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Economic Profile for 15 MicroKing Clients in Zimbabwe

This report provides a profile of 15 clients from one branch of MicroKing Finance in Harare, Zimbabwe, using information provided by clients and observed by loan officers during the credit evaluation process. This profile of MicroKing clients is part of a larger poverty assessment project in which ACCION International is engaged. The project aims to analyze what types of people ACCION's partners and affiliates serve, how poor these clients are, and how they compare to non-clients in the same country, using both quantitative and qualitative measures of poverty.

This study is an example of a very simple qualitative approach that takes advantage of the thorough analysis of loan applicants' businesses and household situations that take place during the credit evaluation process at MicroKing and other ACCION partners. While it does not purport to provide a definitive measure of either the absolute or relative poverty of clients, the nature of the information allows us to develop a rich picture of their circumstances.

MicroKing is a wholly-owned division of Kingdom Bank in Zimbabwe devoted exclusively to microfinance. It began lending in October 2001, with technical support from Vulindlela (a South-African microfinance consulting firm) and ACCION. At the time of the study, June, 2002, MicroKing had approximately 1,000 active clients in four branches, three in Harare and one in Bulawayo. MicroKing aims to be a commercial success, and at the same time to contribute to poverty reduction in Zimbabwe through its microfinance activities.

Study Design

The sample of clients was drawn in a random but not scientific way: these clients happened to be those considered by the MicroKing branch credit committee on one particular day in mid-2002. There is no reason to believe that these clients differ significantly from all MicroKing clients. Although there could be some differences by branch, all four of MicroKing's current branches are in the low income urban areas known in Zimbabwe as high-density suburbs. Four of the applicants were second time borrowers, while the others were new clients. MicroKing has not been operating long enough to have many third time borrowers. All but one of the clients was approved for a loan; the exception was denied because that person was current client of a competing microfinance institution.

Client Groupings by Income Levels

The households in the sample were ranked by income levels and divided into an upper, middle and lower income group in order to look at differences among segments of the clientele. The remainder of the analysis uses these three groups. Differences in incomes per capita are not as great as the raw differences in income levels, however. Once household size is factored in, the differences between the middle and lower groups disappears, as all the members of the lower group had small households (2-4), while the middle group includes several larger households, including the poorest household on a per capita basis, with 10 members. If per capita income levels are examined using the official exchange rate, the people in this survey have average per capita income levels generally in the range of US\$2,000-3,000. Using the parallel rate, however, the value of that income appears to be only a tenth of that figure, between US\$200-300. This difference is a reminder of the dramatic fall in living standards in Zimbabwe from a time only a few years ago when it had one of the highest income levels in Africa. The “reality” for clients, in terms of quality of life, lies somewhere between these extremes. For the purpose of clarity, we will report only the parallel rate in U.S. dollars in this paper.¹

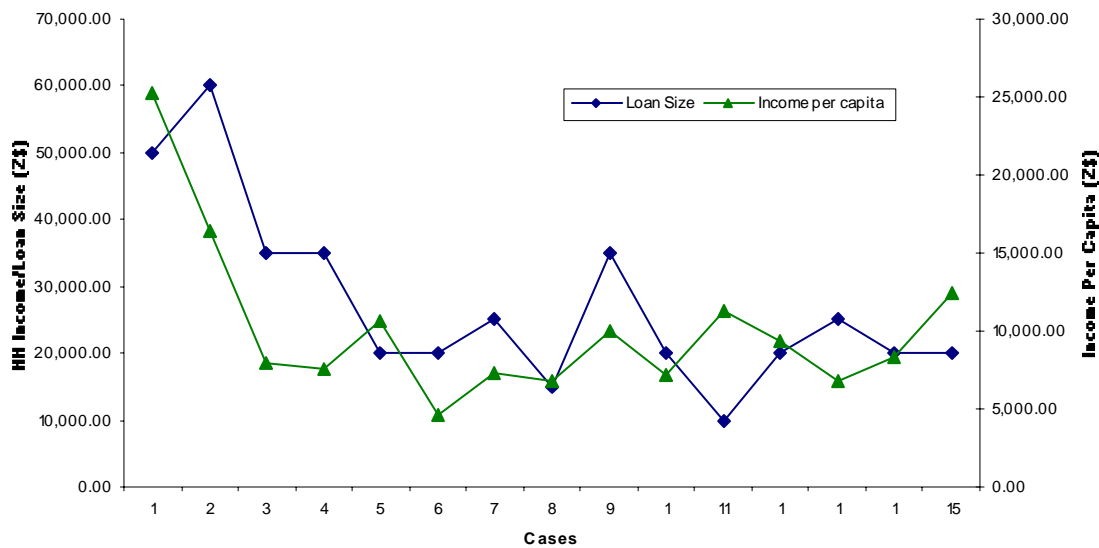
Table 1. Monthly Total Household and Per Capita Incomes and Number of Dependents

	Upper Group (n=4)		Middle Group (n=7)		Lower Group (n=4)	
	Range	Average	Range	Average	Range	Average
Household size		6.3		5.6		3.0
Income (US\$)		154		84		53
Per capita income (US\$)		29		17		18
Annualized per capita income (US\$)	183-606	344	110-272	199	162-300	221

¹ Zimbabwe is experiencing a burgeoning parallel foreign exchange market. The official government rate remains Z\$55 to US\$1, set almost two years ago. However, on the parallel market in June 2002, the exchange rate reached as high as between Z\$600 and Z\$1,000 depending on the mode of exchange. Neither rate provides a satisfactory translation of Zimbabwean prices into similar US dollar terms – the official rate is clearly not realistic, while the parallel rate probably understates the local purchasing power of the Zimbabwe dollar. This paper uses the parallel rate (at a conservative Z\$500:US\$1). While the figures shown here are useful in comparing clients, they are difficult to interpret in terms of U.S. dollars.

Microfinance institutions have long used loan size as a proxy for income, but little information has been available to show how good a proxy it is. In this analysis we compared loan size to per capita income, and found a strong relationship, as shown in the following graph. The relationship between loan size and total household income was not as strong. This graph gives a strong though preliminary indication that in the case of MicroKing loan size is a good proxy for poverty level.

Loan Size vs. Income per capita



Description of Client Life Circumstances

Poverty can be defined in many different ways. Poverty lines are extremely useful for quantitative comparison in many methods of poverty assessment. However in this analysis we are interested in the quality of life for MicroKing clients and what poverty actually means for each individual. This analysis attempts to describe these MicroKing clients’ life circumstances, their vulnerabilities, and the types of assets they possess to combat risk. The resulting picture gives insight into the variety of people that microfinance institutions serve.

In the upper group there are two hardware vendors and two tuckshops (a tuckshop is a snack bar/convenience store that may sell a wide variety of products). One tuckshop operator, who is clearly the wealthiest person in the sample, has opened a second shop and employs two people to work in his shops, though he rents both of the actual shops. He makes US\$202 per month in net profit. The other tuckshop owner, with a monthly income of \$134, has been in business for a number of years but is in a busy location that faces a lot of competition, which might make him more susceptible to fluctuations in price from rising inflation. They both possess fixed business assets: one has a freezer and the other has both a freezer and a refrigerator. The hardware vendors make \$122 and \$128 per month in net profit. Neither possesses any fixed business assets.

They sell mainly electric and plumbing goods. All four clients in the upper group have previous experience with loans and/or microfinance.

The upper group has a fairly wide range of income and life situations. For example, the two-tuckshop client is one of only two homeowners in the entire sample. The other three clients are renting, including two who rent just two rooms in which their families live. For one client, that means that there are at least seven people living in two rooms. Two of the four in the group have a secondary source of income beyond the microenterprise, generally the spouse's income. In one of these cases the amount of income has not been included in the analysis, as there was no formal proof of income. (There are two other similar cases in the sample, and therefore it is known that three of the families actually have a higher income than the level shown here. Likely amounts of additional income for these three families could be estimated by looking at the ranges of income earned by spouses for whom data is available.)

Three of these clients are married with two or three children. One client supports four additional children from relatives' families. The fourth client is divorced and has one child of her own; she supports her younger brother in school, her parents who live in a rural area, and five of her deceased sister's children (see the section below on AIDS/Orphans). While she is in the highest income group, the number of dependents spreads her income thinner than the other members of Group A. She is twenty-two years old. This client has a fair amount of household assets, probably reflecting a pre-divorce higher standard of living, including a kitchen cabinet unit, living room set, small refrigerator, color television, video cassette recorder (VCR), and a stove. The other hardware vendor's current assets are more diversified, including \$86 in her bank account. However, she has fewer household assets: a kitchen unit, dining table and chairs, radio and a dresser. Each tuckshop operator possesses about the same amount of household fixed assets; examples from both households include living room furniture, color television, stove, radio, VCR, and room dividers.²

The middle income group is the largest, with seven clients: three tailors, a vegetable vendor, a clothing trader, a drink manufacturer, and a tuckshop operator. All the tailors make their products and then travel to rural areas to sell them. The clothing trader buys the clothes locally and then sells them in the rural areas as well. The tailor earns a monthly business net profit of from \$68-88. A sense of the scale of these tailoring businesses is shown by noting that the range of items sold per month (ladies outfits, bed covers, boys shorts etc.) varied from 23 pieces to 100 pieces, with the larger number representing more of the smaller items. One tailor employs two people and his business assets include four sewing machines. The other tailors (women) each have one sewing machine as their only fixed business asset. The clothing trader makes less – \$42 per month. In addition to the 47 items of clothing she sold, she supplemented her normal business by selling 20 packages of sugar and 29 bottles of cooking oil. The sale of these commodities may reflect the recent shortages of these items in Zimbabwe due to poor economic conditions. Those who can obtain cooking oil and sugar are likely to make a significant profit selling them in rural areas where they are not easily found.

² Information on assets must be interpreted with an eye toward the purpose for which it was collected. The MicroKing credit analysis only records certain categories of assets – those that could be confiscated as collateral in the event of default. Specifically excluded are beds, cooking stoves, and motor vehicles (though none of the clients in this sample had cars).

The client in manufacturing produces “ripe and ready” soft drinks to supply to tuckshops and supermarkets. This client makes a monthly net profit of \$80, selling 215 units a month. The vegetable vendor has no business assets, but pulls in \$76 a month in profit and has 4-5 years of experience with established customers. The tuckshop operator in this group does not possess any fixed business assets, but has been in operation for five years and is located in a busy place near a Red Cross training center. She makes \$52 in monthly net profit.

Three of these clients have had prior loans with MicroKing and are now asking for larger loans with longer repayment terms. Of the seven clients in Group B, only three have savings accounts. The loan size for the middle group averages \$62.

All of the clients in this group are married. There is quite a range in household size. The client with the second highest monthly household income in this group, \$92, has the lowest monthly per capita income of the overall sample, \$9 even though her husband’s salary as a mechanic is included in this estimate, as her household size is ten. Her family belongs to an apostolic religious sect that does not believe in the use of birth control. Two of her children also work, but the amount they contribute to the household income is unknown. Another client in this group, in addition to his own three children and wife, supports his brother who is mentally disabled and sends money to his mother who lives in a rural area. A third client in this group also sends money home to a rural area.

There is one homeowner in the middle group, the soft drink manufacturer. The tuckshop operator and her family live at the school where her husband is employed, and his employer covers any rent/utilities. Three other clients in this group rent two rooms for their families to live in. The clothing trader with a household size of ten, rents three rooms. One of the tailors lives with her husband and their one child in a single rented room. The clients in the middle group all have similar household assets. Four possess televisions, stereos and kitchen units. A few families have some type of furniture listed as well. This group possess significantly fewer household assets on average than the upper group, \$77 to the upper group’s \$311.

Five of the seven clients in the middle group have income sources other than their microenterprise. Two of these sources of income are not included in our estimates of income because there is no formal proof of the amount of income. One client’s spouse is a mechanic and brings in \$50, making the microenterprise the secondary source of income. The other spouses work as a caretaker, a school employee (position not stated), and a carpenter.

In the low income group are four clients: two tuckshop operators, a seamstress, and a maker of leather stools and belts. The first tuckshop operator runs her business with her husband who became unemployed about a year ago. Her business is not registered and she rents the premises, making \$54 per month in net profit. Her business assets include one refrigerator. The other tuckshop owner has been in business for more than two years. He and his wife both work in the tuckshop, which is located in the front yard of his parent’s home, a busy location that faces little competition. He and his wife make a profit of \$50 per month and hold business assets that include one refrigerator for drinks. At their tuckshop they sell goods like fish, salt, soft drinks, soap, toothpaste, bread, and cooking oil. Their inventory consists of a total of 155 individual items.

The seamstress makes seat and cushion covers, selling around 11 items per month; additionally she sells some items that she did not make. She earns a monthly net profit of \$50. She also occasionally pays for the services of a tailor who has a sewing machine. This client used to have a job but now is self-employed and operates her business from her home. The last client in this group makes leather stools and belts, of which he sells ten each a month for a profit of \$34. He also contracts out some work to carpenters. His business is based at home and he works at another job during the day. This client has never had a business loan but he does have a consumer loan. Three out of the four clients in the lower group have savings accounts. Also, one of the tuckshop owners buys some of his inventory on credit. The average loan size in this group is \$43.

Three of the four clients in this group are married; the fourth is single. They have an average household size of three people, smaller than the other two groups. The tuckshop operator who works in front of his parent's house also lives with his wife and child there. The other tuckshop owner rents rooms in another house. The client who sews lives with her child in two rented rooms in a larger house. The last client in this group lives with his wife and child in two rented rooms and he also sends \$2 per month to his parents. The low-income clients possess few household assets. The only household asset that one woman possesses is a color television. Two other clients both have living room furniture, one has a sewing machine and the other has a stereo and bicycle as well. Unlike the middle group, most of these clients only have one source of income.

Housing

Housing is a major element of quality of life. Only two out of 15 clients are homeowners. Another eleven rent rooms in someone else's home. One client lives at the school where her husband works. The last client lives with his wife and child in his parents' house. Many of these clients live in very crowded conditions. Several clients have at least three people per room in their household.

Although housing is cramped, housing expenses do not appear to be excessive. The upper group, on average, spends about \$11.80 on rent and/or utilities. The middle group averages about \$4.57 per month on rent and/or utilities, while the lower group spends approximately \$4.30 per month. One client in this profile did not have to pay anything for rent/utilities, as she lives in the place of her husband's employment.

Education

There is data regarding education on nine of the clients in the sample. Four are high school graduates, while three had not completed high school. The lowest educational level was grade seven while the highest was a diploma in education (one client each). No obvious correlations with income levels were apparent – in fact, the level achieved was somewhat higher for the lowest group than for the middle group. The relatively high levels of education reflect the strong education system that has characterized Zimbabwe during the past few decades.

Assets & Employees

The upper group by far held more current and fixed household assets on average as compared with the other two groups: \$284 and \$311 compared with the middle group, \$60 and \$77 and lower group, \$59 and \$54. They also on average held more assets in cash and in bank accounts. The amount of business assets depends more on the type of business that each microentrepreneur runs; vendors possess few business assets. Members of the upper group are more likely to own a color television, living room furniture, and refrigerators than the other groups.

In addition, social and human assets are very important to microfinance clients. These could not be measured in this brief survey, but social assets help protect many clients from future risk. Three clients reported belonging to ROSCAs; not only for the microcredit benefits, but also for the social ties they form as members of those organizations. Being able to turn to relatives in times of need is shown among these clients, as many have taken in additional dependents or sent money home regularly.

Two clients in this sample, both tuckshop owners, have employees that work in their businesses. The two-tuckshop client who has the highest income of the overall sample employs two people. The other tuckshop owner employs one person, but this is the family who lives with the man's parents and make a profit of \$50, making it among the poorest families in the sample. Several clients (tailor, belt maker) contract some parts of their production work out to others and several clients run their businesses jointly with their spouses.

Vulnerability

This profile reveals many of the aspects of clients' lives (death of relatives, divorce, loss of spouse's employment, etc.) that make them vulnerable to falling into deeper poverty as well as some of their strategies, including microfinance, for protecting themselves. Microfinance is important to clients because it provides them with access to large chunks of money that they may not be able to accumulate otherwise. They can then use these funds to expand their inventory or microenterprises, as several of these MicroKing clients have, and to diversify their assets and sources of income, two important strategies in risk management.³

Some of the sources of risk these clients face are economic ones, such as high inflation and competition. There are many other risks as well, such as drought, sickness or death in the family (especially if it is the major household provider), fire, theft, and police harassment. Other events, though predictable, strain the family finances: educating children, marriage, funerals, and childbirth. Another source of risk, is in fact, taking out a loan. This creates a risk that the client will not be able to repay and will lose access to needed microfinance services.⁴

³ Cohen, Monique and Jennefer Sebstad. *Microfinance, Risk Management and Poverty*. Washington, D.C.: The Consultative Group to Assist the Poorest (CGAP). The World Bank, 2001.

⁴ Cohen, Monique and Jennefer Sebstad. "Microfinance and Risk Management: A Client Perspective." Third Annual Seminar of New Development Finance, 27 Sep-1 Oct 1999, Goethe University of Frankfurt Germany. AIMS.

These 15 MicroKing clients have all experienced at least a few of these risks. The divorced client appears to have been better off before given the amount of household assets she possesses, but now has to rely solely on her microenterprise to support herself and at least seven dependents. One of the middle group tuckshop operators had to rebuild her business two years ago when the tuckshop was destroyed in a fire.

One thing that makes clients the most vulnerable is the number of dependents that they have to support in addition to themselves and their own children. Four out of 15 clients support family that is not living with them. Two others have taken in deceased siblings' children or in some cases the siblings themselves. In many instances these orphans are due to the alarmingly high rate of AIDS in the adult population in Zimbabwe (see below). Many have their businesses in areas that face heavy competition. Rising inflation in Zimbabwe could lead to major crises for the microentrepreneurs as they struggle to keep up with rising prices.

All the families are vulnerable to the general economic problems in the country, which can reduce demand while swelling the numbers in the informal sector (increasing competition). Most have few safety nets to protect themselves in the event of the loss of the major breadwinner through death or divorce. Others besides the immediate household could be affected by such a loss if the income earner supported people in rural areas too. The clients in this sample try to combat this vulnerability through income diversification, as most have at least two income earners in the household. They also use microfinance as a way to provide themselves with a safety net.

AIDS/Orphans

Many clients in this sample support people outside of their immediate family. One possible reason for the high number of dependents outside the clients' own children is the devastating rate of HIV/AIDS among adults in Zimbabwe. Estimates from 2001 indicate that 34 percent of the adult population aged 15-49 in Zimbabwe are living with HIV/AIDS.⁵ The most saddening aspect of a high HIV/AIDS rate is the number of children left orphaned. In 2001, an estimated 18 percent of all children were orphans in Zimbabwe and three quarters of these were AIDS orphans. While clients do not report this information, it is quite likely that the families who supported children of siblings are supporting AIDS orphans.

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⁵ Zimbabwe: Epidemiological Fact Sheets on HIV/AIDS and Sexually Transmitted Infections. 2002 Update sponsored by UNAIDS (Joint United Nations Programme on HIV/AIDS and the World Health Organization).