Savings Mobilisation to Micro-Finance: A Historical Perspective on the Zimbabwe Savings Development Movement

Brian Raftopoulos
Associate Professor
Institute of Development Studies
University of Zimbabwe

Jean-Paul Lacoste
Ph. D Candidate
Institute of Development Studies
University of Geneva

Paper presented at the International Conference on
"Livelihood, Savings and Debts in a Changing World:
Developing Sociological and Anthropological Perspectives"

14th - 16th May 2001
Wageningen, The Netherlands

TABLE OF CONTENTS

From Savings Mobilisation to Microfinance: A Historical Perspective on Zimbabwe Savings Development Movement*

Introduction

Recently, there is an increasing emphasis on micro credit in international debates and policy on development issues of African countries, and there seems to be a gradual shift in policy focus from petty capital accumulation or savings to micro-credit. The objective of the recent Africa Region Microcredit Summit (ARMS), held in Harare in October 2000, was "to be a working meeting for leading institutions in Africa Region to ensure that millions of Africa's poorest families, especially the women of these families, are receiving credit for self-employment and other financial and business services by the year 2005"[1]. Clearly, savings is not on the agenda. The argument put forward by many supporters of micro-finance approaches is that a lack of access to credit is still the main constraint limiting small farmer development and that while micro-savings is an important component of their methodology, it does not play as important a role in development as does the provision of micro-credit.

The Savings Development Movement (SDM) in Zimbabwe was initiated in the 1960s by a Catholic Missionary, Brother Waddelove. Until recently, the SDM represented an interesting counter argument to this. It focused on encouraging the mobilization of the micro-savings of its small group members, most of whom were rural women and actually discouraged the use of micro-credit. The first SDM savings club was established in 1963, and an NGO to support the organization of more such clubs was formed called the "Savings Development Movement" (SDM). Since its founding, the movement has gradually expanded and by 1998, the total number of SDM savings clubs in Zimbabwe had almost reached 7,000 representing about 100,000 members in the whole country[2].

Initially, savings clubs did not depend on any external financial assistance. Their activities were totally based on the financial savings generated by club members and through technical assistance provided by a separately organized training support organization called the Self-Help Development Foundation (SHDF, formerly SDM). But in 1996, the SHDF introduced a micro-credit scheme to its members, hopeful that this scheme would further spur growth of the movement. However, this change of focus has been criticized by some, including the founder of the organization, as a dangerous move which will benefit neither the institution nor the savings club members. According to them, credit creates three types of problems. Firstly, poor people do not have the technical capacities to cope with credit, as it is too sophisticated, and corruption comes with sophistication. Secondly, credit attracts rich urban people, which is not the main target of SHDF. Finally, most people do not feel responsible about donors money, which is frequently misused and not infrequently stolen[3].

---

* ***This paper was prepared for the F.A.O The Authors wish to acknowledge the cooperation of the staff of S.H.D.F. who provided information for this paper, as well as members of the donor community in Zimbabwe who spoke to us about their relationship with the S.H.D.F. However, the views expressed in this paper do not necessarily reflect those of the organisations consulted***

[1] Africa Region Microcredit Summit, *Microfinance in Africa, A Sustainable Approach to Poverty Reduction,* Harare, October 8-12, 2000.

[2] See annexes 1 and 2 for overviews of savings club membership, organization and methodology.

[3] Personal communication with Brother Waddelove, 25 April 1997.

Objective of the study

The objective of the study is twofold. First, it aims to understand the historical development of the savings movement in Zimbabwe, and to highlight the different factors, at national and institutional level, which have prompted the SHDF to implement its own microcredit scheme, after decades of mobilization of savings. Secondly, it will assess the impact of this introduction on the vision, organisation and performance of the institution, as well as on the savings club members. It will test eight of the most common critics made on micro-credit programmes, and on SHDF credit scheme in particular: (1) that credit has no impact on savings, (2) that loans are diverted from their original productive purpose, (3) that they only substitutes internal lending, but do not increase access to capital; (4) that the programme does not benefit the poorest of the poor, and (5) increases differentiation; (6) that it triggers conflicts within households and (7) it creates tension between savers and borrowers within the clubs; finally (8), that it has transformed savings clubs into credit clubs.

Methodology

Information for the first part of the paper was collected from the SHDF documentation, interviews with the organisation's staff and board, and limited archival sources. Interviews were also held with donors, government officials and individuals involved with micro-credit more generally.

The methodology used for the second part requires some explanations. Impact assessment has been a very controversial issue in the field of microfinance[4], triggering hot debates in the main microfinance discussion group (devfinance)[5]. Dale Adams' position is representative of those who think that "if large numbers of people take out and repay loans and also place hefty amounts in deposit accounts, isn't that sufficient proof that the programs are useful?" (D. Adams, April 5, 1999). For him, debt-impact studies face two major limitations, namely that "most of them have grievous methodological flaws and those that approach being honest are terribly costly." (id.) Among the most limiting methodological flaws, he cites the displacement issue[6] and the difficulty in comparing costs and benefits. This argument is extremely relevant. Concerning the displacement issue, in the case of SHDF, it is indeed very difficult to assess the impact of the savings mobilisation programme. It is easy to congratulate oneself about the overall amount that is saved through the savings stamps system, but no one knows what would have happened with that money in the absence of that system. Would people have spent it, placed it somewhere else or invested it in a profitable activity? Concerning the cost issue, were the millions of Z$ saved and borrowed through SHDF worth the millions of Z$ spent on the two programmes?

On the other side, supporters of impact assessment studies still believe in their relevance and think that their limitations can be dealt with at a reasonable cost. Indeed, it is not because a programme is popular that it cannot be improved. In the SHDF case, for instance, an impact study could determine the potential of a new savings product. The displacement issue could

[4] For a good review of impact assessment methodologies, see Hulme 1999.

[5] Devfinance is an unmonitored e-mail discussion forum on development finance matters.

[6] "How many Tia Marias of the world who are "beneficiaries" of a subsidized debt program produce services or goods that displace the goods or services in the market that were formerly produced by even poorer people who were not embraced by the debt-dispensing program?" (id.)

partly be solved through a well selected control group,[7] and the cost/benefit issue, however subjective it may be, has to be faced anyway to help donors in selecting the most “efficient” projects. In the present paper, we adopt a careful position: methodological limitations of impact assessment studies are well known, but they do not render them completely irrelevant.

However, at this stage, the necessary information to assess with accuracy the impact of the credit programme on the lives of SHDF members is not available. Detailed baseline information has been collected, but impact will only be assessed when data from the second batch of interviews is be available. Nevertheless, the detailed baseline survey has already provided us with some interesting insight on the impact of the programme, and these are presented in this paper.

For this second part, data was collected through a combination of individual interviews and focus group discussions with a sample of 96 savings club members, from 27 different clubs, between March 1999 and July 2000. The sample included 63 “borrowers” and 33 “savers” (club members not participating in the credit programme). Several members of SHDF staff were also interviewed in January and February 2001, in order to assess the impact on the institution.

Part One : Origins and Development of the SHDF

The official history of the Self- Help Development Foundation (SHDF) states that the first savings club was started by a Catholic missionary, Brother F.Waddelove, in 1963. This is certainly true of what came to be known as the savings movement in Zimbabwe. However the idea of developing means of saving amongst the poor in Zimbabwe, pre-dates the savings movement, and can be traced to the emergence of burial societies from the early years of colonial occupation after 1890. Burial societies were developed by migrant workers, often from outside of what was known as Rhodesia, namely Portuguese East Africa and Nyasaland, to both assist newly arriving migrants and to assist with funeral arrangements of such workers. The average size of these societies was between 10 and 100. Most had a formal leadership structure of Chairman, Secretary and Treasurer, with some producing formal constitutions even at this early stage. In terms of fees, members paid a joining fee and monthly subscriptions. In the event of a death in the immediate family, members were paid a lump-sum payment. (Hall, 1987.) A few examples of such burial societies will serve to illustrate the purpose of such organisations. In 1945 the Daughters of Africa Burial Society was formed and the intention was stated as follows:

> **After many troubles collecting money, whenever one of our friends died, we have formed the above society. We used to make some collection when one of our friends died. In most cases the funeral had to be delayed as money used not to be enough to pay all we wanted. So we formed this society with object of burying the members of the society. (*African Weekly, 28/11/45)***

[7] Making the hypothesis that the programme will become sustainable, so that no activity can be qualified as subsidized.

In 1953 the United Central African Burial Society was formed with affiliates representing the Angoni, Achewa and Matabele burial societies. The objective of the United group was set out in the following terms:

> **In an effort… to establish more reasonable channels of borrowing money to such people the most important object and aim of the United Central African Burial Society….. shall be to establish a central fund by means of street collection and various other sources- so that loans can be issued from this fund on such easy terms as shall enable those so loaned to pay back as they work. (African Weekly, 25/3/53.)**

Another feature of these burial societies that was also characteristic of the later saving clubs was the fact that they were often formed around certain common bonds, in the case of burial societies ethnicity, though not necessarily the case in the savings clubs. In addition the burial societies also provided opportunities for families to engage in recreational activities. A report on a meeting of the Gazaland Cooperative and Burial Society formed in 1939, describes the kind of family recreation that took place:

> **After a short speech by the Vice President Mr. Mavundure, came the introduction of all members and their families. Immediately after this the people were served with teas, cold drinks and cakes. Throughout the afternoon people were entertained by Shangaan tribal dancers and some listened to the news through Mr. Mhlanga's radiogram. At 4.30 members gathered in the Recreation Hall and ate their cake which was a token of their working together. (African Weekly, (14/2/51)**

In addition to the burial societies there were also rotating savings clubs, composed largely of women's groups. In these clubs an agreed sum of money was collected over a given period of time, after which the entire sum of money
saved was paid to one member in the group. Thus each member received access to the savings.

In 1960 there was also an attempt by emerging black professionals to form Friendly Societies to provide loans ranging from small household loans to more ambitious financial projects. One such society was the Central African Mutual Association chaired by a leading nationalist politician Joshua Nkomo, which was able to raise £50,000 in deposits. After three years the Association had lost 60% of its funds, with administration costs accounting for £11000 in the association's first year. The problems in the organisation led to Nkomo denying any contact with it by 1962. Other failed attempts to provide self-financing schemes for blacks under settler colonialism were the Bantu Trading Cooperative Society (1938), the First African Friendly Society (1960) and the United Consumer Cooperative Society (1964), all of which were short lived. These efforts failed because of a combination of political and legal constraints from the colonial state, and poor organisation and management in the organisations themselves. Such constraints included various local government by-laws and controls, and national legislation such as the Land Apportionment Act (1930) and the Native Urban Areas Registration and Accommodation Act (1946), that placed severe limitations on the possibility of Africans both, owning and utilising, land in rural and urban areas. This made it very difficult for Africans to provide collateral for large loans and credit form the major financial institutions. As West has observed about the difficulties facing emerging entrepreneurs in Colonial Southern Rhodesia:

> **Apart from the structural, statutory and social impediments which they faced,… African entrepreneurs also had to contend with the arbitrary powers that the various officials dealing with 'native affairs' were often allowed to appropriate, in some instances for personal aggrandisement. (West, 1990, p269.)**

More generally, such constraints operated within an accumulation model, that siphoned off savings from the rural areas through a financial system that directed investment and credit away from the majority African population towards more profitable areas such as the growth of the Central Business Districts and financial speculation. More will be said about this in the section of the paper.

Thus by the time of the emergence of the savings clubs in the 1960's, there had already been some local experiences and attempts in savings and credit. This is a point that is often missed in the existing literature on savings clubs in Zimbabwe.(Brand 1987, Chimedza 1984.) It is against this background that we can now turn to the history of the savings clubs themselves.

1.1 The Beginning of the Savings Development Movement.

The first savings club in what was then Southern Rhodesia, was established in 1963 by a Jesuit Missionary by the name of Brother Francis Waddilove, who came out to the colony in 1937. One of his major observations of the changes that were taking place in the economy was that 'women were at the suffering end of the economy as the country industrialised.' He also observed 'far more character among women' and sought to build on this 'an activity that would instil a sense of responsibility amongst families.'[8] In order to do this he adapted the idea of the savings clubs to the situation in the settler colony, and aimed to 'use money to build up some sense of belonging, integrity, and responsibility'[9] amongst people he was working with. This position of Brother Waddilove was later elaborated in a document that laid out the position of the Catholic Church in the country on credit unions. In the words of the document:

> **The state should not take over work or responsibility from smaller groups when the smaller groups are able to do what is necessary on their own. The reason for this is that if people look to the State for their advancement they fail to acquire the ability to look after their own affairs. (Chishwasha Mission, 1967.)**

The idea of savings club was first introduced to Brother Waddilove by Pat Bailey, an international representative of the Credit Union International Association, who visited Southern Rhodesia in the early 1960's advocating the idea of credit unions. Following discussions with Bailey, Brother Waddelove agreed to try to adapt the idea to the conditions in the country, and in April 1963 he organised the first savings club, composed of twenty men and women in the Chiweshe Communal area. The idea of such savings was that the members could accumulate enough money to purchase more agricultural inputs at the beginning of the rainy season. The success of the

[8] Interview with Brother Waddelove, 12th December 2000, Harare.
[9] Ibid.

initial experiment pushed Brother Waddelove into a broader membership drive, which he succeeded in doing through the use of the state's agricultural extension officers, and through the use of the simple stamp system was easily understood by rural women for whom literacy was often a problem. Following this, there was an attempt to move from savings clubs to credit unions in the later 1960's, with support from church groups, university researchers, commercial producers and agricultural retailers. In 1968 the National Council for Credit Unions was set up with savings clubs and eleven credit unions.(Bond, chapter 10.) However it soon became clear that both the managers and members of the credit unions were ill-prepared for tasks of credit disbursement. As and early commentator of the savings movement observed:

> **The credit union members themselves did not have any administrative or management skills, and the volunteers too did not have adequate administrative capabilities. Both parties involved recognised the shortcomings and decided on redirecting their efforts to saving money as an alternative to the use of credit. (Chimedza, 1984, p27.)**

Along with Brother Waddelove's initiative in this area, the Catholic Mission at Silveira House also implemented a savings scheme in 1968. In this scheme, after a two year savings record, members were allowed to receive loans for productive

purposes, not exceeding 10% of the borrower's accumulated savings. Loans given were charged at a higher interest rate than the interest earned by banking the accumulated savings. This scheme also faced problems of lack of book-keeping and credit assessment skills, and insufficient transport and marketing support.

The growth of these clubs prior to 1980 was as we have noted greatly assisted by the encouragement of state's agricultural extension workers, a close relationship that continued after independence. As Brand noted in her study of 1987 more than half the clubs she interviewed said that the organisation they worked most closely with was the government extension office Agritex. (Brand, 1987, p15.) Thus the savings clubs became an important point of interface between sections of the rural population and both the colonial and post-colonial states. At such meetings the state agencies could pass on information on agricultural production issues as well as conduct the various enumeration exercises so important to state control and hegemony. The clubs, were easily accommodated within the white settler policy on rural governance in the 1960's, which emphasised 'traditional' control over community self-help activities. Separate development along racial lines was propagated through a selective use of 'traditional' African authorities. The emphasis of the savings clubs on community self-help activities was thus encouraged by the colonial state. The importance of such control over rural-based organisations would also become apparent in the development of the SHDF in the post-colonial period as we will observe below.

From their inception the savings clubs major constituency were women. This was so because the clubs provided a rare savings opportunity for women, who because of patriarchal structures lacked access to assets such as land and cattle, from which men derived their security. In addition women on their own, because of the absence of their men as migrant workers, eagerly sought new ways of increasing their savings. More generally the clubs provided women with a 'marketing channel for their craft works, a valve from the pressure of domesticity and a forum for education.' (Sinnott, 1997.)

The number of clubs grew from 30 in 1970 to 1500 in 1974 with the membership increasing from 2000 to 3000 during this period.

After the number of clubs reached a high of 3000 in 1975, with 60 000 members their activities were severely hampered at the height of the liberation struggle between 1976-80. During these years, because of severe restrictions placed on people's movement and their right to organise, the savings clubs were prevented from carrying out their meetings in the rural areas.(Chimedza, 1984.) Nevertheless the clubs continued their activities, with Brother Waddilove,supported by the Catholic Church, playing a leading promortional role.

1.2 The Post-Independence Period.

In the post-1980 period the numbers of savings clubs increased impressively, growing from 5000 in 1983 to 7000 by 1998, with membership moving between 125,000 and 100,000 during the same period. In addition, there were also savings clubs that were set up outside of this structure, or with help of extension officers.

In terms of its legal standing, before 1980 theNGO leading the movement was registered as the Wycomb Foundation, operating as a kind of saving and credit cooperative, largely under the management of a few sympathetic whites, including the founder Brother Waddilove.(Mutambira, 2000.) After Independence the organisation became known as the SHDF, registered as a non-profit company under section 26 of the Companies Act. Its objectives were stated as:

- To promote savings mobilisation through the stamp system.
- To provide support to savings club members through advice, training and savings administration.

During this early period the SDHF started to develop links with the post-colonial state, by assisting in the training of extension workers from the newly formed Ministry of Community Development and Women's Affairs. The new state, for its part, though bearing substantive legitimacy as a result of the role of the ruling party during the liberation struggle, was still in the process of establishing its authority both over the former settler state, and over the population at a national level. In terms of state policy towards civic groups during the immediate post-1980 period, Saunders has characterised this phase as follows:

> **For most of the 1980's, ZANU PF and ZAPU would provide the most important broad framework for political and social organisation in Zimbabwe. In this equation of community development enacted largely from above- the partisan, monopolised 'institutionalisation' of civil society as it were- the state and its agencies stood as the primary organising instrument in the hands of the ruling party, and played a key role in the early lives of national civics…. If not in all cases part of the coalition of nationalist forces within the liberation movement, most civics**

> **were at least inspired by the ideals of the revolution as enunciated by its leading wings. Some but not all of these civics created in the early years of independence were directly infiltrated or shaped by the new government, which guided or enabled a definite movement of voluntarism from below. (Saunders, 1996.)**

It is within this context of state-civic organisation relations that problems emerged in the SHDF in 1985. In this year the state sought to depose the remaining white membership of the management committee of the organisation, and to place government nominees in such positions. The state thus initiated an investment into the organisation by announcing the suspension of the management committee, by the Ministry of Community Development and Women's Affairs. The reason given for the suspension was that $170,000 given to the organisation by donor agencies could not be accounted for. The Chairman of the organisation, and other members of the management committee, heard of this suspension and the accusation against them, on a news bulletin broadcast by the Zimbabwe Broadcasting Corporation, in early May 1985.the chairman decided to challenge the matter in the High Court and sued for Deformation in October 1986. In his assessment of the defendant, an Under-Secretary in the Ministry, the Judge commented that:

> **The evidence given by the defendant did not impress me as either candid or straightforward. Indeed the defendant was evasive on certain points, and his testimony questionable in other areas as well.** [10]

The judge further ruled that the Ministry had failed to carry out the necessary preliminary investigations, and that effectively the suspension hade been carried out without any prima facie evidence. The Court ruled in favour of the plaintiff.

As a result of the suspension and the acrimonious court case, and great deal of turmoil was created in the organisation. However the objectives of the state were clear. It wished to bring the growing and successful savings movement under the control of the state. In the words of one of its later board members the state 'ministry wanted a success' and the savings movement was a particularly attractive target because it was a national women's organisation.[11] In the words of, one of the oldest of the board members, the state was against 'whites running the movement.'[12] This problem was exacerbated by the fact that one member of the executive was a leading member of the rival liberation movement ZAPU, which in 1985/86 was involve in tragic civic conflict with the state in Matabeleland. After the Board was dissolved the government brought in its own nominees, namely the current chairman, a former ruling party MP, and the current Managing Director. Political problems in the organisation persisted until the end of 1987, when the Unity Agreement was signed with ZAPU ending the hostilities between the two. Since then new management and board have developed a better working environment, and have worked together to confront the new challenges presented by the move towards micro-credit. After the changes in the management and board were made the state became less directly involved in the activities of the movement.

---

[10] Patrick Herbert Joseph Arnold vs K.R. Majome, High Court of Zimbabwe, Oct.1and 22 1986.

[11] Interview with Board Member Dr. Ruvimbo Chimedza, 1st February 2001; also interview with SDHF Administator Mrs.S. Zimbiti, 10th January 2001.

[12] Interview with Angeline Masuku, 15th January 2001.

In addition to its interference in the affairs of the SDHF, the state also attempted to set up its own national coordinating body for credit and savings unions at this time. Thus in 1986 the National Association of Cooperatives Savings and Credit Unions of Zimbabwe (NACSCUZ) was established under the Ministry of Community Development and Women's Affairs with the following functions:

- To provide technical and support services to savings and credit coops.
- To provide training for the leadership of such coops.
- To monitor and inspect the development of the coops.[13]

However two years after the establishment of NACSCUZ, the latter was still unable to develop a credible stature as national body. As one report observed in 1988, the body 'made no impact on the bulk of credit unions. Several that have approached NACSCUZ have been disappointed.' By 2000 the majority of NACSCUZ's members were still facing serious management capacity, poorly performing portfolios, and weak operational systems and standards. (SAFER, 2000.) Thus NACSCUZ continued to face major problems in developing its legitimacy as a national organisation.

During the 1990's the SHDF developed new challenges, most notably the development of micro-finance, which has presented the organisation with new successes, but also a range of formidable problems to confront. It is to the emergence of this new organisational emphasis on micro-finance that the discussion must move.

1.3 Background to the Policy Shift from Savings to Micro-Credit.

The history of attempting to provide credit to the poor both during the colonial and pre-colonial periods has for the most part proved a failure in Zimbabwe. The reasons are fundamentally related to several factors including, the gross inequalities in resource allocation, the movement of accumulated capital into the dominant areas of the money market, government debt, real estate and, during the period of economic liberalisation, into a range of speculative activities. Thus through the latter activities, the leading financial institutions in the country have directed capital into more profitable areas of investment and away from the credit requirements of the poor. Even attempts by the post-colonial state to extend credit to the rural poor have been carried out in a manner that is directed more to the maintenance of political control over the peasantry, than to a sustainable poverty eradication programme. (Bond, 1998.) In addition the practice of banks themselves has actively discouraged the development of micro-credit to the poor. Evidence of this can be seen in a number of features such as the lack of rural access to banks, the hours in which banks operated which were often inconvenient for rural producers, and the cost of basic financial services. Savings captured by the banks have historically been channelled into areas of higher profitability such as financial speculation and real estate, with the bank demands for collateral and repayment schedules proving prohibitive for poorer groups. There were attempts to provide credit to African farmers during the colonial period. For example, in the 1950's a Native Development Fund was set up, which was funded through a 10% tax on goods marketed by black farmers. In addition, in

[13] Interview with Mr. A. Mashaike, Director of NACSCUZ, 23rd January 2001.

1961 the African Loan and Development Company was established by 26 companies to assist the more well off black farmers in the African Purchase areas. However in both cases these funds were also available to white farmers at more favourable interest rates, leading to the marginalisation of black farmers. The credit policy was thus subordinate to the political imperative of maintaining the support of white farmers for the settler regime.

In the post-independence period Zimbabwe's micro-finance has been characterised as having 'fragile institutional structures, and poor financial and business management practices, resulting in weak outreach and financial sustainability.'(International Capital Formation, 2000.) For much of the last twenty years, the state has attempted to implement credit schemes, usually donor driven, for small farmers. In the early 1980's the government controlled Agricultural Finance Corporation (AFC) played a central role in expanding loans to small farmers. This was a policy that had been recommended by the Whitsun Foundation in the late 1970's. The latter organisation had been set up to advise the short lived Muzorewa-Smith regime in 1978. This policy was supported by the World Bank, EEC, DANIDA, and the Japanese government to name some of the major donors. The result of this programme was that AFC credit to both small farmers in the resettlement areas and mainly white commercial farmers, increased from Z$15 million in 1983/84 to Z$35 million in 1984/85 (Bond, 1998). The major result of this credit policy was increasing indebtedness of the majority of small farmers, with attempts to increase the market competitiveness of small farmers leading to rising debt at household level, and escalating levels of debt defaulting. Patrick Bonds work, (Bond, 1998), has attempted to show that dualist assumptions about the causes of racial inequality in the Zimbabwean economy have often led to over-optimistic assumptions about the use of credit as a tool for overcoming underdevelopment. Such dualist assumptions include linking poverty to factors such as the absence of market mechanisms, without dealing with broader issues of structural inequality around land and other productive assets resulting from the legacy of settler colonial role. The result has been that attempts to 'throw money at the problem' have failed to deal with fundamental constraints such as a financial system loaning money at unsustainable rates, the legacy of major inequalities of land ownership, vastly differing capacities to respond to market opportunities, and the inefficiencies of the state controlled marketing system. In the 1990's the proces of commercialising the AFC under a new bank, AGRIBANK, has resulted in further limitations for the poor communal area farmers whose financing has been placed under a new instititution.

1.4 The Structural Adjustment Programme, Donors and Micro-Finance

During the era of Structural Adjustment in Zimbabwe from 1990 to the present, the rapid increase in interest rates that resulted from financial liberalisation (from 10% in the 1980's to 50% in the late 1990's), and a series of ill-defined economic and political decisions, has led to an even more hostile financial environment for the poor. The major features of this hostile environment include the exhorbitant Increase in interest rates, resulting from increased govenrment borrowing, reduction in subsidies for basic goods, and the consquent inflationary effects of such measures. As Moyo has written:

> **The increasingly competitive environment created by reforms has led to a much tougher approach by banks in terms of lending to the poor. It has always been hard for this group to get loans from banks. It is now more difficult. Collateral requirements have been maintained if not actually made stiffer in some cases as banks perceive the environment to be riskier. Even Development Banks which used to be more flexible and would look at project viability rather than short- term profitability, now tend to look at profitability. (Moyo, 1999,p3.)**

For example the process of commercialising the AFC in the 1990's, under a new bank, AGRIBANK, has resulted in further constraints for poor communal area farmers. The financing of the latter group has been placed under a new institution, the Agricultural Development Assistance Land, which has been seriously under capitalised. The Commercialisation of other Government initiatives such as the Small Enterprises Development Coorporation (SEDCO) and the Zimbabwe Development Bank (ZDB) has led to a greater emphasis on collateral based lending. In addition, in those facilities for small businesses many difficulties have arisen over the complex procedures for accessing credit (Moyo, 2001)

It is against this general economic background that initiatives from donors have emerged with regard to micro-credit for the poor in Zimbabwe. The SHDF began

discussions on this issue in 1995 with the Konrad Adenaur Foundation (KAF), and in the following year a feasibility study was carried out in Mashonaland Central area. This study showed that income generated by SHDF members financed from their savings produced poor returns, and that with slightly higher amounts invested, the returns on capital and labour time could be substantially higher. During the 1980's the KAF concentrated their support for the SHDF on the funding of training activities, and the acquisition of two training centres in the countries main cities of Harare and Bulawayo. Following the feasibility study it was decided that the area of Mashonaland East was better suited to begin the programme of micro-credit based on a number of factors:

- The level pf proximity to banking facilities.
- Level of infrastructure, including road accessibility for ease of monitoring performance as well as transportation of products to markets.
- Good marketing environment for products and services.
- Presence of other micro-finance institutions or NGOs with credit programme activities.
- Availability of savings clubs located close to markets that had a number of projects which appeared viable.
- Credit history in the area.
- Availability of a local SHDF structures at ward, district and provincial levels.(Mutambira, 2000.)

The programme was launched in 1996, after some implicit encouragement from KAF, for the SHDF staff to change their focus. The KAF also sought to encourage the membership to make more service demands of the organisation. At first the board and head office staff were reluctant to accept the idea of greater risk in their operation. The feasibility study helped to open the discussion on credit in the SHDF. The KAF also pushed the issue by raising the issue of sustainability in the event of KAF withdrawing or reducing their funding. Thus a combination of raising expectations amongst members on the possibility of credit provision, and presenting the possibility of lack of sustainability because of withdrawal or reduction of donor support, helped to place the issue of micro-credit on the SHDF

agenda. The launch in 1996 produced encouraging results. The achievements were widely discussed in the organisation, and this process created further pressure for the micro-credit programme to be expanded. In 1997, CARE International in Zimbabwe approached the SHDF to develop a programme on credit, because of a huge potential base in the SHDF membership. Prior to this CARE had been involved with the SHDF since 1995, through the salary payment of the first loan officer. After a successful pilot study in 1997/98 an application for funding was made to USAID through CARE. The funding was approved (US$2M) and the project was aimed at transforming the SHDF from a savings to a credit organisation over a five year period. [14] To achieve the objectives of the project CARE has teamed with two other international NGOs namely the KAF, and the Belgium based Association pour la developpement par la recherché et l'action integrees (ADRAI). The more specific objectives of the project are:

- To expand credit programme activities using sound credit methodologies to poor but credit worthy women entrepreneurs.
- To enable the SHDF to establish and maintain a high quality loan profile through improvements to its governance, organisational structure, financial management systems, human resource development, MIS and accounting systems.
- To increase the capital resources for SHDF's revolving fund.(Mutambira, 2000.)

In this arrangement ADRAI funded part of the programme (US$400,000 over a three years period) with their activities concentrated in the areas of Wedza, Murhewa and Makoni. In addition the SHDF received a loan fund of US$150000, from the Japanese government.[15]

In 1999 the SHDF also received a loan of Z$2M from the Government of Zimbabwe's Micro Enterprise Development Programme (MEDP) located under its Social Development Fund Programme (SDF). The overall goal of the MEDP is 'poverty reduction and employment creation' through the establishment of the following:

- An MEDP revolving loan window.
- The participation of partnership organisations to ensure that there is increased outreach and sustainability.
- Targeting beneficiaries who are poor with the capacity to absorb and repay loans for income generation and employment creation under market conditions.(Government of Zimbabwe, 1998, p5.)

---

[14] Information for this paragraph was drawn from an email communication from the former Director of KAF in Zimbabwe, 2nd March 2001; also interview with CARE International Zimbabwe Director, Denis O'Brien, 23rd January 2001.
[15] Interview with Jean Paul Lacoste, ADRAI, 24th January 2001, Harare. See also "The SHDF-ADRAI Collaboration", in Self Help Development Foundation Vol.1 No.2 April 1999.

A fuller assessment of this micro-credit programme is made in the following sections of this paper.

Part Two: Impact of the introduction of micro-credit on SHDF and on Savings Clubs

2.0 Impact of the credit programme on SHDF

The previous sections of the paper have highlighted that the introduction of a credit scheme was the result of a long process, with many different internal and external factors involved. At the time of the formal decision to launch a pilot credit scheme, the consensus was still weak. The founder of the organisation, deprived of any formal say but still very influential at management level, was clearly against the move. The board had mixed feelings, as the benefits of the programme for the organization were still vague. Upper management was curious but followed Brother Waddelove's feeling that the institution would loose its soul in the process. Lower management had difficulty in appraising that change as an opportunity or a threat to their personal careers. KAF and CARE were aware that a very cautious approach was needed in order to show the benefit of the programme to SHDF and the members, without putting the institution at risk. The pilot phase was therefore of crucial importance, as its success or its failure would determine the future of the scheme. In order to limit SHDF risk and involvement, the first credit officer was a CARE Zimbabwe staff put at the disposal of SHDF.

In April 1997, as the pilot scheme showed very positive results in Chiota and Seke districts[16], the programme was extended to Bulawayo (Matebeland North) and Mutoko (Mashonaland East)[17]. The second credit officer was hired only in September 1997, more than one year after the beginning of the programme. In October 1998, the programme was given another major boost - thanks to the support of USAID (through CARE Zimbabwe) and ADRAI. Nevertheless, compared to other programmes in Africa, the growth of the portfolio has been relatively slow.

Table 1: Portfolio Growth 1996-2000

	1996	1997	1998	1999	2000	Total
Number of loans disbursed	117	775	2,315	4,542	7,097	14,846
Total amount disbursed (Z$)	119,800	1,055,600	4,077,900	11,716,854	31,977,346	48,707,900

Sources: SHDF Credit Programme, Reports for 1997, 1998, 1999 and Portfolio Report, December 2000.

In the following sections, we will analyze the impact of the programme, first on SHDF vision, mission and performance, and then on savings club members.

2.1 Impact of the credit programme on SHDF vision and mission

Management experts usually start their analysis of organizations by looking at their vision and mission. The vision refers to the "institutional dream", or how management sees the organization in the medium or long term, while the mission is defined by the organisation's

[16] Communal area South East of Harare
[17] See annex 3 for a brief overview of SHDF credit methodology.

core business and its target market. Before 1996, SHDF's vision and mission were relatively vague. During these years, the main focus was not on the institution itself, but on the beneficiaries and, to a lesser extent, on the services. There seemed to be no need to spend time and energy on defining a clear strategy for the future, as the organization was already overwhelmed by its current workload. The main objective was to create more clubs and attract more members, thanks to the support of the Konrad Adenauer Foundation (KAF). Indeed, between independence and the mid-nineties, the number of members grew dramatically. Dependence on a sole donor was not considered as a major threat, as nobody, even the donor-itself, was considering withdrawing in the near future. Offering new services was not on the agenda, as the current training was very popular among old and new members.

That its core business and its target group were not precisely defined is reflected in the SHDF presentation brochure (dated 1992): "The Foundation, …, aims at improving the living standards of the underprivileged sections of the population, with particular attention being paid to the financial hardships and financial independence of these people." (SHDF, 1992, p.4). In the same brochure, SHDF core activities were described as: (1) to supply savings stamps and books; (2) to provide advice and training; (3) to hold educational functions in villages and (4) to encourage and promote small-scale projects initiated by savings club members (id.). Not a single word was said about the importance of savings mobilisation, the practical focus on women, or the indicators used to define "the underprivileged sections of the population".

Four years after the introduction of the credit programme, SHDF has significantly redefined its strategy, and its new vision and mission now read: "The SHDF aspires to becoming a profitable Bank, of an intermediary nature and, in parallel, a sustainable NGO providing support services. SHDF will specifically target the rural and urban poor, serving people who do not have access to formal banking services. (…) It will continue to target registered savings clubs and specifically women. SHDF will aim to achieve poverty alleviation through the promotion of savings, using savings as guarantees and by encouraging participation in its design ("Our own Bank") … The SHDF Bank will be a member-owned entity (A "Savings Club Bank"), providing a leading example in Africa of an appropriate and effective financial institution" (Ward, July 2000, p.4)

That change has had a very positive impact, as it has forced SHDF to rethink and write "noir sur blanc" what has always been "too obvious to be mentioned." What seemed to be so straightforward after years of programme implementation had to be reassessed: do we want to keep an NGO structure, dependent on donors, or turn into an MFI, or both? Who will be the owner(s) of the organization(s)? Do we focus only on women, on savings club members, or do we open our doors to everyone? Do we offer new services or do we improve those we have? While all those questions arenot answered yet, the main points have been clarified and the process has started. SHDF aims to improve the two types of services that it is now offering - financial services and training services - by creating two separate professional structures responsible for their delivery: a bank in charge of savings and credit, and an NGO in charge of training. It is hoped that this separation will benefit both sides. The bank will endorse the "financial" objective of the institution and will dispose of the practical means to fulfill that objective. On the other hand, the training department will now be able to focus on practical training of members and the reinforcement of savings clubs, reviving the original "educational" perspective of the movement, which is so important to the founder of the organization.

On the other hand, this change has exacerbated one weakness of SHDF, which is common to most MFIs throughout the world: its legal incapacity to raise savings. Indeed, under the Moneylenders Act, which provide the legal framework for all non-bank intermediaries engaged in lending activities, NGOs are not allowed to mobilize savings. The only way to mobilize savings in Zimbabwe is to register as a bank under the Company and Banking Act. The financial requirements of this Act have been recently toughened in order to deter opportunistic newcomers, and NGOs have seen their illusion of becoming real financial intermediaries in the short run, turned into smoke. Indeed, the first of the many requirements of the new Act states that the minimum paid up equity capital must be Z$ 100 million,[18] completely out of reach of Zimbabwean MFIs. Nevertheless, the new Minister of Finance (in office since June 2000) has sent positive signals to the microfinance industry, since its role in supporting the informal economy is increasingly acknowledged, as is the importance of the informal economy in serving as a safety net in times of deep economic crisis. The introduction of a new “microfinance” Act, adapted to the specific capacities and needs of MFIs, is actually one of the main responsibilities of the Zimbabwean Association of Microfinance Institution (ZAMFI), but much has still to be done before a new legislation comes into effect.

By integrating savings and credit, SHDF has thus anticipated a major change in the legislation. This is certainly a wise move in the long term, as it will be ready to collect savings as soon as the new Act is implemented, but it also means that in the short term, the new SHDF MFI will be left out-on-a-limb. If the new legislation is ready within 2 or 3 years, this might not be too harmful. But if the period becomes much longer - as it is very likely in today’s parliamentary context - mobilisation of savings will be far behind credit delivery in real terms as well as in staff priorities. Therefore, unless the government really means what it says, the current SHDF “change process” might well be remembered in ten years time not as the moment credit and savings tied the knot but actually divorced.

2.2 Impact of the credit programme on SHDF organization

Legal Structure

SHDF is registered as non-profit company under section 26 of the Companies Act. This legal setting has allowed the organisation to carry out its training activities efficiently. The introduction of credit has significantly changed the situation. First, contrary to training,[19] the provision of credit facilities is an income-generating activity. As long as the programme does not make any profit, it can still claim to be a non-profit making company. But when it reaches sustainability, it will no longer be the case. Secondly, the training department will always need some kind of financial support to carry out its activities, while the credit department is supposed to become financially self-sufficient. In the future, it might also have to look for investors, who will expect a return from their investment, or borrow capital on the financial market. Maintaining a subsidized programme and a sustainable programme under one common legal framework brings confusion within and outside the organization.

[18] 1 USD = 55 Z$ on the official market (January 2001).
[19] and in particular training for the poorest sections of the population.

At the beginning of 2000, after a short appraisal from Calmeadow[20], it was decided to integrate savings and credit under one MFI entity, aiming at full sustainability, and all training activities under another entity, a partly subsidized NGO (Vulindlela, 2000). That structure will allow SHDF to pursue both its “financial” and “educational”, and to give a clear image to members, investors and potential donors.

Human Resources

In 1995, before the implementation of the credit programme, thirty-four full time staff were employed by the organization. Twenty had field positions, promoting savings clubs and SHDF saving methodology in their respective provinces[21], six were working for the catering and printing department, and the last eight were administrative and support staff. New staff members were generally savings club chairpersons or representatives who had been particularly dynamic in their area.

In June 1996, the credit scheme started with only one full time employee, a credit officer for Chiota and Seke. Four years later, the credit department comprised thirty-three employees, fourteen as field officers and nineteen as support staff. As of September 30, 2000, SHDF staff consisted of eighty-eight full time employees. During the same period (June 1996 - September 200), the number of full time staff involved in savings mobilisation training remained more or less the same. The growth in total number of staff, and in one department in particular, has completely transformed the image of the organization. It has clearly been understood by SHDF members and the staff itself that “credit delivery has now become more important than savings mobilisation”.

Besides the growth in number itself, it is the new profile of its credit staff that has triggered a major shock within the organization. Before 1996, internal promotion was the rule for staffing new positions. But managing a credit portfolio requires other technical skills than organizing training. Responsibilities are also higher, as there is a lot of pressure at the end of each month to collect repayments. Accountability is also crucial, as the department has to manage big amounts of money. Therefore, SHDF hiring policy had to change. Only the most promising staff were proposed for credit officer positions, and all other positions were filled through external hiring. Salaries were adapted accordingly. While a few credit staff did not perform as expected, the overall feeling within the organization has been that the credit department was much more professional than the training department. Nevertheless, trainers who had been with the organization for many years - some of them working with a lot of commitment for a very modest salary - were not very keen to collaborate with ambitious, young, and sometimes “know it all” newcomers, who earned more money and looked down on them. This clash of cultures brought many tensions here and there, and upper management was sometimes forced to play the mediator.

With time however the situation improved, for two main reasons: on one hand, it turned out that field credit officers promoted internally were more efficient than highly qualified newcomers. They understood better the members’ needs and capacities, being one of them a few years before. They were extremely grateful to SHDF and did not want to disappoint the

[20] Calmeadow is a Canadian microfinance support institution. It publishes the *MicroBanking Bulletin*, a publication dedicated to the financial performance of organizations that provide banking services for the poor. It approached SHDF in 1999 and helped the institution to redefine its core business.

[21] In1995, SHDF had 13 offices in the country: Harare, Bulawayo, Chinoyi, Bindura, Marondera, Rusape, Gutu, Masvingo, Zaka, Gweru, Gokwe, Gwanda and Hwange. Karoi and Lupane offices were opened later.

organization; and finally they were more receptive to SHDF credit methodology, as they had never worked in that field before. In comparison the externally hired staff were not able to build up trust relationship with clients. They were less committed to SHDF and more tempted by fraud and, having worked in the same field but with different policies, they found it hard to apply strictly SHDF procedures. Therefore, SHDF management and donors had to acknowledge that a diploma did not necessarily make a good credit officer and that the current SHDF staff, if given the chance, had a lot a potential. On the other hand, the professionalism showed by the credit department highlighted the shortfalls of the other departments, and in particular the training department. KAF, as the main donor of this department, started wondering why the training programme was not subject to monthly reports, regular meetings with on-time minutes, strict procedures and policies, up to date job descriptions, etc. and soon upgraded its requirements. Provincial coordinators in areas where credit was not yet implemented started to work much harder in order to attract the programme in their region[22]. In that sense, the credit programme has certainly helped SHDF as a whole to become more professional.

2.3 Impact of the credit programme on SHDF performance

Training Department

Until 1995, SHDF services consisted only of savings club management (SCM) and technical skills training. Since 1996, other training has been proposed: credit management training for clubs which want to participate in the credit programme,

project management training and finally other types of training (environment, civic education, etc.). The number of each type of training has grown steadily, and almost doubled between 1996 and 1999. In terms of quantity of training sessions organized, the department has benefited from the support of a new partner, ADRAI, to develop the Project Management module and to train trainers, and from the devaluation of the Z$ which has boosted the budget available[23].

Apart from the growing amount of training given, the second major trend visible in table 3 is the steady decrease of SCM training since 1996. As this period corresponds to the introduction of the credit programme, it could be easily concluded that credit training has gradually substituted SCM training, reflecting SHDF new priority on credit delivery rather than savings mobilisation. This is partly true, as it was a deliberate policy of KAF to limit the amount of SCM training. However, this reflects a change in strategy rather than a change in priority. Indeed, savings mobilisation remained the ultimate objective, but new tools had to be proposed to club members in order to increase their capacity to save: these tools included technical skills, project management skills and credit. Another reason explaining the drop in SCM training is also that its content had not changed since it was conceived in the sixties and that it was no longer adapted to the current context.

Table 2: SHDF Training Activities (1991-1999)

Year	1991	1992	1993	1994	1995	1996	1997	1998	1999
Savings club Management	55	90	100	158	142	167	154	131	62
Technical Skills	0	10	20	40	89	111	122	139	297
Credit Management	0	0	0	0	0	14	19	26	50

[22] R. Mtungwazi, Former SHDF Training Coordinator, Personal communication, 27 February 2001.
[23] SHDF has chosen not to increase the cost of the training in order to give more workshops.

Project Management	0	0	0	0	0	0	4	5	120
Other	0	0	0	0	0	0	0	16	20
Total	**55**	**100**	**120**	**198**	**231**	**292**	**299**	**317**	**549**

Source: SHDF Internal Memo, SHDF Training Summary for 1999

In conclusion, the training activities of SHDF have been expanding recently, but this expansion has not been due to the introduction of the credit scheme. In the future, as training will become the core business of a separate entity, it is expected to develop even further.

Credit department

As of September 30, 2000, the main indicators of the credit programme show the following results:

Table 3: Credit Programme Main Indicators, December 31, 2000

Loan Portfolio	
Number of outstanding loans (active clients)	4,906
Amount outstanding	Z$15,398,367 or US$279,970
% of loans with initial balance < 300 US$	100%
Percentage of female clients	91%
Efficiency	
Repayment rate	81%
Return on Operation[24] (Total client revenue /total expenses)	36%

Source: Portfolio Report, December 2000

Without going into too much detail, these results can be considered as positive. Taking into account Zimbabwe geographical context (clients dispersed in very remote areas), political context (high instability, violence) and economic context (worst crisis in recent history), SHDF credit scheme has been performing well. 100% of the loans disbursed had an initial balance of less than 300 USD, which is a clear indicator that the programme has reached the "underprivileged section of the population". 91% of them are women, a figure which corresponds with SHDF membership. On the efficiency side, Return on Operation is still low, at 36% after 4 years. It is slowly increasing, but hopes that the programme will be sustainable at the end of 2003 (end of CARE support) are fading. The dependency of the organization on external donors has actually increased, which is normal at the beginning of such a programme; nevertheless, it is not very clear when the trend is going to reverse. Several factors explain that relatively disappointing result. Macroeconomic factors are predominant. With an inflation rate of 62% over the last 12 months (October 1999 – October 2000), no credit programme can dream of becoming self-sustainable. With a nominal interest rate of 74% charged by the programme, it leaves only a small margin of 12% to cover all costs of the programme, which are also increasing. The second macroeconomic factor is the current recession, which has deeply affected the purchasing power of the lower and middle classes. As this section of the population is also the main market for most of the projects of SHDF members, an increasing number of borrowers find it difficult to make profit and to meet repayments.

The other main factor that affects SHDF sustainability - compared to other microfinance programmes which show better results - is the specificity of its target group: the rural poor. It costs much more to give a credit of Z$3,000 to a person living in a remote rural area than to give a Z$30,000 credit to someone who operates a business close to SHDF offices,

[24] This figure comes from CARE Zimbabwe 2000 Report.

furthermore the income earned on that credit is ten times less! Sustainability has therefore little relevance as such, and should always be analysed in the context of the target market. The danger for SHDF would be to draw too much attention to financial viability and to shift from rural poor to urban middle class membership, in total contradiction to its mission. Thirdly, after more than 15 years of funding by a generous donor, a cost "unconscious" mentality has been created among SHDF staff. For many of them it is still hard to understand and accept that 36% of the cost of the programme (hopefully 100% soon) is supported by a client, often poorer than themselves, and no longer by a donor from a rich foreign country. Finally, institutional shortfalls have also their share of responsibility in the modest viability results. As in all programmes, there have been staff not performing and systems not in place, and this constitutes another challenge in the coming months.

In summary, the credit programme has thoroughly transformed the organization. On the positive side, it has brought clarity in its vision and mission, expectations of more professionalism, and hopes of better sustainability and less dependency. But this change has also exacerbated the institutional weaknesses of the organization as well as the risks faced by the industry. These risks are: (1) that the absence of a regulatory framework which allows responsible and efficient MFIs to collect the savings of their members could lead to a definitive shift in their focus from savings mobilisation to credit delivery; (2) that MFIs start to sacrifice their mission of helping the poor on the altar of sustainability, by serving richer and more profitable clients. The government and the donor community have therefore a key role to play in order to keep the priority on savings for the poor, not credit for the rich.

Box 1

Main current debates within micro-finance

Among the numerous issues that are currently debated by micro-finance experts, three are particularly relevant to SHDF. The first debate opposes savings versus credit supporters on the simple question: where should we put the emphasis: on mobilisation of savings or on delivery of credit? From the perspective of clients, it is acknowledged that both are necessary. But from the donors and government perspectives, credit has received much more attention and financial support[25]. At least three reasons may explain that priority: first, the "too poor to save" paradigm is still very much alive in practitioners' circles. Secondly, the legal framework of most countries imposes very strict conditions to institution which want to mobilize savings. Thirdly, delivery of credit is more profitable than mobilisation of savings. Finally, credit is a powerful instrument to buy votes and to ensure loyalties. However, the pendulum seems to have reached an extreme point, and saving has recently received more attention.

The second debate concerns the role of informal (ROSCAs, ASCRAs, moneylenders, …), semi-formal (NGOs, projects, …) and formal institutions (Commercial banks, Development banks, cooperatives[26], …) on the financial market. Nowadays, the gap between informal institutions, which play a very important role, and the formal sector, which has failed to reach the poorest section of the population, is still very wide. How to fill that gap is the question: should we "formalize" informal institutions? Or "informalize" formal institutions? Or building bridges between the two? Or go on creating more "semi-formal" institutions, whose sustainability in the long run is still uncertain?

The third debate is internal to semi-formal institutions, and opposes "Financial Self Sustainability" to "Poverty Alleviation". While some argue that both objectives can be attained[27], in practice most MFIs face

[25] The "Micro-credit Summit campaign" is representative of that emphasis. In the last African regional conference, none of the plenary sessions, and only one of the small group sessions was about "savings". The workshop on "Designing and Developing Savings Services for the Poor" had been cancelled.

[26] Sometimes cooperatives are considered as semi-formal institutions.

[27] See for instance D. Gibbons and J. Meehan, "The Microcredit Summit's Challenge: Working Towards Institutional Financial Self-Sufficiency while Maintaining a Commitment to Serving the Poorest Families", Paper presented at the African Regional Microcredit Summit, Harare, 8-12 October 2000.

the following dilemma: becoming self sufficient as soon as possible, by increasing loan amounts and guarantees, focussing on urban market, and charging high interest rates, or reaching the poorest with small loans, without physical collateral requirement, going in the most remote areas and charging reasonable interest rates. This last debate is a key issue at SHDF, as a majority of members are rural poor.

3.0. Impact of savings mobilisation training and micro-credit on savings club members

As this study aims at assessing the changes brought about by the introduction of the credit programme, it is relevant to start with a short assessment of the benefits of the savings programme.

3.1 Impact of savings mobilisation training

Unfortunately, no long term detailed study of savings club members is available. However, several short studies have highlighted the following results in terms of the profile of beneficiaries, their level of savings and the other advantages of being a member.

The actual number of savings clubs and members is still a great mystery. In its 1992 brochure, the estimated figures were 12,000 clubs and 315,000 members. The registration exercise held since 1998 has come up with a more realistic but still impressive figure of 6,807 clubs with approximately 100,000 members. If this is the case, and there is not too much doubt about it, savings clubs are the second most popular financial informal institution after ROSCAS. In her survey of 1987, V. Brand came up with the most often cited reasons why people join savings clubs:

Table 4: Reasons for joining savings clubs in 1987 (390 interviewees)

Reason	%[28]
1. Possibility of saving small amounts	42
2. Saving discipline	35
3. Possibility of bulk ordering	20
4. Learning from each other	9
5. Security in case of future needs	5
6. To meet specific financial requirements	4
7. Working together on projects	3
8. Learning/exchange skills and information	3
9. To join others in solving problems	3

Source: 1987 survey

By the “possibility of saving small amounts”, people meant that “membership in a savings club made it possible for them to avoid the normal minimum financial requirements of individual bank accounts” (Brand, 1987, p. 48). Thirteen years later, the possibility of saving small amounts was not mentioned at all. The most common reason was “To save for fertiliser, school fees or projects”, far ahead of three other reasons: “To get help and encouragement from others”, “To learn new skills” and “To get credit”.

These results must be interpreted with caution, as they were obtained through different questions and from different interviewees. Nevertheless, they clearly show an important

[28] Members could mention more than one reason, so the total exceeds 100%.

evolution in the type of savings available to women. Though no data is available on bank accounts held by savings club members in 1987, focus group discussions have highlighted that, in the recent past, it was still unacceptable for women to hold a personal bank account. Nowadays, few husbands are still reluctant to let their wives open an account, and 73% of the members are found to hold one. This clearly means that the minimum requirements of individual bank accounts no longer constitute a barrier for women, and explains why avoiding that barrier is no longer a reason for joining a savings club. One of the reason why husbands are less reluctant to let their wives open a personal bank account is that more and more women are now involved in income generating projects. “As long as I did not have a business, my husband would not allow me to open an account. “Where will you get the money to put in that account”, he asks, “You will steal it from me””. Another man says: “Before, women were like broilers in a cage, waiting to be fed. Now they are engaged in projects, bringing money and gaining independence”.

The most popular reason nowadays, “To save for fertiliser, school fees and projects” , has to be interpreted in the sense of “saving discipline”. Indeed, technically, members could just as well save for these purposes in a bank account. But the particularity of these purposes is that they require relatively small amounts of money at a certain time of the year: fertiliser is needed at the beginning of the rainy season, school fees are paid three times a year and many projects are initiated after harvest. Savings club members therefore know that, for instance, they have to save Z$300 to pay the fees in January, or Z$600 to buy fertiliser in October. If that money is saved at the bank, the big temptation is to withdraw before the need arises. Saving procedure within savings clubs forces people (and their relatives …) to be disciplined. In most clubs, people are allowed to withdraw only once or twice a year. Any unexpected withdrawal
has to be justified and authorised by the other members of the club, which practically never occurs as it is a complicated and even shameful procedure. In other words, what people are looking for at savings club level is a relative “illiquidity” of their savings.

Several studies have come up with figures on the “average amount saved by individual at club level”. In 1987, the average amount was Z$11.48, [29] which corresponds to Z$257 in 2000. In 1998 (Lacoste B.) and 1999 (Awano) surveys, the figures were respectively Z$308 and Z$352, but the samples were not representative of the overall membership and the data is not 100% reliable[30]. Finally, the 2000 survey provides a figure of Z$225, with a high variance between rural (Z$178) and urban (Z$328) areas. All these figures show that members save relatively small amounts with their clubs. In comparison, SHDF savers who hold a bank account save twice as much at the bank, while SHDF borrowers save four times more at the bank than at the club level. We will come back to that difference in the next section. If we compare two informal institutions, it appears that people contributes four times more in societies than in savings clubs.

But saving is by no mean the only reason why people join savings clubs. As all surveys have shown, the “educational and socio-psychological benefits” (Brand, 1987, p. 59-61) are also very important. Through savings clubs, people have access to savings management, technical

[29] The data was collected in March 1987. Data for the 1999-2000 survey was also collected in March (2000). This should minimize seasonal effects.

[30] The interviews were done during meetings, which are usually attended by more active members, and a majority of books could not be checked. In these types of interviews, it has been noted that people overestimate their savings in order to please the interviewer.

and project management training at a very low cost (Z$5/day) thanks to the support of KAF. Members also teach each other technical skills and share information on market opportunities. They are encouraged to start or develop income-generating projects, which increases their self confidence and their financial independence. Finally, through savings clubs women are expanding their social network, which is of tremendous importance in African society.

Before looking at the additional impact that the credit programme has brought to the members, a very important point must be highlighted concerning the profile of SHDF beneficiaries. The 1987 as well as the 2000 surveys show that, if savings club members are by no means part of the rural or urban elite, neither are they among the poorest section of the population. Comparing housing structures and livestock holdings of members to average households, Brand found that "savings club members appear significantly advantaged in having a greater proportion living in 'mixed' type housing and fewer in the traditional homestead" and that "the average number of cattle owned [by savings club members] is 7 per household as compared to a national mean of 4" (Brand, 1987, p. 44 and 46).

Data from the 2000 survey supports that finding, but also shows significant difference between urban and rural women. In terms of "manufactured resources"[31] accessible to women (Tools, furniture, kitchen equipment, utensils, personal clothes and stocks of food), non members are disadvantaged in rural areas but not in urban areas:

Table 5: Manufactured resources accessible to women in rural and urban areas (Z$)

	Rural	Urban
Savings club members	22,298	40,499
Non Members	13,322	45,150

Source: Field Survey data 1999-2000

The present survey also confirms that, in rural areas, members' households own more cattle (4.2) than non-members' households (2.7). The average worth of all animals owned by members' household is estimated at Z$48,064, compared to Z$28,914 for non-members' households.

Women from poor households face economical as well as social barriers in becoming members. While the constitution[32] of savings clubs never mentions a minimum amount to be saved weekly or monthly, members, and in particular new members, are in practice expected to save a few dollars at each meeting. For 95% of the members, projects are the main source of savings. It is therefore not surprising that 96% of savings club members are running projects. In comparison, only 76% of non-members are running projects. The 24% who have no project are thus technically excluded from becoming savings club members. Moreover, all projects do not produce a substantial surplus available for saving. And in that area, non-members lag far behind savings club members: in rural areas, the annual income from projects of members is Z$11,049 compared to Z$2,932 for non-members. In urban areas, the difference is less striking but still significant: Z$26,213 for members compared to Z$16,338 for non-members. That clearly indicates that economic factors play a significant role in the selection of members. But social barriers are important too, as new members are usually invited to join by old members, and very rarely take the initiative in asking to join.

[31] As opposed to "natural" resources

[32] Each club must write its own constitution with the assistance of SHDF.

In conclusion, there is no doubt that savings clubs are very popular informal institutions that bring many benefits to their members. In 1987, slightly more than three quarters of the interviewees mentioned that their life had improved since they became members (Brand, 1987, p. 57). The figure is even higher in most recent surveys. Saving is the main reason why people join. While the amounts saved at club level are very limited, they can make a difference for some specific purposes: buying fertiliser, paying school fees or getting input for projects. But there are many other benefits in being a member, both educational and social. Finally, the main limitation of the institution is that it failed to reach the most underprivileged section of the population, which is part of the target group in the mission statement.

3.2 Impact of credit

If we had followed the advice of D. Adams, who assesses the usefulness of a programme by its repayment rate, there would be no need to study the impact of the programme. Indeed, if an 81% repayment rate is not excellent, it is still a performance in today's Zimbabwean context. From a members perspective, 86% of the borrowers are very happy about the programme. In addition, people from regions where the programme is not yet implemented are crying out for it as they have heard the stories of successful borrowers in their regional meetings. But for SHDF, the popularity of its programme is not a sufficient indicator that it achieves its poverty alleviation objective, as more debt does not mean less poverty! In other words, credit is not an objective in itself, but a means to higher savings and a better quality of life.

In the following paragraphs, we will not present all types of possible impact that the credit might have had on borrowers, as this can only be done in 2003[33], but we will rather focus on the usual criticisms made to credit programmes: (1) that credit has no impact on savings, (2) that loans are diverted from their original productive purpose, (3) that they only substitute internal lending, but do not increase access to capital; (4) that the programme does not benefit the poorest of the poor, and (5) increases differentiation; (6) that it triggers conflicts within households and (7) it creates tension between savers and borrowers within the clubs; finally (8), that it has transformed savings clubs into credit clubs.

No impact on savings

The 2000 survey shows that, on average, borrowers have actually lower net savings[34] (Z$1,543) than savers (Z$2,471). Not surprising, some would say, as loans taken from SHDF have a negative impact on net savings. But credit received from SHDF should be invested in projects and, if products have already been sold, that should be reflected in an increase of credit to customers or in cash on hand.

As credit to customers and cash on hand are already taken into account in net savings, the difference could only come from project inputs, unfinished and finished products waiting to be sold. Indeed, if we add net savings and projects stocks there is no significant difference between savers (Z$3,016) and borrowers (Z$2,942). But no difference means no meaningful impact of the credit programme on savings!

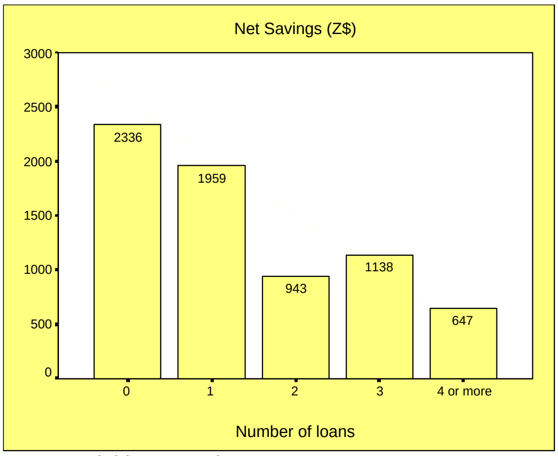
[33] For instance, the impact on projects, assets, empowerment issues, etc.

[34] Net savings are obtained by adding savings at the savings club level, savings in personal bank accounts, savings in joint bank account divided by two, cash on hand, secret savings, collateral of SHDF loans, credit given to customers, relatives and friends, minus outstanding balance with SHDF and credit with traders, relatives and friends.

A more accurate way to measure the impact of the credit on savings is to compare the situation of borrowers at two different times. Unfortunately, as previously said, this information is not yet available. However, the situation of old and new borrowers, though not as accurate, can be used as an approximate indicator taking into account

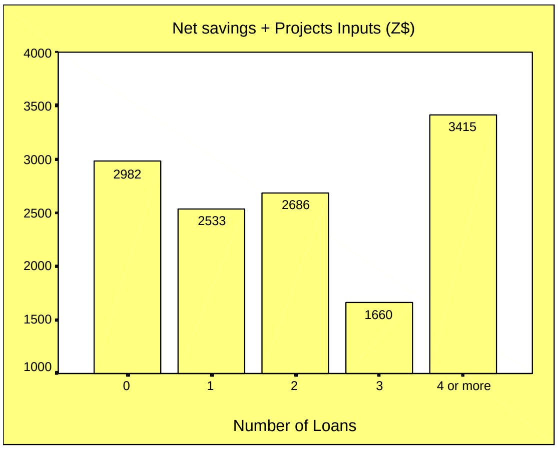
the time factor. If old borrowers do have significantly higher savings than new borrowers, it can be assumed that the credit programme has a positive impact on the savings of members. However, data does not confirm this hypothesis. Net savings actually decrease with the number of loans, the highest figure corresponding to non-borrowers and the lowest to oldest borrowers! If we adjust the figures by taking into account the projects' stock, there is no clear trend. It can therefore be concluded that the credit programme has a negative impact on net savings, and no significant impact on net savings plus projects' stock.

Diagram 1: Net Savings



Source: Field Survey data 1999-2000

Diagram 2: Net Savings and Project Inputs



Source: Field Survey data 1999-2000

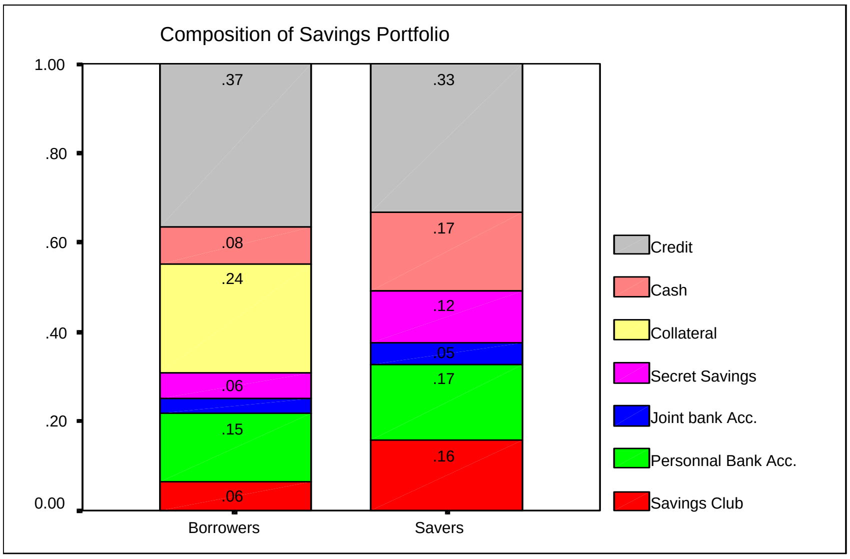
These two approximations of the impact of the credit on savings should be carefully analysed. Indeed, the determinants of savings are multiple[35], and the impact of one factor can only be assessed with accuracy if all other factors remain equal. This is never the case in social science, but this was particularly true in the present study. One factor among others could easily explain why the credit programme has had no impact on net savings mobilisation: inflation. Since the beginning of 1999, it has increased from below 20% to between 50 to 70%. During the same period, banks have not adapted their interest rate on savings accordingly: from between 5 to 10% before 1999, it has only been increased to between 10 to 20% now. In other words, money placed at the bank looses 30% of its purchasing value annually at the best, and 60% in the worst case. In that type of environment, should we expect people to increase their monetary savings? On the contrary, it is far more rational to keep as little monetary savings as possible and to invest in goods. In fact, this is the trend showed by graphs 1 and 2, which could mean that borrowers have adopted this more rational strategy.

Credit programmes may not only affect the amount of savings, but also the saving purposes and therefore the composition of the portfolios. Indeed, it was often mentioned during interviews and group discussions that "borrowers now save towards repayment of their loans". As these repayments take place every month, they are not keen to save at their saving

[35] See the paper "Saving Strategies of Poor Women in Zimbabwe: a Socio-economic Perspective" presented at the same conference.

club level and rather opt for more liquid types of savings, like cash on hand and personal bank accounts. Data does not totally confirm this hypothesis. On one hand, borrowers do indeed put a smaller proportion of their monetary savings[36] at the savings club level: 6% compared to 16% for savers. Focus group discussions confirmed that trend: “Before credit we saved more at the savings club: now we have reduced the amount as we save towards repayment”, says one participant; “Borrowers end up saving very little”, says another. But on the other hand, they do not hold more liquid savings: cash on hand represents 8% of their portfolio, compared to 17% for savers, and money at the bank represents 15%, compared to 17% for savers. The two most important types of savings are their creditors (37%), probably as a result of an increasing business activity, and the collateral for their loan (24%). The data does not allow us to conclude that this is the result of constraint –“I am unable to put a bigger proportion of my savings in my personal bank account”- or of a strategy to hold as little savings as possible in times of high inflation.

Diagram 3: Composition of savers-borrowers portfolios



Source: Field Survey data 1999-2000

Diverted loans

From the available data[37], it appears that only 20.6% of the borrowers use all of their loans for the purpose mentioned in the application[38], while 57.1% said that they used their loans only partly for the original purpose and 22.2% admitted that they used the

amounts fully for other purposes. In terms of amounts, only half of the amount disbursed by SHDF had been used for the projects mentioned in the application. The other half had been used for other projects (22.8%) and for other uses (26,8%), mostly education, daily expenses, agriculture[39], buying assets and re-lending. This issue of the use of loans is a sensitive one among providers of micro-credit. Some argue that people should respect their contract and

[36] In this case gross savings (not taking into account credit owed by the borrower) and not net savings.
[37] People were asked to detail the actual use of their loans, and some could not (or did not want to) remember.
[38] 50% of loan applications are for commerce-trade, 27% for manufacturing (sewing, tie and dye, bakery, basket making, etc.), 15% for agricultural and livestock projects, 7% for horticulture and 1% for services (mainly hair-dressing). SHDF, *Portfolio Report, December 2000*.
[39] It is SHDF policy that loans cannot be used for rain-fed agriculture which is considered too risky.

invest into the project that has been stated in the application, for which there is a precise budget and which has been assessed by the other group members and the credit officers. Failing to do so would mean that budgets are useless and, worse, that people select themselves and co-guarantee each other on a very subjective basis.

On the other hand, others argue that flexibility is the key to success. Four main reasons support that argument. First, when they receive their loans, clients may realize that another project is more profitable or less risky, and invest in it. In this case, both the clients and the provider benefit from flexibility. This reason is however not relevant if money is invested in "non directly" or "long term" productive uses, like school fees, daily expenses, buying assets, banking or contributing to a funeral. Secondly, strict control is believed to affect repayment, as it decreases the level of responsibility of the client in case of project failure: "You told me to do that project. It has failed, so I am not fully responsible for the missing repayments". Thirdly, control also affects the institution, as the cost involved is prohibitive and can undermine the sustainability of the programme. Finally, the use of loans has no impact on the repayment rate. Indeed, within the 2000 survey sample, there is no clear evidence that people who used their loans for another project or even for non productive purposes found it more difficult to repay.

In conclusion, the fact that borrowers actually use or do not use their loan for the project as per contract should not worry lenders too much. A more relevant question is: do borrowers have a profitable project and, if it is risky, do they have the support of their family and their fellow club members?

Decreased informal lending

As mentioned in section one, poor people did not wait for micro-finance institutions to save and to get their first credit. Many households in resettlement areas obtained loans from AFC in the eighties and early nineties. But the bulk of credit has been channeled through informal institutions, mostly ROSCAS, and through customers, relatives and friends. Apart from their financial purpose, these forms of credit play a very important social role. While they might sometimes be considered as social constraints by lenders, they increase interdependence and reinforce trust within communities. Therefore, critics of micro-finance have been right to highlight that micro-credit might not increase the total amount available for investment, but only substitute informal lending[40]. By doing so, it affects essential networks and depletes the "social capital" of the communities.

Our data does not support that hypothesis. We have classified informal lending (and borrowing) into three categories: credit with family members (including family of origin, family of the husband and own children), credit with members of organisations (savings club, ROSCAS[41] and church) and credit with friends and neighbours. Savers and borrowers were asked if they did borrow or lend from these categories of people in the last 6 months. The results were as follows:

[40] This should not be confused with the "displacement issue" mentioned before, which describes the negative impact of subsidized interest by micro-finance institution.
[41] Not the credit of the ROSCA itself, but additional informal credit between ROSCA members.

Table 6: Informal lending

		% Savers	% Borrowers
Borrowing from	Family members	31	33
	Savings club members	9	24
	Church members	28	19
	ROSCA members	29	21
	Friends and neighbours	47	41
	Total (Any of the above)	**72**	**68**
Lending to	Family members	41	40
	Savings club members	19	43
	Church members	19	16
	ROSCA members	29	26
	Friends and neighbours	50	47
	Total (Any of the above)	**78**	**78**

Source: Field Survey data 1999-2000

Two conclusions can be drawn from these figures. The first is that savers do not use informal credit significantly more than borrowers. Secondly, the only significant difference occurs for borrowing and lending between savings club members. Borrowers appear to use more that type of credit than savers. In fact, this form of credit may have partially replaced other forms of informal credit. This can be easily explained by SHDF credit methodology: as borrowers are co-responsible, they lend and borrow from each other in order to meet the club monthly repayment. The credit programme has therefore increased internal lending within the club. It is however difficult to tell if this is a positive or a negative outcome of the programme. For some clubs, it might reinforce solidarity and trust between members. But for others, it may increase tension and trigger conflicts.

Missed target

The second issue is that, as for the savings programme, the credit scheme does not benefit the poorest of the poor. Indeed, as all borrowers are also savers, the conclusion reached in the previous section is still valid: the credit programme has not reached the poorest, at least in rural areas. But if this was a major weakness of the savings mobilisation programme, as the poorest section of the population should be given the opportunity to save, the same cannot be said about the credit programme: that very poor people are not interested in taking loans is quite normal, as they fear being unable to repay and end up in a worse situation than before the loan. It also raises a very relevant question to microfinance organizations: does everyone need a loan?

For SHDF, it is important to know if a second differentiation between savers and borrowers is added to the first differentiation between members and non-members. In other words, can it be said that borrowers are “better off”, savers “average” and non-members “poorer”? Again, using access to manufactured resources as an indicator of poverty, the data shows different trends in urban and rural areas. In urban areas, borrowers have indeed access to more resources than savers (estimated worth: Z$46,756 compared to Z$34,242) and the programme can be criticized for not reaching the poorest urban members. But in rural areas, the contrary is true (Z$23,803 for savers compared to Z$20,793 for borrowers), and savers also own more animals than borrowers. As rural savers are slightly more advantaged than borrowers, the credit programme cannot be accused of focusing on the better off members.

Increased differentiation

“Does the credit programme increase differentiation?” is another relevant question. Though there is not as yet quantitative evidence of such a process, discussions among members and

with husbands bring some light on the issue. The overall feeling of members is that credit indeed increases differentiation:
"Borrowers are more motivated to start new projects, to work harder and to make more money"
"Borrowers dress better, they send their children to school, they eat better and they are able to buy seeds and fertiliser before others"
"During club meetings, borrowers have more to talk about, savers are quieter"
"With good planning, the credit certainly enhances your business"

If this is the general feeling, there are also numerous examples of people who did not benefit from the scheme: among them are the 24.2% of the interviewees who admitted that it was not so easy to repay their loans, and the 10% who said it was difficult. The reason most often cited is that the project did not go as well as expected (55.6%). From 1997 survey, it appears that 23% of the borrowers had returns on investment (partially borrowed from SHDF) inferior to 100%, thus loosing money, and that another 26% just made slight profits between 100 and 120% over the investment (Marx, Losse, Chikami, 1997, p. 20). As one member says: "Some borrowers fail to make it and at the end they borrow to repay their loans".

The 1999 survey on defaults and arrears also highlighted the lack of project appraisal before giving the loan as a major reason why people fail to repay and end up worse than before. In conclusion, there is at least some evidence that the credit programme does increase differentiation not only between savers and borrowers but between good and bad borrowers.

Conflicts within households

In a recent article that shocked microfinance adepts, Aminur Rahman produced some evidence that the Grameen Bank scheme "increases tension and frustration among household members, produces new forms of dominance over women and increases violence in society" (Rahman, 1998, p. 67). Violence is often caused by "women's refusal to give their loans to men or challenging men's proposal of using women's loans" (id., p. 75). Rahman found that 60% of women's loans are used by men[42].

Financial management within households is a complex socio-cultural issue, and Zimbabwe is very different from Bangladesh. Moreover, attitudes are changing fast. In Zimbabwe, as mentioned in section 3.1, women are now encouraged by their husbands to start income generating projects in order to bring money into the home. In most households, women have increased their contribution to family expenses, and this trend is independent from the credit programme. In exchange for that contribution, they have earned some financial independence, as they are now allowed to open personal bank accounts. This is the general trend, but situations are very different from one household to another. The introduction of the credit programme must be analyzed in that changing environment. Many husbands were first reluctant to let their wives take a loan from SHDF. As heads of household, they still feel responsible in case of repayment problems and they were afraid to take such a risk. With time however they saw the benefit that it brought to the family in general and to them in particular. One ward representative said:

"Many husbands were very against credit at the beginning but after a few months, their wives managed to convince them to take very small loans. They saw that they were making good

[42] H. Todd also mentions the negative effect of "pipelining loans", though the percentage of women involved is smaller (25%) (Todd, 1996, p. 84).

profits and that it enhanced the family. Now the same husbands often come to thank me and SHDF for the programme".

However, when husbands are convinced about the benefits of the programme, they often interfere with women's decision to take another loan: one out of four (24.2%) borrowers mentioned that their husbands were asking them to take a loan. So, as in Bangladesh, husbands play a major role in the process. But the comparison stops here. Indeed, while 60% of women's loans are used by husbands in Bangladesh, only one out of 66 SHDF borrowers mentioned that she gave her loan to her husband. What is even more surprising is the role husbands play in case of repayment problems: 52% of the borrowers who have faced such situations were helped by their husbands. As the family reputation is at stake, they have no other choice than to help. This is an extremely important guarantee for SHDF, much more reliable than the members who formally agree to co-guarantee each other, but who are less likely to be called to help (15%).

Division within savings clubs

27 savings clubs (12 rural and 15 urban) were closely observed during more than one year, and each one had a different story. The relevant question here is: does the credit programme have any positive or negative impact on savings clubs in terms of cohesion, leadership and dynamism[43]?

For the purpose of this research, we have classified into two broad categories the problems that clubs are facing, problems which existed before the introduction of the credit scheme or which are independent from the scheme (named "savings problems"), and problems which are linked to the introduction of the scheme ("credit

problems"). Among the 27 clubs surveyed, 16 of them (59%) are facing problems from the first category, against 7 (26%) for the second category, with obviously some overlapping.

Among the 16 clubs facing savings problems, 5 complained about poor leadership from the chairperson, 5 about mismanagement of funds, one about division between members and 13 were not saving at all. Poor leadership takes several forms. Lack of democracy is common, and easily explained by the socio-cultural context as, especially in rural areas, people fear each other and avoid open conflict[44]. As a consequence, most of the clubs do not hold formal elections and only change committee members when they move or die. In one of the clubs, the chairperson is an old widow. In private, everyone complains about her lack of motivation and her relationship with others, but during meetings, no one dares to openly confront her as she is thought to be a witch. In other savings clubs, committee members have taken advantage of their position and abused club money.

Mismanagement of funds may involve the treasurer, the secretary, the chairperson or all of them. Out of the 5 clubs facing that kind of problem, 4 have not been able to solve it. Division between members is faced by one club which is still functioning relatively well. Members do not agree on the sharing of interest accumulated on the bank account, with old women willing to share and young ladies preferring to capitalize. Among the 8 clubs who face leadership and/or mismanagement problems, 7 have stopped saving. 6 other clubs have stopped saving but apparently with no other reason than lack of motivation.

[43] The impact on savings mobilisation as been dealt with at individual level
[44] This fear explains why intimidation has been so effective during June 2000 legislative election.

In conclusion, at least in this particular region, the picture is not so bright, with only 41% of the clubs with no major problems and saving regularly.

The impact of the credit scheme must be assessed in that particular context. Out of the 7 clubs which are facing credit related problems, 5 were already facing savings related problems, which put into question the credit programme procedure to select the best clubs. Surprisingly, there has been no problem of mismanagement of funds[45], though there is much more money at stake than in the savings mobilisation programme. One club is facing a major misunderstanding with SHDF concerning repayment, and the 6 remaining clubs complain about division between members. That division takes several forms. In two clubs, it opposes savers and borrowers: in the first one, borrowers want to increase the individual saving minimum balance to Z$ 600, in order to open an account with a commercial bank, which would facilitate disbursement and repayments, but savers do not want to save so much. In the other, the chairperson is not interested in the credit programme and refuses to sign loan agreement forms, as she fears she could be held responsible in case of no repayment[46]. In two other clubs, new members complain that application forms are not distributed fairly by old members. In still another club, young members with good projects feel frustrated at having to pay for old women with no profitable projects, and are in the process of forming a new group. Finally, the last club has been hijacked by

a new chairperson who decides personally who should receive a loan and who shouldn't.

On the positive side, 9 clubs have been facing neither savings nor credit problems. Two of them have joined the credit programme too recently to assess any positive changes. Among the 7 others which have been participating for more than one year (up to four years), at least 5 have improved in terms of leadership, cohesion and/or dynamism and 2 clubs did not experience major changes.

In conclusion, the credit programme poses a major challenge to savings clubs. For some members it is a new opportunity, for others it is a threat. Among those who see it as an opportunity, there might be conflicts of powers between old and young members, old and new members, committee and ordinary members. 22% of the clubs are suffering from such tensions, and SHDF should find solutions to help members to solve them.

Nevertheless, the credit programme cannot be blamed for what happened before it was introduced, or what seems to be caused by other factors. In most of the cases (5 out of 7), credit has brought division where there was already poor leadership, misuse of funds or simply no saving discipline. And the fact that 59% of the clubs are undergoing such difficulties puts more into question the savings mobilisation programme than the credit programme.

From savings clubs to credit clubs

While this should be assessed in the long term, the credit programme seems to have transformed the "core business" of the savings clubs themselves. On the positive side, in areas where the programme is implemented, savings clubs receiving credit have joyfully promoted

[45] In the default and arrears survey, mismanagement by a chairperson or a ward representative was mentioned by 8% of the defaulters

[46] This is a common misunderstanding. In reality, only borrowers from a same group co-guarantee each other.

the organization in their area. Ward and district representatives are overwhelmed by applications to form new clubs, and the demand for training grows dramatically. Dormant clubs are also revived with the prospect of getting access to credit in the near future. In other provinces, clubs are also excited by the new product. On the other hand, credit has raised unrealistic expectations. All provinces are competing to attract the programme as soon as possible, but SHDF and the donors want to manage the growth carefully. In the provinces where the programme is not yet implemented, a good number of clubs are disappointed, and many new formed clubs are disappearing. The second negative effect is that, unlike prior to 1995, most new clubs are "credit driven". They are not as much interested in saving and socializing as old clubs. The club is no longer an end in itself, but a tool to obtain a loan. Cohesion is based on contract, not on solidarity. Social objectives have been sidelined by individual objectives. That contradicts SHDF objective, and in the long term, it might have a negative impact on the credit programme[47].

Part three: Conclusions and Policy Recommendations

The objectives of the paper were (1) to highlight the factors that have led the oldest and major saving movement in Zimbabwe to get involved in the implementation of a credit scheme, and (2) to assess the impact of that change on the institution itself as well as on its members.

The following conclusions can be drawn from the historical analysis:

- Prior to the emergence of the savings movement, colonized Africans had already developed certain forms of savings organization, such as the burial society and various cooperative attempts among the emerging black middle class, in order to confront the impoverishing effects of colonial rule. In addition the colonial state itself made limited attempts to provide credit for the black population. Such attempts were proscribed both by the discriminatory policies of the colonial state, and the imperatives of the financial system which sought more profitable outlets for capital accumulation. Thus the combination of racist colonial policies and the logic of a capital accumulation which siphoned surplus from rural and urban production into spheres of greater profitability, ensured that attempts to provide a sustainable system of credit for the disadvantaged majority were continuously undermined.

- Within the context of these constraints the savings development movement was developed from the early 1960's, in an attempt to harness community self-help activities, and to provide a means of dealing with colonial marginalisation. The movement grew impressively in the ensuing period, as marginalized women, in particular, saw in it a means to increase their limited capacity for savings, thus expanding their ability to meet basic expenses.

- In the post-colonial period the SHDF continued to expand, as the new state's efforts to expand credit to blacks proved to have a limited effect on the poor. Moreover the constraints of the financial system that marked its efforts to provide credit to the poor in

[47] This shift to more individualistic attitudes and values is specific to SHDF, as the initial aim of the movement was not "financial" but "educational/social". In micro-finance in general, the perspective of savings and credit is merely financial, and saving as such is as much individualistic as borrowing. Some would even ague that credit strengthen the social relationships and the sense of community thanks to the co-guarantee system.

the colonial period, continued to characterize financial policies in the period after independence.

- The SHDF also had to deal with the hegemonic ambitions of the new post-colonial state, which sought to dominate all potentially autonomous civic organizations in its pursuit of state consolidation, during the first decade of independence. It thus had to confront disruptions of state interference, as the latter sought to restructure control of a large rural based movement, in which the ruling party saw the potential for widespread rural penetration.

- In the period of the Structural Adjustment Programme after 1990, the donor community took advantage of the new ethos of economic liberalization, to push the SHDF into a micro-credit scheme, aimed at providing a more sustainable financing basis for both the SHDF and its membership. This new trajectory found an increasingly sympathetic audience from a state unable to meet the welfarist needs of its citizens, and desperate for new policies on poverty reduction. In the 1990's this call for easier credit for blacks broadened into an indigenisation lobby, that played a central role in placing the issue of black economic empowerment on the government's political agenda. Thus as the state has sought new policies to reduce poverty in the era of structural adjustment, the donor community has channeled funds away from the state to community based organizations, as part of the reduced emphasis placed on a dirigiste state by the international financial institutions.

From the second part of the paper, a number of conclusions can be drawn on the changes brought by the micro-credit programme to SHDF and to the savings club members:

- It is not exaggerated to say that credit has completely transformed the organization. On the positive side, it has forced SHDF to clarify its vision and mission, separating clearly its "financial" and "educational" objectives. It has improved professionalism among the staff, and given opportunities for internal promotion. It also brings prospect of financial sustainability for the savings and credit entity, and allows the training unit to focus on its core business.

- Credit has not only brought more opportunities, but also some threats. In fact, even its new vision and mission face three major threats: (1) the current macroeconomic environment which puts into question the "rationality of mobilizing monetary saving"; (2) the absence of regulatory framework for savings mobilisation activities; (3) the pressure from donors to reach financial self-sufficiency as soon as possible. These three factors are encouraging a shift in focus from microfinance (savings <u>and</u> credit) to micro-credit (credit <u>without</u> savings), and from the rural poor to the urban elite.

- Concerning the impact on members, the paper tests eight of the most usual criticisms of micro-credit programmes. Five hypotheses could not be confirmed. (1) The programme has indeed no impact on net savings, but is it rational to save more money in a bank account yielding an interest rate of 15 or 20% when inflation fluctuates between 50 and 70%? (2) It is true that a majority of borrowers (80%) do not use their loans as specified in the application form, but that has no impact on repayment rate, and flexibility has its own advantages. (3) In terms of target, with an average loan amount of US$78, it is difficult to criticize the programme for not reaching the poor. Moreover, it is not certain that everyone needs and is able to repay a credit. A more crucial issue is that rural savings club members are significantly better off than non-members. And it is clear that everyone needs some kind of savings! (4) The credit scheme appears to have no negative impact on informal lending between savings club members. (5) Finally, the programme does not increase conflicts and violence within household. Actually husbands are very supportive of the programme. They are not using the loans for their own purposes yet they feel responsible when a problem occurs.

- Three hypotheses could be confirmed. First, the programme apparently increases differentiation between savers and borrowers, and also between “good” borrowers and “bad” borrowers. Secondly, the programme does bring division within clubs: division between savers and borrowers, division between old and new members, and division between successful and unsuccessful entrepreneurs.

Finally, the programme has boosted the creation of new clubs, but many among them seem to be “credit clubs” rather than “savings clubs”. This is symptomatic of a more individualistic attitude, contradictory to SHDF ideal and dangerous for the credit programme.

These shortfalls do not put the relevance of the programme into question[48]. Actually, highlighting them is extremely useful in order to improve both educational and financial programmes.

- The new NGO, responsible for all “educational” activities, faces the following challenges. First, savings clubs should be opened to everyone in the community, including the poorest. Clubs are not mere financial institutions. They are social networks. Poor women need that kind of social security more than better off women. Finding ways to reach that category of people should be a priority. Secondly, existing savings clubs do not seem to operate so well. Members have to learn how to work together, save together, trust one another. Leadership is a key factor of success. People should know the importance of holding regular elections in order to choose efficient leaders, capable of motivating the group and solving conflicts. Accountancy is no less important, and basic record keeping is a must for everyone, not only the treasurer. Entrepreneurship is essential to improve family standard of living through profitable projects, and technical and project management training have proved their usefulness. Only when these conditions are fulfilled can the savings and credit entity operate efficiently.

- There are also some challenges for the new MFI. This institution should always bear in mind two principles. First, from the members’ point of view, saving (in cash or in kind) is the objective and borrowing a means. Secondly, MFIs are not commercial banks: their objective is to reach to poorest, not the wealthiest. These principles should draw the lines for savings and credit policies. On the savings side, the MFI should propose savings products (including savings in kind products) that are within the reach of the poorest. On the credit side, the growth of the portfolio should not be an aim in itself. Not all members need credit, and those who need it should be carefully selected and trained. In the words of Brother Waddelove: “Credit is like a fire: it is useful to cook your sadza but if you are careless, it will burn your hut”[49]. A good numbers of SHDF borrowers have “burnt” their capital, instead of increasing it. SHDF should also work hard towards sustainability, but

[48] Other types of criticisms might do so, but not on the basis that the programme has no impact. See box “Main debates within Microfinance”.
[49] Personal communication, 25 February 2001.

not by giving up its mission to serve the poorest women. It is believed that an appropriate "cross-subsidization policy" would allow to achieve both outreach and sustainability objectives.

ANNEX 1: Profile of Savings Club Members

Detailed information on savings club members is not available, as SHDF does not keep any database on its members. Several surveys[50], whose samples are supposed to be fairly representative of the overall membership, have, however, come with the following profile of savings club members.

Ethnic background*:* 74% of the clubs are situated in Shona areas, and 26% in Ndebele areas. Assuming that the average number of members is the same in both regions, this means that Ndebele people are better represented in savings clubs (1:3) than in the country as a whole (1:4).

Gender: 93% of the savings club members are women. Women represent 91% of the participants in the credit programme and 100% of the 2000 study sample.

Age**:** on average, members are 43 years old, with no significant difference between savers and borrowers.

Education: on average, members have reached grade 7 (end of primary course). There is no significant difference between savers and borrowers.

Religion*:* church affiliation varies from place to place, as it is closely linked to the type of school available in the area. In the 2000 survey, 20% of the interviewees were catholic, 28% protestant, 11% Pentecostal and 21% Apostolic.

Marital status: 4 members out of 5 are married. 14% are widows and 5% divorced or separated.

Dependants*:* on average, members have 5 dependants. Urban members have less dependants (4,2) than rural members (5,4).

Employment*:* only 3% of the members are in formal employment. In comparison, 48% of the members' husbands are employees. Concerning husbands, they are significant difference between rural (35%) and urban (77%) areas, and between savers (38%) and borrowers (52%).

Members*' Projects:* 96% of members are running projects. On average, members have 2 projects. There is no significant difference between savers and borrowers. Most common projects vary from region to region. In rural Mashonaland (North of the country), gardening is the most common project, followed by trade. In rural Matebeleland (South of the country, drier area), craft is more popular. In urban areas, trade comes first, followed by sewing and poultry. Other projects include knitting, crochet, tie and dye, bakery, soap and lotion making, brewing of beer, brick making, etc. On average, savers make a total annual profit[51] of Z$ 12,741 (US$ 335), significantly lower than borrowers (Z$ 17,859, or US$ 470). Differences are huge between successful and unsuccessful entrepreneurs (minimum: Z$ 0; maximum: Z$ 218,538 (US$ 5,751)).

Membership*:* borrowers are generally older members (9 years membership) than savers (5 years membership).

[50] Brand, 1987; Lacoste B., 1998, Awano, 1999; Lacoste J., 2000.

[51] Sum of the profits of all their projects.

ANNEX 2: Savings Club Membership, Methodology and Organisation

Membership:

A Savings Club is a group of people who gather regularly in order to save and to put their individual savings in one bank account. 80% of the clubs are located in rural areas, and 93% of the members are women. Most of them generate modest incomes from farming, livestock, craft or trade, while their husbands work (or look for jobs...) in towns.

Savings clubs are mostly composed of relatives and friends. There are three procedures in forming a new club: the first one is informal: one or a few women happen to have friends who are members, and they are interested in becoming members. If the club is not too big, they could be invited to join. Otherwise, they have to convince relatives and friends into forming a club and they contact SHDF in order to undergo savings management training. It can also happen that clubs become too big[52] and that members decide to split in two groups, creating a new club. Finally, ward representatives and SHDF field staff are always encouraging new people to join and to form new clubs during their meetings in villages and urban neighbourhoods. During the Savings Management Training session, members are asked to write their own constitution and to elect a committee, composed of one chairperson, one secretary, one treasurer and usually 2 other committee members. The chairperson is often a mature person (between 40 and 50 years old) who has taken the initiative or who has successfully managed other responsibilities such as a ZANU PF representative, policewomen, chairperson of a ROSCA, etc. The treasurer must be familiar with figures. The secretary is someone who can write well. Elections are supposed to be held each year, or at least regularly. To join SHDF, clubs have to pay a subscription fee of Z$20 once and members an annual fee of Z$4. Membership gives access to the different services proposed by SHDF.

Saving methodology:

Meetings are held generally once a week, but they can be cancelled due to funerals, during the ploughing season or simply because the chairperson is absent. They always start with a prayer. Members are then asked to bring their savings one by one and the secretary and the treasurer fill in the relevant forms. While members are obliged to attend meetings, they are free to save or not, and to choose the amount that they want to save. In 1999, rural members deposited Z$ 13 on average per meeting, and urban members Z$ 33. Savings clubs are well known for their saving system. When they bring money to the club, members receive stamps with the relevant value and they stick them in their individual savings book. At the club level, records are kept in three types of documents: Form A to monitor sales of stamps; Form B to reconcile club cash books and the bank statement; the Register to keep a record of all individual withdrawals. These documents, together with the bank book, are usually kept by the treasurer or the chairperson. The treasurer goes periodically to town to put the money saved into the account held at a "Building Societies"[53], at the Post Office Savings Bank or in a commercial bank. Savings Clubs are thus intermediate structures between individual savers and formal financial institutions.

Organization of savings clubs:

Savings clubs are organized in a pyramidal structure: clubs within the same ward elect their ward representative, who will attend district meetings and elect their district representative. All district representatives gather regularly in provincial meetings, where they elect a provincial representative who attends national meetings.

[52] SHDF advise a maximum of 30 members par club.
[53] "Building societies" are savings banks that use 10 to 35% of their assets to finance house building.

ANNEX 3: SHDF Credit Methodology

SHDF credit methodology is very similar to the Grameen Bank methodology, but has been adapted to the savings clubs reality. Clubs which want to participate in the credit programme are selected according to the following criteria: the age of the club, its dynamism and leadership, the level and the regularity of savings, the profitability of the projects implemented by members, etc. In its credit scheme, SHDF proposes two kinds of loans: individual loans and group loans. In both cases, club members co-guarantee each other. Experience has shown that very few (less than 3%) clubs opt for group loans.

All interested savings club members must agree to attend a 2-days training session on credit policies and procedures. After the training, application forms are distributed following a specific rule: only one third of the members of each club will be able to apply for the first batch of disbursement[54]. Selection is made by the members themselves. Applications are then approved by the credit officer and the branch manager. A loan agreement is signed between SHDF and the club, where it is clearly mentioned that all borrowers from the same club co-guarantee each other. Maximum loan amount is Z$ 5,000 (US$ 90) for a first loan, Z$ 10,000 for a second loan, etc. Those applying for their 5th loan can access the “special portfolio”. The range is between Z$ 20,000 (US$ 360) and Z$ 100,000 (US$1,800). Interest rate charged by SHDF is currently 6% per month on declining balance. Repayments are made monthly. Members have to deposit a collateral (20% of the loan amount) on an SHDF account. This deposit is devolved with a 15% annual dividend when the client quits the programme.

[54] For instance, if a club has 24 members, it will receive 8 application forms.

Bibliography

African Weekly, (28/11/45, 14/2/51, 25/3/53)

African Region Microcredit Summit, Microfinance in Africa, A Sustainable Approach to Poverty Reduction, Harare, October 8 – 12, 2000

Adams D.W. "Social Sicence Fiction", devfinance discussion group, 5 April 1999

Adams D.W and Vogel R.C: Rural Financial Markets in Low-income Countries: Recent Controversies and Lessons:, World Development, Vol. 14, No 4 477-487

Awano Haruko, SHDF Savings clubs in Zimbabwe. Savings & Borrowing Behaviour and Activities, Kobe, Graduate School of International Cooperation Studies, 1999

Bohn Carmen, Moving Forward: An Analysis of the Impact of the Self-Help Development Foundation of Zimbabwe (SHDF) Credit Programme , Harare, ARE International in Zimbabwe, 1999

Bond Patrick, Uneven Zimbabwe: A Study of Finance, Development and Underdevelopment. Trenton N J Africa World Press, 1998

Brand Veronica, Savings Clubs in Zimbabwe, A survey Report, Harare, School of Social Work, 1987

Chimedza Ruvimbo, Savings Clubs: The mobilisation of Rural Finances in Zimbabwe. Geneva, Rural and Employment Development Department, ILO, 1984

Chishawasha Mission, An Approach to the Credit Union Movement in Rhodesia Salisbury, 1969

Gibbons David and Meehan Jennifer, The Microcredit Summit's Challenge: Working Towards Institutions Financial Self – Sufficiency while Maintaining a Commitment to Serving the Poorest Families:, Paper presented at the African Regional Microcredit Summit, Harare, 8-12 October 2000

Government of Zimbabwe, Ministry of Public Service, Labour and Social Welfare, Micro-Enterprise Development Programme, Harare, 1998

Hall, N.P. Self-Reliance in Practice: A study of burial societies in Harare, Zimbabwe Journal of Social Development in Africa, Vol.2 No.1, 1987

Hulme David, Impact assessment Methodologies for Microfinance: Theory Experience and Better Practice, University of Manchester, Institute for Development Policy and Management, 1999. Available on www.undp.org/sum/microsave.

International Capital Formation and Flora Giassemi, Review of Zimbabwe's Financial System: Identifying Gaps and Opportunities for Micro-finance, Harare, 2000

Lacoste Benedicte, Evaluation of the Technical Training Programme, Harare SHDF- ADRAI, 1998

Lacoste Jean–Paul, Mungoshi Vimbai and Wachenuka Dawn, Management of Resources among Poor Households in Zimbabwe: A case study of Savings Clubs members, Harare, ADRAI-SHDF, May 2000

Lewis W. Arthur, “ Economic Development with Unlimited Supplies of Labour”, The Manchester School, May 1954.

Marx Michael, Losse Karen and Chikami Masuna, Micro-credit in Zimbabwe: Business – not Charity. The Credit Programme of Self-Help Development Foundation of Zimbabwe, Harare, Konrad Adenauer Foundation, 1997

Moyo Theresa, Thematic Issues Impact of Financial Sector Liberalisation, Harare, Poverty Reduction Forum/SAPRIN, 1999

Moyo Theresa, Financial Sector Liberalisation and the Poor: A critical evaluation. SAPRIN, Zimbabwe, 2001

Muchipisi Alter, SCORE: Survey o Defaults and Areas in Marondera and Chiota Districts, CARE International in Zimbabwe, 1999

Mutambira MT, The Self-Help Foundation of Zimbabwe, Paper presented at the ARMS Conference on Micro-Credit in Africa: A Sustainable Approach to Poverty Reduction, Harare, 8-12 October 2000

Rahman Aminur, “Micro-credit Initiatives for equitable and sustainable Development: Who pay?” World Development, 1999, Vol. 27. No.1 pp 67 – 82

Rostow W.W. “The stages for Economic Growth”, Economic History Review, August 1959.

Southern Africa Foundation for Economic Research (SAFER), The Credit Union Movement in Zimbabwe: A Diagnostic Study, Harare, 1988.

Saunders Richard, Associational Life and Civil Society in Zimbabwe, Unpub. Mimeo, Harare, 1996

Self Help Development Foundation of Zimbabwe, Self-Help in Action: Savings Clubs, Harare, 1996

SHDF Credit Programme, Annual Programme, Annual Reports 1997, 1998, 1999 and Portfolio Report, December 2000

Sinnot Brenda, Self-Help Development Foundation, DYDA 6038ureau.ucc.ie 1997

Todd Helen, Women at the Center, Grameen Bank Borrowers After One Decade Boulder, Westview Press, 1996

USAID Zimbabwe, Review of the Legal and Regulatory Framework for Microfinance Institutions in Zimbabwe, Harare, September 1999

Vulindlela, SHDF – The Way Forward, Harare SHDF, February 2000

Ward Rob F, Strategic Planning Workshop, 10^{th} and 11^{th} July 2000, Harare, SHDF, July 2000

West Michael, African Middle Class Formation in Colonial Zimbabwe 1890- 1965, Ph.D Harvard University, 1990

Zimbiti S, SHDF in the 1960's, the SHDF Magazine Volume 1, Number 4, December 1999/February 2000