs to the challenges faced in micro insurance and further articulates that despite those problems, a repressed demand from the poor for insurance is clearly felt. It is therefore not surprising that the organizational innovation that allowed microfinance to reach the poor proved attractive as a delivery mechanism for insurance services too. As a result many micro insurance programs have emerged. Churchill (2006) actually presents a large compendium of 74 micro insurance programs.
around the world in different dimensions. The straightest forward are in terms of risk covered, that is, risk related to life, health, funeral-burial, and weather, amongst others.

2.12.4 Impact of Micro insurance

Quantifying the impact of micro insurance programs is challenging, as is the case for other types of microfinance programs. In an attempt to evaluate the impact of micro insurance programs, Mosley (2008) tabulates findings from case studies of the following five programs:

i) FINCA- Foundation for International Community Assistance (Uganda)
ii) BRAC – Bangladesh Rural Advancement Committee
iii) Grameen Kalyan
iv) SSS – Society for Social Services (Bangladesh)
v) BASIX India – Bharatiya Samruddhi Finance Limited (India)

From the case studies, the first four are health schemes, while the fifth is a weather scheme. Mosley from the case studies finds the positive impact of micro insurance programs. Isla (2009, p. 13) concurs on the impact of micro insurance programs on the poor households, and further emphasize on its positive external factors.

Despite its positive impact however, the extent of micro insurance still remains very limited, particularly when compared with that of micro credit. Clarke and Dercon (2008, p. 10) say insurance is inherently a more complicated service than credit, and hence uptake is low. The low uptake levels therefore implies increased cost of insurance, insured risk pools are kept smaller, thus making reinsurance costlier. Mosley (2008) also concurs and emphasizes the inverse relationship between break even premium and portfolio size. This trade off suggest that there are basically two routes to overcome the problems MFIs face with micro insurance programs. One is to raise the premium, which is obviously self defeating as it limits access to the poor. The other is to increase participation by the poor by keeping the premiums low and reach the uptake level at which the program becomes financially viable. It is therefore imperative to understand that if MFIs take up micro insurance and combine it with complementary policies and
design the right features, it can be an additional instrument against poverty and insecurity that engulfs the poor mostly in developing economies.

2.13 A Critical Assessment of Microfinance as a Poverty Alleviation Tool

Mohammad Yunus, the godfather of microfinance, alludes to the fact that on average 5% of Grameen Bank’s clients in Bangladesh exit poverty each year (The Economist, 2009, July 16). It is however, interesting to note that despite these assertions, various scholars are skeptical on its impact and role in reducing poverty. This therefore explains the continuous debate amongst various different scholars about the impact of microfinance and MFIs on poverty reduction.

2.13.1 Impact on poverty reduction

Hulme and Mosley (1996), in their studies on the impacts of microfinance concluded that most beneficiaries of microfinance are not the targeted poor as such, but the non poor borrowers with incomes above the poverty datum line. In other words microfinance according to Hulme and Mosley (1996), has positive impacts on the non poor borrowers. In a case where they employed a control group which did not get loans from MFIs against poor borrowers who accessed loans, they noted that the majority of those with incomes below the poverty datum line ended up with less incremental income after accessing microloans. Their findings therefore entail that credit is only one factor amongst many in the generating of sustainable income and output. Banerjee et al (2009), also echo the same sentiments in their MIT study, and further assert that there are other complementary factors, which can be crucial to make credit more productive, more importantly, the recipient’s entrepreneurial skills. This is actually true in most developing nations, for instance Zimbabwe, most people lack the technical expertise of managing low level businesses. Such assertions are supported by Karnani (2007, p. 37), who highlights that the majority of people fall short when it comes to the entrepreneurial skills, creativity and vision of managing small businesses. This is not unique to developing nations, with developed nations, in as much as there is high
literacy levels and access to financial services, a significant percentage of the labour force are employees as opposed to entrepreneurs.

Mahajan (2005, p. 7), in as much as he agrees on the importance of MFIs and their impact on poverty reduction, he calls for a holistic approach to the whole idea, he highlights that:

“Microfinance is a necessary but not a sufficient condition for micro-enterprise promotion. Other inputs are required, such as identification of livelihood opportunities, selection and motivation of the micro-entrepreneurs, business and technical training, establishment of market linkages for inputs and outputs, common infrastructure and sometimes regulatory approvals. In the absence of these, micro-credit by itself, works only for a limited familiar set of activities such as, small farming, livestock rearing and petty trading, and even those where market linkages are in place”. (ibid)

It is therefore critical that, though through MFIs, there are increased opportunities to access financial services such as credit, for the microenterprises to be successful they also need access to proper infrastructure in the form of roads and cheaper modes of transport for transporting their produce to the market. In actual fact the microenterprises need marketing support to reach customers.

It is therefore important and critical to realize that microfinance, though a significant component or rather solution to poverty, it cannot alone effectively do the job. This is supported by Harris (2007, p. 1), who highlights “there is actually no one single solution to global poverty, microfinance is not the solution to global poverty, but neither is healthy, education or economic growth.” In actual fact the solution must encompass other important facets and with microfinance if properly run and focused on the targeted beneficiaries, becomes a powerful tool. This is actually supported by Professor Yunus (2003, p. 171) who says:

“Microcredit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people’s potential,
As alluded to earlier, for microfinance to impact positively on poverty alleviation, there is need for a holistic approach to the whole idea. The challenge noted by many scholars has been addressing the supply side aspect, through MFIs and neglecting the demand side. Pollin (2007, p. 2) notes that, “microenterprises are in need of a vibrant, well functioning domestic market itself that encompasses enough people with enough money to buy what these enterprises have to sell.” Microenterprises can actually be beneficiaries of expanding economies with decent paying jobs. These paying jobs will therefore enhance and boost the domestic market, thus balancing demand and supply side, which will eventually make microfinance more productive both as a poverty alleviation and economic development tool. Bateman and Chang (2009, p 7), point out that microfinance actually ignores the crucial role of scale economies, instead it produces an oversupply of inefficient microenterprises which undermines the development of more efficient SMEs. In situations where economies are shrinking or rather are not expanding microenterprises resort to cost cutting strategies, which have a bearing on the market share local SMEs. Such SMEs would otherwise have reduced unit costs and boasted production in the long term.

It is therefore imperative to address the demand side of an economy if ever microfinance, as a constant inflow of MFI financed entrants will eventually result in market saturation and intense competition. Such intense competition will obviously impact on returns on the part of microenterprises, as these can even be below the cost of borrowing. The situation become more complex when MFIs charge high interest rates (Huq, 2004), in essence the whole point of MFIs playing a role in eradicating poverty and spurring economic development is defeated. Therefore without a vibrant domestic market micro financed business usually suffer, and in most cases can even become worse off than their original position.
2.13.3 Returns to Investment and Interest rates

If there is any issue that is a bone of contention against MFIs is the issue of interest rates, the issue actually draws much criticisms from all angles. Various authors and scholars have come out with different views, some advocating for the high interest rates and obviously some critiquing the rates. Morduch (2008), reports a survey of 350 leading MFIs charging between 20 percent and 40 percent per year after taking inflation into account. Such high interest rates are defended on the basis of sustainability on the part of the MFIs. Advocates for high interest rates argue that anything less will crowd out profit seeking investors and bankers from the microfinance market. Such argument however, contradict claims that the sector is more cost effective compared to ordinary commercial banking loans, taking cognizance of lower information gathering and processing costs.

There is also the argument of subsidies in the microfinance sector, Jain and Moore (2003, p. 10), assert that interest rates are on the lower end mainly due to implicit subsidies. They highlight that, all microfinance programs they looked at obtained subsidized funds for initial capitalization as well as for meeting part of the operating costs. Jain and Moore (2003, p.10) highlight that “not more than 5 percent of micro-credit programs worldwide could become financially viable without subsidies.” The same argument is supported by Chowdhury (2009, p.5) who says, “despite growing interest from private investors, 53% of the $11.7 billion that was committed to the microfinance industry in 2008 came at below market rates from aid agencies, multilateral banks and other donors”. This therefore supports the argument of low interest rates in the microfinance sector.

Morduch (2008, p.1) an advocate of microfinance, defends high interest rates on the basis of returns to capital investment, he is of the view that returns to capital are high in micro enterprises. He further asserts that, poor households have high economic returns to capital. Morduch (2008) from his research reports significant returns to capital exceeding 20 percent for small, male owned retail outlets. It is however interesting to note that, returns to capital for some financially constrained businesses are on the high
side, going as high as 70 to 80 percentage points. Morduch (2008) therefore concludes that an interest rate of 10 percent per month is reasonable. A critical analysis of the researches unveils a number of limitations, the major one being that the research centers on male run small enterprises at the expense of female owned business. This therefore does not correlate to the popular belief amongst the pioneers of the microfinance movement that it is better for female borrowers as opposed to their male counterparts (Yunus, 2003). The other critical limitation of the research findings is, they overlook how an individual computes the cost of own labour. Taking a typical case of a nation like Bangladesh where there is surplus labour, an individual can compute a nil shadow price of own labour, meaning that any surplus over the cost of capital can be considered as returns to capital or rather profits. In simple terms this can be the explanation of the high returns to capital on the part of microenterprises.

2.13.4 Contributions of Microfinance Institutions on poverty reduction

Dichter (2006), though a vocal critic of microfinance appreciates that the industry can be of assistance to poor households smooth consumption in periods of unexpected economic meltdown and crisis. This positive and critical role of microfinance should not be dismissed altogether. The industry actually has far reaching impacts on poverty and productivity, considering that parents will be afforded the opportunity of sending their children to school, affording nutritional intakes of their families as well as other basic needs like medication. Such observations are supported by Dasgupta (2005, p.247) who says “at low levels of nutrition and health care, increase in current consumption improves future labour productivity. Pitt and Rozenweig (1985), “observe from Indonesia data that an increase in the consumption of fish, fruit, or vegetables by 10 percent reduces the chances of illness by 9, 3 and 6 percent respectively.” The challenge with developing economies like ours is that the majority of the poor borrow for consumption, school fees, medication and not for production, implying that the nutrition index will only improve upon accessing the loan, after which with scheduled repayments it goes down, hence the creation of a vicious circle of some sort. Nicholas (2009), confers that microfinance actually has no impact on poverty, the poor borrowers instead
are able to pay for things they can't afford, like a home television set, radio, or even a cart for their business.

Microfinance, therefore through successful MFIs, gives the unemployed and the poor some opportunities, hope and self-esteem. Roodman and Qureshi (2006, p. 39), argue that “commercially successful MFIs are indeed remarkable organisations, employing hundreds or even thousands of people at tasks once thought to be impossible.” Good jobs created by MFIs should actually have some considerable multiplier effects. Any form of employment whether self or by an employer has got some psychological effect on an individual’s dignity as well as sense of respect in the community. Another important consideration is that microcredit allows people to ascertain their creditworthiness. The fact that banks are willing to offer them larger facilities, implies an increase in economic activity, which subsequently eradicates poverty in the long run. MFIs, on their own have also managed to create employment.

2.14 Criticism of microfinance

The fact that microfinance programs are expanding both in their coverage and in the range of services offered can be seen as enough evidence of their success especially in developing nations like Bangladesh, India and Sri Lanka. However, Armendariz and Morduch (2005) say the sector has also been dogged by many criticisms, some of which include financial viability, ability to reach the extreme poor, propensity to charge high interest rates, limited macroeconomic impact and difficulty in scaling up of operations.

Islam (2009), however, points that not all the criticisms faced by MFIs and the microfinance sector can be made simultaneously, because many of them contradict each other. For example, it is difficult to complain about microfinance’s inability to reach the extreme poor while at the same time insisting that it remains financially solvent. Similarly, it is not very reasonable to demand that microfinance remains financially viable and yet complain about high interest rates.

These differing opinions on microfinance have created two broad classes amongst scholars and researchers. On one hand are those taking a more narrow financial
efficiency point of view. They emphasize the necessity for being financially solvent and hence recommend such steps as charging break even interest rates and scaling up their operations. On the other side are those emphasizing microfinance’s proven capacity to reach those who would otherwise remain outside the orbit of formal financial services, especially women, and microfinance’s various non financial positive benefits. Armendariz and Morduch (2005), argue that microfinance should not charge high interest rates or any other charges, thereby neglecting the poor in order to become financially viable. They say it is actually worthwhile providing subsidies to the sector until it reaches financial viability. Clarke and Dercon (2008) agrees with those assertions and argue that microfinance programs, because of their goal to service the poor, should never be expected to be financially viable, and should therefore always receive subsidy, in particular to help them experiment and innovate.

2.15 Chapter Summary
This chapter reviewed literature on regarding the role of microfinance in developing economies. The chapter started at defining three key terms, that is, microfinance, microfinance institutions and poverty. There was then focus on the sustainability of microfinance institutions in developing countries as well as the origins and development of the microfinance sector. The chapter also looked at previous studies in the microfinance sector in Zimbabwe as well as Case Studies done in other nations on the same sector. It then narrows down to a critical analysis of the role and effectiveness of microfinance in poverty alleviation.
CHAPTER THREE

3.0 Research Methodology

3.1 Introduction

This chapter outlines the general research process and the conceptual framework underpinning the research topic under study. That entails focusing on the methodology used to collect data from various sources and the techniques utilised. The chapter will also look at the sampling techniques to be applied and the justification thereof. The following sections will be looked at in the chapter:

i) Research design,
ii) Research philosophy,
 iii) Research strategies,
 iv) Target population,
 v) Sampling design, sampling size,
 vi) Sampling procedure, and sources of data.

3.2 Research Design

Collins and Hussey (2003), define research as a systematic and methodical rigorous process of enquiry and investigation into a particular problem or issue to increase knowledge. Fraenkel and Wallen (1996) define the research design as an outline of how the research is going to be carried out.

3.3 Research Philosophy

According to Saunders et al (2003, p.101), the research philosophy “depends on the way an individual thinks about the development of knowledge, which then affects the way one goes about doing the research.” There are three categories of research philosophy viz; positivism, interpretivism and realism.
3.3.1 Positivism

Gill and Johnson (1997), as cited by Saunders et al (2003, p.101) assert that if the philosophy reflects the principles of positivism, there will be an emphasis on a highly structured methodology to facilitate replication and on quantifiable observations that lend themselves to statistical analysis. Positivism is an epistemological position that uses the methods of natural sciences to study social reality and beyond (Bryman and Bell, 2003). With positivism principles, one will be working with an observable social reality and the end product of such research can be law like generalizations similar to those produced by the physical and natural scientist (Remenyi et al, 1998, p.32).

Positivism philosophy, therefore involves quantitative research, wherein data is collected, analysed and interpreted using mathematical or statistical methods.

According to Bryman and Bell (2003), the positivism philosophy is differentiated from other research paradigms in the following aspects:

i) Objectivity – there is the aspect of scientific research being conducted in a value free way.

ii) Deductivism – the purpose of the theory is to generate hypotheses that can be tested and will allow explanations of the laws to be assessed.

iii) Phenomenalism – in that only knowledge confirmed by senses can genuinely be warranted as knowledge.

iv) Inductivism – knowledge is accumulated through gathering facts that provide the basis of the law.

3.3.2 Interpretivism

The interpretivism philosophy generally highlights that situations are complex and are therefore a function of a particular set of circumstances and individuals. Remenyi et al (1998, p.35), argues that, it is important to understand, the details of the situation to understand the reality or perhaps a reality working behind them. The philosophy
advocates for the notion that knowledge is a function of experience and is also concerned with understanding human behavior from a participant’s own frame of reference. Collins and Hussey (2003), also assert that the philosophy centers on the subjective state of the researcher as well as the meaning of social phenomena rather than measurement.

Therefore, the interpretivism philosophy is a qualitative method which seeks to understand attitudes, feelings and behaviours of individuals.

### 3.3.3 Realism

Saunders et al (2003, p.102), say realism is based on the belief that a reality exist that is independent of human thoughts and beliefs. The realism principle is therefore a mixture of positivism and interpretivism, that is, qualitative and quantitative methods.

Bryman and Bell (2003), highlights that there are two forms of realism viz:

i) **Empirical realism** – this form of realism states that reality is understood through application of appropriate methodology.

ii) **Critical realism** – critical realism articulates that conceptualization by science is a way of knowing and ascertaining reality.

In this research it was therefore imperative for the researcher to use, the interpretivism philosophy taking cognizance of the fact that most of the data was qualitative.

### 3.4 Research Strategy

The research strategy is a general plan of how the researcher intends to answer the research questions that have been set. Saunders et al (2003, p.108), highlight that the research strategy should contain clear objectives, derived from the research questions, it should also specify the sources from which an individual researcher intends to collect data as well as the constraints that will be faced.
There are different strategies, some of which include, experiment, case study, survey, action research, grounded theory and ethnography amongst others. However, for the purpose of this research and the objectives to be attained the survey strategy has been adopted.

3.4.1 Survey

The survey is a popular and common strategy in business and management research. The method allows the collection of a large amount of data from a sizeable population in a highly economical way. Survey research is defined as a systematic gathering of primary data through the use of a structured questionnaire and communication in a reasonably large number and highly representative sample of respondents (O’Leary, 2005, p.76).

In addition to the questionnaire, there are other data collection methods that belong to the survey strategy. These methods include structured observation and interviews.

For the purposes of this research, under the survey strategy, structured questionnaires and interviews were employed by the researcher for MFIs, SACCOs and Microfinance clients based in Harare. In as much as the research focuses on the role of microfinance institutions in poverty alleviation in developing nations, the case of Zimbabwe, the research was focused in Harare owing to reasons articulated to earlier on.

3.4.1 Why the Survey Strategy?

Saunders et al (2003, p.110) highlight the following as advantages and disadvantages of using the survey strategy.

The survey method has the following advantages:

i) The survey method is perceived as authoritative in general, because it is easy to understand.
ii) As alluded to earlier, the survey method allows the collection of a large amount of data from a sizeable population in a highly economical way.

iii) The method also allows the researcher to have control over the research process.

The method however, has the following disadvantages:

i) The method is rather time consuming as it involves designing and piloting the questionnaires.

ii) The method also curtails progress as there is much dependence on other people for information.

iii) Data collected by the survey strategy may not be as wide ranging as those collected by other research strategies; this is because there is a limit to the number of questions that any questionnaire can contain.

In as much as the survey method has its pros and cons, it was adopted as it was the best strategy that would allow the meeting of the research objectives and questions set up in Chapter 1. As some way of managing some of the disadvantages of the strategy some structured interviews were also conducted to management of MFIs, SACCOs and key industry participants like ZAMFI and RBZ.

3.5 Population and Sampling Techniques

3.5.1 Population

The full set of cases from which a sample is taken is called the population (Saunders et al, 2003, p.169). Wegner (2000) also defines population as the collection of all the observations of a random variable under study and about which one is trying to draw conclusions in practice. The population does not necessarily have to be people, it can be items, gadgets, institutions amongst others depending on the nature of research being undertaken.

For the purpose of this study the population of MFIs, SACCOs and Microfinance clients is as follows:
• 172 Microfinance Institutions in Zimbabwe (As per Appendix 1),
• 68 Savings and Cooperative Societies (As per Appendix 2)
• Approximately 1.5 to 2 million Microfinance clients in the country.

However, as alluded to earlier, owing to budgetary and time constraints, the research focused in Harare, hence the Harare institutions and clients are to be taken as representing the entire population from which the sample will be drawn.

The target population for the purpose of this research is therefore:

• 115 Microfinance Institutions based in Harare.
• 14 Savings and Cooperative Societies based in Harare
• Approximately 1.3 million Microfinance clients based in Harare.

3.5.2 Sampling Techniques

3.5.2.1 Sampling Design

According to Wegner (2000) a sample is a subset of the population from which observations are made or measurements taken. Saunders et al (2003, p.170) concur also in that a sample is a subset of the population with advantages over a census in that cost, time and resources are less. They also highlight that sampling techniques provide a range of methods that enable you to reduce the amount of data you need to collect by considering only data from a subgroup rather than all possible elements. A sample design therefore details how a sample is derived from the target population.

Sampling is important and provides an alternative to the entire population when, it is practically impossible to survey the entire population and as alluded to earlier, budget and time constraints prevent the researcher from surveying the entire population.

3.5.2.2 Sample Size

Saunders et al (2003, p.173) highlight that the choice of sample size is governed by:
i) The confidence a researcher need to have in the data – that is, the level of certainty that the characteristics of the data collected will represent the characteristics of the total population.

ii) The margin of error the researcher is willing to tolerate – the accuracy one requires for any estimates made from the sample.

iii) The types of analyses to be undertaken- in particular the number of categories into which the data has to be subdivided.

iv) The size of the population from which the sample is being drawn.

For this particular research, a random sample of 50 MFIs, 10 SACCOS and 100 MFI and SACCO clients was drawn. Since the samples are to be used to draw inferences on the whole population, that is, MFIs, SACCOS and MFI clients in Zimbabwe, a large sample was chosen to facilitate meaningful research.

3.5.2.3 Sampling Procedure

This is the way in elements of a sample are chosen from a given population. There are basically two types of sampling techniques viz:

i) Probability / representative sampling

ii) Non-probability / judgmental sampling

3.5.2.4 Probability Sampling

Probability sampling is a sampling technique whereby the chance or rather probability of each case being chosen from a given population is known and the same for all cases. What this entails, is that it is possible to respond to various research questions as well as achieving some set objectives statistically from a chosen sample. The sample will be representative of the whole population.

There are four main methods of probability sampling namely cluster sampling, systematic sampling, simple random sampling and stratified sampling.

Simple Random Sampling
Saunders et al (2003, p.179), say simple random sampling involves purely selecting at random sample items from a list of the population. Various tools like computer or random number tables can be used for the selection and each member of the population has an equal chance of being selected.

**Cluster sampling**

Henry (1990) as cited by Saunders et al (2003, p.185) says cluster sampling and stratified sampling are almost similar in that both involve dividing the population into discrete groups prior to sampling. The groups are termed clusters and can be based on any naturally occurring grouping. In this the sampling frame is the complete list of clusters rather than a complete list of individual cases within the population. Simple random sampling is then employed in selecting few clusters from wherein information is collected.

**Stratified random sampling**

With stratified random sampling, the population is divided into strata based on categorically stated attributes. This technique is to a greater extent a modification of random sampling. A random sample is then drawn from each stratum.

**Systematic sampling**

This involves selecting one unit from the population at random and then selecting additional units at regular intervals from the sampling frame. In principle it involves numbering all units of the population and then selecting the 5\textsuperscript{th} or 10\textsuperscript{th} unit, which will form the sample.

**3.5.2.5 Non Probability Sampling**

There are three main types of non probability sampling procedures viz quota sampling, judgmental sampling and convenience sampling.
**Quota sampling**

This is a non-probability method which is equivalent to stratified sampling under probability sampling. As in stratified sampling, the researcher identifies the strata and their proportions as they are represented in the population. Convenience or judgmental sampling is used to select the required number of units from each stratum.

**Judgment sampling**

With judgment sampling, the researcher selects the sample based purely on judgement. There is however need to emphasize the fact that the researcher must be confident that the chosen sample is truly representative of the entire population.

**Convenience sampling**

This method is mainly applied in exploratory research, wherein the researcher is interested in getting an inexpensive approximation of the truth. The sample is chosen because they are convenient.

For the purpose of this research, simple random sampling was utilised, as alluded to earlier a sample of 50 MFIs, 10 SACCOs, and 100 MFI clients was selected.

**3.5.2.6 Justification of Sampling Method**

The researcher chose simple random sampling for the following reasons:

i) Simple random sampling is quite objective in that it gave all the units of the target population an equal chance of being chosen or selected.

ii) Since the method utilizes random numbers or the computer, simple random sampling allows the researcher to select the sample without bias.

**3.6 Data Collection Methods**
There are two main sources of data and these include, secondary and primary data. In this research though much bias was on primary data, secondary data sources were also utilised in order to satisfy the research objectives as well as demystify the whole subject.

3.6.1 Primary Data

Wegner (2000) defines primary data as that which is captured at the point were it is generated. This is data that is captured for the first time and for a specific purpose. There are five major tools for collecting primary data and these include questionnaires, focus groups, interviews, observation and experiments.

For the purposes of this research, questionnaires and interviews were employed as the primary data collection methods. Questionnaires and interviews were chosen as these are in a position to address the research objectives and questions detailed in Chapter 1. The research being undertaken is more of explanatory, hence, the researcher will utilize attitude and opinion questionnaires, as well as questionnaires of organizational practices, which will help in identifying and unearthing different opinions. The researcher is also confident that the questions are more or less standardized such that they will be interpreted in the same way by all respondents (Robson, 2002, p.59).

Interviews were chosen as they allow the researcher an opportunity for further clarifications and probing, hence they are relevant to addressing the problem at hand. Interviews to some extend, allow the researcher to have some control of the research process. However, in as much as they are time consuming (Wegner, 2000), questionnaires and interviews were chosen as they are in a position to address the research objectives.

3.6.2 Secondary Data

Secondary data include both raw data and published summaries, which had already been collected for some other purposes. Francis (1995, p.128) defines secondary data
as data that is being used for some purpose other than for which they were originally collected. Most organisations collect and store data to support their operations, such types of data include journals, publications, sales reports, payroll details, various statistics amongst others.

Secondary data is advantageous in that, it saves on time and cost of collecting and gathering new data, however its main disadvantage is that there is no control over the information and how it was collected.

3.7 Research Procedure

This section will in detail cover the whole research process that was employed in gathering data.

3.7.1 Data Collection

As alluded to earlier, the researcher used two instruments under primary data, for data collection, these are questionnaires and interviews.

3.7.1.1 Questionnaires

De Vaus (2002) as cited by Saunders et al (2003, p.298) define questionnaires as data collection techniques wherein the responded is asked to respond or rather answer set questions in a predetermined order. In general with this research instrument the person answering actually record their answers or responses.

Questionnaires have the following advantages:

i) They permit respondents time to consider their responses without interference from, for example, the interviewer.

ii) It is possible to provide questionnaires to large numbers of people simultaneously, hence it is to a greater extent cost effective.
iii) Each respondent receives the identical set of questions, hence analyses of results is to a greater extent simple.

iv) Questionnaires can also address a large number of issues and questions of concern in some efficient way.

Disadvantages of questionnaires are as follows:

i) They are an unsuitable instrument for data collection, if probing is required. In other words there is no real possibility of following up on answers.

ii) It is difficult to get a good response rate (Wegner, 2000), in most cases there is no strong motivation for respondents to respond.

Questionnaires were used because of being less expensive and fast. Another critical consideration for the choice of questionnaires was the need to obtain highly structured responses that could easily be analyzed and generalized. The questionnaire approach can easily address the research questions as well as the research objectives within the limited financial resources and timescale available.

3.7.1.2 Questionnaire Design

Foddy (1994, p.17) emphasizes that, “the question must be understood by the respondent in the way intended by the researcher and the answer given by the respondent must be understood by the researcher in the way intended by the respondent”. Saunders et al (2003, p.309), assert that, “the validity and reliability of the data you collect and the response rate you achieve depend to a large extent, on the design of your questions, the structure of your questionnaire, and the rigour of your pilot testing.” A valid question will enable accurate data to be collected, and one that is reliable will mean that these data are collected consistently.

In this research, two sets of questionnaires were employed, for the MFIs and MFIs clients, these were divided into different sections and had both open and closed ended questions. Open ended questions in as much as they are difficult to analyze were
included as a way of somehow probing for explanations from clients, which would be of importance in deriving conclusions as well as recommendations.

The questionnaire had the following general sections:

i) Background information
ii) Demographic section
iii) MFIs conditions of business, services and products
iv) Impact of MFIs on clients well being
v) Clients general comment

NB: The sections however depended on whom the respondent is, whether MFI or MFI client. Since in Chapter One SACCOs, were classified under MFIs, they received the same questionnaire as all other MFIs. Samples of the questionnaires and covering letter are attached at the back of this report as Appendix 3, 4 and 5.

3.7.1.3 Questionnaire Pretesting

Bell’s (1999, p.128) says “however pressed for time you are, do your best to give the questionnaire a trial run”, as without a trial run, you have no way of knowing your questionnaire will succeed. Pretesting will therefore assist in getting comments and feedback on the representativeness and suitability of the questionnaire questions. There is need to ascertain whether the data collected will fully address the research objectives.

Therefore after designing the questionnaire it was send to 5 MFIs and 5 MFIs clients for pre testing. The objective was to get feedback on the questionnaire design, time taken to complete the questionnaire, relevance of the questions to the research topic, sensitivity of the information as well as general criticism of the questionnaire. Some of the responses from clients were quite positive; hence necessary corrections were noted and effected accordingly.
3.7.1.4 Questionnaire Administration

The questionnaire can be administered through various means some of which include personal, postal and email. The researcher chose personal and email, since they are quicker. Delays in responding were followed through email as well as telephone calls.

3.8 Interviews

Kahn and Cannell (1957) as cited by Saunders et al (2003, p.263) defines an interview as a purposeful discussion between two or more people. Interviews can help in gathering valid and reliable data which is relevant to the objectives of the research. Interviews make it easy to compare answers, and they come in different forms which can be face to face, voice to voice and can also be conducted with individuals or a group of individuals. The whole process of interviews can however be time consuming, expensive and also violates the confidentiality aspect.

Face to face interviews were targeted at management of key industry players like ZAMFI, RBZ, ZIMLA amongst other players, these were mainly aimed at soliciting their views, experiences and recommendations for the subject under study. Management in some MFIs was also considered as that gave the researcher an opportunity to probe for additional information as well as seeking clarification where necessary.

3.10 Research Limitations

The research had a number of limitations to it mainly as a result to the prevailing economic environment and the sensitivity of the Microfinance industry in general. One major limiting factor faced is that institutions and clients chosen as the respondents may not divulge correct and accurate information thus impacting negatively on the quality of the data. The situation has been made worse with by the circulars (Public notices) released by the RBZ on the conduct of some MFIs as well as the closure of McDowell’s International Private Limited, as a result of such bad conduct (Appendix No 6). A number of institutions were not willing to divulge information on their operations as they
suspected that they are under investigation from the RBZ. The researcher had to convince through the covering letter from Graduate School of Management (UZ) and guarantees that the research is purely academic.

3.11 Chapter Summary

The Chapter looked at the theoretical underpinnings of research methods and then proceeded to look at the research methods, philosophies, types of research, population, sampling procedures and methods of data collection that were used. Data sources as well as validity and reliability of the questionnaires and interviews were also covered.
CHAPTER FOUR

4.0 Results and Discussion

4.1 Introduction

This chapter centers on the results and discussion on the research undertaken. As articulated in previous chapters (Chapter one and three), the research looked at both MFIs and MFI clients. The findings shall therefore be discussed, interpretations will be derived during the discussion and of course literature will be backing those interpretations. The findings are presented in many different formats including pie charts, bar graphs, and tables.

4.2 Response Rate

A total of 60 questionnaires were distributed to MFIs and 100 to MFIs clients accordingly. The table below summarizes the responses the researcher managed to get from the two sets of respondents.

Table No 4.1: Table showing response rates

<table>
<thead>
<tr>
<th>Respondents</th>
<th>Number of Questionnaires Distributed</th>
<th>Responses Received</th>
<th>Response rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Microfinance Institutions</td>
<td>60</td>
<td>41</td>
<td>68%</td>
</tr>
<tr>
<td>Microfinance Institutions Clients</td>
<td>100</td>
<td>63</td>
<td>63%</td>
</tr>
</tbody>
</table>

As indicated in the table above response rate is at 68% and 63% which is above the acceptable 60% (Edwards et al, 2002). The response rate is therefore acceptable and it provides reliable and valid data for analysis. Of the 63 microfinance clients that responded to the distributed questionnaires, 20 were microenterprises, that is, those small registered companies employing between one to ten people, the remainder were
individuals who borrow from the various MFIs for personal use as well as for funding their personal income generating projects.

4.3 DEMOGRAPHICS INFORMATION/SECTION

4.3.1 Gender and Microenterprises Distribution

Figure 4.1: Distribution of responses encompassing Gender and Microenterprises

The Pie Chart above is showing gender distribution on the MFI clients that responded to the distributed questionnaires. However, micro enterprises, that is, small firms employing between one and 10 workers (Shaw, 2004, p.1248), are also included since they are also included amongst the 63 responses received out of the 100 questionnaires distributed. From the pie chart, 14% of the responders were female, 32% microenterprises and 54% male. The findings show that most of the respondents are men, meaning that very few women are taking part or rather are beneficiaries of microfinance programs in Zimbabwe. Such findings do not support various literatures which advocate that microfinance is a proven strategy for reaching poor women (Cheston and Kuhn, 2009, p.2). In actual fact, The Microcredit Summit Campaign 2005, reports that 14.2 million of the world’s poorest women now have access to financial
services, thus accounting for nearly 74% of the 19.3 million poorest served by microfinance.

In as much as the findings do not mean that there is gender discrimination in Zimbabwe, it simply evidences that fewer women are accessing microfinance services. The World Bank report on gender development 2001, highlights that societies that discriminate on the basis of gender have greater poverty, slower economic growth, weaker governance, and a lower standard of living (World Bank, 2001). Women are poorer and more disadvantaged than men, yet studies in Latin America show that men contribute 50% to 68% of their salaries to the collective household fund, whereas women tend to keep nothing back for themselves, they contribute to the well being of their families (Chant, 1997, p 39). Cheston and Kuhn (2009, p.2), highlight that giving cash to women in the form of working capital increases self esteem, control and empowerment by helping them achieve greater economic independence and security, which in turn gives them the chance to contribute financially to their households and communities.

4.3.2 Age of the respondents

![Figure 4.2: Age of respondents](image)

**Figure 4.2: Age of respondents**
Figure 4.2 above shows the age distribution of the respondents, as alluded to earlier of the 63 MFIs clients that responded to the distributed questionnaires 43 were individuals and 20 microenterprises. The age distribution in this case is therefore in relation to individuals. A greater percentage of the respondents (40%) are in the economically active age group, that is, between 25 to 35 years. The 46 – 55 years age group has 19%, whereas 36 to 45 years age group has 16%. The two least represented age groups are those below 25 years of age at 14% and above 55 years, those that are retiring at 12%. The researcher can simply say that most participants in the research fell between 25 and 55 years, and these constituted 74% of the respondents. In as much as the internationally recognized economically active age group starts from 18 years to around 60 years, but a critical analysis in developing shows that most young people starts contributing positively to economic growth and the welfare of their households around 25 years, when they become stable.

4.3.1.3 Qualifications / Levels of education

![Educational Qualification of Respondents](image)

**Figure 4.3: Educational qualification of respondents**

The information gathered from the individual respondents shows that 7% have primary education, 40% secondary education, 26% advanced level, 16% possess some
certificates in various courses offered by technical colleges, 9% have diplomas and only 2% have acquired tertiary education hence have degrees.

From the figures above the majority of the clients have secondary and advanced level qualifications. Upon further probing, these failed to get jobs and as a result had to find some income generating projects to earn a living. The findings concur with Graham (2006), who highlights that small businesses act as a vital tool for employment creation to people with no or little education. These self-employed people however, acknowledge the need for basic business management training (Mahajan, 2005, p.7) if their projects and small business are to flourish. Karnani (2007) however, says the microenterprises’ willingness to pay for training services is low.

Those that managed to get jobs, are earning salaries way below the poverty datum line which is currently at $510 as per March 2012 Consumer Council of Zimbabwe report. Hence, they are always borrowed with MFIs in an effort to sustain a living.

4.3.1.4 MFIs Years in operation

![Figure 4.4: MFIs number of years in operation]

Figure 4.4: MFIs number of years in operation
Figure 4.4 above shows that of the 41 MFIs that responded to the questionnaires, 32% for less than 2 years, 27% for 2 to 5 years, 17% have been operational for 5 to 10 years, and the remainder 25% for more than 10 years. The results simply indicate that the majority of the MFIs under survey (59%) have been in operation for less than 5 years and are thus not that experienced in the sector. The results also entail that most of the MFIs have been registered, during the multi currency regime, after the period of economic downturn of 2007 and 2008. In as much as most of the MFIs under survey are inexperienced in the sector, the result can be relied on as they are a true reflection of the current attitudes, motives and perceptions of people as they enter the sector.

4.4 BUSINESS INFORMATION/SECTION

4.4.1 Purpose of Loans and Advances

![Pie chart showing purpose of loans accessed from MFIs]

Figure 4.3: Figure showing purpose of loans accessed from MFIs

Figure 4.3 above shows that for loans accessed from MFIs, 13% were for working capital, 14% order financing, 38% consumption, 8% asset financing, 16% start up capital and 11% medical expenses. The greater percentage went for consumption at 38%, in actual fact it can be argued that 49% is for consumption as the 11% for medical...
can also be accounted under consumption since it is generally not going to generate any revenue compared to working capital or order financing.

As depicted above most of the loans advanced by MFIs are for consumption and a substantial stake towards working capital and order financing on the part of microenterprises. Zimbabwe is faced with low disposable incomes and the majority of the working class is earning salaries well below the poverty datum line, for instance the civil service which is the majority employer in most if not all countries, their takings averaging between $300 to $450 are way to low below the datum line at $510. The findings support assertions by Khandker (1998, p.12) who says microfinance programs promote investment in human capital such as schooling, and raise awareness of nutrition as well as reproductive health issues among poor families. In their study, Pitt and Khandker estimate that the marginal impact of microfinance on consumption was 18% for women and 11% for men (Pitt and Khandker, 1998, p.958-96). However, in as much as the poor households are being assisted in consumption smoothing through access to funds from MFIs, there is always the danger of it being a vicious circle wherein they end up being continuously under a debt trap in an effort to earn a decent life. Such assertions can be supported by the greater percentage (35%) that has accessed more than four facilities from MFIs (Figure 4.5), meaning that they are continuously in debt for the better part of their lives.

From the findings, a closer analysis shows that a significant percentage (40%) of the respondents accessed funds for business use. This includes, 16% start up capital, 13% working capital and 11% order financing. These were both individuals and microenterprises that are engaged in self projects for survival. The results supports the findings by Cowling and Harding (2005) as cited by Hill, Leitch and Harrison (2006, p.159) who say the formation and growth of businesses is directly related to their ability to access an uninterrupted supply of critical resources, particularly finance. The findings also support assertions by Adams and Von Pischke (1992, p.1466) who highlight that microcredit programs have a great positive impact on employment creation. Therefore, from the findings, MFIs in Zimbabwe are to some extent relevant as far as providing funds for income generating projects is concerned, just as Aideyan (2009, p.295) says
microfinance programs can increase incomes, lead to significant growth in business profits, decrease vulnerability and lift families out of poverty. However, the impact of their activities and business conditions on the poor are subject to debate, as noted by Mayoux (2005), who highlights that, most MFIs programs, have positive economic impact on clients in terms of income growth and reduced vulnerability, although the effects are often small and all clients do not benefit equally.

The findings also show that 5 of the 63 clients under survey, accessed funds from MFIs for acquiring assets and household durables, supporting findings by Khandker (2005, p.266), that there is strong evidence of microfinance programs helping the poor through consumption smoothing and asset building, he further asserts that microfinance actually helps women acquire assets of their own. It is therefore, critical to note that MFIs have the various products and services that alleviate poverty, the only challenging aspect in that objective is the cost of the various products and services.

4.4.2 Monthly Interest Rates and other Administration charges

![Bar chart showing monthly interest rates spread by MFIs.](image)

**Figure 4.4: Graph showing monthly interest rates spread by MFIs**

From the graphical presentation above summarizing the monthly interest rates offered by the various MFIs that responded to the questionnaire, the majority 44% charge
interest between 20 to 25% per month. Twenty two percent of the institutions were charging interest above 25% per month, with the remainder 34% charging below 20% per month. A closer analysis of the findings shows that the majority of MFIs under survey charge between 240 to 300% per annum which is way too high and somehow very much unsustainable. Such findings concur with Christen et al (1995) as cited by Onyuma and Shem (2005, p 202) who report of microfinance programs that charge interest rates that are significantly high, way above the inflation rate. The Foundation for Development Corporation (FDC) (2003) says micro lenders in Philippines charge up to 36% in interest.

The findings are also supported by the RBZ in their Circular to Micro lending and MFIs (Appendix 5), wherein they highlight of MFIs that are charging interest rates of up to 50% per month, translated to 600% per annum. The findings also support findings by Huq (2004), who says, the idea of MFIs playing a role in eradicating poverty is defeated as they charge high interest rates. The findings on interest rates also concur with those of Morduch (2008), who reports interest rates of between 20 and 40 percent in a survey of 350 leading MFIs.

The situation of high interest rates is further compounded by the fact that there are other administration charges, not included in the interest rates.

Table 4.2: Table summarizing results on Admin and Penalty charges

<table>
<thead>
<tr>
<th></th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>Admin Charges (Establishment fees, Drawdown fees)</td>
<td>37</td>
<td>4</td>
</tr>
<tr>
<td>Penalty Interest rates</td>
<td>41</td>
<td>0</td>
</tr>
</tbody>
</table>

From the findings summarized above 90% of the MFIs under survey indicated that they charge administration fees on top of the interest charges that are met by clients. These administration fees according to the institutions can be in the form of facility establishment fees, drawdown levy. One institution upon further probing highlighted that as part of its business conditions there is a 4% flat establishment fee (that is 4% of the loan amount). Another manager of an institution advised of a 2.5% drawdown fee on
loan amount. A critical analysis of the findings will therefore show that the total cost of borrowing is actually more if the administration charges are taken into account.

Research findings also show that all institutions charge penalty interest rate over and above the normal interest rate on overdrawn clients. The penalty interest rates varied from 5% to 15%, which in principle show that overdrawn clients are further punished for failing to meet their repayments.

A critical analysis is to consider a microenterprise that is accessing a $4,000 credit facility from an MFI and is being charged 20% interest per month, 4% establishment fees and a penalty rate of 5 percentage points above the normal interest rate. In principle, the microenterprise has to pay $160 in establishment fees, $800 in interest in the first month. It therefore implies that the microenterprise will need to generate more than $1,000 to attain a profit in the first month which is to some extent not sustainable. The situation will be worse off if the microenterprise fails to meet its monthly repayments as they will be charged a penalty on the arrears position.

4.4.3 MFIs Business conditions and Client Satisfaction levels

Figure 4.4 below shows that 51% of clients are not satisfied with the business conditions offered by MFIs, 24% are indifferent, in other words they have no option but to accept the conditions. The remainders, that is, 11% are satisfied and 14% very happy with the business conditions/services offered.

Upon further probing, the majority of those that are not happy or rather not satisfied with the business conditions mentioned the high interest rates and other charges like establishment fees, drawdown fees as well as penalty rates on any missed repayments. Commenting on interest rates, Armendariz and Morduch (2005), argue that MFIs should not charge high interest rates or any other charges, thereby neglecting the poor in order to become financially viable. The issue of high interest rates agrees with Murdoch (2008) whose findings in a survey of 350 MFIs show rates between 20 and 40 percent per annum after factoring in inflation. One client actually lamented the interest rates which he termed ‘daylight robbery’. A greater percentage highlighted that the rates are
actually not sustainable, but they do not have an option. It is actually difficult to invest those funds in business and generate enough to survive at the same time making loan repayments. Another client actually highlighted they are actually working for the MFI, there is no value addition on their well being.

![Pie chart showing client satisfaction levels]

**Figure 4.4: MFI clients’ satisfaction levels to business conditions offered**

In as much as a greater percentage are not satisfied by the business condition, there is 25% (14% very satisfied and 11% satisfied) who are happy with the business conditions. These appreciated the flexibility in terms of security requirements, most of them highlighted they have always faced challenges in accessing funds from commercial banks, but with MFIs they are getting funds even without tangible security like Title deeds. In actual fact all MFIs studied showed that they are flexible as far as security is concerned, one’s salary as well as movable property like fridges, motor vehicles, stoves, sofas amongst others can be considered as security. Such assertions on security or rather collateral support the business model by Muhammad Yunus when he pioneered the micro credit industry in the late 70s by lending to the poor without collateral.
Other clients expressed satisfaction on the tenor of facilities which are flexible and they vary depending on purpose of funds.

### 4.4.4 MFIs Service delivery – Turn Around time

![Figure 4.5: Turnaround time](image)

The graph above (Figure 4.5) summarizes the turnaround time taken by institutions in processing facilities. From the findings, 15% of the MFIs take less than 5 working days to process a facility, 32% take between 5 and 10 working days, 44% take between 10 and 20 working days, whereas 10% take 20 to 30 days to process and disburse a facility application. From the finding, one can conclude that the majority of MFIs take more than two to three weeks to process and disburse a facility which is not very impressive, especially on the part of those in business (the microenterprises) and those faced with emergences. Upon further clarification, the majority of MFIs highlighted the issue of liquidity constraints currently being experienced in the economy at large, it actually takes time to harness the cash resources. One interviewed manager highlighted that in time past, during the Zimbabwean Dollar era, it was quicker to process facilities, but the multi currency regime is faced with liquidity challenges, hence such poor turnaround times.
The findings, concur with Musona (2004) who found out that Zambian MFIs are generally slow in loan processing and disbursement, which itself increased client dissatisfaction and encouraged clients to borrow elsewhere instead.

Some clients mostly the microenterprises lamented the issue of delays, as some end up losing out on business opportunities. This includes those that are sourcing funds for working capital and order financing, in actual fact some have had their orders cancelled after failure to meet the prescribed time of delivery.

4.4.4.1 Training and Advisory Services

The analysis above shows a summary of MFIs that offer training facilities to their clients and those that do not. Findings indicate that 34 (83%) of the MFIs under survey do not offer any training to their clients and the remainder do offer some training and advisory services. Those that train highlighted that they train their clients on the following short term courses or rather conduct workshops on basic book keeping, records management, small business management. This supports findings by Dixon et al (2007, p.54), who in their research at CETZAM in Zambia, highlight that loan officers train their clients for 10 weeks before disbursing loans to them. In principle, as noted by ACCION

Figure 4.6: MFIs that offer training services to their clients

The analysis above shows a summary of MFIs that offer training facilities to their clients and those that do not. Findings indicate that 34 (83%) of the MFIs under survey do not offer any training to their clients and the remainder do offer some training and advisory services. Those that train highlighted that they train their clients on the following short term courses or rather conduct workshops on basic book keeping, records management, small business management. This supports findings by Dixon et al (2007, p.54), who in their research at CETZAM in Zambia, highlight that loan officers train their clients for 10 weeks before disbursing loans to them. In principle, as noted by ACCION
International in their 2003 Annual report, highlight that access to funding is not enough, it needs to be accompanied with capacity building programs in the form of skills development and technical training for it to have a positive impact on borrowers. Aryeetey (1994), highlights that at SAT in Ghana potential clients normally receive training at the branch prior to formal application for a loan.

For MFI programs to be more productive and helpful to the intended beneficiaries there is need for basic education and training to understand and manage low level business activity. The findings in this case enhance assertions by Karnani (2007, p.37) who says, most people do not have the skills, vision, creativity and persistence to be entrepreneurial. Mahajan (2005, p.7) also emphasizes on business and technical training as being critical conditions for microenterprise promotion. In this instance, microfinance may not add a positive impact given that 83% of the institutions surveyed do not offer any training to their clients. The findings also concur with observations by Ackerley (2005, p. 203), who says most micro lending programs are known to cut back on support services for the poorest clients, such as business management, skills training and education, and information provision as a way of covering costs. In this context, therefore, these programs are actually not serving the poorest of the poor, but those a little better off.

4.5 Loan Delinquency and Management

4.5.1 Default rate

<table>
<thead>
<tr>
<th>Year</th>
<th>Average Default rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2009</td>
<td>29%</td>
</tr>
<tr>
<td>2010</td>
<td>32%</td>
</tr>
<tr>
<td>2011</td>
<td>41%</td>
</tr>
</tbody>
</table>

The table above shows that there has been a steady increase in MFIs loans defaults over the past three years from 29% in 2009 up to 41% in 2011. Upon further probing, institutions highlighted that there was actually a discovery that most MFIs clients are
over borrowed with more than one institution, hence they face challenges in servicing their dues. Other reasons highlighted include business failure, retrenchments from employment as a result of the poor economic environment.

A manager of an MFI interviewed highlighted that, owing to the difficult economic environment the country has and is still going through, most people are borrowed with many institutions, hence they are failing to service those borrowings and will always remain in that debt trap for a long time. The interviewee actually gave an example wherein a civil servant gets a Salary based loan from a commercial bank (usually 4 times their net salary), another loan from an MFI which is deducted at source through the Salary Services Bureau as well as a facility from a retail outlet (Edgars for example). The situation is actually made worse considering that MFIs are charging high interest rates, the research found out that the majority are charging rates above 20% per month. Such an individual is obviously earning a salary below the poverty datum line of $510, hence the individual will find himself/ herself in a debt trap that he/ she will take time to come out. Another manager with another MFI actually highlighted that in some instances they are being forced to write off some loans as ‘bad debts’ and loan officers are concentrating more on recovering overdue payments. This supports Jain and Moore’s (2003, p.117) view that organisations so focused upon collecting overdue payments are already facing serious problems.

In another interview with one of the staff at ZAMFI on the issue of MFI defaulters, the issue of being over borrowed also came out, to such an extend that defaulters in one institution go on to borrow in another institution, hence necessitating the need of a Credit Clearing Bureau. The staff member went further to say that most MFIs face challenges with defaulters as a result of the lengthy and in some instances unclear legal framework when it comes to prosecuting defaulters. This supports the assertions by Johnson (2003) who says MFIs face difficulties in handling defaulters, especially in group based lending.
4.5.2 Clients Arrears Frequency and Management

![Diagram showing arrears frequency]

**Figure 4.7: Clients arrears frequency**

From the diagram 17% of the respondents have never been in arrears with regards to their repayments to their respective MFI, 13% highlighted they have been in arrears on one occasion, 19% have been in arrears twice and 22% on more than three occasions. A greater percentage however (29%) of the respondents have been in arrears more than three times. Further probing shows the following as reasons of failure, business failure, limited resources, over indebtedness to many organisations.

A client who have never been in arrears advised that, he is a civil servant hence the MFI captures the loan repayments at source through the SSB (Salary Services Bureau), hence there is not any chance of default. Another client shared the same sentiments but lamented the high interest rates being charged by MFIs meaning that a huge portion of their salaries are going towards loan repayments.

One client highlighted that she has been in arrears on several occasions and is actually struggling to clear her debts. She indicated that she borrowed money from an MFI with the intention of starting a sewing business and fend for her family, however, due to other demanding needs, part of the money’s was used to pay school fees for her two children. The proceeds from the sewing project are failing to pay of the loan from her
MFI and hence she is being pushed and continuously being followed up by the loan officers from the institution. Another client advised of embarrassments faced in front of children and other family members of being chased by loan officers for repayments. This support assertions by Aryeetey 1996 as cited by Bastelaer (2006, p.13), who says such harassments by officers serves the immediate purpose of trying to recover loaned funds and the broader purpose of signaling publicly that the consequences of becoming a defaulter can be made to be socially embarrassing, especially in a society where credit and debt are considered private issues. MKNelly and Kevane (2002, p.2019) in their studies of MFIs in Burkina Faso report cases wherein defaulters are losing household items as well as being humiliated by police call outs. They note several household items such as wall clocks, hand sewing machines, music systems, fridges, sofas, beds that were seized from defaulters and offered for sale.

An interviewed RBZ official in as much as he acknowledged that many MFI clients are saddled with many debts owing to various issues, lambasted the unethical and unlawful methods most MFIs are using in trying to recover their moneys. He highlighted of the proper acceptable channel which is to go through the courts, obtain judgment or default judgment in their favour followed by issuance of a writ of execution. Attachment of property should actually be done through the deputy sheriff. In simple MFIs should institute legal action against defaulters other than taking the law in their own hands.
4.5.3 Clients Borrowing Frequency (number of loans / facilities accessed)

![Figure 4.8: A summary of number of facilities/loans accessed](image)

From Figure 4.5 above, the greater percentage of the respondents (35%) has accessed loans from more than four times, 27% have accessed loans three times, 24% twice and only 14% are just starting. From the findings above, the indications are that a greater majority of the clients surveyed are continuously in debt, as they have accessed facilities more than four times. These findings concur with Professor Muhammad Yunus who observed the issue of continuous indebtedness on the part of microfinance clients, leading to forced sale of assets and destitution (Hashemi 1997, p.250).
4.6 MFIs Impacts on Individuals and Microenterprises

4.6.1 Clients’ Opinion on MFIs and the Microfinance Sector

Figure 4.9: Impact on MFI clients’ welfare

From the findings summarized in the pie chart above, 22% of the clients highlighted that MFIs have significantly improved their welfare, they have managed to enjoy the benefits of working with their respective MFIs. However, a greater percentage (45%), expressed a negative impact on their welfare, with the remainder 33% highlighting there is no improvement, in other words their status core remains.

Though a smaller percentage (22%) of MFI clients surveyed indicated that there is a significant improvement in their welfare, a greater percentage 33% highlighted that there was no improvement, supporting findings by Coleman in 2004 on Impact studies in South Asia who concludes that, the impact of microfinance programs on committee member’s wealth is positive, but on ordinary members wellbeing is insignificant. The findings also concur with Mosley (2001, p. 112) who says, most households are better with microfinance, but income impact vary in magnitude and durability, and a sizeable proportion of clients find that their post credit incomes stagnate or fall. A greater percentage (45%) of the clients indicated they have been negatively affected by approaching MFIs, on further probing most clients say they approach MFIs because of their circumstances. Most clients lamented the high interest rates charged by MFIs,
hence they find themselves highly indebted. Such assertions support statements by Muhammad Yunus as cited by Hashemi (1997, p.250), when he highlights the high interest rates leading to persistent indebtedness on the part of micro clients. The findings also support, Hulme and Mosley (1996, p 134) who argue that, microcredit is not a panacea for poverty reduction and in some cases the poorest people have been made worse off. They further argue that, these contemporary schemes are actually less effective than they might be.

The findings also concur with Hulme and Mosley (1996) who after their studies on the impact of microfinance conclude poor households do not benefit from microfinance, it is actually the non poor borrowers (with incomes above poverty lines) who can do well with microfinance and thus enjoy sizeable impacts. Their other finding was that a vast majority of those with starting incomes below the poverty line actually end up with less incremental income after getting micro loans from MFIs.

### 4.6.2 MFIs Client outreach

The data showed that the 41 MFIs under survey had 231 187 clients and their loan book was at $445, 830, 900. Such a finding shows that Zimbabwean MFIs outreach is very low compared to Grameen Bank which had 2.4 million clients as of December 2000 (Meyer, 2005). The clients included Microenterprises, Male and Female. From the 41 MFIs under survey, research showed that 23% of their clients are microenterprises, 64% are employed mainly in the civil services and other jobs and 17% are those that are surviving on personal income generating projects.
**Figure 4.10: Pie Chart summarizing MFIs client outreach**

From the summarized findings in the pie chart above, the greatest beneficiaries (64%) of MFIs surveyed are those that have got some form of employment, with one interviewed manager highlighting the civil servants as their major clients. This is followed by the microenterprises (23%), those small businesses that have got a staff complement between one and ten. The smaller percentage are the self employed individuals who are into personal projects, an interviewed manager mentioned the cross border traders, carpenters, welders, poultry projects amongst others.

From a critical assessment, the last group is very vulnerable in that they compete in business with established firms and microenterprises, hence they are vulnerable to any changes in their operating environment. A manager with one MFI highlighted that these are very risk compared to the employed that have a salary to turn to in the event of any developments in the economy, hence most MFIs are not so keen to finance their projects. The manager gave an example of an individual running a poultry project, outbreak of diseases can run down the whole project leaving the project owner without any fall back position. Such an observation therefore means the very poor who are vulnerable are to some extent not being reached by MFIs, or rather are not being considered by same. The findings concur with those of Amin, Rai and Ropa in 2003, who concluded that the very poor and vulnerable do not appear to be reached. In other
words, the poor are being reached, in this case the civil servants, with their salaries below the poverty datum line as alluded to earlier, but the very poor in the rural areas without any fallback position are being excluded.

The findings also agree with Buckley (1997, p. 1091) who says, despite the growth over the last decade in micro enterprise credit programs throughout Africa, there appears to be little evidence to suggest significant and sustained positive impacts on the supposed beneficiaries, who are the poor and vulnerable in this case. Onyuma and Shem (2005, p.201), agree to those assertions and highlight that, microfinance programs rarely reach the poorest of the poor. The tiny loans required by the poorest people are too expensive to deliver, especially in hard to reach or remote rural population. Montgomery (1996) as cited by Onyuma and Shem (2005, p.201), also concurs when he maintains that concerns on repayment rates exerts pressure on credit groups to exclude the poorest who are likely to be hit hard by poverty and experience the greatest problems.

4.7 Chapter Summary

The chapter looked at the findings generated on the research topic, the role of MFIs on poverty alleviation in developing countries, with specific focus on Zimbabwe. The chapter reported findings starting from the response rate, demographic statistics, purpose of loans and advances, MFIs business conditions and client satisfaction levels, MFIs interest rates, loan delinquency and MFIs impacts on clients’ welfare.
CHAPTER FIVE

5.0 CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter gives conclusions from the study that was undertaken. The previous chapter centered on data analysis, interpretations and relates the data collected to previous studies as well as other literature available. The chapter will therefore summarize and derive conclusions from the research undertaken, evaluate the research problem and proposition, and come up with recommendations to different players. In this case recommendations will be to regulatory authorities, MFIs and their APEX bodies.

5.2 Research Summary

The researcher drove motivation to undertake the study, mainly because of the levels of poverty in developing economies like Zimbabwe, that is, the number of poor people and households living on less that a $1 to $2 per day in terms of purchasing power parity terms. This was also enhanced by the belief amongst the pioneers of the microfinance movement that the MF industry can play a significant role in alleviating poverty as well as spurring economic development.

The research was guided by the objectives and research questions in Chapter One. Primary data collection entailed the distribution of questionnaires to MFIs and their respective clients. The researcher also undertook some interviews with management of some MFIs, RBZ officials as well as officials from APEX bodies like ZAMFI. The findings are therefore based on 63 clients and 41 MFIs that responded to the questionnaires as well as the interviews that were undertaken.
5.3 Conclusions

In this section the researcher will give conclusions to the research findings focusing mainly on client outreach, MFI business conditions, loan delinquency and management, purpose of loans and advances, demographics, and MFIs impact on individuals and microenterprises.

5.3.1 Client Outreach

The researcher concludes that in as much as MFIs are assisting the poor with low salaries, but the very poor who in most cases are vulnerable and without any fall back position are not being assisted. This includes those found in rural areas and urban areas living on less that $2 per day, whose lives are more or less near destitute.

5.3.2 MFIs Business Conditions

A critical analysis of the business conditions shows that in as much as the business conditions are flexible on the security requirements, the other conditions like lack of training in basic business management skills, high and unsustainable interest rates and admin charges defeat the whole idea of MFIs serving the poor, in other words the conditions are too heavy to such an extent they add more poverty.

5.3.3 Loan delinquency and Management

The researcher concludes that more and more poor people are falling in the debt trap, as indicated by the rise in the default rates, it therefore means the chances of many poor people loosing their assets to MFIs are high as they continue to be saddled with debts. This is further worsened by the fact that the majority 51% have been in arrears more than three times.
5.3.4 Purpose of Loans and Advances

From the research findings, the researcher concludes that the majority of MFI clients access funds for consumption smoothening as well as to cater for emergences such as medical. In as much as this is worthwhile, the challenge is that it keeps them in the debt trap and does not generate additional income. A significant percentage access funds for setting up personal projects and enhancing their microenterprises. However, a smaller percentage acquire assets such as television sets, refrigerators amongst others.

5.3.5 MFIs Impact on Individuals and Microenterprises

The research findings show that MFIs and the microfinance sector in Zimbabwe have no significant impact on the welfare of poor people, in other words most poor people who are the vulnerable group have been made worse off. Microfinance institutions have only benefitted the non poor borrowers.

5.3.6 Demographics

The researcher concluded that man and microenterprises are the greatest beneficiaries of MFI programs, together contributing 86% of the respondents. Women in as much as they are the majority of those severely affected by poverty are the least beneficiaries contributing only 14% of the respondents. The economically active age group, the risk takers and are also the major beneficiaries of which most of these have secondary and advanced level education.

5.3.7 Legislation on MFIs and the Microfinance Sector

The researcher concludes that in as much as there is appropriate legislation that governs the conduct of MFIs in Zimbabwe, the legislation has not been effective and falls short on the international best practices of the microfinance sector. This has been evidenced by the regulatory authorities (RBZ) issuing circulars to MFIs and Money
lending institutions as well as the subsequent cancellation of McDowells International money lending license (Appendix 5 and 6).

5.4 An Evaluation of the Research Proposition

The problem statement questioned whether MFIs are alleviating poverty or are actually putting poor people into more poverty. A research proposition was put forward to the effect that MFIs in developing economies like Zimbabwe are not playing any role as far as poverty alleviation is concerned, they are actually sinking them into deeper poverty. The research results agree with those assertions that MFIs are actually not reaching the vulnerable and needy poor and are actually living many poor people in a debt trap, which they struggle to come out.

5.5 Recommendations

The researcher will put across recommendations to different categories of groupings and organizations, in this case recommendations will be to Regulatory Authorities, MFIs and their APEX Bodies (ZAMFI, ZAMLA).

5.5.1 Recommendations to Regulatory Authorities (RBZ, Ministry of Finance)

- The regulatory authorities should come up with interest rate caps on all MFIs. Such an action will ensure that borrowers are not charged unsustainable interest rates, such as the ones being charged by most Institutions. The RBZ has recently (June and July 2012) cancelled operating licenses for two MFIs, namely McDowell’s International and All Angels for violating Section 5 (3) of the Banking Act [Chapter 24:20], which prohibits MFIs from accepting deposits. The Institutions were also charging interest rates of 45% to 50% per month.

- The RBZ should increase MFIs minimum capital requirements from $5,000 to $100,000. Such a move will prevent the sector from becoming a ‘market for all’, as this would ensure properly governed institutions (Corporate governance) with strong capital base to trade in the market.
- The Regulatory Authorities should come up with a Microfinance Code of Conduct/ Microfinance Charter to govern the operations of MFIs. Such a move will ensure ethical business practices as well as appropriate disclosure of business conditions by MFIs, thus fulfilling their role of poverty alleviation and economic development.

- The Regulatory Authorities should come up with a Credit Clearing Bureau for the Microfinance Sector. Such a move will assist MFIs to manage defaulting clients, thus controlling minimizing default rates.

- In presenting the 2012 Mid Year Fiscal Policy Review (18 July, 2012), The Finance Ministry highlighted of a new Microfinance Act, which would create deposit taking MFIs. In line with this, the researcher recommends the creation of a Microfinance Depositors Security Fund (MDSF), which would subsequently protect depositors in case of failed MFIs.

5.5.2 Recommendations to Microfinance Institutions (MFIs)

- MFIs should institute Capacity Building Training Programs for clients, such programs will equip people with basic business management skills, records keeping, basic bookkeeping, marketing not only in urban areas but rural as well to ensure they expand their outreach thus playing their role in alleviating poverty and economic development.

- MFIs are recommended to institute sustainable and justifiable interest rates, as this will ensure they gain the confidence of their clients and increase their outreach as well.

- MFIs are recommended to ensure ethical business practices as well as observing international best practices for microfinance in the conduct of their business.

- MFIs are recommended to broaden their product offerings by including products like micro insurance.
5.5.3 Recommendations to APEX Bodies, ZAMFI, ZAMLA

- These APEX bodies are recommended to institute capacity building programs for MFIs to strengthen and equip the institutions so that they are in compliance with Laws and Regulations governing their operations.

- The APEX bodies are recommended to form and facilitate strategic partnerships with donors and NGOs for the setting up of a Microfinance Fund, which will assist local MFIs with funds for on lending and this will also ease the liquidity challenges being experienced by many MFIs.

5.6 Areas of further study

This study focused on the role of microfinance institutions in poverty alleviation in developing economies like Zimbabwe, this stemming from the fact that pioneers of the microfinance movement such as Professor Muhammad Yunus in Bangladesh viewed the area as being critical in alleviating poverty and economic development. However, it will be of importance to study aspects like Corporate governance in the microfinance sector, contributions of microfinance to economic development, service delivery by MFIs as well as why established commercial banks in Zimbabwe seem to be venturing into the microfinance sector.

5.7 Chapter Summary

In summary MFIs in Zimbabwe are not alleviating poverty which is contrary to the belief by the pioneers of microfinance, that it is aimed at eradicating poverty and spur economic development. In as much as MFIs are flexible in terms of security / collateral requirements, their business conditions in terms of interest rates are unsustainable and their outreach on the vulnerable poor is low. The chapter also includes recommendations to the various stakeholders, that is, regulatory authorities, Microfinance APEX bodies and MFIs themselves.
REFERENCES


Onyuma. S. O and Shem. A. O, (2005), Myths of Microfinance As a Panacea for Poverty Eradication and Women Empowerment, Egerton University, Kenya


Reserve Bank of Zimbabwe, Monetary Policy Statement, January 2012.


Zimbabwe Consumer Price Index, March 2012, (SO), (RE), (DF).


Appendices

Appendix No 1: Articles Showing Auctioning of Property
### Appendix No 2: List of Registered MFIS

<table>
<thead>
<tr>
<th>Name</th>
<th>Head Office Address</th>
<th>Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>Abantu Microcredit Pvt Ltd</td>
<td>1561 Finneran Road, Ardbennie, Waterfalls</td>
<td>Harare</td>
</tr>
<tr>
<td>Acceptable Benefits Pvt Ltd</td>
<td>Suite 215, 2nd Floor, Gefiland House, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Advent Finance</td>
<td>2nd floor, ZTA House, 95 Nelson Mandela Ave</td>
<td>Harare</td>
</tr>
<tr>
<td>Afdaal Investments Pvt Ltd</td>
<td>Suite 304, CIPF Centre, J Moyo Street, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Africa Century Pvt Ltd</td>
<td>Africa Century Gardens, 153 J Chinamano Ave</td>
<td>Harare</td>
</tr>
<tr>
<td>Aggma Pvt Ltd</td>
<td>402 Sterling House, J Moyo St, Box 1509, Byo</td>
<td>Bulawayo</td>
</tr>
<tr>
<td>Alshaams Global Microfinance</td>
<td>No 9 Hood Road, Southerton, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>All Angels Investments Pvt Ltd</td>
<td>No 2, Zimbabwe Court Building, Masvingo</td>
<td>Masvingo</td>
</tr>
<tr>
<td>Allumez Capital Pvt Ltd</td>
<td>The Cradle, 12 Baines Avenue, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Apek Financial Advisory Services</td>
<td>149 Acturus Road, Highlands, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Applegrove Investments Pvt Ltd</td>
<td>Office Number 80, 3rd Street, Mutare</td>
<td>Mutare</td>
</tr>
<tr>
<td>Belberry Enterprises Pvt Ltd</td>
<td>9 Calenstale Flats, 11th Ave Parirenyatwa, Byo</td>
<td>Bulawayo</td>
</tr>
<tr>
<td>Bethel Finance Limited Pvt Ltd</td>
<td>2nd Floor, Renaisance Park, Borrowdake Road, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Blue Financial Services Pvt Ltd</td>
<td>19 Banchory Road, Mandara, Harare</td>
<td>Harare</td>
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<tr>
<td>Buildvest Pvt Ltd</td>
<td>5 York Avenue, Newlands, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Cablefin Finance Pvt Ltd</td>
<td>4th Floor, Goldbridge, Eastgate, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Calsve Financial Pvt Ltd</td>
<td>113A Herbert Chitepo, Mutare</td>
<td>Mutare</td>
</tr>
<tr>
<td>Campion Capital Limited</td>
<td>12 Bryden Road, Mt Pleasant, Harare</td>
<td>Harare</td>
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<tr>
<td>Candalick Finance Pvt Ltd</td>
<td>168 Chinhoyi Street, Harare</td>
<td>Harare</td>
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<tr>
<td>Cemaj Investments Pvt Ltd</td>
<td>Office No 3, New Market Centre, Masvingo</td>
<td>Masvingo</td>
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<tr>
<td>Charming Chews Pvt Ltd</td>
<td>13th Floor, Karigamombe Centre, Harare</td>
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<td>Clarion Financial Services Pvt Ltd</td>
<td>2nd Floor, Blue Bridge, Eastgate, Harare</td>
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<tr>
<td>Collarhedge Finance Pvt Ltd</td>
<td>Mezzanine Floor, Kopje Plaza, Harare</td>
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<td>Collective Self Finance Pvt Ltd</td>
<td>28 Frank Johnson Ave, Eastlea, Harare</td>
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<tr>
<td>Comoglobe Enterprises Pvt Ltd</td>
<td>1st Floor, Onnon House, 116 Albion St, Harare</td>
<td>Harare</td>
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<tr>
<td>Contact Microfinance Pvt Ltd</td>
<td>No 63 J Moyo Avenue, Stanley House, Harare</td>
<td>Harare</td>
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<tr>
<td>Coverlink Finance Pvt Ltd</td>
<td>1st Floor, Weatherby House, N Mandela, Harare</td>
<td>Harare</td>
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<tr>
<td>Credfin Pvt Ltd</td>
<td>No 9 Birchenuough Road, Alexandra Park, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Capital Solutions Zimbabwe Ltd</td>
<td>1st Fl, Throgmortone House, S Machel Ave, Hre</td>
<td>Hare</td>
</tr>
<tr>
<td>Daizlin Trading Pvt Ltd</td>
<td>Office No. 2, 1st Floor Bata Building, Gweru</td>
<td>Gweru</td>
</tr>
<tr>
<td>Darnster Enterprises</td>
<td>Suite 5, Albion Flats, 127A Fort Street, Bulawayo</td>
<td>Bulawayo</td>
</tr>
<tr>
<td>Denvalene Financial Services</td>
<td>Zimpost Building, Tongogara St Hugh St</td>
<td>Masvingo</td>
</tr>
<tr>
<td>Diadem Finance Pvt Ltd</td>
<td>Office No 1, 3rd Floor, Robinson House, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Dockers Investments Pvt Ltd</td>
<td>11 Wycombe Road, Groombridge, Harare</td>
<td>Harare</td>
</tr>
<tr>
<td>Ecobridge Finance Pvt Ltd</td>
<td>3rd Floor, Goldbridge, Eastgate Shopping Mall</td>
<td>Harare</td>
</tr>
<tr>
<td>Edgedeal Investments Pvt Ltd</td>
<td>4th Floor, Throgmortone House, S Machel</td>
<td>Harare</td>
</tr>
<tr>
<td>Eldo Finance Pvt Ltd</td>
<td>62 Homestead Road, Hatfield, Harare</td>
<td>Harare</td>
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<td>Suite 618, St Barbra House, Cnr N Mandela/ Tak</td>
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<td>Epic Capital Pvt Ltd</td>
<td>21 Fourth Street, Mutare</td>
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<td>Opportunity House, 19 Harvest Street, Avondale</td>
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<td>Evimoy Financial Services Pvt Ltd</td>
<td>23 Richards Avenue, Rhodene, Masvingo</td>
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<tr>
<td>Extra Hands Finance Pvt Ltd</td>
<td>Office No. 3, Anchor House, Bulawayo</td>
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<tr>
<td>Fastbucks Finance Enterprises</td>
<td>No 1, Zandaam Court, Cnr Mazowe &amp; Chinaman</td>
<td>Harare</td>
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<tr>
<td>Fidelity Life Financial Services</td>
<td>4th Floor, Fidelity House, 66 Julius Nyerere</td>
<td>Harare</td>
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<tr>
<td>F. Kumirai Capital Partners P/L</td>
<td>3rd Floor, Beverley Court, 100 N Mandela</td>
<td>Harare</td>
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<td>Finesse Microfinance Pvt Ltd</td>
<td>4th Floor, Beverley Court, 100 N Mandela</td>
<td>Harare</td>
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<td>Finsha Pvt Ltd</td>
<td>Suite 402, 4th Floor, Pioneer House, 8th Avenue</td>
<td>Bulawayo</td>
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<td>First Capital Plus</td>
<td>17074 Giraffe Crescent, Borrowdale West, Hre</td>
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<td>1 West Avon Gardens, 5 Wicklow Road, Avondal</td>
<td>Harare</td>
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<tr>
<td>FMC Financial Services Pvt Ltd</td>
<td>2nd Floor, Lintas Hse, 46 Kwame Nkrumah, Hre</td>
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</tr>
<tr>
<td>No.</td>
<td>Company Name</td>
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<td>51</td>
<td>Flash Financial Services Pvt Ltd</td>
<td>No 9, 1st Floor, New Market Centre, R Tangwena</td>
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<td>52</td>
<td>Four Seasons Finance Pvt Ltd</td>
<td>Suite No 4, 2nd Floor, Catherine Court</td>
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<td>53</td>
<td>Get Bucks Financial Services</td>
<td>4 Arden Road, Newlands, Harare</td>
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<td>Gemini Financial Services Pvt Ltd</td>
<td>Suite 2, Kubatana Centre, Hughes Street</td>
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<td>Great Thanks Investments Pvt Ltd</td>
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<td>Green Masters Investments P/L</td>
<td>19 J. Tongogara Ave/ Blackston St, Harare</td>
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<td>Greenstrod Trading Pvt Ltd</td>
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<td>Gileen Investments Pvt Ltd</td>
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<td>Homelink Pvt Ltd t/a Microlink</td>
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<td>Imali Capital Finance Pvt Ltd</td>
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<td>139 Jason Moyo, Bulawayo</td>
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<td>Jakana Pvt Ltd</td>
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<td>JHM Investments Pvt Ltd</td>
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<td>KCI Management Consultants P/L</td>
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<td>Kamilish Investments Pvt Ltd</td>
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<td>Kandim Investments Pvt Ltd</td>
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<td>Kenpert Investments Pvt Ltd</td>
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<td>Limitless Trading Pvt Ltd</td>
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<td>Lohn City Pvt Ltd</td>
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<td>Maple Ridge A &amp; S Pvt Ltd</td>
<td>No. 9 Capri Court, 3rd Avenue/Main Street</td>
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<td>McDowells International Pvt Ltd</td>
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<td>Metronite Investments Pvt Ltd</td>
<td>17051 Kelvin West, Bulawayo</td>
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<td>MicroKing Savings &amp; Credit Co</td>
<td>70 Park Lane, Harare</td>
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<td>Microcredit Africa Pvt Ltd</td>
<td>2 San Fernando Court, Cnr 5th/Fife Ave, Harare</td>
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<td>Micropal Finance Pvt Ltd</td>
<td>8th Floor, Pegasus House, 52-54 S Machel Ave</td>
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<td>92</td>
<td>Midfiar Investments Pvt Ltd</td>
<td>No 3 Drummond Chaplin Rd, Milton Park, Hre</td>
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<td>Minanah Capital Pvt Ltd</td>
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<td>Money Method Finance Pvt Ltd</td>
<td>25A Main Street/ First Avenue, Bulawayo</td>
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<td>Montess Microfinance Pvt Ltd</td>
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<td>Moreyields Investment Pvt Ltd</td>
<td>Suite 804, 8th Floor, CIPF Centre, J Moyo</td>
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<td>98</td>
<td>Multridge Finance Pvt Ltd</td>
<td>Building No. 5, Arundel Office Park, Mt Pleasant</td>
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<td>Nash Micro Capital Pvt Ltd</td>
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<td>Nelhurst Trading Pvt Ltd</td>
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<td>Newhan Finance Services P/L</td>
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<td>Newrock Finance Pvt Ltd</td>
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<tr>
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<td>Nissi Global Finance Pvt Ltd</td>
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<td>Oracle Finance Pvt Ltd</td>
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<td>Paradyne Financial Services P/L</td>
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<td>Pockets Investments Pvt Ltd</td>
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<td>Portify Investments Pvt Ltd</td>
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<td>Potphill Investments Pvt Ltd</td>
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<td>Protege Pvt Ltd</td>
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<td>Shantoni Finance Company P/L</td>
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<td>Share Wealth Pvt Ltd</td>
<td>5th Floor, Travel Centre, Cnr 3rd Street &amp; J Moyo</td>
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<td>Shon Financial Services P/L</td>
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<td>Simukai Financial Services P/L</td>
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<td>Sissoke Investments Pvt Ltd</td>
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<td>Tantiamo Finance Company P/L</td>
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<td>Tazmac Pvt Ltd</td>
<td>Cnr R Mugabe/ Inez Terraze, Asia House</td>
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<td>Vain Court Microfinance Pvt Ltd</td>
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<td>Virgin Microfinance Pvt Ltd</td>
<td>Stand No 845, Golden Stairs Road, Mt Pleasant</td>
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<td>Visible Target Pvt Ltd</td>
<td>Office 6, Apollo Court, Main Court, Gweru</td>
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<td>Walina Trading Pvt Ltd</td>
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<td>Witha &amp; Sons Financial Services</td>
<td>3rd Floor, Beverley Court, 100 N Mandela Ave</td>
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<td>Wintron Financial Services P/L</td>
<td>313 Kingdom Building, 9th Ave/J Moyo Street</td>
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<td>Yambukai Holdings Pvt Ltd</td>
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<td>Yonder Rift t/a Bridging Finance</td>
<td>5th Floor, North Wing, Hungwe Hse, 69 J Moyo</td>
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<td>Zambuko Trust</td>
<td>No 6, Aberdeen Road, Belgravia, Harare</td>
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<td>Zansi Microfinance Pvt Ltd</td>
<td>No 22A Loma Court, 4th Avenue, Bulawayo</td>
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<td>Zimnat Financial Services</td>
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<td>Zenith Financial Services P/L</td>
<td>1st Floor, Memorial Building, 35 S Machel Ave</td>
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## APPENDIX 3: SCHEDULE OF REGISTERED SACCOS UNDER NACSCUZ

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<th>NAME OF SACCO</th>
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<td>Chitungwiza</td>
<td>Active</td>
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<td>Jurani Firi Santa</td>
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<td>Chitungwiza</td>
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<td>Municipality of Harare</td>
<td>Active</td>
<td>Mbare, Harare</td>
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<td>Progressive Woman</td>
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APPENDIX No 4: Interview Guide Questions

a) Questions to Regulatory Authorities (RBZ)

1. What parameters do you consider in the licensing of MFIs in Zimbabwe?
2. Please comment on the MFIs Minimum Capital requirement of $5,000.00, in relation to the role the sector plays in economic development.
3. In your opinion, how do you rate the performance of the microfinance sector in Zimbabwe compared to other developing economies?
4. What is your comment on the conduct of MFIs in Zimbabwe?
5. What do you think your organization can do that which you are not doing to further enhance the performance of the microfinance sector?
6. MFIs are becoming unpopular, both in public circles and the print media over a number of unethical conducts, what is your position as an organization on those accusations?
7. In your opinion, are MFIs playing their role in poverty alleviation and economic development?

b) Questions to APEX Bodies (ZAMFI, ZAMLA)

1. In brief, just summarize the exact role of your organization as far as the microfinance sector in Zimbabwe is concerned?
2. What role if any, does your organization play in the registration of MFIs in Zimbabwe?
3. May you please detail, in brief, some of your achievements as far as the microfinance sector is concerned?
4. In your opinion, how do you rate the performance of the microfinance sector in Zimbabwe compared to other developing economies?
5. What is your comment on the conduct of MFIs in Zimbabwe?
6. What do you think your organization can do, that which you are not doing to further enhance the performance of the microfinance sector?
7. MFIs are becoming unpopular, both in public circles and the print media over a number of unethical conduct, what is your position as an organization on those accusations?
9. In your opinion, are MFIs playing their role in poverty alleviation and economic development?

c) Questions to MFIs
1. What type of facilities and products does your organization offer?
2. In general what is your target market and who are your major customers?
3. In brief, just give an outline of your business conditions that is, facility limits, tenor, interest rates, security requirements, and repayment terms, amongst others.
4. MFIs have been accused being unethical in the conduct of their business, what is your position on those accusations?
5. What has been the trend of loan defaults over the past three or so years, and in your opinion, what do you think are the reasons behind such a trend?
6. In your opinion, how do you rate, your clients feedback on the products and services that you offer?
7. In your opinion what has been the impact of microfinance on the welfare of Zimbabweans in general?
8. What role do you think organisations like RBZ, ZAMFI, and ZAMLA can play in the microfinance sector in Zimbabwe?
Appendix No 5: RBZ Circular to MFIs and Money Lending Institutions
Appendix No 6: Cancellation of McDowells International ‘s Lending License
Appendix No 7: Questionnaire Covering Letter

14\textsuperscript{th} June 2, 2012

University of Zimbabwe (UZ)
P. O. Box MP 167
Harare

Dear Sir/Madam

RE: RESEARCH QUESTIONNAIRE
The researcher is a Masters in Business Administration student with Graduate School of Management (UZ) and is undertaking a research study on the topic: *The role of Microfinance Institutions in Poverty alleviation in developing economies: The Case of Zimbabwe.*

You have been chosen as one of the respondents to help and assist with some information on the topic. You are being kindly requested to complete the questionnaire attached. The information you provide will be used for academic purposes only and will be treated in strict confidence.
Should you require clarification on the matter, please conduct the researcher on his mobile numbers 0772 101 234/ landline number 04-781369.

Your Assistance in this matter will be greatly appreciated.

Yours Sincerely

Munyaradzi Chakatsva
APPENDIX No 8: Client Questionnaire

Section One: Introduction (Demographic Section)

a) This section relates to Microenterprises / Companies

1. Type of Microenterprise
2. Number of years in business
3. Number of employees (If any other than business owners / shareholders)
4. Respondent Position (Please tick appropriate box)
   - Owner/ Director
   - Manager
   - Supervisor
   - Office Staff

b) This part relates to individuals / Sole Trader

1. Age (Please tick in appropriate box)
   - Below 25 years
   - Between 25-35 years
   - Between 36-45 years
   - Between 46-55 years
   - Over 55 years

2. Gender (Please tick in appropriate box)
   - Male
   - Female

3. Educational Qualifications (Highest level of education)
   - O’ Levels
   - A’ Levels
4. Purpose of loan

<table>
<thead>
<tr>
<th>Personal Loan</th>
<th>Business Loan</th>
</tr>
</thead>
</table>

5. Number of years in business

SECTION TWO: BUSINESS DETAILS

1. Nature of business (Sector)

<table>
<thead>
<tr>
<th>Agriculture</th>
<th>Commodity Broking</th>
<th>Manufacturing</th>
<th>Services</th>
<th>Retail</th>
<th>Transport</th>
<th>Mining</th>
<th>Other</th>
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2. Source of capital

3. How long have you dealt with your Microfinance Institution

4. Please detail the services/products that you receive from the Institution you deal with.

5. How many facilities have you accessed from the Institution

6. Please indicate purpose of loan facility application.

| Working capital |  |
Order financing
Consumption / Educational
Asset Financing
Start Up Capital
Medical
Other
If other, please specify……………………………………………………………………………………
...

7. Please itemise the requirements for you to qualify for a loan facility……………………………………
   i. ………………………………………………………………………………………………………
   ii. ………………………………………………………………………………………………………
   iii. ………………………………………………………………………………………………………
   iv. ………………………………………………………………………………………………………

8. Please detail the business conditions you receive from your institution, in terms of…
   i. Interest rates…………………………………………………………………………………
   ii. Tenor of facilities…………………………………………………………………………
   iii. Admin charges (if any)……………………………………………………………………
   iv. Any other charges…………………………………………………………………………
   v. Facility amounts………………………………………………………………………………
   vi. Any other conditions not listed above………………………………………………

9. Type of security offered

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<td>Movable Property (Motor Vehicles)</td>
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<td>Household Items (Stoves, Refrigerators, TVs, etc)</td>
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<tr>
<td>Business Machinery/ Equipment</td>
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<td>Salary Based</td>
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<td>Other</td>
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10. What's your opinion with regards to the business conditions offered by your institution?

- Very satisfied
- Satisfied
- Not Satisfied
- No choice

Please comment:

11. What repayment methods on loan facilities does your institution apply?

- Monthly debit order / stop order
- Cash payments/RTGS

12. How often have you been in arrears with your loan repayments?

- Never
- Few occasions (>5)
- More than often
- Always

13. Please explain the reasons of your going in arrears?

........................................................................................................................................
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14. What measures have your institution taken on your being in arrears?

15. What's your position/comments with regards to the measures taken?

- Very professional
- Not professional
- No Choice

16. In your opinion what has been the effect or rather impact of Microfinance on your welfare and business project?

- Significant positive improvement
- No improvement
- Negative impact

17. Do you think MFIs are playing a positive role/negative role in alleviating poverty in the country?

- Yes
- No

Justify your answer: ............................................................

18. In your opinion, what do you suggest the regulatory authorities like RBZ, Ministry of Finance do with the Microfinance sector in Zimbabwe, to ensure efficient service delivery and enhancement of people’s
APPENDIX No 9: MFI Questionnaire

Section One: Introduction

1. Title of respondent
2. When was your organisation stated
3. Staff compliment
4. Number of Branches
5. Holding Company/ Associate Companies name (if any)

Section Two

1. Size of portfolio (number of clients)
2. Loan Book over the past 3 years
   2009
   2010
   2011
3. Sectorial Analysis of Portfolio (in percentage form)

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<th>Manufacturing</th>
<th>Mining</th>
<th>Transport</th>
<th>Educational / Consumption</th>
<th>Services</th>
<th>Other</th>
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</table>
4. What types of facilities does your organisation offer?

| Working capital | Order Finance | Consumption/ Educational/Medical | Start Up Capital | Asset Financing | Other |

If other please clarify
5. Tenur of Loan facilities

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<th>Tenure</th>
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If other please clarify

6. Facility Limit, Minimum and Maximum

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<td>Maximum</td>
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7. Interest rates

In the event of a defaulting client, does your organisation charge penalty interest rate

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If yes what is the penalty rate

8. Other than the interest rate on facility does your organisation have other charges (e.g Loan administration charges)

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If yes please clarify the types of charges and the applicable rates / fees
9. Does your organisation request for security on loan / facility applications

Yes

No

If yes please clarify the types of security acceptable

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10. What has been the default rate on loan or facility applications over the past three years

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<th>Rate</th>
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<td>2010</td>
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<td>2011</td>
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i. What do you think are the reasons behind loan defaults

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ii. What in your opinion do you think are the reasons for that trend over the three years to 2011.

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iii. What methods do you employ in recovering loans that are in default and what has been the success rate over the past three years?

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11. What is the turnaround time in processing of a facility
Clarifications on turnaround time if any…………………………………………………………………………………………
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12. Please list the various products that you offer
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13. What repayment methods does your organisation employ (e.g. stop order)?............................................ ................................................... ...........................
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14. From the feedback that you get from your clients and your own experiences, how do you rate your client’s feedback on the products and services that you offer? (Please tick)

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Any comments on feedback…………………………………………………………………………………
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15. In your opinion what has been the impact of Microfinance on the welfare of Zimbabweans in general?........................................................................................................................................................................................................................................................................
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16. In your opinion, what role do you think organisations like ZAMFI, RBZ, ZIMLA can play in the Microfinance sector in Zimbabwe?

Thank You.