MICROFINANCE IN ZIMBABWE

Evaluation of Austrian support to Microfinance Institutions in Zimbabwe ILO-SDF, ZWFT and ZAMBUKO TRUST

Final Report

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CONTENTS

1. **Introduction**
2. **List of Annexes**
3. **Abbreviations**

Part ONE:

MICROFINANCE: A CRITICAL STATE-OF-THE-ART

4. **Alleviation of poverty?**
5. **The International Debate and the Austrian Policy Paper**

Part TWO:

RECEIPIENT ORGANISATIONS PROFILE

6. **Micro Enterprise Development Programme of Social Development Funds**

6.1 Current status
6.2 Structure of MEDF
6.3 Loan Terms
6.4 Observations

7. ZIMBABWE WOMEN'S FINANCE TRUST (ZWFT)

7.1 Current status
7.2 Solidarity group lending methodology
7.3 Interest Rates
7.4 Debt Recovery
7.5 Operations
7.6 Governance

8. ZAMBUKO TRUST

8.1 Consolidation process
8.2 Women's Trust Bank Methodology
8.3 Loan appraisal weaknesses
8.4 Activities of Zambuko Trust
8.5 Observations

Part THREE:

COMPARISON OF PERFORMANCE

Part FOUR:

FRAMEWORK CONDITIONS IN AUSTRIA

9. DECISIONS ABOUT SUPPORTING, REPORTING AND CONTROLLING
10. CO-ORDINATION OF DECISIONS
11. INVOLVEMENT OF AUSTRIA IN THE INTERNATIONAL DISCUSSION
12. OPTIONS FOR AWARDING PROJECTS TO PROJECT HOLDERS

Part FIVE:

CONCLUSIONS

13. REALISATION OF THE BASIC IDEAS OF MFI LENDING IN ZIMBABWE

13.1 Alleviation of poverty, stabilisation and growth of businesses
13.2 Women as a target group
13.3 Financial and institutional sustainability
13.4 Low cost strategy

14. CONNECTION TO THE SECTOR POLICY IN ZIMBABWE
15. INTERCONNECTION OF SUPPORT INSTRUMENTS
15. PROGRAMME CONTROL

Part SIX:

RECOMMANDATIONS

1 INTRODUCTION

The evaluation was commissioned by the Austrian Ministry for Foreign Affairs, Department for Development Co-operation (EZA), and was carried out in January and February 1999 by a four-person team who are also the authors of this report.
The brief was to evaluate the Austrian Government programme of support for capacity-building of micro-finance institutions in Zimbabwe.
The evaluation focussed on three Zimbabwean organisations:

- the Micro Enterprise Development Programme (MEDP), an apex "*loan window*" for wholesale on-lending to retail micro-finance institutions. MEDP is within the Social Development Fund (SDF) of the Zimbabwe Government.
- two retail lending organisations, Zambuko Trust and
- ZWFT (Zimbabwe Women's Finance Trust)

The organisations which carried out capacity-building on behalf of the Austrian Government (the "*project holders*") were CARE (Austria and Zimbabwe) in the case of ZWFT, ECOTEC Austria in the case of Zambuko Trust, and ILO Geneva in the case of SDF-MEDP.
At the time of the evaluation there were problems with the relationships between two of the project holders and their target organisations. The relationship between ZWFT and CARE Zimbabwe had deteriorated and communication between the two organisations had ceased in the period before the evaluation. However, the Austrian-funded project had already ended by this time, and the technical capacity-building activities are considered a success. This was acknowledged by the chairwoman of ZWFT in interview, and is confirmed by our study.
The relationship between ILO and SDF was also very difficult at the time the evaluation was carried out. The three-year capacity-building project was in fact cut short in March 1999 with several months still to run. We discovered afterwards that the decision to do this had effectively been taken by EZA and ILO in February 1999 before our visit. We were not aware of this at the time we carried out the study, but it helps to explain some of the problems we encountered.

General Finding

In general our finding is that support for capacity-building of micro-finance institutions in Zimbabwe is a constructive and important development intervention at this time. It should be continued, and its scope should become both wider and deeper.

Technical support needs reinforcing with organisation capacity-building

The micro-finance industry is young in Zimbabwe, and needs several kinds of support. Technical capacity-building is one aspect of this, and is well represented in the Austrian programme, although there is still technical weakness at Zambuko Trust. Organisation capacity-building which focuses on issues of representation, accountability, transparency and corporate governance is another important area. It appeared from the study that this has not been a specific focus for Austrian support, despite the fact that it is a problematic area in two of the three organisations (SDF and ZWFT).

Range of organisations supported could be broadened

The range of organisations supported was quite narrow. It would make sense also for the Austrian Government to look at projects to develop the capacity of **banks** and other types of finance institution such as **private moneylenders**, community-based **savings and credit schemes**, and private **venture capital funds**, to undertake micro-enterprise financing.

Range of instruments for micro-enterprise finance could be broadened

The range of instruments for micro-enterprise financing was restricted to conventional lending. It was clear from the study that although this does make a contribution to poverty alleviation, its effect on business growth, and therefore on sustainable wealth generation, is limited.
Other kinds of small enterprise financing instruments need to be developed to increase the impact of the small enterprise sector on economic growth by supporting growth-

oriented micro-businesses. This requires both technical and organisational capacity-building of a wider range of Zimbabwean partners.

Microfinance for poverty alleviation: is it enough?

There is a consensus in the literature and amongst the experts interviewed for this study that micro-enterprise lending on its own does not sustainably improve the livelihoods of the majority of the poorest. If the Austrian Government considered it desirable to directly target those most at risk from poverty in Zimbabwean society, support for micro-finance institutions would not be sufficient. Other types of intervention would need to be examined.

The Structure of the Report

The following structure has been chosen for the report:

- The first chapter (Part One) provides an overview of the status of the international discussion on microfinance and asks whether the Austrian basis (3-year programme, country sector programme) is still relevant to the current debate
- The second chapter (Part Two) is concerned with the analysis of the microfinance institutions anticipated in the Terms of Reference (recipient performance). A reflection on the comparison of impact is already begun in this chapter although it will be looked at more explicitly in the following one (Part Three).
- The analysis of the framework conditions in Austria (Part Four) has the aim of showing under which circumstances and with which problems the delivery of aid operates.
- The two final chapters are devoted to the conclusions (Part Five) and recommendations (Part Six).

2 LIST of ANNEXES

1. List of persons interviewed
2. Client interviews
3. Expert interviews
4. Comparison of interest calculation methods
5. ZWFT: Portfolio and Outreach summary report
6. Zambuko Trust: Portfolio and Outreach summary report
7. Financial Gazette article: Micro finance sector blossoms
8. Terms of Reference

3 ABBREVIATIONS

AFC	Agricultural Finance Corporation, a parastatal bank
EZA	Austrian Development Co-operation
ILO	International Labour Organisation
SDF	Social Development Fund of the Zimbabwe Government Ministry of Public Service, Labour and Social Welfare
MEDF	Micro-Enterprise Development Fund, within SDF
MFI	Micro Finance Institution
MSE	Micro and Small Enterprises
SEDCO	Small Enterprise Development Corporation, a parastatal lending organisation
SHDF	Self Help Development Foundation, a community based savings and credit organisation
ZECLOF	Zimbabwe Ecumenical Loan Fund
ZWFT	Zimbabwe Women's Finance Trust

Part ONE:

MICROFINANCE: A CRITICAL STATE-OF-THE-ART

The idea of attempting to reduce poverty in developing countries through the provision of loans by specialised financial institutions to micro-enterprises[1], urban and rural, has in recent years generated enthusiasm bordering on hysteria (*Rogaly* 1996). Financial services are envisaged to alleviate poverty by the provision of income-generating loans. According to Dr. Yunus, the founder of the Grameen Bank, a virtuous circle can be established: low income, credit, investment, more income, more credit, more investment, more income .... The fascination with the new approach derives from the assumption that micro-enterprise finance is a solution that can meet the goal of poverty reduction and pass the test of sustainability at the same time. Some have even alleged that this ”new world of micro-enterprise finance” has the ”potential to do in finance what the green revolution has done in agriculture - provide access on a massive basis” (*Otero* and *Rhyne* 1994: 1).

Politically, microfinance appeals to the left as being a redistributive as well as direct approach to alleviating poverty and - in the case of group-based financial institutions – has the potential to restore (at least partially) decision-making power to the poor. The right supports the approach because it combines the ideology of self-help with the absence of government intervention by facilitating the emergence of an independent, self-sustaining ”penny capitalism” (*Mosley* and *Hulme* 1998, *Woolcock* 1995).

Financially, institutions such as the Grameen Bank of Bangladesh, the BKKs of Indonesia and Banco Sol of Bolivia have often achieved higher loan recovery rates than those achieved by commercial banks in the same country in spite of lending to poor, mostly uncollateralised individuals. These success stories seem to indicate that a reliable financial technology and a proven organisational design for lending to the poor of developing countries now exist. Elements of these innovations and new policies are: cost-covering interest rates, the group-lending mechanism, incentive and disincentive systems for staff as well as customers, the provision of savings facilities, non-traditional forms of collateral, the use of social mechanisms for the selection of clients and collection of debts, institution building, efficient portfolio, financial and cost management, the use of professional Management Information Systems, and the adaptation of financial services to local demand through mobile banking, etc. In accordance with these principles, two widely accepted key indicators of success have emerged: financial sustainability and outreach. The new microfinance approach is usually linked to a minimalist strategy: loans are disbursed without any other technical support. Various international initiatives, including the World Bank-based Consultative Group to Assist the Poorest (CGAP) and the Micro-Credit Summit held in Washington DC in February 1997, have been taken to diffuse these innovations on the premise that this will make a large contribution to reducing the level of world poverty (*FAO/GTZ* 1998; *Fruhmann* 1995; *González-Vega* und *Graham* 1995; *Krahnen* and *Schmidt* 1993; *Manndorff* 1998; *Mosley* and *Hulme* 1998; *Otero* and *Rhyne* 1994; *Yaron* 1992; *Yaron*, *Benjamin* and *Piprek* 1997).

There also seems to be a consensus concerning the applicability of these financial technologies and institutional designs irrespective of the specific environment. Although most scientists and practitioners are constantly repeating that micro-finance institutions (MFIs) need to fit into the local environment, most MFIs still resemble the Grameen Bank or other ”best practice” models and provide standard products. Applying financial technologies and using organisational arrangements which have proved to be successful is, of course, not an unsound policy as such. Studies have confirmed, for example, that the financial technology used to service farmers need not differ completely from the technologies applied

[1] It is important to stress that microfinance is defined in this chapter as the provision of financial services to micro-enterprises, which usually operate in the informal sector, do not have more than four employees, including the owner and family members, and do not distinguish between business and private financial affairs. This definition corresponds with the target group of the two microfinance institutions evaluated in this report. However, most of the findings summarized in this chapter are also valid for small enterprises.

by urban MFIs (*Hulme* 1992; *Manndorff* 1998). Whether uniformed replications, adopting successful models, can generally be considered as good practice will be discussed below.

In any case, the new approach emphasising professionalism, sustainability, accountability, transparency and the use of proven financial technologies and institutional designs has certainly contributed a great deal to the ability to provide financial services to the poor on broad and cost-effective basis. However, in spite of the fact that usually only favourable results are published, there is growing evidence that microfinance is no panacea for poverty alleviation and that the client impact of savings and credit interventions often remains rather limited:

- a minority (in Africa less than 10%) of borrowers were able to demonstrate any type of change in technique or technology since they had received their first loan (*Buckley* 1997; *Hulme* and *Mosley* 1996; *Sebstad* and *Chen* 1996)
- few micro-enterprises experience sustained growth, while a majority grow only a little, or maintain their operations at a constant level (*Sebstad* and *Chen* 1996)
- it is unusual for credit to trigger a continuous increase in technical sophistication, output or employment. It is much more common for each of these variables to reach a plateau after one or two loans and remain in a steady state (*Hulme* and *Mosley* 1996)
- the impact on the number of paid employees is concentrated on a small proportion of the borrowers (*Buckley* 1997; *Sebstad* and *Chen* 1996)
- the availability and suitability of existing sources of finance may be undermined by microfinance institutions (*Rogaly* 1996)
- micro-enterprise credit may reinforce existing inequalities in power relations and thereby reproduce the conditions of poverty (*Goetz* and *Gupta* 1996; *McGregor* 1988)
- microfinance can only make a relatively limited contribution to reducing the vulnerability of poor households to sudden and dramatic declines in income and consumption levels (*Hulme* 1995)
- the very poor receive few direct benefits from income generating credit initiatives (*Hulme* 1995; *Mosley* und *Hulme* 1998; *Zaman* 1998)
- some borrowers, usually the poorest of the poor, can even be worse off as a result of borrowing (*Bechtel* and *Zander* 1994; *Mosley* and *Hulme* 1998)
- credit given to women is often not utilised by them – instead it is handed over to husbands or other male relatives (*Khondkar* 1998; *Goetz* and *Gupta* 1998)
- microfinance schemes concentrating on women usually have little impact on the empowerment of these (*Khondkar* 1998; *Osmani* 1998)

These arguments should not be interpreted as a general rejection of microfinance as an instrument of poverty reduction. There is enough evidence that the provision of loans and savings facilities can improve the living conditions of the poor in developing countries. However, the above arguments also show that microfinance is not the ”magic bullet” for poverty reduction. Significant and sustained positive impacts for the beneficiaries of micro-enterprise credit programs are rare – and this is especially true for Africa (*Buckley* 1997). This mismatch between expectations and outcome may be due to the core assumptions on which most of the microfinance schemes are built: (1) The benefit of credit for poor people lies essentially in its use as capital to be invested in productive ”projects”. (2) Loan repayment implies that the borrower has profited from the credit.

The notion of credit as capital to be used for income-generating projects is a very strong one – in urban as a well as rural MFIs. The above cited Grameen Bank formulation of its strategy for poverty reduction (income, credit, investment, more income, ...) reflects this. The notion has been reinforced by the popular representation of microfinance borrowers as ”micro-entrepreneurs”. And the purpose of the Micro-Credit Summit held in Washington in early 1997 was to launch a global campaign ”to extend small loans to facilitate self-employment projects, providing a path out of poverty” (*Ito* 1998: 178).

If credit is primarily understood as an instrument to generate income out of productive projects, this implies that poverty is conceived to be largely about material needs. By using income as the only indicator of poverty there is a great potential to quantitatively compare and analyse changes in the access of different people to their most pressing material needs. However, this definition of poverty has been heavily criticised for its reductionism. There is broad agreement that income is an inadequate measurement of welfare. Many forms of deprivation that poor people identify themselves as experiencing can not be captured by income poverty measures. These include vulnerability to a sudden and dramatic decrease in consumption levels, ill-health and physical weakness, social inferiority, dependence, powerlessness, humiliation and isolation (*Hulme* 1995, *Khondkar* 1998).

This ”holistic” perception of poverty corresponds to the finding that many borrowers (up to 50%) use their credit for consumption smoothing. Microfinance loans are also used systematically to pay back loans from moneylenders and other informal lenders.[2] Besides, savings and credit concepts may often not be as clear cut as usually assumed. For example, a large amount of savings are often held in non-monetary form (livestock, land, jewellery etc.) and therefore savings are often difficult to distinguish from investment or even consumption. Many MFI clients are successfully reducing poverty by spending loans on whatever is necessary at the moment to consolidate their social and economic asset base. This asset base can insure them against unexpected downturns (such as illness or death of a member of a household, medical expenses, funeral costs, crop failure, the theft of a key asset, a dramatic change in prices or the payment of dowry), and provide them the security in which to diversify their income. By borrowing for consumption, the poor are able to gradually reduce their income-vulnerability and thereby get themselves into a position where they can venture into more riskier investments in working capital, the hiring of non-family labour, and ultimately fixed capital. However, such sequences take time to work through successfully and therefore have to be considered as lengthy processes (*Hulme* 1998; *Ito* 1998, *Sinha* and *Matin* 1998).

The second major assumption behind microfinance schemes is that the borrower must be deriving some benefit if she/he repays the loan. The existing financial technology is assumed to reduce poverty. The fact that small loans are being made is treated as a proof in itself that the poor are being reached and the fact that these loans are being repaid is treated as a proof that incomes have increased. This reasoning corresponds with the ”intermediary school” of impact assessment: the health of the organisation and its sustainability (both organisational and financial) has been identified as the most important parameter of the microfinance intervention. The social benefit is judged in terms of its outreach to the poor – in terms of numbers of users and their poverty profile. According to this view, there is no need to directly measure the impact of credit on poor people (as proposed by the older ”intended beneficiary” school of impact assessment), because the practicability and cost-effectiveness of tracing the effect of highly fungible credit through to particular beneficiaries is put into question (*Johnson* 1998)

[2] In case of ZWFT, over 40% of the borrowers utilised their loans for other purposes than their business and Zambuko Trust clients also used their loans for a variety of purposes.

4 ALLEVIATION OF POVERTY?

However, as has extensively been discussed above, there is growing evidence that the impact of savings and credit interventions on the poor is not as positive as postulated and hoped for by the proponents of the new microfinance approach. Loan repayment indicates only that borrowers are able and willing to repay, but it says virtually nothing about impact on enterprise operations or household welfare. The most significant finding of recent studies is that in most cases credit is not creating the ”virtuous circle” to break the ”vicious circle” of poverty. Credit is not the magic ingredient to alleviate poverty or empower borrowers (*Buckley* 1997; *Khondkar* 1998; *Sinha* and *Matin* 1998).

Especially the poorest of the poor, which constitute the target group of many (Austrian) development interventions, receive few direct benefits from income-generating credit initiatives. Several studies have confirmed that higher income households usually experience higher programme impact than households below a certain poverty line. This can easily be explained in terms of the greater preference of the very poor for consumption loans, their vulnerability to asset sales forced by adverse income shocks and their limited range of investment opportunities and business information. As a consequence, loans to the very poor are normally not able to produce dramatic changes in borrower income (*Hulme* 1995; *Khondkar* 1998; *Mosley* and *Hulme* 1998; Zaman 1998).

The crucial flaw of the current euphoria concerning microfinance is that poverty is framed as a temporary, and easily remedied, cash-flow problem. However, the real causes of poverty are a lot more complex and profound and cannot be tackled solely by capital injections. Socio-cultural and structural factors are at least as important for the impact of credit on the poor as the lending technology or the transaction costs of the clients. These factors include: the absence or weakness of property rights; weak states; the absence or weakness of factor and output markets, weak infrastructure; lack of health, education and training; hierarchical social structures; social norms that encourage status-oriented decisions and thereby reduce the profitability of businesses; lack of social capital (trust, norms of reciprocity and social networks) etc. (*Buckley* 1997; *Dichter* 1996; *Goetz* and *Gupta* 1996; *Manndorff* 1999; *Woolcock* 1995).

The deficient argumentation often used by proponents of the new microfinance approach can once again be summarised by taking credit programs targeting women as an example. The belief that ”loans for women” will lead to their economic and social advancement are based on a number of assumptions: that women will use the loan for their own enterprise; that these enterprises will be successful; that women will control the profits derived from their enterprises; and that greater involvement in economic activities will strengthen their social and political position in society. In practice, however, lending to women is much more complex than pictured in this assumption chain. Studies reveal that credit given to women is often handed over and/or controlled by husbands or other male relatives. One research study (*Khondkar* 1998) even found that only 3% of the Grameen Bank (female) borrowers invested the money themselves and earned personal income from this. In the case of loans being solely used for typical female businesses, credit given to women may even reinforce existing gender differences and inequalities. Although access to credit has gone some way towards improving women’s relative well being and raising their social status, the assumption that every loan to a women is a step forward in the empowerment of women has to be refuted. The socio-economic situation of women is so complex and varied that there is no simple and predictable chain of causality. The impact of credit is more often than not limited because of women’s disadvantaged position within and outside the household. Socio-cultural norms have – especially in the rural context – been identified as the major obstacle to successful impact realisation: Access to credit and exposure to income-earning activities cannot wipe out centuries of cultural conditioning within one generation (*Goetz* and *Gupta* 1996; *Hulme* 1995; *Osmani* 1998)

A possible solution to all the above mentioned reservations concerning the use and impact of credit may be the distinction between "promotional" and "protectional" credit. A concentration on poverty as "income poverty" is usually associated with the notion of credit to be used for income-generation through self-employment. By contrast, if a broader view of poverty is accepted that conceptualises income levels as fluctuating and perceives income shocks as a major cause of poverty, protectional strategies become significant: Voluntary savings mechanisms, emergency consumption loans and relatively low risk income-generation are unlikely to create severe indebtedness. Distinguishing between promotional and protectional approaches does not require that these strategies are seen as unrelated or as competing against each other. Effective promotional strategies, that raise household incomes and create additional assets, can enable actors to protect a minimum standard of living. Conversely, effective protectional strategies may permit households to undertake investments that they had previously regarded as too risky (*Hulme* 1995).

Several conclusions can be drawn from the above discussion:

- Poverty is not a temporary, and easily remedied, cash-flow problem and can therefore not be tackled solely by capital injections
- Microfinance institutions have to provide financial services that heed both the promotional as well as the protectional strategies of the poor
- A more comprehensive model of lending may be required when lending to the poorest, focussing on the provision of savings facilities, simple insurance facilities (e.g. against drought) and small consumption loans with flexible repayment periods
- The "minimalist" or "credit alone" approach is not sufficient for attaining the objectives of poverty alleviation and empowerment – especially in the case of the poorest
- Financial services should be complemented by other services as no single instrument can be reasonably expected to solve the complex causes of poverty. But non-financial services need to be provided strictly separated from financial services – both in terms of personnel as well as organisationally.[3] The poorer the clientele the more important are supplementary anti-poverty interventions. However, in cases of extreme poverty, credit can be counterproductive, even if it is supplemented by other services
- Lenders usually face a trade-off: They can either focus their lending on the poorest and accept a relatively low total impact on household income, or alternatively focus on the not-so-poor and achieve higher impact
- If lenders are opting to focus on the poorest, the basic principles of the new microfinance approach outlined in the third paragraph still need to be followed most strictly: for well designed and sustainable MFIs achieve higher impact on borrowers, at all levels of income, than ill-designed and unsustainable microfinance institutions (*Mosley* and *Hulme* 1998)
- Uniform replications of successful microfinance models can be very harmful and destructive. MFIs have to give full cognisance to the customer's socio-economic environment and the services have to be tailored to clients' specific needs – this advice is especially important when servicing rural customers
- Indicators of financial performance of the microfinance institution are essential but cannot substitute for attempting to measure change in borrower's lives, even if resources do not permit a sophisticated analysis
- Further investigations including long term impact studies are called for, especially in Africa where very little research and investigation has been carried out so far.

5 THE INTERNATIONAL DEBATE AND THE AUSTRIAN POLICY PAPERS

[3] This corresponds with the findings of the evaluation in hand: Most clients of ZWFT asked for additional services.

The Austrian development cooperation (EZA) has identified microfinance as one of its key instruments to reduce poverty in developing countries. Many Austrian NGOs and firms engaged in development cooperation are actively involved in the implementation or the support of savings and credit programs. The framework for these activities are the different policy papers at three levels: (1) The Three Year Program of the EZA sets a general agenda. (2) The Sector Policy for Micro, Small and Medium-Scale Enterprise Development (MSMED) delineates the different intervention levels, instruments and intervention criteria, with microfinance as one of the instruments. Two handbooks for the planning and implementation of savings and credit programs, prepared by external consultants, represent the more concrete guidelines for microfinance interventions. (3) The Sector Policy for Micro, Small and Medium-Scale Enterprise Development for Zimbabwe gives the specific framework for Austrian initiatives in the field of MSMED in Zimbabwe.

Whereas the Three Year Program and the general sector policy guidelines have been prepared by ministry staff and/or external consultants and constitute a rather strict framework, the MSMED program for Zimbabwe was set up in a cooperation between representatives of project-holders, EZA external consultants and Ministry staff and is regarded as an unofficial position statement of the parties involved. Representatives of the Austrian project-holders were actively involved in setting up the parameters of the program and most of them communicate on a regular basis with the sector consultant. This also provides them with the opportunity to exercise some influence on the new MSMED program for Zimbabwe, which is currently prepared by the sector consultant. Although the present MSMED program for Zimbabwe has never been officially distributed, the project-holders involved are still aware of its contents and validity.

The question whether the Austrian microfinance policy papers are in accordance with the most recent developments in the microfinance debate can not be answered in a straightforward way. As far as the Three Year Program is concerned, no claim is laid to precisely define the target groups or instruments, therefore no statement can be made. The general MSMED policy paper only gives a broad overview of the different instruments and their most basic principles and refers to the specific microfinance manual (this reference is, however, not very explicit). Two handbooks have been prepared for the planning and implementation of savings and credit programs. The more recent one (published in 1997; english version in 1998) concentrates on rural microfinance interventions but is also taken as guideline for urban programs as the basic principles do not differ. This handbook is certainly up to date with most of the newest developments in the microfinance field and states clear principles and minimum standards for the planning and implementation of savings and credit programs. However, as far as the most recent debate on impact and poverty reduction strategies of the poorest are concerned, certain caveats have to be stated: Although it is made clear that the impact of credit on the poorest of the poor is limited and that they usually need additional non-financial services to receive direct benefits from income-generating credit initiatives, the importance of consumption loans for the reduction of vulnerability to income shocks is not stressed sufficiently. Fostering protectional credit and savings strategies, as discusses above, is not adequately outlined as potential intervention-area. Furthermore, it has been observed that the handbooks are not sufficiently known to some strategic players inside and outside the Ministry.

As far as the MSMED policy paper for Zimbabwe is concerned, three aspects are worth mentioning: (1) The target group of MSMED interventions in Zimbabwe is not defined particularly clearly. The paper distinguishes between micro, small and medium-scale enterprises but does not state explicitly which businesses are to be supported. However, the assertion that micro and small-scale enterprises lack finance more acutely than medium-scale businesses plus the concentration on the poorest regions of Zimbabwe suggests that micro-enterprises represent the core target group for microfinance initiatives. Furthermore, as the sector consultant and most project-holders have so far communicated on a regular basis, the effective target group formulation for a specific intervention area is normally known to the involved actors anyway. (2) The policy paper makes an explicit statement in favour of income-generating activities (p. 18). Consumption loans and other protectional strategies are not mentioned. Furthermore, a graph picturing the relations between the different intervention-areas (finance, marketing, networks, skills, industry development) shows the interrelatedness between finance, marketing and industry development, but no connection between finance and skills is shown (p. 18). This contrasts with the recent findings in microfinance: better-off and better educated and trained borrowers can derive more benefits from credit than poor and untrained borrowers. A (strictly separated) combination of financial and non-financial services is called for, if the poorest are to be reached. (3) Although the handbooks for the planning and implementation of savings and credit programs provide more specific guidelines for microfinance interventions than the MSMED policy paper for Zimbabwe, no references are made.

Several conclusions can be drawn from the above discussion:

- Target groups should defined more clearly in the various policy papers
- If the political decision to focus on the poorest is taken – and the strong poverty-orientation of the Austrian project-holders would suggest this –, more attention should be given to protectional microfinance strategies in the policy papers
- Policy papers, including manuals, should be distributed and discussed on a more regular basis, within the Ministry as well as with project-holders

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Part TWO:

RECIPIENT ORGANISATIONS PROFILES

In Zimbabwe there are favourable and unfavourable factors for MFI success. Favourable conditions for their activities include:

- the economic vibrancy of the informal sector,
- the existing level and diversity of skills,
- the high unemployment which causes informal business growth.
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Unfavourable factors for the success of MFIs in Zimbabwe are:

- Cultural and political influences, e.g: High level connections protecting non-transparent behaviour within MFI governance
- Political worry about saver confidence if MFIs get a bad press in terms of corporate governance problems
- Traditional practices, e.g. Founder syndrome
- Under-development of democratic culture
- Lack of trust between clients which undermines group lending methodology.

6 MICRO ENTERPRISE DEVELOPMENT PROGRAMME of SOCIAL DEVELOPMENT FUND

6.1 Current status

The Austrian Government funded ILO Geneva to provide capacity-building to the micro-enterprise development programme (MEDP), a revolving "loan window" with its own programme staff, operating within the Social Development Fund (SDF) of the Zimbabwe Government Ministry of Public Service, Labour and Social Welfare. SDF is capitalised from Zimbabwe Government Treasury funds. MEDP was originally capitalised at Z$50 million. The objective of MEDF is to lend to micro-finance institutions to enable them to on-lend to the target group of borrowers who are the owners of micro-enterprises.

The ILO capacity-building programme started in 1996 and had a duration of three years planned to end in September 1999[4]. It took the form of a technical unit within the MEDP supported by a Technical Assistance officer at ILO in Harare. The Ministry took sole control of the programme in February 1998, when the ILO Technical Assistance officer left the programme and, by agreement, was not replaced.

The MEDP has a target of lending to five MFIs within the project period. Up to the date of this report, it has lent to one organisation from the original five. Zambuko Trust has borrowed an amount of Z$10 million, which is the maximum loan the fund will make. The other four organisations were ZWFT, (Zimbabwe Women's Finance Trust, a women's MFI), ZECLOF, (Zimbabwe Ecumenical Loan Fund), SEDCO, (Small Enterprise Development Corporation, a parastatal lending organisation), and AFC, (Agricultural Finance Corporation, a parastatal bank).

These organisations were originally chosen on the assumption that they all had the institutional and operational capacity to borrow funds from MEDP and on-lend those funds to micro-enterprise borrowers. In fact the MEDP concept was developed with contributions from the five. However, only Zambuko Trust was granted a loan during the first phase of the project.

There were various reasons why the other four organisations were found not to qualify for borrowing from the fund after the concept development period:

- ZECLOF had lent to churches but had little experience and weak lending systems for individuals.

4 The ILO support to MEDP was cut short in March 1999, after our visit, but independently of this evaluation.

- The two parastatals, AFC and SEDCO, had a problem of understanding the concept of micro-finance lending, and a stage was reached when it was felt that since they were already funded from the Treasury, it did not make much sense to use other Treasury funds from a different Ministry to provide them with additional capital.
- ZWFT didn't have qualified staff in key positions, the board was not fully constituted, management and financial information systems were lacking.

These realisations caused a re-thinking about criteria for qualified partners. In 1998 the criteria for partners was widened to include community-based savings and credit organisations, and private moneylenders registered with the Ministry of Finance. At the same time, parastatals were excluded.
Resulting from this re-think, MEDP began to develop an operational manual and a loan application approval form to be used by organisations seeking funds from MEDP. These documents are currently in the final stage of development. The criteria in these documents which is used for selection of suitable borrowers include:

- legal status
- lending practices
- target group
- loan terms
- capacity of the institution
- branch infrastructure

In 1998 MEDP circulated a questionnaire to 200 registered private and community-based lending organisations. 25 organisations responded.
MEDP analysed the training needs of 11 of these organisations, and developed a rationale for a training co-ordinator to be funded from savings made on the ILO Technical Advisor's salary. Despite agreement on this by ILO and the donor in early 1998, this post has still not been filled.
MEDP is now in the process of approving loans to three organisations, Self Help Development Foundation, (a community-based savings and credit organisation), Nissi Finance (Pvt) Ltd, (a private money-lending company), and ZWFT, which in the intervening period has recruited key staff and improved its technical and management systems with assistance from CARE Zimbabwe.

6.2 Structure of MEDF

MEDP is headed by the Joint Advisory Group, which comprises Ministry officers, ILO, donors and MFI representatives. The JAG met several times in 1996, once in 1997, and has not met since then.
The senior management team comprises the Director (the Co-ordinator) and Deputy Director of the SDF. The staff complement of MEDP is the Deputy Director of SDF and two project analysts and secretarial support. The ILO-funded capacity building unit has a project manager and two research analysts, one responsible for institutional analysis and one for financial (technical) analysis and a secretary. The project manager's post became vacant at the end of 1998.
Final decisions on lending policy, procedures and loans are made by the Loans and Grants Allocations Committee (LOGAC).
When an MFI makes an application, it is assessed by a project analyst, who makes a recommendation to the senior management team. If it is approved there, the application goes to the LOGAC for final approval. Once the application has received final approval, funds are disbursed to the MFI.

6.3 Loan Terms

Loans are made to MFIs from the MEDP at an interest rate of 15%. This interest rate is calculated on a straight line basis on the whole loan over the whole period of five years, which means an effective interest rate of 30%. Half of the interest is repaid to the MFI at the end of the loan, which reduces the real interest rate on each loan back to 15%. This is less than half of the current rate of inflation in Zimbabwe, which is currently over 40% (February 1999).

6.4 Observations

Autonomy

The major unresolved question raised in the Tripartite Evaluation of 1998 was the extent to which the MEDP "loan window" was established as a separate entity within SDF. From what we could gather, it seems that dedicated MEDP staff are now in place, but it is not known to what extent the loan window is autonomous legally or in terms of accounting.

ILO support cut off

Issues around terms and conditions of service and reporting procedures[5] caused a disagreement between ILO and SDF. This caused the ILO project manager's contract to not be renewed in December 1998 and at the same time was the substantive occasion for cutting short ILO support to MEDP in March 1999, six months before the end of the project, with the agreement of the Austrian government.

There were major delays on the part of SDF in implementing agreed items in the tripartite evaluation. From the point of view of ILO and EZA, these delays called into question the continuing commitment of the Zimbabwe government to establish the MEDP as a functioning loan window. This led them to cut off support for the programme.

From our point of view, it was difficult to establish whether the Zimbabwe government has in fact lost its commitment to the programme, or whether it is just acting very slowly, and resisting donor pressure. Time will tell.

Slowness in disbursing funds

Several opposing opinions were expressed to the evaluation team about the lack of disbursement of funds by MEDP over the last two years.

Lack of capacity in the industry to absorb loans

A senior officer of a major donor[6] believed that the reason was lack of borrowing capacity within the MFI sector in Zimbabwe. He stated that there is no mature micro-finance organisation in Zimbabwe yet, and that MFIs need to be supported with grant funding during their development period. He believed that apart from Zambuko Trust, no Zimbabwean MFI could yet afford to borrow, even at the concessionary rate of 15%.

No lack of capacity, but lack of commercial practice

A banker with extensive experience of lending to small enterprises did not agree with this, and argued that the existence of informal moneylenders charging much higher rates of interest (up to 50% per month), proved that there was a demand for loan finance in the micro-enterprise sector even at these high rates. He implied that MFIs could borrow and still make profits from on-lending, by increasing the interest rates they charge.

Concept and procedures still under development

The Deputy Director of SDF did not agree with the opinion of the donor, considering it "colonialist". She said that the reason for not having yet achieved the initial lending targets was that MEDP is still developing the concept and the procedures. She stated that donors can afford to take more risks when grant-funding MFIs than the Zimbabwean Government can when lending taxpayers' money. She also referred to the poor track record of the SDF in lending directly to individuals, and gave this as a reason for caution within MEDP before beginning to lend to MFIs.

The evaluation team believes that there is merit in the MEDP position, and that the progress made in refining the concept and procedures for lending from the fund reflects a genuine concern with sustainability and good practice. However, the team believes that

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5 Annex: Fax from Permanent Secretary July Moyo to B. Balkenhol, ILO Geneva, 9th December 1998.

6 From Annex *Interviews with Experts*, 1. Richard Boulter, DFID

other institutional factors have also significantly delayed progress. One such factor is believed to be the change in Permanent Secretary during the project period, which influenced the speed at which the project has developed. We also believe that there is a lack of capacity within the Zimbabwean MFI industry to absorb loans, but that there is more capacity now that the target group has been widened to include more types of organisation.

Targets

The original target of lending to five MFIs in the project period has not yet been met. Whether it will be met before the end of the project period (now academic) later this year remains to be seen.

Sustainability

The real interest rate of 15% on the loans is not sustainable for a revolving loan fund in the current economic climate in Zimbabwe. The MEDP will slowly lose value, even if all loans are repaid in full on time.

Training and capacity-building of MFI staff and systems

The decision by MEDP and ILO to appoint a training co-ordinator to upgrade the skills and systems within existing MFIs (not yet implemented) appears to have been an ad-hoc response to the resignation of the ILO CTA in early 1998. In our opinion it should not be the function of the lender to train the borrower. If the borrower needs training, arrangements for this should be separate. Where training and capacity building are needed, which they certainly are in some organisations, there are NGOs (eg CARE Zimbabwe) with highly skilled and experienced staff who can carry out such a function.

MEDP decisions

The evaluation team agrees with the following MEDP decisions:

- not to lend to MFIs with weak corporate governance or operational systems
- to broaden the target group of organisations to include community-based credit and savings organisations and registered private sector moneylenders

The evaluation team agrees with other experts interviewed that there is a buoyant demand for microfinance in Zimbabwe, and that an efficient method of increasing access to such micro loans is to support these types of organisation.

Targeting private moneylenders

The decision to include private sector moneylenders in the MEDP target portfolio is particularly commended here, as a major break with previous government practice. Private sector lenders appear to be cost effective and entrepreneurial. ***It is, however, important to make sure that exploitative relationships are not reproduced as a result.***

Banks as a source of microfinance

Commercial Bank of Zimbabwe has set up a Community Banking operation in five branches, based on MFI methodologies. It appears to be more efficient than even the best MFIs in Zimbabwe.[7] Although it is established only in urban areas at the moment, it offers an opportunity to spread access to microfinance more quickly, more widely and more sustainably than MFIs have been able to. It is our opinion that the encouragement and support of commercial banks to implement programmes of this kind is another valuable route by which both Government and donors can improve access to microfinance.

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7 Refer to Annex comparing performance of different MFIs.

7 ZIMBABWE WOMEN'S FINANCE TRUST (ZWFT)

7.1 Current Status

ZWFT is an independent micro-finance institution, founded in 1989. It has a board of management, a professional staff and a number of branches throughout Zimbabwe.
By 1995 it had made 160 loans, of which 80 or 90 were bad. It is clear that all the operational and management systems were weak at this time.
The Austrian support was channelled through CARE Zimbabwe and came on stream in 1996. CARE's technical assistance support consisted of a capacity-building programme which included the introduction of solidarity group lending methodology, management information systems, development of computerised records, loan processing systems and staff training. As a result of the CARE technical assistance, within 12 months the loan portfolio grew to 1,500 loans and the arrears rate reduced to between 8% and 9%.
From figures provided by CARE in September 1998, ZWFT had made 5,596 loans in total and had 1,500 currently outstanding. Its cumulative lending since its foundation totalled Z$17,939,834 and it had Z$4,468,247 out on loan. It had 8% arrears and no loans written off. Its cost of lending was Z$0.45 per dollar. It had 5,000 savers with total deposits of Z$2,250,000. For the month of September ZWFT's sustainability ratio (income divided by operational costs) was 76%.
Figures provided by ZWFT show that there are now (Feb 1999) 1,700 loans, all within groups, and 6,000 savers. Loan demand is very high. There are no figures separating the rate of arrears on first, second and subsequent loans.
An impact assessment study of ZWFT's lending was carried out by GBL Consult, a Zimbabwean company, in August 1998. The study interviewed 570 ZWFT clients. The main findings of the study are:

- women are reliable borrowers
- savings mobilisation is an important factor in the viability and success of credit schemes
- there is more demand for loans than ZWFT can supply, indicating a growing entrepreneurial culture among women
- lack of capital to increase the loan portfolio is causing problems for ZWFT and its members
- 58% of borrowers used loans for their business, 42% used them for other purposes
- loan availability to women improves their position in the household
- borrowers want more services from ZWFT, particularly assistance with business training, exporting, lobbying, information
- most borrowers appreciate being a members of a solidarity group
- group membership has improved business competitiveness
- 41.2% of borrowers believe that they have achieved a higher standard of living as a result of loans ***(which to a certain extent contradicts the results of this study).***
- 10.4% of borrowers reported feeling more empowered in their business as a result of loans

The last two figures seem low. In particular it's surprising that only 41% of borrowers believe that they have achieved a higher standard of living as a result of the loans. This finding is important and would bear further investigation. It would be interesting to know whether borrowers feel more financially secure as a result of access to loans rather than just better off. And it may be that a higher standard of living is difficult to achieve in Zimbabwe at the moment because of high inflation and a collapsing dollar.
There are some problems with the GBL study. It is called an impact assessment study but it appears to be more of a general consultancy document and makes extensive recommendations about many additional activities ZWFT should engage in. We do not agree that these are appropriate directions for ZWFT at this time. Microfinance lending is a specialist task which ZWFT is still learning. Demand for ZWFT loans is very high. Our opinion is that ZWFT should concentrate on expanding in a controlled fashion in order to meet

that demand rather than trying to meet various other demands for which it does not have expertise or resources.

After identifying shortage of lending capital as a serious problem, the study recommends financial mobilisation in connection with savings as a priority for ZWFT (p31). However, mobilisation of savings for on-lending to borrowers is strictly illegal in Zimbabwe unless the lender is a bank. ZWFT has some way to go before it could be considered as a candidate to become a bank.

The study repeats the common myth that ZWFT is cheaper than banks for borrowing (Section 8, p22). This is absolutely untrue. (See Annex, Comparison of Methods of Interest Rate Calculation). ZWFT has genuine advantages for women borrowers but cheapness in comparison to banks is not one of them.

The study refers to the use of loans for non-business purposes as "loan delinquency" (Section 6, p20). This is technically incorrect, loan delinquency means non-repayment. It also displays a narrow attitude to what is an appropriate use of loans amongst women entrepreneurs.

7.2 Solidarity group lending methodology

ZWFT lent to individuals when it began operations, but group lending has now replaced individual lending. All current borrowers are members of a solidarity group. First loans are small, (originally up to Z$3,000, now Z$5,000). Second loans are up to Z$10,000. Borrowers have to have savings worth 25% of their loan. The savings are held in trust, and are not mobilised for on-lending, as this would be against banking regulations.

Groups are self-selected, and group membership ranges from 7 up to 12.. Group orientation is carried out before members are given loans. Orientation training is once a week for six weeks, up to 2 hours each session. During orientation, the ZWFT system is explained, and the women's micro-enterprises are assessed by the credit officers. With a new group, loans are first awarded to 4 or 5 group members, depending on group size, rather than to the whole group. Loans are made to the other group members later.

Group members co-guarantee each others' loans. In the event of an individual default or problem, the group is expected to find a way to make repayments on that individual's loan. It is not seen as the responsibility of the credit officer to collect, but the responsibility of the group. In the worst case, the joint savings of the group can be attached by ZWFT to repay the individual's loan. Group members also influence the amount of each loan to an individual. The loan application on behalf of each member is signed by the group executive, making the group legally responsible for the loans of its members. No group member can access a new loan if any group member is in default on a loan.

Group members are not normally in exactly the same line of business. This avoids a situation of direct competition between group members' businesses.

7.3 Interest Rates

The interest rate is currently 36%, and is calculated on a straight line basis on the whole loan over the whole period, which means an interest rate approaching 70%, when compared to commercial interest rates, which are calculated on the outstanding balance.

In addition to interest, there is a loan disbursement charge of 3.5%, and insurance which ranges from 3.75% for a 6-month loan to 7.5% for an 18-month loan. ZWFT officers calculate that the average total charge including interest is about 45%. This means almost 90% per annum using normal commercial rates. A flat fee of $50 plus 4% of the outstanding arrears is also charged for late payments.

7.4 Debt Recovery

ZWFT has a debt recovery policy. After 30 days a reminder is issued. After 60 days a final demand gives 14 days to respond. If after 74 days the borrower has not responded, her savings are attached and the debt is handed over to a debt collection agency. The application form states that a borrower's savings are liable to attachment in case of default.

7.5 Operations

In general the impression of the evaluation team is that the operational capacity and performance of ZWFT is good and is improving, and this impression was shared by local experts, including CARE, the technical assistance partner.

7.6 Governance

In the evaluation team's discussions of ZWFT with a range of other organisations the issue of corporate governance was raised more than once. Constitutionally, ZWFT is a democratic organisation of members who have savings accounts. The evaluation team was informed that ZWFT has never held an Annual General Meeting of its members and therefore has never elected a board. All board members to date have been appointed by the ZWFT Chairperson, who is also the organisation's founder, in association with other board members.

The evaluation team were also told that there is inadequate separation between operational and policy issues at ZWFT. This overlap does not encourage organisational transparency. An example of this is that the Chief Executive of ZWFT is the daughter of the Chairperson, and was appointed by the board whose members were selected by the Chairperson. This brings into question the recruitment policy of the organisation and its adherence to normal good employment practice.

The Chairperson defended ZWFT practice by stating that the local executing agencies for donor support have their own agendas in criticising practice within local NGOs. She believed that target institutions are not given enough freedom to decide how donor funding is used, and that this reflects a paternalistic attitude on the part of donors and their local agents. She also argues that traditional African systems of governance can be successfully combined with the need for democracy, accountability and transparency.

7.7 Observations

The evaluation team recognises the point made by the ZWFT Chairperson that many development interventions are driven by donors rather than led by local institutions and their members. However, in the case of Zambuko Trust, donor confidence in the transparency and accountability of its governance and management is very high, which means that donor funding is not always tied to specific programmes or overseen by local agencies but is given directly to the organisation and can be used for what the organisation itself believes is the priority at the time.

From the results of the impact assessment study and the visits of the evaluation team it is clear that ZWFT is making the transition from a struggling to a maturing organisation as a direct result of technical assistance from CARE Zimbabwe, funded by the Austrian Government.

It is the opinion of the evaluation team that future support by the Austrian Government to ZWFT and other micro-finance organisations should be based in part on criteria concerning good practice in corporate governance and that such criteria should be agreed with the target organisation and clearly stated in the documentation. Organisation development concentrating on these areas should form a part of a capacity-building input such as that by CARE. In other words, the approach to organisation capacity-building by the Austrian Government and its selected project holders should be more holistic with the focus not just on technical skills and systems.

Given the original Memorandum of Understanding and the circumstances within ZWFT, the team does not consider that it was within the power of CARE to influence corporate governance practice at ZWFT as part of the technical assistance.

8 ZAMBUKO TRUST

Of the micro-finance institutions operating in Zimbabwe currently, Zambuko Trust is the most mature in terms of loan portfolio. It was founded in 1992 by a group of business, community and church leaders to provide financial services to low income clients. Zambuko funds five sectors, agriculture (10%), service (5%), trading (48%) manufacturing (36%) and other (1%). It lends to individuals, to solidarity groups, and also uses a group lending methodology called Women's Trust Banks, designed and supported by Opportunity International, a global NGO committed to creating wealth for the poor.
Zambuko expanded very rapidly in the period 1996 to 1998. In December 1998 it had 5 regional offices and 24 branches, 155 staff, 76 loan officers, 15,032 borrowers and a portfolio of Z$28 million. Due to a combination of weak management systems and over-rapid expansion, Zambuko's portfolio suffers from an arrears rate which is much higher (18%) than industry targets worldwide (3%). Zambuko states within its own documentation that the improvement of delinquency and arrears rates are a major preoccupation of Zambuko's management and board.
USAID recently funded an impact evaluation of Zambuko Trust. The evaluation study interviewed 475 clients and non-clients of Zambuko Trust. Its main findings are that:

- low resource, low income households participate in Zambuko's programmes
- the Trust Bank programme reaches women who are poorer than those in the main Zambuko programme
- loan funds are used for expenditures that otherwise would not have been made
- micro-enterprises are a critical source of household income
- provision of business training by Zambuko results in changes by clients
- repeat clients tend to be significantly wealthier than new clients and non-clients.

8.1 Consolidation process

Zambuko is now in the process of consolidating and reviewing a number of aspects of its operations. These include:

Head office restructuring
The headquarters is being structured into three departments, operations, research, and administration and finance.

Branch structure
Each branch will become a profit centre and will be structured as a self-managing and self sustaining *basic business unit* with a five kilometre radius, a portfolio of Z$1 million, two loan officers each with up to 250 clients, and a branch manager. Decentralised operations at branch level will mean a quicker loan turnaround.

Lending process
Zambuko has introduced a staggered system of loans, with first loans up to Z$5,000 repayable over six months, a second loan of up to Z$8,000, repayable over 9 months, and a third loan of up to Z$10,000, repayable over twelve months. Any loan which is above these guidelines has to be justified by the loan officer to the branch manager.

Debt collection
Beginning in January 1999, all loans are insured. When a loan remains unpaid for more than 120 days the debt is handed over to a debt collector and 85% of the debt is paid by the insurer. The balance of the debt is paid on collection, less the collection charges.

Product review
The three products, individual loans (14%), traditional solidarity group loans (68%) and Trust Bank loans (17%), are under review. An assessment of comparative profitability is being made. Solidarity group and Trust Bank loans are very similar, and an assessment of whether both are needed is underway.

Management information systems
The information system is being redesigned and computerised to give capacity for future growth. This includes a local area network and a wide area network to connect all computers in the organisation.

Deposit-taking
Zambuko is planning to introduce savings accounts for members. This will replace its current practice of requiring a refundable deposit of 10% of the loan value. It will encourage members to save, to build up their own capital, and will help create a savings culture amongst members. A savings account will not be a precondition for getting a loan. Interest will be paid on savings, whereas it was not paid on the previous system of security deposits.

8.2 Women's Trust Bank Methodology
Self-selected groups of businesswomen, minimum 15, come together with a loan officer every week for eight weeks, to discuss all aspects of their business, and the way in which the business fits into their lives and other responsibilities. Loan officers are given two weeks training by Opportunity International, but can opt for less than this. The training is a holistic, taking into account a wide range of social and other influences on business. Trust Bank loans are smaller than those for solidarity groups. Once a member has reached the borrowing limit of US$500 (currently Z$9,000) if the member needs a larger loan they cannot do this within the Trust Bank group. This level of borrowing is normally reached after the fifth or sixth loan. Co-guarantee practices are the same as for solidarity group lending.

8.3 Loan appraisal weakness
Weaknesses identified by Zambuko management include poor quality of loan appraisals due to skills of loan officers, collusion between loan officer and client, and the "staging" of projects by applicants.

8.4 Activities of Zambuko Trust
Business development services
Zambuko has a minimalist approach to lending, without giving formal business training or other support to borrowers. Borrowers need training in basic business skills, product quality and marketing, but if this is to be provided it will be separately funded and delivered. However, loan officers do provide informal business counselling and some field training in book-keeping, etc. The quality of this aspect of the Zambuko service is likely to vary very considerably with the experience and skills of the loan officer.
Use of funds
Zambuko funds working capital for stocks and raw materials rather than for buildings or production equipment. Clients report that this is what they mostly use funds for. Other uses include savings to make loan repayments, to pay funeral expenses, school fees, to buy a stand, to pay utility bills etc.
Reaching the poorest
Zambuko has several smaller programmes to try to reach the poorest sections of society. It supports the Geotrust programme of Prison Fellowship International in lending to ex-prisoners and their families. In Chinhoyi Zambuko lends to members of a group of AIDS victims, and is working with UNHCR to start lending to refugees.
Repeat borrowers and new borrowers

The proportion of repeat borrowers to new borrowers is 40% to 60%. Zambuko is targetting 20% new and 80% repeat.

Cost of jobs created

Zambuko has plans to measure the number of jobs created as a result of its lending programme. It has a target cost per job created of Z$2,500. This compares with estimates of the cost of creating a job in the formal business sector which are in excess of Z$100,000.

Average number of workers

Zambuko clients employ between 2 and 3 people on a full-time equivalent basis in their businesses. This includes the owner and any family members.

Interest rate

Zambuko lending is at a rate of 42% calculated on a straight line basis, with an insurance premium of 3.8% on top, making a real (commercially comparable) interest rate on the loan of around 80% per annum.

Sustainability

Zambuko calculates that their income from interest and fees is 69% of the cost of their lending operations.

Staff incentives

In July Zambuko began to pay incentives to its loan officers on the basis of value and number of loans disbursed and the quality of the officers' portfolios.

Strategic direction

When asked about their strategic direction, Zambuko staff stated that they have plans to become a bank in order to be able to mobilise the deposits of their savers for on-lending to borrowers. This strategy builds on the fact that at the moment the poor, including the rural poor, save with building societies and banks but cannot borrow from them. Zambuko, by offering a savings facility and by on-lending savings to the same target group, will be able to increase circulation of wealth within the poorer strata of the community and halt the drain of those savings into the formal, urban sector.

8.5 Observations

Trust Bank methodology is being implemented, but Opportunity International considers that some short cuts are being taken with the methodology at Zambuko. The evaluation team was impressed by the theory of Trust Banks, but found that at the Mutare regional headquarters Trust Bank rules were not adhered to in several areas. Short orientations, lending before savings had been built up and small group sizes were all evident in Mutare. The general impression gained by the team in Mutare is that neither officers nor clients are fully convinced about group lending. It may be that the conditions in Mutare do not favour group development and maintenance as much as they do in more concentrated urban areas such as Mbare market in Harare where many similar businesses are grouped closely together. On the other hand, solidarity group lending is a proven methodology which is working successfully in many countries, and also at ZWFT and at CBZ in Zimbabwe, so there is no particular reason to think it could not work equally well with Zambuko clients in Mutare.

There is an unexpressed, perhaps not fully realised conflict in lending modes within Zambuko Trust. Zambuko wants to be flexible in its lending practices which is important when working with growth-oriented businesses. But group lending methodology restricts Zambuko's ability to be flexible and to give larger loans to growth businesses. So Zambuko tends to abandon group lending under pressure from its customers and make larger loans. However, its credit officers are not trained in the credit analysis of rapidly growing businesses, they are trained to make small loans according to a simple methodology. This is almost certainly one of the causes of Zambuko's high arrears and default rates compared with industry standards worldwide and even in Zimbabwe. (See Annex for comparison of performance between Zambuko, ZWFT, CBZ and SHDF).

Zambuko Trust appears to be moving forward in a clear and progressive way. The organisation as a whole has an understanding of the problems and is implementing strategies to address the weaknesses of the current operation. The evaluation team believes

that the Austrian Government support has been of value and that Zambuko is a worthy recipient of this support
However, we feel again that, as in the case of ZWFT, support given by the Austrian Government has focussed on one area only, that of expansion into Manicaland and Bulawayo. Other areas have been ignored, and in this case the crucial area which seems to have received insufficient attention is technical skills and systems development. A conclusion of this evaluation must be that support to Zambuko Trust has been partial and that there has been insufficient co-ordination between different donors to make sure that all areas within the organisation which need capacity building have received it.

Part THREE:

COMPARISON OF PERFORMANCE

The four organisations compared here are **Zambuko Trust**, **ZWFT** (Zimbabwe Women's Finance Trust), **CBZ** (Commercial Bank of Zimbabwe Community Banking) and **SHDF**, Self-Help Development Foundation, a community-based savings and credit organisation. They are listed in order of size of portfolio. The figures used here were supplied by CARE Zimbabwe, except for Zambuko Trust which supplied its own figures directly to the evaluation team. The figures inside boxes in the table were calculated by the evaluation team. All other figures were used as supplied.

Comparison of Performance between 4 microfinance lenders in Zimbabwe

	Zambuko	ZWFT	CBZ	SHDF
Period ending:	31-12-98	30-9-98	30-9-98	30-9-98
Loans disbursed to date (Cumulative)	35881	5596	2108	2521
Loans disbursed this month	489	190	122	234
Loans outstanding at month end	15032	1500	1138	540
Value of loans disbursed (Cumulative)	94193324	17939834	11266300	3800300
Value of loans disbursed this month	2203500	608250	909000	265100
Value of loans outstanding at month end	28435329,7	4468247	4772813	735100
Average loan disbursed to date (Z$)	2.625	3.206	5.345	1.507
Repayment rate	82%	90%	99%	99%
Arrears rate (Total)	18%	8%	1%	0%
>30 days	2%	3%	0%	0%
>60 days	2%	2%	0%	0%
>90 days	14%	3%	0%	0%
Default rate %	0%	0%	0%	1%
Written off %	0%	0%	0%	0%
Portfolio by sector distribution				
Manufacturing	36%	20%	59%	28%
Trade/Commerce	48%	60%	31%	41%
Service	5%	5%	7%	3%
Agriculture	10%	15%	0%	28%
Other	1%	0%	3%	0%
% Operating costs covered by earned income	69%	76%	76%	51%
Cost of lending				
Cost per dollar lent	0,29	0,45	0,25	0,28
Cost per loan disbursed	0,55	1.426,32	1.845,05	322,22
Cost per loan as % of loan size		44%	35%	21%
Savings and deposits				
Number of accounts	N/A	5000	3281	220
Value of savings/deposits	N/A	2250000	4495713	354500
Savings & deposits as % of portfolio		50%	94%	48%
Female client borrowers %	79%	100%	68%	94%
Loan officers	76	19	7	2
Loans disbursed per officer this month	6,43421053	10	17,4285714	117
Value of loans per officer this month	28993,4211	32013,1579	129857,143	132550
Value of loans outstanding per officer	374149,075	235170,895	681830,429	367550
Cost of operations per loan officer (Z$)	78511,1711	14263,1579	32156,5714	37700
Total cost of credit operations	5966849	271000	225096	75400
Total income: Interest and Fees	5331623	205091	170458	38802
Total earned income as % of Total ops. cost	89%	76%	76%	51%

Figures in boxes were calculated by the evaluation team. *All other figures were supplied.*

Zambuko Trust supplied its own figures.

Figures for the other three organisations were supplied by CARE Zimbabwe.

Average loan size
Surprisingly, Zambuko Trust's *average loan size* at $2,625 is less than ZWFT at $3,206, which adheres more closely to group lending methodology. Zambuko Trust is more flexible in its lending practice but seems not to lend larger amounts on average. CBZ uses only group lending and its average loan size is very high at $5,345. SHDF is lowest at $1,507 which reflects the fact that it started as a savings-only organisation and has not been in business as a lender for very long.

Loan portfolio performance
Zambuko has lent the most and has the largest outstanding portfolio. In terms of performance it is the worst with an *arrears* rate of 18.15%. It claims no *defaults* and no *write-offs*. With 14.05% of its current portfolio more than 90 days overdue and more than Z$94 million lent out so far this seems odd.
ZWFT has an arrears rate of 8% which is still higher than the industry world target of around 3% and also claims no defaults or write-offs. Again, this is difficult to believe unless the figure refers to only a short period in the past rather than the lifetime of the organisation.
The other two organisations have much better records in terms of portfolio performance and CBZ's figures are the most complete. SHDF even admits to a default rate of 0.8%. A question about these figures would be: over what timescale are defaults and write-offs being calculated? This should be a cumulative figure like total loans to date.

Portfolio by Sector Distribution
There are considerable differences between portfolios in terms of sector. Zambuko is weighted in favour of trade but still significant in manufacturing and with some agriculture. ZWFT's major portfolio is in trade which reflects its target group, women. CBZ is biggest in manufacturing with no agriculture at all. SHDF has a similar profile to Zambuko except more agriculture since it is more rural in focus with one of its two lending officers based in Gutu, a large, heavily populated rural area. One of the things this shows is that there is room in the market for different kinds of focus by lenders.
% Operating costs covered by earned income
The figures here are roughly comparable except that SHDF, being a much smaller lender, is further away from reaching operational sustainability. What is surprising is that Zambuko Trust with a low cost per dollar lent, a large loan portfolio and a long history is not as operationally sustainable as either CBZ or ZWFT. However, see below under *Total earned income as a % of Total operating cost* to compare this figure with the calculation by the evaluation team. The figure here of 69% may be a mistake or a typing error.

Cost of lending
ZWFT has the highest *cost per dollar lent*, about 50% higher than the other three. The others are all very close to each other ranging from 25 to 29 cents per dollar with CBZ the cheapest.
Zambuko's figure for *cost per loan disbursed* is clearly wrong. The others have a range, from CBZ as the highest which makes sense since its average loan size is higher, to SHDF as the lowest which also makes sense.
Cost per loan as a percentage of average loan size ought to give the same figure as *cost per dollar lent* but this is only true in the case of ZWFT. The figure is not possible to calculate for Zambuko but for CBZ it is higher (34.52% versus 25 cents per dollar) and for SHDF it is lower (21.38% versus 28 cents per dollar). This calls into question the accuracy of some of the figures shown here.

Savings and deposits

The advantage of CBZ over the other organisations can clearly be seen here. Its *savings and deposits* are 94% of the value of its portfolio, so it is far less exposed to risk than the others. Zambuko Trust currently does not accept savings but it does take 10% deposits, or did until very recently, so there should be a figure shown for this. This section shows the importance of savings from the organisation point of view. Because it is a bank, CBZ has the added advantage of being able to lend from these savings rather than having to use donor money as lending capital. This means it can expand much faster and has no problem meeting demand, as both Zambuko Trust and ZWFT have experienced.

Female client borrowers
The majority of microfinance loans go to women in Zimbabwe as in the rest of the world. The only surprising thing here is that CBZ has a higher proportion of women borrowers than would be expected from the sector breakdown of its portfolio with 59% in the manufacturing sector and no agricultural loans. It would be interesting to see the average loan size for women and men borrowers compared at CBZ. Are more women borrowing less on average?

Loan Officers
Zambuko has the biggest operation with 76 loan officers and SHDF the smallest with two. *Number of loans disbursed per officer* range from quite low at Zambuko Trust with 6 loans to very high at SHDF with 117 loans. The value of loans disbursed per officer also has a big range from Z$28,993 at Zambuko to Z$132,550 at SHDF. This suggests that Zambuko is less efficient than the other organisations and that CBZ and SHDF are very efficient operations in terms of loan officer performance. This finding is also reflected in the arrears rates of the different organisations. However, SHDF is dispersing so many loans per officer by comparison with the other three that it gives cause for worry about the quality and sustainability of this young operation.
The *value of loans disbursed per officer this month* and the *value of outstanding loans per officer* are fairly close at ZWFT and Zambuko which reflects the similarity of the organisations as conventional MFIs. The first of these is also comparable at CBZ and SHDF despite how different these two organisations are.
The figure for *cost of operations per loan officer* at Zambuko seems very high. It is based on the figure for *total cost of credit operations to date* which also seems high. Cost of operations to date per loan officer is lowest at ZWFT and comparable at CBZ and SHDF, again a surprising finding since these two organisations are so different.

Total cost of credit operations
(assumed this means since start of lending)
Total cost of credit operations to date at ZWFT seems remarkably low considering ZWFT had been in operation for almost 10 years at this point in time. By comparison, at Zambuko Trust the figure seems high.

Total earned income as % of Total operating cost
This should be the same as the supplied figure, Operating costs as % of earned income. That is the case for ZWFT, CBZ and SHDF but is 20% more for Zambuko Trust, making Zambuko the most financially sustainable operation if these figures are true but this finding contradicts Zambuko's own figure.

Conclusions
There are some anomalous results here which would bear cross-checking but in general it would seem that Zambuko is less efficient than the other organisations in most respects while having by far the largest operation.
ZWFT is efficient in certain respects, particularly *cost per loan officer*, although this suggests that it may not be paying its loan officers as well as other organisations. ZWFT needs to improve in arrears and in cost per dollar lent.

CBZ and SHDF are the most efficient organisations here. This is a particularly interesting result in the case of CBZ since it has by far the bigger capacity of the two. However, it shows that a savings-based organisation such as SHDF can develop a very efficient operation which targets women in the countryside in a way that CBZ has not been able to do so far.

Part FOUR:

FRAMEWORK CONDITIONS IN AUSTRIA

Austrian development cooperation (EZA) activities which support micro finance in Zimbabwe are part of the sector program for Micro, Small, and Medium-scale Enterprises in Zimbabwe (MKMB). This a framework within which concrete projects are set up. The strategy is to concentrate available resources on a specific region and on specific interventions.
There are two main parts of the MKMB programme: apprenticeship training in special training centres and support to micro finance institutions.

9 DECISIONS ABOUT SUPPORTING, REPORTING AND CONTROLLING

The MKMB program was set up in a cooperation between representatives of project holders, EZA consultants and Ministry staff. The concept was discussed in workshops with NGOs envisaged as potential project-holders (important pre-selection criteria were contacts and interest in Zimbabwe). The final concept could therefore be considered the result of a mutual opinion-building process.
This process facilitates the development from idea to contract. Representatives of the Austrian project holders are actively involved in setting up the parameters of the program, and they are able to maintain an overview of the planning process. The need for specific projects is confirmed by the sector consultant and the target organizations in Zimbabwe, thus assuring that project ideas are of practical relevance for the target groups.
Decisions about the projects to be supported are taken in line with the criteria of the country-sector program. The following areas must be mentioned in the project proposal:

- the target group of the country-sector-program
- the envisaged area of intervention (such as micro credit financing)
- the main geographic area of intervention (Masvingo, Manicaland)

The three supported projects under evaluation here are therefore generally in conformity with country-sector programs, as follows:

- supported institutions only grant micro loans to clients of the informal sector (target group)
- support is used for the implementation of micro-financing institutions
- they are active in the target regions of Masvingo and Manicaland. This geographic concentration is intended to give more visibility to the Austrian presence.

In the process of project development there are two main actors: the project-holding organisation and the Austrian Ministry of Foreign Affairs with the sector consultant. Important parts of the preparation for decision-making are the responsibility of the sector consultant. Only after testing the project idea for its compatibility with the sector program, do detailed negotiations start and a file is opened. This official file is compiled by the Zimbabwe desk officer in the Ministry.
In this process the Ministry is buying in not only the expertise of the project holder organizations but also external consultants‘ know-how in project initiation and preparation for decision-making. As far as information is available to the evaluators, this process is well organized as there seems to be a target-oriented basis of cooperation between project holders, the sector consultant and the desk officer. This may be a consequence of the fact that no public tenders have been made for projects in Zimbabwe so far and therefore a steady working base could be established.
The country sector program is therefore an unofficial position statement of the parties involved rather than an official policy paper of the Ministry.
It should be noted here that it is not always possible to follow the development of a project concept. ILO had foreseen a quite different project in Zimbabwe at first, supporting a private venture capital company, but this concept was abandoned in the face of strong opposition from the Zimbabwean government. These changes were however not sufficiently reflected in the written information of the ministry.

Procedures for Project Reporting and Control
Reporting and project control are carried out at the following different levels:

- presentation of interim and final reports, prerequisite for installment payments as agreed in the respective contracts (with the exception of the international organizations),
- on the informal level, by inquiries of the sector consultant in Zimbabwe and by discussions with the responsible persons in Austria (up to several contacts per week).
- Once a year, the sector consultant organizes a workshop in Zimbabwe to which all parties concerned are invited. This workshop aims at a mutual process of awareness, at controlling the working process and at discussing strategic options.

Weaknesses
Certain weaknesses could be observed at the local level, regarding reliability and in-depth substance of information in the reports. It always seems to be necessary to ask local projects several times to submit their reports.
Micro finance institutions have recently begun to build computerised management information systems. Their use must be routine before it is possible to obtain relevant substantive and complex information usable for progress reports. Only when such a database exists will it be possible to discuss new questions and developmental options.
Yearly stakeholder meetings
A useful extra level of reporting would be a yearly progress meeting involving representatives from the Austrian project-holder, the executing partner organisation in Zimbabwe, the sector consultant and other external experts, the supported institution, and the financing Ministry. These meetings would have the character of self-evaluations and offer the opportunity for immediate process adjustments.

Payment regime
Installment payments are organized by the Austrian project-holder according to a system which allows payment of the first two installments without presenting a report (statement of account). Later installments are paid upon presentation of statements of account, and the final settlement is subject to the presentation of the final report.
This regime, however, is not valid for a multilateral organization such as ILO. In this case the total of the subsidy is remitted in one sum. There seems to be no fixed rules for reporting to the Austrian sponsors.
Tripartite evaluation
In the case of multilateral organizations, a tripartite evaluation (sector consultant, financing organization, project holder) is carried out. This took place for instance in the case of the SDF-MEDP project. The failure by SDF to fulfil agreed recommendations arising from this tripartite evaluation was a decisive factor in the breaking off of support to the project.

10 CO-ORDINATION OF CRITICAL DECISIONS

We have seen that during planning there is a good informal working process which involves the relevant parties. During implementation, however, relevant actors are sometimes not integrated formally or informally into the decision making processes, even in crucial decisions.
For example, in 1998 ZWFT denied access to its accounts to CARE Zimbabwe who reported this to the Ministry in Austria. After the Austrian project holder reported this, a recommendation was made to the European Commission by an officer of the Austrian Ministry department responsible for co-financing EC projects to cease supporting ZWFT. This recommendation was agreed neither with the other competent section of the Ministry of Foreign Affairs, nor with the sector consultant, nor with the project holder. It is irrespective here that the project holder - in order to protect themselves - had laid the groundwork for this by informing the Ministry of problems. In view of their legal responsibility, it is important for project holders to immediately point out critical or risky developments. Such a re-

port however, should not be conceived as a recommendation to cease financing a project without further consultation.
Here a structural problem becomes visible that may have a hampering effect on preparedness of project holders to take risks - which in many cases is necessary in EZA programmes. Project holders are liable for the use of Austrian government funds, but only have restricted power to intervene in the affairs of the target organisation in the respective country. For the sake of their own protection they are obliged to react immediately in the case of complications, even though this may reinforce the dynamic of conflict. It is therefore crucial to develop new ways of conflict management and to take decisions on the basis of mutual consultation
This uncoordinated way of acting threatens to weaken the effectiveness of EZA-sponsored interventions. In the opinion of the evaluators, there are two reasons for this:

- There is no systematic co-ordination of decisions in the area of administration. In view of the diverse levels of competence (geographical, sector, special sections for co-financed projects) this has a negative effect in critical situations.
- No systematic method of co-operation has been developed to work with external consultants. For example, whereas intensive co-operation with external consultants takes place in the initial phase, such contacts do not reliably take place in critical situations during the course of the project.

This lack of systematized consultation can give rise to very serious problems. The negative recommendation about ZWFT to the European Commission, neither agreed internally nor with the sector consultant, may have far-reaching consequences which would bear no relation to the original problem, a conflict between CARE Zimbabwe and ZWFT.
ZWFT is the oldest MFI in Zimbabwe, to which experts in the country attest great experience and efficiency. Unconsidered cuts in support to ZWFT could have negative effects on the entire MFI sector in Zimbabwe, for instance by undermining savers' trust in MFIs. To take a decision here without due process of consultation may also have a negative effect on key development relationships, including that between Austria and Zimbabwe.
A formal systematisation of co-ordination and decision-taking processes is necessary, stating clearly what information is expected from the sector consultant and from the project holder. The activities expected from the individual actors should be listed in detail, in order to create clear-cut areas of responsibility concerning the following questions:

- who will provide what information?
- who is passing it to whom and how?
- who is responsible for collecting and processing information?
- how are critical decisions managed and made?

11 INVOLVEMENT OF AUSTRIA IN THE INTERNATIONAL DISCUSSION

The involvement of Austria in the international discussion takes place mainly through the activities of the sector consultant. As the micro finance sector is of great importance for development co-operation (specific guidelines for this sector have been elaborated), there are many possibilities for involvement of Austria in this discussion:

- meetings of subsidising bodies (institutions, donors) on the topic of micro-financing;
- meetings of EC on micro-financing
- receipt of reports and other printed material

As discussed earlier, the international discussion was focusing mainly on substantial questions of micro-financing, it seems to be shifting now to the topics of evaluation.
On the administrative level, however, no systematic discussion - such as by regular meetings of desk officers in the official subsidising institutions - takes place. Austria is therefore not involved in an institutionalised co-ordination of the European subsidising countries, and can thus only rely on inputs delivered by the sector consultant. There is a certain

amount of co-ordination via the internal net of information COREU, which, however, cannot be used by initiatives.
Also co-operation with the EU is not optimal within Zimbabwe; the interest of Brussels seems to be limited and no initiatives are coming from there. As a result, there is no co-ordination of subsidising institutions (countries) in Zimbabwe, not least due to the fact that there are no clearly defined responsibilities. For the same reason, no synergetic effects can be achieved between the initiatives of the different donors. In view of the great importance of micro-financing activities, this may cause a particularly unfavourable effect on the development of the informal sector in Zimbabwe, especially when considering the great advantages of efficiency that could be achieved merely through good co-ordination.

12 OPTIONS FOR AWARDING PROJECTS TO PROJECT HOLDERS

At present, projects are developed in a conceptual co-operation between project-holders and sector consultants, in which, from a certain moment on, the respective sections of the Austrian Ministry of Foreign Affairs are involved. In this model of project development NGOs dominate the project development process. Parameters of support are defined by setting up country-sector programmes so that project proposals can be in accord with the basic strategies of support of the Austrian EZA. In the opinion of the evaluators this is a good system.
There seems, however, to be a change of paradigm taking place. In the future, projects shall less be initiated by potential project holders but - as NGOs suspect - more and more by official tenders.
Such a change of course has pros and cons: By involving the project holder in the triangular construction (consisting of project holder, sector consultant and the Ministry), the long international experience of NGOs can be used. It is a valuable, free-of-charge contribution to the planning process. By inviting only NGOs for tenders, this stock of experience could be used further on and, at the same time, higher cost awareness may be achieved through a comparison of the different offers.
For the future, we can, however, assume, that profit-oriented enterprises will intrude more and more in tender competition. In the present system, they were not prepared or in a position to provide the necessary preparatory work of project development. Even if this disadvantage is balanced in the future, the fact cannot be disregarded that profit-oriented enterprises are dependent on routinisations and schematisations in order to allow them to compete with lower prices than those offered by NGOs. There is a certain risk, however, that projects could sometimes be treated with less care.
Of higher relevance are, however, democratic-political doubts about an increased involvement of private enterprises. While the co-operation between NGOs and public authorities is taking place in a discussion-oriented field of action where public authorities may also be the subject of critical remarks, this will no longer be the case when involving private enterprises. For them the political contents of developmental co-operation will rather be of secondary importance. Public authorities might be confronted less with sometimes uncomfortable partners. Facts that, at first sight, seem to be a release of public authorities, could in the end result in a loss of legitimation of EZA.

Part FIVE:

CONCLUSIONS

As shown in Part One, the support of micro-finance institutions is not a specific Austrian concept. Microfinance started in Asia in the mid-1970s and is now universally accepted in developing countries. Many donors fund MFIs and capacity-building of MFIs in Zimbabwe and worldwide.

13 REALISATION OF THE BASIC IDEAS OF MFI LENDING IN ZIMBABWE

The basic ideas of the support of MFI's are:

- It helps alleviate poverty through increasing household income
- It helps stabilise micro-enterprises
- It helps micro-enterprises to grow
- It helps micro-enterprises to enter the formal sector
- It targets women
- It creates sustainable businesses
- It is a low-cost strategy for development support

13.1 Alleviation of poverty, stabilisation and growth of businesses

This evaluation and many other evaluation studies show that access to small loans by micro-enterprise owners measurably improves their household incomes. It also shows that the loans have assisted them to survive and stabilise their businesses. Access to loan finance is a critical factor in enabling business growth. In most cases business growth is modest and reaches a plateau after two or three loans.

Microfinance is suitable for business stabilisation and for small scale growth but less suitable for serious business growth. This partly depends on the flexibility of the lender. We found Zambuko Trust to be quite flexible although their arrears were high which suggests they are not assessing their larger loans well enough. But there are some cases where rapid expansion has been achieved using small MFI loans.

Only in a very few cases have clients made a transition from the informal to the formal sector of the Zimbabwean economy. However, this is not meant as a criticism of MFI lending. This kind of transition requires a broader range of support than MFIs can offer. Borrowers do have to adapt their requirements to the lenders but within acceptable limits. They have to form groups, they have to borrow within loan size guidelines, they have to attend orientation workshops. These are reasonable requirements in the absence of any security being taken by the lender.

However, it is important to note at this point that IMF is not suited to the poorest of the poor. Micro-loans do not enable them to free themselves from poverty and they are rightly not covered by the small loans. Subsidised social schemes are more appropriate for this target group, e.g. better health care and education, food help and support for people with disabilities.

One problem is the pervasive gap between rural and urban areas in Africa. Attempts to activate the economy in the context of a very low economic density are not only confronted with structural barriers but also with socio-cultural problems. The lack of competition in particular makes itself felt. It is also very difficult in this situation to provide the desperately needed training.

13.2 Women as a target group

The target to help especially women is clearly reached. 75% of Zambuko Trust's clients are women, and over 70% of the portfolio value is lent to women. With ZWFT it is 100%. Worldwide the average is about 60% women, 40% men. From these figures and from the findings of this evaluation there are no specific barriers for women. But it is easier for men than for women to access start up funding from banks. Women are only sought-after by banks once they are established and successful.

Women's Trust Bank methodology gives facilitated peer-group co-counselling support to women on business, borrowing, and social aspects of being a micro-businesswoman. Trust Bank methodology is excellent in theory but not always carried out to the full in practice, eg. Zambuko Trust in Mutare.

13.3 Financial and institutional sustainability

Full financial sustainability has yet to be achieved by any Zimbabwean MFI. Both ZWFT and Zambuko Trust are on the way there but have some way to go. There is no structural reason why they should not achieve sustainability over the next few years. It should be remembered that the loan capitalisation of ZWFT, Zambuko Trust, and other MFI's in Zimbabwe is mostly from donor grants so sustainability, when it is achieved, will not have come from within as in the case of CBZ Community Banking.
In the case of MEDP, the apex MFI loan window capitalised from Government Treasury funds, (Zimbabwe taxpayers money), the interest rate is only 15%,which is less than half of inflation. This is not sustainable at current inflation rates.
The competence of loan officers is a key factor in achieving financial sustainability and there are still question marks over this issue, particularly within Zambuko Trust.
Transparent, accountable and democratic corporate governance is a key factor in achieving long term institutional sustainability. There was a question about how far this had been achieved in ZWFT. There was also a question about how serious the Zimbabwe Government is in operationalising MEDP, given the long delays in implementation to date.

13.4 Low cost strategy

The last of the basic ideas can also be answered positively. It is generally considered that supporting MFI's is a low cost method of reaching a large number of the economically active poor, but detailed cost comparisons would have to be done with other strategies which try to achieve similar aims in order to answer this question fully. What is particularly ("*seductively*") attractive about MFI support, from the point of view of donors, is that its results are easily measurable and comparable using hard figures.
In comparison to the traditional unregistered informal sector moneylenders the cost of MFI loans is much cheaper and MFI methods are much more transparent. Banks have not traditionally lent to informal business people, so they have been denied access to cheap loans. But the scene is beginning to change. Commercial Bank of Zimbabwe Community Banking project is seen as a real competitor to MFIs with a very similar methodology but much cheaper loans.

14 CONNECTION TO SECTOR POLICY IN ZIMBABWE

The findings of this evaluation show that the support of MFI's conforms to sector policy in Zimbabwe in several ways:

- Government of Zimbabwe has a policy on indigenisation of the economy which MFI lending encourages.
- ZimGov has a policy of creating employment and a Ministry with responsibility for this, MINAECC and MFI lending helps create employment.
- ZimGov has a Poverty Alleviation Action Programme of which SDF forms a part. The particular programme supported within the SDF is the Micro Enterprise Development Fund so there is a direct policy link.
- ZimGov has a deregulation team tasked with making the statutory environment more enabling for business and micro enterprise.

15 INTERCONNECTION OF SUPPORT INSTRUMENTS

Loans are connected to orientation training.
Loan officers give business advice informally but there is a lack of consistency of quality in advice as a result of differing skills and experience amongst loan officers.
There is a realisation of the need for interconnecting the different services but no formalisation of this. There is a general emphasis on a minimalist approach to giving credit both at donor and organisational levels. This is due to the difficulty of measuring the cost-effectiveness of other services and their questionable sustainability.
MFIs are not active in researching promoting or supporting new technology or business associations.
Marketing for MSEs is supported in certain ways at certain times by key individuals (organisation of trade shows etc) but it is not structurally integrated in MFI programmes.

16 PROGRAMME CONTROL

The support of the MFIs are controlled at three levels:

- Austrian Government
- Landessektorverantwortliche
- ECOTEC, CARE, ILO

At the project level in Zimbabwe the interventions are controlled by the Austrian partner organisations:

- ECOTEC - Zambuko Trust
- CARE - ZWFT
- Landessektorverantwortliche/ ILO - SDF

The database which can be used for monitoring and evaluation consists of:

- Quarterly reports and financial summaries
- Zambuko Trust has client records on a computer system currently being upgraded.
- ZWFT is introducing a computerised management information system

Part SIX:

RECOMMENDATIONS

Information-sharing and co-ordination of decision-making

There is a need for more co-ordination between the different actors within the Austrian Ministry of Foreign Affairs, most particularly during project implementation.

There is a lack of clear information management about partner organisations in target countries.

Structures for critical decision-making are either not clear, do not exist or are not consistently used.

We ***recommend*** that these issues are addressed by:

- discussing past and current problems experienced with information flows, co-ordination of actors and of decision-making
- designing and testing new formal protocols for information sharing, co-ordination of actors, and decision-making

Co-ordination between project donors

Each of the projects reviewed in this evaluation had more than one donor. UNDP has supported SDF and there may have been other donors involved. Many donors including other European governments and the EU have supported both ZWFT and Zambuko Trust. We did not find much evidence of co-ordination between these donors at policy or project level, and the level of involvement of Austrian representatives in whatever co-ordination does exist (eg. donor meetings at Zambuko Trust) was unclear.

We ***recommend*** that

- procedures are developed for ensuring closer co-operation and sharing of information between the Austrian Government and other donors supporting the same projects.

Poverty alleviation as a goal

Many people interviewed by the team, and many publications consulted questioned the value of minimalist micro finance to reach the poorest.

In the light of this, we ***recommend*** that

- the Austrian Government again asks the question: *who is it trying to help*?

Minimalist micro finance may or may not be the most appropriate instrument to meet the needs of the target group.

One project – one instrument

At the moment there is a policy to use one development instrument to support one project. This policy is not necessarily constructive in the field of microfinance. Existing microfinance institutions have a variety of development and capacity-building needs, which may not best be addressed by a single instrument. However, we advise great caution in the matter of encouraging MFIs to diversify their activities to include other forms of support to micro-enterprise. ***As mentioned earlier, a clear differentiation between personnel and organization should be made at the same time.***

Different types of support for micro-enterprise development

Target businesses have a variety of needs of which microfinance is only one. Minimalist microfinance may be sufficient for a base level of assistance to very small informal businesses where it is clear that it has a certain level of impact on a certain group who are in general neither the poorest people nor the most dynamic small businesses.

Growth-oriented businesses require access to a wider range of support measures including training, information, lobbying, technological assistance, specialist consultancy, innovative finance, marketing support, networking etc.

Using a single instrument addresses the first need but not the second. If it is clear that the first need is what an MFI can properly provide then that may be a reasonable goal for Austrian policy and resources in which case concentration should be on building all aspects of the capacity of minimalist MFIs to turn them into leading best practice organisations in the region.

The target organisations are themselves not clear about this however and the borrowers want access to a wider range of services. The evaluation team is very wary of diversification on the part of MFIs as recommended by the GBL study on ZWFT. We do not believe that MFIs are the right organisations to provide non-financial services to their borrowers as this will confuse their role and stretch their capacity too far in the wrong directions.

We ***recommend*** that

> the Austrian Government engages its project holders and target organisations in a debate around these issues of supporting micro-enterprise development with a view to clarifying alternative policy and programme directions.

The international debate

It was not entirely clear from the study how Austria participates in the international debate on micro-finance although we believe it has a valuable contribution to make.

We ***recommend*** that

> the Austrian Government reviews this issue and considers how it may wish to participate in and contribute to this important development debate.

ZWFT

ZWFT is a strategic MFI in Zimbabwe and is worthy of support.

We ***recommend*** that

> if future support is offered to ZWFT it should be in the area of developing corporate governance and accountable practices and on managing institutional growth.

We believe that any such offer will only be effective if it is linked to access to finance for lending and we ***recommend*** that

> any capital financing accompanying such an offer should be conditional on major improvements in corporate governance and institutional robustness.

Zambuko Trust

Zambuko Trust is also a strategic organisation which is worthy of support.

We ***recommend*** that

> future support be offered to Zambuko Trust to assist them clarify what kind of lending organisation they want to become, how they intend to manage the process of institutional growth and what staff skill-development, capacity-building and systems they will need to radically improve their performance and achieve their aims.

MEDP – SDF

The collapse of co-operation between ILO and SDF may have been unavoidable due to unforeseen political and economic developments in Zimbabwe in the last 18 months. However, there seems to have been a lack of information from ILO during project implementation to some relevant parties in the Austrian Government.

We ***recommend*** that

a protocol be established for working with international project holders like ILO that requires regular formal progress reports on projects to go to relevant parties

a multi-stakeholder review of this difficult project be undertaken to gather, debate and record the lessons.

Impact Assessment

This evaluation was asked to look at a wide range of issues, one of which was to assess the impact of micro finance on its target group. We were not able to make a very detailed job of this since we had so little time and no baseline data. The impact assessment studies (of ZWFT, Zambuko and PULSE) which we have referred to in this report used sample sizes of several hundred clients each but even they are not long-term studies and were undertaken without much baseline information being available.

In order for a better picture to be gained of the impact of microfinance in Southern Africa, we ***recommend*** that:

a 5-year study of a significant sample of micro-enterprises be undertaken which looks at non-borrowers, single-time borrowers, and multiple borrowers on a regular basis, in several countries in the region. Such a study would extend knowledge of the field considerably.

Other opportunities for supporting small enterprise finance

Austria has a history of supporting capacity-development of MFIs which it can now build on. There are several interesting developments in Zimbabwe in this field.

We ***recommend*** that

the Austrian Government explores the opportunities for supporting the efficient expansion of access to microfinance through banks, capacity building of community-based credit and savings organisations and capacity development of innovative small business finance initiatives such as indigenous venture capital companies. There is also potential for co-operation in the UNDP Micro-Start programme which is becoming operational currently.

A more holistic approach to organisational capacity-building

In each of the three cases the Austrian input addressed only one of the needs of the target organisation and other critical areas were not addressed. If there is greater co-ordination between donors in future this situation should improve. But without either detailed co-ordination when designing programmes of support or a more rounded approach to capacity-building, the impact of the support already given is put under threat.

We ***recommend*** that

In the design of future capacity-building support, a more holistic analysis is made of all the needs of the target organisation and the project tries to ensure that those needs are provided for, either within or without the Austrian-funded project.

ANNEXES

A1: LIST OF PERSONS INTERVIEWED

Experts:

Rose Mazula	Managing Director	Zimbabwe Progress Fund	706411
Mike Mispelaar	Director	CARE Zimbabwe	727986-8
John Luande	SEAD Co-ordinator	CARE Zimbabwe	
Ndumiso Mpofu		HIVOS	706704
Chris Thompson	Hawk Ventures Ltd.	Anglo-American Corpo-ration	704461
Petronella Chigara	ex-Project Manager	ILO-SDF-MEDF	790871
Winifred Goromonzi	Deputy Director	ILO-SDF-MEDF	305748
Rangarirai Chiteure	Project Analyst	ILO-SDF-MEDF	
Tererai Mangwiro	Research Analyst	ILO-SDF-MEDF	
Mehlokazulu Ndweni	Research Analyst	ILO-SDF-MEDF	
Crispen Nyemba	Analyst	The World Bank	729611
Ngwiza Mnkandla	Managing Director	Zambuko Trust	333692
Raphy Chimhau	Regional Manager	Zambuko Trust Manicaland	65623
Alice Chiwandika	Loan Officer	Zambuko Trust Manicaland	
Tendai Samriwo	Loan Officer	Zambuko Trust Manicaland	
Shadrick Simango	Loan Officer	Zambuko Trust Manicaland	
Richard Boulter	Private Sector Adv.	DFID, UK Government, Hre	774728
Dennis Nkala	UNDP		729711
Anne Marie Chidzero	Director	International Capital Corporation	731555
Esinati Mapondera	Chairperson	ZWFT	576303
G. Mutate	Acting Director	ZWFT	
Luke Sayi	Operations Manager	ZWFT	
D.Z.Mandivenga	Asst Gen Man.	CBZ Community Bank-ing	748050-79
Margaret Jiri	Trust Banks Co-ord.	Opportunity Interna-tional Hre	304070
Mr. Ferner		Austrian Embassy Hre	
Mr. Balkenholl		ILO Geneva	
Mr. Schütte		ILO Geneva	
Franz Breitwieser	Desk Officer	Austr. Min. Of Foreign Affairs	
Karin Reinprecht	Sector Consultant		
Leopold Röhrer	Director	CARE Austria	
Barbara Torggler		CARE Austria	
Wolfgang Schönecker		ECOTEC	
Hannes Manndorf		EC, DG ?	

Business Clients:

Patrick Zindi	Carpentry	Zambuko Mutare
Charles Mfundirwa	Timber wholesale	Zambuko Mutare
Mrs Chaeruka	Sewing & Tie&dye fabric	Zambuko Mutare
Mrs Charumira	Knitting, Sewing, Poultry, jobbing	Zambuko Mutare
Trust Bank Group		Zambuko Mutare
Alice Magunda	Knitting, buying household goods in Zambia for resale in Zimbabwe	
Neria Bingala	Knitting	
Sabina Makarange	Second hand clothes barter	
Winette Dongonda	Buys s/h TVs, solar panels, etc in SA, sells in Zimbabwe	
Sheila Mazungaire	Manufacture of workwear	Zambuko Mutare
Mrs Rumungwe	Poultry	Zambuko Mutare
Edward Gavhu	Shoemaker and joinery	Zambuko Mutare
Miriam Saumgweme	Vendor (vegetables)	Zambuko Mutare
Mrs. M. Kutamaufa	Knitting for sale in Chimoio (Moz.)	Zambuko Mutare
Oliver Manyaradze	Welder	Zambuko Mutare
Frederick Karumekayi	Hair Salons plus Tuckshops	Zambuko Mutare
Nyesha Mutepha	Tuckshop	Zambuko Mutare
Greta Hove	Vendor (grains)	ZWFT Harare
Lucy Chanakira	Market wholesaler	ZWFT Harare
Mrs Mutizira	Vendor (vegetables & grains)	ZWFT Harare
Mrs A. Gara	Vendor (food & drinks)	ZWFT Harare

A2: CLIENT INTERVIEWS

The evaluation team interviewed clients of the two ”retail” organisations, Zambuko Trust and ZWFT. Because the contract allowed very little time in country (12 days), it was not possible to interview a large sample of clients. It was felt that random sampling was an inappropriate technique for such a small sample. We also had no time to negotiate with the two organisations about how we would select clients to interview, so we simply asked to see a range of clients whose businesses were of different types. We therefore only interviewed clients chosen by the lenders. Given the statistics on arrears and defaults of the two organisations (see Annex), we should have encountered at least one or two clients who were seriously late or in default on their loan repayments. The fact that we did not means that the sample here is not representative of the loan book of the two organisations. This needs to be borne in mind when drawing any conclusions from the client interviews.

The interview technique was to use semi-structured interviews, with certain common questions and then free conversation around whatever issues came up. Comments have been made on those interviews which raised interesting general points.

Mutare Urban, Zambuko Trust clients

Murawa market

Informal manufacture and repair, mostly metal and timber, and greenmarket stallholders.

1 Edward Gavhu

Leatherwork and repair, furniture making, sells tyres for scotchcarts

”We (loan officers and client) helped each other decide how much I should borrow.”

- In business for 15 years, self-taught
- Needed a loan to buy materials, because of demand from customers
- Got quotations from suppliers, borrowed $1,000, then $2,000, both paid up, now wants to borrow $5,000.
- Business has increased as a result of the loans
- Used to keep records but not doing it now
- Has taken about $3,500 so far in January 1999 (turnover).
- just employs himself, with other people temporarily
- *(A customer comes to pick up a repaired shoe, she is happy with the repair and the price, $25).*

- Had some difficulty making repayments, when his customers didn't pay him, and when his wife died, the funeral expenses. Also when he was sick himself for 4 months. The ZT loan officers visited him, talked to him about managing the funds, prayed for him and he regained his strength.
- Was given advice on handling his customers at the ZT orientation seminar, customer care, business matters rather than social matters
- Was overspending on stocks, buying the wrong kind of leather
- Still gives credit to customers he knows
- Supports his brother's 4 children and one of his own. Brother's children are expensive
- Wants to buy a small leather-stitching machine, from profits
- A local moneylender, Chimbadza, lends at 50% per month. ZT is much cheaper than this.

Comments: This is a tiny business, hardly any space for stocks, but located inside a fenced area, so some security from outside. The social obligation to support his brother's family prevents Mr Gavhu from accumulating the capital he would need to expand his business, for example by buying a leather stitcher. The business is very vulnerable to natural shocks, such as illness and unforeseen expenses.

2 Miriam Saumgweme

Sells vegetables and hot food from a Mutare City Council covered market stall

"The business was smaller before I got the loan"

- In business since 1984. Sells tomatoes, onions, rape, fruits, roasted meals
- Needed a loan to buy stocks from farms. Before then she had fewer things on the table, less capital to buy stocks
- Her turnover is $400 to $600 per day, gross profit on tomatoes is $4.00 (40%). (Monthly turnover between $10,000 and $15,000, profit maybe $4,000 - $5,000).
- Pays $59.65 rent per month
- Supports a child, a housegirl and a young brother from the business
- Her first loan was for $500
- There is a high demand for vegetables in the greenmarket, from all the employed people who work in the area.
- She sells a box of tomatoes every day to the works canteen at Border Timbers (large-scale timber manufacturing factory, owned by Anglo-American). She signed a contract to supply them. They came here asking for a supplier and she volunteered.
- She wants a loan for $7,000 next, to expand her stocks further.
- Has had no difficulty making repayments. Currently pays $275 per month, on a loan of $2,500, at 32%.

- Does not keep records.
- Loan officers encourage her to save. She saves the Border Timbers contract money, between $300 and $500 per month.
- She is an individual borrower now. Was part of a group but there were problems, some people refusing to pay. She has never had to pay for another member's debt.

Comments: Interesting that she was a group member but no longer. This was our first hint that group lending methodology is not very popular in ZT Mutare, amongst borrowers or lenders.

Dangamvura township (just outside the city of Mutare)

3 Mrs. Molin Kutamaufa

"In Mozambique the market is there, people pay cash. Here they want credit."

- Knitting & sewing, operates from home
- 3 ZT loans so far: $1,500, $3,000, $6,500
- 3 knitting machines, bought 2 from savings, & one with the third ZT loan
- Also used loans to buy materials, & get the phone installed
- Sells babysets & clothing etc. in Chimoio, Mozambique, for US$12 (Z$468), paid in local currency.
- Sells in Moz because people here are jealous, tries to keep her business secret
- In Chimoio the market is there, people pay cash. Here they want credit. She doesn't give credit
- Goes to wholesalers to sell, but mostly just walks up and down in the market
- Will make $6,500 one week, $7,500 another
- Both daughters are part time, unpaid employees, plus one paid sewing machinist
- Has bought a colour TV from business earnings, $3,000 deposit, $1,000 a month
- Her husband died, she has 6 children, she looks after the family and sends the kids to school
- Has had no difficulty repaying the ZT loans
- She is an individual borrower, would not want to join a group, some group members might have difficulty at times.
- Pays $750 a month but sometimes has paid more

- Hasn't tried to get loans from anyone else. There is a moneylender but he is not straight.

Comments: This business is run from a very nice house in Dangamvura suburb. Mrs K is fairly well off, this is a successful and flourishing enterprise, which has created employment.

4 Mr Oliver Manyaradze

"*The business is growing up. I can't complain.*"

- Welding, window frames, burglar bars, security screens for shops & supermarkets, school desks
- Uses steel and timber, gets timber from Border Timbers, steel from Steel Centre
- The owner often buys material, he just provides labour
- The security screens material is $2,800, sells for $4,600.
- $8,000-$9000 per month turnover
- Employs three people on temporary basis, through pressure of work
- Trains them himself
- Premises are from Mutare City Council, $502 per month
- First ZT loan was $2,000, second $5,000
- Heard about ZT through his sister working there
- Used all the loans for materials
- Had no difficulty repaying except when he got sick
- ZT allowed him to miss payments
- Wants to buy a lathe, is a trained operator, Class 1 journeyman in welding
- Has 6 children, supports them and sends them to school

5 Women's Trust Bank group

Alice Mangunda, Neria Bingala, Sabina Makarange, Winette Dongonda, Audrine Matika. ZT Credit officer, Agnes Chiwandika

"*At Christmas-time we help our husbands. They are always short of money.*"

- **Alice** knits jerseys, babysets, hats, also goes to Zambia where goods are cheaper, to buy sandals, blankets, kitchen utensils, for sale in rural areas around Mutare. She goes every three months or so. The last trip she took $2,000, made $4,500, paid the school fees for her two children.

- **Neria** knits babysets & jerseys, sews shorts & dresses for children. She exchanges the clothes for maize in the rural areas, sells the maize in the market in Mutare. Buys her material from shops in town.
- **Sabina** buys clothes from the fleamarket and sells them in rural areas, bartering for maize or cash, depending on the season.
- **Winette** goes to Johannesburg at the end of each month, buys second-hand TVs, solar panels, handbags, blankets. Brings back two or three TVs, some black and white. They are very cheap in Joburg.
- **Audrine** sews children's clothes

There are 8 women in the Trust Bank group

Comments: Each business is slightly different. Even those who make the same things sell them in different ways. Only 5 of the 8 members turned up to the meeting. 8 members is below the group size (10 to 15) recommended by Opportunity International, the sponsor of Trust Bank methodology (see notes of interview with Margaret Jiri, Opportunity International).

6 Sheila Mazungaire

"*I decided to venture into worksuits*."

- Has a small workshop in her husband's panel-beating business yard.
- Started with two small domestic machines, making bedspreads, sold to individuals, door-to-door
- Heard people talking about ZT, got a first loan of $1,800 in 1996, used it to buy materials, had no problems repaying
- Second loan $3,800, also for material, foam rubber, material for pleated skirts
- Was still not ready because needed more funds
- Third loan was $7,000, more material, more orders for bedspreads
- Heard about some sewing machines, a Juki, a Mitsubishi and an overlocker
- Finished paying the $7,000, borrowed $32,000 as fourth loan, bought the machines
- Ventured into worksuits. Taught herself to use the overlocker, took about 2 days.
- Had done a dressmaking course for one year, but not worksuits
- Saw all the people in the industrial estate, thought that people are demanding worksuits
- Took her husband's old worksuit to pieces, made a pattern.
- Her competitors were Mutare Clothing, now closed, (gone to Mozambique), and Domestic and Wear, big company.
- employs 4 people plus herself

- wants a bigger place, the premises is now too small
- Getting big orders, working nights to meet the orders e.g. from Murray & Roberts in Beitbridge (construction company)
- Got the order through a person working there that she knew
- Sells worksuits at $350, Domestic & Wear sells them at $280, but her material is better
- Bought the material in Harare, at Pannets, where she got the machines
- Has no storage capacity, or would buy more material at lower cost
- Order for $120,000 took 2 months to complete, 450 worksuits @ $350
- Also is planning to go to Chimoio (Mozambique) to find a market
- Is preparing dresses for nurses, for an order from Mutambara
- Has an order worth $39,000 for curtains for boys dormitories
- There is no local supplier in Chipinge, she can supply farms and estates with workwear
- Her brother is a tailor, he can service her machines. He found the employees she has.
- She is an individual borrower, there are problems with groups.
- The husband also borrowed to set up his panel-beating business, his first loan was $35,000 from Zimbank, then he got another for $100,000 to buy a compressor.

Comments: This is a well-organised very small clothing factory, with the potential to become a larger business employing many people. Zambuko Trust has been helpful and flexible in their lending to Mrs Mazungaire in getting started, but she should now be able to source loans from a bank, where interest would be cheaper. Interestingly, her husband had no difficulty getting a start-up loan from a bank for his panel-beating business. This business is at the point where specific clothing industry consultancy expertise, for example from the National Employment Council for the Clothing Industry (NECCI) would be useful, but this is outside the capacity of an MFI like ZT. This is an example of a micro-enterprise in the process of graduating to become a more formal SME, through the assistance of an MFI.

Sakubva high density residential area (within Mutare)

7 Frederick Karumekayi

Two tuckshops and two hairdressing salons
"*The group is doing well, but if I am on my own I will have the privilege of a bigger loan or a quicker repayment*."

- He read about ZT in Manica Post. His first loan was for $4,000.
- He is in the Batana solidarity group, which operates from Sakubva

- Has been in business for 18 months. Was a teacher, salesman, manager, registered insurance broker.
- It's not very hard to start a hairdressing salon, doesn't require much money.
- He is not trained in hairdressing, he made a research into how to go about it, and employed skilled people.
- "*My employees are also teaching me to dress hair*." This is important, he knows how much chemicals they use, what is essential and what is luxury. It helps when doing the books, he knows how much is used on each customer.
- Stocks come from Jaggers, the cheapest local supplier
- Started the first tuckshop in 1997, enlarged in 1998
- The first tuckshop takes $400-$600 a day.
- Needed capital to start, did not have own money. Couldn't meet the customers' requirements, needed money to buy stocks, to pay workers, to pay himself.
- Does regular stock checks.
- Has had no business training, would be interested.
- Has an employee who does the books, a cousin who has just finished Form 4 and is waiting for his results.
- Was given a loan by ZT on the basis of an analysis of his business.
- He has analysed the profitability of the businesses
- The tuckshops are busy at the weekends and on Mondays.
- The salons are also busy.
- The tuckshops are not as profitable as the salons. More capital goes into the salon, but it produces more.
- He is planning to get a shop in town. The only thing holding him back is cash.
- He has plans to make the business more modern.
- He gives special offers, 20 shaves earns a free shave, 5-10 hair treatments means one free, depending on what the treatment is, relax, perm, etc.
- He gives credit to some, nurses, teachers, policemen in the location, who want the service before pay-day. He looks at how much does he know this person, does the person have responsibility in his workplace?
- Total turnover is around $20,000 a month, profit is $5,000 to $6,000.
- Wants a supermarket, a restaurant and hotel, and a big hair salon.
- His credit officer has advised him on how to keep money, to save. He has a savings account at Standard Chartered.
- "Sometimes we fail to save". He is building his stocks.

- Has 1 child, his mother, and three cousins staying with him. His wife is a teacher, and they also have a piece of land.

- They keep poultry at home.

- He belongs to a solidarity group, but is already thinking of moving out. The group is doing well, but if I am on my own I will have the privilege of a bigger loan or a quicker repayment.

- In the group he has to wait for a second loan, and the maximum limit for a Trust Bank loan is $5,000.

Comments: Mr Karumekayi is a dynamic character who has chosen the opposite route in business to Mrs Mazungaire (No. 6 above). His plan is to diversify and expand the number of retailing ventures he is involved in as quickly as possible, rather than to concentrate on a single business. He is quite happy to go into businesses of which he has no knowledge and learn from people who do. As a member of a solidarity group or Trust Bank, (unclear which), he experiences certain limitations.

This reflects an unexpressed, perhaps unrealised conflict within Zambuko Trust. ZT wants to be flexible in its lending practices, which is important when working with growth-oriented businesses like this one and the previous one. But group lending methodology, which is an internationally-proven low-risk strategy when used properly, restricts ZT's ability to be flexible and give larger loans to growth businesses. So ZT tends to abandon group lending under pressure from its customers, and make larger loans. However, its credit officers are not trained in business analysis, they are trained to make small loans. This is almost certainly one of the causes of ZT's high arrears and default rates, compared with industry standards world-wide and even in Zimbabwe. (See Annex for comparison of performance between ZT, ZWFT, CBZ and SHDF).

8 Nyesha and Nyaradze Mutepha

Zama Zama Tuckshop
"*I discovered a higher demand. People came and asked for stocks I didn't have*. *Customers don't want to be disappointed*."

- Zama Zama means "keep on trying"

- Husband has a welding business

- They have one child, one year old

- income from the tuckshop supports the child

- doesn't keep records for the tuckshop

- Gross profit per day is around $200 to $250

- I discovered a higher demand, people came and asked for stocks I didn't have.

- Sales were going up, so I decided to apply for a loan.

- We have bought all the things in the house from profits of the tuckshop

- The first loan was $1,200, for stocks. The second was $3,000, the third was $6,500.

- We have had some small problems with the third loan. I used it to buy a compressor and gas bottles for the welding business, not enough so I also borrowed $3,000 from a friend. Total cost of the equipment was $14,000.
- Everything went smoothly until my wife became sick for a long time, and we were pumping money out in doctors bills and medicines.
- We are now behind a bit on the loan repayments, ($750 a month). We are managing to pay up to $500 a month at the moment.
- It's not a big problem, there are only three repayments left. Last month we paid a lump sum of $1,700.
- We did not keep the tuckshop open when my wife was ill because we have had problems employing people.
- We went to Zambuko Trust because they were cheaper.
- ZT gave me advice on stocktaking. I was making a mistake on sales, and Andrew Muneta assisted me to do a stock take.
- Customers don't want to be disappointed.

Comments: This and the first interview show how fragile informal businesses are. The husband did not have time to supervise the employee properly when his wife became ill and could no longer run the business herself, so they had to close the shop. This endangered their loan repayments. This business was only able to continue because the husband was healthy and had a welding business. The tuckshop was closed because the wife was not feeling well on the day of this interview.

Harare Urban, ZWFT Clients

Mbare Musika market

9 Mrs Greta Hove

Market stall selling dry grains
"*It is helpful being a group member, sharing ideas. We are very close to each other. It becomes like a family. My baby is called Tinashe, after the group*"

- 5 years in business in Mbare
- First ZWFT loan was $1,000, then $2,000, then $3,000, then $5,000.
- She is up to date. Sometimes has difficulty making repayments.
- Sometimes wholesalers do not have stocks, there is often a problem with getting supplies.

- There is potential to make money. At month-end the turnover can be $1,000 a day, for as much as one week, then it drops down to $200-$300, even as low as $100, during the rest of the month.

- Her stock on display is worth about $7,000. Things have become tougher of late, especially at this time of year. She has to look for stocks, has to travel.

- People on the farms are hoarding stocks because of inflation, prices are very high.

- ZWFT has helped the business to grow. Stocks were worth about $1,000 at the beginning.

- Stocks are stored under the stall at night, there is a security guard.

- Usually we prefer that when people go out to buy stocks they go on their own, and buy for their own business, although sometimes we send one person to buy for several.

- She can't leave her stall open for business when she goes out, because even her relatives will cheat her.

- She would prefer to spend more time at the stall, less time searching for supplies.

- She has three children, one seven months, one seven, one ten. The older two are going to school.

- She got counselling and advice from ZWFT. She is a member of a solidarity group, Tinashe, with 7 members. She finds it helpful, being a group member, sharing ideas. They are very close to each other. It becomes like a family. Her baby is called Tinashe, after the group.

- The stall members help each other sell from their stalls. It works when all the businesses are small and similar.

- The ZWFT loan officer taught her to keep records of stocks and calculate profits. Her books are at home. Her gross profit on a sack of dry grain is around 35%.

Comments: This business is interesting because group membership and the apparent closeness of the group still does not allow for much actual co-operation when it comes to the biggest problem faced by Mrs Hove, having to close the business to go and buy stocks. And it is interesting that she will not even trust her close relatives to be honest when running the business.

10 Lucy Chanakira

"*I used to be a schoolteacher, but it's much more profitable being a businesswoman. I would have started earlier if I'd known*."

- Market wholesaler of maputi, a local variety of "popcorn" made from white maize, and "freezits", flavoured ice drinks packed in plastic tubes. Both are snacks sold in shops, bars, and at bus stations.

- Most of the business is maputi. She buys from the factory at $15 and sells at $16. It is highly competitive so she keeps her prices low.

- She has been in Mbare for five years, started borrowing from ZWFT three years ago.

- First loan $3,000, then $5,000, then $8,000, now paid off, has not taken a fourth loan, didn't need it, she has over $200,000 in a savings account.
- Was a schoolteacher, but has given up now. It's more profitable being a business-woman. Would have started earlier if she'd known.
- Has about $30,000 in stocks. Also wholesales freezits.
- Customers are from rural areas, locations, suburbs, town, all over.
- Many are business people, they can take 140 or 200 bags of maputi. She is a little bit cheaper than wholesalers, they sell at $22.
- Her rent is $10 per month.
- She has three children and three workers. So she supports six people, with her husband who is regional director at Fidelity Life insurance.
- Her daughter is employed at $4,000 per month on her other stall at Mbare.
- At times she can turn over $20,000 a day. The lowest is $3,000 to $5,000 a day but not less.
- Every day she saves $1,200, without fail.
- She is a member of a group savings account outside ZWFT, with 1,000 other people. Last year she got $52,000 interest on her savings in the group account at Beverley Building Society.
- Her cousin is Nigel Chanakira, the owner and chief executive of Kingdom Securities.
- She has a pickup.
- Borrowing from ZWFT assisted her business to grow so much, even though the loans were small. "ZWFT will nurse you until you are a big bed."
- She should work like an ant. Her workers were cheating her.
- Her loan officer is Kudzai Gwasira.

Comments: Mrs Chanakira was the most successful business person we visited, and all from a market stall with a rent of $18 a month! During our 20-minute interview a business customer ordered 100 bags of maputi, $1,600. Her profit margin is low, but her business strategy is excellent, and can be summed up in the old saying "*stack 'em high, sell 'em cheap*." You can see this clearly in the photo. Mrs Chanakira's experience shows that even small loans can make a big difference to the right business. This kind of vending business, with a high turnover and quick repayment, is the perfect model for conventional micro-finance lending. Manufacturing businesses have more problems with because their capital requirements are higher and their capital turnover is not so fast, so they suffer from the relatively high interest rates charged by MFIs.

11 Patrick Zindi - Carpentry - Mutare - Zambuko (01/02/99)

- Eight years ago, started operating at the Market. Given loan in 1996 - $ 2 000 first, second loan $ 4 000 - 1997. Only employee - at start of business. Now 3 of us work in the business.
- Never got any training - only attended 1 or 2 day seminars - conducted by ZNCC. Paid $ 10 member of ZNCC - paid $ 500. Attended seminar.
- Seminar assisted since it taught me how to apply for a loan. Taught how to write a business plan - attended seminars in 1996.
- Had idea - questions in Zambuko loan application form were addressed by ZNCC seminar.
- Heard of Zambuko through another client of Zambuko.
- Zambuko assistance has improved operations - little capital at start of business, but now operating at a higher level.
- How occupying bigger rooms - lodging. How paying rent on time.
- Taught carpentry by - taught skill at home by nephew.
- Interest was 32 % - was okay not too high. Pay loan of $ 400 per month - pay monthly. Premises $ 120 - employees $ 1 200 each. Arrange $ 1 500 monthly.
- Get orders from big shops - tables, chairs, kitchen units. On average - profit of $ 3,500. Gross sales between $ z7 and $ 8.
- Left with $ 2.900.
- Sometimes keep records of business - want someone to employ someone to take care of booking.
- Did some booing at school - using knowledge from there to keep records.
- Would like someone to provide record keeping lessons - Records will show whether I am operating at a loss or a profit.
- Looking at expanding to coffin manufacturing. Want to start in March. Want to open a depot in Chiredzi to sell coffins.
- Problems of equipment - if could get equipment - equipment almost $ 32 000 - have not reached stage with Zambuko to get loan of this size.
- CBZ approached us to open accounts and get loans. Will go to open loan with CBZ.

12 Charles Mfundirwa - Carpentry - Mutare - Zambuko

Mfundirwa Enterprises - Carpentry (01/02/99)

- Started business in 1986 - started working with Zambuko 1998. Wife started dealing with Zambuko - sewing business. $ 3 000 first loan - bought timber material from Border Timbers. Had applied for $ 5 000 started with an resources.
- Funding assisted but was not enough - I deal with sales, employ to do carpentry. Wanted some money for expenses.
- Loan has improved life - now getting rent, food and fees for children. Relying on profits - Had it not been for Zambuko I would be in arrears on all these expenses.
- Customer - other furniture makers at the market. Main line of business - buy timber from Border Timbers, Forestry commission, Manicaland Forest Suppliers and sell other carpenters at the market.
- Make doors, wardrobes, kitchen units and sell to individuals who came here.
- Pay $356 per month to loan and forgotten interest rate.

- Managing - but problems at times like January because of school fees. Haven't paid all the school fees.
- Have never gone for training
- Can loans be increased by Zambuko.
- Constrained operation - Have women credit officers - 2 in Mutare Have 13 loan officers in the region 2 are women. Delivery system - mountain bikes therefore not keen to ride on motorbikes is this attitudes No policy in terms of gender.

13 Ms. Chaeruka - Sewing, Tye & Dye - Mutare - Zambuko (02/02/99)

- Started business in 1987. Started to relate to Zambuko 1998 Introduced to Zambuko by friend - who knew of financial assistance. Used own resources. Given $ 4 000 - 1st loan - 1st half of the year. Loan repayment.
- $ 7 00 but was $ 2 500. Given $ 12 000 - 2nd loan - 3rd quarter of the year.
- Paying $ 2 999, but instalment is $ 1 300. Very easy to pay back loan.
- Have a flea market in town. Husband has a shop in Sakubva - so sell from shop to husbands. Sell from other shops in Chimanimani - husband's other shop - grocery shops.
- Mozambicans came to the flea market and buy in bulk from there. Not necessary to go to Mozambique.
- Have 4 workers - all tailors - 2 at home and 2 others at Sakubva.
- Had two machines at start - Now have 2 heavy straight, one overlocker and two domestic and one embroidery.
- Loans from Zambuko to buy material, not used for machines. Less loan allocation affected operations - dye is lots therefore need more money.
- Put deposit of $ 4 00, did not pay anything 2nd loan.
- Have never borrowed elsewhere.
- Sales - $ 25 000 to $ 30 000. Profit $ 15 000 to $ 12 000. Expenses almost 50 %.
- NA only source of. Husband has agreed general dealer shops. Used to assist before, not anymore.
- Have six children - 3 at school. One is doing tailoring, one finished Form 4.
- Up to date with repayments.
- Have never gone for training - not even Zambuko. Member of Women In Business (WIB) but never attended any training given be the (WIB).
- Would have wanted training - Business management.
- Have books but has not used them. Are looking for someone to keep books. Write all expenses, sales then work out the profit.
- Loans have helped - having cash assisted. Sales before loans were $ 10 000 or less per month. Saleslady was not honest also.
- Consulted with spouse in starting business and getting loan.
- Do not consult husband on the use of the loan.
- Can Zambuko increase loan. Things are too expensive nowadays. We want to stock up so that price increases do not affect us too much.
- Zambuko visits regularly almost monthly. I do not check records just ask if work is okay.

14 Mrs. Charumira - Knitting, Sewing Poultry, Jobbing - Mutare - Zambuko

- Zambuko put money for knitting and sewing. Started business in 1990. Had problems getting loan from the banks - no collateral, no pay slip. Difficult to operate - no machines up to standard - no working capital.
- Heard of Zambuko in 1995/96 - Manager of Zambuko was a church member. Operate from home - did it professionally. I started preaching about Zambuko.
- Applied $ 5 00 given $ 5 000. Was ready to pay back - 1st time.
- 2nd time $ 10 000, 3rd time $ 20 000, 4th time $ 40 000, 5th time $ 80 000. Repayments - $ 6 000 per month. Are managing to pay without a problem. 18 months loan from September last year. Sewing and knitting is my basics. Would expand sewing and knitting. Transportation. Tree felling equipment already purchased.
- Wanted loans to buy equipment - bought machine for $ 80 000 - embroidery - children's dresses etc.
- Embroidery orders from T&T and other companies.
- Flea market. Others came home. Sell to shops, Babycare, Meikles, Indian shop. Border formalities are a problem - how does one make business in Mozambique - most Mozambiques buy in bulk from the flea market. Can sell anything in Mozambique.
- Monthly profit average - + $ 12 000 monthly after paying all expenses.
- Monthly sales average between $ 25 to $ 32. Profit is almost 50 % of sales.
- Training from Zambuko - not really formalised but business advice. Have approached Zambuko about training. Why not Zambuko open a bank? At times they refuse to accept cheques - ill ounce - therefore. I give them the cheques well in advance.
- Was given best client of the year. Zambuko should make stop order payments from out accounts.
- Husband works for Quest Motors.
- Competition with husband - Consulted husband about starting business and getting loans from Zambuko. Was a bit reluctant that I get loans but now is encouraging me on this.
- Husband does books - money of business goes to the bank. Input into the use of business money - he is the moderator.
- Training needed in business management, handling cash, book-keeping, costing and pricing. Causes of failure in business. Would pay for training - but not ask splashy hotels - not expensive accommodation and food.
- How best clients at banks - now offering loans. Zambuko should start a bank and give us loans.

15 Trust Bank Meeting Sakubva - Mutare

Businesses of members of the Trust Bank - Group of 8 members.

- Buying and selling clothes - but in Lusaka and sell in Mutare and rural areas (Alice)
- Knitting - baby wear and jerseys. Buy materials and sew. Sell products and do barter trade and sell maize at the market. Sew shorts and girls dresses. Buy fabric in shops in Town (Neria).
- Buy clothes 2nd hand from flea market. Barter trade in rural areas and sell maize at the flea market. Parts of the year, we sell for cash. More money with barter trade (Sabina).

- Go to South Africa buy items - Solar panels, hand-bags and then sell in Mutare. Go to Johannesburg to buy monthly - 4 day trip (Winnette). I carry R 1 000. Buy 2nd hand, black and white. Sell TV for $ 700. Can bring 2 or 3 TVs per time.
- Cheaper to source goods in Zambia - can double price when selling in Zimbabwe. Have received loans from Zimbabwe. Loans have improved business. Hence have applied for more.
- 1st trip had $ 2 000, sold goods at $ 4 500 made profit of $ 2 500.
- Go to Zambia after every three months.
- Paid school fees for children during 3rd term - assist with buying foods. Have 2 children - 1st born form 4 and 2nd form 2. Assist husband with accounts, rentals etc.

16 Mrs. S Mazungaire Protective Clothing - Manufacturing - Mutare

- 1st loan $ 1 800. Heard about Zambuko through some people - 1995/96. Started business in doing bed-spreads had 2 domestic machines. Used funds to buy material for making the bedspreads. Sold bedspreads to individuals - used to work from home, selling door to door.
- Had not problems of repaying.
- Got 2nd loan of $ 3 800 - used money to buy materials - also doing skirts and bedspreads. Was not ready because I was not sure of funds.
- After that 3rd loan of $ 2 000 - spent it on materials - bedspreads etc. were in high demand.
- Machines on sale - 2nd hand - industrial - after paying off $ 7 000 - given $ 3 200 to buy machines. Got 3 machines - 2 straight, 1 over locker. Now operating t husbands premises. Self taught to use machines.
- Did dress making course for a year. Identified demand for suits here. Demand is greater than supply.
- Mutare clothing now closed - only manufacturer. Domestic and Wear. Other competitors. Much bigger than me.
- Employ four people and myself ...
- Have 3 children and 3 extended.
- Want a bigger place. More staff and to increase market.
- Sometimes orders are bigger than we can supply. Murray and Roberts order in Beitbridge. Gave samples to worker and samples were accepted.
- Prices - $ 350, Domestic and Wear $ 280. Fabric is $ 100/metre Panel Canclicks - Do not buy from David Whitehead - price is high. Stock old material - got fabric at old prices.
- Supplied 450 units over two months - worth $ 120 000.
- Want to export to Mozambique - Chimoio preparing different types of clothes. I want to keep some in stock for cash sales.
- Have order for curtaining at boarding schools - worth $ 39 000 - boys dormitories - looking at getting order for girls' dormitories.
- Preparing to go to Chipinge - no local suppliers of w/wear.
- I am listening to other people to get ideas.
- Brother is a tailor - services machines and refers tailors for employment.

Used husband's w/suit to make pattern. Employees work harder than when they are too many. Individual borrower. Groups fight. Can help when they want to employ, has improved lifestyle. Have got land to construct houses - cars have to repair and resell. Want a truck.

17 Mbuya Rumungwe - 64 Years old - Poultry - Mutare - Zambuko

- Started working with Zambuko 4 years - applied for $ 5 000 given $ 3 500. Finished paying earlier than given time. 2nd time $ 5 500 - poultry, 3rd time - $ 10 000, 4th time $ 20 000, January 1998 - $ 1470 00
- Sell chickens at different places - retail outlets, individuals, company workers. Sell to Mozambicans - they came to collect - take 100 to 200 birds. $ 55/bird. Now bird $ 75. Son is employed to look after chickens.
- Get foods from Agrifoods - buy chicks from Crest breeders through agents.
- Have not gone for any training even with Zambuko.
- Was already keeping chickens before Zambuko - heard of Zambuko through another lady. Asked another lady to assist in identifying lender.
- Average sales - 400 birds at the beginning $ 60 = $ 24 000. Expenses over $ 10 000 - profit $ 7 000. Chickens $ 4 to 5 kg.
- Business assists - food, school fees, pay workers, pay rates $ 1000+ per year. NO mortgage.
- Left with 4 grandchildren to look after that is from grade 6 to Form $.
- Maize to feed chickens - 6.6 hectares - 17 acres.
- Working well with Zambuko - working well with lender things go well.
- Paid deposit - and insurance.
- Managing to pay monthly - have had no difficulties.
- Keep records of the business - Have books on poultry keeping
- Business has been with the family since 1948.
- Hope to sink a bore-hole - with apply for a loan to do this.
- Loan really assisted me - with the family etc.
- Use savings for the poultry - assist in keeping.
- Would like a bigger fowl run - need loan to build a bigger fowl run.

18 Mrs. Mutizira - ZWFT - Harare - Mbare (04/02/99)

- Started 13 years ago, selling at this stall. Began working ZWFT in 1996. ZFT visited the market and explained their operations. Advised us to form groups. We raised funds to open accounts. One was already being sponsored. Our group started with ten people. We are now eight. Two fell sick and are no longer in business. One the husband paid off the other left Harare. We took those we knew in the area based on knowing them.
- Each opened own account. Opened accounts with ZWFT. Until retiring from ZWFT. Money lending society to enable each other to pay off loan. We pay each other $ 200 daily. We contribute $ 200 and keep in the group. Treasurer keeps funds at home. Member opts to keep funds till payment date or Treasurer banks on due date. Group chooses to save regularly as and when it wants.
- Given 1st loan of $ 3 00 to buy stock - 1997. I had $ 750 by then.

- Got 2nd loan of $ 4 00. 3rd loan $ 5 00 - 4th loan $ 8 000. Next time I want $ 10 00. Loans are assisting a lot. Interest payment is too high.
- Loan depends on how much I have in savings. Savings decided how much I got, not the stock needs I had.
- Have never borrowed from anybody. Single - have 3 children. 1st born in 1979, 1982, 1987 (form 1)
- 'Currently payment $ 1574 per month. I m up to date with the repayments.
- Have never had problems of repayments, but it can happen. One can have a death or fall sick and fail to make repayments. But then ZWFT does not understand and still wants their repayments.
- I have been to seminars - 1997 taught business management. Did not pay, 2nd course where we were supposed to pay - we did not go. I did commerce and accounts on my own. I have a cash book (seen it). Keep records of my business. Take monthly stock. I'm using my knowledge in my business.
- Per day, I can make net profit of $ 347 or $ 586. Business is low currently in January - school fees.
- Loans have assisted - my stall is the only source of yield for the family - hence profit from business is making the standard of living for my children/family better. I pay school fees, food and clothes from here.
- I use loan for business purposes not personal issues
- We order from GMB. Seed - Co, wholesalers, even others bring stock here, In our group we do different things. Can join with other members from other groups to bring stocks in bank.
- All women groups, no more!
- Nobody discouraged me from taking loan.
- Tell others how I started with ZWFT.

19 Miss A Gara - Vendor - ZWFT - Harare - Mbare (04/02/99)

(sells cokes, buns, maputi, clay pots, beans etc.)

- Started selling in market in 1980. We used to sell in open space, on the floor, without durawall.
- Started working with ZWFT in 1996. Heard of ZWFT from friends who are not vendors ZWFT came, then joined.
- 1st $ 3 000, 2nd $ 6 000 and 3rd I want to apply for $ 7 000. I want to increase by $ 1 000 for the next loan.
- I was allocated to borrow $ 3 000, it did not depend on my stock needs
- I contributed $ 750 to get $ 3 000. Took me 7 weeks to save $ 750.
- Used $ 3 00 - funeral (my son), school fees, and food and some stock.
- 2nd loan, I went to buy stand - have paid $ 2 000 as deposit for stand in Karoi, rent, school fees, food. Rest used for stock.
- Had five, two died, left with three I stay with grand children - three.
- Get letter from City Council, my stall with grand is the only source of income.
- I got cart of cokes. Spent two years to get each.
- Pay $ 6 for ice block. $ 100 buys one crate of $ 24. Profit $ 50/crate.
- Sales of $ 300 per day.

- Used to pay $ 600 on the $ 3 00 loan. Used to pay $ 1 040 on the $ 6 00 loan
- Not having problems with repayments.
- Do not keep any records of the business.
- Never borrowed before.
- Loans from ZWFT - livelihood, food, etc. Thanks ZWFT a lot for their assistance.
- If I get $ 7 00 - I want to build a shop, a bottle store at MaNyoni in Mhondoro.

A3: EXPERT INTERVIEWS

1 Richard Boulter

DFID Private Sector Advisor, Southern Africa

- Zimbabwe has recently done some catching up in the micro-finance field
- It makes sense for a smaller donor like Austria to be involved in microfinance, and with organisations like Zambuko Trust where larger, experienced donors like UK are already there.
- ZT is regarded as the most mature MFI in Southern and East Africa, with the exception of K-REP in Kenya. It is 5 years old, has lots of experience, compares well with South African programmes.
- There are inter-donor meetings at ZT every three months, and an omnibus report. DFID still gets invited to these even though no longer supporting ZT.
- ZT is just beginning to learn how to handle donors, and is getting lots of small donors
- Karin Reinprecht keeps up to date on developments. Not sure if Austria is involved in CGAP meetings.
- Austria has had a long involvement in MFIs in Kampala, Michael Chang (*Perhaps means Michael Wong, mentioned by Balkenhol, ILO?*). Austria does not have much catching up to do on MFIs, although maybe has a shortage of experts, like UK.
- The in-depth expertise in microfinance is in India, Bangladesh, USA.
- Austria is working in Zimbabwe, Mozambique, Cape Verde, Namibia, Uganda. There is a debate in DFID about working in fewer countries.
- Recent PULSE impact assessment report for DFID, 475 households in Lusaka. Confirmed what we already knew from studies in other countries, that microfinance does not help the poorest in the way that primary health care, welfare and primary education can.
- Microfinance helps poor people in the city. At PULSE 30% of loans are to poor people in the compounds (high density areas). Where is the other 70% going?
- Microfinance has advantages over Business Development Services – it is ***seductively*** easy to measure, cost per unit of loan etc. This is very good for donors, because they get hard information.
- But what impact is it really having? We are only just beginning to get hard information out of Africa.
- Do poor people employ poor people as a result of MF loans? In southern Malawi money lent to micro-enterprises in Blantyre goes out to the farms rather than builds the businesses. This is less true in Harare, but some probably does.
- One criticism of the PULSE impact assessment was that it did not ask the business owners, what do you think of the service?

- By supporting MF, are we putting some people into debt? MF polarises people. Some get better off, some get worse off. The PULSE study found that 17% of borrowers were actually worse off after the loan.

- Impact is greater for the second loan than the first loan, so you also have to look at the drop-out rate after first loans. What happened to those people?

- ZT has a poor record of arrears in terms of its best-performing peers world-wide.

- Austrian Gov should go into supporting savings as well as lending if wanting to bolster the security of the poor.

- Trust bank methodology has huge merit.

- The PULSE study say they came up with a positive correlation between training and impact. BRAC (Bangladesh) gives training, APT gives advice, adds on the cost of advice to the cost of credit and says they can recover the cost.

- DFID is scared of the other extreme, spending all the time and resources on training. It's always more interesting to work in training and with larger clients, but there is a real question about its impact and also about the skills of trainers. For example, I have been involved with microfinance for 6 years, but only came into micro-finance after 15 years in business advice and training.

- People go on training courses because they want the loan. Many colleagues are saying that training improves sustainability, but you don't have to have total sustainability.

- The ILO-SDF programme has a fatal flaw. It is loan finance, and most MFIs can't afford to borrow, they need grant finance. Only Zambuko can afford to borrow, and even then it was more a matter of ”we asked for it so we should take it", rather than something they really needed/wanted.

- There is huge pressure on SDF to disburse funds, but it would ruin the cashflow of most MFIs in Zimbabwe.

- DFID are involved with CARE Zimbabwe. John Lwande turned around ZWFT's loan portfolio. They are now targeting women outside the major cities.

- But we can't put money into ZWFT right now, because of the situation with the founder of the organisation.

- It is sometimes difficult to get international NGOs to let go.

2 Anne-Marie Chidzero

Director - International Capital Corporation
”You need a strong board <u>and</u> strong management”

- She is the Southern Africa Regional Advisor to the new UNDP MicroStart programme

- Her company, ICC, offers innovative support for financing start-up and small operations e.g. a venture capital instrument, seed capital and technical support. Implementation is done by the Technical Services Provider.

- Microfinance is new to UNDP.

- She is an economist with experience in public sector development issues. She has worked for the UN on entrepreneurship development. She is a private sector specialist in micro and small enterprise development and was a founder of C-GAP.
- She came back from New York to Zimbabwe one year ago and joined ICC 6 months ago.
- In terms of microfinance there is clearly a need to support good practice in financial services to the poor, so the Austrian input is needed and welcome.
- But microfinance is not going to solve poverty.
- She participated in a recent INDEV study in Mozambique which found that MFI is only one of the instruments needed to reach poorer people in the rural areas.
- One recommendation from this study was to take microfinance out of the poverty alleviation arena altogether. Education, health , family planning, Aids, transparency at government level are all more important for strategic poverty alleviation than microfinance.
- She has just written a report for the Soros Foundation Open Society Institute looking at identifying gaps in current provision for poverty alleviation. One of the weaknesses in Zimbabwe is the lack of a private sector approach to microfinance. A focus of her report is on developing institutional capacity and good governance of MFIs. There is a particular problem in managing institutional growth. E.g. Zambuko now needs management experience in banking systems.
- K-REP is the only sustainable MFI in Africa. There are only around 30 sustainable MFIs world-wide.
- To address the problem of organisations like ZWFT, there should be institutional performance indicators such as attendance at and regularity of board meetings, clear policy procedures, a code of conduct for the board, a statement of ownership of the organisation answering the question: who owns the organisation? Who is the board accountable to? Board members should be accountable for fiduciary responsibility and due diligence.
- Phakhama (MFI in Bulawayo) is now being set up as a shareholder company. You need a strong board and strong management.
- Communication within government is not good. SDF, which lends to farmers, didn't know about the Ministry of Agriculture review of rural finance needs and provision.

3 Mr. Mandivenga

Commercial Bank of Zimbabwe
Assistant General Manager, Community Banking
"You need a person with brains and a heart. The heart of a social worker and the brains of a banker."

- Community banking started in 1996 with a pilot project funded by ODA with technical assistance by CARE Zimbabwe.
- The purpose was to open a credit and savings window for micro-enterprises.

- We agreed to use the group lending methodology to cushion us in terms of risk. Our group members had never before had any access to credit. They thought of themselves as riffraff.
- Security comes from peer pressure, the groups are self selected. Each member co-guarantees the other members.
- We are combining credit with savings. If you are to get a loan, you must have at least 20% of the value of the loan in a separate savings account. This is partly to cushion our risk, and partly to encourage a savings culture amongst the borrowers.
- The savings are not withdrawable during the term of the loan.
- If one group member fails, the bank is authorised to deduct the loan from the savings accounts of the other group members.
- When problems arise, it is usually with the last 2 or 3 instalments of the loan, so we can close the loan account using savings.
- We have orientation training after opening a savings account. Each group member must attend once a week for 6 weeks, about 2 hours.
- We do random checks on member businesses. We are not funding start-ups for the time being.
- We hold group appraisal meetings. Loan applications are only available at these meetings, from the loan officers to confirmed members.
- The whole group has to agree to the figure each member is going to borrow.
- Each group has a constitution, and they are party to the loan decision-making process, which empowers them.
- Each group also opens a group savings account, and each member contributes so much per week.
- Some groups have degenerated, especially when people move. They don't have houses.
- As long as the group members agree to guarantee each other it's their problem.
- People have formed fictitious groups. Our rules say that their should be no relatives in a group, but in-laws are OK if they are operating separate businesses in separate locations.
- We have 60% women borrowers. That ratio has not been difficult to maintain. Women are a bit more risk-averse than men. They want to be convinced of the benefits at first.
- Arrears are more of a problem with men than women. Repayment rate currently averages 98%. It went down to 97% at one branch.
- The Community Banking portfolio is in the A1 category at CBZ, with only 1% provision for debt write-off.
- We have clients borrowing for the 4th time now.

- What drives the clients to pay is that they have a point to prove. People think of them as riffraff. It is easy to motivate someone if they have a point to prove. These people have been tried and tested in the true sense.
- We are opening a new branch in Gokwe. We are also going to operate Community Banking from our Mobile Banking Unit.
- As a bank, we are able to mobilise savings, so we will never run out of money to lend.
- We have lent about Z$40 million so far, have about Z$4.6 million out on loan at the moment, and savings of about Z$5 million.
- For us to make real profits it is a question of numbers. Highfield and Bulawayo are now profitable, excluding the subsidy from CARE Zimbabwe.
- We have a target of 2.5 years for full profitability.
- We can lend against all deposits, not just those in a branch, so Highfield might have excess deposits, we can lend against these in Gokwe.
- Our branch managers didn't believe that microfinance could work. Our chief executive now says that he wishes we were only giving microfinance loans.
- Without CARE it would be difficult for us. I speak to John Lwande every day. They didn't impose anything on us but gave us lots of ideas.
- Now every branch wants Community Banking. The danger is that I am the only one in CBZ who has undergone MF training, in Boulder Colorado and the Philippines.
- We have special CB staff in the branches. We poached some Zambuko officers. We have never recruited a graduate. They have a snobbish attitude towards micro-business people. One of our officers was working in a shop, one was working for a debt collection agency, one was a teacher. The teacher has excelled, the debt collector has excelled. We had to train him not to twist people's arms so much.
- You need a person with brains and a heart. The heart of a social worker and the brains of a banker.
- We have avoided lending to the very poorest. We faced problems of attitude from out formal clients, because Community Banking shares some banking halls with conventional banking.
- But we have been surprised by the savings balances of some of the small business people. Sitembile Nyoni did an impact evaluation. John Lwande has a copy.
- Some of the indicators she used were children being sent to school, number of meals per day and type of food, number of employees.

4 Mr. Dennis Nkala - United Nations Development Programme - UNDP

The UNDP is implementing the Micro-Start Programme, a UNDP and Government programme. Activities to reflect that the programme is dealing with the private sector. The programme is in 25 countries world-wide. In Zimbabwe, the programme is under the auspices of the Ministry of Public Service, Labour and Social Welfare, in the same unit as the ILO/SDF programme. The programme is geared towards addressing poverty alleviation.

The outreach of the mission to start micro-finance in Zimbabwe was not very good. Need is to move away from grant funding to micro-funding, believed to be more sustainable. Need to change people's attitude. Opportunity International - Ms. Anne-Marie Chidzero is the regional advisor of countries involved in the programme.

A Principles of the Programme

1. Grant funds of up to US$ 150 000,00 are provided for national start - up MFIs. The funds can be used for capitalisation or operations.
2. International practitioners in micro-finance will be contracted to conduct training. Indicators of progress are to be set. A technical service unit has identified many institutions in micro-finance and proposals on setting up and support needed have been done. Four such international practitioners have been identified for each country.
3. A board of directors comprised of people from the following organisations is to be put together:

- Registrar of financial institutions
- Ministry of Public Service, Labour and Social Welfare
- UNDP
- Zimbabwe Association of Micro Finance Institutions (ZAMFI)
- Bankers' Association of Zimbabwe
- National Association of Savings and Credit Unions of Zimbabwe (NASCUZ)

B Role of the Technical Input:

1. Technical Service providers will advertise and receive submissions from start-up organisations, i.e. those with less than 300/3000? Borrowers.
2. Vet each submission based on the need of the institution to be involved in the programme as well as the set criteria
3. Prepare recommendations, present to the board of directors (Advisory Board) for endorsement.

C Status of the Programme

1. Project document has been signed
2. Half of the total minimum funding has been received. Advised to remove the Danish Trust Fund out of the Micro-start programme. Hence short of US$ 300 000,00.
3. Working with the technical advisor to fund raise the US$ 500 000,00. The Japanese have made a firm commitment at UN head office to meet this shortfall, to US$ 300 000,00.
4. The input of the technical advisor is on course. Three technical partners were short-listed, i.e.

- Kay Rep?

- Calmedo - Canada. They have set up an office in Johannesburg, South Africa - *most likely to be chosen*
- SEED Capital - USA

5 Ms. Margaret Jiri - Opportunity International

Margaret is promoting and supervising the implementation of the Trust Bank methodology, n Opportunity International Initiative. Zambuko is implementing the methodology. She was the first Chief Executive Officer of ZWFT.

A Principles of methodology

1. Group to have minimum of 15 members, by self-selection based on trust, not only business issues, but social issues too. Group meets once a week. Solidarity group is based on business issues only.
2. Members to have up to a certain minimum before they are given loans
3. Members to be given an 8 week orientation before any lending starts.
4. Trust Bank loan officers are given two week training. Partner can opt for one week
5. Refresher courses are to be given regularly.
6. After a US$ 500 cumulative total borrowing, one can no longer be a trust bank member - become an individual borrower. Usually reached by the 5^{th} or 6^{th} loan.
7. First trust bank loan to an individual has a maximum of Z$ 5 000,00.
8. Minimum on solidarity groups is more than that of trust bank group.

At Zambuko Mutare, the trust bank methodology is being abused. There is no annul plan for the loan officers. The bonus scheme for loan officers is attached to size and quality of portfolio, hence pressure on officers to reach out for numbers of clients. Some groups have only eight members, orientation takes 4 or 6 weeks, and borrowers are given loans before meeting the minimum borrowing requirement. SEGAP considers the quality of the portfolio.

Qualities of a loan officer - more field work oriented individual, than office person. The methodology failed to work in Zambuko, Bulawayo because there was no specific officer responsible for the trust bank and the two loan officers who had been recruited were unsuitable.

Zambuko reporting does not separate the trust bank and solidarity groups.

ZWFT information given by Ms. M. Jiri - EX - CEO of ZWFT.

ZWFT becoming and behaving like a private business and not an NGO.

Use of organisation assets for personal activities.

No elections since 1990, till year she left, i.e. 1996, even though constitution calls for regular elections.

Board has never changed as per constitution, but through resignations - problem of governance

Chairperson co-operated new board members, 9identify her own candidates.

Constitution states that the members at the Annual General Meeting (AGM) elect the board.

Used to mobilise members and list board election as an agenda item, but the chairperson would refuse to hold the elections.

Funds being siphoned off, therefore this w3ill not sustain the portfolio.

6 Mr. Ndumiso Mpofu - HIVOS

1. Defines micro - enterprise as an organisation that borrows up to Z$ 40 000,00. Anything beyond that in borrowings is considered a small business. Barclays can lend up to Z$ 100 000,00, therefore not in the micro-enterprise sector. Considers Zambuko and ZWFT as micro-finance institutions.
2. ZWFT - good organisation in terms of objectives and lending methodology - problem is that there is no transparency in its operations. No clear distinction between policy and operations, now operating as a family affair. Chair employed daughter to be the CEO, donor community considers this wrong.
3. TWFT is politically well connected.
4. Since two/three years ago, HIVOS has been working with Zambuko in capacity building, standardising the MIS system. Zambuko are the leading and biggest micro-finance institution.
5. Targets set for Zambuko loan officers. Each branch to become a profit centre.
6. At the beginning, Zambuko used to do both training and lending, now they want to stick to lending. They then will cooperate with other service providers on other services. Currently. Zambuko provides basic orientation and basic business principles training.
7. Working with ILO IYB and SYB programmes. Consultant, i.e. ILO puts the group together. This is not linked to the ILO SDF programme.
8. HIVOS provided funding to Zambuko for the training of its loan officers. Part of the training will include visits and attachments to other institutions.
9. HIVOS intended to give Zambuko funds for their loan book, and parallel to the loan would give a grant for capacity building. But because of the volatile exchange rate, cannot give Zambuko a loan since it would be from Holland and would be very expensive, i.e. exchange rate risk exposure.
10. Considering setting up local venture capital company targeted at micro-enterprises. Intend to work with Anglo-American Co-operation, Christ Thompson, to use facilities to set up the venture capital company.
11. In principle, HOVIS does not want to be hands-on, therefore it acts through other organisations that are hands-on.
12. HIVOS gave Barclays a guarantee and Barclays uses own funds to lend. Barclays only claims on defaults. This scheme is being wound up and will reconstruct a new scheme from lessons learned.
13. Objective of Barclays/HIVOS relationship - to change the culture in the commercial banking sector about the risk associated with SMEs. The perceived risk is actually much higher than the actual risk. The intention is to influence policy. Looking at the scheme being sustainable even when HIVOS pulls out.

A 4: COMPARISON OF INTEREST CALCULATION METHODS

Comparison of interest calculation methods

The table below shows four methods of interest calculation. To make the figures simple the loan is $ 10,000 over 10 months at 50%.

Straight line method (used by MFIs)

The first method, called the "straight line" method, is the one used by both ZWFT and Zambuko Trust. On a loan of $ 10,000 over a 10 month period at a rate of 50%, the total interest is 50% of the loan, or $ 5,000. The total interest due on the loan does not vary with the rate of repayment, although there may be an additional charge made if repayments are made in arrears of due dates. The assumption here is that each monthly repayment is made on time.

Outstanding balance method

The second method is a simple way to calculate interest on an outstanding balance. On the same loan over the same period at the same rate of interest, the first payment is $500 as in the straight line method. Since $ 1,000 of the loan principal has been paid off at the end of Month 1, interest for Month 2 is calculated only on the remaining loan principal of $ 9,000, so it is $ 450. The Month 3 it reduces again by another $ 50 because another $ 1,000 has been repaid, and so on. Total interest on the loan is $ 2,750 rather than $ 5,000 if the loan is paid off regularly. Using this method, if more of the principal is paid off earlier during the term of the loan, interest payable on the remaining loan will be less. The disadvantage with this method is that repayments are not the same every month.

Rationalised outstanding balance method

The third method is a rationalised version of the second method, in order to make each monthly repayment the same amount, for ease of remembering by the borrower.

Amortisation method (used by banks and building societies)

The fourth method is amortisation, which is used by banks and building societies, in which gradually declining interest payments and increasing principal repayments give the same payment each month. This is either calculated on a computer or taken from loan tables. The calculations here assume an annual interest rate of 60%, to give a rate on the loan of 50% over 10 months. The total interest payable in this case is $ 2,950.46.

MFIs give wider loan access and take more risks

This comparison is not undertaken in order to criticise the rates of interest charged by MFIs. The service provided by MFIs is much more geared to the needs of poorer borrowers than the service provided by most banks[8]. Poor borrowers find it much easier to get loans from MFIs. They do not have to provide collateral, for example, and MFIs have additional costs and risks associated with providing this service. They are also currently legally unable to “mobilise” the savings of their members for on-lending to their borrowers. Their higher rates of interest can be largely justified on the basis of these factors.

“Cheaper than banks”???

However, in Zimbabwe at least, MFIs have a bad habit of stating that their rates of interest are “cheaper than banks”. Staff of both Zambuko Trust and ZWFT made this statement in interviews with the evaluation team[9]. This is very clearly not the case, as can be seen from the table below. When it was pointed out to staff that this is not true, they withdrew the statement, but the team found it worrying that this misleading statement is widely broadcast by MFI staff, and may even be a misunderstanding shared by the staff themselves. If an MFI made such a statement in Europe or USA it would probable be sued by every bank!

[8] However, the Community Banking scheme of CBZ (Commercial Bank of Zimbabwe) available at five branches in Zimbabwe, combining group savings and lending and small loans to poor entrepreneurs with a normal bank interest rate rather than the “straight-line” method.

[9] The Managing Director of Zambuko Trust is quoted as having said this in an article about the Trust in the Financial Gazette, of 3rd December 1998.

Comparison of Methods for calculation of interest on loans

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Totals
Straight Line Method (used by MFIs)											
Loan Principal Repayment	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000,00	1,000.00	1,000.00	1,000.00	10,000
Loan Interest at eg. 50% (60% per annum)	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	500.00	5,000.00
Total of principal and interest payments	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	1,500.00	15,000.00
Outstanding balance method											
Loan Principal Repayment	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	10,000.00
Loan Interest at eg. 50% (60% per annum)	500.00	450.00	400.00	350.00	300.00	250.00	200.00	150.00	100.00	50.00	2,750.00
Total of principal and interest payments	1,500.00	1,450.00	1,400.00	1,300.00	1,300.00	1,250.00	1,200.00	1,150.00	1,100.00	1,050.00	12,750.00
Outstanding balance method (rationalised)											
Loan Principal Repayment	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	1,000.00	10,000.00
Loan Interest at eg. 50% (60% per annum)	275.00	275.00	275.00	275.00	275.00	275.00	275.00	275.00	275.00	275.00	2,750.00
Total of principal and interest payments	1,275.00	1,275.00	1,275.00	1,275.00	1,275.00	1,275.00	1,275.00	1,275.00	1,275.00	1,275.00	12,750.00
Amortization method (used by banks)											
Loan Principal Repayment	795.05	876.54	834.8	920.37	966.39	1014.71	1065.44	1118.71	1174.65	1233.34	10,000.00
Loan Interest at eg. 50% (60% per annum)	500	460.25	418.51	374.68	328.66	280.34	229.61	176.34	120.4	61.67	2,950,46
Total of principal and interest payments	1,295.05	1,336.79	1,253.31	1,295.05	1,295.05	1,295.05	1,295.05	1,295.05	1,295.05	1,295.01	12,950.46

In addition to interest rate charges, FMIs also make charges for insurance (ZWFT from 3.75% to 7.5% depending on loan term) and for loan disbursement (ZWFT 3.5%).
Both MFIs in the study also currenty demand a level of deposits or savings as a percentage of the loan, before they will make a disbursement (ZT 10%, ZWFT 25%).
These combined charges and requirements mean that effective interest charges is considerably higher than quoted interest rate on the loan.

A5: ZWFT - PORTFOLIO AND OUTREACH SUMMARY REPORT

Portfolio and Outreach Summary Report as of September 30, 1998 Amount in Zimbabwe Dollars (1 US$ = Z$ 36.234)		
1.1	Number of Loans Disbursed To Date Cumm.	5.596
1.2	Number of Loans Disbursed This Month	190
1.3	Number of Loans Outstanding End of This Month	1.500
2.1	Value of Loans Disbursed To Date Cummilative	17.939.834
2.2	Value of Loans Disbursed This Month	608.250
2.3	Value of Loans Outstanding End of This Month	4.468.247
3	Repayment Rate (qualitative: i.e. less preyaments)	90%
4	Arrears/deliquency rate %	
4.1	> 30 days	3.0%
4.2	> 60 days	2.0 %
4.3	> 90 days	3%
		5
5	Default rate %	0%
6	Written off %	0%
7	Portfolio by Sector Destribtuion	
7.1	Manufacturing	20%
7.2	Trade/Commerce	60%
7.3	Service	5%
7.4	Agriculture	15%
7.5	Other	0%
8	Percentage of operating costs covered by interest & fees %	76%
9	Cost of Lending	
9.1	Cost per Zimbabwe Dollar lent	0.45
9.2	Cost per Loan disbursed	1.426.32
10	Savings/Deposits	
10.1	Number of Saver Deposit Accounts	5000
10.2	Value of Savings Deposits	2.250.000
11	Percentage of Female Clients (borrowers)	100%
12	Number of Loan Officers	19
13	Total Cost of Credit Operations	271.000
14	Total Income: Interest and Fees	205.091
		14.263.16

A 6: ZAMBUKO TRUST - PORTFOLIO AND OUTREACH SUMMARY REPORT

ZAMBUKO TRUST P/L *as at December 31, 1998*

1.1	Number of loans disbursed To date Cummulative	35881
1.2	Number of loans disbursed This Month	489
1.3	Number of Loans Outstanding End of This Month	15,032
2.1	Value of Loans Disbursed To Date Cummulative	$ 94,193,324.00
2.2	Value of Loans Disbursed This Month	$ 2,203,500.00
2.3	Value of Loans Outstanding End of this Month	$ 28,435,329.72
3	Repayment Rate	81.85%
4	Arrears/Delinquency rate %	18.15 %
4.1	>30 days	2.34%
4.2	>60 days	2.03%
4.3	>90 days	14.05%
5	Default rate %	
6	Written off %	0
7	Portfolio by Sector Distribution	
7.1	Manufacturing	36%
7.2	Trade/Commerce	48%
7.3	Service	5%
7.4	Agriculture	10%
7.5	Other	1%
8	Percentage of operating costs covered by interest & fees %	69%
9	Cost of lending	
9.1	Cost per Zimbabwe Dollar lent	0.29
9.2	Cost per loan disbursed	0.55
10	Savings/Deposits	N/A
10.1	Number of Savers Deposit Accounts	N/A
10.2	Value of Savings Deposits	N/A
11	Percentage of Female Clients (Borrowers)	79%
12	Number of Loan officers	76
13	Total Cost of Credit Operations	$ 5,966,849
14	Total Income: Interest and Fees	$ 5,331,623

A 7: FINANCIAL GAZETTE ARTICLE: MICRO FINANCE SECTOR BLOSSOMS

Zambuko Trust leads the way as ... Micro finance sector blossoms

By Nqobile Nyathi

The Financial Gazette, December 3, 1998

While Zimbabwe's economic crisis has cast a dark shadow over most local businesses, the micro finance sector aiding the country's informal sector to get on its feet is now airborne, giving credence to the adage that "every cloud has a silver lining".

Although still in its infancy in Zimbabwe, the micro finance sector has expanded rapidly in the past few years as a result of the harsh macroeconomic environment which has forced some companies to downsize or close and many retrenched workers to fend for themselves by going into small private businesses.

Zimbabwe's high interest rates that are set to rise again in the next few months, galloping inflation and a local currency that has lost over 58 percent of its value against the American unit this year have all hit hard most Zimbabwean companies.

More than 5 000 workers have lost their jobs this year alone as companies close and retrench, swelling the ranks of the jobless who have to eke out a living through the informal sector but do no have the capital to get started. That's where the micro finance sector, which offers cheaper and smaller loans not normally handled by commercial banks, comes in.

Studies show that entrepreneurs in the informal sector need at least $ 900 million of credit to start and run their businesses annually, but to date they have only been able to receive $ 200 million a year because of the reluctance by established financial institutions to give them loans.

Organisations involved in micro finance are striving to fill the gap and are expected to grow phenomenally in the next few years as more entrepreneurs turn to them for start-up capital.

"Micro finance is for the informal sector, it's for people who are not able to obtain loans from banking institutions because they don't have the collateral," says Ngwiza Mkandla, managing director of Zambuko Trust (Private) Limited, a Harare-based micro finance organisation.

"It's also for projects that are so small that it's not financially viable for banks to take them on," Mkandla, who also heads the Zimbabwe Association of Micro Finance, told the *Financial Gazette* this week.

From a handful of micro finance bodies in 1992, the industry has grown to include up to 30 non-governmental organisations involved in giving credit or training to informal sector entrepreneurs.

The sector started in response to a need created by Zimbabwe's Economic structural Adjustment Programme, which left many workers without jobs and unable to find alternative employment after companies retrenched them or folded.

With 300 000 school leavers released onto the job market every year and the formal sector only able to absorb 10 percent of them, micro finance has grown in popularity as fledgling entrepreneurs seek to set themselves up in business.

With real incomes declining annually and most workers unable to make ends meet, more people are expected to turn to micro finance to try to set up income-generating projects to supplement their incomes.

"People are being forced to subsidise their incomes by starting projects and their biggest nightmare is the lack of start-up capital, "Mkandla acknowledged. "Micro finance is already stepping in to help these people. It's the future of employment creation."

He said micro finance could create employment by lending out as little as $1,000 while the formal sector had to fork out between $75 000 and $ 150 000 to create just one job, making micro finance an attractive alternative in these days of belt-tightening by many.

Micro finance loans, usually payable over six to 18 months, range from a minimum of $ 1 000 to as much as $ 100 000 and attract interest of around 35 percent. They have been used to fund projects in the agricultural and trade sectors, as well as in the food and service industries.

But because of rising costs and the need for micro finance firms to operate as viable entities, they are expected to raise their lending rates slightly in the near future, but the rates will not be as high as those of commercial banks charging up to 50 percent.

Micro finance interest rates are expected to rise to between 40 and 42 percent per year, but Mkandla said the increase was not expected to affect the industry's growth.

"Charging competitive rates is the only way that we can survive and provide services for those who would otherwise be unable to gain access to funds", he said. "The demand for loans is so incredible we are unable to meet it and clients have never argues with our rates.

"We are talking about people who have had to deal with loan sharks who charged them over 50 percent a month on loans. They are happy to find such a cheap alternative."

Micro finance bodies usually start off operating on donor funds then give out soft loans before moving to offer commercial loans and becoming commercial banks that take in deposits and are under the supervision of the Reserve Bank of Zimbabwe.

"Zambuko is at stage two. We have begun on soft loans, Mkandla said. "In the next five years we hope that we will begin taking deposits."

Zambuko, launched in 1992, has to date given out 36 000 loans totalling over § 91 million and has a portfolio of 16 500 clients. 80 percent of them women.

The organisation is the largest micro financer in the country and gives out loans to individual entrepreneurs as well as to groups working on income-generating projects.

Zambuko, which received US$ 500 000 (Z$ 18,5 million) this year from Hillary Rodham Clinton, the wife of US President Bill Clinton, to establish a new headquarters in Harare, hopes to become southern Africa's first micro finance bank.

"The industry is going to grow strong in the next few years," Mkandla said. "We have set up an association that will be a voice for the industry and whose role will include capacity building and advocacy.

"One of the things we will lobby for is for the government to set up an environment that is conductive for the growth of the micro finance sector."

A 8: TERMS OF REFERENCE

EVALUATION ORDER
Terms of Reference (ToR)

Evaluation of the Instrument of Micro Credits / Financial Support for Micro-, Small, and Medium-scale Enterprises, as part of the Austrian Development Programme for Zimbabwe

Case Study for the Austrian Development Co-operation Projects: 1573/97 Zambuco Trust / Ecotec; 1885/97 ZWFT / CARE; 1447/93 business support / ILO.

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1. Background

The implementation of programmes and institutions for providing micro credits for small enterprises has been a special field of action of the Austrian Development Co-operation (EZA) for many years. The Austrian concept which, to a certain extent, is based on other international experiences and developed in co-operation with different project representatives will be implemented in several African and South American countries. This concept is an important element in the Austrian Sector Policy; full details are given in the "Handbook for Planning and Realisation of Rural Saving and Credit Projects", or, as in the case of Zimbabwe, in the Development Program for micro-, small-, and medium-scale enterprises (MKMB).
Main goal of the MKMB-Policy is the fight against poverty. "Those parts of the population in developing countries, marginalised due to societal changes, are to be given particular support to allow them to create, expand and ensure themselves new living and working conditions". In Zimbabwe - a partner country of the Austrian Development Programme concentrating on the promotion of micro-, small-, and medium-size enterprises - the instrument of micro credits / financing is applied in a number of measures and projects. Therefore, Zimbabwe is particularly suited to verify efficiency, appropriateness and working conditions of this instrument in the setting of an African country.
In a second phase, in spring 1999, the results of the case study Zimbabwe will be evaluated and further developed in line with similar sector programmes and programmes in other countries.
As case studies of the first phase the following EZA projects, all operating for several years, will be evaluated: Zambuco Trust of Ecotec, Zimbabwe Women Finance Trust ZWFT of CARE and the financing instrument Venture Capital / CSFS of ILO.
A vital exchange of experiences and discussions is already going on internationally about micro credits as an instrument of development aid. Impact analyses investigate how relevant micro credits for the development of the informal and private sector in general, and for the fight against poverty in particular by the creation of jobs and income increases. An evaluation of the Austrian experiences in this context will therefore be crucial.

2. Goals of the Evaluation

The evaluation will have to analyse the concept of micro credits and the use of this instrument in the frame of the Austrian sector programme MKMB; to compare its results with other international experiences and discussions, especially in the area of the fight against poverty and equal gender rights.
This (evaluation) will lead to conclusions and recommendations for the Austrian Federal Ministry of Foreign Affairs, and for the project representatives, with proposals for improvement and optimisation of strategies and methods of the micro credit instrument. Thus the evaluation will promote further development of the sector policy in general and its implementation in Zimbabwe.

3. Main Questions

The strategic principles of the Austrian Sector Policy underline the importance for the Austrian approach to focus on specific targets. How much can the instrument of micro credits be considered a specific Austrian concept of development aid? Which are the strategic basic ideas of this concept and are they correct? How much were other international discussions and experiences taken up in this concept (conclusion)?
To which extent does the concept of this instrument and its application take into account economic requirements, capacities, and chances on the market of small enterprises; or is the credit offer and the creation of financial structures decisive for the procedures (offer or demand regulation)?
Which relevance has the instrument of micro credits in the conceptionalisation and realisation of measures to fight poverty, to realise gender equality, or other principles of the Austrian development programme (three-years programme, sector policy)? How much does this instrument consider the specific features of Zimbabwe's policy and the intervention of other providers in this sector (selected number of representatives)? How is the dialogue and co-ordination assured between the different providers?
Which are the concrete experiences in the use of this instrument and their influence on the target group (case studies)? Which factors turned out to be favourable and which unfavourable? How do the experiences of men and women differ? Were women confronted with specific barriers or problems? Were there any particular steps taken in the different projects to overcome such difficulties? How were the main instruments of support for small enterprises interconnected (credits, advice services, training, new technologies, associations, marketing)? Which adjustments were made after the operative use of the instrument?
How does controlling of the interventions work on project and programme level? Is there a data base available (info system) for controlling (monitoring and evaluation)? Are such data investigated for men and women separately?

4. Evaluation according to Quality Criteria

RELEVANCE of the instrument micro credit.

a) is there a specific profile of the Austrian concept, resp. Would specialisation be useful?
b) how is the problem defined in the socio-economic context, in particular in connection with transit areas between the formal and informal sector (which is the main problem: unobtainability of credits or inaccessibility of the market sectors?
c) which impact has the Austrian concept on policy development at the national level?
d) which is the role of Austria in the co-ordination of providers?

CONFORMITY with strategic concepts and programmes of the Austrian development co-operation

a) how helpful are strategic concepts as a frame of reference for target definitions and practical interventions in the project?
b) which is the de facto role of this instrument in the Austrian sector policy?
c) is there an accord between, on the one hand, definition and identification of target groups and target areas, the adopted procedures and the results achieved, and, on the other hand, the main goal of fighting poverty?
d) to which extent does the concept of the instrument and ist practical application consider women issues, gender equality, and environmental impact.

EFFECTIVENESS / degree of effectiveness of the instrument in view of the pre-set targets; comparison between: output and purposes; in case studies also IMPAKT (trends / hypotheses)

a) How effective is the instrument? Comparison between targets set and actual achievements of goals and results?
b) for whom is the instrument available? How wer the local partners chosen? Which indicators were developed for the identification of results?
c) were the credit conditions adapted to the strategic targets and target groups?
d) which branches are favoured by the concept and the application of the instrument? How high is the share of women and men in the respective branches?
e) how can the effects on women and men be evaluated (separately), in view of the main gaol of the fight against poverty

EFFICIENCY / degree of efficiency of the resources used, comparison: input - output

a) which is the relation between costs for infra structure development and the fund volume? How well is repayment coming back? Are the funds revolving? Up to which extent are interest payments and payments for services cost covering?
b) how economically are the credits used? Are there any indicators about profitability? How is the use of the funds documented? Which gender-specific differences can be seen in the use of the funds?
c) Has the sector policy and ist specialisation in support measures proved successful (restriction to one instrument per project)? Or would a set of complementary interventions be better?

SUSTAINABILITY and EFFECTS of the intervention

a) which changes of the market position of the loan receivers can be observed? Which additional measures are necessary? Do women require other sorts of measures then men?
b) how and by which means do self-supporting structures of financing institutions develop (institutional and capacity)?
c) are interest rates in conformity with the market or are they subsidised?
d) do the institutions get political support in their local setting, are they networking?
e) how much co-operation is there with the respective trade associations and the commercial credit system?
f) how does a sector-transcending co-operation and integration work?

PARTICIPATION / acceptance of shared responsibility / ownership

a) to which extent are participating groups (target groups, beneficiaries, local partners, experts) involved in strategy developments and decision-making processes - directly in the case of research and/ or indirectly in The case of management? Are there fore men then women involved in this processes or are they represented in equal parts?
b) is the application of the instrument adjusted to the local project and programme management, and/or to the implementation of local or national institutions?

c) is self-organisation of the target groups promoted? Can a difference be noted between men and women in self-organising?

5. Evaluation Team

L&R Sozialforschung, Neustiftgasse 17/6, A-1070 Vienna, will contract in an expert team with general qualifications such as: experience, independence, team-working experience, knowledge of the local and cultural conditions; and with specific qualifications, viz.: competence regarding trade foundation and promotion, micro credit systems in development co-operation, gender rights, evaluation.
Team director will be Dr. Walter Reiter.

6. Time and Working Schedule

Beginning of the evaluation was mid-October 1998.
Field research in Zimbabwe will be carried out between the 48th and 50th week of 1998.
An interim report will be presented to the Austrian Federal Ministry of Foreign Affairs end-January 1999.
This first evaluation phase will end with a final report to be presented by the end of February 1999.
A second phase (subject to a separate contract) is envisaged for the period of March to April 1999.
The evaluation will involve the following institutional levels:

- program development and controlling by the Austrian Ministry of Foreign Affairs;
- planning and realisation by L&R Sozialforschung, in co-operation with Austrian and international project managers;
- realisation by local project partners;
- target group / beneficiaries of the projects;
- co-ordination of providers;
- relevant institutions at the local level (ministries, associations, trade branches)

7. Reports

The report will be prepared according to the Terms of References (ToR) and the standard layout of the Ministry. The provisional report - in German language, on a Work 97 diskette - will be presented in 10 copies to the Federal Ministry, Section VII/6 until January 15th, 1999.
An oral presentation by the team director is envisaged for the 4th week of 1999.
The final report will be in English. A print-ready copy - in wich all corrections and amendments, as well as an abstract will be taken up - will be presented end-February 1999.

8. Budget

see enclosed offer and contract
Vienna, 17 November 1998
Mag. Peter Kuthan, BMAA VII/6

A 9: FOTOS