ZAMFI

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ZIMBABWE ASSOCIATION OF MICROFINANCE INSTITUTIONS

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Readers can send their contributions for publication to:

The Editor
The Microfinance Monitor
P.O. Box MP 1151
Mount Pleasant
Harare, Zimbabwe
E-mail : *zamfi.info@utande.co.zw or zamfi@utande.co.zw*

ZIMBABWE ASSOCIATION OF MICROFINANCE INSTITUTIONS

"Creating sustainable microfinance"

ZAMFI amends constitution

In an effort to attain a 100% representation of the microcredit sector, the ZAMF) Annual General Meeting (AGM) held on 6 May 2005 amended the association's constitution to accommodate all moneylending and microfinance institutions (MFIs & MLIs) registered by the Reserve Bank of Zimbabwe.

The amendment which effectively seeks to make the association's membership open to all registered MFIs & MLIs comes at a time when the Reserve Bank of Zimbabwe RBZ has so far registered at least 25 MFIs and 109 MLIs. ZAMFI now feels that by taking on board all licensed microcredit institutions in the country, it is assured of representing an ethical and incorruptible microcredit family.

Speaking after the AGM, the association's Chairman Mr. Jestias Rushwaya said the move to take everyone on board was largely necessitated by the challenges being faced by the association in its advocacy and lobbying functions.

He said the association has resolved to accept only MFIs and MLIs registered by RBZ to avoid accepting dubious players, like loan sharks who take the borrowing public to ransom by charging exorbitant interest rates and through unethical realization of securities.

The ZAMFI Executive Director Mr. Godfrey Chitambo said the association expected to represent at least half of all registered microcredit institutions in Zimbabwe by the end of the year.

He said: "We will be launching our membership drive in early June and we hope to be representing at least half of all the registered MFIs and MLIs by the end of the year."

RBZ warns MFIs and MLIs

By Milton Shoriwa

The Reserve Bank of Zimbabwe (RBZ) governor Dr. Gideon Gono has warned microfinance and moneylending institutions operating without licenses that such disregard of the law will be met with severe regulatory enforcement

Presenting his Post Election and Drought Mitigation Monetary Policy Framework on 19 May this year, the RBZ governor said that by the end of April the central bank had processed 133 of the 260 moneylending and microfinance license applications the monetary authorities have received. He said the central bank has tightened its licensing framework because of increased ignorance of statutory fields of operation by the MFIs and MLIs.
"Due to observed instances of microfinance and moneylending institutions going astray off their statutory fields of operation, the licensing framework has been markedly tightened, as well as the follow-up supervision and surveillance systems," Dr. Gono said.

The move is set to further instill discipline into the microcredit sector in Zimbabwe since the RBZ took over the licensing and regulation of the microfinance and moneylending institutions in January 2004. The RBZ governor said the central bank's surveillance capabilities from a logistical mobility, systems and manning levels have been considerably strengthened and added that MFIs and MLIs operating without the central bank's authority will face the full wrath of the law.

He said: "As Money Authorities, we also wish to once again strongly warn those institutions operating without licenses that such breach of the law will be met with unrelenting regulatory enforcement."

Dr. Gono said the application of provisions of the banking act to, amongst other statutes, the Moneylending and Rates of Interest Act, [Chapter 14:14] was done in line with the Monetary Authorities announcements in January this year on the need for constant realignment of the regulatory framework to suit changing conditions in the environment.

He said this, as clearly set out in the Government Notice 101 Of 2005 published on 11 March 2005, means that microfinance and moneylending institutions including building societies, asset management companies, the POSB and collective investment schemes are now subject to the same strict Supervision and Surveillance standards similar to those of other banking institutions.

He said it was important that all the players in these sectors familiarize themselves with the supervisory and surveillance standards in the Banking Act together with the guidelines issued by the reserve bank to ensure total compliance.

The microfinance and moneylending sector had, until the coming on board of the RBZ as the regulator, been riddled with unscrupulous loan sharks who were short-changing the unsuspecting public through exorbitant interest rates and other unfair business practices.

AGM elects new board members

The ZAMFI AGM held on 6 May 2005 elected four new members to its nine member board.

Following the stepping down of Mr. Jollat Dube, Mrs. Bertha Msora, Mrs. Sylvia Nyakunengwa and Mr. Benjamin Moyo Muvhami the AGM needed to elect four new members to the board.

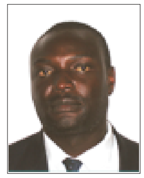
The four new board members are; Mr. Wellington Chinanzvavana(SHDC), Mr. Fungai Mungoni (Fansworth Investments), Mrs. Mandas Marikanda (Pundutso Microfinance) and Mrs. Emedie Gunduza (Zimbabwe Women's Bureau).

Early this year ZAMFI recruited a legal practitioner Mr Jeremiah Kwenda and Mr. Admore Kandlela, a banker. The two were co-opted into the board in order to bring diversity and objectivity to the board.

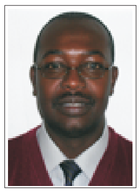
The board Chairman Mr. Jestias Rushwaya told the AGM that since ZAMFI was registered as a trust in 2003 it was now the Trust Deed which is governing the Association. He said the constitution will become an operating document.

Mrs. Marikanda

Mr. Kandlela



Mr. Chinanzvavana



Mr. Mungoni

Mrs. Gunduza

Mr. Kwenda

"The constitution and the Trust Deed have areas where harmonization is needed and the board shall be working on these issues in 2005,'he said.

He said ZAMFI shall currently use the constitution to a minimum scale in cases where the Trust Deed is silent but however, ZAMFI is moving towards substantial implementation of the Trust Deed.

The Chairman also reminded the AGM that he will be stepping down from the board next year and that there was need to consider succession forethought on the issue.

"I would also like to let this AGM be reminded that this year (2005-2006) is my last term in office and succession planning at board level is of the essence," he said.

Zambuko Trust embarks on HIV/AIDS Awareness Drive

After realising HIV/AIDS' inevitable negative impact on the workplace, one of Zimbabwe's leading microfinance institutions, Zambuko Trust, launched an HIV/AIDS Awareness campaign for its staff in an effort to regularly provide them with accurate and up to date information on the pandemic.

Staying Alive is the theme of the awareness crusade which the institution launched in August last year. The launch comes at a time when the country is losing at least 2000 lives every week from the pandemic. Zimbabwe is one of the countries with the highest rates of HIV/AIDS infection in the world with at least 1.8 million suspected to be infected with the virus that causes AIDS.

It is against this background that Zambuko Trust decided to make this huge stride in the fight against the pandemic. Zambuko realized that the epidemic poses a serious threat to employees' health and production hence the microfinance institution was also currently working on an HIV/AIDS Workplace Policy for all its employees.

The microfinance institution employs about 145 people and has 27 branches throughout Zimbabwe.

Speaking on the launch of the campaign. the Chairman of the Zambuko Board of Governors Mr. Nyasha Zhou said every one has been affected by HIV/AIDS one way or the other.

He said an HIV infected person, in spite of their condition, is capable of making profitable contribution in employment and help business to succeed.

"There will be no discrimination against qualified individuals with regard to recruitment, advancement, promotion, training, compensation, discharge or any other terms, conditions or privileges of employment because they are , or are thought to be HIV positive, symptomatic or not," he said.
It remains to be seen how many more institutions will follow the footsteps that Zambuko has taken in the fight against the epidemic.

CIDA continues to support MFIs in Zimbabwe

By Milton Shoriwa

The Canadian International Development Agency (CIDA) continues to support the development of microfinance institutions in Zimbabwe by providing funding for some of ZAMFI's capacity building initiatives.

After funding the study on the impact of microfinance on enterprises which was commissioned by ZAMFI last year, CIDA has this year provided more funding for two training workshops on Gender and HIV/AIDS which were conducted by the association .

The training workshops which were facilitated by Tropag Consultancy, a Harare based consultancy firm were: *Enhancing the Impact of Microfinance through Gender and Gender Mainstreaming* and *Mainstreaming Gender into HIV and AIDS Response Options for Microfinance Institutions.*

The first workshop which was conducted on 9 & 10 May was done after the impact assessment study carried out last year noted that MFIs in Zimbabwe do not have a deliberate effort or policies to target women. The workshop was therefore more targeted at introducing the concept of gender and to help participants understand what gender is all about.

The second workshop on mainstreaming gender into HIV/AIDS response options for microfinance institutions was held from 31 May to 3 June. Participants learnt new terms and approaches on how to mainstream gender into HIV/AIDS programmes for microfinance institutions. This workshop was done in conjunction with the Southern Africa Microfinance and Enterprise Capacity Enhancement Facility (SAMCAF).

The participants who took part in these two workshops expressed their satisfactions with the facilitation and the knowledge that they gathered from the workshops.

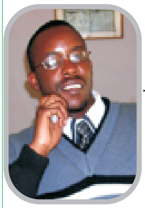
For most of them the two workshops were eye openers and interest was generated more on the gender perspectives of the workshops.

ZAMFI Executive Director Mr. Godfrey Chitambo expressed the Association's gratitude to CIDA for the support it is providing to ZAMFI. He said that this will help microfinance institutions to develop and be able to serve their purpose as fighters against poverty effectively.

"We urge our members to take these workshops seriously as they will help them to develop and professionally serve their clients. We are very thankful to CIDA for the support they have been giving us and we appreciate the wonderful efforts that CIDA is making to improve the lives of the poor in Zimbabwe," he said.

Both workshops were held at Cresta Jameson hotel in Harare.

Editor's Note



Dear reader, ZAMFI is delighted to welcome you to the first issue of the Microfin Bulletin. This is the new quarterly newsletter of microfinance activities in Zimbabwe published by the Zimbabwe Association of Microfinance Institutions.

The newsletter is part of an effort to overhaul the information dissemination and advocacy role of ZAMFI as we move towards a new membership era for the association. This first issue marks the adoption of a new strategy for ZAMFI, its members and the entire microcredit sector in Zimbabwe.

Whilst the association would have wanted to keep publishing the Microfinance Monitor as a quarterly magazine, the costs associated with such a project have since become regrettably prohibitive. However, we will try as much as possible not to deviate from the editorial focus of the Microfinance Monitor as we are very much aware of the fact that this bulletin is part of a larger effort to frame a more coherent approach to poverty alleviation through microfinance.

The microfinance sector in Zimbabwe has been sailing in murky waters for the past two years despite its growth into a crucial sector of the Zimbabwean economy.

Microfinance issues have become crucial the world over. The United Nations last year declared 2005 as the International year of Microcredit (IYMC) and efforts are underway to commemorate the IYMC in Zimbabwe. It is hoped that this will culminate into an MFI Expo by the end of year.

The Microfin Bulletin will put microfinance more on the spotlight in Zimbabwe particularly at this time when microfinance development is of distinct importance to the United Nations, policy makers, governments and small and medium scale enterprises the world over.

It will seek to articulate the positions of all the crucial stakeholders in the microcredit sector in Zimbabwe and hopefully our readers will find value in our work as we are all aware of the challenges awaiting us as we strive to drive the microcredit sector towards sustainable growth.

I am confident that you will be able to support us through articles and opinions for publication in our efforts to build a conducive and sustainable microfinance sector enviroment in Zimbabwe. Enjoy your reading.

Milton

MFI sector faces grim future

By Milton Shoriwa

The clean up exercise embarked by the government in May this year to clamp down on criminal activities said to have manifested within informal sector circles has left the microfinance sector in Zimbabwe facing a bleak future.

Most of the sector's clients' businesses and small projects were closed leaving most microfinance institutions (MFIs) at risk of losing over $20b worth of disbursed funds as a result of *Operation Restore Order/ Murambatsvina.*

ZAMFI estimates that close to $40b worth of loans could be written off by MFIs because of the temporary displacement of the informal sector.

Most microfinance institutions are poverty alleviation agents whose major clients are the economically active poor who fail to access loans from formal financial institutions because they have no security.

As a result most microfinance institutions' loan requirements are modeled along poverty alleviation lines as they are more targeted at the economic emancipation of the poor.

The ongoing clean- up campaign has seen most of the MFI clients closing down their businesses and losing their sources of livelihood. Most of them being as small as they were could find it difficult or fail to rise again from the ashes of the clean-up campaign.

This has jeopardised repayment of loans both on the part of the MFI clients and the MFIs themselves. Some of the MFIs have borrowed funds for on- lending ceding their properties as security. The downstream effects of the clean up operation is likely to lead to loss of property for MFIs or even the closure of some of them.

Whilst ZAMFI is still compilling figures of the extent of the loan losses, the association on the other hand has held a meeting with the Ministry of Small and Medium Enterprises Development and has since submitted its envisaged way forward in mitigating the effects of Operation Restore Order on the MFI sector in Zimbabwe.

The government has pledged to support those affected to formally and legally carry out their projects and is making every effort in its powers to make sure that the affected small enterprises are back in business as soon as possible. This will definitely lessen the extent of the damage that the clean-up campaign threatens to pose on microfinance institutions.

The clean-up has created more challenges for the microfinance sector. Some MFIs might close down, get their premises attached, retrench people thereby further fueling unemployment by dumping desperate employees into the streets who then will be forced into the informal sector which is already the target of the clean- up.

This inevitably, will have a negative impact on a sector still in its infancy and trying to find its feet in a challenging macro economic environment.

The wheels of our industries in Zimbabwe are running at 30% capacity. Our unemployment rate is about 70% and this inevitably means that our economy is being kept afloat by the informal sector. The MFI sector in the country has, as a result, been playing a pivotal role in driving the country's economy and has to be protected from the jaws of death it is facing..

One of ZAMFI's members has said they have at least $300m that they had provided to informal traders around the country and is now facing a dilemma of whether to face the costs of chasing the clients across the country or writing off the loans as the costs of recovery might be more expensive than writing off the loans. Another ZAMFI member also had disbursed loans of over $250m to the traders at the famous Siyaso in Mbare.

A Harare based MFI's larger portfolio had been disbursed to the poor entrepreneurs in rural Gokwe. The institution had provided funding of more that $200m to the groups of people in Gokwe who were involved in various projects which were not spared either by the clean-up campaign.

The MFI had seen the need to support rural people as a poverty alleviation initiative. Poor people need support and microfinance institutions seek to support the poor by breaking financial barriers put in place by most commercial banks who believe that poor people are not bankable.

The downstream effects of the clean-up exercise therefore threatens to cripple the entire microfinance sector and could also have a negative impact on the economy and government's efforts to fight poverty.

Microfinance is about poverty alleviation and its sustainability has been noted as a key component in launching small to medium enterprises in developing countries.

Worldwide, the role of microfinance in poverty alleviation has been recognized and the United Nations has declared 2005 as the International Year of Microcredit which should be commemorated by all United Nations member states.

The growth and development of the microfinance sector is therefore of paramount importance and requires the support of all stakeholders in the fight against poverty in Zimbabwe.

RBZ now needs to let go crisis approach to regulation

By Reuben Muchada

Licensing, regulation and supervision of microfinance and money lending institutions has been a very topical issue in the sub region in the last three years or so.

In Zimbabwe, it is now over a year since our central bank, the Reserve Bank of Zimbabwe (RBZ) took over the licensing, regulation and supervision of both micro financing institutions (MFIs) and money lending institutions (MLIs).

It is important that we look back at what has been happening for the past 12 months in terms of registration and licensing of MFIs in Zimbabwe. Over two hundred applications have been received by RBZ and 25 microfinance and 109 money lending institutions have been licensed to date. The rest are still at various stages of processing. It appears the process is so thorough that any of the licensed institutions is unlikely to face serious operational problems at least in the medium term.

It must also be appreciated that when the central bank made the decision to take over the licensing, regulation and supervision of the sector, it was at time when the financial sector was labouring under extreme adverse developments which were threatening the whole economy.

No wonder why the central bank immediately went into the crisis mode as events that culminated into monetary policy of December 2003 continued to take their toll on the country's economy. Ordinarily, handling a crisis requires instant action and minimal consultation. However, RBZ went out of its way consulting all who were perceived key stakeholders and these included ZAMFI and the MFIs. Several meetings were held which resulted in RBZ, together with ZAMFI having to meet MFIs and MLIs.

For the majority of the applicants, 2004 must have been a traumatic year as they endured the protracted waiting with no end in sight. The resultant anxiety and the apprehension among staff and shareholders must be sending icy shudders down the spines of both parties. Such a state of affairs, that is, the non existence/ availability of a license, sends wrong messages to both existing and potential business and social partnersof MFIs and MLIs.

Indeed potential partners intending to conclude memoranda of understanding will not know how much longer they have to wait, and for how long their arrangement can be scheduled to last. Long term or medium term agreements cannot, as result, be entered into as the licenses so issued will be for only twelve months. This inhibits not only short term but even medium and long term planning. Invariably this will punctuate progress on a number of projects long term or otherwise and some of these projects had already been commenced.

As already alluded to in the foregoing paragraphs, we must not lose sight of the fact that when RBZ came on to scene, definitive measures intended to arrest negative trends and redirect the industry in terms of its modus operandi, its values and general vision had to be taken.

Individuals, institutions and the industry at large may not have agreed with all aspects of decisions taken but on a positive note, that nearly 1400 "operators/performers" put their tools down and exited on their own volition vindicates not only the decision to license and regulate all microfinance and money lending institutions, but also the approach and requirements laid down by central bank.

While acknowledging the differences in the individual circumstances of the countries in the sub region, I must also hasten to state that elsewhere in the sub region, central banks have found it not necessary to regulate all and sundry. Their guiding principle has been that if an institution does not collect funds from the public, what is there for central bank to protect. Apex bodies have been left to cater for such entities.

But the regulation of the industry has several benefits that will accrue to the industry.

Firstly the mere fact that an industry is regulated conjures images of legality and therefore performers will be viewed as credible partners. In fact regulation here by implication means prudential regulation and supervision. Central bank therefore can confidently vouch for the financial soundness of the institutions it supervises.

Secondly, investors will be easily attracted to invest with on MFI whose soundness can be vouched for by the highest monetary authority in the country

The fear of loosing investments possibly through fraudulent activities becomes a very remote possibility. Potential investors and funders will also find the industry attractive

Entry into the industry is strictly controlled and reserved only for genuine entrepreneurs with no room for pretenders and fly by night brief case businessmen. The profile of the industry is raised and by so doing highly skilled professionals will also be attracted to join the industry.

A number of service providers are doing a sterling job out in the rural areas. With the assistance of some donor agencies, they have managed to mobilize communities and especially the youth, identified factors that inhibit growth, developed programs that orient communities towards development. Entrepreneurship development programs and basic business management modules were developed and used to provide necessary skills to the identified persons.

On completion of the programmes, trainees have been provided with seed capital which they may or may not repay. Theoretically, they are still lending money. Will they need a license from central bank? Must they be supervised like the MFs and MLs? In short must the whole industry be subjected to prudential norms? May be not.

Uganda recently concluded the promulgation of a piece of micro finance legislation. Bank of Uganda (BU) will under the legislation regulate and supervise only six out of the multitude of MFs and MLs in the whole country. However must continue to be cognissant of the fact that their circumstances were as different as night and day from ours.

As our economy continues to rediscover itself, thanks to the year old monetary policy directives, the central bank can now afford to engage a different gear without being recklessly complacent and move away from the crisis mode.

After initially subjecting all performers to regulation and supervision, it is time to consider limiting supervision to only those MFIs and MLIs that have the potential to take deposits or have expressed their intention to do so. Inevitably while a good foundation will have been laid in the initial stage when everybody had to be licensed, it might prove that it will no longer be necessary to strictly supervise all and sundry.

Authority may indeed be delegated to an apex unit to supervise the other half. This will leave Central bank to concentrate on the few key institutions whose activities have the capacity to impact and influence behaviours in our economy.

MFIs urged to create wealth

By Milton Shoriwa

A new study has found that microfinance institutions (MFIs) in Zimbabwe need to desist from the minimalist lending approach they use when giving out loans to the entrepreneurial poor if they are to effectively support small enterprises.

The study entitled "The impact of microfinance on enterprises and specifically those owned by women" has found that microfinance institutions in Zimbabwe need to focus more on employment and wealth creation by giving bigger loans which allow the possibilities for the expansion of the small businesses of their clients.

It says that serious efforts need to be made to devise strategies for increasing the capital base of MFIs so that the loans can make more impact on employment. The study noted that funding should go beyond the survival or basic requirements of recipients and that the paradigm of MFI finance should move away from poverty alleviation to wealth creation.

The study, which is the result of over one year's work by the University of Zimbabwe's Institute of Development Studies (IDS), is the first ever comprehensive impact assessment review of the activities of microfinance institutions in Zimbabwe.

The study was commissioned by ZAMFI and it was wholly funded by the Canadian International Development Agency (CIDA).

While shedding new light on the levels of access to credit by small enterprises in Zimbabwe, the study highlights microfinance as an important development tool in employment creation and improvement in the livelihoods of the people. It also highlights the problems faced by microfinance institutions and beneficiaries in their daily operations.

It provides valuable information, both on the present operations of MFIs in Zimbabwe and the supply of micro finance services to small enterprises and women. It gives comparisons between MFI beneficiaries and non beneficiaries in terms of the improvement of livelihood and success of their enterprises.

According to Charles Halimana, the study's principal researcher, the study took the double differences in selected variables to establish the impact of MFI loans.

The study has clear recommendations on how to improve the quality and quantity of micro finance services in the country. It also discovered that MFI loans have a greater empowering effect on females and that a strong relationship exists between being a beneficiary of MFI loans and owning capital equipment.

The study noted that MFI loan assistance is heavily biased in favour of older enterprises than youger ones. It says that new enterprises have difficulty accessing MFI finance and yet they are the ones that need loans most and recommends that MFIs should expand their focus to cater for the disadvantaged groups like the youth, the divorced and widows who are vulnerable groups who fail to get preference when applying for loans. The youths, the study argues, might have newer and brighter ideas.

The study can be one of the tools that have to be used to effectively develop the microfinance sector in Zimbabwe as it can be used as a basis for Zimbabwean MFIs to look for donors and a tool which donors and prospective donors can use to develop the MFI sector in Zimbabwe.

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Namibian Financial Analyst Visits ZAMFI

By The Editor

In a move set to boost the development of small businesses in Namibia, the Namibian Ministry of Trade and Industry is soon set to establish the first microfinance services in that country through its Small Business Credit Guarantee Trust (SBCGT).

This was revealed by Ms Lynette Veldskoen a Namibian Financial Analyst from the Namibian Ministry of Trade and Industry who visited ZAMFI to learn how microfinance institutions in Zimbabwe operate.

Veldskoen was sent by the SBCGT of Namibia to get an idea of how to run a microfinance project since it is a new initiative set to help the development of small businesses in Namibia.

"The purpose of my visit was to get an idea of how microfinance institutions are run since we are about to implement a new microfinance initiative to help fund SMEs in Namibia," she said in an interview before her departure back home.

She came to Zimbabwe to look at the methodologies of lending and accounting systems that microfinance institutions in Zimbabwe apply in their operations.

She said the SBCGT currently offers credit guarantees and not financial support to existing and emerging SMEs so that they can be able to get loans from financial institutions. It is now considering offering microfinance to the SMEs as a way to foster their development to larger and competent businesses.

She was attached to Collective Self Finance Scheme (CSFS) and Zambuko Trust during her two weeks stay. CSFS and Zambuko are two of the leading microfinance institutions in Zimbabwe.

She said that her exposure to the two institutions was an eye opener. She was impressed with what she managed to learn and hoped that the SBCGT would implement some of the systems that she was exposed to during her attachment.

"I was impressed with the methodologies and accounting systems of Zambuko and CSFS. What was interesting is that their operations differ and I think we will be able to choose and adapt or devise a method that best suit our objectives and our target clients," she added.

Veldskoen believes that offering microfinance services to the poor is a very expensive initiative that requires a lot of commitment.

"Offering microfinance services is a very expensive initiative that requires a lot of commitment. It requires people committed to the cause of poverty reduction and microfinance institutions also need to make sure that their staff is properly trained so that they fully understand what microfinance is all about," she said.

Lynette Veldskoen

Over the past decade international focus has been on the development of microfinance initiatives to help alleviate poverty in developing countries. The United Nations has since declared 2005 as the International Year of Microcredit aimed at developing a greater understanding of the role microfinance can play in poverty alleviation.

MFIs and MLIs are not small banks: RBZ

By The Editor

The Reserve Bank of Zimbabwe is only using some sections of the Banking Act to monitor and supervise microfinance and moneylending institutions because there is currently no legal instrument governing the microcredit sector in Zimbabwe.

A Reserve Bank official who attended ZAMFI's 7th AGM at Cresta Jameson Hotel in Harare on 6 May 2005 said the General Notice 101of 2005 published in the Government Gazette of 11 March this year does not mean that the Central Bank was now considering MFIs as small banks.

However, it is a legal instrument the central bank is only using in the interim as there is no specific legislation for microfinance and moneylending institutions that the monetary authorities can use to monitor these institutions.

"The Reserve Bank is not regarding microfinance and moneylending institutions as small banks but is only using certain sections of the Banking Act in order to be able to monitor and supervise them," the official said.

The official also said that the use of some sections of the Banking Act on MFIs and MLIs does not mean that the institutions should therefore consider themselves as small banks and charge interest rates that are being charged by the commercial banks. The RBZ official said MFIs and MLIs should continue using the current Moneylending and Rates of Interest Act Chapter 14.14 until such a time the legal regulations are changed. The official added that the interest rates MFIs and MLIs should charge are very clear and there was no need for the institutions to consider charging interest rates comparable to those of the commercial banks.

The issue of interest rates for MFIs and MLIs have been of great concern amongst MFIs and MLIs in Zimbabwe as the interest rates which these institutions are supposed to charge are now too low considering the hyper inflationary environment characterising the country's economic landscape.

Players in the sector believe that the Moneylending and Rates of Interest Act Chapter 14:14 of 1993 is now outdated and needs to be changed if the microcredit institutions in the country are to be sustainable.

ZAMFI Chairman Mr. Jestias Rushwaya addresses the 7th Annual General Meeting held at Cresta Jameson Hotel in Harare on 6 May 2005

Some of the members who attended the annual general meeting pay attention to the AGM's proceedings

Introducing the "new board"..........................

ZAMFI Executive Director Godfrey Chitambo introduces new members of the ZAMFI Board to the AGM after the elections.

RBZ microfinance registration requirements normal

By Petronella Chigara

In this first series we examine the minimum licensing requirements for Microfinance Institutions as presented by the Reserve Bank of Zimbabwe with specific reference to the governance issues.

In any corporate body there is need for a board of governors or board of directors, which is meant to provide oversight to management in their execution of the day- to-day activities. It is almost as if one is trying to respond to the question "who will manage the manager".

Most MFIs have Executive Directors who make the final decisions on how the institution should be running and that is the person who needs to be managed.

Michael Chu describes the mandate of a board as two pronged: "a) to guide the institution in fulfilling its corporate mission and b) to protect the institution's assets over time". Thus the board is meant to provide guidance and oversight to management and ensure that management is driving the institution in a path that ensures fulfilment of its mission.

RBZ requires a minimum of five such persons / board members with at least three fifths being non executive directors. Executive directors are ones who are involved in the daily affairs of the institution and these could be the managing and or finance director.

Often in MFIs these are part of the initial project promotion team and or they actually spearheaded the formation of the entity. As such the executive directors have an emotional attachment to the entity and a direct interest in the affairs of the institution. This kind of attachment gives them the passion to run the institution and is really needed if an institution is to fulfil its mandate.

However, the same passion could also be manipulative and the institution could end up serving the interest of the executive rather than the overall corporate goal. It is this inherent conflict of interest that RBZ is trying to manage by requiring that at least 60% of the board is non-executive. Furthermore the executives are the ones who implement and so it becomes difficult for them to oversee their own work. It is important then that an external person who relies on reports furnished by management oversees the institutional performance and provides judgement and advice that will guide the institution.

The appointment of directors however is closely connected to the legal structure and the ownership of the institution. In fact it is the owners who exercise the governance role and "different types of owners have different objectives when they exercise the governance role; if these are not well understood, the varied perspectives of the owners can obstruct rather than facilitate the board's ability to govern" (Otero 1999).

The greatest challenge for MFIs in Zimbabwe is that the ownership structure is somewhat not as clearly defined. For example - who owns a non-governmental organisation or a co-orporative? In cases where ownership is clear e.g. private companies delivering microfinance services, the challenge becomes who participates on the board.
Currently RBZ does not exclude private companies that could be family owned. In such cases the owners would appoint individuals or friends to become part of the 60% non-executive board. Would these individuals exercise the same governance oversight as those who would have made an investment into the organisation?

The second requirement presented by RBZ is that of ensuring that there are Sub-committees in place especially the Credit and Risk Committee and the Audit committee. The principles of general corporate governance insist on a system of board committees as a way of enhancing the efficiency of the board. It also allows for thedifferent board members who are selected on the basis of the different skills they possessto contribute effectively.

According to Campion and Frakiewicz 1999, board committees for microfinance institutions include the following:-
Executive Committee,
Audit and Finance Committee,
Nominating committee,
Credit Committee,
Asset and Liability Committee, and the Human Resources committee.

Thus the RBZ requirements fall within the normal principles of microfinance governance principles. The functions of these committees as well as the functions of the board itself will be explored in the next issue.

A board that is effective should ensure that individuals who have the functional Competency, demanded by the committee they serve in, man these different committees.

It is pointless to create a finance committee out of members that are not financially competent. Due to the fact that microfinance is really a specialised field, technical competency is important. Therefore the current restriction to board participation by professionals and academically suited individuals should be well received.

**Petronella Chigara is a Microfinance consultant. She is the Managing Director of MS Consulting (Pvt) Ltd*

ZAMFI certifies 4 new members

ZAMFI held a cerification day for four new members who joined the association early this year.

The new members are.
Fansworth Investments,
Fundops Financial Services,
Geldon Finance and Microking bringing the total number of ZAMFI members to 31 after the resignation of Intergratus in May this year.

Speaking during the certification day the ZAMFI chairman Mr. Jestias Rushwaya Said the four new institutions joined the association at a very important time as 2005 is an important year for microcredit.

He thanked the new members for joining the association.

"Thank you very much for joining us in the fight for the sustainability of microfinance in Zimbabwe. Together we can swing the tide of poverty to our advantage," he said.

He urged the new members to join hands with other s and fight the challenges currently facing the microcredit sector in Zimbabwe.

He added that the coming on board of the Reserve Bank of Zimbabwe as the regulator of the MFIs has made the sector to show signs of direction and growth and this could mean the inevitable development of the sector and the country's economy.

He said the association expected members to aspire to attain the association's performance benchmarks and that the performance of all the ZAMFI members will be measured against these benchmarks.

All smiles.......Pamela Chikoore (left) receives the ZAMFI certificate on Behalf of Fansworth Fnvestments from former ZAMFI Board member Mrs. Slyvia Nyakunengwa

ZAMFI is currently undertaking a membership drive in an effort to accomodate moneylending institutions prevously denied membership because of the ZAMFI constitutional requirements.
The constitutions has since been ammended and the association is hoping to have at least 60 new members by the end of the year.

FACHIG provides village banking to poor farmers in Mashonaland Central

The Farmers' Association of Chief/Headman Investment Groups (FACHIG) Co-operative Union in Bindura supports rural farmers in Mashonaland Central province by providing credit and banking services to its members.

The association whose vision is to be the leading rural financial institution in Zimbabwe, has 12 600 members who operate in Mt Darwin, Rushinga, Guruve and Muzarabani districts of the Mashonaland Central province in Zimbabwe. The province is the hub of agricultural production in the country.

Modeled in a fashion almost comparable to that of the Grameen Bank in Bangladesh, the union's membership follows Zimbabwe's traditional leadership styles. Its membership consists of rural farmers who are formed into Investment Groups (IGs) of not more than 15 on a voluntary basis.

Each IG has an elected committee headed by a chairperson who is responsible for the running of the group's affairs. All the IGs in one Chief's or Headman's area are then grouped together to form the Chief/Headman Investment Group (CHIG) which operate at ward level. They have self monitoring mechanisms and they hold meetings on a monthly basis to review their operations.

The CHIGs are administered by a board consisting of all the Chairpersons of IGs under the CHIG and managed by an elected committee of between 5 and 13 members drawn from the board of the CHIG.

There are 24 CHIGs which make up the primary society in the province and these come together as a group at provincial level to form FACHIG union.

FACHIG is governed by a board made up of the 24 chairpersons of the CHIGs and also managed by a committee of 7 elected members from the board.

FACHIG's mission is to attain a deep rural outreach of more than 15 000 members through keeping banking services simple and affordable to the rural communities in Zimbabwe.

The union which is currently facing capacity building challenges now gives emphasis on savings since 2003. It is now focusing on establishing village banks for its members in order to sustain its loan portfolio and be able to manage a revolving fund which was almost eroded by the high inflation rates of last year.

The union is however facing low savings challenges which makes it unable to give loans based on savings. It also experienced low repayment rates during the 2002/ 3 owing to the drought that hit the country then.

Mr. Joseph Choga, FACHIG's Programmes Officer Finance says high inflation rates have affected the capital adequacy and sustainability of the co operative.

“Due to inflation the loan fund has been eroded to the extend that a loan which could by 4 bags of fertilizer and a bag of seed in 2001 can hardly by a bag of seed today,” said the FACHIG Programme Officer.

He said the situation is further compounded by the fact that the Union can not mobilize savings from all their members because of inceasing transport costs and, at times, fuel shortages. As a result, the Union sometimes relies heavily on the officers and the management committee to inform members about their services.

Mr. Choga believes the communication strategies the Union is using need improvement.

“The information dissemination systems put in place in the districts need improvement to ensure smooth flow and timeous information,” he said.

Affiliate CHIGs have been running credit schemes for their members since 2000 but high inflation rates characterising the Zimbabwean economy in past led to the temporary suspension of the schemes.

This led to the idea of operating savings clubs to mobilize savings and revive the credit schemes. FACHIG has so far identified a number of centers to be the focal points for campaigns for the bank in each CHIG after the success of a pilot project on a savings club they carried out. The savings clubs or village banks are aimed at providing a revolving fund for FACHIG members that allows them easy access to their savings and loans.

Supporting rural agriculture......The Dotito Savings and Credit Union is one of the Village Banks established by FACHING. Getrude Mandivenga (In the picture) is the bank’s Savings and Credit Clerk.

ZAMFI recently visited the Dotito Savings and Credit Union which is one of FACHIG's village banks in the province. The village bank has 1161 members from the four CHIGS that it covers. It offers banking services to both its members and non-members in the surrounding rural communities in Dotito.

Members pay a minimum deposit of $7500 and non members are asked to pay $15000 for the savings union's passbook and banking services. Non members are also required to maintain a minimum balance of $5000. However, these requirements vary from CHIG to CHIG depending on their own budgets.

The interest benefits are the same for both members and non members. Members benefit from agricultural loans that are offered by the savings union.

The savings union currently does not offer loans from its own savings.

“The small loans we are currently lending to our members are not from our own savings. We have not yet reached a sound financial capacity to be able to give out loans. However the loans we are giving out are from a donor,” said Patience Katandika who is FACHIG's Savings and Credit Facilitator.

Katandika said the interests rates paid on savings and loans are not attractive enough to attract large deposits and safeguard the fund against inflation respectively.

FACHIG is currently facing a donor drought which has stalled its 15 year programme to support the rural agricultural communities in Zimbabwe.

According to Katandika, the organisation is currently providing a seed and voucher fair for its members and the disadvantaged members of the rural communities in the province. The programme is being bankrolled by the Catholic Relief Services (CRS) which is buying the seed for the programme. The initiative is currently benefiting about 4800 people in the province.

FACHIG staff and members of the community are responsible for identifying disadvantaged members of the community set to benefit from the programme and they always encourage beneficiaries of the programme to effectively and fruitfully use the seed they get.

“We regularly carry out follow ups and monitor seed use by the beneficiaries. We hold meetings with beneficiaries and if we discover that the seed is not being used in the manner expected the donations can be withdrawn so that those who need them most benefit,” said Katandike.

However, transport and proper use of communication tools are the major problems affecting the monitoring of the Union's programmes.

Despite all the challenges that the union is facing FACHIG remains hinged to the desire to achieve its goals and mission and hopes that the donor situation will improve for them to successfully implement their humanitarian initiatives in the rural populations of Zimbabwe.

Rural Group's efforts to fight poverty dealt blow by donor drought

By Milton Shoriwa

The Nhamburiko Support Group in Dotito, Mt Darwin is one of the human development initiatives supported by the Farmers' Association of Chief/Headman Investment Groups (FACHIG).

Based in the rural communities about 20 km west of Dotito growth point, the group is the brainchild of the late headmaster of Chitumbuko Primary School in the same area. It was formed in 2002 to help the disadvantaged people of the Dotito rural community.

The support group provides food, books and other essentials donated by its members mainly to orphans and the ill in the community. The group also pays hospital fees for ill members and other members of the community mainly those who can not afford medical care. It is also involved in agriculture to financially sustain its activities.

Orphans in the area constitute the bulk of the beneficiaries of the group.

"We support about 25 orphans in our community by providing them with food, clothing and books and other things for their livelihood since they have no one to take care of them.

"Most of them are very young and can not manage to take care of themselves. We thought that by forming the support group we will, as a community, manage to take care of the little children until they grow up to take care of themselves, as well as support each other through small loans," said Wine Kasau one of the members of the group.

Some of the members of the Nhamburiko Support Group in Dotito. From left: Wine Kasau, Whisphered Kasau, Beauty Nyamhandu and Sharry Makosa

Membership is on a voluntary basis and members pay a joining fee of $1500. The group has about 13 members. The members donate food, clothing, books or other essential commodities to the club which will in turn be donated to the needy in the community. These donations used to stay in the custody of the headmaster whose death left a yawning gap in the operations of the club.

However, according to Kasau, the group is considering approaching the Deputy Headmaster of Chitumbuko Primary School who is currently the acting headmaster, to take over the group's treasury and manage the operations of the group. The Deputy Headmaster was also involved in the formation of the support group.

Kasau said the group is currently faced with financial problems because they do not have any donors to support their initiative but entirely depend on the donations of the group members. He said this has hindered the programme's effectiveness as the group has sometimes found itself failing to cope with the demands of the increasing number of orphans in the area.

"We used to operate a poultry project but all our chickens died because of the Newcastle outbreak. We had 58 chickens but we are now left with only four. We are hoping to resuscitate the project if we manage to raise the funds needed," added Kasau.

Most of the chickens were donated by the members of the group.

The group has plans to start a new goat project to raise some funds for its various projects in the community. They are hoping that they will be able to start a revolving fund to regularly cushion their members from financial stress.

Kasau says this is rather an enormous challenge especially in the absence of a major donor.

"It is our wish to have a revolving fund to help our members with small loans in times of need. This is the only way we can probably manage to sustain ourselves financially but we cannot do that at the moment because our income generating projects like the poultry project are under capitalised," said Kasau.

The group hailed the initiatives by FACHIG to establish village banks in the province saying that the Dotito Savings and Credit Union has helped them a lot in terms of saving and having easy access to their funds when they wanted to use them. They however hoped that the village bank will soon be able to generate some funds and manage to give them loans so that they can effectively carry out their projects.

Rural communities in Zimbabwe are the ones hardest hit by poverty in the country. The majority of the Zimbabwean population lives in the rural areas and the country has been experiencing donor fatigue in recent years leaving most rural people in the country exposed to poverty.

Hivos hosts HIV/AIDS Workshop

By The Editor

Hivos facilitated a 2-day HIV/AIDS and Development workshop for its partners from 4- 5 November last year at Pangolin Lodge in Harare.

The workshop which was wholly based on what the participants knew about the dreaded HIV/AIDS pandemic was conducted in phenomenal fashion. Participants were made to meditate and look at themselves first and reflect at themselves in the face of HIV/AIDS.

The facilitator, Peter Busse a South African based activist said this form of approach to the workshop helped participants to have an idea of how it feels like to be infected or affected by HIV/AIDS before they could commit themselves to helping HIV/AIDS infected people.

"It is important that we look at ourselves first as infected people and imagine how we would feel about being HIV positive in the face of the stigma and a lot other forms of segregation associated with people infected by HIV/AIDS," said Busse.

Busse is HIV positive and has been living positively since 1985. The aim of the workshop was to assist Hivos partners to be able to examine the impact of HIV and AIDS on development and devise ways in which organisations can integrate HIV/AIDS awareness into their activities.

Participants discussed how organisations can mitigate the negative impact of HIV/AIDS at workplaces and how organisations can cope with illnesses and deaths caused by HIV/AIDS in their organisations.

It was noted that organisations can put in place HIV/AIDS policies as well as implement effective human resources strategies to cope with the loss of skilled and experienced manpower due to pandemic. It was also said that organisations needed to provide medical aid cover that also cater for Anti retroviral treatment for AIDS patients.

The need for organisations to provide and regularly conduct HIV/AIDS awareness campaigns and education workshops to keep their staff updated on issues related to the disease was also discussed during the the two day workshop.

ZAMFI Planning and Operations Committee Chairman Mr. John Banda (right) presents the association's audited financial statements to the ZAMFI 7th Annual General Meeting held at Cresta Jameson hotel on 6 May.

"Take perfomance standards seriously"

ZAMFI members have been urged to submit performance data to the association to enable the association to effectively champion their needs.

The ZAMFI executive director urged members to take performance standards seriously as they will enable ZAMFI to lobby , enhance lateral learning among members, do fundraising and disseminate information on the Zimbabwean microfinance sector in and outside Zimbabwe.

"We would like our members to fully c-operate with the association in this exercise through the submission of required data as they are set to derive many positive benefits from its success," he said.

Performance indicators are part of ZAMFI's core business and will among other things help microfinance institutions to improve their performance. They also assist the association to look for wholesale funds for its members. All member MFIs are required by the association to submit data on a quarterly basis to the association for the exercise.

ZAMFI conducted a debut performance standards exercise last year which saw most members either failing to submit the required data or failing to submit the data before the set deadlines. However, the data gathered from those who submitted was encouraging and it is important that ZAMFI members participate in the exercise this year for their own benefit since the exercise is meant to expose individual deficiencies amongst individual members which the association will help the members to improve.

Performance standards also encourage efficient utilization of financial and other resources, prevent leakage and wastage of loan portfolio funds and also ensure that MFIs progress toward sustainability.

MFIs urged to create wealth

From page 5

"In the absence of sources of new capitalization for MFIs, some of them need to rethink on their minimalist approach. Growth objectives cannot be best achieved through small loans that create a debt trap for the participant because they are inadequate for the purpose at hand, and therefore are more prone to diversion," recommends the study

MFIs in Zimbabwe are in need of funding in order to provide effective services and cope with the demand for microfinance from small entrepreneurs who make up the majority owing to the steady growth of the informal sector in the country.

The major recommendation of the report is that the issue of the capitalization of MFIs needs to be debated by all stakeholders with a view to coming up with funding alternatives instead of entirely depending on social investors for funding.

This however, comes at a time when the Government owned People's Own Savings Bank (POSB) has introduced wholesale lending which is targeted at providing loans to MFIs for lending to the small entrepreneurs in the country. The study also urges government to consider MFIs for special funds similar to what it has done over the years to the formal sector.

The study is concerned with development of the MFI sector in the country and the role ZAMFI can play in terms of strengthening the sector's communication mechanisms with its clients and the need for a credit bureau. It also strongly recommends the establishment of a Management of Information Systems (MIS) supported by social partners in the MFI industry to reduce screening costs and reduce the lending biases that MFIs have towards certain sections of the society.

The study covered all the major areas where ZAMFI member MFIs are concentrated these areas include Harare, Bulawayo, Mutare and Gweru amongst other rural areas across the Zimbabwe.

According to Halimana about 354 people where interviewed throughout the country. These included MFI non beneficiaries.

Field Notes for Considering Microfinance Services in the Context of AIDS Orphans

Betty Wilkinson

This note responds to a request by USAID Zambia's Health Office to comment on issues regarding the provision of microfinance services to households whose members include HIV/AIDS orphans, and are at risk financially and in other ways. This Note is intended for those who are not microfinance professionals, as an introduction to the topic and to provoke some thinking regarding the best circumstances under which microfinance services can be provided to this vulnerable group. An introduction follows, after which there are short sections on relevant basic microfinance principles, key questions to ask in doing field assessments of communities with HIV/AIDS orphans, and a final note with some observations and three options to consider for trials.

Introduction to Microfinance

Certain institutions worldwide provide microcredit and microsavings services for the purpose of expansion of economic activities and improvement of the standard of living of those under the poverty line, particularly women. The services are provided at or near client's homes, and deal in savings and lending of very small amounts of money. Organizations specifically created to deliver such services are called microfinance institutions, or MFIs.

Savings services may be either forced or voluntary in nature. Forced savings are fixed amounts required from borrowers as a commitment to joint or individual loan security. Voluntary savings are methods for the poor to save small amounts to accumulate funds for significant expenses such as medical costs and school fees, and withdraw them at need. Research has shown that voluntary savings services are critical for the very poor, and are useful and important mechanisms for investment for the poor generally. Unfortunately, legal structures and donor practices often do not allow voluntary savings services to develop fully.

Lending has been the more highly stressed of the two main areas of microfinance services. Though moneylending and methods of rotating savings and credit have existed for millennia, they were more often used to cope with family emergencies or social obligations than for generation of income. Credit unions have also been in existence for a few hundred years, but their expansion in developing countries has been fraught with political interference and subsequent failures. These institutions still exist and are important, but have been complemented by newer forms of microfinance service provision.

Since the 1970s, microcredit services have been developed in innovative forms worldwide, particularly in Bangladesh and Bolivia but also increasingly throughout Latin America, Asia, and then Africa. Microcredit services have taken the form of both individual lending and of loans to both groups and individuals within groups. Clients are generally those under the poverty line, with a special emphasis on women. Loans are made in small amounts, with frequent repayments, for periods of one year or less, for economic activities identified by the borrower and confirmed either by his/her group or by local staff/references. Loan interest rates are high, often 12-50% per annum above the bank prime lending rates. The loans are secured on the individual's reputation or with unorthodox physical security such a goats or chickens. On-time repayment leads to increased credit access, and sometimes to lower interest rates. Late repayments result in reduced credit access, social pressure to repay (in group systems, the group must repay if the individual does not), and sometimes legal action.

The discovery that the poor can and do repay their loans while materially benefiting from the activities which are expanded with borrowed money has led to a good deal of interest in microcredit. The further realization that the poor are willing and able to pay interest rates well in excess of bank rates in order to get services in amounts they need at their doorstep, thus enabling microcredit institutions to become fully financially self-sufficient, has made things even more attractive. Finally, the fact that the poor can be effectively targeted for microfinance services, and that women in particular have been very successful as microcredit clients, has made provision of microfinance services an attractive poverty alleviation tool for donors and governments.

Some Basic Principles of Microfinance

The basic principles of microfinance which may particularly useful for those researching mechanisms to support HIV/AIDS orphans are:

1. Microfinance is not a panacea. It will not save the world, make the poor wealthy, or cure the sick. It is a tool which motivated poor persons can use, along with other tools, to improve their financial condition.

2. Microcredit will not work in locations that do not have sufficient cash-based market activity for a critical mass of clients to be economically active. In environments such as barter economies, isolated areas with low population densities, largely self-sufficient communities with few outside ties, or under conditions of natural disaster, microcredit is counter-productive and will fail.

3. Microfinance institutions must operate with the firm understanding that they function as a business in order to survive and thrive. To work well, microfinance institutions focus their efforts on effective client service, cost recovery and breaking even on a financial basis, and professional management. This has been a problem, because many microfinance programs were set up by non-government organizations that had a social service orientation, and found it difficult to charge high interest rates, press clients to repay, or keep and use accurate financial records for management purposes. There are still debates on whether microfinance should be delivered alone or in combination with other business and social support services. However, there is no question of the importance of professional orientation, and accounting for MFI services independently of any others provided to clients.

It also means that a microfinance company needs to develop all eligible and interested clients in an area, not just ones who are pre-existing members of a small social organization or have orphans in their families. If the potential client base is too limited, the organizations will not be able to pay the costs of doing business in those areas.

4. In order for microloans to be effectively used, clients must clearly understand and be able to implement the economic activity for which they are borrowing. Knowing what it costs to produce something, and what you must sell it for in order to cover costs, loan interest, and still make a profit, is not as easy as it appears. In many countries, particularly in Asia, cash income diversification has gone on for centuries, and borrowers have clear abilities to use loan funds and pay from diverse sources.

In Zambia, where socialism was a powerful force for many years, the level of diversification of cash income sources is still very low. Thus, Zambian microfinance organizations seek clients who have already done some form of cash income generation, even if it is only growing tomatoes and selling them at the roadside. Only experienced borrowers who have done business for some time can afford the risk of expanding into new and untested areas. In cases where there is a severe labor shortage in the family, the fact that the children will work in the business must be squarely faced. Finally, borrowers must have the rigor to keep business money separate, even when there are other pressing needs for cash within the household.

5. The client selection process must be carefully tied into both the microfinance institution's business approach and its financial products. Experience has shown that selecting too poor a client base will make growth and self-sufficiency very slow and problematic. Selecting too wealthy of a client base creates repayment problems (they don't pay!) and sometimes creates social difficulties in

HIV/AIDS and Microfinance

the area. Blending groups of more poor and less poor also results in repayment and social strife. Finding the right identifiers (which are often the communities themselves) and ensuring the client base in a given area is relatively financially homogeneous is important.

6. There is virtually no room for provision of grants or free goods to the same group who are receiving microfinance services. If food aid, cash, or other free goods are being provided to a group of poor persons, any efforts to provide microfinance services to this group will inevitably result in loan repayment failure. This experience has been repeated too often worldwide to refute. In some few communities, where local, private sector organizations have had a history of microfinance service provision, they were able to maintain repayments under temporary conditions where grant food or goods were provided to clients after a natural disaster. In all other situations, people simply become confused about what is a gift and what is not.

7. Group borrowing for group businesses must be approached with a great deal of caution. Group businesses tend to fracture due to the different strengths and weaknesses of their business arrangements and the concerned individuals. Unless there is a great deal of social cohesion and trust, as well as clarity and transparency about the business costs, operations, cash management, and use of income, loans to groups for activities undertaken jointly tend to default on payments.

8. Loans for longer-term crops are exceptionally risky, and most microfinance institutions avoid them. Crop lending is risky due to the possibility of insufficient rain, problems with insects and disease, natural disasters, and the fact that families eat the product, often as their staple food. The loan funds are not being focused on a cash-generating activity, and there are long periods where there are no payments. In addition, most countries have long histories of subsidized agricultural credit that is subsequently forgiven. Borrowers naturally assume that they will not have to pay these loans. Therefore, programs established for this purpose have a high potential for failure.

Key Issues in Field Assessments

There are several key issues to look for in field assessments of orphan families, considering the potential for microfinance service provision.

There are a number of questions that field people in Zambia can ask when reviewing the conditions of communities that are accommodating large numbers of HIV/AIDS orphans. The following questions will help researchers and others understand whether a community is ready and able to effectively utilize microcredit services to improve the standard of living of its poor households.

The Physical Locale

1. Is the area's cash economy sufficiently active that client income-generating activities will result in cash that can repay microfinance loans, on time, with interest?

2. Is the area sufficiently secure from war or natural disaster or other substantive risks that clients will be able to repay over time without unanticipated failures of their businesses?

3. Does the area have sufficient physical resources (land, water, labor) and access (a road, a weekly market there or within ½ day travel) to support growth?

4. Are all of the inputs needed for client businesses readily available locally, or able to be procured reasonably quickly and easily from nearby?

The Population

5. Are there at least 600 potential microfinance clients within a one day walk, given whatever mechanism you use to define "potential client"?

6. Are the people in the area supportive of poor persons, particularly women, doing business of any kind?

7. Are potential clients mobile enough to trade outside the area if this becomes necessary for their income generation activity?

8. Can a microfinance staff person reside there or nearby and get out to a banking facility within two hours by motorcycle, year-round?

9. Will someone from outside that area be accepted as a staff person of a microfinance institution?

10. Can a male staff person work with women clients on a regular basis without social problems ensuing?

11. Are there existing groups of poor persons already, organized for social or other purposes?

12. Is there an existing program of social welfare for the target group, or are there plans to implement one?

13. Are the local chief and other powerful persons willing for microfinance services to be placed in their area, and will they help enforce repayment requirements using moral suasion and, if needed, village courts?

14. Are the resources of the community sufficient that they can help vulnerable families cope with loan repayment in case of an emergency within that household?

Issues Generally Important, But Especially Important To AIDS Orphan Families

15. Do vulnerable families have enough resources to grow food to eat? (If not, they will use loan funds for this purpose, rather than for other cash income activities.)

16. Is there sufficient labor within the family to ensure the economic activity can be properly undertaken, even if there are sudden, unexpected changes in the household composition?

17. Is there sufficient understanding of how to run the economic activity that, if the main loanee is incapacitated, others can take over and run the business and repay the loan?

18. Is there sufficient control over the cash, and understanding of the difference between cash inflow and profits, so the activity will be able to repay the loan on time plus interest?

19. What are the family options in case of emergency/medical/other costs, so they won't tap into the loan capital?

20. Can the family clearly distinguish between any other gifts and their loans?

21. If they have access to voluntary savings services, will they be able to use it to protect their money so they can pay major costs?

22. If the loanee dies, can the family still take over responsibility for the loan?

23. If the family has a disaster (i.e. their loan-funded chickens die) will they still be able to cope with loan repayment?

A Final Note

Microfinance services are only one of a great number of services that can be provided in order to empower vulnerable households economically. The central focus should be on whether the service can materially improve their standard of living, whether it is possible and acceptable within the community, and whether it is financially sustainable for a microfinance institution to provide it. When microfinance services are provided, they should be a service which families undertake willingly and responsibly, and which are not and cannot become an undue burden. On the same token, microfinance institutions should not be forced or induced to provide services to these families and communities if such services are not financially sustainable.

A few areas where testing of pilot programs might be considered include:

* provision of loan guarantees against death or debilitation of a loanee in a vulnerable family, which allows MFIs to protect their investment while not exposing such families to unacceptable risks
* matchmaking, where social organizations dealing with these households introduce them to MFIs working in the area as potential clients
* provision of basic business training services, possibly by a program such as USAID's HRDP, before microloans are considered by these families.

Betty Wilkinson, Associate Director, IRIS Center, University of Maryland, June 12, 1999: The author remains interested in and committed to alleviation of the plight of those with HIV/AIDS and their families, relatives, and friends. She is most happy to respond further to comments and questions on this topic by email at seafan@pond.net or seafan747@yahoo.com