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Microfinance Institutions (MFIS) and Smallholder Farming In Mt Darwin, Mashonaland Central Province, Zimbabwe

By

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DECLARATION

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

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Student Signature Supervisor Signature

Date Date

Dedication

This research is dedicated to my family; wife (Memory Savo) and children (Leroy and Leslie) and my late father who passed away in September this year. I wholeheartedly believe that this is my greatest accomplishment yet. Their support was abundant in times of need and profoundly contributed to the success of this project.

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ABSTRACT

The study focused on evaluating the impact of Microfinance Institutions as a form of rural finance on Smallholder Farming in Mt Darwin district. It explored the different types of Microfinance Institutions present in Mt Darwin and the different services offered, whether the program made any significant impact to Smallholder farming and challenges faced in rolling out such programs. There has been a notion in the development discourse especially by Financial Institutions that it is difficult and risky to finance rural smallholder farmers despite the fact that farmers are prepared to access such funding for productivity purposes. This research thus aimed to navigate more on the financing process as a way of improving the livelihoods of smallholder farmers. According to Yaron et al. (1997), attempts to reduce the gap in the provision of rural finance often focus on supply-side interventions, including government and donor-funded targeted credit programme of the 1950-60s and the global failure which is well cited. Contrary to the expectations of its advocates, liberalisation of financial markets in the 1980s has not succeeded in improving the supply of finance to rural households and enterprises, as formal financial institutions (FFIs) have become more risk averse, having reduced their exposure to agriculture and the rural economy (Tenaw and Helsinki, 2009). Precisely, these are the families that are the first to be ignored by the financial market since they possess few resources, have no collateral, and attract high risks and high transaction costs. The number of these types of families requiring assistance including financial services, which are not determined by the market to secure self-sufficiency in food production, is high in sub-Saharan Africa (Tenaw and Helsinki, 2009). Stimulating food production is therefore desirable in sub-Saharan Africa for poor and marginalized rural inhabitants beyond a market stimulated production level. The informal rural financial service institutions play an important role especially in sub-Saharan Africa as the poor people, particularly women, depend almost exclusively on the informal financial market. Therefore, improving the operational status of the informal sectors is one way out of poverty for the poor rural society in sub-Saharan Africa.

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ABBREVIATIONS

AFC	Agricultural Finance Corporation
FACHIG	Farmers' Association of Community Self-help Investment Groups
KII	Key Informant Interview
MFI	Microfinance Institution
MSME&CD	Ministry of Small and Medium Enterprises and Cooperative Development
MPSLSW	Ministry of Public Service, Labour and Social Welfare
NGO	Non-Governmental Organization
SACCO	Savings and Credit Cooperative
SHF	Smallholder Farmer

1. Introduction to the study

1.0 Introduction

Access to rural financial services through MFIs and CBMFIs has the potential to make a difference in agricultural productivity, food security, and poverty reduction within smallholder farming. However, an efficient, sustainable and widely accessible rural financial system remains as a major development challenge in most of the developing countries (Tenaw and Helsinki, 2009). This research involved assessing the different types and services of the MFIs and their role of improving the rural Smallholder farmers' productivity state in Mt Darwin in Mashonaland Central Province of Zimbabwe. Also, the aim of the research was to highlight some key issues and challenges which could be drawn from financing rural communal smallholder farmers. The research also considered to evaluate the impact of MFIs on smallholder farming in the district and possible challenges faced by MFIs and SHFs in Mt Darwin. Finally, the research also looked at some recommendations that can be considered to improve the efficiency of MFIS and Smallholder Farming in the district and beyond.

1.2 Background to the Study

Tenaw and Helsinki (2009) indicated that rural financial services comprise providing financial services among rural smallholder farmers who need to secure savings, credit, financial transactions and transferring money. However, regardless of the expansion of financial services, most of the smallholders around the world especially third world countries remain without access to financial services that they need to improve their livelihoods. Although the significant demand exists for financial services in rural areas especially among smallholder farmers, the institutions providing financial services like CBMFIs, banks, credit unions, cooperatives, Microfinance Institutions (MFIs) or insurance companies usually avoid working with smallholder farming due to the risks associated with agricultural production. This results in smallholder farmers failing to access the much needed finance to boost up production. Through lack of access to finance, rural smallholder farmers will eventually rely on sources of financial services through other informal means which might be too expensive to be profitable. The cost of loans will result in indebtedness which culminate in permanent dependency of borrowers on money lenders and thereby entangle them in the vicious cycle of poverty. Thus, the overall financial sector development can be viewed as an important catalyst for economic growth and development for different reasons (Inter-American Development Bank, 2001) like improved financial intermediation which could directly reduce vulnerability and alleviate poverty. The efficient provision of loans, deposits, payments, and insurance service encourages rural entrepreneurship and helps the rural economy grow (World Bank, 2003).

In this study, the researcher outlined the background to the problem, the statement of the problem, objectives of the research, the main research question, justification of the study, scope of the study, delimitation of the study and defined key terms in the study. The researcher cited relevant literature from different authors, outlined the research methodology, presented data, analyzed it, made recommendations and concluded the study.

1.3 Statement of the Problem

Sometimes it is really difficult for the smallholder farmers to get access to credit as the required collateral might be a challenge to provide. This will usually leave the smallholder farmers exposed to more expensive alternatives and eventually fail to access such important loans. The lack of access to medium and long-term finance inhibits investment by a majority of Smallholder farmers in Mt Darwin and countrywide in Zimbabwe. This inadequate funding for marginal farmers has a negative impact on the agricultural productivity of the whole country. Eventually, food security is affected as well. This is coupled by lack of confidence in smallholder farmers by well established banks and MFIs, which affects the extension of loans to them as it is taken as a risky business amid some underlining challenges. As a result, marginal and smallholder farmers are frequently termed as “missing middle" (Raman and Husain, 1995). This study managed to examine the contribution of MFIs on smallholder farming in Mt Darwin District, Zimbabwe.

1.4. Aim

To evaluate the impact of MFIs on Smallholder farming in Mt Darwin.

1.5. Research Objectives

a. Describe the various Micro-Finance Institutions operating in the district and services offered for Smallholder farming

b. Evaluate the impact of MFIs on Smallholder Farming

c. Identify major challenges faced between MFIs and smallholder farming in Mt Darwin

d. Determine and make possible recommendations financing options that can be used by MFIs and Smallholder farming

1.6 Research Questions

e. What are the various financial services currently being offered by MFIs for Smallholder farming?

f. What is the impact of MFIs on smallholder farming?

g. What challenges are being faced on financing of smallholder farming by MFIs?

h. What could be the possible financing options that can be used by MFIS and Smallholder Farming?

1.7 Theoretical Framework

This research was largely guided by the philosophy of the Grameen Bank (GB) which focuses on the voluntary formation of small groups of five people to provide mutual, morally binding group guarantees in lieu of the collateral required by conventional banks. It initially involved women who were given equal access to the schemes, and proved to maximize the use of the loans for their benefits. The Grameen Bank also managed to reverse some banking practices which affected access to finance by removing collateral requirements and came up with a more banking system that is relaxed and based on mutual trust, accountability, participation and creativity instead. Professor Yunus, founder of the Grameen Bank, saw credit as a way of perpetuating inequalities that confine the poor to a poverty cycle and for releasing the inherent capacities in people as they do not have collateral. He argued that the conventional banking system is anti-poor, anti-women and anti-illiterate. Thus, it has contributed to maintaining the status quo between the rich and poor. Therefore, microcredit issued to small groups, is purported to allow them the opportunity to purchase equipment and other inputs and engage in micro enterprises of their choice.

This GB calls for high discipline, monitoring and servicing as the group-based lending is one of the best ways of availing small amounts of loans to more clients who may not have collateral as loans are guaranteed by the group that is co-guaranteeing each other. The GB requires that there be some saving in advance which depicts the ability to make regular payments and also saves as collateral security.

Besides the Grameen Bank, the research was also guided by the Sustainable Livelihoods Approach (SLA) which also looks at finance as an input needed to sustain income generating activities and improve livelihoods.

1.8. Conceptual framework

Microfinance is the provision of a broad range of financial services such as deposits, loans, savings, payment services, money transfers, and insurance to the poor and low-income households and their micro-enterprises who are excluded from the formal financial systems (Ledgerwood, 2002). Microfinance is useful for mobilizing savings especially in the areas which are usually financially excluded like rural areas for smallholder farmers. Zimbabwe is predominantly rural with about 70 percent of its population (about 9 million people) living in rural areas. Agriculture is the main source of income for most of its rural population. Poverty in rural areas is rife and approximately 90% of rural dwellers depend on agriculture for food and income, making agriculture the main economic base of the country. Access to finance has the potential to play a key role in agricultural and rural development. Therefore, the Microfinance sector continues to play a critical role in the provision of financial services to smallholder farmers. The impact of recent economic history in Zimbabwe has seen domestic savings and inflows of foreign direct investment shrink. This has created an acute shortage of finances available to the financial sector which has pushed up interest rates and limited credit and other financial services to all but a few customers who can afford the services. Financial services to the agricultural sector especially smallholder farmers and the rural economy in general have been very limited due to the perceived high risk and operational costs. This therefore calls for an evolution of an efficient and effective Microfinance system in the country which targets the low income base of the community thereby contributing to the growth of local economy and livelihoods of farmers. There are different types of MFIs which offer financial services to the smallholder farmers for example the formal bank related and controlled at times or are widely spread and highly capitalized like Microplan (FBC Bank), Steward bank Microfinance division, CBZ Microfinance, UNTHU, Quest Financial Services, FMC and many others whilst locally there are Rotating Savings and Credit Associations (ROSCAs), Credit and Saving Cooperative Union (SACCOS) which are semi-formal. It is confirmed that the main purpose of all the MFIs is to satisfy the financial needs of un-served markets as a way of improving development. As at end of June 2015 the MFIs in Zimbabwe were serving 223,630 clients through 495 branches.

It is believed that microfinance will enable smallholder farmers to easily access credit facilities without collateral (IFAD, 2003). As the number of MFIs has increased across the country, there is growing interest in understanding the nature of MFIs and how they are impacting on the credit beneficiaries. Due to limitations of credit facilities among smallholder farmers in rural areas, it is expected that, some will need to get credit from microfinance while others will not. Those who will access credit will be expected to improve their farming technologies and input use to improve productivity and eventually food security. Smallholder farming in Mt Darwin highly depends on Private Companies as contractors for financial service provision through inputs and loan repayment done at point of sale. Contract farming companies are a significant source of funding for the small-scale farming sector and have a knock-on effect on rural economies. Funds are often sourced offshore, especially by the large tobacco and cotton companies. Insurance and guarantee services show potential for reducing the risk of farmer default on input credit and are currently being offered on a limited basis. Collateral available for credit purposes in rural areas are mainly in the form of cattle. Cost of finance is high and credit is generally out of reach of small-scale farmers and mostly confined to large commercial agro-enterprises. Mt Darwin district is in Mashonaland Central under natural regions 2, 3, 4 and 5 with main livelihood activity being agriculture. The size of the district is 463000 hectares with a population of slightly above 212190 and total households of 47726 in the 40 wards. The Smallholder farmers in the district include Small Scale Commercial (Chesa and Karuyana), Communal, Old Resettlement, A1 and A2 farmers with the main crops grown being maize, cotton, groundnuts, sorghum, tobacco, cowpeas, horticulture and livestock like cattle, goats, sheep, indigenous chickens and guinea fowl.

1.8 Significance/Rationale of Study

Alam (1988) conducted a study to measure the productivity growth of the Grameen Bank members, and his study was confined to comparing the agricultural productivity alone. He discovered that the small and marginal farmers, as a result of participating in the Grameen

Bank programs, can allocate a higher percentage of their land for the cultivation of high-yielding varieties (HYV) and have improved their agricultural productivity. The studies showed that the users of microfinance can bring 81.5% of their productive land under HYV Boro production compared to 76% of the non-users thus improving income levels and food security at household and community levels. The study showed that yield improved for the microfinance users as the community could not afford to apply these expensive inputs to their farms for HYV cultivation due to their low income level. However, joining the Grameen Bank credit programs itself increased their income and since they worked in groups, it was relatively easier for them to obtain HYV inputs at a low average cost. Accordingly, members of all programs in general have achieved a higher agricultural productivity in terms of per acre yield. This eventually boosted the food security status of the farming community and profits for the bank through interests charged. Thus the demand for agriculture credit grew with time as a result of green revolution. The modern agricultural farming technology is highly capital-intensive due to intensive use of modern agricultural inputs such as HYV seeds, synthetic fertilizers, pesticides, modern irrigation facilities and farm implements. Most of the farmers cannot afford such big investment due to scarcity of working capital (Hossain, 1985). Nevertheless, micro credit has only had a marginal impact in the agriculture sector as microfinance institutions (MFIs), to a great extent, limit their lending to those possessing less than half an acre of land (the functionally landless). Rural smallholder farmers' access to agricultural credit remains very limited. They usually fail to obtain regular credit facilities as they are considered to be risky business partners by financial institutions. As a result, marginal and smallholder do not manage to access the required inputs to produce more. This shows that without joining the Grameen Bank, the farmers were frequently termed as “missing middle.” (Raman and Husain,1995).

This study therefore focused on assessing how MFIs’s Rural Finance has impacted the smallholder farmers in Mt Darwin and explored how the financial institutions have managed to operationalise rural finance services in dealing with the clientele. The findings will really be of great use to development partners who can facilitate such linkages in future to improve food security and also the financial service providers as they will understand and design products that are suitable to communal smallholder farmers. This will eventually be used by policy makers for policy formulation of rural finance services. Above all, the outcome can be useful by academics for further research on the study area.

1.9. Definition of Terms

Community Based Microfinance Institutions (CBMFIs): These are defined as institutions that provide credit at local community level to smallholder farmers like ISALS, ROSCAS and SACCOS

Microfinance: This can be defined as a form of financial services provided and targeting those who are poor and have low income status in the society. Schubert (2004) explained that Microfinance involves providing small loans to the poor to start or boost their income generating activities or microenterprises in order to accumulate more assets with the aim of reducing poverty through micro loans, deposits, savings, payment services, money transfers and insurance. The Asia Development Bank's (ADB, 2000) also alluded that microfinance services were given to the poor and low-income segments of the population to support their micro-enterprises which would otherwise not be covered by different financial systems and their micro-enterprises, therefore suffering exclusion from formal financial systems.

Rural Finance: Rural financial services includes providing financial services such as secure savings, credit, financial transactions, money transfer services for remittance and insurance in rural areas.

Food Security: A household is said to be food secure when it has food available and can access it and utilise it

Smallholder Farmers: Smallholder farmers are also defined as those farmers owning small-based plots of land on which they grow subsistence crops and one or two cash crops. They rely almost exclusively on family labour with limited resource capital base. These can also be defined as peasant farmers occupying communal land in rural areas for agricultural purposes, for which they have no title deeds and vests in the President of the Republic of Zimbabwe (Rural District Councils Act).

1.10 Assumptions

The researcher assumed that:

- Adequate information on the impact of MFIs on smallholder farming as a form of rural finance will be availed by farmers in the most appropriate manner
- The MFIs responsible for rural financing will be willing to cooperate and provide necessary information
- All communities in Zimbabwe appreciate the importance of such research.

2.0 Literature Review

2.1 Introduction

Literature review is basically undertaken on the evidence of making clear the theoretical context of the problem under investigation and how this has been studied by other researchers (Singleton et al., 1993). As such, two major reasons exist for reviewing literature, (Sharp, Peters & Howard, 2002). Saunders et al. (2009) contend that, literature review helps in generating and refining research ideas. Furthermore, literature review assists in demonstrating awareness of the current state of subject knowledge, its limitations and how the research fits in this wider context (Gill & Johnson, 2002). This current chapter attempted to review the relevant available literature on MFIs and SHFs focusing on types of MFIs and their services, the impact areas and challenges as well recommendations.

According to Yaron et al. (1997), attempts to reduce the gap in the provision of rural finance often focus on supply-side interventions, including government and donor-funded target credit programmes of the 1950-60s, the global failure of which is well cited. Contrary to the expectations of its advocates, liberalisation of financial markets in the 1980s has not succeeded in improving the supply of finance to rural households and enterprises, as formal financial institutions (FFIs) have become more risk averse and reduced their exposure to agriculture and the rural economy. (Justified text)

Microfinance, as a tool of rural financial services, has a clear impact on poverty and food security by positively affecting the household economic development, ensuring Income Generating Activities (IGA), sources of income, reducing vulnerability, housing tenure, enterprise growth. The efficient provision of loans, deposits, payments, and insurance service encourages rural entrepreneurship and help to rural economy to grow (World Bank, 2003). Presence of financial services helps the rural economy to grow and reduce the poverty. Access to working capital can substantially accelerate the adaptation of modern agricultural technologies and production and thereby improving the ability of the rural sector to meet the subsistence need of the poor. It also helps to produce the surplus in primary and intermediary products required for urban consumption, export, and avoid environmental degradation (World Bank, 2003).

So, microfinance is a tool used to improve the quality of life of people with limited access to permanent financing. There is an almost global consensus now that microfinance to the poor be viewed to achieve equitable and sustainable gains for economic and social development in the twenty-first century (Mayoux, 1999). Early studies indicated that to sustain and accelerate technological change in agriculture for adopting improved practices, credit is essential (Hossain, 1986). Similarly, Jaim and Rahman (1985) observed that although rich and middle class farmers generate sufficient surplus after maintaining a higher standard of living, they too feel need for credit in certain period.

Farmers take loans both from informal and formal sources. Challenges still remain in the rural agriculture due to excessive formalities followed by the nationalized banks and use of informal compound interest terms. Informal credit sources such as local money lenders and wealthier community members, often charge interest rates that are prohibitively high. As a result, the landless poor in rural communities very often face severe liquidity crisis that affect their economic well being as well as productivity. Specifically, the inability to access credit at reasonable rates of interest limits their opportunities to rise above poverty due to restrictions on land use for agricultural production, income and eventually food security.

2.1.1 Food security

A household is considered to be food secure by determining when it has available food and when it can access it. More than 70% households that spend a higher proportion of their income are most likely to be food insecure. This percentage shows the total household expenditure on food and vulnerability. These families would end up relying on market purchases as a source of food and cash income (Smith, 2002). Food security exists when all people at all times, have physical and economic access to sufficient, safe and nutritious food to achieve a balanced diet and food preferences for an active and healthy life, (Fantaw, 2007). In this study, food security refers to the availability of food and individual access to it. Food availability is when a household has a sufficient quantity of food on a consistent basis. Food access is when a household has resources to obtain appropriate food for a nutritious diet.

2.1.2 Contribution of Microfinance Institutions to Smallholder Farmers

The promotion of microfinance started over two decades ago. Significantly, this promotion intends to enable poor people to easily access credit for poverty alleviation. There has been a growing interest to find out the impact of this microfinance on poverty alleviation. Khandker (2005) conducted a study on Microfinance and Poverty in Bangladesh and found positive effects on poverty alleviation rates. He learnt that between 1991/92 and 1998/99, moderate poverty in all villages declined by 17%. Khandker (2005) estimates that more than half of this reduction is directly attributable to microfinance, and finds the impact to be greater for extreme poverty than moderate poverty. The author further found out that microfinance programs reduced average village poverty level by 1% each year in program areas. Microfinance thus helps not only poor participants but also the local economy. According to Khandker (2005), microfinance accounted for 40% of the entire reduction of moderate poverty in rural Bangladesh.

Financial services assist households in maintaining food security and smoothing consumption, thereby safeguarding or enhancing labour productivity, the most important production factor for the poor (Murdoch, 1995).

An inclusive financial system is part of the essential infrastructure in any country. As a cross cutting issue, it is an enabler and accelerator of food security, nutrition, and rural development, (FAO, IFAD, WFP and the UNSGSA, 2003). Promoting "inclusive finance" means intensifying outreach to the poorer strata of clients, especially women, reaching beyond conventional microcredit to provide tailored financial services to the smallholder farmers in rural communities. Financial services assist rural people in meeting their basic needs, invest in their farming and uplift them out of poverty through enhancing food security in their households. When Smallholder farmers have access to resources like rural finance they can increase production and contribute to food security to a greater extent. Affording rural finance to smallholder farmers can strengthen their asset base to invest in income generating opportunities to create a buffer capital for use during lean periods of cash crisis, (FAO, IFAD, WFP and the UNSGSA, 2003).

In an attempt to increase the productivity of smallholder farming systems and related value chains, financial services have typically been included in the following three activities:

- Livestock distribution: providing draught animal power, encouraging the purchase of improved livestock breeds or facilitating restocking;
- Purchase of inputs, such as feed, housing, veterinary drugs and animal health care;

- ❖ Establishment of small livestock-related microenterprises, including processing and marketing facilities.

A flexible approach is needed in the provision of financial services in order to systematically take into account specific circumstances and expressed local needs of Smallholder farmers. IFAD (2004) proposed that access to financial services by the rural poor tends to be limited by two interrelated factors, described below.

2.1.3 Financial institutional impediments and poor outreach in rural areas

The interest rates charged on loans are higher in rural areas than in urban areas, largely because the transaction costs of serving rural populations are higher. Rural areas are often characterized by highly dispersed, hard-to reach communities, weak infrastructure, low levels of economic activity, and financial service providers with limited capacity and a narrow range of products. In order to cover the administrative costs of operating in rural areas and continue doing business in marginal areas in the long term, rural financial service providers often charge higher interest rates than providers serving urban areas. In an attempt to remove such impediments, an effort should be made to develop appropriate financial products and promote new delivery mechanisms for rural and marginalized areas.

2.1.4 Limited resources of rural households

The lack of physical collateral – a prerequisite in obtaining loans from formal financial institutions – tends to make financial service providers wary of lending to groups living in remote rural areas. In addition, few formal mechanisms exist for saving money safely there because of the high transaction and administrative costs of working in remote areas.

2.1.5 Unsuitable financial policies

Marginalized areas often suffer from limited presence of financial service providers, high costs of service delivery and related high interest rates on loans. Experience has shown that where credit has been channelled through weak, government-owned financial institutions, the provision of financial services has been characterized by low repayment rates, poor levels of service for clients, inadequate monitoring, exit strategies by development agents and limited prospects for sustainability

2.1.6 Poor understanding of demand for financial services

The failure to adequately assess local demand, the cash flow of potential borrowers and the capacity of their household to repay a loan can result in the design of credit programmes that are not tailored to local circumstances.

2.1.7 Inadequate extension and follow-up on loan repayment

The failure of financial institutions to adequately assess the overall financial risk of a target group and then monitor and supervise their loan portfolio has also led to the provision of untailored credit products and low repayment rates.

2.1.8 Inadequate beneficiary participation in product design and the decision-making process

Failure to understand and incorporate the priorities, choices and views of beneficiaries undermines the sustainability of financial service providers. Participatory approaches are needed to ensure that beneficiaries and final users are involved in the design, formulation implementation and final assessment of all supported initiatives, including those related to rural finance.

2.1.9 Access to savings products

Access to safe and reliable savings mechanisms offers rural farmers numerous benefits, including opportunities for capital accumulation, increased security and self reliance, and increased capacity to repay their loans and respond to emergencies and threats to their livelihood.

2.1.10 Other Sources of Funding/Credits available rural Smallholder farmers

Zeller (2003) described the following as other sources of possible funding of rural farmers;

Lending among relatives, neighbours and friends.

This type of borrowing from socially close lenders within the moral economy is often the first recourse that poor households have in financing expenses, especially those related to essential consumption expenditures. Under this system, transactions are collateral-free and in most cases interest is not charged.

The rotating credit and saving associations (ROSCAs) found in many countries are also network-based. These associations, which may even operate under a designated, sometimes remunerated manager, pool savings from members each period and rotate the resulting pot among them using various rules. The process is repeated until the last member receives the pot. Because of the rotation rules, these schemes are less suited to address household risk unless the timing of the receipt coincides with unexpected events. Still some others allow the fund to be paid out earlier in times of crisis of one of its members, at times requiring a premium payment.

Informal moneylenders and pawnbrokers

Member-based institutions, such as village banks, groups, and savings and credit cooperatives have a comparative advantage over socially distant banks in using social capital for the enforcement of their contracts. Also, deposit-taking institutions have a comparative advantage in using informal enforcement mechanisms compared to institutions that lend “cold” money.

2.3. Chapter Summary

This chapter mainly discussed items of related literature review which covered the aspects surrounding MFIs and SHF. It looked at literature related to the types of common MFIs, their services for SFs, the MFIs impact on SHFs as per previous studies done by others. Furthermore, the chapter also looked at challenges that were observed by previous researchers and possible recommendations to improve the working environment. The research was mainly based on the theory by the Grameen Bank which is considered to be the brain child of rural financing. The chapter also looked at ethical issues which uphold the extraction of data from respondents.

3. 0 Research Methodology

3.1. Introduction

This chapter describes the population and sampling process that was done and used for the purpose of this research. Above all, the chapter explains the methods used in the research study and data collection tools used.

3.2 Research design

The researcher actually employed the mixed methods approach which used both qualitative where a structured interview was done for Key Informants and quantitative methods were done to extract information MFIs and SHFs using a structured questionnaire. The data was presented and analyzed accordingly.

3.2.1 Population

A population can be defined as the entire collection of events in which one is interested in (Chimedza, Chinyemba and Muchengetwa, 2006). The population of the study was drawn from Mt Darwin's 40 smallholder farming wards and 7 financial institutions operating in the district five and Agritex extension workers and Smallholder farmers in those wards.

3.2.2 Sample

Sampling is a part of the entire population carefully selected to represent that population, (Saunders et al., 2003). The research involved qualitative techniques targeting a relatively small amount of samples and quantitative research which will achieve a much higher number of samples. While some suggest that participants "in qualitative research are not meant to be representative of a population" (Bryman, 2004), obtaining representative samples in qualitative research is very often difficult and is criticized for its limit on generalizability. As a researcher seeks greater depth of understanding, there is an inevitable compromise in the number of people included in a qualitative study (Bryman, 2004). Consequently, the sample may not be representative. However, in this research, the problem of small sample in qualitative research can be overcome by the usage of surveys that can cover a larger number of samples. Respondents who had participated in the qualitative research were not be targeted for quantitative research to avoid prolonged or repetitive testing, which could have been distressful. Respondents included 60 smallholder farmers, 4 MFIs, I NGO staff, 5 Extension workers from Agritex and MWAGCD and 2 councillors.

3.2.3 Sampling technique and procedure

The respondents were randomly picked from the list of Smallholder farmers in the 4 wards and also the Microfinance Institutions including CBMFIS. Sampling is important as it makes it easier to collect information from a workable group which can be reached and making a representative enough of the entire population to enable appropriate results to be reached. Purge (2005) states that 10% of the population is considerable as a representative sample that can produce results which can be generalized across a sector. The researcher used random sampling in selecting 76 respondents, this technique gave all respondents an equal chance to be chosen and it eliminated bias.

3.2.4 Data gathering instruments

The researcher used structured questionnaires and key informant interviews to extract as much information as possible from the respondents.

3.2.5 Validity of Research Instruments

The researcher also consulted experts of Rural Finance and Food Security in terms of structuring proper and most suitable instruments to collect accurate data

3.2.6 Reliability of Research Instruments

According to Saunders et al (2009), reliability refers to the extent at which the research data collection techniques or analysis procedures will yield consistent findings. Though Robson (2000) concurred with Saunders et al (2009); he further noted four threats that may hinder reliability. Reliability indicates the accuracy or precision of the measuring instrument (Norland, 1990). Delbridge and Kirkpatrick (1995) had to say; “because we are part of the social world we are studying we cannot detach ourselves from it, or for that matter avoids relying on our common sense knowledge and life experience when we try to interpret it”. In this study, the researcher used a pilot test to test for internal consistency of the questionnaire.

The pilot test tried to answer the question; does the questionnaire consistently measure whatever it measures?

3.2.7 Delineation/ Delimitation of the Study

The study was confined to Smallholder Farmers in Mt Darwin District located in Mashonaland Central Province, which is within the reach of the researcher to carry out the study and also different MFIs in the district dealing with Smallholder Farmers.

3.2.8 Research Ethics

3.2.8.1 Ethical Statement

The researcher complied with 'Statement of Ethical Practice' guidelines of the American Psychological Association (APA) in carrying out this research. The responsible local authority was contacted to be informed on the purpose of the research and to also buy in their approval to the process. Formal and informal consent was obtained from the respondents like financial institutions, the farmers and other key informants before conducting interviews to ensure and assure cconfidentiality of information supplied by research participants as well as respecting their anonymity. At all levels, participants were briefed on the study objectives and their consent received either by filling the informed consent forms or by giving verbal approval before administering any of the research protocols. In addition, all the participants were informed of their right to withdraw their participation in the study at any stage.

3.3. Chapter Summary

The chapter managed to describe different processes which explained the significance of MFIs and SHFs in terms of provision of microfinance to the farmers. This then built the argument basis for the upcoming chapters. The population was defined as part of the Mt Darwin community and targeting a sampled of 4 wards and targeted 76 respondents who were randomly selected. Ethical issues were also observed to ensure that respondents responded freely in the study.

4 Data Presentation and Discussion

4.0 Introduction

This chapter presents findings from this study on the various MFIS operating in Mt Darwin and services provided. It also explains impact of MFIs on smallholder farmers, the major challenges that are faced between MFIS and Smallholder Farming in Mt Darwin. It then describes the possible recommendations on financing options that can be used by MFIS and Smallholder farming. The objectives of this study were to describe the various Micro-Finance Institutions operating in the district and services offered for Smallholder farming, evaluate the impact of MFIs on Smallholder Farming, identify major challenges faced between MFIs and smallholder farming in Mt Darwin and determine and make possible recommendations financing options that can be used by MFIS and Smallholder farming. The results of the study are presented in this section and discussion also made on the findings. The findings presented in this chapter were based on the data collected in from August 2016 from the respondents in Mt Darwin District. The demographic information of the respondents considered in this study included the respondents ‘gender, their age, and highest level of education and the number of years in service for Key Informants. The data was presented in tables and graphs and analyzed using statistical packages like SPSS for further interpretation.

4.1 Sample Characteristics

4.1.1. Structured questionnaire

Across the four wards sampled, 57 Smallholder farmers took part in the study and answered a structured questionnaire. The respondent rate was 95%, of which 57,8% were all females and 42,1% were males. These SHFs were of mixed ages ranging of 25-55 years but the bulk of the respondents were in the range of 35-45 years. This is also the age group which is very active in different programmes and with a higher literacy which allows them to participate in financial services adoption of products. It was observed that 50, 8% of the respondents were married and participating in financial inclusion activities. 47, 3 % of the respondents had education levels of up to primary school level and this acted as a limit to the interpretation of financial issues for the farmers as they interact with the financial institutions. However, a significant 38.6% reached secondary school level while 14% never attended school but still participate and demand financial services for their livelihoods. The chances that this group of farmers maybe be eluded by MFIs is high as they face a lot of challenges in even demanding the services and interpreting financial matters however they still need to be serviced for betterment if their livelihoods. So this showed that their demand of financial services from MFIs cuts across to different classes of farmers as they thrive to make ends meet for their improved livelihoods. The figures below illustrate the percentage statistics describing the respondents by age and sex respectively:

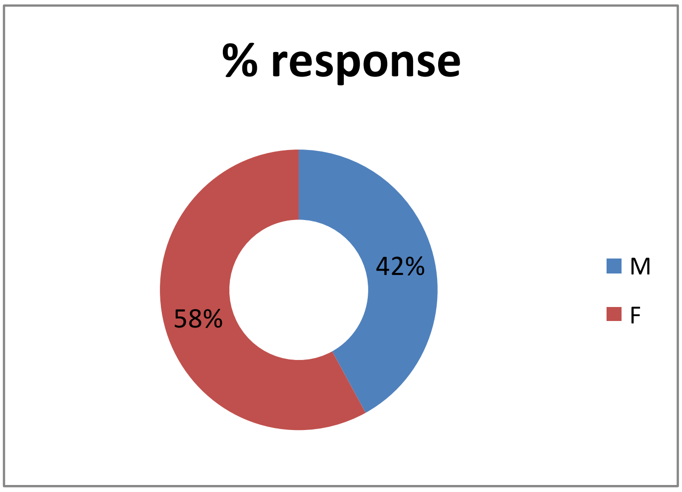

Figure 1:Respondents by sex

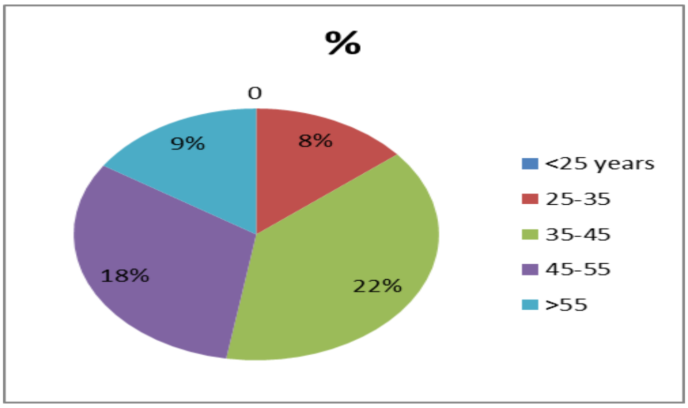

Figure 2 Demographics of respondents- age

4.1.2 Microfinance Institutions Respondents

A structured questionnaire was used to collect information from representatives of the four MFIs sampled for the study. There was a 100% response rate for the MFIs. It also came out that the MFIS have been in the district for periods ranging from 1-4 years and providing services to the farmers.

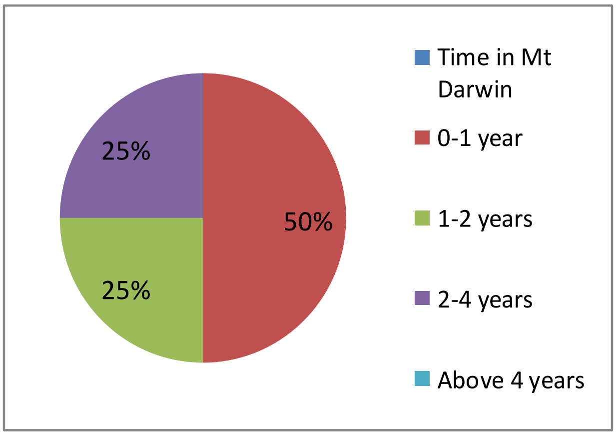

Figure 3: How long have you been in Mt Darwin

The figure 1 above shows that 50% of the MFIs respondents have been in the district for at 0-1 years, 25% have been in the District for 1-2 years while another 25% have been staying in District for 2-4years. The above analysis was necessary as it showed the justifications mentioned by Choga (2013) when he indicated that the commercial MFIS were slow in moving into rural areas to do business as the environment is considered risky. This actually resulted in the MFIs being introduced late in the district thus starving off the smallholder farmers of the much needed finance for productivity. It also came out that the majority of the MFIs staff holds either a diploma or a first degree which is a critical base in service provision to the farmers and their experience varied from 1-4 years with farmers on Microfinance issues in different capacities. This is an additive advantage in handling matters of dealing with farmers to ensure that adoption and interaction between the Smallholder farmers and MFIs is enhanced.

4.1.3 Key Informant Interviews

A guided and structured questionnaire was used for face-to-face interviews with the four extension staff from Agritex and Women Affairs, five farmer leaders, two councillors and an NGO staff and the response rate was 100%. At least 41,7% of respondents were within age range of 25-35 and 33% were in 35-45 years. This shows that most refer to ward based extension who provide technical backstopping to the farmers and understanding the financial issues is much easier and that can act as a platform for linking farmers with MFIS. Above all, 41% of them have attained tertiary education and this works as an added advantage to appreciate the issues of Rural Financing of agricultural systems in their operational areas. The respondents included 3 Agritex workers, one Ward Development Coordinators, 2 councillors, 5 farmer leaders and one NGO staff operating in the district. The diversity covered stakeholders who work with Smallholder Farmers and also interacting with MFIs and thus their views were of great significance

4.2.1 Description of the various Microfinance Institutions operating in the district and services offered for Smallholder Farmers.

The provision of microfinance to Smallholder farmers becomes a fundamental need that needs to be addressed as alluded in the literature review. The rural financial market has been shunned by most of the MFIs for provision of finance as indicated by the time that the MFIs have been operating in the district. It is, therefore, of paramount importance that there be an inventory of MFIs working and in the district for the purpose of providing financial services to the communities. It thus important that farmers and other key stakeholders working with farmers be able to identify the MFIS and their services they provide so as to increase accessibility by needy farmers. Thus the following MFIs were identified by the respondents who were the Smallholder farmers and key stakeholders and their services described.

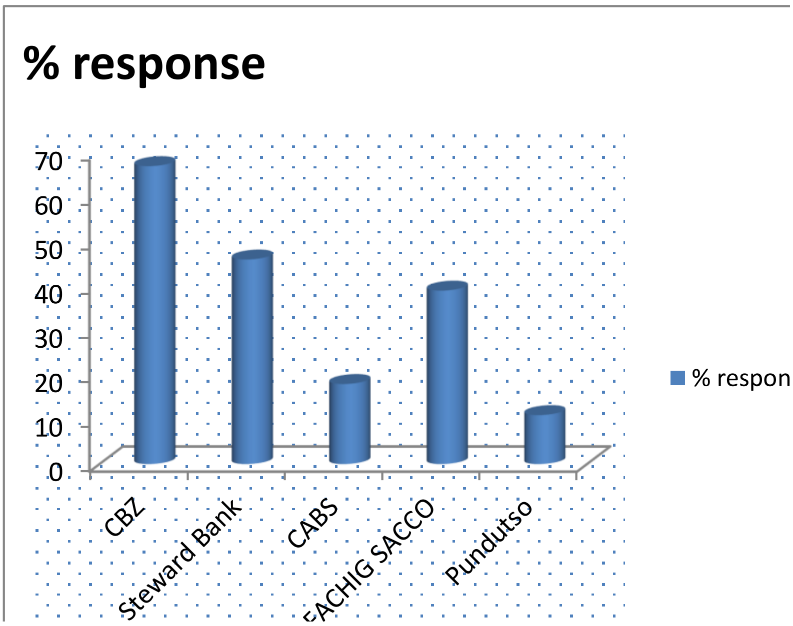

Figure 4: Identify Financial Institutions in Mt Darwin

Figure 4 above indicates the types of MFIS identified by the respondents Smallholder farmers in the district. It can be noted that the list above indicates CBZ as the most common MFI in the district 69% of respondents identifying or recalling the presence of the bank which is said to have more than 10 years of presence in the district but mostly in collaboration with some NGO and government programmes. Some of the MFIs identified include Steward bank with 46% and it has opened a number of agencies in the district to ensure the local community has adequate access to financial services. Other MFIS included CABS which has a low presence in the community although it has a banking branch which has been in the district for years now. However, its outreach and interaction with farmers comprises limited savings and withdrawal after marketing their produce especially for tobacco farmers and pensioners. Notably among the MFIS are the local SACCOs which are Pundutso with 11% and FACHIG SACCO with 39%. These are mostly common members who were and some still subscribing to the institutions. Pundutso has since stopped operations in the district owing to economic challenges, however, FACHIG SACCO is still in operation boasting of 12000 members and still supporting Smallholder farmers in the district. The presence of these MFIs in the district means that SHFs, to some extent, are obtaining access to financial services which are handy for improved productivity and enhanced livelihoods. This then breaks the jinx that existed for the past decade of MFIs shunning rural farmers so this becomes the opening of a new chapter in terms of access to finance by smallholder farmers.

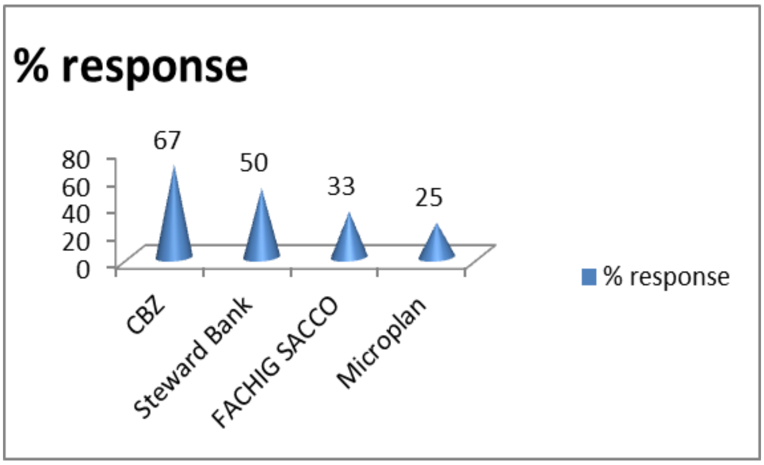

Figure 5: MFIs identified by KII

Furthermore, the respondents for the KII who were made up of key stakeholders in the selected wards managed to identify the above indicated MFIs which is also similar to what the smallholder farmers did expect for the addition of Microplan which has very little presence at farmer level as of now. CBZ still remains highly popular with at least 67% of responts knowing the presence of the MFI while Microplan has the lowets rating of 25%. This identification process is of greta importance interms of accessing the presence of the MFI in the area and its interaction with stakeholders who are the guidance providers of Smallholder farmers. This can then inform the future planning of trying to improve the presence of other MFIS in the district interms of coverage so as to reach out to manay farmers. However for the MFI questionnaire, it came out clearly that CBZ and Steward Bank are more popular as they recorded a 100% each followed by Microplan in the the district. It also came out that MFIS like Saccos , Agribank and CABS recorded low rating of 25% each. This mainly due to the fact they rarely interact more with other MFIS in the district interms of reaching out to farmers.

4.2.1.1 Financial services offered by MFIs

The respondents managed to identify different services offered by MFIs to the farmers as shown in Figure 5 below. The fact that smallholder farmers managed to at least identfy some service means there is a lot of appreciation of the MFIs in the farming communities although this will need to be translated into actual consumption of the services as a means of improving productivity and well-being of the general communities. It is these various services that smallholder farmers should access and also the MFIs will need to increase visibility of such products so that even those not aware will become that target consumers of the servioces offered by the MFIS.

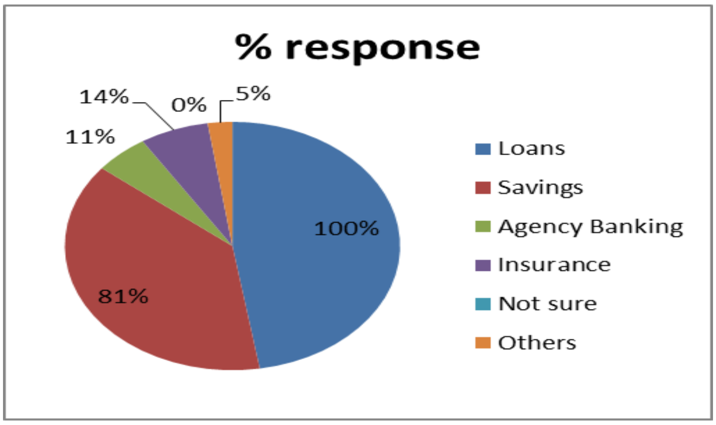

Figure 6: Financial Services Provided by MFIs response by SHF

It can thus be observed at least 100% of the respondents are aware that MFIs offer loan facilities to the farmers through different means. What is most common about the loans is the group loan input schemes which affords the farmers to get loans to finance their input production for crops and livestock activities. This is also coming from the background of more ISAL groups receiving loans from MFIs like Steward Bank for doing different Income Generating Activities and also financing of crops like Sesame, mungbean and Soybeans. This covers many groups and that is why the product is quite popular, although this does not translate to actual utilisation of the service. Farmers are also aware of the Savings facilities offered by the MFIs for safe keep of their money but very few of the farmers do save with MFIs for fear of losing their money due to high bank charges and low circulation of money in the country. The other well-known services are agency banking as depicted by 11% of respondents. The agent is actually located in most of the shopping centres and booths where farmers can easily transact when they have the money. This move was done to ensure that farmers access money wherever they are without too many hassles. However, the efficiency of these agencies is being compromised by the shortage of money in the country. Therefore, farmers will be participating in financial inclusion as they also transact on mobile platforms.

In addition to the response by the farmers, the Key Informant Interviews also revealed knowledge of similar services from those interviewed. 100% of the respondents indicated that they aware of some financial services provided by MFIs with loans scoring high again at 100% followed by Agency Banking with 66% and then also indicated other services safe keep of important documents and saving for education and construction. This was also similar to the findings from the response of MFIS as they also cited the 100% response for loans. Although the loans come in different forms such as individual loans, group loans and those for small businesses against the savings, the utilisation is still low. It was, however, indicated that insurance service is just for cushioning the MFI from losses in the event that the borrower fails to pay the loan due to deaths or chronic illness, hence it does not protect the farmers. This also becomes an area that needs a lot of capacity building to encourage the farmers to take insurance for their protection. The conformation of loans by all the three groups respondents means therefore that access to finance has improved since the service is available and that is likely to boost productivity as farmers will access inputs on time production and will increase income.

Table 1: Services provided by MFIs

Respondent	% Response on Services provided by MFI						
	Loans	Savings	Agency Banking	Insurance	Not sure	Others	
KII	100	66.66	41.67	33.33	0	33.33	
MFIs	100	100	50	75	0	75	

The MFIs however also manage to rank the demand for the services by the farmers as they are the people who are in direct control of the database of farmers receiving services. It emerged from this study that the most popular and demanded services/products are loans. This received a total score of 1 which means demand is very high for the service followed by Agency Banking with 2 showing that the demand is fair whilst savings scored a 4 which means demand is very low. Insurance had 5 which mean there is no demand for such services at all. This basically shows that there is increasing demand for financial access by the farmers to support agricultural activities in terms of boosting productivity (Choga, 2013). The MFIs also indicated that they are increasingly receiving a lot of inquiry from for loans to start projects or boost current ongoing projects. This is an indication the rural market is actually starving of financial linkages to support different value chains. However, the savings are currently low as farmers still have in their memory the loss of money banked during the changeover of currency use in 2009. Accordingly, they prefer to use ISALS as a means of saving their money or buy assets instead. The other contributing factor for low savings is the bank charges which is alleged to wipe off the savings and distances travelled to the MFI location for banking. Nevertheless, this is set to improve with the use of mobile money in the country. The low demand for insurance is an indication of low knowledge skills on the part of SHFs especially on how it can be done and benefits derived from accessing the loans. The farmers have often fallen victim of dubious insurance companies in the past especially for tobacco farmers which have disturbed the use of the service. Nonetheless, it is significant to have programs that empower farmers on this to safeguard their assets such as livestock and crops especially in the face of climate change.

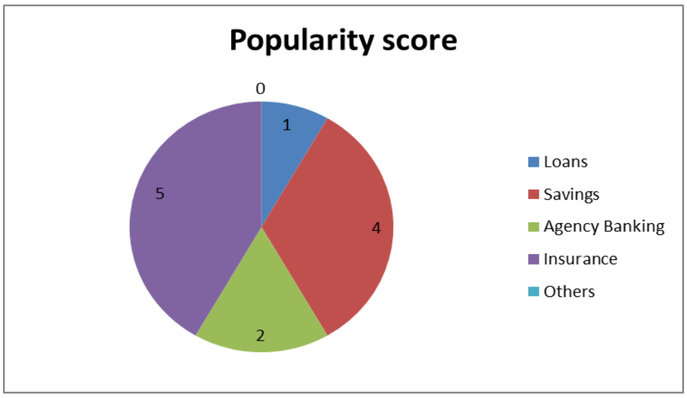

Figure 7: Ranking of services by popularity by MFIs

4.2.1.2 Utilisation of Loans by Smallholder Farmers from MFIs

The respondents acknowledged receiving some loans from MFIs as 56% of them say that they had at one time, or they received some loans while 44% had not yet received any loans from MFIs in the district as shown in Figure 8 below. This margin shows that MFIs are slowly reaching out to Smallholder Farmers who were previously neglected for long. This utilisation of loans has had an impact in the manner farmers now participate in the financial inclusion as they are active players. It became transparent that CBZ has contributed 49% of the loans received by the farmers and Steward bank has contributed 20% to date while SACCOS contributed 18%. The lowest contributors included government ministries and NGOs through which funds are provided to finance different value chain activities. What is of great importance is the fact that there is a presence of different MFIs provides the completion and many opportunities which if used can smoothen the gap that has been in existence of financing the farmers. It is also interesting to note that 50% of Key Informants ranked CBZ as the highest MFI to give loans to farmers followed by Steward Bank as well as also indicated by the farmers.

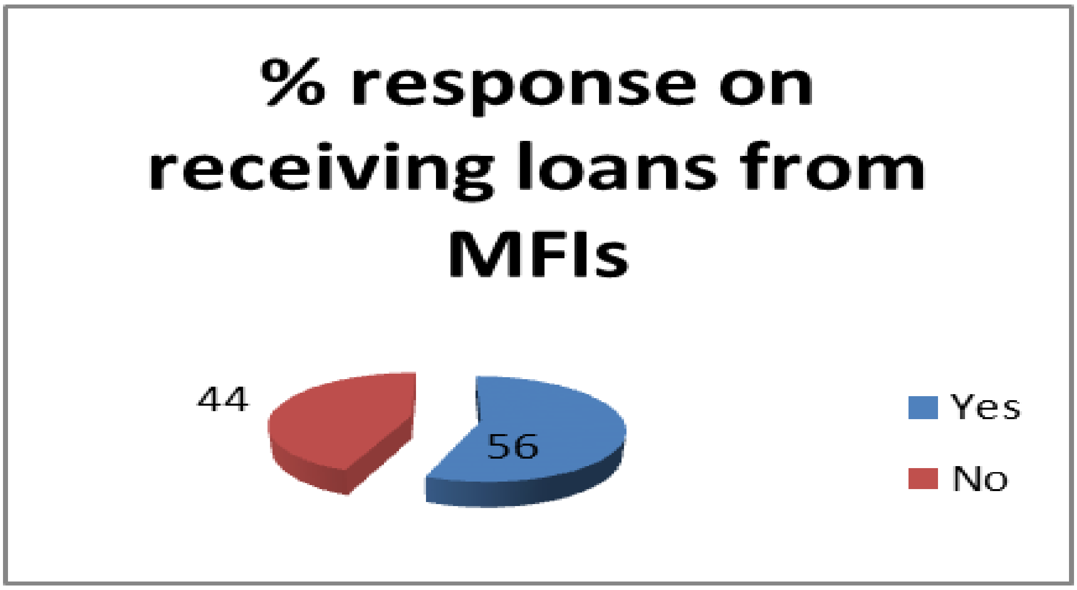

Figure 8: Farmers who have received loans from MFIs

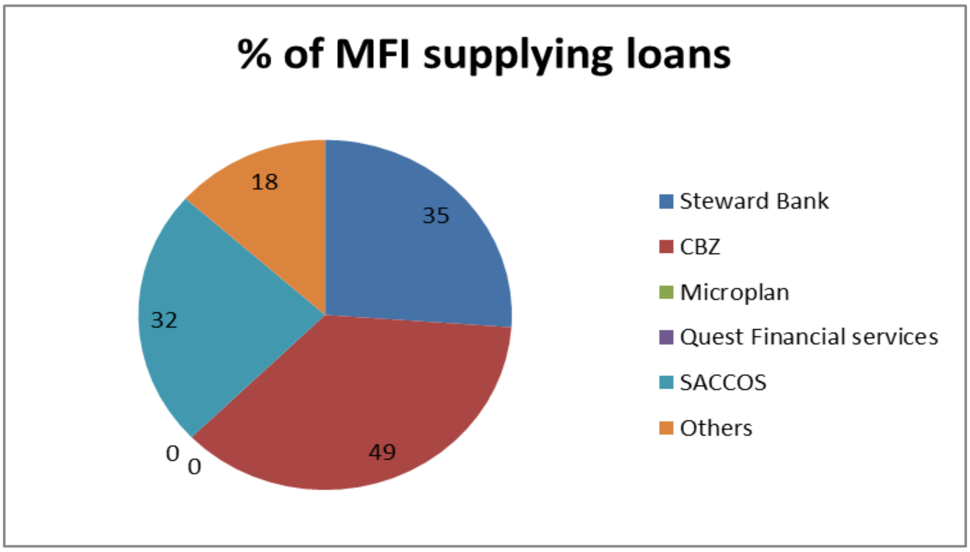

Figure 9: The MFIs supplying the loans

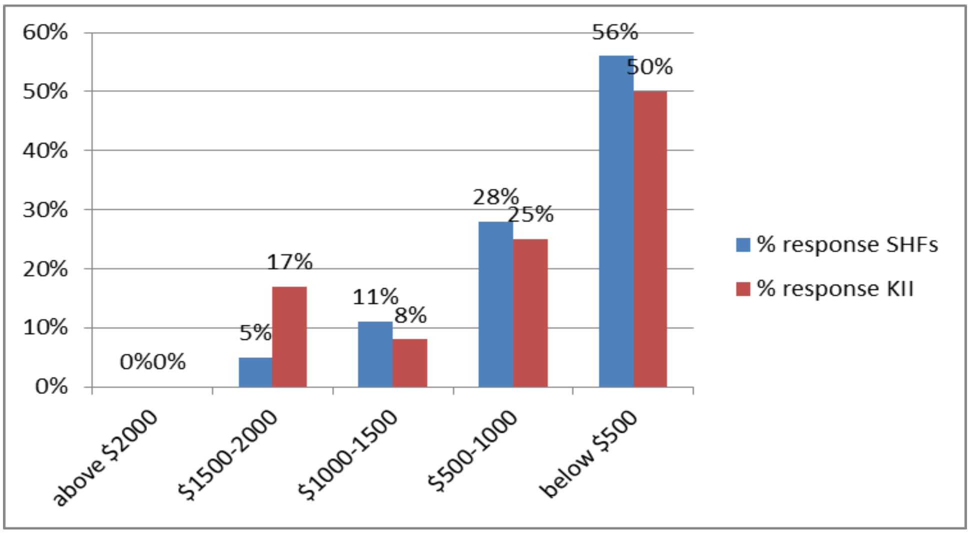

Figure 10: Maximum of loan received from an MFI by SHFs

In this study, 56% of the SHFs respondents indicated that that they have applied for and received loans which are below $500. This was also indicated by the Key Informants interviewed that 50% said farmers get loans which are below $500. The main reason for this is that it suits the level of projects capital outlay usually needed by the SHFs, and then it also reduces the risk of overburdening the farmers’ requirements of loan repayment and also the MFIs would want to reduce the risk of failure to pay back the loans and lose their money. Those who are usually get more than $1500 are usually given the funds as a group so that they can share the responsibility and shoulder each other. This also depends with the level of the project which is catering for more farmers and has a bigger capital outlay. Therefore, the loan size depends with use of the money. The respondents from MFIs also produced similar figures as 50% indicating that they have given more loans below $500 to cater for the small projects done by the farmers like broiler production and cropping inputs which, for SHFs, may not exceed $1000. Nevertheless, Group lending facilities go beyond $1000. 10% of the respondents indicated they have given amounts above $1500 in cases where the group is large exceeding 20 farmers and for projects like pen fattening. This trend therefore depicts the level of demand and utilisation of loans. It also explains the size of projects that the Smallholder farmers do which demand less capital. However, this is becoming very useful to the Smallholder farmers as it is manageable. Subsequently, loan recovery for the MFI is made easier.

4.2.1.3 Type of Costs associated with the Loans received

This study identified different forms of costs which are associated with receiving loans as indicated by the respondents who are the SHFs. The knowledge of costs is an integral part of financial literacy training which is done to raise awareness of farmers to select a suitable product, choose an MFI to work with basing on these different charges and conditions. This will help reduce the costs of using the loan which maximise the performance of the loan. 100% of the respondents concurred that the common cost is the interest rate charged by the MFI on amount borrowed. This varies from MFI to MFI and farmers need to know this in order to make decisions on whether to take it or not. This was proved the most hindering factor for loan uptake by farmers as it becomes expensive and prohibitive (World Bank, 2003). 35% of the respondents showed knowledge of the establishment fee which is usually a once-off payment deducted from the loan applied while 11% indicated insurance although they were not aware of how it covers the risks of the farmer. Other costs identified included bank charges at withdrawals, costs of maintaining the account active and also mobile money charges during the cash out process. These costs, if not explained well to the farmers, can result in several challenges during the repayment periods. These are also the same costs pointed out by the MFIs in their response.

Table 2: Costs associated with Loans

Respondent	**% Response on Services provided by MFI**				
	Establishment fee	Insurance	Interest rate	Not sure	Others
SHFs	35	11	100	0	11

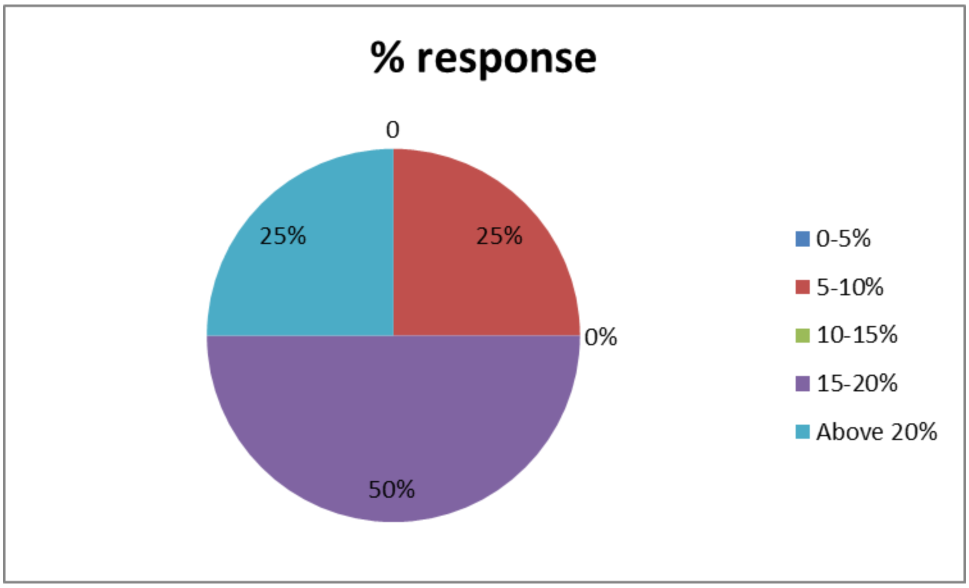

Figure 11: Range of Interest rates charged by MFIs

The respondents from MFIs showed that 50% of MFIs charge interest rates ranging between 15-20% while 25% charge 5-20% which becomes the lowest and most preferred by the farmers. 25% of the MFI respondents charge interest rates of above 20% and these are considered to be extreme. The rate of interest rate has a significant impact on the loan uptake as it may deter away the potential clients who are the vulnerable members of the community. The interest rates are pegged per year. The MFIs also give leeway to make payments of interest rates every month or together with the principal amount after the tenure of the loan.

4.2.1.4 Forms of Collateral Security required

The study also focused on finding the forms of collateral required by the MFIs in order for the Smallholder Farmers to access the loans. The respondents showed great remorse on this issue which they deemed to be the stumbling block for many years to access the loans from MFIs. 66% of the respondents indicated that the MFI requires them to have some form of physical security to access the loans. This may include immovable structures such houses with title deeds which the SHFs do not have, thus the farmers in some cases have settled for their livestock which the MFI is also unwilling to take due to the risks of death or any form of disposal before the loan has been paid. On the other hand, 33% of the respondents said that the MFIs nowadays require lending money in groups so that there is group security which is much friendly but the groups need to be much organised so that they are seen as safe recipients of loans by the MFIs. It is therefore important for the farmers to now make a decision on which MFI to engage depending on the much needed collateral. The MFIs, on the other hand, also indicated that either requires Physical collateral of Group Security depending with products; however, smallholder farmers prefer to use group collateral. This makes it easier for the farmers to get into organised groups and access the loans bearing in mind that their group is responsible for monitoring and ensuring that the loan is repaid. This is gaining momentum among farmers who are slowly appreciating this arrangement as they now begin to access loans. The group will be responsible to make contributions and pay back the loan in case one member defaults. All of the 4 MFIs sampled indicated that they use the different forms of security depending with the product and size of the loan.

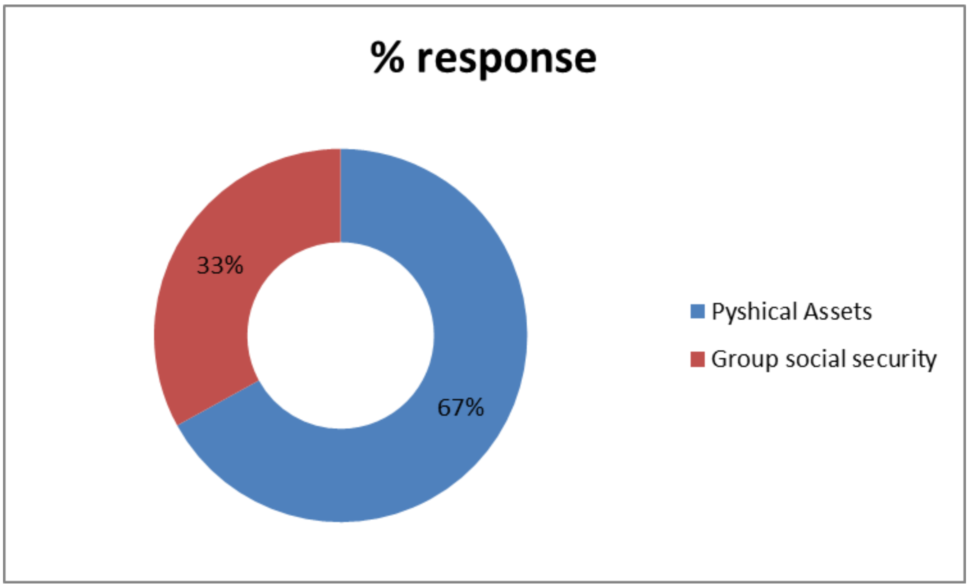

Figure 12: Forms of Security needed by MFIs-response by MFIs

4.2.1.5 Training received from MFIs

Training is a fundamental tool of equipping the intended beneficiaries with the necessary skills and knowledge to participate fully in any functional process, thus the need for this study to assess how many were reached by the MFIs in terms of training programmes. It came out that 63% of the respondents had received some form of training from MFIs whilst 37% had not received any training to date. The training programmes were centred on Financial Literacy. It covered the issues of products offered by MFIs, loan processes, costs related, repayment period modalities and loan use which is critical. The respondents managed to describe the importance of these trainings. It means farmers are empowered to the extent of engaging MFIs and effectively utilise the loans they receive.

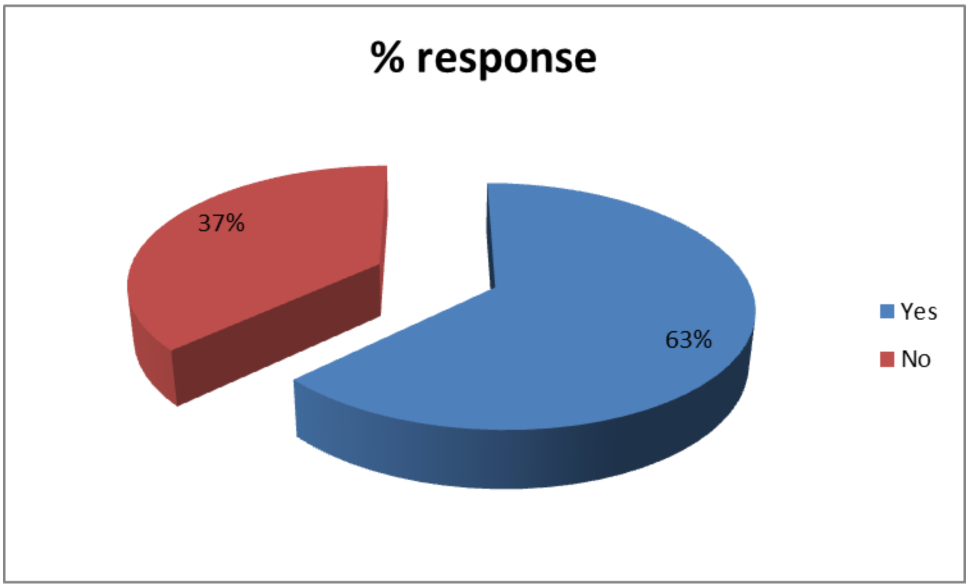

Figure 13: Training received from MFIs by the SHFs

4.2.1.1.5 Rating the Demand of Financial Services by Smallholder Farmers in Mt Darwin

It is also important to note that 75 % of the MFI respondents indicated that the demand for financial services of Smallholder Farmers in Mt Darwin is very high considering the volumes of applications received and also the productivity patterns which need funding. This has become the basis for having different MFIs coming into the district. This induces competition among MFIs which will lead to the improvement of service delivery to the farmers in terms of reaching out more to them, designing competitive products and services that will satisfy the financial markets. However, 25% of the respondents felt the demand is not that much but just high. This is coming from the background that the MFIs came at a time when the others had already penetrated but there is room to reach out more to farmers.

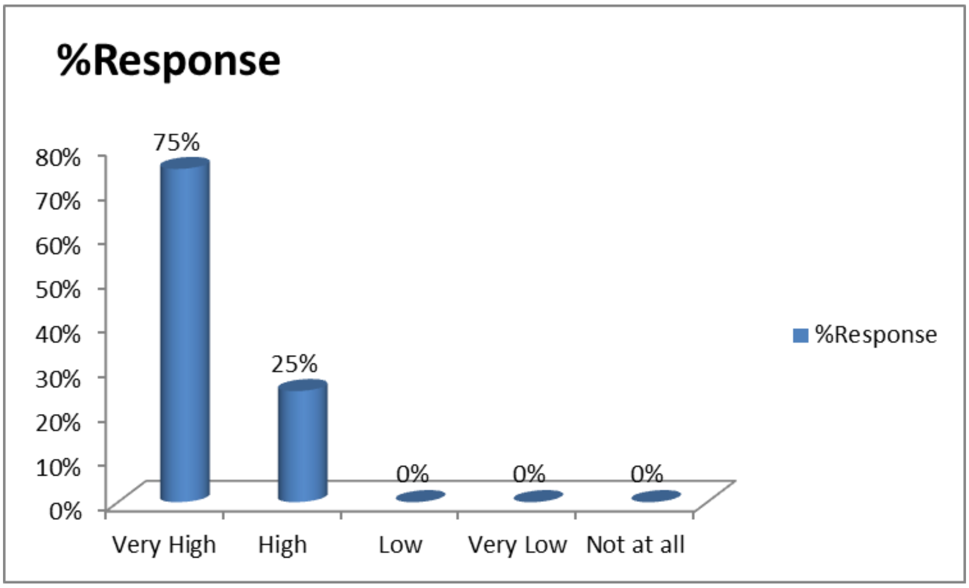

Figure 14: Demand for Financial Services by the SHFs

4.2.1.6 Loan Utilisation by the Smallholder Farmers

Farmers apply for loans with specific projects in mind and this is considered during the loan application and appraisal process. This study also investigated how the farmers utilise the loans they receive for the maximum benefit and improvement of their livelihoods. 56% of the respondents indicated that they would invest their loans into crop production while 49% were investing broiler production. This is referred to as the productive use of the loans as they generate more after producing the much needed crops and broilers. For crop production, the money is used to buy inputs which would be used to increase productivity and eventually enhance the yields. This will result in the farmers getting surplus to sell and increase home income which improves their livelihood. This will also ensure that the borrower has income to pay back the loans and remain with profit which is used to support family needs. The broiler project is a short term project which brings in quick returns over every 6 weeks, thus, this investment becomes good then. Moreover, 32% of the respondents showed that they use the money for buying goods for petty trading such as buying and selling kapenta fish, selling second hand clothes or grains. This is done to supplement the farmers' income and also manage to pay back the loans. These activities become useful for the resource-poor farmers who can revive livelihoods. The MFIs also responded by showing that 100% of them noted that famers investing the money borrowed for crop and broiler production mostly although the issue of market linkages needs to strengthen in order to absorb the farmers' produce so that they can manage to repay their loans and also remain with some gain. However, 10% of them also indicated some of the money is diverted to personal use which is outside the productive cycles.

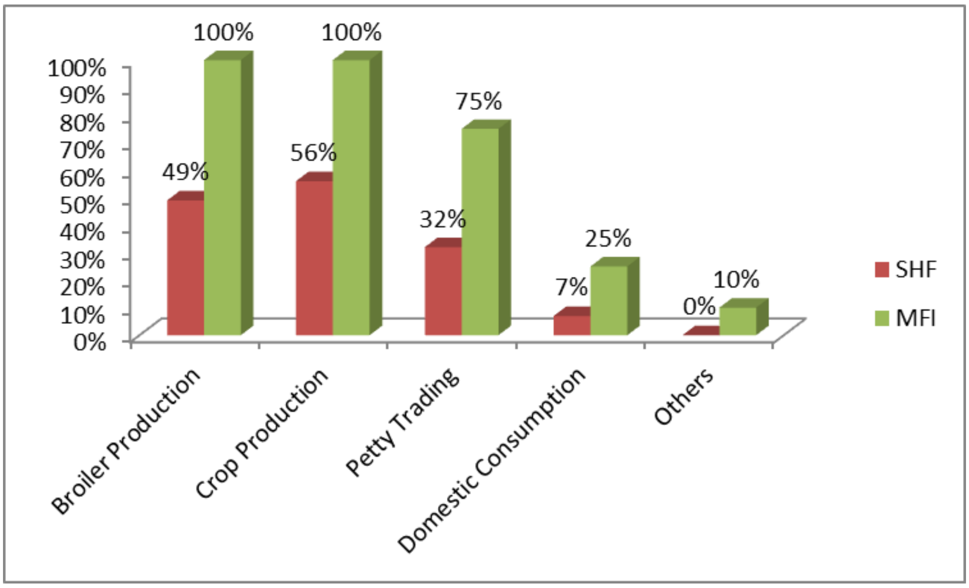

Figure 15: Utilisation of Loans by the SHFs

4.2.1.7 Loan Repayment by the Farmers

After successfully getting the loans and investing, what follows is to pay back the loans plus interest to the MFIs. This study also examined if the farmers are paying their loans as planned. This has been another bone of contestation for the MFIs who feared that the SHFs are high risk business partners as the arte of defaulters was perceived to be too high. It is therefore prudent that the loans be paid back for business continuity. 50% of the MFI respondents indicated that loan repayment is between 60-80% range which signals a gap that there could be some farmers who are eluding loan repayment which is expected to have 100% collection. At least 25% of the respondents indicated that loan repayment is above 80% which is encouraging for the MFI. Nonetheless, there are also other cases when it becomes difficult to collect more as indicated by some MFIs which had 25% for loan repayment rate of 40-60%. It is the aim of every MFI to record 100% record of loan repayment; however, some circumstances lead to that such as drought, diseases, poor markets and mismanagement at times. These scenarios will lead to farmers failing to service their loans and instead move on to another MFI for another loan.

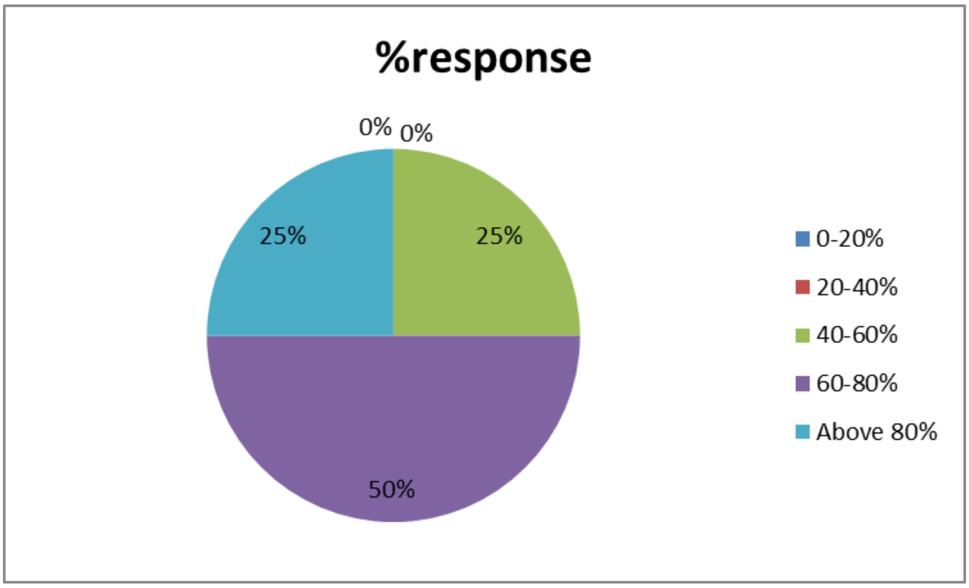

Figure 16: Loans repayment Rate

4.2.2 Evaluate the impact of MFIs on Smallholder Farming

This study was also trying to explore and appreciate whether the Smallholder farmers in their own right managed to benefit from the MFIs financial services in the district. The study therefore also focused on the experiences of the farmers in terms of accounting the changes that have come along with the interaction with MFIs in terms of improved livelihoods or a negative impact alluded by Hancock (2002). The researcher also went on to consider the KII's views in terms of what they see as having changed from the farmers as a result of the MFI's services that they received in the district. The administrators of the financial services also had their views in terms of the impact on Smallholder farming in the district.

Table 3: Do you agree or disagree that MFIs are helpful to SHFs?

Respondents	**Responses %**				
	Strongly Agree	Agree	Not Sure	Disagree	Strongly Disagree
SHFs	51	36	4	9	0
KII	67	25	0	8	0

MFIs	100	0	0	0	0

The table shows that the majority of the respondents acknowledged that MFIS helped the Smallholder Farmers in the district and have played an important role in providing financial loans to farmers to start their own projects to boost productivity and income. It can be observed that 51% of the 57 SHFs strongly agreed that MFIS are helpful to the farmers while on the other hand 9% disagree with the notion that MFIs are helpful to the farmers. This comes from groups which have not yet accessed any financial assistance from MFIs and have gone unnoticed on various occasions. This is an indication that is accessing different financial products and services from the MFIs according to the findings. This was similar to the response given by the MFIs themselves as they are observing an increase in demand. Furthermore, the participation of lead farmers themselves recorded a score of 100% of the respondents who agree that the MFIs are very helpful to the farmers and play a critical role through Agricultural financing among the smallholder farmers. The Key Informants in the study also had mixed feelings as 8% of the respondents did not agree with the fact that MFIs are helpful to the SHFs. This was mainly because they had not yet seen groups making an improvement of livelihoods after accessing the loans as compared to the prior entry of MFIs into the district. This is, however, insignificant considering the responses coming from other respondents but this showed that other sections of the smallholder farmers have not yet had any direct benefits from the presence of MFIs in the district. This could be because of the exclusionary behaviour of the MFIs or just the non-willingness on the part of the MFIs to up the products and services offered by the MFIs.

According to this study, it can thus be noted that MFIs were suitable for the rural financial markets as provided different products and services to the farmers.

4.2.2.1 Smallholder's responses on the impact of MFIs

The SHF's experience with working with MFIs in the district provided a wide base of responses for this study. In view of the presence of many MFIs getting into the district, the level and indicators of wealth also varied with the respondents as shown in the table below:

Table 4: impact of MFIs on SHFs N= 57

Impact Area identified	No. of respondents	% responses
SHFs in communal areas enjoying access to MFIs at local level	31	54.38
Provision of savings and withdrawal facilities locally reducing theft cases and abuse of money especially tobacco farmers	26	45.61
Affording financial loans to SHFs for different income generating projects at low interests rates	57	100
Relaxed or reduced need for physical collateral thus absorbing more farmers in the district to access finance	46	80.70
Input Financing for specific value chains like Sesame and Mung beans	52	91.22
Increased incomes especially from doing income generating activities like broiler production	39	68.42
Improved productivity through accessing finance to buy inputs on time and catch up with the first rains.	46	80.70
Improved Livelihoods of SHFs through achieving set visions/aims in life	31	54.38
Affording to send children to school	41	71.92
Training on financial processes to make a wider choice	16	28.07
Asset Accumulation	21	36.84
Food and Income security	38	66.66

It can therefore be observed from the study as described above that there is a significant impact on Smallholder Farmers as seen by the level of responses given. The respondents managed to provide a diverse response of what they think is the major contribution to the farmers. The respondents appreciated the presence of the MFIs in their vicinity as an important impact on them since that was never the case in Mt Darwin. Thus, 54% of the respondents alluded to the fact that they are now accessing financial services in the district which they could not afford as Smallholder farmers and this provided them with several opportunities to source funds for income generating activities. All of the 57 respondents pointed out that the major impact brought by MFIs is the provision of loan as to finance different input schemes targeting specific value chains. To this end the respondents would apply a loan from the bank and then link it to a supplier. The farmers would get inputs equivalent to the level of loan. This enabled the farmers to get adequate agricultural inputs in time to support agricultural productivity. This led to farmers increasing their productivity for crops like Sesame, Mungbean and Soybeans. This arrangement brought in the buyers of produce who would transact with the smallholder farmers as a result farmers realised more income from these sales and eventually could support their livelihoods as shown by the number of respondents who managed to pay school fees for children and assets like cattle, goats and building new houses. This can be seen from the 54% of respondents who are acknowledging the improvement of their standards of living.

Above all, about 81% of respondents acknowledge the relaxation of collateral demands from MFIs as a positive move as it gives chances to less privileged SHFs to access financial services as long as they are in well-structured and functional groups. The MFIs made arrangements for use of group social collateral for the SHFs in order to allow greater participation. Farmers would co-guarantee each other and self-monitor its members resulting in more groups being reached by MFIs in the district. The access to affordable loans therefore increased the food and income security of members accessing the loans. Farmers also have access to diverse food reserves as they can afford to buy whatever they want for the families, bringing more security to the family. 28% of the respondents acknowledged having participated in training done by MFIs as a way of building their capacity on project management and financial literacy to enable interaction with the MFI. Overall, it can be said that the MFIs had made some impact on SHF’s livelihoods considering the responses given and the ever increasing demand for financial services from the farmers. This includes farmers also approaching MFIs for financing during the coming season especially for commodities like cattle, goats and crops like groundnuts, maize, Sesame and mungbean which have confirmed markets.

The above proclamation was further supported by the fact the 4 MFIs also considered that there is lot of impact on the smallholder farmers which include to access to finance which has been a preserve set aside for the affluent classes. The MFISs also alluded to the fact that the farmers managed to access inputs through input schemes which allowed them to plant their crops in time, harvest and market their produce. This once again improved both the income and food security for the farmers. The MFIs also indicated that there has been an increase in the use of plastic money in the transactions as a result of opening some accounts, helping them to access more funds and transacting wherever they are through the use of agents. Furthermore, 88% of Key Informants also indicated that the major impact has been on Smallholder farmers now accessing loans for different projects and above with a friendlier requirement of Collateral as thee farmers use group collateral. This on its own has resulted in improved livelihoods and the interaction has influenced the formation of more groups to access financial services from MFIs. However, 25% of Key Informants also showed that there is a trickle-down effect on other value chain actors like Agro dealers supplying inputs. Therefore, this improves the business environment in the area which still benefits Smallholder farmers in the long run. The interaction according to Key Informants brought some sustainability aspects in order to meet future needs through the savings accounts like I-Save from Steward Bank which has minimum charges. Thus, there is some empowerment which is linked with entrepreneurship as the farmers diversify their income generating activities to widen income base.

The research findings proved that microfinance services have, to a greater extent, helped acquire cheaper loans with interest ranging from as low as 10% to 30% per annum and this reduced the costs of repayment, hence improving returns. Clearly, the scheme made an impact in assisting members to acquire implements that were necessary to increase rural agricultural productivity through, though fundamental, mechanization of operations. A total 21 respondents acknowledged having bought assets such as cattle, goats and scotch carts from proceeds of project investments from the loans received through agricultural productivity and this impacted positively on livelihood status. Above all, MFIs managed to reinforce the creation and bridging of social capital linking resources such as credit, information and extension services through contract farming and promoting new technology as farmers got loans to acquire such implements like groundnut shellers, Ridgers and pumps. This was done to boost productivity among SHFs.

4.2.3 Identifying major challenges faced by MFIs and Smallholder Farming in Mt Darwin

The study also found out that despite the positive impact of MFIS on Smallholder Farming, there are also challenges that were identified along the process. In effort to provide financial support to the Smallholder farmers in the district, problems were also encountered during the process which was highlighted by the respondents as affecting the provision of financial services to the farmers as highlighted in table 6:

N= 57

Table 5: Identify the major challenges faced by MFIs and SHFs in Mt Darwin

Responses on challenges	**% responses**
Smallholder Farmers	
Droughts affecting productivity and loan repayment	79
Hidden costs not initially explained in contracts	20
Delays in loan disbursement	66
Farmers failing to access cash from their mobile phones	74
MFIs	
Defaulting by farmers	100
Politicisation of Loans	50
Monitoring and reach	75
Fragmented loan recovery in the absence of buyer arrangement	75
Fragmented group structure	100
Wider differences in interest rates charged	25

Lack of credit referencing (double dipping)	75
Loan Application versus Use (diverging funds)	50
Seasonal effects on activities	75
Key Informants	
Lack of Knowledge on SHFs	50
Limited scope of reach in remote wards	67
Defaulters	92

From the findings of this study, it can be observed that challenges are revolving around the behaviour and conduct of the key players here like the MFIs and the Smallholder Farmers. 79% of the respondents from SHFs indicated that the major challenge faced is drought which has affected agricultural activities in the district for the past 5 years. Crop failure has resulted in SHFs under producing to the extent of failing to service their loans. The predicament has been common in the district for contracted crops which are financed by MFIs in one way or the other. This has actually resulted in farmers defaulting in their payments as alluded by all respondents for MFIs and 96% of Key Informants. This predicament has actually resulted in MFIs running at losses in the case of non-recovery of the loans and in most cases, farmers lost valuable assets where physical collateral was used in the initial stages. Thus seasonal effects have posed a great threat to financing of agriculture production because of the nature of volatility of climate change effects and prices of commodity changes. Eventually the income levels of farmers are compromised and that left some farmers bankrupt after going out of their way to sell some assets like livestock to repay the loans. It therefore means these farmers will be hesitant to get into future loan arrangements again and so are the MFIs who will in turn take a risk. The MFIs indicated that loan recovery for 2015/16 stands at 60% mainly due to drought. Farmers had low harvests and therefore could not manage even to payback the loans.

Furthermore, the respondents from SHFs also highlighted the challenge of delays in disbursing the loans from MFIs which resulted in farmers getting the loans way later after commencement of the season and eventually lost out on meeting production targets. This has a bearing on the final yield that will be sold which determines the loan repayment rate. About 74% of the respondents from SHFs indicated that they experienced serious problems in accessing their money using mobile systems like Ecocash owing to the cash crisis in the country. The farmers ended up incurring high costs of transacting in small amounts including Ecocash cash out charges and even transport from their wards to business centres where they could find some banking agencies which, in most cases, did not have the money. It eventually affected the start of projects and had a bearing on final loan repayment. There is, however, room for improvement with the stabilisation of the cash crisis.

MFIs however also cited another big challenge of fragmented group structures of SHFs in that they claim that farmers are not in organised groups to make it easy to process the loans and as a result cannot guarantee success of the projects after getting the loans, thus, this is a cautionary position in giving the loans. Sometimes the groups are just related through family, otherwise no records and constitutions to show the organisational capacity of the farmers. It will be suicidal then to offer loans to such groups as chances of recovery of the loan are low. In addition to that, there is lack of proper credit referencing and coordination among MFIs to trace record of loan repayment by the farmers. So chances are high of farmers doing double dipping across MFIs and this increases the burden on loan repayment.

75% of MFIs pointed out there are also challenges to do with inadequate monitoring on loans issues. This came as a result shortage of staff personnel to monitor loan performance which will lead to under performance from farmers. This is also due to geographical locations of the farmer groups and costs related to the process. 75% of these MFIs also explained that the farmers are likely to fail to pay their loans if they produce without a guaranteed market which absorbs their produce and then make money to pay the loans and remain with profit. However, there is also fear of politicization of financial services to mean donor money which is free money and this affects the repayment from the farmers which eventually impacts business. It is also important to note that even the Key Informants also highlighted similar challenges as affecting MFIs and SHFs which needs to be taken care of to maintain business relationships. 67% of the Key Informants cited the limited reach of MFIs as disadvantaging other deserving farmers who have limited access to finance and also 50% cited lack of adequate knowledge on the part of SHFs as a hindering factor to utilise the products and participate in such processes.

4.2.4 Determine and make possible recommendations on financing options that can be used by MFIs and Smallholder Farming

In an effort to ensure sustainability of MFIs operations and Smallholder farmers in Mt Darwin, the respondents involved in this gave their recommendations on the financing options that can be used. It has been observed that 80% of the respondents recommended that the most ideal financing model for Smallholder Farmers should be the one that triangulates the major players in any value chain. For example, it should involve the MFI, Agro dealer for input, the Farmer and the off-taker (buyer). In this kind of financing model, the MFI identifies the potential farmers who then apply for a specific budget based borrowing and then the MFI engages the Agro dealers such as ZFC, Windmill and Farm and City for the provision of inputs. The farmers would then receive agricultural inputs equivalent to the money borrowed. With this arrangement the SHFs felt very comfortable as they will not have hassle of procuring the inputs. Also, bulking will reduce costs and give farmers more value for their money. It is also of great importance then to involve the out market in this kind of arrangement. These will guarantee the market for the produce that the farmers will produce. In doing so, the MFIs will have confidence in lending out as the money will be deducted on point marketing and the farmers would be happy to accept the product because they are also assured of a ready market for their produce. Eventually, there will be an increased circulation of money and support families. Almost 60% of the respondents concurred with this system which creates a win-win situation for both sides and increases demand for financial services.

From the findings, 75% of the SHFs recommended that the current charges on savings and loans be reduced drastically to become more competitive and encouraging to the farmers to utilise the financial service provision. These include account holding charges, withdrawal costs, and mobile money charges like Ecocash, interest rates, establishment, insurance and commitment fees. The SHFs felt that if the charges are compounded then there is a significant increase in the costs burden for the farmer at large and this will increase the struggle for repayment thus there is need for lobby and advocacy with relevant authorities to review such policies.

On the other hand, 85% of the respondents also recommended that it is best to give smaller loans which should not exceed at least $100 to the farmers so as to reduce the risk of total failure to pay back the loans. However, this may disadvantage other potential farmers who have graduated from focusing on consumptive demands but on productive assets creation.

Nevertheless, the need arises for MFIs to develop products which are class-based for SHFs which will lead to farmers getting financial services that suit their maturity levels and productive needs. This will avoid products which are just bundling up farmers as they have different abilities and thus financial services should also be performance based. There will be a long term relationship between the farmer and the financial institution hence the need for farmers to develop their own capacity in fostering market driven production. There must be immediate engagement of the FI once the farmers would have organised themselves as expected by the FI. Subsequently, delay in engagement means delay in production.

The MFIs actually proceeded to recommend that group configuration is important so that they fit into the requirements of the MFIS. 75% of MFIs recommended that group sizes should be addressed in line with what the MFI is expecting after considering risks associated with certain numbers in a group like monitoring performance. Thus 75% of MFIS then suggested that group sizes should range from 5-10 people. The MFI understands the dynamics around group formation and the fact that some groups have operated like that for some years and thus the entry of an MFI should not dismantle the coherence of the group. The recommendation is that groups will only be sub-divided for the purposes of accessing loans so that they do not exceed the set micro-finance limit but will still continue to operate as before. It also came up in this study that the issue of group configuration needs attention in future as some groups are made up of married couples, at times a husband and several wives. Such a group may not access funding from the bank as its risk status becomes high and thus the issue will need to be sorted out at group level. 74% of the farmers also recommended that the repayment system should allow flexibility especially in relation to the seasonality nature of agricultural production.

In addition to all the above recommendations, there is need for strong capacity building initiatives through financial literacy so that farmers appreciate the relationship with MFIs and also understand fully the products being provided by the MFIs and issues of savings. This will take into consideration the contribution of SACCOs and ISALs as models for fund growth through savings and lending. Through financial literacy training, farmers must be able to communicate with the financial institution through their cash flow projections to justify the loan size in relation to loan use. Farmers must refer to their production plan and come up with a justifiable figure. The MFIs can also come up with models that include the role of SACCO and ISALs in terms contribution towards fund growth and supporting livelihoods at micro-level. This was quite evident with 90% of participants actually commented on strengthening the SACCOs and ISALs to cater for micro-financial market in their villages.

4.2.4 Summary of Chapter

This chapter availed the results that were presented in the form of statistical and none statistical tables, pie-charts and bar-graphs. The researcher also used the Thematic Analysis to interpret and analysed qualitative data in line the set objectives. The results were analysed and interpreted in respect of the related literature review of Chapter Two and other related research results. The results were outlined in line with the objectives of the study and discussed in terms of identifying MFIs and their services in Mt Darwin, the impact of MFIs, the challenges that are faced by MFIS and Smallholder farming and finally recommendations that were made for improvement of the products and services offered. Though other results slightly contradicted with other researches done worldwide, most of them were in line with other findings. The results showed that there are at least 5 effective MFIs in Mt Darwin offering financial services to the Smallholder farmers who were starved from such services for quite a long time. The MFIs are offering different products which vary from MFI to MFI like loans which is most common and appreciated but most farmers. There is evidence from the respondents that SHFs are utilising some of the services like loans and savings although in other parts of the district farmers are not being reached by the MFIs.

The findings showed that the MFIs made impact on Smallholder Farming in the sense that farmers are now managing to access financial services at convenient distances since the MFIs are now stationed in the district. Overall, the greatest impact of this is access to loans for supporting agricultural productivity through credit input schemes and livestock projects like pen fattening and broiler production. This resulted in improved productivity and hence the level of income increased for the farmers. This then contributed to investments made by farmers to generate more income resulting in farmers being more food and income secure which improved livelihoods. However, challenges mostly noted from the findings of this study including defaulting by farmers who fail to produce enough to offset their loans. Chief among them was the issue of drought or seasonal effects which affected productivity resulting in the financial market being a risky business, especially for SHFs who do not have insurance for the crops and livestock. There were also challenges with group fragmentation which made it difficult to meet the requirements of the MFI. Furthermore, this chapter summarised some of the recommendations made on services that can be improved. More emphasis was placed on coming up with all-inclusive products that include the MFI, Agro dealer/Input supplier, Farmer and the Off-taker who will absorb the produce so that the MFIs can recover their funds. It was also noted that there is need to build the capacity of SHFs to participate fully in the financial provision services from MFIs.

5: CONCLUSION AND RECOMMENDATIONS

5.0 Introduction

This research study focused on Microfinance Institutions and Smallholder Farming in Mt Darwin. Therefore, this chapter shows a summary of the findings of research drawn from the set objectives thus it gives the overview of issues that came out from the study. The information in this chapter enables decision makers to assess and come with positions on MFIs and Smallholder farming. It then indicates whether the set objectives wet met in relation to the set research questions.

Summary

The study focused on Microfinance Institutions and Smallholder Farming in Mt Darwin and was set to describe the various financial services currently offered by MFIs for Smallholder farming, evaluate the impact of MFIs on Smallholder Farming, identify challenges faced on financing farming between MFIs and smallholder farming and determine and recommend the possible financing options that can be used by MFIS and Smallholder farming. The demographic information of the respondents considered in this study included the respondents' gender, marital status, age and highest level of education. For MFIs and extension workers the position and experience of the respondent was also given. In the 4 wards sampled for the study, a total of 60 respondents were targeted however 57 eventually responded back through the structured questionnaire. There was a 100% response from Key Informants which involved 12 people representing the farmer leaders, councillors and extension staff while 4 MFIs also took part in the study through structured questionnaires.

5.2 Research-based Conclusions

The conclusion of the research study on MFIs and Small Holder Farming in Mt Darwin is summarized according to set objectives:

(a). Describe the various Micro-Finance Institutions operating in the district and services offered for Smallholder farming

The study findings show that there are 5 MFIs operating in the district and currently have a direct interface with Smallholder farmers in the district in terms of providing with financial services outside the general savings. It was noted that CBZ was the most common MFI in the district which was identified by 69% of respondents and has its presence for more than 10 years in the district in collaboration some NGOs and government programmes. Some of the MFIs identified included Steward bank with 46% and it has opened a number of agencies in the district to ensure the local community has adequate access to financial services. Other MFIS included CABS which has a low presence in the community although it has a banking branch which has been in the district for years now but its outreach and interaction with farmers is just limited savings and withdrawal after marketing their produce especially for tobacco farmers and pensioners. Notably among the MFIS are the local SACCOs which are Pundutso with 11% and FACHIG SACCO with 39% which serviced its membership and non-members as well. However, Pundutso has since stopped operations in the district owing to economic challenges. Nevertheless, FACHIG SACCO is still in operation boosting about 12000 members and still supporting smallholder farmers in the district. The presence of these MFIs in the district means that SHFs to some extent are getting access to financial services which are handy for improved productivity and enhanced livelihoods as also supported in the literature review. This then broke the jinx that was there for the past decade of MFIs shunning rural farmers so this becomes the opening of a new chapter in terms of access to finance by Smallholder farmers. The respondents managed to identify different services offered by MFIs like loans, agency banking, insurance and savings. The study showed that the most demanded financial service is the loans which were rated by 100% of respondents. The study showed that a total of 56% of participants were aware and accessed loans from the banks. The savings are also done through mobile means although very low. However the common amount of loan given out was below $500. The study showed that the issue of collateral has been relaxed as MFIs are now using group social security to allow more farmers to participate. The diversity of financial services now provides SHFs with many options to choose from which is a great impact area.

(b). Evaluate the impact of MFIs on Smallholder Farming

The study showed that the greatest impact was the availing of productive loans (100%) to the SHFs who were disadvantaged for long as MFIs shunned the rural financial markets and interest rates as low as 10%. Improved access to the loans enabled framers to boost productivity as they managed to get loans on time for agricultural use, eventually contributing towards increased yields and surplus for sale to increase incomes. The loans also financed off-farm activities to boost income levels. This led to improved livelihoods among the smallholder farmers in the district. This is in line with the literature which focused on the Grameen bank's support to the farmers who eventually had an increased output yield and changed lifestyles of many. A further 92% of respondents showed that value chain financing through different input schemes was greatest achievement foe SHFs who could then access the much needed agricultural inputs for supporting production. Furthermore, inclusion of an off taker arrangement ensured SHFs have a ready market for produce to allow them to pay back loans. The respondents appreciated the presence of the MFIs in their vicinity as an important impact on them since that was never the case in Mt Darwin. Thus 54% of the respondents alluded to the fact that they are now accessing financial services in the district which they could not afford as Smallholder farmers and this provided them with several opportunities to source funds for income generating activities. This can be seen from the 54% of respondents who are acknowledging the improvement in their livelihoods.

Above all, about 81% of respondents acknowledge the relaxation of collateral demands from MFIs as appositive move as it gives chance of less privileged SHFs to access financial services as long as they are in well-structured and functional groups. The MFIs made arrangements for use of group social collateral for the SHFs in order to allow greater participation. 28% of the respondents acknowledged having participated in training done by MFIs as a way of building their capacity on project management and financial literacy so they can be able to interact with the MFI and make decisions. Overall, it can be said the MFIs had made some impact on SHF's Livelihoods considering the responses given and the ever increasing demand for financial services from the farmers. There are cases of farmers also approaching MFIs for financing during the coming season especially for commodities like cattle, goats and crops like groundnuts, maize, Sesame and mungbean which have confirmed markets. This shows the impact of MFIs on Small Holder Farming in the district.

However, 25% of key informants also showed that there a trickle-down effect on other value chain actors like Agro dealers supplying inputs so this improves the business environment in the area which still benefit Smallholder farmers in the long run. Therefore, there is some empowerment which is linked with entrepreneurship as the farmers diversify income generating activities to widen income base. Clearly, the scheme made impact in assisting members to acquire implements that were necessary to increase rural agricultural productivity through, though fundamental, mechanization of operations.

(c) Identify major challenges faced between MFIs and smallholder farming in Mt Darwin

From the findings of this study, it can be observed that challenges are revolving around the behaviour and conduct of the key players like the MFIs and the Smallholder Farmers. 79% of the respondents from SHFs indicated that the major challenge is drought which has affected agricultural activities in the district for the past 5 years. This disturbed loan repayments leading to defaulting as alluded by all respondents for MFIs and 96% of Key Informants. This predicament has actually resulted in MFIs running at loses in cases of non-recovery of the loans. Mostly, farmers lost valuable assets in cases where physical collateral was used in the initial stages. Farmers would remain with no gain and become hesitant to enter into future loan arrangements again, similar to the MFIs who will in turn incur risk. The MFIs indicated that loan recovery for 2015/16 stands at 60% mainly due to drought and therefore could not manage repay the loans.

There are also administrative problems noted like delays in disbursing the loans from MFIs which resulted in farmers getting the loans way after commencement of the season and eventually losing out on meeting production targets. This has a bearing on the final yield that will be sold which determines the loan repayment rate. About 74% of the respondents from SHFs indicated that they experienced serious problems in accessing their money using mobile systems like Ecocash due to cash crisis in the country and incurred high transaction costs. MFIs however also cited another big challenge of fragmented group structures of SHFs where they claim that farmers are not in organised groups to make it easy to process the loans. As a result, they cannot guarantee success of the projects after getting the loans and thus a cautionary position in giving the loans. In addition to that, there is lack of proper credit referencing and coordination among MFIs to trace record of loan repayment by the farmers. So chances are high of farmers doing double dipping across MFIs and this increases the burden on loan repayment. 75% of MFIs pointed out there are also challenges to do with inadequate monitoring on loans issues due geographical locations and high costs involved as described in the literature review. 75% of these MFIs also explained that the farmers are likely to fail to pay their loans if they produce without a guaranteed market which absorbs their produce and then make money to pay the loans and remain with profit. However, there is also fear of politicization of financial services to mean donor money, which is supposed to be free, and this affects the repayment from the farmers which eventually affects business. 67% of the Key Informants cited that the limited reach of MFIs is disadvantaging other deserving farmers who have limited access to finance and also 50% cited lack of adequate knowledge on the part of SHFs as a hindering factor to utilise the products and participate in such processes.

(d) Determine and make possible recommendations on financing options that can be used by MFIS and Smallholder farming

The study showed that 80% of the respondents recommended that the most ideal financing model for Smallholder Farmers should be the one that triangulates the major players in any value chain for example the one that involves the MFI, Agro dealer for input, Farmer and the off-taker (buyer). In this kind of financing model, the MFI identifies the potential farmers who then apply for a specific budget-based borrowing. Next, MFI engages the Agro dealer such as ZFC, Windmill and Farm & City for the provision of inputs. The farmers would then receive agricultural inputs equivalent to the money borrowed. With this arrangement, the SHFs felt very much comfortable as they will not have the hassle of procuring the inputs. Additionally, bulk-buying will reduce costs and give farmers more value for their money. It is also of great importance then to involve the out market in this kind of arrangement. These will guarantee the market of the produce that the farmers will harvest therefore building confidence among MFIs in lending out and recovering their money on point marketing. From the findings, 75% of the SHFs recommended that the current charges on savings and loans be reduced drastically to become more competitive and encouraging to the farmers to utilise the financial service provision like account holding charges, withdrawal costs, and mobile money charges like Ecocash, interest rates, establishment, insurance and commitment fees. The study indicated the need to provide smaller loans to SHFs as starters to reduce the risk of total failure to pay back the loans although this may disadvantage other potential farmers who have graduated from focusing on consumptive demands but on productive assets creation. However, there is now need for MFIs to develop products that are class-based for SHFs which will lead to farmers getting financial services that suit their maturity levels and productive needs.

The MFIs actually recommended that group configuration is important so that they fit into the requirements of the MFIS. 75% of MFIs recommended that group sizes should be addressed in line with what the MFI is expecting after considering risks associated with certain numbers in a group like monitoring performance. 74% of the farmers also recommended that the repayment system should allow flexibility especially in relation to the seasonality nature of agricultural production. In addition to all the above recommendations, there is need for strong capacity building initiatives through financial literacy so that farmers appreciate the relationship with MFIs and also understand fully the products being provided by the MFIs and issues of savings. This will take into consideration the contribution of SACCOs and ISALs as models for fund growth through savings and lending. The MFIs can also come up with models that place the role of SACCO and ISALs in terms of contribution towards fund growth and supporting livelihoods at micro-level. This was quite evident with 90% of participants actually commented on strengthening the SACCOs and ISALs to cater for micro-financial market in their villages.

5.3 Recommendations

(a). MFIs should widen their reach to cover all parts of the district in order to afford the chance to deserving SHFs even in very remote areas. This is going to contribute to the overall improvement of livelihoods in the community.

(b). The future products from MFIs should link the major players in any value chain. For example, a link can involve the MFI, Agro dealer for input, the Farmer and the off-taker (buyer). In this kind of financing model, the MFI identifies the potential farmers who then apply for a specific budget based borrowing. The MFI then engages the Agro dealer such as ZFC, Windmill and Farm &City for the provision of inputs. The farmers would then receive agricultural inputs equivalent to the money borrowed to avoid misdirected use. With this arrangement the SHFs will not have the hassle of procuring the inputs. Furthermore, bulk buying will reduce costs and give farmers more value for their money. It is also of great importance then to involve the out market in this kind of arrangement. These will guarantee the market for the produce that the farmers will produce and builds confidence among MFIs in lending out and recover their money on point marketing.

(c). There is a lot that needs to be done in terms of group configuration so that they fit into the requirements of the MFIS. This involves capacity building groups to enable them to functional properly as like group sizes, record keeping and financial appreciation so that they lure the MFIs. This group strengthening can be a function of relevant government departments and supportive NGOs in the area. The MFIs need to have confidence in the farmers to do business and benefit both sides. The process can involve training programmes like governance and leadership, financial literacy, constitution making and bankable proposal writing, just to mention a few.

(d). There is need for district programmes to build the capacity of SACCs and ISALS to continue looking for opportunities to upscale the financial service provision to the farmers at local level instead of waiting for commercial MFIs to action it. This will increase the reach of the farmers.

5.4 Areas of Future Research

The researcher recommends that other researchers can also pursue further studies on Microfinance and Smallholder farming in Mt Darwin and other parts of the country considering the following areas:

(a). Considering including a control group which has never accessed financial services from MFIs to have a comparative analysis of the impact of MFIS

(b). It is also good to consider the gender dynamics in terms of the participation of women in microfinancing for Smallholder farming

(c). The researcher also recommends future studies on the impact of cash crisis problems on the adoption and use of financial services in Mt Darwin.

Chapter 1: An Overview of Smallholder Farming in Mt Darwin

1.0 About Mt Darwin and Smallholder Farming

The cornerstone of the rural economy in Zimbabwe is agriculture, which contributes the largest proportion of the country's GDP and accounts for the livelihood of nearly 70% of the population (Government of Zimbabwe, 2007). Despite the important role it plays to the nation and the livelihood of local communities, smallholder agriculture is still largely underdeveloped, with the peasantry still practising subsistence farming on a wide scale. There is over-reliance on rain-fed agriculture which exposes the rural farmers to the adverse effects of climate change (droughts and floods), which negatively impact on their productivity (MPSLSW, 2006). However, Mashonaland Central province generally has a more favourable rainfall pattern which relatively increases its agricultural productivity (Choga, 2013).

Mt Darwin district is in Mashonaland Central under natural regions 2, 3, 4 and 5. The main livelihood activity is agriculture. The size of the district is 463000 hectares with a population of slightly above 212,919 (ZIMSTATS, 2012) and total households of 47,726 in the 40 wards. It is located approximately 160 kilometres, northeast of Harare which is the largest capital city in Zimbabwe. The district is remote, sharing international boundaries with Zambia to the north and Mozambique to the north-east. The study area comprises mainly small scale farmers who are specialise in cash and food crop production for both income and food security. The Smallholder farmers in the district include Small Scale Commercial (Chesa and Karuyana), Communal, Old Resettlement, A1 and A2 farmers with the main crops grown being maize, cotton, groundnuts, sorghum, tobacco, sesame and cowpeas. Horticulture and livestock production of cattle, goats, sheep, indigenous chickens and guinea fowl are also practised. The district receives an annual total rainfall ranging between 550 and 700mm, with an annual temperature range from 25 to 36^{oC} (Moyo et al., 1993). Agricultural production is mainly rain fed in most parts of the district. However, a few selected smallholder farmers are incorporated into existing irrigation schemes.

In Zimbabwe, the 2000 fast track land reform has seen the participation of smallholder farmers, who now use the majority of the land for agricultural purposes in production, economy and livelihoods in the rural Zimbabwe (Shumba and Whingwiri, 2006). The term Smallholder farmers is generally used to describe the benefits and opportunities as well as costs and challenges of rural producers, predominantly in developing and pitfalls (Scoones et al., 2010). Smallholder farmers are also defined as farmers owning small plots of land on which they grow subsistence crops and a few cash crops, relying almost exclusively on family labour with a limited resource capital base. These can also be defined as peasant farmers occupying communal land in rural areas for agricultural purposes. The farmer has no title deeds to the land and vests in the President of the Republic of Zimbabwe (Rural District Councils Act).

What is clear is that, in smallholder farming in the district and beyond, farmers use mainly family labour and there is a move to commercialize small-scale production, where the farm provides the principal source of income and integrates more effectively the black indigenous farmers (Ellis, 1988). In Zimbabwe, it is used loosely to define into the national economy, hence the increase in indigenous black farmers. In Zimbabwe smallholder agriculture has been traditionally based on a wide range environment and through different practices. This notion is however debatable. For rain fed, seasonal food crops are usually grown to encourage a balanced diet and reduce nutrition related problems in the community. Smallholder farming has thus made a significant contribution to the country in terms of both food, nutrition and income security of local and national economies.

Smallholder farming, just like commercial agriculture in Zimbabwe, is important for providing raw materials for the industry such as tobacco, cotton, groundnuts, beef and goat meat which is important for the generation of foreign earnings, which ultimately results in the increase in economic growth. In addition, commercial production yields have remained almost static (Takavarasha, 1994). Smallholder farmers in Mt Darwin now have access to cash and can grow crops for export such as tobacco, mung bean and cotton, using production systems based on land in high potential areas. The new agrarian structure in Zimbabwe entails the Government to put resources towards improving smallholder household commercialization of smallholder agriculture, hence the incomes remain unanswered. It is therefore important for smallholder diversification into high value crops which has been previously a preserve for large scale commercial farmers. The different farming sectors in the district include the following:

- Large scale Commercial farming area
- Small Scale Commercial farming area
- Communal farming area

- Old Resettlement
- A1
- A2

Smallholder farmers face a lot of challenges in terms of accessing different loans for supporting various value chain activities in the district. They are usually shunned by commercial banks and other MFIs as they are deemed to pose a high-risk activity (Khandker, 2001) due to unpredictable weather patterns (Ministry of Public Service, Labour and Social Welfare, 2006). Compounding this is the lack of infrastructure like irrigation schemes which make agriculture highly susceptible to vagaries of weather such as the drought of 1991/92 which hit the whole of Southern Africa, the 2015/16 drought which affected most parts of the country and caused significant declines in agricultural production, sending ripple effects throughout the economies. Thus banks shy away from the rural market as the agriculture-based economy is fragile due to its over-reliance on undeveloped dry-land farming systems (Zepeda, 2008). In most cases, the smallholder farmers in Mt Darwin ended up relying solely on government facilitated programs for direct input supply and finance linked to the state managed banks like AGRIBANK which demanded collateral as security. The Smallholder farmers failed in most cases to access such loans because of the lack of security required by the banks such as houses with title deeds, tractors and land tenure agreements. However, the SHFs then relied on more on self–financing through family remittances, income generated from sales of produce and diversifying into cash crop production like tobacco under contracts with tobacco companies such as Zimbabwe Leaf Tobacco (ZLT). The Government shifted attention from the smallholder sector to the newly resettled farmers under the A1 (small-scale) and A2 (medium- and large scale) resettlement models established under the fast-track land reform programme (FTLRP) of 2000. The inexperienced new farmers, though getting preferential treatment on government subsidies, lacked the skills and tillage capacity requisite for large-scale production mode. Because of these structural weaknesses and distortions, the inputs received found their way onto the illicit market, keeping productivity levels dismally low (Murisa, 2010). This meant that SHHs in this category could not progress much in terms of production and contribution to the total food security state of the district and the country as compared to the communal sector**.**

1.1 Crop Production Activities

Mashonaland Central province is known for its contribution to national food security through production of different crops mainly maize, soybeans, sugar-beans, groundnuts, sorghum, cowpeas, wheat, tobacco and cotton. It is important to note the SHFs from Mt Darwin which is a semi-intensive region with moderate rainfall also grow most of these crops under dry land conditions. In Mt Darwin, SHF is mainly characterised by crops like maize, groundnuts, cowpeas, sugar beans, sesame, mung beans and soybeans for upper Mt Darwin which receives more rainfall. In the lower Mt Darwin which is prone to dry spells, there is production of drought tolerant crops such sorghum which farmers can exchange for maize for their consumption. Generally, cropping programs start in mid-December with land preparation and planting with the onset of rains. Farmers practise wet planting with the first effective rains due to low irrigation facilities among the SHFs in the district. There are crops that are grown under contract in most cases like tobacco which is financed by the tobacco merchants like Zimbabwe Leaf Tobacco. The farmers are expected to grow the crop up to harvesting and market it to the contacting company without side marketing, while the companies are expected to supply the needed inputs and offer extension for maximum production. The companies are then expected to buy the produce from the farmers at auctions in Harare. Some crops which are financed by the private sector also include cotton. However, its production is on decline due to uncompetitive prizing which has discouraged farmers from producing it.

The farmers also produce other cash crops like maize and groundnuts through self-finance where they buy inputs using their own resources. This allows farmers to independently market the produce at competitive prizes at any suitable markets to maximise income and thus profits to sustain their livelihoods. The district has however experienced droughts which has affected the livelihoods of many farmers resulting in them receiving relief programs from government and NGOs like World Vision. However, the SHFs have also been supported by different government programs like Operation Maguta around the 2006/7 seasons as a way of boosting productivity among the farmers in response to recurrent droughts and land reform. The government further introduced the subsidized input scheme which was to benefit the farmers in the country; however, it did not cover all SHFs as a small number would be targeted in each district and ward. On the other hand, the loan repayment rate was very low as follows and accountability issues where not strengthened among the farmers and this disturbed the revolving fund which was to supposed to benefit many farmers. The Presidential scheme also provides inputs to the farmers in an effort to support productivity and improve the food security situation in the country. So, the SHFs are exposed to the production of horticultural crops like tomatoes, vegetables and sweet potatoes which are sold mostly on local markets. There is growing interest among the SHFs to promote the growth and consumption of small grains which are highly nutritious and adaptable to climate changes such as pearl millet and finger millet.

Table 6: Crops grown in 2013/14 season per sector

CROP	LSCFA	SSCFA	A2	A1	0R	CA	TOTAL PLANTED
Commercial maize	17	196	2188	3103	6485	24378	36367
Seed sorghum	0	0	0	0	0	0	0
Commercial sorghum	0	0	0	0	0	1463	1463
Pearl Millet	0	0	0	0	0	181	181
Finger Millet	0	18	0	0	1	38	57
Tobacco Virginia	9	1441	239	1199	747	1946	5581
Cotton	0	0	0	43	0	6696	6738
Soya Beans	0	0	11	0	9	26	46
Paprika	0	0	0	0	0	0	0
Groundnuts	0	27	678	1782	1355	9782	13624
Sugar beans	0	19	173	202	76	82	554
Irish potato	0	0	0	0	0	0	13
Cowpeas	0	0	0	29	31	2948	3008
Rice	0	0	0	0	0	0	0
Sweet potato	0	0	0	1	102	17	120
Sunflower	0	0	28	12	73	223	337
Bambara nuts	0	0	0	2	3	501	506
TOTAL							**74546.03**

Source: Agritex, Mt Darwin

1.2 Livestock Activities

Mt Darwin is known for livestock activity especially for the SHFs who are in the lower valley area which is conducive for livestock production. The lower Mt Darwin, which is mainly natural region 4, has good conditions for livestock production such the sweet-veld which is highly nutritious for cattle, goats, sheep and indigenous chickens. The district also supplies cattle to local butcheries and abattoirs as far as Harare. Truckloads of cattle and goats are always seen leaving Mt Darwin after being bought mainly from the Dande valley which has the highest levels of livestock. The livelihood of farmers is mainly hinged on production of livestock and later selling it for income to cater for family needs. On average, ownership of livestock in the Lower Mt Darwin - which is known as the Dande Valley - is around 5 cattle, 10 goats, 3 sheep and others like Indigenous chickens. The presence of livestock has contributed to the socio-economic status of Mt Darwin and the SHFs at large in terms of nutrition, generating income for family needs, doing business and employment of fast food restaurants, butcheries, transporters and government supportive institutions into the value chain. In developing countries, small livestock production is perceived to improve household food security (Lukefahr and Cheeke, 1990). Small livestock specialists advocate that potential exists for viable livestock production in Least Developing Countries for improved household food security and livelihood restoration. Therefore, livestock farming offers a number of advantages for limited-resource farmers as they can be produced under small to medium scale land.

The department of Livestock Production is responsible for promoting the production of livestock together with the department of Veterinary Services whose mandate is to oversee the animal health side of livestock. Several efforts have been put in place to enhance productivity such continued training of farmers to improve production management principles. The departments together with NGOs also support the farmers through infrastructure development such construction of dip tanks which are useful for disease control through control of tick borne diseases. The NGOS have been providing building material for such structures to ensure communities do not lose their valuable livestock which supports their livelihood. Additionally, NGOS have been very influential in rebuilding the herd of cattle and goats through introducing new breeds which can perform much better than local breeds. This also encompassed providing goats to farmers as a pass-on program so that more farmers can benefit as well through such programs. In addition to that, NGOs also promoted the Pen Fattening projects in which communities were assisted to build structures such as pens and also start feeds. This has seen more than 600 SHF benefiting from such initiatives which has the aim of ensuring that farmers get the best value for their cattle on the market to increase income levels which will be useful for improving their standard of living. The farmers are also linked to guaranteed input suppliers and off takers who guarantee the markets. There is a lot of marketing which happens locally through the middlemen who can come and buy cattle in bulk and transport them to abattoirs. Usually, they buy at very low prices which leave the farmer disadvantaged. Farmers also sell amongst themselves in the local communities for different purposes and this is usually when the farmer is in dire need of money.

There are also certain diseases which affect livestock production in the district like the African swine fever which recently affected pigs resulting in thousands dying. The disease was transmitted from across Mozambique and this resulted in heavy losses of income among farmers. The Department of Veterinary Services had to intervene to avoid spreading the disease among many groups. Farmers are also involved in controlling diseases through vaccinations and proper management to ensure survival of animals. It is important to note that livestock production requires initial capital which has also been a problem for many and as a result, farmers are now resorting to Financial Institutions to obtain loans so that they can make investments such as pen fattening, breed improvement and broiler production. Besides these larger livestock, farmers also keep small livestock such as guinea fowls, turkeys, indigenous chickens and broiler production. The main constraint is getting appropriate markets to absorb their produce at competitive prizes otherwise the livelihoods of farmers may remain very stagnant and not improving.

Table 7: Livestock Statistics

Livestock class	Number
Cattle	114 340
Goats	67 536
Sheep	10 996
Donkeys	764
Pigs	7 080
Ostrich	5

Poultry	248 050

Source: LPD Annual report 2015

Table 8: Dip Tanks and Cattle Races

Number of Structures		Status	Major problems being faced
63	Dip tanks	All functional	Inadequacy
19	Races	All functional	Expensive arcaricide being used

Source: Department of Veterinary services, Mt Darwin Strategic Plan 2016

1.3 Irrigation activities

The district has a total of six (6) irrigation schemes which mainly accommodate SHFs who own an average land area of 0.5 ha for production in each irrigation scheme. The total land size for all the schemes is 120.2 ha which supports a total 225 farmers who are within the reach radius or surrounding wards. The Irrigation schemes use dams and weirs as sources of water to irrigate the crops with electrical powered engines which have at times resulted in accumulated electricity bills that farmers have failed to pay resulting in power disconnections. This has resulted in paralysis of activities within the scheme which is impacting the SHFs in terms of the much needed income, thus affecting the livelihoods of the communities. The crops that are mostly grown in the irrigation schemes include sugar beans, maize, green mealies, vegetables, tomatoes carrots, onions, chilli and gooseberries. Currently all irrigation activities are being run by elected committees which oversee the activities in the schemes in terms of allocation of land, monitoring, liaison with external actors such as the government, private sector and the market on behalf of the beneficiaries in the scheme. This has actually led to SHFs managing their activities to the benefit of all beneficiaries. The committees are also responsible for facilitating capacity building initiatives for the scheme to ensure that members get the much needed schemes to run the schemes for the maximum profit and benefits of their communities. This backed by the government extension services that provide technical direction to the beneficiaries to maximise production in the district to improve the livelihoods of the farmers.

Generally, the irrigation schemes are contributing to 30% to food security in the district and economic activities and are mostly need to improve production efforts. Through the promoting of mechanized tillage by tractorisation using the Brazilian Equipment Facility, all the schemes benefited from this important arrangement. This facility saw all the six major irrigation schemes being given tractors, disc ploughs, disc harrows, planters and sprayers so that these can be hired for such services. The department charges a wet rate of $100/ha for ploughing, $66 for discing and $55 for planting. This is a loan facility in which farmers are expected to repay the loan within five years' time. The idea is to improve service delivery and utilisation of land for maximum production. It is also important to note that SHFs in irrigation schemes have also faced challenges of brokering contracts on high value products which could increase their income and livelihoods. SHFs have been facing challenges of markets for their produce which resulted in them cutting down on production which affected utilisation. In addition, financial services have been very difficult for them to come by because of stringent conditions required like collateral which they could not afford. However, there is still potential for doing better if such services are availed.

Table 9: Irrigation schemes in MT Darwin

	IRRIGATION SCHEMES	ARABLE HECTARAGE	NO. OF BENEFICIARIES
1	Tsakare	16	32
2	Mutondwe	9.5	19
3	Dotito	47	80
4	Chipa	92	41
5	Chibuli	47.2	33
6	Pfunyanguwo	5.6	20

Source: Department of Irrigation, Mt Darwin, June 2016

1.4 Marketing

The marketing initiatives in the district involving SHFs include the more formal and structured markets for contracted crops such tobacco, mungbean, cotton and sesame. Under this arrangement, farmers sell their produce at gazetted prices to contractors who would have financed the production of such crops. The companies usually set prices and seemingly impose them on farmers who lose out, as their bargaining power is usually low in most cases. The farmers also rely on formal and open markets for commodities such as livestock, especially cattle, where they sell direct to abattoirs at prevailing market prices again. Farmers have realised very low profit margins as they, at times, are disadvantaged in terms of quality improvements and other logistical issues which take place at the abattoirs. The informal market is where a lot of middlemen at play effect the aggregation and buy at low prices, taking advantage of poverty and other social challenges that the farmers are facing. At times there is barter trade of commodities. For example, SHFs exchange their livestock for maize or clothes which again impoverishes the SHFs at large. The SHFs however are also value adding their produce through pen fattening cattle, goats and peanut butter processing which also add up the values of the produce. However, marketing still remains topical and problematic issues among SHFs in the district and beyond which also need attention.

1.4 Financing Options

The financial options for SHFs in the district are much limited in terms of access and opportunities, remaining as an aversive situation for most of the farmers. The farmers have been relying on small from government programs such Ministry of Women Affairs Gender and Community Development's grants given to women farmers to facilitate income generating projects. Besides this, financing also came through government's input schemes with subsidized inputs which would target a few of the farmers in the district. Furthermore, the farmers also get funding from private Companies which finance through the provisions of inputs to produce different crops under contract. The companies would fix interest charges arête on the final product supplied which takes into consideration their transport and handling fees. This has resulted in most of the SHF failing to take such facilities as it has often resulted in the farmers losing some valuable assets in the case of failure to repay loans in time. This has been very much the case with cotton companies which have been involved in the repossession of farmers' assets which again compromised the livelihoods of the farmers. Another source of funding has been remittances from family relatives and members who would provide the much needed money to buy inputs towards the planting season and/or supply direct inputs. Furthermore, SHFS have acquired finance from local CBMFIS such as ISALS at local level were members would borrow money from group savings to do some income generating activities and also procurement of inputs for the agricultural season. The also got funding from NGOs in the area to finance different value chains through supplying inputs on either as free package or partially subsidised inputs or as a revolving fund. This has seen mostly of the most vulnerable members of the community benefiting through such programs which are empowering and improves livelihoods of farmers in any community. The community has also benefited from funding to start new projects in their areas from donor and government community.

1.5 Extension Provisions

The provision of agricultural technical expertise and extension of services is critical for long term sustainability of agriculture. Training in agriculture is considered to be any form of capacity building initiative received by any SHF to improve the capacity to participate in different value chains to improve productive and profitability. Training is important in bringing about and building the capacity of farmers as a whole to make informed decisions, planning, better use of production technology, adoption of appropriate technology and adherence to recommended production practices which is important in improving the capacity to produce. Those trained in farming are more productive than those without any training received. SHFs in the district are receiving training from Government extension services in their respective wards on different value chains related issues. The MAMID is responsible through different departments to offer extension services to farmers which include AGRITEX, LPD, Irrigation, DVS and Mechanization. These departments are present in all wards especially Agritex where each extension worker is responsible for a group of farmers. Some of the extension survives offered the training master farmers, demonstrations plots and FFS which are areas of excellence where farmers come and learn by doing and trials set as part of learning. Farmers will be expected to then to practice at home as a way of improving productivity. The government through the DRSS is responsible for technology transfer of new varieties and technologies to the farmers and other extension services,

Extension services are also done through the private sector providers such seed companies like Pannar, SeedCo, K2, tobacco companies, cotton companies and others who are dealing directly with SHFs. This is done to promote their products as well of improving the production of such products by farmers to facilitate its adoption and production which eventually improves food security and incomer security of the farmers. The company set up demonstrations sites as well as sponsoring Field days, exchange visits and other promotional programs. This is also coupled with NGO extension provision which is also done by NGOs working in the district like World Vison, CARITAS, FACHIG and others. This also furthers productivity and livelihoods among the SHFS. In the district there is farmer to farmer extension through lead farmers and Commodity Committees which are responsible for transferring technologies to their peers through peer training. These structures play an important role in coordinating different activities done by the farmers like training, demonstrations plots, marketing and field days. This is important for sustainability purposes if farmers have a key role to play.

1.6 Private Sector Linkages with Smallholder farming

The district has a number of various private sector companies that have been working with SHFs in various capacities. The private companies come in to complement the government public extension system in the country. This exposure to different companies has often resulted in strong linkages which will benefit both the farmers and the company. Notably, private companies supporting SHFs have been focusing on specific value chains in the district. This was also done at different stages like the input side, buyer's side or playing an aggregating level or processing and warehouse stages. In the district there were such companies like Pannar, Pioneer, K2, IETC, Green Trade, Peak Trade, Paper Hole Investments(PHI), ABS, Michview, 558 Meats, MC Meats, tobacco Companies (MTC, ZLT) and cotton companies like Grafax, COTCO and SINO ZIM. The private companies offer different services which include input supply through Agro- dealers so that farmers buy the necessary inputs for production and direct contract farming like most tobacco companies. Furthermore, these companies play a significant role in providing extension to the SHF. This will augment the efforts being given public extension services in the district. The extension is done through farmer visits by the extension officers for training and demonstrations throughout the production period. This is very important to ensure that the SHFs conform to the expected agronomic practices to maximise yields and thus increasing food and income security position of farmers.

In addition to the above, the private sector companies support the setting up of demonstrations plots were farmers can come for learning. Some companies engage in contract farming arrangements through advancing loans to farmers through input supply so that farmers will pay the loans at marketing. This is most common these days for tobacco companies. This ensures that farmers plant in time to maximise yields and profits at the end for their livelihoods. In most cases the loan package includes seed, fertilizers and chemicals which are suitable for a specific crop. It has however noted there has been some contractual violations from both sides like the company short-changing the farmers in terms of supplying the inputs in time and at times inflating interest which result in most farmers failing to pay loans and losing property in the process. SHFs on the other hand may not produce enough to meet the loans nor do side marketing that prejudices the companies such as those in cotton and tobacco marketing where such cases are high.

The other private sector linkage is through buying the produce of SHFs in the district. These companies also buy produce from farmers like IETC which buys sesame, maize, soybeans and sugar beans, Grafax buys cotton, tobacco companies for tobacco while others like MC Meats buy livestock like cattle and goats. Although the farmers always complain of poor prices offered, at least there is somewhere to sell their produce so that they have income to support their livelihoods. There are also some private sector players in the district which promote improved breeds in livestock like Michview and 558 Meats which introduce new breeds for goats while Makera and ABS are supporting some bulls and Artificial Insemination which is useful in improving local breeds in order to compete on the market.

1.7 Farmer Association and Unions working with Smallholder Farmers

There are different Farmers organisations in the district which work with the SHFs offering different services to the farmers and provide linkages and coordination of farming activities. These unions are also responsible for provide other services as fundraising for different support needed by the farmers, also carry out the negation processes with potential buyers of different commodities on behalf of the farmers so that farmers get the best of their produce which eventually raise their livelihoods. The farmers' unions are also responsible for lobbying government for review of by-laws which affected the production of different agricultural products. In Mt Darwin, the ZFU which has a wider base of SHFs which is widely consulted by government on several occasions for issues affecting production of different crops and livestock by SHFs in the country. In Mt Darwin, the union is coordinated by a leadership structure of SHFs and an employed coordinator. To date, SHFs have managed to receive services such livestock veterinary services for vaccinations, breed improvement for cattle and goats and negotiation and representation on negotiation of prizes for commodities such as cotton at national level. There is ZCFU which has been built on strengthening the SHFs to transform themselves from subsistence farming into commercial basis. The union operates in a similar way as the ZFU and collaborate on issues affecting the farmers in terms representation. There is the Chesa-Karuyana Small Scale Farmer Association which is advancing the interests of the old resulted farmers. The FCPA has been active in the past 10 years in advancing and addressing the issues of cotton production up to marketing among the farmers. The association was responsible for awareness on cotton pricing and also negotiation on prices with Agricultural Marketing Authority for cotton price increase to increase the direct benefits of farmers in terms income. The purpose of these associations is to widen the choice of the SHFS where agricultural production is concerned.

1.8 Mechanization-tillage services

There are different mechanization services that the Smallholder farmers get from different service providers in the district. Mechanization Department was set up within Ministry of Agriculture and irrigation development (MAMID) to administer about six areas which include Postharvest handling technologies, soil and water conservation, farm structures, farm poser and machinery, training and mechanized conservation agriculture. Therefore, the farmers receive such services to improve their farming practices. The Smallholder farmers have been encouraged to put conservation works on their farming plots especially the newly resettled farmers under the land allocation of 2000. This involves setting up contour ridges to conserve soil so that it can be put to productive use and avoid siltation which in turn affects water bodies for irrigation, domestic use and livestock. The Department of Mechanization charges at least $10 from pegging services especially to A1 and A2 farmers. The Smallholder farmers have so managed to construct at least five weirs in the lower valley through the Productive Asset Creation (PAC) program and this has contributed well to livestock production and gardening activities. Besides this, the department has been promoting the use of improved Granaries for storage of grain especially maize among the SHF of which demonstrations sites were created for learning to improve adoption. This was low due to challenges of accessing funds to buy the necessary materials. However, an improvement of grain storage facilities is being promoted like the metal silos which come in different forms and farmers are showing interest in taking up this technology. This is done to avoid post-harvest losses which waste resources. So the SHF has options for granaries to use which minimises losses.

The common tillage techniques used the SHF in the district in is the conventional animal drawn ploughing using traditional ploughs as this is most affordable and within their means. However, this takes a lot of time and at times disturbs the planting period and they end up missing on yields. This has been worsened the climate change induced whether patterns. It is because of this that these days, the department of Mechanization is administering and coordinating the Farm power and Machinery through the promoting of mechanized tillage through tractorisation using the Brazilian Equipment Facility. This facility saw all the seven major irrigation schemes being given tractors, disc ploughs, disc harrows, planters and sprayers so that these can be hired for such services. The department charges wet rate of $100/ha ploughing, $66 discing and $55 for planting. This is a loan facility in which farmers are expected to pay back the loan within five years' time. Besides this, the District Development Fund (DDF) and some individual farmers are also offering such services to the SHF. Furthermore, SHFs are also practising Mechanized Conservation Agriculture through the use supported by GOZ and NGOS with the aim of improving food security and food on the market. Currently the SHF are also adopting new labour-saving technologies such as Groundnut shellers, maize shellers and peanut butter processing which has facilitated marketing and labour saving.

1.9 Common off-farm activities

Smallholder farming does not solely result in sustainable livelihood, but also depend and need to be supported by Off-farm activities (Ellis, 1998). According to Ellis (2000), off-farm means income that is generated from wage or exchange labour on others' farms. This includes labour payments in kind such as harvest share systems, income from local environmental resources such as firewood, building materials and wild plant or fruits. Therefore, non-farm income refers to non-agricultural income sources and these include non-farm rural wage or salary employment, non-farm rural self-employment, rural income obtained from leasing land or property, urban to rural remittances arising from within national boundaries, and other urban transfers to rural households such as pension payments to retirees and international remittances arising from cross border and overseas migration (Kune and Mberengwa, 2012). Smallholder farmers are characterized by being involved in the presence of an array of diverse economic activities (Alemu, 2012). These may be farm related while others are not, for example, in Panama non-farm income constitutes 50% of the total income which is of importance to livelihoods improvement.

In Zimbabwe and other African nations, smallholder farmers also engage in different off farm activities as a means of sustaining their livelihoods. The activities vary from country to country and community to community depending on the availability of natural resources in the area. It therefore means the smallholder farmers in Mt Darwin as well participate in different off-farm activities which are used to generate income for improved livelihoods. The most common practice lies on indigenous and naturalized fruit trees that are becoming increasingly important as a main source of food during periods of famine and food scarcity and to supplement diets in better times.

A number of factors have been put forward as needing attention before rural areas can realise the much needed growth and productivity in the rural non-farm economy. Among these is the need to revamp the agricultural sector which was reported as the source of income for the rural non-farm economy as well as the source of market for the same. Infrastructural development, improved access to credit and private-public sector investment are some of the measures that can be employed to promote the rural non-farm sector (Mukozho, 2012). Lanjour and Lanjour (2000) studied the rural non-farm sector and placed particular emphasis on issues and evidence from developing countries. Results of the study show that the rural non-farm sector has traditionally been viewed as a low productivity sector that produces low quality products and withers away as the country achieves economic development. However, the recent years have seen a shift from this position towards recognition that the rural non-farm sector can, and often contribute to economic growth, rural employment, poverty reduction, and a more spatially balanced population distribution. The off-farm activities have traditionally constituted a relatively low-productivity supplementary activity that is only undertaken by households to diversify their income sources and insure themselves against shocks to their agricultural income. However, off-farm activities are increasingly important in many rural societies not just to complement or supplement on-farm activities but as sources of strong income and employment growth. This is especially true for rural regions that enjoy high levels of physical infrastructure and human capital. Indeed, rural non-farm enterprises are likely to perform better in more densely populated areas, where demand is higher and where there are economies of agglomeration, while there are likely to be constrained by low market demand in areas with low population densities, dispersed populations and in areas where

In Mt Darwin, smallholder farmers depend on many trees and shrubs, primarily indigenous species, for a range of essential products and environmental services that improve their livelihoods. *Masawu* fruits form part of the family diet and generate additional income by selling at local markets. Surplus fruits are sun dried and can be transformed into various products such as porridge, traditional cakes, *mahewu*, and also fermented to produce a spirit called *Kachasu*. The ethanol content of the fermented fruit pulp ranged from 2.1 – 3.7 mL

$100 mL^{-1}$, whereas the traditionally made distillate contained 23.8 – 45.6 mL 100 mL^{-1}. The fruit is actually sold in bulk to markets in Harare and local markets which has proven to be a delicacy and cash cow for the lower valley of the district which is solely region 4. If properly managed and promoted for widespread planting, these native and naturalized fruits can contribute significantly to the economic development of rural poor communities. *Z. mauritiana* is a drought-tolerant tree distributed in most parts of Mt Darwin and farmers rank it as one of the most preferred fruit tree species in the district. In addition, parkland trees and shrubs, including *Z. mauritiana*, provide numerous traditional medicines which are essential for rural health care. Severe micronutrient deficiencies can be alleviated by consuming local fruits and vegetables. The fruit probably has the greatest potential economic benefit for smallholder farmers. Besides *masawu*, smallholder farmers in the district also cross borders into Mozambique to trade on kapenta fish and sundried fish like breams. This has actually proved a major source of income for the farmers as people even transport their fish to as far markets as Harare and Bindura. There are also several off-farm activities that are done by Smallholder farmers in the district that also include bee-keeping where honey is sold in an unprocessed form, brick moulding during winter and early summer which is used as a means of increase income base for the farmers especially for the wards that are closer to the urban areas for quick supplies to the urbanites. The farmers especially women are also involved in buying and selling second hand clothes and doing barter trading at times. Other activities include gold panning at Mukaradzi mining areas where buyers come from all over the country to come and buy gold. This area becomes an economic hub where for selling different wares such as food, beverages, clothes and blankets which result in movement of money around the community which is good for improved livelihoods. Most of these activities require access to financial support as kick off support package as capital to initiate the income generating activities.

1.10 Production challenges

There are also some challenges that are being by SHFS in the district which include inadequate funding of projects which affects implementation of new projects and supporting the already existing projects to allow continuity of such activities. In most cases important projects have failed to take off from the ground or halted along the way due to shortage of funding which eventually affects the socio-economic status of the district. Funding is important for sourcing inputs into the projects, training material, and monitoring and evaluation of projects. The district has also been affected by unreliable rainfall which causes droughts and dry spells which has led to farmers' heavy losses which compromise food security and loan repayment. Farmers also lose out on their livestock since there will be inadequate grazing areas. Drought will also result in many deaths of livestock, water shortage and eventually farmers will be forced by the situation to sell their products at very low prices. This is also coupled by outbreak of pests and disease such armyworms and Newcastle which are both notifiable. The financial challenges also lead to poor infrastructure development and any other farming activities which lead to low productivity as farmers may not buy pesticides, crop and livestock inputs and other chemicals. There is also a challenge of poor infrastructure for poultry units, piggery, dairy units, storage facilities, old irrigation equipment and dip tanks which are essential again for improved productivity. Above all there is the challenge of adequate and organized markets for different agricultural products which has led to farmers losing out on outside markets and eventually reduce production as they fail to offload their products at competitive prizes.

It may be recommended that the district and SHFS can also do some market surveys for both crops and livestock production before production so that they produce what is needed on the market to avoid unnecessary losses. This should be supported by intensive trainings of farmers on different areas as a way of improving productivity. Farmers will also need to be encouraged to adopt new technologies such as climate smart agriculture, storage facilities and new crops as a way of diversification in-order to spread risks. It is also to have initiatives to rehabilitate irrigation schemes so that they become f unction and provide production all year round for food and income security if there is constant supply. This should be backed by a sound financial system which will be providing the much needed capital injection to boost production.

1.11 Contribution of Smallholder Farming on Food Security in Mt Darwin

The Smallholder farmers contribute a lot in terms of food security in the district through agricultural productivity. It is important to recognise this contribution which is however below their expected standards for production. The potential to produce more depends with the level of input regime used but in most cases farmers fail to accomplish targeted yields because of inadequate supply of inputs and also late planting in most cases. This then shows big gaps that need to be filled by Microfinance Institutions of availing finance for agricultural productivity. If the farmers have access to finance and inputs, the yields are likely to increase if the rainfall season is good. This will boost the food security and income security of the community at large.

Table 10: Cereal Balance Sheet Mashonaland Central 2014/15 Production Season

DISTRICT	TOTAL CEREAL PRODUCTION	POPULATION	REQUIREMENT	SURPLUS/DEFICIT
BINDURA	40310	168193	18501.23	21809
MUZARABANI	16467	120728	13280.08	3187
GURUVE	23531	123467	13581.37	9950
MAZOWE	67610	243999	26839.89	40770
MBIRE	7406	82380	9061.8	-1656
MOUNT DARWIN	19757	212725	23399.75	-3643
RUSHINGA	10251	119530	13148.3	-2898
SHAMVA	18951	123650	13601.5	5350
TOTAL	**204283**	**1194672**	**131413.92**	**72869**

Source: Agritex Annual Report, 2015

CHAPTER 2: The Entry of MFIs in Mt Darwin

2.1The Entry of MFIs

The provision of microfinance to Smallholder farmers becomes a fundamental need that needs to be addressed as alluded in the literature review. The rural financial market has been shunned by most of the MFIs for provision of finance as indicated by the time that the MFIs have been operating in the district. It is therefore of paramount importance that there be an inventory of MFIs working and in the district for the purpose of providing financial services to the communities. It thus important that farmers and other key stakeholders working with farmers be able to identify the MFIS and their services they provide so as to increase accessibility by needy farmers. The need for supporting Smallholder farmers to improve productivity resulted in the Government to enact polies that encourage MFIs to provide financial services to farmers in the country. The main purpose was to boost productivity and ensure a food secure society which h contributes to the economy of the country at large. The government through the Reserve Bank of Zimbabwe allowed an environment that saw the emergence and increase of MFIS who were and still providing finance to farmers. It is however important to note that most these MFIS were actually related to the Commercial Banks whose focal target were the Commercial Farmers where were dominantly white and farmed on large hectarage of land which required a lot in terms of funding. The large commercial farmers would afford to raise the much needed collateral which was used to guarantee the loans. The AFC managed to play this important role of financing the farmers; however, this was not inclusive in terms of reaching out to Smallholder farmers as well and thus was left out. It can therefore be noted that 50% of the current MFIs have been in the district for at least a year while the longest ones staying were at least 25%. This shows that MFIs took a cautionary approach to getting into rural communities for fear of incurring high costs and also the thinking the Smallholder farmers are were not ready to do any financial business with them. This is in line with the justifications made by Choga (2013) when he indicated that the commercial MFIs were slow in moving into rural areas to do business as the environment is considered risky. This actually resulted in the MFIs getting late in the district thus starving off the Smallholder Framers of the much needed finance for productivity. The MFIs also cited the wide spread for the communal farmers in different areas which also made it difficult to reach and provide the much needed financial services. It was also deemed to be too expensive on the part of the MFIs and that eventually made a negative impact in terms of reach by the MFIs. This then affected access to important financial services to the needy areas thereby disadvantaging the farmers although this was done to protect the interest of the MFI. CBZ becomes the most popular among farmers because of the services it had provided to the farmers through input support for different value chains.It is important to know the importance of the presence of MFIs inorder to pay for future coverage.

2.2 The Smallholder Farmer a disadvantaged group

The Smallholder farmers however remained unserved from direct financing by the banks as they were considered to be risky to do business with them. This resulted in this group of farmers being disadvantaged and it also affected productivity and livelihoods of farmers. Therefore, the emergence of Agribank was meant to support the Smallholder farmers as the bank set its branches across the country. However still the challenge remained huge for the Smallholder farmers to access loans as the bank set very tough conditions attached the loans given. The costs of accessing the loans became high beyond the ability of the Smallholder farmers which left them with little or no options to access the loans. The farmers then relied from input financing by the private companies who would provide inputs equivalent to some certain amount of money for the farmers. This arrangement caused a lot of problems among farmers in terms of escalating costs of these inputs given which resulted in the farmers failing to service their loans. The companies would attach the property of farmers as to recover their loans which left them impoverished. The farmers on the other hand also did side marketing of produce in search of competitive prizes and avoiding the loan repayment as well. This system then affected contract farming arrangements which were available for the farmers and the private sector too. The fact that Smallholder farmers managed to at least identfy some srvice means there is a lot of appreciation of the MFIs in the farming communities although will neeed to be translated into actual consumption of the services as a means of improving productivity and well-being of the general communities. It is these various services that Smallholder farmers should access and also the MFIs will need to increase visibility of such products so that even those not aware will become that target consumers of the services offered by the MFIS.

It can thus be observed at least farmers in the district are aware that MFIs offer different services such loan facilities to the farmers through different means. What is most common about the loans is the group loan input schemes which affords the farmers to get loans to finance their input production for crops and livestock activities. This is also coming from the background of more ISAL groups receiving loans from MFIs like Steward Bank for doing different Income Generating Activities and also financing of crops like Sesame, mungbean and Soybeans. This covers many groups explaining why the product is quite popular although this does not translate to actual utilisation of the service. Farmers are also aware of the Savings facilities offered by the MFIs for safe keep of their money but very few of the farmers do save with MFIs for fear of losing their money due to high bank charges and also low circulation of money in the country. The other services well known are agency banking now being introduced by the MFIs to ensure a wider coverage. The agent is actually located at most of the shopping centres and booths were farmers can easily transact when they got the money. This move was done to ensure that farmers access money wherever they are without too many hassles however efficiency of these agencies is being compromised by the shortage of money crisis in the country. Therefore, farmers will be participating in financial inclusion as they also transact on mobile. Although the loans come in different forms such as individual loans, group loans and those for small businesses against the savings, the utilisation is still low. It was however indicated that insurance service is just for cushioning the MFI from losses in the event that the borrower fails to pay the loan due to deaths or chronic illness so it does not protect the farmers. This also becomes an area that needs a lot of capacity building to encourage the farmers to take insurance for their protection. The conformation of loans by all the three groups respondents means therefore that access to finance has improved since the service is available and that is likely to boost productivity as farmers will access inputs on time production and will increase incomes.

It came out from this study that the most highly popular and demanded service/product is the loans as an indicator that most Smallholder apply for productive loans to start other important projects. This received a higher score which means demand is very high for the service followed by Agency Banking. This basically shows that there is increasing demand for financial access by the farmers to support agricultural activities in terms of boosting productivity, (Choga, 2013). The MFIs also indicated that they are increasingly receiving a lot of inquiry from for loans to start projects or boost current ongoing projects. This is an indication the rural market is actually starving of financial linkages to support different value chains. However, the savings are currently low as farmers still have in their memory the loss of money banked during the changeover of currency use in 2009 so they prefer to use ISALS as a means of saving their money or buy assets instead. The other contributing factor for low savings is the bank charges which is alleged to wipe off the savings and distances travelled to the MFI location for banking. However, this is set to improve with the use of mobile money in the country. The low demand for insurance is an indication of low knowledge skills on the part of SHFs especially on how it can be done and benefits derived from accessing the loans. The farmers have often fallen victim of dubious insurance companies in the past especially for tobacco farmers and this disturbs the use of the service. However, it is of significance to have programs that empowers farmers on this to safe guard their assets like livestock and crops especially in the face of climate change.

2.3 Utilisation of Loans by Smallholder Farmers from MFIs

It is important to note that farmers in the district had at one time managed to receive some financial services especially loans for crop and livestock production and payable after 3 months. The farmers acknowledge receiving some loans from MFIs of them saying that they had at one time or the received some loans while 44% had not yet received any loans from MFIs, This margin shows that MFIs are slowly reaching out to Smallholder Farmers who were previously neglected for long. This utilisation of loans has had an impact in the manner farmers now participate in the financial inclusion as they are active players. It also came out clear that CBZ has contributed 49% of the loans received by the farmers and Steward bank as a new entrance to the district has contributed 20% to date while SACCOS contributed 18% with the lowest contributor being others like the money that comes through government ministries and NGOs to finance different value chain activities. What is of great importance is the fact that there is presence of different MFIs provides the completion and many opportunities which if used can smoothen the gap that has been in existence of financing the farmers. This financial support will go the long in aiding productivity and thus improved livelihoods.

2.4 Type of Costs associated with the Loans received

This study identified different forms of costs which are associated with receiving loans as indicated by the respondents who are the SHFs. The knowledge of costs is an integral part of financial literacy training which is done to raise awareness of farmers to select a suitable product, choose an MFI to work with basing on these different charges and conditions. This will help reduce the costs of using the loan which maximise the performance of the loan. 100% of the respondents concurred that the common cost is the interest rate charged by the MFI on amount borrowed. This varies from MFI to MFI and farmers need to know this in order to make decisions on whether to take or not. This was proved the most hindering factor for loan uptake by farmers as it becomes expensive and prohibitive (World Bank, 2003). 35% of the respondents showed knowledge of the establishment fee which is usually a once payment deducted from the loan applied while 11% indicated insurance although they were not aware of how it covers the risks of the farmer. Other costs identified included bank charges at withdrawals, coats of maintaining the account active and also mobile money charges during cash out process. These coats if not explained well to the farmers can result in several challenges during the repayment periods. These are also the same costs pointed out by the MFIs in their response.

2.5 Forms of Collateral Security required

The study also focused on finding the forms of collateral required by the MFIs in order for the Smallholder Framers to access the loans. The farmers showed great remorse on this issue which they deemed to be the stumbling block for many years to access the loans from MFIs. More than 66% of the farmers show that indicated that the MFI requires them to have some form of physical security for one to access the loans if it is an individual level. This may include immovable structures such houses with title deeds which the SHFs do not have, thus the farmers in some cases have settled for their livestock which the MFI is also unwilling to take due to the risks of death or any form of disposal before the loan has been paid. However, the MFIs these days require lending money in groups so that there is group security which is much friendly but the groups need to be much organised so that they are seen as safe recipients of loans by the MFIs. It is therefore important for the farmers to now make a decision on which MFI to engage depending on the much needed collateral needed. The MFIs on the other hand also indicated that either requires Physical collateral of Group Security depending with products; however, for the smallholder farmers they prefer to use group collateral. This makes it easier for the farmers to get into organised groups and access the loans bearing in mind that they group is responsible for monitoring and ensure g the loan is repaid. This is gaining momentum among farmers who are slowly appreciating this arrangement as they now begin to access loans. The group will be responsible to make contributions and payback the loan in case one member defaults. All the 4 MFIs sampled indicated that they use the different forms of security depending with the product and size of the loan.

2.6 Training received from MFIs

Training is a fundamental tool of equipping the intended beneficiaries with the necessary skills and knowledge to participate fully in any functional process, thus the need for this study to assess how many were reached by the MFIs in terms of training programmes. It came out that farmers had received some form of training from MFIs and this made them better able to understand and appreciate financial needs of MFIs. The trainings were centred on Financial Literacy. It covered the issues of products offered by MFIs, loan processes, costs related, repayment period modalities and also loan use which is critical. The respondents managed to describe the importance of these trainings. It means farmers are empowered to the extent of engaging MFIs and effectively utilise the loans they receive.

2.7 Role of SACCOS and ISALS

The farmers then relied on borrowed funds from savings cooperatives and ISALS in their communities which were made upon farmers forming a group and start saving some money. The money would be lent to members on an interest agreed by the members. This system provided loans which could be used to buy some few agricultural inputs and also meet home consumption needs. The ISAL groups evolved in the district around 1985 with the first group just doing rotating and savings and later on graduated into ISAL which were now lending money to group members. These resulted in other more organised cooperatives like the SACCOS being formed. These were registered by the government to handle savings from members and non-members at an interest. The SACCO would then receive loans from banks and then distribute to the smallholder farmers in the district. A good example of such a cooperative that has been operational in the district includes Pundutso Savings cooperative. The cooperative managed to service the Smallholder farmers in the district by providing loans to farmers in groups. The cooperative used the group as the collateral for accessing the loans. It was believed that farmers would monitor each other in a group to ensure maximise of loans given out and also the repayment process. The interest rates were comparative low as compared to the ones given out by the banks. The time taken to process the loans was short considering the cooperative was routed in the district and servicing the local farmers. The cooperative had also some staff that was following up on the farmers to monitor progress of the projects being done. The government and other development agencies regard the formation of SACCOS as an answer to credit access problems and as the best alternative to improving rural productivity. However, the usefulness of such micro credit institutions in solving the problems of the rural poor has not been studied extensively and needs to be explored in terms of their contribution to the financial sector among Smallholder farmers in the district.

The FACHIG SACCO also came in 1999 when it was registered and was providing loans to more than 12000 smallholder farmers in the district. The SACCO was built from different Income Generating groups who came together through their leadership to form the SACCO. This was after the realisation that the Smallholder Farmers were also having challenges in accessing loans from banks and needed a bridging stroke to allow them to access the loans. Furthermore, the group members were also contributing membership fees which were used as the capital to start lending out the money. The SACCO employed some technical staff who were responsible for the administration of the SACCO working together with the farmer leadership. This SACCO played important roles in outsourcing money for its member from banks and NGOS. The SACCO worked with banks like CBZ where it brokered the provision of loans to finance cropping programmes and livestock activities among its members and non-members through some guarantee funds. The SACCO would then charge some commission for loans administered to farmers for its upkeep. The SSACCO went through the period of inflation from m2006-2009 and suffered from loss of value of the Zimbabwe dollar which resulted in it temporarily closing business which was revamped with the dollarization. To date the SACCO is still operating and still providing loans to the farmers. Recently in 2015, the SACCO secured soft loan of $30000 from OIKOS bank in the Denmark at 5% interests per annum to lend out to farmers to do income generating projects like pen fattening, broiler production and cropping projects. Above, it still guarantees farmers to get loans from CBZ for doing different projects. So to a larger extend the SACCOS really helped although this did not cover most of the farmers in the district.

In addition to the above there was also Takura Nyakasina which operated from ward 24 and had a building which was used as an office. The cooperative again provided funding for project sourced from international NGOS and also from local sources to its members and the general public. The loans given would allow the framers to start smaller projects which required less capital outlay. It also allowed farmers to come and sell their produce and repay the loans. The members were also expected to open Accounts with the co-operative. So the other role that it played was for receiving deposits for the safe upkeep of money from farmers. This money would then be loaned out to members. A number of farmers really got helped to access the funds to start income generating projects in the area. This would then contribute to the general livelihoods of the farmers. This cooperative was however affected by inflation which affected its viability but still the offices are still being used by the community. So it can be noted that the cooperatives played an important role in the provision of financial support to the Smallholder, although the support was not that huge to support the activities of the farmers, hence the need for the commercial MFIS to come and also provide reliable services. So far there are over 450 ISAL groups which providing soft loans to members to some income generating projects which also include off-farm activities like trading in kapenta fish and second hand clothes. This has actually enabled farmers to raise more income and sustain their livelihoods.

2.8 Financial Services provided by MFIs

On the other hand, MFIs are more suitable for the rural financial markets as they provided savings-linked loans to depositors. The savings had several effects on the depositor of the same money earning interest while simultaneously providing collateral for a loan. Furthermore, the same savings would be in safe custody, satisfying the basic motive of banking money. In this way, the capacity of the MFI such as FACHIG SACCO would be to satisfy the triple effect signified its impact.

Financial services available from banks in Mt. Darwin district signified an insignificant percentage of farmers accessing and utilising the facilities. Most of the services utilised by the Smallholder farmers from banks like AGRIBANK included banking their Agro cheques, deposits and withdrawals of money and loan services to a negligible extent. The indications show a gloomy picture of conventional banks’ service delivery to the rural financial market of Mt. Darwin district. The impact of credit was further amplified by the fact that, even at its lending highest period in 1986/87, AFC only be able to reach 10 per cent of the possible smallholder market due to severe undercapitalization of the institution. To manage the ever-increasing demand in credit, AFC had to resort to excessive rationing of the loan funds. This resulted in, AFC focusing its lending operations to a few selected high potential areas thereby excluding a larger proportion of the smallholder population from its services. This was actually moved along with the transformation of the institution to Agribank which eventually and still serve a few.

With passage of time there was entry of other MFLs in the district which supported farmers in specific value chains. Quest Financial Services is a micro-finance institution whose vision is to create wealth for rural and urban micro-entrepreneurs, through provision of flexible credit solutions and technical support to meet the needs of its customers. The company has designed a number of products to cater for the needs of this special segment. The company was formed in August 2010 by seasoned entrepreneurs and experienced professionals with vast experience in different aspects of business, driven by a passion to uplift the livelihoods of the disadvantaged, deserving business people across the country. These customers include women in business, youth engaging in self-employment projects, small to medium-sized business and the emerging middle class represented by formally employed individuals across all sectors of the economy Quest Financial services which is a new and potential organisation came in to Mt Darwin in 2014 to support farmers in the maize value chain. The MFI seeks to enhance and change the livelihoods of the Smallholder farmers in the rural, peri-urban and urban setups. It aims to provide sustainable business loan products which will be able to service the potential farmers. It operates in five provinces in the country and Mashonaland Central is one of them and specifically Mt Darwin district. The MFIS has focusing on improving the productivity of maize value chain which was actually linked to potential buyers in and outside the district. Quest Financial services was giving farmers a loan size that is enough to support production under one hectare of production. The package included fertilizers (compound and Ammonium Nitrate), seed and herbicides that would be useful for weeding. The MFI availed the loans which ranged around $388 per farmer but however the farmers got the inputs equivalent to the level of money and the money was paid to the Agro-dealer for supplying the inputs. So to that extent the MFI supported other value chain actors along the way besides just looking at the farmers only. The contractual arrangements allowed the farmers to market their produce where they want and then pay back their loan to the farmers. The loan recovery rate was almost 96% as the farmers honoured their loan obligations. This year the MFI is intending to finance the cattle value chain where they will support pen fattening groups in the Lower Mt Darwin where there are more of livestock activities. The farmers ate going got receive the loans in groups of at least ten and have at least 20-30 herd of cattle at a time. This will enable bulk selling which is handy for buyers and farmers at large. The farmers are going to receive their loans as stock feed and drugs to use for the upkeep of the cattle. These farmers will then be linked to a guaranteed buyer who comes to absorb their cattle and then payback the loans. The farmers are supposed to do self-monitoring in terms of loan repayment and ensuring that the MFI gets its back its money. Its intention and plans is to reach at least 80 groups of farmers who are doing pen fattening and promote bulking to maximise on the possible prices that the farmers can get from the market. This relationship is likely to be use to cover other crops like maize and goats in their coming seasons since they are covering Guruve district currently. Quest Financial Services is fully licensed by the Reserve Bank of Zimbabwe and is a member of ZAMFI (Zimbabwe Association of Micro Finance Institutions) with focus on six areas namely Rural/Agricultural Loans, (Financial Literacy for Farmers), Mobile Money Transfer, Business Loans, Asset Financing, Group Lending and Personal Loans.

In addition to Quest Financial services there is CBZ Microfinance which started providing loans to farmers in the district way back in 2005 through FACHIG SACCO which guaranteed the loans that the smallholder farmers were getting in its operational areas. CBZ went to offer group loans to farmers for specific value chains being promoted under the Livelihoods Food Security Program in the district. There is collaboration between the MFI and the NGO. The NGO's responsibility is to organise the farmers, capacity build and strengthen to access the loans and also utilise them. This include doing some group strengthening course to prepare the farmers and raising their financial literacy skills so as to be able to understand the financial systems and select the best financial service providers. These trainings were done to assist the farmers understand the conditions needed to access the loans such interest rates and repayment modalities. In this regard the bank managed to availed loans for production of sesame and mung crops contracted through IETC and Green Trade companies. The processes involved registering of groups for the facility, opening of accounts with the bank and then the money was paid to the private company which would then avail the input packages that included fertilizers, seed and chemicals. The role of the bank was then to monitor performance of the production by farmers to ensure that the will manage to pay back the required loans. Then at marketing the companies buying the produce would then deduct the loans from farmers and remit it to the bank. Furthermore the bank is also interested in financing ISAL groups to do other income generating projects to enhance their income levels for the improvement of their livelihoods. It also an opportunity for Smallholder farmers to have access to loans in the district which covers many wards and farmers.

Furthermore, there is Steward Bank which started operating in the district in terms of financing the farmers in 2015. The bank is actually receiving technical support from an NGO called SNV which is guiding it to deal with farmers. It was highlighted that the banks were hesitant to do business with Smallholder farmers as they associated them with risks such as unpredictable weather patterns, poor loan repayment history, political interference and deferment of payments of loans. However, through this arrangement the managed to identify and support about 53 groups with loan amounts ranging from $500-2400 to do income generating activities. This has benefited the ISAL groups which have already a culture of saving money and borrowing so this could fit in well within their structures. The Bank is always carrying monitoring activities of these farmers to ensure that they manage to repay their loans. The interest rates are comparatively low according to Zimbabwean standards like 10% per annum which is reasonable unlike other MFIs. The other target group is the irrigation schemes which are mainly focusing on smallholder farmers who need financial back in order to utilise their schemes effectively and increase productivity. The bank has also opened banking Agents across the district to ensure that the farmers can do transaction even from their operational wards. In addition to this the bank is also supporting pen fattening groups for cattle and farmers are getting loans that will enable them to produce good animals for the market. The presence of skilled Field personnel from the bank has actually contributed strongly to the effective delivery of the financial services to the farmers and the bank. The bank also embraced the financial inclusion of using plastic money and mobile money transactions based which saw the farmers using platforms like Ecocash to transact for the any of the projects requirements in terms of inputs which is line with the trends that are happening in the country in face of current cash shortages from the banks. The farmers are forced to adopt the new technology because of the circumstances in the country's economy.

The district also boasts of MFIs like Microplan which also came in 2015 again to support the Smallholder farmers. Microplan is a subsidiary of FBC bank which is actually advancing the microfinance section in the country. Besides Mt Darwin, The MFI has a presence in about three other districts in the province. The target clientele for Microplan are farmers working as groups and wishing to upscale their projects. It is currently supporting farmers who are linked to an off taker to guarantee the absorption of their produces and deduct the loan at point of sale. Microplan is currently supporting the value chains like mungbean, soybeans and sugar beans where farmers will receive loans as inputs and grow the crop under marketing contract to support particular many of farmers ‘produce. Besides this, it also interested in supporting irrigation schemes access loans to boost their production and enhance food security of farmers and the local communities. It will also provide financing of the cattle and goat value chains for pen fattening and the buyers who need to get finance to boost up their capacity like setting up abattoirs. This will have an impact on smallholder farmers in that they will be able to sell their livestock as slaughtered carcass weight which increases the chances of getting higher income. The MFI is however charging slightly higher interest rate of about 2,5% per month compared to other MFIs in the district, however it has had an advantage of short turn over period to approve and release the loans unlike other MFIs. The MFI is also offering short loans to salaried people like civil servants to access loans for meeting emergence problems that usually arise.

It is, however, a notable fact that informal lending activities have remained resilient in the face of the existing regulatory framework. This shows that the financial markets for the smallholder farmers still need to addressed, especially considering the exclusionary behaviour of formal financial markets like the above described MFIs who are just coming into the district because they are being backed up some donors which lacks sustainability. It can thus be noted that:

"financial services will probably not, on their own, bring about greater investment in

productivity or income from agriculture or any other rural enterprise. However, if such improvements are insufficient on their own to ensure progress, they are clearly a sine qua non for such gains. Yet, of the many pre-conditions for agriculture and rural development, the provision of financial services remain among the most poorly understood." (Klerk et al. 2011)

Smallholder agriculture in most parts of the country is characterized by low yields and low product quality and remains far behind in terms of productivity compared to other world regions. The major challenges to a more profitable agriculture are many and often beyond the control of the farmers. Among them are a negative influence of the worldwide agricultural policies; low public sector expenditure on agriculture; poor rural infrastructure (roads and communication); uncertain legal environment (e.g. modern and traditional rules on land); very thin or deficient markets for (financial) services and agricultural inputs (quality seeds and agrochemicals) and outputs (marketing of agricultural products); as well as inadequate extension services, water management, and research and development support. These challenges often affect each other and lead to a generally hostile business environment, making profitable smallholder agricultural difficult. This increases the risk of MFIS in lending out their money to the smallholder farmers leaving them to struggle to access such financial support in adequacy. Furthermore, many farmers lack the needed skills to handle financial issues especially with established MFIS and thus tend to lose out in most cases and this needs to be strengthened. However the MFIS still face the challenges of offsetting the failure to raise the much needed collateral besides the group collateral in case farmers fail to pay back the loans as agreed. This is to caution the MFIs beside the use of group lending where members influence each other ensure that each member honours his obligation (Gallardo, 2001). This could be supported by drawing lessons from the Grameen SHG groups are that are known for providing social security, which allows undisturbed activities of the most successful and largest microfinance institution without resorting to other forms of physical collateral.

In the late 90s, commercial banks like the Jewel bank, Zimbank and Barclays bank, taking advantage of opened financial market brought in by ESAP, came onto the rural financial arena, (Choga,2013) The banks presented credit support for the production of some selected cash crops that included tobacco, paprika and cotton. In spite of the notable repayment rates by smallholder farmers of more than 85 per cent, the commercial banks' scheme collapsed on the back of excessively high costs of monitoring and collection of the loans. The short-lived spell of the commercial banks in the rural financial markets exposed the unsuitability of their approach to microfinance among the smallholder farmers. However smallholder farmers given the correct support services, especially financial loans, have the potential to produce and increase the productivity.

Usually, financing to the underprivileged was taken to mean issuing out small loans to the poor and their microenterprises. As such the micro-credit movement was characterised by free government grants and donor support however this was transformed lately to provide a number of services such savings, insurance, education and money spread over and above the traditional microcredit. Savings, in certain terms when in financial form, are taken as a key supporter of economic growth. Therefore microfinance can be used as a way for increasing savings mobilization, especially in the financially excluded rural areas and can loosen "….the binding lending constraints….", which acutely affect rural populations of Sub Saharan Africa (SSA) United Nations (Undated).

CHAPTER 3: The Impact MFIs on Smallholder Farming in Mt Darwin

3.1 The Success/ Impact of MFIs on Smallholder Farming

In Zimbabwe the issue of access to finance is crucial in agricultural productivity especially among the upcoming Smallholder farmers in the country who still to establish themselves production wise and raise their income levels. If the farmers in Zimbabwe and Mt Darwin specially are categorised based on land ownership, then we will find that most of the farmers are either marginal farmers or land less farmers producing crop by utilising small land area like 5 hectares on average for smallholder farmers, therefore sometimes it is extremely difficult for the marginal farmers to get access to credit as the credits are not collateral free. When the Government of Zimbabwe provided funds for agricultural purposes through Agribank, only 2% of Smallholder farmers access the loans as most did not have the much needed collateral required by the banks. This resulted in the farmers relying more on much expensive, inefficient and expensive alternatives. The lack of access to medium and long-term finance inhibits investment by a majority of small and marginal agricultural households in Mt Darwin. This inadequate fund of marginal farmers has negative impact on the agricultural productivity of the whole country.

MFIS on the other hand limit their lending to those with a high proven record of loan repayment as well, thus leaving out the poor smallholder farmers without any access to the much needed funds. As a result, marginal and small farmers are frequently termed as "missing middle" (Raman and Husain, 1995).

Alam (1988) made a study to measure the productivity growth of the Grameen Bank members. His study was confined within comparing the agricultural productivity alone. His findings suggest that the small and marginal farmers as a result of participating in the Grameen Bank programs can allocate a higher percentage of their land for the cultivation of high-yielding varieties (HYV) and have improved their agricultural productivity. His studies showed that the users of microfinance can bring 81.5% of their cultivable land under HYV Boro production compared to 76% of the non-users. Yield of the users of microfinance for HYV Boro was 47.6 maunad per hectare while it was 38.2 for the non-users. Cultivation of HYV requires costly inputs like irrigated water, relatively large doses of fertilizers and pesticides. Before joining the Grameen Bank, they could not afford to apply these expensive inputs to their farms for HYV cultivation due to their low income levels. However, joining the Grameen Bank credit programs itself has increased their income and since they work in groups, it is relatively easier for them to obtain HYV inputs at a low average cost. And accordingly, members of all programs in general, have achieved a higher agricultural productivity in terms of per acre yield

The majority of the Smallholder farmers acknowledge that MFIs are helpful to the Smallholder Farmers in the district and have played an important role in providing financial loans to farmers to start their own projects to boost productivity and income. This is an indication that farmers are accessing different financial products and services from the MFIs. The MFIs have managed to offer different services suitable for the rural financial markets by providing different products and services to the farmers. It can therefore be observed that the MFIs made a significant impact on Smallholder Farmers. Above all, the presence of the MFIs in their vicinity has an important impact on farmers since it was previously not the case in Mt Darwin. Thus, for the fact that they are now accessing financial services in the district which they could not afford as Smallholder farmers, this provided them with several opportunities to source funds for income generating activities which is a greatest achievement. So far the major impact brought by MFIs is the provision of loan as to finance different input schemes targeting specific value chains. To this end the farmers would apply for a loan from the bank and then linked to a supplier the farmers would get inputs equivalent to the level of loan. This enabled the farmers to get adequate agricultural inputs in time to support agricultural productivity. This led to farmers increasing their productivity for crops like Sesame, Mungbean and Soybeans. This arrangement brought in the buyers of produce who would buy the produce from the smallholder farmers. As a result, farmers realised more income from these sales and eventually could support their livelihoods by managing to pay school fees for their children, managing assets like cattle, goats and building new houses.

Farmers also appreciate and acknowledge the relaxation of collateral demands from MFIs as a positive move as it gives chances to less privileged SHFs to access financial services as long as they are in well-structured and functional groups. The MFIs made arrangements for use of group social collateral for the SHFs in order to allow greater participation. Farmers would co-guarantee each other and do self-monitoring of its members so this resulted in more groups being reached by MFIs in the district. The access to affordable loans therefore increased the food and income security of members accessing the loans. Farmers also have access to diverse food reserves as they can afford to buy whatever they want for the families so this brings more security to the family. Overall, it can be said that the MFIs have made some impact on SHF's livelihoods of farmers considering the changes brought in and the ever increasing demand for financial services from the farmers. There have been cases of them also approaching MFIs for financing during the coming season especially for commodities like cattle, goats and crops like groundnuts, maize, Sesame and mungbean which have confirmed markets.

The above proclamation is further supported by the fact the MFIs who also considered that there is lot of impact done to the smallholder farmers which include to access to finance which has been a preserve set aside for the rich and affording classes. The MFISs also alluded to the fact that the farmers managed to access inputs through input schemes which allowed to plant heir groups in tome and harvested and did d marketing. This once again raised both the income and food security for the farmers. The MFIs also indicated that there has been an increase in the use of plastic money in the transaction as a result of opening some accounts which also helped them access more funds and transacting were ever they on Agents. The interaction between farmers and MFIs brought some sustainability aspects through saving now to meet future needs through the savings accounts like I-Save from Steward Bank which has minimum charges. There is therefore some empowerment which is linked with entrepreneurship as the farmers diversify income generating activities to widen income base.

The farmers access to microfinance services to a greater extent helped acquire cheaper loans with interest ranging from as low as 10% to 30% per annum and this reduced the costs to be met for repayment hence improved returns. Clearly, the scheme made impact in assisting members to acquire implements that were necessary to increase rural agricultural productivity through, though fundamental, mechanization of operations. Farmers have managed to buy assets such as cattle, goats and scotch carts from proceeds of project investments from the loans received through agricultural productivity and this impacted positively on livelihood status. Above all, MFIs manged to reinforce the creation and bridging of social capital linking resources such as credit, information and extension services through contract farming and promoting new technology as farmers got loans to acquire such implements like groundnut shellers, Ridgers and pumps. This was done to boost productivity among SHFs.

As far as MFIs Loans products and delivery mechanisms are concerned it follows the Grameen model with some slight variations. Most of the MFIs have two types of loan products, namely loans for on-farm activities, which are usually paid in four to twelve months, and off-farm investments with more flexible repayments on weekly or monthly basis (IFAD, 2001). On average, 60% of the MFI portfolio represents loans for on-farm investments while income generating activities and petty trading accounted for about 40%. These are two types of savings offered by MFIs, namely compulsory, which acts as collateral and will be withheld by the MFI in case of default, and voluntary savings are the most common and the interest rate on savings is about 6% per annum (Dejene,1999). In Mt Darwin the MFIs are currently focusing on agricultural financing but farmers are actually advocating for financing of off-farm activities which can generate more income especially during off – farming period and thus need to be considered in future product development.

3.2 Challenges encountered

The study also found out that despite the positive impact of MFIS on Smallholder Farming, there are also challenges that were identified along the process. In an effort to provide financial support to the Smallholder farmers in the district, problems were also encountered during the process which was affecting the provision of financial services to the farmers. The challenges also included high costs of setting offices in the district and reaching out to the farmers became big challenge. The MFIs have not managed to cover the whole of the district to meet farmers and share their products and services so that farmers can access the financial services they want. Thus the challenges are mainly revolving around the behaviour and conduct of the key players here like the MFIs and the Smallholder Farmers. The farmers usually face a great challenge these of climate change effects which affects their activities to the extent of always remaining in poverty. The effect of drought has affected agricultural activities in the district for the past 5years. Crop failure has resulted in SHFs under producing to the extent of failing to service their loans. The predicament has been common in the district for contracted crops which are financed by MFIs in one way or the other. This has actually resulted in farmers defaulting in their payments as they failed to realise any meaningful gain to enable they to payback the loans and also use savings facilities. This predicament has actually resulted in MFIs running at loses in case of non-recover of the loans and in most farmers lost valuable assets in cases where physical collateral was used in the initial stages. Thus seasonal effects have posed a great threat to financing of agriculture production because of the nature of volatility of climate change effects and prices of commodity changes. Eventually the income levels of farmers is compromised and that left some farmers even bankrupt after going out of their way to sell some assets like livestock to repay the loans. It therefore means these farmers will be hesitant to get into future loan arrangements again and so are the MFIs who will in turn take a risk. The MFIs indicated that loan recovery for 2015/16 stands at 60% mainly due to drought. Farmers had low harvests and therefore could not manage even to payback the loans.

Furthermore, there are also challenges with turn over time from MFIs which is too long for example the time taken from application to loan disbarments. Such delays in distributing loans from MFIs has resulted in farmers getting the loans way late after commencement of the season and eventually lose out on meeting production targets. This has a bearing on the final yield that will be sold which determines the loan repayment rate. Furthermore the farmers usually face challenges of now accessing their monies from the phones due to the current cash crisis in Zimbabwe, where the use of mobile systems like Ecocash mainly to cash crisis in the country. The farmers ended up incurring high costs of transacting in small amounts like Ecocash cash out charges and even transport from their wards to business centres where they can find some banking agency that in most cases did not have the money. It eventually affected the start of projects and had a bearing on final loan repayment. There is however room for improvement with stabilisation of the cash crisis.

MFIs however also cited another big challenge of fragmented group structures of SHFs in that they claim that farmers are not in organised groups to make it easy to process the loans and as a result cannot guarantee success of the projects after getting the loans and thus a cautionary position in giving the loans. Sometimes the groups are just family related or no records and constitutions to show the organisational capacity of the farmers. It will be suicidal then to offer loans to such groups as chances of recovery of the loan is low. In addition to that, there is lack of proper credit referencing and coordination among MFIs to trace record of loan repayment by the farmers. So chances are high of farmers doing double dipping across MFIs and this increases the burden on loan repayment.

MFIs pointed out there are also challenges to do with inadequate monitoring on loans issues. This came as a result shortage of staff personnel to monitor loan performance which will lead to under performance from farmers. This is also due to geographical locations of the farmer groups and costs related to the process. There are greater chances of farmers failing to pay their loans if they produce without a guaranteed market which absorbs their produce and then make money to pay the loans and remain with profit. However there is also fear of politicization of financial services to mean donor money which is free money and this affects the repayment from the farmers which eventually affects business. Due to limited resources for out -reach and monitoring, the MFIs end up disadvantaging other deserving farmers who have limited access to finance. Some farmers also fail to interact and utilise the services of MFIs due to lack of adequate knowledge on the part of SHFs and it becomes as a hindering factor to utilise the products and participate in such processes. There vis a big challenge of double dipping of clients were farmers get loans from different MFIs but may fail to pay back because of the load it will bring on the farmers. There is therefore need for credit referencing in-order to deal with defaulters.

In most 3rd world countries where the majority of the people live in the rural areas and surviving on Smallholder farming for subsistence and now diversification into commercial marketing, their future mainly lies in their ability to transform the their lives in the rural areas. It is interesting to note that farming is the main source and strength of livelihoods of communal farmers and to a larger extent contributes to local economy growth despite the fact economic growth has to be the focal concern in any strategy for both rural and national development. The transformation of subsistence and semi-subsistence production systems in to market oriented and commercialized production is a precondition for welfare improvements of any significance. It is now that in such a transformation processes those financial services have to play an important role to allow enablers of growth to occur. The transformation of subsistence agriculture to production for the market is a central objective.

Furthermore there is going to be an improved productivity and output levels will be achieved through the introduction of new production technology which requires the capital injection which is provided by the MFIs through the provision of credit. This is a prerequisite to gain access to such technology particularly for the Smallholder farmers in Mt Darwin with little or no capital of their own. Currently there is promotion of labour saving technologies like groundnut shellers, water pumps, Ridgers and rippers which is meant to benefit the local Smallholder farmers through a smart subsidy arrangement with Food and Agriculture Organisation (FAO). Under these arrangements the farmers will make their own contribution while FAO also pay the subsidy. The farmers with no money will be linked to MFIs and apply for the loans to acquire the equipment. Therefore, microfinancing becomes a a major component of a package of activities for agricultural development in any economy and food security.

On the basis of the above mentioned argument, governments in Africa supported by donors have allocated substantial resources to agricultural credit and implemented large numbers of credit programmes over several decades (Choga.2013). In Zimbabwe the government worked through the Agribank in recent years in trying to vail credit lines to farmers so as to boost productivity and increase food and income security of the nation. In most cases these resources have been channelled through government financial institutions or institutions controlled by governments such as cooperatives. This was done to ensure that the general and deserving populace also access the resource for the benefit of local communities. Rural financial market facilitates the economic growth and rural poverty reduction through smooth financial provision among Smallholder farmers in the district and worldwide. Financial services help to mobilize funds form different lines of credit, then channel them from surplus units to the deficit units, creates money, and smoothen the payment system. Thus the role of MFIS will be to source these monies which can then be used to finance different farming activities and other non-farm activities. The efficient provision of loans, deposits, payments, and insurance service encourages rural entrepreneurship and help to rural economy to grow (World Bank, 2003). This therefore means that the Smallholder Framers now access the finance to buy the required farming inputs on time and this allows adequate utilisation of land and likely to lead into high productivity . Thus access to working capital can substantially accelerate the adaptation of modern agricultural technologies and production and thereby improving the ability of the rural sector to meet the subsistence need of the poor. This will also enable SHFs to produce the surplus in primary and intermediary products required for urban consumption, export, and avoid environmental degradation (World Bank, 2003).

The MFIs' provision of much needed access to capital and other financial products is one important part in the overall strategy to enhance the productivity of smallholders and improve their livelihood. Although the "loans cannot substitute for appropriate technology, input supplies, and access to remunerative markets" (Meyer 2011), borrowed funds can assist farmers with access to markets to invest in new farming technologies, high-quality inputs (e.g. quality seeds, fertilizers, agrochemicals) or mechanization and equipment (e.g.

Oxen, plough, sprayer). Adequate access to loans capital and other financial services can thus enable farmers to produce more for the market, improve their food security, and raise their agricultural returns (Klerk et al. 2011). This will result in the whole local community being food and income secure since there is going to be an improved production which could be necessary to feed family, the local community and the national at large. In addition, other financial services like insurance products and saving possibilities can reduce the risk of external shocks, smoothen cyclical cash flows of farmers and help them to manage their farm as a viable business. Thus SHFS will need to be equipped with Farming as a Business skills and Entrepreneurial skills that will enhance their effective utilisation of the finances received.

This has been channelled either directly to the farmers or via private sector financing or Agro dealers. This has been very effective in ensuring that farmers plant on time and improve yields at large. Furthermore, financing also supported post-harvest practices to reduce losses due to poor handling facilities during harvesting and storage. The funds would be used for procurement of materials for harvesting such as hematic bags and paying for labour so that minimum losses can be incurred if done on time. The money is also important for financing construction of postharvest handling facilities such as improved metal silos, warehouses and granaries which again reduces postharvest loses among Smallholder Farmers. In addition to this, the role of MFIS becomes more critical in smoothening household cash flow which enables them to manage and meet their daily essentials which are critical for survival. The farmers can also participate in markets through financing their transport costs to the markets and costs related to marketing processes such meetings, market research and promote better management of risks.

Access to finance also plays an important role in climate adaptation and increase the resilience of agriculture to climate change, thus contributing to longer term food security. This is made possible by financing different activities that can be done by farmers to build resilience to climate change for example research into climate resilient animal breeds and crop varieties. This also stretched to promotion of the adoption of these new practices by Smallholder farmers and the actual adoption process for example farmers in Mt Darwin now shifting attention to more drought tolerant crops like Sesame and Mungbean which can perform well under the changing environment. This also affects like breeds of animals where farmers now going for more drought tolerant and environmentally friendly breeds of goats such as the introduction of Matabele goats in Mt Darwin. All these processes require financing and currently some MFIS are providing such financial gaps. For example Quest Financial services if funding groups to access the breeds through a private sector company called 558 Meats. The finance provision therefore enables the farmers to access the resources which is aimed at improving the livelihoods of the general smallholder farmers.

3.3 Challenges

3.3.1 Collateral

Access to a comprehensive range of financial services is a significant challenge for smallholders, who constitute the vast bulk of farmers in developing countries. While microfinance institutions (MFIs) were successful in developing techniques to provide financial services to low-income clients without traditional collateral, rural areas and smallholder farmers in particular are still underserved by the microfinance industry (Morvant-Roux, 2009). MFIs are reluctant to move into rural areas due to the alleged high risks and costs associated with lending to agricultural clients. The major challenge that microfinance institutions have to contend with is that of appropriate collateral in the light of widening outreach which is one of their twin pillars along with financial intermediation. MFIs have to find ways and techniques of offsetting poor borrowers' lack of appropriate collateral to enable the operation of the market approach to rural financing. The most common innovation has been the use of the group lending technique where members apply peer pressure on each other to enforce the honouring of collective obligations (Gallardo, 2001). Under this arrangement the members will be monitoring each as a group and that will be used as security. The Grameen SHG groups are well known for providing social collateral, enabling undisrupted operation of the largest microfinance institution without resorting to other forms of physical collateral. This has been use even in Mt Darwin by several of these MFIs to reach out to the disadvantaged Smallholder farmers who usually work in groups through their ISALS and SACCOS and thus the group collateral becomes more useful than anything else.

In Mt Darwin farmers get loans through private sector players for the cultivation of crops like cowpeas, sugar beans, groundnuts and soybeans under climate smart agriculture like conservation agriculture and these were received through the groups and again repaid through the groups as well. This increased access of loans by farmers who previously failed to access such loans. Some of the loans supported livestock projects such as broiler chicken, piggery, traditional chicken and goats. All the crops supported, with the exception of maize, were short season varieties, meaning they could thrive under climate change. In addition, the crops could undergo value addition, deriving multiplier effects (Choga, 2013). Improved agriculture productivity and financial liquidity is crucial to enhance food security.

Finance is also required for commodity marketing, sometimes through inventory-backed financing, which offers rural producers, traders and processors the opportunity to improve household income through adopting better producer marketing and raw material procurement strategies (Coulter and Onumal, 2002). Access to payment system offered by financial institution allows rural producers and traders to participate in modern efficient commodity training system that offer better prices. MFIS play an important role in household strategies to reduce vulnerability. It assists the poor to smooth the consumption and to build up assets greater than the value of liability (Gonzales-Vega, 2003). This is particularly important for the rural poor, since agricultural incomes and health fluctuate widely and could destabilise consumption if the households have no savings or credit to fall back on (IFAD, 2003 and World Bank, 2004). Furthermore, rural households lack sufficient access to formal insurance, relying instead primarily on informal safety nets. Improved access to insurance could reduce the enterprise and household risks and make investment in rural economy more attractive contributing to growth and poverty reduction.

As far as MFIs Loans products and delivery mechanisms are concerned it follows the Grameen model with some slight variations. Most of the MFIs have two types of loan products, namely loans for on-farm activities, which are due in four to twelve months, and off-farm investments with more flexible repayments on weekly or monthly basis (IFAD, 2001). On average, 60% of the MFI portfolio represents loans for on-farm investments while income generating activities and petty trading accounted for about 40%. These are two types of savings offered by MFIs, namely compulsory, which acts as collateral and will be withheld by the MFI in case of default in payment, and voluntary savings are the most common and the interest rate on savings is about 6% per annum (Dejene, 1999).

It is however important that there could be some policy recommendations that can be considered to overcome some of the challenges faced in between MFIS and Smallholder Farmers in order to improve the situation of rural financial services generally in developing countries. It is very crucial to enforce some Financial Sector Reforms to eliminate financial markets distortions, and also making sure that there is a healthy existence of financial institutions in the rural areas to support the Smallholder Farmers. There is also need to improve the efficiency of rural financial systems with special focus and emphasis being on installing adequate and efficient information management systems for use by the local Smallholder farmers in the district. This will ensure that the farmers always get adequate and up-to-date information which can be used for planning and loans utilisation.

There is also need to have reforms on the Formal Financial Sector so that there is an increase in the formal banks participating in the provision of microfinance services to the farmers, there is need for more linkages between formal banks and smallholder farmers to increase transaction processes which are considered to be done along business lines for both sides. This will also aim to reduce their information and administrative costs of handling the funds and loans to the Smallholder Farmers and also facilitate loan supervision and monitoring for effective savings mobilization and repayment of loans. It is however important as well to recognise the role played by the Informal Financial Intermediaries in the community. Thus the role of informal finances cannot be overruled in supporting agricultural activities among Smallholder farmers.

It is important to support the set up and existence of cooperatives such as SACCOS and ISAL groups as they offer financial market competition as they have active and evolving members and can offer economies of scale in terms of mobilization of funds and savings. Therefore, assistance to such cooperatives should aim principally at strengthening the business character of these organizations by providing adequate training marketing, financial management, accounting and auditing. Provision of bank funding to cooperatives should only be increased gradually and be made dependent on proven profitable track records. The role of government needs to be strengthened and enhanced which is mainly focusing on financial policy formulation, coordination of different financial operations to allow equal access of financial products by all without discrimination. This involves setting up required legislation (business laws, bank regulation and supervision, loan collateral requirements, safeguarding of savings, warehouse acts) Therefore, the government should take the responsibility of shifting the operation of informal financial institutions to formal cooperatives so that they will stand the chance of equal status through registration with government like ISAL groups registering legally as SACCOS to allow them to lend and receive funds from outside the groups for financial support.

It can be noted the introduction of agricultural financing in an MFI requires careful planning, preparation, and the enactment of different systems and resources. It goes beyond introducing just another new product but it needs a high level of dedicated management systems that can plan out achievable targets and should be ready to make adjustments along the implementation process to suit the financial markets environment. There are, however, some factors which need to be considered in the provision of financial provision among Smallholder farmers. This includes issues like the need to know the target clients to be reached which is what they MFIs need to acknowledge the difference between the urban clients and Smallholder farmers in terms of their requirements, level of loans and utilisation process which will affect the repayment rate. This knowledge will assist in knowing when the loan facilities will be needed. It is also best for MFIs to have designed a more relaxed approach which is not rigid in terms of the variations of needs of Smallholder farmers who are not homorganic and thus should respond to different issues like loan period of utilisation, issues out and the conditions and terms attached to it to suit the smallholder farmers. It is also important to analyse the cash flow of each smallholder before disbursing the money. This is done to check and assess the ability of the farmers to utilise the loans and repay the loans and the risk that maybe associated with that.

Agricultural financing has a number of different risks and challenges which needs to be avoided and reduced to manageable levels in different ways such as thorough monitoring, fund growth diversification and closely following the cash flow analysis trends. The MFIS should also demand collateral security which is also suitable for the loan that the farmer takes to avoid prejudicing any part in the process. It is important the MFI consider the background and history of clients in terms of loan repayment, also the diversification of agricultural activities so as to offer various opportunities for repayment in case of one intervention failing to materialise. Above all, MFIS should engage the qualified and skilled personnel to administer the loans among farmers. These should be able to support the smallholder with adequate information to make decisions in terms of aiming to improve agricultural productivity. In addition to this, the staff will be responsible for collecting accurate data and interpretation of such data so to assess and appreciate the growth of portfolio funds among the farmers. In some cases, smallholder farmers appreciate an effort made by MFI to show that they are in a relationship by putting imaginatotry information which helps to cement working trusts between both ends.

This is coupled by strong customer service done by the provision of quick loan processing, issuing out to the target beneficiaries and addressing the needs of the clients. This is done by designing the financial products that match the requirements of the smallholder farmers. There are also other alternative opportunities that can be explored as well such as financing some value chains that can be done to capture other farmers who do not benefit from direct financing. This will result in many farmers being reached for example financing the tobacco value chain will benefit quite a number of farmers in the process. This can be done through mobile banking and mobile money transactions by using phones which have a wider coverage and are accessible to most farmers. The MFIS can also consider long-term financing which will allow the Smallholder farmers to acquire large assets for investment such as tractors and ploughs for use to improve productivity. This can be done by providing maximum loan size that can be accessed by each category of farmers. It is important to give a loan which is within the ability levels of each farmer to avoid the risks deferment or the absconding of the payments.

The MFIs also face challenges such as risks associated with climate change and whether changes such as droughts, floods and hailstorms which destroy the farmers' crops and animals which are supposed to bring the much needed income to farmers and in turn payback their loans. There is also political interference among Smallholder farmers such that farmers may be influenced not to pay back the loans which then paralyse the operations of the MFIS. There are challenges associated with the relatively higher transaction costs of provision and smallholders' limited ability to mitigate risks.

The challenges become greater when trying to provide financing to semi-commercial smallholder farmers in loose value chains, particularly for low-value staple crops, where farmers do not have strong relationships with other value chain actors, and selling is more opportunistic rather than based building and maintaining relationships for future deals. This greatly reduces opportunities for risk sharing and use of alternative collateral, and increases exposure to market risks. The challenges are compounded when trying to provide finance to subsistence farmers who do not have much in terms of marketable crop surpluses, but who may have interest and capacity.

Chapter 4: MFIs and Smallholder Farmers in Mt Darwin: a look into the Future

In an effort to ensure sustainability of MFIs operations and Smallholder farmers in Mt Darwin, it is very important to consider the way forward in terms of strategies that can help strengthen the existence of financial services in the district to benefit the Smallholder Farmers. Therefore, different steps and strategies can be considered in future as described below.

4.1 Farmer Group Configuration

A group is a basic functional unit of farmers which is formed by self-motivated farmers who come together for the purposes of doing business together. These group members have usually something in common in terms of the value chain farming activities they pursue. Geographically the group members are located within a locality which is within reach for coordination purposes. The groups are supposed to have a democratically elected leadership structure which is responsible for the coordination of group activities and providing linkages with external institutions. Therefore, there are other parameters that need to be in place in order for a group to be fully functional and position itself for attracting external funding. These include having an established and known membership who comes together for the purposes of doing business like learning, aggregating, bulking and sourcing for financial funding as well as promoting a saving culture among the group. The members can as well make membership contribution as a way to raise money to support group activities and projects.

The group also needs to have a functional constitution which is set to guide the operations of the group. A constitution contains rules and regulations set by the group to ensure that the conduct of members conforms to the expectations of the group. It should therefore clearly address issues of discipline among members, monitoring, share out plans for any proceeds of the group, governance issues and accountability issues. This is very critical in that it is a basic document of the group which shows its potential in terms of being organised to participate in and access financial services form the MFIs. The constitution should clearly specify the objective of the group so that assessment for loans becomes quite easier and more informative from the MFI's point of view. This is supported by keeping well documented records about the group activities for some period. For the groups to receive money from MFIs, they should be able to produce records which financial flows of the group like projects done, sources of funds, repayment of loans history. This is the basis by which the MFI will decide to offer the loans during the appraisal process as it shows the strengths and weaknesses of the group which the enables the MFI to decide on the size of the loan. So it is of paramount importance that the groups build up the capacity to keep and produce accurate records if they are to get any funding from MFIs.

The MFIs actually see group configurations as very important as that provides the basis for any engagement that can be made especially now that there is movement towards using group collateral instead of the physical security. The group structure needs to fit into the expectations of MFI system for easy management and coordination. Furthermore, the MFIs indicated that they usually notice that groups might be too large beyond their expectations so there is need for awareness in terms of educating farmers on the requirements of the MFIs in terms of group structure. For example, some MFIS recommend group sizes of 5-15 members as being the average while others may stretch beyond 30 members. This depends with type and scale of the project they are implementing, and in MT Darwin nutrition gardens, irrigation schemes and ISALs usually have more members than other commodity groups. The most important thing is that groups need to have a sound policy on an operation system which allows them build a strong group that can be used to them in terms of attracting foreign support. The MFI carries an assessment after considering risks associated with certain numbers in a group especially group performance on loan repayment. The larger the group size the more difficult it becomes to manage. There are greater chances of under achievers benefitting but eventually failing to pay back the loans. The MFI understands the dynamics around group formation and the fact that some groups have operated consistently for some years and thus the entry of an MFI should not dismantle the coherence of the group. The recommendation is that groups will only be sub-divided for the purposes of accessing loans so that they do not exceed the set micro-finance limit but will still continue to operate as before. In some cases, groups are made up of married couples, at times a husband and several wives and other relatives. Such a group may not access funding from the bank as its risk status becomes high and thus the issue will need to be sorted out at group level. This then calls for an intensive capacity building programme that helps to prepare the farmers to interact and engage with the farmers on financial issues so that they can maximise their benefits from the relationship.

There are also ISAL groups which are of interests to MFIS in terms of fostering financial support for upscaling their lending activities and doing other non-farm activities. The ISAL groups raise a lot of money through internal lending from the contributions of the members in a fixed agreed period. The money is lent out to members within the group at an agreed interest rate which is usually higher than that offered by MFIs. The group members do a variety of income generating activities which are farm related and non-farm related activities such as buying and selling second hand clothes. This is done to raise money to repay the loan, pay periodic contributions and also remain profitable for survival. This culture of lending is what raises the chances of the ISAL groups of being able to receive loans from MFIs because they are already integrated in it. The ISALs can also use their savings as a guarantee fund with the bank in case they fail to pay back the loans. So it is also best that Smallholders Farmers diversify their activities into ISALs in order to finance agricultural activities well. From the indications of the district ISAL groups have a total fund portfolio of more than $33000 of which 60% of it is being directed agricultural use. So it is also a best way forward that most commodity groups graduate into ISALs so that they increase their chances of accessing financial services from MFIs. These groups can increase their chances of getting loans by making savings with the MFI through regular savings in zero cost accounts.

4.2 Value Chain Financing

The future of MFIs and Smallholder Farming is also in value chain financing which is a great component any agricultural system. This is already happening at very low rates as noted by the small numbers of Smallholder farmers accessing financial services in the district. This is attributed mainly to the fact that the commercial MFIs are being risk averse in order to exercise caution in their approach to finance the most disadvantaged SHFs in the district and beyond. It is therefore important that MFIs focus on financing specific value chains to maximise the reach to the SHFs. Value Chain Financing refers to financial products and services that flow to or through any point in a value chain that enable investments that increase actors' returns and the growth and competitiveness of the chain (Miller and Joni, 2010). In the Netherlands and Mexico, the Financial Institutions agreed that agricultural financing is profitable as long as the farmers who are the producers are well considered in the value chains (Shwedel, 2007). A critical model needs to be taken seriously so that financial products benefit all the important actors along the value chain. Under this model, the MFIs will finance the inputs that suppliers produce and supply to the farmers. The latter, as the producers, also receive a finance package for the inputs and other cash demanding expenses like labour costs and eventually the transporters who are going to ferry the inputs and produce from the farmers to the market. Eventually, the output market deserves financing to be able to buy the farmers' produce. In this way, it may mean that the finance has trickled down to the farmer through the different actors providing services to them. This will ensure that there is a complete set of players who manage the process; therefore, it becomes easy for the MFIs to recover their money because the business is there and the farmers will also negotiate for favourable prices through such arrangements.

It is observed that through Value Chain Financing, all levels of production are supported with finance and investment which results in an integrated and coherent system for the betterment of the vulnerable communities in the district. This will be in line with the fast changing agricultural and economic statuses of countries at large. In order for Smallholder Farmers to meet the demands of producing enough food to stratify the market, they need adequate capital investment to acquire all the necessary inputs on time and to also find a market for the produce. Thus, all this requires financing from MFIs and active participation of all actors along the value chain to maximise benefits. Such investment is not only costly for individual value chain businesses, but can only be undertaken if there is an assurance from elsewhere in the chain for supplies, produce or markets. This therefore calls for strengthening of the interconnectedness, creating the need to strengthen the links and guarantees amongst value chain players, often through contracts of working together. The Green revolution has transformed agricultural systems in the globalized markets which will not create emerging problems but will introduce new opportunities for adopting integration to increase competitive access to finance. It is understood that agricultural financing is important in meeting these challenges and it is expected that MFIS and policy makers can also learn from and engage more with value chain actors in order to develop new products and to reach new markets. The MFIs need to be prepared to deal with the increase in demand for finance and support the rapid growth of production and productivity triggered by the opportunities of globalization. It is also important for MFIs to encompass all kind of farmers in their outreach with products to ensure that the farmers have access to the finance being offered for the maximum benefits.

This model needs to be adopted and used for most of the financing activities in future as it strengthens relationships along the chain and helps to build trust among players which is healthy for businesses and their development. Under this arrangement, the MFI is comfortable in financing production because they are assured of recovering their loans at point of marketing. Simultaneously, farmers will be highly motivated to produce as there is a guaranteed input supplier and market for their produce. This eventually develops into a cycle which forms a good business environment.

4.3 Promoting Agricultural Insurance for Smallholder Farming

The provision of microfinance services will not be complete if plans are not put in place to address issues of insurance which has, on some occasions, caused a lot of confusion between financial actors and Smallholder farmers. The products that are currently being offered by MFIs in Mt Darwin do not cover insurance for farmers. The only insurance that complements the products is to protect the MFI only in eventualities that may happen to the beneficiary which is the smallholder farmer in this case. Notably, MFIs charge insurance of approximately 3% of the loan applied by the farmers which is a once-off payment deducted during loan release, or an arrangement made for the farmer to pay later during the loan repayment period. It was observed that this was to cushion the MFI in case of a farmer failing to repay the loans due to death, critical illness or other conditions deemed suitable by the MFI. This has exposed the farmers to the ravages of many unforeseen risks of failing to pay the loans due to natural conditions like drought, hailstorms, animal diseases and theft of produce. This, on its own, results in the farmers failing to pay back loans and they are eventually forced to source the money to pay back the loans. It is therefore recommended that the MFI facilitate the capacity building of farmers to appreciate the need for having insurance for their projects. This can be done by having a Combo-type of product which includes insurance for the farmer as well during the loan application. Accordingly, The MFI will request the service provider to undertake the insurance of farmers. For example, the MFI can engage Zimnat Insurance Company to provide the weather Index based insurance which could be around 7% which is necessary for protecting the farmers as well. Provision of microfinance can also be fused with others social packages like funeral assurance so that the same farmer who is productive becomes assured additionally.

4.4 Policy Review on Interest rates and other hidden Costs.

The interest rates charged by MFIs in the country are notably high and this discourages financial service uptake by most smallholder farmers in the district. The interest rates range 10-35% per year and this is considered to be very expensive as compared to others countries regionally and internationally as well. Farmers have actually called for a policy review on these charges which also include costs such as establishment fees, insurance fees and commitment fees. These fees will increase the costs of the loan which will, in turn, increase the burden on the farmers thus encouraging the chances of failure to repay the loans. Therefore, there is need for farmers to organise themselves and call on the Government through the Reserve Bank of Zimbabwe to formulate a position on reducing these costs which are currently suppressing the farmers. Some of these high costs prohibit and discourage savings for Smallholder farmers. The farmers are citing examples where if one opens an account with an MFI, service charges for the account are high. Furthermore, upon accumulation, these charges become a higher cost which affects the farmers who get their money seasonally like during the marketing of produce after harvesting. This means most farmers would prefer investing the money into physical assets that they can dispose of in times of crisis. The government is therefore expected to play an important role in addressing this issue in order to encourage the culture of saving. Mobile money transactions are also proving to be expensive especially with Eco-Cash which increases the amount deducted as the amount of money to be withdrawn becomes higher as well.

4.5 Loan size versus loan use

The MFIs in the district highlighted that in most cases, underperformance of farmers in terms loan repayment is due to the fact that smallholder farmers divert the use of loans from the intended and planned project for another one. In this case, the farmers use the loans obtained to finance other activities which however does not increase the productivity and maximisation of profits so as to get enough funds to repay the loans. This usually emanates from the initial processes like loan application where farmers cannot produce a budget that describes how they intend to use the money or over or under budgeting in some cases. It is therefore important for MFIs to emphasize to the farmers to show the link between the loan size and its use. The MFIs actually require that the farmers be able justify the loans they require and farmers must marry this with their production plan and come up with a justifiable figure. Admittedly, some farmers simply make assumptions on requirements yet all the information they need to conclude on their financial requirements is readily available. It is then critical for the farmers to make efforts to make production based figures which justifies their loan requirements (known as cash flow based borrowing). MFIs end up rejecting applications which lack these justifications, resulting in farmers losing and accusing the MFIs of not processing their loan applications. It is also best for MFIs to have financial packages that are tailor made to suit specific class of farmers such as mature groups with active projects, which should receive slightly higher packages than those at the forming stages. This will encourage the maximum use of the funds. Consequently, this will avoid packages which involve bundling up farmers who have have different abilities. Thus, financial services should also be performance based. The relationship between the farmer and the financial institution will be a long term one hence the need for farmers to develop their own capacity in fostering market-driven production. There must be immediate engagement of the FI once the farmers would have organised themselves as expected. Delays in engagement mean delays in production.

4.6 Technical assistance and training

In addition to all the above recommendations, there is need for strong capacity building initiatives through financial literacy so that farmers appreciate the relationship with MFIs and also understand fully the products being provided by the MFIs and issues of savings. This will take into consideration the contribution of SACCOs and ISALs as models for fund growth through savings and lending. Through financial literacy training, farmers must be able to communicate with the financial institution through their cash flow projections to justify the loan size in relation to loan use. Farmers must speak to their production plan and come up with a justifiable figure. Training plays an important role in that farmers will develop knowledge and skills to interrogate financial institutions in order to understand fully the services being offered and make independent decisions in selecting the most suitable service or product. Trainings will help to build confidence among farmers in terms of appreciating the opportunities that could be there is maximum use for the services, thus the need for continuous engagement with MFI. This will need to be done well before the farmers start making applications so that there is objectivity in the process which creates a conducive environment for all the actors in the system.

4.7 Role of SACCOS and ISALS

The MFIs can also come up with models that consider the role of SACCO and ISALs in terms of contribution towards fund growth and supporting livelihoods at micro-level. It is evident that the ISALS help members of the groups to mobilise funds through contributions on agreed periodic times. The money is lent out to members within the group at an agreed interest rate. Through this, the members perform different income generating activities to raise more money to pay back the loan, remaining with profit which is used for other means of supporting their livelihood. The groups will then increase their chances of getting financial assistance from MFIs since they are already making savings and are in the lending culture which sets a base for accessing financial services. The ISAL group have better chances of increasing loan utilisation through doing some income generating activities like broiler production which can bring in more income to the group and manage to pay back the loans. The ISAL groups can graduate into SACCOs so that they become registered under the Cooperative to carry out savings of money from external sources like non-members as well as providing loans to non-members as well. This is very critical in fund building and allows many more farmers to benefit from the financial services provided. It is thus important to promote such financial service providers to be available within the district to bridge the gap that other commercial MFIs cannot fill in.

4.8 Warehouse Receipting System

This is a system where farmers deposit their produce during marketing into a centralised warehouse for safe keeping while the marketing is being sought with competitive prices. The farmers get a receipt showing the value of the produce brought into the warehouse. Usually, the SACCO might then outsource some loans to give advance payments to the farmers before their produce is sold. When the produce has been sold then the farmers can receive the monetary top up equivalent from the warehouse. What is then critical is that the grain stored in a warehouse is then used as used as collateral when borrowing loans from MFIs. This gives the farmers double benefits of getting loans to invest into different projects and the inflow of money from sales of the produce. This is one area that the Smallholder Farmers can work together with the MFIS to obtain loans through the warehouse receipting system. Additionally, it is a new technology that is fast developing in the country and is also a thrust for the government.

4.9 Loan Repayment Period

The MFIs and Smallholder farmers need to agree on a repayment period so that it takes into consideration the unwarrantable nature of agricultural production and by not imposing a penalty or being excluded from the program due to crop failure. At times it will be important to consider the payments plans to suit the production cycle of agricultural activities. This is done to allow even those who might be severely affected to find time to repay their loans before stern measures are taken. This will need to be negotiated and agreed between the MFIS and the farmers.

4.10 Collateral Demand

Microfinance institutions do reach some of these low-income households but at a high cost, with short-term loan products that are generally not able to address the full range of agricultural needs. Even more important than the operational costs for transacting a loan or securing investments is the systemic or correlated risk in agriculture. This risk stems from both price volatility as well as from changeable weather patterns that can affect whole regions at a time, making repayment uncertain. In conventional lending, collateral is used to mitigate risks to the lender but the typical mortgage type of collateral commonly required by the banks is often not available or feasible in rural areas. This is largely due to land tenure restrictions and/or other requirements that are often designed to protect the livelihood assets of the community, but in doing so effectively limit their use as collateral. Hence, collateral is a major constraint to access to finance in agriculture not only from MFIs, but also from credit unions and other financing institutions. Central Bank policies can often exacerbate this constraint by requiring high reserves or imposing other restrictions which in effect penalize uncollateralized lending. The MFIs started requiring Group collateral as social security for farmers working in group. This requirement ensures that most of the disadvantaged farmers afford the chance of getting access to financial services especially the much demanded loans. Thus, there is need for a policy shift on this so that the MFIs can maximise the chance of reaching out to many farmers in the district while the previously disadvantaged farmers also get access to the services.

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APPENDICES: Data Collection Tools

Appendix 1. Questionnaire to the Smallholder

Questionnaire to the Smallholder Farmers who are beneficiaries of Microfinance Services in Mt Darwin

Dear Respondent

Good day to you. My name is Jephrey Tambara, a student at Midlands State University. I am studying towards a Master of Arts Degree in Development Studies and in partial fulfilment of the Master's Degree Programme, I am required to conduct an academic research. Therefore, I am conducting a research study on Microfinance Institutions and Smallholder Farming in Mt Darwin District. Please feel free to respond to this questionnaire. All information obtained will be used purely for academic purposes and will be treated with utmost confidentiality.

Please fill in the space provided and tick where appropriate. You are free to use additional paper.

I thank you for your time.

Section A: Profile of respondents

Tick were appropriate

1. Sex Male [ ] Female [ ]
2. Marital status Married [ ] Single [ ] Divorced [ ] Widowed [ ] Never married [ ]
3. Age < 25 years [ ] 25-35 years [ ] 35-45 years [ ] 45-55 years [ ] >55 years [ ]
4. Highest level of Education Primary [ ] Secondary [ ] Tertiary [ ] None at all [ ]

Section B: Description of the various Micro-Finance Institutions operating in the district and services offered for Smallholder farming.

5. Identify the Micro Finance Institutions supporting Smallholder farmers you are aware of in the district/ward…………………………………………………………………………

6. What are the financial services offered by the Micro Finance Institutions stated above?

   Loans [ ] Savings [ ] Agency Banking [ ] Insurance [ ] Not sure [ ] others specify…………………………………………………………………………………………
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7. Have you ever received any financial service support from MFIs?

   Yes [ ] No [ ]

8, If Yes specify which MFI? Steward Bank [ ] CBZ [ ] Microplan [ ] Quest Financial Services [ ]

SACCOS [ ] others specify……………………………………………………………………..

9. The maximum amount of loan you got from the MFIS in the past 10 years was

   Above $2000 [ ] $1500- 2000 [ ] $1000- 1500 [ ] $500- 1000 [ ] Below $500 [ ]

10. Indicate the types of costs associated with the loans you are aware of

    Establishment fee [ ] Insurance [ ] Interest rate [ ] Not sure [ ] others specify………………..

11. What form of Collateral security is required by the MFIS to get a loan?

    Physical Assets [ ] Group social security [ ]

12. Did you receive any training from MFIS on financial issues Yes [ ] No [ ] others specify………..

    If Yes specify the trainings received ‘…………………………………………………………………………………………..

    …….

13. How are you using the loans given to you?

    Broiler production [ ] Crop production [ ] Petty Trading [ ] domestic consumption [ ] others specify…………………………………………………………..

Evaluate the impact of MFIs on Smallholder Farming

14. How far do you agree or disagree that MFIS are helpful to Smallholder farmers?

    Strongly Agree [ ] Agree [ ] Not sure [ ] Disagree [ ] Strongly disagree [ ]

15. What are the benefits derived from working with MFIS as smallholder farmers?

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Identify major challenges faced between MFIs and smallholder farming in Mt Darwin

16. What are the major challenges you are facing regarding the interaction with the MFIS?

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Determine and make possible recommendations on financing options that can be used by MFIS and Smallholder farming

17. What do you feel needs to be improved by the MFIs in future in terms of their products and doing business?

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18. What needs to be maintained?...

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Thank You

Appendix 2: Questionnaire to the Microfinance Institutions

Questionnaire to the Micro Finance Institutions who are working with Smallholder Farmers who are beneficiaries of Microfinance Services in Mt Darwin

Dear Respondent

Good day to you. My name is Jephrey Tambara, a student at Midlands State University. I am studying toward a Master of Arts Degree in Development Studies and in partial fulfilment of the Master's Degree Programme, I am required to conduct an academic research. Therefore, I am conducting the research study on Microfinance Institutions and Smallholder Farming in Mt Darwin District. Please feel free to respond to this questionnaire. All information obtained will be used purely for academic purposes and will be treated with utmost confidentiality.

Please fill in the space provided and tick where appropriate. You are free to use additional paper.
I thank you for your time.

Section A: Profile of respondents

Tick were appropriate

8. How long have you been in Mt Darwin 0-1year [ ] 1-2 years [ ] 2-4 years [ ] above 4 years [ ]
9. Highest level of Education Qualification Certificate [ ] Diploma [ ] Degree [ ] Masters degree[ ]
10. What is your experience of working with Smallholder Farmers on Microfinance services? 0-1year [ ] 1-2 years [ ] 2-4 years [ ] above 4 years [ ]

Section B: Description of the various Micro-Finance Institutions operating in the district and services offered for Smallholder farming.

11. Identify the Micro Finance Institutions supporting Smallholder farmers you are aware of in the district/ward………………………………………………………………………
12. What are the financial services offered by your Micro Finance Institutions above to the smallholder farmers in Mt Darwin?

    Loans [ ] Savings [ ] Agency Banking [ ] Insurance [ ] others specify……………………………………………………………………………………

13. Can you rank the services according to popularity and demand among Smallholder Farmers in Mt Darwin.

    1. Demand is very high 2.Demand is fair 3. Demand is low 4. Demand is very low 5. Not at all

Loans [ ] Savings [ ] Agency Banking [ ] Insurance [ ]

14. Indicate the number of farmers reached per each product in the past two years in the district according to the scale below:

    1. 0-200 2. 200-400 3. 400 -600 4. Above 600

    Loans [ ] Savings [ ] Agency Banking [ ] Insurance [ ]

15. When did your MFI start operating in Mt Darwin and providing services?

    2016 [ ] 2015 [ ] 2014 [ ] 2013 [ ] before 2012 [ ]

19. The maximum amount of loan your MFI in the past 10 years was

    Above $2000 [ ] $1500- 2000 [ ] $1000- 1500 [ ] $500- 1000 [ ] Below $500 [ ]

20. Indicate the types of costs associated with the loans you are providing

    Establishment fee [ ] Insurance [ ] Interest rate [ ] Not sure [ ] others specify………………..

21. What is the percentage charged per each product stated above per annum?

0-5% [ ] 5-10% [ ] 10-15% [ ] 15-20% [ ] Above 20% [ ]

22. What form of Collateral security is required by the MFI to get a loan?

    Physical Assets [ ] Group social security [ ] Both [ ] None [ ]

23. How do you rate the financial needs of Smallholder farmers in Mt Darwin?

    Very High [ ] High [ ] Low [ ] Very Low [ ] Not all [ ]

24. How are the farmers utilising the loans given?

    Broiler production [ ] Crop production [ ] Petty Trading [ ] domestic consumption [ ] others specify……………………………………………………..

25. Are the farmers managing to repay their loans? Yes [ ] No [ ]

    If yes, what is the repayment rate of the loans

    0-20 % [ ] 20-40 % [ ] 40-60% [ ] 60-80% [ ] Above 80% [ ]

Evaluate the impact of MFIs on Smallholder Farming

26. How far do you agree or disagree that MFIS are helpful to Smallholder farmers?

    Strongly Agree [ ] Agree [ ] Not sure [ ] Disagree [ ] Strongly disagree [ ]

27. What is the impact/changes realised as a result of MFIS services intervention on Smallholder farmers?

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Identify major challenges faced between MFIs and smallholder farming in Mt Darwin

28. What are the major challenges you are facing regarding the interaction with the Smallholder Farmers?

    ………

Determine and make possible recommendations on financing options that can be used by MFIS and Smallholder farming

29. What do you feel needs to be improved by the MFIs in future in terms of their products and doing business with Smallholder farmers?

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30. What needs to be maintained?...

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Thank You

Appendix 3: Key Informant Interview

Key Informant Interview guide on the Microfinance Institutions and Smallholder Farming in Mt Darwin

Dear Respondent

Good day to you. My name is Jephrey Tambara, a student at Midlands State University. I am studying toward a Master of Arts Degree in Development Studies and in partial fulfilment of the Master's Degree Programme, I am required to conduct an academic research. I am conducting the research study on Microfinance Institutions and Smallholder Farming in Mt Darwin District. Please feel free to respond to this questionnaire. All information obtained will be used purely for academic purposes and will be treated with utmost confidentiality.

Please fill in the space provided and tick where appropriate. You are free to use additional paper.

I thank you for your time.

Section A: Profile of respondents

Tick were appropriate

16. Sex Male [ ] Female [ ]
17. Age < 25 years [ ] 25-35 years [ ] 35-45 years [ ] 45-55 years [ ] >55 years [ ]
18. Highest level of Education Primary [ ] Secondary [ ] Tertiary [ ] None at all [ ]
19. Your position AEW [ ] WDC [ ] Councillor [ ] Farmer Leaders [ ] NGO Staff [ ]

Section B: Description of the various Micro-Finance Institutions operating in the district and services offered for Smallholder farming.

20. Identify the Micro Finance Institutions supporting Smallholder farmers you are aware of in the district/ward……………………………………………………………………

21. Are you aware of the financial services offered by the MFIs identified?

    Yes [ ] No [ ]

22. If yes, what are the financial services offered by the Micro Finance Institutions stated above?

    Loans [ ] Savings [ ] Agency Banking [ ] Insurance [ ] Not sure [ ] others specify…………………………………………………………………………………

23. Have some farmers received any financial service support from MFIs in the area?

    Yes [ ] No [ ]

24. If Yes specify which MFI offered the services? Steward Bank [ ] CBZ [ ] Microplan [ ] Quest Financial Services [ ]

SACCOS [ ] others specify…………………………………………

31. How much were the farmers getting?

Above $2000 [ ] $1500- 2000 [ ] $1000- 1500 [ ] $500- 1000 [ ] Below $500 [ ]

32. What form of Collateral security was required by the MFIS to get a loan?

Physical Assets [ ] Group social security [ ] [ ] Both [ ] Not Sure [ ]

33. How many farmers were reached per each product in the past two years in the district/ward according to the scale below:

1. 0-200 2. 200-400 3. 400 -600 4. Above 600

Loans [ ] Savings [ ] Agency Banking [ ] Insurance [ ] Not sure

34. How are the farmers using the loans given to them?

Broiler production [ ] Crop production [ ] Petty Trading [ ] domestic consumption [ ] others specify……………………………………………………..

35. Are the farmers managing to repay their loans on time? …………………………………

……………………………………………………………………………………..

36. What happens to defaulters?...

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Evaluate the impact of MFIs on Smallholder Farming

37. How far do you agree or disagree that MFIS are helpful to Smallholder farmers?

Strongly Agree [ ] Agree [ ] Not sure [ ] Disagree [ ] Strongly disagree [ ]

38. What are the benefits derived from by Smallholder Farmers by working with MFIS?

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Identify major challenges faced between MFIs and smallholder farming in Mt Darwin

39. What are the major challenges you have observed occurring as a result of SHFs and MFIs?

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Determine and make possible recommendations on financing options that can be used by MFIS and Smallholder farming

40. What do you feel needs to be improved by:

(a) the MFIs in future in terms of their products and doing business?

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(b). Smallholder Farmers……………………………………………………………………….

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41. What do you suggest needs to be maintained?...

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Thank You