Evaluation of the Social Development Fund in Zimbabwe: A Pilot Study

Richard Moorsom with
Joe Matanga & Lloyd Sachikonye

R 1997: 9

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Summary

This study, which was commissioned from Chr. Michelsen Institute, Bergen, by the African Development Bank (ADB), contains the findings and recommendations of an evaluation of the Social Development Fund (SDF) in Zimbabwe over 1990-95, the period of the Economic Structural Adjustment Programme. The study reviews the initial SDF programme design and the mandate of the SDF. It evaluates the performance first of the social welfare and other non-lending components of the SDF programme, then of the small enterprise lending and training components of the SDF. It proceeds to review the design of the more broadly conceived Poverty Alleviation Action Plan, its relationship with the SDF during the programme period and future options for its integration with the SDF. The study concludes with an assessment of the available options for the future development of the SDF's welfare and credit programmes; and recommendations on possible forms of follow-up intervention by the ADB.

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CONTENTS

TABLES

ANNEXES

PREFACE

This study forms part of the output of a consultancy on Social Development Funds in Zimbabwe and Malawi commissioned from Chr Michelsen Institute by the African Development Bank. The evaluation of the Social Development Fund in Zimbabwe was carried out by a team comprising Richard Moorsom, CMI project leader, and two national consultants, Lloyd Sachikonye, senior researcher at the Institute of Development Studies, University of Zimbabwe, and Joe Matanga, financial analyst, contracted through Imani Development, Harare. The study was written by Richard Moorsom incorporating working drafts on particular topics written by the team members.

ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
AFC	Agricultural Finance Corporation
AFO	Apex Financing Organisation
BESA	Business Extension and Advisory Services
BUA	Bank Unit of Account (ADB)
CCZ	Consumer Council of Zimbabwe
CGAP	Consultative Group to Assist the Poorest
CGC	Credit Guarantee Company
CMI	Chr Michelsen Institute
CPO	Central Payments Office
CSO	Central Statistical Office
CU	Coordinating Unit (SDF)
DDF	District Development Fund
DEED	Department of Employment and Employment Development, MPSLSW
DSW	Department of Social Welfare, MPSLSW
ESAP	Economic Structural Adjustment Programme
ETP	Employment and Training Programme (SDF)
FUA	Financial Unit of Account (ADB)
FY	Fiscal (financial) Year
IBDC	Indigenous Business Development Centre
LOGAC	Loans and Grants Allocation Committee (SDF)
MEC	Ministry of Education and Culture
MHCH	Ministry of Health and Child Welfare
MIC	Inter-Ministerial Committee for Monitoring and Implementation of ESAP
MIU	Monitoring and Implementation Unit, Ministry of Finance
MLGRUD	Ministry of Local Government, Rural and Urban Development
MPSLSW	Ministry of Public Service, Labour and Social Welfare
NANGO	National Association of NGOs
NCDP	National Council of Disabled People
ORAP	Organisation Rural Association for Progress
PAAP	Poverty Alleviation Action Plan
RMC	Regional Member Country (of the ADB)
SAF	Social Action Fund
SAP	Structural Adjustment Programme
SDA	Social Dimensions of Adjustment
SDF	Social Development Fund
SEDCO	Small Enterprise Development Corporation
SME	Small or Medium Enterprise
SPA	Special Programme of Assistance for Africa
SSE	Small Scale Enterprise
SWP	Social Welfare Programme (SDF)
UNDP	United Nations Development Programme
ZANU(PF)	Zimbabwe African National Union (Patriotic Front)
ZCTU	Zimbabwe Congress of Trade Unions
ZDB	Zimbabwe Development Bank
ZIMFEP	Zimbabwe Foundation for Education with Production
ZNCC	Zimbabwe National Chamber of Commerce

EXCHANGE RATES

Currency: Zimbabwe dollar (Z$).

BUA 1 = SDR1 = FUA 1.0857 (October 1991)
FUA 1 = BUA 0.9211 = US$ 1.3680 = Z$ 5.57 (September/October 1991)

Annual averages:

	US$1 = Z$	Z$1 = US$
1991	3.428	0.2917
1992	5.094	0.1963
1993	6.472	0.1545
1994	8.150	0.1227
1995	8.658	0.1155
1996 (Jan.)	9.363	0.1068

OVERVIEW AND RECOMMENDATIONS

The SDF Programmes

1. This study contains the findings and recommendations of an evaluation of the Social Development Fund (SDF) in Zimbabwe.

2. The SDF was established in 1991 within the broader framework of Zimbabwe's Social Dimensions of Adjustment (SDA) programme, which formed an integral part of the five-year Economic Structural Adjustment Programme (ESAP) launched in 1990. It was designed as the delivery vehicle for the two principal programmes aimed at mitigating transitional social hardships expected to arise under ESAP from the introduction of user fees for social services and from retrenchments in formal sector employment:

   - The Social Welfare Programme (SWP) compensated the poor for new or increased user charges in education and health and higher deregulated maize prices. It covered payments for
     - exemptions from school and examination fees for households with incomes below Z$400 per month;
     - exemptions from health fees for households with incomes below Z$400 per month; and
     - a per capita cash food benefit of Z$4 per month for urban households earning less than Z$200 per month, intended to compensate them for the higher deregulated price of maize.
   - The Employment and Training Programme (ETP) provided assistance to those made redundant from both the private and the public sectors as a result of ESAP. It offered:
     - an introductory one-week training course in how to start up a new business;
     - loans for small enterprise startups.

3. The SDF was financed mainly from annual budgetary allocations. In addition, the credit scheme drew on a FUA5 million (US$6.3 million) African Development Fund loan approved in December 1991. The purpose of the loan was to cover the capital and raw material cost of approved project proposals submitted by retrenchees under the ETP.

4. The SDF was established as a special fund first under the Ministry of Finance and later, from early 1995, under the Ministry of Public Service, Labour and Social Welfare (MPSLSW). A Coordination Unit was set up in MPSLSW to act as secretariat to the SDF's Advisory Board and to coordinate and administer its two programmes in conjunction with other departments:

   - SWP: While the Coordination Unit prepared payment cheques centrally, the main burden of assessing and administering individual claims was assumed by the ministry's Department of Social Welfare, together with school principals (school and examination fees) and the main hospitals and urban clinics (health charges).

- ETP: The introductory training, assistance with preparing project proposals and appraisal of the proposals were farmed out to private sector consultants. The Coordination Unit serviced an interdepartmental Loans and Grants Allocation Committee (LOGAC), which decided on loan applications, and administered the loan scheme.

Organisation of the Study

5. The ETP's credit scheme forms the central focus of this study and is examined in depth in chapter 4 of the main report. The non-enterprise components of the SDF's mandate, principally the SWP's three safety nets, are reviewed comprehensively but in less detail in chapter 3. The study also assesses in chapter 5 the integration of the SDF with the Poverty Alleviation Action Plan (PAAP), which the Zimbabwe Government launched midway through the ESAP period to address issues of long term poverty alleviation and which assigned major new funding and coordinating functions to the SDF.

6. The conclusions and recommendations of the study are presented in chapter 6 of the main report and specific recommendations for African Development Bank follow-up in chapter 7. The main report is preceded by a summary and followed by tables and a set of annexes. The remainder of this overview presents in condensed form the study's principal findings and recommendations.

Safety Nets Outcomes

7. The SDF's safety nets had mixed outcomes. Education and health assistance achieved generally satisfactory performance towards the end of the programme period. After delays in implementation and a slow startup, take-up reached moderate levels by the end of 1994 which continued on a rising trend into 1995. The cash food benefit, however, never reached more than a small proportion of its target group and take-up fell away rapidly in 1995, mainly because of the benefit's very low per capita value.

8. The outreach of the safety nets nevertheless remained limited. The great majority of qualifying poor households remained outside the programme and were thus exposed to the user charges. The failure to raise the income thresholds in line with the high rate of inflation shrank the pool of eligible households and the purchasing power of the food benefit.

9. The pre-emptive screening of applicants was intended to shield the poor from the impact of the education and health fees introduced as part of the ESAP reform package. It did, however, raise high procedural barriers which effectively excluded most of the poor. It also imposed heavy administrative overheads, overstretching the delivery system.

10. Strategic confusion compromised health and education assistance from the outset. They were designed as conventional targeted social security benefits to compensate for permanent changes in user charges for state services. Yet within the SDA framework they were temporary subsidies to be phased out. Thus on the one hand, PAAP projected rising expenditure on them well beyond the end of ESAP as part of long term poverty alleviation, while on the other, the SDF's budget was cut sharply for FY 1995/96, forcing the abrupt

suspension of safety net payments in mid-1995. Furthermore, placing the safety nets under the SDF divided line responsibility for a major extension of the welfare system between the Coordination Unit and the Department of Social Welfare, separated its budget line from the regular welfare vote and failed to equip the Department with adequate planning, staffing and training for its effective implementation.

Credit Scheme Outcomes

11. The SDF's credit scheme made an innovative contribution towards the mitigation of hardships imposed by ESAP:

- The introductory business training achieved extensive outreach, approximately a third of all private and public sector retrenchees completing the course before its suspension in August 1995.
- The approval of 1,889 loans worth Z$153 million (US$16 million) within the three years to January 1996 is a creditable achievement.
- The employment creation indicated in the project proposals totalled 7,424 by January 1996, including as well as the retrenchees some 5,500 additional jobs.

12. The average loan size of Z$81,000 (US$9,250 in early 1996) positioned the SDF credit scheme firmly in the small formal sector. It was of little direct relevance to microenterprise financing in the informal sector, but this was in part a benign outcome since it created new jobs and largely avoided subjecting existing NGO programmes to competition with its subsidised terms of lending. By financing high-risk small scale enterprise (SSE) startups, often with little collateral, it established a niche operation alongside other credit schemes.

13. Nevertheless, staff shortages and lack of efficient procedures in the Coordination Unit allowed a large backlog of nearly 7,000 project proposals to build up by mid-1995 with the potential to create some 25-30,000 jobs. In programme implementation, there was a strong gender imbalance amongst trainees and approved loans, a marked urban bias in project locations, and uncertainty over how many promised jobs were actually created and sustained.

14. There was a lack of professional business and financial expertise at all levels and in particular no microlending experience. Despite an inherent conflict of interest, the sub-contracting of appraisals to the consultants worked adequately on the whole and the consistency checking by Coordination Unit staff weeded out the weakest proposals. But LOGAC approved nearly all the projects it considered and the scheme took on the character of an entitlement programme.

15. The Coordination Unit proved far more effective at disbursing loans than collecting repayments. The accounting section was severely understaffed for most of the period and the accounting system was weak. A debtor's control system was not put in place. The information management system was wholly inadequate to the task of managing a large loan portfolio. A monitoring and recovery section was not set up until mid-1995 and had neither staffing nor systems to function effectively. Few clients or project sites had ever

been visited by Coordination Unit staff. The first invoices were only dispatched in late 1995 and few clients had been given repayment schedules.

16. By late 1995 the repayment rate remained very low at around 5 per cent of principal and interest due. As a result, when the budget subvention to the SDF was severely reduced for FY 1995/96, the credit scheme had very little income to fall back on. Drawing down the remainder of the ADF loan became its only source of new capital. By February 1996 LOGAC had been obliged to suspend approvals for lack of funds.

17. The credit scheme was set up with the general intention that it should achieve a reasonable payback of loans advanced. Success in this objective would raise the question of how the proceeds are to be utilised. One option, although not elaborated, would be to recycle the income on a revolving fund basis so as to place the scheme on a sustainable footing. Allowing for the subsidised interest rate of 10 per cent a year, arrears and a substantial default rate, the existing loan portfolio could, with moderate loan recoveries, yield an inflow sufficient to finance relending at a reduced level of around Z$20 million per annum by 1997-98.

Recommendations

18. The SWP safety nets:

- Whatever the immediate fate of the SWP, to the extent that individual user fees are charged for basic social services screening is unavoidable if the poor are to be spared. Education and health assistance should be funded within a long term poverty alleviation framework rather than SDA, as proposed in the PAAP strategy.
- Education and health assistance should be transferred from the SDF to the regular budget of MPSLSW and their administration fully integrated into its line functions.
- If the cash food benefit has not already terminated, self-targeting alternatives should be considered such as a subsidy to small hammer mills on straight run maize.

19. The existing SDF credit scheme:

- Any remaining funds under the ADF loan should be disbursed as rapidly as possible, concentrating on the existing backlog of loan applications.
- Any further capitalisation of the scheme should be conditional upon putting in place adequate arrangements for wholesaling credit funds to retail financial institutions for onlending to clients.
- Now that the ESAP period is completed and the SDF's transitional objectives have been partly achieved, the loan portfolio, including ownership of the assets, should be transferred at the earliest opportunity to one or more financial institutions providing SSE credit so as to secure its long term sustainability. Commercial as well as parastatal institutions should be evaluated.

- In preparation for a transfer, a comprehensive evaluation of the present loan portfolio should be undertaken, including site visits, to arrive at a realistic assessment of repayment prospects, bad debts and needs for extension assistance or refinancing.

- Once transferred, the SDF projects should be integrated into the normal operations of the existing institutions and new projects financed out of the repayments should be appraised by standard SSE criteria. However, the terms of transfer might include agreement on special targeting in order to ensure continued access for categories of clients such as retrenchees.

20. Future targeted small scale credit with SDA objectives and microcredit geared to long term poverty reduction objectives:

- Special credit programmes with SDA targeting can prove effective. Loan finance should, however, be wholesaled to established frontline agencies. Priority should go to those with proven track records in SSE credit serving the small formal sector and microcredit serving the informal sector. Both parastatal and private sector financial institutions and microfinance NGOs should be considered.

- SDA loan agreements should include short term client targeting according to government priorities. The long term aim should be to plough back loan repayments into the institutions' regular lending programmes.

- Loan agreements for microenterprise lending should be wholesaled primarily to established microfinance NGOs. Parastatal and private sector financial institutions should be considered in order to balance any gaps in the NGO's national outreach, especially in the rural areas.

- Loan agreements should leave the retail institutions free to set their own terms of onlending. Any wholesale subsidies should be concentrated on transaction and extension service costs against transparent performance targets.

- In any future SDA context resulting in redundancies, the provision of credit to retrenchees should form part of a package which also offers alternative options, including job placement, retraining and a strengthened short business course.

21. Grant finance for income generating and community based projects:

- If the SDF mandate to provide grant finance to small projects is to be activated, a separate dedicated agency should be established along the lines of a Social Action Fund (SAF) and geared to quick disbursement, primarily through local NGOs and community based organisations.

- In line with PAAP emphasis on decentralisation and community participation, the SAF should function primarily to facilitate local initiative and implementation through district and local state and community institutions. It should function autonomously outside ministry structures and with a small professional staff while accounting to the responsible ministry or alternatively through a reconstituted SDF.

22. Analysis, coordination and monitoring:

- After its existing administrative functions are transferred, the Coordination Unit's connections with the SDF should be ended. It should be reconstituted as the Secretariat of the national PAAP Management Committee with enhanced capacity to coordinate government-wide efforts on poverty alleviation and reduction. It would service and monitor policy formulation as well as coordinating and initiating poverty monitoring, data-gathering, research, information and technical assistance to implementing institutions.

23. The Social Development Fund:

- The SDF should be converted into an independent foundation or apex financing organisation, which will assist in diversifying the sources of finance and reducing dependence on the government budget. Governance should be through a partnership of stakeholders, expressed through representation in its board of central and local government, business, private and parastatal financial institutions, NGOs and independents.

- The SDF's mandate should be dedicated to long term poverty reduction goals, with provision for the alleviation of adverse impacts arising from structural adjustment and other temporary causes.

- The SDF should function exclusively as a wholesale disbursement channel for grant and credit funds earmarked for micro and small scale projects. It would not become directly involved in project administration and would also not channel welfare funds. Financial resources would be mobilised from government, donors and the private sector and disbursed under agreements with partner organisations, which could be NGOs, a SAF, parastatals, or financial institutions.

24. Follow-up African Development Bank interventions:

- If the existing ADF loan has not yet been fully disbursed to the SDF and onlent to clients, the ADB should be prepared to strengthen its supervision in order to assist the SDF in meeting its original objectives.

- Additional loan finance should not be provided to the SDF in its present form. Any future funding should be channelled only through institutions established autonomously outside ministry structures. An independent SDF could provide such a channel. Alternatively, the established financial parastatals could be considered both in their own right and as wholesale channels to microfinance NGOs; and an autonomous SAF for grant funding of community-based projects.

- Technical assistance may be required for:

  - transferring the present loan portfolio to one or more credit institutions;

  - assisting the comprehensive stocktaking of the business and financial status of SDF projects;

- contributing to the redesign of the SDF as an independent funding body serving both long term poverty reduction and short term poverty and hardship alleviation objectives; and
- contributing to the design of an autonomous SAF.

■ Further financial assistance may be needed and feasible in four fields:

- additional small scale credit for SDA purposes should the Government proceed with another round of structural adjustment, in which case a principal adverse impact is likely to be public sector retrenchments;
- SSE credit serving the objectives of poverty reduction, economic empowerment or expanding the entrepreneurial base;
- informal sector microcredit targeted explicitly on the poor with targeting priority for rural women; and
- grant funding for small community and income-generating projects.

SUMMARY OF THE STUDY

This report contains the findings and recommendations of an evaluation of the Social Development Fund (SDF) in Zimbabwe.

1. Programme Design

1.1 Zimbabwe's first five-year Economic Structural Adjustment Programme (ESAP) was inaugurated during the second half of 1990. Transitional hardships were anticipated for substantial sections of the population and from the outset SDA perspectives were incorporated into the ESAP policy framework. The twin concerns with employment creation and hardship alleviation became the main focus of SDA initiatives through the SDF. The Government viewed adverse impacts as partial and temporary and in general expected the poor to benefit substantially. The FUA5 million ADF loan to the SDF was part of a wider package of financial support to ESAP from the ADB, the World Bank and the IMF.

1.2 The ADB's programme design set out four key areas of SDA focus which the SDF was to finance: microenterprises and poverty alleviation programmes; poverty assessment and monitoring; training and institutional strengthening; and action-oriented policy research. The first area of focus was to cover a broad range of activities which under the SDF were grouped under two programmes: the Social Welfare Programme, covering social compensation for hardships attributable to ESAP (exemptions from education and health user fees for those earning under Z$400 a month; food subsidies; and retrenchment packages); and the Employment and Training Programme, covering microenterprises to assist 'the poor and the vulnerable groups' into employment and income generating activities. The specific purpose of the ADF loan was to alleviate transitional structural adjustment impacts through the provision of credit to small scale enterprises for capital and raw material costs.

1.3 The ADB design envisaged that the SDF would function as the Government's SDA funding vehicle; disburse both social and credit finance; and channel funding from the Government, the ADF and other donors. The SDF was to have a policy-making SDA Advisory Board which would draw broad representation from NGOs and business as well as the public sector. Implementation would be assigned to the Ministry of Public Service, Labour and Social Welfare (MPSLSW) which would establish an interdepartmental Loans and Grants Allocation Committee (LOGAC) at senior official level and a Coordination Unit (CU) to administer the SDF. As well as administration, the CU was to undertake three main functions: project processing, project monitoring and evaluation, and outreach and extension. Basic training and project appraisal would be contracted out.

1.4 Several potential difficulties of implementation were built into the original design of the SDF programme. The SDF was designated sole channel for SDA funding, opening it as a vehicle for programmes of widely differing objectives and thereby complicating its management coherence. The inclusion of both welfare and credit programmes made the SDF responsible for programmes with incompatible objectives and differing conditions of implementation. The SDF's much wider range of activities left it unclear how the Government's commitment of Z$20 million a year was to be utilised. Targeting was vaguely defined. Responsibility for project appraisal was not clearly indicated. Finally, the status and legal powers of the SDF were not defined, in particular in relation to loan assets.

1.5 The Government's SDA programme document differed from the ADB design in a number of respects, several of them significant. Up to early1995 the division of implementation responsibility between the CU in MPSLSW and the Monitoring and Implementation Unit (MIU) in the Ministry of Finance weakened programme management. The restriction of SDF loan disbursements to intermediary institutions was missing, leaving the way open to pay out to individuals directly. Poverty assessment and monitoring was not explicitly included either as an SDF objective or as a funding category.

1.6 The SDF constitution retained the programme's broad definition of objectives but with targeting restricted to those directly affected by ESAP. The social safety nets objectives covered grants for medical care, school fees and food. Under employment and training, loan funds were geared to creating employment for the same target group, and eligibility was extended to 'approved small scale enterprises, cooperatives and public works projects'. Training grants were, however, restricted to retrenchees. Also covered were 'associations undertaking income generating projects', whose projects the 1995 revision stipulated should be executed through Community Based Organisations (CBOs).

2. Financing the SDF

2.1 To finance the SDF, the Zimbabwe Government allocated Z$20 million in the fiscal year 1992/93 and Z$150 million, Z$100 million and Z$50 million in the three years following, to which the ADB loan and other small-scale donor funding was additional. These reductions were not signalled in the presentation of the Poverty Alleviation Action Plan (PAAP) in late 1994, which projected a rise to Z$210 million in both 1995/96 and 1996/97. The delayed gearing up of PAAP stalled the new PAAP initiatives and left the established SDF programmes largely dependent on the much reduced domestic budget subventions.

2.2 Within the framework of the SDF the social welfare requirements were to be funded wholly out of domestic resources and the microenterprise component by a mix of public and external funding. The sole financial partner was the ADB. Other commitments have not been forthcoming apart from limited technical and institutional assistance. The ADF loan was to be drawn down in five tranches of FUA1 million on a replenishment basis.

2.3 As at the end of September 1995, the latest period for which comparable data is available, cumulative disbursements to clients amounted to Z$161.5 million under the SWP and to Z$133.5 million (45 per cent) under the ETP, making a total of Z$295 million disbursed to clients through the SDF approximately within the timeframe of ESAP.

3. Review of the Social Welfare Programme

3.1 The Social Welfare Programme was designed as a set of short term social safety nets to cater for the needs of the poor and other vulnerable groups directly and adversely affected by the impact of ESAP. It exempted secondary and urban primary pupils from paying school and examination fees and individuals from health charges (in both cases if earning under Z$400 per month), and provided a small food subsidy of Z$4 per capita to urban households (if earning under Z$200 per month). The health scheme combined individual targeting at the urban in-patient hospitals with self-targeting through a 20 per cent subsidy on attendances at urban clinics. Rural primary schools and health facilities were effectively exempt from user charges.

3.2 Implementation of all three benefits started late - education assistance in September 1992, food money in March 1993 and health assistance in January 1994. The programme's outreach is characterised by delays in launching and slow startup leading to accelerating take-up. While the food subsidy failed to make a significant impact, the school and examination fee exemptions achieved a moderate level of outreach by 1994 and take-up continued on a rising trend through 1995. School fee exemptions accounted for about 16-17 per cent of the affected school population in 1994 and 1995 and examination fees about 14 and 20 per cent respectively. In respect of both school and examination fee exemptions there is evidence of a gender bias against girls, who made up 43 and 44 per cent respectively between January and mid-May 1995.

3.3 Within the limitations of their design and targeting, the education and health safety nets sub-programmes have on the whole performed creditably, the food subsidy less so. However, the majority of qualifying poor households were still outside the scheme by the end of the period. Furthermore, the funds allocated to the SWP were far smaller than the net impact of ESAP in terms of sharply reduced real social expenditure. Real per capita expenditure on social welfare dropped by about 32 per cent over the four year period 1990/91-1994/95, on health by 39 per cent, by 32 per cen on primary education and by 34 per cent on secondary education.

3.4 Major confusion surrounds the SDF timeframe with ESAP ending in 1995 but PAAP extending well beyond into 1997. In particular, the health and education subsidies were designed to compensate for permanent changes in user charges for state services. As such, they were designed along the lines of conventional targeted social security benefits, not temporary SDA subsidies to be phased out. The PAAP strategy envisaged their long term extension, but the SDF budgetary allocations appeared to treat them as reducing SDA compensation.

3.5 The financing of the three SWP benefits was subject to short-term budgeting constraints and uncertainties, including a lack of clear guidelines for the division of funds between the SWP and the ETP, little correspondence between voted allocations and actual costing of the programme's needs, and treasury clawback of SDF funds.

3.6 The SWP's targeting strategy resulted in a much narrower programme focus and a delinking from broad poverty impacts, but also in a clearer identification of potential beneficiaries, who were by definition limited to users of the services or subsidies in question. It lacked balance in respect of urban bias, in not taking account of household size (education and health assistance) and in confusion arising from two different income thresholds.

3.7 Reliance on the pre-emptive screening of applicants, a centrepiece of the SWP's design, raised high entry barriers. Individual screening is an intrinsically paper-intensive approach to delivering social subsidies and incurs heavy administrative and training overheads. In situations of mass poverty, it invites perverse outcomes: either a low take-up rate saves overheads but has marginal impact; or successful outreach overstretches the delivery system.

3.8 The failure to adjust the income thresholds for inflation has allowed inflation creep to erode their value, by 61 per cent over the four-year period to December 1995 and by 71 per cent in respect of food. This has progressively reduced the pool of eligible households and exposed increasing numbers to the cost recovery measures. Some evidence of ESAP-related negative outcomes has been found in the school and education sectors.

3.9 In general, by the second half of 1994 and 1995 the SWP had ironed out its teething difficulties and was functioning moderately well within the boundaries of its constraints. In 1992 the slow startup can in large measure be attributed to the impact of the drought emergency, whose operational burden fell heavily on the DSW. Stopgap measures and overtime working succeeded in overcoming a serious payments backlog in late 1993 and subsequent processing delays have, on the whole, not been attributable to administrative holdups. Health and welfare assistance were moderately well established with the respective client groups although the food subsidy was notably less successful.

3.10 Nonetheless, operational problems beset the SWP in five main areas: lack of information to facilitate outreach to those who were eligible, particularly those outside the main urban areas; insufficient staffing at central and provincial levels; cumbersome application procedures and the lack of common application forms; over-centralisation in processing payments; and inadequate inter-departmental coordination and unclear assignments of financial and operational functions.

3.11 The operational limitations of the SWP accentuated further the narrowing of the programme's outreach inherent in its design. Many poor households residing at some distance from the nearest district DSW office could not afford the time and expense to complete an application procedure that might require several long journeys, even overnight stays, and lengthy waits for attention. In the case of schools some principals applied arbitrary criteria in deciding which households to refer to the DSW, in some cases sending all applicants but more commonly blocking eligible households. Delays in issuing payments reduced the income of schools and non-government health institutions and hence their confidence in the SWP. In mid-1995 some faced legal action by creditors as a result.

3.12 The origins of many of the problems with the SWP lie, with minor exceptions, not in staff performance but in the design and operation of the programme itself. A major permanent expansion of the social welfare system was introduced in the guise of a temporary scheme addressing short-term hardships. The DSW workload was greatly extended with little extra budgetary provision for either staff or supplies. Little attention was devoted to adapting the structures, line functions, procedures and staff competences of the central and regional DSW offices to the demanding new responsibilities they were expected to execute. Within the CU, a parallel administrative capacity was set up alongside the DSW within the SDF which had little to do with the latter's coordination function. The channelling of SDA welfare payments through the separate SDF account divided financial accountability and separated SWP from other welfare expenditure.

3.13 The future operation of the education and health assistance sub-programmes in their present forms will depend on financing closer to the level proposed for PAAP and maybe somewhat above it. If not sustainable at this level, the terms of the benefits would have to be altered. Alternatively, budgetary caps in this demand-led programme will enforce arbitrary cut-offs, as in 1995. If SDA objectives are to be achieved, the social safety nets need to be secured within a long term policy framework.

4. Review of the Microenterprise Credit Programme

Lending Activities

4.1 In practice, the scope of most activities under the ETP has been confined to training retrenchees in basic methods of business management and also imparting basic entrepreneurial skills; and the provision of credit to business proposals submitted by the retrenchees. The SDF's credit scheme was built from scratch and constituted a new venture into business development.

4.2 Three distinct phases of lending activity are apparent: a slow start lasting from late 1992 to mid-1993, a rapid escalation during the second half of 1993 leading to a main phase lasting from December 1993 to March 1995, and a disrupted late phase from April 1995 onwards when approvals virtually dried up in mid-1995, resumed over the last four months of 1995 before dropping to a standstill by early February 1996.

4.3 The system of block allocations to the SDF introduced budgeting and scheduling problems for the ETP, like its SWP counterpart. Both programmes were demand driven and either could unpredictably hit the budget ceiling and be obliged to suspend operations. The delays in disbursement of the ADF loan, attributable mainly to lack of administrative capacity in the CU, also deprived the SDF of loan funds.

4.4 Lack of published reports and gaps and inconsistencies in internal data compilations have obscured the assessment of the status of the loan scheme. There is an absence of up-to-date income and expense statements, and no repayments statistics, annual reports, balance sheets or audited accounts have been published to date.

4.5 The 1992 SDF constitution failed to provide at all for the administrative costs of the SDF. 'Incidental' expenses are now allowed, but the overheads of the credit scheme remain partly hidden in departmental accounts and there is no direct means of calculating all its administrative costs.

Targeting and Beneficiaries

4.6 At startup, the credit scheme was restricted exclusively to retrenchees. In early 1994 the Advisory Board extended it to include those taking early or voluntary retirement or retrenched due to ill health and a little later also to the unemployed disabled.

4.7 The targeting of a single and easily identifiable group, retrenchees, gave the SDF credit scheme a strong programme focus, on which was also directly concerned with transitional impacts and SDA objectives. Although there was no way of distinguishing redundancies attributable to ESAP from the consequences of normal business restructuring, most applicants were retrenched during the main impact of ESAP during 1992-94.

4.8 Not all retrenchees could be expected to possess the necessary skills and motivation to succeed as small entrepreneurs. The difficulty is not that they were offered a credit programme, but that it was the only option they were offered. Further, screening might have helped prioritise poorer retrenchees and also identify those with entrepreneurial or requisite technical skills.

4.9 There is some evidence of abuse leading to leakage bu it is nevertheless unlikely that such abuse was widespread.

4.10 By the end of the ESAP period the SDF credit scheme had attracted the interest of a substantial proportion of its principal target group, retrenchees. The proportion of retrenchees submitting project proposals, at roughly 23-24 per cent, reflects a satisfactory level of outreach. The CU's cumulative summary gives a total of 1889 projects and Z$152.9 million in loans approved by the end of January 1996, by which time approximately 8,500 retrenchees had applied for SDF loans. The take-up rate of 80-85 per cent amongst those completing the introductory training course was high.

4.11 The delivery of loans was less satisfactory. Only about 24 per cent of applicants had received decisions on their applications by June 1995, when the backlog of loan applications on file was reported as 6,693 with a total value of Z$803 million (approx. US$94 million). Roughly 4-5 per cent of private sector retrenchees, 10 per cent of parastatal retrenchees and 9 per cent of civil service retrenchees had by then obtained SDF loans.

4.12 The total number of jobs contained in approved project proposals was 7,424 by January 1996 according to CU figures, a modest but significant contribution to alleviating ESAP-related unemployment. Nevertheless, it is highly improbable that all the promised jobs were actually created.

4.13 The sectoral distribution of loans did not maximise efficiency in job creation. The average number of jobs per project was 3.9 but wide sectoral variations are evident. A broad spectrum is also evident in cost per job around the mean of Z$20,593 (US$2,200).

4.14 The sectoral distribution of projects exposes a strong bias towards the service sectors. More particularly, there was a high concentration of resources on a narrow range of project types: welding, cattle pen fattening, small retail outlets, commuter omnibuses and grinding mills. In respect of the last two, this investment had significant impact on two sub-sectors adjusting rapidly under ESAP.

4.15 Access to the scheme in terms of loan approvals appears to have been significantly lower for retrenchees from the private sector than for those from the public sector. There was a very strong gender bias and only 9 per cent of beneficiaries were women. Only 34 beneficiaries were disabled. Two-thirds of borrowers were in the middle age bands between 30 and 49 years old and most had a high school education.

4.16 The geographical distribution of approved projects can serve as one measure of national outreach. There was a strong urban bias: 53 per cent of projects and 62 per cent of jobs were classified as urban. This distribution is the reverse of the 1992 population census (31 per cent urban, 69 per cent rural). By province, the further from Harare, the lower the ratio of projects to population with Matabeleland North and South returning especially low ratios.

Loan Amounts and Terms

4.17 The credit terms offered to borrowers were a required contribution of 10 per cent of the project cost, a standard interest rate of 10 per cent, a grace period of usually 4-6 months and a repayment period of 4-5 years.

4.18 The initial maximum size of loan was set at Z$80,000 and raised in May 1994 to Z$120,000, at which level it has remained since. The mean loan size of Z$81,000 or US$9,250 (early 1996) places the SDF loan portfolio firmly at the lower end of the formal small business sector. The SDF credit scheme has established a niche field of operations by targeting a selective client base - retrenchees - having little access to other sources of credit; by financing high-risk startups by operators with no previous track record, little training and little or no collateral; and by restricting the size of loans to the lower end of the SME financial market and for the most part not offering second or topup loans.

4.19 The SDF loan scheme has therefore been of little relevance to informal sector development. This, however, may have been a benign outcome since it has reduced to a minimum direct competition with established microcredit schemes.

4.20 The heavily subsidised interest rate has been more damaging at the SME level, not by diverting clients since the SDF scheme was restricted to retrenchees, but by affording a substantial competitive advantage over small businesses relying on commercial credit. The impact was exacerbated by its coincidence through 1994-95 with the even more heavily subsidised SME credit provided by the CGC.

4.21 Subsidised interest has been a principal point of disagreement between leading microlending NGOs and the CU, which has contemplated for some time onlending SDF funds through reputable NGOs. This has delayed even further the fulfilment of the original ADB and SDA to provide SDF resources to frontline financial institutions.

4.22 A serious difficulty arose from the restriction of the loan to capital costs when the borrower's need for working capital in the initial stages of operation was often acute. Other problems included the discouragement of co-financing and, although discretionary, the upper cap on the loan size, especially in the transport sector.

Non-financial Services

4.23 The training programme had extensive outreach. Probably more than a third of the target group completed the basic training course. But only 15 per cent of those trained were women and a strong gender bias is evident.

4.24 The content was generally satisfactory as a basic introduction and to assist trainees prepare project proposals. It was, however, insufficient to develop entrepreneurial skills. Many of the consultants running the courses used participatory methods of training, had adequate training facilities adequate except in Harare and well qualified for the job.

4.25 The most conspicuous deficiency is the complete absence of an extension service. The lack of support to a cadre of inexperienced operators starting first-time ventures was likely to prove amongst the most important factors in subsequent poor project performance and failure. Yet as of March 1996 most planning and implementation remained on paper.

Operational Mechanisms

4.26 Adequate management information systems are not in place for the day to day monitoring of the microenterprise financing programme. The CU is currently operating without a full set of accounting records. The bank deposit system has not operated efficiently as SDF does not conduct a bank reconciliation regularly. The cashbook does not separate details of grants and loans. The true record of the financial position of the programme cannot be ascertained.

4.27 The requirement in the ADB design that an independent annual audit be carried out by a private firm and submitted to the ADB within six months does not appear ever to have been carried out. Apart from a couple of summary tables, no quarterly or annual reports have been submitted to the Advisory Board.

4.28 There is no client tracking system in place, hence arrears can go undetected for a very long time. There is no clear method of recording arrears and no scheduling of work to manage client accounts. The 'computerised management information and accounting system' prescribed in the ADB design was only in early 1996 reaching the planning stage.

4.29 From the outset there has been a crucial ambiguity as to who could submit proposals and how loans were to be disbursed. As implemented, the SDF related exclusively to individuals as proposers and beneficiaries, contrary to the ADB design. This uncertainty between a wholesaling and retailing strategy became a critical factor affecting the performance of the SDF credit scheme.

4.30 The skeletal structure and limited staffing and resources could not cope with the escalating application backlogs. In practice the 45-day deadline for a project decision was unrealistic and hardly ever achieved. The mean gap between project submission and approval widened from 3-4 months before September 1994 to more than 14 months by late 1995. Very few applications submitted after January 1995 have as yet been presented to LOGAC. By contrast, the gap between approval and disbursement has generally been minimal. The ADB design's stipulation that loans should not be disbursed in a single payment was adhered to, but the ADB guidelines linking disbursement to implementation were never put into practice.

4.31 There are no systems in place to monitor and manage loan recovery. The recovery problems stem from poor accounting and record-keeping systems and the absence of an efficient repayments collection system. As of mid-1995, even basic procedures such as invoicing clients for repayments due were missing; the first complete set of invoices was only issued in late 1995. Reliance on an incomplete manual accounting procedure and the absence of automated billing for a portfolio of some 2000 clients in conditions of repeated staff shortage has been a major bottleneck in mobilising an effective repayments system.

4.32 Although the need for project monitoring was envisaged at the inception of the programme, staffing and the necessary equipment were not provided at the start.The Advisory Board proposed that DEED offices should undertake the monitoring and vehicles have been bought for this purpose. But the lack of operational funds has so far kept the new service grounded.

4.33 An appropriate legal status for the SDF to enable it to enforce repayments has long been under review without a definite outcome. No formal steps have yet been taken towards incorporation. The standard loan agreements that all SDF borrowers sign include a space for collateral, but in many cases the details provided would be too brief to follow up for enforcement.

4.34 In mid 1995 the SDF sought permission to engage attorneys to recover the repayments. But only 17 files had been handed over by September 1995 to the lawyers for action. This exercise is bound to be costly and contrasts with the growing use of debt collection agencies by parastatals such as SEDCO. It will in any case not bear fruit unless a proper monitoring system is implemented.

Risk Management Procedures

4.35 The SDF operation was designed to disburse the entire amount as quickly as possible and avoid any continuing relationship with the clients except to enforce repayment. The large loan size and lack of further financial inducements increased the risk of default.

4.36 The CU's loan appraisal functions were limited to checking that the project application was consistent with the basic policy guidelines despite bearing all the risk. For a percentage of the approved loan amount project appraisals were delegated to the consultants, who thus took no risk on project viability. Yet the same consultants played a major role in generating project proposals, commonly both training and assisting the clients with their proposals and finally motivating them at meetings of LOGAC. Two potential conflicts of interest arose. First, the more projects they got approved, the more the consultants earned in fees, since their formal responsibilities ended with the approval. Likewise, the higher the loan amount, the higher their fee.

4.37 In practice, as the CU project officers gained experience they were able to apply a certian degree of regulation by applying consistency checks and validating data. Yet project officers had limited capacity to perform validations, being restricted mainly to telephone checks with central, provincial and district government offices. Client interviews and site checking were generally not feasible, especially outside Harare, although the assistance of DEED offices could on occasion be invoked.

4.38 Once submitted, LOGAC approved almost all the applications it considered; although a minority were deferred for further information or clarification, they were mostly approved in the end. The SDF credit programme is thus demand driven. The implicit assumption is that there is money for retrenchees and all those who apply should get it. This outcome has given the credit programme a strong welfare character: retrenchees are entitled to loans and receive them so long as they can present a plausible project.

4.39 The pace of project approvals was regulated by institutional capacity, which improved over time, but from mid-1995 availability of funds became the decisive factor. In effect, LOGAC would continue processing until funds ran out, then suspended sittings.

Incentives for Service Delivery

4.40 CU staff at head office and DSW frontline officers have commonly shouldered heavy additional workloads, often in conditions of staff shortage and scarcity of resources. Their achievements under difficult circumstances are commendable. However, there is no incentive system directly related to SDF loan results, of particular importance for case officers. Indeed, good performance has generally been accompanied by depreciating real income. Nor is there a career path specifically connected to the loan scheme. The lack of an incentive and career structure affects not only staff productivity but also the setting of task priorities. The location of the CU inside a large welfare ministry has also largely hindered the building of a corporate culture amongst staff.

4.41 The CU has faced resource constraints arising from the fact that its staff salaries and operational costs are merged in the parent ministry's budget and do not have a separate budget line. The administrative expenses of the CU are part of the ministry accounts, subjecting it to cost constraints outside its control, arising at short notice and with unpredictable timing.

4.42 A crucial missing link between the quality of project preparation and later loan performance was the separation of the consultants from any responsibility for outcomes. Indeed a disincentive operated since the consultants were not paid for any aftercare support they voluntarily afforded to projects they had earlier assisted.

Cost-effectiveness

4.43 The failure to synchronise the pace of training with loan processing therefore resulted in much higher unit training costs than necessary. The training of retrenchees was treated as demand-led, a service to which retrenchees were entitled as soon as possible after registration. As such, it had the benign effect that for the large numbers on the loan application waiting list, the skills gained could in the meantime be put to other income-generating uses. However, as a charge on the credit scheme it made little sense to allow the numbers trained to run so far ahead of loan approvals. From this standpoint the suspension of training in August 1995 was a sensible cost-cutting measure since at the prevailing rate of loan processing the backlog of trained applicants would suffice for several years to come.

4.44 In general, the contracting out system, which was part of the original ADB design, seems to have worked fairly well on cost as well as quality criteria. A per capita training cost of Z$250-300 was low for the professional services it purchased. However, the lengthening delays have imposed an unfair charge on the consultants, who had already completed their client assistance and appraisal work prior to submission. By mid-1995 they could expect to have to wait for years before payment.

4.45 The much higher cost of project preparation and appraisal was a necessary charge for professional facilitation which supplied a vital service to clients having little if any business experience and venturing into the high-risk domain of new business startups. It succeeded in injecting commercial skills into a public sector scheme at acceptable and manageable cost.

4.46 The overhead of roughly 10 per cent attributable to the loan scheme, although not covering hidden administrative costs, left around 90 per cent of grant resources, not counting interest and repayments, for disbursement. Thus a high proportion of SDF grant funds has gone direct to clients.

Organisational Structure and Functions

4.47 The SDF has functioned as a simple disbursement vehicle for grant funds donated by the Government and the ADB. The SDF credit scheme has had the virtue of simplicity: clients, administrators and policy-makers alike have had no difficulty in understanding its targeting and lending strategy.

4.48 The scheme's limitations of scope have nevertheless been a source of difficulty for its clients, in particular the lack of access to working capital, the ban on co-financing, the exclusion under most circumstances of top-up or follow-on lending, and the complete absence of any extension services. The open access to the introductory training course induced an expectation of open access to loans as well, which the high rate of approvals encouraged. The lack of supervision and monitoring contributed to an expectation that loan recovery was not seriously intended and thus to a very low rate of repayment.

4.49 The CU has operated from the outset under the wing of its parent ministry and lacks effective autonomy of any kind. It also has no legal standing to act on its own behalf in enforcing contracts and recovering loans.

4.50 Staff shortages have hampered the CU from the outset. However, the restrictions of public service procedures and the counter-pressures during a period of public sector redundancies under ESAP made a timely response difficult to achieve in practice. The integration of the CU into the ministerial structures thus imposed an inflexibility which seriously jeopardised the principal SDA programmes from their inception.

4.51 The lack of monitoring capacity is a critical factor in the failure to establish the credit scheme as a revolving fund. It has not put in place a proper monitoring system of financed projects, neither has it developed an extension programme. Only training and project appraisal were sub-contracted and the outreach and extension functions were never put in place. The staff of the provincial offices of DEED have neither the time nor the expertise for effective project monitoring and do not have extension or outreach services. The Accounts and Administration Section also remains greatly understaffed, which has seriously impeded accounting and record keeping.

4.52 There was from the outset a large majority of ministry officials in the Advisory Board, a very limited NGO participation and in particular an almost complete absence of the private sector. Membership was overwhelmingly from central offices and Harare-based. Participation from other regions was more or less coincidental. Membership of LOGAC was confined to ministry officials. There was no external input of professional financial or business expertise into its proceedings except in an ad hoc manner through the participation of consultants motivating their projects. The lack of business experience and financial expertise amongst their memberships was bound to have a serious impact on the setting of priorities, the decision-making and the operations of the Advisory Board and LOGAC.

4.53 There are no direct linkages and no procedural relationships with NGOs or private sector organisations. But relationships with donor agencies, especially such international institutions as the UNDP, ILO and UNICEF, have been reasonably strong. It would appear nevertheless that the ADB input has been less active than originally indicated in the *Appraisal Report*.

Programme Performance and Sustainability

4.54 The ETP's outreach has been substantial: the approval of around 2,000 loans within 30 months is a substantial achievement for an entirely new lending programme. With the first ESAP now completed, its future depends on the Government's future intentions in the field of economic reform, as there appears to be no current intention to expand eligibility to other groups of direct beneficiaries. If further downsizing of public sector organisations is to be pursued, a new wave of redundancies may follow, albeit on a smaller scale than during 1991-94. If not, a sizeable pool of earlier retrenchees remains with a preferential call on any new loan finance made available.

4.55 The CU's present plans do not appear to envisage transferring any of its existing loan portfolio to other institutions. The existing credit scheme and its target group would thus remain a distinct operation whatever other loan facilities are initiated under SDF auspices.

4.56 The recovery rate on the SDF loans is low. Over the 15 month period to September 1995, total repayments due, including pre-July 1994 projects, were Z$31.8 million, giving an actual recovery rate of around 5.0 per cent. Total repayments during this period should have been equivalent to about 36 per cent of the amount of loan approvals; instead they covered less than 2 per cent. Nevertheless, one recent estimate was that at least half of the microenterprises were operational and could service their loans if an efficient recovery system was instituted.

4.57 The hypothetical projections of future repayments of principal and interest suggest that a strong repayment rate could generate a sizeable inflow of funds for relending despite the subsidised interest rate. On reduced expectations[1], the projected return from repayments of principal and interest could reach Z$25-28 million annually through 1997-1999 and total Z$125 million by the end of 2001, or around Z$35 million at constant (late 1992) prices. On this projection the eventual returns would be worth a fraction of the constant price value of the loan portfolio. They could nevertheless sustain a modest relending programme of around Z$20 million a year if well managed on a revolving fund basis at near to commercial terms. The SDF's very low recovery rate is thus threatening the survival of the programme.

5. The Integration of SDF Programmes with PAAP

5.1 During 1993, mid-way through ESAP, the Zimbabwe Government drew up a Poverty Alleviation Action Plan (PAAP). The plan sought to build on the SDF programme as well as to incorporate it into a broader set of objectives and scope of activities. This radical realignment of SDA orientation was based on a critique of the social consequences of the first three years of structural adjustment. The SDF had been conceived primarily as a top-down, centrally administered programme of temporary remedial measures. PAAP, on the other hand, stressed bottom-up approaches in project design and implementation, a participatory planning method and the empowerment of beneficiaries.

5.2 The allocation of programme resources indicated that the ETP and SWP were to continue in much their present operational form as the principal components of PAAP but with a timespan well beyond the end of ESAP in 1995. The two main new programme components, microcredit facilities for women and youth and labour-intensive public works, were designed to redress the strong SDA urban bias by targeting poor rural communities..

5.3 The national poverty study, one of the key preparatory projects under PAAP, got under way during 1995 but the first results were not expected until April 1996 and the completed report not until September 1996, two years after the launching of the PAAP programme. Delay to the finalising and startup of a number of PAAP activities has been inevitable and few of the planned initiatives had got off the ground before the conclusion of ESAP at the end of 1995. PAAP might better be regarded therefore as the potential successor to the first SDA programme rather than its replacement during the latter stages of ESAP.

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1. 50 per cent default, no assets recovered, average arrears of one year, 15 per cent inflation, average 3 per cent positive interest rate on deposits (see table 31).

5.4 The institutional mechanism for the delivery and administration of PAAP remains ambiguous. It is unclear whether the executive authority of the programme lies with the National PAAP Management Committee or with CU or with MPSLSW generally. The dispersion of authority, responsibility and resources between the various committees and government ministries could be a recipe for bureaucratic rivalry, inertia and confusion.

5.5 The SDF itself was to act as the disbursement vehicle for all government and donor funds committed to PAAP. The extra responsibilities implied a major expansion of the CU's operational capacity. The realism of the expectations placed upon it must be doubted, especially in view of the constraints under which the CU is likely to continue operating in the foreseeable future.

6. Conclusions and Recommendations

Scope and Mandate of the SDF

6.1 The position of the SDF has been complicated by changing expectations of its mandate and role. On the one hand, it has functioned as a tailor-made mechanism for channelling budgeted funds to two specific SDA programmes with identified target groups and a limited timeframe. On the other, it was expected under PAAP to act as a general funding vehicle for a wide and somewhat open-ended range of poverty reduction activities of varying duration, many focussing on long term structural issues. It is expected to act as both a funding channel and an executing agency. The extent of its role in supporting functions has also been ambiguous, ranging from policy and institutional coordination through poverty monitoring and research to technical assistance to implementing agencies as envisaged by PAAP.

6.2 Four general issues seem to require further clarification. The first is how open-ended the SDF's mandate is to be. There is a risk that the SDF may tend to be used as a conveniently available vehicle for any special programme in the field of social policy that fails to find a location within the regular planning framework, disturbing its coherence of purpose. The second is the degree of vertical integration in the SDF's modalities of operation. The third is the autonomy to be exercised by the SDF. The fourth is the institutional positioning of social programmes of sharply differing character.

Social Welfare

6.3 It is commonly argued that self-targeting approaches have advantages over the individual targeting or screening of beneficiaries in respect of broadening outreach and reducing administrative overheads. Nonetheless, if individual user charges are applied, some form ot screening is unavoidable if the poor and vulnerable groups are to be compensated. To that extent the issue will remain on the poverty alleviation agenda whatever the immediate fate of the SWP itself.

6.4 For practical purposes the future of the SWP may already have been foreclosed. The SDF funding crisis of mid-1995. This outcome points to a basic policy dilemma over the status of the safety nets programme, which has been sustained as providing protection to the poor from the impact of the new permanent user charges. Its objectives have thus borne little direct relation to the usual SDA goals, but rather, fit squarely into the framework of long term structural poverty alleviation, in the form of conventional means-tested social security benefits. The mixed outcomes of the health and education safety nets are partly attributable to this underlying strategic confusion.

6.5 To the extent that the SWP is continued or similar targeted safety nets introduced in the future, it is recommended that for social benefits of a long term character, such as education and health assistance, budgetary allocations be made direct to the DSW or other implementing agencies and not through the SDF. For SDA or short term social benefits, such as the food money, budgetary allocations should be made preferentially through line budgets wherever feasible and otherwise through a special account opened under SDF auspices for that purpose. Both long and short term targeted benefits should be delivered through existing line structures, reorganised and temporarily strengthened as necessary, and not through parallel structures such as the CU. If a separate fund is deemed appropriate to channel targeted safety nets resources, the fund should be established in its own right exclusively for that purpose and not conjoined to funding for other purposes.

6.6 A number of recommendations for reform of the existing safety nets scheme flow from this and previous studies. They include taking account of household size in determining eligibility; a single income threshold for all means-tested benefits; an annual review of the income eligibility threshold; combining repeating transactions to cover longer periods; using a common application form; standardising the set of required supporting documents; processing an applicant for all relevant benefits and exemptions at the same sitting; using mobile offices to deliver services and payments in the remoter rural areas; evaluating self-targeting mechanisms alongside screening wherever feasible.

Repositioning the SDF's Microenterprise Programme

6.7 The SDF's credit operations are presently at a crossroads from which their future evolution could take a number of directions. There appear to be three basic options for the continuation of the SDF credit scheme: closing its lending operations and concentrating on recoveries (Option A); continuing the programme with the same objectives but geared to a long term poverty reduction perspective as outlined in PAAP (Option B); and redesigning the programme to deliver different forms of credit or to serve other target groups (Option C).

6.8 There is a danger that an unchanged continuation of the present scheme will generate a result similar to Option A more or less by default. If Option B is needed under a further round of structural adjustment, the credit scheme could serve as a niche component of a support package, complementing micro and SSE credit programmes aimed at other target groups, in order to open an enterprise alternative to other employment creating options for retrenchees. However, a chief weakness of the SDF credit scheme during ESAP was that it constituted the only assistance on offer. A balanced approach to employment creation for retrenchees is therefore more appropriate.

6.9 Any further recapitalisation of the scheme without a major upgrading would be very likely to do no more than postpone an outcome similar to Option A. The essential precondition for improving the quality of project proposals and of subsequent enterprise performance is that applicants and projects be assessed by normal business standards and no longer on grounds of entitlement. It is a precondition of Option A meeting its target of Options B and C even getting off the ground that loan supervision and extension services be expanded and thoroughly overhauled.

6.10 Option C opens the question of revising the scheme's targeting or financial services or both. There are a number of possible alternatives but in practice many are constrained both by risk of duplication and by the particular character of the present scheme. In the financial, commercial and NGO sectors there are already a number of established institutions and programmes with which the SDF would come into direct competition if it broadened its SSE outreach. If new groups are targeted, such as rural women or CBOs, it would be preferable to design a new microfinance facility from scratch than try to adapt an existing institution ill suited to the task.

6.11 All three options would require major changes in the way the scheme is presently run. Three principal institutional arrangements can be considered: reorganisation and strengthening of the CU; contracting out particular functions, such as recoveries or extension services; and transferring the entire scheme to one or more commercial or parastatal organisations.

6.12 The second type of institutional arrangement, contracting out particular functions or services, is already a tried and tested solution under the SDF credit programme. The tasks are, however, altogether more demanding than running a packaged short course or conducting largely office-based project preparation and appraisal. They require a national infrastructure, a dedicated and experienced field staff and strong information and financial management systems. The argument for contracting out could be extended to the core function of processing loan applications.

6.13 The third type of institutional arrangement is likely therefore to prove the most sustainable in the long run: transferring the existing credit scheme in its entirety to one or more established financial institutions having a SSE credit track record and the necessary capacity to administer it effectively. The SDF credit scheme's very poor repayment record and its origins in a welfare entitlement programme are likely to deter professional financial institutions from taking it on. The principal inducement is the potential income flow from even limited recoveries on what is nominally a sizeable loan portfolio.

6.14 An urgent task, one which has to be completed in particular before any serious negotiations can be conducted on a possible transfer of the loan portfolio, is a systematic census of all SDF projects to establish their existence, their status, their needs and their current prospects. Once the transfer is completed the SDF projects would be integrated into the normal operations of the administering institutions, as originally proposed by both the SDA and ADB documents.

6.15 An issue of concern is the applications backlog. One way to deal with the problem would be to conduct a rapid evaluation of the proposals so as to select a small number with the best prospects of success, then to interview the proposers to establish their present status. Priority for new loans would then go to those retrenchees still genuinely unemployed.

New Microfinance Initiatives

6.16 If the SDF is to be established on a long term basis and to play a role in poverty reduction programmes, it is likely that the Government will wish to use it as a channel for new initiatives in the field of small and microenterprise finance. Three strategic issues have emerged in considering the future role of the SDF in microfinance initiatives. The first is programme overlap. In general, the financial NGO view is that demand is far greater than the resources they can supply. In addition, even the larger national NGOs have far from even nationwide coverage. Space thus exists for state-supported initiatives in this field. It is essential, however, that they be carefully planned and coordinated with the established organisations already on the ground.

6.17 The second strategic issue is the choice between financial wholesaling and retailing. It is recommended that as a matter of policy the SDF adopts an exclusively wholesale financial strategy and excludes a retail function from any future credit schemes it initiates or supports.

6.18 The third strategic issue is terms of credit. Whatever the general case for and against concessionary retail credit terms for small enterprise lending, providing subsidised interest rates to the same client base can prove highly disruptive, whether through established institutions or a new facility, leading both to unequal competition between different schemes and to reduced client confidence. In general, the SDF is likely to achieve more substantial long term results in terms of economic empowerment by investing in proven track records, leaving the NGOs to set their own lending policy. Subsidised credit may prove more effective at the wholesale than the retail stage, particularly by subsidising the high transaction costs and other overheads of maintaining a strong client monitoring and extension service in the field.

6.19 The recommendations of the recent UNDP consultancy that the SDF be reorganised as an 'Apex Financing Organisation' for NGOs engaged in poverty-focussed lending programmes are supported. Such reorganisation would require a major shift in the SDF's credit orientation, in particular exclusive targeting of the poor; the establishment of the SDF as an independent foundation with majority representation on its board from NGOs and the voluntary sector; and the provision of wholesale finance to partner NGOs and a close working relationship with them in programme implementation.

6.20 If similar SDA interventions are needed, an alternative to creating a separate SDA instrument would be to integrate SDA and poverty reduction strategies by wholesaling credit funds but with SDA targeting. Special funds would be earmarked for SDA target groups, such as retrenchees. The funds would be wholesaled on negotiated terms to existing credit institutions, for example to assist retrenchees entering informal sector activities (qualifying as poor), and to enterprise promotion agencies to assist retrenchees starting small businesses (qualifying as commercially viable projects). Other options would also be available to retrenchees not entering self-employment, such as a job placement service, retraining and temporary public works.

Community Based Projects

6.21 Any new initiative under SDF auspices would therefore, like PAAP, take shape within a long term poverty reduction framework. The question arises to what extent the SDF could form part of poverty reduction efforts. By implication, the PAAP strategy would require the CU to set up a facility along the lines of a Social Action Fund, designed for quick disbursement of small grants to community projects.

6.22 While the PAAP strategy places welcome emphasis on a participatory approach, the various roles it assigns to the CU and the delivery structures it proposes to create are generally too complex and costly. If a SAF is established, the CU itself does not provide an appropriate instrument. It would be preferable to establish an SAF as a small, autonomous agency outside the ministry environment and accountable directly to an independent SDF. The SAF's mandate should be focussed on the task in hand and not be diluted with other assignments. Project proposals should probably be centrally approved in order to avoid local political pressures, ensure balanced national coverage and speed up processing. But in line with the emphasis on decentralisation and community participation, local state and NGO structures should be involved as closely as possible. In general, the setting of priorities for SAF project funding is best left as far as possible to community decision within a flexible framework.

Analysis, Coordination and Monitoring

6.23 Compared to the SDF constitution, under PAAP a much broader role in coordination is envisaged for the CU, which would be tasked with coordinating, monitoring and evaluation of the programme, research and training as well as administering a technical cooperation programme. In the context of government-wide poverty programming and of coordinating initiatives across a complex array of types and levels of government, civic and commercial institutions, the coordination mandate is complex and demanding.

Institutional Mechanisms

6.24 Drawing together the institutional implications of the preceding sections, the principal recommendations are firstly that the safety nets sub-programmes be transferred to the DSW. Any future safety nets would be implemented directly through line sections of ministries and regular budgets rather than a special fund. Second, the credit scheme should be transferred on negotiated terms to established SSE financial institutions. Third, the SDF should be converted into an independent foundation geared to long term poverty reduction but also covering SDA project-oriented funding. Fourth, community based projects should be implemented through a SAF and district and local structures. Fifth, policy coordination, poverty monitoring and technical assistance should be located in a revamped CU.

6.25 The SDF's autonomy should extend to authority to hire and fire staff, determine their terms of service, own assets in its own name, and have legal personality. Financial transfers from the Treasury need to be on a planned basis and executed through block grants. Autonomy would also establish the full accountability of the agency to government and other donors for its disbursements and performance.

6.26 Reconstituting the SDF as a foundation would offer a more durable long term institutional framework geared to poverty reduction strategies. Its constitution would set poverty reduction as the principal goal and temporary assistance to the poor and vulnerable groups as a subsidiary goal if consistent with other objectives, covering both structural adjustment stresses and other short-term adverse impacts such as drought. It would only fund projects at the small and micro levels. Training would be funded only in direct support of projects. It would provide funds as credit for small and microenterprises and as grants for community and income-generating projects, disbursed exclusively through partner organisations. Consideration of individual projects would be explicitly ruled out. Its governance would be exercised through a partnership of stakeholders. Its staffing would be small, of strong professional calibre and accountable directly to the Board and its executive committee.

6.27 If funding is to be provided to rural microenterprise development, an independent SDF would be an appropriate funding channel. Part of the funds could be disbursed through existing NGOs and CBOs as proposed in the PAAP programme document. If a new facility is to be established, its design and targeting should be closely coordinated with existing microfinance institutions so as to harmonise efforts.

6.28 If grant funding is to be provided to community projects, it could also be channelled through an independent SDF and disbursed through a small autonomous SAF which reports to a designated ministry. A part of the funds might be disbursed directly through implementing NGOs. The SAF would have both a project processing and a programme coordinating role.

6.29 The coordination of government-wide efforts on poverty alleviation and reduction is a major and strategic responsibility. It would be appropriate for the CU to assume that responsibility as its exclusive task once its present administrative tasks have been divested. The CU would serve as Secretariat to the national PAAP Management Committee as proposed in the PAAP strategy document and would shed its connections with the SDF altogether. It would also have strengthened capacity to perform the monitoring, data-gathering, research and information functions.

7. Follow-up ADB Interventions

7.1 If not already completed, every assistance should be given to facilitating a rapid disbursement. In particular, until the loan is fully disbursed the ADB should be prepared to strengthen its supervision in order to assist in removing bottlenecks. This study has concluded that the credit scheme is not and is unlikely to become self-sustaining within its present institutional form. In this context, the short term priority should be to facilitate the speedy allocation of the remaining credit funds to clients in line with the original programme objectives.

7.2 At the same time a comprehensive redesign effort will be needed in two principal areas: placing the existing loan portfolio on a professional revolving fund basis; and establishing the SDF as an independent foundation. Technical assistance might be required to assist the transfer of the scheme to the selected institutions but they and the private financial institutions in general have competent local expertise to call on for an exercise of this kind.

7.3 Establishing the SDF on a long term footing could provide the basis for further assistance under ADF auspices. A conclusion of this study is that no further credit-based interventions additional to the present ADF loan should be made through the present SDF institutional setup, whether the particular administrative and procedural systems of the CU are reformed or not. It would be possible instead to conclude loan agreements directly with small enterprise financial institutions for onlending to clients, serving either SDA or poverty reduction objectives. But better security for effective targeting, client satisfaction and conformity to policy guidelines may be gained by channelling the funds through a well established wholesaling institution in which all major stakeholders are represented. An independent SDF could fulfil such an institutional role.

7.4 Four types of followup intervention seem possible in the present Zimbabwean context. The first is additional lending on SDA criteria, should the Government proceed with a further phase of structural adjustment. In this case one of the strongest adverse impacts is likely to be retrenchments in the public sector. The second is lending to SSE startups along similar lines to the present scheme, as part of long term efforts to tackle unemployment and diversify the entrepreneurial base. The third is informal sector microcredit geared explicitly the needs of the poor and targeted primarily on rural women. The fourth is finance for grants to community-based and income generating projects, mainly in the rural areas. Although the government would bear the eventual cost of such grant finance, the first three types of intervention, if well designed and professionally implemented, could be expected to generate satisfactory if not fully self-sustaining rates of repayment.

MAIN REPORT

1. INTRODUCTION

1.1 Background to the Study

1.1.1 This report, forming part of the output of a study commissioned from Chr Michelsen Institute, Bergen, by the African Development Bank (ADB), contains the findings and recommendations of an evaluation of the Social Development Fund (SDF) in Zimbabwe.

1.1.2 The ADB has identified microenterprise financing as a probable focus for future interventions through the African Development Fund (ADF) and within the wider framework of the Consultative Group to Assist the Poorest (CGAP)[2]. However, before expanding the scale of such intervention an assessment of experience gained to date with existing SDF and SAF programmes was considered important. Accordingly[3],

> in September 1993 in Oslo Norway, the Poverty Working Group of the Special Programme of Assistance for Africa (SPA) requested the ADB to undertake the evaluation of SDFs. By September 1994, a methodological framework had already been prepared and was presented to the Poverty Working Group of the SPA. On the basis of this framework, a pilot study will be undertaken to test the methodology.

Two countries, Zimbabwe and Malawi, were selected for the pilot study.

1.1.3 The background to the study is the present context of Social Dimensions of Adjustment (SDA) programmes in Africa. The widespread implementation of Structural Adjustment Programmes (SAPs) in many African countries during the 1980s brought a recognition that their short-term impact on the living standards and welfare of many poor and vulnerable groups was negative. This concern has strengthened in recent years as SAPs have frequently been extended far beyond their originally intended lifespan and as poverty alleviation has assumed greater prominence in the development assistance policy agenda.

1.1.4 Responding to these concerns, a SDA programme was launched in 1987 as a joint initiative of the World Bank, UNDP and the African Development Bank. As SDA programme experience developed, Social Development or Action Funds (SDFs and SAFs) emerged as principal instruments for channelling assistance to poor and vulnerable groups, including retrenched government employees, in countries undergoing structural adjustment processes.

1.1.5 The size and scope of particular SDFs and SAFs has varied widely. They range from small pilot projects to multimodal programmes. Their target groups have been narrowly defined or extended to the majority of the population. Their programme instruments have included any combination of social welfare subsidies, direct food provision, public works employment, social infrastructure projects, training, institutional capacity-building, soft loans to NGOs and credit provision to micro- and small-scale enterprises.

1.1.6 The lengthening of structural adjustment processes and the heightened prominence of poverty alleviation objectives has raised the question whether SDFs and SAFs, although originally

2. See Annex 5: Terms of Reference, para 1.4.
3. See Annex 5: Terms of Reference, para 1.5.

conceived as short-term mitigating instruments, could become suitable mechanisms for longer term assistance to poverty reduction, in particular for direct intervention at the grassroots or community level and for empowerment of the poor towards more effective participation in development processes. Where lending to microenterprises forms part of their programme, a related issue is the future disposition of the loan fund if repayments are ploughed back into a revolving fund.

1.2 SDA as a Component of Structural Adjustment in Zimbabwe

1.2.1 Zimbabwe's first Economic Structural Adjustment Programme (ESAP) was inaugurated during the second half of 1990 and was scheduled to run for a five year term ending in mid-1995. It was anticipated that the structural adjustment programme would result in transitional hardships for substantial sections of the population. The adverse effects would arise principally through relative price increases, sharp cutbacks in education and health services, coupled with cost recovery, and higher unemployment.

1.2.2 From the outset SDA perspectives were incorporated into the policy framework of structural adjustment in Zimbabwe. Delivering the first government policy statement of July 1990 the Minister of Finance acknowledged that 'structural adjustment programmes are usually accompanied by social problems, especially to the vulnerable segments of the society such as the poor and unemployed'. He undertook that 'Government will therefore take measures to cushion the poor against such possible adjustment effects' and identified two main priorities for action, the first being 'measures to reduce unemployment' such as incentives for 'small investors' to expand their labour-forces and promotion of the 'informal sector', the second being 'targeted subsidies... to alleviate the hardships affecting vulnerable groups'. These twin concerns with employment creation and transitional hardship alleviation became the main focus of SDA initiatives through the SDF.

1.2.3 The Government's detailed strategy statement of January 1991[4] placed primary emphasis on higher economic growth during the period of structural adjustment as the main means of improving real incomes, reducing employment and sustaining social programmes within a reducing share of government expenditure in GDP. 'Poorer groups' would gain more specifically from small scale enterprise (SSE) expansion, domestic deregulation and skills development. Adverse impacts were thus seen as partial and temporary while 'the poor as a whole will benefit substantially'.

1.2.4 Specific SDA measures proposed in the document to 'shield disadvantaged or vulnerable groups from declines in welfare arising from restructuring or stabilization measures' were nonetheless limited in form and scope. Identified as probable short term victims of economic reform were the rural poor, the urban unskilled and unemployed, and women as disproportionately represented in both these categories. Three main categories of adverse impacts were specified:

- 'Transitional' or 'frictional' unemployment, tentatively projected at 10,000 civil service redundancies, 2,000 from parastatals and 20,000 from the formal private sector, making 32,000 in all or about 2.5 per cent of the total formal sector labour force. The principal remedial initiative was to be support for retraining, for which in the case of the civil service 35 per cent of saved salaries was to be committed to the retraining costs of those retrenched.

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4. Zimbabwe Government, *Zimbabwe: a Framework for Economic Reform (1991-95)*, 1991.

- Short term inflationary food prices, to be compensated by food subsidies for 'poor and vulnerable groups' coming from 30 per cent of the savings derived from reduced subsidies to the Grain Marketing Board.

- Increased cost recovery in the health and education sectors, for which the only specific measure proposed was a scholarship fund.

1.2.5 A technical annex to the strategy statement added further details of proposed compensatory measures, including:

- Expansion and more effective utilisation of technical and vocational training resources with provision in particular for retrenchees. 35 per cent of salaries saved would be ploughed back into retraining for civil service retrenchees.

- Expanded credit 'to assist retrenched workers interested in establishing their own small-scale businesses, as well as existing and emerging entrepreneurs'. The main channels would be the commercial banking system, assisted by a widening of the Credit Guarantee Company's outreach to cover the informal sector.

- Training of staff and exemption cards to assist in protecting the unemployed from more rigorous efforts to collect health charges.

1.3 Terms of Reference

1.3.1 The terms of reference for the study are set out in three documents, the texts of which are attached as Annex 1:

- Terms of Reference for Consultancy Services to Evaluate Social Development Funds in Africa (hereafter *TOR*);

- Suggested Methodology for the Proposed Study to Evaluate Social Development Funds, which was attached to the *TOR* (hereafter *Suggested Methodology*);

- Terms of Reference for the Consultants to Review the Zimbabwe SDA Programme, which was supplied as a separate supplementary TOR (hereafter *Zimbabwe TOR*).

1.3.2 As set out by the *TOR*:

> The objective of this pilot phase is to test the methodology of evaluating the SDF program using two selected case studies in two RMCs (Malawi and Zimbabwe). The study will attempt to identify weaknesses and strengths of the SDF programs and propose ways for improving the performance of the programs.

1.3.3 The study was thus to serve both as a pilot study for a general evaluation methodology and as evaluations of the two country programmes. The *Suggested Methodology* itself provides a comprehensive and detailed framework for assessing the experience of SDF microenterprise programmes in terms of products, technology and organisational structure and institutional performance.

1.3.4 The *TOR* list five tasks for the study, the first three of which set the scope of the country case-studies. Applying them to the context of Zimbabwe and incorporating the *Zimbabwe TOR* the tasks are:

a) To review the SDF programme 'in its totality', the main aim being to identify successes for replication, problem areas, and ways of resolving the problems.

b) To review the Poverty Alleviation Action Plan, determining how best it can be integrated with the current SDF programmes.

c) To determine ways of accelerating the utilisation of SDF resources and the structure and form of follow-up interventions by the ADB.

d) To review 'the structure, the administrative system, the staffing, the funding, the logistic support and the functioning of the programme'; and 'to design a system for project follow-up and monitoring, a system for loan repayments, a computer system for data entry and retrieval, and a computer system for the accounting system'.

e) 'To assist the management of the SDF in any other area in which it may require your assistance'.

1.3.5 The study was carried out by a four-person team of CMI and national consultants and finalised at CMI. The main period of fieldwork took place during September and October 1995 and concluded with a workshop convened for briefing and consultation of the SDF Advisory Board. A first draft of the report was submitted in December 1995. Following receipt of comments from the ADB, a follow-up field visit was made during late March/early April 1996, during and following which technical assistance was also given to the upgrading of the SDF's projects database (see Annex 2).

1.3.6 This country report reviews the principal SDA programme in Zimbabwe, the Social Development Fund (SDF). As will be discussed in section 3.1, the SDF's mandate included a major social welfare component in addition to the credit scheme. This programme is reviewed in terms of para 1.3.6(a) above but in lesser detail. The SDF is further set in the context of the Poverty Alleviation Action Plan (PAAP) which has been in its preparatory and launch phases over the last two years.

1.4 Methodology, Data Sources and Documentation

1.4.1 The *TOR* specify that in addition to collecting financial information on the credit components of the SDF programme, interview and survey techniques were to be employed covering both clients and managers of the programme. The *Suggested Methodology* places considerable emphasis both on collecting information on clients and on client consultation. The detailed outline of tasks requires information on:

- Borrower's business operations, including cashflow requirements (para 1a);

- Borrowers' evaluation of the programme's loan (1b) and deposit-taking (1d) services, the effectiveness of peer group pressure in sustaining group lending (1d) and the types of business benefits gained (3.2.B.d);

- Alternative informal loan (1b) and non-financial (1h) services;

- The effectiveness of programme targeting, as well as other socio-economic indicators relating to programme performance.

1.4.2 Two pilot field surveys were undertaken with partial overlap of questionnaire categories, the first concentrating on client perceptions of the SDF credit programme, and the second on financial and operational aspects of client's businesses. The principal aim of the surveys was to test the field conditions for undertaking client surveys of this type rather than to generate a full and representative set of survey data. The survey questionnaires and details of the methodology employed appear in Annex 6.

1.4.3 Complementing the field surveys, systematic information held on individual loans and projects was obtained and analysed. The principal source was the SDF projects database, whose contents were integrated and upgraded from meeting records. A technical note on the procedures and methods followed in this exercise is included as Annex 2.

1.4.4 Administrative project files were utilised to supply background information for the field surveys and financial data for the construction of an arrears matrix. Out of the total population of approximately 1491 projects approved at the time, a sample of 143 or close to 10 per cent clients' files was polled. Selection was random within a predetermined number set for each of the economic sectors into which all projects were classified.

1.4.5 The survey and administrative data were complemented by interviewing and consultation with officials of ministries, parastatals and NGOs (for a full list of persons consulted see Annex 7). As broad a range of documentation as possible was collected in the form of administrative records and forms, consultancy reports, annual reports, government publications, and independent surveys and studies (the literature is listed under 'References' at the end of the study).

1.5 Outline of the Study

1.5.1 The organisation of the report follows as closely as feasible the outline of the *Suggested Methodology* in its central section on the SDF credit programme. Other sections review the parallel welfare components of the SDF, assess the policy and economic environment within which its performance must be assessed, and draw conclusions and recommendations on its future outcome.

1.5.2 The report is organised into the following sections:

- Chapter 2 reviews the initial SDF programme design and the mandate of the SDF (para 1.3.4(a) above).

- Chapter 3 evaluates the performance of the social welfare and other non-lending components of the SDF programme (para 1.3.4(a) above).

- Chapter 4 evaluates the performance of the small enterprise lending and training components of the SDF, covering programme products, technology, and organisational structure and institutional performance (paras 1.3.4(a) & (d) above).

- Chapter 5 reviews the design of PAAP, its relationship with the SDF during the programme period and future options for its integration with the SDF (para 1.3.4(b) above).

- Chapter 6 assesses the available options for the future development of the SDF's welfare and credit programmes (para 1.3.4(c) above).

- Chapter 7 makes recommendations on possible forms of follow-up interventions by the ADB (para 1.3.4(c) above).

2. THE SOCIAL DEVELOPMENT FUND

2.1 Initial Programme Design

2.1.1 The ADB's *Appraisal Report* constituted the basis of approval in December 1991 of an African Development Fund (ADF) loan to the Government of Zimbabwe[5]. The *Report* set out 'four key areas of SDA focus' which the SDF was to finance (paras 4.2.1-5):

- Microenterprises and poverty alleviation programmes;
- Poverty assessment and monitoring;
- Training and institutional strengthening; and
- Action-oriented policy research.

2.1.2 The first area of focus was to cover a broad range of activities which can be divided into two categories:

- Social compensation for hardships attributable to ESAP (free education and health services for those earning under Z$400 a month; food subsidies; and retrenchment packages); and
- Microenterprises to assist 'the poor and the vulnerable groups' into employment and income generating activities.

2.1.3 Poverty assessment and monitoring was to start alongside the microenterprise programme and later extend to general SDA household surveys.

2.1.4 Training and skills development was to be concentrated on 'the poor and vulnerable groups'. Institutional strengthening was to concentrate on NGOs participating in SDA activities.

2.1.5 Policy research would be commissioned mainly from national researchers to assess the social and economic impacts of ESAP and to 'enhance national capacity to better design development strategies that combine economic growth with poverty reduction'.

2.1.6 The *Report* envisaged that the SDF would be established to

- Function as the Government's SDA funding vehicle (para 4.3.2);
- Disburse both social and credit finance (paras 4.2.2 & 4.4.2);
- Channel funding from the Government, the ADF and other donors (para 4.3.2).

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5. African Development Bank, *Staff Appraisal Report: Republic of Zimbabwe, Structural Adjustment Programme*, (Abidjan, October 1991), principally Chapter 4 and Annex 5.

2.1.7 The SDF was to have a policy-making body in the form of an SDA Advisory Board which would report to the overall Inter-Ministerial Committee for Monitoring and Implementation of ESAP (MIC) and which would draw broad representation from NGOs and the private sector as well as the public sector (para 4.3.1).

2.1.8 Implementation would be assigned to the Ministry of Public Service, Labour and Social Welfare (MPSLSW) which would establish:

- A six-person interdepartmental Loans and Grants Allocation Committee (LOGAC) at senior official level;
- A Coordination Unit (CU) to administer the SDF, headed by a Coordinator reporting directly to the Permanent Secretary.

2.1.9 LOGAC's responsibilities were to extend well beyond approving projects to identifying target groups, ensuring the SDA character of submitted projects (small, simple, self-designed), looking to replication potentials, establishing an effective project cycle, recommending successful projects and pilot schemes for integration into log-term programmes, and approving funding for programmes as well as projects (para 4.3.4)[6].

2.1.10 As well as administration, the CU was to undertake three main functions: project processing, project monitoring and evaluation, and outreach and extension. Project appraisal would be contracted out (para 4.3.5).

2.1.11 A precise project processing procedure was specified (paras 4.4.1-4):

- Projects could be submitted either by individuals or through intermediaries such as parastatals and NGOs. Projects could have either a social character suited to grant funding or an enterprise character suited to microcredit.
- The CU would check submitted projects for consistency with SDF objectives and verify the existence of the proposer, referring those presented direct by individuals to an appropriate body for technical checking, then submit them to LOGAC with brief summaries. LOGAC would meet once a month to decide project approvals.
- Once approved, a project loan would be assigned to an administering institution on standard terms agreed with the Ministry of Finance, which would issue the requisite cheque to the institution. A project grant would be issued to the implementing agency serving the beneficiary community[7].
- Performance benchmarks were laid down: a project proposer should expect notification of a LOGAC decision within 45 days and contract signature within two weeks of approval.

2.1.12 Startup financing of the credit facility was to come in the form of an ADF loan in the amount of FUA5 million, then equivalent to BUA 4.61 million (US$6.3 million) and a Zimbabwe Government commitment of Z$20 million (US$3.9 million) with further deposits of at least the same amount

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6. At another point (para 5.3.3) LOGAC is said to report directly to MIC and have policy-making responsibility.
7. Implied but not explicitly stated in the *Report*.

annually over the five years of ESAP, thus a minimum of Z$100 million (US$19.7 million). The ADF loan would be disbursed in FUA1 million tranches on a replenishment basis requiring evidence that the previous tranche had been 'fully and satisfactorily utilised'. The total credit funding available over five years would therefore total some US$26 million (Z$132 million) at the early 1992 exchange rate (paras 4.5.1, 5.2.3, 5.3.8)[8].

2.1.13 The specific purpose of the ADF loan was to alleviate transitional structural adjustment impacts on 'the poor and the vulnerable groups' through support to retraining and credit to small scale enterprises. Its uses were more narrowly defined as financing 'items such as small machineries, tools, spare parts and raw materials for microenterprises', in other words capital costs excluding working capital and training (paras 5.1.2 & 5.3.5).

2.1.14 Responsibility for supervision was assigned to the ADB Resident Mission in Harare, reinforced by missions from headquarters and a mid-term review to be jointly conducted with the World Bank (para 5.3.13).

2.1.15 The SDF programme was a timely intervention by the ADB within the SDA policy framework and an appropriate activation by the Zimbabwe Government of its commitment to take account of the adverse impacts of structural adjustment and to integrate SDA perspectives into its reform programme. The outlined programme established a clear commitment to assist the poor and the vulnerable groups and set down simplified procedures suitable for quick disbursement of small loans and grants to self-designed projects from the target groups.

2.1.16 Nevertheless several potential difficulties of implementation were built into the original design of the SDF programme:

- The SDF was designated sole channel for SDA funding, opening it as a vehicle for programmes of widely differing objectives and thereby complicating its management coherence.

- Both welfare and credit programmes were combined under one umbrella in the SDF. By implication, the Advisory Board and CU would be responsible for programmes with incompatible objectives and differing conditions of implementation. The outcomes are explored in chapters 3 and 4.

- While the purposes of the ADF loan were explicitly stated, the SDF itself was to finance a much wider range of activities, leaving it unclear how the Government's commitment of Z$20 million a year was to be utilised.

- Targeting was left vaguely defined. There was no mention of retrenchees.

- Responsibility for project appraisal was not clearly indicated. It would in effect be split between the CU and other technical agencies or consultants.

- The combination of loan and grant processing functions under the same staff and procedure was likely to confuse clarity of focus on creditworthiness assessments.

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8. FUA and BUA conversions as at October 1991; for US$ to Z$ the rate prevailing in January 1992, when the loan agreement was signed, is preferred in view of the sharp depreciation of the Zimbabwean currency in late 1991.

- Although described as 'coordination', the administrative functions of the CU were in fact to be extensive.

- The status and legal powers of the SDF were not indicated, in particular over loan assets. Similarly the authority of its management was uncertain.

2.2 Establishment and Mandate of the SDF

2.2.1 Also in late 1991, the Zimbabwe Government published its SDA programme framework containing most of the above components of the SDF programme[9]. The SDA document similarly placed safety nets compensation, training and microcredit under the single umbrella of the SDF, organising them into a Social Welfare Programme (SWP) and an Employment and Training Programme (ETP).

2.2.2 The SDA document also differed from the ADB *Report* in a number of respects, several of them significant:

- Monitoring and evaluation was assigned to the Monitoring and Implementation Unit (MIU) in the Ministry of Finance. So too was the chairing of LOGAC, thereby dividing implementation responsibility with the CU in MPSLSW. Not until March 1995 was the formal responsibility reassigned to MPSLSW.

- The ETP's 'action strategy' was broadly defined and included urban and rural public works and land resettlement as well as guidance and counselling.

- In several areas the definition of target groups and timescale went well beyond the SDA framework.

- The limitation of SDF loan disbursement to intermediary institutions was missing, leaving the way open to pay out to individuals directly.

- Poverty assessment and monitoring was not explicitly included either as an SDF objective or as a funding category. Nor was there an indication as to how the monitoring output was to feed into the policy review or programme management processes.

- SDA and poverty related research was not mentioned at all.

2.2.3 The 1991 SDA programme remained the overall guiding framework throughout the five-year ESAP period for both SDA programmes generally and for the SDF, although it was partly superseded during 1994-95 by the Poverty Alleviation Action Plan (PAAP). The constitution of the SDF, promulgated in 1992 under Section 30 of the Audit and Exchequer Act, retained the programme's broad definition of objectives but with more restrictive targeting closer to those in the ADB *Report*, which with one exception was left unchanged in the 1995 revision:

9. Zimbabwe Government, *Social Dimensions of Adjustment: a Programme to Mitigate the Social Costs of Adjustment*, 1991.

- The social safety nets objectives covered grants for medical care, school fees and food, but defined beneficiaries as those 'having been directly affected by' ESAP and in the case of the food subsidy, by its 'short-term effects'.
- Under employment and training, loan funds were geared to creating employment for the same target group, thus in theory not only retrenchees, and eligibility was extended to 'approved small scale enterprises, cooperatives and public works projects', which again in theory need not themselves suffer the short-term effects so long as they provided employment for those who did. Training grants were, however, restricted to retrenchees.
- Also covered were 'associations undertaking income generating projects', which could receive not only technical and managerial support but also 'financial... assistance'. The 1995 revision of the constitution tightened the targeting to 'those adversely affected by the short term effects of ESAP' and stipulated that projects should be executed through Community Based Organisations (CBOs).

2.3 SDF Resources and the ADF Loan

2.3.1 To finance the SDF, the Zimbabwe Government allocated Z$20 million in the fiscal year 1992/93. The allocation increased considerably in FY 1993/94 when it reached Z$150 million, but declined to Z$100 million in FY 1994/95 and to Z$50 million in FY 1995/96. These figures represent domestic funding to which the ADB loan and other donor funding is additional.

2.3.2 These reductions were not signalled in the presentation of PAAP in late 1994, which did anticipate the reduction in the SDF budget to Z$100 million in the next fiscal year but projected a rise to Z$210 million in both 1995/96 and 1996/97. The sharply lower resourcing of the SDF can be only partly associated with dependence on donor commitments to PAAP because the projected domestic contributions for 1995/96 and 1996/97 were much higher than the amount actually budgeted for FY 1995/96.

2.3.3 The delayed gearing up of PAAP stalled the new PAAP initiatives and left the established SDF programmes largely dependent on the much reduced domestic budget subventions, the ADF loan and small-scale additional support from several donors. The support included the hiring of temporary staff in late 1994 to speed up the processing of safety net claims and the provision of vehicles to the provincial offices of the Department of Employment and Employment Development (DEED) to enable its officers to undertake monitoring of borrowers on behalf of the SDF.

2.3.4 Within the framework of the SDF as originally conceived the social welfare requirements were to be funded wholly out of domestic resources. The launching of PAAP brought a major revision: more than half the funding for revamped and expanded safety nets programme were to be requested from donors. However, the SWP remained an entirely domestically funded programme during the lifetime of ESAP.

2.3.5 For the microenterprise component of the ETP, a mix of public and external funding was envisaged. The first and still sole financial partner was the ADB, which approved the ADF loan of FUA5 million on 16 December 1991. Other commitments have not been forthcoming apart from limited technical and institutional assistance.

2.3.6 The terms of the loan agreement, signed on 20 January 1992, required a prior commitment on the part of Zimbabwe Government that the loan 'shall be allocated exclusively to micro-enterprises'. Several other prior conditions were laid down, including:

- Establishment of the SDF itself and the opening of 'a special SDF foreign exchange account into which the proceeds of the Fund loan shall be disbursed';
- Payment of the initial Zimbabwean contribution of Z$20 million into the SDF account, an amount which was expected to be matched or exceeded in each subsequent year of ESAP.
- Adoption of policies and procedures for the SDF's implementation and the appointment of its coordinator and key staff.

2.3.7 Once the initial tranche of FUA1 million had been made, the loan was to be drawn down on a replenishment basis, upon submission of a progress report on the utilisation of previously deposited amounts and giving evidence that 'satisfactory progress has been made on the implementation of the SDA programme'. The closing date was set for the end of 1996.

2.3.8 As at the end of September 1995, the latest period for which comparable data is available, cumulative client expenditure on the SWP amounted to Z$161.5 million and on the ETP to Z$133.5 million (45 per cent), making a total of Z$295 million disbursed to clients through the SDF approximately within the timeframe of ESAP. This compares with Z$270 million budgeted for the SDF to June 1995, reduced, however, by apparent reallocations of Z$62 million from the SDF account. To be added are approximately another Z$16.5 million from the first two ADF tranches (if treated as additional funds), interest on cash balances and investments and small amounts of loan repayments. Not included in these totals is expenditure on SDF services such as the ETP's small business training course and on administrative and equipment overheads under departmental accounts.

3. REVIEW AND EVALUATION OF THE NON-ENTERPRISE COMPONENTS OF THE SDF

3.1 The Social Welfare Programme

3.1.1 *Programme Products*

Findings

3.1.1.1 The Social Welfare Programme was designed as a set of short term social safety nets to cater for the needs of the poor and other vulnerable groups directly and adversely affected by the impact of ESAP. It exempted qualifying individuals or households from paying education fees and health charges and provided a small food subsidy.

3.1.1.2 Food money was provided to households with an income of Z$200 per month or less at the rate of Z$4 per person per month. Implementation of the scheme started in September 1992.

3.1.1.3 School fees, already in place for secondary schools nationwide, were extended to urban primary schools in January 1992. The SDF's education assistance scheme came into operation only in October 1992 'because of administrative problems' and has continued in the same form since then. It exempted all households with incomes of Z$400 or less from paying school and examination fees and also in certain cases boarding fees.

3.1.1.4 Public health service charges had also been in place for many years. However, after independence the rural population in effect did not pay for health care and collection rates in towns were low. The revised fee schedule introduced in 1985 was also complicated to administer. Fee collection was implemented more vigorously from December 1991. It was not until mid 1992 that the income exemption threshold was raised from Z$150 to Z$400 per month and January 1994 that a new streamlined and much higher fee scale was introduced together with the SDF health benefit scheme.

3.1.1.5 The health safety net was more complex than the other two and took an extended period to formulate and negotiate. It comprised:

- A graduated fee scale designed to reinforce the referral system, in other words to relieve pressure on central hospitals by encouraging patients to go first to lower order facilities.
- SDF payments in respect of
  - screened patients earning Z$400 a month or less and appropriately referred to urban hospitals with inpatient facilities, principally Parirenyatwa Hospital in Harare;
  - 20 per cent of all outpatients attending urban clinics.
- A blanket Government subsidy to all other, mainly rural health facilities in respect of patients below the income threshold.

3.1.1.6 Although complicated by incomplete and inconsistent data (see table), a broad picture of the programme's outreach emerges which is characterised by delays in launching and slow startup leading to accelerating take-up:

- Food money: Starting in March 1993, around 75,000 per capita payments were issued by the end of the year, 140,000 in 1994 and 41,000 in the first eight months of 1995. Since payments were monthly, the average number issued per month was roughly 8,000 in 1993, 12,000 in 1994 and 5,000 in 1995. Allowing for a probable high turnover of clients, the number of people involved would have been rather greater. Assuming an average urban household size of 4[10], the average number of households participating in any one month would have been roughly 2,000 in 1993, 3,000 in 1994 and 1,250 in 1995[11]. By mid-1995, take-up was falling rapidly.

- School fees: From 22,000 in the final months of 1992, the number of assisted pupils rose steadily to 132,000 in 1993, 188,000 in 1994 and 197,000 in the first nine months of 1995. The number of households assisted would have been very approximately half as many[12].

- Examination fees: The number of assisted pupils rose from 4,000 in 1992 and 15,000 in 1993 to 53,000 in 1994 and 77,000 in the first nine months of 1995.

- Health charges: 132,000 people were exempted in 1994 and 182,000 in the first nine months of 1995. A breakdown for January-May 1995 revealed that Parirenyatwa Hospital accounted for 32 per cent of assisted patients, while the remaining two-thirds would comprise mainly the 20 per cent clinic outpatient quotas claimed by the local authorities.

3.1.1.7 Actual SWP expenditures follow a similar pattern. Whereas a total of Z$80 million was spent on the SWP up to the end of 1994, another Z$81 million was committed in the next nine months to September 1995. This represented a turnaround in the previous inability of the SWP to utilise the funds allocated to the SDF. The total of Z$52.3 million spent up to July 1994 represented less than a fifth of the total of Z$270 million voted to the SDF up to that point. By contrast, the Z$81 million committed over January-September well exceeded the total SDF subvention of Z$50 million for the whole of FY 1995/96.

3.1.1.8 Little compiled data is to hand on the geographical distribution of SWP expenditure but an early provincial breakdown of school fees for the first full year, 1993, sheds some light:

- The amount disbursed per pupil was within the 25 per cent limit above or below the national mean of Z$123 in all provinces except Mashonaland Central and East (Z$225 and Z$181) and Mashonaland West (Z$76).

- The ratio of the termly average of pupils assisted to 1992 school population varied quite widely around the national mean of 4.4 per cent, coming out highest in Matabeleland North and South (5.4 and 6.9 per cent) and lowest in Mashonaland Central and West (3.2 and 2.9 per cent). It must be borne in mind that the ratios include rural primary pupils who did not pay fees.

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10. Close to the 1992 census urban mean of 4.1.
11. These figures, it must be stressed, are highly tentative since the source data are far too inconsistent to construct a reliable time-series. Other analysts have encountered similar problems (eg P. Gibbon, *Structural Adjustment in Zimbabwe, 1991-94*).
12. Using as a rough indicator the national average of 2.0 members at school per household having three or more members.

3.1.1.9 Taking 1993 school enrolments and excluding rural primary pupils, the national ratio of the 132,000 pupils receiving assistance to the total school population of 1.1 million was 12 per cent. Extrapolating the school population, the ratios for 1994 and 1995 were in the region of 16-17 per cent[13].

3.1.1.10 No breakdown is available of the type of examination fees exempted. The total number of pupils taking examinations in 1993 was very roughly 365,000[14], giving a ratio of 4 per cent of pupils assisted. On the same assumptions as for school fees, the ratios for 1994 and 1995 were roughly 14 and 20 per cent.

3.1.1.11 In the case of health fee exemptions data is insufficient even to make a rough assessment of outreach. Hospital admissions totalled 0.55 million in 1994 and hospital outpatient attendances 4.86 million, but the average number of attendances by the 132,000 people assisted by the SDF in 1994 is not known and in any case local authority claims for urban clinics are also included.

3.1.1.12 Data on gender are scarce but a breakdown of educational assistance between January and mid-May 1995 revealed that girls made up 43 per cent of school fee exemptions and 44 per cent of examination fee exemptions.

Review of Problem Areas

3.1.1.13 Within the limitations of their design and targeting, the education and health safety nets sub-programmes have on the whole performed creditably, the food subsidy less so. After early delays and a slow start, the SWP gathered momentum to the extent that by the final year of ESAP the health and education assistance were becoming established as a <u>regular component of the welfare system</u>. Take-up rates of education and health assistance were rising, the programme was operating fairly smoothly despite the extra workload on DSW staff in particular, and its services were well known to its target groups. Take-up of the food subsidy was rapidly declining, but this outcome was in line with its design as a temporary intervention.

3.1.1.14 The funds allocated to the SWP were, however, far smaller than the net impact of ESAP in terms of <u>sharply reduced real social expenditure</u>. Real per capita expenditure on social welfare dropped by about 32 per cent over the four year period 1990/91-1994/95, on health by 39 per cent, by 32 per cen on primary education and by 34 per cent on secondary education. Because health and education sector jobs were protected from the ESAP public sector redundancy programme, much of the cost has been absorbed in depreciating salaries and shrinking operational budgets. Amongst the knock-on effects have been a deteriorating quality of service as both resources and staff morale have declined and a leakage out of the sectors of the best qualified personnel.

3.1.1.15 Major confusion surrounds the <u>SDF timeframe</u>. The original SDA strategy of 1991 was firmly committed to addressing temporary effects and to phasing out at the conclusion of ESAP in 1995. But the mid-term PAAP reformulation in 1994 envisaged SDA social spending extending up to two years beyond ESAP and at a high level of expenditure into the final year (1997) of its three-year schedule, thereafter being integrated into regular line operations. The programme period was thereby extended by up to two years and temporary SDA compensation translated into permanent

13. Enrolments from World Bank, *The Public Sector and Poverty Reduction Options*, table A.1.5. 1995 = January-September, assumes standstill in last three months.
14. Calculated from World Bank, *The Public Sector*, Annex 1.

social security benefits. However, the reducing level of actual budget provision is consistent with the SDA rather than the PAAP perspective. Similarly, the SDF constitution, including its 1995 revision, remains dedicated to alleviating 'temporary' impacts.

3.1.1.16 Similarly, confusion between social security and developmental goals is inherent in the choice of a 'Social Development Fund' to deliver social compensation for adverse impacts. Unlike the small loans scheme, safety net payments have only the most tenuous association with development objectives.

3.1.1.17 Contradictory SDA objectives compromised the design of the SWP sub-programmes:

- The food subsidy was in itself a coherent response to a specific transitional problem - temporarily higher grain prices as price controls were progressively removed. It is therefore surprising that the PAAP sub-programme projections anticipated a continuation of the food subsidy well beyond the conclusion of ESAP and at a rising level of provision, converting SDA compensation into a permanent subsidy for impoverished households.

- The health and education subsidies, on the other hand, were designed to compensate for permanent changes in user charges for state services. As such, they were designed along the lines of conventional targeted social security benefits, not temporary SDA subsidies to be phased out. The PAAP strategy envisaged their long term extension, but the SDF budgetary allocations appeared to treat them as reducing SDA compensation.

3.1.1.18 The financing of the three SWP benefits was provided entirely out of the budgetary subventions to the SDF and was subject to short-term budgeting constraints which led to several financial uncertainties:

- No clear guidelines were laid down as to the division of the subventions between the SWP and the ETP. When, for instance, the SDF was found in mid-1995 to be overdrawn, it had to be recommended that disbursements to loans be suspended in order to meet outstanding liabilities to the SWP.

- There was little apparent linkage between the needs of the programme and the size of the subventions actually allocated to the SDF. These appear rather to have been globally determined block grants which were raised or lowered arbitrarily each year in steps of Z$50 million at a time.

- Except for the rough estimates presented in the 1994 PAAP sub-programmes, there is little evidence of costing of this demand-led entitlement programme on the basis of target group size and take-up rates. The amount of Z$50 million actually allocated for FY 1995/96 was well below the projected PAAP requirement of Z$140 million and the bid of Z$200 million, with the likely result that funds would expire early in the financial year.

- From SDF records it appears that the SDF has lost resources through reallocation of voted funds to the tune of Z$50 million in 1993/94 because of underspending and Z$12 million in 1994/95 by unannounced reassignment by the Ministry of Finance. Partly as a result of the latter transfer, the SWP had liabilities of Z$62 million in mid-1995 which would more than absorb the severely pruned FY 1995/96 subvention of Z$50 million.

3.1.1.19 In line with the SDA emphasis on temporary impacts and targeted interventions, the three SWP subsidies were directed not at the general impacts of ESAP in the social sectors but rather at adverse impacts from specific changes in state service provision, in particular the removal of subsidies and the introduction or extension of user charges. This strategy resulted in a much narrower programme focus and a delinking from broad poverty impacts, but also in a clearer identification of potential beneficiaries, who were by definition limited to users of the services or subsidies in question.

3.1.1.20 Nevertheless the SWP's targeting strategy lacked balance and precision in several respects:

- It had in the first place a distinct urban bias. The food subsidy was, for example, restricted to the towns and the often much longer distances to the nearest DSW office, which all SWP claimants had to visit at least once, was also a greater obstacle for rural households.
- The income thresholds of eligibility did not take account of household size in the case of the health and education benefits. The food subsidy, by contrast, was paid to households on a per capita basis.
- The differences in the threshold income levels for eligibility were a source of confusion and required separate income assessments for each benefit.
- The single step threshold entailed a degree of inequity for households just above the line, who were not eligible at all. A family with, for example, three schoolchildren and an income just above Z$400 per month and therefore paying three fees would be significantly worse off than an exempted family of similar size earning just below Z$400.

3.1.1.21 Reliance on the pre-emptive screening of applicants, a centrepiece of the SWP's design, raised high entry barriers:

- Screening was consonant with the SDA priority of preventing leakage beyond the intended target groups and has probably succeeded fairly well in that aim.
- Individual means-testing led to exclusion of all those not entering the application process. As one report observed[15]:

  > By employing an exclusive targeting approach designed largely to exclude ineligible applicants from gaining benefits, the social welfare component of SDF raised such high barriers to entry that most of the eligible population did not benefit either. SDF is not designed to seek out potential beneficiaries and invite them to participate. Rather, SDF is a passive mechanism that waited for potential beneficiaries to come forward to apply for benefits. This approach in itself effectively (though inadvertently) excludes many of the poorest and most vulnerable members of the target population.

- The introduction of screening under what was conceived as a temporary safety nets scheme pre-empted adequate preparation for implementing what amounted to a major and

15. M. Chisvo & L.. Munro, *SDA: a Review of Social Dimensions of Adjustment in Zimbabwe*, 1994, p.19-20.

permanent reform of the Zimbabwean welfare system, which had hitherto relied on a mixture of fee exemptions and the provision of last-resort public assistance to the indigent.

- The lack of preparation was compounded by hiving off the administration of the new benefits to an entirely new financial account and administrative structure, thereby delaying their integration into the line functions of the DSW.

3.1.1.22 Individual screening is an intrinsically paper-intensive approach to delivering social subsidies and incurs heavy administrative and training overheads. In situations of mass poverty, it invites perverse outcomes: either a low take-up rate saves overheads but has marginal impact; or successful outreach overstretches the delivery system.

3.1.1.23 The food benefit must be judged to have failed to achieve its SDA objective:

- Take-up was minimal, never reaching more than a few thousand urban households. This is largely attributable to the low value of the benefit itself, amounting to Z$16 per month for an average urban family size of four, and the high cost of collection, involving sometimes long journeys and queueing at the DSW offices every month. In May 1995, for example, more than 7 per cent of claimants did not turn up to collect their cheques.

- Since the Z$4 per person value was not raised, its erosion by inflation, by over 40 per cent between January 1993 and mid-1995, rendered it increasingly marginal in poor households' food budgets. This factor combining with the rising cost of transport probably accounted in large measure for the fall-off in clients during 1995.

- It is not clear that the benefit operated in practice as a 'food subsidy' rather than a general cash income supplement usable for any purpose, especially since men were more likely to collect it than women. As a cash handout, it is likely to have been a poor poverty alleviation instrument.

3.1.1.24 The SWP has been criticised for not taking into account other education and health costs faced by beneficiaries, especially the unofficial costs associated with schools. Such criticism is misplaced if directed to the form of the schemes themselves since their objectives were to go no further than alleviate the costs of the new cost recovery measures. However, if the schemes are to become a permanent part of the social security system their design needs to extend beyond the original narrow SDA objectives to take account of the mix of costs faced by eligible households.

3.1.1.25 An assessment of the numbers assisted by the SWP benefits is complicated by scanty and inconsistent statistics. No published data series are available on the SWP sub-programmes and the CU's internal data compilations are ad hoc, incomplete and beset by anomalies and problems of definition.

3.1.1.26 Although realistic estimates must await the results of the national poverty survey, the figures in the PAAP sub-programme presentations may underestimate the sizes of the SWP's target groups and also suffer from unclear definition and obscure basis of calculation:

- School fees: maximum 300,000, either households or pupils; if households, about 20 per cent of all households.

- Health charges: maximum 200,000, presumably individuals.

- Food benefit: maximum 300,000 urban households, but budgeted to reach only a third of that number, or 15 per cent of the national total.

3.1.1.27 While the food subsidy failed to make a significant impact, the school and examination fee exemptions achieved a moderate level of outreach by 1994 and take-up continued on a rising trend through 1995. It is probable, however, that the majority of qualifying poor households were still outside the scheme by the end of the period.

3.1.1.28 There is evidence of a slight but definite gender bias against girls in both school and examination fee exemptions.

3.1.1.29 Until the results of the national poverty survey are available it is difficult to estimate how closely the SWP's exemption threshold levels match the real needs of poor households. The new income threshold of Z$400 introduced in 1992 was equivalent to about 18 per cent of GDP per capita, which was Z$2261 in 1992. Since then, the failure to adjust the income thresholds for inflation has allowed inflation creep to erode their value, by 61 per cent over the four-year period to December 1995 and by 71 per cent in respect of food, which accounts for a much larger proportion of the expenditure of poor households. This has progressively reduced the pool of eligible households and exposed increasing numbers to the cost recovery measures. By 1994 the Z$400 limit was worth only 11 per cent of GDP per capita.

3.1.1.30 It is generally not easy to differentiate specific impacts linked to the cost recovery measures from overall trends in the social sector, from changes brought about by ESAP and also from other factors unrelated to ESAP, not least the devastating drought of 1992. But some evidence of negative outcomes has been found:

- In health, two studies reported a significant apparent fall (17-18 per cent) in outpatient attendances in 1992 following the enforcement of health charges, although a slight recovery was evident towards the end of 1992.

- A similar decline in antenatal attendances coincided with a rise in maternity admissions and unbooked deliveries, implying that 'clients cut down on what they thought were unnecessary services, only to come later with more serious conditions'[16].

- In education, the available statistics show few clear trends, but monitoring survey results in 1993 reported that 'financial constraints' accounted for two-thirds of reasons advanced why non-attenders aged 5-20 had left school[17].

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16. Gibbon, *Structural Adjustment*, citing Hongoro & Chadiwana 1994, p.13.
17. CSO, *Indicator Monitoring Survey 1993*, table 2.6.

3.1.2 *Operational Mechanisms and Organisational Structures*

Findings

3.1.2.1 Each of the SWP schemes was administered through the DSW and had its own procedure:

- Food money: claimants applied directly at a DSW office and collected their payments by cheque monthly.

- Health charges: during 1992-93 public health facilities referred claimants to the nearest DSW office to obtain a letter of exemption. Under the revised system introduced in January 1994, urban local authority offices submitted monthly claims for 20 per cent of their outpatients through district offices to the DSW head office for SDF payment, while the inpatient hospitals, principally Parirenyatwa, screened patients individually and forwarded their claims for SDF repayment. The SDF thus repaid the accounts of the institutions.

- School and examination fees: school principals assessed applicants and referred those they considered eligible to the DSW office for further screening. The SDF repaid state schools through the Ministry of Education and non-government schools directly.

Review of Problem Areas

3.1.2.2 In general, by the second half of 1994 and 1995 the SWP had ironed out its teething difficulties and was functioning moderately well within the boundaries of its constraints. In 1992 the slow startup can in large measure be attributed to the impact of the drought emergency, whose operational burden fell heavily on the DSW. Stopgap measures and overtime working succeeded in overcoming a serious payments backlog in late 1993 and subsequent processing delays have, on the whole, not been attributable to administrative holdups. Health and welfare assistance were well established with the respective client groups although the food subsidy was notably less successful.

3.1.2.3 Nonetheless a number of operational problems beset the SWP. They relate to five main areas:

- Lack of information to facilitate outreach to those who were eligible, particularly those outside the main urban areas.

- Insufficient staffing at central and provincial levels.

- Cumbersome application procedures, and the lack of common application forms for various components of social welfare.

- Over-centralisation in processing payments.

- Inadequate inter-departmental coordination and unclear assignments of financial and operational functions.

3.1.2.4 Implementation of the SWP was hindered by <u>inadequate information</u>, particularly in the early stages:

- Awareness of the SDF as such was far from universal. The fourth 'Sentinel' survey taken in late 1993 found that 60-70 per cent of respondents had heard of the education and health assistance, but only 4 and 5 per cent respectively had yet been assured of education assistance. The figure for health was much higher at 24 per cent, reflecting the longstanding operation of the exemption system. Only 44 per cent of urban households had heard of the food benefit and only 2 per cent had accessed it. Generally, 'lack of knowledge' (40 per cent) was the commonest reason cited for not obtaining assistance, ahead of 'not eligible' (35 per cent). The higher take-up rates of 1994 and 1995 point in part to improving information amongst client groups.

- Some frontline agents were insufficiently or inconsistently briefed on eligibility criteria and operational procedures, in particular school principals, hospital administrators and district DSW officers, who would often receive verbal rather than written instructions.

3.1.2.5 <u>Lack of interdepartmental coordination</u> occurred at several points in the complicated chain of implementation, particularly in the early stages:

- Between DSW and the Ministry of Health and Child Welfare, prolonging the delay in implementing the SDF health benefit and partially obstructing the interim exemption arrangements.

- Between DSW and the Ministry of Education and Culture over the barring of pupils awaiting SDF payments.

3.1.2.6 <u>Unclear lines of authority and accountability</u> affected the relationship between the SDF and the DSW and between frontline staff.

- Staff processing payments came from both sides and in addition temporary staff were drafted in at various times.

- The processing of payments continued irrespective of whether funds were actually available because the CU requested payments from the Ministry of Finance via the SDF on the basis of DSW referrals. At least until recently problems did not usually arise since the rate of payments was well within the SDF provision; however, payments were suspended for a time in mid-1993 for lack of funds.

- The education benefit required two means tests, a first appraisal by the school principal and then, if referred, by a district DSW officer. In some areas both left the assessment to the other; in others, arbitrary differences in interpretation obstructed client access.

3.1.2.7 <u>Insufficient staffing</u> was evident at most stages of the SWP:

- Only a handful of extra clerical staff were engaged at DSW head office and none at provincial and district office level to administer a major addition to welfare services. Temporary staff drafted into DSW and CU operations helped clear headquarters backlogs at several points but provided only a stopgap solution. The payments bottleneck was eased in 1995 by ending the manual writing of cheques in MPSLSW and transferring to automated payments by the Central Payments Office (CPO), but some delays were still reported.

- The increased workload made it difficult for welfare officers not only to complete their normal professional tasks but also from handling the SDF case-load, in particular ruling out home visits in many cases. This eroded the effectiveness of screening.

3.1.2.8 Incomplete operational budgeting hampered DSW execution of SDF responsibilities:

- Because the first SDF constitution did not permit administrative costs to be covered out of the fund, the extra duties were added to existing workloads with no additional budget provision. In several cases, temporary staff could only be hired with donor funds. The revised constitution of 1995 added a clause allowing incidental expenses subject to approval by LOGAC.

- Forms and stationery were not costed for this paper-intensive programme and were sometimes in short supply, blocking flows of information and access to clients at the district level. Transport, already constrained, was often not available for extra SDF functions.

3.1.2.9 Cumbersome application procedures raised a series of barriers for SWP applicants:

- Each of the three schemes required a separate application using a separate form, even where the same applicant ws eligible for more than one benefit.

- The application forms were lengthy and differed for each benefit.

- Completing the procedures was time-consuming and expensive, requiring at least one and sometimes several visits to district DSW offices and time queueing for interviews. Journeys were often long and costly for many rural applicants and some urban applicants as well.

- Providing evidence in support of an application demanded a range of supporting documents, different for each benefit.

3.1.2.10 The SWP's complicated system of internal financial transfers substantially raised the risk of breakdown at various points in the chain at the expense of clients:

- The separate administration of each scheme extended both the time spent on processing applications by welfare officers and the paperwork involved.

- While food money was paid directly to claimants, schools were refunded by the SDF and only after applications from those they referred had been approved by district DSW offices, checked at provincial level, notified to the CU and processed for payment, either direct to non-government schools or to the Ministry of Education in respect of state schools. Any delays in this chain would deprive the school of income for the interim. Hospitals and local authorities had to compile their claims and similarly wait for the payments processing to complete, both sources of reported delay that could run to months.

- The centralisation of payments processing increased the risk of bottlenecks. A slow computer system and manual signing of cheques retarded the issuing of payments, although the transfer to the CPO speeded up the process somewhat.

3.1.2.11 The operational limitations of the SWP accentuated further the narrowing of the programme's outreach inherent in its design:

- Many poor households residing at some distance from the nearest district DSW office could not afford the time and expense to complete an application procedure that might require several long journeys, even overnight stays, and lengthy waits for attention. For some areas the food subsidy turned out to be worth less than the monthly travel cost of collecting it.

- In the case of schools some principals applied arbitrary criteria in deciding which households to refer to the DSW, in some cases sending all applicants but more commonly blocking eligible households. Some DSW welfare officers also requested performance reports from the schools, unaware that unlike the previous scheme SDF eligibility was determined on income alone.

- Delays in issuing payments reduced service institution's income and hence their confidence in the SWP. Such delays, or fear of them, gave principals and administrators managing hard-pressed budgets an incentive to encourage eligible clients to pay part or all the fee upfront rather than await an SDF refund maybe months later. Non-government institutions were particularly affected.

3.1.2.12 The individual targeting built into the SWP schemes encountered a degree of welfare resistance that may have significantly reduced take-up, particularly in schools, where welfare status was exposed to peer pressure because applications and payments were run through the school administration. Such resistance was more probable in urban settings rather than rural areas where most pupils came from eligible poor families.

3.1.2.13 Payments backlogs had serious impacts on service delivery:

- During 1992 and 1993, the delay in bringing in the SDF health benefit had the result that the letters of exemption used to protect low income clients deprived hospitals and clinics of revenue.

- More recent backlogs in issuing cheques raised deficits on health facilities' SDF accounts. For example, the largest referral hospital in the country, Parirenyatwa Hospital in Harare, claimed that at the end of October 1995 it was owed Z$39 million. The last repayment that it received from SDF amounted to Z$3.1 million and was made as far back as April 1995.

- The financial pincer of increased take-up and reducing budgetary allocations which hit Parirenyatwa Hospital had wider effects in mid-1995 as the suspension of payments when the SDF ran out of funds at the end of FY 1994/95 was extended by the much smaller than expected allocation for FY 1995/96. An internal CU assessment concluded that no new claims could be met since existing liabilities exceeded the funds available. It reported that non-government schools which had made outlays in expectation of SDF payments were at risk from creditors to the extent of having assets seized. This arbitrary risk of payments delay or failure could only strengthen the earlier inclination of school principals to oblige eligible poor households to pay the fees or to remove their pupils.

3.1.2.14 Previous studies and evaluations tend to confirm that the origins of many of the problems with the SWP lie, with minor exceptions, not in staff performance but in the design and operation of the programme itself. Amongst the key factors:

- A major permanent expansion of the social welfare system was introduced in the guise of a temporary scheme addressing short-term hardships.
- The DSW workload was greatly extended with little extra budgetary provision for either staff or supplies.
- Little attention was devoted to adapting the structures, line functions, procedures and staff competences of the central and regional DSW offices to the major new responsibilities they were expected to execute.
- A parallel administrative capacity was set up alongside the DSW within the SDF which had little to do with the latter's coordination function and which performed a supplementary role in processing payments but which was not integrated into DSW line management.
- The channelling of SDA welfare payments through the separate SDF account divided financial accountability and separated SWP from other welfare expenditure.
- The heavy administrative overheads inherent in a means-tested benefit system were extended by adopting different income thresholds and by duplicating the application and processing procedures for each of the three benefits.

3.1.3 *Programme Sustainability and Development*

3.1.3.1 Despite its limitations of targeting and operational problems, the SWP had by 1995, the final year of ESAP, achieved a higher outreach and, on the whole, improved administrative performance. This very success raised once more, however, the issue of sustainability as demand-led expansion encountered reducing budgetary provision.

3.1.3.2 The food subsidy is a small budgetary item and therefore probably financially sustainable. Its low monetary value and high cost of collection caused a rapid fall in the number of claimants and the Advisory Board was informed in mid-1995 that it would be merged with Public Assistance.

3.1.3.3 The school fee and examination benefits are much larger budget items. Given adequate funding, take-up was likely to continue increasing steadily for a time as better information induced more of the target households to apply. However, unless they are raised the erosion of the real income threshold by inflation will be the biggest control on future expansion as the pool of eligible households shrinks.

3.1.3.4 The health benefit is more recent and expenditure on it was rising fastest. At the 1995 trend it would soon overtake education as the largest budget item. The same reducing real income threshold applies as a brake on growth of demand.

3.1.3.5 Whereas over 1992/93-1994/95 actual SDF expenditure on the SWP was well below the allocated SDF budget, that balance began to reduce fast in 1994 and by mid-1995 had sharply reversed, as indicated above. The future operation of the education and health assistance sub-programmes in their present forms will depend on financing closer to the level proposed for PAAP and maybe somewhat above it. If not sustainable at this level, the terms of the benefits would have to be altered, for example by paying only a fixed proportion of the fees and charges rather than the whole amount. Alternatively, budgetary caps in this demand-led programme will enforce arbitrary cut-offs, as in 1995, when funds run out before the financial year end.

3.1.3.6 Both the erosion of the real income threshold and arbitrary and inadequate budgetary allocations are seriously damaging to the confidence of clients and intermediaries. If basic SDA objectives are to be achieved, the social safety nets need to be secured within a long term policy framework, whether in their present form or through alternative instruments.

3.2 The Employment and Training Programme

Findings

3.2.1 The objective of the ETP was defined as relieving constraints on the productive participation of vulnerable groups resulting from retrenchment, lack of skills and inputs. The resources of the ETP were to be directed primarily towards the promotion of productive employment. The generation of employment would be achieved through supporting microenterprises and imparting new skills.

3.2.2 The ETP's target beneficiaries for the microenterprise finance were in practice limited to retrenchees and, later, those taking voluntary retirement and unemployed disabled people. However, both the SDA and PAAP programme proposals contained a number of other initiatives in the training and employment fields. It was envisaged that there would be counselling and retraining in new skills for workers retrenched as a result of ESAP through out-placement, in-plant training and training for self-employment so as to enable them to re-enter the labour market. The programme envisaged that new job opportunities would be created through new productive activities, public works, expansion of informal and small enterprises, and through rural resettlement.

Review of Problem Areas

3.2.3 As of late 1995, however, very few if any of the proposed activities have got beyond the project concept or programme design stage. One exception was the Swedish-funded rural road construction project under the labour-intensive public works programme.

3.2.4 The absence of alternatives has faced retrenchees with a one-track choice: participation in the microenterprise scheme was the only option on offer. But coming out of conventional wage employment in an economy dominated by its formal sector, many may not have had either the skills or the motivation to succeed in running small businesses. In a context of economic restructuring, new skills acquisition and retraining are likely to be important facilitators of recycling retrenchees back into productive work. This perspective was articulated in the PAAP strategy documents and sub-programmes but not carried through into programme development. The lack of alternatives, whether under SDF or other auspices, is likely to have increased the risk of business failure under the microenterprise scheme.

4. REVIEW AND EVALUATION OF THE MICROENTERPRISE COMPONENTS OF THE SDF

4.1 Programme Products

4.1.1 *Financial Resources, Conditions and Disbursements*

Findings

4.1.1.1 The main objectives of the ETP were defined as employment generation in the non-formal and microenterprise sectors, and through labour-intensive public works projects. In practice, the scope of most activities under the ETP has been confined to:

- Training retrenchees in basic methods of business management and also imparting basic entrepreneurial skills.

- Provision of credit to business proposals submitted by the retrenchees.

The SDF's credit scheme was built from scratch and constituted a new venture into business development, unrelated to other similar state and parastatal programmes.

4.1.1.2 As outlined in section 2.3, the annual budget subventions to the SDF peaked at Z$150 million in FY 1993/94 but fell back thereafter to Z$50 million in FY 1995/96. This financing was shared with the safety nets sub-programmes and it is unclear to what extent funds earmarked for loans were ring-fenced. A breakdown of cumulative SDF expenditure to the end of April 1995 indicated that Z$88 million, or 45 per cent of total Ministry of Finance grants to the SDF, had been designated for lending. This amount was in fact some Z$14 million less than the amount actually disbursed to loans at that date.

4.1.1.3 In addition to domestic funds the credit scheme also had the ADF loan of FUA5 million (UA4.6 million) to call on. Although the loan agreement was signed in January 1992 and the start date set for June 1992, the initial disbursement of FUA1 million was not made until April 1993. The first replenishment of FUA1 million was made in August 1994. A request for a second replenishment of Z$8.5 million was presented in May 1995 and in July 1995 was being processed by the ADB. Once disbursed, FUA2 million, or 40 per cent of the loan amount, would remain to be drawn down in two further replenishments. Expressed in local currency, by late 1995 about Z$25 million had been utilised and around Z$32 million was still available.

4.1.1.4 In the absence of a single authoritative source of data, three different time-series were used to calculate the sums approved and disbursed under the credit scheme:

- Summary tables of projects and loans approved, compiled periodically by the CU for internal use. The earliest found was from January 1994.

- Cashbook records, giving the amounts actually disbursed and received. The records before June 1994 were too incomplete to make accurate calculations.

- Approved projects and loans, compiled from the CU projects database which provides a complete record from startup in late 1992.

4.1.1.5 Despite internal discrepancies between the CU tables and data differences between the three series (see Annex 2), the similarity of trend and totals between the three series lends assurance to the outcomes as reasonable approximations. The cumulative CU table gives a total of 1889 projects and Z$152.9 million in loans approved by the end of January 1996, which compares with 2092 projects and Z$172.7 million from the projects database up to early February 1996.

4.1.1.6 Three distinct phases of lending activity are apparent from the database time-series:

- A slow start lasting from late 1992 to mid-1993, during which only 50 loans worth Z$1.9 million were approved.

- A rapid escalation during the second half of 1993 leading to a main phase lasting from December 1993 to March 1995, during which 1277 projects worth Z$103.5 million were approved at an average of 80 projects and Z$6.5 million per month.

- A disrupted late phase from April 1995 onwards when approvals virtually dried up in mid-1995, spurted to over 100 projects and Z$10 million per month over the last four months of 1995 before dropping to a standstill by early February 1996. Z$8.5 million was approved in the five months between April and August 1995 compared with Z$42.8 in the final four months of the year.

4.1.1.7 These figures of course reflect approvals and not necessarily disbursements. However, the cashbook totals matched the monthly amounts approved reasonably closely over the 15 months to September 1995. An internal review in mid-1995 found 66 approved projects worth Z$5.7 million, or under 5 per cent of the total loan amount then approved, that had not yet been drawn.

4.1.1.8 A summary SDF income and expenditure statement for October and November 1995 made no reference to safety nets categories and covered only the loan scheme and PAAP. It indicated that at the end of November, five months into FY 1995/96, the SDF had Z$10.1 million on hand for the credit scheme and Z$1.3 million on hand for PAAP.

Review of Problem Areas

4.1.1.9 The system of block allocations to the SDF introduced <u>budgeting and scheduling problems</u> for the ETP:

- Since the block sums were not apparently assigned to specific functions, the ETP, like its SWP counterpart, was subject to the uncertainty of <u>lacking a specific allocation of funds</u> and thus known amount for lending over a given period. According to the ADB design, LOGAC was to 'make reports and recommendations' to the Advisory Board regularly on the 'percentage distribution of SDF resources' amongst other topics, but there is no evidence that it did so or that the Advisory Board considered budgetary allocations, which were instead handled administratively by the CU and other sections of MPSLSW.

- Both programmes were demand driven and either could <u>unpredictably hit the budget ceiling</u> and be obliged to suspend operations. Since SDF subventions ran ahead of disbursements up to at least late 1994 this constraint only began to have serious impact in 1995 when both ETP lending and safety net spending, especially on health exemptions, accelerated at the same time. ETP loan approvals had to be suspended for a time in mid-1995 and again in February 1996 as the budgeted funds ran out.

4.1.1.10 The delays in disbursement of the ADF loan also deprived the SDF of loan funds. The delays were attributable mainly to lack of administrative capacity in the CU, leading to failures either to fulfil the loan conditions or to delays in submitting the necessary documentation:

- The SDF coordinator was not appointed until March 1993 and there were delays in establishing operational procedures for utilising the funds, both of which were prior conditions under the loan agreement for its entry into force.

- The two subsequent requests for replenishments were also delayed by lack of staff to prepare and process the necessary documentation.

4.1.1.11 Prompt requests in late 1994 and 1995 for additional tranches could have released ADF funds in time to avoid the suspensions of loan approvals in mid-1995 and early 1996:

- By June 1995, the Zimbabwean contribution of Z$20 million[18] and the two ADF tranches of about Z$16.5 million amounted to utilisation of Z$36.5 million. But the SDF's own record indicated that Z$109 million had by then been approved for loans. Adding in the request submitted in May 1995 for a third tranche of Z$8.5 million and some Z$32 million remaining to be drawn[19] would have brought total utilisation up to about Z$77 million, well short of the amount actually disbursed to loans.

- Thus in mid-1995 the SDF was entitled to draw down the full remaining amount of the ADF loan, then converting to about Z$40.5 million. Yet at that point the processing of project applications was temporarily suspended for lack of funds.

4.1.1.12 It remains obscure whether the two ADF tranches disbursed to date have actually been released to the SDF or retained by treasury to replenish domestic funds previously budgeted to the SDF. The PAAP sub-programme's indicative budget took the latter course but the PAAP strategy document explicitly treated the loan as additional to the Z$270 million allocated to the SDF up to June 1994. The MPSLSW's income and expenditure statement for FY 1993/1994 made no mention of the ADF loan.

4.1.1.13 An assessment of the SDF's resource base is complicated by the lack of a separate budget line for the credit scheme. The SDF account has been run as a single entity and loan disbursements and overheads have been listed alongside SWP and, more recently, PAAP categories with some line items merging all the programmes.

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18. The ADF loan agreement required an 'initial contribution' of Z$20 million and did not include the Government's commitment, indicated in the ADB *Appraisal Report*, to contribute a further Z$20 million a year, adding up to Z$100 million over the five year ESAP period (*Loan Agreement*, para 4.01(3); *Appraisal Report*, para 4.5.1).
19. The precise amount will depend on the conversion rates prevailing at the time of disbursement.

4.1.1.14 Lack of published reports and gaps and inconsistencies in internal data compilations have further obscured the assessment:

- There is an absence of up-to-date income and expense statements, the last available at the time of mission being for FY 1993/94.
- The amounts received from repayments are difficult to determine because no repayments statistics have been published to date, although a recent internal tabular summary has clarified the trend somewhat. This question is taken up again in section 4.2.2.
- Although information on loan disbursements is more readily available, it must be emphasised that all such data are unofficial since no annual reports, balance sheets or audited accounts have been published in respect of the credit scheme.

4.1.1.15 The 1992 SDF constitution failed to provide at all for the administrative costs of the SDF. The 1995 revision added a clause allowing 'incidental' expenses subject to LOGAC approval, but each instance would require a separate decision and general administrative responsibility remains with the Ministry, which is also the employer of SDF staff. The overheads of the credit scheme are thus partly hidden in departmental accounts and there is no direct means of calculating all its administrative costs.

4.1.2 *Eligibility Criteria and Targeting*

Findings

4.1.2.1 In the SDA programme document the targeting of SDF credit was left vague except for a cryptic commitment to 'direct the resources of the Social Development Fund to facilitate increased employment of retrenched and vulnerable groups in... infant micro-industries or activities that are likely to grow in scale and efficiency in the long term'. However, the Minister's preface was more explicit and set the guideline that 'the ETP shall first and foremost be targeted at facilitating the redeployment of those retrenched into productive employment activities'.

4.1.2.2 At startup, the credit scheme was restricted exclusively to retrenchees. In January 1994 the Advisory Board extended it to include those taking early or voluntary retirement or retrenched due to ill health and a little later also to the unemployed disabled. But retrenchees remained the principal target group.

4.1.2.3 The Advisory Board has recognised that there are problems in implementing policy and also in policy interpretation and has debated the question of expanding the scope of the scheme on a number of occasions to include other poor and vulnerable groups. The original choice of targeting retrenchees was made because the group was verifiable and easy to identify. Other groups were seen as difficult to target and no appropriate guidelines had been provided to LOGAC. At its January 1994 meeting the Board made a CU proposal to extend coverage to women in general and to 'school leavers, college graduates and other job seekers' conditional upon raising additional funding. Up to mid-1995, however, no further expansion of eligibility had been approved.

Review of Problem Areas

4.1.2.4 The targeting of a single and easily identifiable group, retrenchees, gave the SDF credit scheme a strong programme focus, one which was also directly concerned with transitional impacts and SDA objectives. Reasonably firm safeguards against abuse were also assured by the legally enforceable procedures for declaring redundancies, which helped to distinguish retrenchments from other dismissals and resignations.

4.1.2.5 There was no way, however, of distinguishing redundancies attributable to ESAP from the consequences of normal business restructuring. The ETP thus gave general support to all retrenchees, whatever the causes of their retrenchment. In its early years most retrenchments were probably ESAP-related and ironically the growing gap between the dates of retrenchment and loan approval (see section 4.2.2) ensured that most project proposals were from victims of ESAP. However, by 1995 the specific linkage between retrenchment and ESAP effects was becoming distinctly tenuous.

4.1.2.6 Some have criticised the SDF for selecting the wrong ETP target group from the perspective of poverty reduction. The selection of retrenchees was a specific SDF decision because the ADB design had defined the intended beneficiaries in very general terms, although it did assign to LOGAC responsibility for identifying target groups. The general issue of SDA programme targeting is beyond the scope of this study. However, it can be argued that other groups also subjected to the stresses of structural adjustment could have benefitted from and effectively utilised such a microcredit facility. Also, 'retrenchees are often not suited to being entrepreneurs as their experience will always have been as employees'.

4.1.2.7 These issues of targeting are taken up again in section 4.4.1. Two comments are in order here:

- The targeting of retrenchees did not of itself preclude additional microcredit facilities for other SDA target groups. Indeed, the PAAP strategy and programme documents of 1994 made a specific if vaguely defined proposal to create another microcredit facility focusing mainly on rural women.

- Some retrenchees could be expected to possess the necessary skills and motivation to succeed as small entrepreneurs. The difficulty is not that they were offered a credit programme, but that it was the only option they were offered.

4.1.2.8 It was important that the concerns of all retrenchees be taken into consideration but the differentiation amongst them was not addressed:

- While some of the retrenchees were poor and belonged to vulnerable low-income groups, others were from middle-income groups and even from the managerial stratum. The latter commanded a different level of skills and resources (including reasonable lump sums and terminal benefits at retrenchment). Opportunities might have existed for some screening, for example requiring a higher deposit from better provided retrenchees. By contrast, short-term 'contract' workers were not eligible and unskilled retrenchees were more likely to fail to get the necessary employer's letter of retrenchment: the Advisory Board pointed to the enforcement powers of the Ministry upon justified complaint but the onus remained with excluded retrenchees to pursue the complaints procedure.

- Screening could also have served to identify those with entrepreneurial or requisite technical skills for priority treatment. The Advisory Board adopted a position that screening should precede training, but the modalities were not worked out. Had the PAAP proposal to offer a retraining alternative through a counselling service for retrenchees been implemented, such screening could have served the function of improving the viability of approved projects.

4.1.2.9 There is some evidence of abuse leading to leakage:

- A recent Select Committee report drew attention to exploitation by people of influence by highlighting the case of a beneficiary it encountered who was 'neither a retrenchee nor a disabled person [but]... a former high ranking politician who appears still to be employed by government and driving a government car'[20].

- The attention of the Advisory Board was drawn to non-retrenchees slipping through by virtue of lax screening at DEED offices.

- One of the principal training consultants alleged that collusion in allowing ineligible persons access to the training courses, the first step towards a project proposal, was quite widespread, citing the example of Mozambicans being allowed onto courses run in Mutare.

4.1.2.10 It is nevertheless unlikely that such abuse was widespread. The loan amounts were too small to attract large-scale racketeering and many ineligible beneficiaries were likely to have been in similar socioeconomic circumstances to the retrenchees. A search of the CU projects database indicated that the great majority of project records included specific details of date of retrenchment and former employer. It also turned up virtually no duplicate names and a broad diversity of biographical and residential information, suggesting that influence-peddling on a large scale was improbable. If the data is accurate, there were cases where the loan was apparently approved before the date of redundancy, breaking the scheme's basic rule on eligibility and suggesting undue influence to secure access to loans. But the number of such exceptions was small.

4.1.3 *Beneficiaries*

Findings

4.1.3.1 As at the end of January1996, just before the suspension of meetings, LOGAC had approved a total of 1889 projects with a loan value of Z$152.9 million (approx. US$16.3 million).

4.1.3.2 The backlog of loan applications on file was reported as 6,693 in June 1995 with a total value of Z$803 million (approx. US$94 million). Allowing for new applications in the second half of 1995, approximately 8,500 retrenchees had applied for SDF loans by January 1996.

20. Parliament of Zimbabwe, *First Report of the Departmental Committee (Service Ministries) on the Ministry of Public Service, Labour and Social Welfare*, 21 March 1996, p.8.

4.1.3.3 There are no comprehensive statistics on retrenchments over the ESAP period:

- According to official statistics, stated to be not quite complete, by mid-1995 slightly more than 25,000 redundancies had been recorded in the private sector and local authorities since January 1991 and 26,332 by year end. This total does not include de facto redundancies of 'temporary' workers hired on short contracts.

- In the public sector actual redundancies have probably been lower than the original ESAP projections in the civil service and higher in parastatals, roughly 6,000 against 10,000 and 4,000 against 2,000 respectively. A recent estimate of 20,000 public sector redundancies by August 1995 looks too high. Between 1990 and June 1995 the average number of employees in 'public administration' as a whole dropped by 15,700 according to published CSO statistics and allowing for an excess of natural wastage over new appointments a rough total of 10,000 redundancies in the public and parastatal sectors between January 1995 and December 1995 may be a reasonable approximation[21].

- The combined total of formal redundancies was thus in the region of 36,000 up to December 1995.

4.1.3.4 The SDF loan scheme showed the following take-up rates:

- The great majority of retrenchees who completed the introductory training course went on to submit project proposals. As of mid-1995 the proportion was 80-85 per cent.

- The applicants comprised a smaller proportion of all those retrenched. Assuming a total of 36,000, close to a quarter had applied for loans by January 1996.

- Analysing the CU database, roughly 4-5 per cent of private sector retrenchees had obtained SDF loans. In the public sector, the shares were 10 per cent of parastatal retrenchees and 9 per cent of civil service retrenchees, although these are very tentative estimates.

4.1.3.5 The great majority of the approved projects were in the service sectors. There are two slightly differing breakdowns:

- According to the latest CU table, as of January 1996 33 per cent of projects were classified by the CU as services, 12 per cent as retail and 22 per cent as transport, making 67 per cent in all. The only other sectors of significance were manufacturing at 17 per cent and agriculture at 13 per cent.

- An analysis of the CU database records shifted the balance towards manufacturing, mainly by reclassifying grinding mills from services (12 per cent) into 'agro-industry' (25 per cent of projects). The service sectors made up 43 per cent of all projects while manufacturing and agro-industry were 41 per cent.

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21. Zimbabwe Government, *A Framework for Economic Reform*, p.21; Zimbabwe Congress of Trade Unions, *Beyond ESAP*, p.15; CSO, *Quarterly Digest of Statistics*; CSO, *Retrenchment Figures per Industry*.

4.1.3.6 From the CU summary table, the distribution of loans similarly placed two-thirds of funds in the service sectors (services 25 per cent, retail 12 per cent, transport 30 per cent) with 17 per cent in manufacturing and 13 per cent in agriculture.

4.1.3.7 The CU also collected data on the number of jobs each project proposed to create. The January 1996 total was 7,424 with 24 per cent in services, 12 per cent in retail, 11 per cent in transport, 29 per cent in manufacturing and 12 per cent in agriculture.

4.1.3.8 The average number of jobs per project was 3.9 but wide sectoral variations are evident. The lowest ratios were in services and transport (2.9 and 2.0 jobs per project). The retail and agriculture sectors were close to the general mean (3.8 and 3.7) but manufacturing was substantially higher at 6.7 jobs per project. Highest of all were two sectors with very few projects, mining at 15.7 and construction at 11.7.

4.1.3.9 A broad spectrum is also evident in investment per job. The average cost in loan funds per job created was Z$20,593 (US$2,200) and the services, retail and agricultural sectors were all fairly close to the mean. But transport was much higher at Z$55,790 per job and manufacturing significantly lower at Z$12,347 per job.

4.1.3.10 Within most sectors an analysis of the 1491 projects approved up to September 1995 revealed marked patterns of concentration:

- Manufacturing: the most diversified sector by far, but welding and metal fabrication claimed 24 per cent of projects and clothing 11 per cent.
- Agriculture: cattle pen fattening, market gardening, poultry and piggery dominate and represented 92 per cent of projects.
- Transport: with 257 out of a total of 272 projects commuter omnibuses represented 94 per cent of the projects. Commercial haulage numbered another 12 projects.
- Services: there is a concentration of contract milling/grinding mills, which accounted for over 62 per cent of total projects. This category properly belongs under manufacturing.
- Retail: general dealers, butcheries, hardware and takeaways amounted for 48 per cent of projects.

4.1.3.11 Data from the CU database, which up to early February 1996 recorded 2,092 loan approvals[22], indicate that retrenchees from the private sector obtained 56 per cent of approved loans. The civil service and parastatals were 25 and 19 per cent respectively.

4.1.3.12 The database yields additional information on the characteristics of the beneficiaries:

- There was a very strong gender bias in favour of men. Only 9 per cent of beneficiaries were women.
- Only 34 beneficiaries were disabled.

22. The differences between the data sets are discussed in Annex 2.

- Two-thirds of borrowers were in the middle age bands: 37 per cent aged 30-39 and 32 per cent aged 40-49. Only 1 per cent were 60 years old or over.

- The great majority of borrowers were married. Less than 5 per cent described themselves as single.

- Most borrowers had a high school education. Nearly half the borrowers had passed O-levels and another quarter had JC. A fifth had no qualification, whereas 4 per cent had A-levels and 6 per cent had a higher qualification.

4.1.3.13 The geographical distribution of approved projects can serve as one measure of national outreach. The following patterns are derived from an analysis of the CU database:

- 53 per cent of projects were classified as urban and 47 per cent as rural.

- 62 per cent of the jobs to be created were located in urban areas and 38 per cent in rural areas. This distribution is the reverse of the 1992 population census (31 per cent urban, 69 per cent rural). The average number of jobs per project was 4.6 in urban areas and 3.1 in rural areas.

- Comparing the distributions of projects and population by province, Harare accounted for nearly a third of all projects, more than twice its share of the national population (31 and 14 per cent). Bulawayo, the three Mashonaland provinces and Midlands had roughly equal shares of projects and population while Manicaland, Masvingo and particularly Matabeleland North and South had far lower shares of projects than of population.

- The ratio of projects per 100,000 people puts Harare far ahead at 43.3, Bulawayo at 21.2, the Mashonaland provinces and Midlands in the 15-30 range, Manicaland and Masvingo at 8.3 and 11.3, and Matabeleland North and South the lowest at 4.4 and 4.6 respectively.

Review of Problem Areas

4.1.3.14 By the end of the ESAP period the SDF credit scheme had <u>attracted the interest of a substantial proportion of its principal target group</u>, retrenchees. The proportion of retrenchees submitting project proposals, at roughly 23-24 per cent, reflects an impressively high outreach. <u>The introductory training course provided an effective entry point to the scheme</u> and the take-up rate amongst those completing was very high.

4.1.3.15 <u>The delivery of loans was less satisfactory</u>. Only about 24 per cent of applicants had received decisions on their applications. As a result the proportion of retrenchees actually benefitting from the scheme was much lower.

4.1.3.16 Access to the scheme in terms of loan approvals appears to have been <u>significantly lower for retrenchees from the private sector</u> than for those from the public sector, although the estimates are very tentative. This outcome may reflect a more active promotion of the scheme by public sector employers.

4.1.3.17 The sectoral distribution of projects exposes a strong bias towards the service sectors. However, the number and diversity of manufacturing projects is mildly encouraging.

4.1.3.18 More particularly, there was a high concentration of resources on a narrow range of project types: welding, cattle pen fattening, small retail outlets, commuter omnibuses and grinding mills. These five categories alone accounted for some 58 per cent of all projects and the last two alone for 44 per cent (CU database).

4.1.3.19 Whether or not this narrow focus is desirable is not immediately apparent, but it did have one major implication: a close integration of loan financing with particular results of economic reform, namely deregulation of the grain market and the urban transport sectors. Within the space of three years, the SDF credit scheme pumped Z$49 million into 422 minibus projects and Z$27 million into 499 grinding mill projects. By any standards, this investment had significant impact on two sub-sectors adjusting rapidly under ESAP.

4.1.3.20 The total number of promised jobs - 7,424 according to the CU return, 8,133 from the CU database - were equivalent, very approximately, to slightly more than a fifth of all redundancies since 1991. The CU credit scheme has not on its own overcome the adverse employment effects of ESAP but it is not, as some have alleged, an insignificant contribution. Nevertheless, it is highly improbable that all the promised jobs were actually created. A minority of thriving businesses will have expanded further, but the majority, if not dormant, will be employing fewer than indicated and fewer than at startup. This outcome is strongly indicated by the field surveys which found that most borrowers had reduced their workforces, principally because of cashflow problems.

4.1.3.21 The sectoral distribution of loans did not maximise efficiency in job creation:

- The transport sector, which had by far the lowest ratio of jobs per project and highest cost per job, nevertheless received 30 per cent of all loan funds approved. By contrast, manufacturing, which created more than three times the jobs per project at a quarter of the cost per job, received only 17 per cent of loan funds.

- Two sectors which received hardly any funds at all, mining and construction, nevertheless had far higher job creation ratios (15.7 and 11.7) and far lower cost per job ratios (Z$4,568 and Z$7,202) than any of the better supported sectors.

4.1.3.22 The social profile of beneficiaries exposes the very strong gender bias against women, very few of whom benefited from the scheme. This outcome is attributable in part to the predominance of men in formal sector employment - 82 per cent of 'government and senior officials' at the 1992 census and 71 per cent of 'administration' - and in those retrenched. Unfortunately there is no gender breakdown of retrenchees, but it is disturbing that significantly fewer women than men progressed from completing the training course to securing an SDF loan approval, 8 per cent of women as at mid-August 1995 compared to 13 per cent of men. According to the CU database, only 186 women had secured loans by January 1996.

4.1.3.23 There has been marginal impact to date on the disabled. By mid-August only 11 out of 435 completing the training course had received loans. This was in part due to the late extension of disabled into the scheme and by January 1996 another 23 had received loans.

4.1.3.24 The young to middle-aged age profile and the high school qualified education profile of most borrowers indicates a pronounced bias towards semi-skilled, skilled and white-collar ex-employees and lower representation of the unskilled.

4.1.3.25 There is a marked urban bias in the geographical distribution of projects but it is not as strong as might have been expected. The bias is, however, more pronounced in terms of jobs created because the jobs per project ratio was markedly higher in the urban areas.

4.1.3.26 The pattern of provincial distribution is also highly uneven. In general, the is an inverse relationship to distance from Harare: the further away, the lower the ratio of projects to population. The impact of overcentralised administration is very evident here. But distance alone cannot provide a complete explanation. In particular, it is noteworthy that Bulawayo had half Harare's ratio of projects to population and that Matabeleland had by far the lowest ratio in the country - only 2.6 per cent of the projects compared with 11.8 per cent of the 1992 population.

4.1.4 *Loan Amounts and Terms*

Findings

4.1.4.1 The credit terms offered to borrowers were a required contribution of 10 per cent of the project cost, a standard interest rate of 10 per cent, a grace period of usually 4-6 months and a repayment period of 4-5 years.

4.1.4.2 The Advisory Board agreed at the outset that the 10 per cent contribution could be waived depending on the circumstances of the case. How often this was done in practice is rather uncertain, since there are a number of gaps may be attributable to the difficulty of valuing contributions in kind, such as buildings or equipment already on hand. Such a pattern is commonly found in the results of the field surveys. However, where details are given in the CU database records zero contributions appear in only 17 per cent of cases. Furthermore, the mean amount for contributions above zero is well above the threshold at 23 per cent of total project cost.

4.1.4.3 The Advisory Board resolved in May 1994 that additional funding could only be made available where an error of under-funding was made. Top-up funding was to be denied. Further, clients should be discouraged from obtaining co-funding to prevent other creditors enforcing a prior claim on assets financed by the SDF.

4.1.4.4 The initial maximum size of loan was set at Z$80,000 and raised in May 1994 to Z$120,000, at which level it has remained since. The limit was, however, to act as a guideline and LOGAC was empowered to lend more at its discretion. The size distribution of SDF loans indicates that LOGAC exceeded the guideline in approximately 15 per cent of cases before the raising of the guideline amount but in less than 5 per cent of cases afterwards. It also approved loans below 75 per cent of the guideline in 50 per cent of cases before and 48 per cent of cases after; and loans below 50 per cent of the guideline amount in 12 per cent of cases before and 30 per cent of cases after.

4.1.4.5 Analysing the CU table, the mean size of all loans approved up to January 1996 was Z$80,932. The averages for most sectors do not vary very much and lie in the Z$70-85,000 range, but the transport sector average was higher at Z$111,307 and the service sector was lower at Z$60,062.

4.1.4.6 Analysing the CU database, the average loan size rose steadily from Z$56,529 in 1993 to Z$78,297 in 1994 and Z$99,178 in 1995. At constant prices[23], however, it levelled off in the third quarter of 1993 and remained in the Z$65-75,000 range throughout 1994 and 1995, during which 83 per cent of loan approvals were made. In current US$ a slow rise is evident to a level through 1995 about 20-30 per cent above the last half of 1993, from US$7,940 in 1993 to US$9,607 in 1994 to US$11,455 in 1995 and an overall average of US$9,248.

Review of Problem Areas

4.1.4.7 The mean loan size of Z$81,000 or US$9,250 places the SDF loan portfolio firmly at the lower end of the formal small business sector rather than in the informal sector. Only 2.8 per cent of all approved loans in the CU database were below Z$30,000, 1.3 per cent below Z$20,000 and just 3 below Z$10,000. For comparison, the majority of local microenterprise finance institutions such as Zambuko and Zimbabwe Project have initial loan sizes ranging between Z$2,000 to Z$ 5,000. This arises partly because most such loans are to existing businesses; however, the majority of informal sector operators have few assets and little cash in hand and the loans often function as working capital.

4.1.4.8 The SDF loan scheme has therefore been of little relevance to informal sector development. This, however, may have been a benign outcome since it has reduced to a minimum direct competition with established microcredit schemes, especially those run by NGOs, where the SDF's subsidised interest rate could have been disruptive amongst their client base. The exclusive targeting on retrenchees has also ruled out most potential clients of other institutions, which anyway tend to consider themselves as meeting only a fraction of a large unsatisfied demand.

4.1.4.9 The fact that the constant price average value of SDF loans has been held more or less steady, whether by default or design, since early 1994 has been a source of stability to the loan scheme in contrast to the safety nets benefits, which were allowed to depreciate rapidly with inflation.

4.1.4.10 That apparently a high proportion of borrowers have contributed a deposit and commonly well above the minimum is an encouraging sign. Of those contributing, two-thirds deposited more than 10 per cent of the total project cost, 20 per cent deposited more than a quarter and 5 per cent deposited more than half. The data gaps do however leave a large margin of uncertainty.

4.1.4.11 The 10 per cent interest rate has been some 20-25 per cent below the prevailing commercial rate through most of the SDF's lifetime. Because charged at a flat rate the gap will narrow if as expected commercial rates begin to fall, but is unlikely to close altogether within the lifetime of the existing loan portfolio. The policy issue of offering heavily subsidised credit to small business borrowers is controversial both within Zimbabwe and internationally. The following particular points may be noted:

- Since few SDF project proposals could probably have secured commercial funding, mainly because of the proposers' lack of collateral, the scheme has diverted little business away from the commercial financial institutions. It may, however, have improved the competitive

23. Deflated by the buildings materials index.

position of SDF beneficiaries against commercial small business borrowers in a few sub-sectors, especially urban commuter transport and grinding mills. Any negative impacts are likely to have been small since these sub-sectors witnessed an explosion of activity.

- Subsidised interest has been a principal point of disagreement between leading microlending NGOs and the CU, which has contemplated for some time onlending SDF funds through reputable NGOs. This has delayed even further the fulfilment of the original ADB and SDA to provide SDF resources to frontline established financial institutions.

4.1.4.12 While few loans have been made at the informal sector level, the imposition of arbitrary guideline ceilings has tended to flatten the size of loans at the top end. While 34 per cent of loans were above Z$100,000, only 3.4 per cent were above Z$120,000 and 0.9 per cent above Z$150,000. The de facto cap became a point of contention in particular with would-be minibus operators who commonly needed much higher sums to purchase a new vehicle. Since the SDF scheme had been positioned at the SSE entry point, the cap made little business sense and reflected the dominant social welfare ethos prevailing in SDF operations which looked for an equalisation of benefits across as many beneficiaries as possible.

4.1.4.13 The denial of co-funding imposed a further financial constraint. The objective expressed by the Advisory Board, to protect SDF-financed assets from other creditors, could have been better served by putting the SDF on a proper legal footing. This would have enabled it both to conclude co-financing deals with other partners, for instance to finance more expensive capital costs such as minibuses, and to take an enforceable first charge on any collateral assets. In the event, it is likely that those able to raise additional credit did so anyway, invoking the very risk anticipated.

4.1.4.14 A further and serious difficulty arose from the restriction of the loan to capital costs. Although the restriction was a condition of the ADB loan, there was no inherent need to extend the restriction to the application of domestic counterpart funds. Because retrenchees were starting up new enterprises and with little past business experience, their need for working capital in the initial stages of operation was often acute. Both the project surveys and past studies have exposed this factor as the most frequent source of complaint and difficulty amongst SDF borrowers and it has undoubtedly increased the rate of failure and slowdown.

4.1.5 *Group Loans*

4.1.5.1 There are no group loans in the SDF portfolio since targeting as a matter of policy and practice is targeted on individual retrenchees. A random check on the project files indicated no partnerships in the formal loan contracts, although undoubtedly family and/or associates would be involved in an appreciable number of the businesses.

4.1.6 *Comparative Review of Other Sources of Credit*

4.1.6.1 According to a recent study[24], in 1993 there were 941,944 SMEs in Zimbabwe employing 1.35 million people. The definition included all sizes up to 50 employees with proprietor and the great majority (78 per cent) were one-person microenterprises, mostly in the informal sector and

24. Gemini, *Changes in the Small-Scale Enterprise Sector from 1991 to 1993*, Table 3-1 and Figure3-1.

mostly home-based. Another 18 per cent, or approximately 170,000, employed 2-5 including the proprietor. This is close to the mean number of proposed jobs per project across most sectors in SDF projects and indicates very approximately the size of the SSE stratum into which the SDF credit scheme is propelling its new enterprises. The informal sector is, however, much larger and is the principal target of microcredit institutions.

4.1.6.2 A number of NGO microcredit institutions provide a variety of services to microenterprises across the country. The best-known organisations at the national level are Zambuko Trust, Zimbabwe Project, ZIMFEP, and Christian Care. Other organisations operate at the provincial level, such as Zimbabwe Womens' Bureau, Zimbabwe Womens' Finance Trust, Glen Forest Training Centre, Collective Self Finance Scheme, ORAP and Dondolo. All these micro-finance organisation provide a mixture of loans and training to a wide target group operating microenterprises, some also providing grants.

4.1.6.3 All the major commercial banks also operate specialised small business units providing specific financial services to small enterprises. Zimbank, Barclays, Standard Chartered and the Commercial Bank of Zimbabwe are the major players in this sector.

4.1.6.4 Sharp differences in business culture distinguish the NGO and banking sector approaches to small enterprise development. The banks are geared to medium and large firms and to conventional formal sector modalities, are office based, tend to lack an orientation to the small-scale sector and often find an inadequate business knowledge amongst clients for effective partnership. NGOs such as Zimbabwe Project, by contrast, operate revolving funds and have an extensive field staff, who monitor the repayments. They provide loans in small amounts of between Z$500 to Z$2000 and generally not above Z$5000 for first-time borrowers. A number have started providing group lending schemes, some also take deposits, and screening for project applications is rigorous in the best managed schemes.

4.1.6.5 Business extension for the small business sector is provided by a number of organisations including Business Extension and Advisory Services (BESA), an affiliate of the Indigenous Business Development Centre (IBDC). The major business representative bodies have also created small business units, for example the Zimbabwe National Chamber of Commerce (ZNCC). NGOs generally undertake training programmes in management and Implementation and organisations such as Glen Forest also provide technical and management expertise.

4.1.6.6 Commercial business extension services have traditionally been aimed at small and medium enterprises (SMEs), which have a larger absorption capacity and are on the threshold of entering and competing effectively in the formal economy.

4.1.6.7 The average loan sizes of SMEs are in excess of Z$10,000 and their capital funding requirements could be as high as Z$100,000. SMEs have been able to access finance from a diverse funding base, mainly the commercial banks and parastatals, including the Small Enterprises Development Corporation (SEDCO), the Agricultural Finance Corporation (AFC) and the Zimbabwe Development Bank (ZDB). Microenterprises, to the contrary, have mainly been assisted by NGO credit institutions, although both SEDCO and the AFC have in the last couple of years started schemes aimed at microenterprises.

4.1.6.8 The activities of three organisations with national coverage, the Credit Guarantee Company (CGC), SEDCO and Zambuko Trust, are reviewed in more detail in Annex 3. The two parastatals, CGC and SEDCO, have serviced mainly SMEs while Zambuko has concentrated exclusively on microenterprises and the informal sector. Key points emerging from Zambuko's fast growth and relatively successful lending experience include the following:

- Initial loan amounts are kept small with a usual ceiling of Z$5000.
- Loans are normally made only to existing businesses, allowing a prior check on their track records.
- The loan terms are tight, with effective interest charged at slightly above the commercial rate, group liability in many cases, a fairly short normal term of 6-12 months and stringent repayment conditions.
- Although collateral in fixed property is not required, loans have to be solidly assured by moveable assets of value and a guarantor earning at least four times the value of the loan.
- Borrowers with good records have the opportunity of accessing follow-up loans.
- A large field staff assures continuous supervision and assistance to clients.
- Decision-making is decentralised to branch offices and field staff.
- A high quality relationship with a principal funder and technical assistance provider has been important in the startup phase, backed up by a diversification of funding sources.

4.1.6.9 The profile of the SDF credit scheme is <u>closer to that of a conventional SME institution</u> such as SEDCO than to NGOs supporting the informal sector. In particular, its typical loan amounts are well above the threshold of normal microenterprise lending and many of its projects have a formal SSE rather than a home- or street-based character. It is positioned at the lower end of the SME spectrum and more in the formal than the informal sector. The microenterprise component of the SDF's original mandate has yet to be fulfilled.

4.1.6.10 The SDF credit scheme has therefore <u>overlapped the NGO microenterprise field only marginally</u>. It has established a niche field of operations by:

- Targeting a selective client base - retrenchees - having little access to other sources of credit.
- Financing high-risk startups by operators with no previous track record, little training and little or no collateral.
- Restricting the size of loans to the lower end of the SME financial market and for the most part not offering second or topup loans.

Whether this niche strategy is sustainable will be discussed further in section 4.4.2.

4.1.6.11 The SDF's subsidised credit terms have <u>not seriously interfered with the NGOs' client base</u> but they have been <u>more damaging at the SME level</u>, not by diverting clients since the SDF scheme was restricted to retrenchees, but by affording a substantial competitive advantage over small businesses relying on commercial credit. The impact was exacerbated by its coincidence through 1994-95 with the even more heavily subsidised SME credit provided by the CGC.

4.1.7 *Borrowers' Evaluation of Loan Services*

4.1.7.1 The project ran two small pilot surveys a principal aim of which was to assess the main difficulties, successes and perceptions of SDF clients. It must be borne in mind that the surveys necessarily excluded those who had gone out of business or were otherwise uncontactable. A number of key points arising from the responses and from the larger client survey of the SDF training programme carried out in early 1995[25] are:

- Some clients indicated present temporary downturns or difficulties. In the training survey two-thirds stated that their businesses were stable or growing.

- Lack of initial working capital was a common startup obstacle and was linked by some to continuing difficulties in raising turnover.

- Many clients indicated that their turnover levels were still too small to meet repayments after the grace period had elapsed. This was still commonly the case at the time of interview, pointing to ongoing difficulties in their business operations.

- Most were nevertheless optimistic that they would be able to repay their loans, including several who were not currently doing so.

- Some would have preferred to take smaller loans initially to match the growth of the business, but believed that it was not prudent to apply for a lower amount as there was no guarantee that additional funding would be made available in future when required. Large loans have the impact of unnecessarily increasing the repayment burden to a business which is at its most vulnerable stage.

- A substantial number had decreased their workforce since startup.

- Most were optimistic about their future prospects, a few strongly so. There appeared to be a fairly strong level of commitment to making a go of their businesses. These opinions were also reflected in the training survey.

- Although a few had specific criticisms to offer, most were positive about the general value of the SDF loan scheme. Many saw it as a lifeline and some as an appropriate expression of a policy of economic empowerment.

4.1.8 *Non-financial Services*

Findings

4.1.8.1 Most retrenchees would lack the requisite skills to be re-employed or to engage in self-employment; and also lack financial resources to engage in self-employment or to retrain for other activities.

25. A.M. Gumbo, *"Start and Run Your Own Business" Programme: an Evaluation Study...*, p.25-34.

4.1.8.2 To address these problems, the CU developed a basic one-week training course for registered retrenchees entitled 'How to Start and Run Your Own Business'. All retrenchees were offered places. Standard training materials were prepared by the CU but the actual training was delegated to accredited private sector consultants.

4.1.8.3 Regardless of skills or prior experience, intending applicants were required to complete the course prior to accessing the programme's loans. The registration of the retrenchees was conducted by DEED. The actual training was carried out in groups of about 25 to 30 by the consultants. Training centres exist in all the 10 provinces through the provincial DEED offices.

4.1.8.4 The content of the training course itself is basic and consists of business management skills, accounts, business proposal preparation and local market research. It is a condensed course so as to fit into a one-week training programme.

4.1.8.5 Up to mid-August 1995, when training was 'temporarily suspended', 12,946 retrenchees had undergone training, 65 per cent from the private sector and 35 per cent from the public sector. The numbers trained were equivalent to about 36 per cent of total retrenchments, which are likely to understate the true aggregate. About 1571 women (15 per cent of the total) went through this training programme compared to 8862 men (85 per cent).

4.1.8.6 A geographical breakdown of the total number trained up to April 1995 revealed that the large urban centres predominated: Harare/Chitungwiza trained 40 per cent, Bulawayo 14 per cent, the two Midlands towns Kwekwe and Gweru 19 per cent and Marondera 7 per cent - between them 81 per cent. Six other centres trained the rest. Although the distribution was uneven between the provinces, on the whole the east/west divide was less evident than in the distribution of projects.

4.1.8.7 After the widening of the loan scheme to include disabled people, the training scheme was opened to them. By August 1994 435 had received, 29 per cent of them women. A breakdown by province of training completed to April 1995 revealed that the majority had been trained in Harare (61 per cent), the only other significant centres being Gweru and Marondera.

Review of Problem Areas

4.1.8.8 The statistics indicate that the training programme had <u>extensive outreach</u>. Probably more than a third of the target group, though a smaller proportion if non-registered retrenchees are taken into account, completed the basic training course. Probably also a slightly higher proportion of public sector than private sector retrenchees completed it.

4.1.8.9 These proportions have been criticised as evidence of inadequate impact. However, some retrenchees would have recycled into the labour market and it is unrealistic to expect that all would wish to enter business training. <u>The general level of outreach is regarded as creditable</u>.

4.1.8.10 Only 15 per cent of those trained were women, although the lack of a gender breakdown in the official redundancy statistics makes it difficult to establish how far this proportion differs from total retrenchment. <u>A strong gender bias is nevertheless evident</u>.

4.1.8.11 The course content itself was <u>elementary and short</u>. It was originally planned to run for two weeks but cut to reduce costs. The evaluation of the training sub-programme recommended that it be extended to two weeks. It found that <u>the content was generally satisfactory</u> and 'adequate to enable retrenchees to identify viable business ideas, conduct basic market research and analysis, and prepare business plans and cash flow projections'.

4.1.8.12 The evaluation found that the course was, however, insufficient to develop entrepreneurial skills. The emphasis was primarily on starting a business and little attention was devoted to how to run it once started.

4.1.8.13 It approved the participatory methods of training, found the training facilities adequate except in Harare and adjudged the trainers well qualified for the job.

4.1.8.14 It also noted:

- The absence of clearly defined training needs because there was no training needs assessment done. Of importance is the different backgrounds, educational levels and aptitudes of trainees, making a degree of differentiation in grouping and training method desirable.

- That sector-specific refresher courses should be organised regularly as part of the small business nurturing process.

4.1.8.15 The most conspicuous deficiency is the complete absence of an extension service. It is not possible to comment much further because there is nothing to assess. Once borrowers were handed their cheques, they were left entirely on their own to sink or swim. The only follow-up was by the goodwill of their consultants, who were not paid for aftercare work and therefore had little motivation to offer more than a rescue service in adversity. It need hardly be pointed out that the lack of support to a cadre of inexperienced operators starting first-time ventures was likely to prove amongst the most important factors in subsequent poor project performance and failure.

4.1.8.16 The urgency of the need has been well known to the Advisory Board and the CU since early in the programme's lifetime. Indeed, extensive plans were laid in the 1994 PAAP sub-programmes to offer, amongst other facilities, 'one-service' small business service centres, decentralised administration and service sub-contracting from NGOs and financial institutions. Yet as of March 1996 it seemed that most planning and implementation remained on paper[26].

4.1.9 *Borrowers' Evaluation of Non-financial Services*

4.1.9.1 There was a general and strong desire for an effective extension service and concern at the present lack of one. This issue came out more strongly in the survey for the training programme evaluation, but was nevertheless indicated by many in the pilot surveys.

4.1.9.2 Most were satisfied with the introductory training though a few highly educated or experienced clients said they gained little. A number wanted follow-up training as they gained experience.

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26. A small sum (Z$717,000) appears to have been earmarked in the 1994/95 budget for 'aftercare services' but up to April 1995 had incurred no expenditure.

4.1.9.3 Most also appreciated the assistance given with preparing their market surveys and project proposals. They confirmed that they were given specific advice by the consultants, such as which sectors to avoid. Relations with the consultants were generally good and few expressed active dissatisfaction.

4.2 Operational Mechanisms

4.2.1 *Management Information System*

Review of Problem Areas

4.2.1.1 The CU is currently operating without a full set of accounting records. The only accounting record maintained is the cashbook. An analysis of the cashbook reveals that basic data, such as repayments of loans principal and interest, is not adequately and consistently recorded. Adequate management information systems needed for the day to day monitoring of the microenterprise financing programme are not in place.

4.2.1.2 The accounting system operating within SDF is basic and incomplete. It only caters for recording disbursements of loans directly to clients and records of some repayments by clients. SDF receives some repayments directly but for clients outside Harare, the repayments are deposited in a bank account.

4.2.1.3 The bank deposit system has not operated efficiently as SDF does not conduct a bank reconciliation regularly. There are no bank reconciliation statements on a month to month basis, the last one having been prepared in April 1994. This deficiency also complicates the writing up of the cashbook.

4.2.1.4 The cashbook does not separate details of grants and loans. Details of these two separate operating units are recorded together. The true record of the financial position of the programme cannot be ascertained. There are no monthly tallies on all the columns and the figures are not carried forward to the next page.

4.2.1.5 The last official financial statement was prepared as of June 1994. The requirement in the ADB design that an independent annual audit be carried out by a private firm and submitted to the ADB within six months does not appear ever to have been carried out. Nor has the 'separate audit of disbursements against statements of expenditures'. Apart from a couple of summary tables, no quarterly or annual reports have been submitted to the Advisory Board and forwarded to the ADB as specified in the ADB design.

4.2.1.6 The functions of the staff in the accounts department are quite rudimentary. The basic functions include cashbook receipting, writing of all SDF cheques, filing of clients records, recording of clients ledger cards, and maintaining client files.

4.2.1.7 The structure at SDF is not well suited to manage a diverse portfolio for microenterprise clients, who are commonly beset by operational problems. Each loan is assigned to a CU project officer for supervision. But there is no client tracking system in place, hence arrears can go undetected for a very long time. There is no clear method of recording arrears and no scheduling of work to manage client accounts. The 'computerised management information and accounting system' prescribed in the ADB design was only in early 1996 reaching the planning stage.

4.2.1.8 Individual client files are kept on all approved loans. The file contains all relevant information on the project, including the project proposal, correspondence, a transaction record sheet with details of the disbursement of the loan and any repayments, and in a minority of cases a repayment schedule. This system facilitates easy access to all relevant information on a project. The files are shelved in alphabetical name order under the eight economic sectors used to categorise all projects. Most files appeared to be kept in reasonable order. The filing room acts as the service point for visiting clients and the shelving system allows quick retrieval of relevant client information.

4.2.1.9 The storage of project applications was less satisfactory. Both clients and consultants have complained on occasion that the CU mislaid their submissions, leading to a processing delay or the need to resubmit.

4.2.2 *Lending and Recovery Systems*

Review of Problem Areas

4.2.2.1 The SDA programme document introduced a crucial ambiguity as to who could submit proposals and how loans were to be disbursed. The original intention seems to have been to admit only proposals from institutions:

> For the efficient utilisation of resources, funds under the ETP will not be made available to individuals as loans or grants. The fund will be given to financial and other development institutions which in turn deal with individuals, groups and associations.

The CU project processing procedure, on the other hand, provided explicitly for individuals to submit their own projects directly, which was in line with the ADB design but also disbursed direct to individuals, which that design had explicitly excluded. This uncertainty between a wholesaling and retailing strategy was to become a critical factor affecting the performance of the SDF credit scheme.

4.2.2.2 After early experience during 1993 with the submission of a number of poor quality project proposals, support to applicants was extended to assist them with preparing their proposals. Following the basic business course, the retrenchee was encouraged to collect information for preparing a business project proposal and to submit it to be considered for a loan. The proposals had to be submitted through a consultancy organisation, often the one which trained the applicant, which assisted in finalising the brief. Thus the initial appraisal of a project was done by a consultancy organisation which then submitted it to the CU. The Unit processed the application, referred it to an approved agency for technical appraisal in cases of doubt and then submitted it for consideration by the LOGAC. Once approved, the consultant received a 3 per cent share of the loan, raised to 5 per cent in mid-1994 after negotiations with the consultants.

4.2.2.3 In practice the 45-day deadline for a project decision was unrealistic and hardly ever achieved. The mean gap between project submission and approval nevertheless remained within tolerable limits during the first phase, averaging 3-4 months up to September 1994. Thereafter, however, the gap widened steadily and by late 1995 was averaging more than 14 months. In effect, the mean date of submission stalled in the final quarter of 1994 for projects approved through 1995 and early 1996 as LOGAC, overwhelmed by the flood of new applications, gave priority to the backlog of earlier applications. Very few applications submitted after January 1995 have as yet been presented to LOGAC.

4.2.2.4 This has not been the only delay experienced by applicants, who before submission had to register their redundancy status at DEED offices, complete a training course and prepare a project proposal. The average gap between retrenchment and project submission rose from around 6-8 months between mid-1993 and early 1994 to 10 months by late 1994 and 12 months by late 1995. In other words, the mean waiting period between redundancy and project approval widened from 6-7 months at the start of the loan scheme to 12 months by early 1994 to 18 months by early 1995 and 25 months by early 1996. Only 12 successful applicants were made redundant after December 1994 and 1536, or nearly three-quarters, were made redundant in 1993 or earlier.

4.2.2.5 By contrast, the gap between approval and disbursement has generally been minimal. A random check on the project files indicated that most borrowers signed agreements and began to draw down their loans within weeks of approval. One facilitating factor has been a simple standard form of loan agreement; another was that cheques could be issued in a one-stop payment procedure at the SDF's service office in the Ministry.

4.2.2.6 The ADB design stressed that loans should not be disbursed in a single payment and a check on the project ledger cards indicates that this stipulation was adhered to, the CU issuing cheques against the borrowers' selection from competitive quotations in respect of each item of equipment to be purchased. However, the ADB guidelines linking disbursement to implementation were never put into practice: that an implementation schedule and linked disbursement timetable be drawn up for each project prior to the signing of the contract; and that progress be evaluated at each stage as a condition of further disbursement.

4.2.2.7 The design of a single structure to undertake two distinct sub-programmes may have been initially convenient, but the practical requirements of meet the overwhelming demands soon became too heavy. Soon the flood of project applications was bound to overwhelm the skeleton staff at the SDF CU. The skeletal structure by way of limited staffing and resources could not cope with the escalating application backlogs.

4.2.2.8 It was initially envisaged that a number of activities would be sub-contracted to external institutions, including the training of retrenchees and appraisal of their projects. Also envisaged was an outreach extension and recovery service, although who was to undertake it was not clearly specified. In the implementation of this ETP programme, only training and project appraisal were sub-contracted and the outreach and extension functions were never put in place.

4.2.2.9 There are no systems in place to monitor and manage loan recovery. The recovery problems stem from poor accounting and record-keeping systems and the absence of an efficient repayments collection system. As of mid-1995, even basic procedures such as invoicing clients for repayments due were missing. It emerged that one of the main bottlenecks was the need to calculate a complicated table of principal, arrears and interest due in each case before invoicing. In September 1995 a simplified straight-line method of calculation was substituted which allowed a single repayment amount to be generated for each client and arrears to be quickly assessed.

4.2.2.10 Temporary staff were subsequently hired to send out invoices: checks on a sample of project files found invoice copies in most, issued in two main rounds in November 1995 and January 1996. However, stopgap measures cannot substitute for a properly established accounting and repayments system. In April 1996 the long planned appointment of a qualified account was said to be imminent, following which the entire accounting system would be computerised. Reliance on an incomplete manual accounting procedure and the absence of automated billing for a portfolio of some 2000 clients in conditions of repeated staff shortage has been a major bottleneck in mobilising an effective repayments system.

4.2.2.11 Some of the borrowers confirmed in the field survey that in the absence of repayment schedules, they did not know how much their monthly repayments were.

4.2.2.12 Although the need for project monitoring was envisaged at the inception of the programme, staffing and the necessary equipment were not provided at the start of the programme. The Advisory Board proposed that DEED offices should undertake the monitoring and vehicles have been bought for this purpose. But the lack of operational funds has so far kept the new service grounded. The DEED personnel, for whom this extra duty is added to their regular workload, may also have neither the time or the requisite technical and business analytical skills to supervise and monitor the microenterprises authoritatively. During the second half of 1995 the CU conducted regional seminars for them and it was planned that after computerisation of the SDF accounts, the CU would prepare itineraries for monitoring rounds and pay for them on a commission basis out of SDF funds.

4.2.2.13 The Advisory Board has not been unaware of the serious default rate on repayment of loans. At its May 1994 meeting It resolved that there should be instituted:

- A repayment system;
- Machinery for monitoring repayments;
- A legal framework to enforce repayments.

4.2.2.14 An appropriate legal status for the SDF to enable it to enforce repayments has long been under review without a definite outcome. The Attorney General's Office advised the SDF to reserve ownership of the property bought by SDF. The Advisory Board was advised to consider incorporation as a corporate body so as to have the legal powers to repossess property. No formal steps have yet been taken towards incorporation.

4.2.2.15 The standard loan agreements that all SDF borrowers sign include a space for collateral. However, the details on a sample of files checked were sometimes brief and scanty and would be difficult to follow up from an enforcement standpoint. In some cases the assets to be purchased were to serve as security, in particular vehicles. In others, the applicant's house was named. The forms also required the applicant's next of kin to sign as guarantors and in nearly all cases signatures were in place. In theory, therefore, the SDF had formal legal safeguards against default.

4.2.2.16 In mid 1995 the SDF sought permission to engage attorneys to recover the repayments. But only 17 files had been handed over by September 1995 to the lawyers for their action. This exercise is bound to be costly and contrasts with the growing use of debt collection agencies by parastatals such as SEDCO. It will in any case not bear fruit unless a properly constituted system of monitoring repayments is implemented. A sound arrears control cannot be developed in isolation to the lending system.

4.2.3 *Risk Management Procedures*

Review of Problem Areas

4.2.3.1 The large loan size and lack of further financial inducements increased the risk of default:

- Successful microcredit institutions have tended to find that first time borrowers should initially be trusted with small loans and only after they have built up a repayments record should they be offered bigger loans.

- The possibility of obtaining additional finance at a later stage also acts as an inducement to repay on the initial loan.

These factors have an influence in building good credit management practices amongst first-time borrowers. The SDF operation, on the other hand, was designed to disburse the entire amount as quickly as possible and avoid any continuing relationship with the clients except to enforce repayment.

4.2.3.2 The level of risk associated with the loan portfolio as a whole is in large measure dependent on the viability of the projects approved for funding and therefore on effective prior appraisal. However, the CU's loan appraisal functions were limited to checking that the project application was consistent with the basic policy guidelines, mainly that the applicant qualified as a retrenchee. Otherwise, the project officers' function was limited to ensuring consistency of presentation and information and then transcribing information from the project document to a simple LOGAC discussion form.

4.2.3.3 Project appraisals were entirely delegated out to the consultants. Yet the same consultants played a major role in generating project proposals, commonly both training and assisting the clients with their proposals and finally motivating them at meetings of LOGAC. The consultants were then paid a percentage of the value of the loan on each project approved. Two potential conflicts of interest arose:

- The more projects they got approved, the more the consultants earned in fees, since their formal responsibilities ended with the approval.

- Likewise, the higher the loan amount, the higher the fee.

Thus to turn down at the appraisal stage proposals they themselves helped to formulate would result in losing income.

4.2.3.4 In practice, as the CU project officers gained experience they were able to apply a limited degree of regulation by applying consistency checks and validating data. The quality of some of the proposals was not always of a high order and at least one consultant was caught batch processing more or less identical proposals. A preliminary filter was also put in place by allowing consultants to submit abstracts of projects they considered doubtful for prior consideration by the CU before proceeding to appraisal. This procedure reduced the risk for consultants and helped weed out poorly prepared projects at the first stage.

4.2.3.5 Yet project officers had limited capacity to perform validations, being restricted mainly to telephone checks with central, provincial and district government offices. All outside calls, even within Harare, had to receive prior authorisation. Client interviews and site checking were generally not feasible, especially outside Harare, although the assistance of DEED offices could on occasion be invoked. Even where projects were deemed unacceptable, the result was commonly not rejection but referred back for resubmission.

4.2.3.6 As a result of this division of responsibilities, communication between consultants and CU project officers has been minimal. Training and startup process positions consultants close to applicants and they could provide a regular and useful flow of information on problems arising and procedural difficulties encountered

4.2.3.7 Once submitted, LOGAC approved almost all the applications it considered; although a minority were deferred for further information or clarification, they were mostly approved in the end. According to the project records maintained by the Monitoring and Implementation Unit (MIU) of the Ministry of Finance up to January 1995 only 66 projects submitted to LOGAC had actually been rejected while another 122 were at that time deferred, rates of 4.7 per cent and 8.6 per cent respectively. In the CU database only two projects out of 1976 were listed as rejected. A CU memorandum in June 1996 stated that 186 projects had been rejected by LOGAC out of 1,547 considered to date, a rate of 12 per cent.

4.2.3.8 The pace of project approvals was regulated more by institutional capacity but from mid-1995 availability of funds became the decisive factor. The project processing capacity increased over time. The original ADB guideline that LOGAC should meet only once a month was never realistic. In the last half of 1993 LOGAC was meeting on average once a fortnight and approving 11 projects at a sitting. By the third quarter of 1994 it was meeting more or less weekly and approving about 23 projects a session; by the third quarter of 1995 it was approving 27 projects a session. By 1995, however, processing capacity was running up against budget ceilings. In effect, LOGAC would continue processing until funds ran out, then suspended sittings.

4.2.3.9 The SDF credit programme is thus demand driven. The implicit assumption is that there is money for retrenchees and all those who apply should get it. A very high proportion of loan applications recommended for approval by LOGAC obtain approval unless they do not meet the policy guideline on being retrenchees. Appraisal is delegated to consultants who take no risk. The SDF, which bears all the risk, is protected only by limited internal consistency checking.

4.2.3.10 This outcome has given the credit programme a strong welfare character: retrenchees are entitled to loans and receive them so long as they can present a plausible project. The placement of the CU in the principal welfare ministry and the combination of the credit scheme with a large safety nets programme in the same administrative unit has strongly reinforced the welfare ethos.

4.2.4 *Incentives for Service Delivery*

Review of Problem Areas

4.2.4.1 Staff motivation and quality of work is of some significance to the success of the SDF programme. It is apparent from previous evaluation reports and surveys and from the programme outputs achieved under both the SWP and the ETP that CU staff at head office and DSW frontline officers have commonly shouldered heavy additional workloads, often in conditions of staff shortage and scarcity of resources. Their achievements under difficult circumstances are commendable.

4.2.4.2 The issue of motivation and performance does not end there, however. Civil service salaries have fallen steeply under ESAP, by 1994 averaging only 58 per cent of their 1990 value. Performance criteria have been introduced into civil service contracts but apply to periodic general appraisals rather than specific outputs. There is no incentive system directly related to SDF loan results, of particular importance for case officers. Indeed, good performance has generally been accompanied by depreciating real income. Nor is there a career path specifically connected to the loan scheme. The lack of an incentive and career structure affects not only staff productivity but also the setting of task priorities.

4.2.4.3 The location of the CU inside a large welfare ministry has also largely hindered the building of a corporate culture amongst staff.

4.2.4.4 The CU has also faced resource constraints arising from the fact that its staff salaries and operational costs are merged in the parent ministry's budget and do not have a separate budget line. The administrative expenses of the CU are part of the ministry accounts, subjecting it to cost constraints outside its control, arising at short notice and with unpredictable timing.

4.2.4.5 The effectiveness of contracting out the preparation and appraisal of project proposal was compromised by the method of payment for the consultants' services:

- The first stage had a built-in incentive: if the applicant failed to submit a proposal, the consultant would not be paid. The opportunity to submit an abstract for prior CU endorsement reduced the risk for the consultants, but if the project was subsequently rejected by LOGAC they received only a flat fee of Z$500 rather than the full percentage.

- The second and critical stage had only weak incentives, since so long as the proposal was plausibly formulated and their clients passed the eligibility test, approval by LOGAC, though not quite automatic, was highly probable. Generally, poorly prepared proposals were referred back rather than rejected outright, so there was usually a second chance. The only condition on payment of the percentage fee was project approval at a LOGAC meeting to which the consultants would be called to motivate their projects. The SDF projects pipeline was thus a virtually guaranteed risk-free source of income for the consultants.

4.2.4.6 A comparative study in 1995 on the effectiveness of one of the consultant organisations revealed that while the project proposals it submitted to LOGAC had a 100 per cent approval rate, projects it presented to commercial banks had a zero approval rate. The difference outcomes are entirely attributable to the fact that the consultants effectively appraised their own projects and that their clients prequalified for acceptance by virtue of their status.

4.2.4.7 A crucial missing link between the quality of project preparation and later loan performance was the separation of the consultants from any responsibility for outcomes. Indeed a disincentive operated since the consultants were not paid for any aftercare support they voluntarily afforded to projects they had earlier assisted. At meetings in October 1993 and May1994 the Advisory Board approved a policy of sharing the risk of default between the SDF and consultants by placing a contractual requirement on the consultants to follow up the project until it started to repay the loan at the end of the grace period. If the project failed due to project design the risk would then be shared. However, this policy has not yet been implemented.

4.2.5 *Cost-effectiveness of Service Delivery*

Findings

4.2.5.1 The CU appointed a number of private sector consultants to provide five-day training courses for the retrenchees for a fixed fee. This service was not directly related to the credit scheme in the sense that it was open to all retrenchees and not only those intending to apply for loans, although part of its purpose was to encourage them to do so.

4.2.5.2 The standard training contract between the SDF and the consultants offered Z$1,500 per day for training a group of 25-30 over five days. The unit fee was thus Z$7,500 in total and Z$250-300 per trainee. The SDF paid for catering and transport. Cumulative expenditure to April 1995 was recorded as Z$2.9 million for training and Z$2.5 million for catering.

4.2.5.3 The same consultants were commissioned to prepare, at the initiation of the applicant, a project proposal to be submitted to LOGAC through the CU. At the outset the consultant was paid at a fixed rate of 3 per cent of the approved loan amount. In May 1994 it was raised to 5 per cent at the same time that the guideline loan threshold was raised, after negotiations with the consultants who were looking for 7.5 per cent. This fee related solely to assistance with the preparation of the project proposal and its appraisal. At 3 per cent on the guideline amount of Z$80,000 the fee would have been worth Z$2,400, rising to Z$6,000 at 5 per cent on Z$120,000.

4.2.5.4 The fact that the SDF programmes are integrated in a common account and that a number of costs are hidden elsewhere in departmental accounts makes it impossible to construct a complete loan account. Nevertheless the fragmentary data available allow several cost elements to be tentatively estimated, using the ratio to loans approved as the most suitable indicator. As at April 1995, just before the stop-start disruptions, the cost of catering was equivalent to 2.4 per cent of loans approved, the cost of training was 2.8 per cent and the cost of appraisals was 4.5 per cent, in all 9.75 per cent.

4.2.5.5 Other incidental costs attributable to the SDF are small. They include items such as expenses for members attending Advisory Board meetings.

4.2.5.6 The costs of actually administering the credit scheme are not included in the above assessment. They arise mainly from the operations of the CU and the incidental contributions of the provincial DEED offices. Data are not available for most administrative costs but a summary of the CU's salary costs was attached to the FY 1993/94 SDF income and expenditure statement. For a staff complement of nine including the coordinator, the annual total was Z$302,607, equivalent to 1.1 per cent of loans actually disbursed during that year.

4.2.5.7 During 1995 expenditure on PAAP, principally the national poverty survey, entered as a new budget item. Although the results of the survey may have a large bearing on any redesign of the SDF credit scheme, its costs and other associated with PAAP are considered here to be more closely linked to the safety nets than the credit programme.

4.2.5.8 No other non-financial services have been provided under SDF auspices to date.

Review of Problem Areas

4.2.5.9 Although retrenchees could access the training without committing themselves to submitting a project, the fact that it was compulsory for loan applicants and that most did proceed to submit applications makes it appropriate to attribute all the training costs to the credit scheme. The failure to synchronise the pace of training with loan processing therefore resulted in much higher unit training costs than necessary.

4.2.5.10 The training of retrenchees seems to have been treated as demand-led, a service to which retrenchees were entitled as soon as possible after registration. As such, it had the benign effect that for the large numbers on the loan application waiting list, the skills gained could in the meantime be put to other income-generating uses. However, as a charge on the credit scheme it made little sense to allow the numbers trained to run ahead to nine times and the number of loan applications to six times the number of loans approved by mid-1995. From this standpoint the suspension of training in August 1995 was a sensible cost-cutting measure since at the prevailing rate of loan processing the backlog of trained applicants would suffice for several years to come.

4.2.5.11 The SDF was protected from the costs of appraisal of waiting applications since payment was conditional upon approval. However, the lengthening delays have imposed an unfair charge on the consultants, who had already completed their client assistance and appraisal work prior to submission. By 1995 they could expect to have to wait for years before payment. On the Z$803 million value of projects on the waiting list in mid-1995, the SDF would have owed them Z$40 million in appraisal fees.

4.2.5.12 In general, the contracting out system, which was part of the original ADB design, seems to have worked fairly well on cost as well as quality criteria. A per capita training cost of Z$250-300 was low for the professional services it purchased. The much higher cost of project preparation and appraisal was nevertheless a necessary charge for professional facilitation which supplied a vital service to clients having little if any business experience and venturing into the high-risk domain of new business startups. It succeeded in injecting commercial skills into a public sector scheme at acceptable and manageable cost.

4.2.5.13 The overhead of roughly 10 per cent attributable to the loan scheme, although not covering hidden administrative costs, left around 90 per cent of grant resources, not counting interest and repayments, for disbursement. Thus a high proportion of SDF grant funds has gone direct to clients.

4.2.5.14 There is a clear need for full and transparent accounting of the SDF credit scheme. The integration of its accounts with other programmes and the invisibility of administrative costs in departmental accounts makes it impossible to exercise proper financial management of the credit scheme.

4.3 Organisational Structures and Functions

4.3.1 *Scope of Financial and Non-financial Services*

Findings

4.3.1.1 The SDF has functioned as a simple disbursement vehicle for grant funds donated by the Government and the ADB. It has not contemplated offering depositor facilities or any other financial services.

4.3.1.2 The SDF has provided two main non-financial services:

- The introductory business training course, open to all retrenchees and unemployed disabled on demand;
- Assistance to applicants in preparing their project proposals.

It has offered no aftercare or other extension services.

Review of Problem Areas

4.3.1.3 The SDF credit scheme has had the virtue of simplicity: clients, administrators and policy-makers alike have had no difficulty in understanding its targeting and lending strategy. Such clarity of purpose was important in getting the scheme off the ground and well known amongst its intended clients.

4.3.1.4 The scheme's limitations of scope have nevertheless been a source of difficulty for its clients, in particular:

- The lack of access to working capital;
- The ban on co-financing;
- The exclusion under most circumstances of top-up or follow-on lending, or of assistance with obtaining additional finance from other sources;
- The complete absence of any extension services.

4.3.1.5 The implementation of the scheme has also suffered from several key inconsistencies and ambiguities:

- The open access to the introductory training course induced an expectation of open access to loans as well, which the high rate of approvals encouraged. The de facto rationing of access by the pace of loan processing and later by lack of funds contributed to the scheme's poor public image and obscured the additional value of the training course as an orientation towards self-employment and small business promotion.

- Clients had reasonable expectations that some sort of aftercare service would be accessible. The complete failure to provide one significantly worsened the scheme's reputation amongst clients and increased the risk of project failure.

- The lack of supervision and monitoring contributed to an expectation that loan recovery was not seriously intended and thus to a very low rate of repayment.

4.3.2 *Structure and Capacity*

Findings

4.3.2.1 The implementation of the SDF was delegated to existing sections of central government in line with the general ESAP prescription to avoid creating new state structures. Initially, oversight of the SDF loan scheme was located in the Ministry of Finance but was transferred in March 1995 to MPSLSW.

4.3.2.2 The institutional structures of the SDF are as follows:

- The SDF Advisory Board;

- The Loans and Grants Allocation Committee (LOGAC);

- The SDF Coordination Unit (CU).

4.3.2.3 The policy formulation and implementation of the ETP is the responsibility of the SDF Advisory Board. The Board is chaired by the Secretary of MPSLSW and its membership consists largely of civil servants from different ministries, together with delegates from designated organisations, mainly representative associations (see Annex 1).

4.3.2.4 The Advisory Board operates as a national SDA steering committee or working group. It meets quarterly to review the general progress of the implementation of SDA activities. It is responsible for the overall monitoring and implementation of SDA initiatives. In sum, the Advisory Board advises the Secretary of MPSLSW on issues of policy affecting the application of the Fund.

4.3.2.5 The Advisory Board's main functions are as follows:

- Establishing policy guidelines for the operating and managing SDF.

- Setting priorities for the allocation of SDF resources.

- Determining criteria for allocating loans and grants.

- Reviewing and approving guidelines for the identification of target groups and procedures for project appraisal, procurement, disbursement, audit and accounting.

- Creating specialised or technical committees and determining their composition and terms of reference.

- Reviewing progress reports and plans of action.

- Supporting beneficiary assessment activity.

4.3.2.6 The Loans and Grants Allocation Committee (LOGAC) is appointed by the Secretary of MPSLSW. Its membership is drawn from MPSLSW and the Ministries of Finance, of Lands, Agriculture and Water Development and of Mines. In addition, a member is also drawn from the National Economic Planning Commission and any other member co-opted by the Committee's Chairperson. LOGAC is the SDA Advisory Board's committee with responsibility for project and financial approvals. LOGAC in its review and approval of projects/programmes is mandated to give priority to income and employment generating activities, skills development, training and institutional strengthening as well as social welfare measures.

4.3.2.7 It is LOGAC's responsibility to advise the SDA Advisory Board regularly on such issues as the distribution of SDF resources between the major programmes, the financial conditions governing SDF resources, eligibility criteria, and the monitoring of the utilisation of loans and grants. LOGAC is responsible for identifying beneficiary target groups for SDF funding, for ensuring that projects funded by the SDF are consistent with the SDF objectives of broad outreach, and for allocating funds to approved projects.

4.3.2.8 More specifically, the functions of LOGAC have been spelt out as determining:

- The amount of resources to be allocated as loan funding for employment generating projects, and to apportion thereafter such resources to specific programmes and to determine the terms and conditions of such loans.

- The financial resources that will be made available as grants, their allocation between different eligible institutions and the conditions and requirements governing the grants.

- The institutions that should be eligible for loans and grants.

4.3.2.9 The SDF Coordination Unit (CU) is the organ responsible for the day-to-day coordination and implementation of the Social Development Fund, as defined by the Advisory Board. It operates as an integral unit of MPSLSW and has four key functions: project appraisal, project monitoring and evaluation, outreach and extension, and administration, including financial aspects. The CU is therefore the central administrative component of SDF as it interacts with the Advisory Board, LOGAC and client beneficiaries of the Fund. Its administrative capacity is a major factor in determining policy outcomes.

Review of Problem Areas

4.3.2.10 The related issues of institutional autonomy and distinct legal status are central to the effective functioning of the SDF's credit operation:

- The CU has operated from the outset under the wing of its parent ministry, functioning with officers seconded from the ministry and strengthened periodically with temporary staff for specific purposes. It lacks effective autonomy of any kind. Financially, its administrative costs fall under the ministry budget. It has no independent powers to hire staff directly, set their conditions of service, procure equipment and supplies, or run its field operations.

- It also has no legal standing to act on its own behalf in enforcing contracts and recovering loans. These are basic attributes of any lending institution and the lack of them seriously limits the effectiveness of the SDF and its credibility with clients.

4.3.2.11 Apart from the switching of line responsibility from the Ministry of Finance to MPSLSW, the draft revised constitution of the SDF (see Annex 1) does not directly address the issue of autonomy or legal status. It would retain the SDF as a special fund administered by the Permanent Secretary as accounting officer. It is understood that greater autonomy may be envisaged after the pattern of the District Development Fund. While such a framework may be suitable for the disbursement of grant funds, it would not satisfy the essential requirements of a credit agency aiming to operate on a revolving fund basis.

4.3.2.12 Staff shortages have hampered the CU from the outset. There was a disjuncture between the needs of the ETP and the staffing capacity to run a large programme geared to quick disbursement. The recruitment of staff was delayed considerably. This meant that the functions of the CU were only slowly implemented, and generally the size of staff was incommensurate with the demands placed upon the Unit. It was not until March 1993 in the third year of ESAP that a SDF Coordinator was appointed and not until July 1995 in the fifth year of ESAP that project monitoring staff were appointed.

4.3.2.13 The fact that the administrative bottleneck was a major problem for the ETP was known to the government at an early stage. In 1993 the government acknowledged that the complement of professional staff in CU was inadequate. Thus it was remarked that 'the experiences to date with the implementation of SDA programmes strongly points to a lack of capacity in the institutions that have had the responsibility for delivering these programmes'[27]. However, the restrictions of public service procedures and the counter-pressures during a period of public sector redundancies under ESAP made a timely response difficult to achieve in practice. The ETP, like its social welfare counterpart, required increased, not reduced, administrative capacity to implement and thus ran counter to the general thrust of ESAP to scale back the size of the civil service. The integration of the CU into the ministerial structures thus imposed an inflexibility which seriously jeopardised the principal SDA programmes from their inception:

4.3.2.14 The Project Analysis Section, which processes the in-coming project proposals, lacked the necessary complement of staff until mid-1995. The processing of the approximately 300 projects submitted each month has therefore been painfully slow. Up to mid-1995 only two project officers were in post, although another two were appointed in July as Senior Project Analysts. It is likely, however, that the inflow of new projects will slow steadily if eligibility continues to be restricted to retrenchees.

4.3.2.15 The ETP has concentrated on allocating resources to applicants. It has not put in place a proper monitoring system of financed projects, neither has it developed an extension programme, which is crucial for the success of credit programmes of this nature.

4.3.2.16 Monitoring capacity was completely lacking in the CU until as late as mid-1995. The Monitoring and Recovery Section started operating only in August 1995 with a Senior Project Analyst and a Project Officer; a second post for a project officer was still vacant in late 1995. The

27. MPSLSW, *Poverty Alleviation Action Plan*, 1993; Zimbabwe Government, *PAAP: the Implementation Strategies*, 1994; MPSLSW, *Implementation of PAAP*, 1994.

functions of this section involve monitoring, reporting on the activities, developing a database on all funded projects as well as liaising with DEED on the performance of projects. It also assists in the collection of repayments from clients. The day to day activities of the section involve preparation of data input forms, which contain summary details of the approved project; and visiting clients as a follow-up to assess the performance of the project. But in most cases visits are only undertaken to assess those clients requiring additional funding.

4.3.2.17 This section is expected to cover the entire country from its Harare base. It can call on the assistance of DEED but <u>the staff of the provincial offices of DEED have neither the time nor the expertise for effective project monitoring and do not have extension or outreach services</u>. Nor do they have the necessary operational budget for the extensive travelling required. The vehicles with which they were provided from donor funds have seen little service on SDF business.

The lack of monitoring capacity is a critical factor in the failure to establish the credit scheme as a revolving fund. The first monitoring field to be undertaken by the CU managed to follow up only 36 projects spread over three provinces in 10 days, 7 of which were not at the stated address. They formed less than 3 per cent of all projects then approved. The great majority of clients have never received a visit from the CU.

4.3.2.18 The pilot surveys and other client consultations have all highlighted <u>the SDF beneficiaries' identification of the lack of a follow-up extension service as a key problem</u> in addressing their teething problems.

4.3.2.19 The third component of the CU, the <u>Accounts and Administration Section</u>, remains greatly understaffed, which has seriously impeded accounting and record keeping. In mid-1995 the accounts section had no executive officers at all, having lost the two previously in post, and only one permanent clerk. There were three temporary clerks and a temporary accountant on secondment from the Ministry of Finance to help prepare accounts for FY 1993/94. Three additional clerks were hired to start in July and the number of temporary clerks was raised to five, but the lack of officers at executive level remained a critical weakness. The section also lacked a qualified accountant. One example of the consequences arising was that some project files were missing key documents such as repayment schedules[28].

4.3.2.20 Although there is general awareness that the ETP requires additional staff to be implemented effectively, current budgetary pressures impinging on the Government make it uncertain whether the necessary staff will be hired, or replaced when vacancies arise.

4.3.3 <u>*External Linkages in Programme Implementation*</u>

Findings

4.3.3.1 The SDF has functional linkages with other ministries, in particular Finance, Agriculture, Energy and Water Resources, and Industry and Commerce. Project applications submitted on agriculture are usually vetted by the Ministry of Agriculture to assess their viability. Similar referrals for technical assessment are made in doubtful cases, for instance to SEDCO.

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28. ADB, *Supervision Report*, July 1995, p.5.

4.3.3.2 Under its original constitution responsibility for the SDF was divided between the Ministry of Finance, whose MIU chaired LOGAC, and MPSLSW, whose Permanent Secretary chaired the Advisory Board but which had no other representation on the Board. The formal accounting responsibility resided with the Ministry of Finance. This responsibility was transferred in early 1995 to MPSLSW and with it the chairing of LOGAC. The SDF Coordinator chaired the Advisory Board from January 1995.

4.3.3.3 There are no direct linkages and no procedural relationships with NGOs or private sector organisations.

4.3.3.4 Representation on the two decision-making organs of the SDF is heavily dominated by ministries. Five non-governmental umbrella bodies are represented *ex officio* on the SDF's Advisory Board, of which only one seat is for NGOs. Under the old constitution the Board had at least nine ministry officials; under the new constitution that number has been fixed at 14. LOGAC has no *ex officio* non-ministry members. Both committees may, however, coopt additional members at their discretion.

4.3.3.5 Relationships with donor agencies, especially such international institutions as the UNDP, ILO and UNICEF, have been reasonably strong. Both technical and material support have been extended to the unit in the form of office equipment, vehicles and the recruitment of additional staff to cope with the pressure on demand for services from the Department of Social Welfare. Dialogue with these institutions amongst others was useful in the drawing up of the Poverty Alleviation Action Plan (PAAP).

Review of Problem Areas

4.3.3.6 The division of responsibility between the Ministry of Finance and MPSLSW set up <u>a dual mandate which was satisfactory to neither ministry</u>. The transfer of accounting responsibility to the MPSLSW returned to the original plan as reflected in the *Appraisal Report*. The lack of effective cooperation between the MIU and the CU was shown, for example, in the fact that the projects database was handed over only on paper, requiring the CU to key in all the data from scratch.

4.3.3.7 There was from the outset a large majority of ministry officials in the two SDF committees, <u>a very limited NGO participation</u> and in particular <u>an almost complete absence of the private sector</u>:

- On the Advisory Board, NGOs were restricted to two umbrella bodies, the National Association of NGOs (NANGO) and the National Council of Disabled People (NCDP). The contribution of the latter is evident at a number of points in the Board's deliberations and is a measure of the quality of input that other NGOs might have made. Yet frontline NGOs were entirely absent. In particular, not one of the leading NGOs running microcredit schemes was invited to join. The Board was thus deprived of input from organisations with direct microfinance experience. This weakness is also evident in the original ADB design.

- A similar absence of financial institutions is also very apparent. Private sector representation was left to the IBDC. Other mainstream business associations were not included and nor were the commercial banks, despite the inclusion int he ADB design of representatives of both employers and financial institutions.

- While several ministries with tenuous connections to small business development had seats, parastatals actually running small business services, such as SEDCO and the AFC, were not directly represented, although in the ADB design the Ministry of Industry and Commerce's nominee was assigned to SEDCO.

- Membership was overwhelmingly from central offices and Harare-based. Participation from other regions was more or less coincidental.

4.3.3.8 Membership of LOGAC was confined to ministry officials. There was no external input of professional financial or business expertise into its proceedings except in an ad hoc manner through the participation of consultants motivating their projects. This heavy predominance of central government administrators was against the spirit of both the original SDA programme and PAAP, which placed strong emphasis on NGO participation and decentralisation of initiative. Such participation was also emphasised in the ADB design, which misguidedly proposed to constitute LOGAC exclusively with senior officials but also properly anticipated that professional institutions would actually administer the loans[29].

4.3.3.9 It must be emphasised that the above structural imbalances should not be construed as a criticism of the commitment or professionalism of the members of the two committees. It was previously noted, for instance, that the performance of LOGAC improved steadily over time in regard to the speed of project processing. Nevertheless, this was a small business development scheme whose beneficiaries would have to sink or swim entirely in the private sector and with little if any further state assistance to fall back on. The lack of business experience and financial expertise amongst their memberships was bound to have a serious impact on the setting of priorities, the decision-making and the operations of the Advisory Board and LOGAC.

4.3.3.10 Of major importance has been the relationship between the main external lender to the ETP programme, the African Development Bank. It would appear that the ADB input has been less active than originally indicated in the *Appraisal Report*. There is little evidence in the CU records of active contributions by the ADB's Resident Mission, which was charged with responsibility for ongoing supervision. The Mission was in any case closed down in early 1995. The joint mid-term review with the World Bank does not seem to have taken place and the three supervision missions were widely spaced at roughly 18 month intervals. Thus expert advice and technical input were lacking, particularly in the early stages when it would have been of most value. The beneficial outcome of such assistance was shown by the results of the most recent mission in mid-1995, whose advice assisted several administrative and procedural reforms in the months following.

4.4 Programme Performance and Sustainability

4.4.1 *Target Groups*

Performance

4.4.1.1 The ETP's outreach has been mixed. A substantial proportion of retrenchees have completed the introductory training course and a large proportion of these have prepared and submitted projects for loan finance. However, the processing of loans has not kept pace with

29. ADB, *Appraisal Report*, paras 4.3.1, 4.3.3, 4.4.3.

demand, resulting in a large backlog of applications. Nevertheless, in itself the SDF credit scheme has achieved fairly rapid progress after its slow startup: the approval of around 2,000 loans within 30 months is a substantial achievement for an entirely new lending programme.

4.4.1.2 The impact of the scheme on the disabled is difficult to assess because its extension was fairly recent. To date few projects involving the disabled have been approved and progress appears to be slow.

Sustainability

4.4.1.3 With the first ESAP now completed, much depends on the Government's future intentions in the field of economic reform. The SDF was designed to address one particular negative outcome of structural adjustment, transitional unemployment. The first round of reforms have now largely worked through the private sector and the redundancies now picked up from the private sector by the SDF will be attributable largely to the normal ups and downs of the commercial economy and to other major impacts, such as drought, changes in sectoral economic prospects or the revision of trading arrangements, particularly with South Africa. On the other hand, in the parastatal sector and especially in the civil service the pace of retrenchment was rather slower than anticipated. If further downsizing of public sector organisations is to be pursued, a new wave of redundancies may follow, albeit on a smaller scale than during 1991-94.

4.4.1.4 The large backlog of loan applications on file with the CU will now considerably overstate the state of actual demand since many applicants will now have found other jobs or means of survival. Nonetheless a sizeable pool remains with a preferential call on any new loan finance made available.

4.4.1.5 Apart from the minor extensions already made, there appears to be no current intention to expand eligibility for the credit scheme to other groups of direct beneficiaries. The proposals in the 1994 PAAP strategy and programme documents include a separate microfinance initiative aimed primarily at rural women and of a very different character.

4.4.1.6 On the other hand, there has been wide-ranging informal discussion on the possibility of establishing a wholesaling facility under the SDF, allowing it to onlend funds to frontline microfinance institutions. This approach would be distinct from the present operation serving retrenchees and would greatly extend the range of target groups. The original design of the credit scheme was in fact a hybrid mixture of retailing and wholesaling which envisaged the CU receiving and processing project proposals but contracting out the disbursement and administration of the loans themselves. The CU's present plans do not appear to envisage transferring any of its existing loan portfolio to other institutions. It can be expected therefore that the existing credit scheme and its target group will remain a distinct operation whatever other loan facilities are initiated under SDF auspices.

4.4.2 Loans

Performance

4.4.2.1 The recovery rate on the SDF loans is low. One estimate is that only 3 per cent of borrowers are repaying regularly while a rate of about 10 per cent was reported to the Advisory Board. In the field survey in September 1995 of mainly urban-based microenterprises, 20 per cent of those sampled claimed to be making repayments. Still another estimate is that at least half of the microenterprises are operational and have the potential capacity to service their loans if an efficient recovery system was instituted. The field survey confirmed that more than half of respondents were willing to make repayments although many claimed temporary cashflow problems at the time.

4.4.2.2 It is impossible to determine the actual repayment rate with any degree of accuracy on the data available. A sample check on the ledger cards in the project files revealed that:

- About 32 per cent of the clients have made one or more repayment(s).
- Not one was up to date with repayments.
- There are no details of ageing of arrears and few repayment schedules.

But as reported earlier it is probable that some repayments paid directly into the bank will not have been captured onto the transaction sheets.

4.4.2.3 One of the field surveys indicated that 62 per cent of the clients claimed to have made one or more repayments to SDF on their loans. Most clients were not currently repaying and they gave several reasons for not doing so, for example that they did not know how much to pay and where to send the money. Some indicated that their businesses were not doing well and therefore they did not generate enough resources to make the repayments.

4.4.2.4 A review of the cashbook revealed that a total of Z$88.5 million was paid out in loans between July 1994 and September 1995. Approximately Z$30 million had been disbursed between 1992 and June 1994. An arrears matrix was developed for the period between July 1994 and September 1995 in an effort to determine the repayment rate (see table 29). Interest due for collection for this period was approximately Z$6.1 million and capital repayments due approximately Z$13.7 million. The total potential cash inflow for this period should have come to about Z$19.7 million. For the period in question the CU actually recovered Z$1.6 million, which represents a repayment rate of 8 per cent[30].

4.4.2.5 A separate analysis was performed on the entire CU database of approved SDF loans, taking account of each project's grace and repayment periods and calculating the interest due. The results indicate that over the same 15 month period total repayments due, now including pre-July 1994 projects, were rather higher at Z$31.8 million and the actual repayment rate correspondingly lower at 5.0 per cent. Total repayments during this period should have been equivalent to about 36 per cent of the amount of loan approvals; instead they covered less than 2 per cent.

4.4.2.6 Over the whole period to early February 1996 repayments due were Z$52.2 million on approved loans totalling Z$172.7 million[31]. By that time some 30 per cent of the amount lent out should have been recovered. Actual recoveries probably did not exceed Z$2.5 million.

4.4.2.7 In a report on a visitation to clients in Bulawayo, Kwekwe and Gweru between 28 August and 7 September 1995, the CU monitoring unit assessed Z$446,000 in arrears from 29 visited clients. The monitoring unit found that some clients (7 out of 36) had changed addresses without

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30. The calculation did not take account of the grace period and is therefore approximate.
31. The CU database yields an aggregate some Z$20 million higher than the CU running total by the end of the period.

informing the CU. The SDF team managed to collect only 6.7 per cent of the identified arrears. The team determined that 68 per cent of the projects visited had the capacity to pay but were not doing so mainly due to lack of proper SDF systems.

4.4.2.8 The Monitoring Unit suggested that DEED offices be made aware of the location of the projects and that follow-up with clients be effected regularly through the DEED offices. It was also observed that a number of clients do not keep a proper account of their operations and the relevant records, which makes it difficult to assess the performance of the projects.

4.4.2.9 The results of the survey and general review of the SDF clients payment records show an inability to pay due to poor business performance on a number of projects. However, the majority of the projects surveyed have not bothered to make repayments mainly due to the administrative problems besetting SDF.

Sustainability

4.4.2.10 While the objectives were worthy, ad hoc visitations of the type mounted by the CU in mid-1995 hardly begin to scratch the surface of the problem of placing under effective monitoring and supervision a diverse national portfolio of some 2,000 projects. In early 1996 the CU was planning to activate field monitoring by sub-contracting the provincial offices of DEED to undertake field tours of inspection, paying out of SDF funds. Regional seminars had been held for DEED officers. This strategy is taken up again in section 6.3.1.

4.4.2.11 The hypothetical projections of future repayments of principal and interest suggest that a strong repayment rate could generate a sizeable inflow of funds for relending despite the subsidised interest rate. The amount due for repayment was Z$34.4 million in 1995. Assuming no further lending, projections indicate repayments peaking at Z$53.9 million in 1996 before declining gradually to Z$35.6 million in 1999 and tailing off rapidly thereafter. These are substantial inflows and would be capable on their own of sustaining a lending rate between a third and half the 1995 approved loan total of Z$72.9 million. The projections are, however, at current prices and take no account of the substantial gap between the fixed interest rate of 10 per cent and inflation and commercial interest rates that are likely to remain substantially higher throughout the main period of loan repayments.

4.4.2.12 All the repayments will be at the highly subsidised interest rate of 10 per cent. If commercial interest rates and inflation continue at significantly higher levels, the loan fund will inevitably depreciate steadily irrespective of whether new lending is at nearer to commercial interest rates. The high overhead costs of supervising the existing loan portfolio would further reduce the value of the portfolio by an appreciable factor. Finally, there can be little doubt that a growing minority of projects have failed or ceased to operate for various reasons and with little chance of recovering the loans.

4.4.2.13 On reduced expectations[32], the projected return from repayments of principal and interest could reach Z$25-28 million annually through 1997-1999 and total Z$125 million by the end of 2001, or around Z$35 million at constant (late 1992) prices. On this projection the eventual returns would

32. 50 per cent default, no assets recovered, average arrears of one year, 15 per cent inflation, average 3 per cent positive interest rate on deposits (see table 31).

be worth a fraction of the nominal value of the loan portfolio. They could nevertheless sustain a modest relending programme of around Z$20 million a year if well managed on a revolving fund basis at near to commercial terms. If the repayments on the existing portfolio earned interest at 3 per cent above inflation, whether from deposits or new lending, their constant price value would reach around Z$64 million at late 1992 prices by the end of 2001.

4.4.2.14 The SDF's very low recovery rate is thus threatening the survival of the programme, which could be self-financing at a reduced rate of lending if appropriate steps were taken to recover a much higher proportion of due repayments. To achieve this end an effective monitoring and recovery service is urgently needed as well as proper legal powers of enforcement.

4.4.3. *Non-financial Services*

4.4.3.1 The business training course performed fairly well as a basic introduction and orientation for inexperienced retrenchees entering self-employment for the first time. It also managed to reach large numbers within a short timespan.

4.4.3.2 Because the training was demand-led and far outpaced the processing of loan applications, it became an early casualty when funds ran out in mid-1995. Viewed strictly as a feeder service for preparing and encouraging retrenchees to take the next step towards a loan application, training courses will not be needed for some time if the priority remains to clear the large backlog of projects already submitted. Training of this type would nevertheless be essential if newly registered applicants were to begin to enter the scheme.

4.4.3.3 Viewed as a service to retrenchees in general, the training courses had some value in terms of equipping retrenchees with some basic economic survival skills. No follow-up information is available on how relevant the skills learnt have been for the great majority of trainees who did not get early access to an SDF loan.

4.4.3.4 The assistance to applicants in preparing their project proposals was similarly an essential element in the project cycle and on the whole performed well. It too has an uncertain future since consultants have not been paid for most of the work they have already done and awaiting processing by the CU.

5. THE INTEGRATION OF SDF PROGRAMMES WITH PAAP

5.1 PAAP's Objectives and Strategies

5.1.1 During 1993, mid-way through ESAP, the Zimbabwe Government drew up a Poverty Alleviation Action Plan (PAAP). The main proposals were published in October 1993 and presented to a Consultative Group meeting in Paris in December 1993. A year later, two further documents set out the plan's implementation strategy and detailed its three-year operational framework. Under this timeframe the first budgetary allocations were made in financial year 1994/95 and the activities were to run from the second half of 1994 to 1997, well beyond the period of ESAP.

5.1.2 The plan sought to build on the SDF programme launched earlier in 1991-92 as well as to incorporate it into a broader set of objectives and scope of activities. PAAP was designed as a 'consolidated implementation plan [which] represents a comprehensive view of the Government's efforts aimed at reducing poverty and unemployment'. It thus incorporated, partly because of delays in their financing and implementation, the SDA strategies and programmes already under way.

5.1.3 This combination of short and long term factors set a markedly different perspective on the social dimensions of ESAP. According to the PAAP strategy document, 'the intentions are to broaden and enhance the overall scope, coverage and intended impact of targeted social programmes, with special emphasis placed on employment creation and self reliance programmes'. It stated explicitly that for the purposes of the plan 'poverty... is both the ongoing genre experienced in Zimbabwe and structural adjustment related poverty'.

5.1.4 This radical realignment of SDA orientation was based on a critique of the social consequences of the first three years of structural adjustment. Although the original objective had aimed at 'sustaining higher medium and long term growth and reducing poverty' and although economic reforms had proceeded well,

> the greater reform objectives of poverty alleviation remain without comparable adjustment efforts and support to accomplish them. As a result, the poor and disadvantaged sections of the population have been further marginalised by market-based economic reforms, and the adverse effects of spiralling living costs, falling social service expenditures, unemployment and reduced income levels.

It was conceded that 'the poverty aspects of development' had not been 'effectively addressed under the original reform policies'.

5.1.5 In sum, the Zimbabwe Government viewed PAAP as 'based on direct approaches for achieving the fundamental investment in people for long term development, and alleviating and eliminating poverty'. The major components of the PAAP strategy were to:

- Empower beneficiaries using participatory methods of work which give recognition to beneficiaries' expertise and knowledge;
- Engage NGOs, the private sector and a broad range of civil society in partnership in the various tasks of poverty alleviation;
- Target public expenditure on those areas with potential for highest benefits for the poor;

- Decentralise decision-making in such a manner that the poor will be able to participate effectively;
- Mobilise popular support for the implementation of poverty substantive policies that move the poor from welfare into income-earning productivity;
- Place greater emphasis on social policy and monitoring of poverty alleviation programmes for sustainable human development;
- Allocate resources to facilitate the consultative process amongst partners for community involvement.

5.1.6 The 'new features' in the strategy were summarised as being:

- Targeting of social expenditures;
- Decentralisation of programme implementation;
- A participatory approach to poverty alleviation, and
- Partnership approach to address distortion in social provisions and poverty alleviation.

5.1.7 Of the four features, targeting under PAAP was simplified to focus on 'the poor and vulnerable groups only', irrespective of the short or long term origins of the poverty status. The narrower SDF targeting under the ETP had excluded most categories of the poor from eligibility for its benefits.

5.1.8 Many of the other elements in the PAAP strategy expressed as much a major change of approach as of programme content. The SDF had been conceived primarily as a top-down, centrally administered programme of temporary remedial measures. PAAP, on the other hand, stressed bottom-up approaches in project design and implementation, a participatory planning method and the empowerment of beneficiaries. Much of the revised strategy addressed the modalities of programme delivery and the means of equipping both the final beneficiaries and the intermediating institutions, including state structures as well as NGOs, to participate effectively. Beneficiaries and communities would be the source of project initiative; planning and implementation would be decentralised; executing agencies would be largely non-governmental and selected by the beneficiaries.

5.2 PAAP and Existing SDF Programmes

5.2.1 Beyond the preparatory phase and the strengthening of delivery mechanisms, PAAP was to be concentrated on four areas of activity, two of which had established SDF equivalents: an enabling environment for small and informal sector businesses; improved safety nets; sustainable livelihood initiatives; and labour-intensive public works. All had featured in the SDA programme outline but appeared in the PAAP strategy as more consistent and integrated initiatives.

5.2.2 The informal sector and micro-enterprises development programme was more broadly targeted than the ETP loan scheme. It 'aimed at supporting the self-help employment initiatives of the disadvantaged groups of the population', later defined as 'all those poor and unemployed who intend to start a viable informal or micro-business' and later still as 'retrenched workers and unemployed'. In practice, however, the main sub-programme was to remain the existing ETP loan scheme targeting 'all retrenched workers, early and voluntary retirees and disabled persons'.

5.2.3 The ETP scheme would, however, be strengthened in four major respects:

- A counselling service would be instituted for both public and private sector retrenchees;
- Starting a business would no longer be the sole option offered to retrenchees, who could now also access employment placement services for jobs in the private sector or retraining at an appropriate institution;
- An extension service, sub-contracted to private sector consultants, would be started to support borrowers' new businesses;
- The centralised coordinating and administrative structures would be replicated at the provincial level to enhance nationwide programme delivery.

5.2.4 The programme also included a number of related and new elements:

- A network of 'Business Extension Service Centres' similar to those planned for selected rural communities and located at every growth point and secondary town. The centres would provide support services for retrenchees and others through sub-contracted NGOs and commercial enterprises.
- Industrial estates and business infrastructure at growth points and secondary towns.
- A revised Youth Training Programme 'that will develop an entrepreneurship culture amongst youth through skills and business management training', covering about 3,000 a year.
- Study and action plan to promote niche tourism, targeted on retrenchees and the unemployed.
- Study to prepare a resettlement scheme for the allocation of land 'on a priority basis' to retrenchees intending to settle in rural communities.

5.2.5 In the revised ETP under PAAP, lack of clarity and inconsistencies remained:

- Client groups for the counselling, training and credit scheme were retrenchees and 'early and voluntary retirees from Civil Service'. The disabled were included in most but not all definitions and proposals to address their specific needs were absent.
- The business extension centres were to target anyone applying to or participating in a PAAP income generating project or scheme. It remained unclear whether this definition was to include retrenchees and which other income generating projects might qualify, since a separate programme was provided for rural communities and the only urban credit scheme was restricted to retrenchees. A 'micro lending scheme' was mentioned but not further elaborated.

- The relationship, if any, between the decentralisation of the SDF credit scheme and the new extension centre service was not addressed despite evident potential overlap.

- Similar overlap was apparent between the respective provincial coordinating structures.

5.2.6 The social safety nets sub-programmes amounted to a continuation of the SWP subject to review and with several modifications:

- Common eligibility criteria based on a per capita income threshold derived from the poverty assessment study;

- Decentralisation of programme delivery to the provincial level and adoption of a simplified common application form;

- Continuation of the food subsidy for urban households but a possible switch from cash handouts to subsidising hammer mills;

- Extension of the education subsidy to cover the non-fee costs of rural households;

- Revision of cost recovery in the health sector to ensure universal access with a reinforced referral system.

5.2.7 The other two major PAAP activities were to be new additions to te SDF portfolio. Under the sustainable livelihoods initiatives, a new programme, five sub-programmes were targeted on women and two on youth, in both cases qualifying by membership of 'selected disadvantaged rural communities'. How broad or narrow the selection was to be, by what criteria and by whom was not indicated.

5.2.8 The two operational arms were to be 'one stop business extension service centres' and a rural microcredit scheme, which would 'make small loans available to women and youth in rural areas - something similar to the "Grameen Bank" model'. The funding would be wholesaled through existing public, commercial and NGO channels where viable but 'if none are found to be suitable', a new microcredit facility would be instituted.

5.2.9 The labour intensive public works programme, a new initiative, was to provide grant-based funding unrelated to future income generation and aimed at short term employment creation and the building of community assets. Criteria were first to be established for selecting eligible communities, which would be entitled to a per capita grant amount with a minimum threshold to safeguard very small communities. The communities would then prepare projects and choose executing agencies. The targeting was now explicitly on 'disadvantaged rural communities' and appeared designed to pump grant funds into income-boosting social infrastructure projects. Community empowerment was to be a key factor and funds were to be disbursed directly to the implementing organisation, which would pay the suppliers of goods and services.

5.2.10 The allocation of programme resources indicated that the ETP and SWP were to continue as the principal components of PAAP but with a timespan well beyond the end of ESAP in 1995. The programme descriptions specified some modifications but on the whole envisaged a perpetuation of the two established SDF programmes in much their present operational form. The two main new programme components, microcredit facilities for women and youth and labour-intensive public works, were designed to redress the strong SDA urban bias by targeting poor rural communities.

5.2.11 All SWP and ETP activities were to be incorporated within the PAAP framework but the integration of existing and new programme components was as yet incomplete and left a number of inconsistencies to be resolved in such areas as targeting, decentralisation, service delivery and credit provision.

5.2.12 The modification of existing programmes and the launching of new activities and sub-programmes were hedged with a number of conditionalities:

- They were much more dependent on raising donor finance than the existing ETP and SWP.
- The modifications and new sub-programmes also depended in many instances on the completion of donor-funded studies and surveys yet to be started.
- Implementation would require a consultation and reprogramming exercise that was bound to take time in view of the number of agencies involved and the demands of the new commitment to partnership.

5.3 Expanded SDF Functions and Responsibilities

5.3.1 The implementation of PAAP in conformity with the new participatory approach together with the additional programme activities implied major changes to the SDF's mandate and capacities. The SDF itself was to remain the principal vehicle for delivering PAAP programmes:

> The thrust of the medium-term action plan is on establishing SDF as an effective instrument for the implementation of projects and programmes that can have a direct and tangible impact on the Government's objective to reduce poverty and unemployment.

5.3.2 However, the emphasis on government's facilitatory role meant that:

> Success in implementing PAAP initiatives to a large extent will depend upon the level of participation of private sector institutions and the NGOs... It is absolutely critical that those involved in the management place special emphasis on ensuring that effective linkages are established between public and private sector institutions and NGOs, and that maximum use is made of the services available through them rather than spending scarce resources to build capacities to deliver these services through public sector institutions.

5.3.3 PAAP's management strategy was to follow a decentralised model with the weight of responsibility devolved to broad-based PAAP district committees. Project implementation would proceed under tripartite contracts between the state, the community or beneficiary and the executing agency; and service delivery would also usually be sub-contracted from NGOs or commercial agencies. On the basis of experience to date with the implementation of SDA programmes the government nevertheless identified lack of institutional capacity as a major constraint and integrated into PAAP a number of measures to strengthen the capacity of technical units, line ministries and NGOs and CBOs.

5.3.4 The SDF itself was to act as the disbursement vehicle for all government and donor funds committed to PAAP. The CU was to:

- Deliver 'a comprehensive technical assistance programme that will meet the needs of all PAAP initiatives', funded by donors.
- 'Coordinate the technical side of the implementation and provide information and technical assistance'.
- Manage the funds and report to the national PAAP Management Committee.
- 'Sub-contract all infastructural and income-generating projects to agencies and organisations (Government, NGO or private sector institutions) and channel the funds allocated for the projects to the project accounts.
- Monitor the project execution and expenditures and produce regular progress reports to the PAAP Management Committee and the contributing parties'.
- 'Compile a data base on technical expertise available in the country as required per programme area', to be made accessible at local level to PAAP partners.

5.3.5 These responsibilities implied a major expansion of the CU's operational capacity. Compared to the simple, directly administered loan scheme for individuals under the ETP, it would now need to cover rural microcredit and community public works projects as well as lending to retrenchees; tripartite contracts; a large range of NGO and commercial partners; individual, community and CBO clients; multiple donors and technical agencies; the operations of district committees; training programmes; and diverse information service needs.

5.3.6 Although by no means fully mapped out, there are indications that the decentralised PAAP approach was to be extended to the established SDF programmes, in particular the ETP. LOGAC was to be replicated at the provincial and district levels to coordinate the delivery of the small loans scheme.

5.3.7 Despite their complexity and the extensive institutional upgrading prescribed, the timeframe for operation as a set of special programmes was firmly limited to three years, an expectation that has to be regarded as unrealistic.

5.3.8 PAAP was conceived as a non-repeating programme. 'After this period, the Ministries, other governmental agencies, private sector institutions and NGOs which have participated in the implementation of PAAP initiatives would be expected to continue to deliver these initiatives as an integral component of their normal functions'. This implied that PAAP would function as a transitional programme to establish the improved and retargeted delivery of poverty reduction initiatives as a permanent component of national development efforts.The long term funding and institutional implications of integrating a heavily donor-financed programme were not discussed.

5.4 Programme Resources

5.4.1 There are discrepancies in the PAAP budget estimates: the stated SDF total adds up to Z$520 million over the three years but the aggregate of the SWP and ETP components of PAAP is Z$715 million, which includes donor finance already committed or to be sought (see table). However the inconsistencies are resolved, the PAAP projections pointed to both increased spending on poverty alleviation programmes through the SDF and a continuation of the SDF itself well beyond the lifetime of ESAP.

5.4.2 The programme as a whole was budgeted at an estimated US$ 150 million with 44 per cent (US$66 million) of the funding to come from domestic resources. The three SWP sub-programmes were to receive 45-50 per cent of their financing from the government budget while for the ETP the domestic contribution was to be nearly two-thirds of the total requirements (see table).

5.4.3 The combined total of Z$397 million for the ETP and SWP components accounted for 75 per cent of domestic funds earmarked for PAAP. Z$67 million in domestic funds was estimated for 1994/95, rising steeply to Z$161 million in 1995/96 and to Z$168 million in 1996/97.

5.4.4 Of the two other employment-creating PAAP sub-programmes, the rural microcredit facility was to receive a one-time capitalisation of only Z$10m with a further Z$4m, Z$8m and Z$8m respectively to subsidise interest rates on non-agricultural, agricultural and handicraft microenterprises for women from 'distressed disadvantaged rural communities'. Subsidies totalling Z$4m and Z$3m were also budgeted for transport and niche rural enterprise projects targeted on youth. All the Z$37m thereby allocated to capital, interest and incentives for rural microenterprises, equivalent to 11 per cent of the retrenchee budget, was to be financed by donors. The financing was thus small and without domestic commitment.

5.4.5 Rural public works was budgeted at Z$120m over three years with donor finance sought for two-thirds of the amount. The domestic funding component was thus about a fifth of the projected commitment to the ETP.

5.4.6 The schedule of PAAP programme financing projections thus gave priority to the existing SDF programmes over its three-year timeframe:

- SWP : Z$390 million, 49 per cent domestic
- ETP : Z$325million, 64 per cent domestic
- Rural public works : Z$120 million, 40 per cent domestic
- Rural microprojects : Z$37 million, 0 per cent domestic

5.4.7 The Zimbabwe Government had indicated in its 1994 PAAP implementation documents that the extensive reliance on donor funds to finance the programme might influence its timetable, which would be adjusted flexibly in line with the resources raised. It appears that few donor commitments were in place by the end of 1995. The list of current donor commitments as of late 1994 comprised in the main a number of studies and technical assistance support plus several already agreed projects, including British support of Z$27 million to the Youth Training Programme. The only new commitments actually listed in the first progress report issued a year later were a SIDA grant of SK10 million (approx. Z$13 million) to a labour-intensive rural road construction programme and additional UNDP technical assistance.

5.5 Current Status and Future Planning

5.5.1 Prior to the launch of the main three-year action plan, a preparatory first phase, expected to last 8 months, was to establish the institutional capacity required for the SDF to fulfil the broader objectives of PAAP. The components of this first phase would be specific programmes to:

- Improve the SDF administrative and delivery mechanism;
- Widen the outreach and impact of the social safety net;
- Complete a comprehensive national poverty assessment.

5.5.2 The poverty study got under way during 1995 and the first results from the processing of the field data were expected to be produced in April 1996. However, the completed report was not expected to be ready until about September 1996, two years after the launching of the PAAP programme. Since the study was provide a foundation for the revision and tailoring of many of the sub-programmes, delay to the finalising and startup of a number of PAAP activities has been inevitable.

5.5.3 The PAAP strategy and programme documents were published in late 1994 and the financing of PAAP was taken up at the Consultative Group meeting in Paris in March 1995. The PAAP progress report issued in November 1995 indicated that donor support at the CG meeting in March 1995 had been positive but conditional. It revealed that confirmed donor commitments to date were largely restricted to the funding of the poverty study and technical assistance to studies and SDF capacity building. The PAAP strategy document had made clear the strong linkage of programme implementation to mobilising adequate donor commitments, stating that the initial nationwide mobilisation exercise 'will only start once the PAAP resource position is ascertained'. Few of the planned PAAP initiatives had therefore got off the ground before the conclusion of ESAP at the end of 1995.

5.5.4 Throughout PAAP's three-year gestation period the ESAP programme itself and the original SDA programme delivered through the SDF had continued in much their original form. The SDF programme was planned to execute to the same timetable as ESAP and the ETP was effectively suspended in February 1996 when its funds expired. PAAP might better be regarded therefore as the potential successor to the first SDA programme rather than its replacement during the latter stages of ESAP.

5.6 Modalities for the Integration of the SDF with PAAP

5.6.1 The broad objectives of PAAP aimed at poverty alleviation are laudable. The problematic aspect of the envisaged PAAP programme relates to the bridging of the gap between the objectives and the means of achieving them. To that extent, PAAP is an exceedingly ambitious programme. It is more wide-ranging, ambitious and loosely structured than the SDF programme which itself has experienced serious bottlenecks.

5.6.2 First, the institutional mechanism for the delivery and administration of PAAP remains ambiguous. It is unclear whether the executive authority of the programme lies with the National PAAP Management Committee or with CU or with MPSLSW generally. There appear to be areas of potential confusion of roles between PAAP committees and government structures, even though representatives of government also sit on the committees. Here are possible sources of confusion or potential areas of duplication of authority and responsibility:

- The National PAAP Management Committee will establish policy and oversee the overall execution of PAAP initiatives, and ensure the integration of PAAP activities in government's development programmes and the annual budgetary allocation process.

- The District PAAP Management Committees will oversee and facilitate the execution of the sub-committees but report to the CU (not to the National PAAP Management Committee). The question is whether such a structure and reporting procedure would be workable.

- The financial administration of PAAP will be by the CU but the account for SDF-PAAP will be located in the Ministry of Finance.

- The National PAAP Management Committee - which would include senior officers of key ministries, and NGO and donor representatives - would draw upon 'dynamic personalities in civil society' and report to the Minister of Public Service, Labour and Social Welfare.

5.6.3 The dispersion of authority, responsibility and resources between these committees and government ministries could be a recipe for bureaucratic rivalry, inertia and confusion. The SDF has experienced similar problems relating to the 'sharing' of responsibilities with the Ministry of Finance. A streamlining of the institutional framework and mechanism for PAAP is therefore required. If the CU could experience problems with other departments over the overlapping of responsibilities in its own parent ministry, these are likely to multiply where other important players will be other ministries and departments and NGOs. The present PAAP does not posses a mechanism to avoid interdepartmental duplication of effort and conflict.

5.6.4 As we have already observed, the CU is currently overburdened in respect of its existing functions. Previous evaluation studies have also confirmed this observation and concern. It would only increase the burden to give it the additional responsibility of:

- Delivering international and national technical assistance to all ministries, other government departments, public and private sector institutions, and NGOs involved in the delivery of PAAP sub-programmes across the country.

- Providing a comprehensive national institutional capacity-building programme, including both training and essential equipment needed, to support the implementation of PAAP sub-programmes and to ensure the sustainability of these initiatives in the post-PAAP period.

5.6.5 The realism of these expectations must be doubted, especially in view of the constraints under which the CU is likely to continue operating in the foreseeable future. This is the more so given their substantial cost implications and the administrative overhead required for their assessment and the associated consultative process.

5.6.6 In sum, general questions about PAAP relate to whether it addresses the priority problem of the poor and provides a realistic framework for dealing with the identified problems. A more modest and coherent programme with clearer focus would be more feasible than the current PAAP. It needs further development beyond its present format as a loose framework and 'shopping list'.

6. CONCLUSIONS AND RECOMMENDATIONS

6.1 Scope and Mandate of the SDF

6.1.1 It is beyond the scope of this study to consider the general issues, design and outcomes of SDA programming in Zimbabwe, which has subsequently evolved into PAAP. It has covered two broad fields of action: social safety nets (means-tested user fee exemptions in health and education, and a cash food benefit); and employment creation and training, which in turn has extended to business training, SSE financing, temporary public works employment and, on paper, community-based projects and retraining. The SDF's mandate presently covers all of these programme areas.

6.1.2 The position of the SDF has been complicated by <u>changing expectations of its mandate and role</u>:

- On the one hand, it has functioned as a tailor-made mechanism for channelling budgeted funds to two specific SDA programmes with identified target groups and a limited timeframe. On the other, it was expected under PAAP to act as a general funding vehicle for a wide and somewhat open-ended range of poverty reduction activities of varying duration, many focussing on long term structural issues.

- On the one hand it has been constituted and broadly perceived as an executing agency which is directly involved in distributing the resources it disposes. On the other, it is viewed as a channel for assigning funds to a variety of state and NGO executing agencies and to communities themselves.

- The extent of its role in supporting functions has also been ambiguous, ranging from policy and institutional coordination through poverty monitoring and research to technical assistance to implementing agencies as envisaged by PAAP.

6.1.3 Four general issues seem to require further clarification. The first is <u>how open-ended the SDF's mandate is to be</u>. At present, its constitution, including the 1995 revision, restricts the objectives of the SDF to the short-term adverse effects of ESAP. A second round of ESAP might stretch the mandate for a further period but the specific linkage to structural adjustment and the short-term limits set definite boundaries for the scope of its activities, which are not restricted either to poverty alleviation. If however the primary intention is, as would appear to be indicated in the PAAP strategy, to turn the SDF into a funding and coordination agency for long term poverty reduction, its SDA focus must be discarded and a major redefinition of its mandate and modalities is required. This question is taken up again in section 6.3. There is a risk that the SDF may tend to be used as a conveniently available vehicle for any special programme in the field of social policy that fails to find a location within the regular planning framework, disturbing its coherence of purpose.

6.1.4 Second, <u>the degree of vertical integration in the SDF's modalities of operation needs to be more clearly thought out</u>. At present the SDF has a hybrid character with the CU sharing with DSW and other ministries the administration of the safety nets funds and undertaking most of the training and credit scheme administration assisted by DEED. It functions as a fund, a coordinating agency and a departmental administration, and is widely perceived by clients and the public as an integrated agency. An alternative model would be for the SDF to act as a distributive vehicle distinct from the agencies which it finances.

6.1.5 Third, the autonomy to be exercised by the SDF needs greater clarity of definition. Since the SDF account itself falls under the implementing ministry, it functions more as an additional budget line for that ministry than as an autonomous fund in its own right. The Advisory Board has no powers to do more than deliberate on a prescribed agenda; it does not even have the right to review a workplan, an annual report or audited accounts. Which approach works better - close integration into or alongside existing line operations or greater autonomy of decision-making and management - depends in large measure on the type of programme and the extent to which programme delivery depends on departmental structures.

6.1.6 Fourth, the institutional positioning of social programmes of sharply differing character demands careful planning. A principal conclusion of this study is that the integration of the safety nets and credit programmes under the same budget line and within a single administration had markedly negative consequences for the latter. Whether or not both programmes were to be financed through the SDF, a separate budget line and administration would have established the credit scheme with greater clarity of focus and stability of planning and implementation.

6.1.7 The SDF statement of objectives outlines three main fields of action: social safety nets; credit for microenterprises; and grant finance to public works and income-generating community projects, the latter also to receive technical assistance. The first two, implemented through the existing SWP and ETP, are discussed in the following sections and the third, within which most activities are still at the planning stage, is set in the context of PAAP.

6.2 Social Welfare

6.2.1 The issue of user charges for social services and of targeted compensatory benefits to protect the poor has been contentious in policy debates internationally as well as in Zimbabwe. The arguments have been well rehearsed[33] and do not need further exposition here. The discussion will take up several aspects directly relevant to the future of safety nets subsidies under SDF auspices.

6.2.2 It is commonly argued that self-targeting approaches have advantages over the individual targeting or screening of beneficiaries in respect of broadening outreach and reducing administrative overheads. These should ensure that all eligible households can have access to them while minimizing 'leakage' to those households not eligible. In view of the urgency of the needs, especially that of nutrition, it may be more important that in the first round all households have access, accepting the leakage this implies, than restricting access by bureaucratic means and thereby blocking the access to vulnerable eligible groups. Ex post audits should be carried out to identify the degree of leakage and how it can be minimised. This approach of extending the social safety net as widely as possible amongst the vulnerable groups is potentially a more useful and effective one than a mechanical implementation of cost-recovery measures.

6.2.3 Nonetheless, if individual user charges are applied, some form ot screening is unavoidable if the poor and vulnerable groups are to be compensated. To that extent the issue will remain on the poverty alleviation agenda whatever the immediate fate of the SWP itself.

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33. Eg Gibbon, *Structural Adjustment*; Gibbon, *Structural Adjustment and the Working Poor in Zimbabwe*, 1995; World Bank, *Public Sector*.

6.2.4 For practical purposes the future of the SWP may already have been foreclosed. The SDF funding crisis of mid-1995 induced the CU to consider recommending the complete shutdown of the programme. The ending of the food benefit as a separate sub-programme had already been decided earlier in the year with the intended outcome being its merger into regular Public Assistance.

6.2.5 The size of the budget subventions provided to the SDF was entirely consistent with the original SDA perspective: a concentration of adjustment-associated social distress in the first phase of ESAP, easing down as the reforms took effect and employment and incomes rose. Thus the highest subvention was for the second year of the SDF, 1993/94, while the vote for 1995/96, during which the first ESAP officially ended, was less than sufficient to meet existing SWP commitments.

6.2.6 The severe budget cut in mid-1995 does, however, raise fundamental questions concerning the design and objectives of the SWP, since it ran directly counter to the budget projections presented only 9 months previously in the PAAP strategy documents. The PAAP sub-programmes took over the three safety nets virtually unchanged as part of its long term poverty reduction strategy and projected their annual budgets at steady or rising levels for three years ahead, including the domestic contributions. The MPSLSW bid for Z$200 million for 1995/96 was consistent with the PAAP perspective. <u>The sharply different outcome points to a basic policy dilemma over the status of the safety nets programme</u>.

6.2.7 The SWP's three safety nets were defined in traditional SDA terms as temporary assistance. The food benefit was specifically targeted on a transitional impact on the poor and whether it succeeded or failed, its phasing out in 1995 was consistent with its stated objective. But the education and health subsidies were to compensate for new or increased user charges that were intended to be permanent. It could be argued that the subsidies assisted the poor during a transitional phase of higher unemployment and falling real incomes and therefore retained a short-term SDA character, the outcome being that at the end of adjustment the poor would have to pay the fees but with rising incomes and employment as the positive social benefits of adjustment took hold. However, this rationale has not been publicly advanced at any time since the original SDA presentation in 1991. To the contrary, the SWP has been sustained as providing protection to the poor from the impact of the user charges themselves. <u>Its objectives have thus borne little direct relation to the usual SDA goals, but rather, fit squarely into the framework of long term structural poverty alleviation, in the form of conventional means-tested social security benefits</u>.

6.2.8 The mixed outcomes of the health and education safety nets are partly attributable to this <u>underlying strategic confusion</u>. The planning and implementation of what constituted major extensions to the Zimbabwean welfare system were bound to take time. Yet the SDA priority was with quick action to alleviate early transitional stress. In the case of health, the enforcement of user charges started a full two years before the exemption system was introduced, precisely at a time of increasing social hardship. On the other hand, by late 1994 and early 1995 both the health and the education benefits were beginning to achieve moderate rates of uptake. Their sudden suspension in mid-1995 as a result of the budget cut <u>raised doubts about their place in the social security system and long term poverty alleviation strategy</u>.

6.2.9 The selection of the SDF as the funding vehicle for the education and health safety nets was therefore misconceived. <u>They should rather have been integrated from the outset into the line budget of the DSW</u>, which in any case had the major responsibility for delivering the new services. This would have facilitated proper planning, systems integration and line management. The assignment of particular administrative functions to the CU also led to divided responsibilities and ad hoc responses and inefficient methods such as the manual signing of cheques. To the extent that the SWP is continued or similar targeted safety nets introduced in the future, it is recommended:

- That for social benefits of a long term character, such as education and health assistance, budgetary allocations be made direct to the DSW or other implementing agencies and not through the SDF.

- That for SDA or short term social benefits, such as the food money, budgetary allocations be made preferentially through line budgets wherever feasible and otherwise through a special account opened under SDF auspices for that purpose.

- That both long and short term targeted benefits should be delivered through existing line structures, reorganised and temporarily strengthened as necessary, and not through parallel structures such as the CU.

- That if a separate fund is deemed appropriate to channel targeted safety nets resources, the fund be established in its own right exclusively for that purpose and not conjoined to funding for other purposes.

6.2.10 This study and several previous evaluations and studies have identified a number of shortcomings which have impeded effective delivery of the services. In summary form, some of the recommendations are as follows:

- That household size be taken into account in determining eligibility, for example by assessing per capita income. The effect would be to reduce the threshold below the guideline amount for single persons and small households and increase it for large households.

- That a single income threshold be applied for all means-tested benefits.

- That the threshold be reviewed annually before a set date to take account of inflation. Whether the amount is revised at, above or below inflation is a matter of policy choice.

- That where feasible repeating transactions be combined to cover longer periods, for instance school fee exemptions for the school year rather than a term at a time.

- That a common application form be used, that the set of required supporting documents be standardised as far as possible and that an applicant be processed for all relevant benefits and exemptions at the same sitting.

- That mobile offices be used to deliver services and payments in the remoter rural areas.

- That self-targeting mechanisms be evaluated alongside screening wherever feasible on a partial basis, as for example with the urban clinics, or for general application, for example a straight-run grain subsidy as an alternative to food money. More precise geographical targeting may become more practicable on the basis of the poverty survey results.

6.3 Microenterprise Development

6.3.1 *Repositioning the SDF's Microenterprise Programme*

6.3.1.1 The SDF's credit operations are presently at a crossroads from which their future evolution could take a number of directions. The most immediate issue is the future positioning of the existing credit scheme. Also on the agenda are new initiatives which have previously been proposed but not yet activated. In both cases the choice of options will materially affect the future shape of the SDF itself.

6.3.1.2 The main phase of the SDF's credit scheme effectively ended in mid-1995 when domestic grant funding ran out. The CU's proposed response to the much reduced budget allocation for 1995/96 was to assign it to meet safety nets obligations already incurred and to turn to repayments and the outstanding balance of the ADF loan for financing further lending under the credit scheme. The final round of lending came to a halt in February 1996 primarily because the inflow of repayments, running at roughly Z$0.2 million per month in the third quarter of 1995 - equivalent to less than two loans a month at the mean loan amount - was nowhere near to matching the requirements for clearing the backlog of applications.

6.3.1.3 There appear to be three basic options for the continuation of the SDF credit scheme:

- Option A: Closing its lending operations and concentrating on recoveries, partly in order to repay the ADF loan in due course.
- Option B: Continuing the programme with the same objectives but geared to a long term poverty reduction perspective as outlined in PAAP.
- Option C: Redesigning the programme to deliver different forms of credit or to serve other target groups.

6.3.1.4 Option A would be consistent with the SDA focus on temporary effects since the first ESAP is now well past its end date. It would, however, turn aside the large numbers of ESAP retrenchees with projects queued in the backlog. It would also reduce the resources available for future microcredit, declared as a continuing priority under PAAP.

6.3.1.5 There is a danger that an unchanged continuation of the present scheme will generate a result similar to Option A more or less by default. If the rate of repayment remains very low and there is no further recapitalisation from government or donor sources, the funds available for lending will not suffice to sustain a credible lending operation. Yet without a major upgrading of the CU's monitoring and recovery capacity there is little chance of increasing the inflow of repayments. Such upgrading would demand substantial funding and would take time to yield significant results. As of March 1996, the CU was considering submitting a proposal along these lines for funding in the 1996/97 budget. If not allocated, there is little chance of the credit scheme becoming self-sufficient within its present modus operandi even on a small scale. Nor would recoveries accumulate to more than a fraction of the ADF loan to be repaid.

6.3.1.6 The justification for continuing to target retrenchees exclusively, as under Option B, would derive either from a new round of redundancies arising from a further programme of structural adjustment or from a decision to include credit as part of a general package of support to those made redundant as a result of the normal operations of a market-driven economy. It could serve as a niche component of such a support package, complementing micro and SSE credit programmes aimed at other target groups, in order to open an enterprise alternative to other employment creating options for retrenchees.

6.3.1.7 Putting the existing credit scheme on a long term footing would make little sense in the absence of such alternatives. It has been argued that a chief weakness of the SDF credit scheme during ESAP was that it constituted the only assistance on offer: facing unemployment, retrenchees had automatic entry to the business training course and easy access to loans. The outcome was excessive take-up and an inability to screen, since all applicants had entitlement. The 1994 PAAP sub-programmes proposed to diversify the support to retrenchees by offering counselling, a placement service and retraining for re-entry into the employed labour-force as well as access to microcredit. A balanced approach to employment creation for retrenchees is appropriate since many may lack either motivation or aptitude to perform well as entrepreneurs but at the same time have sufficient experience or expertise to re-enter the labour market, even in times of adjustment.

6.3.1.8 The essential precondition for improving the quality of project proposals and of subsequent enterprise performance is that applicants and projects be assessed by normal business standards and no longer on grounds of entitlement. Such screening becomes more acceptable to clients if alternatives are available, but it remains a precondition of the scheme's overall viability even if they are not.

6.3.1.9 A similar risk to Option A attaches to a continuation of the credit scheme, that it will remain unsustainable in the absence of greatly improved loan recoveries. Any further recapitalisation without the major upgrading would be very likely to do no more than postpone a similar outcome. Under present arrangements the CU is capable of disbursing new funds quickly: LOGAC could be reconvened, a large backlog of processed projects is available for decision and new applications could be solicited. But the lending operation would be forced to reduce to a low level as soon as the new funds were exhausted.

6.3.1.10 Option C opens the question of revising the scheme's targeting or financial services or both. There are a number of possible alternatives but in practice many are constrained both by risk of duplication and by the particular character of the present scheme:

- Extending the outreach: The SDF credit scheme's profile is, as seen earlier, at the lower end of the MSE spectrum. In this field the parastatal SEDCO has long been established with a broad enterprise development mandate. During the field mission doubts were expressed in certain quarters about SEDCO's effectiveness in SSE promotion. Whether this view is valid or not, it provides poor justification for duplication within the public sector by extending the targeting of the SDF scheme. In the financial, commercial and NGO sectors there are already a number of established institutions and programmes with which the SDF would come into direct competition if it broadened its SSE outreach.

- Revising the services and target groups: An alternative path would be to redesign the SDF credit scheme to target different groups. One possibility would be to offer support to the informal sector through much smaller loans in a reformulated service package. A microfinance facility targeted on rural women was proposed in the 1994 PAAP programme document. However, the credit operation as presently run is far removed from the character of effective microfinance organisations; informal sector credit would sit uneasily alongside the present SSE portfolio and in any case a number of NGOs are already well established in this field. It would be preferable to design a new microfinance facility from scratch than try to adapt an existing institution ill suited to the task.

6.3.1.11 All three options would require major changes in the way the scheme is presently run. A crucial common element will be a rapid improvement in the rate of loan recoveries, which will necessitate a complete overhaul of the present CU operation. Closely related is the need for an effective extension service to maximise the proportion of performing projects, a precondition for achieving a satisfactory rate of payback. Three principal institutional arrangements can be considered:

a) Reorganisation and strengthening of the CU;

b) Contracting out particular functions, such as recoveries or extension services;

c) Transferring the entire scheme to one or more commercial or parastatal organisations.

6.3.1.12 It is a precondition of Option A meeting its target of Options B and C even getting off the ground that loan supervision and extension services be expanded and thoroughly overhauled. The need to do so has been articulated in Advisory Board meetings for several years past and is well known to both policy-makers and CU staff at all levels. The CU's current proposals as of March 1996, consolidating earlier ad hoc initiatives, centred on sub-contracting officials in the provincial DEED offices, using SDF funds, to undertake monitoring rounds in their catchment areas. Following the imminent appointment of an accountant, the information flow was to be integrated by linking the CU's projects database to a new computerised accounting system which would generate monthly billing of borrowers and regular reporting on loan status, quickly identifying those in arrears. The CU would prepare itineraries for the DEED officers' monitoring rounds centrally and distribute them to the regional offices.

6.3.1.13 While this proposal is to be welcomed as the first systematic attempt to tackle the monitoring of SDF clients, it is unlikely to produce quick results and has a limited chance of eventual success:

- In the short run, it will take some time to design an integrated project management and accounting system, computerise the large set of paper files, set up an operational system for sub-contracting and managing the DEED field officers, piloting the new routines and finally launching the full monitoring service nationwide. The contents of the database and probably also of the project files will need extensive validation to ensure their accuracy.

- The monitoring system itself will need to be linked to an extension service if it is to win the confidence and cooperation of clients. A monitoring system geared solely to enforcement of repayments is likely to be viewed as a policing operation and to meet widespread evasion. Client consultations have placed technical and financial support for making a go of their enterprises at the top of their priority list. But planning an SDF extension service does not yet appear to have started.

- Running a large national microfinance scheme requires professional financial management and administration and generally a specialised, autonomous institution for effective service delivery and sustainable financial growth. Despite the best efforts of its staff, the CU is currently a long way short of that ideal and is restricted in its further institutional development by being located as a section of a large ministry.

6.3.1.14 The second type of institutional arrangement, contracting out particular functions or services, is already a tried and tested solution under the SDF credit programme: both the introductory business course and the project appraisals were sub-contracted to private sector consultants with on the whole satisfactory results. The same strategy could be followed in setting up project monitoring and extension services. These tasks are, however, altogether more demanding than running a packaged short course or conducting largely office-based project preparation and appraisal. They require a national infrastructure, a dedicated and experienced field staff and strong information and financial management systems:

- It is probable that at present no bank, financial institution or consultancy organisation has adequate national infrastructure for such an assignment although the small business units of several of the major banks could cover the principal towns.

- Several leading NGOs involved in microcredit have by far the strongest field staff but do not have national coverage and in any case are focussed mainly on the informal sector rather than SSEs.

- The two principal parastatals offering credit services, SEDCO and AFC, do have a national mandate and infrastructure and would appear to be the most suitable agencies for taking on monitoring and extension as a combined operation.

6.3.1.15 The argument for contracting out could be extended to the core function of processing loan applications. It is in many respects one of the more extraordinary features of the original SDF design that an ad hoc committee of ministry officials, LOGAC, should be expected to perform functions normally assigned to trained specialists in professional financial institutions. The case for doing is argued nowhere in the ADB *Appraisal Report*, the Zimbabwe Government's SDA programme or the PAAP strategy and programme documents. Indeed, the CGC offers a Zimbabwean case of government funds disbursed through a professionally constituted independent organisation. Both the SDA and ADB documents provided for independent institutions to play a major role in submitting project proposals and administering approved loans, but did not extend this logic to the processing of loan applications as such, probably because LOGAC's formal mandate extended more widely to cover non-credit funds as well.

6.3.1.16 If the monitoring and extension services are to be contracted out the case for delegating loan processing also strengthens since it would be the only major function retained in the CU apart from financial management. Some of the disadvantages for the CU of the relationship with the consultants on project appraisals were outlined earlier in this study. The problems of integrating a second major contracted out operation at the other end of the project cycle would impose considerable extra demands on the CU's management.

6.3.1.17 The third type of institutional arrangement is likely therefore to prove the most sustainable in the long run: transferring the existing credit scheme in its entirety to one or more established financial institutions having a SSE credit track record and the necessary capacity to administer it effectively. As indicated above, not many institutions are likely to meet that requirement. The leading candidates are the parastatals AFC (for agricultural projects) and SEDCO (for all other projects) and the small business units of the commercial banks[34]. It must be stressed once again that the majority of SDF-financed projects are in the SSE bracket and do not fit the informal sector focus of most credit-giving NGOs.

6.3.1.18 A decision in principal to sanction such a transfer is, however, no guarantee that it can be effected. In particular, the SDF credit scheme's very poor repayment record and its origins in a welfare entitlement programme are likely to deter professional financial institutions from taking it on. The principal inducement is the potential income flow from even limited recoveries on what is nominally a sizeable loan portfolio. On the basis of the Z$172.7 million recorded in the CU database as aggregate loans approved to February 1996, a 100% repayment record would generate Z$238 million by the end of 1999 and a total of Z$249 million once all loans are repaid. At a 50 per cent repayment rate and an average 12 months in arrears, the portfolio could still yield a mean inflow of Z$20-25 million over the next 4-5 years.

6.3.1.19 These rough projections of course take no account of defaults and bad debts, which are bound to be high. Some businesses will have failed, others will have applied the money to other purposes with little prospect of recovery. At present there are only fragments of information on the true standing of the individual projects. An urgent task, one which has to be completed in particular before any serious negotiations can be conducted on a possible transfer of the loan portfolio, is a systematic census of all SDF projects to establish their existence, their status, their needs and their current prospects. This will be a major exercise but it is essential. Once completed, a realistic assessment can be made of the development potential of the projects and the financial status of the loan assets.

6.3.1.20 Once the transfer is completed the SDF projects would be integrated into the normal operations of the administering institutions, as originally proposed by both the SDA and ADB documents. This integration would set up their incorporation into long term small enterprise development and lead to the viable amongst them entering the normal paths of business expansion as they retire their SDF loans.

6.3.1.21 In the light of this study's principal recommendation that the credit scheme be transferred in its entirety from the CU to a financial institution, there is little point in making detailed recommendations for improving the management and administration of the scheme in its present form under the CU.

6.3.1.22 Handing over the existing loan portfolio does not entail the ending of the SDF's influence on the utilisation of funds provided under SDA auspices. The future role of the SDF will be reviewed in section 6.6. An issue of concern is the applications backlog. The CU's mid-1995 summary pointed to a waiting list of nearly 7,000 and a total amount of Z$800 million. This huge overhang could absorb all new finance for many years to come, which is plainly unrealistic. One way to deal with the problem would be to conduct a rapid evaluation of the proposals so as to select a small number with the best prospects of success, then to interview the proposers to establish their present status. Since in most cases the gap between submission and review will be at least one year and often two, a substantial number may already have found other employment, other sources of project funding or other means of survival. Priority for new loans would then go to those retrenchees still genuinely unemployed. The proposers of projects not considered, in other words the great majority, would be

34. In March 1996, for instance, the Commercial Bank of Zimbabwe announced a new microcredit facility with British donor support.

informed - an improvement on the present situation of uncertainty - that their projects will be kept on file but that consideration for funding is unlikely in the near future.

6.3.2 *New Microfinance Initiatives*

6.3.2.1 If the SDF is to be established on a long term basis and to play a role in poverty reduction programmes, it is likely that the Government will wish to use it as a channel for new initiatives in the field of small and microenterprise finance. Already indicated under the 1994 PAAP programme was a new rural microfinance facility modelled on Grameen Bank experience.

6.3.2.2 Three strategic issues have emerged in considering the future role of the SDF in microfinance initiatives. The first is programme overlap. As with the disposition of the retrenchee credit scheme, the SDF will need to consider carefully its positioning in relation to other governmental, private sector and NGO mandates. The latter become particularly important when entering the field of microfinance to communities and the informal sector. In general, the financial NGO view is that demand is far greater than the resources they can supply. In addition, even the larger national NGOs have far from even nationwide coverage. Space thus exists for state-supported initiatives in this field. It is essential, however, that they be carefully planned and coordinated with the established organisations already on the ground.

6.3.2.3 The second strategic issue is the choice between financial wholesaling and retailing. The present scheme has an exclusively retail character and has resulted in the creation of a new quasi-financial institution in the form of the CU. Programme experience has cast doubt on the effectiveness of this strategy and recently the CU has been considering various options for wholesaling SDF funds to third party implementing institutions, as originally envisaged in the ADB and SDA programme documents. It is recommended that as a matter of policy the SDF adopts an exclusively wholesale financial strategy and excludes a retail function from any future credit schemes it initiates or supports.

6.3.2.4 The third strategic issue is terms of credit. The CU has for some time been considering the wholesaling of SDF funds to existing credit institutions, primarily microcredit NGOS. As of March 1996, however, negotiations with one leading NGO had made little progress in the previous six months. The principal sticking point was the terms of onlending: the CU wished to ensure that the NGO lent to clients at a highly subsidised interest rate while the NGO, in common with most of its successful counterparts, was unwilling to disturb its established policy of lending at near to commercial rates. Whatever the general case for and against concessionary retail credit terms for small enterprise lending, providing subsidised interest rates to the same client base can prove highly disruptive, whether through established institutions or a new facility, leading both to unequal competition between different schemes and to reduced client confidence.

6.3.2.5 In general, the SDF is likely to achieve more substantial long term results in terms of economic empowerment by investing in proven track records, leaving the NGOs to set their own lending policy. Subsidised credit may prove more effective at the wholesale than the retail stage, particularly by subsidising the high transaction costs and other overheads of maintaining a strong client monitoring and extension service in the field. The SDF can assist frontline NGOs both by making block grants so as to allow them to collect the interest at commercial rates on unused balances and by offering a substantial discount on the wholesale terms which the NGOs can use to strengthen their field operations.

6.3.2.6 A UNDP-financed consultancy to the SDF in mid-1995[35] proposed that the SDF be reorganised as an 'Apex Financing Organisation' for NGOs engaged in poverty-focussed lending programmes, modelled on the Palli Karma-Shayak Foundation (PKSF) of Bangladesh. To the extent that the Zimbabwe Government wishes to position the SDF as an agent in support of long term poverty reduction, this study endorses the main recommendations of the consultancy, the institutional implications of which will be taken up in section 6.6. Such reorganisation would require <u>a major shift in the SDF's credit orientation</u>, in particular:

- Exclusive targeting of the poor.
- Establishment of the SDF as an independent foundation with majority representation on its board from NGOs and the voluntary sector.
- Provision of wholesale finance to partner NGOs and a close working relationship with them in programme implementation.

6.3.2.7 While the UNDP consultancy report proposed a coherent long term role for the SDF in poverty reduction, it failed to address <u>the inherent conflict between SDA and poverty reduction objectives</u> which has confused the definition of the SDF's role from the outset. An AFO constructed as a poverty reduction instrument would necessarily exclude as non-poor many of those targeted by an SDA programme as adversely affected by structural adjustment. Such SDA targeting can be justified not simply on grounds of alleviating hardship but also on grounds of economic efficiency and, indirectly, poverty alleviation since many retrenchees have useful skills and experience for recycling and, if launched into small enterprise development, may create employment to the benefit of the poor and more rapidly than formal sector schemes. In Zimbabwe, the commuter minibus and hammer mill sub-sectors provide examples of this impact.

6.3.2.8 The risk is that a SDA credit programme <u>may lack a delivery vehicle</u> since most clients would not qualify under programmes supported by an AFO with a poverty reduction mandate. As an alternative to creating a new SDA instrument such as the SDF, <u>one possible approach towards integrating SDA and poverty reduction strategies would be to wholesale credit funds but with SDA targeting</u>:

- Special funds would be earmarked for SDA target groups, such as retrenchees.
- The funds would be wholesaled on negotiated terms to existing credit institutions, for example AFO partner organisations to assist retrenchees entering informal sector activities (qualifying as poor), and to enterprise promotion agencies to assist retrenchees starting small businesses (qualifying as commercially viable projects).
- Other options would also be available to retrenchees not entering self-employment, such as a job placement service, retraining and temporary public works.

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35. M.F. Kader, *Report on Redesigning of the Micro-lending Programme of the Social Development Fund (SDF), Zimbabwe*, 1995.

6.4 Community Based Projects

6.4.1 Grant funding to community-based projects made a brief appearance in the SDA programme, though not in the ADB *Appraisal Report*, and features more prominently in the PAAP strategy and programme. A clause in the SDF statement of objectives would provide 'financial, technical [and] managerial assistance and advice... for undertaking income generating activities through Community Based Organisations'. No initiatives have yet been taken and up to mid-1995 the subject had not apparently entered the agenda of the Advisory Board.

6.4.2 Because specific SDA programmes were narrowly targeted on retrenchees and on safety net exemptions from new user charges, they did not reach the majority of the poor. Any new initiative under SDF auspices would therefore, like PAAP, take shape within a long term poverty reduction framework. The question arises to what extent the SDF could form part of poverty reduction efforts. The PAAP strategy assigns the SDF a rather extensive role firstly as the general funding channel and secondly, through the CU, as the vehicle for technical assistance to implementing organisations and the government partner in tripartite contracts with communities and executing organisations.

6.4.3 Very little detail was provided on the possible modalities but the emphasis was on a participatory approach and decentralisation of initiative. By implication, the PAAP strategy would require the CU to set up a facility along the lines of a Social Action Fund, designed for quick disbursement of small grants to community projects. A recent UNDP consultancy for MPSLSW[36] has prepared a detailed proposal for a community development programme within the PAAP framework which follows a decentralised strategy. A programme management unit would be created 'within SDF' but the proposal is vague on specific structures and functions, the relations between central and district institutions are not entirely clear and the precise funding arrangements remain to be specified.

6.4.4 While the PAAP strategy places welcome emphasis on a participatory approach, the various roles it assigns to the CU and the delivery structures it proposes to create are generally too complex and costly. If a SAF is established:

- The CU itself does not provide an appropriate instrument. It would be preferable to establish an SAF as a small, autonomous agency outside the ministry environment and accountable directly to the SDF. The SAF's mandate should be focussed on the task in hand and not be diluted with other assignments.

- Project proposals should probably be centrally approved in order to avoid local political pressures, ensure balanced national coverage and speed up processing. But in line with the emphasis on decentralisation and community participation, local state and NGO structures should be involved as closely as possible. All projects could, for example, be required to pass initial District Development Fund (DDF) evaluation.

- The DDF could sign contracts, coordinate project implementation and extension services. Local institutions should so far as possible take the lead in project implementation. In a

36. D.S. Gunby, *Project Proposal for a Community Development Programme in the Poverty Alleviation Action Plan*, 1996.

large scheme the SAF might need a small staff of district-based project officers but in general would work <u>through established local structures and extension cadres</u>.

6.4.5 The SDF constitution's restriction of targeting to 'income generating projects' may reduce the outreach of a microprojects programme in the rural areas, especially if defined in terms of cash earnings. 'Income' can be more broadly defined to include non-cash returns and indirect gains, such as the increased productivity in cultivation gained from a village well by reducing women's walking time to fetch water. But communities may sometimes set higher priority on gains in social infrastructure, such as an extra classroom, with payback in human capital development rather than immediate cash returns. In general, <u>the setting of priorities for SAF project funding is best left as far as possible to community decision within a flexible framework</u>.

6.5 <u>Analysis, Coordination and Monitoring</u>

6.5.1 Compared to the SDF constitution, under PAAP a much broader role in coordination is envisaged for the CU, which would be tasked with coordinating, monitoring and evaluation of the programme, research and training as well as administering a technical cooperation programme.

6.5.2 In respect of <u>monitoring and evaluation</u>, the CU is to:

- Monitor and evaluate the implementation of PAAP and the effects of the changes in the socio-economic and public policy environment on the welfare of vulnerable households and communities.

- Contribute to the development of strategies and socio-economic policies for the second half of the 1990s and beyond.

6.5.3 In respect of <u>research</u>, the CU is to:

- Improve data and analysis to develop a longer-term strategy on poverty reduction, through improving analysis of existing routine data flows by producing monthly reports.

- Periodically update the results of the comprehensive assessment study of poverty to provide up to date data and analysis needed for developing longer-term strategies to reduce poverty. In this respect, the Unit will ensure household level monitoring by including appropriate questions in the Sentinel Site and other household surveys.

- Undertaken or sub-contract periodic research and evaluation of social safety nets and the targeting of social assistance programmes as an input into the policy formulation process.

6.5.4 In respect of <u>training</u> the CU is to:

- Design and implement an in-service training scheme to provide training in programme design and development to ensure that public policy in the social fields remain responsive to the needs of the vulnerable and poor segments of the population.

6.5.5 In respect of overall coordination, the CU is to:

- Assist ministries, public and private institutions and NGOs involved in the delivery of PAAP sub-programmes across the country by arranging international and national consultancies when required. To this end, it will establish a database of technical expertise available in the country which will be tapped by the implementing organisations.

- Provide a comprehensive institutional capacity-building programme to support the implementation of PAAP sub-programmes and to ensure the sustainability of those initiatives in the post-PAAP period.

- Liaise with existing technical assistance programmes that are providing assistance in the PAAP-related areas, such as MLGRUD's 'Pilot District Support Project'.

- Enter into contractual agreements with these organisations implementing the sub-programme initiatives, channelling the budget to the implementing organisations.

6.5.6 The capacity-building and contracting assignments would assign executive function to the CU that are better located in other agencies. But otherwise the various functions are consistent with the CU's principal mandate as an agency of monitoring and coordination rather than implementation. In the context of government-wide poverty programming and of coordinating initiatives across a complex array of types and levels of government, civic and commercial institutions, the coordination mandate is complex and demanding.

6.6 Institutional Mechanisms

6.6.1 Drawing together the institutional implications of the preceding sections, the principal recommendations are:

- That the safety nets sub-programmes be transferred to the DSW. Any future safety nets would be implemented directly through line sections of ministries and regular budgets rather than a special fund.

- That the credit scheme be transferred on negotiated terms to established SSE financial institutions, probably SEDCO and the AFC.

- That the SDF be converted into an independent foundation or AFO geared to long term poverty reduction but also covering SDA project-oriented funding.

- That community based projects be implemented through a SAF and district and local structures.

- That policy coordination, poverty monitoring and technical assistance be located in the CU.

6.6.2 It has been proposed that the SDF be given greater autonomy by retaining only a couple of senior management positions within the ministry and allowing all other staff to be recruited from outside the civil service on independent contracts. It is considered that this hybrid solution will not prove feasible, since the fund will continue to operate principally as an extension of the ministry without adequate financial, legal or managerial autonomy.

6.6.3 Such autonomy should extend to authority to hire and fire staff, determine their terms of service, own assets in its own name, and have legal personality. Financial transfers from the Treasury need to be on a planned basis and executed through block grants. Autonomy would also establish the full accountability of the agency to government and other donors for its disbursements and performance.

6.6.4 Reconstituting the SDF as a foundation or AFO would offer a more durable long term institutional framework geared to poverty reduction strategies. The foundation could include the following features:

- Its constitution would set poverty reduction as the principal goal and temporary assistance to the poor and vulnerable groups as a subsidiary goal if consistent with other objectives, covering both structural adjustment stresses and other short-term adverse impacts such as drought. (The limitation in the present SDF constitution to 'short-term effects' would be removed.)

- It would only fund projects at the small and micro levels, in other words excluding relief and welfare assistance and excluding also public works except where contracted by local communities. Training would be funded only in direct support of projects. (Paras 2(c-e) of the constitution would be scrapped and para 2(b) narrowed).

- It would provide funds as credit for small and microenterprises and as grants for community and income-generating projects, disbursed exclusively through partner organisations. (Para 2a would be retained and para 2f broadened). Consideration of individual projects would be explicitly ruled out.

- Its governance would be exercised through a partnership of stakeholders. *Ex officio* representation on the Board would come from government, parastatals, financial institutions, NGOs, local civic organisations and individuals with expertise or commitment.

- Its staffing would be small, of strong professional calibre and accountable directly to the Board and its executive committee.

6.6.5 If funding is to be provided to rural microenterprise development, an independent SDF would be an appropriate funding channel. Part of the funds could be disbursed through existing NGOs and CBOs as proposed in the PAAP programme document. If a new facility is to be established, its design and targeting should be closely coordinated with existing microfinance institutions so as to harmonise efforts.

6.6.6 If funding is to be provided to community projects, it could also be provided through an independent SDF and disbursed through a small autonomous SAF which reports to a designated ministry. A part of the funds might be disbursed directly through implementing NGOs. The SAF would have both a project processing and a programme coordinating role.

6.6.7 The coordination of government-wide efforts on poverty alleviation and reduction is a major and strategic responsibility. It would be appropriate for the CU to assume that responsibility as its exclusive task once its present administrative tasks have been divested. The CU would serve as Secretariat to the national PAAP Management Committee as proposed in the PAAP strategy document and would shed its connections with the SDF altogether. It would also have strengthened capacity to perform the monitoring, data-gathering, research and information functions which the ADB *Appraisal Report* correctly emphasised as important for programme development and implementation but which have been somewhat neglected hitherto. Partnership with national institutions such as the CSO and university applied research institutes is also an important part of the capacity-building process: the ongoing Poverty Forum convened by the Institute of Development Studies is a good example.

7. FOLLOW-UP ADB INTERVENTIONS

7.1 The third tranche of the existing ADF loan facility was disbursed in mid-1995. By that time the SDF credit scheme had utilised more than sufficient funds to qualify to draw down the full amount of the loan. If not already completed, every assistance should be given to facilitating a rapid disbursement in view of the fact that the ESAP programme period has now concluded, the stop-start operations of LOGAC have led to uncertainty amongst the SDF's clients and the lengthening backlog of applications has left large numbers without assistance since the middle phase of ESAP. In particular, until the loan is fully disbursed the ADB should be prepared to strengthen its supervision in order to assist in removing bottlenecks.

7.2 The ADB's mid-1995 supervision report and follow-up letter to the Zimbabwe Government conveying the mission's findings and recommendations outlined a number of administrative reforms and procedural improvements designed to improve the performance of the SDF credit scheme. Most were designed to achieve early improvements during the remaining period of loan disbursements but also to secure the long term future of the credit scheme as a revolving fund. This study has concluded that the credit scheme is not and is unlikely to become self-sustaining within its present institutional form. It has made a number of recommendations for alternative institutional arrangements, including the reconstitution of the SDF as an independent funding body geared to long term poverty reduction. In this context, the short term priority should be to facilitate the speedy allocation of the remaining credit funds to clients in line with the original programme objectives. Although only a fraction of the backlog can be cleared, those retrenchees who can be assisted with the remaining funds were induced to train, prepare projects and submit proposals on the basis of the existing terms of credit which it would be inappropriate to change at this late stage.

7.3 At the same time a comprehensive redesign effort will be needed in two principal areas: placing the existing loan portfolio on a professional revolving fund basis; and establishing the SDF as an independent foundation. From the point of view of the ADB the first initiative is more directly associated with the present loan since the revamped SDF would not have direct responsibility for administering the loan portfolio although it might, depending on the results of negotiations with the financial institutions, retain formal ownership as the Government's stakeholder. Technical assistance might be required to assist the transfer of the scheme to the selected institutions but they and the private financial institutions in general have competent local expertise to call on for an exercise of this kind. The key to securing a rapid rise in the repayment rate will be an immediate and vigorous effort to bring the existing pool of borrowers under a well-run monitoring and extension service. The longer that arrears are allowed to age without regular follow-up, the more difficult it will become to secure the cooperation of the clients. The principal agent(s) and recipient(s) of any technical assistance would be the financial institutions taking over the SDF loan portfolio.

7.4 Establishing the SDF on a long term footing could provide the basis for further assistance under ADF auspices. A conclusion of this study is that no further credit-based interventions additional to the present ADF loan should be made through the present SDF institutional setup, whether the particular administrative and procedural systems of the CU are reformed or not. There are two main alternative options. First, it would be possible to conclude loan agreements directly with small enterprise financial institutions for onlending to clients. Candidates are the small business units of the commercial banks, amongst which one launched such a scheme in March 1996 with British donor support; and the parastatals SEDCO and the AFC. Such loans might be designed to serve either SDA or poverty reduction objectives depending on which needs have greater priority at the time. But better security for effective targeting, client satisfaction and conformity to policy guidelines may be gained by channelling the funds through a well established institution in which all major stakeholders are represented. An independent SDF as outlined in section 6.3 could fulfil such an institutional role.

7.5 In general, it would be advisable for any future microcredit intervention by the ADB geared to SDA or poverty reduction objectives to take account of the following guidelines amongst others:

- If the primary objective is the relief of temporary hardships arising from a structural adjustment process, the relationship between the short-term credit scheme and long term poverty reduction strategy should be clearly articulated in the design of the scheme. This includes a clear statement of the disposition of the scheme's institutional form, resources and targeting once the adjustment process is completed.

- Except as a last resort the delivery of the scheme should be placed with one or more professionally competent financial institutions, whether NGOs, private sector or parastatal. This is likely to require institutional strengthening as part of the support package. Placement in a section of a ministry is particularly inadvisable.

- The scheme's management and administration should be geared specifically to its needs and not shared with other unrelated programmes.

- All conditionalities should be clearly laid down in the loan agreement, including the amounts of any counterpart contributions by the Zimbabwean Government and the institutional form and procedures to be adopted.

- Targeting should be explicitly agreed in advance, whether broadly or narrowly defined and whether for SDA or poverty reduction purposes.

- The basic character of the loan scheme should be specified, in particular whether it is to aim at the small formal sector or the informal sector, and then clearly related to the targeting objectives, such as rural/urban balance, gender ratios, and so on.

- Access to the credit scheme should not be principally on an entitlement basis but should conform to a properly established screening process.

- Monitoring, recovery and extension services should feature prominently in the design of the scheme and performance targets set.

7.6 Four types of followup intervention, which might also be considered in combinations, seem possible in the present Zimbabwean context:

- Additional lending on SDA criteria, should the Government proceed with a further phase of structural adjustment. In this case one of the strongest adverse impacts is likely to be retrenchments in the public sector.

- Lending to SSE startups along similar lines to the present scheme, as part of long term efforts to tackle unemployment and diversify the entrepreneurial base.

- Informal sector microcredit geared explicitly the needs of the poor and targeted primarily on rural women.

- The fourth is finance for grants to community-based and income generating projects, mainly in the rural areas.

Although the government would bear the eventual cost of such grant finance, the first three types of intervention, if well designed and professionally implemented, could be expected to generate satisfactory if not fully self-sustaining rates of repayment.

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TABLES

Table 1. Ex Officio Membership of the SDF Advisory Board

Organisation	Constitution	
	Old	New
Government:		
Permanent Secretary, MPSLSW	(chair)	
SDF Coordinator		(chair)
Ministry of Finance	(several)	2
Ministry of Public Service, Labour & Social Welfare		4
Ministry of Lands, Agriculture & Water Development	1	1
Ministry of Health & Child Welfare	1	1
Ministry of Industry and Commerce	1	1
Ministry of Education and Culture	1	1
Ministry of Higher Education	1	1
Ministry of National Affairs, Employment Creation & Coöperatives	1	1
Ministry of Local Government, Rural & Urban Development	1	1
Associations:		
Consumer Council of Zimbabwe	1	1
NGOs (National Association of NGOs)	1	1
Zimbabwe Association of Business Organisations (Indigenous Business Development Council)	1	1
Zimbabwe Congress of Trade Unions	1	1
Zimbabwe Federation of Disabled People (Zimbabwe Council of Disabled People)	1	1
Coopted:		
Ministry of Information	1	1
ZANU (PF) Women's Affairs	1	1
Business Extension and Advisory Services		1
DERUDE	1	1

Source: SDF 1991 and 1995 Constitutions.

Table 2. SDF Indicative Budget Estimates, 1994/95-1996/97

Millions of units (Z$ unless stated)	Year 1	Year 2	Year 3	Total
	FY 1994/95	FY 1995/96	FY 1996/97	
PAAP budget estimates (US$m):				
Social safety nets:				
- Education	6.0	7.0	7.0	20.0
- Health	8.0	9.0	8.0	25.0
- Food aid	1.0	1.0	2.0	4.0
- Sub-total	15.0	17.0	17.0	49.0
Informal sector/ME programme *	15.5	20.5	21.5	57.5
Total	30.5	37.5	38.5	106.5
Sub-programme budgets:				
Social safety nets:				
- Education	47.1	51.6	55.8	154.5
- Health				
in US$	7.57	9.08	7.57	24.22
in Z$	60.56	72.64	60.56	193.76
- Food aid				
in US$	1.2	2.0	2.0	5.2
in Z$	9.6	16.0	16.0	41.6
- Sub-total	117.26	140.24	132.36	389.86
SSE loans	100	110	115	325
Total	217.26	250.24	247.36	714.86
SDF budget as stated	100	210	210	520
PAAP:				
in US$	48.0	50.5	51.5	150
in Z$	384	404	412	1200

* Includes non-loan sub-programmes.
Conversions at US$1=Z$8, the rate used in the government tables. Adding errors in source corrected.

Sources: Zimbabwe Government, *PAAP Strategies*, table B; MPSLSW, *Implementation of PAAP*, sub-programme summaries.

Note: Inconsistencies in the PAAP documents, which sometimes use US dollars, sometimes Zimbabwe dollars and occasionally both, complicate the issue somewhat. There were variations in the totals for the 'estimated SDF budget', which in one place were stated as Z$220 million and Z$230 million for the second and third years. The total indicative cost of the SDF components of PAAP was at Z$520 million somewhat below the aggregate of Z$715 million for the ETP and SWP components then already operational, a figure which includes donor finance already committed or to be sought.

Table 3. SDF Indicative Budget Estimates, 1994/95-1996/97: Domestic Resources

Millions of units	Government contributions	
	Amount	Per cent
Sub-programme budgets:		
Social safety nets:		
- Education	78.6	50.9
- Health		
in US$	11.39	47.0
in Z$	91.12	
- Food aid		
in US$	2.58	49.6
in Z$	20.6	
- Sub-total	190.32	48.8
SSE loans	206.84	63.5
Total	397.16	55.6

Conversions at US$1=Z$8 (GOZ 1994a, table B). Adding errors in source corrected.

Sources: Zimbabwe Government, *PAAP Strategies*, table B; MPSLSW, *Implementation of PAAP*, sub-programme summaries.

Table 4. ADF Loan Allocation and Disbursement to the SDF to July 1995

Loan	Dates	Amounts	
		BUA m	Z$ m
Total amount	June 1992	4.60	
Disbursements:			
- initial	April 1993	0.89	
- 1st replenishment	August 1994	0.72	
- sub-total		1.61	
Balance	At July 1995	2.99	
Budgeted			
- Zimbabwe Government	To June 1995		270.0

Source: ADB, *Supervision Report 1995.*

Table 5. Estimated Target Groups and Safety Net Budgetary Requirement, 1994/95-1996/97

SWP sub-programme	Year 1 1994/95	Year 2 1995/96	Year 3 1996/97
Target group:			
- school fees	265,000	300,000	300,000
- examination fees	30,000	30,000	40,000
- health charges	200,000	200,000	200,000
- food subsidy	100,000	100,000	100,000
Estimated costs (Z$m):			
- school fees	34.5	39.0	39.0
- examination fees	12.6	12.6	16.8
- health charges	60.6	72.6	60.6
- food subsidy	9.6	16.0	16.0
total	117.3	140.2	132.4
Average per beneficiary (Z$/month):			
- school fees	130	130	130
- examination fees	420	420	420
- health charges	303	363	303
- food subsidy	160	160	160

Source: MPSLSW, *Implementation of PAAP*, sub-programme summaries.

Table 6. Cumulative SDF Expenditure on Education, Health and Food Money, 1992-end 1994

Categories	Cases/payments	Total cost Z$m	Per beneficiary Z$
School fees	363,087	59.7	164
Examination fees	68,815	11.49	167
Health	131,652	8.02	61
Food	294,092	1.17	4
Total		80.38	

Source: CU; Advisory Board minutes.

Table 7. SDF Social Welfare Expenditure, January-September 1995

Categories	Beneficiaries/ payments	Total cost Z$m	Per beneficiary/ payment Z$
School fees	196,515	34.8	177
Examination fees	76,816	15.13	197
Health	181,637	26.03	143
Food	30,379	5.2	171
Total		81.16	

Source: CU.

<u>Note</u>: The cumulated figures produced by the CU for July and December 1994 are inconsistent internally and between different versions.

Table 8. SDF Credit: Loans, Projects and Jobs Created, December 1992-January 1996

	Loans Z$m	Projects	Jobs
To end of:			
Jun 1993	3	78	
Nov 1993	15.0	273	1157
Dec 1994	80.0	1097	4675
Dec 1995	148.7	1838	7263
Jan 1996	152.9	1889	7424
Period:			
To Nov 1993	15.0	273	1157
Nov 1993-Dec 1994	65.0	824	3518
Jan-Dec 1995	68.7	741	2866
Jan 1996	4.2	51	161

Source: CU tables and minutes of Advisory Board meetings.

Table 9. SDF Credit: Loans, Projects and Jobs Created, October 1992-February 1996

	Period			Cumulative		
	Loans Z$m	Projects *	Jobs	Loans Z$m	Projects *	Jobs
To Feb 1996				172.7	2092	8138
Years:						
1992	0.4	9	23	0.4	9	23
1993	15.1	268	891	15.5	277	914
1994	77.7	1002	4321	93.3	1279	5235
1995	72.9	738	2672	166.1	2017	7907
1996	6.6	75	231	172.7	2092	8138
Quarters:						
1992/4	0.4	9	23	0.4	9	23
1993/1	0.5	13	21	0.9	22	44
1993/2	1.0	28	43	1.9	50	87
1993/3	5.1	91	270	7.0	141	357
1993/4	8.6	136	557	15.5	277	914
1994/1	15.3	230	1146	30.8	507	2060
1994/2	13.6	172	766	44.4	679	2826
1994/3	28.1	361	1510	72.5	1040	4336
1994/4	20.8	239	899	93.3	1279	5235
1995/1	21.5	222	863	114.8	1501	6098
1995/2	5.6	61	245	120.4	1562	6343
1995/3	13.1	129	510	133.5	1691	6853
1995/4	32.7	326	1054	166.2	2017	7907
1996/1	6.6	75	231	172.7	2092	8138

Source: CU projects database, revised.

* Include 9 projects in 1994 and 3 projects in 1995 for which approved loan amounts were missing.

Table 10. SDF Credit: Mean Loan Size and Job Ratios, October 1992-February 1996

	Average loan size				Jobs per project	Cost per job constant Z$
	Current Prices Z$	Constant prices * Z$m	Current prices US$	Constant price index *		
To Feb 1996	83,047	66,453	9,248	115.2	4.2	16,000
Years:						
1992	42,167	41,818	7,940	72.5	3.3	13,584
1993	56,529	54,918	8,734	95.2	4.2	13,647
1994	78,297	67,145	9,607	116.4	4.5	14,832
1995	99,178	71,027	11,455	123.2	3.8	18,488
1996	87,518	56,642	9,277	98.2	3.1	18,390
Quarters:						
1992/4	42,167	41,818	7,940	72.5	3.3	13,450
1993/1	37,538	36,418	6,047	63.2	2.3	15,763
1993/2	37,133	36,642	5,815	63.6	3.1	12,393
1993/3	55,670	54,769	8,473	95.0	4.8	11,553
1993/4	62,913	60,545	9,317	105.0	4.1	14,591
1994/1	67,017	61,569	8,236	106.8	5.2	11,828
1994/2	79,596	70,592	9,957	122.4	4.7	15,002
1994/3	79,138	66,614	9,734	115.5	4.4	14,644
1994/4	86,880	70,786	10,417	122.8	4.0	17,927
1995/1	97,820	77,006	11,670	133.6	4.2	18,086
1995/2	91,642	68,454	10,805	118.7	4.3	15,617
1995/3	101,483	70,805	11,772	122.8	4.4	16,204
1995/4	100,597	67,552	10,965	117.2	3.3	19,902
1996/1	87,518	56,642	9,259	98.2	3.1	17,945

Source: CU projects database, revised.
* Include 9 projects in 1994 and 3 projects in 1995 for which approved loan amounts were missing.

Table 11. Distribution of Projects by Main Sector, October 1992-February 1996

	Number	Per cent
Agriculture	273	13.0
Agro-industry	515	24.6
Transport	467	22.3
Manufacturing	347	16.6
Services	249	11.9
Retail	193	9.2
Construction	33	1.6
Mining	15	0.7
Total	2,092	100

Source: CU projects database, revised.

Table 12. SDF: Sectoral Distribution of Projects, Jobs and Loans to September 1995

Sector	Projects Approved	Jobs Created	Loans Disbursed (Z$ m)	Distribution Per Cent		
				Projects	Jobs	Loans
Manufacturing	284	1943	22.9	19.0	31.7	19.4
Agriculture	181	718	15.1	12.1	11.7	12.8
Transport	272	559	29.7	18.2	9.1	25.2
Mining	13	190	1.0	0.9	3.1	1.6
Sport	2	7	0.2	0.1	0.1	0.2
Construction	42	496	3.5	2.8	8.1	3.0
Retail	192	708	14.7	12.9	11.5	12.5
Service	505	1509	30.7	33.9	24.6	26.1
Total	1491	6130	117.8	100	100	100

Source: CU.

Table 13. SDF: Project, Job and Loan Ratios to September 1995

Sector	Projects Approved	Jobs Created	Loans Disbursed (Z$ m)	Per Project		Loans Per Job (Z$)
				Loans (Z$)	Jobs	
Manufacturing	284	1943	22.9	80,600	6.8	11,800
Agriculture	181	718	15.1	83,400	4.0	21,000
Transport	272	559	29.7	109,200	2.1	53,100
Mining	13	190	1.0	76,900	14.6	5,300
Sport	2	7	0.2	100,000	3.5	28,600
Construction	42	496	3.5	83,300	11.8	7,100
Retail	192	708	14.7	76,600	3.7	20,800
Service	505	1509	30.7	60,800	3.0	20,300
Total	1491	6130	117.8	79,000	4.1	19,200

Source: CU.

Table 14. SDF: Manufacturing Projects to September 1995

Productive Activity	Projects Approved	
	Number	Per Cent
Welding	68	23.9
Clothing	32	11.3
Leather	13	4.6
Furniture	13	4.6
Bakeries	7	2.5
Soap	7	2.5
Coffins	7	2.5
Foundry	5	1.8
Printing	5	1.8
Other	127	44.7
Total	284	100

Source: CU.

Table 15. Distribution of Selected Project Types, October 1992-February 1996

	Projects		Loans		Cost/ project
	No.	%	Z$m	%	Z$
General dealer	86	4.1	6.2	3.6	72,000
Minibus	422	20.2	48.6	28.1	115,000
Welding	80	3.8	6.0	3.4	75,000
Grinding mill	499	23.9	26.7	15.5	53,500
Pen fattening	116	5.5	12.0	6.9	103,500
Total	1,203	57.5	99.5	57.6	82,700

Source: CU projects database, revised.

Table 16. Urban/Rural Distribution of Projects and Jobs, October 1992-February 1996

	Projects		Indicated jobs		
	Number	Per cent	Number	Per cent	Per project
Urban	1,102	53	5,040	62	4.57
Rural	989	47	3,093	38	3.13
Total	2,091	100	8,133	100	3.89

Source: CU projects database, revised.

Note: Urban/rural classification is as entered in the database although some projects appear to be incorrectly classified. Jobs are per project proposals and not necessarily created.

Table 17. Distribution of Projects by Province and Population, October 1992-February 1996

Province	Number	Per cent	Population 000	Projects/ 100,000
Harare	644	30.8	1,486	43.3
Mashonaland Central	138	6.6	857	16.1
Mashonaland East	272	13.0	1,034	26.3
Mashonaland West	193	9.2	1,113	17.3
Midlands	389	18.6	1,308	29.7
Manicaland	128	6.1	1,537	8.3
Masvingo	138	6.6	1,222	11.3
Bulawayo	132	6.3	622	21.2
Matabeleland North	28	1.3	641	4.4
Matabeleland South	27	1.3	592	4.6
Total	2,089	100	10,413	20.1

Source: CU projects database, revised.

Table 18. Distribution of Trainees by Province of Training

	Number	Per cent	Population	Projects/ 100,000
Harare	4,335	40.2	1,486	292
Mashonaland Central	259	2.4	857	30
Mashonaland East	762	7.1	1,034	74
Mashonaland West	533	4.9	1,113	48
Midlands	2,067	19.2	1,308	158
Manicaland	362	3.4	1,537	24
Masvingo	582	5.4	1,222	48
Bulawayo/Matabeleland North	1,508	14.0	1,263	84
Matabeleland South	363	3.4	592	61
Total	10,771	100	10,413	97

Source: CU projects database, revised.

Table 19. Borrowers Making Own Contributions, October 1992-February 1996

	Projects	Per cent
Own contribution stated:		
No	171	17
Yes	955	83
All cases	1,126	100
Mean contributions (Z$):		
Own	21,845	23
SDF	72,272	77
Total	94,617	100

Source: CU projects database, revised.

Table 20. Size of Own Contribution, October 1992-February 1996

Share of project cost	Projects	Per cent
>0%	955	85
>10%	636	56
>25%	188	17
>50%	43	4
>75%	8	1

Source: CU projects database, revised.

Table 21. Small and Large Loans, October 1992-February 1996

	Number	Per cent
Small loans:		
< Z$30,000	59	2.8
< Z$20,000	28	1.3
< Z$10,000	3	0.1
Large loans:		
> Z$120,000	71	3.4
> Z$150,000	18	0.9

Source: CU projects database, revised.

Table 22. Gender Distribution of Borrowers and Trainees, October 1992-February 1996

	Borrowers	Per cent	Trainees	Per cent	Trainees submitting projects Per cent
To 18/08/95:					
Men	1,424	90.1	11,023	85.1	12.9
Women	157	9.9	1,923	14.9	8.2
Total	1,581	100	12,946	100	
To Feb. 1996:					
Men	1,903	91.1			
Women	186	8.9			
Total	2089	100			

Source: CU and CU projects database, revised.

Table 23. Age Distribution of Borrowers, October 1992-February 1996

Age band	Number	Per cent
<30	282	14.2
30-39	731	36.7
40-49	630	31.6
50-59	324	16.3
>60	25	1.3
Total	1,992	100

Source: CU projects database, revised.

Table 24. Level of Education of Borrowers, October 1992-February 1996

Education level	Number	Per cent
-JC	387	21.2
JC	422	23.1
O-levels	846	46.3
A-levels	68	3.7
Further qualification	104	5.7
Total	1827	100

Source: CU projects database, revised.

Table 25. Borrowers' Previous Employer, October 1992-February 1996

Sector	Number	Per cent
Government	519	25.0
Parastatal	388	18.7
Private sector	1,172	56.4
Total	2,079	100

Source: CU projects database, revised.

Table 26. Mean Waiting Times in Project Processing, October 1992-February 1996

	Retrenchment to submission	Submission to approval	Retrenchment to approval
To February 1996:	10.5	3.0	16.4
Years:			
1992	2.3	3.0	4.7
1993	7.0	2.8	9.6
1994	9.9	3.8	13.8
1995	11.9	9.8	21.9
1996	11.3	14.5	25.6
Quarters:			
1992/4	2.3	3.0	4.7
1993/1	2.3	4.6	7.5
1993/2	6.2	1.5	6.9
1993/3	7.1	2.1	9.0
1993/4	7.3	3.2	10.8
1994/1	9.0	3.3	12.4
1994/2	9.1	3.6	13.1
1994/3	10.3	3.5	13.8
1994/4	10.6	5.0	15.6
1995/1	12.0	5.0	17.2
1995/2	12.5	7.1	20.0
1995/3	13.1	10.5	23.7
1995/4	11.3	13.3	24.8
1996/1	11.3	14.5	25.6
Cases	1,469	1,549	1,985

Source: CU projects database, revised.

Note: Because the number of cases differs, the columns are not directly comparable.

Table 27. Mean Grace and Repayment Terms on SDF Loans, October 1992-February 1996

	Grace period Months	Repayment period Years
To February 1996:	3.9	4.4
Years:		
1992	4.1	5.1
1993	4.7	4.7
1994	3.7	4.4
1995	3.7	4.4

Source: CU projects database, revised.

Table 28. Sample Clients Repayment Record

Sector	Sample Numbers				Ratios (%)		
	Current repay-ments	Repay-ments in arrears	Never repaid	Sample Size	Current repay-ments	Repay-ments in arrears	Never repaid
Transport	0	11	25	36	0	31	69
Agriculture	0	4	7	11	0	36	64
Construction	0	1	3	4	0	25	75
Manufacturing	0	13	10	23	0	57	43
Mining	0	1	1	2	0	50	50
Retail	0	5	15	20	0	25	75
Service	0	11	35	46	0	24	76
Sport	0	0	1	1	0	0	100
Total	0	46	97	143	0	32	68

Source: Sample of CU project files.

Note: Out of a total population of 1491 approved projects, a sample size of 143 clients files was polled. The accuracy of the data is not entirely reliable as there are cases where a client might be up to date but due to inefficient data capture systems at SDF, the ledger cards will record non-repayment or arrears. The sample was selected without proper adherence to statistical sampling methods. Although the actual sample units were randomly selected, the size of the sample units per sector was predetermined arbitrarily. Therefore the sample should not be viewed as truly representative of the population behaviour. The sample was clustered into sectors and data on the repayment patterns for each sample unit was collected, mainly from the records kept in the client ledger cards.

Table 29. Arrears Matrix Table, July 1994-September 1995

Z$	SDF loans granted	Expected monthly repayments	Loan balance	Total interest to be collected	Repay-ment due	Actually collected	Rate (%)	Arrears to date
1994:								
July	5208896	86815	5122081	42099	128914	42156		86758
Aug	9398760	243461	14277380	117348	360809	42588	11.8	318221
Sept	6846288	357566	20766102	170680	528246	51740	9.8	476506
Oct	6865657	471993	2715766	223231	695224	77907	11.2	617317
Nov	9937813	637624	36459955	299671	937294	85482	9.1	851812
Dec	6084786	739037	41805705	343609	1082645	73393	6.8	1009252
1995:								
Jan	8332205	877907	49260003	404877	1282783	56190	4.4	1226593
Feb	9548704	1037052	57771655	474836	1511887	62813	4.2	1449074
March	5224748	1124131	61872272	508539	1632670	121090	7.4	1511580
April	4221224	1194485	64899012	533417	1727901	97095	5.6	1630806
May	5395379	1284408	69009983	567205	1851613	163313	8.8	1688300
June	3648186	1345211	71312958	586134	1931345	152325	7.9	1779020
July	3042302	1395916	72959344	599666	1995582	148876	7.5	1846706
Aug	1294009	1417483	72835871	598651	2016134	209789	10.4	1806345
Sept	3424205	1474553	74785523	614676	2089228	196478	9.4	1892750
Total	88473162	13687639		6084638	19772277	1581235	8.0	18191042

Source: Sample of CU project files.

<u>Note</u>: The total accrued capital repayments do not include repayments of the loan amount granted between 1992 and June 1994 of Z$30 million. Very few repayments were recorded prior to July 1994.

Table 30. Nominal Repayments Schedule, No Defaults or Arrears

Z$ million	Annual			Cumulative		
	Loans	Repay-ments	Balance	Loans	Repay-ments	Balance
1992	0.4	0.0	-0.4	0.4	0.0	-0.4
1993	15.1	0.3	-14.8	15.5	0.3	-15.2
1994	77.7	9.9	-67.8	93.3	10.2	-83.1
1995	72.9	34.4	-38.5	166.1	44.6	-121.5
1996	6.6	53.9	47.3	172.7	98.4	-74.3
1997		53.1	53.1	172.7	153.0	-19.7
1998		49.9	49.9	172.7	202.9	30.2
1999		35.6	35.6	172.7	238.5	65.8
2000		10.5	10.5	172.7	249.0	76.3
2001		0.1	0.1	172.7	249.1	76.4

Source: CU projects database, revised.

Table 31. Depreciated Repayments Schedule

Z$ million	Annual		Cumulative		
	Repay-ments	Constant prices *	Repay-ments	Constant prices *	Capital + interest #
1992	0.0	0.0	0.0	0.0	0.0
1993	0.0	0.0	0.0	0.0	0.0
1994	0.2	0.1	0.2	0.1	0.2
1995	5.0	3.3	5.1	3.3	3.5
1996	17.2	10.2	22.3	12.4	13.9
1997	26.9	13.9	49.2	23.9	28.4
1998	27.3	12.3	76.5	32.3	41.7
1999	24.9	9.8	101.4	37.3	52.9
2000	17.8	6.1	119.2	38.1	60.6
2001	5.3	1.6	124.5	34.6	64.1

Source: CU projects database, revised.

* Base = October 1992.
# Repayments plus interest at inflation plus 3 per cent on accumulated deposits or new lending, at constant prices. Repayments of principal on new lending excluded.

Assumptions: a) Capital funds already paid to SDF credit scheme converted to grants; b) average repayment rate = 50%; c) average arrears = 1 year; d) average inflation = 15%; e) average interest rate on deposits = inflation + 3%.

ANNEXES

ANNEX 1. CONSTITUTION OF THE SOCIAL DEVELOPMENT FUND AS AMENDED 1995

1.1 Establishment and Title of the Fund

A fund to be called the Social Development Fund (hereinafter referred to as the Fund) is hereby established in terms of section 30 of the Audit and Exchequer Act /Chapter 168/.

1.2 Objectives of the Fund

The objectives of the Fund shall be:

a) to provide capital funds for approved small scale enterprises, co-operatives, and public works projects which create employment for those who suffer from the short term effects of the Economic Structural Adjustment Programme (hereinafter referred to as the ESAP);

b) to provide training grants, including in-plant exposure for persons retrenched from both the private and public sector as a result of the implementation of ESAP;

c) to provide grants for school fees for children who come from such families, as may be identified by the Department of Social Welfare as having been directly affected by the implementation of ESAP;

d) to provide grants for medical care to persons identified by the Department of Social Welfare as having been directly affected by the implementation of ESAP;

e) to provide food subsidies to persons identified by the Department of Social Welfare as having been affected by the short-term effects of ESAP;

f) to provide financial, technical, managerial assistance and advice to those adversely affected by the short term effects of ESAP for undertaking income generating projects through Community Based Organisations.

1.3 Administration of the Fund

a) The Fund shall be administered by the Secretary for Public Service, Labour and Social Welfare (hereafter referred to ae the "Secretary") who shall issue detailed instructions on Accounting and Administrative procedures in accordance with Treasury Instructions.

b) all the moneys received by the Fund shall be paid into a banking account and no money shall be withdrawn therefrom except by means of cheques signed by such persons as may be authorised by the Secretary;

c) any part of the funds not immediately required for purposes of the Fund shall be invested in such a manner as may be directed by Treasury from time to time.

1.4 Assets of the Fund

The assets of the Fund shall consist of :

a) cash resources and financial investments and;

b) fixed or movable property donated to the Fund by donors or provided by government.

1.5 Income

The income of the Fund shall consist of:

a) moneys which may be appropriated by the legislature;

b) interest on loans and investments;

c) loans repayments;

d) any money donated, granted and accepted by the Advisory Board with the approval of Treasury.

1.6 Expenditure

a) such loans and grants for projects and activities approved by the LOGAC;

b) such other payments considered incidental to the objects of the Fund such as bank charges/administrative expenses/ legal fees for loan collections and loans which are authorised for write-off by Treasury etc.;

c) meeting expenses of promoting and mobilising support for the Social Development Fund Programme as may be approved by LOGAC;

d) meeting expenses associated with the activities of the Advisory Board such as travel and subsistence allowances for non civil servants members of the Board;

e) such other expenses as are incidental to but not inconsistent with the objectives and operations of the Fund and which will be subject to approval of LOGAC.

1.7 Advisory Board

a) For purposes of advising the Secretary on the application of the Fund/ there shall be an Advisory Board consisting of:

   I) a Deputy Secretary from the Ministry of Public Service/ Labour and Social Welfare/ who shall be the Co-ordinator of the fund/ and the Chairman of the Board;

ii) four officers from the Ministry of Public Service/ Labour and Social Welfare nominated by the Secretary of that Ministry;

iii) two officers from the Ministry of Finance nominated by the Senior Secretary for Finance;

iv) an officer from the Ministry of Lands, Agriculture and Water Development nominated by the Secretary for that Ministry;

v) an officer from the Ministry of Health and Child Welfare nominated by the Secretary of that Ministry;

vi) an officer from the Ministry of Industry and Commerce nominated by the Secretary of that Ministry;

vii) an officer from the Ministry of Education and Culture nominated by the Secretary of that Ministry;

viii) an officer from the Ministry of Higher Education, nominated by the Secretary of that Ministry;

ix) an officer from the Ministry of National Affairs, Employment Creation and Cooperatives nominated by the Secretary of that Ministry;

x) an officer from the Ministry of Local Government, Rural and Urban Development nominated by the Secretary for that Ministry;

xi) a representative from the Consumer Council of Zimbabwe;

xii) a representative from non-governmental organisations;

xiii) a representative from the Zimbabwe Association of Business Organisations;

xiv) a representative from the Zimbabwe Congress of Trade Unions; and

xv) a representative from the Zimbabwe Federation of Disabled Persons;

xvi) any other member co-opted by the Chairman.

b) ten members shall form a quorum.

1.8 Functions of the Advisory Board

The functions of the Advisory Board shall be:

a) to advise the Secretary on issues of policy affecting the application of the Fund;

b) to make any recommendations to the Secretary regarding any matters affecting the Fund.

1.9 Administration of Projects

The Secretary shall appoint a Loans and Grants Allocation Committee (LOGAC) consisting of:

a) members from the Ministry of Public Service, Labour and Social Welfare one of whom shall be the Chairman;

b) members from the Ministry of Finance;

c) a member from Ministry of Lands, Agriculture and Water Development;

d) a member from Ministry of Mines;

e) a member from National Economic Planning Commission;

f) any other member co-opted by the Chairman.

1.10 Functions of the LOGAC

The functions of LOGAC shall be:

a) to determine the amount of resources to be allocated as loan funding for employment generating projects, and to apportion thereafter such resources to specific programmes' and to determine the terms and conditions of such loans;

b) to determine the financial resources that will be made available as grants, their allocation between different eligible institutions and the conditions and requirements governing the grants;

c) to determine the institutions that should be eligible for loans and grants.

1.11 Accounts

The Secretary shall submit to the Comptroller and Auditor General an Income and Expenditure Account and a Balance Sheet of the Fund in accordance with the requirements of the Audit and Exchequer Act /Chapter 168/, within three months of the end of the financial year.

1.12 Dissolution of the Fund

In the event of the dissolution of the Fund or its amalgamation with any other Fund, association or body, no moneys or assets of the Fund shall be transferred to or amalgamated with any such Fund association or body except as may be directed by Treasury.

1.13 Amendments of the Constitution

No amendments or replacement of this constitution shall be made except by the Treasury.

ANNEX 2. INTEGRATION OF THE CU AND MIU DATABASES: A TECHNICAL NOTE

2.1 Introduction

2.1.1 Two comprehensive collections of data are maintained at the SDF Coordinating Unit (CU): a computerised database containing basic information on each project for which a loan was approved; and individual files containing all documentation specific to a particular approved project.

2.1.2 The CU database overlaps a previous database maintained by the Monitoring and Implementation Unit (MIU) of the Ministry of Finance up to early 1995. For the purposes of this study they were reconciled and combined to build a single integrated projects database which provided a principal source of project data for analysis. The more recent project records were also cross-checked where possible against the incomplete decision records of the SDF's Loans and Grants Allocation Committee (LOGAC).

2.2 Aims, Approach and Methodology

2.2.1 In order to assist the analysis of the performance of the SDF the team requested and was given access to computerised data on projects approved for SDF funding. The principal aim was to generate a systematic data set for assessing the social and economic impact of SDF project lending and the financial characteristics of SDF loans. It was also agreed that the exercise would provide a preliminary technical review of the status of the data set for the use of the Coordinating Unit in planning the pending introduction of a computerised accounting system with links to project information.

2.2.2 This short note gives information on the existing computerised data, describes the preparation of a revised projects data set and provides technical notes to the database files and spreadsheets supplied on diskette to the CU.

2.2.3 Two distinct project databases have been compiled during the lifetime of the SDF credit programme, the first by the MIU and the second by the CU. The periods covered by each match the assignment of responsibility for chairing LOGAC, which the Ministry of Finance exercised through the MIU until early 1995 when it was transferred to the Ministry of Public Service, Labour and Social Welfare. As part of the handover the MIU provided a complete printout of its project database but not the source computerised files. In consequence the CU designed a new database and keyed in most of the MIU data from scratch, updated information on existing projects and entered new projects.

2.2.4 The MIU database is organised in a single large spreadsheet, originally in Lotus format and lately imported into Excel. The CU database is implemented in dBase IV. In order to prepare the data for analysis it was necessary first to unify the two data sets as far as possible. The MIU spreadsheet was supplied complete except for the names and addresses of SDF borrowers while the CU data file was duplicated in its entirety. Both were imported into MS Excel for editing and integration. The output takes the form of unified spreadsheet files in Excel format, converted also to Lotus .WK1 format with a header row suitable for importing into dBase.

2.3 Status of the Existing Project Databases

2.3.1 The data structure of the two databases is similar but not identical. The MIU spreadsheet as supplied has 23 fields of which one is blank. There are presumably at least two additional fields containing the names and addresses of the loan applicants, information which was removed from the version supplied to the team on grounds of confidentiality. The CU data file has 25 fields of which also one is blank; the file contains the complete contents of the database.

2.3.2 Apart from the missing names and addresses in the MIU file, there are several differences between the two data structures which are summarised in table A2.1:

Table A2.1. Differences between the CU and MIU Data Sets

Field	In MIU file	In CU file
Marital status	Yes	No
Disability	No	Yes
Date of submission	Yes	No
Total project cost	Yes	No
Own contribution	Yes	No
Grace period	Yes	No
Repayment period	Yes	No
Urban/rural location of project	Yes	No
District location of project	No	Yes

2.3.3 The most significant absences in the CU database are of more detailed information on approved loans in the CU database, preventing projections of potential future income and an assessment of the proportion of borrowers' own contributions. The MIU database lacks disability status and district locations of projects. A comparison of the data structures appears in table A2.2.

2.3.4 While most equivalent fields in the two databases share the same definitions there are also several differences, mainly in the coding employed (see table A2.2):

- The two databases have different sequence project numbers with the result that although the number provides a unique project ID in each set, the projects in the MIU database have different unique identifiers in the CU set.
- For the applicant's level of educational attainment, the lacks the 'degree' and 'postgrad' categories given in the MIU file while the latter's lowest category 'Form 2 and below' does not match the CU's 'JC' and 'Below JC'.
- For 'Name of consultant' the MIU has an 'Other' category which supposedly covers all unnamed consultants whereas the CU lists all consultants by name.
- Under 'Economic sector' the CU merges the MIU's 'Agro-industry' category mostly into 'Services' and has 'Retail' for 'Trading' and 'Sport' in place of 'Entertainment'.
- For 'Loan status' the MIU's 'Approved and funded' category is merged into the CU's 'Approved' category.

2.3.5 Turning to the contents of the respective databases, it is immediately apparent that there is a large measure of overlap. When the projects are matched up the great majority in the MIU file have also been separately entered into the CU file. Nevertheless just under 10 per cent of the approximately 1400 MIU projects having approved loan status are missing from the CU database. There could be good reasons for the absences, including a subsequent change in the loan status or an updating or correction of the previous project information. However, the fact that this group of projects is missing altogether from the file suggests that they were never entered rather than changed in status.

2.3.6 There are overall some 1,400 projects recorded in the MIU file which either had approved status by the time that data entry ceased in January 1995 or were later accorded approved status. The CU database contained records for approximately 2,100 approved projects up to early February 1996 when LOGAC meetings were suspended. This total is some 200 more than the number officially recorded by the CU to the end of January 1996. It is probable that the CU record is updated incrementally from the decisions of each LOGAC meeting. The discrepancy between the two data sets needs further investigation. On balance, the database may prove the more complete of the two.

2.3.7 It is important for database administration and data consistency that each record be assigned a unique identifier. In the MIU spreadsheet each new record was entered on the next row and the previous project's number incremented by 1. This simple device ensured that neither gaps between numbers nor duplicate numbers appeared in the file. It did, however, have the result that in a minority of cases projects that were deferred or otherwise failed to secure loan approval remained in the file, which is thus a record of projects submitted to LOGAC rather than of approved projects, although the great majority of those submitted were in fact approved. It is not quite clear whether all submitted projects were actually keyed in: the 'status' field does have a code for rejections but very few projects fall under this category.

2.3.8 In the CU database the picture is more confused. A number of duplicates were found: 40 projects had the same record numbers as other distinct projects and 29 projects were replicated in two records. These may not be exact numbers because in a few cases the data differences between almost identical records might be interpreted either as mistakes in data entry or as deriving from two separate projects, making the determination of their status a borderline case. Nonetheless the fact that a significant batch of duplicates were found points to the need for a rigorous review of the data accuracy and consistency of the existing records as well as a redefinition of the key (project number) field to enforce the assignment of unique identifiers to each new project entered into the database.

2.3.9 A comparison of the contents of the two databases reveals a fairly reasonable level of correspondence between the respective records for the same projects but many differences of detail, which appear to arise in most cases from either mistakes in data entry or minor differences in the interpretation of the raw data. The match between numerical data such as age of applicant is, for example, very good whereas text fields such as project location and project type have many small variations.

2.3.10 While most differences can be reconciled from the context of the matched pair of records, in several fields discrepancies can be significant:

- The names and addresses of the applicants: could not be checked for reasons indicated above.

- Loan approval status: approved in the great majority of cases but for a small number of projects it is uncertain, particularly where projects are 'approved' in the MIU file but not in the CU file, where loan amounts and other details are missing for approved loans and also where loan and other details are complete but 'approved' status is missing from either one or the other file. The loan status of about 50 projects in the CU database appears to be either uncertain or deferred.

- SDF loan amounts: in a surprisingly large number of cases the amounts of loans already marked as approved in the MIU file differ from those entered in the CU database. The number of such discrepancies is well over 200 out of 1400 records, reducing to about 170 after correction of obvious data entry errors such as too many or too few zeros. In some cases they could be attributable to later increases in the loan amount or to second loans: in over 100 cases the CU amount is higher than the MIU amount, totalling Z$2.2m. But in nearly 70 cases, totalling Z$0.8m, the CU amount is less and in the absence of a loan review procedure the most probable explanations are either data entry errors or differing interpretations of the project documentation.

- Project locations: the MIU details are much less precise, giving province and district, area or town, whereas the CU database has local addresses in the 'Village' field as well as districts and provinces. However, checking on map locations exposed quite a number of apparent errors in assigning local addresses to districts and even provinces.

2.3.11 Brief additional comments on the completeness, quality and consistency of data in the two databases are given in table 1.

2.4 Integration of the MIU and CU Databases

2.4.1 The two files were first converted to Excel spreadsheet format and their data structures revised to an identical set of fields. The individual records were then matched line by line to verify correspondence between the two databases. Duplicate records were removed and duplicate project identifers were renumbered to ensure unique identifiers for every record. The MIU project numbers were employed as the base numbering scheme for matched MIU and CU records. Where new numbers were needed, in particular for duplicate CU numbers, vacant MIU numbers were assigned. For the post-MIU run of CU records the data entry sequence of the dBase file was used since like the MIU spreadsheet it followed fairly closely the chronological sequence of loan decisions.

2.4.2 The loan decision status of projects was then reviewed by comparing the two data files and also checking the paper meeting records of LOGAC decisions. Records having loan rejections or no approval status, together with an absence of project information, were deleted; they were few in number. Records having deferred status were transferred to a separate file together with a few whose approval status appeared uncertain. They numbered 48. All remaining 2092 records passed two test criteria: they had approved loan status and a loan amount was stated.

2.4.3 The integration of the two files proceeded on the basis that:

- Where matched records existed in each database, the CU record was taken in preference, any data gaps were updated from the equivalent MIU field and the additional MIU fields missing from the CU data structure were grafted in;

- Where a MIU project with approved loan status did not have a CU equivalent, it was transferred to the integrated file;

- All CU records not having a matched MIU equivalent were included.

2.4.4 All records in the integrated SDF data file were then checked against the MIU and CU files for gaps and inconsistencies and wherever possible these were upgraded from the record's context or from identifying likely errors in data entry. Having improved the quality of the data as far as the context allowed, the following additional steps were taken:

- The many naming inconsistencies were harmonised to a uniform style, in particular the names of organisations, abbreviations of the names, the placenames of towns, areas and districts, and the spelling of data categories, for example in the project activity field.

- Numerical codes were devised for the categories of all conventions in fields using only the text names of such schemes, the purpose being to facilitate systematic classification and sorting of the database records. Definitions of the additional codes are given in table 2.

- Several result fields were added, for instance a calculation of the period between date of submission and date of loan decision. A complete list of fields and headers appears in table 4.

- In a couple of fields data was added from external sources, for instance in the 'District' field where project locations were checked against maps to verify and gap-fill administrative district names.

2.4.5 At the end of this exercise the output was an integrated database table of 2092 projects with approved loan status plus secondary files of deferred and duplicate projects. It must be stressed that it was in many cases not possible within the limitations of this desk-based comparative procedure to verify the data contents of particular fields and records, which can only be done by painstaking cross-checking with the project files. Earlier in this note several data fields were indicated, particularly for loan status and amount of approved loan, where such validation will be important to undertake for SDF management purposes.

2.5 <u>Uses and Recommendations</u>

2.5.1 The integrated data file which is the main output of the exercise described above provides in a single data set the records of all SDF projects with approved loan status. The data contents have been error-checked, validated and extended within the necessary limitations of the exercise.

2.5.2 The file can be viewed either by importing it into a database programme such as dBase IV or by viewing the spreadsheet directly in Excel 5. Used as a spreadsheet, it will be fairly simple to generate statistical reports, for example the number of projects approved by economic sector and month. Virtually any selection of fields can be combined in a report and more complex report formats can be designed.

2.5.3 The spreadsheet could be used as a backup for the main CU database. It can be used to generate reports on the SDF projects although it must be remembered that there are now many differences of detail between the original data file and the integrated spreadsheet. It also provides an easily accessible tool for analysing the data, for instance to establish patterns in the regional distribution of projects.

2.5.4 While some of the data problems in the MIU and CU databases do not matter much, it will be important to review thoroughly the most important fields across the entire data set before reliable results can be generated. These fields comprise:

- Project number, especially removing duplicates.
- Approval status
- Amount of approved loan
- Project location

2.5.5 In addition it would assist the financial management of the project portfolio to restore several of the MIU fields omitted from the CU data structure, notably the grace period and the repayment period.

2.5.6 The recommended upgrading of the CU database has largely been done already in the integrated database. However, the judgements made in reconciling and correcting the original data need to be validated against the file records of the individual projects.

2.5.7 Other project information may well be needed to assist project monitoring and follow-up on repayments but it would probably be preferable to use a specialist project management software package for this purpose alongside the planned introduction of a computerised accounting system.

2.6 <u>Installing the Files</u>

2.6.1 The database has been produced in Excel and Lotus .WK1 formats, the latter being suitable for import into database applications using programs such as dBase IV. The main data file appears in two data structures:

- A standard file ETP3.XLS containing the results of the integration;

- An extended file ETP2.XLS containing in addition for ease of comparison several of the matching source fields from the two databases, such as the project activity field where there are many differences of detail.

2.6.2 The single Excel spreadsheet contains several separate sheets, one for each data set. The main approved projects data set is in the 'Combined' sheet and the secondary files are in the 'Deferred' and 'Duplicate' sheets. The 'Codes' sheet compares the codes employed in the source databases field by field and the 'Fields' sheet contains short definitions of all the fields in the 'Combined' sheet (see also tables A2.3 and A2.4).

2.6.3 Also provided in ETP1.XLS is the working spreadsheet from which the result files were generated. It contains the original MIU and CU data files together with intermediate working sheets.

2.6.4 The Excel 5 .XLS and Lotus 123 Rel.2 .WK1 files are supplied in compressed ZIP files on diskette. To unzip and view the files, run the following procedure:

For the single diskette containing the .WK1 database files:

1. Make a new directory on the C: drive.

2. Copy the entire contents of the diskette to that directory.

3. Change to the directory and execute: PKUNZIP ETP2DB.ZIP.

4. Import each of the three .WK1 files into separate dBase data files.

For the multiple diskettes containing the .XLS spreadsheet files:

1. Make a new directory on the C: drive.

2. Put in the diskette with the highest number in the top right-hand corner.

3. Change to the A: drive and execute: PKUNZIP ETP.ZIP C:\<directory>.

4. Run Excel 5 and select the .XLS file of choice.

2.6.5 The .WK1 files can be imported directly into dBase. They have dBase compatible data headers and for those fields containing original CU data the identical fieldnames have been retained.

2.6.6 The following printouts from the integrated SDF spreadsheet accompany the data files on diskette.

- The header rows of the integrated SDF spreadsheet giving the column letters, the text headers and the column numbers for the spreadsheet together with their MIU and CU database equivalents where matching.

- Field descriptions (see also table 5).

- Data codes (see also table 4).

- Projects with approved loan status: the pages run down and then across, making up 4 marked blocks of columns with the project number to the left.

- Deferred and duplicate projects.

Table A2.2. Notes on Data Completeness, Quality and Consistency

MIU field no.	CU field no.	Field	Notes
1	23	Project no.	Two different number series. Duplicate numbers and records in the CU file.
	1	Name of applicant	Complete in the CU file.
	19-22	Address of applicant	Complete in the CU file.
5	2	Education	MIU 100% complete, CU over 90%.
2	6	Age	MIU 100% complete, CU over 95%.
3	7	Sex	Both 100% complete.
4		Marital status	MIU about 95% complete.
7	8	Previous employer	Both over 95% complete.
6	9	Type of employer	Both over 95% complete.
8	10	Date of retrenchment	Both over 90% complete.
	11	Disability	CU 100% complete.
16	3	Consultant	CU close to 100%, fairly frequent misspelling of names/acronyms; MIU over 95% complete, some names lost by merger into the 'Other' category.
10	12	Project activity	Both 100% complete; many differences of detail and a few of substance between the databases.
9	13	Economic sector	Both 100% complete; some internal inconsistencies in the CU records with the same activity classified to different sectors.
15	14	Jobs created	Both 100% complete.
	15	Date of submission	CU about 80% complete.
22	4	Loan status	Both 100% complete; some differences between the two.
23	17	Date approved	Both 100% complete.
17		Total project cost	MIU=aggregate.
19		Own contribution	MIU about 75% complete.
18	18	Loan approved	MIU 90% and CU 100% complete; significant number of differences between the two.
21		Grace period	MIU 95% complete.
20		Repayment period	MIU 95% complete.
14		Urban/rural	MIU 100% complete; definition unclear; substantial number of apparent differences with the stated project location.
12	25	Province	MIU 90% and CU 100% complete; map discrepancies.
	24	District	CU 100% complete; districts mixed in with towns and rural areas, little consistency in type of area given.
13	5	Village	MIU 95% and CU nearly 100% complete; MIU has similar inconsistency to MIU districts; CU sometimes lacks full details, especially for town addresses; a few rural addresses appear to be postal rather than locations.

Table A2.3. MIU and CU Data Codes

Field no.		Field	MIU codes		CU codes	
MIU	CU		Codes	Description	Codes	Description
5	2	Education	1	Form 2 and below	-JC	Below JC
			2	O level	JC	JC
			3	A level	O	O level
			4	Degree	A	A level
			5	Postgrad	A+	Above A level
3	7	Sex	1	Male	M	Male
			2	Female	F	Female
4		Marital status	0	Single		
			1	Married		
6	9	Type of employer	1	Public sector	GOVT	Government
			2	Private sector	PVT	Private sector
			3	Parastatal	PAR	Parastatal
	11	Disability			D	Disabled
					ND	Not disabled
9	13	Economic sector	1	Agriculture		Agriculture
			2	Agro Industry		
			3	Transport		Transport
			4	Manufacturing		Manufacturing
			5	Services		Services
			6	Trading		Retail
			7	Entertainment		Sport
			8	Construction		Construction
			9	Mining		Mining
22	4	Loan status	0	Rejected	R	Rejected
			1	Deferred	D	Deferred
			2	Approved	A	Approved
			3	Approved and funded		
14		Urban/rural	0	Rural		
			1	Urban		
12	25	Province	1	Harare		
			2	Manicaland		
			3	Mashonaland Central		
			4	Mashonaland East		
			5	Mashonaland West		
			6	Masvingo		
			7	Matabeleland North		
			8	Matabeleland South		
			9	Midlands		

Table A2.4. Additional Codes Introduced into the Integrated Data File

Field		Categories	
No.	Header	Code	Description
7	Economic sector	1-9	Follows the MIU codes except that 7. 'Entertainment', for which there are very few projects, is merged with 5. 'Services'.
10	Business activity	Sector + 2 digits	A 3-digit sequence number adding 2 digits to the sector code, thus 609 = 'General dealer'. The 2 digits are assigned in order of occurrence in the list.
14	Province	0-9	Follows the MIU codes except that 0. Bulawayo is split from Matabeleland North, following the 1992 census.
16	District	Province + 2 digits	A 3-digit sequence number adding 2 digits to the province code, thus 506 = Kadoma Urban in Mashonaland West. The district names follow the 1992 census.
20	Growth Point	G	Growth Points indicated as such in the Village field. Other type of location codes can be added as desired.
21	Urban/rural	U/R	Indicating the status of the project location.
24	Consultants	1-15	Follows the MIU codes except that 14 is expanded to indicate the specific names given in the CU file, thus 14d = World Vision.
32	Approval status	R D A	Follows the CU codes.
33	Status/Uncerta in	L X	X = Approval status not validated. L = Loan amount missing.

Table A2.5. Fieldnames and Headers in the Integrated Database File

DB field *	Col	Spreadsheet header	Additional notes
PJT_REV	1	Project number/Revised	Revised to ensure a unique project number for each record
PROJECTNO	2	Project number/CU database	As in the CU database
PJT_MIU	3	Project number/MIU database	As in the MIU database
DEF	4	Duplicates	Records for which duplicates have been reconciled
RCD_SRC	5	Record source	Base data from the MIU or CU database
APP_NAME	6	Name of applicant	From the CU database
SEC_REV	7	Economic sector/Code/Revised	Revised sector code
SEC_MIU	8	Economic sector/Code/MIU	From the MIU database
SECTOR	9	Economic sector/Description	Revised
P_CODE	10	Business activity/Code	New code
P_TYPE_REV	11	Business activity/Description/Revised	Revised project activity description
PROJ_TYPE	12	Business activity/Description/CU	CU project activity description
P_TYPE_MIU	13	Business activity/Description/MIU	MIU project activity description
PROV_CODE	14	Province/Code	New code
PROVINCE	15	Province/Name	Revised
DIS_CODE	16	District/Code	New code
DISTRICT	17	District/Name	Revised
SUBURB	18	Town, suburb, area	Name if needed
VILLAGE	19	Village, street, plot	From the CU database
GP	20	Growth Point	If so described in the Village field
UR_REV	21	Urban-Rural/Revised	Project location, revised
UR_MIU	22	Urban-Rural/MIU	From the MIU database
NO_OF_JOBS	23	Number of jobs	Jobs created
CNSLT_CODE	24	Consultant/Code	Integrated
CONSULTING	25	Consultant/Name	Name of organisation
INVT_TOTAL	26	Total project investment	SDF + Own funds
INVT_SDF	27	Approved SDF loan/Revised	By LOGAC
INVT_OWN	28	Borrower's investment	Own funds
AMT_APPVD	29	Approved SDF loan/CU	From the CU database
INV_DIFF	30	Loan difference	Between the CU and MIU databases
STATUS_MIU	31	Final loan decision/MIU	From the MIU database
STATUS	32	Final loan decision/Revised	From the two databases and LOGAC records
STATUS_U	33	Final loan decision/Uncertain	Data missing, conflicting, decision deferred etc
LOANS_NO	34	Number of loans	Approved for this borrower
GRACE	35	Grace period	In months
RPMT	36	Repayment period	In years
D_RETRENCH	37	Date of retrenchment	Letter of retrenchment
DATE_SUBMI	38	Date of submission	Of loan application
DATE_FIRST	39	Date first considered	Loan application by LOGAC
DATE_APPR	40	Date approved	Loan application by LOGAC
PERIOD_A	41	Gap/Retrenchment-submission	Days from retrenchment to submission of application
PERIOD_B	42	Gap/Retrenchment-approval	Days from retrenchment to approval of application
PERIOD_C	43	Gap/Submission-approval	Days from submission to approval of application
PERIOD_D	44	Age	Of applicant
AGE	45	Sex	M/F
SEX	46	Marital status	Married/single
MARITAL	47	Education	Level achieved
EDUCATION	48	Disability status	Disabled/ Not disabled
DISABILITY	49	Type of employer	Public sector/Parastatal/Private sector
T_O_EMPLYR	50	Name of employer	
EMPLOYER	51	Address of applicant	
ADDRESS1	52	Address of applicant	
ADDRESS2	53	Address of applicant	
ADDRESS3	54	Address of applicant	
ADDRESS4	55		

* Fieldname designed for importing into dBase.

ANNEX 3. NOTES ON SELECTED MICROFINANCE INSTITUTIONS IN ZIMBABWE

The activities of three organisations with national coverage, the Credit Guarantee Company, SEDCO and Zambuko Trust, are reviewed[1].

3.1 The Credit Guarantee Company (CGC)

3.1.1 The Credit Guarantee Company (CGC) was established jointly by the Reserve Bank of Zimbabwe and the five commercial banks to encourage lending to small businesses and expanded its operations from 1988[2]. The Government's aim was to increase the share of lending to small businesses in the commercial banks, which had hitherto invested very little in MSE development. The Reserve Bank guarantees 50 percent of the value of loans to men and 65 percent on loans to women[3], in both cases exclusively on loans made by the partner banks. The CGC itself has no assets: it is owned by the banks and acts as an agency for loan processing, employing mainly staff seconded from the banks.

3.1.2 CGC loans are in principle commercial bank loans which are secured by a guarantee from CGC. Qualifying applications are referred by the banks to the CGC for evaluation. The CGC staff appraisals then go for decision to the Advances Committee and if approved the loans are disbursed through the banks. The processing cycle aims at a decision within 40 days but that target has been found to stretch in some cases to a number of months.

3.1.3 Under its regular guarantee programme the CGC has a cap of Z$0.5 million, although this has sometimes been exceeded, and an average loan size of around Z$0.2 million. By late 1995 the client base comprised 93 under the CIDA scheme and 660 in the regular scheme. The terms of lending were 1 per cent above prime rate with loose requirements for collateral.

3.1.4 The CGC's role underwent a major change in 1994. The government had initially targeted the small enterprise sector with a Z$100 million facility in the early 1990s. These funds were channelled through commercial banks. It is alleged that the commercial banks used this facility as an opportunity to clear long-standing loan obligations by the small enterprise sector. The funds were approved by the banks for the purposes of covering existing debts in the banks' books, hence the objective of financing small companies was defeated.

3.1.5 In early 1994, the Government approved a further Z$400 million which was disbursed instead through CGC on very concessional terms. Interest rates were set at only 5 percent per year in an environment where inflation was then running at about 18 per cent and the nominal commercial interest rate closer to 25 percent, the Reserve Bank charging 3 per cent and the commercial banks charging a 2 per cent commission rate. The government guarantee was raised to 75 per cent. Under the new facility the CGC primarily targeted SMEs and set variable terms by sector:

- Manufacturing: Z$410,000, grace 12 months, repayment over 5 years;

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1. Recent research by Peter Fidler for the World Bank, in March 1996 still in working draft form, will when published provide detailed information and analysis on Zimbabwe's small scale and informal sectors. This section draws in part on his preliminary findings.
2. Its predecessor was founded in 1978.
3. The additional 15 percent was funded by the Canadian International Development Agency (CIDA).

- Transport: Z$240,000, grace 6 months, repayment over 2 years;
- Commerce: Z$160,000, grace 9 months, repayment over 2 years.

3.1.6 The average loan size has been approximately Z$164,500. Not surprisingly, demand at such generous terms was high. By late 1995 the CGC had received more than 7,000 applications worth Z$1.8 billion and had approved 2,298 of them. Although the average amount was much higher than the SDF, the number of applications received and processed by late 1995 were roughly equivalent over a timespan about half the length. The diversion of applications and pressure of work forced the CGC to suspend its regular lending programme temporarily. The repayment rate on the concessional loans was not expected to be high.

3.2 The Small Enterprises Development Corporation (SEDCO)

3.2.1 In 1983, the Government established the Small Enterprise Development Corporation (SEDCO) as a development finance institution for small and microenterprises. SEDCO lends on terms below commercial interest rates (25 percent nominal interest rate) but which have mostly been positive in real terms. The upper size limits in late 1995 were 50 employees and assets under Z$0.5 million.

3.2.2 As of December 1993, SEDCO had 1,892 loans outstanding valued at Z$128 million in principal and accrued interest, giving an average loan size of Z$67,700. In March 1995, the number of borrwers was put at 1,900 and the portfolio at about Z$145 million. During FY 1994, SEDCO approved 186 loans amounting to Z$23.3 million, an average loan size of Z$125,000. The slow pace of processing has reflected in part the limited capital resources at its disposal.

Table A3.1. SEDCO's Loan Portfoilo: Sectoral Distribution and Term Structure

	Clients (%)	Loans (%)
Sector (at Dec. 1993):		
Commerce	57	31
Industry	21	26
Services	18	37
Three sectors	96	94
Duration (at Feb. 1995):		
<3 years	13	3
3-5 years	77	79
>5 years	10	18

Source: World Bank, *ICR*, p.3.

3.2.3 A sectoral breakdown of SEDCO's clients reveals that more than half were in commerce but that the unit value of loans was higher in industry and much higher in services (see table A3.1). As of February 1995, most of SEDCO's loans were of medium term duration and only 3 percent of SEDCO's portfolio hads been lent out on a short-term basis (under 3 years), although these made up 13 per cent of clients. A gender breakdown reveals that only 11 per cent of borrwers were women.

3.2.4 SEDCO has developed a fairly detailed project processing system which includes site visits. It has also implemented a computerised monitoring system to manage information and track arrears.

3.2.5 SEDCO also provides technical assistance to its clients. Recently SEDCO started to separate its technical assistance side of operations from its financial services, following a Government statement in 1995 that the two functions would be split into distinct institutions.

3.2.6 SEDCO has been hampered by repayment problems. While the number of clients declared to be in arrears as of March 1995 was only 19.4 percent, its portfolio at risk rate (loans more than 90 days past due date) was 62.2 percent. It is estimated that the repayment performance of SEDCO's clients is even poorer than these statistics would indicate given SEDCO's practice of rescheduling loans. A study was reported to have indicated that at the end of 1993 arrears of principal and interest amounted to Z$78 million out of a total portfolio of Z$128 million, or 61 per cent. Such losses have compromised SEDCO's ability to use loan repayments fully to project itself on a path toward financial sustainability and it has depended heavily on new capital injections to maintain its lending programmes. However, it has also been noted that many clients have in the past repaid fully after loan maturity.

3.2.7 A recent World Bank evaluation report[4] on its US$8.5 million loan to SEDCO for SSE lending came out with a moderately positive assessment. The programme, which ran from 1986 to 1994, made loans to 246 enterprises, approximately half the originally intended outreach. Of these, SEDCO estimated that 70 per cent were performing well. Of those loans still on its books at the end of February 1995, 55 per cent were either not repaying or paying later than three months in arrears. However, the efficiency of the recovery unit is said to have improved lately. The Government has also strenghtened SEDCO's legal powers to enforce debt recoveries on its own behalf.

3.2.8 In 1994 SEDCO launched a separate micrifinance scheme targeted on the informal sector. The repayment rate for this scheme were stated in early 1995 to be much higher at 90 per cent. In an interview in November 1995, the General Manager of SEDCO stated that 1,377 people in approximately 459 groups had been assisted by its micro-finance scheme started in 1994. Total loans amounted to Z$1.8 million, thus averaging Z$1,307 per loan. The formal loan ceiling was Z$2,000 per person repayable within 12 months. The scheme was based on group lending principles with a minimum of three per group. Most of the loans have gone to Harare (286) and Bulawayo (47) and the scheme is thus heavily town oriented, although it aims at nationwide coverage[5].

3.2.9 Over-centralisation and institutional inefficiency have imposed heavy drags on SEDCO's performance. It was estimated in late 1995 that for every SEDCO staff member, the institution made only 10 loans. Some 45 per cent of its staff were based at head office with a preponderance of senior grades. In some cases found amongst a sample of borrowers in 1994, the waiting time was12

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4. World Bank, *Implementation Completion Report, Zimbabwe: Small Scale Enterprise Project (Loan 2533-Zim)*, (Washington, June 1995).

5. *People's Voice*, 5-11 November 1995. Details are scarce since SEDCO declined to make available data on its client base.

to 18 months from applicaton to disbursement.[6]. However, operational efficiency is said to have recently shown a 'noticeable improvement'.

3.2.10 It appears that despite the restrictive small business environment of the 1980s and the turbulent economic changes of the early 1990s, SEDCO's loans had good results for many borrowers. A 1994 tracking study of 18 borrowers[7] reported generally 'very positive results. This data as well as anecdotal evidence suggests that SEDCO has had an imporant impact on individual businesses as well as on the degree to which indigenous businesses have developed in Zimbabwe'. Actual job creation was at 1,095 much less than the 'over 5,000' indicated on loan applcations, but the cost per job was relatively low at Z$34,929.

3.2.11 Government support of SEDCO in terms of providing committed capital was limited. Following a recent Government decision, the organisation has been reviwing options for attracting equity capital and thus diversifying its sources of finance.

3.2.12 The difficulties of the economic and institutional environment within which SEDCO has operated have been identified as major factors affecting its performance and those of its borrowers, amongst them:

- Distortions and monopolies favouring larger companies and parastatals before ESAP;
- A restrictive small business regulatory environment which has as yet been only partially reformed;
- The more volatile economic environment of recent years in which disasters such as the 1992 drought have conicided with expanded opportunities arising from ESAP;
- Continuing high real interest rates influenced by the fiscal deficit.

3.2.13 SEDCO has also been affected by the parallel Government interventions into its SSE field of operations, in particulat through the subsidised credit provided through the CGC and the SDF. Both have disbursed larger amounts in loans over much short time periods.

3.3 Zambuko Trust

3.3.1 Zambuko Trust was started in 1991 by a group of church and business leaders. Zambuko's major thrust is to provide loans of between Z$2000 to Z$5000 to microenterprises. Opportunities International, an NGO based in Chicago, USA, is the main sponsor of Zambuko's activities with financial and technical support. Additional funds have come from the Australian government and the Ford Foundation. Zambuko started in Harare and it has now established full branches in Bulawayo, Gweru and Mutare as well as satellite offices in Chitungwiza, Kwekwe and Esigodini.

6. R. Bradburd & B. Levy, *Zimbabwe's New Entrepreneurs: an Emerging Success Story?*, (Washington, DC: World Bank, 1995. Draft paper). A number of instances were cited in the survey where by the time a loan was disbursed, the cost of the equipment the loan was intended to cover had increased to the point where the loan was no longer sufficient to purchase the equipment.

7. Bradburg & Levy, summarised in World Bank, *ICR*, p.4.

3.3.2 In late 1995 the distribution of clients was as follows:

Harare	1600
Bulawayo	1150
Gweru	550
Mutare	500
Total	3800

3.3.3 Zambuko explicitly targets the informal sector and has amongst its objectives the aim to assist microenterprises to grow into the small formal sector. Its sectoral coverage is broadly defined and extends across agriculture, manufacturing, services and trade. Borrowers are predominantly urban and in the service or household-based manufacturing sectors.

3.3.4 Features of Zambuko's lending track record (see table A3.2) are:

- During its first three years, according to Zambuko's management, it has created about 2,500 new jobs and sustained another 4,700 existing jobs.
- During 1995 it planned to make 3460 loans with a value of about Z$6 million[8]. In FY 1994/95 actual lending was about 2,800 loans worth Z$4.3 million.
- Over its four years of operation to February 1996, Zambuko lent Z$8.9 million in 5,761 loans, creating or sustaining 7,532 jobs. Its mean loan size was very small at Z$1,553; its job creation was just over one per project; and its cost per job ratio was Z$1,188.

Table A2.2. Lending Operations By Zambuko Trust, March 1992-February 1996

Period to:	Dec 1992	Dec 1993 *	Aug 1994 *	Aug 1995	Feb 1996	Total
Length (months):	10	12	8	12	6	48
Loans:						
Number	269	449	1,193	2,786	1,064	5,761
Total (Z$000)	449	528	1,670	4,257	2,045	8,949
Jobs created	299	863	936	3,744	1,690	7,532
Monthly average:						
Number	27	37	149	232	177	120
Loans (Z$000)	45	44	209	355	341	186
Jobs	30	72	117	312	282	157
Means:						
Loan size (Z$)	1,669	1,177	1,400	1,528	1,922	1,553
Cost/job (Z$)	1,502	612	1,784	1,137	1,210	1,188
Jobs/loan	1.1	1.9	0.8	1.3	1.6	1.3

* The ratios for these years suggest inconsistent timespans amongst the aggregates.

Source: Zambuko Trust.

8. Interview with Tawanda Sibanda, branch manager, Harare, in *The Worker*, November 1995.

3.3.5 The usual ceiling on initial loans per project is Z$5,000 although the spread ranges from Z$300 up to Z$25,000. Only about 2 per cent of loans are above the Z$5,000 limit, however. The loans are granted for both working capital and small assets. They are set for periods usually between 6 to 12 months with a range of 1-18 months; the client chooses his/her preferred loan period. Repayments are effected on a monthly basis and interest rates on the loan is presently at 32 per cent and there are other charges levied such as processing fee and application fee. The annual effective interest rate has been calculated at over 50 per cent. The client is required to pay 10 per cent of the loan principal amount as a guarantee on loan disbursement, which is refunded when the client has fully repaid the loan. There is no grace period on the repayments.

3.3.6 For collateral, Zambuko normally requires some moveable assets of value to be specified (TV, fridge etc) and a guarantor earning at least four times the value of the repayment instalments. If the loan is to a group, some form of joint liability is arranged.

3.3.7 Zambuko does not usually fund start-ups and businesses should have been in existence for at least six months before they can qualify for a loan. Before a loan is granted, clients have to undergo an obligatory 4 hour initial training session, where a full discussion of the loan contract is conducted. There is a little bit of management training. Zambuko also offers optional courses to its clients at a nominal fee.

3.3.8 Zambuko has a decentralised loan approval system. The loan officer makes the loan appraisal and recommends approval to the branch manager for loans up to Z$5,000. Loans in excess of Z$5000 are referred to Head Office. The Head Office structure has four executive managers and the Branch complement consists of the Branch Manager, Loan Officers, Client Development Officer and a Finance Clerk. Loan Officers undertake most of the work which includes recruitment of clients, appraisal and monitoring of clients performance. Zambuko is computerised and each loan officer looks after an average of 250 clients. It has adopted a policy of encouraging applicants to mobilise another 15-20 other potential borrowers in the same area so as to reduce transaction costs.

3.3.9 Zambuko uses a tight client monitoring and follow up system. Initially a week after disbursement, a client is visited. This organisation has a default rate of 5 per cent on its total portfolio. Effective management, decentralisation of loan approvals, use of character based appraisal techniques, proper loan approval and monitoring and in particular use of loan officers to keep regular track of clients and appropriate loan sizes for the type of borrowers are the major factors contributing to the success of Zambuko.

3.3.10 Zambuko has recently had to face a number of difficulties. Chief amongst them has been starvation of new capital to keep pace with the heavy demand for credit. The Harare branch manager conceded publicly in November 1995 that his branch had been forced to suspend accepting new applications six months previously in order to clear an existing backlog of 1,600 approved projects dating back to January 1995. Disbursement of new donor funds had been delayed by a failure to provide 1994 audited accounts on time, caused by shortage of skilled staff in the accounts department. That staffing problem had now been sorted out, but the current backlog of projects required at least Z$1 million to clear[9].

9. Interview with Tawanda Sibanda, November 1995.

3.3.11 Nevertheless, Zambuko has achieved remarkable progress during its short life and its financial services have been in heavy demand despite their non-concessional character. It has a strong commitment to ensuring equal access for women, who form about 70 per cent of clients. Despite a relatively high arrears rate, some 95 per cent of its clients eventually pay back in full. It currently covers about 60 per cent of its operating costs from interest and fees and offers good prospects for long term sustainability.

ANNEX 4. SUMMARY OF INTERVIEWS WITH SDF CLIENTS

This is a brief summary of the results of the interviews conducted with clients during one of the two field surveys conducted for the study. The aim of the interviews was to ascertain the clients' ability to repay their loans and to determine the level of operations for the funded projects. The names of the clients have been suppressed to protect confidentiality.

Respondent A, Bulawayo

Operates a clothes making business and employs about 4 people in Bulawayo. This project got a loan from SDF and has been operating for one year and five months. The project has realised an average income of Z$10,000 per month and the estimated net profit per month is Z$5,000. The monthly instalment for the SDF loan is only Z$1,500, which can easily be met from operations. The client has not made any repayment to the SDF loan. The client claims he has not received any information about his repayments and does not know how much he is supposed to pay and at what time and where he is supposed to make his repayments. A review of the SDF files on the client reveals that not one reminder had been sent to the client on his arrears.

Respondent B, Bulawayo

Operates a manufacturing project involving textile chemicals, detergents, perfumes, lotions and air fresheners. The client secured a loan of Z$80,000 from SDF and has been operating for one year and seven months. The venture employs 43 people. The average revenue realised per month is Z$900,000 and the profit before tax is about Z$400,000 per month. The client took out another loan of Z$300,000 from SEDCO in December 1994 and repayments on the SEDCO loan are eight months ahead of schedule but he has not made a single repayment to SDF, the reasons being that he has not been requested to do so.

Respondent C, Bulawayo

Operates a clothes manufacturing company and obtained a loan of Z$63,000. He started operations in January 1995. His sales are about Z$8,000 per month. He has already started repaying the loan.

Respondent D, Gweru

Operates a garage in Gweru. He obtained a loan of Z$68,000. There are no records kept by the client and he has not started repaying the loan.

Respondent E, Gweru

Started a business repairing electrical goods and retailing electrical parts and alarms and has been operating for almost a year now. The business turnover is about Z$30,000 per month. He has not made any repayment to the SDF loan. Asked why not, he said he was not aware of the amount of his repayment obligation.

Respondent F, Gweru

Operates a bookbinding business. He obtained a loan of Z$38,000 in November 1993. This project has not made a single repayment to SDF. The client has a genuine marketing problem and needs working capital to improve his business.

<u>Respondent G. Gweru</u>

Operates a paper machine agency and distribution. He obtained a loan of Z$94,000. The project's average sales are Z$550,000 per month. He is not making any repayments because there is no communication from SDF.

<u>Respondent H. Kwekwe</u>

This is a partnership in oil processing. They borrowed Z$150,000 from SDF. The project is operating three shifts and employs nine people. This project has working capital problems.

ANNEX 5. TERMS OF REFERENCE

5.1 Terms of Reference for Consultancy Services to Evaluate Social Development Funds in Africa

5.1.1 Background

5.1.1.1 The structural adjustment process in Africa, while creating favourable conditions for growth, has at the same time brought about adverse social and economic consequences on the welfare of the poor and vulnerable groups - at least in the short run. In response to this, a Social Dimensions of Adjustment (SDA) program, co-sponsored by the African Development Bank, UNDP and the World Bank, was launched in 1987 to mitigate the negative effects of adjustment. The Bank Group has also directly assisted regional Member countries (RMCs) in establishing programs and projects aimed at alleviating the social costs of structural adjustment programs on poor and vulnerable groups. The first one of such interventions was in Guinea where social concerns were integrated in the design of the adjustment program through the SDA project component. Over the years, SDA projects have evolved into explicit poverty reduction projects with credit delivery components. Such projects have come to be known as Social Development (or Action) Funds. These initiatives, designed as components of structural adjustment programs, involve providing assistance to the poor[1] in undertaking income generating activities through training, capacity building, and extension of small loans for micro-enterprises. In addition to Guineas, SDF programs have been designed for several other RMCs, including Burundi, Central African Republic, Malawi, Mozambique, Sierra Leone, Zambia and Zimbabwe.

5.1.1.2 It is a well acknowledged fact that a large proportion of the African population today is poor and engaged in micro-entrepreneurship as subsistence or small producers whose major preoccupation is production for subsistence. These micro entrepreneurs operate mainly outside the formal economy and have little or no access to formal lending sources. Moreover, under the current set-up of lending institutions, it is often not cost-effective for formal commercial lenders to extend credit to micro-entrepreneurs because of the high costs and risks involved in administering small loans to usually sparsely placed borrowers.

5.1.1.3 However, in spite of their 'invisibility' in the mainstream formal economy, micro-entrepreneurs have a very important role to play in the economy and in the overall development process. It is estimated that the informal sector accounts for about 60 percent of the urban labour force in low income Africa and contributes, in many countries, as much as 20 percent of GDP. there is, therefore, an urgent need to facilitate the development of this sector of the economy by opening up channels of targeted assistance to micro-enterprises. A credit delivery mechanism, such as SDFs, would constitute one of such channels of assistance to the poor and vulnerable groups engaged in micro-entrepreneurship. SDFs are seen as appropriate instruments for providing the poor and other vulnerable groups access to productive resources to enable them to actively participate in the development process.

5.1.1.4 Although SDFs were initially conceived as a short term instrument for mitigating the negative effects of adjustment measures on the poor and other vulnerable groups, they are now being seen (either in their present form or in a modified way) as financially and socially viable

1. Including other vulnerable groups such as those out of gainful employment as a result of the economic reform process.

models for achieving sustained reductions in poverty within the overall framework of the most effective ways of ameliorating poverty within the overall framework of economic development in Africa. It has also been argued that SDFs could be one of the most effective ways of ameliorating poverty at the grassroots level by empowering the poor and enabling them to participate in meaningful economic activities[2]. The unanimity about this concept can be seen in the growing prominence of the use of micro-enterprise financing as an integral part of development financing. The newly launched Consultative Group to Assist the Poorest (CGAP), anchored at the World Bank and co-sponsored by ten (10) donors including the Bank, is seen as one such initiative. It is within this framework of intervention that the ADB's own program of assistance to the poor (in the form of micro-enterprise financing) is expected to focus under ADF VII.

5.1.1.5 However, before undertaking an expanded program of intervention, it is important that the experiences of SDFs so far are evaluated and vital lessons incorporated in future intervention schemes. It is within this spirit that in September 1993 in Oslo Norway, the Poverty Working Group of the Special Program of Assistance for Africa (SPA), requested the ADB to undertake the evaluation of SDFs. By September 1994, a methodological framework had already been prepared and was presented to the Poverty Working Group of the SPA. On the basis of this framework, a pilot study will be undertaken to test the methodology. The findings of this pilot study will be finalized and presented to the next Poverty Working Group of the SPA scheduled for 19-21 September 1995 in Addis Ababa, Ethiopia. Following comments of the Working Group and the Bank, a comprehensive evaluation of SDFs will be undertaken

5.1.2 Study Objectives

5.1.2.1 The objective of this pilot phase is to test the methodology of evaluating the SDF program using two selected case studies in two RMCs (Malawi and Zimbabwe). The study will attempt to identify weaknesses and strengths of the SDF programs and propose ways for improving the performance of the programs. This particular study will lead a comprehensive evaluation of the SDFs with a view of improving the understanding of the functioning of the programs and the impact they have had on the intended beneficiaries. Such an understanding would also contribute to improvements in the design and implementation of future SDF (or similar) programs.

5.1.3 Tasks

5.1.3.1 The evaluation study will be undertaken by a team of consultants comprising at least two (2) African (i.e; at least one in each RMC to be studied) and two (2) Norwegian consultants with the relevant experience in the following disciplines and skill mix:

a) economics,
b) finance/micro credit
c) institutional development, including legal aspects,
d) sociology/anthropology, and
e) micro enterprise/business administration.

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2. For further details, see Deng, L.A., *Poverty Reduction: Lessons and Experiences from Sub-Saharan Africa*, (Abidjan: ADB, 1995).

5.1.3.2 The team leader (or lead consultant) will have the overall responsibility for preparing the document, with relevant input from each consultant. Two countries: Malawi, and Zimbabwe will serve as case studies for the entire study. In each country, actual research will be carried out by at least two consultants, one of which will be an African.

5.1.3.3 This study (assignment) will be under the overall joint supervision of the Chief, Country Economics Division of the Country Programs Department - South Region, and the Chief of the Environment and Social Policy Division of the Central Projects Department. Specific duties of the consultants will include, but not limited to, the following[3]:

a) reviewing the SDF program in its totality to identify the successes that can be replicated, and the problems, and suggest ways of overcoming the problems;

b) reviewing the various Poverty Alleviation Action Plans in the RMCs, and determining how best they can be integrated with the current SDF programs;

c) determining how to accelerate utilization of SDF resources, and the structure and form of the Bank's follow-up intervention;

d) preparation of a consolidated report at the end of the exercise that will include details (about the four case studies in the RMCs) as outlined in the suggested methodology in the annex;

e) presentation of the report at a seminar within the Bank and subsequently assist the Bank's mission to present a revised document at a meeting of the Poverty Working Group of the SPA scheduled for 19-21 September 1995 in Addis Ababa, Ethiopia; and

f) undertaking any other necessary activities in order to complete the study.

5.1.4 Methodology

5.1.4.1 The questionnaire and interview methods with program managers and the intended beneficiaries will be used in addition to collecting and analysing program budgets, balance sheets and income and expense statements. The specific information to be sought is indicated in the suggested methodology in the annex.

5.1.5 Output

5.1.5.1 The primary output expected is a consolidated evaluation report of the SDF programs based on a review of the social development funds in Malawi, and Zimbabwe.

3. The detailed tasks are indicated in the suggested methodology in the attached annex.

5.1.6 Schedule of Activities

5.1.6.1 A breakdown of the working days required to complete the various stages of the evaluation study is given as follows:

I)	Workplan and mission preparation at ADB	2 days
ii)	Field visits in the two RMCs	14 days
iii)	Preparation of the draft report	4 days
iv)	Discussion of the report within ADB	1 day
v)	Finalisation of the report	4 days
vi)	Presentation of the report to the SPA working group	3 days
	Total Number of Days	28 days

5.2 Suggested Methodology for the Proposed Study to Evaluate Social Development Funds

by

Douglas H. Graham

The consulting team should engage in a study to evaluate the experience of the Social Development Funds (Microenterprise Programs) in selected Anglophone and Francophone African countries. The field work should focus on microenterprise programs that provide both financial and non-financial services to micro-entrepreneurs. The evaluation study of these microenterprise programs would entail three principal components. These are: (1) an examination of the program's products; (2) an examination of the program's technology; and (3) an examination of the program's organizational structure and institutional performance. Questionnaires and interviews with program managers and client-beneficiaries should be drawn upon in addition to collecting and analysing program budgets, balance sheets and income and expense statements where feasible. Each component would examine the following issues:

1. Program Products

1. Identify the principal types of products or services the program offers. Document the nature of the various financial and non-financial services supplied and the relative importance of each.

   a) Determine recent trends in loan expansion (or decline) and if loan terms, amounts, disbursement and repayment schedules are consistent with the cash flow requirements of program clientele-entrepreneurs.

   b) Record borrowers' evaluation of program loan services and the role they play in their business in comparison to other, informal loan services in their communities.

   c) Document the availability of group loans and the characteristic terms and conditions of these loans.

   d) Record selected group member evaluation of the contribution of group loans services to the operation of their businesses and the degree to which peer group pressure and group sanctions operate to generate sufficient group solidarity to ensure loan contract monitoring and enforcement among members.

   e) Document the availability of deposit and savings instruments (where applicable) and the range of deposit terms, interest rates and withdrawal rights characteristic of these products and the recent trends for deposit growth.

   f) Record depositor-saver evaluation of programs savings-deposit services and role they play in allowing the client entrepreneurs to manage their surplus liquidity compared to using informal savings vehicles.

g) Document the non-financial services offered by the program to their clientele or constituencies, e.g technical assistance, market information services, book-keeping and managerial training, etc., determine the relative importance of each type of non-financial services.

h) Record the evaluation of these non-financial services by program beneficiaries and how they compare to alternative sources of assistance or information.

2. Program Technology

1. Examine the Operational Mechanisms (technology) the Program Utilizes to Disseminate its Products and Services

A Document the information management system employed by the program. What kind of information is collected? For whom is it collected (internal constituency and/or external donors)? What purpose does it service for decision-making purposes? and how is it collected?

a) Collect balance sheets and/or income and expense statements and loan arrears information for lending programs.

b) Determine what non-financial information is recorded: e.g. number of clients, gender, type of occupational constituencies served, location, and various client-level data. Determine how costly this data collection is and who uses it for what purposes. Evaluate cost-effectiveness of this data collection.

B Pricing policy

a) Document ruling interest rates on loan and deposit services; for loan rates determine if these rates cover all costs of lending including administrative costs (associated with lending and deposit mobilization); a realistic allowance for loan losses; and the cost of funds plus reserve accumulation for future expansion or an unexpected decline in loan recovery.

C. Risk management procedures

a) Identify the degree to which program management matches the term structure of assets and liabilities (for deposit based programs) to reduce the risks of financial disequilibrium between loan term and deposit term structures.

b) Document liquidity (i.e reserve) management procedures (for deposit based programs).

c) Document the degree of loan portfolio diversification by type of activity and type of client financed.

d) Determine the degree of which loan decisions are made with a documented understanding of an arrears risk profile for prospective borrowers (i.e creditworthiness criteria).

D. The design of incentive structures

a) Identify the staff remuneration policy and whether performance based remuneration procedures play any role in staff remuneration.

b) Determine the scope of group lending in the total portfolio and the manner and degree to which peer group pressure and sanctions operate to improve loan monitoring and contract enforcement in the program.

E. Cost effective profile for non-financial services

a) Identify the dissemination methods and costs of supplying non-financial services, e.g technical assistance, market information services, book-keeping and management training etc.

b) Establish the dissemination cost per client-beneficiary and the cost per staff member involved for each type of non-financial service offered.

3. Current Organizational Structure, Evaluation of Portfolio Program Performance, and Vision for Future Governance Rules

1. Organizational Structure

a) Identify whether program is only a loan program or both a loan and deposit based organization.

b) Identify and evaluate upward linkages to a possible apex organization or government agency and clarify the role and functions of these upstream organizations in the operation of the program (e.g supply channel for funds, technical assistance, regulator role, reporting hierarchy to donor, establishing loan policies, etc.).

c) Explore and evaluate the degree to which the principal-agent hierarchical relationship between the program and any second level institutional (or government agency) is designed to encourage program sustainability.

d) Examine organizational structure within the program itself and the incentive for employees and management to act in the interest of program sustainability (i.e. performance based remuneration mechanisms).

2. Evaluation of Portfolio and Program Performance

Program performance indicators should logically be linked to explicit program objectives established by the donor. In microenterprise programs these would characteristically include some target group orientation (however defined, e.g gender, type or level of business activity, location, number of employees, etc.) and some set of indicators underscoring the potential for program sustainability (e.g. loan arrears rates, high rate of return on assets, etc.). The following illustrate several possible performance indicators for both the financial and non-financial components or a microenterprise program:

A. Program sustainability indicators

a) First determine the established procedures for reporting and recording arrears (temporary delinquency) and default (loans with no likely recovery). Then estimate the arrears (and default) rates on a loans due basis, namely, placing in the denominator of the arrears (default) ratio only the volume of loans for which loan repayments are due.

b) Estimate an arrears matrix that highlights the aging of arrears and the cross classification of loan and borrower characteristics by status of loan repayment (paid up to date, in arrears, in default).

c) Estimate net income (interest/revenue minus program costs) per unit volume of loans outstanding, two net income measures can be used here, the first only including financial costs directly associated with loan activity and, the second, including all non-financial technical assistance and training costs. The difference between the two offers an insight into the cost burden of the non-financial services incorporated into the program.

d) Separate arrears and net income estimates could also be generated for an individual loan portfolio and a group loan portfolio insofar as a program has both loan services. The findings could help address the issue of whether the alleged cost savings of group loans is evident once corrected for arrears.

B. Non-financial program performance indicators

a) Document the number of clientele served with loan and deposit services (for deposit-based programs), and the growth in these numbers over time in the program.

b) Identify degree to which target group clientele established through program's objectives have been the true beneficiaries of program services (both financial and non-financial services).

c) Estimate the cost of delivering non-financial services to the targeted clientele establishing, as indicated earlier, the cost per client services and the cost per relevant staff member for each type of service rendered.

d) Compare the estimated costs per client to the presumed benefits of these services to the client. Subjective judgements of the client-beneficiaries could be recorded concerning the relative importance of these services (on a scale of 1 to 5) in having contributed substantially to:

I) an increase in the number of employees;
ii) an increase in output and/or profits;
iii) penetrating new product markets (or expanding the same clientele base);
iv) securing new and cheaper suppliers;
v) adopting new technologies; and
vi) achieving more efficient management.

3. Vision for Future Governance Rules

The evaluation should identify the degree to which the program has looked beyond its current operation into the future. The questions here would be as follows:

A. Strategy to secure long run program sustainability

a) What path of institutional evolution is anticipated (and planned) for the program to establish a domestically based source of funding to replace donor funds for the future?

b) Does the program envision its improved, more credit worthy clientele graduating into the portfolios of formal sector banks (thereby defining sustainability in terms of clients); or does the program envision graduating itself into a more sustainable form?

c) What institutional form does the program anticipate? Graduating into a unit bank with equity capital from local merchants, or from a broader base of clientele borrowers combined with deposit liabilities from the public?

d) Or does the program envision a mutualist form of organization in which the clients are owners?

4. Conclusion

Not all microenterprise programs in the proposed study will have all the information (or products or services) outlined above. Nevertheless the range of issues surrounding the conceptualization and documentation of the product design, program technologies and organizational form was deliberately cast in broad terms to hopefully allow for some degree of uniformity of evaluation across all programs.

5.3 Specific Tasks: Zimbabwe

5.3.1 Your task will involve the following:

a) review the SDF in its totality to identify the weaknesses and design ways to rectify them. Specifically you will review the structure, the administrative system, the staffing, the funding, the logistic support and the functioning of the programme;

b) review the Poverty Alleviation Action Plan and determination how best it can be integrated into the current programme;

c) based on the weaknesses already identified, you will design a system for project follow up and monitoring, a system for loan repayments a computer system for data entry and retrieval, and a computer system for the accounting system;

d) based on your findings, propose the structure and form for the Bank's follow up intervention;

e) assist the management of the SDF in any other area in which it may require your assistance; and

f) prepare a detailed report on all of the above tasks to complete the exercise.

5.3.2 Your assignment will involve a mission to Zimbabwe, during which time you will collect necessary materials to prepare a detailed report. You will at the end of that mission have a wrap-up meeting, and leave a comprehensive Aid Memoir with the Government. Thereafter, you will come to Abidjan to finalize the report, and present it to a working group.

ANNEX 6. SURVEY QUESTIONNAIRES

6.1 Notes

6.1.1 Two pilot field surveys of SDF borrowers were undertaken for the study. The samples were small and mostly concentrated in the urban areas. Selection was partly random and only currently operating businesses were included.

6.1.2 In field survey 1 the questionnaire was administered in face to face interviews which were conducted mainly in Shona to facilitate clearer communication with the respondents. The sample of 20 beneficiaries was randomly selected although an attempt was made to ensure that they were drawn from different enterprise sectors. Not more than three respondents were selected randomly from each of the enterprise sectors. The intention of covering, albeit thinly, a broad spectrum of sectors was to assess similarities and differences in client perceptions as well as to acquire an overview of the general trends in performance and prospects of the small enterprises of the beneficiaries. Urban respondents were selected from Harare and rural respondents from Marondera District.

6.1.3 Respondents' enterprises were engaged in a broad range of productive activities:

a) poultry
b) leather making
c) metal work and welding
d) vehicle repair
e) hammer milling
f) cloth manufacturing
g) timber manufacturing and distribution
h) construction equipment
I) engineering and foundry work and
k) services.

6.1.4 For field survey 2 a sample of 29 was drawn randomly from the larger stratified sample used for the arrears analysis (see below). Initially the project files of the selected beneficiaries at the SDF office were reviewed before the interviews were conducted. A mixture of face to face and telephone interviews were then conducted on the basis of a prepared questionnaire. The questions were read out to the interviewee and the responses were recorded in the process.

6.1.5 In both cases the selection method ensured a reasonable spread of project types. It also restricted the client population to businesses which were operational at the time of survey. This was a necessary step in view of the lack of information on file regarding the current status of SDF-funded projects and the likelihood that a number were no longer active. It was also considered that fuller data and more useful results would be gained, given the limited scope of the exercise, from currently operational businesses.

6.2 Field Survey 1: Questionnaire for Beneficiaries of SDF Programme

A. ACCESS TO SDF

1. When were you retrenched?

2. What reasons were given for your retrenchment?

3a. What job did you hold before retrenchment?

3b. What was your monthly pay?

4. How much did you receive by way of benefits?

5. How did you get to know of the SDF?

6. Through which agency did you register with SDF?

7. What reception did you receive from the Department of Employment?

8. What was the Department mainly interested in when you registered?

9. How long did it take between registering and beginning your training?

10. Where were you trained?

11. Which consultancy organisation trained you?

12. What do you remember most of the topics taught to you?

13. What do you remember least of the topics taught to you?

14. What do you think of the methods of training used?

    a) good

    b) average

    c) poor

15. Do you think the training in projet preparation was sufficient?

16. If not, what should have been included?

17. Were any particular projects encouraged?

18. If so, in which sectors?

19. What was the role of the consultants in your choice of project?

a) major

b) minor

c) none

20. Was a figure suggested concerning a reasonable amount of loan?

21. If so, what figure was suggested?

22. Did the consultant organisation provide a satisfactory service?

23. In what respect? (please elaborate)

B. CURRENT BUSINESS OPERATIONS

24. How long did it take to hear about the results of your loan application from the date of submission?

25. What was the loan amount you

a) applied for

b) actually received?

26. How much did you contribute in

a) cash

b) kind?

27. What line of business ae you in?

28. How many workers do you employ?

29. What is your output (in units) per month?

30. What is the value of your output per month?

31. Do you do your own book-keeping?

32. If not, who does the books for you?

33. Is the project generating enough cash flow to service your loan on due date?

34. Do you have an interest and loan repayment schedule?

35. When do you start your repayments?

36. How much are your repayments per month?

37. Do you make your repayments to

    a) SDF offices

    b) into a bank account?

38. Has SDF approached you in connection with your repayments?

39. Are there penalties for

    a) late payments

    b) default or non-payment?

40. If yes, please state them.

41. Are your business operations profitable?

42. Whatever answer, please elaborate.

43. How do you see your business

    a) 1 year from now

    b) 5 years from now?

C. <u>OVERALL ASSESSMENT</u>

44. What do you think of the SDF programme?

45. Is it satisfactorily assisting the poor?

46. Is it satisfactorily assisting those retrenched?

6.3 Field Survey 2: Questionnaire for Beneficiaries of SDF Programme

1. What is the nature of your business?

SECTOR	MAIN ACTIVITY
* Manufacturing	
* Agriculture	
* Transport	
* Construction	
* Mining	
* Wholesale & Retail Trade	
* Other (Specify)	

2. How many people do you employ?

	FULLTIME	PART-TIME
* Female		
* Male		

3. What motivated you to start your business?

   * Retrenchment / SDF training course
   * Making profit, increasing Income
   * Relatives in this line of business
   * Other (specify)

4. What amount of loan did you receive from SDF? Z$

5. How much do you still owe SDF? Z$

6. Do you repay your loan regularly? Yes / No

7. If the answer to above is no, what are the problems?

8. Do you have any other loans from other institutions?

   * Commercial Banks.
   * Other Institutions

9. Specify the other credit institution where you have a credit.

10. Are the repayment schedules regularly met to these institutions?

11. If not what are the problems?

12. What do you consider to be your training needs?

*General Business Management
*Finance and Record Keeping
*Marketing
*Other (Specify)

13. Do you consider SDF training in the above areas adequate?

14. How do you intend to augment your training requirements?

15. Do you have a business bank account?

* Current Account
* Savings Account
* Other

16. How do you buy your inputs?

* Cash
* Account

17. How do you market your products?

* Direct sales
* Wholesaling
* Other

18. What are your constraints in marketing?

* Government Agencies
* General Public
* Other Companies

19. What form of competition do you face?

* Large Companies
* Other start-ups
* Existing microenterprises

20. What would you say are your constraints?

* Access to raw materials
    a) domestic
    b) foreign
* Access to finance
* High interest rates
* Business regulatory and bureaucratic issues
* Labour
* Equipment

* Demand for your products
* Competition from other suppliers
* Infrastructure and support services (transport, water, telephones etc).

21. Do you sell on credit to your clients? Yes / No

22. Do you buy on credit? Yes / No

23. Do you buy on credit from your suppliers

24a Which other organisations have you approached for loan finance?

* Commercial Banks
* Government Institutions such as SEDCO, Credit Guarantee Company

24b Did you get it? What are the repayment terms?

Institutions	Amount Required	Amount Approved	Repayment Terms

25. Do you know of other organisations assisting small businesses?

26. What is your turnover per month?

27. How has your business turnover performed since you started your operations?

* Improved
* Remained the same
* Declined

28. What is the highest level of education achieved?

* University Graduate
* 'O' Levels with further skills training
* Post 'O' Levels with further training
* Below 'O' Levels with basic skills training
* No skills training

29. Did you have direct experience in this line of business before starting operations?

* More than five years experience
* More than three years experience
* No experience at all.

30. Explain what you consider to be the risk factors in your business.

31. Do you operate as a registered company?

32. Are you registered with the Department of Taxes?

33. Do you operate from rented or own premises?

34. Do you pay water / electricity charges?

35. Since you started business, how many more people have you employed?

36. Have you purchased more new or second-hand equipment since you started your business?

37. Are there opportunities to grow in your business line beyond what you have achieved now?

ANNEX 7. PERSONS AND ORGANISATIONS CONSULTED

Location: all in Harare unless otherwise stated.

Mr John Alufayi, General Manager, Zambuko Trust.

Mrs Awore, Resident Representative, UNDP.

Mr Eamon Cassidy, Economic Adviser, Overseas Development Administration (UK).

Mr A. Disch, Economist, World Bank Zimbabwe Office.

Mr Peter Fidler, Consultant, World Bank Zimbabwe Office.

Mr D. Gumbo, Executive Director, ENDA Zimbabwe.

Mr A.G. Hatendi, Deputy Director, Credit Guarantee Corporation.

Mr Kasere, Deputy Director, Department of Social Welfare, Ministry of Public Service, Labour and Social Welfare.

Ms Judith Kateera, Principal Economist, Monitoring and Implementation Unit, Ministry of Finance.

Mrs Madzimbamuto, National Treasurer, Women in Business Association.

Mr A. Magwada, Projects Officer, SDF, Ministry of Public Service, Labour and Social Welfare.

Mrs Magwenhi, Assistant Secretary, Ministry of Finance.

Mrs Mapondera, President, Zimbabwe Women Finance Trust.

Mr Marimo, Senior Manager, Barclays Bank of Zimbabwe Ltd (Highfield Branch).

Ms Eugenia Masikeni, Economist, Monitoring and Implementation Unit, Ministry of Finance.

Mr Matisha, Employment Officer, Department of Employment and Employment Development, Ministry of Public Service, Labour and Social Welfare.

Mr Matiza, Social Welfare Officer, Department of Social Welfare, Ministry of Public Service, Labour and Social Welfare.

Mr John Manyanya, Deputy Secretary, Monitoring and Implementation Unit, Ministry of Finance.

Mrs Rose Mazula, Assistant Director, Zimbabwe Investment Centre.

Mr S. Mhishi, SDF Coordinator, Ministry of Public Service, Labour and Social Welfare.

Mr Mhishi, Director, Credit Guarantee Corporation.

Mr D. Moyo, Social Worker, Parirenyatwa Hospital, Harare.

Ms Betty Mtero, National Executive Director, Association of Women's Clubs.

Mr A.K. Mtshani, General Manager, Small Enterprises Development Corporation.

Mr R. Muchada, Development Manager, Small Enterprises Development Corporation.

Mr S. Muchati, Manager, Credit Guarantee Company (Pvt) Ltd.

Mr N. Mudzengerere, Assitant Secretary-General, Zimbabwe Congress of Trade Unions.

Ms Doris T. Mugwara, Director, Business Extension and Advisory Service.

Mr Paul T. Mundangepfupfu, Programme Manager, EC Microprojects Programme.

Ms Sibongile Ndlovu, Training Manager, Zimbabwe Women Finance Trust.

Mr Tabeth Ndoro, Manager, Self Help Development Foundation.

Mr L. Nechitoro, Projects Officer, SDF, Ministry of Public Service, Labour and Social Welfare.

Mr Denis Nkala, Programme Officer, UNDP.

Mr A. Nzuma, Cooperatives Manager, Small Business Services Division, Zimbabwe Banking Corporation.

Mr Oliseyi Obalatu, Superintendent, Parirenyatwa Hospital, Harare.

Mr Pamacheche, Director, Monitoring and Implementation Unit, Ministry of Finance.

Mr Patrick Sagwete, Senior Business Advisor, Business Extension and Advisory Service.

Mr L. Shoko, Employment Officer, Department of Employment and Employment Development, Ministry of Public Service, Labour and Social Welfare, Marondera.

Mr M. Sibanda, Permanent Secretary, Ministry of Public Service, Labour and Social Welfare.

Mr Sibanda, Undersecretary, Ministry of Finance.

Mrs Sibanda, Administrator, Dondolo.

Mr D. Simba & Mr K. Chibota, Zambuko Trust.