THE IMPACT OF MICRO FINANCE INSTITUTIONS ON THE SOCIO-ECONOMIC LIVES OF PEOPLE IN ZIMBABWE

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ABSTRACT: *This paper reports on the findings of an exploratory research whose main purpose was to investigate the impact of micro finance institutions on the socio economic lives of Zimbabweans. The study sought to establish whether micro finance empowers the poor and reduces poverty. The study was conducted through the use of eighty questionnaires randomly distributed to clients of five micro finance institutions. The study revealed that there is a positive relationship between microcredit and the socio economic lives of people. It was found out that the activities of microfinance institutions resulted in increased social interaction and socio economic sustainability.*

KEY WORDS: *Micro finance; empowerment; socio economic; sustainable development.*

JEL CLASSIFICATION: *A14; G21; O16; O43.*

1. INTRODUCTION

Micro finance industry is one of the fast growing set of financial driven initiatives aimed at alleviating poverty, aid economic growth and support future growth through financial inclusion. The introduction of the multi currency regime in Zimbabwe has seen the economy improve and notably the financial sector has witnessed significant growth. The economic recovery has also facilitated the increasing growth of micro finance institutions whose main mandate is to reduce poverty through the provision of micro credit to the less privileged people in the society. A growing

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number of micro finance institutions are attempting to build the human capital entrepreneurs in order to improve the livelihood of their clients and help further their mission of poverty reduction. Increased household income, access to health care and education and better living conditions are just a few ways in which micro finance and complimentary services is impacting the poor and under served population around the world (http://www.global partnership.org).

Millenium Development Goals are centred on the reduction of extreme poverty, promoting gender equality and empower women and the development and implementation of strategies for decent and productive work for the youth. It is hoped that micro finance institutions will assist in the achievement of these goals as they are a viable tool used in the eradication of poverty thus improving social and economic welfare of the people. The concept has become a top agenda item at the international fora and thus the United Nations has enlisted micro finance as one of the surest ways of meeting its millennium development goals if it is carefully implemented through sustainable institutions (Mawadza, 2005). It can be argued that the services provided by MFIs should promote livelihood by creating wealth or assets, increasing food security, reducing risk and variance in income and realize a reduction in rural to urban migration. Fisher *et al* (2002). In light of the above this paper seeks to establish whether the increase in the number of micro finance institutions has had an impact on the socio economic lives of people in Zimbabwe.

2. LITERATURE REVIEW

2.1. Micro finance defined

Various definitions of micro finance have been given which give an insight to their aim, scale and nature of financial services provided by MFIs and those which describe the characteristics of the users of these financial services. Micro finance is defined as a range of financial services that seek to meet the needs of poor people both protecting them from fluctuating income and other shocks and helping promote their income and livelihoods (Rogaly, 1999). It has also been defined as the provision of financial services dealing with very small deposits and loans (Johnson & Rogaly, 1999). Adams and Graham (1984) define micro finance as the provision of financial services to low income clients who traditionally lack access to banking and related services. Micro finance involves the provision of financial services that aim to improve and protect the livelihoods of active economic agents who have limited access or are denied access to normal financial services as provided by banks and other formal financial sector institutions because of the small nature of their operations, geographical location, limited sources and volumes of their income base.

2.2. The role of Micro finance Institutions

Micro finance is a movement whose objective is a world in which as many poor and near poor households as possible have permanent access to an appropriate range of high quality financial services (Adams & Graham, 1984). Traditionally banks have not provided financial services such as loans to clients with little or no cash income mainly because costs incurred in processing loans are too high. In addition poor people have few assets that can be secured by a bank as collateral. One may argue that they have land but most of them do not have title to it so that they can pledge it as collateral. This leaves banks with no recourse against defaulting borrowers. Because of the difficulties when poor people borrow, they often rely on relatives or local money lenders whose interest rates are high and are accused of usury. It is therefore the role of micro finance institutions to ensure that the poor also have access to finance for productive purposes. Thus the role of micro finance institutions can be summarized as follows:

- ✓ Improve financial security
- ✓ Facilitate growth of enterprises
- ✓ Allow storage of excess liquidity for future use
- ✓ Improve the livelihoods of low income earners and those of their dependants
- ✓ Help people of low income reduce risk, improve management, realise high return on investments.
- ✓ Social change through empowering women and changing gender relations in the community and households (Robinson, 2001)

MFIs can help poor people to work their way out of poverty by delivering financial services through appropriate mechanisms (Fisher, et al., 2002). He argues that micro credit is necessary but not sufficient for micro enterprise development and promotion. They state that the success of micro enterprises depends on the whole range of resources for example natural resources, human, and financial.

Wooler (2004) states that financial intervention has an impact on social relations partly through their economic effects. In many instances implementers of credit schemes have claimed that their work will lead to progressive social change, for example empowering women and changing gender relations in the households and in the community. Robinson (2001) state that financial services are not the panacea for poverty alleviation but other strategies are needed for the very poor who need food and employment before they can make use of financial services.

Formal financial institutions are regulated and supervised, offer a wide range of financial services and control a branch network and can extend across the country and internationally. However they have proved reluctant to adopt social missions and due to their high cost of operation often cannot deliver services to poor or remote populations (Karlan & Valdivia 2009).

2.3. Social Intermediation

Fisher et al. (2002) describes social intermediation as the means to enable delivery of a technical solution. Ledgerwood (1999) regards social intermediation as a way of building the human capital required for sustainable financial intermediation with the poor. Social intermediation helps in poverty reduction because it develops the economy, empower individuals, building democratic peoples' organizations and changing wider systems within the society.

This is supported by Johnson and Rogaly (1997) who state that in order to design services which are relevant and useful to the poor people, NGOs should understand local economic and social structures and also macro level trends. This means that social intermediation help those who structure and deliver services to understand better the services needed and that can be of benefit.

2.4. Challenges faced by MFIs

Structural challenges. Robinson (2001) claims that subsidized rural credit programmes often do not reach the poor. The credit subsidies become transformed into political pay offs for rural elites and the programmes typically have high defaults and high losses. It is also within Robinson's view that programmes provide loan products which are not appropriate for the needs of the poor.

Sharif et al. (2001) warns against this and recommends that a proper market research and intelligence review be carried out to avoid intervention that will displace and contradict available financial services. They also point out that the informal finance poses a threat to formal structures because of their innovativeness and adaptability.

Karlan and Valvidia (2009) argues that in the developing countries and particularly in the rural areas many activities that would be classified in the developed world as financial are not monetized. Poor people have very little money but circumstances often arise in their lives in which they need money or things that money can buy. Thus micro finance will be considered as a tool for correcting such problems.

Policy and regulatory challenges. Policy and regulatory environment also poses problem to MFIs. White (2006) noted that although there is general consensus on the need for favourable policy environment, there is no current consensus on how to create this environment. They suggest that the framework should be flexible enough to permit unregulated MFIs to evolve.

It is argued that while much progress has been made in developing a viable, commercial microfinance sector, several issues remain which need to be addressed before the industry will be able to satisfy massive worldwide demand. Challenges include:

- ✓ Inappropriate donor subsidies
- ✓ Poor regulation and supervision of deposit taking MFIs
- ✓ Few MFIs that meet the needs for savings or insurance
- ✓ Limited management capacity in MFIs

2.5. Measures to reduce

MFIs make use of social collateral to reduce lending risk. According to Johnson and Rogaly (1997) Grameen Bank in Bangladesh pioneered peer group monitoring. The peer group monitoring is characterized by people selecting themselves into groups that are characterized by similar economic background. The group is ultimately responsible for repayment if the individual defaults.

In Indonesia government sponsored banks have used character reference and locally recruited lending agents. Johnson and Rogaly (1997) assert that both methods can be seen as attempts to lower screening costs by using local insider information about credit worthiness of the borrowers.

Micro loans are given for a variety of purposes but frequently for micro enterprise development. Because of the industry's focus on the poor, MFIs often use non-traditional methodologies such as group lending or other forms of collateral not employed by the formal financial sector (Microfinance Information exchange, 2010).

2.6. Criticisms of micro finance

Researchers suggest that research on the effectiveness of micro finance as a tool for economic development remains mixed in part owing to the difficulty in monitoring and measuring its impact. It is also criticised on the grounds that micro finance is delivered in the absence of other micro finance services such as savings, remittances and insurances which are also critical measures of the well being of society.

Dean Karlan of Yale University studied the impact of micro finance. The results of his study suggest that many of the benefits from microcredit are in fact loaned to people with existing businesses and not to those seeking to establish new ones. He also discovered that the increase in income that went up in business was true only for men and not for women.

3. RESEARCH METHODOLOGY

An exploratory research design was considered the most appropriate in view of the nature of the problem being investigated. A structured questionnaire was used as a data collection instrument. The questionnaire consisted of two sections to be completed by all respondents.

Section A captured data on the role played by MFIs in empowering people socially and economically and also the products and nature of service delivery on offer. Section B captured data on challenges faced by MFIs and the measures and techniques that can be implemented to mitigate the challenges.

Eighty questionnaires were distributed to randomly selected customers of five microfinance institutions. Due to commercial confidentiality and sensitivity of information the questionnaire was designed in a manner that did not require the respondents to reveal their names nor branches. Interviews were also conducted with top management of the selected MFIs.

4. DATA PRESENTATION AND DISCUSSION

4.1. Efficiency of lending approaches

The data collected on the efficiency of the two main forms of lending approaches used by micro finance institutions to empower people is shown below:

Table 1. The efficiency of lending approaches

Approach	Poverty lending			Financial systems		
Response	Good	Fair	Poor	Good	Fair	Poor
Frequency	40	20	20	30	40	10
Percentage	50	25	25	37.5	50	12.5

As depicted in table 1 above 50% of the respondents indicated that the poverty lending approach was good, whilst 25% indicated that it was fair and the rest felt that it was poor. As for the financial systems approach 50% of the respondents indicated it was fair whilst 37.5 % indicated that it was good. Although the lending approach ensures that financial services reach the targeted clients, it is often unsustainable because it is highly subsidized and may not be driven by business motives, but based purely on humanitarian grounds.

4.2. The role of micro finance institutions

The research also sought to establish the role of MFIs. The results from the questionnaires are shown below:

Table 2. The role of MFIs

Description MFIS often try to:	Agree (%)	Not Sure (%)	Disagree (%)
Increase social interaction and linkages	70	15	15
Negotiate on behalf of poor people	20	40	40
Empower the poor and the marginalized	55	15	30
Use resources to develop the community	20	60	20
Integrate activities with those of welfare and humanitarian centered NGOs	65	25	20
Create organizations owned by people who cater for poor people's needs	85	8	7

The data collected was focused on determining whether the operations of Micro Finance Institutions bring about socio economic sustainability. The table above shows that most of the respondents agreed that MFIs have a role to play in the socioeconomic lives of people notably through creating organizations owned by people who cater for people's needs (85%). People cantered institutions are the basis for a thriving democracy and play critical role in empowering the poor. Sustainable development is sometimes brought through integration of activities of MFIs with those of NGOs centred on welfare and humanitarian.

Responses obtained from the questionnaires indicated that increase in social interaction and linkages (70%) was also a significant role played by MFIs while 65% indicated that integrating activities with those of welfare and humanitarian cantered NGOs was major. Sustainability is brought about through cooperation and positive competition.

4.3. Challenges faced by MFIs

Data was collected from the respondents concerning the challenges currently faced by MFIs and the results are shown below:

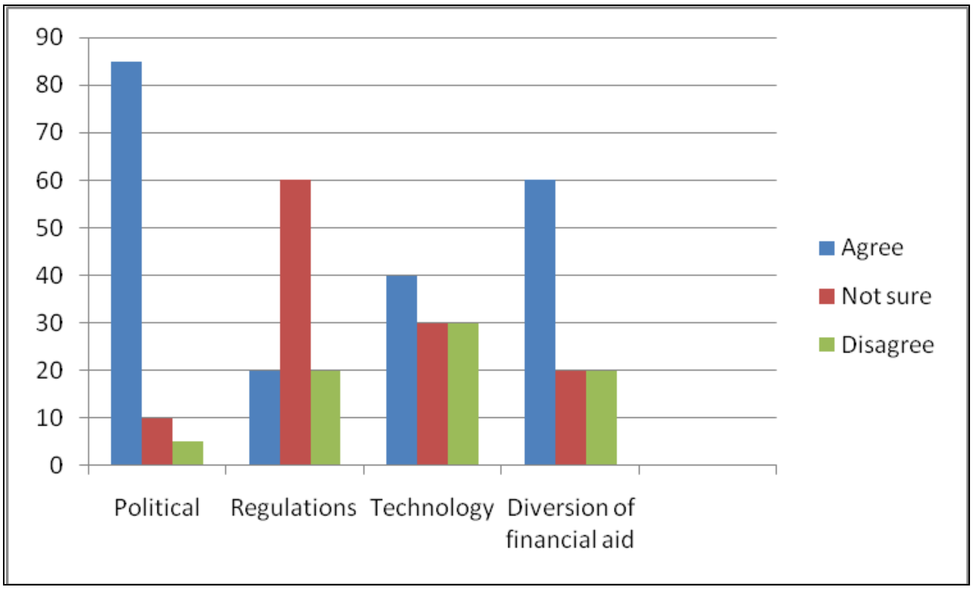

Figure 1. Challenges faced by MFIs

Of the respondents, 85% indicated that political unrest and security problems were the major challenge they faced. Most respondents (60%) were not sure whether the regulatory environment was too tough to present a challenge to MFIs. 60% of respondents sited that financial aid meant for communities was being diverted to other uses. Most respondents felt that financial aid brought to them through micro finance institutions which work with humanitarian centred NGOs is sometimes regarded as a package for political campaigns.

In order to identify techniques that can be employed to reduce the negative impacts of micro finance institutions questionnaires were sent out and responses are shown below:

Table 4. Techniques to mitigate challenges faced

Technique	Good (%)	Fair (%)	Poor (%)
Entrepreneurial training	80	10	10
Partnership of government, donors and financial service providers	60	30	10
Eradication of politically affiliated NGOs	70	10	20
Financial deregulation	40	20	40

It was found out that 80% of the respondents indicated that entrepreneurial training was successful as a measure of mitigating problems faced by MFIs. 70% of the respondents were of the opinion that the eradication of politically affiliated NGOs was successful in addressing the challenges faced by MFIs. Partnership of government, donors and the central bank with the service providers was considered a successful technique. 40% of the respondents sited financial deregulation as a measure to reduce the challenges faced by MFIs.

4.4. Products and services delivered by MFIs

Respondents were requested to indicate the services and products they receive from MFIs. The products and services delivered by MFIs are an essential tool used in poverty alleviation among the poor rural communities. The table below shows their responses:

Table 5. Products and Service delivery by MFIs

Service description MFIs help people to:	Agree (%)	Not Sure (%)	Disagree (%)
Access loans and become productive	55	15	30
Create market linkages	60	30	10
Cooperate for the good of the economy	30	45	25
Fight poverty and improve living standards	80	5	15

A majority of the respondents (80%) indicated that the main service offered by MFIs is the fighting of poverty and improving the living standards of the people. 60% of the respondents indicated that the role of MFIs was to create market linkages whilst 55% were of the opinion that MFIs were in existence so as to enable people to access loans for productive purposes.

4.5. Socio- economic dimensions

In evaluating the impact of MFIs a number of measures were used to indicate the economic and social well being of individuals in the community. Respondents were requested to indicate whether they had benefited from MFIs and the results obtained are shown in the table below:

Table 6. Socio economic impact

Dimension	Agree (%)	Not sure (%)	Disagree (%)
Improved social well being	80	10	10
Food availability	70	13	17
Access to education	60	20	20
Improved housing	60	10	30
Improved health	50	25	25

From the results obtained 80% agreed that funding they had received from MFIs had improved their social well being as they were now able to obtain decent food (70%), have access to education (60%) were living in better houses (60%) and were able to send the sick to the hospital (50%). Education and health services were now accessible to many people in society.

5. CONCLUSION

This research concluded that MFIs bring sustainability through various ways with each technique having an impact on the socio economic well being of people. MFIs create organizations which are owned by people who cater for people's needs. However the operations of MFIs are being interrupted by political unrest and insecurity. It was also discovered that financial aid meant for communities was not reaching the targeted beneficiaries as it was being diverted to other uses. A majority of the respondents hold the view that financial challenges emanate from political factors as a result of failing to create good international relations resulting in sanctions being imposed on a nation.

Problems faced by MFIs could be mitigated through the use of techniques such as entrepreneurial training which equips the public with adequate business knowledge. There was also need for unity of purpose among donors, governments the central bank and service providers to reduce the problems faced by MFIs.

The major services provided by MFIs as confirmed by the respondents were revealed to be the fighting of poverty to improve living standards of people. MFIs are regarded as an essential tool that help people access loans and become productive. These MFIs assist micro entrepreneurs to fund their project especially those who cannot access loans from traditional banks and thus beneficiaries indicated that MFIs have a positive impact on the socio economic lives of people.

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