AN ANALYSIS OF THE EFFECTIVENESS OF MICROFINANCE: A CASE STUDY IN THE WESTERN CAPE

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A minithesis submitted in partial fulfilment of the requirements for the degree of Magister Commercii in the Department of Economics, University of the Western Cape.

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KEYWORDS

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Microcredit

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Group formation

Operational Efficiency

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ABSTRACT

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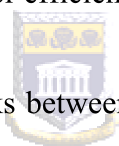
Microfinance is currently being promoted as a key development strategy for promoting poverty eradication and economic empowerment. It has the potential to effectively address material poverty, that is the physical deprivation of goods and services and the income to attain them by granting financial services to households who are not served by the formal banking sector. The UN/OSCAL model of microfinance based on African and international best practices proposes that microfinance initiatives will be successful in Africa if based on the following four principles: 1) pool together people's resources through group organising, 2) rely and build upon what people know – tradition, 3) reinforce microfinance to empower the African private sector and 4) strive for efficiency.



The paper briefly introduces the links between microfinance, poverty eradication and economic empowerment but the ultimate focus is to determine the extent to which the UN/OSCAL model of microfinance is being applied in the South African context using a case study of microfinance institutions and programmes in a representative town in South Africa.

The findings reveal that while the microfinance interventions are following some of the principles of the model, it is not sufficient to have a significant impact on poverty reduction of its clients, even though it does assist in consumption smoothening and emergency financing for the poor. The paper therefore concludes with recommendations on how the model could be incorporated into the reality of South Africa, for microfinance to be more effective as a development tool.

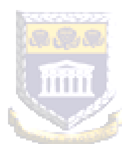
May 2004

DECLARATION

I declare that *An analysis of the effectiveness of microfinance: A case study in the Western Cape* is my own work, that it has not been submitted for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged by complete references.

Marcia Sheraton May 2004

Signed: ________________________



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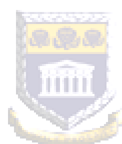


ABBREVIATIONS

MFI	Microfinance Institution
UN/OSCAL	United Nations Office of the Special Coordinator for Africa and the Least Developed Countries
ADB	Asian Development Bank
ROSCAS	Rotating savings and credit associations
UNDP	United Nations Development Programme
MFRC	Micro Finance Regulatory Council
NLR	National Loans Register

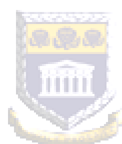


TABLE OF CONTENTS

TITLE PAGE i
KEYWORDS ii
ABSTRACT iii
DECLARATION iv
ACKNOWLEDGEMENTS v
ABBREVIATIONS vi

CHAPTER 1: INTRODUCTION 1
1.1 BACKGROUND TO THE STUDY 1

1.2 AIM AND OBJECTIVES OF THE STUDY 3

1.3 RESEARCH METHODOLOGY 3

CHAPTER 2: THEORETICAL FRAMEWORK OF THE UN/OSCAL MICROFINANCE MODEL 5
2.1 INTRODUCTION TO THE MICROFINANCE MODEL 5
2.1.1 Principle I – Prioritise group formation and networking 6
2.1.2 Principle II – Prioritise local knowledge and participatory planning 7
2.1.3 Principle III – Reinforce microfinance to advance the African private sector 9
2.1.4 Principle IV – Prioritise operational efficiency 11

2.2 AN OVERVIEW OF THE SOUTH AFRICAN MICROFINANCE SECTOR 16
2.2.1 Review of the Microfinance sector in South Africa 16
2.2.2 A brief look at the regulatory environment 19

CHAPTER 3: PRESENTATION AND DISCUSSION OF RESEARCH RESULTS 21
3.1 PROFILE OF OUDTSHOORN 21
3.1.1 Microfinance options currently available 21

3.2 THE CASE OF THE SEMI-FORMAL MICRO LENDER23
3.2.1 Background of Micro lender 23
3.2.2 Analysis of the case study 25

3.3 THE CASE OF THE INFORMAL MONEY LENDER 27
3.3.1 Background of the informal money lender 27
3.3.2 Analysis of the case study 28

3.4 THE CASE OF THE INFORMAL SAVINGS CLUB 30
3.4.1 Background of the informal savings club 30
3.4.2 Analysis of the case study 33

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS 35
4.1 CONCLUSIONS 35
4.1.1 Key findings from research in Oudtshoorn 35
4.1.2 Application of the model 35

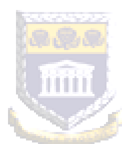
4.2 RECOMMENDATIONS 40

BIBLIOGRAPHY 42

APPENDIX 1: QUESTIONAIRE 46

List of Tables and Figures

Table 1: Microfinance poverty reduction nexus 2
Figure 1: Average loan purpose 16
Table 2: Application of Microfinance Model to the Research site and the SEF 39



CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND TO THE STUDY

Microfinance – defined as efforts to improve the access to loans and to saving services for poor people (Shreiner, 2001:1), is currently being promoted as a key development strategy for promoting poverty eradication and economic empowerment. It has the potential to effectively address material poverty, the physical deprivation of goods and services and the income to attain them by granting financial services to households who are not served by the formal banking sector.

Microfinance institutions could play a pivotal role in meeting the financial needs of both households and microenterprises. Traditional financial institutions have failed to provide adequate saving and credit services to the poor, and microfinance institutions and programmes have developed over the years to fill this gap. On the supply side microfinance could be the best instrument to bring about poverty eradication by loosening constraints on capital, opening up doors for investment, smoothing consumption over time and meeting emergency liquidity needs. On the demand side microfinance institutions could mobilise poor people's savings and enable them to accumulate interests on their deposits (United Nations, 2000).

The microfinance industry has seen rapid growth in South Africa over the last decade. If microfinance institutes are correctly aimed at improving access to credit, encouraging savings and the means to save to those who did not have this access before, it could play a critical role in eradicating poverty and empowering a country, which, according to Bonti-Ankomah and Chamba (2000:5), 50% of the population is considered to be poor.

The increasing role of microfinance in development is due to several key factors (United Nations, 2000:1):

- The poor need access to resources of which appropriate financial services are a key resource, in order to improve their conditions.
- There is a high demand among the poor for credit and saving services, because provision of these services by the commercial sector is limited.

- The poor can save, repay loans and effectively utilise resources towards income generation, provided that the instruments are appropriate to their needs.

The Asian Development Bank (2000:3) below illustrates the connectivity between microfinancial services and poverty reduction, as well as the beneficial impact of those services.

Table 1: Microfinance poverty reduction nexus

Financial Service	Results	Impact on poverty
Savings Facilities of microfinance institutions (MFIs)	More financial savings Income from savings Greater capacity for self-investments Capacity to invest in better technology Enable consumption smoothening Enhance ability to face external shocks Reduce need to borrow from money lenders at high interest rates Enable purchase of productive assets Reduce distress selling of assets Improve allocation of resources Increase economic growth	Reduce household vulnerability to risks/ external shocks Less volatility in household consumption Greater income Severity of poverty is reduced Empowerment Reduce social exclusion
Credit Facilities	Enable taking advantage of profitable investment opportunities Lead to adoption of better technology Enable expansion of microenterprises Diversification of economic activities Enable consumption smoothening Promote risk taking Reduce reliance on expensive informal sources Enhance ability to face external shocks Improve profitability of investments Reduce distress selling of assets Increase economic growth	Higher income More diversified income sources Less volatile income Less volatility in household consumption Increase household consumption Better education for children Severity of poverty is reduced Empowerment Reduce social exclusion
Insurance Service	More savings in financial assets Reduce risks and potential losses Reduce distress selling of assets Reduce impact of external shocks Increase investments	Greater income Less volatility in consumption Greater security
Payments/Money Transfer Services	Facilitate trade and investments	Greater income Higher consumption

Source: Asian Development Bank (ADB), (2000). Finance for the poor: Microfinance Development Strategy. Manila: ADB

The interest in microfinance as a development strategy is evident from the support it has received from multilateral lending agencies, bilateral donor agencies, developing and developed country governments, non-government organisations (NGO's) and private banking institutions (ADB, 2000:1). The United Nations is no exception and has undertaken a project to investigate microfinance in the African context. As a result, the UN/OSCAL[1] model of microfinance proposes that microfinance initiatives will be successful in Africa if based on four principles of the model taken from international best practices. The principles are 1) pool together peoples resources through group organising, 2) rely and build upon what people know – tradition, 3) reinforce microfinance to empower the African private sector and 4) strive for efficiency.

1.2 AIMS AND OBJECTIVES OF THE STUDY

The aim of this study is to determine the extent to which the UN/OSCAL model of microfinance is being applied in the South African context, its scope for application and recommendations for implementation. The hypothesis is that, the better South African microfinance initiatives conform to the model, the more successful it will be in fulfilling the ultimate mission of microfinance which is to supply financial services to the poor by cutting the cost of outreach with beneficial effects on poverty.

The objectives of the study are to:

- examine a case study of microfinance initiatives in a representative town in the Western Province, South Africa.
- interpret the findings of the research in terms of the four principles of the UN/OSCAL model.
- summarise the findings, draw conclusions and make recommendations.

1.3 RESEARCH METHODOLOGY

The methodology followed was to gather information from both primary and secondary sources. Secondary information sources consisted of a review of the relevant local and international literature, as well as an analysis of policy documents.

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[1] United Nations Office of the Special Coordinator for Africa and the Least Developed Countries.

Primary data was collected by conducting a case study in Oudtshoorn, a peri-urban town in the Western Cape. The research methodology was designed to be participatory and included the views of community members and groups as far as possible. The primary research tool employed was an interviewer-administered questionnaire. (See Appendix 1).

The questionnaire was designed to elicit the following information from those involved in microfinance organisations or initiatives and is based on the UN/OSCAL model:

- Background information on institutions/initiatives
- Services offered
- Staffing and structure
- Funding
- Characteristics of clients
- Linkages with formal and informal institutions
- Management systems
- Monitoring and evaluation
- Networking
- Constraints facing the institution/initiative

The sample used for the case study consisted of a semi-formal microlender, a savings club and an informal moneylender. Interviews were conducted with the individuals in the microfinance industry to elicit information about their institutional structure and microfinance operations. In addition, informal discussions were held with community members involved in small business development and local economic development in the area.

In this Chapter, I have briefly introduced the model of microfinance to be tested in the case study site. Chapter 2 continues with a discussion of the model within the context of the theoretical framework in which the model was developed. The chapter proceeds with a brief overview of the microfinance industry in South Africa. This section is important for the contextualisation of the study and a description of the environment in which microfinance initiatives are operating. Chapter 3 introduces the case study site and presents an analysis of the research results. Chapter 4 discusses the major findings of the research and concludes with recommendations.

CHAPTER TWO:
THEORETICAL FRAMEWORK OF THE UN/OSCAL MICROFINANCE MODEL

2.1 INTRODUCTION TO THE MICROFINANCE MODEL

The foundation on which the UN/OSCAL model of microfinance is based on, is a research project overseen by UN/OSCAL, in close collaboration with the United Nations Development programme, Gender and Development programme (UNDP/GIDP). Phase I of the project consisted of a compilation of over 85 microfinance Factsheets[2] which examined successful and unsuccessful microfinance initiatives in African, non-African and international countries.

The essence of the project was to identify strategies for a microfinance model responding to the realities of Africa. A diverse collection of approaches has been used, ranging from traditional kinship networks, Revolving Savings and Credit Associations (ROSCAS) to NGO's and development projects. These microfinance initiatives have been funded by both the formal and informal financial sectors, as well as domestic and international donors (United Nations, 2000). This section provides an overview of the key principles of the microfinance model for microfinance institutions (MFI's) and initiatives to become financially and institutionally sustainable, while improving its outreach to the poor. The chapter closes with a brief overview of the microfinance sector in South Africa to put the study into the South African context.

[2] Presented in the publication: Microfinance and Poverty eradication: Strengthening Africa's Microfinance institutions (UN/OSCAL: 2000)

2.1.1 Principle I – Prioritise group formation and networking

This strategy is based upon collective and co-operative support by the participants and stakeholders of microfinance initiatives. At the local level this support could be achieved through solidarity groups[3] and at the national and regional level through networking groups. Proponents of group credit argue that group organising is effective because it makes use of local knowledge and social relations. It is an effective strategy for microfinance sustainability because human and material resources can be pooled where individuals lack collateral for credit or the capacity to individually participate in a credit or savings programme. Credit extension based on solidarity groups is seen as a promising lending technology to reach poor potential borrowers. The success of the Grameen bank is often cited as an example. See Box 1 below.

Box 1: Grameen Bank

The Grameen Bank of Bangladesh established by Mohammad Yunus follows the group lending methodology for credit extension. Group collateral is substituted for physical collateral. The group guarantee to repay individual loans became the hallmark of microlending. Using this mechanism, poor people with no physical collateral are able to form groups to gain access to credit. (Khandker, S. 1998:16)

CREFSA (1996: 2) challenges the convention that connectedness and peer relationships create an efficient banking environment. The article argues that while social relations are an important lending prerequisite in group lending, their establishment and their use is not costless. Traditional models of group credit underestimate the cost of money and time and effort of group formation, regular meetings and borrower-lender communication. The principles of the microfinance model in question should not be viewed in isolation, as there is interconnectedness between the four principles. The UN/OSCAL model addresses these issues of efficiency in the principle focussing on operational efficiency. The model further proposes that prioritising group formation and networking are important and effective for the following reasons (United Nations: 2000):

[3] Solidarity groups are a group of individuals engaged in a mutually oriented activity and are "characterised by their connectedness, their social cohesion and mutual trust" (CREFSA, 1996: 9).

- Groups are effective for education and training participants.
- Networking and information dissemination are enhanced.
- It can reduce administrative costs by giving responsibilities such as loan monitoring to members.
- Mutual trust and peer pressure ensure participation and repayment in programmes.
- Resources can be pooled for initiatives such as common infrastructure development or bulk purchasing.

The benefits of group organising can also be extended to networking MFI's. Networks enhance MFI co-ordination, monitoring, advocacy and outreach. Such collaboration broadens the group of stakeholders involved in microfinance and provides an accountable vehicle for the government and international actors to channel assistance.

2.1.2 Principle II – Prioritise local knowledge and participating planning

The sustainability of microfinance initiatives is increased by initiatives that recognize and build upon local knowledge and tradition. In Africa, microfinance initiatives must recognize and utilize traditional and informal African saving and loan schemes (United Nations 2000:4) MFI acceptance and outreach is enhanced by familiar concepts that are more culturally compatible. When approaches to microfinancing are rooted in local culture, members and clients tend to participate, because they are directly involved in the financial decisions that shape and affect their lives. The advantages of initiatives rooted in local culture are that people become more interested in initiatives, more committed to the sustainability of the initiative, members assume ownership and responsibility for the development of the microfinance initiative.

Rotating savings and credit associations (ROSCAS) comprises one of the most commonly found informal and indigenous financial institutions, particularly in Asian and African countries.

The main types of indigenous savings and credit associations are rotating and non-rotating. With the rotating type, contributions are collected at regular intervals and immediately handed over to members in rotation. The method of rotation is according to a pre-agreed sequence.

In the non-rotating type, contributions are also collected at regular intervals, but are deposited with a treasurer (Nweze, 1994). Members are paid back their total contribution after a predetermined cycle. In some non-rotating schemes members are entitled to the accrued interest from their lending activities and in others they are not. There is variation among ROSCAS as to the frequency of meetings, the total contribution, the number of members and the order of rotation (Anderson & Baland, 2000:2).

The South African example of an informal rotating savings scheme is a *stokvel*. The *stokvel* is usually made up of groups of between 8 to 10 people. The main aim of a *stokvel* is to carry out economic, entertainment and social functions for its members. According to a publication by Fairshare (2001:3) the strengths of a *stokvel* is based upon the communal bond of the group and it is a tried and tested method that has worked for many poor people. It is an alternative financial institution that draws on social and traditional network and capital, to address the needs of the group.

A similar methodology based on indigenous practices is used among farmers in Nigeria. The *esusu* or *isusu* are voluntary mutual aid organisations in which the members pool their individual savings and have access to credit on favourable terms.

According to Nweze (1994) all the indigenous savings and credit associations in Nigeria have one thing in common. It unites local people, it encourages members to identify their needs and mobilise their resources to meet those needs and enables provision of goods and services that the government is unable to provide.

The *esusu* practice, which builds upon a traditional financial scheme, has successfully empowered the poor and rural women economically, socially and politically. In contrast, in Sao Tome and Principe, the lack of village tradition and social structure in farm associations made lending activities risky (United Nations, 2000:4).

The UN/OSCAL model aims to explain how microfinance can also lead to the economic empowerment of women, which is discussed further in this chapter. The methodology of a ROSCA is explained by this principle and an empirical investigation undertaken by Anderson & Baland (2000:3) illustrates that the majority of ROSCA members in Kibera, Nairobi consists of women: 84%.

Their observations depict that women prefer higher saving rates that the one chosen by the household. They will use ROSCAS to accumulate more savings, which in turn enables higher levels of welfare. Therefore, evidence suggests that microfinance practices based on the principle of prioritising local knowledge and participatory planning, have benefits for uplifting the poor.

2.1.3 Principle III – Reinforce microfinance to advance the African private sector

Worldwide microfinance has proven to be an effective means of supporting low-income people, and of improving their livelihoods by developing entrepreneurial activities. It has assisted in raising incomes and has reduced economic vulnerability through the provision of financial services to the poor. Therefore there is a critical link between microfinance and microenterprise[4].

If microfinance is to have a sustainable impact on poverty alleviation, it is essential that microfinance schemes be extended to include microenterprise development. According to the microfinance model, microfinance has the potential of formalizing the informal sector, empowering micro-entrepreneurs to participate and benefit from the formal economy. It can support initiatives for direct supply and market linkages to small and medium businesses. Targeting micro-entrepreneurs can potentially develop, produce and market low-volume products with the outcome of allowing informal businesses to scale-up to the formal sector. The potential to empower the poor and micro entrepreneurs is contingent upon a supportive environment at the local level as well as the national and international levels (United Nations, 2000).

Reinforcing local microfinance institutions (MFIs) through supportive strategies such as donor support, enabling legislation, regulation frameworks and other methods of strengthening institutions, would be favourable if the performance of these institutions is improved. MFI's often do not receive adequate support and face constraints that hamper their potential to advance the private sector.

[4] Microenterprise refers to the production or distribution of goods, or the provision of services in the informal sector (European Commission, 1998)

Strengthening local institutions pertains to *sustainability, outreach* (ability to reach the poor and women) and *performance*. Shreiner (2000:3) defines sustainability as the ability to repeat performance through time where performance may be defined as fulfilling the mission of microfinance. The mission of microfinance is to supply financial services to the poor by cutting the cost of outreach. Van de Ruit (2001), in a draft paper, states that in practice, MFI's have to make a choice between institutional sustainability and poverty outreach. MFI's seeking sustainability, extend credit to the non to moderately poor whose enterprises have the potential for economic growth and employment creation. On the other hand, MFI's with a poverty focus, targets the ultra poor and offers financial services which enables clients to improve living conditions. It becomes pertinent to look at how the formal institutions and the international community support local microfinance initiatives, whether through funding, technical support, legislation or regulation. Also important in terms of outreach is whether microfinance initiatives are improving the economic and social position of women.

Research undertaken by the UNDP (1999) lists what donors should do to support and promote the development of MFIs:

a) Identify promising local organisations.
   Donors should look for MFIs whose objectives and operations they can support and should not mandate target groups or geographic areas of operation.
b) Identify a technical implementer.
   The technical implementer should have the primary responsibility for building the capacity of a promising local initiative.
c) Provide technical assistance for institutional capacity building.
   Technical assistance could focus on: business planning, management systems, reporting standards, accountability structures and loan and saving methods.
d) Have a credible work plan and strategy for reaching sustainability.

Generally, observers agree that donor support should be kept to a minimum and microfinance institutions should aim to become independent of donor funding. In addition to the technical assistance referred to above, donors can also strengthen the product portfolio and client base of institutions, using capital grants for infrastructure such as buildings and equipment (European Commission, 1998:4). Shreiner (2000:17) agrees that technical assistance is the preferred method of donor support because it can empower a microfinance organisation with

tools, abilities and incentives. Donors can also assist MFIs with integration into the commercial banking and capital markets.

The major role that government should play in microfinance is to ensure an enabling enviroment. This includes striving towards macroeconomic stability and political stability. Governments should not over regulate the sector and implement interest caps that will hamper MFIs from achieving financial sustainability. Regulation and supervision of MFIs should facilitate microfinance operations and should not lead to financial repression in the sector (UNDP, 1999). Financial repression can take the form of interest rate caps, subsidised credit or tax structures that discourage investment in the microfinance sector. Taxation schemes should be fair, progressive and efficient and should account for the sectors which microfinance serve and where microenterprises operate (United Nations, 2000). Governments and donors should assist in developing linkages between the formal banking system and microfinance institutions that lend to the poor. By assisting in unlocking formal sector resources for use by microenterprises, it could enable the poor to sustain economic activities that are essential to their survival and reduce their vulnerability.

2.1.4 Principle IV – Prioritise operational efficiency

Microfinance institutions should aim for efficiency in their operations if their interventions are to have a sustainable impact on poverty eradication. The goal is to become financially viable institutions, with the ability to expand outreach at a sustainable level. Before proceeding, it is necessary to unpack some of the concepts just mentioned. Efficiency simply refers to the ability to maximise output per unit of input. Viability means the ability to cover costs of operation from revenues and Chua and Llanto (no date) describes the term viability with the following equation:

$$Y > (OC + CK + CBL)$$

Where Y is income, OC = operating costs, CK = cost of capital, and CBL = cost of bad loans.

Interest income from loans and related fees and charges should exceed total operating costs, the cost of capital, and the cost of bad loans. Operating costs include all personnel and non-personnel expenses incurred in the provision of the service. Cost of capital includes actual borrowing costs and the imputed cost of capital (which accounts for inflation).

Sustainability not only refers to financial viability but includes the institutions' ability to ensure continuity of its services, to expand and adjust to changing circumstances (Chua & Llanto, no date; 10).

Bearing these concepts in mind, this section underlines some of the key principles of operational efficiency as underscored in the UN/OSCAL model.

- Target the poorest of the poor.

  For microfinance to be a means to poverty eradication, the less poor who are capable of repaying loans as well as the marginalized poor, should be targeted as a MFI aims for operational sustainability (United Nations, 2000). The Microcredit Summit Campaign defines the poorest as those living in the bottom fifty percent of the people living below a country's poverty line and the poor are those living below the poverty line.

- Mobilise savings.

  Robinson (2001:225) states: "Mobilising voluntary savings – both as a service and as a source of finance for loans – is a basic tenet of the microfinance revolution". Saving services provides financial assistance to low-income clients, strengthens institutional self-sufficiency, membership commitment and builds a sense of discipline, self-esteem and well-being. Savings allow MFIs to internally generate funds for loans with the result that MFI members become more invested and participatory in the prudential administration of savings toward MFI services (United Nations, 2000).

  Poor people need savings for emergencies, weddings, funerals, establishing small enterprises and cyclical expenditures such as the festive season or expenditures at the beginning of the school year. Savings services that are effective can enhance the financial management of the poor increase their assets (UNDP, 1999:7)

  Vogel, Gomez and Fitzgerald (2000:1) identifies 3 major reasons why deposit mobilisation as a source of funding is an appealing option for microfinance institutions: (1) deposit mobilisation leaves funding decisions in the hands of the MFI; (2) deposits seem to be a cheaper source of funds than bank loans and (3) there may be

economies of scope between lending and deposit mobilization to the extent to which the two groups of clients overlap.

- Charge interest rates that cover operational costs.

  MFIs should charge an effective real interest rates that is high enough to cover the cost of its loans to maintain and increase its services. Successful microfinance schemes are characterised by non-subsidised interest rates that are linked to competitive market rates (United Nations, 2000). Because it is costly to administer small loans, MFIs should charge interest rates that are higher than commercial bank lending rates. From the perspective of the borrower quick credit is more important than low interest rates. The cost of the loan and the cost of loan default are two costs that MFIs should cover, that are proportional to the loan portfolio. The other cost to be covered is transactional costs. The advantage of charging interest rates that cover operational costs is that MFIs do not need to be dependent on donor funding which is often scarce or uncertain.

- Market research.

  Comprehensive and ongoing research and analysis of activities is an important investment for any microfinance initiative. The focus of research can be on the supply side, (on the organisational and operational structure of MFIs) or on the demand side (the clients). Market research helps institutions to predict and control for costs, better innovate and adapt services to the target population and to maintain proper geographical coverage (United Nations, 2000). MFIs will be able to improve efficiency in their operations from conducting research through guidelines, best practices, management systems etc, as well as assessing their outreach to their clients.

- Streamline and decentralise operations.

  According the microfinance model lean and simple infrastructures that makes use of a basic design of microfinance facilitates administration and increases operational efficiency (United Nations, 2000). Highly simplified and decentralised loan application, approval and collection procedures are a feature of successful MFIs (UNDP, 1999) and can improve MFI efficiency by lowering administrative costs. The costs to clients are also lowered when decentralisation results in less time and effort being spent on travelling to obtain a loan and on filling out applications and legal

documents. Computerised processes instead of manual administration of accounts help to reduce administrative costs.

- Utilise volunteer staff.

  Voluntary staff and profit sharing from revenues are effective in reducing operational costs. This is more applicable in rural and disadvantaged areas where utilising voluntary staff offsets some of the costs that arise from the constraints these areas face. The training of volunteer staff to handle administration procedures is cost effective and encourages a participatory approach, which reinforces commitment to, and the sustainability of microfinance initiatives (United Nations, 2000).

- Target women.

  Cheston and Kuhn[5] provide a rationale for the priority of women's access to microfinance services:

  - Research done by UNDP, UNIFEM and the World Bank indicates that there is a negative relationship between gender inequalities in developing societies and economic growth and development. Therefore evidence is mounting that improved gender equality is a crucial component of any development strategy.
  - There is a general consensus that women are the poorest of the poor. The UNDP[6] reports that 70% of the 1.3 billion people living on less than $1 per day are women.
  - Women have been shown to spend more of their income on their households, therefore when women are assisted to improve their incomes it improves the welfare of the entire household.
  - Proponents of targeting women cite women's superior repayment records and cooperativeness as beneficial to the efficiency and sustainability of microfinance programmes.
  - Lastly, microfinance is an effective tool for the empowerment of women.

[5] Source: Draft paper sponsored by the Women's Opportunity Fund and its funding partners.

- Develop monitoring and assessment tools.

  Credible and reliable monitoring and assessment tools for evaluating MFI operations are critical for achieving institutional efficiency. Assessment tools permit the generation of systematic information for addressing and identifying weaknesses in services and management systems, streamline procedures and improve user-friendliness of systems (United Nations, 2000). Reliable monitoring procedures fosters accountability and allows MFIs to assess their outreach to the poor. Furthermore effective monitoring and assessment tools help MFIs to identify and confront problems as they arise.

  It is important for reporting standards to meet the standards of the private sector and for managers to use the information effectively. Accurate financial reporting is important for the following two reasons: (1) Accurate financial information leads to better decision-making and greater efficiency, and (2) the information reveals whether institutions are creditworthy and financially sound, which in turn impacts on access to further funding for expansion[7].

- Invest in training.

  Training of both staff and clients is an investment that could reduce operational costs and better the operational efficiency, sustainability and outreach of the organisation. According to the microfinance model, training in business planning, accounting, financial management, loan tracking, delinquency management, development of savings and credit methodologies and computerised management systems (MIS), are important at the institutional level to achieve the goals mentioned above.

  Clients should be trained in savings and credit utilisation and basic management and bookkeeping skills to teach them how to invest funds in productive income-generating activities.

- Utilise pre-existing support organisations.

  Newly established MFIs should make use of pre-existing support organisations at the local, regional and international level and establish linkages with NGO networks,

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[6] UNDP. (1996) *1995 Human Development Report*. New York: UNDP

bankers' associations and international groups. There are microfinance organisations already established that offer advice and assistance to managers and donors such as the Consultative Group to Assist the Poorest (CGAP), the Special Unit for Microfinance (SUM) and the World Council of Credit Unions (WOCCU).

- Avoid external dependency.
  For MFIs to become fully sustainable and efficient institutions, it cannot remain dependent on donor funding. Institutions that are self reliant are better able to maintain their identity, autonomy and mission. The United Nations (2000) reports that the following tools could be used towards obtaining self-sustainability:
    - Appropriate interest rates
    - Savings deposits
    - Training

2.2 AN OVERVIEW OF THE SOUTH AFRICAN MICROFINANCE SECTOR

2.2.1 Review of the microfinance sector in South Africa

Widespread poverty continues to be a distressing characteristic of the South African economy. This poverty is concentrated among Africans (61%) and female-headed households (60%) and with a Gini-coefficient[8] of between 0.59 and 0.63, the country has a highly skewed distribution of income (Ahmed, 2002). Furthermore, South Africa's financial sector reflects the legacy of the apartheid era. The dichotomy that was created between the formal and informal economy, extended to the financial market. This resulted in a highly fragmented financial market. Financial services are available to formally employed salaried workers but the majority of South Africans (particularly in rural areas), have little or no access to financial services except for small savings accounts. With this in mind, the following statistics are worthy of note[9]:

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[7] CGAP Focus. (1995).

[8] The Gini coefficient measures the degree of income inequality. Values range between 0 and 1, with 1 indicating perfect inequality.

[9] Presented in the publication: Marsh, D. & Saran, N. (1999).

- 60% of South Africans do not have access to formal banking services (South African Reserve Bank, 1996)
- Of the 40% of the population that does have access to formal banking services, very few from previously disadvantaged communities have access to credit through the formal banking system.
- 53% of South Africans live below the R301 poverty line (SA Labour Bulletin, February 1999).

The lack of adequate financial services for a large majority of the population has led to the emergence of numerous microfinance interventions. In aggregate economic terms, the microfinance sector is still quite small in comparison with the formal banking sector. It is however, growing quite rapidly. Given the informal sector nature of many of the industry's participants, its contribution to the national economy is probably underestimated. The Micro Finance Regulatory Council (2001) estimated the informal financial sector in South Africa to be R13 billion industry. The commercial cash lending industry comprises the bulk of the sector, the majority of which are consumption loans. Credit for enterprise development, provided by NGOs contributes approximately 4% to this total (MFRC, 2000). Institutions offering saving services range from informal savings clubs or stokvels, to NGOs using group lending and village banking methodologies.

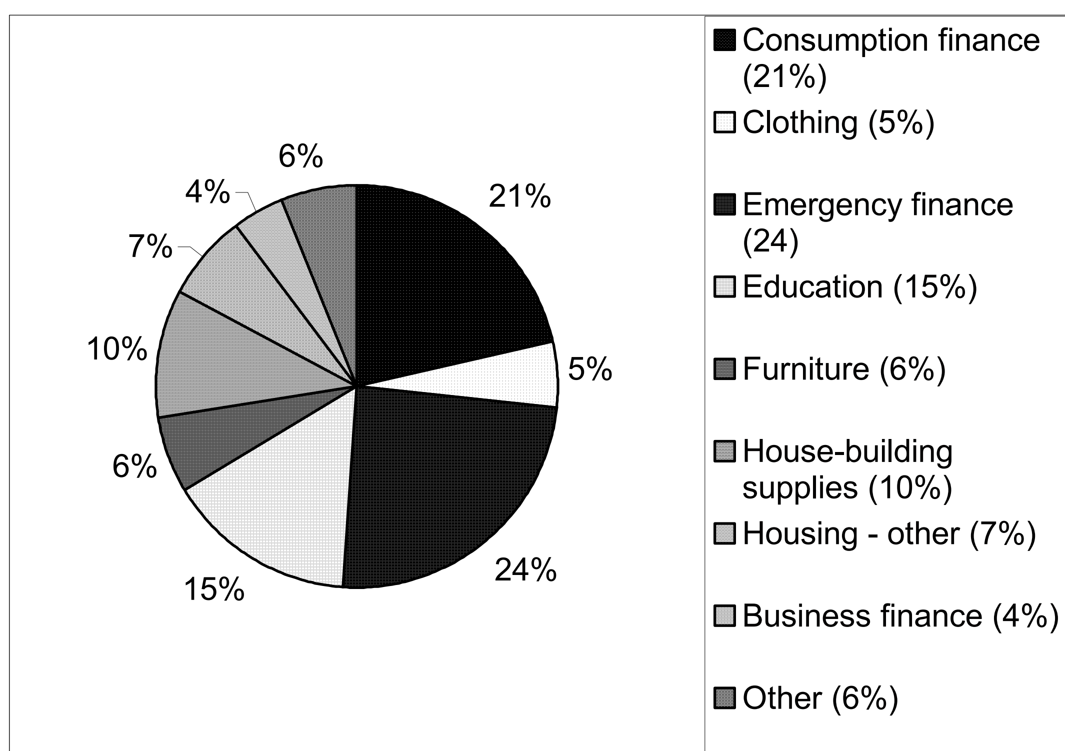
A DTI Interest Rate study (2000) notes the different segments in the South African microfinance industry. These are:

- Formal registered firms, which include commercial banks, financial institutions, Section 21 (not for profit) enterprise lenders, developmental lenders and short-term money lenders.
- Semi-formal money lenders, including small unregistered money lenders who are doing it as their main livelihood and pawnbrokers (which are not included in the money lending statistics as yet).
- Purely informal money lenders such as the township money lenders (mashonisas), stokvels, burial societies and ROSCAS.

According to Marsh and Saran (1999:10) for the poor consumer access to credit has largely been through the following: Stokvels (Rotating Savings and Credit Organisations – ROSCAS), credit unions, credit-granting NGOs, village banks, friends and family, retail outlets, pawnshops and money lenders.

The graph below provides an indication of the average loan purpose according to statistics compiled by the MFRC (2002). The majority of loans are used for emergency and consumption finance, which amounts to approximately 45% of the total average.

Figure 1: Average Loan Purpose



Source: MFRC Information (2002).

Meagher and Wilkinson (2001) state that there appears to be a difference of loan purposes between South African micro loan clients and those of other developing countries. They argue that generally, microfinance clients use loans to enhance their labour inputs to generate income, or as seed capital for microenterprises. On the contrary, as evident from the preceding graph, loan use in South Africa tends to be dominated by the purchase of durable goods for the home, education costs, or to satisfy emergency liquidity needs such as family illness or death or other income generating purposes.

2.2.2 A brief look at the regulatory framework

The Department of Trade and Industry (DTI) has the mandate to support the microfinance sector and the Department of Welfare and the Department of Agriculture, also have an interest (van de Ruit: 2001). The South African Reserve Bank has taken the lead in regulating the sector. The two most important pieces of legislation for the microfinance sector is the Usury Act and the Banks Act. The Usury Act of 1991, and amended in 1999, is supposed to protect borrowers from exploitation and serves one of the major goals of regulation, namely consumer protection. The Usury Act includes an interest rate cap of about 10% above the prime lending rates. The Act allows an exemption of interest rate ceilings on loans up to R10 000 on condition that the lender is registered with the Micro Finance Regulatory Council, and that the transaction complies with certain consumer protection requirements (Ahmed, 2002). The Banks Act basically regulates deposit taking. It is prohibits institutions that are not banks to raise retail deposits of any type and to raise any type of loan capital or investment if the purpose is the advancement of loans.

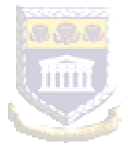
In response to the growing money lending industry in South Africa, in June 1999, the Minister of Trade and Industry approved the Micro Finance Regulatory Council (MFRC) as the official regulator of the micro lending industry. It's mandate covers:

- the promotion of the micro-lending industry
- encouragement of sustainable growth in the industry
- lending credibility to the industry
- serve the unserved needs of South Africans who may not have access to credit by formal banks
- protection of consumers rights to unfair business practices by lenders, and
- to educate consumers and lenders about their rights and obligations.

The MFRC has been given powers by the government to regulate the micro lending industry only and not other forms of microfinance initiatives. All moneylenders who wish to operate within the scope of the Usury Act exemption of 1 June 1999 are required to register with the MFRC. This is applicable to lenders who wish to charge more interest than the interest rate limits ranging from 24% - 27% per year. Lenders are prohibited by law to retain borrowers' bank cards, PIN (personal identification numbers) codes and Identity Documents as security for payment (MFRC, 2002).

Some of the most significant changes effected by the MFRC from 1 July 2002 include the establishment of a National Loans Register, which establishes and regulates a database of micro-loan information and rules which seek to control reckless lending and overindebteness.

It is evident that the microfinance industry in South Africa is one which is expanding rapidly in size and is also one which the government recognises can contribute to growth and financial assistance to the 'unbanked'. International best practice suggests that if the principles of the UN/OSCAL model discussed above are followed in microfinance interventions, it will not only achieve the objectives of becoming a sustainable, rapidly growing industry, but also contribute to poverty alleviation. The next chapter introduces the research site investigated in this study, and evaluates some of the microfinance initiatives in existence in South Africa. The study also assesses the extent to which these principles are applied in a South African context.



CHAPTER 3:
PRESENTATION AND DISCUSSION OF RESEARCH RESULTS

3.1 PROFILE OF OUDTSHOORN

Oudtshoorn is classified as a peri-urban town situated in the Western Cape province of South Africa. It is the capital of the Klein Karoo sub-region and serves as a key service and administrative area. The population is estimated at 65 000 with a labour force of 29 300 (Wesgro, 1998) and an unemployment rate of 26% (Statssa, 1996). Estimates indicate that roughly 52% of the population is female. The majority of the population is coloured (66%), while blacks and whites represent 8.7% and 22% of the population respectively.

Oudtshoorn is widely regarded as the world's capital of the Ostrich industry, responsible for approximately 70% of ostrich related primary goods such as leather, meat and eggs. Community, social and personal services are the largest industries in Oudtshoorn, followed by wholesale and retail trade and manufacturing. The central business district houses all the major commercial banks and retail stores. The region has access to all modern conveniences including water and electricity, refuse disposal, housing and a sophisticated telecommunications infrastructure (telephones, cellular networks, fax and internet).

3.1.1 Microfinance options currently available:

Microfinance initiatives in Oudtshoorn range from informal to formal initiatives. The formal and semi-formal microfinance institutions are mostly micro lenders, and Oudtshoorn has about 12 micro lenders currently in operation in and around the central business district. Informal microfinance initiatives consist of informal micro lenders and informal savings clubs.

Marsh and Saran (1999) distinguishes between three general categories of money lenders in the South African industry:

Formal: Moneylenders have the characteristics of large established consumer chain businesses. They usually only lend to a fairly secure market namely the employed. Some formal moneylenders have a range of loans on offer but their main business is in short-term,

individual, high interest cash loans. Many formal moneylenders are franchise-based operations.

Semi-formal: These are moneylenders with permanent business offices. It can either be single office businesses or small chains of between one and five outlets. These lenders are often less discerning than formal lenders in the types of clients they lend to.

Informal: Moneylenders in this category are commonly referred to as loan sharks or mashonisas. They tend to lend to high-risk groups, people with a lack of security and credit records. Informal lenders usually charge higher interest rates than formal and semi-formal lenders but are often the only source of credit for survival purposes for the poor.

There are also hamper clubs in existence but this deals more with providing food security than saving or credit services. The function of a hamper club is to collect a certain amount of money or goods such as non-perishable food items, at the end of each month from all its members (mostly women). A designated member or members would then use the money collected to purchase non-perishable food and household items that would be stored for a certain amount of time, usually until the end of the year, when households traditionally have more expenses. This is done at the end of each month and at the end of the year the food and household items are equally divided among all members. This type of food 'saving' has the advantage that at the end of the year households can use the extra money that would have been spent on the hamper items for alternative uses.

There was no evidence of microfinance institutions in Oudtshoorn dedicated to providing funding for small and informal businesses. Moneylenders and micro lenders do provide start-up and working capital for micro enterprises, but the collateral and security required cannot always be provided by informal small businesses. With an unemployment rate of 26%, many people are turning to self-employment and starting informal small businesses. The owner of a business committed to local business development argues that it is generally very difficult for small businesses to obtain financing in the area. A women-run small business and a NGO focusing on tourism, confirm that there is a lack of funding and neither is aware of any microfinance alternatives to obtaining financing. It seems the link between microfinancing and empowerment of the informal micro and small business sector, is weak in the region.

3.2 THE CASE OF THE SEMI-FORMAL MICRO LENDER

3.2.1 Background of Micro lender

The manager of a thriving micro lending business situated in the centre of the business district of Oudtshoorn, was interviewed. The interviewee requested that his name and that of the business remain completely confidential. It is for this reason that the manager of the business would be referred to as 'Micro lender'.

Micro lender has been operating a micro lending business in Oudtshoorn for just over five years, providing only credit services to the population of the town and surrounding areas. The service offered is that of individual loans only. A woman in the community with access to private capital had started the business; hence the organisation receives no external funding. The goal of the organisation is purely commercial and thus not based on that of poverty alleviation and economic empowerment of the local population, but is rather focused on becoming the most profitable micro lender in Oudtshoorn, and offering the best interest rates in comparison with its micro-lending competitors.

There are 12 people working for the organisation, of which 75% are women and all are from the local community. The staff structure comprises a manager, manager's assistants, agents and a secretary. Only 1 of the 4 employees in managerial positions is a female. Every 3 or 4 months the staff undergo training, concentrating mostly on the regulatory environment in which the organisation operates. The Micro Finance Regulatory Council (MFRC) regulates the micro lending industry in South Africa. Staff training has placed emphasis on recent MFRC rules and regulations, particularly the National Loans Register (NLR) which will be in place as of the 1 July 2002. The judgement against lenders retaining bank cards, PINS and government regulations on payroll deducted lending necessitates changes in the micro lending industry. The NLR aims to influence sustainability of micro lending operations by providing lenders with information with which to assess prospective borrowers' level of indebtedness, thus enabling lenders to conduct their business responsibly.

The business has between 1000 and 2000 clients at the moment, with 80% of them being recurring clients. All clients are currently employed and a large majority are women. Every time a client applies for a loan, the client is required to specify the purpose of the loan. Clients request loans for consumption purposes including large purchases such as furniture, funerals and for business purposes. Business borrowers consist mainly of informal sector/unregistered businesses and small businesses. Only approximately 10% of the organisations clients are small or medium enterprise businesses owners. A possible reason for the small proportion of business clients, could be because of the requisite that borrowers have permanent employment. Many people who are in need of capital to start and run small businesses are turning to self-employment as a solution to their unemployed status and therefore cannot meet the business' borrowing criteria. Credit checks and valid bank statements are used to screen prospective clients, although before the new MFRC regulations loans were given to clients previously blacklisted by other creditors. Clients are also required to complete a form outlining their income and expenditures to assist in determining what amount the client is qualified to borrow. The only collateral required, is proof of permanent employment.

The organisation utilises a computerised system to track and monitor loans that are issued. This system is used by other micro lenders in the industry, and is sophisticated enough to instantly produce loan data, e.g. loan repayment rate, bad debts, arrears etc. Bad debts due to default, is quite low, presently at a default rate of 10%. The organisation has therefore succeeded in obtaining a repayment rate of about 90%. Rebates are offered for early settlement as an incentive and there is the option of debt rescheduling if customers are unable to repay on time. Common reasons cited for default are loan instalments which are too high, which can occur as a result of income/expenditure forms being completed untruthfully, and clients having insufficient funds to repay their loan with the organisation as a result of having to pay other creditors as well. It is common that clients of micro lenders have loans with more than one institution at the same time. People with unmanageable debt situations often take out loans to pay previous loans.

Agents conduct physical visits to monitor loans issued. Agents maintain personal contact with clients to ensure they are able to make repayments and to negotiate alternative arrangements if clients are unable to honour loans on the designated dates. For clients who borrow for business purposes, it is mandatory to produce financial reports for evaluation.

It is interesting to note that the semi-formal micro lender is not keen to develop links with the formal banking sector as commercial banks with micro lending operations are seen as competition. However a link exists between micro lenders and commercial banks in the sense that micro lenders are currently using an electronic debit order payment system managed by a leading commercial bank, ABSA (Amalgamated Banks South Africa). The micro-lending organisation interviewed, indicated since its recent utilisation of the NUPAY system, its clients have been confined to clients of the commercial bank ABSA, only. The NUPAY system allows for electronic payments from the borrowers to the micro lender only if the borrowers are clients of ABSA.

The organisation is financially sustainable although its outreach to the poor has been hampered by the incorporation of the NUPAY system, which confines its target market to ABSA clients only. There is a trade off between increasing financial sustainability through improved debt collection methods and sacrificing outreach to the very poor. Outreach is also hampered by the prerequisite that clients have permanent employment. The National Loans Register presents a legal barrier, as loans may not be provided to clients who do not qualify as per the NLR, that is clients who are blacklisted.

3.2.2 Analysis of the case study

Loans dispersed by the semi-formal micro lender are only on an individual basis; therefore the micro lender does not rely on social networking and group formation as a mode of organisation for its microfinancing activities. Group formation in the form of solidarity groups has proven successful in rural settings where communities are relatively isolated and small with a high level of social cohesion. It seems the community of Oudtshoorn is not mobilising their resources into a microfinance initiative that addresses common community problems. Although Oudtshoorn is a relatively small town, it has the modern conveniences found in urban areas; access to water and electricity, a sophisticated telecommunications structure consisting of telephone lines, cellular networks, internet and fax facilities and well developed roads and housing. For many poor people, moneylenders are the only source of credit to meet survival needs and in most circumstances this reinforces poverty instead of alleviating it. Microfinance systems that develop amongst solidarity groups based on group formation and pooling of resources tend to be more common in the under-developed, deep

rural areas of South Africa where modern facilities and conventional finance options are totally or virtually absent.

The micro-lending organisation is operationally efficient in the sense that it is financially sustainable. Interest rates charged cover all operational costs, including salaries for all employees, and ensures the organisation remains profitable. The organisation does not rely on any external funding. Interest rates range from 10% - 15% on outstanding balances, depending on the term of the loan. The organisation has offered the same interest rates for the last 3 years. The Banks Act (No.94, 1990) prohibits the credit granting institution from taking deposits and hence mobilizing savings. In order to take deposits, the moneylender would have to register as a bank and meet the corresponding requirements of the Banks Act.

The organisation has conducted very little market research and has mainly relied on responses to advertisements, as an indicator of the demand for its services. The number of clients and the number of competing micro lenders in the area indicate a great need for credit in the area.

All MFRC registered micro lenders have access to the National loans register that provides lenders with information on existing micro loans and a summary of consumer credit of an applicant. The advantage is that it enables lenders to assess the borrower's ability to afford a loan before the loan is granted. The downfall of the NLR is that it adversely affects outreach of the micro lenders. It is often the poorest of the poor that is in need of these micro loans for lack of an alternative source of funding. If borrowers are blacklisted by other creditors or unable to repay a loan according to the NLR, the organisation is not permitted to grant a loan. The adoption of a computerised payment system in agreement with ABSA bank has further hampered the organisations ability to reach the poor, as borrowers are required to have an ABSA bank account. Many poor people are unable to open a bank account with the commercial banks, as these banks often do not cater for the poorer population, because of the high-risk profile.

The organisation is registered with the MFRC and complies with its regulations. The business has benefited from its regulation because competitors who are unregistered and do not comply with the laws, are eliminated and penalised. Prior to the legislation, the micro lending business retained bank cards and pin numbers (personal identification numbers) to ensure

repayment. However the law prohibiting lenders from retaining bank cards and pin numbers has constrained the micro lender in obtaining the security felt necessary to prevent default.

Standards and regulation among micro lenders are apparent and information is easily accessible. The organisation interviewed has received free workshops from the MFRC on its manual for micro lenders. Auditors also assist in educating lenders on current regulations.

3.3 THE CASE OF THE INFORMAL MONEY LENDER

3.3.1 Background of the informal money lender

The owner of an informal money lending business was interviewed and also wished to remain anonymous. This organisation has been operating officially in Oudtshoorn for the past 3 years as a micro lending business. Prior to that, the individual who started the business, a prominent business and community figure, extended personal loans to the individuals in the community on a very informal basis on his terms. It was these frequent borrowers who approached the owner of the micro lending business to "open shop" to increase accessibility to finance.

To date no external funding has been received. The owner has provided the initial start-up capital and has continued running the business from the income generated by the lending activities. Clients are mostly pensioners, often farm workers, residing in the poorer areas in Oudtshoorn. There are 3 employees working for the organisation, all from the local community. The staff structure simply comprises the owner/manager and 2 debt collectors who all receive a salary. The minimum loan size is R20 and the maximum that can be borrowed is R1 000. The duration of all loans are 1 month only, which is generally used for consumption purposes and funerals.

Clients approach this organisation for loans mainly because their incomes are not sufficient to cover their expenses and those who are blacklisted by other creditors are not eligible clients for the formal micro lenders. Pensioners who solely receive the government pension grant often cannot cover basic needs, such as rent, food and clothing. The organisation originated as a response to the material poverty that is rife in the area and the need for finance to cover basic needs provision. Economic empowerment is not a feature of this type of microfinance operation because most clients do not use financing for income-generating activities but

borrow to finance the deficit between their incomes and expenditures. Their dependence on loans has led to many borrowers spiralling into a debt trap and a cycle of poverty. Loans are generally provided for consumption purposes and funerals. The organisation does not lend money for business purposes or start-up capital.

Requirements for a loan are:

- physical proof of address
- identity document
- 3 months bank statements
- newest salary slip of those that are employed, and
- bank or Pensioner cards which are retained by the lender

The interest rate charged is sufficient to ensure the financial sustainability of the organisation. Loans are tracked via a manual system where debt collectors conduct physical visits to borrowers. Between 5% and 10% of clients default every month, and the main reasons cited for default are when pensioners do not receive their monthly pension grant or, in the case of the death of a client. The organisation operates independently of any regulatory body or any other financial institutions. The only link to the formal sector is the business' savings account held at a local commercial bank.

3.3.2 Analysis of the case study

Traditionally, in the poorer communities in South Africa, friends and family are often utilised as sources of credit to those in need. This informal money lending approach is based on mutual trust between the lender and the borrower. The lender casually assesses the need for the finance and provides the funds at a cost, or interest rate. Loans are generally granted for short-term periods.

The informal moneylender in this case study is a prominent community figure and owns many businesses, as well as property in the area. Living and working in a poor area, he has over the years extended loans to people in the community who were in need. The people who borrow from him, are people he knows on a personal basis, and he can make an accurate assessment of their financial problems. Based on the traditional lending methodology of the informal lender acting as a sort of paternalistic moneylender, he started a money lending business.

Prior to this loans were disbursed very informally, it was the frequent borrowers who approached the moneylender to start the business to increase accessibility for credit.

Only individual loans are granted and the lender consults with the borrower to decide what amounts will be granted as a loan. Because the lender is aware of the borrowers' personal situations, the lender uses his discretion in disbursing the loan, characteristic of a paternalistic mode of operation. For instance, if a borrower asks for a certain amount for a specific purpose and the lender is aware of the borrower's tendency to spend it all at once, the lender would initially give only a portion of the loan, according to the borrower's perceived need. Many of the organisation's clients are frequent borrowers and approach the organisation on a monthly basis for financial assistance. Some cannot afford to survive without the regular credit, and therefore the access to the finance does not alleviate their poverty situation, but rather assists in sustaining the borrower (and his/her household) to survive in abject poverty. The moneylender attempts to remedy this by providing clients with informal money management education and training, for example, budgeting. However when a household's expenditures constantly exceed its income and credit is used for income levelling, it becomes hard to improve standards of living. The majority of clients are pensioners and are retired and it is unlikely that credit obtained would be used for income-generating activities such as micro enterprises.

The organisation no doubt targets the poorest of the poor and approximately half of its clients are women. In the traditional South African societies, men went to work and women stayed as home to take care of the children and the household. It is also common with African tradition and culture that women perform farming duties. Even today women often assume the responsibility of managing the household and therefore have to ensure that there is enough money for food, electricity etc. On the other hand, for those women pensioners who were not employed prior to going on pension, and have no other retirement income, the government grant may be insufficient to meet survival needs.

The organisation's interest rate is 30% per month on outstanding balances and loan terms are one month only. The lender retains bank and pensioner cards. This is common, although illegal practice among many informal moneylenders in the country where the security is the borrowers' wage and thus bank card withdrawal and direct deduction from wage at source are the most common repayment method.

This micro lender is not registered with the MFRC although by law he is required to be as he charges an interest rate of 30% on all loan amounts. As was mentioned, retaining bank and pensioner cards is illegal according to new legislation, and offending organisations could be penalised and face fines. The existence of such money lending schemes indicates that there is an enforcement problem with the MFRC rules and regulations and that not all moneylenders are properly registered.

The situation is that the clients of this organisation have no other means of obtaining the credit they so desperately and frequently need. Borrowed amounts are sometimes as little as R20 and no commercial bank extends loans of such small amounts. Despite being subjected to very high interest rates, poor people often have no choice but to borrow from moneylenders to satisfy basic survival needs. A microfinance initiative such as this ultimately helps the poor in obtaining food security, consumption smoothening and emergency financing.

3.4 THE CASE OF THE INFORMAL SAVINGS CLUB

3.4.1 Background of the informal savings club

An informal savings club was started in the early 1990's by the governing body of a public primary school in Oudtshoorn. The principal of the school and one of the teachers who is also the co-ordinator of the savings club were interviewed. The unfortunate situation in many South African public schools is that inadequate government funding often creates the need for the school and the community it serves to undertake initiatives to increase its finances. The school serves a low to middle income community where many parents of learners struggle to cope with paying school fees. The goal of the savings club was to generate income for the loss in unpaid school fees and to assist with funding for the school's operation and activities. The savings club has been operating for about 10 years and has proved to be both beneficial to the school and to the savers.

The savings club is a mutual agreement between parents of learners and the school, whereby parents deposit amounts with the school. These funds are then invested in an interest earning account with a commercial bank. The ability to save with the school is not confined to parents

only, and family and neighbours of learners can also participate. There are no screening procedures, and everyone involved in the savings club trusts the scheme and those running it.

Every Monday, savings are brought to the school by the learners and these savings are recorded by individual class teachers. It is not compulsory for savers to make a deposit every week. The frequency and value of deposits depend on the savers. Detailed records are kept on individual savers in order to keep track of the amounts invested for the year, and receipts are given to savers to acknowledge the receipt of the money. Each saver's deposits are recorded in an individual book. The co-ordinator of the club, also a teacher at the school, then deposits the savings into an interest earning account at a local commercial bank. The co-ordinator and the teacher involved in the administration volunteer their services, and do not get paid beyond their teaching salaries. At the end of the school year, savers receive exactly what they have invested and the school receives the interest earned on those savings. It is a system based on mutual agreement and trust between those in the community that save, and the school which handles the administrative aspects. Savers are content that their money, otherwise spent, is being saved for the end of the year and that it assists the school which the children in the community attend.

The school has approximately 1079 learners currently registered. It is estimated that 50% of the parents of learners are using this informal method to save. Because of the flexibility of the saving system in terms of frequency and amount of deposits (which the formal banking system places limits on), savers prefer this method to the more formal saving products offered by banks and financial institutions. For many poor people in the community, this informal savings club is their only means of saving besides holding the funds themselves. Approximately 90% of savers only use this method to save and the rest has savings accounts with banks and traditional methods such as bingo clubs (See the Box 2 below) and stokvels.

The goal of the savers is to have extra cash at the end of the year during the festive season when additional funds are needed and for the beginning of the school year. Savers cannot access their savings until the end of the year with the exception of special cases and emergencies. An example of a special case is when learners leave the school due to moving out of the area. In this case, the parent's savings are paid from the school funds and at the end of the year, money from the savings club replaces the out flow in the school funds. By only making savings accessible at the end of the year savers are guaranteed the extra money at the

end of the year. This is often used for household improvements, clothing, school clothing and stationery for the following year as well as common Christmas time expenditures such as food and gifts.

Box2: Bingo clubs…a form of saving

A bingo club runs bingo evenings where participants pay an amount to play the game of bingo. Winners receive prizes ranging from cash to small gifts. The proceeds of the club are invested in a savings account and at the end of the year are divided amongst the club members. It is an informal method of saving usually undertaken by groups with common characteristics such as religious, sport organisations and pensioner groups. The aim is usually to have extra cash at the end of the year for the organisation's activities or to provide an additional source of income for individuals involved.

In 2001, the school collected an estimated amount of R166 000 on which it earned between 8% and 11% interest. All the interest earned is reinvested in the school's infrastructure and projects. The savings club made it possible for two much needed computers to be purchased with the interest collected in 2001.

A major constraint preventing the savings club from optimising on interest on the savings is the high bank charges payable to the commercial bank where the savings account is held. Savings are collected weekly from savers and this results in frequent deposits at the commercial bank. These frequent deposits incur high bank charges that erode the interest that could potentially be earned. The savings club is also constrained from reaching optimal sustainability by the lack of computer software and packages that could be used for recording the saving deposits and transactions. Currently all administration is done manually by teachers during lesson times. The savings club appears to lack information on alternative investment instruments that could yield higher returns on their deposits. It would be advantageous for the administrators of the savings club to be trained in this regard.

3.4.2 Analysis of the case study

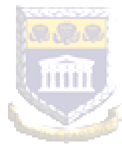
Group formation in this microfinance scheme has been prioritised in the sense that the entire school community is involved, teaching and administration staff of the school, learners, parents and even extended family of learners and neighbours. The community of the school has undertaken to save to achieve a common goal, to assist the school with funding. In return savers can deposit small amounts with the school and be assured of receiving it at the end of the school year.

There are two groups of beneficiaries to this saving project, the school and the savers. Positive externalities are derived from the project because the benefits accruing to the school and the savers spill over to the community at large. Interest on the savings is used by the school to compliment school funding to ensure a well-run school, and to undertake projects that improve the infrastructure and efficiency of the school. This increases the school's ability to provide a stable educational setting and generally translates into better school environment for all the learners. The community benefits indirectly from the improvement in education standards for community members.

The majority of savers are from low- to middle-income households and the savings club assists with food security and increased incomes at the end of the year. The savings club relies on the teachers of the school as volunteers to handle the administration aspect of the saving club. The learners are the intermediaries between the savers (parents, family and neighbours) and the deposit takers. Therefore everyone in the school community is involved in the operation of the savings club. Sustainability of this community-based initiative depends on the effective participation of all stakeholders. The trust between all the stakeholders adds to the success of the initiative because savers send deposits with the learners to the school and there is no need for savers to make these deposits themselves, hence it is convenient.

There are no regulations hindering the operation of the savings club although training for the administrators, software packages to replace manual administration and better investment advice and options would reinforce the club to become more sustainable.

The savings club is an ideal model for community organisations with a wide outreach to provide the poor with the ability to save, and at the same time contribute to a mutually beneficial activity. The success of such schemes depends on effective participation of all stakeholders and mutual trust.



CHAPTER FOUR:
CONCLUSIONS AND RECOMMENDATIONS

4.1 CONCLUSIONS

4.1.1 Key findings from research in Oudtshoorn:

- Micro lenders serves as a main source of credit for the population.
- There is a large supply of semi-formal to formal micro lending institutions in the greater area of Oudtshoorn.
- Micro lenders indicated that the majority of loans disbursed were for consumption purposes and to meet survival needs e.g. funerals, school fees, furniture, food etc.
- A large proportion of micro lenders clients were recurring clients.
- Both micro lenders interviewed confirmed that small loans help clients initially but many clients end up in a debt spiral situation.
- Micro lending can be a source of poverty reinforcement.
- Savings services limited to conventional bank savings accounts and informal saving clubs.
- Weak link between microfinance and micro enterprise in the area.

4.1.2 Application of the model

The microfinance institutions interviewed in Oudtshoorn undertakes only credit or only savings services. All three institutions originated as a response to the need for low to middle income people in the area to have access to credit and savings services not formally provided by the banking sector. These institutions play an important role in meeting the financial needs of households and on a small scale that of microenterprises, however the link between the provision of financial services as a tool for poverty eradication, is questionable, in light of the research results. The micro lenders interviewed confirmed that many recurring clients fall into debt spiral situations and borrow money to repay other loans. This occurs because the majority of loans disbursed are used for consumption purposes and hence borrowers do not repay loans from returns on productive investments.

Only one of the three MFI's interviewed based their operations on the principle of group formation and collective and cooperative support. Group formation was evident in the savings club and other informal savings initiatives because these groups have mutual goals which engenders trust in the initiatives. There was no evidence of group-based credit lending schemes or village banks in the area, both micro lenders interviewed provide individual loans only. The principle of prioritising group formation is not as effective in poor urban areas as it is in rural areas where communities are smaller and relatively isolated. Furthermore, none of the cases studied network with any organisation or initiative involved in similar business as them.

The stimulation of an indigenous African private sector is recognised as the most important potential source of future employment and economic empowerment. Entrepreneurs, small enterprises and the self-employed, need venture or start-up capital. While consumption credit is a thriving industry in Oudtshoorn, small and microenterprise finance is in short supply. Small businesses are regarded as high risk and lack of collateral prevents them from obtaining the loans they require. Of the two micro lenders studied, the informal lender does not provide credit for productive purposes and only about 10% of the semi-formal lender's clients borrow for business purposes. None of the three cases receive support from external sources to promote private sector economic activities and their links with the formal financial market are limited to commercial banks as deposit-taking institutions and providers of electronic payment systems.

The MFRC is the official regulator of micro lending organisations and only the semi-formal micro lender is registered with the regulatory institutions, the informal micro lender is not registered. The informal lender does not comply with the legal requirements of the Usury Act. The informal savings club, on the other hand, is not required to register as the MFRC regulates micro lenders only.

Both the semi-formal and informal micro lenders are financially sustainable. Both charge interest rates that cover operational costs, and are not dependent on external funding. The micro lenders have effective means of monitoring and tracking loans in place and this is evident by high repayment rates of about 90%. The management of the savings club can be improved to become more efficient. All administration is done manually, and the scope to

increase outreach and financial sustainability is possible with better evaluation and monitoring tools.

None of the microfinance institutions in the survey follows *all* four principles of the UN/OSCAL model of microfinance (See Table 2 for a summary). Because of the interrelatedness of the four principles, this could provide a reason for the microfinance institutions not achieving simultaneous success in financial sustainability and outreach to the very poor.

Micro finance systems based on solidarity group lending and mutual trust are more prominent in the deep rural areas with high levels of social cohesion, and where members of a community are involved in mutually oriented activities. The table below summarises the application of the microfinance model in the research site and also makes a comparison with a microfinance institution, the Small Enterprise Foundation (SEF)[10], which explicitly undertakes poverty eradication as part of its mission. It is evident that initiatives with development objectives are more likely to conform to the microfinance model.

Box 3: Background of the Small Enterprise Foundation (SEF) – South Africa

The objective of the SEF (a non-profit NGO) is to work towards alleviating poverty and unemployment among the black population in the rural areas of South Africa by providing sustainable financial services. SEF uses a group-based lending methodology where clients form groups of five, which are then combined into Centres consisting of six to eight groups. These groups meet on a fortnightly basis to make repayments, deposit savings and discuss issues. Clients are required to open an account at the Post Office, in this way savings are encouraged. When loans are disbursed the groups deposit their savings in to this account. The loans administered by the SEF has enabled people to afford three meals a day instead of one, some families are now able to afford schooling for their children and electricity for their homes or expand businesses and small enterprises.

Source: (United Nations: 2000)

[10] Information can be viewed on the website: http:www.sef.co.za

In the South African context, access to formal financial services for the poor are a rare commodity, and the urban poor are no exception. The high demand for credit in non-rural areas has led to a growing industry of alternative financial providers, namely money lenders to fill the gap. A distinction has to be made between microfinance initiatives introduced to empower people and alleviate poverty and the provision of micro credit by institutions with purely profit motives. The case study results shows that micro lenders who follow the latter can and do reinforce poverty instead of alleviating it.

"The cause of the problem is not however the moneylender. The moneylender simply exacerbates the problem. The cause is poverty" (Marsh & Saran, 1999).

It seems that microfinance institutions with explicit development and economic empowerment objectives are more likely to follow the principles of the UN/OSCAL model and contribute to the ultimate goal of poverty alleviation.

Table 2: Application of Microfinance Model to the Research Site and the SEF

PRINCIPLE	ISSUE/CONCERN	APPLICATION	COMPARISON OF SEF
Prioritise local knowledge and participatory planning	• Recognise and build upon what people know. • Indentify any indigenous institution, based on traditional knowledge and values. • Traditional methods should adapt to modern context.	Existence of pooling resources for common good in the savings club. Traditional paternalistic borrowing by the informal money lender. No evidence of participatory planning by the micro and money lender.	Lending based on group methodology.
Prioritise group formation and networking	• Identify any group formation or institution utilising collective and cooperative support. • To what extent is support groups utilised. • Identify all stakeholders. • How is group information disseminated? • Size of group?	Only the savings club utilises group formation. No group formation or networking by the two lenders in the research site.	A group consisting of five people replaces the conventional lending requirement for collateral. Meetings are held fortnightly for groups from a section of a village.
Reinforce microfinance to advance African private sector	• Does practices of the larger national, regional and international community hinder microfinance initiatives at the local level? • Does microfinance enhance SMMEs? • To what extent are standards and regulation among MFIs apparent? • Are there supportive and legal framework and policy for the microfinance community?	New legislation passed by MFRC restricts whom lenders can lend to. No strong links between microfinance and microenterprise in the area. Standards and regulation are apparent. Legislation hampers certain lenders from collecting deposits. Savings club is linked to formal banking sector through deposits being held in a commercial bank.	The Micro-credit programme serves existing micro-entrepreneurs.
Prioritise operational efficiency	• To what extent are some of the following operational efficiency principles utilised? - Target the poorest - Mobilise savings - Charge interest rates that cover operational costs - Market research - Streamline and decentralise operations - Utilise volunteer staff - Target women - Develop monitoring and assessment tools - Invest in training - Utilise pre-existing support organisations - Avoid external dependency	Poorest of the poor not explicitly targeted. Lenders not permitted to mobilise savings. Interest rates do cover operational costs. Market research only undertaken by the semi-formal lender. No explicit targeting of women although they do represent the majority of clients. Only the semi-formal lender has effective tools for monitoring and assessment – uses a computerised system. All case studies showed self-sustainability.	30 – 40% of clients are very poor (living below half the poverty line). SEF encourages members to save with the Post Office. In June 2001, operational self-sufficiency estimated at 51%. Has an impact monitoring system that runs daily. 98% of clients are women. Clients are trained in saving and credit methodology and on business plans.

4.2 RECOMMENDATIONS

Based on the conclusions drawn from the application of the Microfinance model to the research site, I propose the following recommendations.

1. If microfinance is to be used as an intervention in the market for credit and savings facilities for the poor, then the socio-economic consequences of micro/money lending has to be researched and examined, especially when it has an adverse impact on poverty alleviation.

2. Microfinance institutions in poor urban areas should facilitate the formation of groups. Microenterprises and those who are self-employed who cannot access financing individually stand to benefit from group guarantees.

3. There is potential for future research into the type of microfinance initiatives which have proven successful in empowering the urban poor.

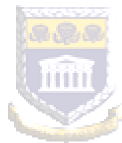
4. Regulatory authorities need to increase their capacity to deal with unregistered lenders, specifically those who exploit borrowers by charging unusually high interest rates.

5. Incentives should be provided to community-based savings schemes to encourage saving and investment. One such an incentive could be rebates on bank charges for schemes with frequent deposits. The large amount the informal savings club spend on bank charges, could be put to more productive uses.

6. Microfinance in South Africa is often understood to mean the microlending industry alone. Awareness about the potential benefits of alternative microfinance options, such as village banking, ROSCAS and stokvels, needs to be increased.

7. Alternative means could be used as collateral for small business lenders; value of contracts at worth, group guarantees or machinery.

8. Microfinance institutions should focus on women's economic empowerment as an explicit objective. This would have a positive influence on the living standards of households as a unit.



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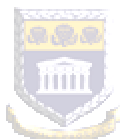
APPENDIX 1:

QUESTIONAIRE

1. Name of the organisation: ______________________________
2. Names of the interviewee: ______________________________
3. Position of the interviewee in the organisation: ______________________________
4. Location of the organisation: ______________________________
5. Date of interview: ______________________________
6. Name of the researcher: ______________________________

I. BACKGROUND INFORMATION

1. What type of institution is your organisation?
   a. Microfinance business
   b. Credit Union
   c. Community based organisation
   d. Village Bank
   e. Commercial Bank
   f. Other. Please specify ______________________________



2. What kind of services do you offer? *(Mark all that apply)*
   [ ] a. Credit [ ] b. Savings [ ] c. Training/counselling
   [ ] d. Insurance. Specify type ______________________________
   [ ] e. Other. Specify type ______________________________

3. For what reasons did you start this organisation?
   ____
   ____
   ____
   ____

4. How long has the organisation been operating?
   ____

5. What is the mission statement of your organisation?
   ____
   ____
   ____
   ____
   Have no mission statement______.

6. What are the goals of your organisation?
____
____
____
____

7. Do you work in
   a. Urban areas
   b. Rural areas
   c. Rural and urban areas

8. Who started this organisation?
   a. Government
   b. Private Non- governmental organisations
   c. Individuals
   Please specify.
   ____
   ____

II. FUNDING

(If your organisation does not receive outside funding, proceed to the next section)

1. Did your organisation receive any outside funding when it started?
   a. Yes   b. No

2. If yes to the above question, from whom?
   ____

3. What type of funds are these?
   a. Grants   b. Share capital   c. Other, specify. ______________

4. What are these funds used for in the organisation?
   a. Grant loan capital
   b. Grants for operating expenses
   c. Donation of building or equipment
   d. Other, specify. ______________________________

5. Does the organisation at present still receive funding from an outside donor?
   a. Yes   b. No

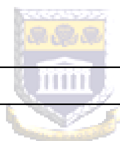
6. If yes to Q5, please indicate the following:
   6.1 Name of the funder: ______________________________
   6.2 The size of the donation: ______________________________
   6.3 How the funding is used in the organisation:
   ____

7. How important is outside funding to the working of this organisation?
    a. Very important
    b. Important
    c. Of very little importance
    d. No importance
    Please explain your answer.
    ____
    ____
    ____
    ____

8. What are you doing to decrease the level of dependency on donors (e.g. charging for training and administration costs)?
   ____
   ____
   ____

9. Do your donors set conditions for funding?
   a. Yes   b. No

10. If yes to Q9, what are these conditions?
    a. Geographical location of clients
    b. Level of poverty of clients
    c. Economic activity of clients
    d. Other,specify____
    ____



11. Do the donors monitor your organisation through: *(mark all that apply)*
    [ ] a. Financial reports
    [ ] b. On site visits
    [ ] c. Performance appraisal
    [ ] d. Other. Please specify
    ____
    ____

12. In your opinion, will this organisation be able to function well without any outside funding in future? a. Yes   b. No   c. Uncertain

13. Additional comments regarding funding.
    ____
    ____
    ____

III. STAFF AND STRUCTURE OF THE ORGANISATION

1. How many people are working for this organisation at the moment? ______________________

2. How many are from the local community? ____________________

3. Briefly explain the structure of your organisation?
____
____
____
____

4. What percentage of your staff are women? ____________________

5. What percentage of the management of the organisation are women? ______________________

6. Do the staff of this organisation
   a. Receive salary/wage
   b. Are all volunteers
   c. Combination of the above two

7. How often does the staff undergo training?
   a. Very often (+/ - once a month)
   b. Often (+/- every two months)
   c. Seldom (3 - 4 months)
   d. Very seldom (+/- once a year)
   e. Never

8. Describe type of training programs that the staff received.
____
____
____

9. Who conducts the training courses?
   a. Trainers from local area who do it free of charge
   b. Trainers from local area who charge a fee
   c. Experts from outside who do it free of charge
   d. Experts from outside who charge a fee

10. In your opinion, does the training help the organisation to do its work better?
   a. Yes b. No c. Uncertain

Please
motivate/explain.____
____
____
____

IV. THE CLIENTS

1. What is your target market? (*Mark all that apply*)
   [ ] a. No client specific targeting.
   [ ] b. Poverty targeting.
   [ ] c. Gender Targeting.

2. How many participants does your organisation have at the moment? ________

3. How many active clients (not more that 3 month in arrears) do you have? ___________

4. What percentage of your clients are women? _________________

5. Does your organisation lend money for business purposes?
   a. Yes b. No

6. For business lending activities, which types of clients does the organisation lend to? *(Mark all that apply)*
   [ ] Informal sector / unregistered businesses
   [ ] Registered businesses with less than 5 employees.
   [ ] Registered businesses with more than 5 employees.
   [ ] Other. Specify____

7. What percentages of your clients have registered businesses? _____________

8. Do you screen/evaluate prospective clients/participant that want to join your organization?
   a. Yes b. No
   If yes, please explain the criteria you use.
   ____
   ____
   ____
   ____

9. Do you recommend your clients for higher loans to formal financial institutions?
   a. Yes b. No
   Explain your answer.
   ____
   ____
   ____

V. GROUP COMPOSITION

1. Do you provide: a. group loan b. individual loans
   (If the answer to Q1 is b, please proceed to the Part 2 of this section directly)

PART 1: GROUP LOAN

2. What is the average size of a group? ____________________________

3. How many groups do you currently have? _________________________

4. Are the groups registered? _______________________________________

5. Are you aware of informal or traditional groups already existing in local area? E.g. Stokvels. a. Yes b. No
   If yes, name them
   ____
   ____
   ____

6. Do you work with already existing groups? a. Yes b. No

   If yes, how many are they? ____
   Please explain your interaction with the groups
   ____
   ____
   ____

7. Do you facilitate group formation?
   a. Yes b. No
   Please explain your answer
   ____
   ____
   ____

8. How many new groups are established in your organisation? _______________

9. Do you get your groups to register after they are formed?
   a. Yes b. No

PART 2: INDIVIDUAL LOAN

10. What kind of collateral do you demand from your individual clients?
    ____
    ____
    ____

V. SERVICES

CREDIT SERVICE

1. Do you provide loans for: *(mark all that apply)*
   [ ] a. Start ups
   [ ] b. Working capital
   [ ] c. Consumption
   [ ] d. Other specify ____

2. What is the loan size? Minimum_______________ Maximum ______________

3. What is your rate of interest? ________________________________

4. What costs does your interest rate cover? *(Mark all that apply)*
   [ ] a. Operational costs [ ] b. Inflation
   [ ] c. Other. Specify
   ____
   ____

5. What systems do you use to track your loans?
   a. Manual b. Computerised

6. If computerised is it
   a. Package developed for your organisation
   b. Ready made package used by other organisations as well

7. Can your MIS produce loan data at any given time (e.g. loan repayment rate, arrears, and bad loans)?
   a. Yes b. No

8. Did you conduct any market research before you started your lending activities?
   a. Yes b. No

9. If Yes to Q8, What type?
   a. Used questionnaire or interview schedule
   b. Used participatory method
   c. Both a. and b.
   d. Other, specify
   ____
   ____
   ____

10. Do you offer any kind of incentive to insure repayment of loans?
    a. Yes b. No
    If yes, Specify.
    ____
    ____
    ____

11. What is your default rate? ___________________________________

12. In your opinion, what are the most common causes of default?
____
____
____

13. Does your organisation monitor the loan it issued through: *(mark all that apply)*
    [ ] a. Financial report
    [ ] b. Physical visits
    [ ] c. Performance evaluation
    [ ] d. Advice on the business plans

SAVING SERVICE

14. In your organisation, is saving
    a. Compulsory b. Voluntary

15. Do clients earn interest on their savings deposits?
    a. Yes b. No
    If yes, how much? ____________________

16. What does your organisation do with the accumulated savings of clients?
    a. Use for on lending
    b. Deposit them in interest earning accounts
    c. Invest in local community development programs
    d. Invest in outside communities
    e. Other specify
    ____
    ____
    ____

17. Are the savings easily accessible to clients on demand?
    a. Yes b. No
    If not, explain why
____
____
____

18. Do you have any knowledge of traditional informal or other formal of ways of saving used by your clients? a. Yes b. No
    If yes, please list them:
____
____
____

TRAINING

19. What type of training do you offer to clients? (Mark all that apply)
    [ ] a. Management and other business skills.
    [ ] b. Vocational training and promote entrepreneurship.
    [ ] c. Basic education and literacy programs
    [ ] d. Leadership programs
    [ ] e. Other, specify.

20. Who conducts the training courses?
    a. Trainers from local area who do it free of charge
    b. Trainers from local area who charge a fee
    c. Experts from outside who do it free of charge
    d. Experts from outside who charge a fee

21. Do the groups provide an input in training in terms of traditional know-how and expertise? a. Yes b. No
    If yes, Please explain.
    ____
    ____
    ____

VI. LINKAGES WITH OTHER INSTITUTIONS

INFORMAL INSTITUTIONS

1. Do you have any linkages with other informal financial-related institutions (e.g. ROSCAs)?
   a. Yes b. No
   If yes, please list down their names
   ____
   ____

2. If Yes to Q1, where are they situated?
   ____
   ____

3. What kinds of services do they offer?
   ____
   ____
   ____

4. Do you have any linkages with other informal non financial-related institutions?
   a. Yes b. No
   If yes, Please explain who they are
   ____
   ____
   ____

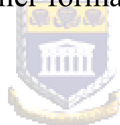
5. In what way do you collaborate with these organisations? *(Mark all that apply)*
   [ ] a. Human resources
   [ ] b. Sharing technologies expertise
   [ ] c. Sharing information
   [ ] d. Others. Please specify.
   ____
   ____
   ____

6. How often do you meet with these institutions?
   a. Very often (+/ - once a month)
   b. Often (+/- every two months)
   c. Seldom (3 - 4 months)
   d. Very seldom (+/- once a year

7. Do you participate in any of the local community development programs?
   a. Yes b. No
   If yes, please specify.
   ____
   ____
   ____

FORMAL INSTITUTIONS

8. Do you have any linkages with other formal financial institutions (e.g. banks)?
   a. Yes b. No



9. If no, can you explain why not?
   (If yes answer questions from 10 to 20)
   ____
   ____
   ____

10. If yes to Q8, Please list down their names
   ____
   ____
   ____

11. Where are they situated? ______________________________

12. What kinds of support services do they offer your organisation?
   ____
   ____

13. In what way do you collaborate with these organisations? *(Mark all that apply)*
    [ ] a. Funding
    [ ] b. Human resources
    [ ] b. Sharing technologies expertise
    [ ] c. Sharing information
    [ ] d. Others. Please specify.

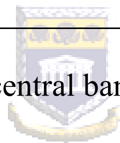
____
____
____

14. Do you have any linkages with other formal non-financial organisations?
    a. Yes b. No
    If yes, Please explain who they are

    ____
    ____
    ____

15. In what way do you collaborate with these organisations? *(Mark all that apply)*
    [ ] a. Human resources
    [ ] b. Sharing technologies expertise
    [ ] c. Sharing information
    [ ] d. others. Please specify.

    ____
    ____
    ____



16. Is your institution supervised by central bank or any other supervision agency?
    a. Yes b. No

(*Questions 19-21 are applicable to money lending institutions only)*

17. Is your organization a member to Micro Finance regulatory council (MFRC)?
    a. Yes b. No

18. If yes, how has the MFRC regulations benefited your current operations?

    ____
    ____
    ____

19. Are they any regulations that paused constraints to your organisation?
    a. Yes b. No
    If yes, please specify.

    ____
    ____
    ____

20. If your organisation is not affiliated to the MFRC, why not?

    ____
    ____
    ____

VII. CONSTRAINTS OF THE INSTITUTION

1. What would you say are the major constraints to reaching financial sustainability?

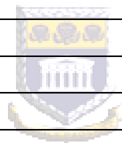
   ____
   ____
   ____
   ____

2. What assistance does your organisation require at the moment?
   (Mark all that apply)
   [ ] a. Financial
   [ ] b. Management
   [ ] c. Marketing
   [ ] d. Training
   [ ] e. Bookkeeping
   [ ] d. Other. Specify

   ____
   ____
   ____

3. What would you say are the major constraints to increasing your ability to reach the poor?

   ____
   ____
   ____
   ____



4. What would you say are the major constraints to increasing your ability to reach women?

   ____
   ____
   ____
   ____

5. Are there any legal/regulatory barriers hampering the organization?

   ____
   ____
   ____
   ____