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**Impact of Rural *Microfinance* on Rural Poverty in
Zimbabwe: The Case of Mutasa District – 2010 to 2012.**

BY

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Dedication

This dissertation is dedicated to my family.

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Abstract

Microfinance has become a very important economic empowerment tool for reducing poverty across the globe. The assumption is that by improving access to credit, poor households will be able to set up micro enterprises that will generate income that is aimed at reducing poverty both at household and community levels. Literature has shown that informal microfinance models have become very popular with the rural population mainly due to their accessibility, affordability and community involvement. The major objective of this study was therefore to examine the role played by two microfinance models; ISAL and ROSCAs in reducing poverty. The study used Wards 4 and 30 of Mutasa District, Manicaland Province as a case study. ISAL and ROSCA participants and other key informants provided rich pooled data that informed the study findings. The researcher's utilisation of the mixed methods approach provided strengths that offset the weaknesses of both qualitative and quantitative research. The study findings revealed that these two informal microfinance models have a significant positive impact on household poverty. Evidence of improved household income has been shown through increased access to health and education, quality food, accumulation of household and productive assets and livestock by participating households. The study has recommended a holistic and coordinated approach by policy makers and all relevant development practitioners that will create an enabling environment for informal microfinance to register more positive impact both at household and community levels.

List of acronyms

AIDS	Acquired Immune Deficiency Syndrome
ASAP	A Self-Help Assistance Program
CRS	Catholic Relief Services
ESAP	Economic Structural Adjustment Programme
FGD	Focus Group Discussion
GNU	Government of National Unity
HIV	Human Immunodeficiency Virus
IGAs	Income Generating Activities
ISAL	Internal Savings and Lending
KII	Key Informant Interviews
MDGs	Millennium Development Goals
MFI	Microfinance Institutions
NGO	Nongovernmental Organisation
PPPR	Purchasing Power Parity Rate
ROSCAs	Rotating Savings and Credit Associations
SAPs	Structural Adjustment Programme
CSOs	Civil Society Organisations
SHDF	Self Help Development Foundation
SMEs	Small and Medium Scale Enterprises

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CHAPTER 1

1.1 Introduction

Mutasa District is one of the 7 districts that make up Manicaland Province. The population of the district stood at 169 756 people in 2012 (Zimbabwe National Statistics Agency 2012). The district shares a boarder with Mozambique on the eastern side. The district is inhabited by peasant farmers who practice crop and fruit production (especially bananas), animal husbandry and basketry. The villagers practice semi-commercial agriculture with many having tree plantations in their yards. Matanuska Pvt Ltd (a company specializing in the growing and selling of bananas) has engaged the community in a banana out grower programme. The above four are the major sources of income for the district's inhabitants. However, despite this wide income base the community has remained largely poor, with 5% of households being food insecure (ZIMVAC, 2012). This has forced the local community to engage in off farm income generating activities mainly in the form of cross boarder trading with nearby Mozambique then buying and selling of consumer goods and fruits in Mutare and Harare. Due to high levels of poverty, the community has over the years relied heavily on external financial support from Civil Society Organisations (CSOs) and government to support livelihood projects. As external financial support dwindled over the years due to the unfavourable macro economic situation in Zimbabwe, the community has had to devise coping mechanisms in the form of harnessing local resources to finance income generating activities. This has taken the form of Rotating Savings and Credit Associations (ROSCA) and Internal Savings and Lending (ISAL). These are informal microfinance models where members come together to form revolving saving and credit association. This is a recent

phenomenon that is being promoted by the government and CSOs not only in Mutasa district but throughout Zimbabwe.

1.11 Statement of the Problem

Perennial poverty has been one of the most persisting challenges faced by rural populations in sub-Saharan Africa in general and Zimbabwe in particular. In an effort to reduce poverty by increasing agricultural production the 1960s and 70s saw the popularisation of subsidised agricultural credit. During that time agricultural credit became an input just like any other conventional inputs like seeds, fertilizers and pesticides among other inputs. Government provided the credit and the market at subsidised prices, while the farmer became the target group (Seibel, 2007). Seibel (2007) further asserts that even though the practice brought about the green revolution, the system soon lost ground because farmers could neither pay back the loans secured from banks nor receive subsidies from the government. Zimbabwe went through such an experience.

Meanwhile, Zimbabwe's population continued to grow, increasing the numbers of the rural population that could not subsist on agriculture alone. According to IFAD annual population growth rate for Zimbabwe was 0.8% by 2010. Out of the total Zimbabwe population 61.7% dwell in rural areas and of these 31% of them are classified as poor (World Bank). According to Mpofu, (2011) Save the Children estimated that 10 out of 13 million Zimbabweans, (i.e. 75 percent of the population), were living in 'desperate poverty'. UNICEF, (2010) also noted that 78 percent of Zimbabweans were "absolutely poor" and 55 percent of the population, (about 6.6 million) lived under the food poverty line (Mpofu 2011). 70 % of Zimbabwe's population livelihood system is agro based and as such relies on rain fed agriculture. This makes the livelihoods of the rural population uncertain since it is vulnerable to climatic changes and unpredictability (Ndlovu 2011). According to ZIMVAC (2009) Mutasa district

has suffered at least seven droughts in the decade prior to 2009. This situation has had a negative impact on agricultural productivity resulting in food insecurity and stress (ZIMVAC 2009). To survive this situation, the people have devised a variety of coping mechanisms that are on farm, off farm, and non - farm thus leading to an over diversification of rural economy. However, access to finance has remained a limiting factor. The 1990s saw an increase in activities of microfinance institutions engaged in provision of credit to the rural poor. From the year 2000 onwards, Nongovernmental Organisation (NGO) sources and subsidised microcredit began to dwindle due to unfavourable macro economic and political environment. The rural population had to rely more and more on informal locally mobilized microfinance sources like Rotating Saving Credit Associations (ROSCAs), ISAL, borrowing from relatives, *Chimbadzo* and burial societies.

The challenge that has persisted over the years is that despite all efforts that have been made or are currently being made to eliminate poverty in rural areas through government, CSOs and private institutions rural poverty still remains a major developmental challenge in Zimbabwe. Hence this study that seeks to interrogate the effectiveness and appropriateness of the microfinance approach as a poverty reduction tool.

1.3 Objectives of the Study

The study seeks to:

- i. Establish the relevancy of ISAL and ROSCA informal microfinance models in poverty reduction in Mutasa.
- ii. Investigate whether the participation in ISAL and ROSCA microfinance programs has significantly reduced household vulnerability to poverty.
- iii. Establish the benefits derived by members from participating in ISAL and ROSCA microfinance programmes.

- iv. Identify challenges faced in administering microfinance in rural communities.

1.4 Delimitation of the Study

The researcher chose wards 4 and 30 of Mutasa district because of their accessibility. The researcher once worked as an Economic Empowerment Programme Adviser in Mutasa District and is passionate about the empowerment of marginalised groups especially women. In addition, two development organisations are already supporting community led microfinance initiatives in the two wards. The area is also renowned for the production of bananas, baskets and yams that can be marketed outside the ward. The two wards also share their eastern boarder with Mozambique which makes the area idle for cross boarder trading. The area is mountainous and overpopulated which reduces the size of arable land thus creating the need for other livelihood sources.

1.5 Justification of the study

The research's interrogation of the ISAL and ROSCA microfinance approaches and their appropriateness as a tool to fight against poverty in Mutasa North is of vital importance in policy formulation targeted at developing the rural communities who are otherwise excluded from the conventional microfinance system due to lack of collateral security, illiteracy and inaccessibility among other reasons. The study also fills the knowledge gap on how local communities can through their own initiatives take charge of their own development through harnessing their own financial resources.

Currently, there is a relatively scanty research on the activities of the informal financial institutions in most developing countries including Zimbabwe, especially as it relates to poverty reduction. This study fills this gap by providing first hand data and analysis on the role of Rotating Saving Credit Associations (ROSCAs) and ISALS thereby informing future

poverty reduction initiatives. This becomes more urgent given the fact that 78% of Zimbabwe population is according to UNICEF, (2010) “absolutely poor”. The findings of this study will not only add to the literature on rural finance but also provide relevant information on sustainable development that can be used not only for Mutasa but throughout the country. As already alluded to, the study outcome will therefore be of vital importance to all policy makers and rural development practitioners whose aim is to create sustainable livelihood initiatives in the rural community.

1.6 Significance of the Study

The study is going to provide some insights on approaches to rural development for nongovernmental organisations or related institutions involved in economic empowerment of rural communities. This will also assist them to review the effectiveness of ongoing programmes and future ones. The study is also expected to benefit policy makers in the government line ministries towards designing participatory rural development policies and programmes.

1.7 Theoretical framework

There are many theories that guide the concept of microfinance. However this study is guided by the empowerment theory. Kabeer (2001) defines empowerment as "the expansion in people's ability to make strategic life choices in a context where this ability was previously denied to them." The assumption is that empowerment gives the poor the ability to make strategic decisions that can enable them to escape poverty. By virtue of their participation in ISAL and ROSCA microfinance activities the poor can improve their access and control of economic resources thus enabling them to make decisions that can positively change their individual lives, their household fortunes and the community at large. The ultimate goal of economic empowerment in this case becomes poverty reduction.

The theory of empowerment originated from the Alternative Development school of thought and was first adopted by feminists in the 1970's to encompass women's empowerment (Assaad 2001). Friedmann (1992) arguing in support of the Alternative Development school of thought asserts that poverty is multi dimensional and as such should be regarded not only in material terms, but as social, political and psychological incapacity. He therefore advocates for an alternative development committed to empowering the poor in their own communities, through political, social and economic participation in their localities and on a wider scale. Unlike centralized development policies that are top down, Alternative Development advocates for a bottom up approach that ensures participation of the affected in decisions that affect their lives. This helps in ensuring sustainability of development programmes as people are motivated to take charge of their own development. Microfinance achieves this through economic empowerment of the poor. By organising themselves into ISAL and ROSCA groups and self managing them the poor are taking part in their own development. Through harnessing their own resources the poor are empowered to make strategic economic decisions that affect their lives and ultimately lead to reduction in poverty.

The empowerment theory comes in two clusters which are the "Ripple" Approach and the "Comprehensive" Approach. The "ripple" approach has a single focus or entry point, with "spin-off" effects on other dimensions of empowerment. According to Assaad (2001) empowerment has various dimensions which include the: "economic, social, cultural, educational, legal, political and personal". The "comprehensive" approach supports the use multidimensional approach to empowerment. This entails making use of various empowerment models simultaneously to produce positive development results.

As the name implies the “Ripple Approach” begins with an economic entry that is hoped to have a ripple effect on all other forms of empowerment in a processual manner. This approach therefore sees microfinance economic empowerment initiatives as having multiple effects at many levels namely, “the household, community, markets and governments and in all spheres of life: social, economic and political” (Carr et al. 1996:208). They further argue that “any intervention on women’s empowerment should recognize, promote and build upon the centrality and power of economic resources, which could then have an effect on the overall empowerment process” (Carr et al 1996:210).

From their study of the Grameen Bank and Bangladesh Rural Advancement Committee (BRAC), (Hashemi and Riley 1996) concluded that the ripple approach was successful in empowering women economically. They argue that the availability of credit strengthened the women’s economic roles thereby enabling the women to contribute to their family’s financial needs. This in turn led to the reduction of poverty in the household and the community at large. Hunt and Kasynathan (2001:48) posit that access to credit increases women’s self worth and self respect since they are economically empowered to contribute to household finances. They further argue that that increased social interaction at group level increases women’s awareness of their rights. With increased capacity building support from development organisations and support from group members women are able to negotiate significant increases in power and decision making within their households and within the community thus leading to reduction in poverty.

The second approach to empowerment is the comprehensive approach. This approach goes beyond access to economic resources. Instead the approach advocates for both access and control because as Kabeer, (2001) argues, it’s possible to gain access to resources but not

have control over them. Thus, as Kabeer (2001:30) argues, “access indicators are not sufficient, but should be supplemented by indicators of “control” over resources and its effect on decision-making abilities, in order to become an indicative measure of empowerment”. Thus indicators of empowerment should be able to measure in addition to access, the control that the poor have on decisions that affect their destiny.

This study is going to be premised on both the ripple and comprehensive approaches to empowerment. Basing on the empowerment theory the study tries to establish if participation in ISAL and ROSCA microfinance activities will empower the poor to carry out economic activities that can generate income that can have a significant impact on poverty.

1.8 Limitations of the study

The researcher encountered the following limitations:

- (i) Inaccessibility of some areas where some of the members’ households were located due to terrain and bad road networks. This denied the researcher an opportunity to have eye witness confirmation of some of the accrued benefits.
- (ii) High transport costs limited the number of trips which the researcher could have mounted to collect more data to enrich the study.

1.9 Conceptual analysis

- (i) Microfinance

The word comprises of two words – micro and finance, which literally translated mean small credit. In reality though, the concept of microfinance goes beyond the provision of small credit to the poor. Christen, (1997) define microfinance as “the means of providing a variety

of financial services to the poor based on market driven and commercial approaches”.

Mayoux and Hartl, (2009:8) define rural microfinance as, “the means of providing a variety of financial services to the poor and low income households and individuals in rural areas”.

The above definitions encompasses provision of other financial services like savings, money transfers, payments, remittances’ and insurance among others. However for the purposes of this study, microfinance will be taken to mean microcredit. This means providing the rural poor with small credit with the hope of improving productivity and thereby leading to increase in household incomes.

(ii) Poverty

Poverty is generally defined as the inability to attain a certain predetermined minimum level of consumption at which basic needs of a society or a country are assumed to be satisfied.

This can be measured by the level of access to basic goods and services like food, shelter, health care and education.

1.10 Summary

This chapter covered various issues that form the basis of this study. The chapter covered the study objectives, delimitation, justification and significance of the study. The theory that also guided the study was also expounded. The problem that the study needed to address was also covered.

Chapter 2

Literature Review

2.1 Introduction

This chapter presents relevant literature, and concepts on poverty, formal and informal microfinance institutions, which form the basis for discussing and analyzing the activities and impact of internal savings and lending groups (ISAL) and Rotating Savings and Credit Association (ROSCA) in relation to Poverty Reduction. The literature is sub divided as follows: review of the concept of poverty and strategies of how to reduce poverty, history of microfinance, analysis of the operations and impact of informal micro finance institutions using the case of ISAL groups and ROSCA and their role in poverty reduction and also a review of the operations and impact of formal microfinance institutions in poverty reduction. This review provides a solid background for this research. The researcher has consulted government pamphlets, journals, articles, books and sources from the internet in an effort to situate this study within the existing literature.

2.2 Poverty

Before reviewing the concept of micro finance it is important to understand the concept of poverty, causes, measurement and strategies for combating poverty. The approach affords drawing links on how microfinance can play a part in reducing poverty, bearing in mind that due to the dynamism of poverty some of the poor are not poor all the time (Yaqub, 2000). Furthermore poverty has become a topical issue since the first target of the Millennium Development Goals is to decrease the extent of extreme poverty by one-half by the year 2015.

According to Mpofu, (2011) the challenge with studying poverty is that it has many dimensions and people have their own differing perceptions and changing notions of it. In addition, the poor are not a homogeneous but are a diverse group. According to Illife, (1987) it is this diversity that makes it even harder to study the poor. According to IFAD (www.ruralpovertyportal.org) “the largest segment of the world's poor are the 800 million poor women, children and men who live in rural environments. These are the subsistence farmers and herders, the fishers and migrant workers, the artisans and indigenous peoples whose daily struggles seldom capture world attention.” This means that poverty is mostly a rural phenomena and empowering rural people is an important initial step to reduce or completely eliminate poverty. Besides being rural phenomenon poverty is also a universal phenomenon. The following are some poverty statistics as presented by IFAD (www.ruralpovertyportal.org) that help to expose the gravity of poverty.

2.2.1 Poverty, hunger and malnutrition statistics

- More than one billion people in the world live on less than US\$1 a day
- 2.7 billion struggle to survive on less than US\$2 per day
- More than 800 million people go to bed hungry every day, including 300 million children
- Every 3.6 seconds a person dies of starvation, and most of those who die are children under age of 5
- Every year 6 million children die from malnutrition before their fifth birthday
- More than 40 per cent of Africans do not have the ability to obtain sufficient food on a daily basis
- For African farmers, conventional fertilizers cost two to six times more than the world market price. (IFAD www.ruralpovertyportal.org)

Several scholars support that poverty is mostly a rural phenomena. Dercon, (2009) is of the view that poverty remains a predominantly rural problem with a majority of the world's poor located in rural areas. It is estimated that 76 percent of the developing world's poor live in rural areas, well above the overall population share living in rural areas, which is only 58 percent (Ravallion et al 2007). Janvry et al, (2002) also defines rural poverty as poverty found in rural areas. IFAD also views poverty in Africa as predominantly rural and that more than 70% of the continents poor live in rural areas and depend on agriculture for food and livelihood. This scenario comes at a time agriculture assistance is dwindling. 218 million people in sub-Saharan Africa live in extreme poverty and the incidence of poverty is increasing at a faster rate than the population (IFAD www.ruralpovertyportal.org). Idriss (1992) and Keijiro, (2009) also posit that eradicating rural poverty through effective policies and economic growth remains a challenge for the international community.

Several reasons for the high incidence of poverty in Africa have been put forward by different scholars. Some considered poverty as a colonial legacy which has been worsened by poor policies and institutional structures e.g. SAPs, poor production resulting in low incomes, HIV /AIDs and lack of access to markets among other issues. In addition government policies and investments in poverty reduction tend to favour the urban poor over the rural areas. Muzaale, (1987) observes that despite the diverse national and international measures undertaken to eradicate poverty in Africa poverty levels continues to increase both in incidence and magnitude. Muzaale, (1987:75) attributes the failure of these measures “to a multiplicity of causes, of which the following are the most frequently mentioned and emphasised: inadequate conceptualisations of development and poverty; a failure to identify and to emphasise the true underlying causes of the problem; wrong programmatic prescriptions; a lack of organisational requirements for programme implementation, and various combinations of these shortcomings.”

It is important to note that poverty is a complex problem because there are many human needs in society which may be partially met or remain unresolved altogether. Maslow in his hierarchy of needs model identified a hierarchy of five basic needs that need to be satisfied. This study seeks to find out whether microfinance is an effective prescription for the multiplicity of human needs or its effect has been exaggerated.

2.2.2 Dimensions of poverty

Due to its diverse nature there are several definitions from different organizations and scholars that try to explain what poverty is. According to Alcock, (2006), there is no one correct, scientific, agreed definition of poverty because poverty according to him is a political concept, and as a result becomes contested issue. Hartwell (1972) also argue that there is no universally acceptable or unambiguous definition of poverty and that the first three categories of scholars who tried to define poverty (historians, economists and sociologists) failed to come up with a common view. In general literature has revealed that poverty is mainly viewed as an indicator of lack of access to resources and income opportunities. Phillip and Rayhan (2004:1) are also of the view that poverty has many dimensions and manifestations which point to the “reduced or complete lack of access to material, economic, social, political or cultural resources needed to satisfy basic needs”. Muzaale, (1987) also supports that “poverty is a multi -dimensional concept that denotes a universally undesirable human condition. It describes varying kinds and degrees of human deprivation in society”. He described poverty as more than just a physiological phenomenon denoting a lack of basic necessities like food, health, shelter and clothing, but also a state of deprivation and powerlessness, where the poor are exploited and denied participation in decision making in matters that intimately affect them.

United Nations, (1998) offers a more comprehensive definition of poverty.

“Fundamentally poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and cloth a family, not having a school or clinic to go to; not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation”

World Bank (2000) also defines poverty as pronounced deprivation in wellbeing.

The above definitions point to the fact that poverty is a multidimensional phenomenon and as such can manifest itself in different forms and is measured in a multitude of ways. This study will therefore seek to find out if indeed microfinance can wholly eradicate poverty or can only treat some of its aspects.

2.2.3 Absolute or relative poverty

Poverty can be viewed as relative or absolute. Schubert (1994) saw poverty as either absolute or relative or both. Absolute poverty denotes a universal phenomenon that can be found in all societies all the time, such as, the level of income necessary that is needed to finance the basic requirements of human life. On the other hand relative poverty relates the living standards of the poor to the standards that prevail elsewhere in the society in which they live.

According to the Copenhagen Declaration of 1995

“Absolute poverty is a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services.” Thus absolute poverty can be regarded as consistent over time across the globe.

Muzaale, (1987) also posits that absolute poverty is severe human deprivation. He explains that “people in absolute poverty suffer from chronic malnutrition and are chronically sick; they live in squalor; they are poorly clothed; they lack access to health care and educational facilities; they live short lives and many of them die in infancy and childhood” Muzaale, (1987:78). Rural poverty in Africa is largely covered by this definition. Phillip and Rayhan,(2004) also refers to absolute poverty as living below what society terms acceptable conditions for human existence. According to him this can be measured by nutritional intake of 2 500 calories person/day, or Human Development Index or USD poverty line. Presently the World Bank now defines extreme poverty as occurring when an individual is subsisting on less than US\$1,25PPP (Purchasing Power Parity Rate) per day (Ravallion et al 2008). The purchasing power parity rate is the equivalent amount in local currency that is needed to buy the same commodities that one US dollar can purchase in United States (Mukul 2007).

However the poverty line threshold of \$1.25 per day as set by World Bank has been viewed as controversial by several scholars due to a number of reasons. Ravallion et al (2008) believe that even though a person or family is living on subsistence resources (e.g. subsistence farming) and may have low cash income this does not correspond to a low standard of living. The reason is that they won’t be living on cash income but will be using it as a supplementary. Furthermore each nation has its own threshold for absolute poverty line thus making a universal poverty line irrelevant. For example the United States, absolute poverty line in 2010

was \$15.15 (US Census Bureau), India \$1.00 per day in 2010 (World Bank 2010), China \$0.55 per day (Government of China 2011). All these absolute poverty lines were on PPP basis. These different poverty lines across countries make it difficult to make qualitative comparisons across countries. Some scholars say the poverty line misleads because it measures everyone under the line in the same manner when in reality they are different. Sen, (1976) and World Bank, (2010) agree that the magnitude of poverty varies across the world, regions and countries, thus rendering \$ 1.25 poverty line and head counts inadequate measures of poverty. Yusuf et al, (2009) also argue that the use of poverty line has lost its relevancy “since the method of calculation was not adaptable to the new economic trends resulting from high rate of inflation and the prevailing high increase in interest rate and exchange rate devaluation” (Yusuf et al, 2009:73). These scholars instead advocate for consumption expenditure at household level. Studies by UNDP (1998) advocate the use of Human Development Index (HDI) which combines three components in the measurement of poverty. These are life expectancy at birth which relates to survival, levels of education and improved standard of living determined by per capita income.

Whilst the rest of the world has registered a decrease in the proportion of population living in extreme poverty in Sub Saharan Africa extreme poverty went up from 41% in 1981 to 46% in 2001 and 47,5% in 2005 (WB 2007).

Scholars agree that relative poverty is a measure of income inequality, is socially defined and depends on social context (Schubert (1994); Phillip and Rayhan, 2004). Phillip and Rayhan, (2004), argues that relative poverty compares lowest segments of a population with upper segments usually measured as a percentage of population with income less than some fixed proportion of median income. For example the share in national wealth or income, possessed

by a given percentage of the poorest inhabitants of a country. These poverty statistics measure inequality rather than material deprivation or hardship.

Muzaale, (1987) asserts that relative poverty remains a challenge for every society and rural Africa is not an exception. However he goes on to say that the challenge becomes more pronounced in developed countries where the acceptable living standard is officially pegged and anyone who falls short is considered poor the state then intervenes with welfare assistance designed to raise the "poor" persons consumption to the national minimum. As such he explains relative poverty, as a "state of human suffering which results from the inability of a person or group of persons to meet the needs that other people in society have come to take for granted" (Muzaale, 1987:78). Relative poverty thus intensifies as the gap between the rich and the poor continues to widen.

2.2.4 Primary and secondary poverty

Brown, (1977) conceptualises poverty as falling into two categories, primary and secondary. He equates primary poverty to absolute poverty and on the other hand secondary poverty as a situation of deprivation which occurs even when the victim obtains income that is sufficient to purchase the basic necessities of life, but spends some of it on items which do not contribute directly to nutrition, health or good housing. As a result of this pattern of expenditure, this person and his family often suffer the conditions of absolute poverty. According to Brown, (1977), any income that is realised by the individual is spent on goods that are not essential for his survival and for the nutrition, health and education of the family, like buying a radio, or paying lobola for a second wife.

2.2.5 Political poverty

Muzaale, (1987) also has another conceptualisation of poverty which is political. This occurs when one is denied the chance to make decisions on matters that intimately affect one's welfare, for example fixing of the prices of one's produce and the establishment of the laws governing property rights. In other words this means that rural poverty is mainly a result of lack of participation of the rural poor in politics and decision making.

2.2.6 Physiological and social

According to Hazell and Haddad (2001) the concept of poverty can be divided into two types of deprivations – physiological and social. Physiological deprivation is poverty that occurs when one fails to meet the basic material and physiological needs. This is characterised by lack of access to income thus limiting an individual's access to food , education, health, shelter, water and sanitation services among other basic necessities. Social deprivation refers to lack of elements that contribute to a community's empowerment such as autonomy, time, information, dignity and self-esteem. Lack of empowerment is evidenced by the poor's lack of participation or exclusion from important decision-making processes that affect their well being, for example, decisions about public investment in the local community, management of common properties and priorities for agricultural research and extension. Thus, even when “resources are flowing into sectors dominated by the poor, they may not be able to take full advantage because of socio cultural impediments” (Phillip and Ray

The concept of poverty is also linked to equity and human rights in relation to health. Due to poverty the poor cannot claim their basic right to health. According to Phillip and Rayhan (2004:8), “achieving equal opportunity for health entails not only buffering the health damaging effects of poverty and marginalization. It requires reducing disparities between populations in the underlying conditions such as education, living standards and

environmental exposure – necessary to be healthy”. Therefore in order to deal with health issues from a rights and equity perspective, responsible institutions should find ways to improve the conditions that create, exacerbate and perpetuate poverty and marginalization.

From the above one can deduce undesirable components of poverty that have been aptly summarised by Muzaale (1987:79) as the “inability of individuals and families to satisfy such basic physiological human needs such as nutrition, housing, clothing, drinking water, education and health care; unequal and inequitable distribution of incomes, consumption goods and productive assets between different social classes; Lack of opportunities for the poor to participate in, or influence, decisions that intimately affect their welfare.” This multidimensional nature of poverty therefore makes it necessary to use a multipronged approach of solving the problem.

2.2.7 Measurement of poverty

Mpofu (2011) asserts that poverty is dynamic and as such changes over time and between places, thus rendering it difficult to measure. Writing about the politics of measurement, Scott (1998) noted that there was no one best way of measuring poverty since poverty tended to differ according to the prevailing situation, geographic location and season. There was therefore need to consider the relevant local concerns that give rise to the poverty question.

However it is of vital importance to measure poverty because it enables development workers to know who is poor, how many people are poor and where they are located. Understanding the characteristics of poverty can also help policy makers think about the impact of economic growth policies and interventions. For example, with measures of poverty over time, policy makers can assess if poverty has increased or decreased, or whether general economic growth policies and interventions helped the poor. Poverty data can be used

to inform economy wide policy reforms and to deduce how changes in relative prices affect the poor.

Scholars do not seem to agree on the best way of measuring poverty. Foster (1984) advocates for the use of the head count poverty index given by the percentage of the population that live in the household with a consumption per capita less than the poverty line and the poverty gap index which reflects the depth of poverty by taking into account how far the average poor person's income is from the poverty line. On the other hand Levy, (1991) stresses the importance of using three methods of determining the poverty line which are the use of \$ 1, 25 PPP and the determination of nutritional intake per person per day which is set at 2 500 calories and the consideration of basic commodities that are vital for human survival e.g. food, housing, water, health care, education and levels of income.

2.2.8 Causes of poverty

According to Chinake (1997), people's views about poverty differ according to their backgrounds. Chinake (1997) posits that the way those affected by poverty conceptualise poverty, its causes and solutions differs with how the outsiders like policy makers, development practitioners, politicians and others, understand poverty. He therefore argues that in order to work effectively with the poor, the government, NGOs and other developmental stakeholders need to have a thorough understanding of the causes of poverty and bearing in mind how the poor themselves perceive poverty and what solutions they envisage. Dinito and Dye, in Chinake (1997) contended that the problem of defining and fighting poverty is more of a political and technical problem than a rational activity. Alcock, (1993) feels that politics and politicians are the major cause of poverty since they run the country and are therefore accountable for the problems within it. Illife, (1987) also argues

that the challenge with studying poverty is that it has many facets and people have their own varied and changing notions of it and this affects how they perceive how to treat poverty.

Meanwhile Muzaale (1987:79) points out that the general consensus is that third world rural poverty is on the increase. This he feels is taking place despite decades of rural development effort primarily because the development policies and strategies were based on poorly conceived causal factors. “The guiding models of these development efforts have tended to be single-factor explanations of a highly complex problem and have tended to ignore such important variables as the historical, social, national, and international contexts in which poverty and underdevelopment have thrived” Muzaale (1987:79). He therefore proposes an analysis of the causal factors of rural poverty in sub-Saharan Africa from pre colonial era up to post colonial era.

Muzaale (1987) further argues that pre-colonial economies were characterised by autonomous, self sufficient indigenous family economic units which operated independently from the pressures of the international economy and modern state economy. Although these pre-colonial economies were susceptible to natural disasters such as droughts and floods local level mutual social support systems did provide a reliable safety-net, except in cases where whole communities were similarly affected. Muzaale (1987) also claims that those pre colonial rural economies were superior to modern economies in as far as meeting nutritional needs and ownership was concerned. The colonial era was characterised by extraction of natural resources and labour for use in the manufacturing industries of the metropolis at the expense of developing nations. Thus started the underdevelopment of Africa as pointed out by Amin,(1972). Muzaale (1987) further claims that the post colonial indigenous governments have not done much to alter the situation. Export of primary commodities still

continues while lack of participation of the poor in development planning has exacerbated the poverty problem.

Besides the above historic factors there are some other predominant causes of poverty that also need to be taken into considerations when dealing with poverty. Phillip and Rayhan, (2004) are of the view that warfare/conflict causes a lot of material and human destruction. This poses a major development challenge. Dercon (2001) gives an example of the Iraq war from 1990-93 that caused GDP to fall from \$ 3 500 to \$761. Agriculture cycles and natural disasters are also one of the major causes of poverty. Most families who rely on subsistence farming experience a “hungry period” before harvest and are vulnerable to shocks caused by natural disasters such as droughts and floods (Phillip and Rayhan, 2004). The two also site corruption as another cause of under development and poverty since money meant for the entire nation is used by a few. Gender based perceptions and attitudes also result in socio-cultural inequalities and discrimination. This affects access to economic resources by certain population groups like women thus leading to poverty. According to Idriss et al, (1992), illiteracy and lack of access to increase ones technical skills is also a major cause of poverty as it inhibits social mobility. This means that poor people cannot migrate in search of employment. Thus illiteracy causes unemployment which in turn causes low income that ultimately causes malnutrition that has an adverse effect on health. Phillip et al (2004), supports this assertion when he argues that high levels of illiteracy hinder the poor from making use of improved production technologies and preventive health services.

Idriss et al, (1992) further asserts that lack of infrastructure also hinders development and mobility. This includes insufficient roads, irrigation infrastructure (e.g dams, pipes), poor communication and media outlets that hinder communication with established urban markets.

This failure to access markets also contributes to high incidence of poverty. They are also of the view that lack of access to markets and credit also hinder productivity thus resulting in low income. Muzaale (1987) also support the view that the rural poor have many production constraints which have not received attention from resource allocators especially the issue of credit.

Demographic factors also play a part in exacerbating poverty. According to (Muzaale 1987) the rural areas are characterized by the aged and the young children (who do not produce and need to be fed) and other unemployables. This he says results in a high dependency ratio that can retard development and contribute to continued rural poverty. High population growth is another important demographic factor that causes poverty. Mujwahuzi (1985) points out that there is a correlation between high population growth rate and savings and investment. He argues that if the population grows at a faster rate than what a country produces then there will be more expenditure than savings. He further asserts that population growth rate also has an impact on fixed family resources, like land. Over population in rural areas often leads to migration to urban centres where the migrants might become worse off due to lack of coping mechanisms (ibid).

In addition to the above factors there are also what Muzaale (1987) terms precipitating factors to the poverty problem. These are periodic shocks for the rural population such as drought, famines, floods, epidemics, animal and human diseases and civil strife. Because of these episodic shocks in the natural environment there is seasonal dimension to rural poverty

The above analysis of the causes of rural poverty serves to show that the causes are varied and interlocked thus necessitating a multipronged approach. Treating one causal factor may not be a viable solution to poverty reduction.

2.2.9 Suggested Solutions to eradication of poverty

Poverty is the most bewildering challenge in any developing country where as indicated above on average the majority of the population is considered poor. Despite the concerted effort of various governments and international bodies through a number of elaborate programmes and measures aimed at making poverty history, there is still a worrisome trend of poverty throughout the world. Meanwhile Zimbabwe has not been spared the scourge of poverty both in urban and rural areas. Since independence the government has undertaken some poverty reduction initiatives with the aim of reducing, if not totally eradicating poverty; especially using informal finance in order to enable people have access to funds that will improve their means of livelihood (Chikwanha-Dzenga 1999)

Different scholars put forward different suggested solutions. Most people believe that the solution to poverty is welfare relief. However Muzaale, (1987) argues that instead of focusing on relief, policy makers should make serious efforts to know who the poor are, how many they are, their location, their distinguishing characteristics and the underlying causes of their state, and what can be done to assist them and how the poor themselves can participate in alleviating their status. Land reform is considered as one of the solutions to poverty. Idriss et al, (1992), argue that improved access to land can alleviate poverty by providing households with more production land. Dercon, (2009) and Ravallion, (2007) in support of land reform base their argument on the China land redistribution case which is associated with reduction in rural poverty and increased agricultural growth.

Idriss et al, (1992), Janvry, et al (2002) posit that improving rural infrastructure, such as roads and irrigation systems, can reduce rural poverty by allowing rural dwellers to have greater communication with urban centers through improved transport links to the markets and social services thus combating social exclusion of the rural poor. Janvry, et al (2002) also adds that

improved road networks and irrigation facilities stimulate productivity and access to markets thus leading to increase in household income. Idriss et al, (1992), feels the same about irrigation equipment which if improved will result in greater agricultural productivity and ultimately an increase in food and income security.

Ahmed and Hossain, (1990) using the case of Bangladesh also argue that an improvement in agriculture infrastructure resulted in increase in agriculture production by 32% and also an improvement in roads and transportation networks resulted in a 33% increase in household income of the poor. Idriss et al, (1992), also assert that development of improved appropriate technology can also do the trick of poverty reduction. Janvry et al (2002) and Idriss et al, (1992), are also of the opinion that increased access to credit is an answer to poverty. These scholars argue that providing access to credit and financial services stimulates rural productivity as well as micro enterprise trading and manufacturing.

Chikwanha-Dzenga (1999:49) argues that “the most effective and efficient way to deal with poverty would be for the poor to pool their resources as a group or unofficial club, then use the pooled funds to start a home-based production processes like knitting jerseys or crocheting doilies. She argues that such clubs or societies have caused some individuals with the right business acumen to move to a higher social class even if the profits are not very high. She also points to the psychological aspect when she indicates that “It also frees them from a poverty of the mind syndrome that has apparently entrenched its roots amongst the rural folk who have come to accept poverty as a way of life” (ibid).

IFAD (2004) advocates for provision of basic financial services as a solution to rural poverty. According to IFAD (2004) more than a billion poor people lack access to the basic financial

services which are essential for them to manage their precarious lives. To them it's important for the poor to have access to credit, to save and to invest so as to provide their families with social safety nets. The poor have been hindered from accessing credits from formal financial institutions due to lack of collateral and also the fact that their loans are too small to attract the financial institutions. IFAD believes that in order to deal effectively with rural poverty microfinance institutions, the government, nongovernmental organisations and credit unions should avail low interest loans to the poor so as to improve their access. This will enable the poor who have the interest and the technical know how to get an opportunity to start microenterprises.

2.2.10 Poverty in Zimbabwe

The total population in Zimbabwe in 2011 was 12, 75 million (WB 2012). 70% of the population as of 2010 was rural (WB- www.web.worldbank.org). Literature has shown that Zimbabwe rural and urban poverty is on the increase in spite of the government's pledge to rural development. According to Chinake (1997) the high incidence of homelessness, unemployment, crime and other forms of antisocial behaviour is evidence of the high level of poverty in Zimbabwe. This state of affairs has been aggravated by the HIV/AIDS epidemic and the negative macro-economic. (Chinake, 1997). In January 2009 Save the Children estimated that 10 out of 13 million Zimbabweans, which equates to over 75% of the population were living in "desperate poverty" (Nsingo 2009). In April 2010 UNICEF noted in the Daily Newspaper that "78% of Zimbabweans were "absolutely poor" and 55 % of the population lived under the food poverty line" (Daily News, 2010). These high levels of poverty have led Nsingo (2009) to conclude that Zimbabwe had become "a factory of poverty". The Demographic Health Survey (2010/2011) reveals that "about 30 percent of

rural households do not have access to safe water and 69 percent of rural households do not have improved toilet facilities” (herald on line July 2012).

The economy of Zimbabwe is still struggling despite the dollarization of the economy and the drop in the hyperinflation figure of 231 million % in 2009 to 5.6% in 2011 (CIA 2012). The following are financial statistics for Zimbabwe as presented by the CIA (2012) world fact sheet <https://www.cia.gov/library/publications/the-world-factbook/geos/zi.html>

- Zimbabwe ranks 104th (IMF); 157th (CIA) 127th (WB).
- GDP \$5.916 billion (2011 est.)
- GDP growth 4.4% (2012 est.)
- GDP per capita \$500 (2011 est.)
- Population below poverty line is 80%
- Exports \$2.731 billion (2011 est.) whilst Imports are \$4.223 billion (2011 est.). This shows a deficit in the balance of payments
- Public debt Domestic: (est) USD \$1 Billion (Dec 2010), International: (est) USD \$7.6 billion (Dec 2010 IMF)

Chikwanha- Dzenga (1999: 41) posits that “the majority of Zimbabwe's population (70%) resides in harsh subsistence economic conditions in the communal rural areas where their main preoccupation is basic survival and their efforts are concentrated on producing food for consumption”. The University of Zimbabwe estimated in 2008 that between 2000 and 2007 agriculture production had decreased by 51%. This was attributed to the chaotic land reform programme (www.newfarm.org). The result has been that Zimbabwe which used to be a net exporter of food is now a net importer of food. As a result an estimated 1.3 million people were food insecure at the peak of the lean season in February and March 2011 (UN Zimbabwe,

2012). Malnutrition remains a serious problem in Zimbabwe as the proportion of underweight under-fives rose from 13% in 1999 to 15% in 2010. (<http://www.zw.one.un.org>)

Chikwanha- Dzenga (1999) further asserts that the major reasons for this poverty is that “development plans formulated and partly implemented in Zimbabwe did not pay attention to poverty alleviation in rural areas, the assumption being that the benefits of any national development strategy embarked on would trickle down to the poor in the periphery” (Dzenga 1999:43). Hart et al (2010) asserts that in the face of all this poverty the poor have designed coping mechanisms to beat the economic challenges by forming “associations for their own protection, betterment and recreation”. Mpofu, (2011:20) puts the blame on the central government which he feels “ has refused responsibility for the factors behind the poverty ravaging its citizens, shifting blame to the targeted travel and economic sanctions imposed by America and the European Union on high ranking ZANU PF officials who have been blamed for destroying the formal sector of the economy and undermining democracy in the country” Ngirande in Mpofu ,(2011:19) supports that the poverty problem in Zimbabwe is “ largely man-made, preventable and grossly unnecessary situation, the result of years of failed policies and the self-seeking actions of the ruling political elites whose corrupt and undemocratic tendencies have worsened the situation by heightening the levels of inequality to alarming levels.”

Pre and post independence economic policies have played a part in fuelling poverty in Zimbabwe. Robinson, (1995:27) argues that before independence “there were some legal formal restrictions which inhibited the growth of income-generating activities in the communal lands for groups and cooperative based enterprises. The system of racial exclusion practised by the previous government ensured that the majority of the country's population had little opportunity to participate in entrepreneurial activity” In the post independence

period Zimbabwe experienced tremendous poverty growth during the structural adjustment period i.e. the period 1991 to 1995. The structural adjustment programme further marginalised the population of Zimbabwe. This was as a result of the adverse effects of spiralling living costs, falling social services, expenditures, unemployment and reduced income levels (Government of Zimbabwe, 1994). According to Balleis, (1993) the major weakness of ESAP was that it required the state to roll back so as to allow market forces to dictate the economy, ignoring social planning and shifting the burden of the social costs to the poor for example payment of user fees in health and education systems. According to Kaseke (1993), the poor in Zimbabwe have ended up adopting coping mechanisms like prostitution, gold panning, selling firewood and vegetables on the streets in a bid to make ends meet .

Chikwanha- Dzenga (1999) is of the view that the misconceptualisation of poverty by the government of Zimbabwe has also played a significant role in the framing of inappropriate poverty reduction policies. According to GOZ 1996 poverty is "*...the inability to afford a defined basket of consumption items (food and non-food) which are necessary to sustain life.*" (Poverty Assessment Study Survey, 1996: iii) This definition according to Chikwanha- Dzenga (1999: 43) "restricts poverty to a quantitative concept as it does not stretch to capture the social and political issues of poverty. This narrow definition ultimately affects the policy prescriptions set forth to alleviate poverty in the rural areas".

In his diagnosis of the poverty situation in Zimbabwe, Collier (2008) indicated that Zimbabwe is afflicted by four development traps namely: the conflict trap; the natural resource trap, bad neighbourhood and land lockedness and bad governance (Collier 2008). Besides these four traps Banajee and Newman (1993) also points out that there are two

principal poverty traps that have bound many families in Zimbabwe in perpetual poverty. These are low start up capital and low savings traps. This means that the poor have got limited access to capital to start up income generating activities that can in turn generate income that can be used to provide economic safety nets.

2.2.11 Women and Poverty

Literature also shows that women in Zimbabwe are hard hit by poverty. Kachingwe (1986) posits that Zimbabwean women face a lot of economic, legal, cultural and social gender based discrimination. This impact negatively on their lives, especially in the area of decision making and participation in community development activities. Studies have revealed that not only are women the overwhelming majority of poor people but have also shown that women spend a greater proportion of their income than men on taking care of the household [Chant, (2003); Quisumbing, et al (2006)]. This is supported by Mayoux and Hartl, (2009) who asserts that once women realise additional income they are more likely to invest additional earnings in the health and nutritional status of the household and in children's schooling. The implication is that credit targeted towards women has greater positive impact on household welfare status.

Cheston, (2006) in Mayoux and Hartl (2009:6), is of the view that "women at all levels of society are an underserved and underdeveloped market". Mayoux and Hartl (2009) are of the opinion that if women are given credit and in control of the resources they can use larger loans effectively to increase their incomes and are potentially very good long term clients. In addition they can accumulate substantial savings and pay for services that benefit them and other household members. Studies have also shown that poor women often have the best

credit ratings. In Bangladesh, for example, women are better loan re- payers than their male counterparts, and credit extended to women has a much greater impact on household consumption and quality of life for children. “Women’s status, both in their homes and communities, is improved when they are responsible for loans and for managing savings. When they generate and control their own income, women gain a level of power that means they can make decisions independently and command more respect” (*IFAD 2004* www.ruralpovertyportal.org)

According to Haynie, et al (1999) women in both rural and urban areas face a higher risk of poverty and more limited economic opportunities than their male counterparts. Idriss et al, (1992) supports this by saying that the number of rural women living in abject poverty has increased by about 50 percent over the last two decades. These scholars also add that women in rural areas live under the same harsh conditions as their male counterparts, but experience additional cultural and policy biases which undervalue their work in both the informal, and if accessible, formal labor markets. The findings of the 2009 World Survey revealed that women play an active role in agriculture and rural livelihoods but are treated as unpaid family labour, often without access and control to land, credit and household productive assets.

It is against this background that Mayoux & Hartl (2009) argue that gender mainstreaming should be part of any microfinance development initiative since women comprise more than half of the rural population. As men migrate in search of formal employment more women remain the rural areas manning the household under conditions of poverty. This is supported by The United Nations Development Program (UNDP 1995) that estimated that 70% of the 1,3billion people living on less than a dollar a day are women. Therefore for any

development strategy to be effective in reducing rural poverty it should directly benefit the women. This is in line with the first Millennium Development Goal (MDG) of eradicating extreme poverty and hunger whose 3 targets are to halve between 1990 and 2015 the proportion of people whose income is less than \$1 a day, to achieve full and productive employment and decent work for all, including women and young people and halve between 1990 and 2015 the proportion of people who suffer from hunger. Supporting women is also in line with MDG3 of promoting gender equality and empowering of women (www.unstats.un.org/unsd/mdg/host.aspx).

Klasen (2002) also supports the view that gender equality should be made a priority in any of economic growth strategy, thus enabling women to become more effective economic actors. He further argues that women have not only proved to be better re- payers of loans but also better savers than men, and more willing to form informal microfinance groups.

2.3 The History of Microfinance: A Global Perspective

The history of microfinance has its beginnings much earlier than the popularised Grameen Bank of the 1970s. Microfinance is not a recent development and is not just a temporary solution for poor countries. Every developed country has its own history of microfinance. “Attributing the origin of microfinance to recent initiatives misses not only the historical depth and scale of microfinance but also centuries of experience, which means: learning from trial and error failure and success” (Suibel@uni-koeln.de). Literature has revealed that community and member based as well as other informal financial institutions are exceedingly widespread throughout the world. The major difference between the microfinance

programmes is the legal recognition that each country accords to informal finance and the protection of the institutions through regulation and effective supervision.

The concept of micro credit has origins that date as far back as the 1700s when the concept was known as savings and credit (MercyCorps, 2006). The concept of microfinance as is known today was popularised in Bangladesh by Nobel Peace Prize winner Muhammad Yunus in 1976. Professor Yunus founded Grameen Bank (GB) in 1983 with the aim of reducing poverty by providing small loans to the country's rural poor (Yunus 1999).

Microcredit has evolved over the years from just providing credit to the poor, but also to offering such interventions like savings, insurance, remittances and non-financial services such as financial literacy training and skills development programmes. Microcredit is now referred to as microfinance (Armendáriz de Aghion and Morduch 2005, 2010). Pitt and Khandker (1998) are of the opinion that women form a better microfinance target group than men especially in the area of loan repayments and in terms of achievement of more desirable development outcomes.

In the developing countries the history of microfinance goes back to the 1720s with the story of the Irish charities. In response to the tremendous increase in poverty the Irish started with interest-free loans sourced from donated resources (Seibel@uni-koeln.de). After a century, a special law was passed in 1823 which turned the charities into financial intermediaries by allowing them to collect interest bearing deposits and charge interest on the loans. By 1840 around 300 funds had emerged as self-reliant and sustainable institutions with high interest rates on deposits and loans. The stiff competition between the microfinance institutions and the commercial banks caused the Irish government to react in favour of the banks by passing repressive laws that put a cap on interest rates in 1843. The loan funds thus lost their competitive advantage, which caused their gradual decline in the 1950s (Seibel, 2003).

Seibel, (2003) traces the history of microfinance in Germany back to 1778 where the revolution started from small informal beginnings as part of an emerging self help movement. The history can be traced back through different microfinance models such as the first thrift societies established in Hamburg in 1778, community bank in 1801, and the first urban and rural coop credit associations in 1850 and 1864 respectively. He attributes the success of the microfinance sector to effective legal provisions, prudential regulations and good management. Prussian Savings Banks Decree was instituted in 1938 and the Cooperative Act of the German Reich in 1889, which is the first cooperative law in the world. By 1997 these two types of microfinance institutions had 39000 branches and their assets amounted to 51.5% of all banking assets in Germany. (ibid)

Africa has also not been left out in the revolution of microfinance. “The earliest evidence of financial institutions in Africa dates back to the 16th century: to *ESUSU*, a rotating savings and credit association (ROSCA) among the Yoruba” (Bascom, 1952:69). Seibel & Damachi, (1982) are of the view that the *ESUSU* probably originated from rotating work associations, in which labour being a scarce resource was accumulated and allocated to one member at a time. This practice was later replaced by monetary transactions as the financial system became more modernized. Nigeria is one of the countries where informal financial institutions continue to play an important role. These informal financial institutions are immensely popular in Nigeria where virtually every ethnic group has its own institutions and proper names (eg *Adashi* in Hausa is perhaps the best known besides *ESUSU*) and most adults are members in one or several (Seibel@uni-koeln.de). Since then these rotating institutions have evolved into non-rotating savings associations with a permanent loan fund and by 1960 the name *ESUSU* and the institution had spread as far as Liberia and also the Congo or Zaire (Seibel,1970; Seibel & Massing, 1974).

Another country that has done a lot in the area of rural microfinance is Ghana. The initiative in Ghana started in 1976 in the form of rural banking. “This was in response to the need and concern to make institutional credit and other formal financial and banking services easily available to the majority of Ghanaians, especially those living and working in the rural areas, thereby raising incomes and promoting growth generally” (Asiedu-Monte, 2011:iv). Prior to 1976 the formal banking sector was already in existence but the poor rural communities had limited access due to a number of factors chief among them being: illiteracy of the rural populace, the existence of a parallel informal credit system that charged exorbitant interest rates, other credit sources like friends and relatives, the existence of other unconventional methods of safekeeping money e.g. putting money in pillows and mattresses and digging holes in the ground. Surfeit it to say that this unconventional system failed to work and the poor people resorted to informal money lenders. This resulted in up scaling of poverty as the rural people failed to pay the exorbitant interest rates that were being charged by the unscrupulous moneylenders and some of the money was lost due to theft and vandalism when it was supposed to be under safekeeping. The rural banks microfinance aspect operates on the same lines as any other joint liability scheme. Groups of 5- 30 members organize themselves to qualify to get a loan. The group members become jointly and severally liable thus guaranteeing loan repayment.

It is against this background that “in 1976, the Central Bank decided to establish rural banks to make institutional credit and other formal financial services readily available to the people living and working in the rural areas and to promote self help and development generally”(Asiedu-Monte,2011pgvii). These rural banks which are still in existence today are

owned, operated and managed by local people and are located within the local community. The rural banks utilize the same principles like the ISAL. They mobilize deposits in the catchment area and grant credit to deserving customers thus promoting rural development. “Through their intermediation activities of mobilizing domestic deposits and extending credit to customers in rural communities, the rural economy receives the needed stimulus to enable it to generate the desired economic activity” (ibid. pg 65). Funds accessed from rural banks support the establishment of viable business ventures that generate income that is used to improve the people’s socio-economic wellbeing.

Asiedu-Monte (2011) posits that the system has had tremendous positive impact on rural communities. “It has promoted effective rural development of our rural areas; engendered the ethic of self help and local initiative, appropriate banking habits and self confidence in our rural populations. Improved living standards all around rural banks have indicated that people can be effectively be involved in their own development through appropriate management of their own resources and sharing in the benefits of their growth”(ibid pgviii).

Thus unlike many developing countries, Ghana has managed to institutionalize the credit system into a fully fledged banking system that has helped in poverty reduction. The existence of these banks has thus improved rural people’s access to a formalized system thus reducing the dominance of the informal often illegal structures who charged usurious interest rates that deterred borrowers and stifled entrepreneurship. Not only did the informal credit system discourage entrepreneurship but it also resulted in low agricultural productivity due to inadequate inputs. This resulted in reduced income for the farmer which led the farmer to take credit from the informal lenders at high interest which again led to inadequate inputs, low productivity, low income, increased indebtedness and the vicious cycle of poverty could go on and on resulting in communities sinking into deeper poverty. Thus the need became “evident that if economic activities in the rural areas of the country were to be enhanced and

sustained, then some kind of institutional arrangement had to be put in place to address the problem of inadequate credit” (Asiedu-Monte, 2011pg3). By 1985 there were 90 registered rural banks.

Asiedu-Monte, (2011) argues that the existence of rural banks has had positive impact in Ghana’s rural economy. According to him banking habits have been inculcated into the rural community by virtue of the proximity of rural banks to the rural dwellers. The existence of rural banks has made mobilization of funds easier. Rural banks have managed to harness huge financial resources in the form of deposits from the rural community that could otherwise have been in the hands of individuals. Rural dwellers access to credit has been enhanced by the existence of rural banks. These institutions have mobilized funds that can be accessed by the rural community on easier terms than the formal banking sector and informal money lenders. In addition the banks have created market linkages for cocoa producers. The bank purchases the cocoa crop from farmers and subsequently resale to processors.

Women’s needs have been catered for since they can now easily access microcredit for use in their household income generating activities. Rural banks have also aided in employment creation. A significant number of jobs have been created for people to work in these institutions and in small industries created in the rural communities. Lastly the banks have tremendously supported rural development initiatives like electrification projects, water supply, educational institutions, markets, community centres, lorry parks, health centres, etc. “These efforts have facilitated speedy development and integration of the rural economy into the overall national economic process” (Asiedu-Monte, 2011pg18).

However, the Ghana rural banks have had their fair share of challenges which can be classified into 4 broad categories: the first one being institutional challenges, pertaining to

liquidity challenges due to over-expansion, non-recovery of loans, income leakages affecting profitability, poor staffing, weak management, poor service delivery, internal control lapses and many others. The second factor is political and economic factors. Political interference has caused its own share of challenges coupled with unfavourable macro-economic environment which have persistently caused disruptions in the rural banks operations. The other challenges were caused by the regulatory environment. The Central Bank has often instituted regulations which have stifled growth and creativity of rural banks. At the same time by trying to avoid the Central Bank's regulations the inexperienced rural banks have often found themselves in deep administrative challenges that have negatively affected the rural bank's viability. The rural banks have also have had their fair share of fraud that has been perpetrated by either staff members, board members, customers or a combination of the three (ibid). However, the rural banks of Ghana have remained a shining example where local communities have taken charge of their own developments through harnessing their own resources in pursuance of the poverty reduction goal.

The history of microfinance in Zimbabwe as is known today stretches back as far as 1963 when a Catholic missionary Brother F. Waddelove started the first savings clubs in Chishawasha (Raftopoulos and Lacoste, 2001) However, the two also assert that the idea of savings amongst the poor in Zimbabwe goes as far back as 1890 during the early colonial period. This took the form of burial societies that were developed by migrant workers who wanted to mitigate funeral costs in case one of their members died. In an effort to raise funds each member contributed a joining fee and monthly subscriptions and in return the members or their relatives were paid a lump sum in the event of the member's death or the death of an immediate family member (Hall 1987). The burial societies also afforded the members other social benefits like recreation.

From 1960 onwards there was an attempt by black professionals to form Friendly Societies aimed at providing small loans for household consumption and for business projects.

However these efforts failed to rise to expectations due to a combination of factors.

Raftopoulos and Lacoste (2001:6) are of the view that “These efforts failed because of a combination of political and legal constraints from the colonial state, and poor organisation and management in the organisations themselves”. This came against a background of severe limitations caused by the failure of Africans to provide collateral since they did not possess any immovable property. Since “The land Apportionment Act (1930) and the native urban areas Registration and Accommodation Act (1946) placed severe limitations on the possibility of Africans both owning and utilizing land in rural and urban area” (Raftopoulos and Lacoste 2001:6)

Raftopoulos and Lacoste (2001) also assert that it is during his period that rotating savings clubs were formed and each member would receive a lump sum after a period. These were largely comprised of women. From the beginning the savings clubs appealed more to women because they offered women a rare savings opportunity that was previously denied them due to the patriarchal system. Sinnotti (1997) asserts that the clubs provided women with an opportunity to share knowledge, create market linkages for their handcraft and to socialise. According to Raftopoulos and Lacoste (2001) the idea of the savings clubs was for members to gradually pool together funds with the aim of purchasing agricultural inputs at the beginning of the rainy season. Following the success of the savings clubs the idea of credit unions was hatched. The first credit union was established in 1968. However these credit unions were dogged by management problems since the volunteers and the administrators lacked the administration skills required to manage the credit unions. The government

agricultural extension services employees played an advisory role. These savings and credit associations have continued up to today under the supervision of the Ministry Of Small And Medium Scale Enterprises and various NGOs.

After 1980 the savings movement came under an organization known as SHDF that was registered under section 26 of the Companies Act whose main objectives were “to promote savings mobilisation through the stamp system and to provide support to savings club members through advice, training and savings administration”. Running concurrently with the informal savings clubs there were also attempts by pre and post colonial governments to offer formalized microcredit to the poor. These initiatives recorded limited successes. For example, in the 1950s the colonial government set up a native development fund aimed at assisting more well off farmers in the African Purchase areas. This failed to yield positive results since these funds were also made available to white farmers at a lower interest rate leading to marginalization of black farmers. Raftopoulos and Lacoste (2001) also indicate that the post independence government making use of funding (mostly from donors) also made efforts to make credit available to the poor through institutions such as SEDCO and Agribank (the then AFC). This also attained mixed results. Bond (1998) in Raftopoulos and Lacoste (2001:12) claims that “The major result of this credit policy was increasing indebtedness of the majority of small farmers, with attempts to increase the market competitiveness of small farmers leading to rising debt at household level, and escalating levels of debt defaulting.” The advent of SAPS also had a negative impact since it resulted in privatization of the AFC and the resultant removal of subsidies on the credit programme made credit very expensive. This negatively affected the poor people’s access to credit and as Moyo (1999:3) has written “The increasingly competitive environment created by reforms has led to a much tougher approach by banks in terms of lending to the poor. It has always

been hard for this group to get loans from banks. It is now more difficult. Collateral requirements have been maintained if not actually made stiffer in some cases as banks perceive the environment to be riskier. Even Development Banks which used to be more flexible and would look at project viability rather than short-term profitability, now tend to look at profitability” (Moyo, 1999:3.)

It is against this background that donor supported micro credit initiatives aimed at the poor gained ground. Organisations such as SHDF, Care International, Africare, Swedish Organisation for Individual Relief (SOIR) and ASAP to mention a few began to mobilize the poor to set up informal savings and credit associations. These have mainly taken the form of ISALS, ROSCA, Burial Societies, savings in kind, reciprocal lending, saving with employers and saving with suppliers and supermarkets. The formal and informal microfinance institutions have continued to coexist but with the former mainly catering to the microcredit needs of the poor. The formal microfinance includes banks, building societies, pension companies, insurance firms and discount houses (Chigara and Mutesarira, 2001).

The recent wave of microfinance is closely associated with the economist Mohammed Yunus, who in the early 1970's was a professor in Bangladesh. In Kevin Davis view Yunus started from humble beginnings in the midst of a country-wide famine, by making small loans to poor families with the key objective being reduction of poverty. This experiment brought positive results with clients observing repayments while at the same time there was noticeable improvement in their standard of living. Due to the overwhelming response Yunus appealed to the government for assistance, and the Grameen Bank was born. The bank continued to offer its services to the households of the poor who owned less than a half-acre of land. Building upon its successes the Bank also began to spread its operations to other regions of the country. In less than a decade, the Bank became autonomous from its

governmental founders as high repayment rates that stood at 98% continued to be realised. In 2006 Yunus was awarded the Nobel Peace Prize (Davis <http://www.iilj.org/courses/FDMicrofinanceBackground.asp>)

Basing on the success story of the Grameen Bank other players across the world joined the field replicating the same model such that between 1997 and 2002, the total number of MFIs grew from 618 to 2,572 with a total clientele of 65 million clients, up from 13.5 million in 1997 and still growing at 35% a year (Davis).

2.4 Justification for Microfinance

Microfinance is a broad concept that includes microcredit. Microcredit is provision of credit to the poor. Banks and other financial institutions don't normally lend to the poor because of several challenges associated with lending to the poor. One of the challenges is the high transaction costs incurred when managing a client's account regardless of how small the amount borrowed is. Wikipedia gives an illustration that demonstrates the cost implications of managing 100 loans worth \$1000.00 each compared to the costs of managing one loan worth \$100 000,00. Wikipedia indicates that it takes nearly a hundred times as much work and cost to manage a hundred loans as it does to manage one. This is due to the fact that the fixed costs of administering different sizes of loans are the same. For example the costs of processing and assessing applications, and following up repayments. It's important to note that "there is a break-even point in providing loans or deposits below which banks lose money on each transaction they make. Poor people usually fall below that breakeven point."(<http://en.wikipedia.org/wiki/Microfinance>)

In addition, most poor people have few assets that can be secured by a bank as collateral. Hernando de Soto, (1989: 162), is of the view that “even in cases where the poor happen to own land in the developing world, they may not have effective title to it.” This means that the bank will have little recourse against defaulting borrowers. Davis also adds that in cases where the poor do have assets, they have are often illiquid and difficult for a formal financial institution to sale e.g. livestock. In addition the only assets they have may be critical to their survival and may not be morally and ethical to foreclose upon them (ibid).

When the poor fail to access loans from the formal financial institutions they end up borrowing from relatives and local money lenders who often charge usurious interest rates. The findings from 28 studies of informal money lending rates in 14 countries in Asia, Latin America and Africa carried out by Robinson, (2001), revealed that 76% of moneylender rates exceed 10% per month, including 22% that exceeded 100% per month. Robinson, (2001), asserts that the interest rates that are charged by the moneylenders are segregatory with the poorer being charged higher rates than the less poor ones. However despite the existence of formal microfinance institutions and deterring legislation, the informal moneylenders have continued to exist because the supply from the microfinance industry is failing to match the increased demand for credit (ibid). According to the Deutsche Bank, (2007) money supply for microfinance credit is falling short of demand. According to the bank the industry needs \$250 billion to enable it to meet microcredit demand as compared to \$25 billion currently available on the microfinance market.

Although by definition poor people have very little money there are circumstances that also often arise in their lives in which they need money or the things money can buy. Although the poor have devised coping mechanisms whereby they make use of substitutes for cash (e.g. livestock, grains, jewellery, and precious metals). Rutherford's, (2000), in his book *The Poor*

and Their Money, sites several types of needs that can only be fulfilled by use of money. These are Lifecycle Needs like weddings and education; personal emergencies like death in the family; disasters like fires and business opportunities. This shows that there is every need of improving the poor people's access to cash so that they can be able to finance the above needs. Microfinance therefore comes in handy to fill the gap since as defined by Schreiner (2001) it makes an attempt to improve access to small deposits and makes available small loans for poor households neglected by banks. Omotola Awojobi, (2010), supports by saying that microcredit empowers the poor to engage in productive micro enterprises that will generate income that will aid to reduce poverty in the economy.

2.5 Informal microfinance

Microfinance falls into two categories which are formal and informal microfinance. Chipeta and Mkandawire (1991) saw informal financial institutions as financial institutions that are not under the direct legal control of key monetary and financial policy instruments although they are formulated by organizations and individuals and operate without legal status.

Chigara and Mutesarira, (2001) are of the view that the informal microfinance revolves around the group concept and thrives better in an environment of high group commitment to saving and borrowing. According to Besley et al, (1993) the model works better with a group that has voluntarily come together to form a revolving saving and credit association. Chigara and Mutesarira, 2001:2 posits that "The informal mechanisms include ISALs, ROSCAs, burial societies, savings clubs, savings at home, savings in kind, reciprocal lending, saving with employers and savings with suppliers and supermarkets" (Yusuf et al (2007) also supports that, informal financial institutions are mutual aid entities, such as, Accumulating

Saving and Credit Associations (ASCRA) otherwise known as Cooperative Credit and Thrift Societies; and a Rotating Saving and Credit Associations (ROSCAs).

As defined by Bouman (1988) informal financial institutions (IFI) are institutions that originate from the poor's bottom up demand for, appropriate financial service. (Akintoye, 2008) opines the fact that the operations of informal financial institution though legal appear in some instances to be disorganized due to the lack of recourse to the legal system in the conduct of its affairs. As a result some of the positive impact on the economy is not captured e.g. statistics of jobs created by the informal sector are not captured in the formal employment statistics thus giving the impression that the informal financial institutions doesn't contribute much to economic growth of a country. (Ibid)

Chigara and Mutesarira, (2001) are of the view that even though the informal credit mechanisms are riskier than the formal, the poor use them due to a number of reasons some of which include "flexibility, proximity of services provided, lower transaction costs, speed of access, low access barriers (low barriers to entry), socio-cultural framework/fabric that allows for reciprocity, and friendly service' (Chigara and Mutesarira, 2001:2). Chigara and Mutesarira, (2001) and Rutherford S. (1998) support each other in saying that the poor save in order to meet lifecycle demands, consumption smoothening, finance emergencies and finance investment opportunities/ enterprises. According to Gumbo, (1994), the existence of various informal financial mechanisms in Zimbabwe is necessitated by the lack of formalised social security systems for the low income groups particularly women. As a result women have devised informal means of harnessing financial resources such as church associations, rotating savings and credit associations and burial societies that enable them to accumulate

savings into a common savings pool that can be borrowed by members at an agreed interest rate as and when need arises. Lump sum amounts are shared at the end of an agreed period usually a year.

Between the two methods of providing credit to the target group (formal and informal), studies have revealed that the informal method is the most successful because in several developing economies where poverty is high, the poor are far removed from microcredit markets. The informal lender fills in the gap by reaching the poor at lower transaction costs (Aryeetey, 1997 and Tsai, 2004).

This analysis has shown that there are many forms of microfinance institutions. However this study is going to concentrate on an analysis of the impact of ISALs and ROSCAs on rural poverty in Mutasa district.

2.6 Internal Savings and Lending (ISAL)

ISAL has been called by various names like savings groups, Savings and Internal Lending Communities (SILC), Self Help Development groups (SHD), group savings and lending (GSLs), *Kufusha Mari*, *ukuholisana* depending on the location and agent promoting the ideology. The ISAL model improves upon the traditional Rotating Savings and Credit Associations (ROSCAs). According to Catholic Relief Services (CRS), “SILC improves on the traditional systems by creating accessible, transparent and flexible accumulating savings and credit groups, which are user-owned and self-managed in the communities where members reside. Instead of disbursing all the savings contributions to one member at a time, ISAL is able to accumulate the contributions of its members into a fund from which group members may internally borrow at a predetermined interest rate and terms” (Vanmeenen,

2010:1). A survey conducted by the Zimbabwe National Task Force on Microfinance in 2006 reports that 70 percent of the economically active population in Zimbabwe does not have access to formal financial services and therefore most relies on the informal sector (Fowler and Panetta, 2011). Chigara and Mutesarira, (2001) posit that Savings clubs have been especially appealing to women who regard them as a means of saving for lean times and as a way of deterring husbands and neighbours from accessing the money if it remained in the house. In addition the need for credit becomes more urgent in times of financial shortages in the household.

Vanmeenen, (2010) and Odera and Maruka, (2007) have indicated that group members normally come from the same locality and voluntarily self select on the basis of trust. The fund grows through interests on loan and fines and fees. Some groups inbuilt a social fund that can be used for small grants during emergencies. At the end of a predetermined period, members share the accumulated fund that would have been built from savings, interest earnings, investment profits, and fines. Each member receives a lump sum which is equivalent to the total amount saved by each individual group member (Vanmeenen, 2010; Odera and Maruka, 2007). Vanmeenen, (2010) posits that people wrongly assume that households are too poor to save and that whatever little income they earn is quickly spend. However Internal savings and lending groups have shown that poor people can organise themselves and save money and realise an annualized return on savings that can go up to 40% (ibid).

Africare, one of the six partners in the Joint Initiative (JI) for Urban Zimbabwe introduced Internal Savings and Lending (ISALs) in Chitungwiza in 2008. They were targeting the most vulnerable households who were finding life difficult in the urban areas. According to

Africare, (2009 <http://jointinitiative.blogspot.com>) ISAL lump sum distribution provides a large amount of money that each member can then apply to his/her own income generating activities, and this amount is greater than any savings that an individual member can save alone.

Mrs Marufu one of the participants of the Africare supported ISAL groups speaking on the benefits she has derived from her increased income had this to say about the benefits she derived from the programme.”*Firstly, through the ISALs I have been able to pay school fees for my two daughters who are doing “A” Level, water and electricity bills and food. I never dreamt that one day I would be able to do all these things for my family. My husband is currently unemployed and I have thus assumed the position of a breadwinner through my participation in ISALs. My husband now appreciate me more because I am able to contribute to the overall household income without resorting to begging or relying on hand-outs.*”

(Africare, 2009 <http://jointinitiative.blogspot.com>).

ASAP an Organisation that has been operating in Eastern Zimbabwe promoting ISAL groups also concurs with others that the program has gone a long way to uplift the standard of living of women both materially and in immeasurable ways. The immeasurable benefits the fact that the women gains status within their household, acquires the power to make decisions, even the smallest one where previously she depended on her husband to make decisions and to provide virtually everything. “In the case of rural women living in Africa, where polygamy still exists, having personal money also gives her decision-making power in the home; for many it's the first time” (ASAP, 2009 <http://www.asapafrika.org/vsl/background.php>).

The Catholic Relief Service (CRS) is promoting a programme whose principals are similar to ISAL but is called, Savings and Internal Lending Communities (SILC). Odera and Maruka, (2007: iv), assert that the key aim of the SILC programme “is to enable the economically

active poor, especially women to develop their own reliable financial services and to support community self reliance and resilience”. In support of the need for community initiated and managed SILC programmes Vanmeenen, (2010) who is CRS’s Senior Technical Advisor, Microfinance – Africa argues that the SILC facility is of vital importance since the poorest of the poor have limited access to financial institutions due to their remote location which is far from urban centres where the microfinance institutions are located and the high cost of acquiring the service. Costs include transport costs and the minimum savings required to open a bank account and the accompanying prohibitive bank charges associated with banking. To Vanmeenen, (2010) Savings and Internal Lending Communities (SILC) offer the best alternative to fill the gap since they are more accessible, affordable and self managed. According to him this programme is holistic in that it enables poor people to save, smooth consumption patterns and increase income, unlike the traditional microfinance institutions whose terms and conditions limits the access of vulnerable groups such as women, poor farmers, orphans and youth to financial services. This means that internal savings groups open doors that were previously closed to the marginalized groups.

From the above one can conclude that the ISAL programmes afford their members a number of benefits. The members are able to access flexible financial services. Members are able to access loans as and when they require them to meet e.g. seasonal demands like agricultural inputs. The loan terms are flexible in that the period and interest is agreed upon by the group. ISALs also offer the opportunity for flexible savings in the sense that members agree on the amount they can afford at agreed intervals. ISAL has flexibility in supporting a range of member’s financial needs. According to a survey carried out by CRS in Sierra Leone the

following are the findings on how the members chose to allocate their loans: (Vanmeenen, 2010:12).

- Education 12%
- Agriculture 28%
- Trade 43%
- Household goods 1%
- Medical costs 2%
- Investment %
- Food 11 %

ISAL groups can also set up a social fund that they can treat as an insurance against emergencies. The table below is a breakdown of how a social fund is being used in Uganda.

(Source: SILC in Uganda, Program Review, MicroSave, December 2007).

- Funerals 16%
- Medical Bills 26%
- School fees and materials 26%
- Household essentials 11%
- Ceremonies 21%

According to Vanmeenen, (2010) a SILC also offers non financial benefits to members. For example groups provide a venue for people to meet regularly and discuss social issues that affect their lives and the life of their community. The groups also create strong social cohesion and a sense of belonging since membership is based on self-selection and empowers marginalized communities to take charge of their own development. In times of crises and

distress group members tend to sympathise with each other and are often willing to lend a helping hand to members in need and to the community at large (ibid).

Some studies have sought to establish direct household-level impact of ISAL activities. Hartley and Rijali (2003) in the evaluation of a CARE project in Zanzibar found that group savings and lending (GSLs) had gone a long way in providing start up capital for the development of household income generating activities (IGAs) which improved income, asset levels and increased community awareness and understanding of how to work more effectively with financial capital. The study concluded that ISAL were a good tool for poor communities unaccustomed to working with financial assets (Hartley and Rijali 2003). Allen and Hobane (2004) came to the same conclusion when they carried out impact evaluation studies of the Kupfuma Ishungu project in Zimbabwe in 2004. They found out that ISAL in Zimbabwe had contributed to increased levels of business and consumer assets and quality of housing amongst the majority of participating households. In addition the number of IGAs per household had increased and at the same time man hours allocated to income generating activities (IGAs) increased.

Mutesasira and Nthenya (2003), in their study of savings groups in West Nile, Uganda concluded that the main participants of savings groups were low-income people, and that the savings group model was overcoming a market access problem that 'no other known model of outreach is likely to match'. This study revealed that the major attraction to members was the size and flexibility of the savings and loans that ranged from US\$ 2.50–US\$ 25, while savings ranged from US\$ 0.10–US\$ 0.50 weekly per member offered.

The studies above are also collaborated by Anyango's (2007) study of savings groups in Malawi. The findings showed that the savings group programme had helped to improve

participants' livelihoods options through increased household incomes particularly among women who comprised a majority of the members. Members diversified into additional economic activities, and they also divested away from certain activities that required larger capital. The study also revealed that members asset levels had increased as compared to control groups. Using a variety of indicators Allens (2005) study of West Nile Savings Groups reached the conclusion that members had accumulated useful sums at cash-out and that they used them to invest in agriculture including livestock, business stock and housing improvement. He also found out that the availability of emergency loans permits households to avoid devastating disruptions in their income generating projects (Allens 2005).

(Matthews's et al, 2010) recognises the enumerable barriers that formal banking institutions erect against the illiterate poor rural woman which the ISAL methodology strives to eliminate. These barriers are the transaction costs of potential users that are both financial and non-financial. For example an illiterate woman may face challenges in trying to understand financial records of microfinance. However Matthews's et al, (2010) argues that in the case of savings groups members can introduce user friendly methodologies that can assist the illiterate person to understand her financial position.

Fowler and Panetta, (2011) also assert that savings groups respond directly to unmet financial needs of the remote and rural poor by providing them with secure saving facilities and also the chance to borrow small amounts on flexible terms and in a cost effective and sustainable manner. Thus savings groups have become very popular with NGOs such that by end of 2009 there were 3 million members participating in savings groups mostly in Africa , followed by Asia and lastly Latin America (Fowler and Panetta, 2011).

CARE International is one of the organisations in Zimbabwe that is working to promote access to basic financial services for procurement of agricultural inputs in the remote rural areas of Zimbabwe. The CARE program was motivated by the fact that the organisation had discovered that the coverage of formal financial institutions was limited and that their delivery mechanisms, credit terms and conditions were not suitable for the rural poor. These issues had to do with lack of collateral security amongst the vulnerable groups and high interest rates). As a result CARE International launched the ISAL programme in 1998 to try and bridge this gap. According to CARE International, ISAL projects have proved to be an effective in according members economic and social progress. An evaluation of the CARE supported programme in 2004 revealed an increase in accumulation of household productive asset levels especially in areas controlled by women. There was increase in small livestock and agriculture equipment, an increase in non productive household assets e.g. household utensils, increased access to health services, up to 85% increase in consumption of major food groups, and positive change in social status. The study also revealed a 77% increase in leadership positions (CARE, 2006).

Fowler and Panetta, (2011) studies of the CARE international ISAL programme also revealed that access to credit enabled members to make bulk purchases of agricultural inputs timeously and at lower cost without resorting to disposal of vital household assets. A study by MicroSave for CRS in Kalifi, Mombasa and Malindi in 2007 by Odera and Muruka (2007) revealed that ISAL has positive effects on assets strengthening and that ISAL imparted certain religious/spiritual moral values into members behavior towards one another e.g. humility, trust, support to the vulnerable and each other in times of need and renewed belief in group activities by group members.

2.7 Rotating Savings and Credit Association (ROSCA)

The World Bank (2004) defined ROSCA as an association whose members meet regularly (weekly or monthly) and contribute a fixed amount which is allocated to each member on rotation based on lottery, bidding or other system that the group agree. Aredo (1993) also adds the view that the weekly or monthly fixed contribution was paid into a common purse in anticipation of the privilege of receiving a large sum at some point in the life cycle of the group. This was believed to be beneficial because it inculcated a saving habit that was believed to be the best way of addressing the conditions of low and fluctuating incomes . Bauman, (1983) describes ROSCAs as the poor man's bank, where money is put to good use to meet members' households physiological and production needs. Like ISAL group's membership of ROSCA groups is voluntary with individuals selecting each other on the basis of trust thus ensuring trust commitment and maximum participation. Yusuf et al, (2009) also defines ROSCAs as associations that take place when members pool money together by making periodic contributions into a fund which can be accessed by members on a rotational basis as a lump sum. According to Olalekan, (2010) ROSCA has been noted for taking deposits and also lending in various ways as well as dealing with specific groups of people, ensuring that only people that satisfy distinct selective criteria are able to either deposit with them or borrow from them.

Yusuf et al, (2009: 71) also adds that “this method of mobilizing funds has not only provided a means by which individuals have access to funds, but also provide an avenue by which they can have access to inputs and improved technology from which productivity growth is accelerated”. Several studies have also proved that in addition to smoothening consumption patterns of the vulnerable groups, ROSCAs also improve income distribution and the standard of living of most members (World Bank 1989; Chipeta and Mkandawire 1991; Aryeetey 1997; Yaron et al. 1997). Steel and Aryeetey (1994) have also observed that the

daily savings ROSCAs assist members in accumulating a lump sum that can be utilised as working capital to restock supplies which enables them to realise higher income that subsequently results in higher profits which reduces their level of poverty. Zaman (1999) also observed that credit provided by ROSCAs enables members to increase income and at the same time allows them to invest in assets thus widening the asset base that can act as their insurance in future.

Fischer, (1994) and Aredo, (1993) assert that in ROSCA the system of saving and borrowing follows the indigenous system of lending and local norms. Members determine the positions that are occupied by members in the cycle and funds are allocated to members without any interest paid. They further allude to the fact that members do not always value earlier positions in the ROSCA allocation more highly a fact that made them conclude that credit may not be the primary reason for joining a ROSCA. Whilst scholars like Gurgerty, (2005) argues that ROSCA funds are not usually used for the purchase of a large indivisible good, scholars like Handa and Kirton, (1999) have also argued that ROSCA are regarded by members as a means of accumulating funds to make large indivisible once off expenditure for durable goods. Chitieji, (2002) opined that ROSCA funds are primarily used to finance entrepreneurial activities other than just the purchase of durable goods

According to Yusuf et al, (2009) ROSCAs are one of the informal methods of harnessing resources by individuals that they can access for their own use due to the failure of the formal institutions e.g. banks to reach the poor. This has led to increase in poverty levels. Yusuf et al sites the case of Nigeria where the government has failed to arrest the spiraling poverty levels due to bureaucracy, political instability, eliticism, corruption, lack of seriousness and the

unwillingness of the formal institutions to grant credit to the poor among other reasons. “This concern has brought the need to focus attention on the informal financial sector as a realistic scheme capable of having the desired goal of poverty reduction in the Nigerian society and as well as contributing significantly to the economic development of the country” (Yusuf et al, 2009:71)

While studies have revealed that participation in ROSCA was found to be prevalent in Asia, Latin America, the Caribbean and Africa, Bouman (1995) pointed out that participation was particularly high in Africa especially in the rural areas where access to formal financial institutions was limited or nonexistent. In this he is supported by Besley and Levenson, (1996) who estimate that countries such as Taiwan with relatively well functioning credit markets have as many as 80 percent of their adults population estimated to belong to ROSCA. Yusuf et al (2009) also observed in his studies for Senegal, that ROSCA assisted in equitable distribution and utilization of local resources since credit taken was used to finance working capital requirements of household projects. The income realised from the income generating projects was used to offset the credit while the excess income was used to finance household requirements, thus reducing the level of poverty of the people, and also for financing health care and education, thus increasing the people’s access to these social facilities.

According to Chigara and Mutesarira (2001), ROSCAs also have their own fair share of risks some of which include the risk of losing money because of defaulters who fail to complete the round, the risk of fatigue as members that are in groups that are too big loose patients of waiting for their turn to receive the lump sum and the disagreements that occur in choosing members positions in the round especially the first position.

The findings of a study carried out by Olalekan, (2010) of the impact of ROSCAs in Nigeria have revealed among other findings that the existence of ROSCAs has brought a relief and succor to the people because it facilitates easy access to funds for conveniences. By this he implies that the popularity of ROSCAs across the globe can be attributed to their affordability and availability and to the fact that they are strong providers of insurance and also gives a chance to aspiring to be entrepreneurs to start businesses. He also adds that ROSCAs are quite convenient and appropriate for the poor in terms of credit provisioning than banks or other formal financial institution because the ROSCAs operation terms are flexible and are set by the members unlike the terms of formal financial institutions. His findings also revealed that ROSCA has demonstrated that informal sector finance is very relevant in improving the poor's access to income for financing household consumption needs and for community development in developing countries. Chitieji, (2002) attributes the success of ROSCAs to the social collateral that enables the groups to amicably solve the potential problem of deliberate default.

Numerous studies have proved the importance of ROSCA in developing countries and also that they are commonly located in rural areas and the poorer residents of the urban centres (Kimuyu 1999; Chitieji 2002; Ijaiya 2002; Chamlee-Wright 2002). Participants among ROSCA group use their collection for various purposes that are necessary for improving their socio economic conditions.

Literature has thus revealed that ROSCAs play an important role in providing cheap and convenient funds to start and expand existing businesses that in turn creates employment for the members and their households, provide health and education fees and enables purchase of a lumpy indivisible goods.

2.8 Microfinance and poverty reduction

There are many forms of microfinance both formal and informal and these microfinance programs and institutions have become one of the important strategies that have been adopted to reduce poverty through availing credit to finance micro enterprise development. However literature has revealed that there are three schools of thought that centre on the subject of microfinance impact. At one extreme there are some scholars like Armendáriz de Aghion and Morduch , (2010) and David Hulme, (2000) who argue that despite its popularity, there is no clear substantiating evidence to prove that microfinance programmes have positive impacts on poverty reduction. Scholars like Adams and von Pischke, (1992), Buckley, (1997), Montgomery et al, (1996), Rogaly, (1996), Wood and Shariff, (1997) dwell on the negative impacts that microfinance can have. At the other extreme scholars like Hossain, (1988), Remenyi, (1991), and Schuler, Hashemi and Riley, (1996) argue that microfinance has beneficial economic and social impacts. Between the two extremes there are scholars who argue that microfinance has both negative and positive impacts. Arguing on the negative side of microfinance Hulme and Mosley, (1996) and Mosley and Hulme, (1997) reveal that microfinance is exclusionary in that it does not assist the poorest members of society. Given these different perspectives the assessment of microfinance programs remains an important field for researchers, policymakers and development practitioners.

Various arguments have been put forward by various scholars to support the assertion that microfinance has a positive impact on poverty reduction. Kiiru, (2007) argues that availing credit to poor households enables them to start microenterprises that would generate sufficient income to address their household needs. This will then enable poor households to escape from poverty. This is supported by her findings in her study of microfinance

participants and non participant households of Makueni district in Kenya that revealed that microfinance had a positive impact on household income. Kiiru (2007) posits that by providing affordable microfinance services to the communities enable development to take place and as such services should be made available to as many poor households as possible..

Morduch (2000) also points out that the popularity of the microfinance programme rests on an enticing “win-win” proposition that enables both the microfinance institutions and the poor to benefit. The assumption is that microfinance institutions derive profits from the interest on credits that they advance to the poor whilst the poor benefit from the income that they realise from business ventures that they would have financed through credit. (Morduch 2000) also posits that the proportion of household poverty that is reduced is equivalent to the number of households that are reached with microfinance.

Morduch and Haley (2002) are also of the view that microfinance is an effective and powerful poverty reduction strategy. However they lament the fact that microfinance has not yet fully penetrated the poorer strata of society. According to these two scholars the poorest have more need for the microfinance services since they cannot afford health fees, education fees and other basic household expenses. Morduch and Haley (2002) also show the positive impact of microfinance on poverty reduction as it relates to the first six out of seven Millennium Goals which. These are the reduction of the proportion of people living in extreme poverty by half between 1990 and 2015; Universal primary education by 2015; promoting gender equality and empowerment of women ; Reduction of infant and child mortality rates by two-thirds between 1990 and 2015; Reduction of maternal mortality ratios by three-quarters between 1990 and 2015; and improved access to reproductive health services by 2015.

In agreement with Morduch and Haley (2002) most researchers have acknowledged that microfinance provides vital socio-economic safety nets for the poor. Dichter, (2006) admits that microfinance can help the poor to smoothen consumption patterns during cyclical stress or crises period's periods. Dasgupta (1995: 247), also notes that "At low levels of nutrition and health care, increase in current consumption improves future labour productivity: if nothing else, morbidity is reduced". Pitt and Rozenweig (1985) in their studies of 3 microfinance target groups in Indonesia observed that a 10% increase in consumption of fish, fruit, or vegetables led to decrease in morbidity rate by 9, 3 and 6 percent respectively."

Findings of studies carried out by Remenyi et al (2000), in different localities have indicated a rise in income for participating households as compared to non participating households.

The results of these studies have been summarized in the table below:

location	% Changes in income for participating households	% Changes in income for non participating households
Bangladesh	29.3	22
Indonesia	12.9	3
Sri-Lanka	15.6	9
India	46	24

The studies also revealed that microfinance had higher positive impact on households that were less poor than on the households of the poorest.

A study carried out by the World Bank in collaboration with the Bangladesh Institute of Development Studies, and cited by Hashemi and Morshed (1997) showed that the Grameen Bank initiative reduced poverty and improved welfare of participating households not only in the short term only but also in a sustainable manner. In their studies Mustafa et al. (1996) also noted that participation in microfinance increased a household asset base by 112% for those who had participated in microfinance for 4 years or more and increase in household expenditure of 28%.

Khandker, (2005) argues that the benefits of microfinance do not only accrue to participating households alone, but have a ripple effect on the rest of the community. A study he carried out in Bangladesh bears witness to this. He observed that microfinance had positive impact on poverty especially for female participants and also to the poverty levels of the whole village.

Using data from three programs in rural Bangladesh, Pitt and Khandker (1998) concluded that credit accessed from group-lending schemes led to significant increase in household consumption. However, Morduch (1998) argue that due to the smallness of businesses that are set up through credit they are not able to create employment for the rest of the community but for member households only. Therefore to him microfinance cannot bring fundamental shifts in employment statistics. However Kiiru, (2007) feels strongly that as long as microfinance improves productivity in the poor people's households e.g by improving access to agriculture inputs and establishment of household projects then it can be safely concluded that microfinance has a role to play in poverty reduction.

However other studies have shown that microfinance is not effective as a poverty reducing strategy tool. Two scholars, (Adam & Von Pische, 1992) argued that credit cannot be considered as panacea for household poverty be it for small farmers or micro entrepreneurs. The two are of the opinion that farmers and business people face more pressing challenges than shortage of funding. For example farmers face challenges that include product prices, market access and risk among other constraints. Also in support of the same view is Gulli (1998) who argues that credit is not always the answer for micro enterprise challenges. Depending on their business and household development needs the poor demand a diversity of financial, business development and social services. Mayoux (2002) argues that gender relations have a negative impact on loan use. She posits that the effect of gender relations is that women accrue a lot of credits and not much wealth to show for it.

Some studies have shown that marginalised people living below the poverty datum line derive fewer benefits after borrowing than those who are better off. Studies conducted by Gulli,(1998) have shown that poor households use loans more for consumption purposes than households above the poverty line. This results in less incremental benefits for the poor household since their household income fails to increase. Ghatak et al (1999) supports this claim that the poor derive fewer benefits because they more often than not use the credit to meet immediate household needs than to invest in business. This comes against a background where credit from microfinance institutions is more expensive than the formal microfinance that is used by the more affluent members of the society.

Studies by Hulme and Mosley, (1996), Kiiru and Mburu, (2007) have proved that microfinance does not benefit the poorest of the poor.. Kiiru, (2007) in her study of Makueni district discovered that joint liability lending microfinance programs attract the relatively

poor in society. However she is quick to point out that participation of the poorest may be hindered by selection bias caused by levels of household income and stringent microfinance terms and conditions. This determines the size of credit a participant can receive.

Coleman (2006), like Kiiru, (2007) also allude to selection bias. They allege that MFI's were selective in their reach, shunning those at the bottom of the poverty rung in favour of those poor who are better off. This results in positive impact on the richer households and insignificant impact on the much poorer households. They further assert that even when the poor are selected as beneficiaries they often use the money for consumption rather than production resulting in them resorting to disposing household assets in order to offset the loans. By virtue of their positions in society the richer households were able to allocate larger loans for themselves and smaller ones to the poor. He further argues that the size of the loans also had an effect on the benefits accrued from loan utilisation. In the same study, there was a high dropout rate among women on the grounds that the loans were too small to bring any significant changes to their lives.

Other studies have also shown that participating in a microfinance program leaves participating households in a worse off situation than before. Kiriti, (2005) argues that by taking credit poor women become more vulnerable since they would have exposed themselves to debt. Kiriti (2005) further argues that participation in microfinance may cause women to lose their assets since they may end up selling them to offset outstanding credits when their business ventures fail to raise enough profit. Aghion and Morduch 2005, observe that microfinance is not a miracle worker or quick fix solution against poverty, and it produces different results for different people in different locations.

Chowdhury, (2009) argues that while microfinance has developed some innovative management and business strategies, its impact on poverty reduction remains in doubt. He goes on to say, Microfinance, plays an important role in providing safety-net and consumption smoothing and it also provides a solution to poor people's self esteem needs. Chowdhury, (2009:2) further observes that "for any significant dent on poverty, the focus of public policy should be on growth-oriented and equity-enhancing programs, such as broad-based productive employment creation" He also observes that it could have been easy to ascertain the impact of microfinance if it had been easy to measure what would have happened to a person who borrowed from a micro lender if he/she had not done so. "But if borrowers are more entrepreneurial than those who do not borrow, such comparisons are likely to grossly overstate the effect of microcredit" (Chowdhury, 2009 : 1). This comes against a background where many early studies compared borrowers with non-borrowers.

The MIT study of slum dwellers in the city of Hyderabad, India by Banerjee, et al (2009) quoted in Chowdhury (2009) revealed that microfinance had no impact on health, education, or women's decision-making indicators. Similarly, the study by Dean and Zinman (2009), found no correlation between participation in microfinance and the quality of food that people ate.

Early studies by Hulme and Mosley, (1996) produced some of the most controversial findings. They posit that microfinance benefit those above the poverty lines than those below. They claim that those with income below the poverty line ended with less incremental benefits than non participants. These findings reveal that there are more factors that contribute to poverty reduction than just credit. One of the most important factors is business

skills. The findings of the MIT study by Banerjee et al, (2009) also point to this factor. He reveals that the poor have low literacy levels which affect their level of understanding of business issues and the level of risk that they can take. These scholars claim that the poor are risk averse despite their desire to have a change in their fortunes.

Karnani (2007: 37) supports this point when he says “Most people do not have the skills, vision, creativity, and persistence to be entrepreneurial. Even in developed countries with high levels of education and access to financial services, about 90 percent of the labour force is employees, not entrepreneurs.” Mahajan (2005), a Social Entrepreneur acknowledges the importance of microcredit in microenterprise development but he is also of the opinion that there are other factors that are equally important that have to be taken into consideration. He mentions other factors like motivation, selection of business idea, business and technical capacity development, value addition and market linkages, regulatory framework and infrastructure development. He is also of the view that microcredit has limited application i.e it works small projects like buying household and agricultural assets, livestock production and petty trading (Mahajan, 2005).

The above view is supported by Pollin (2007: 2) who also had this to say about microcredit, “Micro enterprises run by poor people cannot be broadly successful simply because they have increased opportunities to borrow money. For large numbers of micro enterprises to be successful, they also need access to decent roads and affordable means of moving their products to markets. They need marketing support to reach customers.”

Literature has also revealed that even some of the promoters of microfinance also have their reservations about the effectiveness of microfinance as a single poverty reducing factor. Sam Daley-Harris, Director of the Microcredit Summit Campaign, pointed out that, “Microfinance

is not the solution to global poverty, but neither is health, or education, or economic growth. There is no one single solution to global poverty. The solution must include a broad array of empowering interventions and microfinance, when targeted to the very poor and effectively run, is one powerful tool.” (Daley-Harris 2007:1). Professor Yunus (2003: 171) the founder of the much acclaimed Grameen bank also had this to say about the impact of microcredit. “Micro-credit is not a miracle cure that can eliminate poverty in one fell swoop. But it can end poverty for many and reduce its severity for others. Combined with other innovative programs that unleash people’s potential, micro-credit is an essential tool in our search for a poverty-free world”. This study will seek to find out what these other factors are – what else can development practitioners and MFIs do to complement microfinance in the fight against poverty in rural areas.

Studies have also revealed that there is need to take into consideration the operating environment if microfinance is to have a positive impact on poverty reduction. Pollin (2007:2) exonerates microfinance when he notes that micro-enterprises “need a vibrant, well-functioning domestic market itself that encompasses enough people with enough money to buy what these enterprises have to sell. Finally, micro businesses benefit greatly from an expanding supply of decent wage-paying jobs in their local economies. This is the single best way of maintaining a vibrant domestic market”. Bateman and Chang (2009) also had this to say about an enabling environment, “Microfinance produces an over-supply of inefficient micro-enterprises that undermines the development of more efficient small and medium enterprises (SMEs). In the absence of an expanding economy, microenterprises are forced to survive by drastic cost-cutting strategies, which in the short run can take crucial market share away from local SMEs that might otherwise be able to reduce unit costs and register productivity growth in the long run” (Bateman and Chang, 2009, p. 7). The case of Bosnia can be taken as a case study. Poor households joined a microfinance programme that was

aimed at generating income through dairy milk production. Each programme participant ended up purchasing a dairy cow with the objective of generating household income through the sale of milk. Although the programme was a noble one, in the end the market was saturated with milk and the price of milk went down. This did not only affect the small dairy farmers but also the big established producers who ended up failing to generate enough revenue to sustain their businesses (Agripolicy Bosnia, 2006).

Findings from various scholars also support the fact that MFIs are causing over flooding of microenterprises on the market. Chowdhury, (2009:3), is also of the view that “Too many micro-enterprises due to a constant inflow of new MFI financed entrants cause market saturation, and a hyper-competitive situation. This results in very low and declining rewards for such simple micro-enterprise activities.” He is supported by Siddiquir Osmani (1989) who postulates that the proliferation new microenterprise reduces the margin of returns to below the cost of borrowing incidentally is very high. The findings of a survey of 350 leading microfinance institutions carried out by Morduch (2008) revealed that they charged interest rates that ranged between 20 and 40 % per annum inflation adjusted.

Kiiru, (2007) argues that the abundance of microenterprises cannot be translated to mean household economic empowerment but may be an indicator of a malfunctioning economy that will be failing to legalise the enterprises.

In their study findings researchers like Hulme and Mosley, (1996), Mahajan, (2005) and Karnani, (2007) agree that without a market, credit financed enterprises take a turn for the worst. This dilemma of microenterprises is what some researchers call “graduation problem of micro-borrowers”. The Daily Star of Dhaka, (2008) alluded to this when they wrote that “so

long as this is not complemented by the government's facilitating growth of marketing network, reliable energy supplies and a dose of fiscal incentives to the small exporters, the full potential of the micro-credit sector would remain untapped."

Kiiru (2007) argues that the popularity of microfinance lies mainly in what she terms the "microfinance promise". She argues that the liquidity constraint is the most important constraint impeding poor households from prospering and that if addressed it will be possible for the poor to escape poverty. The belief is that injection of liquidity will lead to higher productivity and higher income. Increased income will translate into increased consumption of goods and services such as better quality food, better health care and better education. This translates into poverty reduction. Kiiru, (2007:29), is of the view that "Such is the model that has promoted the microfinance institution and given it the polite and respectable image it currently enjoys". However for the model of microfinance promise to work Kiiru, (2007) suggests that several assumptions have to hold true. Some of the major assumptions are that micro entrepreneurs are already in existence but are just waiting for a chance to get credit that will enable them to set up successful projects; entrepreneurial skills and markets for products are already present; and lastly if microenterprises are able to pay the high interest rates then they are viable and are reducing poverty. However Kiiru (2007) hastens to add that "if any of the assumptions do not hold true in any given context then the whole promise stands compromised and the potential of microfinance as a poverty reduction policy may not be realised" Kiiru, (2007:30).

Gulli, (1998) stresses that in order for microfinance to attain the objective of poverty reduction, policy makers should strive to have a clear conceptualization of the strengths and limitations of micro credit. This will enable them to come up with effective strategies and

programmes that will complement microfinance poverty reduction efforts. In an effort to reach the poor thereby complementing MFIs efforts, governments the world over have implemented subsidized credit programmes. Thus post World War II saw a rise subsidized credit that was aimed at a increasing land productivity, increase labour demand and thereby increase agricultural wages (Aghion and Morduch 2005). Although this was a sound theory it failed to yield the desired results. According to Aghion and Morduch (2005) one of the reasons for the failure of subsidised credit was that wealth and political power replaced viability as one of the criteria for loan allocation. Morduch (2000) is of the view that the poor small scale farmers were left out of the subsidised credit markets as wealthier people tended to benefit at the expense of the poor. From her findings in Makueni, Kenya Kiiru, (2007) also revealed that the impact of state subsidised microfinance was compromised by the issue of allocating loans to undeserving clients on political grounds thus sidelining the poor in the process. The subsequent default in loan repayments put pressure on government to forgive the loans especially before elections (Kiiru, 2007). This has tended to contribute to the failure of subsidised microcredit. This is supported by findings from studies carried out by Braverman and Guasch (1986) in countries within Africa, Middle East, Latin America, South Asia, and South East Asia that showed default rates of between 40 to 95%. Morduch also supports by saying that the subsidised credit programs either ran out of money or they drained government accounts (Morduch 2000).

Study findings have also shown that socio- cultural values and norms have significant effect on the success of microfinance especially the joint liability scheme. Studies conducted by Roodman and Qureshi (2006) in Bangladesh and Kiiru, (2007) in Makueni, Kenya have indicated that women make better clients than their male counterparts. The findings show that for cultural reasons, women were more sensitive to protecting the reputations of their families

and thus they would not want to put the family name into disrepute by failing to honour their debts. However the opposite is true for the male borrowers as the community seemed to be oblivious of their actions. Their findings further revealed that males were difficult and arrogant clients who did not observe the credit terms and regulations. (Roodman and Qureshi 2006).

Morduch and Haley (2002), postulate that contrary to people's expectations microfinance is not designed for everyone since entrepreneurial skills are required if one is to run a successful business. In addition some people by their nature are debt averse. Wright, (2000) supports this assertion by pointing out that even a well thought programme may fail to benefit the poorest since they tend to exclude themselves from mainstream events for fear that they will not fit in. Microfinance can only benefit the poorest if programme is designed specifically to reach them. This shows that the poorest on their own might not go out of their way to seek credit from microfinance institutions. Navajas et al (2000) and Simanowitz, (2000) feel the situation is worsened by microfinance institutions who deliberately seek to do business with those at the top of the class while giving less attention to the poorest.

Some scholars argue that the growth of the microfinance industry is not due to the fact that they are bringing a positive benefit to the poor. Sharma (2000) writes that the spectacular growth of microfinance industry has been fuelled not by market forces but by conscious actions of national governments, and other development practitioners who regard microfinance as an effective tool for alleviating poverty. However even with this seemingly reasonable explanation the question still remains of why if microcredit was not producing any tangible benefits was there an increase in number of clients and MFIs. For example by end of 2006 there were over 120 million people who were benefiting from the services of over

10,000 microfinance institutions paying interest rates of between 15 and 35 % (Planet finance.(www.planetfinancegroup.org).

Roodman and Qureshi (2006) argue that the microfinance sector has been able to prosper not because they believe in the poor's ability to repay their credits, but that they have devised appropriate methods of retaining clients, keeping loan repayment rates high, minimizing fraud and at the same time deliver effective microfinance services at a profit.

Kiiru, (2007) argues that most of the enthusiasm about the positive impact of microfinance has been a matter of assumption and that most of the excitement about microfinance was based on the great stories on the benefits and success of microfinance that have been told from around the globe and that have gone a long way to turn microfinance from a few scattered programs in to a global movement. She gives an example of a typical rags to riches microfinance impact story of women and their families living at the verge of poverty and desperation, then eventually the lives of the household members take a turn for the better once these women are given the opportunity to access credit. The women normally engage in simple projects that lead them to enjoy the fruits of the "microfinance promise" after having circumvented the vicious cycle of poverty. The question that begs to be answered is: Are the positive microfinance impact stories just old women's fibs? This research aims to provide substantive evidence about whether this is the case or not. In this endeavour I am supported by Aghion and Morduch (2005), who observe that great anecdotes like these should not be substitutes for careful statistical investigations. They point out that there is need to have statistical information if indeed the success stories generally apply to most of the microfinance clients across the board.

The Centre for Global Development, (2007) quoted in Kiiru (2007: 1) also argues that “There are many stories of the transformative effect of microfinance on individual borrowers but until recently there has been surprisingly little rigorous research that attempts to isolate the impact of microfinance from other factors, or to identify how different approaches to microfinance change outcomes.”

From the above review one can deduce mixed findings on the impact of microfinance. There also has been no widely acclaimed study that robustly shows strong impacts, but many studies suggest the possibility of good welfare impact (Aghion and Morduch 2005). Some researchers like Kiiru, (2007) have chosen to take the middle of the road approach when she says “participation in joint liability lending microfinance programs does not significantly increase household vulnerability to poverty neither does access to microfinance loan significantly reduce household vulnerability to poverty”.

Researchers have failed to explain why if the impact of microfinance were so doubtful would it enjoy phenomenal expansion over a short period of around four decades? At present the microfinance movement is enjoying tremendous support from economic empowerment development practitioners around the globe. This point to the need for further research directed towards not just specific results but also the context within which particular results are expected. What worked in a particular socio cultural and economic context may not necessarily work the same if the socio cultural and economic conditions are transformed.

The review has also revealed that there is no comprehensive existing literature on rural microfinance and its impact on poverty reduction in Zimbabwe. It is against this background that this study is conducted with the express aim of gaining more knowledge about what is

appropriate for the rural Zimbabwe scenario. This literature review thus aims to situate the current study on microfinance within the body of existing literature and to focus the study on areas that have not been covered adequately in previous studies.

Chapter 3

Research methodology

3.1 Introduction

This chapter is going to give details of the research methodology that was adopted by the researcher in carrying out this study. Highlights of the target area, target population, sampling method, research methods and data analysis techniques that were utilised are going to be given. The ethics that guided this study will also be explained.

3.2 Research Methodology

This study adopted a 'mixed method research' or 'mixed model'. Creswell (2006:5) defines mixed method research as a method that "focuses on collecting, analysing and mixing both quantitative and qualitative data in a single study or series of studies. Its central premise is that the use of quantitative and qualitative approaches in combination provides a better understanding of research problems than either approach alone". According to Potter (1996), the use of multiple methods strengthens research findings by cross checking information since both qualitative and quantitative methods have their own innate weaknesses. The mixed methods' approach therefore provides strengths that offset the weaknesses of both quantitative and qualitative research. The mixed method approach allowed the researcher to use a wide array of data collection tools than when using either qualitative or quantitative alone. By using qualitative data to explain quantitative data and vice versa, mixed methods provided answers to questions that could not be answered by either qualitative or quantitative research alone.

The researcher adopted the phenomenological approach to get a description of the participants “lived experiences” of the phenomena. Phenomenological data gathering techniques’ such as in depth interviews, written or oral narratives or poetry that portrays the participants lived experiences were used. The phenomenological research enabled the researcher to capture the lived experience of participants’ life of poverty before access to credit and the lived experience after access to credit.

3.3 Target area

The target area for the research was wards 4 and 30 of Mutasa district. These areas were chosen because firstly in these wards, there are extensive ISAL and ROSCA microfinance initiatives that are being promoted by two NGOs namely ASAP and Mandeya 2 Community Development Trust. Secondly, the area was also easily accessible to the researcher thus cutting on research costs. Thirdly, the two wards share their eastern boundaries with Mozambique thus making the area conducive to cross border trade with nearby Mozambique.

3.4 Target population

The study focused on ISAL and ROSCA group members, individuals who have never participated in ISAL and ROSCA groups (to act as control group), local leadership – including traditional and local political leaders, Staff from Mandeya 2 community development Trust and ASAP, Staff from relevant government ministries, other NGOs carrying out microfinance activities in the target area, and Micro finance institutions at Hauna growth point.

3.5 Sampling method

In conducting this study, the researcher was not able to test every member of the population but sampling was done. Sampling is concerned with the selection of a subset of individuals from within a population to estimate characteristics of the whole population (Wikipedia). The researcher employed non probability sampling techniques in conducting the study. The researcher conveniently selected wards 4 and 30 since the ISAL and ROSCA microfinance programmes exist extensively in this area. Since two NGOs are sponsoring ISAL group programmes in these two wards, data gathering and triangulation was made easier. The researcher also used judgemental or purposive sampling techniques to select survey respondents from ISAL and ROSCA groups and also non members from the local community. The researcher employed her expert judgement about who to include in the sample frame basing on her prior knowledge of the area. The following are the sample sizes for each category of respondents that were purposively selected from each ward:

respondents	no per ward	total number of questionnaires distributed
ROSCAs	50	100
ISAL	50	100
non participants	50	100
total	150	300

Non participants included spouses of participants' spouses, and other household members, and other members of the local community.

3.6 Data collection techniques

3.6.1 Interviews

The researcher used the interview technique extensively just as Kahn and Cannell (1957:149) described the interviews as “a conversation with a purpose”. The researcher used in depth interviews and key informant interviews (KIIs). The interviews were aimed at assessing the respondents’ feelings and perspectives relating to the impact of microfinance programmes on poverty reduction. The interviews were conducted in the respondent’s language of preference and the researcher transcribed the data.

Since qualitative, in-depth interviews typically are much more like conversations than formal events with predetermined response categories, the researcher explored a few general topics on poverty reduction and microfinance to help uncover the participant’s views giving due respect to how the participant framed and structured the responses. The researcher asked open ended questions that elicited depth of information from relatively few respondents. 30 respondents took part in the in depth interviews. These included 10 ISAL members, 10 ROSCA members and 10 non members.

Key informant interview (KII) is a loosely structured conversation with people who have specialised knowledge about the research problem. This allowed the researcher to explore the subject in-depth. Key informants’ included 1 local chief, 3 government employees (Education, Health and Agriculture) and 3 Non Governmental Organisations (Mandeya 2 Development Trust, ASAP and World Vision). The aim of these discussions was for the researcher to determine how the key informants perceived the two microfinance initiatives.

3.6.2 Collecting data using Focus Group Discussions (FGDs)

The researcher also made use of focus group discussions. Focus groups are group discussions (FGDs) which are arranged to examine a specific set of topics (Kitzinger 2005). The primary aim of a focus group is to describe and understand meanings and interpretations of a specific issue from the perspective of the participants of the group (Liamputtong 2009). Focus groups do not aim to reach consensus on the discussed issues. Rather, focus groups ‘encourage a range of responses which provide a greater understanding of the attitudes, behaviour, opinions or perceptions of participants on the research issues’ (Hennink 2007: 6). In this study the researcher used focus groups to seek more detail on the aspects pertaining relevance, sustainability and feasibility of ISAL and ROSCA programmes in combating poverty at community level as well as household level.

Two FGDs were conducted; one for the local leadership and one for non members. The FGDs were not difficult to organise since the researcher arranged to hold the FGD on the day that the participants were going to attend a field day that had been organised by one of the seed houses. The first FGD took place in the morning before the field day and was comprised of 9 local leaders that included 1 councillor, 5 village heads, 1 headman and 2 church leaders. The second FGD for 12 non members (males and 6 females) took place after the field day. There was voluntary participation.

In conducting the FGDs the researcher adopted the role of a facilitator and using loosely structured open ended questions was able to guide the discussions. The discussions lasted for 1 and a quarter hours per group on average. The participants were very cooperative and were very knowledgeable about the activities of the of the ISAL and ROSCA groups in the two

wards. This enabled the researcher to gather a lot of data that informed the results of this study.

3.6.3 Observations.

Observational research is a social research technique that involves the direct observation of phenomena in their natural setting. Although there are several observation methods, for the purpose of this study the researcher employed overt and non participatory observation techniques. The researcher introduced herself and explained the purpose of her visit first to the local ISAL coordinator who was in charge of the proceedings of the day and then to the group members, who had gathered to save, repay old loans and to disburse new credits. The researcher then went around the different groups observing how they carried out their transactions. The researcher also had the opportunity of asking the members to clarify certain areas where she found herself not being able to follow the proceedings. This enabled the researcher to have a better understanding of the processes and gave her the opportunity to develop field notes of the things observed.

3.6.4 Questionnaires

Questionnaires are instruments used for collecting data in research. The researcher made use of structured questionnaires to capture data which was used to measure the impact of ISAL and ROSCA programmes on poverty reduction at household level which ultimately transformed into community development. The questions were both open ended and close ended. The open ended questions were designed to elicit rich qualitative data whilst the close ended questions were designed to elicit quantitative data.

Through coding, answers were fairly easily collated and summarised, e.g. in charts and statistical form. The questionnaires were generally easy and quick to complete and a large

amount of data was collected fairly quickly. The questionnaires were relatively cheap to administer and the return rate was impressive. To facilitate easy administration and collection of questionnaires, these were administered on the specific days that the groups normally met for savings.

3.6.5 Document analysis

The researcher performed detailed document analysis of ISAL groups and household microenterprise financial records. The researcher analysed the 5 record books that form basis of the ISAL record keeping system. These are the cash book, savings book, fines book, register and credit books. The household microenterprise financial records that were analysed include receipts, purchases book, sales book, cash book and credit sales book. The aim was to collect numerical data that would aid in triangulation of results.

3.7 Ethical considerations

In carrying out this study the researcher observed research values as espoused by Soltis, (1989) of “honesty, fairness, respect for persons and beneficence” Anonymity and confidentiality was assured to all the respondents from the beginning to the end of each interview. To that end freedom to withdraw from the study was spelt out. The researcher was also careful to observe local customs and social rules. The importance of this ethical consideration was to avoid raising the community’s antagonism and making mistakes that may endanger the rapport with the study population before a study sample could be extracted from this population. Respondent participation was on a voluntary basis. The importance of giving honest answers to all questions was stressed.

3.8 Data analysis

Computer packages were used to collate data from the field. Quantitative data was analysed using the Statistical Package for Social Sciences (SPSS). The analysis of the data involved three main stages. Firstly, descriptive statistics from the microfinance respondents as well as the non-member respondents were generated. These have been presented in the form of frequency tables, pie charts, graphs for all the questions interviewed. Secondly, inferential statistics for hypothesis testing were computed using chi square test, so as to facilitate the generalisation of results to the population. Correlation coefficients were computed to prove dependents and independents between variables. The normality of the data was investigated through the use of the normal distribution principles of the mean, mode, median of certain variables of the study. Thirdly cross tabulations were done to prove validity, independents or dependents of certain variables of the sample.

The unit of analysis in this study were the individuals who are participating in the ISAL and ROSCA groups. The qualitative data analysis techniques such as grouping of responses, text searches, demographic data exploration, theme and pattern relationship and mapping, were used. Qualitative data were reduced to significant statements. Where necessary and possible, further statistical analysis procedures were applied. This was possible because through qualitative content analysis which is compatible with SPSS and Excel, among many other software programmes the qualitative data gave rise to thematic narratives.

3.9 Interpretation of data

The presentation of the findings is in plain text, tables, charts and graphs. Interpretation is in the form of a write up on research findings as directed by research questions.

3.10 Chapter Summary

This chapter gave details of the methodology that was used in gathering data for this study. The data gathering techniques that were highlighted included questionnaires, FGDs, interviews, observations and document analysis. The ethical considerations that guided the research were also clarified. The next chapter will give details of the research findings.

CHAPTER 4

RESULTS AND DISCUSSIONS

4.1 Introduction

This chapter provides a synthesis of responses elicited through questionnaires, interviews, FGDs, observations and document analysis. Findings have been presented in narrative form. Extensive use of pie charts, bar graphs and various statistical tables has been made in a bid to make the findings clearer. Findings from other scholars who conducted similar studies elsewhere are brought in to buttress the findings of this study.

4.2 Background to the contextual interpretation of ISAL and ROSCAs in Mutasa District.

Zimbabwe saw an unprecedented macroeconomic decline from the mid 1990s up to 2009 when the GNU was formulated. By mid 2008 inflation had reached 231 million % (Kadzere M 2008). The effects of the economic crises were felt in both urban and rural Zimbabwe as basic necessities came into short supply. One of the notable precipitating factors for the economic decline was the 1990s Economic Structural Adjustment Programme (ESAP) that was imposed by the Breton Woods institutions on African countries and Zimbabwe was not an exception. The purpose was to ensure debt repayment and economic restructuring by requiring the state to roll back and allow market forces to dictate the pace of the economy. As such poor countries were required to reduce spending on things like health, education and development, while debt repayment and other economic policies were made the priority. The Zimbabwean economic situation was further aggravated by the chaotic land reform program that had a domino effect on the rest of the Zimbabwe economy. Despite the improvement in the macroeconomic environment due to the Government of National Unity (GNU) of 2009,

the effects of the prolonged years of economic challenges coupled with the ongoing economic sanctions continued to see the suffering of the rural population. The reduced donor support in the rural areas and the failure of the government to provide social services support has resulted in untold suffering in the rural communities. It is within this context that two organisations Mandeya 2 Development Trust and A Self-Help Assistance Program (ASAP) decided to promote ISAL groups in wards 4 and 30 of Mutasa district with the aim of improving economic prospects of the local community.

4.3 Results and Discussions

The results and findings presented below are the main findings of the research that have been analysed and discussed in accordance with the objectives outlined in Chapter 1. A total of 300 questionnaires were administered as follows:

Table 1: Response rate to questionnaires

Group of respondents	No of questionnaires distributed	No. of questionnaires responded to	Response rate
ISAL participants	100	100	100%
ROSCA participants	100	85	85%
non members	100	100	100%

Source: field survey, 2013

As shown above all the ISAL questionnaires were returned. A contributing factor to the 100% response rate was that the questionnaires were administered during monthly savings meetings whose attendance by members is compulsory (according to the groups' constitutions). 85% of ROSCA questionnaires were responded to. The reason was that some of the questionnaires which were left with the respondents were not surrendered. There was a

100% response rate by non- members. The questionnaires were administered to respondents who had gathered for a field day and workshop in the local community. The researcher once worked in the area as Development Adviser so the rapport with respondents heightened the response rate.

The study revealed that two Non-governmental Organizations were behind the introduction of the ISAL concept in wards 4 and 30 of Mutasa district. The two organisations are Mandeya 2 Development Trust and A Self-Help Assistance Program (ASAP). These started to support the ISAL programme in 2010. On the other hand ROSCA groups have existed as savings clubs in the area since the pre independence era. ROSCA are in various forms. The most popular are groups that contribute money, kitchen utensils or groceries on a monthly basis .The members take turns to receive the contributions. The total number of ISAL groups being supported by the two organisations in the two wards is 59 with a total membership of 413 members (109 males and 304 females). The total membership size of ROSCA groups in the two wards was difficult to ascertain since no organization is supporting these.

4.3.1 Membership drive

The two microfinance programmes seem to have been well received in the two wards. The popularity of ISALs and ROSCA has been attributed to self driven membership. In addition the guiding constitutions are also home grown. This brings in the element of self ownership which motivates people to full participation.

Membership strength is based on the trust that a member will be able to make regular savings and to repay loans in the case of ISALs and regular savings in the case of ROSCAs. The study revealed that a member can fail to have access to ISAL and ROSCA on the expression of mistrust by the group members.

Both ROSCA and ISAL accord members the freedom to exit from a group as long as one is not indebted to the group upon intending to drop out. If indebted, the member is required to fulfill all the outstanding financial obligations to the current group. Should the member want to rejoin, one has to gain the trust and fulfill the requirements of the new group to be joined.

The popularity of the two microfinance models has also been attributed to the conspicuous absence of formal financial institutions (both public and private) in the two wards and the districts in general. The only formal microfinance institution that is located at the district growth centre is failing to provide credit due to shortage of financial resources. Hephzibah Trust microfinance institution's mandate was to harness financial resources from individuals who wanted to invest in the company. After investing the members would become members and become illegible to access credit from the microfinance institution. However of late people have become very reluctant to invest in these microfinance institutions given the bad experience that other investors encountered with such institutions like Capital Base and Kanyenze Investments that a based in Mutare to mention just a few. These institutions received a lot of bad publicity after they failed to pay back the investors hard earned cash. (manica post). In addition the few banks that are located in the district are not providing credit to the rural people except for government and private sector employees after satisfying stringent criteria. What this effectively means is that the only credible source of microfinance available to the inhabitants of ward 4 and 30 are ISALS and ROSCAs.

For purposes of retaining membership and at the same time discouraging drop outs, ISAL groups encourage members who want to drop out before the end of one year period to pay up all the loans that they owe to the group and to wait up to the end of the year before receiving their savings back. A new member who desires to join a particular ISAL group during the

course of the year is required to contribute to the group a lump sum equivalent to the total amount that each current member would have saved and the interest earned to date by each member's contribution. This has worked to discourage cross movement of members from one ISAL group to the other and at the same time has made it next to impossible for new members to join a group that is already in operation. In the case of ROSCAs, a member is required to complete the rotation before dropping out failure of which the member will be required to pay to the group a lump sum equivalent to the amount he/she would have already received from the other members. On the other hand a new member who desires to join a ROSCA group that is already in operation will have to take up the last position in the rotation. All the above have worked to make group membership very exclusive.

The study revealed that no group has had to sell a member's collateral due to failure to meet ISAL contractual obligations. The local traditional leadership also concurred that they have not presided over a case that required them to pass judgment enforcing repayment of borrowed funds or sanctioning the sale of collateral. Pressure from group members and fear of bringing shame and reprisals to the whole family have played a significant role in encouraging the members to meet their obligations. Furthermore the meticulous selection of members basing on trust also ensured that a group became composed of well trusted and faithful members. As a result, each member would try not to usurp that trust. In addition, members feared to be ostracised by the community if they failed to repay their dues. Women also feared reprisals from their spouses and the extended family. Those non members who were interviewed indicated that it was for this very reason that their husbands had discouraged them from participating in the ISAL and ROSCA programmes. The husbands feared that their wives would not be able to run viable projects that would enable them to pay their loans thereby bringing shame and dishonor to the household.

4.3.2 Organisation of the groups

i. **ISAL**

The groups are comprised of 4-12 members who come together to save and borrow money on a monthly basis. The mean group size is 5 members. The interest rate used by all the groups is 20% per month. The loan repayment period is one month.

The following amortization table is for a group of 5 people who are contributing \$10.00 per month for a period of 1 year.

Table 2: Amortisation Table

No of members: 5					
Savings per member: \$ 10.00					
Interest rate : 20%					
Month	Amount accumulated from previous month	Total monthly savings	Total amount available to borrowers loan	Interest 20%	Total
1	0	50	50	10	60
2	60	50	110	22	132
3	132	50	182	36.4	218.4
4	218.4	50	268.40	53.70	322.10
5	322.10	50	372.10	74.40	446.50
6	446.50	50	496.50	99.30	595.80
7	595.80	50	645.80	129.20	775.00
8	775.00	50	825.00	165.00	990.00

9	990.00	50	1040.00	208.00	1248.00
10	1248.00	50	1298.00	259.60	1557.60
11	1557.60	50	1607.60	321.40	1929.00
12	1929.00	50	1979.025	395.80	2375.00
	2375.00	600.00			

The table above shows a typical group that is saving \$10/member per month. The members pool their funds together every month and repay at the end of the following month at an interest rate of 20%. The group's funds grow by accumulation of monthly savings and repayments at the end of each month. The cycle continues until the end of a one year cycle.

At the end of the cycle each member would have saved a total of \$120.00 (\$600.00 divided by 5 members). Each member will then receive a lump sum of \$475.00(\$2 375.00 divided by 5 members) at the end of one year period.

Return on investment (ROI)

This is one of the methods of determining profitability of an investment. Using the foregoing example of a group that contributes \$10.00 per member for a period of one year the profitability of an individual's investment into the ISAL group can be calculated as follows:

$$\text{ROI} = \frac{\text{amount of financial gain}}{\text{total investment}} \times 100$$

Total investment amount

$$= \frac{\text{Earnings} - \text{total investment}}{\text{total investment}} \times 100$$

Total investment amount

$$= \frac{475-120}{120} \times 100$$

$$120$$

$$= \frac{355}{120} \times 100$$

$$120$$

$$= 295.83\%$$

The study established that the groups fall into 4 main categories and are determined by individual members' monthly savings which are \$2, 5, 10, and 20. The following table shows the amounts saved by each member in the different groups, the total amounts invested by the members and the total returns.

Table 3: Summary of Financial Performance

No of members	Individual savings per month \$	Total savings per member in 1 year \$	Total amount saved by group in 1 year \$	Total accumulated by the group at end of year \$	Amount received by each member at end of year \$	Return on investment % (ROI)
5	2	24	120	475	95	295,83
5	5	60	300	1 187	237	295
5	10	120	600	2 375	475	295,83
5	20	240	1 200	4 750	950	295,83
5						

Table 4 : Amount given to individuals after a yearly cycle

Mean	475
Median	475
Mode	450
Range	855
Minimum	95
Maximum	950

Source: Field Survey, 2013

ISAL guiding Principles

The ISAL groups are guided by certain principles that ensure that the groups remain sustainable. All group members save equal amounts every month. The other guiding principle is that all cash collected from savings and loan repayments must be issued out to members as credit. Thus no cash remains in the treasurer's cashbox for safe keeping. No member is exempted from borrowing. In addition all members are required to borrow from the purse. In the event that excess cash remains after all the members have borrowed, the remaining amount is distributed equally amongst all the members so that they may repay the money with interest the following month. This means that those risk averse members who do not want to borrow large amounts of money are literally forced to borrow so that the funds would grow. If the funds are not borrowed then the members will not be able to get significant lump sums at the end of the year.

The main purpose of ISAL credit is to finance household income generating activities and not to pay for household expenses. The profits from the household IGAs will be used to finance

household needs. This requirement has forced members to become entrepreneurs so as to generate income that will be used to repay the credit and to finance household needs.

Members are required to register collateral security whose worth is equivalent to the amount borrowed. The repayment period is one month. In the event that a member fails to settle his/her debt in the agreed one month period, he/she is allowed one more month to settle the debt after which the collateral security will be sold to defray the outstanding debt. During the course of the month there is strict monitoring of the affected members business activities and also the next of kin is informed about the state of affairs. This is designed to exert pressure on the member to repay the debt. The study has revealed that this has been very effective in ensuring that every member settles their debt in the agreed time period before the collateral can be sold and before the issue has been exposed to the entire community.

At the end of the one year period the accumulated amount is shared equally among the members at the end of one year. The process is replicated the following year. Members get the opportunity to withdraw from the group after they have shared the accumulated amount. During this period the members can agree to adjust the amount of monthly savings upwards or downwards.

ii. ROSCA

Groups are normally comprised of 4 to 8 members who select each other on the basis of trust. ROSCA groups offer the benefit of flexibility in the sense that they do not limit the usage of money received by the member. The purpose of which the money will be put to is up to the discretion of the member. ROSCA also offers flexibility of savings. ROSCA members reach a consensus on the amount to be saved by each member and the frequency of savings. The amount and frequency can be adjusted after a consensus has been reached by the members. The frequency of savings can be daily, weekly, bi-weekly or monthly. The ROSCAs

members contribute the same amount of money (that is if the round is in monetary form) and the same type of commodities if the round is in kind. The duration of the round is equivalent to the total number of members in the group. The issue of flexibility was also observed by Olalekan (2010) whose study on ROSCAs in Ijebu Ode, Nigeria also revealed that as informal microfinance institutions, ROSCAs are quite convenient and appropriate for the poor in terms of credit provisioning than those of banks (formal financial institution) because the ROSCAs operation terms are flexible and are set by the members unlike the terms of formal financial institutions.

ROSCAs also offer improved access to lump sum amounts. The existence of ROSCA results in greater financial inclusion since individuals who could not access funds from the traditional financial systems can save and have access to lump sum amounts when their turn comes.

Table 5: ROSCA groups

Frequency	%age of respondents
daily	1%
weekly	27%
bi- weekly	0.5%
monthly	71.5%
total	100%

Source: Field survey, 2013

Daily ROSCAs are not very popular. Only those groups consisting of members who operate vegetable markets and flea markets carry out daily savings. These are very few because most

households grow their own vegetables due to the abundance of natural water sources in the area. Only two flea markets are in the area as most respondents prefer door to door selling. The majority of the respondents have joined monthly ROSCAs because they sell their wares to government employees and Katiyo Tea estates employees who receive their salaries on a monthly basis. Since most of the sales are on credit, they can only collect the money from the buyers after they have received their salaries. Furthermore an ad hoc flea market is set up at the tea estate on every pay day to facilitate cash sale of consumer goods.

4.3.3 ISAL versus ROSCAs

The study revealed that of the two types of saving approaches, the ISAL approach is gaining more popularity largely because it was considered to be a regular and reliable source of business credit. Members tended to utilize the credit as capital for establishing household business ventures. All ISAL members interviewed revealed that the main objective of their ISAL groups was to provide capital for business. A study carried out by Kiiru (2007) in Makueni District, Kenya also established that enabling poor households' access to credit helps households to begin micro entrepreneurship which should enable them to improve their incomes and eventually escape poverty. However the interviews also revealed that a few members would secretly divert the money to meet household emergencies. This would result in members struggling to repay their dues.

15% of respondents belong to both ROSCA and ISAL groups. The reason behind the dual membership is that the members use the ROSCA to complement the ISAL. Credit from ISAL groups is used to set up household projects. Members in turn save the profits they realise from household income generating activities in ROSCAs so that they would be able to receive their money as a lump sum when it's one's turn in the rotation. The study revealed

that the lump sum amount could be used among other things to purchase large household goods that the members would have failed to purchase as individuals.

4.3.4 Reasons for Joining ISAL and ROSCAs

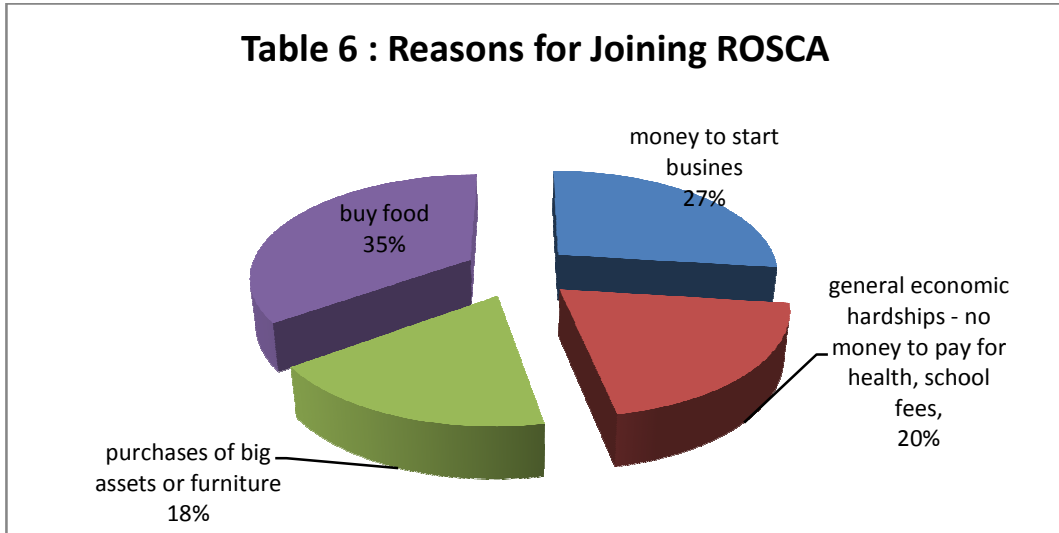
The study revealed that there are a multitude of primary push factors that have caused people to join ROSCAs and ISAL groups. One of the common push factors for joining microfinance models is that members perceive these as source of business startup capital. This in line with Banajee and Newman’s assertion that there are two principal poverty traps that have bound many families in Zimbabwe in perpetual poverty and these are low initial capital and low savings traps. This means that the poor have got limited access to capital to start up income generating activities that can provide economic safety nets. Given the glaring absence of formal microfinance institutions in the district the members have seen this as a credible alternative source of business credit.

Table 5: ROSCA groups

Frequency	%age of respondents
daily	1%
weekly	27%
bi- weekly	0.5%
monthly	71.5%
total	100%

Source: Field survey, 2013

Table 6 : Reasons for Joining ROSCA

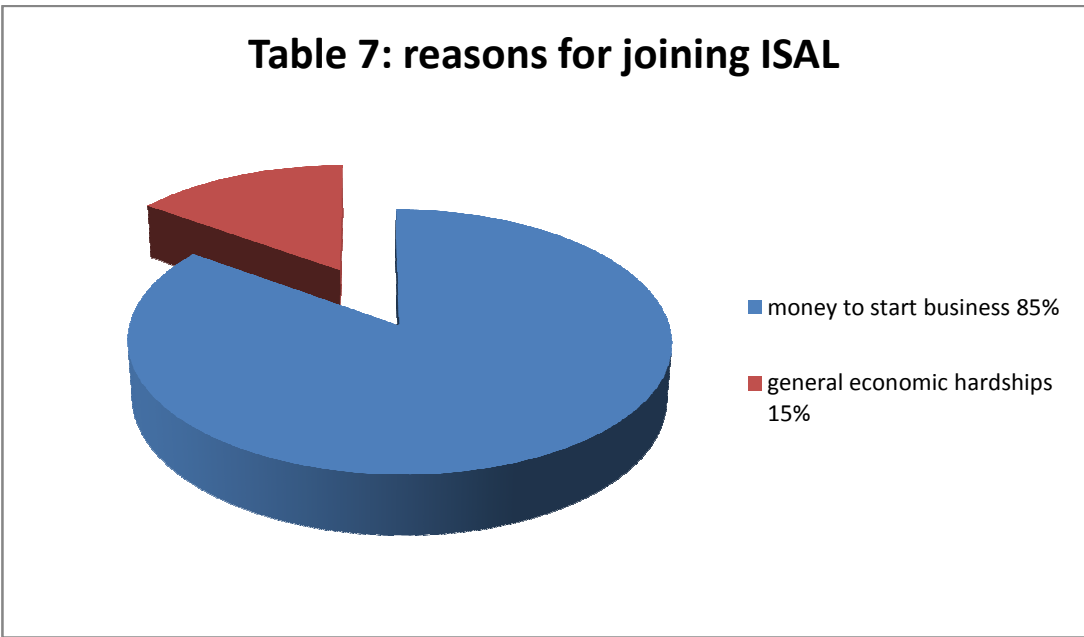


Source: Field survey, 2013

The study has also revealed that not only do participants want to utilise the ROSCA lump sum to purchase durable assets but they also want to use the money to buy food, finance start up of business and other household requirements that may be in short supply. This is supported by **Chitieji**, (2002) who opined that ROSCA are also used to finance entrepreneurial activities. Gurgerty, (2005) also argue that ROSCA funds are not only used to finance the purchase of a lumpy, indivisible good but can also be used for other purposes in the household. On the other hand some scholars like Handa and Kirton, (1999) have argued that that ROSCA are regarded as a source of funds to make large indivisible once off expenditure for durable goods

Table 7 : Reasons for Joining ISAL

Table 7 : Reasons for Joining ISAL	
Money for business purposes	85%
General economic hardships	15%
Total	100%



Source: Field survey, 2013

Shortage of business startup capital is a common push factor for participants of both ROSCA and ISAL groups. It is important to note that most ISAL participants consider ISAL loans as start up loans for household IGAs. The profits from the household projects will then be utilised to pay for food, health fees, clothing, household assets, agriculture inputs and other household requirements. This is in line with the rules and regulations of ISAL groups as enshrined in the groups’ constitutions. The situation is different from ROSCA groups that do not dictate how the participant should utilise the lump sum that they receive. The general economic hardships that the ISAL group members needed to address include households not having enough money to pay for household expenses such as payment of health fees, grinding mill fees, clothing and decent shelter. It is important to note that the rural communities have come to regard acquiring an education for their children as an important factor for the development of their children, the whole family and the community at large. As can be noted in Table 28, the majority of respondents have made good progress in acquiring

an education for their children. These push factors are common within most households within the community and district as a whole.

Table 8: Ranked Priority use of ISAL money

Priority Use of Money ISAL returns	
Priority	Need addressed
1	ISAL loan repayment
2	Food, clothes, household goods
3	Education, health
4	Business capital
5	Farming inputs, livestock
6	Others

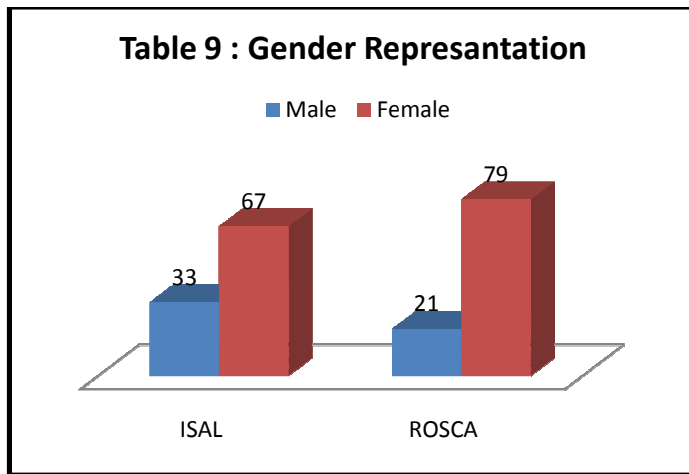
Source: Field survey, 2013

Priority number one for all ISAL participants is to repay the business credit acquired from the group. This points to the fact that participants are very cognizant of the fact that failure to repay the loan will result in them losing their collateral security and social credibility. After loan repayment participants then prioritise food, clothes and other household goods due to the deteriorated socio economic situation in Zimbabwe. This is in line with Maslow’s hierarchy of needs which postulates that a human being priorities physiological needs which are food shelter, warmth and warmth. Its only when the lower needs are satisfied that higher needs become a priority (Maslow, 1943).

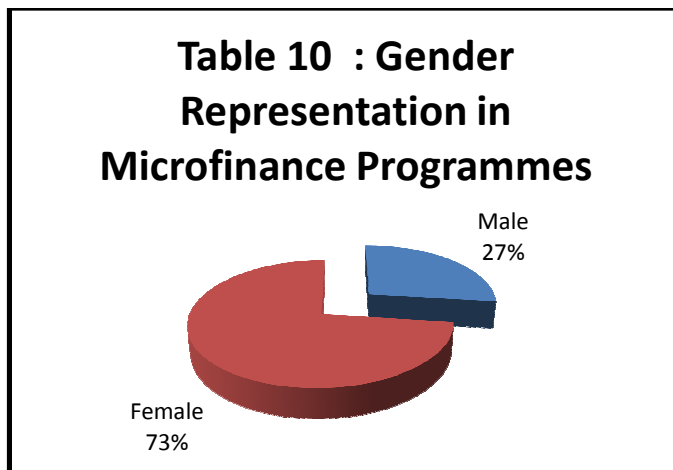
4.3.5 Gendering the Membership

Male and female membership was found in both ROSCA and ISAL groups but as the results show the membership is dominated by women. The study revealed that this scenario is

caused by various factors other than gender discrimination. This position is also asserted by Tsai (2004).



Source: Field survey, 2013



Source: Field survey, 2013

The above tables show the gender representation in these micro finance programmes. 73% are women and 27% are males. Most women are involved in these programmes because most men are perceived to be away from their homes most of the time, with some working in towns. The women's reproductive gender roles that relate to domestic or household tasks associated with children and family care cause most women to be aware of immediate

household needs. The reproductive role involves the care and maintenance of the household and its members, including bearing and caring for children, cooking, shopping, housekeeping and family health care. In order to fulfill this role women need a significant amount of financial resources and hence they tend to join the informal microfinance programmes such as ISAL and ROSCs so that they may respond to the basic needs of the households.

A number of studies have also revealed that women spend a greater proportion of their income than men on household wellbeing, [Chant, (2003); Quisumbing, et al (2006)]. Mayoux and Hartl, (2009) also support this view by asserting that once women realise additional income they are more likely to invest additional earnings in the health and nutritional status of the household and in children's schooling. Thus one can safely conclude that microfinance support targeted towards women has greater positive impact on child and household poverty reduction, measured in terms of malnutrition, consumption and wellbeing

The findings also reveal that women in general appear to be more responsive to rural economic empowerment initiatives than the men. Klasen (2002) is of a similar view and argues that women have proved to be better re- payers of loans and better savers than their male counterparts and are more willing to form effective groups of savings and lending.

The major purpose of the credit from ISAL is to set up household income generating projects (IGAs). The profit from the household IGA is then used to meet family physiological needs, health care and children's education requirements. Many women have seen this as a chance of raising capital to finance cross boarder trading with nearby Mozambique. This has been made easy by the existence of the porous border that has allowed the women to illegally move back and forth across the border with their wares without having to pay any customs duty. However 9% have acknowledged that they at times divert the loans to meet immediate household needs in cases of emergency situations such as death or illness in the family or if a

child is dismissed from school due to nonpayment of school fees. However this often results in loan repayment challenges as these women will then find it difficult to meet their loan repayment obligations.

Several reasons were attributed to the reluctance of the men folk from joining ISAL and ROSCA groups. The diamond rush in Manicaland has seen most men going for illegal diamond mining in Chiadzwa. For many of the villagers it has been a tale of rags to riches due to illegal mining activities. The men are of the opinion that profits from ISAL and ROSCA funded household income generating projects are marginal and take too long to come by as compared to proceeds from diamonds. The involvement of women has also caused men to snub the programmes as an extension of women's clubs. Since independence, women have been involved in rural income generating projects that include knitting, crocheting, bread making and craft through cooperative groups. Microfinance projects are therefore seen by men as a way of reviving or rejuvenating the defunct cooperative groups.

Male migration has also reduced the able bodied male population in the two wards. Most men have taken up jobs in the urban areas. In addition some of the able bodied men have migrated into nearby Mozambique in search of permanent and seasonal employment. The migration has left behind women constituting the greater part of the population in the two wards. The few men who join the groups often drop out as they migrate in search of formal employment.

The production of baskets and bananas and the subsequent marketing activities that is done outside the ward and is dominated by men has also contributed to make men less ideal participants for the microfinance groups. Since the *Sengere* reeds that are used as raw material for the production of baskets grow naturally and in abundance in the two wards the men spent most of their time making these baskets which they in turn sell in areas as far as Mozambique, South Africa, Beitbridge, Mbare market and in other areas where there is high

agriculture production e.g. Gokwe North and South, Mutoko and Headlands. The reason behind this is that some of the baskets are used during harvesting and for packing horticulture produce that will be transported to the markets in urban centres. The men can spend up to three weeks on what they term basket selling 'trips' such that it will be very difficult for them to meet the ISAL and ROSCA group obligations of regular monthly and bi weekly meetings.

Matanuska private limited company which specializes in local and export marketing of bananas is carrying out a banana out grower programme in the district. The company is targeting all rural farmers in Mutasa East who are willing to take part in banana farming. Since it's an out grower programme Matanuska provides the plants and the inputs required by the farmers and also provide a ready market. Male household heads who possess excess land have found this to be worthwhile scheme to pursue rather than participating in the microfinance groups.

Ward 4 shares part of its northern and southern border with Katiyo estate. This company has over the years provided employment for the locals on both permanent and short contract basis. The men have tended to favour this in comparison to establishing household IGAs.

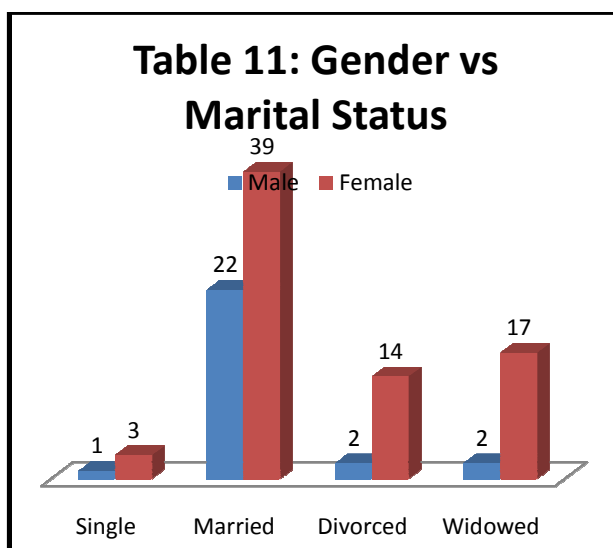
The approach of the two nongovernmental organisations - ASAP and Mandeya 2 Development Trust - that have been supporting the establishment of ISAL groups in the two wards has also tended to sideline men. Their main mandate has been to uplift the standard of living of rural communities but with a special focus on marginalised women. This is in line with MDG 3 of promoting gender equality and empowering women. Both organisations have alluded to the desire to correct the historical imbalances that were caused by socio-cultural and religious attitudes and practices that tended to favour the boy child at the expense of the girl child. These practices have negatively affected the girl child's access to education and thus limiting her chances of getting a formal employment and at the same time heightening

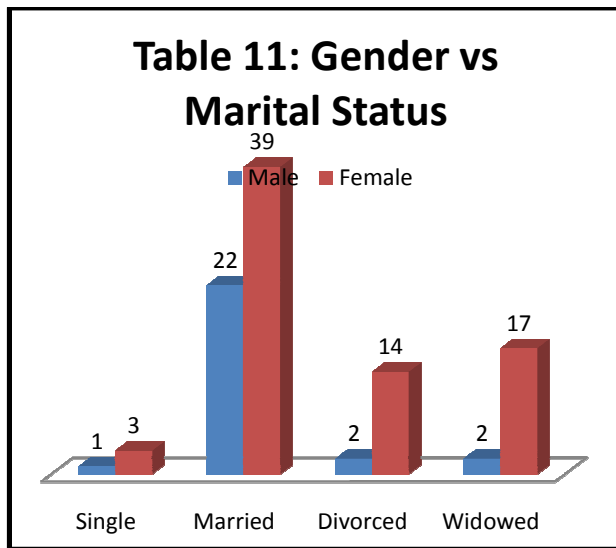
the chances of early marriages. Thus the two organizations' rural income generating capacity building initiatives have tended to target the women than the men. Given that an estimated 70% of the 1,3billion people living on less than a dollar a day are women (UNDP 1995); the two development organisations appear to have adopted a positive developmental goal. Literature also support that women in Zimbabwe are hard hit by poverty and as a result face a lot of economic, legal, cultural and social gender based discrimination. This impacts negatively on their lives, especially in the area of decision making and participation in community development activities (Kachingwe 1986).

The history of the Zimbabwean government's empowerment approach which goes as far back as the 1980s was aimed at empowering the women. The women's empowerment initiative has changed ministries ever since with the mandate at present resting with the Ministry Of Gender. However despite its noble intentions the government has failed to provide the much needed micro finance support to rural folk. At present the Ministry of Small and Medium scale Enterprises which is mandated with the role of supporting the establishment of Savings and Credit Cooperatives (SACCOs) is failing dismally to deliver on its mandate. This has been largely caused by lack of resources to implement its obligations. The ministry is operating under severe operational constraints both at district and provincial level caused by lack of funding such as lack of transport to visit the rural areas, lack of travel and subsistence allowances for the employees, lack of training financial and material resources among others. These constraints have severely curtailed governments outreach programmes to the rural areas. This has been worsened by the rural populations' unwillingness to pay for government services mainly due to dependency syndrome. As a result, men have picked a negative attitude towards projects which identify with the women's domain.

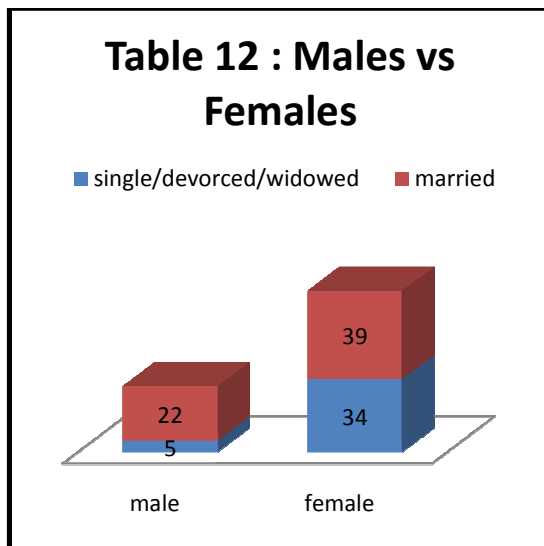
The diagram below shows the gender distribution in relation to marital status. The women who are single, divorced or widowed constitute 34% of the ISAL or ROSCA members. The

high percentage of women in these programmes is explained by their pursuit of a livelihood system of taking care of the families. This category of respondents indicated that they regarded the ISAL or ROSCAs as an important economic safety net since they did not have spouses where they could turn to for financial assistance in terms of financial crises. On the other hand non participants considered husbands as deterring factors who would refuse to allow their wives to participate in the groups. Arguing in support of the ISAL and ROSCA concept, 90% of the married women who responded revealed that their efforts to save as individuals were frustrated as the money could be diverted to take care of household reproductive needs. In addition the husbands could also order their wives to surrender the money in times of household emergencies e.g. if a member of the family falls ill or dies. Thus the members viewed ROSCA and ISALs as providing security for members' hard earned cash. Findings by Chigara and Mutesarira, (2001) in a study that they conducted for Catholic Relief Services (CRS) points out that as the economic hardships press on a populations income levels, the poor particularly women find savings as a way of disciplining themselves to save for lean seasons and as a way of deterring husbands and neighbours from accessing the money if it remained in the house.





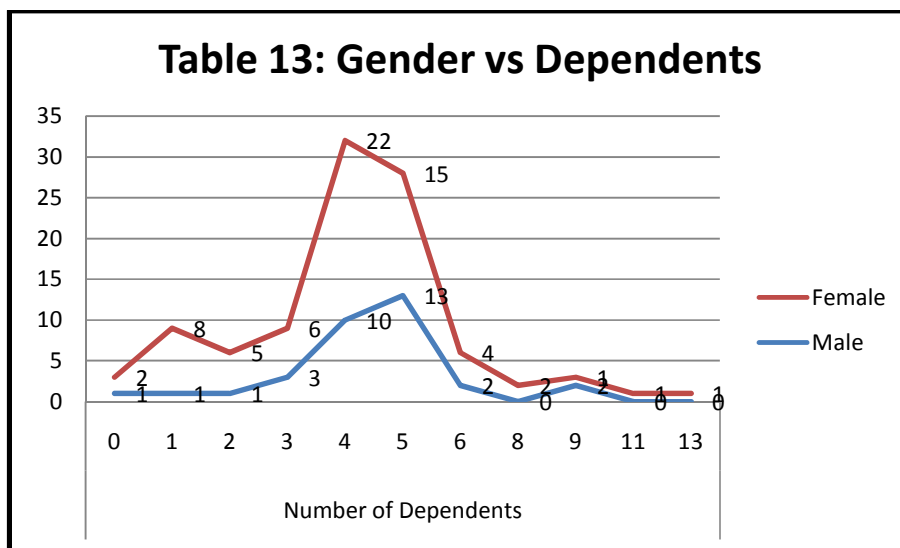
Source: Field survey, 2013



Source: Field survey, 2013

Males comprised 27% of respondents. These men are engaged in basket making and cross boarder trading as their main source of livelihood. All the men were below 45 years of age and were not interested in farming as a livelihood source either because they did not possess the fields or because their families had always traditionally been renowned for basket

making. Participation in the groups has provided them with much needed capital to expand their business ventures. However the study also revealed that those men who are engaged in serious agriculture production as source of living have tended to shun the ROSCAs and ISAL programmes. The main reason behind this is the seasonality of income from agriculture. Since ROSCA and ISAL savings and loan repayments are done every month, the farmers would find it difficult to fulfill these requirements. However the spouses of the women who are participating in the ISAL and ROSCAs acknowledged that the income derived from the small household business ventures that are being financed from credit has gone a long way in financing the purchase of agricultural inputs. All the 10 non- participating men who were interviewed whose wives were members of the groups testified to an improved standard of living and improved agricultural output due to the income derived from the projects being run by their wives.



Source: Field Survey, 2013

The chart above shows that female headed households have high numbers of dependents and given this back ground, women are forced to join the income generating programmes so that they may take care of the families. The average number of dependents is 4 with the maximum

being 13 and this household is headed by a widow. It therefore becomes imperative that women join these microfinance programmes so as to alleviate poverty within the household. The average household size is 5. Most respondents that come from households whose dependents were above average indicated that the income they realised from running household IGAs were mostly spent in financing immediate family needs like food, school fees and health fees. The income could therefore not stretch to cover purchase of livestock, furniture and construction of decent accommodation. The situation was aggravated by the fact that they could not afford to join the groups that demanded higher savings per member per month which translated into bigger credits and bigger lump sums when a member's turn in the rotation arrived in the case of ROSCAs and at the end of one year cycle in the case ISAL.

4.3.6 Membership versus Age, and Household Size

Meanwhile there is no age limit across all the sampled ISAL and ROSCA groups. Each of these groups allows members of different ages as long as they can fulfill the group's financial obligations. The group's membership has tended to evolve around members' financial strength. The elderly members tend to be concentrated in the groups with lower contributions ranging from \$2 - \$5 per member per month. Of interest is that no group was contributing less than \$2.00 per member per month. This points to the level of importance that the members place on the savings programme. Members have become fully aware of the fact that the more one saves the higher the returns.

Table 14: Age versus Household Size

	Age of Member	Size of Household	Number of Dependents	Number of Orphans in the Household
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Mean	36.2	5	4	1
Median	34	5	4	1
Mode	29	5	4	1
Range	48	14	13	9
Minimum	19	1	0	0
Maximum	67	15	13	9

Source: Field survey, 2013

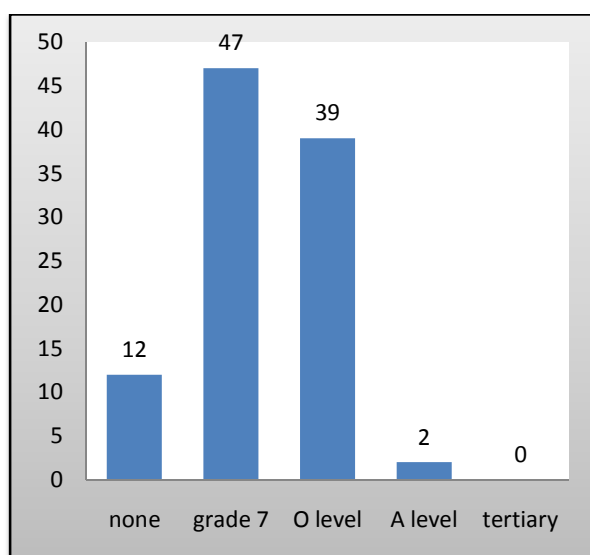
Most members in these programmes are within the economically active group with an average age of 36.2 years. An average of one orphan within the households can be attributed to the HIV and AIDS pandemic that has wrecked the southern part of Africa, with Zimbabwe being one of the countries with a high prevalence rate. All these factors force the most economically active group to engage in these income generating programmes. The participants that are below the mean age are the ones that are mostly engaged in buying and selling of consumer goods within the district and outside and also in cross boarder trading instead of projects like poultry and vegetable markets that are run within and around the home. This has been attributed to the fact that the younger people still have the energy to run around and are better risk takers than the elderly members.

4.3.7 Education level and gender

The level of education has a bearing on the type of livelihood project that an individual undertakes. From the charts below, all members do not have a tertiary qualification. Only 2% reached 'A' level and 12% have not gone to school. The majority of participants i.e. 47% have gone through primary level education up to grade seven. The low literacy levels have been attributed to high levels of poverty found in the rural areas. This shows that the majority

of the participants come from very poor households. These participants have seen these programmes as an answer to their dilemma of lack of capital. The 2% that went up to ‘A’ level are women and the majority of those who have gone through ‘O’ level are also women. The women have not continued up to tertiary level of education due to various reasons some of which are poverty and early marriages. The conspicuous absence of men who possess higher secondary education has been attributed to migration. Most of the rural men who would have completed secondary education would migrate to towns in search of formal employment thus reducing the number of men who can join the microfinance groups.

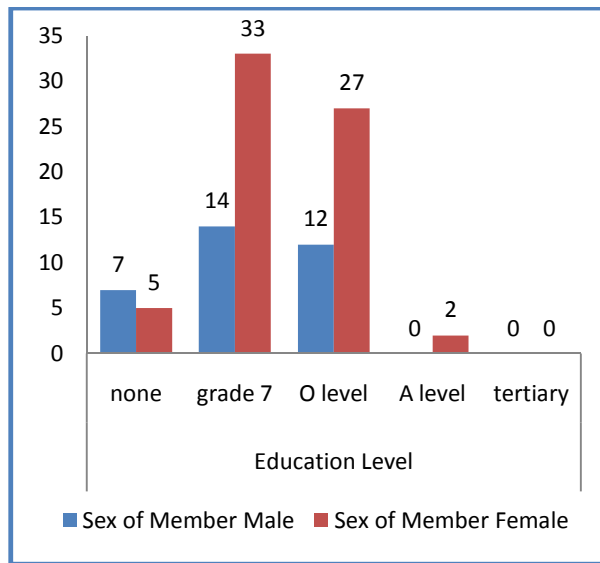
Table 15: Education Level



Source: Field survey, 2013

The chart below show the education level reached by ISAL members in relation to gender.

Table 16: Education Level and Gender



Source: Field survey, 2013

4.3.8 Changes in Household Income

There is notable difference in monthly income between non- participants of micro- finance programmes and participants of micro- finance programmes. Non-members have an average monthly income of \$45.00 while the ISAL and ROSCA participants earn an average of \$132.00 and \$88.50 per month respectively.

Table 17: Average Monthly income for members and non members

	Average monthly income \$
Non Members	45
ISAL	132
ROSCA	88.50

Source: Field survey, 2013

Microfinance programmes such as ISAL and ROSCA have brought a positive change and improvement within the rural communities. Most households have recorded a general increase in monthly income. Most households had an average of \$41.1 as monthly income before joining ISAL while other households had an income as low as \$10 as the minimum which is below the world bank absolute poverty line of \$1.25 per day. After accessing credit from ISALs and the subsequent setting up of household IGAs, most households are realizing an increase of monthly income averaging \$132.9, which translates to an increase of 223.3% increase. The mode of \$50.00 is well above the absolute poverty line of \$1.25 per day. A maximum of \$300 per month has been recorded as income realised from household IGAs. The increase of monthly income helps the family to finance their immediate needs.

Table 18: ISAL Monthly income

	Monthly Income before joining ISAL	Monthly Income After Joining ISAL	Total Loan Accrued
Mean	41.1	132.9	393.8
Median	39.0	110.0	392.7
Mode	10.0	50.0	300.0
Range	90	270	710
Minimum	10	30	90
Maximum	100	300	800

Source: Field survey, 2013

Participating households have accrued an average loan size of \$393.8. The highest loan that has been accrued by a single participant is \$800. These loans have been used to start up small household businesses that have enabled the members to realise consistent monthly income.

Table 19: ROSCA monthly income

	Monthly Income before joining ROSCA	Monthly Income After Joining ROSCA
Mean	31.65	88.5
Median	30	82.5
Mode	20	50
Range	85	210
Minimum	5	20
Maximum	90	230

Source: field survey, 2013

There is also an increase on monthly income for individuals who participate in the ROSCA programme from a monthly income of \$31.65 to \$88.5 which is an increase by 179%. The increase in income is less than what has been realised by ISAL participants because most ROSCA participants do not use their lump sum amounts to set up projects. After receiving their lump sums, most of the members prioritise purchase of food, household assets and paying of school fees. From the two tables above the study has revealed that the mean income for ROSCA participants before and after joining the groups is lower than that of the ISAL participants. This indicates that although both groups of participants can be classified as poor when they joined the programmes, the ROSCA members were on average much poorer.

Inferential Analysis

Ho (Null Hypothesis): Microfinance have helped improve households' monthly income

H1 (alternative hypothesis): Microfinance did not help improve household's monthly income

With our level of significance at 0.1

Table 20: Chi Square test on increase and improvement in monthly income

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	88.302 ^a	87	0.441
Likelihood Ratio	93.613	87	0.295
Linear-by-Linear Association	9.801	1	0.002
N of Valid Cases	100		
a			

Source: field survey, 2013

The computed value of 0.441 is greater than 0.1 and therefore we accept Ho. This implies that Microfinance have helped improve monthly income for the participating households.

This is also verified by tables 18 and 19 that show the income for ISAL and ROSCA members has increased to \$132.9 and \$88.5 respectively

The tables above clearly show the increase of income after joining these programmes. These increases in income have improved household's socio economic status through the availability of money for household purposes such as buying food, clothes, paying school fees as well for medical purposes

4.3.9 Inclusion of the poorest of the poor in ISAL and ROSCAs

The study has also revealed that the poorest of the poor are not included in the savings groups. The major reason cited is that this category does not even have the funds to make the initial savings that need to be contributed before the members can start to borrow (in the case of ISAL) or whilst they wait for their turn in the rotation (in the case of ROSCAs). In addition the general feeling among the participants was that the poorest of the poor will not be able to repay the money given their background of excessive poverty. Thus the respondents felt that they would not risk their hard earned cash to lend them. Respondents indicated that they were even more unwilling to let their very poor relatives join into the groups in which they were members for fear that if they defaulted they will not be able to enforce repayment of loans due to the high possibility of social pressure from the family members to pardon the defaulters.

On the other hand the poor themselves indicated that they are not willing to take the chance of borrowing since they feel that they will not be able to repay. They were still hopeful that the government or some donors would intervene with some handouts in the near future. In addition the poorest also mistrusted the poor who were better off than themselves because they suspected that once these people borrowed they would disappear with their hard earned savings or that they would venture into risky businesses that would not viable. To make matters worse some of the poorest do not attend any of the meetings called by the two development NGOs fearing that they will not be able to meet the requirements. Incidentally they always avail themselves for welfare meetings designed to give villagers relief handouts.

The poor themselves often feel that they do not fit into community development programmes that take place in their wards. Rose from ward 4 bears testimony when she says: *“We seldom attended meetings except for welfare and political meetings; the former because we feared*

that if we failed to attend we would not be registered for relief and the later because we feared victimization. As a result we did not attend the developmental meeting that was organised by Mandeya 2 Development Trust thinking that the meeting did not have anything to offer us. We later heard about the ISAL programme. At first we thought we did not fit the criteria since we did not have anything to save except our lives. Many thanks to the organisation that gave people enough time to prepare before the initial day of savings. (Rose 2013)

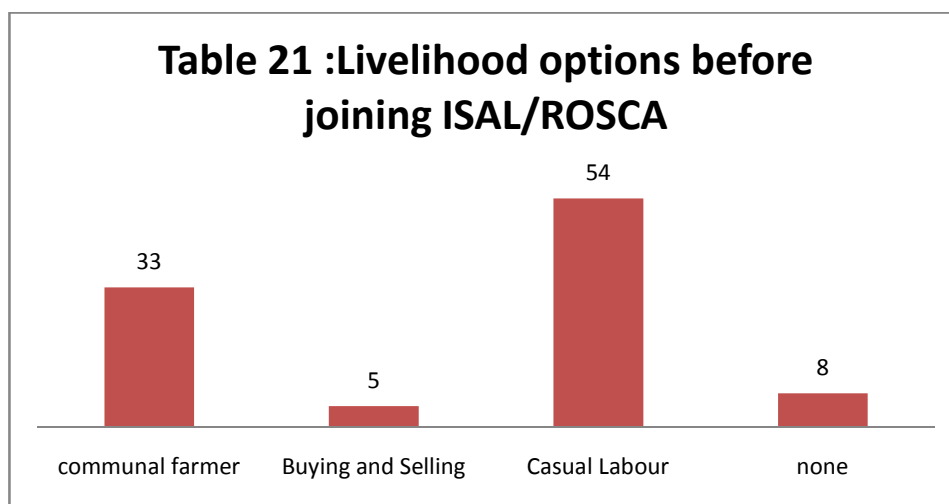
In the case of ROSCAs the best option for the poorest groups was for them to get the first position in the rotation. However the better off poor are not willing to take this risk for fear that the poorest of the poor would spend the money on satisfying their physiological needs and not invest in household projects thereby creating the high possibility of default. To make matters worse the poorest do not possess the collateral security that the other members can sell to offset the debts they would have incurred. As a result of the above factors the poor have remained sidelined from these microfinance groups. Morduch and Harley (2002) also agree with the fact that microfinance is an effective poverty reduction tool but lament the exclusion of the poorest who they feel ironically have the least access to health, education, food, shelter etc.

The study also revealed that the poor need maximum support from all angles for them to gainfully participate in these microfinance programmes. Chipso of ward 30 testified that it took the support of her family, the sponsoring organisation and her group members to make her life change for the better. *“I give many thanks to ASAP for introducing this programme that is targeted at us poor women. I give thanks to my husband and family who provided me with unwavering support. We were able to work together with my husband and managed to raise our initial savings i.e. \$10.00 through provision of casual labour. My sincere gratitude also goes to my group members who put their trust in me and gave me the first chance to*

borrow. I remember the excitement that filled my household when I arrived back home with the \$50.00 credit. The date was 2 February, 2011. From that day we have never looked back and our life has never been the same again. (Chipo 2013)

4.3.10 Increase in Availability of Livelihood Options

The introduction of ISAL and ROSCA programme has seen an increase in livelihood options for the participants. 8% of respondents had no livelihood options before joining the microcredit schemes but had to depend on their spouses and parents for financial support. Casual labour was the main source of income for most households. The table below shows that on average 54% of ISAL and ROSCA members used to rely on casual labour and 33% of these members engaged in communal farming as their main livelihood activities.

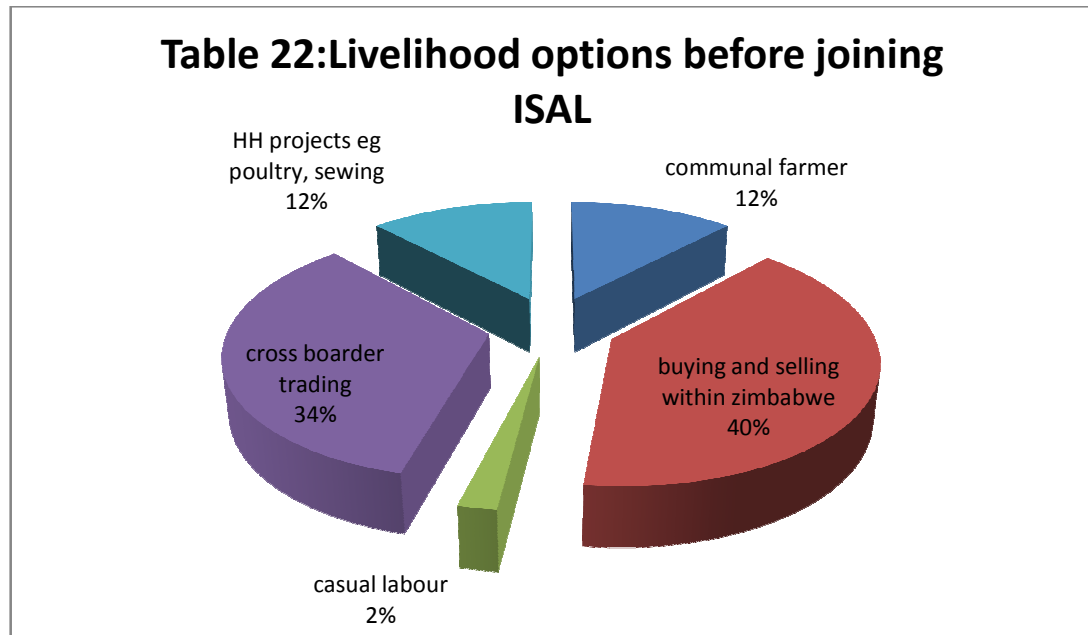


Source: Field Survey, 2013

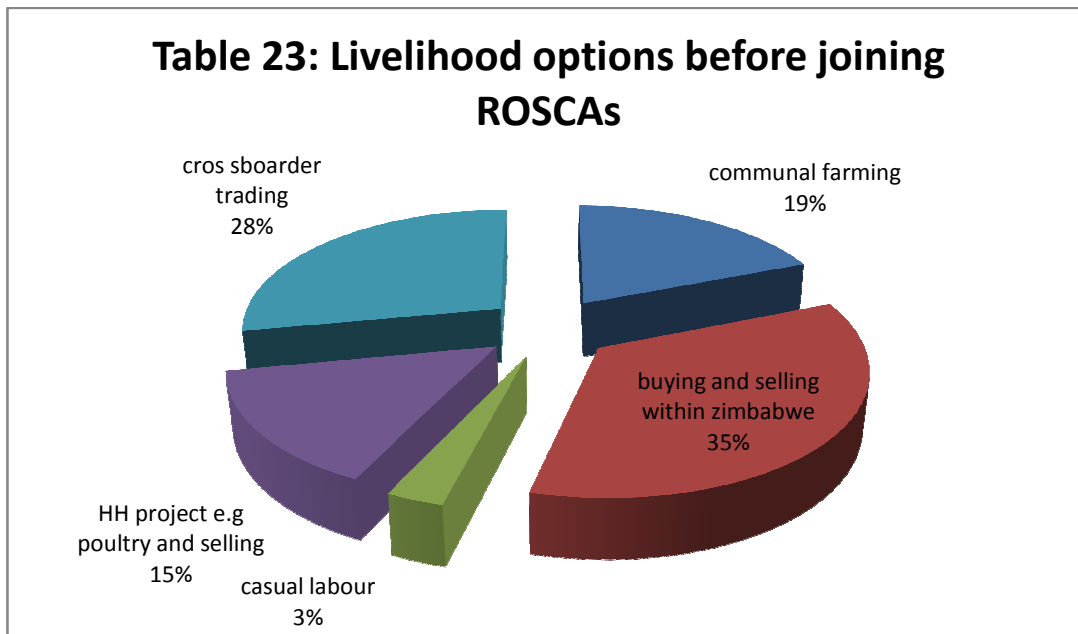
The following livelihood options have opened up to participants due to improved access to credit where previously the participants used to subsist on farming and on hiring out their labour to the richer members of the community:

- i. Household income generating activities such as poultry, basketry, garment making

- ii. Trading in consumer goods in the local community and urban centres.
- iii. Cross boarder trading with nearby Mozambique
- iv. Farming.



Source: Field survey, 2013



Source: Field survey, 2013

Buying and Selling is the most common livelihood option for all ISAL and ROSCA members. Before joining these micro finance programmes, casual labour was the main livelihood activity and 8% did not have any form of livelihood. All participants have now been co-opted into the livelihoods options within and outside the district. After receiving credit, participants make bulk orders of bananas and baskets that are in abundance in the area and in turn sell them in some other areas, mainly towns and cities. Most households are into cross boarder trading, especially with nearby Mozambique and South Africa. As a result of increased access to capital most participants are now gainfully occupied with carrying out productive activities in their households. The elderly members in the groups are being assisted by their children and other dependents who reside in the household to run their household IGAs.

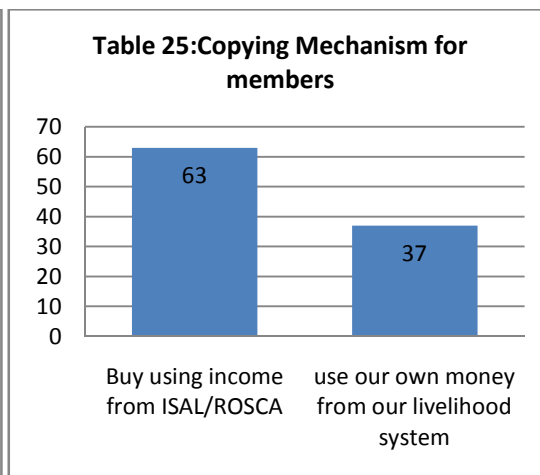
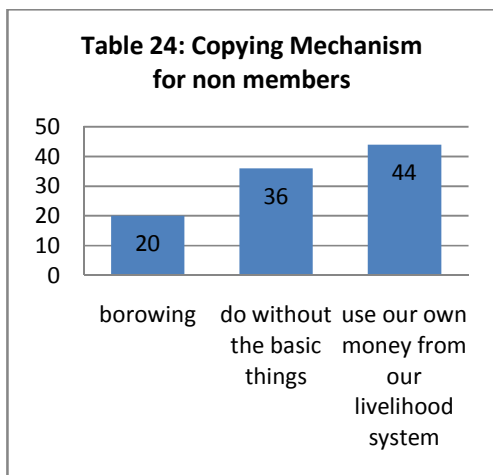
4.3.11 Household benefits

With economic hardships experienced by most communities within Zimbabwe, 20% of non ISAL/ROSCA members resort to borrowing when they experience economic challenges and 36% will do without the basic needs for the households. With the introduction of the microfinance programmes, households have some disposable income that they can use to buy these basic commodities given the fact that they have an increase in monthly income.

The study also revealed that non members do not normally borrow from relatives since they are in more or less the same financial position with them. They borrow from money launderers (*Vambadzuri*). The practice of *Chimbadzo* is very rife in the two wards with interest rates ranging from 20 – 30 % per fortnight. This practice is being fueled by the rich people and the burial societies found in the local communities that have excess cash at their disposal. The local community acknowledges that ISAL and ROSCAs are a cheaper source of

credit unlike the *Chimbadzo*. It was noted that as a credit institution *Chimbadzo* is exacerbating poverty in the area as more often than not their clients end up failing to pay back the very expensive loans resulting in them losing their livestock and other valuables. Unlike ISAL and ROSCAs, the loan sharks who run the *Chimbadzo* are not open to any negotiations when one fails to pay their loans. In any case extension of the loan period results in continued increase in the loan balance.

The graphs below show that while participants of ROSCA and ISAL groups resort to credit from ISAL and ROSCAs and other livelihood systems as coping mechanisms, the non-participants either resort to borrowing from *Chimbadzo* or forgo some of the basic necessities. The two coping mechanisms leave the non-participants in a worse off position than before given that borrowing from *Chimbadzo* results in increase in poverty as mentioned above. Doing without the basic household necessities often results in malnutrition and ill health, school drop outs, and early marriages among other negative consequences.



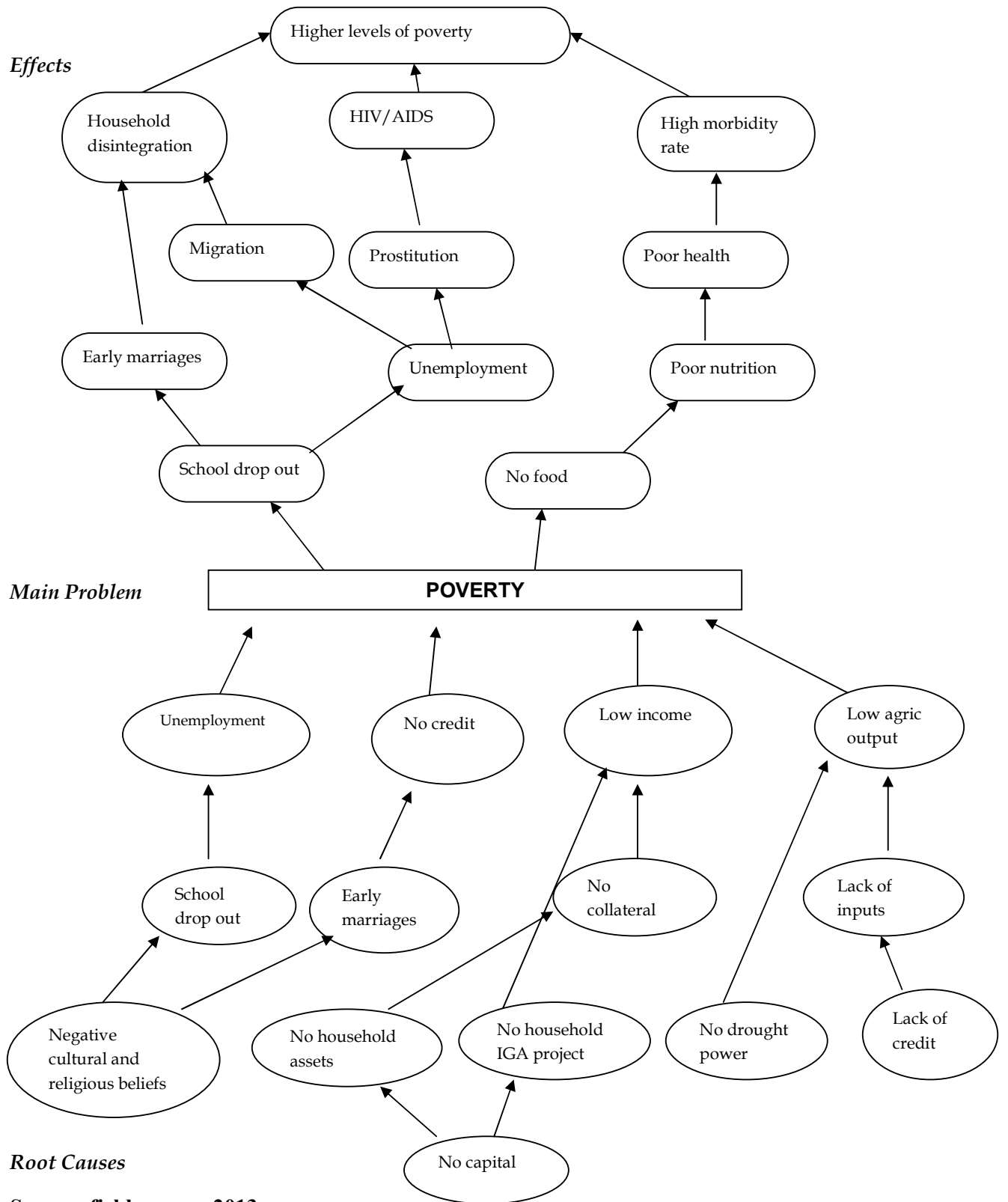
Source: field survey, 2013

4.3.12 Vicious cycle of Poverty

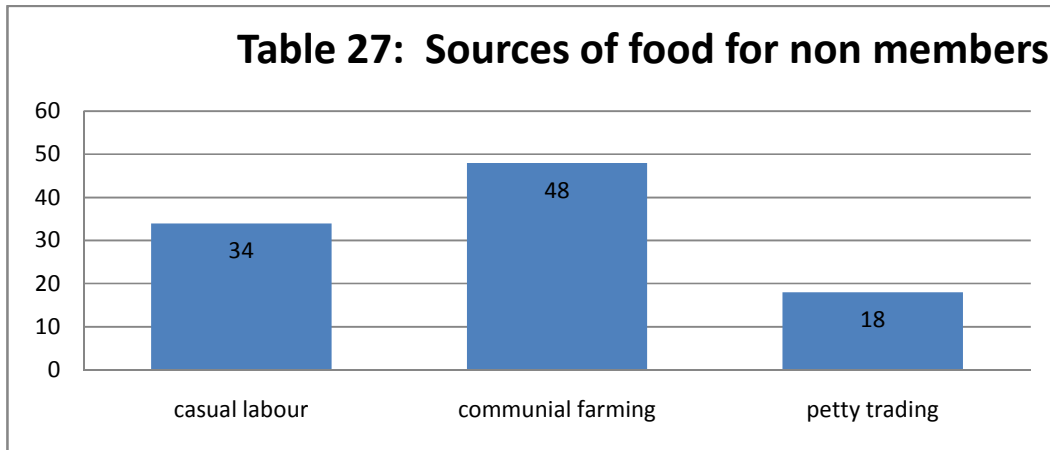
The study clearly revealed that non- members are struggling to make ends meet since they do not have any source of credit that they can use to establish any household projects or to buy agricultural inputs. Credit from Chimbadzo is too expensive to be used as startup capital for a viable business venture. At the present moment there is no institution whether private, non-governmental, parastatal or government in the district that is extending any form of credit to the rural population. Thus non participants have had to rely on their own means of survival that has failed to yield enough capital for them to set up household projects, buy adequate agriculture inputs, food and other household requirements. On the other hand the money launderers are also reluctant to lend to the poorest of the poor because the chances of default are very high and the situation is not being helped by their lack collateral security. The poorest therefore resort to working in other people's fields as casual labourers in exchange for cash, old clothes or maize. This has tended to exacerbate the vicious cycle of poverty since the poorest end up neglecting their own fields as they work in other people's fields. This in turn results in low production in their own fields and when this is coupled with lack of agricultural inputs the result is poor harvests. The resultant yields will not be adequate to feed their own children let alone to sell. This then leads to malnutrition and poor health. The children also drop out of school due to lack of school fees and also because they have to assist the parents to fend for the family.

Below is the problem tree that that highlights the vicious cycle of poverty:

VICIOUS CYCLE OF POVERTY



Source: field survey, 2013



Source: Field survey, 2013

4.3.13 Household economic analysis – before and after participation in ISAL and ROSCAs

In order to facilitate this analysis all the respondents including the local leadership focus group participants gave their understanding of a poor person and a wealthy person. The idea was to come up with the local definition of what poverty and wealth are. It was considered prudent to get the local perception of poverty just as Mpofu (2011) and Illife, (1987) rightly argue that the challenge with studying poverty is that it has many facets and people have their own varied and changing notions of it and this affects how they perceive how to treat poverty. There is also need to bear in mind Alcock’s (2006) assertion that there is no one correct, scientific, agreed definition of poverty because poverty is inevitably a political concept, and thus inherently a contested one.

The communities definition of a poor household is one that has few small livestock or not at all, cannot afford two meals per day, relies mainly on casual labour as a livelihood source, have few old household utensils, cannot afford to pay school fees and health fees, has

inadequate clothing, poor shelter, inadequate farming inputs and equipment, household furniture and kitchen utensils are in a poor state. The community definition of poverty is in line with the Copenhagen Declaration' which described absolute poverty as "a condition characterised by severe deprivation of basic human needs, including food, safe drinking water, sanitation facilities, health, shelter, education and information. It depends not only on income but also on access to social services."

<http://www.un.org/documents/ga/conf166/aconf166-9.htm>

Haddard (2001) description of physiological deprivation also agrees with the community perception of poverty. He describes physiological deprivation as the inability of individuals to meet basic material and physiological needs. He refers to these needs as either lack of income, which limits access to food and to education, health, housing, water and sanitation services or by the failure to achieve desired outcomes, such as a high quality diet rich in micronutrients, health status, educational attainment and the quality of health, water and sanitation services received.

The table below summarises the differences between a poor person and a wealthy person as given by the community.

Table 28: Characteristics of poor versus wealthy person

Variable	Characteristics of poor person	Characteristics of wealthy person
Shelter/ infrastructure	<ul style="list-style-type: none"> ○ No decent shelter, pole and dagga huts thatched with grass. ○ Can use kitchen as bedroom. ○ No toilets or uses makeshift made of pole and grass. ○ No granary. ○ No livestock pens. 	<ul style="list-style-type: none"> ○ Brick under zinc or asbestos sheets. The house can have 3 or more rooms ○ Separate kitchen thatched or zinc or asbestos sheets. ○ Has a blair toilet ○ Has granary can have either a grass or zinc roof ○ Livestock pens for chickens or goats or cattle
Livestock	<ul style="list-style-type: none"> ○ 0 – 3 chickens ○ No goats and cattle 	<ul style="list-style-type: none"> ○ 10 + grown chickens and several chicks ○ 5 + goats ○ 2 head of cattle or more – enough to use as drought power and to sale ○ Sheep (no specific number) ○ Turkeys - optional
Farming equipment	<ul style="list-style-type: none"> ○ 0-2 hoes- for use in carrying out casual labour 	<ul style="list-style-type: none"> ○ Ox drawn plough ○ Wheel barrow ○ Several hoes- enough for the

	<ul style="list-style-type: none"> ○ No other equipment 	<ul style="list-style-type: none"> family and casual labourers ○ Other farming implements ○ Scotch cart
Land	<ul style="list-style-type: none"> ○ Small piece of arable land or none at all 	<ul style="list-style-type: none"> ○ Large piece of land for maize and for bananas and yams- + 2 hectares
Agricultural inputs	<ul style="list-style-type: none"> ○ No agricultural inputs. If received from government they sell 	<ul style="list-style-type: none"> ○ Has adequate seed and fertilizers
Kitchen utensils	<ul style="list-style-type: none"> ○ Inadequate utensils that are in a poor state 	<ul style="list-style-type: none"> ○ Adequate pots, plates, cups and spoons for family and visitors – in good state
Household furniture	<ul style="list-style-type: none"> ○ No bed. Make use of reed mats and sacks ○ Furniture is homemade e.g. stools and nothing from shops 	<ul style="list-style-type: none"> ○ 1 or more beds – the quality is not an issue ○ Household furniture from local carpenter or shops or from green market (a market located in Mutare where one can purchase cheap furniture manufactured by the informal sector) ○ Radio with speakers
Clothing	<ul style="list-style-type: none"> ○ Inadequate clothes in bad shape ○ Mostly second hand from Mozambique and from 	<ul style="list-style-type: none"> ○ Adequate clothing - can be second hand or from chain stores or bought from cross boarder traders

	<ul style="list-style-type: none"> relatives ○ Inadequate blankets locally manufactured 	<ul style="list-style-type: none"> ○ More than 1 imported mink blankets popularly known as 2 in 1
Education	<ul style="list-style-type: none"> ○ Children drop out of school at primary level because of lack of school fees ○ No uniforms, shoes and stationery 	<ul style="list-style-type: none"> ○ Children proceed to secondary and tertiary level at upper top schools or boarding schools ○ children possess full uniform and all scholastic material
Health	<ul style="list-style-type: none"> ○ Malnutrition due to inadequate food or poor diet ○ No health fees 	<ul style="list-style-type: none"> ○ Good health ○ Can afford health fees
food – quality and quantity	<ul style="list-style-type: none"> ○ Inadequate food. One meal a day. Poor quality 	<ul style="list-style-type: none"> ○ Adequate , good quality food. Has excess
Agricultural production	<ul style="list-style-type: none"> ○ Poor harvests 	<ul style="list-style-type: none"> ○ Produce enough to feed the family and the excess is sold
livelihood options	<ul style="list-style-type: none"> ○ no household project. Subsist on casual labour 	<ul style="list-style-type: none"> ○ Has household IGA that provide regular income.
cell phone	<ul style="list-style-type: none"> ○ none 	<ul style="list-style-type: none"> ○ possess one or more

Source: Field survey, 2013

The above description of a poor household is also in line with Muzaale; (1987) who arguing on rural poverty in Africa also posits that absolute poverty is human deprivation in its extreme and most obvious form. He refers to it as a lack, or deficient supply, of the basic necessities of human life, such as food, safe drinking water, housing, clothing, and health care. In other words this is a physiological definition of poverty. He further argues that

“people in absolute poverty suffer from chronic malnutrition and are chronically sick; they live in squalor; they are poorly clothed; they lack access to health care and educational facilities; they live short lives and many of them die in infancy and childhood” (Muzaale; 1987:78).

All the participants indicated that their status before joining the microfinance groups matched that of the characteristics of a poor person indicated in table 28. Basing on the above description of a poor and a wealthy person, the microfinance participants were then asked to rate their current socio economic status on a scale of 1 to 100%. The purpose was to determine whether their participation in the two microfinance models had brought any positive change in their status. Below is the results table:

Table 29: Socio Economic Status of Household after an average of 2 years in ISAL and ROSCA programmes

	<i>Status worse</i>	<i>Poor% no change</i>	<i>Slight improved %</i>	<i>Average %</i>	<i>Good %</i>	<i>Excellent %</i>	<i>Comments</i>
Shelter		10	83	7	-	-	- Most reported having repaired existing structures e.g. roofs, doors
Livestock		7	30	52	11	-	- Small livestock have been purchased and started multiplying. No purchased of cattle

Farming Equipment		2	45	52	1		-Ploughs, hoes and other implements were acquired. None has bought scotch carts
Land		100					-Those without land have not gained new pieces of land because of overpopulation in the area. - Improvement recorded on production on existing piece of land
Agric inputs					23	77	Most bought adequate fertilizers and seed for 2011 and 2012 agricultural season
Kitchen utensils		8	6		30	56	All women in the programme reported having acquired new utensils except for

							some of the male members who did not acquire any.
HH Furniture		2	20	60	12	-	New pieces of furniture have been bought. Some were second hand
Clothing		-	-		2	98	adequate and better quality clothing has been acquired
Education for own children and dependents- fees, uniforms and stationery					85	15	Most can send all their children to local primary and secondary schools. A few can now afford boarding school. All can now afford uniforms and scholastic materials
Health		-	-	-	10	90	All are now able to pay local clinic fees and eat a balanced diet
Food					5	95	Adequate food. Some have joined

							food ROSCAs
Agric Production					70	30	70% can produce adequate food for consumption. 30% produce excess for sale
Livelihood project			5	23	71		All members reported to be in one form of business or another especially buying and selling although 5% some are facing marketing challenges since market is flooded with same goods.
Cellophane					7	93	the members use the phones for business calls

Source: Field survey, 2013

4.3.14 Socio economic benefits of ISAL and ROSCAs

After joining the microfinance schemes, 90% of the households managed to renovate their houses and they have slightly improved from the poor status they had before joining these microfinance programmes and 7% had improved to what is deemed an average shelter within

the community and the district as a whole. Roofs and doors have been repaired with money coming from income generating projects initiated after joining ISAL and ROSCA. Some members are slowly purchasing building material for constructing bigger brick under asbestos or zinc houses in 2013. Purchases of small livestock such as goats, chicken and pigs have been noted. Some of these have started multiplying. However, no participant has bought any cattle as yet because of the huge capital outlay required to purchase one beast (one beast costs between \$400 and \$500) 52% now have small livestock, showing improvement from a state when they did not own anything at all. 11 % have reported having made good progress in purchasing small livestock because they now possess an average of 6 goats and some have started piggery projects. 93 % of participants have prioritized the acquisition of livestock because these can also act as collateral security for their credits. The accumulation of small livestock is consistent with the findings revealed in the study carried out in Zimbabwe by CARE in 2004 and one carried out by Odera and Maruka (2007) for CRS. These studies revealed that there was high accumulation of small livestock (goats and chickens) by participating households.

The above table shows a marked improvement in the areas of education, health, clothing, food and agricultural production. This shows that the programme responds well to participants' physiological requirements. Although participants can now afford to buy adequate inputs, those who did not own land still have not managed to acquire their own pieces of land. This is due to over population in the area. They are resorting to renting other villagers' fields.

71 % of participants have been able to establish household IGAs that are making it possible for them to realise household income. This income has enabled them to acquire household assts, purchase livestock and cell phones, repair houses, pay school fees etc. Allen and Hobane reached a similar conclusion when they carried out an impact assessment of

Kupfuma Ishungu project in Zimbabwe in 2004. They found out that ISAL in Zimbabwe had contributed to increased levels of business and consumer assets amongst the great majority of members' households, and some improvement in the quality of housing. The number of income generating activities per household had increased and household labour allocated to income generating activities (IGAs) increased. In a study of West Nile Savings Groups Allens (2005) again concluded that the lump sums that the members received enabled them to invest in agriculture inputs, livestock, business stock and housing renovations.

Respondents also revealed some social benefits that can be derived from participation in ROSCA. HIV/AIDS support groups have also started their own ROSCA and ISAL groups. However the exact number of the groups could not be verified. This offers them improved access to finance. In addition the groups tend to offer occupational therapy to support group members since members have time to socialize after conducting their savings. This offers a unique opportunity for support group members to share business ideas that will enable the members to set up household IGAs. The existence of household IGAs makes funds available for the purchase of food and medicines that is needed for them to remain healthy and also reduce the incidence of stress associated with being poor.

Single women have responded positively to these programmes since they can borrow money which they can use for business purposes thus derive income that can be used for the support of their household members. Of particular note was the increased access of single women's children to education since the parent has improved access to household income.

Improved food security was also highlighted since members were now able to purchase agricultural inputs which in turn resulted in improved agricultural production. Although none of the respondents have managed to buy cattle for drought power, 90% of the respondents indicated that that they were able to use profits from household IGAs to hire drought power.

The study also revealed an improved access to education of participating member's children. Authorities from a local primary school called Makwara indicated that they had recorded a zero dropout rate of children due to failure to pay school fees for those children whose guardians were participating in ISAL and ROSCA groups. The school also noted that these children had adequate stationery and school uniforms. Authorities from the 2 local clinics (Muterere and Mandeya clinics) also indicated that participating members could afford to pay the clinic fees.

The story of Ronica a 34 year old married woman from ward 30 aptly summarises the socio-economic conditions that participants lived under before joining the microfinance programmes. She narrates her story as follows:

Like the birds of the air, my family had no homestead of its own. We stayed at my in laws home not by choice but because we could not afford to build our own house. Both me and my husband attended school up to grade 3. We have a household size of 6. We had no form of a livelihood option for the family but casual labour. From dawn to dusk we toiled in other peoples fields for a gallon of maize to feed the family and meanwhile our fields were suffering. We couldn't afford to pay school fees and even go to hospital if a member of the household fell sick. Life was so difficult for our family (Ronica 2013).

The study has also revealed that being a member of a savings group doesn't automatically change ones socio economic status. One has to work very hard and be very enterprising.

"These programmes are not for lazy people. When you get credit from these groups you just have to work very hard to return the money. Before you enjoy the benefits you have to work. Remember that this money is not a donation." (Comment from non member FGD 2013)

John from ward 4 had this to say, *"I acknowledge that being a business person has proved to be hard work but as the bible says "no one who puts his hand to the plough and looks back is*

fit for the kingdom". Luke 9 verse 62. Now we are in the kingdom of riches, my children are going to school and have a complete uniform, shoes, satchel and enough stationery. We now eat good food. Meat, cooking oil and bread spread with margarine used to be taboo in my home but these are now readily available. It's no longer a mammoth task to care for my blind mother-in-law since I now earn enough to support them."(John 2013)

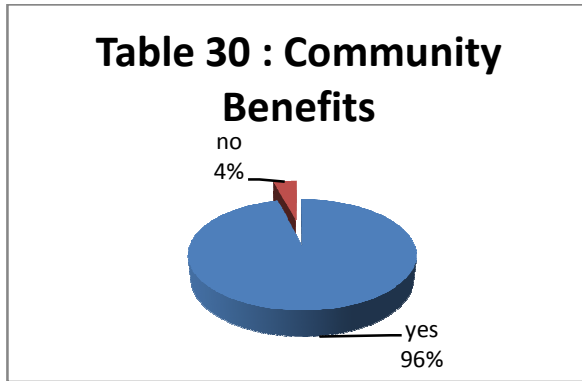
To facilitate maximum utilization of the credit families are working as a team. Wadzanai from ward 4 had this to say, *"My husband is my partner in business just as we used to be a formidable team as casual labourers. When I get credit from ISAL we split the money between me and my husband. I go to Mozambique to buy clothes and shoes through the porous border and while my husband buys bananas and baskets in bulk and goes to sell these at Mbare market in Harare. My in-laws and children sale the wares from home whist I go around the village selling my wares."* (Wadzanai 2013)

"Joining ISAL changed our lives for the better. My children are happy because we now have a radio, TV and solar in our house. For the first time in June 2012 we started sleeping on a real bed and threw away the reed mat that we had used for a long time. Long live ISAL; long live Mandeya 2 Development Trust." (Couple from ward 30)

Additional evidence of the benefits that have been accrued by the microfinance participants was given by an officer from one of the supporting NGOs who explained *"When we started promoting the programme most of these people had nothing. In fact they were really poor. However as an organisation we believe that nobody is beyond help. With the right support everyone can change for the better. Now most of these people now own goats, chickens, have adequate household utensils, good harvests, and their children are going to school to mention just but a few benefits"*. (Martha 2013. Mandeya 2 Development Trust)

4.3.15 Community Benefits

The pie chart below shows that 96% of non- ISAL and ROSCA members have confirmed that these microfinance programmes benefit the community.



Source: Field survey, 2013

Ho: ISAL and ROSCAs have benefitted the community

Ha: the community has not benefitted from the existence of ISAL and ROSCAs

The chi square test from non ISAL/ROSCA member responses, below affirms that community benefits from these microfinance programmes.

Table 31

Chi-Square Tests			
	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	12.051 ^a	6	.061
Likelihood Ratio	12.064	6	.061
Linear-by-Linear Association	3.449	1	.063

N of Valid Cases	100		
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Source: Field survey, 2013

With a degree of freedom of 0.1(one tailed) which will translate to 0.05 (2 tailed test) the computed value is 0.061 which is greater than 0.05 hence we accept the null hypothesis that there are community benefits. We can conclude that the general population of the community is improving due to these microfinance programmes.

The study has revealed that the community has accrued a number of benefits from the existence of ISAL and ROSCAs. There has been an improved availability of commodities within the local community since most participants are into the business of buying and selling of consumer goods and cross boarder trading. The increased competition among the traders has resulted in the lowering of prices and improved quality of goods on the market. There is also a reduction in petty crimes and gossiping since most people are now gainfully employed. The community alleges that the poor people's children are petty thieves who raid people's homes for food. Since members are now able to acquire their own food the community feels that the children that belong to these members now stand exonerated from these crimes.

The programme appears to have brought harmony in the homes especially between husbands and wives and between in- laws and their daughters- in- law. As one of the village heads testified, *"We no longer preside over a lot of domestic violence cases between spouses that are caused by misunderstandings about money shortages in the homes. There are couples who were renowned for fighting but since the wives joined one of these groups it has become a thing of the past"*(Muterere, 2013) Tambudzai from ward 4 testified that she has now gained a lot of respect from her husband, her in - laws and the community at large. She had this to say; *"my husband never used to consult me on important financial matters. Financial*

issues were discussed and agreed upon between him and his parents. When I asked for money he would either remain silent or if he deigned to answer it would be in the negative. Now that the tables have been turned and I have more liquid cash than my husband that is enough to buy most household requirements, I am now being consulted. My in – laws are now even calling me mother. I have also been elected treasurer of my church at local level. This is a big step for me because this position is not given to poor people because the congregation feels that a poor person can end up stealing church money that will be in her custody.”
(Tambudzai 2013).

Tambudzai’s story bears testimony to the fact that poverty is a multidimensional concept that describes varying kinds and degrees of human deprivation in society. Muzaale, (1987) supports this when he describes poverty as more than just a physiological phenomenon denoting a lack of basic necessities like food, health, shelter and clothing, but also a state of deprivation and powerlessness, where the poor are exploited and denied participation in decision making in matters that intimately affect them. Here Tambudzai was deprived of the opportunity to participate in household and religious decision making forums before she started earning an income. The change in her economic status opened doors that were previously closed on her.

The improved household income has resulted in reduced number of vulnerable people in the community since members are now able to take care of their dependents including their elderly parents who can no longer fend for themselves. There has been an improvement in food security for the disadvantaged in the community. Since the members are producing excess food, there is a spillover effect on the lives of the poorest since they can provide casual labour in the participant’s households in exchange for food or money. Due to the improved nature of their economic circumstances members are now more willing to extend a

helping hand to members in need and to the community at large. The community has also benefited from improved communication networks such as roads. Members have taken it upon themselves to repair pot holes and gulleys that had formulated in the roads so as to make the area accessible to transporters who deliver their produce e.g. bananas to the market in town. Since most of the members have phones, they can also receive messages that are meant for other villagers and also can make their phones available for use by their neighbours.

Using the Pearson correlation coefficient, the table below shows that there is a correlation between improvement of members' households and community benefits. With a coefficient of 0.87 which is close to 1. This implies that there is a strong relationship between community benefits and household gains. This shows that when the members' households improve the community benefits also improve as illustrated in the table below.

Table 32

Symmetric Measures					
		Value	Asymp. Std. Error	Approx. T ^b	Approx. Sig.
Interval by Interval	Pearson's R	0.87	.100	0.881	.063
Ordinal by Ordinal	Spearman Correlation	0.85	.101	0.868	.065
N of Valid Cases		100			
a. Not assuming the null hypothesis.					
b. Using the asymptotic standard error assuming the null hypothesis.					
c. Based on normal approximation.					

Source: Field survey, 2013

Below is a table that summarises the community benefits derived from ISAL and ROSCA :

Table 33:	Community Benefits from ISAL/ROSCA	
		percen tage
	Road repairs	12.0
	Employment Opportunities	5.0
	availability of commodities	35.0
	Care for the OVC, Elderly, child headed households and the disabled	20.0
	sharing business knowledge with other community members	8.0
	sharing resources, food etc with other community members	8.0
	reduction in anti social behavior e.g. domestic violence, gossiping	12.0
Total		100.0

Source: Field survey, 2013

4 % indicated that the microfinance programmes do not benefit the community. The major point of contention was that membership was not inclusive since the poorest of the poor had been left out of the programmes. Although Ministries responsible for Health, Agriculture and Education acknowledged that the programme had changed participants' lives they were also of the opinion that non- participants were still wallowing in abject poverty. However they could not provide a solution to this dilemma since they also acknowledge that as government they were not in a position to give the poor any welfare support due to financial constraints.

4.3.16 Rural Microfinance Challenges

Despite the positive impact of ISAL and ROSCAs, the rural microfinance sector is dogged by a number of challenges. A few of the major challenges are discussed in this section. The study revealed a glaring absence of formal microfinance institutions in the two wards and in the district as a whole. This leaves the rural population vulnerable to money launderers who charge exorbitant interest rates of between 20 and 30% per fortnight. This source of credit leaves the borrower much poorer. Poor infrastructure is another major challenge. Most of the district is characterized by bad roads and lack of electricity. This discourages would be investors and also hinders transportation of the local produce to the market. This then negatively affects the rural people's income levels. The advent of ISAL and ROSCAs has seen the establishment of household microenterprises offering almost homogeneous products. This has led to the flooding of the market thus reducing on the level of income one can realise. The poorest of the poor are also excluded from these microfinance initiatives since they cannot afford the required monthly savings. The study has also revealed that 12% of the members have not attained any education at all. This impacts negatively on their business management skills. The two organisations that are supporting ISAL initiatives have indicated that these participants have failed to articulate some of the technical business management information that they have tried to impart to them through training workshops.

The requirement that all the accumulated funds in an ISAL group have to be borrowed is also causing significant challenges. The problem of excess cash is usually experienced in the second half of the one year period when the group would have accumulated more cash than the members credit requirements. In such a case some members have to be literally forced by colleagues to take credit without regard as to whether they would be able to gainfully utilise the whole credit or not. Whilst the objective will be to grow the fund through interest rates, this raises the risk of defaults.

Study findings have also revealed that some women fail to join the groups not by choice but because their husbands have not given them the go ahead. This shows that the issue of gender plays a significant role in membership drive. Lastly, the groups have remained informal since the registration process that is done through the Ministry of Small and Medium scale enterprises is cumbersome. In addition the ministry lacks financial and material resources to enable them to carry out the microfinance awareness programs in the rural areas. The district office does not possess any vehicle and is manned by one officer. If any rural people require their services they have to visit the ministry's district office that is located more than 80km away.

4.4 Conclusion

The study has revealed that ISAL and ROSCAs have provided vital social and economic safety nets for the people of ward 4 and 30 of Mutasa district. The two microfinance models have shown positive impact on poverty reduction as far as they relate to the first six millennium development goals. The results have shown that the programmes have reduced the number of people living in extreme poverty, increased access to education, made progress towards gender equality through economic empowerment of women, and the increased income and availability of adequate food has helped to attain MDG 3 to 4 related to health. Participants can now afford to pay health fees thus helping to reduce morbidity and mortality rate of both young and old. Given the positive impact of the programme there is therefore need to widen the participation base.

CHAPTER 5

CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives a summary of the researcher's conclusions and recommendations following the findings of the study on the impact of ISAL and ROSCA microfinance programmes on poverty reduction in wards 4 and 30 of Mutasa district. These recommendations are appropriate for rural development and can be beneficial to policy makers in the government line ministries, NGOs and other related institutions.

5.2 Summary

An empirical study of the impact of ISAL and ROSCA informal microfinance on poverty reduction was carried out in ward 4 and 30 of Mutasa district using the methodology outlined in Chapter 3. The main objectives of the study were to establish the relevancy of ISAL and ROSCAs informal microfinance models in poverty reduction, their impact on poverty, the benefits derived from participation and the challenges encountered in administering these microfinance models in Mutasa district wards 4 and 30. A comprehensive review of literature on informal and formal microfinance activities and their relationship with poverty alleviation provided a solid background to this study. The researcher employed a mixed methods research approach to collect quantitative and qualitative data. The main research techniques that were used to collect data were survey questionnaires, focus group discussion, interviews, observations and narratives of participants' significant change stories.

5.3 Conclusion and Recommendations

Literature revealed that the debate on the impact of microfinance has generated mixed responses and views. On the one hand there are strong proponents who advocate that microfinance can do the trick of reducing if not wholly eradicating poverty. On the other hand there are skeptics who believe that the role of microfinance has been exaggerated and is therefore insignificant. However the analysis in Chapter 4 has shown that ISAL and ROSCA microfinance initiatives indeed have a significant impact on household poverty reduction, although it has proved difficult to quantify the impact in some cases. The question that still remains partially answered is “by how much?”

This study argues that there is a role for ISAL and ROSCAs as poverty reduction tools in participating households. Whilst the analysis has shown that there is positive change in the socio economic status of the members’ households, it is difficult to quantify the economic value of the benefits of the two microfinance programmes on the whole community. ISAL and ROSCAs participants in wards 4 and 30 of Mutasa district have been able to use the credit acquired from their respective groups to start or expand existing businesses, acquire household and productive assets, pay for health fees, purchase agricultural inputs, and pay for other household miscellaneous expenses and to pay school fees for their children up to higher levels. This gives their children a higher chance of employment and social mobility in relevant areas in future. The same cannot be said of non participants’ households in the same community.

Study results also show that household poverty reduction is a process and as such there is need for continued support from the government and other development agencies. Whilst the process of poverty reduction has started in participating households, the economic impact on non- participating household is not so apparent. The study has clearly revealed that poverty reduction can only be a reality in participating households whilst the poorest of the poor remain bystanders. The study has also revealed that although the proponents of ISAL and

ROSCAs argue in favour of their inclusiveness, the guiding principles ensure that the poorest of the poor are excluded from participation. It therefore becomes imperative for government to augment these two programmes by availing low interest loans targeted at the poorest through the Ministry of Small and Medium Scale Enterprises and other relevant government institutions.

In addition in order to make ISAL and ROSCAs have a broad based impact on the rest of non- participating households there is need for continued mobilisation of non- members into savings groups so that the socio economic change process can also become a reality to the rest of the community. However, since some members fail to participate not due to lack of financial resources but due to the culture of dependency on government donations or subsidised loans there is need for the government and other development practitioners to join hands in carrying out initiatives aimed at changing community attitudes and perceptions and instilling a sense of self reliance. As development initiatives ISAL and ROSCAs are good models of sustainable self reliance that are owned and driven by the local people.

The study also revealed that the degree to which a household level of poverty is reduced is also dependent on the amount of savings an individual contributes that will in turn translate into the size of credit one can access. The size of credit will in turn have a bearing on the size of business a member can establish and ultimately income realised. This creates more reason for government to chip in with soft loans. More importantly an individual's ability to contribute higher savings does not automatically transform one into a ready-made entrepreneur. Furthermore since a member's capacity to repay the credit rests on his/her ability to operate a successful business it then becomes a priority for the promoters of the microfinance programmes to introduce intervention policies aimed at building a members business management capacities. Given the rapid mushrooming of household micro- enterprises offering an abundance of homogeneous products there is need for a policy

framework to spur the growth of the rural economy as a whole so as to boost the market's ability to absorb the products.

To achieve sustainable poverty reduction in rural areas there is need for more than one policy intervention. For example, participating households now have improved access to income from their household projects that they can utilise to purchase adequate agricultural inputs. However for these inputs to translate into higher agriculture production there is need for the households to receive technical support from the government ministry responsible for agriculture and livestock development. Once excess is produced it creates the need for development of value addition and market linkages to absorb the excess. In this case the government can then avail credit to the parastatals like the GMB and CSC and the private sector industries to enable them to purchase the produce. A conducive environment for export and establishment of processing industries becomes an important prerequisite. Expansion of secondary industry will in turn create employment that will increase people's income. This will have a trickle-down effect to the rural areas thus increasing the rural communities' purchasing power and hence their ability to participate in savings groups. All this points to the need for the establishment of smart partnerships between the NGOs, government, and private sector aimed at reducing poverty in the rural areas. Thus a combination of factors has to work together for ISAL and ROSCAs to bring significant benefits to the rest of the community.

Finally in view of the positive socio economic impacts that have been noted in the study, ISAL and ROSCAs have demonstrated that informal microfinance institutions remain relevant to enhancing the socio economic status of participating poor rural households that will in the long run lead to the development of the rural community as a whole. What remains is for the formal microfinance institutions, government, private sector and NGOs to

collaborate with the informal financial institutions so as to bring inclusive and sustainable reduction of poverty in the rural areas.

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(Couple from ward 30)

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