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# Micro Finance Schemes and Rural Women's Livelihoods-Evidence from Chipinge District, Zimbabwe.

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**ABSTRACT**

The research sought to assess the impact of ISAL and JLL schemes on rural women's livelihoods. The research was carried out in the form of a case study, in which a sample of 60 women from a population of 123 was used. Purposive and simple random sampling procedures was employed in selecting elements from a population of 123 women. Questionnaires and interviews were used in triangulation to collect data on the sample. After analyzing the collected data, the researcher observed that ISAL and JLL schemes improve rural women's livelihoods through increased household income, improved access to good health, acquisition of household and productive assets. However, there were institutional and beneficiary's challenges such as poor infrastructure, late loan recovery, inadequate loan sizes, and lack of markets, loan defaults and economic hardships which hinders the effectiveness of ISAL and JLL schemes. The study recommended that ISAL and JLL schemes must make sure that beneficiaries has collateral security before they offer them loans.



## Introduction

World over, people take various initiatives to improve their livelihoods. Most of the activities undertaken are meant to improve both food security and disposable income at household level. As such, some engage in gainful employment in the formal sector while others because of various challenges that include macroeconomic environment and cultural beliefs/barriers confine themselves to petty trading in the informal sector (Yunus, 2004). Some of the people in rural areas of Zimbabwe particularly women lack collateral security to access loans from formal financial institutions and this situation is exacerbated by some cultures which do not allow women to own and control productive assets which can be used as collateral security (Poverty reduction manual 2010).Gender disparity has seen most women being relegated to petty trading to try and feed for their families. This has been the case for most women in ward 17 and 18 in Chipinge district and they grappled to make a living.

In a bid to bring about social transformation in this community IM Swedish Development Partner in partnership with Community Organisation for Poverty Alleviation in Zimbabwe (COPAZ) has started implementing economic empowerment projects that are mainly premised on two microfinance schemes namely the Joint Liability Lending (JLL) and Internal Savings and lending (ISAL). The advent of IM Swedish Development Partners programs has been a game changer.

Livelihoods are defined as practices by which individuals strive to make a living, meeting their consumption needs, coping with adversities and uncertainties and engaging in opportunities (Muzvidziwa, 2005). Livelihoods comprise capability assets and activities that are necessary to make a living.

Microfinance is the provision of financial services including credit, savings, insurance, money transfer that are designed to assist the poor, who have no access to financial services (Yunus 2004). The microcredit concept was reborn in the 1970s and it attained world-wide recognition when Mohammad Yunus (2004) started making small loans to the poor villagers in Bangladesh. Microcredit received worldwide attention when people in rural areas welcomed it as a way of improving their livelihoods in Latin America, India, Brazil and Africa. The term microcredit was replaced by microfinance in the early 1990s (Hulme and Mosley, 1997).

In Zimbabwe microfinance programmes dates back to the 1960s when people were mobilized into groups to form savings clubs. A Catholic missionary Brother F. Waddelove started the first savings clubs in Chishawasha by initiating the Savings Development Movement (Raftopaulos and Lacoste, 2001). Microfinance schemes such as Rotating Savings and Credit Associations (ROSCAs) and accumulating savings and credit associations began in 1980s and became popular in 1990s. The concept of Internal Savings and lending in Zimbabwe was developed from traditionally known savings called rotating savings and credit schemes which have been existence for a long time (Chuma e tal, 2013). Due to its overwhelming success in achieving goals of improving the rural women's livelihoods and receiving demand from clients all over the country after being introduced by Care International in Mberengwa district the project is being replicated in Manicaland province, Chipinge district ward 17 and 18. The schemes allows community members to form groups of minimum of 5 members each and start savings and revolve the funds through lending loans to members of the group and repay the loan with interest within a specified time frame.

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There have been various developmental tools that have been planned by world-wide development agencies, policy makers and non-governmental organisations aimed at improving rural women's livelihoods in developing countries. Microfinance schemes such as ISAL and JLL schemes have been identified as bottom up developmental tools in Chipinge ward 17 and 18, aimed at improving the rural people's livelihoods. Despite concerted efforts made by various civil society organisations to improve rural population's livelihoods through the use of ISAL and JLL schemes, many marginalised women in Chipinge ward 17 and 18 find it difficult to make ends meet and are surviving in extreme poverty. It is against this background that a research be conducted to assess the impact of JLLs and ISALs schemes on rural women's livelihoods

**Literature review**

**The Micro-finance Concept**

Microfinance refers to various ways of providing financial services which include credit, savings and transfers that are planned to assist the poor who have no access to financial service (Chigara 2001). Chigara (2001) further state that microfinance falls into two categories which are formal and informal microfinance. Informal financial institutions are institutions that are not under the direct legal control of key monetary and financial policy instruments although they are formulated by organisations and individuals and operate without legal status. Chigara and Mutesarira (2001) posits that the informal mechanisms include internal savings and lending (ISAL), Rotating savings and credit associations (ROSCAs), Joint liability lending, burial societies, savings clubs, savings at home, savings in kind, reciprocal lending, saving with employers and savings with suppliers and supermarket.

**Types of Microfinance Schemes**

**Internal Savings and Lending (ISAL)**

Internal Savings and Lending has been called by various names like savings groups, saving and Internal Lending Communities (SILC), ***Kufusha Mari, Ukuholisana*** depending on the location and agent supporting the programme. Chuma et al (2013) indicated that, the concept of internal savings and lending in Zimbabwe was developed from traditionally known savings mechanism called Rotating savings and credit associations (ROSCAs) which have been in existence for a long time. Community members self-select themselves and form groups with a minimum of 5 members and a single association consists of 5 to 10 people who save a small amount every week or every month. Vanmeenen (2010) indicates that group members normally come from the same locality and voluntarily self-select on the basis of trust.

**Operation of ISAL programme**

Each group is able to determine the amount members can contribute each week or every month. Instead of disbursing all the savings contributions to one member at a time, ISAL is able to accumulate the contributions of its members into a fund from which group members may internally borrow at a predetermined interest rate and terms (Vanmeenen, 2010). Loans are only borrowed by group members and most loans are short-term, generally at an interest rate determined by the group per month. The fund grows through interests on loan and fines. At the end of a predetermined period, members share the accumulated fund that would have been built from savings, interest earnings, investment profits and fines.

**Joint liability lending (JLL)**

Joint liability lending is a microfinance scheme that is targeted to the very poor people in the society who cannot even borrow individually but must borrow within a group of other borrowers. Participants of joint liability lending group not the individual is responsible for loan repayment (COPAZ, 2014). Each group consist of 5 to 15 people of the same village or same socio economic background who commonly come together to form a group for the purpose of availing loan from Microfinance Institutions without any collateral security. The concept of this scheme is the mutual trust among the group members since members are jointly liable for each other's loan.

**Operation of Joint liability lending programme**

Loans are given to each group by the MFI's and the members will share the loan equally and engage into income generating activities (IGAs) in order to recover the loans. Most micro-lenders engage in intensive monitoring of clients, and rely heavily on the promise of repeat loans for borrowers who perform well. Joint liability lending alleviates challenges faced by formal credit institutions that lend to poor borrowers who cannot offer much in the way of collateral security. Fowler and Pan et al (2011) also assert that savings groups respond directly to unmet financial needs of the remote and rural poor by providing them with secure saving facilities and also the chance to borrow small amounts on flexible terms and in a cost effective and sustainable manner. The incentive to cover for the defaulting member in the group comes from the fact that the group members fails to repay, the entire group will be cut off from borrowing.

**Rotating Savings and Credit Associations (ROSCAs)**

ROSCAs are associations that take place when members pool money together by making periodic contributions into a fund which can be accessed by members on a rotational basis as a lump sum (Fowler and Pan et al, 2011). ROSCA group is formed when individuals come together and make regular cyclical contributions to a common fund, which is then given as a lump sum to one member in each cycle. The group consists of 10 to 20 members or any agreed number of members and they choose their leader for instance chairperson, secretary and committee members.

**Operation of ROSCA programme**

Weekly or monthly fixed contribution is paid into a common purse in anticipation of the privilege of receiving a large sum at some point in the life cycle of the group (COPAZ, 2014). In this assertion, a group of 15 to 30 people for a ROSCA group will contribute an agreed amount of money at regular meetings. After the contribution, the entire fund is then distributed to each member on a rotating basis, until all the members in the group received the loan. Deciding who receives the lump sum first or last is done by lottery, by bidding or other agreed methods. Penalizing those who deliberately default is also an important feature of this social collateral adopted by ROSCAs with punishments

**Impact of ISAL and JLL schemes on rural women's livelihoods**

Microfinance can assist the poor to find the means to protect their livelihoods against shocks and to build up and diversify their livelihood activities (COPAZ, 2014). Every loan made to a woman contributes to the strengthening of the economic and social position of women. There are various impacts of microfinance schemes on livelihoods of rural people as shown in figure 1 below;

**Poverty reduction**

Access to microfinance services decreases the incidence of poverty in rural areas. Khandker, (2005) states that micro finance schemes reduce poverty and increase in income. He further argues that provision of credit to poor households

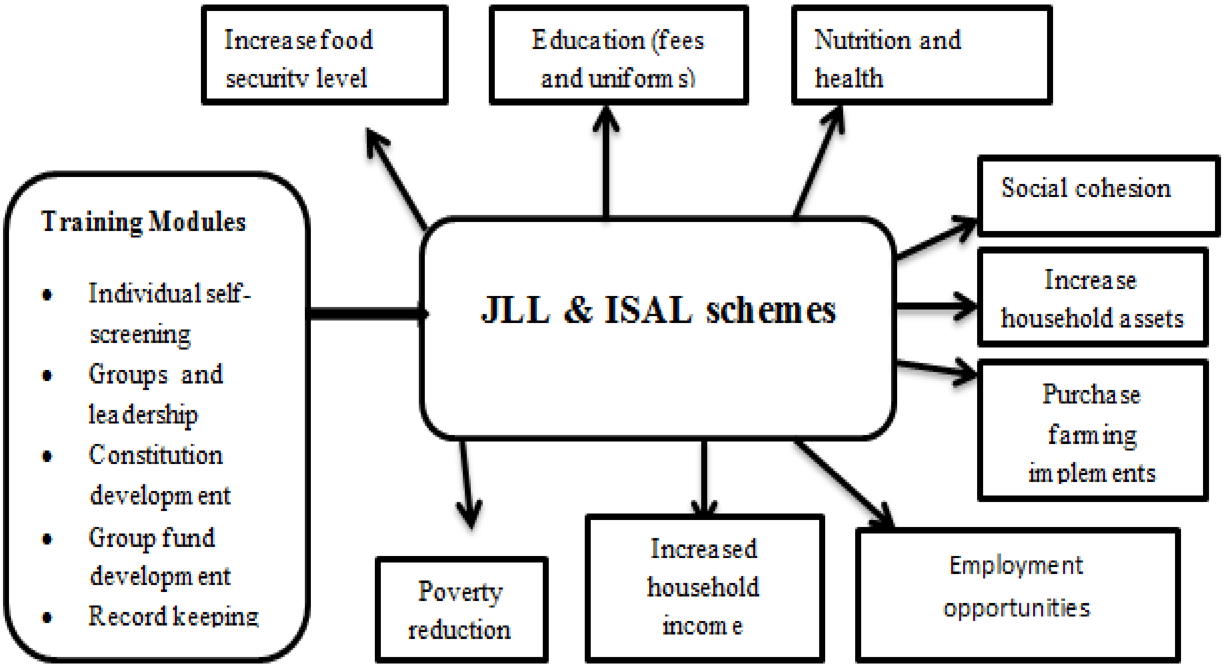


**Figure 1. impact of ISAL/JLL schemes on rural women's livelihoods.**

**Source: Adapted from COPAZ ISAL & JLL Training module (2014)**

enables people to start income generating activities that would generate income thereby reducing poverty.

**Education**

Increase in income and empowerment gained from microfinance schemes directly relate to improvements in the education of children. In the same way, Pitt and Khandker (1998) found a strong statistical significance impact on microfinance women beneficiaries on the girl child enrolment. They further posit that poor women with income obtained from microfinance activities invest in their children's education and as such children are more likely to go to school and stay longer in schools as compared to children from non-microfinance participants.

**Empowerment and social status of women**

Access to microfinance can empower women to become more confident, more assertive, more likely to take part in family and community decisions and better able to confront gender inequalities. Terry (2006) found that loans from FINCA Tanzania create major positive changes in lives of women borrowers, including an improvement in social status and self-esteem and an increase in confidence. Women also feel empowered through the increase in income and the ability to accumulate savings, purchase household assets and contribute toward children's education.

**Better Nutrition and health**

Households of microfinance participants, especially female members, appear to have better nutrition and health status compared to non-participants households. Women's credit has a large and important impact on children's health. Children of participants of the Rural Bank credit program in Ghana experienced significant improvements in feeding frequency compared to children of non-clients. Barnes (2001) found that participation in Zambuko Trust microfinance programme in Zimbabwe has a positive impact on the quality of food. For instance participation has led to a positive impact on the consumption of high protein foods (meat, fish, chicken, milk).

**Challenges of Microfinance**

There are various challenges faced in operationalization of microfinance schemes in rural areas.

**Poor infrastructure**

Microfinance institutions most of them ever reach the bottom ten to fifteen percent of the population in rural areas due to poor infrastructure and remoteness of other areas.

Gulli (1998) states that microfinance schemes had challenges in India to reach poor rural communities because of the difficulty of accesses and the poor quality of infrastructure. Poor road network and surface conditions as well as lack of other socioeconomic and community infrastructure will restrict market access and the flexibility of financial institutions to serve remote populations. Most rural areas are characterised by bad roads and lack of electricity which leads to communication breakdowns which negatively affects the rural people's income levels.

**Non-recovery of loans and high rates of defaults**

Non-recovery of loans is one of the institutional challenges that affect microfinance programs in rural areas. Boateng and Bampoe (2015) argues that microfinance is however plague with poor recovery rate for instance in Ghana where rural banks were good at disbursing loans but poor at recovery, since there are farmers who divert credit to other activities different from what they borrowed money for. This leads to unsustainable microfinance services due to high rates of defaulters. Brannen (2010) argues that late repayment is a common concern raised in other cases since other groups end up reporting to the police in hopes of recovering the missing funds.

**High illiteracy rate**

Women's lack of education and high illiteracy rates limit their inclusion to microfinance programs. A study by Bamba division (2012) revealed that there are several factors that influenced participants to join the programme and these included high illiteracy rate, start-up capital, household income, education, health, investments, business training, capacity building, social and leadership skills.

**Lack of record keeping skills**

Lack of knowledge resulted in loss of track of indebtedness of members leading to several members defaulting in payment and some cases members asked for payment they had already done. Chuma et al (2013) points out that families faced a countless of challenges in their endeavour to sustain their families which includes lack of book-keeping skills in their ISAL groups. Lack of record keeping skills create problems of unity among group members which leads to some members decide to withdraw from the scheme due to lack of transparency.

**Socio-cultural values and norms**

The inclusion of women in microfinance programmes in many rural areas is complicated because of the cultural, socioeconomic and political hierarchies influencing societies (COPAZ, 2014). Although women benefit financially and their livelihoods improved, empowerment is still harder to gain in India because of the predominance of the patriarchal culture. In Bangladesh women are constrained to access microfinance due to the norms, beliefs, customs and values through which societies differentiate between women and men.

**Research Methodology**

The research adopted a case study research design in which both qualitative and quantitative technique was used. The case study was chosen because the researchers had insufficient funds to include all women in Chipinge. Results of the findings will be used to infer to the population of all women in Zimbabwe.

**Data collection and sampling methods**

The study used a sample of 60 women in ward 17 and 18, Chipinge District. The researchers used purposive and stratified random sampling techniques. Questionnaires were used as appropriate research tools to reveal sensitive issues which respondents would otherwise feel uncomfortable to talk about in an interview. A pre-test survey was conducted in order to evaluate the validity and reliability of the questionnaire. Questions that proved to be unclear to the respondents were modified, rephrased or discarded. Key informant interviews were also used to obtain in-depth data from the selected few.

**Data entry and analysis**

The data collected were analyzed using descriptive statistics or frequency distribution expressed in percentages and mean item score (MIS-Using 1,2,3,4 and 5 Likert Scale). Data interpretations were based on the results that emerged from the analysis.

**Table 1. Frequency Distribution and Descriptive Response of Participants.**

| No | Statement | N | SA | A | N | D | SD | MIS |
|---|---|---|---|---|---|---|---|---|
| 1 | Enhanced livelihood among women is the major benefit derived from using ISAL and JLL schemes | 60 | 40 | 10 | 4 | 3 | 3 | 4.4 |
| 2 | Non-recovery of loans and high rates of defaults are the major institutional challenge faced by ISAL and JLL schemes | 60 | 10 | 20 | 2 | 25 | 3 | 3.2 |
| 3 | Colleteral security is the major way of circumventing challenges faced by ISAL and JLL schemes | 60 | 20 | 5 | 3 | 15 | 17 | 2.9 |

**Key:** SA = Strongly Agree (5), A = Agree (4), N=Neutral (3), D = Disagree (2), SD = Strongly Disagree (1), MIS = Mean Item Score

**Findings and discussion**

Statement one which focused on enhanced livelihood among women as the major outcomes of embracing ISAL and JLL schemes showed affirmative acceptance response (MIS=4.4). The findings are consistent with Khandker (2005) who posits that access to microfinance services decreases the incidence of poverty in rural areas. He further states that, provision of credit to poor households enables them to start income generating activities that would generate income and this then means improved livelihood. In support, Terry (2006) found that loans from FINCA Tanzania create major positive changes in the lives of women borrowers ranging from improvement in social status and self-esteem and an increase in confidence. Sharing the same sentiment is Barnes (2001) who postulates that microfinance schemes in Zimbabwe has a positive impact on the quality of food that is participation in micro finance schemes led to a positive impact on the consumption of high protein foods and once this happen, it means improved wellbeing and livelihood among women. From the interviews conducted, interviewee 13 has this to say; *"Micro finance schemes are the best as they help us to start some income generating projects. As you can see we can now afford to buy bread, rice, clothes and even to pay school fees for our kids rather than to wait for donors.* In addition, Interviewee 17 says "*ISAL and JLL schemes are the best programmes, we are now able to eat what we want because returns on our projects is very high*. These utterances imply that ISAL and JLL schemes improved the livelihood of women .However, the minorities were of the view that micro finance schemes do not improve their livelihoods. Interviwee 4 had this to say, *" the loans we are getting from JLL/ISAL programmes are not enough for us to start profitable big projects, they just give us small amounts and if you are to check the profit level, they are pathetic, you can't even buy a pair of socks"*

The majority of the respondents seconded the second statement (MIS=3.2).The findings are in line with sentiments of Boateng and Bampoe (2015) who argues that non-recovery of loans is one of the institutional challenges that affect microfinance programs in rural areas. They further state that rural banks in Ghana are good at disbursing loans but find it difficult to recover the loans since most of the beneficiaries divert credit to other activities different from what they borrowed money for. This leads to unsustainable microfinance services due to high rates of defaulters. Additionally, Brannen (2010) argues that late repayment is a common concern raised in other cases since other groups end up reporting to the police in hopes of recovering the missing funds. However the minority (MIS 1.8) revealed that high illiteracy rate hinders the operation of ISAL and JLL schemes. These sentiments were also echoed by Bamba (2012) who posit that high illiteracy rate is one of the factor that hinders the operation of micro finance schemes. Collateral security was proposed to be the best way of circumventing challenges faced by ISAL and JLL schemes(MIS 2.9).Supporting the above sentiments is Kiiru (2007) who argues that, to reduce rate of defaults, microfinance organisations must make sure that beneficiaries has collateral security. He further argues that collateral security must be locally available such as small livestock such as goats and small household assets. However the minority were of the view that setting a fine for late loan repayment or late comers is the best strategy. These views were supported by the key informants who indicated that a fine should be deterrent to would-be defaulters.

They also indicated that financial institutions will typically impose punitive interest rates for delayed payments.

**Conclusion**

The study recognizes that ISAL and JLL schemes enhances the livelihoods of women. and as such women must embrace and participate in these schemes. The mean item score for each statement has been shown on the table in which statement 1 topped (MIS= 4.4) while statement 3 ranked last (MIS=2.9).

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