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EVALUATION OF THE EFFECTIVENESS OF ZIMBABWEAN MICRO-FINANCE INSTITUTIONS IN PROMOTING ENTREPRENEURS IN BULAWAYO: POST DOLLARISATION

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Abstract

The Reserve Bank of Zimbabwe (RBZ) in 2004 promulgated micro-finance policy with the aim of promoting entrepreneurship activities in small and medium scale enterprises (SMEs) in Zimbabwe. The study investigated the effectiveness of Micro Finance Institutions (MFIs) in promoting entrepreneurs in Bulawayo in the period 2009 to 2012. A descriptive survey research design was adopted. The research revealed that only a few entrepreneurs had accessed loans from MFIs, due to high interest rates, ignorance of the existence of MFIs as well as lack of trust and confidence in the MFIs. It was concluded that MFIs in Bulawayo are less effective in promoting entrepreneurs. The researchers recommended that the RBZ and Zimbabwean Association of Micro Finance Institutions (ZAMFI) must ensure transparency and integrity in MFI operations to increase their outreach. In addition, ZAMFI and its members must enhance public awareness about MFIs operations through various promotional strategies.

***Key words**:* Micro-Finance Institutions, entrepreneurs, small and medium scale enterprises, Reserve Bank of Zimbabwe, ZAMFI

1. Introduction

Micro-finance institutions largely provide financial services to the lower income earners and informal sector. They provide services targeted at Micro, Small and Medium Enterprises (MSMEs). By providing credit to these sections of the market that other market players are not willing to participate in, MFIs play an important role in national economies. In developed countries such as the United States, MSMEs are widely recognised as key contributors to employment, innovation, productivity and economic growth. They account for over 57% of employment and over half of gross domestic product.

In Zimbabwe, Small and Medium Enterprises (SMEs) contribute 67% of Bulawayo’s revenue. Moreover with Zimbabwe having the highest literacy rate in Africa at 92% and poverty rate standing at 72% in 2011 (Human Development Indicators 2011,ZDHS 2010-2011 & Mid Term Plan) cited in the 2012 National budget. Most of these educated people fail to get employment in the formal sector and thus have employed themselves and other people as entrepreneurs by starting business ventures.

Essentially, microfinance is a way for low-income individuals and families to gain access to traditional economic assets such as lines of credit (sometimes known as “microcredit”) and loans, the sorts of tools that families and fledgling businesses would need in an economic setting. Though the principle of managing money on a small scale has existed for years, the industry of microfinance has only in the last several decades really expanded and provided access to financial services for millions of people who might not otherwise have it.

The study is a reflection of the current interest among both policy makers and practitioners in the employment creation, poverty alleviation and empowerment potential of entrepreneurs. It also examines the shift in thinking over the years among opinion makers in the major development and donor institutions in the world. It argues that microfinance institutions filled the gap in thinking between those arguing for less state intervention in the provision of credit for the poor through state and donor funded development institutions, and those arguing for the liberalization of the provision of credit through private money lenders.

To this end, the impact of MFIs in promoting entrepreneurs and how this affects the level of employment and the standards of living of people will be investigated. This will be done at the enterprise and individual levels. The study will also examine the nature and types of products and services offered by Zimbabwean Microfinance institutions.

1.1 Motivation

Zimbabwe has been characterised by very high unemployment levels exceeding 80% (US Department of State and Central Intelligent Agent world fact book: 2012 publication), the number of learned people on the streets is unbelievable. High unemployment levels have undoubtedly contributed to high levels of poverty and poor standards of living. During and after the economic meltdown most people ventured into the informal business sector. However most of these people who have informal businesses are lacking funding as a result of failing to access funds from banks and other financial institutions. This calls for the Micro-finance Institutions to effectively participate in promoting entrepreneurs by providing the financial needs that best suits the entrepreneurs.

1.2 Research Aims

The primary objective of the study was to investigate the effectiveness of Microfinance Institutions in promoting entrepreneurs in Bulawayo from 2009 to 2011. Moreover, the following secondary objectives were also pursed, to ascertain the nature and types of loans and other products offered by Zimbabwean Microfinance institutions, to assess the adherence of Zimbabwe Microfinance institutions to microfinance policy and to evaluate the contribution of Zimbabwean Microfinance institutions in employment creation.

2. Literature Review

The nature and types of loans and other services offered by Microfinance

According to (Okenyebuno, 2007), the concept of micro finance has for long been misconstrued as micro-credit (small value loans to poor entrepreneurs). This poor understanding has led to a restrictive focus by some micro finance institutions which have not allowed them to have a wider array of products and services. Morduch (1998), Woller, Dunnford and Woodworth (1999), Kalpana (2004) and Osthoft (2005) ashare the same view that micro-credit or small loans though used interchangeably with micro finance, is simply one of the many components that constitute the larger array of micro finance services. (Ledgerword, 1999; Igbinedion and Igbatayo, 2004; Okenyebuno, 2007), established micro- finance products and services consist of small loans, savings, insurance, business education and money transfers. It also involves the provision of working capital, informal/formal appraisal of borrowers and investments, collateral substitutes such as group guarantee or compulsory savings; access to repeated and large loans, streamlined loan disbursement, advice and monitoring procedures In the views of Kalpana (2004), micro finance services also encompass both financial and social intermediation including group formation, and training in financial literacy and management practices. Hulme and Mosley (1996) suggested that micro finance institutions should take cognizance of the varying needs of various sections of the poor in their design of financial services. In other words, in designing and implementing micro finance services, there is the need to note that credit has different implications for different segments of the poor and as such could create additional risk for the very poor. Sebstad and Cohen (2001) added that it is therefore expedient for micro-finance institutions to diversify their hitherto relatively homogeneous products and services in line with environmental peculiarities.

Furthermore, Brau and Woller (2004), Dunn (2002) Cohen (2002) and Woller (2002) advocate client-focused services for micro finance institution as a vital ingredient for effective service delivery and impact on the lives, assets and households of the economically active poor. Smith (2002), Edgcomb (2002) and Dumas (2001) agree on the need for MFIs/MFBs to have all inclusive micro finance products. They also were of the opinion that the micro finance institutions, which they surveyed, have experienced statistically significant improvement in their performance as a result of integration of non-financial services with financial services being rendered to clients. Okenyebuno (2007) noted that in recent time, micro finance delivery mechanisms (for services rendered in Nigeria, as in other parts of the world) include, but not limited to, a combination of group - lending, individual lending, dynamic incentives, regular repayment and collateral substitutes.

The national geographical coverage or outreach of Microfinance institutions

According to Woller (2002) outreach is the number of people reached by a given project. To scale up programmes to reach out a large number of clients with a small amount of resources has proved an elusive target of many micro credit schemes because of financial and other constraints. Also, Qorinilwan citing Rogaly (1998) notes that an emphasis on scale is not always having positive impact because to some extent this effort can be counter-productive to the aim of creating sustainable financial institutions for the poor. Qorinilwan citing Rogaly (1998), added that outreach can also be defined to cover the scale, geographical outreach, depth of outreach, quality and breadth of outreach. He further alluded that outreach can be roughly measured by the "volume of annual lending and savings activities (scope), and the population it serves (depth of market penetration)"

Meyer (2002) noted that outreach is a multidimensional concept, meaning that its measurement requires looking into different dimensions. Navajas et al. (2000), similarly, indicated that there are six aspects of measuring outreach namely; depth, worth of users, cost to users, breadth, length and scope. Where depth of outreach refers to "the value the society attaches to the net gain from the use of the micro-credit by the given borrower," Navajas et al. (2000:335). Worth of outreach to users refers to "how much a borrower is willing to pay for a loan," Navajas et al. (2000:335). Similarly cost of outreach to users refers to "cost of the loan to a borrower," Navajas et al. (2000:335). These costs to users might consist of prices like interest rates and other payments that they have to pay, which could be revenue to the lender and other loan related transaction costs like expenses on documents, transport, food, taxes, etc. Navajas et al. (2000:336). Finally, breadth of outreach is the number of users, length of outreach is the time frame in which a microfinance organisation produces loans," and "Scope of outreach is the number of type of financial contracts offered by a microfinance organisation," Navajas et al. (2000:336).

According to recent statistics of the MIX Market, a web-based microfinance information platform, 1091 microfinance institutions (MFIs) in 101 countries around the world reported that they have 47.2 million active borrowers with a gross loan portfolio of USD 17.8 billion in 2005. These figures increased significantly in the following few years where 1115 MFIs in 99 countries reported that they had 89.2 million active borrowers with a gross loan portfolio of USD

64.1 billion in 2009. The number of people so far reached by MFIs across the world and the increase in the gross loan portfolio in these institutions clearly indicate how large the microfinance industry is and how fast it is growing. In fact the global demand for microfinance services is considered to be much higher than what is currently served. Although MFIs are currently serving almost 100 million people, estimates for the actual demand ranges from around 1 billion to 2.5 billion people, implying that a very significant portion of the market still remains untapped.

The contribution of Microfinance institutions in employment creation

Various impact studies have reported successful outcomes of microfinance programmes in terms of creating job opportunities and improving the income of millions of poor and vulnerable people around the world. However, as unemployment has become a major concern in today's world after the severe global economic crisis, microfinance became a valuable alternative again particularly in targeting the needs of the most vulnerable people. While MFIs know the employment status of the direct client, they know much less, if anything, of the increases or reductions in family labour, contract labour, apprentices or non-family labour. According to an evaluation study on microfinance programs in Kenya supported through the Dutch co-financing Programme, Hospes (2002) concludes that the impact of the financial service provision by Kenya Women Finance Trust (KWFT) at the enterprise level is positive in many respects: Enterprise size and employment generation, both the quantitative and qualitative assessment show that the provision of loans by KWFT has helped women to keep them going even in the most difficult times, as well as contribute to providing continued employment to the women and their families, and to increase the number of employees in their business, either on temporary or permanent basis.

Moreover according to the Poverty Reduction Strategy Paper (PRSP) of 1999, a large number of Kenyans derive their livelihood from small and micro-enterprises. Therefore, development of this sector represents an important means of creating employment, promoting growth, and reducing poverty in the long term. However, in spite of the importance of this sector, experience shows that provision and delivery of credit and other financial services to the sector by formal credit institutions, such as microfinance institutions has been below expectation. This means that it is difficult for the poor to climb out of poverty due to lack of finance for their productive activities. Therefore, new, innovative and pro-poor modes of financing low income households and SMEs based on sound operating principles need to be developed.

Anywanu, (2004) observes that microfinance institutions aim to improve the socio-economic conditions of women, especially those in the rural areas through the provision of loan assistance, skills acquisition, reproductive health care service, adult literacy and girl child education. They also aim to build community capacities for wealth creation among enterprising poor people and to promote sustainable livelihood by strengthening rural responsive banking methodology as well as eradicate poverty through the provision of microfinance and skill acquisition development for income generation.

3. Methodology

A survey research design was used in this study. The survey strategy allowed the collection of a large amount of data from a sizeable population in a highly economical way. In addition, the survey strategy was perceived authoritative in general. The limitation to the survey strategy was the fact that data collected may not be as wide-ranging as those collected by other research strategies. There is a limit as to the number of questions that any questionnaire can contain if the goodwill of the respondent is not to be presumed on too much. To mitigate this weakness, not only questionnaires were used in the survey strategy but also personal interviews and observations. Data was collected from 15 Microfinance institutions and 30 entrepreneurs operating in Bulawayo**.** The entrepreneurs chosen included restaurants, canteens, Street vendors, kiosks, pharmacies, cell phone shops, photocopying and printing shops, stationery shops, computer shops, internet cafes, clothing shops, small supermarkets, entrepreneurs engaged in construction, driving schools, electrical gadgets shops, The key informants were senior managers and directors. Data from the survey was analysed using STATA version 11. Tabulations were used to show percentages and frequencies of respondents in each response category, with cross-tabulation tables showing percentages and frequencies between two given categories.

Due to the need to maintain confidentiality some MFIs officials were not at liberty to disclose some of the relevant information as required by the researcher. To mitigate the effects several respondents from the same institutions where interviewed to produce different views of the challenges they are facing so as to have a broader objective picture.

4. Research Findings

Micro Plan Finance offers business loans, civil servants loans, government pensioners' loans, fly now pay latter loans and order financing. The interest rate is 7% per month for all these loans. Micro King Finance offers consumer loans, agricultural loans and working capital finance. It charges an interest rate of 4% per month for its loans. Finmark Finance offers consumer loans, micro projects loans and order financing, all of which are short term loans carrying an interest rate of 3% per month. Apart from provision of loans it also provides financial education.

NISSI Global offers business loans which mainly target women under the scheme known as Women Paratz Funds (WPFs) though it encompass both women and men who are in business. It also offer salary based loans for low income earners and security based loans for consumption for those who neither have a business nor employed. All these loans carry an interest rate of 10% per month and they are payable in 3 months.

CBZ Microfinance provides working capital loans and asset finance loans which carries an interest rate of 15% per annum. Apart from loans it also provides personal and property insurance, medical aid as well as short and long term investments. Portify Investments offers bridging finance, order financing, working capital finance, pay day loans and personal loans, all of which carries an interest rate of 25% per month. Stratfin also provides soft loans carrying an interest rate of 25% per month.

Untu Capital provides micro housing loans, micro leasing loans, pay roll based loans and vehicle finance carrying an interest rate of 7.5% per month on a reducing balance basis. Wintron Financial Services offers salary based loans, order finance and bridging finance carrying an interest rate of 20% per month.

Stratfin Finance provides soft loans with a minimum amount of $50 carrying an interest rate of 25% per month. Zansi Microfinance provides company loans with a maximum amount of $3000 and individual loans with a maximum amount of $1000 and a minimum amount of $250 carrying an interest rate of 20% per month payable over 3 months. Stoneleigh Investments provides short term loans mainly for working capital and consumer loans carrying an interest rate of 25% to 30% per month. Apart from loans it also provides business development services such as training of SMEs in business and financial management.

The national geographical coverage or outreach of ZMFIs

From the research only 4 MFIs were found to have only one branch which is the Bulawayo branch and these include Stratfin Finance, Postate Investments, Stoneleigh Investments and Zansi Microfinance. CBZ Microfinance has got 56 branches countrywide and Micro King Finance has 8 branches countrywide. Micro Plan Finance has 7 branches countrywide located in Bulawayo, Harare, Gweru, Masvingo, Zvishavane, Kwekwe and Gwanda. NISSI Global has got 6 branches countrywide located in Gweru, Kwekwe, Kadoma, Gwanda and 2 branches located in Bulawayo. Untu Capital has got 5 branches countrywide located in Bulawayo, Harare, Gweru, Chitungwiza and Gokwe.

Wintron Financial Services has got 3 branches located in Bulawayo, Plumtree and Hwange. Finmark Finance has got 2 branches located in Harare and Bulawayo. Finally Portify Investments has got 2 branches located in Bulawayo and Gwanda.

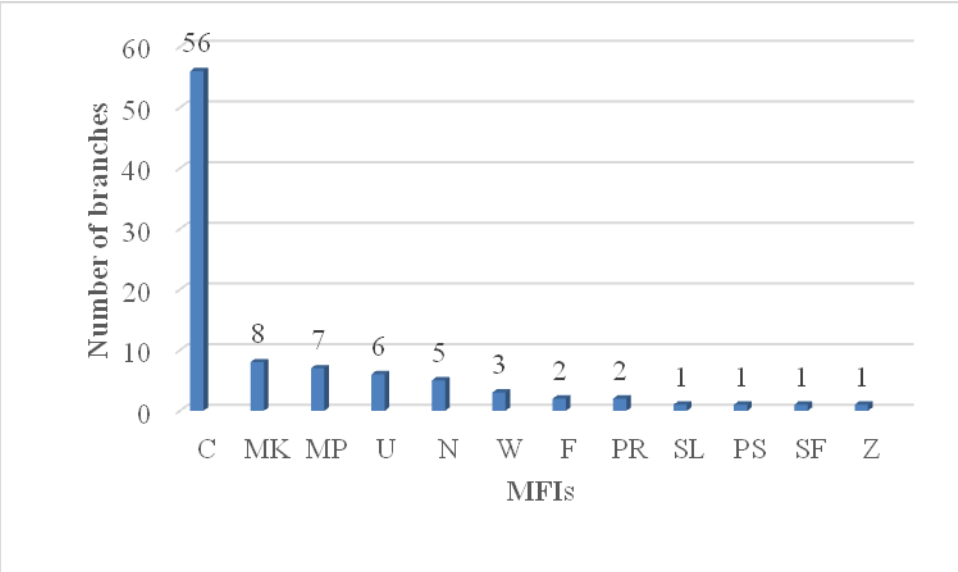

Figure 1: Outreach of MFIs in terms of number of branches: Source: Authors' Findings

The researcher was much concerned with the geographical dispersion or spread or coverage of microfinance institutions in as far outreach is concerned. From the research it was discovered that 87% of the microfinance institutions which were under investigation only have branches in the urban areas and just 13% have some branches in the rural areas.

Zimbabwean microfinance institutions have been poor in terms of outreach as compared to MFIs in other countries as a result of under capitalisation and shrunk portfolios. Only a few MFIs are found in the rural areas due to low population density in the rural areas and other challenges of rural financial inclusion.

The research revealed that Zimbabwean micro-finance institutions are contributing to employment creation through employing people in their businesses. Employment creation as a result of entrepreneur promotion is very low. This is evidenced by the distribution of the number of entrepreneurs who access loans from the MFIs versus those who have never accessed any loan from them. Out of 30 entrepreneurs in Bulawayo only 2 entrepreneurs were found to have accessed loans from MFIs and the information is presented below:

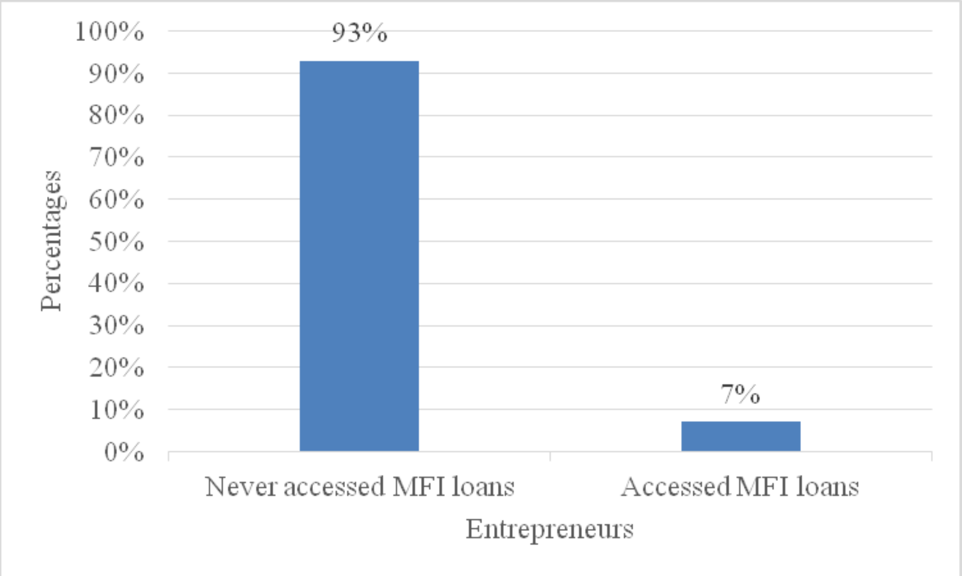

Figure 2*: *Entrepreneur access to MFI loans*: *Source: Authors' Findings

Some of the reasons for entrepreneur failure to access loans from MFIs as given by the respondents included the exorbitant interest rates that are charged on the MFI loans which makes their funds too expensive and entrepreneurs cannot increase their prices to cover the high cost of funds so as to remain profitable and competitive. The cost of funds tend to be too much and exert a burden to entrepreneurs to the extent that they will find themselves sinking in debts as they would borrow from other MFIs in order to pay the other MFIs. Some respondents who have tried to access loans from MFIs could not get the loans because sometimes the MFIs run out of funds which will make them fail to meet the financial needs of the entrepreneurs.

Some respondents said that they are not even willing to deal with the MFIs because they are untrustworthy and they can close any time. Some entrepreneurs are not even aware of the existence of MFIs, they do not even know what they are and what are they responsible for. This is a sign of lack of public awareness, under such circumstances some entrepreneurs fail to access funds because they are ignorant of MFIs and their function.

ZMFIs' contribution towards employment creation have been very poor as compared to MFIs in other countries due to the liquidity challenges that the economy is currently facing as well as very low economic growth that Zimbabwe is experiencing.

5. Recommendations

The interest rates charged on MFI loans should not be exorbitant to enable viable repayment of both interest and principal. Transparency should also be ensured in the operations of the ZMFIs as well as clarification and standardisation of interest rates so as to ensure that no MFIs are taking advantage of innocent citizens by actually making a lot of money out of them in the form of exorbitant interest rates.

From the research it shows that a number of people are not even aware of the MFIs and their operations and even those who are aware of them do not even trust them. The researcher therefore recommend ZAMFI and its members to massively invest in promotional strategies to increase public awareness and to instil confidence and trust in the minds of the public, as well as to educate the public about the MFIs and their operations.

Most of the entrepreneurs who access loans from the MFIs find themselves sinking in debt. To overcome this problem ZMFIs are recommended to train their clients so as to enhance their capacity in successfully setting up, managing and growing their businesses and to increase their entrepreneurial competence as well as to encourage them to be accountable, to plan, record and design their businesses.

ZMFIs are also recommended to be involved in the appraisal of borrowers and their investments as well as advising them on issues pertaining to their businesses. Investing in monitoring the performance of their clients can also be a significant basis for building repayment capacity as well as development capacity.

Finally ZMFIs' recommended approach to business must be to foster economic growth and development by increasing productivity and employment opportunities.

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