

**Linking SMEs to Sources of
Credit: The Performance of
Micro Finance Institutions in
Zimbabwe.**

Thenjiwe Ngwenya
Ntando Ndlovu

April 2003

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LINKING SMEs TO SOURCES OF CREDIT: THE PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN ZIMBABWE

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April 2003

Abstract

This study sought to evaluate the performance of MFIs in Zimbabwe. The findings indicate that although the MFIs have performed below a set standard on average due to some industry wide challenges, they have had a significant impact in linking SMEs and the Poor to sources of credit. It is recommended that the Government of Zimbabwe formulates a strategic plan on the SMEs and the MFIs for prudential operations. It should also make information disclosure by MFIs mandatory. MFIs are encouraged to introduce insurance products to cushion both themselves and the SMEs in the event of problems.

JEL Classification Numbers: G32, O17, R51

Key Words: Micro finance institution, Small to medium scale enterprise, performance, financial liberalization, Zimbabwe

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Résumé

Ce papier évalue la performance des institutions de micro finance (IMF) au Zimbabwe. Les résultats de l'analyse indiquent que les IMF ont eu, en moyenne, des performances inférieures à ce que l'on pouvait espérer ce qui est surtout dû à des difficultés de nature sectorielle. Cependant, elles ont eu un impact significatif dans la création de liens entre les petites et moyennes entreprises (PME) et les défavorisés et, les sources de crédit. Il est recommandé que le Gouvernement du Zimbabwe élabore un plan stratégique pour que les opérations entre les PME et les IMF soient soumises à des règles prudentielles. Ce plan devrait aussi rendre obligatoire la publication d'information par les institutions de micro finance. Finalement, les IMF devraient être encouragées à développer des produits d'assurance pour se protéger et protéger les petites et moyennes entreprises en cas de problèmes imprévus.

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Executive Summary

Financial Liberalisation in Zimbabwe ushered in a new socio-economic system where market forces play an increasingly dominant role in the economy. In line with these market forces the government improved the conditions by enabling new firms to enter all sectors of the mainstream economy through the removal of entry barriers and provision of targeted incentives. The ESAP environment thus gave rise to special financial institutions to meet the growing financial needs of the entrepreneurial poor who were earlier deprived access to financial services by the formal banks because of their lack of acceptable collateral.

In Zimbabwe today there is a realisation that the SMEs are innovative, flexible, require low start up capital. The SMEs and the poor are linked because it is the transitory poor that establish the micro, small to medium scale enterprises. They need financial assistance to exit poverty, graduate from micro to small and eventually to large-scale enterprises.

There is an increased interest in pursuing the SMEs and the MFIs as a poverty reduction strategy. This is because MFIs are more flexible than their formal financial counterparts. SMEs account for the employment of at least 57% of the productive population in Zimbabwe. The current¹ structural unemployment rate is over 60%. This figure is fast increasing due to the shrinkage in the formal sector, subsequent retrenchments and the outpouring of 300 000 tertiary institutions graduates joining the job seekers while the formal sector can only absorb 20 000 or less annually.

The major objectives of the study are firstly, to evaluate the performance of MFIs in Zimbabwe using *Profitability ratios, Operational Efficiency indicators, Outreach indicators and Portfolio Quality ratios*. Secondly, to ascertain the extent to which micro finance institutions have linked SMEs to sources of credit in Zimbabwe and to assess the impact of such linkages.

The study employed a variety of techniques that *inter alia* included documentary analysis, interviews, questionnaires, and participant observation. Thirty (30), registered MFIs were randomly selected for inclusion in the sample. To assess the impact of MFIs on the target group two hundred and fifty-four (254), SMEs were also surveyed at household level.

The study findings indicate that the MFIs in Zimbabwe have performed below a set standard on average and may not be following the "best practices" of the industry. For 30 surveyed MFIs that have been in operation for at least three (3) years by December 1999, the average return on assets was very low and negative (**minus 110%**). The operating cost ratio for the same is 328%. These ratios indicate inefficiency and possible huge presence of subsidies hence MFIs continue operations in spite of poor performance. The operating and financial self-sufficiency are 99% and

¹ The year in question is 2001.

110% respectively. These two ratios appear odd when analyzed with the rest of the other ratios that all indicate poor performance. There is no logical connection. The only possible explanation could be that the information provided to compute them was inaccurate. The operational efficiency is extremely low as it costs, on average, Z\$1.54 to lend Z\$1.00.

The percentage of women clients was found to be an impressive 75% (compared to the standard of at least 70%), although the industry's overall outreach is still very low. At least the industry is gender sensitive. It was found that the bulk of private investments in the sector are targeted at consumer rather than business credit. Therefore the issue of wealth creation remains critical yet it is not adequately addressed.

The poor performance of the industry can partially be explained by the challenges that it is currently facing. Among the major concerns include the outdated and vaguely defined Moneylenders and Rates of Interest Act Chapter 14:14, which governs it. The other handicap is low and erratic funding that is mainly from the donor community. Unfavourable macro economic and socio-political situation of the last two to three years in the country has resulted in significant falls in funding. The industry in Zimbabwe is still very young, uses a lot of subsidies and lacks adequate capacity to operate in a viable manner. Finally, the adverse impact of HIV/AIDS pandemic is also impacting negatively on the MFIs, the SMEs and the poor.

MFIs and the SMEs in Zimbabwe have a lot of potential to exploit their competitive and comparative advantages so as to address unemployment and contribute towards poverty alleviation. What the two complimentary sectors require are working guidelines designed to facilitate their joint operations rather than formal regulation.

In light of the findings, it is recommended that firstly, the Government prioritize MFIs and SMEs in her poverty reduction policies and strategies. The Government can play a facilitatory role by providing well spelt out user-friendly operational guidelines that will foster transparency and accountability in the sector. In addition, the Government can guarantee those MFIs that are performing well so that they can access commercial finance from the wider capital markets.

Secondly, information disclosure by MFIs should be made mandatory to promote transparency and efficiency in the sector. This could be done by improving the quality of information currently submitted to the Ministry of Finance and Economic Planning and refining it for use by the industry as is done for the formal banking system by the Reserve Bank of Zimbabwe. The current efforts of ZAMFI to create a database should be supported by all stakeholders, especially the parent ministry.

Thirdly, instead of the MFIs being frustrated by following existing tested models from some parts of the world, there is need to be innovative and experiment by

creating new financial service products that can be sold at interest rates high enough to allow breaking even while maintaining or improving outreach.

Finally, all MFIs are encouraged to introduce, either individually or collectively, insurance products to cushion both themselves and the SMEs in the event of problems. Such eventualities include HIV/AIDS related deaths and illnesses, operational risks as well as impacts of natural disasters like droughts and floods.

1. Introduction

1.1. Background of Economic Reforms

The decline of developing economies particularly between the middle and towards the end of the 20th century left most governments of developing countries with no choice but to implement economic reforms. The reasons of this decline were due to a combination of various factors, which include among others, bad policies, mismanagement, civil wars and corruption. Increase in poverty, dwindling opportunities for formal employment and decline in economic growth were some of the visible indicators of such failing economies.

Zimbabwe adopted economic reforms in 1991. It was popularly known as Economic Structural Adjustment Programme (ESAP). The ESAP objectives in Zimbabwe included the following:

- Reduction of central government deficit to 5% of GDP by 1995
- Reform of the public enterprises and civil service resulting in a 25% reduction of people employed in the sector.
- Monetary policy and financial sector reform so as to increase investment levels to at least 25% of Gross Domestic Product.
- Trade and exchange market liberalisation so as to achieve an export growth rate of 9% per year.
- Domestic deregulation and investment promotion by increasing savings rate to 25% of GDP annually.
- Implementation of social dimensions of adjustment programmes to cushion the poor.

Financial liberalization ushered in a new socio-economic system in Zimbabwe, where market forces play an increasingly dominant role in the economy. Such market forces quicken the pace of globalisation and integration gains momentum. National

economies, Zimbabwe included find it difficult to keep up with such global trends meanwhile ensuring that the poor people secure meaningful livelihood. The majority of the population in Zimbabwe is increasingly finding it difficult to meet basic requirements. Thus economic reforms in Zimbabwe have not yielded the expected growth and prosperity in the country with poverty actually on the increase, estimated at 85% in 2001 compared to 62% in 1995 (Government of Zimbabwe, 1997).

There is acknowledgement from the Zimbabwe government that strong policies skewed towards socialism pursued since independence (in 1980) did not deliver the well sought after improvement of the well being of the people of Zimbabwe. The government realises the need for more rapid growth in opportunities for productive employment and overall economic empowerment. In line with the principles that govern market economies, the government improved the conditions by enabling the new firms to enter all sectors of the main stream economy through the removal of existing barriers and provision of targeted incentives. This ushered in a social class of “working poor” to run these new firms.

1.2. Small and Medium Scale Enterprises (SMEs) and the Poor

In Zimbabwe the definition of poor is mainly in terms of the Poverty Datum Line (PDL) and the Food Poverty Line (FPL). The former relates to a household's ability to afford the minimum basket of provisions to live on. This basket consists of basic food, shelter, and clothing with food given the primary consideration. The FPL thus defines the minimum threshold income that enables a household in the country to

acquire and consume enough food to keep the body nourished. A Zimbabwe Poverty Assessment Study Survey of 1995 showed that 62% and 45% of the population was at the time falling below the PDL and the FPL respectively (Government of Zimbabwe, 1997). The same study highlighted the gender dimension of poverty in the country with an estimated 72% of the female-headed households found to be poor compared to 58% of the male-headed families.

Poverty has also been measured in terms of the Human Development Index (HDI) and the Human Poverty Index (HPI) in Zimbabwe. HDI includes longevity as measured by life expectancy at birth, knowledge as measured by the stock of adult literacy and mean years of schooling as well as income. The HPI on the other hand comprises three composite indices, namely life expectancy deprivation index, the educational attainment deprivation index and an index for the deprivation of decent living standards (Sachikonye, 2000). According to the same report the HDI for Zimbabwe in 1995 was 0.62 while the HPI was 17.40. The study revealed that poverty levels were higher in rural and peri urban areas than in the cities as was cited earlier mentioned survey (Government of Zimbabwe, 1997).

The poor being targeted by the MFIs in Zimbabwe are the “transitory poor” who are part of what others call the “core poor”. Morduch (2000). This kind of poor is just immediately below the poverty datum line. The objective in targeting them is that they access finance and start micro and small enterprises, earn enough income to exit

poverty, expand their businesses and improve their quality of life (Mosley, 1998, Ogaki et al, 1995 and Alam, 1992).

The Government of Zimbabwe (2000a)² defines a micro small enterprise as one employing less than 5 people with an asset base of less than Z\$200 000, typically unregistered but operating from market places. A small enterprise is defined as a business employing not more than 50 people with assets of less than Z\$3.0 million, and acting as a registered entity. Medium enterprises are those employing up to 75 and 100 people for other sectors and manufacturing respectively. The capital bases for the same are Z\$7 and Z\$12 million in that order.

The main categories of micro enterprises in Zimbabwe can be divided into two broad categories namely – off farm and on farm-oriented activities. The first category on one hand is typically of urban dwellers and their activities include retailing, tailoring and dressmaking, cross border trading, and light industry e.g. carpentry, craft and arts, welding etc. The on-farm activities are mainly found in peri-urban and rural settings. These include poultry farming, market gardening, animal husbandry, cereal production and small-scale irrigation projects among others.

² The Micro, Small to Medium Scale Enterprise Paper by the Ministry of Industry and Trade proposed during the year 2000. The monetary figures could change over time to reflect the hyper inflationary conditions prevailing in Zimbabwe.

1.3. Micro finance Institutions (MFIs)

Broadly defined micro finance includes both financial and social intermediation for the low-income men and women. Financial inter mediation refers to the provisions of a variety of financial products/services such as small savings and credit, insurance and payment services. The social component relates to group formation, development of self-confidence, training in financial issues as well as the imparting of entrepreneurial management skills.

MFIs in Zimbabwe are registered with the Ministry of Finance and Economic Planning under the Moneylending and Rates of Interest Act Chapter 14: 14. They are issued with annual operating licences that are renewed at the beginning of each subsequent year if all conditions are met. Currently there are 418 institutions registered as moneylenders in Zimbabwe although only 61% of them held valid licences by December 1999 according to the Moneylenders register. (Government of Zimbabwe, 2000b). MFIs that are registered but have not renewed their annual licences are more likely to flout the operational rules because there is no way the ministry could check on their compliancy with set standards.

The bulk of the institutions are into thirty day consumer credit provisions where profitability is relatively high. In terms of the current Zimbabwean laws there is no distinction between a purely consumer credit provider and a fully-fledged micro finance institution.

MFIs in Zimbabwe belong to different associations and unions. One such noticeable umbrella organisation is the Zimbabwe Association of Micro Finance Institutions (ZAMFI), which by 1999 accounted for 12% of the registered MFIs in the country. The key objectives of the MFIs in Zimbabwe are to:

- Increase credit accessibility to micro enterprise so as to increase their incomes.
- Provide technical and/or other support to such groups through training, advice, counseling etc.
- Impart a culture of saving on the target group within the Moneylenders and Rates of interest Act provisions.
- Provide basic training in project management and business skills to the target groups.

The key fund providers for the MFIs in Zimbabwe have been the donors (at least 55%), the government/donors (estimated 40%) and the private sector providing the balance. This funding arrangement tends to cause repayment problems for some recipients in that the clients view this as “cheap money”. On the other hand some MFIs tend to be lax in their clients follow-ups.

1.4. Statement of the problem

In Zimbabwe ESAP ushered in an era that witnessed the birth of numerous small enterprises designed to complement incomes and create employment for the many retrenched people as well as the school leavers that could not be absorbed in the formal sector. The promoters of such were largely the entrepreneurial poor.

This in turn led to the mushrooming of a new breed of financial institutions to offer financial services to this new niche market of micro, small and medium scale enterprises. Availability and accessibility of financial services by the SMEs and the

utilisation of the same for productive purposes is believed to be the cornerstone for industrial transformation in Zimbabwe.

1.5. Hypotheses

- Micro finance institutions in Zimbabwe have linked SMEs to sources of credit in an efficient and profitable manner.
- MFIs are better placed to provide financial services to SMEs and the Poor than the formal financial institutions.
- Access to financial services by the SMEs and the Poor improves their well-being.

1.6. Objectives of the Study

- To ascertain the extent to which micro finance institutions have linked SMEs to sources of credit in Zimbabwe and to assess the impact of such linkages.
- To evaluate the performance of MFIs in Zimbabwe using
 - Profitability ratios
 - Operational Efficiency indicators
 - Outreach indicators and
 - Portfolio Quality ratios
- To assess the impact of credit on SMEs and the Poor.
- To contribute to existing literature on the Impact of Financial Liberalisation on the Poor.
- To offer policy recommendations to national governments in general and the Zimbabwean policy makers in particular.

1.7. Plan of Study

The rest of this paper is arranged as follows: In section one, the introduction is given. Section two discusses the conceptual review/ literature review on the subject. The methodology employed is spelt out in section three. Findings are presented in section four while the conclusion and recommendations are contained in section five. References and appendixes are at the very end in that order.

2. Conceptual Framework/ Literature Review

2.1. Financial Liberalization and Economic Structural Adjustment Programs

Financial liberalization encompasses a lot of economic issues such as interest rate deregulation, relaxation of entry requirements into the sector, competitive offer of banking and other financial services as well as general restructuring of the finance sector in line with market demands (McKinnon, 1989, Shaw, 1973). It is thus a process and not an event with one development leading to another.

In Zimbabwe, the structural adjustment program was to be supported by a number of relevant policies so as to achieve the stated goals. Financial reforms were a crucial cornerstone of the package in full realization of the central and fundamental role played by the financial sector in economic development. Promoters of financial liberalization argue that it should lead to growth through increased savings. The process should encourage the mobilization (given a positive real deposit rate) and redirection of this resource to the most profitable ventures. This should lead to allocative and operational efficiency of the financial system as the rates of interest will be determined by the free interplay of demand and supply forces. McKinnon (1973).

Moreover the financial deepening that results tends to promote competition. This is an essential ingredient for the availability of financial products to different sectors, the government included. Competition should force down the cost of intermediation and allow broader access to credit by all. Barriers between the formal and

the informal markets however, persist even when markets are liberalized. Even MFIs that have proved their credit worthiness still face problems in accessing formal institution credit because of their perceived riskiness.

2.2. Micro Finance Institutions, SMEs and the Poor

Leading advocates for micro finance argue that MFIs that follow the principles of good banking will also be those that alleviate the most poverty. This is what is widely known as “Best Practices” Morduch (2000). These good banking principles include inter alia maintaining financial transparency, standardising products and achieving scale. However there is limited logic and empirical evidence to support “Best Practices” as observed by Morduch.

The definition of the target group for the MFIs is important to facilitate the determination of the impact of the MFIs based on their underlying objective. The objective could be profit or wealth maximisation. General financial minded MFIs want to maximize profit while social minded ones focus on the long-term objective, which is wealth maximisation. They are concerned about the social benefits that will accrue to the targets.

There is an acknowledgement from a wider society that past subsidised MFI programs performed dismally on average leading to the wide spread belief that such programs are inefficient and are bound to fail. It is also claimed that these programs were insensitive to efficiency, transparency, and appropriate management incentives.

However Morduch's counter argument is that these submissions are to a large extent false generalizations, which are not consistent with logic or experience. In addition he notes that the majority of programs remain substantially subsidized especially those with explicitly social objectives.

Yunus (1991, 1997), Latiffee (1997), Hulme (1991) and Sparrenboom (1996) among many others have written widely about the relationship between the poor and the MFIs. From their arguments the critical issues that emerge are as follows, firstly that the major handicap faced by the poor is lack of financial resources rather than skills to operate viable projects. Secondly that formal financial institutions as they exist today are ill equipped and lack the will to address the unique needs of the poor who lack collateral.

Thirdly they argue that the poor are bankable. The repayment rate for Grameen Bank has averaged 97% over the decades the bank has been in existence. They concur that given the right assistance this fast growing group can significantly increase their income levels. For instance Yunus (1997) notes that Grameen Bank was started in 1976 with a USD27 loan to 42 poor but able bodied, hard working skilled people. By 1991 one third of its 2.1 million clients had been pulled out of poverty (they had crossed the poverty datum line). It is important to stress the key qualities of the recipients of micro credit- that they should be of good health, diligent and skilled to productively utilize the facilities. Should this assumption not hold, it is possible that the micro credit may not change their economic situation even if the MFI was

objective in its outreach. This explains why the Mundi Fund in Malawi has not been as successful (Hulme, 1991).

2.3. Model for MFIs Performance Measurement

Performance is crucial for any enterprise be it profit motivated or not. Set standards serve as yardsticks for the stakeholders to assess their actual results in light of original goals. The performance of MFIs can be best measured in terms of three sets of indicators. The first measure relates to *financial performance* indicators. These measure the financial soundness of an MFI in terms of its profitability, long-term sustainability and viability even without donor or government support. A financially sound institution is better placed to channel the much-needed resources to the poor and the SMEs.

The second measure is *administrative performance* of the MFI. This basically relates to the institutional, ownership and power sharing arrangements that will have a bearing on the internal policies of the organisation. This measure becomes significant mainly when the MFI is not performing well financially. The third broad category relates to *client profile*. This is in realisation that not all institutions registered as MFIs or moneylenders as is the case in Zimbabwe are serving the intended purpose. There is always a danger that some may target the wrong borrowers or apply other unethical methods simply to boost their financial performance. The calibre of the administrators again becomes an issue, as they are responsible for policy formulation. Thus these

indicators seek to assess the type, number, gender and socio-economic status of the targeted borrowers.

For the purposes of this research, the Micro Banking Bulletin Standards were used. These were preferred for a number of reasons. Firstly, they have been endorsed and adopted by a number of regional associations including the Zimbabwe Association of Micro Finance Institutions (ZAMFI, 2000b).

Secondly, the Micro-banking standards tend to consolidate various aspects of the three-fold measurement criteria discussed above. The resultant criterion (summarized into ratios) is user friendly and allows for the appraisal of MFIs by people of different orientations. More over it is relatively simple to apply borrowing mainly from data contained in the balance sheets, income statements and portfolio reports. It thus becomes easy to reconstruct most of the figures from source documents where necessary provided there are records.

In this research paper ratios will be computed for profitability, operational efficiency, client outreach and portfolio quality. While profitability and operational efficiency are of interest mainly to the financiers and tend to get the highest attention, the last two take a long-term view of the institution. There is a danger that an institution may perform very well in financial terms while only reaching a few and/or targeting the wrong group. The other possibility is that the repayment rates could be impressively high while in essence the target group that was supposed to be

empowered was actually being ripped off. Yunus (1991, 1997) considers this to be a serious problem of exploitation, as the fund recipients have no meaningful return to their labour. The inclusion of outreach and portfolio quality indicators is thus done to check on these concerns.

3. Framework and Methodology

The study followed a well-defined process that utilises a consortium of techniques, which *inter alia* included documentary analysis, interviews, questionnaires and participant observation. Different techniques were applied at varying stages, individual and combined, depending on the situation.

3.1. Scope of Study

The research study focused on a fairly small sample size to facilitate meaningful depth of analysis in light of time and resource limitations. This was to enable the sample with reasonable accuracy, to reflect the thinking, opinions, attitudes and behavior of the entire population. The sample size enabled the researchers to integrate and critically examine theory and practice.

Two areas in Zimbabwe, in Matabeleland region were chosen to form the SMEs sub-population samples. These areas are Insiza district and Bulawayo City. The latter represents an urban set-up while Insiza district represents a rural set-up. More importantly, the two areas provide average figures in terms of the Human Poverty

Index (HPI) and Human Development Index (HDI), (Raftopoulos et. al. 1998). Even in these two main sub-population samples, we acknowledge that there are pockets of significant differences in the population composition. To minimize the effects of such differences, probability sampling was used especially a combination of simple and stratified random sampling methods.

Micro Finance Institutions

A total of 30 MFIs were targeted of which 20 were members of the Zimbabwe Association of Micro Finance Institutions (ZAMFI). While this could suggest a selection bias, the 20 ZAMFI members were the main targets because of their earlier inclusion in a similar study. Moreover ZAMFI is the only association in the country that follows the principles of good banking.

Performance Measurement of MFIs

MFIs' performance was measured using profitability, operational efficiency, outreach and portfolio quality indicators as discussed above. To analyze the data gathered from the MFIs, formulae in Table 1 below were applied.

Table 1: Performance Indicators Formulae.

Performance indicator	Formula used	Definition
Profitability		
Adjusted return on assets	Net Income / Adjusted Avg. Performing Assets	Indicates financial productivity of credit services and investment activities
Operating cost ratio	Total Operating Expenses/ Avg. Performing Assets	Key indicator of efficiency of lending operations
Operating self sufficiency	Financial Income / Total Operating Cost	Shows the ability of an institution to cover costs of operations with internally generated income
Financial self-sufficiency	Financial Income / Adjusted Operating Costs	Shows the ability of the institution to be fully sustainable in the long-run by covering all operating costs and maintaining the value of capital
Operational Efficiency		
Cost per unit of money lent	Operating costs / Total amount disbursed.	Indicates efficiency in disbursing loans (in monetary terms)
Number of loans per officer	Number of loans for the period / Number of loan officers	Indicates performance of loan officers and efficiency of methodology
Outreach		
Number of clients	Number of active clients for the period	Indicates the numerical outreach of the institution
Number of women client	No. of female clients / Total no. of active borrowers	Indicates the gender sensitivity of the MFI given previous biases against women.
Portfolio Quality		
Portfolio at Risk	Payments in Arrears / Value of loans outstanding	Measures amount of default risk in portfolio
Loan loss ratio	Amount written off / Average loan Outstanding	Indicates extent of uncollectible loans over the past period
Portfolio in arrears	Payments in Arrears / Value of loans outstanding	Indicates amount of loan payments past due.
Reserve Ratio	Loan Loss Reserve / Value of loans outstanding	Indicates adequacy of reserves in relation to portfolio

Source: Micro Banking Bulletin Standards. www.microbanking-mmb.org

While the criteria applied had advantages in that it is relatively simple and easy to apply, there were however limitations in the computation of ratios. Firstly, it was not always possible to verify the data received as direct access to primary sources was denied. Secondly there was a problem of interpretation. As an example, in computing return on assets, the numerator could be gross or net income. The denominator on the other hand could be total assets, average assets or even adjusted average assets if the institution is involved in other activities as well. In this case *net* instead of *gross* income was used because it is more informative and objective. The average performing assets figure was used because most of the organisations in the sample were multi purpose institutions such that their assets were not exclusively used to support the micro credit program.

The SMEs and the Poor

For the purposes of this research, applicant lists were obtained from four Micro finance institutions operating in Bulawayo and Insiza District. From these, individuals were randomly selected for inclusion in the survey. Members of different groups were treated as individuals so as to highlight the impact of the credit at household level especially given the poverty alleviation objective of micro financing. By the same token, small and medium scale enterprises were treated as projects for given individuals and hence households regardless of their legal status. A total target sample of 254 of SMEs and the poor was used for the purpose of this research paper. Out of the total of 254 respondents, 75% had received credit at least once whilst the rest had

not. The latter (25%) served as a control group, an approach strongly recommended by Mosley (1998).

3.2. Data Collection

Secondary data was accumulated from existing literature from libraries, formal financial institutions, Zimbabwe Association of Micro Finance Institutions (ZAMFI), individual institutions, non-governmental organizations directly or indirectly involved, the Internet and mass media. The literature review provided the basis for the hypotheses and a framework for analysis of the situation on the ground.

Secondary data was used because of its availability as well as the fact that it is already synthesized and processed. The points noted above make the approach very cost effective. It was however noted that the data and/or information was in some instances over simplified, biased, lacking the necessary relevance in terms of timing and distribution of the target group. These shortcomings were addressed through verification of data by using different sources as well as primary data collection.

Primary data collection techniques revolved around interviews and questionnaires. In addition primary sources of information such as own experience through observations, fieldwork, discussion, thinking and reflection were used. The interviews ranged from fairly informal exchanges to very structured, ordered sets of questions. In some cases, a combination of the two was used. This depended on the

subject under discussion, the kind of information needed and the characteristics of the respondents.

For the thirty targeted MFIs, both structured and unstructured interviews were carried out as well as the use of a self-administered questionnaire. The questionnaire was e-mailed to the respondents or dropped for later collection. For the SMEs and the poor, a face-to-face encounter was opted for. Representative groups of the poor and the SMEs were invited to a guided discussion to further verify and justify the data collected through the other methods. Existing structures such as the Hawkers' Associations and Rural Associations were targeted. It has been argued that group discussions have an added advantage in that they empowered the target group by boosting their confidence (Gordon and Cheghorn, 1999). This is essential for fruitful future interactions with the Micro Finance Institutions and other financiers. As much as was possible, the researchers were striving for objective observations of given situations to pick those salient but fundamental issues influencing the noted behavior of the target population.

3.3. Data Analysis

All the data collected was first sorted out for meaningful analysis according to whether it was for the rural or urban samples and whether the respondent had received credit or not. All the data was checked for completeness as well as internal consistency. The responses were then checked for relevancy and flow of logic.

Access to credit was measured in terms of its effect on the output of SMEs or accumulation of business assets. For the poor the impact was measured in terms of changes in their standards of living. The standards of living were based on their disposable income and subsequent access to goods and services. The measure is easy to apply in monetary terms hence applicable universally. It is however noted that it could be difficult to define this variable for the very poor who live from hand to mouth.

4. Research Findings

4.1. Findings on the MFIs

The majority of the MFIs, 90% were established between the period 1995 and 1999. All of them were registered under the Moneylending and Rates of Interest Chapter 14.14 while more than half of them were also registered under the Companies Act Chapter 180. The reasons for being dually registered were mainly to reap the benefits of both sets and ensure that the other covers the shortfalls of one statute. By so doing, there is recognition that there are shortfalls within both Acts.

Sixty-six (66%) of the MFIs were business credit providers while 20% were purely consumer credit financiers. The balance was providing both, either through departments or availing money to individuals who subsequently employed the funds on both consumption and business ventures. As to the reasons why MFIs chose to belong to different categories, the determining factors encompassed the mission, goals

and objectives of the founding members. The underlying objectives for most MFIs revolved around poverty eradication and facilitation of empowerment of vulnerable groups such as women and the disabled. It all boils down to a desire to manage poverty on sustainable bases through the creation of wealth in whatever entrepreneurial way.

Most MFIs (85%) had financial policies that govern their operations. However the formulation of such policies in some cases was donor driven to an extent that it is increasingly becoming almost impossible to implement them. Among other things such financial policies provide for critical issues such as credit risk management, portfolio management, profitability, interest rate issues and capital contributions.

The major customers of most MFIs are mainly women (75%). The bulk of them are into service provision and vending of different wares. Other activities include light manufacturing, handicrafts and cross border activities. The lending criteria of all the surveyed MFIs revolve around group lending methodologies. The only visible difference among various MFIs was the issue of collateral security. On one hand, some insisted on saving deposits of up to 20% of the loan while on the other, some accepted guarantees by gainfully employed friends and relatives. These relatives however could not be spouses or parents as it was felt that misfortunes befalling one would affect the other.

According to the MFIs, clients are generally happy with the lending conditions because of the ever-increasing demand for repeat loans. However, they also acknowledged that some clients were discontent about high interest rates, administrative costs and loss of savings in the event of default. The other issues of concern relate to lack of adequate follow up on clients by the MFIs and their failure to follow laid down procedures especially on repeat loans and on defaulters. These were considered genuine issues that the industry needs to revisit and polish up on.

The respondents noted that there were a number of factors that enhanced the provision of credit to the SMEs and the poor in Zimbabwe. These included donor financial support in the form of grants and soft loans for on-lending as well as capacity building in the sector. The other factor was the increased networking amongst the MFIs in Zimbabwe as well as other interested parties globally. This was said to promote information and experience sharing for the betterment of all concerned. It allowed players to tap on each other's expertise as well as making use of their comparative advantages.

While there were positive factors on one hand, the main factors cited to be inhibiting the provision of credit to the SMEs on the other hand, included lack of co-operation and support from the government. This was evidenced by the failure by the government to give the industry all the necessary resources and infrastructural support such as relevant information and clear enforcement provisions in the event of default.

The most pertinent issue raised was with respect to the unfavourable macro-economic conditions prevailing in Zimbabwe, characterised by increasing unemployment (68%), declining economic growth (below 2%) and increasing runaway inflation (70%) ultimately shoving the majority of people (75%) below the poverty datum line. This was said to be rendering most MFIs non-viable as economic agents because people's levels of income are not able to keep up with the pace of inflation thereby resulting in increased levels of poverty. Some loan officers (63%) complained about the poor working conditions. Moreover, the negative stigma attached to the SME sector in Zimbabwe also spills over to the MFIs employees. They are always looked down upon especially when compared to the formal financial sector employees.

From the MFIs' perspective, the government has to facilitate the work of the MFIs by coming up with a clear policy and supportive framework for the industry and their clients, the SMEs and the poor. Moreover, the government apex unit through the Social Dimensions Fund should be more visible in providing loans to the industry to improve their liquidity.

Profitability

The average return on assets for the MFIs is not only low but also very negative, (-110%) as shown in Table 2. The low ratio is indicative of financial instability.

Table 2: Performance Indicators for the Surveyed MFIs (1999).

Performance indicator	MFIs >3 years ZAMFI (standard)	MFIs>3 years (Sample Average)	Comments
Profitability			
Adjusted return on assets	25% or Inflation rate	-110%	Very low
Operating cost ratio	<20%	328%	Unrealistic and extremely high
Operating self sufficiency	>50% and increasing	99%	Within range but questionable
Financial self-sufficiency	>50%	110%	High but again questionable
Operational Efficiency			
Cost per unit of money lent	25% and declining	154%	Very poor. It is too costly.
Number of loans per officer	>300	172	Poor, and below average
Number of clients	12 000	2397	Very low
Number of women client	>70%	75%	Good but can be improved
Portfolio Quality			
Portfolio at Risk	10%	N/A	No records
Loan loss ratio	5%	N/A	No records
Portfolio in arrears	5%	N/A	No records
Reserve Ratio	5%	27%	Too high

Source: ZAMFI 2000b for Standard ratios and the rest are averages computed from responses

In light of this, one would expect the MFIs to have ceased their operations, but this is not the case and the only possible explanation one could offer is that they are getting some operational funds from somewhere else. In this instance it is the presence of subsidy from donors that is making it possible for them to continue operating despite the huge losses. The very high operating costs of 328% further highlights the gravity of the problem. For every Z\$1 invested in assets, on average MFIs incur costs to the tune of Z\$3.28 compared to \$0.20 in the ZAMFI standard.

The computed ratios for operating and financial self-sufficiency are falling within the standard, which under normal circumstances will be good and

commendable. Further probing however suggests that, operating expenses figure could have been distorted. This figure, according to the formula, is an aggregation of loan losses, administration and depreciation expenses. The exclusion of any one of these costs will result in an incorrect operating expenses figure that will affect the ultimate results. This seems to be the position in this case. Surprisingly most MFIs managed to provide the aggregated figure for operating expenses but could not do the same for the loan losses figure. One then wonders how they could have calculated their aggregated operating expenses figure without it. This further confirms the doubts on the accuracy of the figures provided.

The research findings also indicate that interest rate setting by MFIs is rather arbitrary ranging from a desire to exploit to an attempt to conceal the full cost of funds to the borrower. The rates charged were given as ranging from the stipulated 35% to 72% per annum. Almost all of the respondents charged some form of administrative fees as application, processing or just administrative charges. The high interest rates could be contributing to the high financial and operational self-sufficiency ratios. Overall there is no logical connection between the sufficiency ratios and the rest of the ratios.

Operational Efficiency

The survey showed that the industry's operational efficiency is extremely low. The computed average cost per unit of money (dollar) lent was 154%, meaning that it cost \$1.54 to lend out \$1. This is further explained by the number of loans per loan

officer that is just over half of the minimum ZAMFI standard of 300. This means that the officers are under employed. This questions the appropriateness of their mobilization of clients assuming that funds for disbursement are available. The fact that operational efficiency is low yet the MFIs continue operating further reinforces the point that these MFIs are heavily subsidized.

There was however one MFI whose cost averaged \$0.20. The micro finance institution in question is the oldest in the country having been formed in 1985. It could be argued that it has reached a different level of micro finance development, which among other things includes well-defined management and governance structures as well as a sound accounting system. However, more research needs to be done to ascertain whether this institution is indeed efficient and profitable.

Outreach

On a positive note, the MFIs are gender sensitive as evidenced by the large figure (75%) of women participating in the micro credit programs. While the figure of women clients is impressive, unfortunately the average outreach for the MFIs is very low (20% of target), even for an industry that is still in its infancy.

There is an urgent need for co-ordinated education, training and capacity building in the industry to improve outreach. This should include training of loan officers who in turn should train their clients. The main areas identified are project proposal writing and appraisal, business management as well as marketing of

products. Individuals and institutions that have adequate capacity and competence such as Business Development Services providers should provide the training. The issues of qualification and motivation of MFIs staff highlighted earlier, can never be down played given their impact on the administration of the MFIs, the quality of service delivery to their client and hence outreach.

Portfolio Quality

The Portfolio Quality indicators appear not to be given the weight they deserve by the MFIs. The information available was highly scanty and again off the mark. 57% of the MFIs had Provisions for Bad and Doubtful debts (loss reserve) although two had over provided with 44% and 53% respectively compared to the standard of 5%. The findings cast some doubt on the accuracy and objectiveness of such a provision policy.

Information relating to portfolio at risk, loan loss ratio and portfolio in arrears was not available for most of the MFIs. This suggests inadequacy of the loan tracking mechanism. The MFIs appear to overlook the importance of appropriate/ good selection criteria and their enforcement. Such a development is a recipe for high delinquency in the long-term rendering self-sufficiency impossible. The other view is that the omission of such important information could have been deliberate so as to obscure the poor loan quality by some unscrupulous MFIs.

The MFIs' indifference to portfolio management is only possible with access to cheap money obtained from donors either freely or at minimal interest rates. The provisions for bad and doubtful debts (loan reserves) would be invested with formal institution thus defeating the whole purpose of micro credit. A further analysis of the MFIs credit recipients show that most of them had borrowed for at least twice (68%) and 18% of them had accessed their fourth loans. Interviews with the MFIs representative revealed that repeat loans were only available to those clients who would have paid off the initial advances. This applied to both individual and group loans, meaning that no member of a group could access an additional loan if a co-member had an outstanding debt. This high frequency of borrowing might be a good thing if it is to facilitate the expansion of enterprises and/or diversification of product. However, this could also suggest loan dependency and possible debt trap for the clients. This defeats the objective of eradicating poverty.

It is with the forgoing discussion that we revisit the research question on the impact of the industry on the target group. Have MFIs increased access of the SMEs and the poor to finance or not? The findings above show a low standard performance of the industry. This should however not be taken to mean that their contribution is insignificant. The next section seeks to assess the qualitative measure of the industry's performance as viewed by the credit consumers.

4.2. Findings on the SMEs and the Poor from Matebeleland Region of Zimbabwe

The research study revealed that SMEs were not a topical issue before the introduction of economic reforms in Zimbabwe because:

- They were not officially recognised by the government and as such were looked down upon by the public. In towns and cities, municipalities discouraged informal trading.
- The poor who engaged in informal trading carried out such activities in the periphery and were not as organised as they are today after the introduction of reforms.
- Many people seemed to be involved mainly in subsistence farming (35%) or working as labourers (50%) in the urban and mining areas. The rest were engaged in a variety of odd activities that were housed under government-sponsored co-operatives of that era. Thus their economy largely was barter trade driven.

Profile of SMEs

The majority of the respondents were women, to be precise 88% of them. Most of the people who owned SMEs were within the ages of 31-40. Out of the total respondents, the SMEs employed 35%. The level of education attained by SME owners varied as follows: 7% of the respondents had no formal education at all, at least 78% obtained primary level qualifications and 15% of the respondents had post secondary education qualification and some were skilled in various areas. In terms of operations, 76% of the respondents were urban based whilst 24% were rural based.

The ownership structures of the SMEs revolve around sole proprietors, family businesses, partnerships and private companies. Most of the SMEs (80%) were established between 1992 and 1998. The reason for this is that this is the time when the economic reforms gained momentum. Moreover, until 1997, the Zimbabwean

economy was doing fairly well. Table 3 below shows a breakdown of surveyed SMEs according to size.

Table 3: Distribution of SMEs according to Project Values

Value of project	Rural	% Rural	Urban	% Urban	Cumulative %
Up to \$10 000	50	79%	104	54%	60%
10 001-50 000	8	13%	50	26%	78%
50 001-100 000	5	8%	32	17%	90%
100 001 and above	0	0	5	3%	100%

As shown in Table 3, the value of businesses for 79% of the rural based respondents was below \$10 000³ compared to 54% for their urban counterparts. The monthly profits were put at \$5 000 and below for rural based respondents 45% and 97% for their urban counterparts. Further probing revealed that the profits excluded the household expenses and food purchases for the trading period. This suggests that for most of the SMEs the actual profit could be higher than stated. A few however paid themselves some salaries or allowances in both the rural and urban settings.

Just fewer than 3% of the urban SMEs had monthly profits averaging above \$50 000 per month. These were mainly recipients of MFI's credit who were also exporting some of their products to neighboring countries. Most of the SMEs (73%) employed between 4 and 10 people, the majority of whom were family members, friends or relatives. Most of the employees possessed minimal skills (58%) such as carving, carpentry garment making.

³ The exchange rate at the time was 1US\$ = Z\$55.00

The survey revealed that all MFIs provided credit to SMEs for day to day operations and expansion purposes rather than as start up capital. This is because MFIs insist that the project should have been in operation for at least 6 months before it can be considered for funding. Most of the SMEs had initially used either personal (76% and 55%) or family savings (7% and 35%) for urban and rural based respondents respectively.

The balance had used other sources of funding that included grants and donations. It is worthy noting that the family interdependency is still dominant in the rural setting where some individual ownership of assets is still rare. Some respondents had actually inherited the irrigated plots from parents and as such inputs were jointly sourced. Seventy-eight (78%) of the SMEs had borrowed at least once from the different sources. Table 4 below shows the distribution of the credit recipients.

Table 4: Distribution of Respondents According to Sources of Credit

Type of Respondents	Formal Banks	MFI	Other
Rural Respondents	3	28	15
Urban Respondents	18	145	2
Total	21	173	17
Percentages	10%	82%	8%

From the total sample of 254, only 10% had accessed formal bank loans. If the 17 respondents who had accessed housing loans are factored out, the percentage falls to barely 2%. This is to be contrasted with the 74% of the same respondents who operate one form of a formal bank account or another.

Conditions for accessing credit

MFIs require an applicant to have been in business for at least six months and is a member of a group or can find a formally employed guarantor. The interviewed SMEs and the poor felt that the MFIs conditions are the best as they present them with alternatives for group or individual guarantors. The interest charged by some players was deemed to be too high by the SMEs. Interviews with the MFIs indicated that the rates charged ranged between 35% and 75% per annum. Informal discussions however indicated that the actual rates could be higher than the stipulated ones especially for consumer loans. In addition to that the respondents were concerned about the administrative charges levied per transaction over and above the interest rates.

Thirty-two (32%) of the SMEs were concerned about the lending methodology used by the industry. While group guarantees are helpful especially for those without collateral, they can potentially be counterproductive. For instance in the event of default by one member, the entire group becomes liable. Depending on how the group was initially formed, members may not be in a position to enforce payment from the defaulter. Moreover, with the HIV/AIDS pandemic spreading, the industry has not been spared.

The other issues related to unfavourable climatic conditions especially for the rural respondents and lack of foreign currency for the cross border traders. The majority of the respondents felt that the central government should play a crucial role

in normalising the economic conditions. This they felt could help them stabilise their operations.

5. Conclusion and Policy Recommendations

5.1. Conclusion

There is no doubt that MFIs and SMEs have a role to play in the alleviation of poverty despite all the challenges facing both sectors. It is generally agreed that the two need to form a partnership so as to improve the standards of living for the majority poor (See for instance Mosley, 1998; Balkenhol, 2001 and Hulme, 1991).

- On average, MFIs in Zimbabwe are currently neither profitable nor efficient as evidenced by the unrealistic and extremely high costs rendering a weak linkage between MFIs and SMEs.
- The continued existence and operations of many MFIs despite posting losses can only be explained by the presence of heavy subsidies from the donors and/or government who jointly fund 95% of their operations. For some programs, ongoing subsidization can be an important means through which social objectives are achieved (Morduch, 2000). Subsidization is not all that bad provided funds are utilized in a profitable and efficient manner, although donors as sources of funds for MFIs at times bring insecurity and uncertainty. The majority of donors are foreign and MFIs have no control over them. They always live in fear of the donor contracts coming to an end since the majority of them are usual short-term.
- Most donors that fund micro-finance programs are advocates for “best practices” that turn out to be more complicated (Morduch, 2000) than originally bargained for. Many MFIs are really frustrated by replication of standard models especially in situations where they realize that they are not working. There exists a dilemma of fulfilling donor requirements as opposed to fulfilling the MFI objective of wealth creation. Until a time when MFIs will have diverse and secure sources of funds, fulfilling their objectives remains a very difficult task. Off-course accessing finance by MFIs does not solve all their problems. There are numerous factors that contribute to this poor performance and some of the main ones are: the prevailing macro-economic instability, capacity and legal constraints.

- While all the MFIs included in the sample had financial statements prepared in a professional manner, the accuracy of the presented information was questionable. Moreover, most had no portfolio quality tracking systems. Standard financial statements per se have limited relevance in developing appropriate policy responses for loan recovery, staffing, and payments in arrears, outstanding balances of loans and average portfolio. This information is fundamental in the computation of indicators concerning portfolio quality, efficiency and sustainability. MFIs need to have sound management information systems because accurate information will facilitate them make informed decisions.
- Although the industry is still young, outreach is very low and if not improved long term sustainability may not be attained.
- Average loan sizes of MFIs are too small to allow for the economies of scale that are required to deliver financial sustainability.
- There is a general feeling from MFIs that government is not doing enough to support them.

Qualitatively, the industry despite its challenges is making a difference for the Poor and the SMEs. This may only be at a small scale but for the few beneficiaries, life will never be the same. MFIs have an edge over their formal counterparts because of their value added lending. They capacitate the SMEs and the poor by imparting knowledge and skills. Capacity building of both the MFIs and SMEs remains a challenge and there is so much to be done in this area. Government and organizations such as ZAMFI need to pool the scarce resources and collectively embark on such an important programme.

MFIs show that it is important to have a well-defined objective and a target group to facilitate measurement of impact in the long run. It does not matter whether the MFI is financial or social focused. Ascertaining the extent to which access to

financial services by SMEs and the poor improves their well being, proved very difficult and beyond the scope of this paper, but certainly a potential research theme.

5.2. Recommendations

The micro finance industry in Zimbabwe has a lot of potential linking up SMEs to sources of credit in an effective and profitable manner. They are however a number of issues and challenges that need to be highlighted and revisited. The following recommendations could help improve the performance of the MFIs.

- Economic reforms in Zimbabwe have led to the opening up of the economy, increased competition in the provision of funds and indirectly to the birth of MFIs. The same reforms have however also contributed to macro economic instability. The current rates of inflation of over 60% are negatively impacting on MFIs, SMEs and the poor hence the increasing poverty levels, currently estimated at 85%. It is thus recommended that the Zimbabwean government steer the economy towards macro economic stability to ensure an efficient and profitable linkage of the SMEs and the Poor to sources of Credit.
- MFIs in Zimbabwe are governed by an outdated Moneylending and Rates of Interest Act Chapter 14:14. Findings are that the Act does not adequately provide for MFIs as they operate today. Moreover the many loopholes and inadequacies have resulted in MFIs registering under many different acts. In the light of these it is recommended that the Act be revised to specifically and objectively provide for the operation of the industry.
- Research findings indicate that MFIs have been largely foreign donor funded. The donor community has contributed significantly and is commended for its efforts. However, with global policy shifts, such funding is very unpredictable therefore risky. It is recommended that Government prioritize MFIs and SMEs in her poverty reduction policies and strategies. Government can provide well spelt out user-friendly operational guidelines that will foster transparency and accountability. In addition, government can guarantee those MFIs that are performing well to enable them access commercial finance from the wider capital markets.
- The MFIs industry should lobby for a regulatory instrument that will enable it to use savings collected for prudential on lending, as well as for more user-friendly

operational provisions⁴. A national credit bureau, similar in nature to the one serving formal financial institutions- Financial Clearing Bureau (FCB), should be formed. The same can be done for other relevant shared databases to facilitate ease vetting of clients.

- Catastrophes such as the HIV/AIDS pandemic, recurrent droughts and recently floods have had adverse impact on marginal societies. The findings indicate that the target SMEs and the poor in Zimbabwe were not spared. It is imperative that disaster preparedness, response and management be incorporated into micro enterprise development and capacity building programmes. In addition, MFIs should consider introducing affordable and tailor-made insurance products to cushion both themselves and their clients.
- MFIs need to be innovative and experimental drawing appropriate lessons from both the mistakes of the past and the success of the present and create new financial services, develop simple management structures and accounting systems that reduce costs substantially without imposing excessively high costs on clients.

⁴ To minimize duplicative registration procedures, remove interest rate caps, and do away with the annual renewal system.

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APPENDIX I: List of Acronyms

AIDS	Acquired Immune Deficiency Syndrome
ESAP	Economic Structural Adjustment Program
FL	Financial Liberalization
ILO	International Labour Organization
GMB	Grain Marketing Board
LDC	Least Developed Countries
MFIs	Micro Finance Institutions
NGO	Non Governmental Organization
RBZ	Reserve Bank of Zimbabwe
SDF	Social Dimensions Fund
SME	Small and Medium Scale Enterprise
ZAMFI	Zimbabwe Association of Micro Finance Institutions

APPENDIX II: Questionnaire for MFIs

CONFIDENTIAL RESEARCH QUESTIONNAIRE FOR MFIs

A. Respondent Profile

- A.1 Name and Title of Respondent.....
 A.2 Name and Address of Organization
 A.3 When was your organisation /institution established
 A.4 Under what act/ acts are you registered and why?

B. Subject Matter

- B.1 What were the major reasons for your establishment?
 B.2 Where did you source funds to establish such an institution?.....
 B.3 What are your current sources of funds, in order of importance
 i)
 ii)
 iii)
 B.4 i) What major products were you offering in

a) 1980 –1990	b) 1991-2000
1.	
2.	

- ii) Are there any significant changes in your product ranges during a) and b) periods? Explain your answer.....
 B.5 i) Do you have any financial policies Yes No
 ii) Who formulated these policies
 iii) Briefly, what are the major highlights of these policies.....
 B.6 Who are your major customers.....
 B.7 i) What is your lending criteria?.....
 ii) What percentage of loan value must be backed by collateral, if any?.....
 B.8 Are clients happy with the conditions that exist for one to access credit? Explain your answer.....
 B.9 What are the most common purposes for and average sizes of loans that clients apply for?
 i)Average
 ii)Average
 iii)Average
 B.10 What is the institution policy on
 i) Delinquent clients.....
 ii) Follow up of clients
 iii) Repeat loans.....
 B.11 What is the institution's bad debt provision and loan write off policy
 B.12 How are interest rates set in your organization?
 B.13 What is your current annual rate of interest on loans?
 B.14 In your view, what factors have inhibited or enhanced the provision of credit to your clients

Inhibitors	Enhancing factors

- B.15 How best can you describe your relationship with the formal financial institutions, if any? Explain your answer.
- B.16 In your view, what should be done by the Government to facilitate MFIs' role in serving the SMEs and the Poor?
- B.17. Are you a member of any association or network organization?
 Yes, which one and since when
 No, and why?
- B.18 What benefits do you derive from such association or network?

C. Performance Indicators.

*Kindly provide copies of the following documents for the years your organization has been in operation:
 (1) Balance sheets (2)Income Statements (3) Portfolio Outreach reports/ Executive Summaries.
 Alternatively, please complete the following table*

	Raw Data	Source	Years			
1.	Operating Income	Income Statement				
2	Total Number Of Active Borrowers	POR				
3	Number Of Loans Disbursed	POR				
4	Total Amount Disbursed	POR				
5	Value Of Outstanding Loans	Balance Sheet				
6	Average Loan Outstanding	POR				
7	Loans In Arrears	POR				
8	Amount Written Off	Income Statement				
9	Average Portfolio Outstanding	POR				
10	Number Of Loan Officers	POR				
11	Salaries And Wages	Income Statement				
12	Balance Of Loans In Arrears	POR				
13	Loan Loss Reserve	Balance Sheet				
14	Operating Costs	Income Statement				
15	Financial Expenses	Income Statement				
16	Bad Debt Provision	I/ E Statement				
17	Number Of Female Borrowers	POR				
18	Value Of Loans To Women					

The information so extracted will be treated in confidence and the name of the organization will not be included in the publication of the findings. Contact details: Cell Numbers 091 360288 (Mrs. N Ndlovu) OR 091 363620 (Ms T Ngwenya)

APPENDIX III: Questionnaire for the SMEs and the Poor

CONFIDENTIAL RESEARCH QUESTIONNAIRE FOR THE SMEs AND THE POOR

A. Respondent Profile

- A.1 Name
- A.2 Sex: Male Female
- A.3 Marital Status Single Married Other
- A.4 Age: 15- 35 Years 36-50 years Over 50 years
- A.5 Level of Education: None Primary Secondary Other
- A. 6 Place of Residence: Rural Urban Other

B. Subject Matter- Pre And Post Economic Reforms Environment

B.1 What do you understand by:

- i) economic reforms
- ii) Economic Structural Adjustment Program

B.2 Complete the Table below

	1980 -1990	1991- 2000	Comments
1.What livelihood activities were you involved in?			
2. What was your average monthly net income?			
3. What were your major sources of finance?			

B 3 Were there any significant changes in your livelihood activities over the specified period? Please explain

C. SMEs and the Poor

- C.1 Are you running a business of any form? Yes No
- i) If no, what is your current source of income?
- ii) If yes, what is the ownership structure of the business?
- Sole proprietor Family / Household
- Other and specify.....
- C.2 What type of enterprise are you engaged in?
- agribusiness manufacturing
- commerce service sector
- Other, please specify.....
- C.3 a) When did you establish the enterprise?
- b) What were your major reasons for establishing it?
- c) How much was your start up capital?
- C.4 Where did you get the money to start the enterprise
- [] Personal savings
- [] family savings
- [] Borrowings
- [] Grants and donations
- Please explain your answer(s).....
- C.5 i) How many people does your enterprise employ?.....
- ii) What kinds of skills do they possess.....

C.6 What is the estimated current value of your business?

- ☐ up to \$10 000
☐ 10-50000
☐ 50 –100 000
☐ 100 001 and above

C.7 Who are your major customers (Please rank them)

- ☐ Govt. and quasi-govt.
☐ Local individuals
☐ Other local enterprises
☐ Other, please specify.....

C.8 On average , how much do you get from your enterprises per month?

D. Provision of Financial Services

D.1 I) Are you aware of the existence of financial services for enterprises such as yours?

Yes No

ii) If no, why.....

iii) If yes, have you accessed such services? Please explain you answer.....

iii)If yes, what type of financial institution have you dealt with and for what services?

Savings

Credit

Formal banks
Micro- finance institutions
Savings and Credit Clubs
Other, please specify

D.2 i) What conditions exist for one to access credit from the following

Source of credit	Conditions	Comments
Formal banks		
Micro finance institutions		
Other (specify one)		

ii) Are you satisfied with the conditions? Please explain

D.3 How often have you applied for such credit?

- ☐ Once ☐ Twice
☐ Thrice ☐ At least four times

D.4 What has been the purpose for and size of the loan or loans you have accessed

- ☐ Start Up capital ☐ Expansion
☐ Working capital ☐ Other , please specify

D.5 Do you normally get the loan amounts that you apply for? Give details

D.6 How much was your net profit per month

- i) Before accessing the credit?
ii) After accessing the credit?
iii) Explain in detail the differences between I) and ii) above

D.7 Besides savings and credit, indicate what other services you normally access from the following institutions.