Microfinance Institutions (MFIs) and rural poverty reduction in the Eastern Cape province South Africa: A case of Amathole Rural District.

By

Name: Zivai T. Mamutse
(Student No. 200604686)

Thesis submitted to the University of Fort Hare in fulfillment of the requirement of the Masters of Social Science in Development Studies.

Department of Development Studies
Faculty of Management and Commerce
University of Fort Hare
Republic of South Africa

Supervisor: Dr S Mago
Date: 20December 2012
DECLARATION

I Zivai Tapfumanei Mamutse declare that the content of this dissertation represents my own work. This dissertation has not previously been submitted to any institution for academic examination. It represents my own opinions and not necessarily that of the university.

X

Signed

30 December 2012
DEDICATION

I dedicate this study to my beloved Sihle, Chiko and my mum Edith for their patience and unfailing encouragement during my study. I dedicate this study to the department of rural development.
ACKNOWLEDGEMENTS

I am so grateful to everyone who has let this study be a success. Foremost, I would like to thank my Almighty God in granting me the power and the wisdom to start and finish this dissertation successfully. I would like to extend my utmost gratitude to my supervisor Dr S Mago who has been patient and a motivating pillar in my research study. I also want to acknowledge, the Govan Mbeki Research Development Centre (GMRDC) for all the support they provided me, financially and academically. The participating microfinance institutions, key informant and all respondents at large are greatly recognised for their cooperation during my fieldwork. I would also like to extend the whole development studies department for their academic inputs during my study.
ABSTRACT

The government of South Africa has seen many financial reforms in the finance industry since the attainment of freedom in 1994. Many microfinance institutions (MFIs) have emerged in the name of poverty reduction, however the impact of MFIs on poverty reduction in rural areas has not been significantly high. Poverty has been reduced but still the inequality gap has even widened (HSRC, 2004). The study is concerned with analysing the impact of MFIs in poverty reduction among the rural poor. Empirical evidence from many developing nations around the world has shown that microfinance is a tool that is relevant in reducing poverty within rural areas. This study investigates the impact of microfinance institutions on household income levels, education and business skills. The study followed a qualitative approach in terms of the research methodology and a survey research design. Data was collected using questionnaires, scheduled interviews, focus group discussions and key informants. Two sample techniques were used for the selection of the MFIs and the household respondents, that is purposive sampling and cluster sampling. In total, 150 households, 15 MFIs and five key informants were interviewed. Descriptive analysis methods were employed and the study showed that only 10% of the total households have been able to access microfinance. The number of people who gained business skills was also low (10%). The MFIs who provide financial services excluding the other services like business training programmes were 80% of the total number of MFIs interviewed. This data showed that only a few (20%) MFIs are willing to go an extra mile rendering business skills to their clients. Overall the major finding of the study was that although, MFIs are reaching out to the rural communities, their levels of outreach is still very low within the
rural areas. However this does not mean that the impact of MFIs funding is not felt among the rural poor. The levels of income and educational benefits have been increased and felt by the 10% of the rural poor clients. This study advocates for an entrepreneurship development pathway to poverty reduction. Microfinance should be used as a source of finance to initiate entrepreneurial activities among the poor in order to generate income. In this study, the use of microfinance finance for consumption by the poor is discouraged because it depletes the funds that can be channeled for self-help projects within the rural communities. The study findings motivated the recommendations that encourage an inclusive financial system that is capable of reaching out to the rural poor.
# LIST OF ABBREVIATIONS AND ACRONYMS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Full Form</th>
</tr>
</thead>
<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
</tr>
<tr>
<td>ACCION</td>
<td>Americans for Community Cooperation in Other Nations</td>
</tr>
<tr>
<td>ASCA</td>
<td>Accumulating Savings and Credit Associations</td>
</tr>
<tr>
<td>BRAC</td>
<td>Bangladesh Rural Advancement Committee</td>
</tr>
<tr>
<td>BTI</td>
<td>Bertelsmann Transformation Index</td>
</tr>
<tr>
<td>CDC</td>
<td>Community Development Council</td>
</tr>
<tr>
<td>CDF</td>
<td>Credit and Development Forum</td>
</tr>
<tr>
<td>CCL</td>
<td>Commercial Credit Line</td>
</tr>
<tr>
<td>CSG</td>
<td>Child Support Grant</td>
</tr>
<tr>
<td>DBSA</td>
<td>Development Bank of Southern Africa</td>
</tr>
<tr>
<td>ECSDSP</td>
<td>Eastern Cape Social Development Special Programmes</td>
</tr>
<tr>
<td>ECSECC</td>
<td>Eastern Cape Socio-Economic Consulative Council</td>
</tr>
<tr>
<td>EPWP</td>
<td>Expanded Public Works Programme</td>
</tr>
<tr>
<td>FAO</td>
<td>Food and Agricultural Organisation</td>
</tr>
<tr>
<td>FSB</td>
<td>Financial Service Board</td>
</tr>
<tr>
<td>GEAR</td>
<td>Growth Employment and Redistribution</td>
</tr>
<tr>
<td>HSRC</td>
<td>Human Science Research Council</td>
</tr>
<tr>
<td>IGA</td>
<td>Income Generation Activities</td>
</tr>
<tr>
<td>ILO</td>
<td>International Labour Organisation</td>
</tr>
<tr>
<td>KZN</td>
<td>KwaZulu Natal</td>
</tr>
</tbody>
</table>
MFI  Microfinance Institution
NGO  Non-Governmental Organisation
NSP  National Solidarity Programme
OECD Organisation for Economic Cooperation and Development
RDP  Rural Development Programme
ROSCA Rotating Savings and Credit Association
SACCO Savings and Credit Cooperative
SAMAF South African Microfinancing Apex Fund
SARB South Africa Reserve Bank
SAT  Sinapi Aba Trust
SEF  Small Enterprise Fund
SEWA Self Employed Women Association
SPM  Social Performance Management
UN  United Nations
UNGA United Nations General Assembly
US  United States
USD United States Dollar
VDR Vietnam Development Report
# Table of Contents

Declaration ......................................................................................................................... i

Dedication ......................................................................................................................... viii

Acknowledgements........................................................................................................... iii

Abstract............................................................................................................................... iv

Abbreviations And Acronyms............................................................................................ vi

CHAPTER 1 ......................................................................................................................... 1

OVERVIEW AND BACKGROUND OF THE STUDY................................................................. 1

1.0 Introduction and Background ...................................................................................... 1

1.1 Statement of problem ................................................................................................ 4

1.2 Objectives .................................................................................................................. 5

1.3 Significance of Study ............................................................................................... 6

1.4 Organisation of the Study ......................................................................................... 6

CHAPTER 2 ......................................................................................................................... 8

MICROFINANCE INSTITUTIONS AND RURAL POVERTY: A CONCEPTUAL AND
THEORETICAL OVERVIEW.................................................................................................. 8

2.0 Introduction ................................................................................................................ 8

2.1 Microfinance ............................................................................................................ 8
2.2 Types of Microfinance Services ............................................................................. 10
2.3 Types of Microfinance Institutions .................................................................. 12
2.4 Approaches to the Poverty Concept ................................................................. 16
2.5 Financial Sustainability and Poverty Lending Approach .................................... 22
2.6 Poverty Lending Approach ............................................................................... 25
2.6 Conclusion ........................................................................................................ 28

CHAPTER 3 ................................................................................................................. 29
MICROFINANCE SUPPORT FOR ENTREPRENEURIAL DEVELOPMENT ............ 298

3.0 Introduction ....................................................................................................... 28
3.1 General Outlook of Microfinance in Developing Countries ............................. 29
3.2 An Overview of Poverty in South Africa ......................................................... 33
3.4 Demand Status for Microfinance in South Africa ........................................... 39
3.5 Supply of Microfinance in South Africa ......................................................... 39
3.6 Suppliers of Microfinance ............................................................................... 40
3.7 Decentralisation of Financial Services .......................................................... 44
3.8 Policy reforms in the South African micro-finance industry ......................... 46
3.9 Successful World Bank Operations in Rural Poverty Eradication ................. 63
CHAPTER 1

OVERVIEW AND BACKGROUND OF THE STUDY

1.0 Introduction and Background

The United Nations (UN) defines Microfinance institutions (MFIs) as organisations that provide a range of financial services such as deposits, loans, payment services, money transfers, and insurance to the poor and low-income households and their microenterprises (Goodspeed et al. 2009). The services mentioned above are referred to as microfinance services. These institutions include rural banks, cooperatives; Non-Governmental organizations (NGOs) providing financial packages to the economically active poor and also to the poorest of the poor in order to improve their social conditions. Raising the income of a community is a primary vehicle for improving human well-being and reducing poverty. To achieve this, the poor must take the initiative to improve their lives, and governments must assist them by ensuring that they can obtain the financial services they need (Kumar, 2005). Rural poverty is not only a deep crisis in the developing countries, it is also widespread. Besides the social grants provided by the governments to the poor, microfinance institutions seem to play an important role in enabling the rural poor to have access to finance can harness to make improve their poverty situation. The microfinance services could be a way of providing opportunities to the poor so that they can be self-reliant and play active roles in their households,
communities and the economy as a whole (Yunus, 2001). The formal Microfinance Institutions are known to have originated from Bangladesh following the establishment of the Grameen Bank by Muhammed Yunus in 1983.

Yaron et al (1997) stated that the best known microfinance organisations were the Grameen Bank of Bangladesh and Bank Rakyat Indonesia, however currently; there has been the emergency of other vibrant MFIs around the world. According to the World Bank (2012) BRAC has done exceptionally well since 1975. Bangladesh Rural Advancement Committee BRAC is devoted to empower women on the grounds that there are the primary caregivers, such that any help they receive can be translated to their children’s basic need like food and education (World Bank, 2012). ACCION has also performed remarkably well in building 62 MFIs in 31 countries and lending to 44 000 clients in the U.S (ACCION, 2012). In Latin America, some of the few vibrant microfinance organisations include BancoSol, Caja Los Andes, PRODEM, FIE, Sartawi in Bolivia; and Caja Social in Colombia. In South Africa the notable strong Microfinance Institutions include the African Bank, Post Bank, Capitec Bank, Meeg Bank, Land Bank, TEBA-Bank, Ithala Ltd, SAMAF and Khula Enterprises (Van Zyl et al. 2009).

In this context, the poor people are the rural people considered ‘unbankable’ and the economically active poor who have the zeal to engage in entrepreneurial business yet they lack the financial resources. The ‘unbankable’ do not own anything that can be used as collateral security in order to access loans from banks. Micro-finance institutions cater for these poor clients who do not have physical collateral security like valuable assets including houses, vehicles and equipment.
According to the World Bank (2012:1), 70% of the world’s poor people lived in the rural areas as of the year 2011. Whilst 64% of the Sub-Saharan Africa population lives in the rural areas, only 21% of the Latin American and Caribbean region lives in the rural areas (World Bank, 2012). In Africa, the rural poor tend to lack the financial assets, and the physical assets to improve their poverty situation. In South Africa, a significant proportion of 39.3% of the country’s population which lives in rural areas are composed of households that are poor and below the poverty line (Trading Economics, 2012). According to the HSRC (2004), the levels of poverty in South Africa have deepened more since 1996 especially upon the black people.

Poverty indicators by Province as at 2001

Adapted from the HSRC, 2004

In 2005/06 the poverty rates in Gauteng went down to 24.9% and 28.8% in the Western Cape whilst Eastern Cape and Limpopo province went to 57.6% and 64.6% respectively (NGO Pulse, 2013). The poverty rates have generally dropped down, however these rates are still high especially in the rural communities. To date, the
Eastern Cape Province, followed by Limpopo province is the region with the highest poverty levels especially in the rural areas. The Global Insight (2011) states that Amathole rural district has 252 poor rural households. More than half of the households lack both financial physical assets. Some of the households rely on small loans from micro-finance institutions. Demirguc-Kunt et al (2008) noted that there is evidence that proves that access to microfinance by the poor households not only reduces the poverty inequality gap, but also improves the general poverty conditions among the poor.

The cutting edge issue worth examining is the question on the inconsistence of the two variables, the microfinance institutions and rural poverty. South Africa has had major financial reforms since 1994 and the proliferation of the microfinance institutions yet there are no reports on the significant improvement in the reduction of rural poverty. From the period of 1994 and 1997, the microfinance sector in South Africa experienced major growth in the context of the numbers of microfinance institutions (Coetzee, 2000). The nature of policies, processes and structures that most of these microfinance institutes utilise have had an impact on the levels of poverty. In this study, there is need to clarify the inconsistence that exists between the proliferation of MFIs and the high poverty levels in the rural communities of South Africa.

1.1 Statement of problem

The problem is that the impact of microfinance institutions has not been significantly high in order to reduce poverty levels in the rural areas. Although microfinance institutions (MFIs) are emerging to provide financial services to the poor, their outreach is still limited. According to the ECDC, the Eastern Cape Province has generally had a
steady increase in the amount of funds accessible to the poor; however its impact on poverty reduction has not been significant (ECDC, 2012). Even though there have been major financial markets reforms since 1994 in South Africa, there is still lack of depth and outreach in the provision of financial services to the marginalised rural areas. Both the institutional and policy reforms had been meant to improve outreach and depth of finance to the poor South Africans, yet the rural poor have not had a significant positive change (Van Zyl et al, 2009). According to the Human Science Research Council (HSRC, 2004), the households living in poverty have sunk deeper into poverty as from 1994 to date. If microfinance institutions can help reduce poverty in the rural areas by providing finance, why then has there not been any significant improvements of household incomes and the wellbeing among the poor rural communities? Could it also be that the nature of the structures of microfinance institutions impedes the rural poor from accessing the microfinance?

1.2 Objectives

The objectives of the study are to:

- Assess how the of microfinance institutions reducing rural poverty.

- Establish the depth of outreach of MFIs in the Eastern Cape province.

- Evaluate the level of household incomes among the poor households as evidence of access of microfinance by the rural poor.
1.3 Significance of Study

This research explores the way forward with regards to MFIs and poverty reduction. Microfinance has attracted worldwide attention because of its potential to reduce poverty among poor communities. It is believed to be one of the strategies suitable for emancipating poor people from poverty. It is therefore urgent and important to carry out this study. Outcomes of this study will inform the department of Trade and Industry and the Department of Rural Development of South Africa on the possible explanation of the inconsistency in the large numbers of MFIs and the insignificant number of rural household beneficiaries. To those involved in the designing and supporting of rural development such as the policy makers, the government and the development agencies, the findings of this study will provide a knowledge gap that is critical in reducing rural poverty in South Africa. If the developmental agencies concerned would implement some of the recommendations provided in this study based on the research findings, the rural poor benefit by through a well inclusive microfinance system.

1.4 Organisation of the Study

The study is organized into six chapters:

Chapter one consists of the introduction of the whole study. It gave a background upon which the whole study was ‘born’. It posed the problem that the study deals with; the main objective expected to be achieved, justified the significance of the study.

Chapter two will give an overview of the conceptual and theoretical framework upon which the main variables; microfinance and poverty are premised. It also gives three
different approaches of understanding poverty namely; the monetary, social exclusion and the capabilities approach. Chapter two also consists of the different types of microfinance services. It also consists of two approaches on microfinance practice namely, the financial systems approach and the poverty lending approach.

Chapter three starts by giving an overview of South African poverty and also provides a description of the supply and demand of microfinance in South Africa. Chapter three also shows how microfinance can help reduce poverty. This chapter emphasises on moving away from traditional micro-lending for consumption to micro-entrepreneurship for income generation. It also shows some other cases around the world that have been successfully carried out premised on the idea of micro-entrepreneurship.

Chapter four is a detailed presentation of the study design and the research methodology. In this chapter, clarity is provided on the research design, the sampling method and sampling size, the data collection tools and the data analysis model that was used.

Chapter five presents the research findings and analyses in form of tables, charts, graphs. This chapter consists of the description statistics based on the findings of the study. It shows gives a detailed interpretation of the findings in a quest to provide answers and explanations of the research objectives.

Chapter six gives a conclusion of the study and also provides recommendations based on the finding in chapter five however in line with the objectives of the study.
CHAPTER 2

MICROFINANCE INSTITUTIONS AND RURAL POVERTY: A CONCEPTUAL AND THEORETICAL OVERVIEW

2.0 Introduction

This chapter presents the conceptual and theoretical issues around the main variables namely, microfinance and poverty. The concept of poverty will be discussed in different viewpoints namely the monetary approach, capabilities approach and the social exclusion approach. The main theoretical approaches that which microfinance institutions were premised on were the financial systems and the poverty lending approach.

Conceptual Framework

2.1 Microfinance

Ledgerwood (2000) defines microfinance as financial services for the poor or low-income clients including consumers and the self-employed. These financial packages are offered to either the rural or the urban clients who do not have access to commercial banks in order to improve their livelihoods. Commercial banks are unable and not willing to provide loans and financial assistance to low-income households which do not have
collateral. Microfinance institutions recognise the plight of the poor people who lack access to financial services due to the lack of collateral in order to access microcredit. Some MFIs are however harsh in their dealings with poor people in the instances of repayment collections. Typical examples of the type of these MFIs are ‘loan sharks’ popularly known as *Chimbadzo* in Zimbabwe, and *Maskoporo* in South Africa. These charge exorbitant interests on loans.

With the passage of time, micro-credit has almost become synonymous with microfinance (Helms 2006). However this has created misunderstandings in the development discourse (Elahi & Rahman, 2006). Sometimes it is used interchangeably with microfinance. However to be accurate, micro-credit is only one of the services that are offered by microfinance institutions, wherefore the other service offered include insurance, money transfer, savings and pensions (Helms, 2006). Whilst microcredit deals with loan distribution and collection, microfinance programmes go on to provide a variety of services including insurance, savings, credit and community development (Elahi & Rahman, 2006).

It is very important to understand the main differences existing between the two terms, microcredit and microfinance. Elahi & Rahman (2006:476) notes the functional and the conceptual differences between microcredit and microfinance as follows:

‘The functional difference between microcredit and microfinance is more semantic than substantive. The conceptual difference between these two terms is that microcredit is a non-profit approach to poverty alleviation but microfinance programmes seek to return enough profit in order for the MFIs to be self-financing’ (Elahi & Rahman, 2006:476).
2.2 Types of Microfinance Services

Microfinance services range from the provision of micro-loans to the provision of savings, transfers, micro-insurance. These services are meant to provide access to finance by the poor in order to improve their wellbeing. Robinson (2001) refers to these micro-financial services to being meant to assist the low income earners, small-scale farmers and small to medium entrepreneurs to carry out their economic activities. In other ways, micro-finance services are not only meant for consumption but are also meant for economic activities.

Micro-insurance

Micro-insurance is relatively a new micro-financial package in the evolution of microfinance. It caters for the absorption of all risks of low-income households. Micro-insurance refers to the protection of the poor against specific uncertainties on exchange for regular cash subscriptions in relation to the likelihood and cost of the risk involved (Churchill, 2006). Micro-insurance cover the risks of death, health risks, agriculturally related risks. Ruchismita and Varma (2009) note that the micro-insurance industry is battling in providing quality services at a cost that the target population can afford. The definition of micro-insurance does not differ from the conventional definition of insurance, however the only difference lies in the fact that micro-insurance targets only the low-income people. Micro-insurance has different marketing channels that include small community based schemes, MFIs or partnerships with large and multinational insurance companies that offer micro-insurance (Hamada, 2010). South Africa has a well developed commercial micro-insurance industry.
Micro-credit

Microcredit refers to small loans that are given out to low-income households or individuals. The early pioneer of contemporary microcredit included the Grameen Bank of Bangladesh, Bangladesh Rural Advancement Committee (BRAC), ACCION international which started out in Latin America and also the Self Employed Women’s Association (SEWA) Bank in India (Helms, 2006). Low-income households and individuals lack physical collateral security thus they are denied access loans from the commercial banks. Some clients of the microfinance institutions in the west-African have used the microcredit to start microenterprises. It is not accurate to assume that micro-credit refers to microfinance. Micro-credit is just one of the services that falls under microfinance, and is meant to provide small loans to the poor to meet their needs especially the entrepreneurial needs (Robinson, 2001).

Savings and Money Transfers

Savings are services offered by the microfinance institutions in keeping their money through cash deposits. Savings are meant to be used in future by the poor, in the times of need. Helms (2006) argues that even though poor people are willing to save they are confronted by multiple demands on their low incomes and lack access to banking services such as deposits. Even though poor people are willing to save, their propensity to save is very low due to the high consumption on basic needs like food and clothing. Helms (2006) defends this notion by giving a noting that, “globally there are many savers than borrowers. CGAP’s 2004 survey of ‘alternative’ financial institutions around
the world uncovered four times as many savings accounts as loans” (Van Zyl et al, 2006).

Money transfers are services rendered by MFIs to customers in order to sent money to different people in different locations. MFI clients can deposit money to some other people at the institution such that they can be able to access it at a nearest branch of the MFI. In Zimbabwe there are money transfer services that have made the transfer of money across different regions of the country easy and convenient. The popular money transfer services include the Mukuru.com, Ecocash and the in Kenya, M-Pesa.

2.3 Types of Microfinance Institutions

Different types of MFIs range from informal to formal. The informal MFIs include the semi-formal MFIs include Non-governmental organisations (NGOs), non-bank financial institutions and member owned institutions. The formal MFIs are the registered financial institutions that are bound the laws and regulations of the country.

Informal MFIs

Informal MFIs are loosely controlled and governed organisations which provide financial services to the poor communities. Informal finance providers have been in existence for a long time and have stood the test of time. Most of the poor always get loans from these informal moneylenders. Zeller and Sharma (1999) posed the question as to why these informal finance institutions have succeeded in offering credit to the poor yet the formal institutions have failed to do so. The answers to this question can assist in giving direction on the public policy on financing the poor. The nature of processes involved in
the different types of informal finance providers has the potential of shading light on the reasons that has made the poor prefer them as opposed to the formal institutions.

When the poor borrow from their relatives and neighbours, usually they do not get charged any interest. The money they borrow is usually for consumption needs and they enjoy the benefit of the quick transactions which does not have a waiting time period as that of the formal financial providers have (Zeller et al, 1996).

At the core of these transactions lies the principle of reciprocity as there are essentially some form of social insurance schemes (Coate and Ravallion, 1990). For Zeller and Sharma (1999), the lender has the leverage to claim a loan in future from a friend was initially the borrower. Lending and borrowing among relatives and neighbours has continued succeeding as a source of informal finance because of the element of mutual trust, and quick transaction time of the processes involved.

Moneylenders offer valued financial service in many communities by lending out small amounts of cash to the poor. However their exorbitant interest charges have always been reviled for exploiting the poor people (Helms, 2006). Their interest rates are normally above 7% per month (Adams and Fitchett, 1992). In the case of defaulting in repayment, some moneylenders may use force in getting any asset from the borrower in order to recover the cash loan (Zeller and Sharma, 1999). Reports from the, India Times (January 2012) revealed that there were many suicide many cases among borrowers who had defaulted to repay loans in the town called Andra Pradesh of India. This implies that, when moneylenders pose life-threatening risks to the borrowers, then their goal of helping out the poor becomes obscured.
Pawn brokering is another form of informal lending; however in many countries it has become more formal and regulated. Tsai (2004:7), “pawnshops straddle a fine line between being legal and not quite legal”. Brokers lend on the basis of collateral and they tend to issue high volumes of small advances made for relatively short periods (Helms, 2006). In communities, whose economy is predominantly agricultural, traders, processors, and input suppliers are important sources of credit for farmers (Robinson, 2001). The clients often repay their debts by selling their produce at a discount to the input suppliers or by simply paying back the cost of the inputs that they received from the suppliers initially.

These are defined as associations of participants who make regular contributions to a central ‘pot’ (Helms, 2006). The ‘pot’ is then given to the member after a particular time that has been agreed upon by the contributing members. The Accumulating Savings and Credit Associations (ASCAs) are different from the Rotating Savings and Credit Associations (ROSCAs) in that some members borrow funds and some do not and also the pot grows over time. ROSCAs liquidate after a cycle and the ASCAs endure across cycles. ROSCAs are also common in South Africa and operate like the rest of the ROSCAs in the world. In the Eastern Cape province of South Africa, these ROSCAs are widely known as *imigalelo* and the membership is mostly composed of women, because most of these women are household heads that have the responsibility to feed the children.

Financial cooperatives also fall under member-based organisations, and they do not operate for profit. These institutions provide financial services such as savings, checking accounts, loans, insurance and fund transfer services. Some examples of the
member-based financial institutions range from informal *stokvels*, to more formal financial institutions like the savings and credit cooperatives.

*Stokvels* are groups or associations of individuals who make regular contributions to a pool of savings or common fund and more than 60% of the members are women (Lukhele, 1990). The word *stokvel* originates from the English term ‘stock affairs’ which was a common rotating auction practice for cattle sales within the Eastern Cape Province by the white settlers. However the practice spilt over to the black who used replaced the cattle sales for cash rotations.

Baumann (2004) attest that, South Africa has a well developed financial sector compared to many developing countries. The finance sector only meets the demand of a population slightly above 60% of the national population. The rest of the poor people who are excluded from the mainstream financial sector are left with no choice but to join the local *stokvels*.

**Non-governmental Organisations (NGOs)**

Non-governmental organizations have emerged to fill the void left by the banks in serving the poor. In some countries like Pakistan, microfinance is regarded as a social service and the organizations providing microfinance services are referred as microfinance NGOs (Galema *et al.*, 2012). The microfinance NGOs offer to strive to achieve two conflicting objectives, financial self-sufficiency and poverty reduction (Galema *et al.*, 2012). NGOs are prone to face the dilemma of using microfinance as a tool for poverty reduction. This implies that whilst these NGOs are reaching out to the poor, they also want to be financially sustainable in the long run by engaging into profit-
making operations. Tsai (2004) emphasised that the involvement of NGOs in running MFIs differs greatly due to the different country policy environments for both the NGOs and the nonbanking financial institutions.

For microfinance NGOs to be more viable, the government of South Africa must reduce its involvement in the affairs of the NGOs dealing with microfinance. The government of South Africa can maintain a minimum interference on the NGO operations, but however give financial support to the NGOs to assist the poor. Tsai (2004) gave an interesting contrast he observed between the microfinance NGOs in India and China. He observed that, the government of Indian has promoted the self-governing of microfinance NGOs and encourage them to collaborate with the domestic financial development agencies. On the other hand, China’s microfinance NGOs are not as viable as those in India because of the organising role that the government plays in the affairs of these microfinance NGOs (Tsai, 2004).

2.4 Approaches to the Poverty Concept

Poverty is a condition of deprivation involving multiple dimensions, from limited income, vulnerability in the face of shocks and too few possibilities to participate in collective decision-making (VDR, 2004). The concept of poverty can never be accurately explained using a single dimension. For this reason, the United Nations General Assembly (UNGA) (1997) emphasises the notion that there are different approaches to understanding the concept of poverty. The concept can be understood from a monetary, capability and from the social exclusion approaches.
Monetary Approach

The monetary approach views poverty as a shortfall in consumption or income from a defined poverty line. The main assumption of this approach is that consumers’ objective is to maximise their utility and that the consequent welfare can be measured by their total consumption. This approach is important and still remains credible in terms of measuring the poverty conditions because it allows a fair comparison of poverty conditions across different communities. The U.S and other European countries use absolute measures and relative measures to define poverty. Iceland (2003) argues that absolute measures of poverty identify basic need standards, below which people are deemed disadvantaged. Notten and Neubourg (2011:249) note that,

“…… the poverty line represents the threshold value of the welfare indicator in context. The welfare indicator is the measure of the dimension of the wellbeing that is being studied. Together they determine the poverty status; when the level of wellbeing is below the poverty line, the unit of analysis is considered poor”.

The poverty line separates the “acceptable” and the “unacceptable” levels of well-being. Notten and Neubourg (2011) argue that, the benchmark of determining the poverty line can be exogenous or endogenous to the welfare distribution of a given community. The monetary approach sets a certain basic minimum income per individual which is regarded as a freedom as it provides freedom of choice of consumption. When an individual lacks income or money in general, the individual lacks the freedom of choice on the type of clothing to buy, type of accommodation, and even the amount and the quality of food to eat. However, Sen (2006) argues that money is just one of the means
to obtain good living conditions and it is important to consider the quality of life resulting from an expression of self-realisation. South Africa has tried to alleviate poverty through social grants. This money is used by the poor to meet their immediate needs like food and clothing. The social grants commonly received by the poor include the foster care grant, care dependency grant and child support grant. This implies that the government operationalise and conceptulise poverty as the lack of income. By providing income, South Africa has managed to reach-out to the poor.

**Capabilities Approach**

The main tenet to the capabilities approach lies in the human capabilities. The capabilities approach defines poverty as the lack and deprivation of human capabilities (Sen, 1999). This approach was pioneered by Amartya Sen who argued that when people are living in poverty, they lack ‘freedom’ and ‘capabilities’. Sen (1999) defines poverty as the deprivation of capabilities and also puts human being at the centre of development. Using income figures does not capture a detailed poverty situation on the ground within different communities. For the capabilities approach, it is not the income that matters most but it’s the ability of people to make choices freely with the available income. If a household fails to freely choose the amount of financial resource that it needs to fulfill some basic needs like education, health, food and accommodation, then the household is considered poor.

Cahyat et al (2007) augment the capabilities approach as they view poverty as a situation in which an individual or a household lack basic needs and the opportunities to sustainably improve its wellbeing. Basic needs tend to be the centre of attention within the context of the capabilities approach. Townsend (2006: 6) provides a list of the
internationally recognized basic needs according to the international labour organization (ILO) namely:

“…….Minimum family consumption needs include adequate food, shelter, clothing, household furniture and equipment. The essential basic services for a community at large include safe water, public transport, health care, education and cultural facilities. In the rural areas the basic needs includes, agricultural equipment, land and access to farming” (Townsend 2006: 6).

The core principles upon which the capabilities approach is better understood is in terms of the ‘functionings’ and ‘conversion factors’. According to Sen (1987:29) “functionings are constitutive of a person’s life or being”. The functionings can vary from being adequately fed, and in good health to complex personal states like for instance, having the capacity to participate in community engagements. Functionings of an individual depends on whether the poor individual has got the resources and also on whether the individual has the capability to convert the resources. The ability to utilise the resources available is referred by Robeyns (2005) as the conversion factors.

The capabilities approach emphasises that, it is not only the availability of resources that which one can be move out of poverty but it is the combination of the resources and the capabilities to harness them (Sen, 1985). In South Africa, the poor people lack the land and also the funds to become economically productive upon the land. South Africa has failed to give land to the poor who are willing to use the land for economic production. To make the situation more challenging, the Land Bank has not done enough to provide microfinance to the rural poor. The finance from Land Bank is supposed to be used in order to initiate agricultural production upon the land. However
Even up to now, the Land Reform program has not delivered as it promised (Qalam and Lumet, 2012)

Stewart *et al* (2005), on the other hand believe that it is the monetary resources that are a means to achieving and enhancing the well-being and the quality of life of people. In this line of thought, it is difficult for one to have attained all of the human capabilities when he lacks the finance to obtain the physical resources like food, medication, clothes and accommodation.

**Social Exclusion Approach**

The Social exclusion approach is an attempt to understand the root cause of poverty. Social exclusion approach has its roots in the European industrialized countries and further spread to the rest of the developing countries. When poverty is understood through the social exclusion approach, it means that, individuals and or groups are excluded partially or wholly from participation in the society they live in (Stewart *et al*, 2005). Social exclusion refers to the inability to participate in three dimensions of social life namely cultural, political and economic life (Gore and Figueiredo, 1997). Fraser (2003:56) argues that:

> social exclusion is a kind of injustice but not always total economic deprivation that can be remedied with redistribution. On the contrary, the concept is located in the intersection of two dimensions of social injustice: bad distribution and lack of recognition. Being a two dimensional form of justice, it demands a two dimensional answer. Therefore, a policy that seeks to combat social exclusion should combine policy of redistribution with a policy of recognition.

It could be problematic to understand the exclusion of some groups of people and individuals using a universal standard. For this reason, Bedouia and Gouia (1995) argue
that the benchmark of setting the criteria of analysing the social exclusion of some people and individuals is to use the context of the local people’s perceptions. Mario and Woolcock (2008) define social exclusion processes as actions that increase the exposure to risks and vulnerability of certain social groups. To understand well the process of social exclusion, Mario and Woolcork (2008) give a multi-disciplinary approach where there is interaction of many dimensions, including socio-demographic characteristics, cultural elements, economic factors and institutional elements. In this study, some MFIs structurally exclude the low income people and households by their procedures, processes and practices. Mario and Coolcork (2008) augment that social exclusion mechanisms create barriers that prevent vulnerable groups from accessing assets and productive resources and from participating in the market and in social, cultural, economic and political institutions. The apartheid era in South Africa has seen the non-white community being excluded and marginalised from the political, economic and social arena. The period of apartheid was characterized by separate development wherefore the white community segregated themselves from the non-white community. The legacy of apartheid has been inherited even after the attainment of freedom in 1994. Most of the poor are still excluded from the economic development arena.

Within the context of microfinance, individuals and groups of people residing in the rural areas are excluded from the mainstream banking sector due to lack of physical collateral security. However it is important to understand that, social exclusion as a process differs from society to the next. With the social exclusion approach, poverty is a process that follows a series of multiple deprivations and marginalization processes among different groups of people. Different societies have different economic profiles,
hence the products and services in which people get excluded from differs. Social groups or individuals could be excluded from employment, social grants, financial services, accommodation, health services and education. This approach of defining poverty is important because it is flexible in understanding different communities in terms of the things they have been excluded from.

**Theoretical Framework**

### 2.5 Financial Sustainability and Poverty Lending Approach

The financial systems approach focuses on commercial financial intermediation among the poor borrowers and savers. Its emphasis is on institutional self-sufficiency. Given that the scale of demand for microfinance is worldwide, this is the only possible means to meet widespread client demand for convenient, appropriate financial services (Robinson, 2001: 22). MFIs can never provide a continuous flow of microfinance services to the poor if they are not financially independent. Funding that comes from donors is very unpredictable and not sustainable for a long time. This approach stresses on the large scale outreach to the economically active poor. The economically active poor are the borrowers who can repay microloans from household and enterprise income streams. When MFIs are said to be financially sustainable, it implies that they have resorted to commercializing their operations. Gonzalez-Vega (1994) argues that most MFIs have failed to provide rural credit due to lack of institutional viability. Institutional sustainability is key for the provision of financial resources to the poor. However, for MFIs to be institutionally sustainable, they first have to be financially self-sustainable (Ledgerwood, 1999).
Helms (2006), argues that the commercialization of NGOs in microfinance industry has led to mission drift, meaning that they are abandoning their traditional clients who are the rural poor. When NGOs change their practice to become commercial, they become regulated financial institutions. Profitability is the driving factor of all licensed financial institutions. But the question that one may ask is that, ‘can MFIs really reach the very poor people and able to continue operating at a profit? According to the World Bank (2008), efficient, well functioning financial systems are crucial in channeling funds into productive use and allocating risks to those who can best bear them. This would in turn boost economic growth, improve opportunities and income distribution and the reduction of poverty. For this reason, development practitioners have become more convinced with the financial systems approach (Hamada, 2010). With the financial systems approach, financial assets that are issued to the poor people, are not meant for consumption but should be used for entrepreneurial purposes. This is one of the most sustainable strategy in eradicating poverty as it discourages the use of the all of the financial assets for consumption but for business investments. Consumption should come from the proceeds of the entrepreneurial investments by the poor and should not be the primary function of micro-loans. It is difficult to totally dismiss the fact that whenever the rural poor gets the financial assets from the MFIs, they will be compelled to use them in order to meet their basic daily needs which include food and medical emergencies as mentioned by Cons and Paprocki (2008).

Critics of the financial systems approach argue that profitability and poverty reduction are mutually exclusive (Beaundry, 2010). Their argument is based on the question that says ‘why make profit out of the poor, when in actual fact you are supposed to be
helping them move out of poverty? Helms (2006) argues that it is still possible for some NGOs to push both the poverty frontier and continue operating at a profit. For Helms (2006), the poverty alleviation frontier does not antagonize the commercialisation and sustainability frontiers. Beaundry (2010) agrees with Helms as she argued that, financially healthy institutions are able to provide a continuously sustainable source of finance to meet their economic needs. Helms (2006) only reservation on the issue of addressing poverty through the commercialization and sustainability approach is that it may take a long time to cover costs and become sustainable. Most MFIs today are striving to become financially sustainable. Financial systems practitioners usually their double bottom line of social and financial returns. With the financial systems approach, the needs of the borrowers are subordinated to the demands and the needs of the institution. As a result microfinance providers end up appearing as if they are debt collectors other than service providers for the poor (Beaundry, 2010). Sharif pointed out that: “One cannot help but question the integrity of organizations trying to achieve parallel objectives of poverty reduction as well as their own institutional financial sustainability at the expense of the borrowers (Sharif, 1997:69).”

Another important criticism is that the financial systems approach only operationalises poverty to be the lack of credit among the poor yet it fails to consider the other aspects that are actual poverty conditions confronting the poor people. The other aspects of poverty that they overlook include, hunger and the business know-how on harnessing the financial resources into more profitable and sustainable projects (Beaundry, 2010). Commercialization of microfinance programmes is a means to achieve financial sustainability for the microfinance institutions. It allows the MFIs to change their reliance
on income from donor funds, and resort to a market based approach. However, the challenge with the MFIs that believe in the financial systems approach, is that of securing funds from the market. The financial systems approach argues that it is important to for the MFIs to serve a large number of people on a continuous basis than to serve only a few poor people for a short space of time. Some NGOs who provide microfinance services view the rural poor as beneficiaries rather than viewing them as clients. Within this line of thought comes the poverty lending approach.

2.6 Poverty Lending Approach

The poverty lending approach is viewpoint that is forms the basis of reducing poverty through microfinance institutions that receive funding from the donor or governments. With poverty lending approach MFIs, NGOs must alleviate poverty at a non-profit basis (Elahi & Rahman, 2006). The assumption is that, the poor people must be treated as beneficiaries rather than to be treated as clients. The provision of the microcredit is accompanied with complementary services such as skills training and teaching of literacy and numeracy, health, nutrition, and family planning. Under this approach, donor and government funded credit is provided to poor borrowers, typically below market interest rates. The aim is to reach the poor especially the extremely poor with credit to help overcome poverty and to gain empowerment (Robinson, 2001: 22).

The sustainability debate is ultimately about whether to subsidize interest rates or not. Those who let go of sustainability in the name of reaching the poor saying that the poor cannot fully pay for their borrowing run the risk of a shortened life span of operation due to bankruptcy. If the poverty and sustainability debate were confronted in this line of thought, it would be much more transparent.
Robinson (2001:22) notes that;

“the financial systems school of thought views the private sector as the future home of microfinance, while those in the poverty camp seem wary of allowing that the future to be dominated by commercial or profit operators. They see donor and government involvement in microfinance for a specific time period. Faced with the choice of the private sector or donors, those in the poverty lending school of thought seem more comfortable with keeping microfinance attached to government and donors. They also fear that the private sector will just operate for profit and ignore the poorest rural clientele”.

Whilst the financial systems approach focuses on the sustainability of the microfinance institutions, the poverty lending approach stresses and focuses more on clients and the sustainable transformations in their livelihoods (Beaundy, 2010). The main argument raised by the poverty lending scholars is that, financial services like credit are not enough to eradicate poverty among the rural poor (Beaundy, 2010). With this consideration, the financial systems approach understands poverty in a monetary approach. Sen (1999: 87) defines poverty as, “the deprivation of basic capabilities rather than low income”. Using Sen’s concept of poverty, the poverty lending approach will advocate for the provision of other services other than financial services which are able to eradicate the basic capabilities that could be lacking within the rural poor. The poverty lending approach interprets poverty conditions of the rural poor as being multi-dimensional. The capabilities approach to poverty points out that, poverty is not only the lack of financial assets but other basic needs like water, accommodation, food and clothing. Using the poverty lending approach, it is not enough for MFIs to only provide micro-credit but other basic services like education, health and accommodation in order to alleviate rural poverty.
Beaundry (2010) advocates for the one model of microfinance known as the credit-plus which refers to the provision of micro-credit alongside with the other services. These additional services enhance an almost comprehensive developmental intervention system. Additional services range from financial literacy, entrepreneurship development to health care and women empowerment programs. Some credit plus MFIs regard micro-credit programs as platforms of delivering the other additional services. Beaundry (2010) believes that in order for MFIs to reduce poverty, they must focus more on the sustainability of the individual poor people rather than the sustainability of the institutions. However this could have serious negative implications to the MFIs concerned in that they may be unable to continue to operate as they may fail to be institutionally viable.

The first criticism offered by Beaundry (2010) is that the MFIs that are utilizing the poverty lending approach tend to be abused and engendering dependency among the poor recipients. Individuals who are interested in the complementary services offered by the poverty lending MFIs but who are not genuinely in need of the loans may borrow the micro-credit loans in order to access the other additional services that may meet their other needs (Beaundry, 2010). This can pose strain on the MFIs who are relying on the poverty lending approach. The other criticism cited by Beaundry (2010) is that the small MFIs who utilize the poverty lending approach tend to strain beyond their core competencies and overextend themselves by providing many programs and services poorly rather than focusing on a few services. Using the poverty-lending approach, MFIs are incapable of reaching millions of poor people because they lack enough capital from donor support (Beaundry, 2010). Besides a more social outlook, all MFIs begin from a
standpoint that states that microfinance is the primary service to be offered to the poor and that the other additional services other than the financial services are secondary. In this line of thought, success of MFIs is tracked using financial metrics and the social objectives are subordinated to the financial ones.

2.6 Conclusion

Robinson (2001) argues for the financial systems approach as he notes the likelihood of a small outreach to the poor if MFIs are to depend upon donor aid and the government. The financial sustainable approach calls tapping funds from commercial institutes and detaching of MFIs from donor funding which does not provide a stable inflow of funds Helms (2006). In so-doing MFIs can be able to reach out a vast number of poor clients and stimulate growth in a more sustainable manner. Rhyne (1998) asserts that, it is only when the private sector finds it profitable in providing finance service that access to the poor will be achieved continuously. In this line of thought, it is therefore logical for MFIs to be premised on the financial systems approach to effectively eradicate poverty.
CHAPTER 3

Microfinance Support for Entrepreneurial Development

3.0 Introduction

The previous chapter focused on the conceptualisation of the main variables, microfinance and rural poverty and also on the theoretical framework on which microfinance is premised. This chapter will focus on the empirical evidence on microfinance and how microfinance can help alleviate poverty. This chapter will also bring out why poverty alleviation at grassroots has been slower yet there has been a proliferation of MFIs in South Africa.

3.1 General Outlook of Microfinance in Developing Countries

The economic performance of the sub-Saharan Africa and Latin American countries has been close linked to their savings and investments (FAO, 2005). The relatively slow economic growth of Africa has been also been linked to its poor capital accumulation (Gondo, 2010). Small enterprises and poor populations in Africa still lack access to deposit, credit and other financial services. Basu et al (2004) noted that only 5 to 6 % of the Ghanaian and Tanzanian rural population have access to the banking sector because most of these banks are located in the urban areas. In most of the African countries, the rural poor has the largest share of the population yet still there is lack of access to financial services to the very poor (Gondo, 2010). The latest update of the
state of MFIs in the world was done in 2010 where the State of Microcredit Campaign (2012) stated that 3652 MFIs reported reaching 205.3 million clients where 82% of these clients were women. Considering these figure to the previously lower statistics on the MFIs, it shows that the microfinance industry is expanding in many parts of the world.

The State of Microcredit Campaign (2006:5) notes that, “the Tanzanian banking system has a very limited penetration to the rural clients. Only 4% of the rural population owns a bank account. The MFIs have a total of about two million deposit accounts. The primary sources of microfinance services are about 650 Savings and Credit Cooperatives (SACCOs) with a total number of 130 000 members”. If the microfinance industry in Tanzania could be jointed to the mainstream financial sector, more rural poor would benefit.

Basu et al (2004:5) notes that, “three main commercial banks have recently entered the microfinance sector in Tanzania. Rural banks and regional banks have embarked on deposit based operations. The major problem these banks have experienced in the dissemination of microfinance services is that they were all limited in terms of branch networks across different town and rural communities. However the Tanzania Postal Bank has used its nation-wide branch networks to promote and mobilise savings, provide transfers and remittance services.”

In Ghana, MFIs have used Susu associations, clubs and companies to grow their services (Basu et al, 2004). Susu club operators are clients of the registered financial providers (Basu et al, 2004). Some licensed MFIs rely on their agents’ clients because
they are well acquainted with their own clients. The potential role that modern microfinance has had in poverty alleviation in Africa has sparked changes in national finance policies and legislation policy in many countries (Gondo, 2010). In Sudan, the state policy to support microfinance in order to mitigate poverty was expressed in the National Comprehensive Strategy in the period of 1992 and 2002 (Basu et al., 2004). In Tanzania, a new microfinance regulation was introduced in 2001 and was revised in 2005. Microfinance regulations in many developing nations focus on improving security, and prudence in terms of operations. However, the outreach of the micro-financial services to the rural poorest is still limited.

South Asian countries have done well in terms of raising income levels, assets and the welfare of the poor (Narayan and Glinskaya, 2007). This has been achieved through self-help groups like the Self-Employed Workers Association (SEWA) of India. SEWA was formed in 1972 by some poor illiterate women who were seasonal migrants from rural areas. One of the aims was to form cooperatives that help members produce and market the outputs of their labour and to build assets (Narayan and Glinskaya, 2007). The cooperatives formed in the rural areas have helped women improve the quality and design of the handicrafts. Cooperatives established by SEWA also promoted new agricultural products and techniques which added value to traditional products (Narayan and Glinskaya, 2007). These cooperatives made it possible for the poor women to meet their daily consumption needs as well as their entrepreneurship funding needs.

Afghanistan has embarked on community driven development with governance reforms through the National Solidarity Programme (NSP) (Narayan and Glinskaya, 2007). Under the NSP, Afghanistan small-scale reconstruction and development projects in
communities across the country. The uniqueness of these programmes is that the communities themselves make decisions and control resources throughout the project cycle (Narayan and Glinskaya, 2007). One other interesting thing to note about the NSP is the election of the members of the Community Development Councils (CDC) who are elected at village level. This is important because the members of the CDCs have personal experiences with the challenges that are actually confronting them.

In Bangladesh, the rural poor have accessed loans from the Grameen Bank and engaged in money generating projects. Speaking at the 7th annual Nelson Mandela lecture, Muhammad Yunus emphasised the importance and the need to move away from charity to entrepreneurship (Mail Guardian, 11 June 2012). Instead of seeking credit for consumption, the poor must take the initiative to embark in some small entrepreneurship projects in order to generate income that can then be used for daily consumption needs. When the poor engage in the projects that can help them generate money, it means that, they are no longer fully dependent on the social grants from the government.

In 2004, there were 1200 microfinance institutions in Bangladesh of which most of these are non-governmental organisations (CDF, 2004). In 2005, the microfinance industry in Bangladesh was able to reach more than 40 percent of the country’s households which amounts to 16 million poor people (Narayan and Glinskaya, 2007). The scale of microfinance access in Bangladesh has generated a lot of interest in how the country managed this high level of access. In the book Ending Poverty in South Asia by Narayan and Glinskaya (2007) the three main reasons that led to the high levels of access of microfinance.
Narayan and Glinskaya (2007:5), noted that firstly,

“Bangladesh provided an enabling environment in terms of economic stability and also the regulations by the government allowed the MFIs to expand. Secondly, the organizational innovations within the microfinance industry which included decentralised structures and performance targets made it possible for the success of the microfinance industry. Thirdly, the success of the microfinance industry was attributed to the channeling of subsidies for the capitalization of loans and capacity building”.

South Africa welcomed the concept of microcredit in the 1980s with pioneers targeting a large black population that had no access to the traditional bank credit system (Coetzee, 2001). Lenders were not regulated by the government hence they were charging exorbitant interests above the prescribed rate in the Usury Act of 1968. At the end of 1992, microcredit was officially effected with an exemption to the usury Act for institutions providing loans below R6000 (Van Zyl et al, 2009). However, this did not stop the operations of private lenders; high interest rates, automatic deduction of loan payment from borrower’s bank accounts (payroll lending).

3.2 An Overview of Poverty in South Africa

According to the OECD (2012), the population of South Africa in 2011 was around 50.59 million people, wherefore in the second quarter of 2012, 24.9% of the total population was unemployed and 34.6 million people were dependents. South Africa remains challenged with high levels of inequality and confronted with pressures on expanding its social nets (Jacobs et al, 2010). The percentage of people living below the poverty line of $2 per day in South Africa is 35.7 (BTI, 2012).

With the attainment of freedom in 1994, South Africa has been one of the most economically and socially stable country, not only in the continent but also in the world
at large. However the economy of South Africa has been seen to be a dual economy. This means that it consists of an aggressive world class economy in terms of production, exchange and consumption; and at the same time it consists of a detached economy that is characteristic of an underdeveloped world. Both these extreme ends of economy exist within South Africa. The rural communities are composed of the poor people heavily relying on government grants and they represent the excluded clients by mainstream finance industry.

Baumann (2001) argues that South Africa has one of the highest Gini coefficient compared to most developing countries and has a highly skewed income distribution which has produced a lot of the rural ‘unbankable’. The World Bank measures poverty in arbitrary terms showing a clear demarcation of the poverty levels and showed that the Gini coefficient of South Africa was at 57.8% in 2011 (World Bank, 2012). The Gini coefficient denotes the disparity in income distribution and consumption expenditures among individuals and households in relation to a perfectly equal distribution (World Bank, 2012). According to the survey data presented by NGO Pulse (2012) 47.1% of South Africa’s population was living below the poverty line as of 2007. According to Schwabe (2004), in 2001, 57 percent of the South African population lived on less than $1 per day, 72 percent of the Eastern Cape population lived below the poverty line. Limpopo’s population had 77 percent of its population living below the poverty line. In South Africa the poorest municipality called Ntabankulu is found in the Eastern. The percentage of the residents live below the poverty line within this poor community is 85 percent. Using the poverty rate to estimate the number of people living below the
poverty line fails to give a full picture as to what extent below the poverty line are the people living in.

Whilst different regions have different standards and measurements of estimating and establishing poverty levels, poverty conditions in South Africa must not only be established by the annual monetary income figures as Whiteford and McGrath (2000) believes. For instance, Sen (1991) believes that poverty refers to a deprivation of human capabilities, freedom and social amenities. He emphasises that the aspect of arbitrary figures in measuring development, misses out important facts of the poverty conditions on the ground. However, refraining from the monetary concept of measuring poverty within a household purported by Whiteford and McGrath (2000) is not completely accurate. For one to have the freedom of living in a proper accommodation, he or she has to use money in order to access the service.

At the heart of South African poverty and social exclusion lies the problem of unemployment (Schwabe, 2004). In order to overcome and alleviate the poverty condition and underdevelopment in South Africa’s rural communities, the government is duty bound to make serious and rigorous interventions within the poor rural communities. In this case, underdevelopment means the disparate of resource distribution within a country, which thus leads to structural poverty in the other segments of the population and geographical areas (Coetzee, 1996). This poverty condition within the rural communities refers to lack of capital asset, financial assets, technology and skills that can be utilised in order to harness the available resources. Although the poverty situation has generally improved, the income inequality gap between the poor people and the rich people of South Africa has worsened the poverty level conditions
The main argument worth pondering is the question that, why has the rate of poverty reduction remained very slow albeit the improvement in the general poverty conditions over time (Bua News, 5 August 2011). According to the Bua News (5 August 2011), the South African president’s policy and coordination and advisory service unit noted that by 2009, over 13 million South Africans were receiving social grants compared to the 7.87 million in 2004/5. For one to use social grants expenditure as the only indicator of economic development is problematic. Some explanation would imply an economic improvement in the first economy that has brought with it the trickledown effect in form of social expenditure. However it could also mean that there is deepening of poverty conditions within the poor rural communities therefore the people who lack the means of survival have increased and opted to rely on social grants.

There have been many attempts by the government of South Africa in trying to improve the economic situation and poverty condition of the country in general and the rural areas in particular. The South African government has conceptualised poverty from a monetary approach. This is why Jacobs et al. (2010), state that poverty can be lessened by access to finance which can assist the rural poor in particular to build assets and diminish their vulnerability to economic shocks, thus contributing to sustainable livelihoods. Social grants that are being issued out by the government and have undeniably become the major source of income to the rural poor households (ECSECC, 2008). The use of social grants to alleviate poverty follows a poverty lending approach as it provides some temporal relief in terms of the daily domestic consumption needs within households. Proponents of the financial systems approach argue that, the poverty lending approach on addressing the challenge of poverty is not sustainable
(Robinson, 2008). This is because social grants from the government and charity organisations are mostly meant for consumption (ECSECC, 2008).

However, the problem facing the rural poor is that the commercial sources of finance are limited to the non-poor but who have some form of physical collateral security. Du Toit and Neves (2007) also argue that some of the hindrances faced by the poor households results from the very nature of their disjointed relationship to the mainstream economy, which further leads to their marginalisation.

The rural poor need poverty interventions that can assist them in fighting the immediate crises and enhance them to attain a sustainable livelihood. It is high time that the government of South Africa introduces poverty interventions that discourage poor of reliance on charity and social grants (ECSECC, 2008). The poverty interventions must be tailor made in such a way that creates an active independent culture among the poor in order to attain sustainable livelihoods.

In an attempt to reduce poverty, underdevelopment and unemployment, South Africa has embarked on increasing the interventions to address these challenges. Among the other efforts to address the issues of poverty was the introduction of programmes like the Growth Employment and Redistribution (GEAR) and also the Reconstruction Development Program (RDP) in 1993 and 1996 respectively. The other programmes introduced by the department of Public Works and the Department of Water Affairs and Forestry like the community based public works programmes and the Working for Water programmes respectively. However the Department of Public works and the Department of Water Affairs and Forestry programmes failed to alleviate poverty within the poor
communities as their programmes only benefited a few individuals. According to EPWP (2004), there was the introduction of the Expanded Public Works Programmes (EPWP) in 2004.

The Land Reform of South Africa had three main goals namely, to strengthen the tenure rights of the rural poor, to redistribute 30% of the land to the rural poor and to reimburse. This was one way that the government would address the issue of poverty in the country by the year 2000. It is more than twelve years after this deadline, yet none of these three goals have been met (Qalam & Lumet, 2012). This has left many rural poor excluded from the ownership of land for agriculture.

3.3 The State of Rural Finance in South Africa

It is important to understand the current state of outreach of rural finance in South Africa. The supply of rural financial services has been argued to be one of the most significant unmet demands of the decades in South Africa (Coetzee, 2000). Much of the finance that is available for the poor rural communities is through the social grants provided by the government of South Africa. It is difficult to use social grants for entrepreneurial activities, because these funds are meant to meet the immediate needs of the poor people. Most South African rural people do not have much choice when they are confronted by unexpected risks and challenges. The social grants are accessible to the rural poor, are used to meet their immediate consumer needs like buying food and clothes.
3.4 Demand Status for Microfinance in South Africa

The demand for microfinance services refers to the magnitude of need of the microfinance services like micro-loans, savings, money transfers and micro-insurance. As long as the demand for micro-credit continues outstrip supply within rural areas, informal MFIs will continue dominating in the rural areas more than the formal MFIs just like what has happened in both China and India (Tsai, 2004). Demand for microfinance is very large in South Africa such that it calls for an inclusive financial system that caters for the marginalized groups like the rural poor (ADB, 2006).

Most formal MFIs in South Africa lack the motivation to establish branches within the rural areas because of the relatively high operational costs, poor infrastructure that exists within the remote rural areas. This is the reason why the demand for microfinance services is high within the rural communities. Chandavarkar (1992) and Patrick (1966) suggested a supply-leading approach to finance and development, which entails the scaling up of the formal microfinance to the poor so as to ignite development among the poor communities. There is more supply of microfinance from the formal financial sector such that if only the poor rural communities could be afforded a chance to access these, then the demand will be subsequently met. In order to achieve this goal, there is need for a link between the rural population and the formal MFIs (Chandavarkar, 1992) and (Patrick, 1966).

3.5 Supply of Microfinance in South Africa

The supply of microfinance since 1994 has been seen to have exponentially increased especially in the urban areas (Van Zyl, 2009). However the supply by microfinance
institutions in the remote rural areas is still a big challenge. For this reason, the poor are forced to migrate to the urban areas where these MFIs are located. The Small Enterprise Fund (SEF) was established in 1992 with the aim of fighting poverty and unemployment among the poor in a more sustainable manner (Kirsten, 2005). Its main goal was to provide credit for self-employment and a methodology that substantially increase the chance of the poor to be self-employed and self-reliant.

3.6 Suppliers of Microfinance

Ithala

The Ithala Development Finance Corporation Limited is KwaZulu-Natal’s sole provincial finance development agency. Its main objective is to create sustainable economic growth in KwaZulu Natal and its activities include the following: a) Accepting deposits to encourage savings and foster personal wealth creation, b) Providing loan finance for housing and home improvements, c) Supplying insurance products, d) Funding business enterprises.

(Van Zyl et al. 2009: 83) notes that, “by the end of March 2006, Ithala had approximately half a million clients and a savings book of R1 270.59 million and loans of R1 578.44 million. Ithala’s total assets amounted to 3 133.91m million (approximately 0.12% of the assets of all deposit taking institutions”.

Ithala’s objectives seek to address poverty in an almost holistic manner as it does not cater for the financial assets of the poor but also the other aspects that include insurance products. Ithala’s efforts are meant to afford the poor the basic needs and offering them the means to sustainable livelihoods. The other powerful tool that Ithala is
using to address poverty is the provision of microfinance to cater for small business enterprises.

**Khula Enterprise Finance Ltd**

Khula Enterprise is a microfinance institution concerned with the provision of development finance to small and medium enterprises (Khula, 2012). Khula Enterprise Finance provides funding, mentorship service and small-medium business premises to the poor, whilst it maintains its financial viability (Khula, 2012). It offers products like loans for agriculture, mining, joint-business ventures for entrepreneurs. Most of the clients of Khula Enterprise Finance Ltd are in the informal sector. Retail financial intermediaries are assessed based on developmental criteria such as outreach to targeted groups and job creation and institutional criteria such as portfolio performance and sustainability (Coetzee, 1999).

Khula Enterprise Finance Ltd also adopts the financial systems approach by providing finance to small and medium enterprises. These efforts have many advantages in that, not only do the poor receive funding; they also receive the mentorship and business training.
Land Bank

The Land and Agricultural Development Bank of South Africa, trading as the Land Bank is an agricultural development finance institution operating in terms of the Land Bank and Agricultural Development Bank Act (No. 15 of 2002) (Van Zyl et al. 2009).

Of the many objectives that the Land Bank has is that of Agricultural entrepreneurship and enhancing productivity, profitability, investment and innovation in the agricultural rural financial systems. In April 1998, the Land Bank launched its step-up product to provide microcredit to resource-poor individuals and farmers. The product was meant for anyone who planned to engage in a legal income-generating activity. In this step-up product, no collateral security was required however in March 2006, the Annual report from Land Bank showed that it had incurred a loss of R126.96 million (Land Bank, 2012). However the government through the Land Bank still continued to fully provide financial assistance to historically disadvantaged farmers. In 2007/8, the Land Bank committed to disburse R300 million to the poor farmers and promised to scale it up to R1billion in the following financial year (Van Zyl et al. 2009). This was a step that would capacitate the rural poor who had the zeal and potential to embark into agriculture inorder to improve their poverty situation. If the aims of the Land Reform program was met, the Land Bank would have been the source of microfinance for small scale farmers who had benefited from the Land Reform program. According to the Capabilities approach, poverty can be reduced when the poor the have access to functioning factors like land, and also possess the capability to convert these functioning factors (Robeyns, 2005). In this case, the land reform would have afforded land to the poor so that the
microfinance from the Land Bank would help the poor put their land into productive economic use.

**Post Bank**

Postal Bank is a division of the South African Post office and is a deposit-taking institution excluded from the provisions of the Banks Act. This bank is operated in terms of the Postal Services Act (No. 124 of 1998). In South Africa, the Post Bank has the highest number of rural bank branches in South Africa compared to any other bank.

The main vision of the South African Post Office is to promote a culture of saving by means of the Post Bank. In March 2007, the Post Bank has over 4.6 million customers with R2 603 million on deposit. However it is not currently offering microcredit to the poor.

**SAMAF**

The South African Micro-financing Apex Fund (Samaf) was established in 2006 under the Public Finance Management Act (PFMA) of 1999 (Samaf, 2012). Its main goal and vision was to provide seed capital, institutional support and wholesale finance to the micro-credit programs that focus on the poor (Kirsten, 2006). It provides affordable microfinance to small, micro and survivalist business enterprises with the aim of growing their own income and asset base. According to Samaf, their primary goal is to reduce poverty and unemployment by extending the outreach of finance into deeper and broader rural and peri-urban clients (Samaf, 2012). Samaf assists the small microfinance institutions who wish to push the frontiers of poverty that confront the poor communities. In the Eastern Cape province, Samaf has helped 9 MFIs (Samaf, 2012).
Samaf assists with funding to small financial intermediaries who are engaged in providing loans and assistance to small, micro, and survivalist entrepreneurs. Some of the micro-financial institutes (intermediaries) helped by Samaf include Ziyazakha of Port Elizabeth and the Middledrift FSC of Middledrift (Samaf, 2012).

The South African Microfinancial Apex Fund (SAMAF) has taken a stance that targets a deeper and broader penetration to the poor clients. With this approach, Samaf is supporting the local small survivalist businesses to become self-reliant and in a way reducing unemployment. In order to achieve its goals, this organisation has embarked on providing a wide range of microfinance services. These include, capacity building incentive (working capital and training funds), loans and savings mobilization (Samaf, 2012).

Samaf subscribes to the financial systems approach as it tries to tackle the poverty challenge on an entrepreneurship basis. The financial systems approach calls for the clients to understand that the funds they get are not donations but must be repaid. In this way, clients are motivated to repay their loans so that they can be able to access repeat loans in future in order to expand their micro-enterprises and survivalist businesses (Samaf, 2012).

### 3.7 Decentralisation of Financial Services

Financial services must not only be accessed by the urban clients but also accessible to the rural poor clients. Decentralisation of financial services means that the community members are able to organize and mobilise the financial services at grassroots level (Coetzee, 1997). With decentralisation, emphasis is put on the local level intermediation...
by mobilising financial, human and social resources in order to sustainably provide credit and saving facilities to the poor. However, the access to financial services must not only be meant for consumption by the rural poor, but most importantly for entrepreneurial projects.

A typical rural setting has poor communication networks, poor road systems, low population density, low literacy levels, undiversified economy and low profitability. A study conducted by organization called Micro-Save attested that, rural areas tend to be unattractive for microfinance institutions, let alone the commercial banks (Microsave, 2002). Given the problems associated with providing financial services in the rural areas, Cross and Coetzee (1995) advocated for decentralization of financial services through self-help groups, cooperatives and village banks. This form of decentralization in South Africa has not happened at a larger scale to address the issue of limited outreach of finance to the poor.

**Decentralisation through Village Banks**

Village Banks are grass roots financial institutions which aim to provide financial services and support to their members (Jazayeri, 1996). They are usually located in the local villages and the members share the same challenges. Solidarity and trust (social capital) among the village members make these banks sustainable because the members feel committed in making the banks a successful institute. The linkage between the rural areas and formal MFIs can be achieved through the establishment of community based associations in order to harness the resources available (Jazayeri, 1996; Pearce and Helms, 2001)
If microfinance institutions are to be relied upon as a reliable tool for alleviating poverty within poor communities, then they must have financial and operational self-sufficiency. Poverty alleviation is not an event, it is a process. In this line of thought, there is need for a continued and self-sustained microfinance system. The most important ingredient in the decentralisation of financial services is sustainability. This sustainability of the financial services can be financial and operational self-sufficiency.

3.8 Policy reforms in the South African micro-finance industry

A regulated microfinance sector provides an enabling environment that enhances financial outreach and growth of MFIs which in turn support a broader social protection agenda (Arun and Murinde, 2010). The policy reforms of the microfinance industry in South Africa have mostly been influenced by the Strauss Commission. The main objective of making policies and regulation within the microfinance sector in developing countries is to disseminate the best practices and laying out of the guidelines that allow MFIs to operate vibrantly in reaching out to a large number of clients.

The regulatory structure in South Africa is currently fragmented with different sections of the financial markets regulated by different institutions. The formal MFIs with a banking status are regulated by the Banking Supervision Department of the SARB for example the Land bank. The non-banking financial institutions are regulated by the Financial Service Board (FSB). Even though it is independent from the Banking Supervision Department, it is still accountable to this department (Van Zyl et al. 2009).
Regulation of Financial Markets in South Africa

All countries cannot strictly utilize the approach of market mechanism because of the inherent imperfections that normally arise. This justifies the interventions by the authorities in the market regulations. In this line of thought, some governments disseminate regulatory legislation and create regulatory authorities influence the economy according to the government policy. Van Zyl et. al (2006) argue that, it is however imperative for the regulation of financial markets to be done when the economy of a country is not overburdened with unnecessary costs. However, the economic policy of any country determines the philosophy that underlies its approach to financial markets regulation. With regard to the role and operation of the economy, South Africa follows a market-oriented approach. By this it means that there are limited interventions by the authorities as the market mechanism of the supply and demand is assumed to achieve maximum efficiency in terms of resource allocation (Van Zyl et.al 2009). Much attention is put on defining what is or not ‘microfinance’ when establishing a legal and regulatory framework for microfinance.

The most key point of interaction within the rural financial markets is the financial transactions between the rural micro-financial institutions and the rural clientele (Coetzee, 2000). This is important because if there are no financial transactions occurring between the MFIs and the rural clientele, then the impact of microfinance among the rural poor will not be experienced.

In South Africa, the role of the state in rural financial markets was premised on the Strauss Commission of 1996 (Strauss, 1996). The recommendations laid by this
commission addressed issues at a national level but failed to address the retail level on the details of increasing the access to microfinance in rural areas (Coetzee, 2000).

The Strauss Commission laid the foundations for the reform of the role of the state in rural financial markets in South Africa. The Strauss commission envisaged a monitoring and evaluation system upon the proposals that had been made in trying to improve the outreach of rural finance. The Strauss Commission recommended an increase in outreach of rural finance, changing financial mechanisms to create financial access for the poor and maintain existing clients while providing support to previously disadvantaged clients (Strauss, 1996).

Coetzee (2000: 2) observed that, “the majority of the rural population still has limited access to formal financial services”. In the light of this observation, Coetzee (2000) and Strauss (1996) argue that, the only answer to this challenge of limited access to financial services within the rural communities is self-reliance. This means that the rural poor must take charge of their poverty situation and change their destiny. However self-reliance of the rural poor depends on the support and decentralisation of funds to grassroots level by the microfinance institutions, NGOs and the government. It is the rural poor who have the first hand experience of their challenges and their actual nature of problems. This is the reason why the Strauss Commission found it important to first categorise the rural areas into sub-groups (Strauss, 1996). This would at least point out the actual types of financial services that each sub-group is in need of. For instance, in some rural communities, farming is a viable entrepreneurial activity and in some rural communities, non-farming activities are viable.
Outreach of microfinance

Increasing outreach of microfinance to the poor is a twofold challenge. On one hand, there is need to retain the existing clients and to expand access to finance to these clients. On the other hand, there is need to push harder into the frontier of poorer clients especially in the rural communities where the cost of providing the micro-financial services is high. Donors, charity organisations and governments generally subscribe to the poverty lending approach which entails the eradication of poverty through donations, charity and social grants (Robinson, 2001). The argument for this approach is that it lightens the burden among the poor at zero cost but it is not reliable and self-sustainable because donors are unpredictable and unreliable (Robinson, 2001). The financial systems approach entail that MFIs must reach out to the poor on a non-charity basis but on a commercial basis (Robinson, 2001). MFIs that are operating on a commercial basis are likely to bring millions out of poverty in a more sustainable and self-reinforcing way (Easterly, 2001). Both of these approaches aim to achieve one goal, which is outreaching to the poor. However outreach of microfinance is not just concerned with getting the finance to the poor but is also concerned with the extent and quality of outreach (Easterly, 2001). Extent of outreach of microfinance refers to the scale of reaching out to the poor. Quality of outreach refers to how deep microfinance is reaching out to the poorest of the poor. If the outreach of microfinance continues to systematically skip the very poor clients, then poverty alleviation will be a dream deferred (Yunus, 2012).
Access to Microfinance

Helms (2006), argues that even though microfinance has done well for the past 30 years, there is still a long way to go in terms of trying to extend access of financial services to all. The major challenges are threefold that is, the depth, scale and cost. Coetzee (2000) argues that, the access of rural financial services must not be measured in terms of the number of microfinance institutions present within a geographical location. He rather suggested that access to financial services must be measured in terms of the numbers of people who actually access these services Coetzee (2000).

The reaching out to the increasingly poor and remote people refers to the depth of financial services. Scaling up refers to the ability of the MFIs in serving a very large poor clientele. In trying to achieve the depth and scale of micro-financial services, the cost of these financial services must be low for both the rural clients and the financial service providers. Helms (2006) claims that the only way to overcome the challenges of addressing the depth, scale and cost of financial services for the poor is to include them into the main stream of a country’s economy. DuToit and Nerves (2007) also augment Helms’ argument by emphasising that the reason why the rural poor’s financial problems are not met is that their relationship with the mainstream economy is disjointed. Access to microfinance has been made possible by the existing microfinance institutions providing micro-credit and other packages of microfinance.
The Role of Microfinance in Poverty Reduction

Microfinance industry is undeniably important in the improvements of people’s conditions. Microfinance has been able to address all the forms of poverty in Ghana, by raising the income levels, and levels of capabilities among individuals and also raised community participation (Okyere et.al, 1993). Microfinance services are not limited only to the provision of micro-credit. As discussed earlier, the two terms microfinance and micro-credit are not synonymous (Helms, 2006). Since microfinance services range from micro-credit to micro-insurance, it is clear that, it does not only cater for the monetary needs of people but also caters for the educational and risk security needs of the clients (Ledgerwood, 1999).

In a way, microfinance has addressed the poverty challenge from a social exclusion, capability and income approach. Poor people in the developing countries generally lack the financial assets that they can harness in order to help themselves move out of the poverty trap. Morduch and Haley (2002) noted that there is evidence that supports that microfinance has a positive socio-economic impact upon the lives of the poor people. Lack of institutional commercial finance unnecessarily limits the options and lowers the financial security of the low income people (Robinson, 1996).
Figure 1: Microfinance and Poverty reduction Cycle

Poverty-Multidimensional
- Material deprivation
- Lack of assets (e.g. low human development, physical capital)
- Acute vulnerability, lack of voice etc.

Microfinance Intervention

Individuals/
Households
- Production/Trading/Services
- Consumption
- Investment

Asset-building
- Financial Capital
- Savings deposits
- Insurance
- Human Capital
- Children’s education
- Health services
- Physical Capital
- Household durables
  -- television
  -- gas/electric cooker

Poverty Reduction
- Increased consumption
- Increased-household durables
- Increased investment in education & health

Source: Adapted from DFID (1999: 5)
In figure 1 above, if the poor households and individuals who are limited in resources especially the financial capital, receive loans and some form of training or business skills, they are bound to utilize the funds into small profitable business projects. Business training is given to the poor households and individuals to capacitate them to use funds received for income generation activities (IGAs). For example, the provision of microcredit together with business skills has helped most women in Bangladesh to escape poverty and become self-reliant (Yunus, 2001). Another example is about Kenya where the World Bank has introduced some skills development to the poor that are tailor-made for entrepreneurial projects for the poor (World Bank, 2003). Some of the loans are used to supplement for food, handicraft production, agriculture, and weaving. The income obtained from these activities is channeled for consumption, payment of insurance premiums, savings for investments, acquisition of household assets, and provision of health care, school fees for their children.

With the passage of time, individuals and households are able to save from the proceeds they get from the entrepreneurial activities, thus building a very strong asset base. Asset building within the rural communities will bring about the accumulation of human capital assets, financial capital assets and physical capital assets. With these different forms of assets, poverty will be reduced eventually among the rural communities. Considering the fact that poverty can be viewed from a financial, social and capabilities approach, acquisition of these different forms of assets will address rural poverty holistically. When the rural poor are able to meet their daily consumption needs and pay for health care and education, they are also able to repay their loans without defaulting. In so-doing the microfinance institutions become sustainable and
self-reliant. Sustainability of MFIs depends mostly on the ability of an MFI to be financially independent. Financial independence brings operational self-sufficiency among MFIs. Once this cycle continues to move without stopping, then there will be hope for the outreach of micro-financial services to every poor individual and households.

Key to this cycle of poverty eradication model is the ability of the rural poor to harness the funds from the MFIs into income re-generating projects. In Ghana for example, an MFI called SAT has a nationwide coverage and provides training at the point of issue of loans (Ghana Statistical Service, 2007). These loans are meant to start-up micro-entrepreneurial projects by the poor in order to raise funds. The greater majority (80%) of the labour-force in Ghana belongs to the private sector and many are engaged into micro-entrepreneurial activities (Ghana Statistical Service, 2007). Interestingly, all these micro-entrepreneurs cannot access funding from the commercial banks but from microfinance institutions.

**Microfinance impact on Human Capital**

Human capital refers to the health status of people that determines their quality of life, in terms of the level of productivity and longevity (Leitch et.al, 2012). With microfinance institutions that provide a multiplicity of services, poor individuals, can receive education and entrepreneurial skills (Leitch et.al, 2012). Education, on the other hand, has been identified as the most important tool in providing people with the basic knowledge, skills and the competencies to improve their quality of life at all levels of development. It is, therefore, not surprising that health and education issues have featured prominently in the United Nations Human Development Index as well as in the Millennium
Development Goals (Ghana Statistical Service, 2007). Education is an economic good that is instrumental in the economic development of any country. When the poor receives education through microfinance, it can be instrumental in building the economic forces of production within the society.

Empirical evidence has shown that, education is a very powerful driver to economic progress in any community. The improvement in education was the main explanation of the significant economic growth in East Asian Countries (World Bank, 1993). Microfinance has a big role to play in the economic growth of communities by contributing in promoting education of the poor directly through business training programmes and also through proceeds from entrepreneurial activities by the poor. Agricultural irrigation schemes in Bangladesh and Nepal have proved to be useful in raising income levels among households which have in turn been used to further the education of the children (Brabben et.al, 2004)

Using Sen’s capabilities approach to poverty, microfinance enhances the rural poor in accessing health care and education which is a necessary ingredient to poverty emancipation. Microfinance must not be an end to access food, health care and education; instead it must be a means to access all these human basic needs. The government of Bangladesh has given out incentives for small farmers to engage into irrigation farming, this has resulted in many families saving and investing the extra incomes in education. In Nepal, the general health conditions have increased due to improved food production through agricultural irrigation schemes and the levels of literacy among women and children have also improved among the different households (Brabben et.al, 2004).
**Microfinance impact on Physical Capital**

Physical capital refers to the tangible durable domestic assets that a household or an individual possess. These are normally meant to improve the standard of living within a household or an entrepreneurial business. It also determines the quality of the life among different households. Physical capital assets include things such as gas cookers, electric cookers, television and computer. All these domestic durable assets are acquired either directly or indirectly from the micro-credit. Small entrepreneurs, like small scale farmers can acquire machinery and other equipment that makes their jobs and processes easier and efficient. Small scale irrigation farmers in Bangladesh have managed to raise incomes that have made it possible for them to buy machinery (Brabben *et al.*, 2004).

**Informal Microfinance Institutions and Social Capital**

Informal microfinance institutions are not regulated by the members of the association, group or cooperative. There are no legally binding regulation on the operations and conduct of the members within these informal MFIs. With these informal MFIs, social capital is enhanced among the communities. Informal microfinance enhances sound relational dynamics and inculcates mutual trust and understanding among the clients to enhance cooperation and resource exchange (Leitch *et al.* 2012).

In social capital theory, the network of relations enables social capital affairs to be conducted and provides network members (Nahapiet and Ghoshal, 1998) with ‘the collectivity owned capital, a “credential”, which entitles them to credit in the various senses of the word’ (Bourdieu, 1986: 249). It is the social capital or assets that are
embedded in those relationships that can contribute to developing value outcomes (Dess and Shaw, 2001). In essence, social capital supplements the effects of other types of capital, including human and financial capital (Bourdieu, 1986; Coleman, 1988; Loury, 1987).

**Microfinance Regulation and Social Protection**

By providing microfinance services, the MFI’s aid in helping the poor to sustain daily living, create income-generation opportunities, provide for education for their children and care for the sick and elderly. The higher the outreach of the MFI’s, the more households and micro businesses benefit from it. Thus, efficient MFI’s help the poor to sustain livelihoods and to improve the quality of life of not only individual households and businesses, but also that of society as whole. Thus, for the social protection to be effective, MFI performance and outreach has to improve, which depends on the nature of regulations in the sector.

In the sub-Saharan Africa, the trajectory of social protection is heavily dependent on donor designs and financing unlike in the other regions of the world (Barrientos and Hulme, 2008). The regulation of microfinance is a public intervention measure to assist and protect individuals to manage risks and deposits better and to support the arguments regarding access to finance and development. According to Holzmann and Jorgensen (2000), microfinance regulation follows the social risk management framework that adds the issues of macro-economic stability and financial market development. Social Protection (SP) serves a dual purpose of assisting the poor to survive in adverse conditions and the other is that of promoting a better lifestyle for these clients (Arun and Murinde, 2010).
There are two perspectives on this issue, whereby on one hand, the low-income borrowers will take on more credit and finally end up being over-indebted and unable to repay. On the other hand, due to the competition in the market, the lenders may seek to increase the risk at the cost of providing more credit than what the borrowers are able to repay (Arun and Murinde, 2010).

Since most MFIs are advised to protect the poor and the vulnerable, it is a moral responsibility of the MFIs to disclose the rates and all costs explicitly. Client protection awareness is still in its infancy stage albeit the gradual constant growth. Transparency and fair treatment of the poor clients is the key to good lending practices (Arun and Murinde, 2010). The new techniques such as the branchless banking pose a serious threat to the data privacy of the MFI clients (Lyman, 2009).

Financial consumer clients have not been protected for a long time until now within the developing countries. In Africa, only South Africa and Mauritius provide consumer protection for the micro-financial consumers. There are three factors that have a major impact on the effect of microfinance regulation on social protection.

Firstly the cost of implementing the regulations affect the way in which the MFIs move ahead in terms of their outreach and segments of the society that they serve. The cost of implementing a regulation can also have a bearing on the average loan size of an MFI. There are inevitable costs like the start-up costs and the labour costs. The startup cost of establishing an MFI in the developing countries is very high especially for a new MFI (CLR, 2003). Unlike in the developed countries, the banks are well versed with the implementation costs and have their own team for this.
Labour costs for an MFI includes the expertise of professional managers and accountants and also include the legal costs that are incurred during the process of conducting business with the clients (Shroeder, 1985; Elliehausen and Kurtz, 1985; Elliehausen and Lowery, 1997). In developing countries, skilled labour tends to be in short supply, and this has a tendency of making the labour costs high.

The other factor is that of the source of funding for the MFI. Some MFIs get their funding from the government and some get their finance from donors. However, the more the capital a Micro-finance institution has, the more the outreach of microfinance to the poor. When MFIs poses adequate capital to service the poor clients, a general level of social protection within a country is enhanced (Arun and Murinde, 2010).

The regulations in the microfinance industry needs to be seen as a set of required “public actions to address vulnerability, risk and deprivation” (Conway, de Haan and Norton 2000: 2), which clearly provides an argument for government to develop the regulations in a broader social protection framework.

Micro-entrepreneurship versus Consumer Spending

Till when rural clients will they continue seeking financial services for consumption purposes rather than for entrepreneurship projects. It is also important to ask the question on whether the rural poor have any choice on their spending habits or are they completely restricted consumer spending only. Kumar (2005) believes that, in as much as MFIs would be expected to help out with financial services, the rural clients must also engage into entrepreneurship projects that will help them create sustainable livelihoods.
It is a good thing for the government to assist the poor by issuing out social grants which have the potential to relief the effects of poverty like hunger. Social grants are good in terms of reaching out to the poorest of the poor but they are not sustainable in eradicating poverty at a large scale. Poverty eradication must be addressed by strategies that are sustainable and on-going in nature. South Africa’s social spending reached R80 billion in cash in the year 2009/10 (National Treasury, 2010). Jacobs et.al (2010) argued that if this social expenditure continues to grow, it will bear an enormous burden toward the limited fiscal resources of South Africa. In order to eradicate poverty, the poor must be empowered in ways that permanently make them break away from the circles of poverty. The poor people in the developing countries like the Philippians, Bangladesh, Columbia and Indonesia had to engage into small projects that generated them income (Yunus, 2001). The essence of the starting small enterprises is to afford the poor financial independency. Microfinance institutions must be dedicated in giving out microcredit to the poor and encourage them to start some microenterprises (Government of Ghana, 2009). With micro-entrepreneurship, the poor people become self-employed and self-reliant. With time, these micro-enterprises will need more people to carry out the processes relating to their business activities. In so doing, employment will have been created. Currently the government of South Africa is looking for ways of creating many jobs and expansion of economic development (Jacobs et.al, 2010). There is great potential within the rural poor, because there are willing to start their own small enterprises, yet they lack the startup capital. It is pointless to continue giving out grants for consumption yet the same grants could be channeled for business by the very same poor people. Commercial banks do not provide loans to the rural poor to start
their own small income generating projects because they lack collateral security (Okyere, 1993). The Prodem of Columbia has embarked in loaning the poor and reports showed that, their rate of repayment was close to 100% (Robinson, 2002). MFIs are considered to be the banks for the poor who lack collateral security and the technical knowhow of running a business. The government of South Africa must increase support the MFIs who are concerned in issuing out credit to the poor for the purpose of starting and running a micro-enterprise.

The income generated from the micro-enterprises by the poor will then meet the daily consumption needs of their households. The World Bank has initiated a project in Kenya that supports micro entrepreneurs called Kenya Micro and Small Enterprise Training and Technology Project (World Bank, 2003). This initiative is meant to provide training to the poor by the local skilled craft workers and women entrepreneurs. The trainers give get paid through vouchers. Among the recipients of the skills training, income and employment rates rose by 50% (World Bank, 2003).

A case study in a village called Arampur of Madagascar has shown provided interesting observations concerning microfinance services. Cons and Paprocki (2008) reported that the residents of Arampur village questioned the notion that microfinance can be able to help them break away from the cycles of poverty. Mostly the micro-credit that they received was used mainly for consumption rather than for entrepreneurial businesses. Rather than freeing them from the burdens of poverty and enabling them to move away from local moneylenders, the local people from Arampur village viewed the microfinance companies to be falling deep into the insidious cycles of dependency. If the loans from the microcredit companies are not used for consumption and be harnessed into
entrepreneurial activities, then the rural poor could be able to move out of the poverty traps. The loans that they get from through microcredit are normally used in times where there are unanticipated problems like hunger and medical emergencies. As a result they get trapped by huge debts and hence become unable to escape from poverty (Cons and Paprocki, 2008). Hamada (2010) believes that, when the poor are confronted by unexpected risks, they tend to reduce their investments in education leaving the next generation poor, thus failing to break away from the vicious cycle of poverty.

**Financial Systems Approach and Entrepreneurship Development**

Entrepreneurship refers to the leverage of social change as noted by Johnstone and Lionais (2004) for community businesses. An entrepreneurial venture refers to a business based on systematic identification and exploitation of resources (Shane and Venkataraman, 2000). It fosters economic and social development in the marginalised communities (Welter, 2011). Entrepreneurial development has become one of the most critical issues in interpreting and understanding the dynamics of economic development (Harrison and Leitch, 1994; Kuratko, 2007).

In South Africa, efforts by SAMAF have shown that microfinance can be successfully channeled into entrepreneurial business before other than simply channeling it for consumption, (SAMAF, 2012). This organisation has had impact in the majority of the provinces of South Africa nine financial institutes in the Eastern Cape, two in Free State, four in Gauteng, four in KZN, seven in Limpopo, three in Mpumalanga five in North West, and seven in the Western Cape.
According to Robinson (2001), the financial system approach emphasises that, outreach of microfinance services must be globally widespread and sustainable. Instead of the government of South Africa issuing out social grants for consumption, the government could subsidise the loans offered by MFIs so that even the poorest of the poor can be assisted by these MFIs. In so doing, the very poor households will not only receive funds for entrepreneurship projects but will also receive the business know-how. In this regard, entrepreneurship is the leverage for social change which fosters economic and social development in the poor communities (Johnstone and Lionais, 2004).

With the financial support from the government, the MFIs are able to scale-up outreach through expansion of their geographical coverage into the remote rural areas where the extremely poor people are located. Community entrepreneurship could also be of help when MFIs reach out to the rural areas. With community entrepreneurship, there is a transition from individual to collective entrepreneurship. Dupuis and de Bruin (2003) see community entrepreneurship as a collective action by individuals who share common village ties and trust with the aim of sustaining themselves through a business project to benefit the whole community.

3.9 Successful World Bank Operations in Rural Poverty Eradication


The World Bank initiated the Rural Finance Project in Vietnam in the period dating 1992-2001. This project rested upon three main components which are: a) assisting in the transition to a market economy; b) Strengthening the rural finance system through
finance targeted to agriculture and small and medium enterprises in rural areas accompanied by technical assistance and c) reducing poverty by promoting growth and enabling the poor to respond to opportunities to improve their welfare. The project comprised of the following components: a rural development fund, fund for the rural poor, equipment, vehicles, training and technical assistance (World Bank, 2003).

Since 1998, nearly 650,000 loans have been made to 250,000 households throughout rural Vietnam through seven participating banks where thirty percent of the borrowers were women (World Bank, 2003). Most loans were small averaging USD. $360 and the repayment rate recorded 98%. Most of these were used to expand entrepreneurial projects in livestock and crop production. Household income of the borrowers increased remarkably and the Small and Medium Enterprises helped to create three thousand jobs (World Bank, 2003).

Vietnam Rural Finance Project, followed a financial systems approach and was a success because of the almost 100% rate of loan repayment from the rural poor. This shows that the rural poor are reliable clients in terms of loan repayment and whenever they engage in entrepreneurial projects, their levels of income go up and also there is creation of new jobs (World Bank, 2003).

**Mid-Yangtze Agricultural Development Project: China 1991**

This project was aimed at the low income areas of Sinchuan and Hubeo provinces. The approach included developing new orchards and increase abilities to propagate disease free fruit trees and to provide technical assistance for research and extension with staff training (World Bank, 2003).
This project supported the establishment of 12 000 ha of new fruit orchards. 300 000 farm families in the project area have benefited from the project. New job opportunities were created and thirty percent of the workers were women and the incomes of all workers on average doubled in 1990-1995 (World Bank, 2003). This project was done in a commercial approach and the low-income households had their incomes doubling within a period of five years. This showed that the frontier of poverty eradication can be pushed from a financial systems approach, where there is commercialization of microfinance in order to benefit the low-income households.

Unlike the financial systems approach, the poverty lending approach does not subscribe to entrepreneurial development. The financial systems approach pushes the frontier of poverty alleviation in a profitable manner. However the nature and the justification of making profit by the MFIs who adopt the financial systems approach is that of financial self-sufficient and world-wide outreach of microfinance to the poor.

When microfinance is commercialised, there is room for sustainability because of the accumulation of profit. However the interest rates on the micro-loan must not be too exorbitant to further impoverish the poor. When the MFIs adopt the financial systems approach, the borrowers will understand and feel compelled to generate more funds in order to repay their loans. In so-doing, they will be engaged into entrepreneurial activities. This is when the MFIs should come in and help the poor borrower with the business knowhow so that they can be able to manage well their funds and grow their income levels.
Rural Development Project: Latvia 1998-2002

The aim of the project was to lay the groundwork for increasing incomes of the rural population by promoting diversification and growth of economic activities through the following: a) strengthening institutional capacity for formulating rural developing strategy and policy; b) stimulating the flow of commercial banks financing rural clients by improving the efficiency and self-sustainability of the financial institutions; c) Facilitating rural business development and continuing support for land reform.

The Commercial Credit Line (CCL) has provided working capital and investment loans for rural enterprises with commercially viable and bankable projects with adequate collateral, financial rates of return and demonstrated repayment capacity. The Special Credit Line has also provided small size loans for diversified rural businesses at the prevailing commercial interest rates to the first time borrowers (World Bank, 2003).

Agricultural Extension Project: Venezuela 1995-2003

The World Bank believes that accountability to clients is a fundamental premise of the new institutional structure (World Bank, 2003). With the financial systems approach, the clients learn to repay their micro loans and thus are forced to work hard for the repayment so that they can be legible for the next loan (Robinson, 2001). In the Agricultural Extension Project of Venezuela, services were planned and implemented at the municipal level to ensure that the activities addressed local problems and opportunities. The agriculture extension agents were contracted through private firms and NGOs to provide flexibility and responsiveness to clients.
With this project, there was a dramatic increase in the levels of family incomes and the levels and incidents of hunger were drastically reduced. This effort by the World Bank created a self sustainable population who could independently harness the available funds and resources to meet their daily needs (World Bank, 2003).

**MFIs support to Rural Non-Farm Entrepreneurship**

There are no much farming activities taking place in the rural areas within the Eastern Cape Province (ECSECC, 2011). With that in mind, the Amathole rural district is characterized as being based on a non-farm economy. However it is important to be able to bring or tap out support from the existing MFIs towards entrepreneurial activities that are not related to farming. In order to create viable non-farm economic ventures, the four strategies can be implemented: a) removing general constraints to growth, b) facilitating urban-rural links, c) facilitating enterprise growth and d) sector or sub-sector interventions (Start, 2001). However there are specific actions that the MFIs can do to support rural non-farm entrepreneurship within Amathole rural district (ECSECC, 2011).

A sound microfinance policy can be able to achieve two goals so as to tackle the problem of rural poverty. The policies within the microfinance industry of South Africa should focus on scaling up the outreach of microfinance and also removing the structures within the MFIs that make it difficult for the rural poor to access microfinance services. As long as the structures and the process of accessing the microfinance services is still excluding the poorest of the poor, rural poverty alleviation will remain to be a dream deferred.
The above cases show that there have been efforts by the World Bank in scaling up capital funds within the developing countries in order to alleviate poverty. All of the cases mentioned above were a success in alleviating poverty and raising the employment levels within the poor communities. However, even though MFIs is regarded as a tool that can achieve poverty reduction, it also has got a downside associated with it. This has been noted in countries like India and Bangladesh.

3.9.1 Criticism of Microfinance Practices in Poor Communities

Most MFIs have tended to use coercive measures in order to collect their loan repayments that are due to them from the poor borrowers. According to *India Times* (13 January 2011), MFIs in the Andhra Pradesh area have relied upon life threatening coercive measures in order to compel the poor borrowers in repaying their debts. The ways in which the MFIs have adopted in collecting the loans due to them have now gone to the extremes.

*Bangladesh: Arampur Village, 2008*

The poor people of a small village in Bangladesh called Arampur, have expressed deep concerns in the way they were treated by the debt collectors from the MFIs. In an interview with one of the clients, Cons and Paprocki (2008) reported that, the poor people of Arampur village felt so threatened and felt at risk if they failed to repay the loans from the local MFIs of Bangladesh. The threats they faced varied from burning of houses, killing of the borrowers and even confiscation of domestic property (Cons and Paprocki, 2008). Such kinds of threats do not reflect the original principles of mutual trust and social capital on which the microfinance industry has evolved from.
Microfinance industry has emerged as a source of finance for the poor, however the recent practices of collecting the loan repayments from the poor has created a hostile environment for the poor clients (Cons and Paprocki, 2008).

**India: Andhra Pradesh Crisis**

India is one of the countries whose microfinance industry has done so well in reaching out to the poor (Khandkar et al., 2010). Recently in 2011, there have been some reports of many microfinance clients who have committed suicide due to the harsh and hostile threats from the MFIs. The *India Times* (13 January 2011) has reported that, many MFIs like the Spandana in the Andhra Pradesh area of India were at one point at the brink of closure. This had been caused by the laws that had been passed by the government that prohibited the harsh and life threatening strategies of getting back the loan repayments from the poor borrowers.

In the *India Times* (13 January 2011) the poor borrowers were having bad experiences that even forced many to commit suicide in the event of defaulting in loan repayments to the MFIs of Andhra Pradesh. These two cases depict how MFIs can be bad and harmful to the poor borrowers. Instead of serving the poor, the MFIs in Andhra Pradesh and Arampur village have become a life threatening enemy. However on the other hand, these two cases do not show an accurate picture of MFIs around the world. For this reason, it is not fair to conclude that all MFIs practices pose threat to human dignity and their freedom to live. According to Sen (1999), poverty is understood as a right to human dignity and as a freedom to live. With this consideration, MFIs lacks the ability to reduce poverty among the poor but instead perpetuate their poverty condition.
3.9.2 Conclusion

This chapter showed that in order to reduce poverty, South Africa could adopt a financial systems approach in the microfinance industry. When MFIs adopt the financial systems approach to poverty alleviation, the breadth and depth of microfinance outreach becomes raised. However, the processes and the structures of all the MFIs in South Africa must be reviewed such that they can be tailor made to cater for the poorest of the poor. Poverty in South Africa is manifested by the lack of food, lack of basic education, lack of productive assets and social exclusion. With microfinance, there is still hope in addressing poverty in its multi-dimensionality. The following chapter focuses on the methodological consideration relating to the analysis of the impact of microfinance institutions and poverty alleviation. It will give more light on what is happening on the ground in order for the researcher to make some deductions, conclusions and recommendations.
CHAPTER 4

RESEARCH METHODOLOGY

4.0 Introduction

The purpose of this chapter is to discuss in detail the research methodology adopted for this study. There are some important considerations to note that relate to the choice of the sample used. The size of the sample was carefully chosen so as to get authentic findings. The findings produced from this sample of five cluster rural villages of Amathole rural district were treated as tentative because a bigger sample could have different results and also difficult to work with due to time and financial constraints.

The methodology of the study was qualitative in nature. In this study, a qualitative approach helped to interpret and clarify the actual challenges posed to the rural households by the microfinance institutions. Since the dependent variable is rural poverty, it is best to explain and explore this concept qualitatively. Qualitative approach was used in this investigation because it gives a more flexible holistic understanding of the nature and degree of poverty conditions within a study area (Maxwell, 2012). Frane (2002) emphasised the importance of using qualitative approach in understanding and examining the social variables being investigated. Refraining from using figures when trying to understand the issues underpinning this concept of rural poverty is more appropriate than using the quantitative approach. Qualitative methodology ensures a deeper understanding of the relationship between the main variable (Micro-finance) and the other variable (rural poverty). Before conducting the actual fieldwork of the research,
the research carried out two preliminary visits to the three different villages in Amathole rural district. This was the process of pilot studying of the study area.

4.1 Research Design

A survey research design was adopted for this study. Before carrying out the fieldwork, the researcher recruited one assistant and trained the assistant before going out into the field. The training included familiarising the research assistant with the terms of microfinance and to understand exactly the purpose of the investigation. However, the researcher first went to seek for permission from the Ethical Clearance Committee of the University of Fort Hare research to go and carry out the fieldwork.

Fieldwork is appropriate for this study as it focus on the concept of poverty which is a complex term to understand. Fieldwork allows the study to bring out clearly the relationship between the two main variables concerned which are microfinance and poverty. Poverty was assessed in relation to the level of literacy, household income, employment, entrepreneurial skills, health, and nutrition. In this case, fieldwork gave more accurate finding as some of the respondents were verbally interviewed. With fieldwork, observations of the surroundings, settings and the infrastructure in the rural villages are easy to make. Stages one and two of this section on research design focus on how the pilot study was conducted.
Stage 1

The researcher first conducted a pilot study upon which the main research investigation was anchored. The researcher visited three villages in the district namely Gqumashe, Ngqele, Gaga. Then the researcher together with the assistant, explained to the different households individually on the purpose of the investigation. The respondents showed a very keen interest on the investigation and showed that they were willing to know the results and get a feedback on some of their grievances relating to accessing of micro-financial loans. In each and every household that was randomly selected, a focus group interview was carried out using an interview schedule. Following this was the distribution of 30 questionnaires among different households of one village. The questions that the respondents did not understand the researcher explained them in the local language Xhosa. This process was done for the three villages and it lasted for two days per village.

After the distribution and collection of the questionnaires, the research also carried out the interviews with the key informants in all the three villages. These key informants were the village elders of the villages.

Stage 2

At this stage of the fieldwork, the researcher approached the micro-finance institutions in King William’s Town and Alice. These towns are the nearest town that whose services cover the area of study Amathole. The micro-finance institutions were conveniently selected and picking of the institutions was purposive because the intention was to choose the institutions that provide micro-finance.
Eight micro-finance institutions were approached and the researcher sought for permission from the managers of these institutions and set appointments for the interview schedule. The following week, the researcher and the assistant went to the micro-finance institutions and they conducted the interview schedules.

Interview schedules were necessary and important because they allowed the researcher to gather all the necessary data on the very same day. This also helped the researcher on cutting the costs of transport since Kingwilliam’s is 50 kilometers away from the University of Fort Hare where the researcher is based.

4.2 Units of analysis

The units of analysis constituted of the rural households that have once accessed the micro financial services and the households that have never had access to the micro-financial services. The other units of analysis were the micro financial institutions and the village heads. These are the major units of analysis who helped to extract a fair analysis of the two main variables under investigation namely, Microfinance Institutions and rural poverty.

4.3 Population of the Study Area

In this study, the population of the study area consists of the five villages of Amathole rural district namely, Mavuso, Ngqele, Ntselamanzi, Gqumashe and Phumlani village. This population study areas has a typical rural area setting and is comprised of people who have once been involved with either the formal or the informal MFIs before. The population of the study area refers to the entire group whose characteristics are to be estimated by using a selected sample whose characteristics are to be measured
(Mcneil, 1990). The Eastern Cape map showing the Amathole rural district is provided in Appendix A.

**Figure 2: Amathole rural district population**

![Amathole rural district population chart](image)

*Source: ECSECC (2011:25)*

The population of the study is the Eastern Cape Province and the sample area covers the Amathole District of the Eastern Cape. The sample was drawn from the Amathole District because this is a rural community comprising of the poor people of low income levels. Amathole rural district constitutes 25.5% of Eastern Cape’s population (ECSDSP: 2011). This means that it is the second largest district in the province following after the OR Tambo district. According to the Eastern Cape Social Development and Special Programmes (ECSDSP: 2011), the district covers 23 675 square kilometres with approximately 1 660 000 people.
The growth of the economy of Amathole district has been lagging behind the average national economic growth. According to the ECSECC (2010), the population of the Amathole rural district relies heavily on social grants. The rural people of this district live on social grants child support grants, old age grants, disability grants, foster child grants, care dependency grants. These social grants have become the main source of the income because the greater percentage of the population is unemployed.

4.4 Sampling

The sample size of the study consisted of a representative number of 150 households who had once accessed microfinance and also those who had never accessed microfinance. The sample size was made of 150 households because the number was large enough to give a representative number of households that was capable of generating accurate findings. The other sample used in the study was that of the microfinance institutions because of the characteristics they had which was representative of typical MFIs. Peil (1992:29) described a sample as “a set of elements which ideally is representative of the population”. The sampling approach was a non-probability sampling method called purposive sampling. With non-probability sampling, there is no need for determining the sample size prior to selection of the cases. A combination of purposive sampling and convenience sampling was utilised in selecting the microfinance institutions to be investigated.

Purposive sampling

Purposive sampling technique was utilised because, the location of the MFIs under investigated was specifically and intentionally chosen for the use in this investigation.
This sampling technique is appropriate to use when one already knows the units of analysis and if they are unique and are specific for the investigation. The researcher deliberately selects the units that are representative to the aim of the research. In this case, the researcher purposively chose the micro-finance institutions and they were located within the same vicinity.

**Merits of Purposive sampling**

Purposive sampling has more merits than demerits. The upside of this sampling technique is that it is relatively cheap to utilise, because in this case, the MFIs are already known and their location had already been established. This means also that, the researcher has a chance of selecting the best or an accurate representative sample of the population of the other micro-finance institutions (MFIs). However the researcher must not be biased but instead be capable of making sound judgments during the selection process. The researcher does not run a risk of wasting time in picking irrelevant institutions. Purposive sampling is suitable for small sample size. In this investigation it becomes very suitable because the sample size of the MFIs is small.

**Demerits of Purposive Sampling**

The downside of purposive sampling is the element of personal bias. A researcher could choose the sample that suits his intentions of the investigation and ignore the research ethic of objectivity. However in order to address this problem, the researcher maintained some degree of objectivity by refraining from only selecting only the government owned MFIs but also the private owned MFIs. The degree of accuracy is difficult to establish in an investigation when this method is employed. Since this
Cluster Sampling

The sample of the respondents was selected using cluster sampling as the rural dwellers in the Amathole District live in cluster forms of settlements. This is a probability sampling technique. Cluster sampling tends to be more appropriate for this investigation as it deals with a population that has dispersed clusters of households and the cost to reach the sample elements is high. The main advantage of using cluster sampling technique is that once one establishes the sample of clusters, creating a sample frame for elements within each cluster becomes manageable. Another merit of using cluster sampling in a dispersed population is that elements within each cluster are physically closer to another. This in turn produces a saving in terms locating or reaching each of the elements. However the major demerit of cluster sampling is that it is less accurate.

However after determining the village clusters, the researcher had to employ a simple random selection method to select the fifty village households. With simple random
sampling, every household had an equal chance of being selected. Simple random sampling gives an unbiased sample that represents accurately the whole population of the study area.

4.5 Data Collection and Techniques

_Pilot Study_

A pilot study was carried out from the Microfinance Institutions (MFIs) and the Amathole rural communities. This gave a picture and an insight into the issues that are practically confronting the Amathole rural district. The construction of research instruments like questionnaires and scheduled interviews were verified and anchored by the pilot study.

Firstly the researcher constructed the questionnaire for the rural villages based on the objectives of the study and on the main variables. Scheduled interviews were also conducted at different microfinance institutions in both King William’s Town and Alice. After carrying the pilot study, there were many additions and alterations to the research instruments. The researcher had overlooked some pressing issues and removed a few items that were not applicable to the microfinance organisations.

_The Value of a Pilot Study_

Welman and Kruger (1999) noted that a pilot study is necessary and very crucial because it helps in detecting possible flaws in measurements and also helps a researcher in operationalising the variables concerned comprehensively. Through the pilot study, the operationalisation of the main variables (poverty and microfinance) of this research was thoroughly done. Issues like the level of education that which microfinance micro loans have afforded to the local communities had been overlooked.
At the microfinance institutions there were many issues that the researcher had overlooked yet they helped in establishing the level, and scale of outreach of microfinance in the Amathole rural district.

A pilot study is a reliable way of establishing the exact issues on the ground worth examining before actually engaging into the main research investigation. The pilot study allowed the research to estimate the time to be taken by respondents on the questionnaires. It also helped the researcher in including some important questions in the questionnaires that had been overlooked. In the pilot study conducted, there were some ambiguous questions that were identified when the questionnaires were administered to the respondents.

The pilot study offered the researcher a platform to practice on the research skills before the actual research investigation. The Pilot study helped the research avert many problems especially of not finding the respondents at their homes due to work engagements. After having conducted this pre-study, the researcher managed to successfully set the time of conducting the investigation whereby all the necessary respondents were present.

The only demerit in the interest of limited research funding was the issues related to transport cost and payments of the research assistants. Meriwether (2001) emphasised that, conducting a pilot study helps the researcher in order to redesign and reshape the research instruments and hypothesis to fit what is happening on the actual ground. The goal of conducting a pilot study is to test the study on a small scale so as to avoid any
possible flaws and make the necessary redesigning of the methods and approach to be used in the research investigation.

4.6 Research Instruments and Techniques

Primary and secondary data sources were utilized. Primary data were collected directly from the households using the self administered questionnaires; focus group discussions and key informant interviews. The secondary data was collected from the different sources such as the journals, books, reports, local MFIs, the department of Statistics of South Africa’s. Focus group discussions and interviews were also carried out within different households. The key informant interview was used in order to get detailed information about the major microfinance programs and services that exist in the community of Amathole district.

Scheduled interviews were conducted with different micro-financial institutions within King William’s Town and Alice town. In this research, the close-structured questionnaire was used by researcher. There were some multiple-choice responses presented to collect answers from the respondents. Besides, the researcher was apply the Likert scale which is one of the most applicable designs. Saunders, et al, (2007) notes that the Likert scale is basically the level of agreement (Fully Agree, Agree, Neither agree nor disagree, Disagree, Fully Disagree). From these Likert scales, the respondents have a preference. The fact is that the Likert scale has the advantages, as it presents a load of data for conducting the research in a limited time and is able to analyse very simply and effectively. Meanwhile, this research will carried out from fifteen branches of King William’s Town and Alice.
Distribution of Questionnaires

A total of 150 questionnaires were distributed among five different villages of Amathole rural district. These villages were Ngqele, Ntselamanzi, Gqumashe, Mavuso and Melani. The questionnaires were self-administered so as to get a high response rate. On average, it took 10 minutes to complete a single questionnaire per household. All of 150 questionnaires were filled in and returned to the researcher and the assistants immediately after completing answering the questions. The response rate was 100% because the researcher and the assistants, waited for the respondents to complete the questionnaires.

Focus Group Interview

Focus group interviews were conducted soon after completing the questionnaires. The reason for this sequence was to avoid a bias of response from the households. If the researcher had to conduct the focus-group interviews, before administering the questionnaires, this would seem as if the researcher shaped the way in which the respondents would respond in the questionnaire. During these focus group interviews, each research assistant was given a voice recorder in order to record all the information from the respondents. They respondents were briefed that all their responses were being recorded on a dictaphone (voice-recorder) and they were also informed that the recordings would be meant only for academic purposes. They respondents were promised that their recorded voices would not be used to harm them in the future. This was to ensure that the ethical principle of non-malfeasance and autonomy were observed. The recording of responses was very crucial because it gave the researcher ample time to process all the necessary information at on a convenient time and
location. It is easy and convenient to record respondents because whilst they are recorded, the researcher has a chance to observe the gestures of the respondents.

Each interview lasted for a period of 8 to 10 minutes and 100 families were interviewed. Questions were asked in both English and isiXhosa and were also asked in the local isiXhosa and responses were in isiXhosa. The reason for using isiXhosa was because the respondents are Xhosa speaking and this allowed the respondents to clearly comprehend the questions. English was used to some of the respondents who were comfortable in being interviewed in English. After conducting the focus-group interviews, the responses were decoded into English and meaningful data by a language specialist at the University department of Teaching and Learning.

**Scheduled Interviews**

Scheduled interviews were conducted at the MFIs with the managers and the researcher. In this instance, it was only the main researcher who carried out the scheduled interviews because of the probing that was so crucial in order to get the needed information. Each scheduled interview took 10 to 15 minutes on average. The challenges that the researcher faced were that of disclosure of some information relating to the rural clients who have been denied access to funding. Most of the managers seemed not to trust the rural clients as they claimed to have had bad experience in serving some of the rural clients.

In the second interview schedule, the village heads that represented the key informants were interviewed. The researcher also conducted this interview schedule. The village heads were briefed on the reasons of conducting such an investigation in their rural
communities. The interview with the village heads did not last more than 10 minutes. We explained the motivations behind the recording of their voice during the interview and they agreed to participate. These interviews with the village heads were also recorded for the sake of further decoding the information provided since they all responded in their local language isiXhosa.

4.7 Reliability and Validity of Research Instruments used

Reliability and Validity of research instruments used to conduct an investigation are important as they give credibility to the overall research investigation. In order for a research to give accurate and correct results on the research investigation, the measuring instruments like questionnaires must be consistently and accurately measuring the issues that are critical to the research.

Validity of questionnaires

In order to ensure that the questionnaires were valid, the questions were operationalised according to the objectives of the study. The questions specifically and accurately covered all the aspects that were pertinent to the objectives of the study. Validity of a measuring instrument refers to the degree of accurateness of the instrument in getting the information and data that it is supposed to extract (Barbie, 2000). A measuring instrument is said to be valid if it measures what it is supposed to measure. There are different ways in determining whether a measuring instrument like a questionnaire is valid. All of the questionnaires and interview schedules were checked to see if they were accurate and valid using the following criteria: face validity, content validity, internal and external validity.
Face validity refers to the whether questions seem appropriate or not to the study concerned. The questions that were administered to the households and to the microfinance institutes were relevant and appropriate in trying to understand the main variables, poverty and microfinance.

Content validity refers to the accurateness of the questions in the questionnaire. Content validity is close to face validity in meaning, however, with content validity, a careful scrutiny of questions is done so that every aspect of the variables concerned is dealt with.

Internal validity refers to the accurateness of conclusions drawn from the data actually collected. Internal validity does not give room for the researcher bias in coming up to conclusions on the variables being investigated.

External validity refers to the degree to which the results and conclusions of the investigations can be applied on a broader and wider scale of the population rather than a small sample frame. The questionnaires operationalised the variable of poverty in a more holistic and multi-dimensional manner such that it could represent the overall poverty conditions in South Africa as a whole. The targeted microfinance institutions had all the characteristics of typical MFIs in South Africa such that when all the data was collected and analysed, the conclusions fitted well into the broader scale application.

The research instruments in the study satisfied all these different criteria of validity because of the pilot study that had been done before. The managers at the MFIs provided important questions to be included in the interview schedule that made it easy
for the research to cover the relevant content on microfinance outreach. During the pilot study, the village leaders also provided important that the research has overlooked. This showed how important a pilot study is in designing a valid research instrument.

**Reliability of Interview Schedule**

Reliability of a research instrument refers to the consistency of an instrument in measuring what they are supposed to measure (Barbie, 2000). After re-designing valid research instruments, the results were consistent as the research carried out the research in the different villages of Amathole rural district.

Reliability of research instruments are normally checked through exploratory studies (Blanche, 2006). In this research, the pilot study and repetitive data collection within the different communities was done.

**4.8 Limitations of Study**

Some of the limitations include the aspect of inaccessibility of some rural villages. This made it difficult to make regular visits to carry out the focused group discussions and conducting interviews. Posed with such a challenge there was need for the researcher to start conducting field work trips in time. However the researcher interpreted the issues on the questionnaires. Some of the people were skeptical to be honest in providing accurate information as it relate to their poverty situation. The study area does not have comprehensive features in terms of all the characteristics of a typical South African rural area. However in order to overcome this challenge, the researcher increased the sample size to 150 households.
4.9.0 Ethical Considerations

When conducting research, there are some important principles and guidelines that a research must adhere to. Creswell (2003) emphasised that ethics of research as the standards of conduct that must be followed and adhered to when conducting social research. Permission was granted by the University of Fort Hare’s research ethics committee. Blanche (2006) noted some main important ethical principles that must be followed when conducting research namely, non-malfeasance, beneficence, Autonomy, and confidentiality. This study adhered to all the principles of research ethics.

**Non-malfeasance:** In this study, no participants were posed to any risk or danger psychologically or physically during the fieldwork investigation. Whenever research is being carried out, the participants and other subjects involved must not be exposed to any danger (Blanche, 2006). This principle protects the participants from any risk that could be, physical and psychological. When the research is being conducted, the participants were informed at hand that they will not be harmed in any way. It made the participants feel safe and confident to participate in the study.

**Beneficence:** After the study has been conducted, the rural communities will benefit as this research is aimed at identifying the reasons that have led to limited microfinance to the poor. The study will inform the department of Trade and Industry and department of Rural Development and other developmental agencies in identifying and correcting the practices by the different MFIs in reaching out to the rural communities. The poor rural households of Amathole rural district will benefit as the study will help in facilitating outreach of micro-financial services from different MFIs. Beneficence principle encourages that the research participants should benefit from the research study being
conducted. The research study should not marginalise the participants. After a research has been conducted, the study must try and benefit the study area and the subjects on which research was carried upon (Blanche, 2006)

**Autonomy:** the household respondents and the managers of the microfinance institutions were giving the chance to decide freely without being coerced. The household respondents within the Amathole rural villages were given the choice to disclose the information they felt comfortable to disclose. Some of the sensitive issues in the research instruments included information on their poverty conditions and levels of incomes they receive. Following such considerations, Flick (2006) emphasised that the decisions of the participants to participate or respond to the some questions must be a decision to be made by the participants without any force from the researcher. Some of the issues that the research investigates are sensitive for some households to disclose, for instance the family income levels.

**Confidentiality:** The results from the study and data collected from the participants were treated with strict confidentiality. The research instruments like questionnaires and interview schedules did not bear any name of the participants. The participants were assured that the information they provided will never be disclosed to anyone but would remain private and confidential. By doing this, participants felt free to provide all the information needed by the researcher without any fear and suspicion.
4.9.1 Conclusion

In this chapter efforts were made to authenticate the methodology that was utilised in the investigation. All the relevant data was gathered exactly using the methods, steps and instruments outlined in this chapter. Data on poverty levels among the rural households of Amathole rural district shall be presented and analysed in a qualitative manner. The data gathered from the microfinance institutions shall also be represented and thoroughly analysed in relation to the poverty levels of Amathole district. This chapter is very important because it gives the research a platform to defend the investigation in a manner that is scientific because of the empirical methods adopted in fieldwork. The following chapter focuses on data presentation and analysis. This analysis and presentation solely depended on chapter 4 because this is where all the research designing and data collection occurred.
CHAPTER 5

Data Presentation and Analysis

5.0 Introduction

This chapter presents the data gathered from the field work as outlined in chapter four. Data shall be presented in form of tables of figures, charts, graphs to give a descriptive explanation against the study objectives. This chapter is critical to the investigation because it brings into picture what is actually happening on the ground in understanding the impact of MFIs in poverty alleviation. The data presentation will be arranged in sections as follows: a) The description of the households in terms of the family size, gender of the household head and employment and the level of education of the children; b) The description of the households’ access to microfinance and the type of microfinance institution available to the households; c) Description of the households nature of assets that they possess as having been attributed by the access of microfinance; d) The description of the number of rural clients that have access to microfinance from the MFIs; e) The data on the rate of defaulting in terms of payment of micro loans and, f) The description on the number of small-enterprises that have been formed by the households using the funding and the support from the MFIs.
5.1 Age and Gender of the Household-heads

The percentage of the total number of households interviewed were headed by females was 55% and only 45% were headed by males. The ‘active population’ age of South Africa lies within 26-55 years. Of the total household-heads interviewed, 35% were in the age group of 26-36, 60% were aged 37-57 and 5% were aged 58-68.

Figure 1: Percentage of Household-heads

Source: Field Survey (December, 2012)

The finding that the greater percentage (55%) of the household-heads is females concurs with statistics documented by Statistics SA (2007) whose percentage of the female headed households is 53%. The female headed households tend to thrive even in cases of extreme poverty due to the entrepreneurship businesses done by the single mothers. Poverty within a family is normally ‘fought’ by the household heads. This could be through their effort in trying to give their children education and provide them with
their basic daily needs. In many developing countries including Bangladesh, more than 95% of the microfinance clients are women (Yunus, 2001).

**Distribution of Households by Family Size**

In the context of this study, a family size refers to the total number of people who benefit from the household heads’ income. The family sizes were made into three categories which are small, medium and large families. The small family consisted of 1-5 members and the medium consisted of 6-10 members and the large families consisted of 10-16 members. The figure below show the distribution of the respondents through family sizes.
Figure 2: Family Size Distribution

Table 1) Source of income for the Household Heads

<table>
<thead>
<tr>
<th>Source of Income/Occupation</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal Employment</td>
<td>9</td>
<td>6%</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>15</td>
<td>10%</td>
</tr>
<tr>
<td>Government grants</td>
<td>105</td>
<td>70%</td>
</tr>
<tr>
<td>Loans from MFIs</td>
<td>15</td>
<td>10%</td>
</tr>
<tr>
<td>Other (Charity, Church, Relatives)</td>
<td>6</td>
<td>4%</td>
</tr>
<tr>
<td>Total</td>
<td>150</td>
<td>100.0%</td>
</tr>
</tbody>
</table>

Source: Fieldwork (November, 2012)
The occupation of the household head refers to any activity that acts as the source of income for the family. The occupation of the household-heads is normally where all the source of income is derived from to meet the daily needs of the family. Some of the household-heads relied upon formal and some upon informal employment. Only 6% of the total number of the families was headed by household-heads that are formally employed. Out of the total number of household-heads, 10% relies on informal employment in the form of entrepreneurship businesses. The majority (70%) of the households relies on social grants from the government of South Africa. Of the total respondents, 10% relied on the loans from the MFIs for their income. Only 4% of the total number of households could not really point out their source of income because of lack of uncertainty from the relatives who provided support. This 4% constitutes a number of household who relied on churches, charities and friends as their source of income. The figure below shows the four categories of occupations that were indicated by the household heads interviewed.

The results show that the majority (70%) of the rural people in the Amathole district rely heavily upon social grants from the government in form of child support grants, foster care grant. The data on number of people relying on social grants confirms a survey by the Eastern Cape Socio-Economic Consulative Council of 2011, that the majority of the rural people depend on social grants to meet their daily needs (ECSECC, 2011).

5.2 Household Income and Expenditure

Only 10% of the total household heads are engaged into entrepreneurial business that includes the establishment of the spaza shops and fruit stalls. Out of all of the household-heads, 70% pointed out that they have never borrowed money from the
microfinance institutions. All of these household-heads pointed out that they do not know how to go about seeking funding from MFIs to expand their micro-business ventures. All of the household-heads, who had never accessed loans from the MFIs, pointed out that the reason why they could not access the micro loans was because they said that the MFIs are very far from the urban areas offering the microfinance services. They also claimed that they were not aware and well informed about microfinance institutions and their role in supporting of entrepreneurial projects. The informal lenders that were popular among these informal preferred lenders were the ‘loan sharks’ and the stokvels. These have been the major source of financing capital for the establishment of the entrepreneurial businesses. Few respondents (6%) indicated that they received their income from formal employment and the other 4% of the respondents received their income from charity organisations, churches and also from their relatives.

The 10% of the total household indicated that they had an increase in their level of income due to the funds they accessed from the MFIs. This suggests that the levels of poverty have been improved in 10% of the households. When poverty is viewed in terms of the monetary approach, the results implies that rural poverty levels have been reduced in 10% of the rural poor people. Analysing poverty in this line of thought, MFIs have impacted positively in reducing rural poverty at least in 10% of the households interviewed. This impact of MFIs towards rural poverty is not significantly high because of many other factors to be shown in the following fieldwork results. Poverty within the rural areas will be reduced at a very slow pace and the impact of MFIs will continue to be significantly low. When poverty is viewed in the monetary approach, it is clear that
the impact of MFIs in the Amathole rural district towards rural poverty will not do enough to move the poor out of poverty.

The financial systems approach is premised on the commercial way of operation among MFIs. MFIs which subscribe to the financial systems approach places more value on raising income levels to the poor at a profit. From this angle, when the poor’s level of income has increased, then the implication is that poverty has been reduced.

5.3 Physical Assets and Human Assets acquired

*Domestic assets*

The physical assets that were investigated in this research were food, accommodation, clothing and machinery. These physical assets can be classified as domestic assets and business equipment. Most (98%) of the households who have once accessed microfinance from the MFIs have admitted that their level and quality of domestic assets improved directly and indirectly from the finance they accessed from the MFIs. Since most of these were getting their finance from the informal MFIs like the Rotating Savings and Credit Associations (ROSCAs), they all admitted to have acquired some domestic assets like kitchen-ware and dining suits.

Only 10% of the clients of the MFIs have noted that they have managed to purchase some equipment that they use to carry out their entrepreneurial activities. Some of the equipment included the shelves for displaying the items the sellout to the public. The other equipment purchased using the micro-loans included sawing machines for garment making. These women who purchased the sewing machines generate more income through the sales of the garments they make.
**Education**

The human assets in this investigation referred the level of education that has been received as a direct impact of the access to microfinance. The households who have once received funding from the MFIs have agreed that the microfinance services that they have received have directly and indirectly raised the level of education within the family members. The direct impact has been witness through the cash loans from the MFIs that they have used to pay up for the school fees of their children. The indirect impact has been through the money that they have raised from the entrepreneurial projects financed by these MFIs. The results from the field work showed that some households have used the funds they get from the MFIs to advance the education of their children. This suggests that microfinance plays an important role in reducing poverty through the provision of education to the poor households. According to the capabilities approach, poverty reduction can be achieved through education.

**Business know-how skills**

As a human asset, business know-how skills in this context imply the expertise and the knowledge that which the people require to successfully run a small enterprise. In terms of the skills and the business know-how, 10% of the MFIs clients have admitted to have gained the expertise and the knowledge in entrepreneurial activities. The 90% of the respondents have not received any business or technical know-how on running small enterprises.
Figure 3: Clients who Gained Business Skills

Source: Fieldwork (November 2012)

From the data collected it is clear that a fewer (10%) number of the microfinance clients managed to acquire the business skills in order to help them start and grow their own small enterprises. The large proportion (90%) of the microfinance clients who did not acquire any business skills was because of the type of institutions they used to access the funds. Most of the informal institutions like the loan sharks and the ROSCAs do not offer extra services beyond the cash loans. According to the above fieldwork results, the data confirms what Ledgerwood (1999) noted concerning financial intermediation as the only ‘missing piece’ to enterprise development for most informal MFIs. However this is not completely true because most of the rural people within the Amathole district lack the business skills of running a small enterprise.

As long as the MFIs continue offering financial services which are not accompanied by the business skills, the clients will still not be competent enough to use the funding they
access from them. The respondents who had once accessed the microfinance from the MFIs were never aware that they could get financial services together with business information on growing micro-enterprises.

Only 10% of the respondents who have once accessed micro-credit from the MFIs also indicated that it was a daunting process for them to get the cash loans. Some of the major challenges they pointed was the time they had to wait until the funds were processed. On average, the maximum time they had to wait for the approval of the funds reached up to 5 to 6 months. To add on to these challenges, they indicated that the other impediment was the distance that they had to travel to the offices of MFIs. The transport costs of visiting these MFIs demotivated them to apply for the loans. Since the application of the loans needed a lot of follow-ups from these poor rural clients, they ended up giving up. This is one of the reasons why the numbers of the rural poor who have had access to microfinance is very low.

**Table 2: Highest level of Education of Family Head**

<table>
<thead>
<tr>
<th>Highest qualification attained</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lower than matric</td>
<td>10</td>
<td>6.7%</td>
</tr>
<tr>
<td>Matric</td>
<td>126</td>
<td>84.0%</td>
</tr>
<tr>
<td>Certificate</td>
<td>10</td>
<td>6.7%</td>
</tr>
<tr>
<td>Diploma</td>
<td>3</td>
<td>2%</td>
</tr>
<tr>
<td>Degree</td>
<td>1</td>
<td>0.7%</td>
</tr>
</tbody>
</table>

*Source: Fieldwork (November, 2012)*
The frequency table above shows the numbers of the household-heads against their highest level of educational qualification. The level of the highest qualification was very crucial in this investigation because it gave some ideas on the challenges of the low rate of entrepreneurial activities within the Amathole rural district. One of the challenges faced by the household-heads was the issue of drafting business plans. They all lack the skill to draft standard business plans on small income-generating projects. This was however one of the main requirement from the MFIs. These respondents were aware of the business operations they wanted to carry out, but the limiting factor was their low levels of literacy. Low literacy level implies that the people of Amathole rural district will fail to be instrumental in the economic production of the community. When the poor people fail to harness the available resources within a community due to low literacy, their chances of escaping the vicious cycle of poverty becomes very low. This condition will lead to a more deepened poverty condition. The low literacy levels also imply that the number of rural people who are willing to get access to microfinance will continue to be low because of lack of education to comprehend and apply for loans. Low literacy levels in Amathole rural district will continue limiting the local poor and in turn limit the impact of microfinance on rural poverty. The figure 4 below gives a graphical presentation of the highest qualification attained by the household heads.
5.4 Data Collected from the Key Informants

Five key informants who were interviewed from each village and all of the key informants were village elders. The villages covered include Ngqele, Phumlani, Mavuso, Ntselamanzi and Gqumashe. The majority (100%) of the key informants pointed out that the major source of income for most of the families was the social grants from the government. They pointed out that apart from the social grants received by the majority of the people; they also get their income through the ROSCAs. These ROSCAs are commonly known within the Eastern Cape Province as *imigalelo*. The village chiefs
pointed out that these ROSCAs have been operational for decades within their villages. Only a few (10%) households are engaged in entrepreneurial activities like selling food staffs to the other people within the villages.

Even though these programs are loosely connected and operate informally, they have stood the test of time through the social capital existing in the form of kinship ties and mutual trust that bind them. The village chief of *Ngqele* pointed out that ROSCAs have also helped in raising the number of domestic assets within different households. A higher percentage (98%) of the total household-heads who once accessed microfinance either formally or informally shared and agreed to this issue of improvement in domestic assets.

All five village elders expressed the concern that most people do not know which institutions to approach for funding to engage in some entrepreneurial activities. They pointed out that it is difficult for an individual to go and seek funding from the commercial banks that are popular because they want collateral security upfront.

The other issue that the village elders complained about was that all of these MFIs do not want to operate close to the villages. They said that the issue of geographical location of these MFIs has a huge bearing in terms of access of microfinance to the people of their villages. Most people are not employed and this makes it difficult for them to make multiple visits to the urban areas where they are located. Not only did they complain about the issue of location of the MFIs, they also raise the issue of awareness. They said most of the village dwellers are not exposed to these
microfinance institutions and they did not know the procedures and the processes of accessing the financial services.

It was interesting to hear that most of the village dwellers had some of micro-insurance services. These included burial societies where each member contributes an average monthly fee of R50. The village elders said that these burial societies have also been operational for decades and have proved to be helpful to most of the families in times of funerals of family members. This is one of the services provided by MFIs. However, within the rural communities, it tends to be offered by the informal institutions such as local burial societies.

The other sources of finance indicated were the loan sharks. They noted that, most of the time the household-heads are left with no option but to go seek cash loans when they are confronted by some unanticipated risks. These unanticipated risks pointed included sickness and hunger.

At the end of the interviews with the village elders, they expressed some wishes they had for their villages. Out of all the village elders interviewed, 80% of them pointed that the people are willing to engage in some entrepreneurial activities; however they are failing to get enough support from the microfinance institutions. They were happy that the government was trying to help them with the social grants that helped them meet the minimum of their daily needs. The other challenge the village elder shared was that when the different households receive any form of finance, they immediately use it to family consumption needs. They said it is difficult to save money and channel it into some business of some sort because the families had nothing to save at all. All the
money they get is used to buy food and buy electricity and clothes. After they spend this little income they get, then there will be nothing left to save for any other small business engagements. They exposed a crucial point that the households could only start small businesses if they could meet their basic needs demands first. It is indeed difficult for one to channel the income they get into entrepreneurial activities yet they are hungry to start with.

5.5 Results from the formal Micro-Financial Institutions

Of the fifteen MFIs that were visited, 12 of these provide financial services only and only three provide more services apart from the financial services. These other four MFIs provided business technical know-how on entrepreneurship. Eight of the MFIs had been in existence for more than 10 years and seven of these MFIs were in existence for less than 10 years. 13 of the MFIs that were interviewed were private financial service providers and only two out of the fifteen MFIs were government owned. Land Bank and Post Bank were the two MFIs that were owned by the government.

Table 3: Type of Microfinance Institutions Interviewed

<table>
<thead>
<tr>
<th>Type of MFI</th>
<th>Frequency</th>
<th>Percentage %</th>
<th>Average Interest on Savings</th>
<th>Average Interest on Loans</th>
</tr>
</thead>
<tbody>
<tr>
<td>Government owned MFIs</td>
<td>2</td>
<td>13.3</td>
<td>5.5%</td>
<td>6%</td>
</tr>
<tr>
<td>Private owned MFIs</td>
<td>13</td>
<td>86.7</td>
<td>3%</td>
<td>9%</td>
</tr>
<tr>
<td>NGO based MFI</td>
<td>0</td>
<td>0</td>
<td>0</td>
<td>0</td>
</tr>
</tbody>
</table>
The majority of MFIs (86.7%) were private owned. From the investigation, the highest percentages of the microfinance institutes were private owned. According to Van Heerden (2008), 95% of all the monies disbursed in the microfinance sector in South Africa come from the private sector. There were no MFIs which were NGO based.

The average interest rate on savings charged by the government owned MFIs was 5.5% per month whereas the interest rate charged by private owned MFIs was 3%. The average interest rate charged by the government owned MFIs was 6% per month and the private owned MFIs charged was 9% per month. It was interesting to note that the private owned MFIs charged higher interest rates on loans yet they offered a lower interest rate on the savings of 3%. The average interest rate charge on loans offered by the government owned MFIs was lower than that of the private owned MFIs. However the interest rate on the savings offered by the private sector is very low compared to that of the government owned MFIs.

In a way, this shows that, the private MFIs do not have the ‘poor clients at heart’ compared to the government funded MFIs because they always try to maximise profits at the expense of the poor clients.
The majority (80%) of the MFIs interviewed offer financial services only and just 20% offer both financial services and business skills. These 80% of the microfinancial services providers believe that the poor only lacks financial services in order to escape the poverty. Most of the MFIs which offered financial services only were the private institutes which operated mostly for profit and did not really care about what the clients do with the funds they borrow.

There was a correspondence between the number of MFIs which offer financial services only and the number of clients who have not received business skills on top of the financial services. The household survey (2012) showed that the number of clients who only accessed financial services were only 90%. The number of MFIs who offered only the financial services is 80%. This percentage of the MFIs who only offer the financial services draws a parallel with the high percentage (90%) of the total clients who did not
gain any business skills in the process of accessing funding. It was interesting to note that the low percentage (10%) of the clients who gained business skills links with the low percentage (20%) number of MFIs who offered business skills on top of the financial services. From the findings of this study, the clients who gained the entrepreneurial skills were only 10% and this correlated to the 20% of the MFIs offering business skills on top of the financial services. With this observation, there is lack of support in terms of efforts in initiating self-help projects for the poor.

5.6 Types of Clients Preferred

Of all the microfinance institutions that were visited, only 20% indicated that they were interested in serving both the rural and the urban clients. The other 80% MFIs pointed that they were interested in the urban clients for many reasons. The major reasons for their preference on urban clients over rural clients were that, the urban clients are easy to track down in the case of defaulting in payment. However they expressed the concerns that most of the urban clients take bigger loan amounts compared to their rural counterpart. This was a posed a very big risk of losing their funds in the event that the urban clients do not repay their loans. One of the reasons that the % MFIs accounted for the non-preference of the rural clients was that rural clients are located in the remote areas which makes them difficult to reach them. The geographical location of the rural areas makes the rural clients not to be preferred because of the poor road networks and communication networks within the rural areas. The manager of Capitec bank said that it was expensive to start a bank within the rural areas. Most of the poor people in South Africa are situated in the rural areas. If they continue to be relegated to
the periphery of financial support by the MFIs, then alleviation of poverty among the rural poor will be a dream deferred.

The maximum distance between the MFIs and the clients served by 80% of the MFIs was less than 50km. Only 20% of the MFIs were serving clients who stayed more than 100km away from them. The 80% of the MFIs were the private limited institutions, whilst the 20% were the government funded MFIs. This showed how prepared the government funded MFIs are in reaching out to the poor rural clients. It is however unfortunate that the majority of the MFIs which are private entities prefer reaching out to the not so poor clients, that is urban clients.

The data on the MFIs serving the rural clients shows that there is low supply of microfinance to the rural poor yet the demand of microfinance services is very high within the rural areas. When this low supply of microfinance within rural areas is coupled with the low levels of literacy and lack of business know-how, the possibilities of poverty alleviation among the rural poor become thwarted.

5.7 Loan Procedure and Policy

The procedures of applying for loans followed a certain policy among all the MFIs. Most of the policies were directed towards maximising the profits and reduce the risk of loan delinquency among the clients. The average waiting period ranged from 2days to over 6months. This is one of the main reasons that make these MFIs not to be preferred by the rural poor. This long waiting periods for processing the loans means that the rural clients will have to wait for a long time before their loans can be processed. Most of the
clients want the funding immediately and would want to avoid the high transport cost to the MFIs.

Most of the MFIs (80%) that were visited revealed that one of their main considerations in giving out loans to the clients was when they applied for the loans in groups rather than individually. This was a genuine consideration because group lending offers a form of collateral security which does not require the poor clients to have assets that can be used as collateral security. However since most rural clients are sparsely located, this policy makes it difficult for the individual rural clients to access loans from these institutions.

Results show that 80% of the MFIs take legal action against the clients in the event of default repayments by the clients. This policy has also scared away the poor rural clients and eroded the trust from the rural clients such that they do not feel comfortable and confident to seek loans from these private MFIs.

**Quality of Loan Portfolio**

The quality of loan portfolio refers to the nature and the state of performance of the most important assets of any financial lending institution. A good loan portfolio is one that is made up of a diversified clientele whose risks profiles are different. In order to actively manage the level of risk exposure and profitability of the MFIs, it is imperative to assess the loan portfolio of any MFI. This gives an extensive and deeper understanding on why the MFIs prefer certain clients and certain operational locations.

In this study, the data collected from the fifteen MFIs was interesting to note that their loan portfolios were very different. The quality of the loan portfolio was measured in
different dimensions which included the difference in the types of clients per given MFI. The other measure of the portfolio quality included the ratio of delinquent to active borrowers. The third measure included the number of loan delinquencies which will turn out to be loan losses. The fourth measure was to analyse how the loan portfolio concentration relate to the past five years as compared to the current state of loan portfolio concentration.

**Different Types of Clients serviced**

In the section that required information from the MFIs on their preference to the nature and the type of clients on the interview schedule, the managers of the 80 % of all of the MFIs indicated that they preferred urban clients to rural clients. Only 20% preferred both the rural and the urban clients. MFIs which are not diversified in terms of the profile of their clients that they service are prone to very large loan risks. Whenever their clients encounter a threat to their investment capital they borrowed from the MFI, the MFIs who have a clientele profile that is not diverse tends to suffer more loss than an MFI whose clientele is diverse in their profile. This was one indicator that most of the MFIs interviewed were not performing well because of the bad attribute of their loan portfolios.
Table: 4 Current Regional ratio of Loan Delinquency to Total Active Borrowers (2007-2011)

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Outstanding Loan Portfolio</th>
<th>%</th>
<th>Loan Portfolio at Risk</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Area</td>
<td>600 000</td>
<td>60</td>
<td>458 400</td>
<td>76.4%</td>
</tr>
<tr>
<td>Peri-urban</td>
<td>300 000</td>
<td>30</td>
<td>59 700</td>
<td>19.9%</td>
</tr>
<tr>
<td>Rural (remote areas)</td>
<td>100 000</td>
<td>10</td>
<td>3 700</td>
<td>3.7%</td>
</tr>
<tr>
<td>TOTAL(Rands)</td>
<td>R1 000 000</td>
<td>100%</td>
<td>R521 800</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Fieldwork (November, 2012)

It was interesting to note that even though 80% of the total MFIs interviewed preferred the urban clients, the urban clients posed a great risk to the loan portfolio. Out of the R600 000 given out to the urban clients, 76.4% of the total loan amount was at risk of not being repaid. This urban clientele was the one that which the majority of the MFIs interviewed preferred. The peri-urban clients received a total average of R300 000 from the MFIs and had a loan portfolio at risk of 19.9% (R59 700). The last clientele of the MFIs were the rural clients whose total outstanding loan portfolio was R100 000 and had a 3.7% of loan portfolio at risk. The loan portfolio of the rural clients was the smallest compared to the other two types of the clients being serviced by the MFIs.
The figure above shows the difference in the composition of loan portfolio among the MFIs investigated. The reason why the rural clients have the lowest percentage of loan portfolio at risk to the MFIs is because the clients have got a high repayment rate as compared to the other clientele counterparts. The managers of all the 15 institutions were interviewed on the issue why they did not prefer the rural clients yet their repayment rate was above 95%. They all expressed the concerns that, the reason why the rural clients have a low loan portfolio at risk is that they are only a few rural clients who approach them to borrow the funds. For this reason, these small numbers of rural borrowers tend to pay back their loans even though they generally borrow small amounts of loans. This is why there is a tendency for their loan portfolio at risk is generally low.
This explanation differed from what the rural clients shared a different explanation on the issue of loan repayment when they were interviewed. They simply expressed pointed out that they normally pay back their loans because they still want to go back and borrow again with a clean profile of their borrowing history.

This shows a positive picture about the nature of rural clients in terms of their loan repayment culture. When MFIs decide to open branches within the rural areas, the MFIs would have confidence in giving out loans to the rural poor because of the good repayment reputation they carry. This good repayment reputation has a positive impact in terms of reaching out to the rural clients.

It is very crucial to understand and examine the nature and the quality of the loan portfolio within the different MFIs. What the researcher deduced from the loan portfolio of the 80% of the total MFIs was that, the loan portfolio of many MFIs is of a low quality. Most of the loan portfolios are burdened and under risk from the urban clients whose repayment rate is very low compared to the rural clients. This high risk makes it even more difficult for these MFIs to opt for extension of their operations within the rural communities. Most of these MFIs are finding it difficult to extend their operations because of the relatively high costs that are related to servicing small cash loans of the rural clientele.

These are the other explanations underlying the low outreach of microfinance at the grassroots level albeit the high numbers of MFIs since the year 1994. It is difficult to conclude that MFIs are impacting rural livelihoods at its full capacity because of this poor outreach to the rural clients. From the fieldwork which was conducted, it was
evident that only a small proportion of the poor rural communities had been benefiting through MFIs. Only 10% of the households have managed to access funding together with the business expertise admitted to have positively benefited from these MFIs help.

**Table 5: Outstanding Loan Portfolio and Loan Portfolio at Risk (2002-2006 and 2007-2011)**

<table>
<thead>
<tr>
<th>Region</th>
<th>Total Outstanding Loan Portfolio R000</th>
<th>Loan Portfolio at Risk</th>
<th>Total Outstanding Loan Portfolio R000</th>
<th>Loan Portfolio at Risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Urban Area</td>
<td>450</td>
<td>61.6%</td>
<td>370.8</td>
<td>82.4%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>600</td>
<td>60%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>458</td>
<td>76.4%</td>
</tr>
<tr>
<td>Peri-urban</td>
<td>200</td>
<td>27.4%</td>
<td>29.2</td>
<td>14.6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>300</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>59 700</td>
<td>19.9%</td>
</tr>
<tr>
<td>Rural (remote areas)</td>
<td>80</td>
<td>11.0%</td>
<td>2.4</td>
<td>3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>100</td>
<td>10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3 700</td>
<td>3.7%</td>
</tr>
<tr>
<td>TOTAL(Rs)</td>
<td>R730</td>
<td>100%</td>
<td>R402.4</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R1 000</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>R521.8</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: Fieldwork (November, 2012)
Comparing the loan portfolio of the two periods of operation gives a clear picture of the performance of the MFIs over the past decade. Figure 5 how the loan portfolio has generally changed within the MFIs. The data collected was based on the average figures of all the total MFIs interviewed. There was a decrease in the amount of the loan portfolio at risk of 6% among the urban clients between the two periods of the years 2002-2006 and the years 2007-2011. However, the amount of the loan portfolio at risk of the urban clients has generally remained high with a percentage of 76.4%. To the MFI, this implies that there is potential of a loss of 76.4% of the total amount of loans borrowed by the urban clients. From the data collected from the MFIs, rural clients had a sound repayment rate hence the lowest loan portfolio at risk of 3% in 2002-2007 and 3.7% in 2007-2011.

Source: Fieldwork (November, 2012)
**Loan Delinquency Period**

The period of loan delinquency is when outstanding balances on loans are declared non-repayable by the clients. This period to declare that a client is loan delinquent is very problematic in the sense that when declaring a client delinquent is shortened, the clients may perceive the MFI concerned to be lenient. Again, it is not profitable practice to take a very loan time to declare clients delinquent. Any MFI must be able to strike a good balance on the loan repayment periods in order to avoid losses. Since the MFIs investigated are assumed to be premised on the financial systems approach, it is very crucial for these MFIs to operate at a profit in order to maintain sustainability.

The data collected from the MFIs reflected that the time to declare a client to be delinquent varied from institution to institution. At least 20% of the total number of MFIs declares a client delinquent if the client does not repay his loan in full within a period 36 months. The other 13.3% of the total number of microfinance institutions regard clients to be delinquent when they fail to pay for their loans within a period of 24-36 months if the loans are short term loans. The other 66.7% of MFIs had a range of 12 to 24 months as the period that they declare the short term loans delinquent.

**Level of Outreach**

The level of outreach was operationalised in terms of the radius of the furthest clients to the MFI. The greater the distance between the MFI and the poor clients, the more the breath the MFI is covering. In some MFIs they choose to send loan officers to go into the rural communities to try and bridge the gap between the institute and the clients.
In this study it was disappointing to note that only Post office and Land Bank had the furthest rural clients of an average of 150km. The other disheartening observation was that, of these two MFIs, the number of the furthest clients being serviced were both less than 20% of the total number of the clients. The other 87% of the total microfinance institutions were simply serving the poor clients within a radius of 50km.

This observation showed that MFIs are not reaching out on a larger scale to the rural poor. The poor rural clients residing in the remote areas which are very far away from the MFIs are not getting the services of the MFIs. The policies governing the processes of accessing microfinance from the MFIs seem to be benefiting the clients residing in the vicinity of the MFIs. The policies on the waiting time until the microloans are processed is not favourable to the rural clients reside in the remote areas. The rural
poor find it expensive to visit the MFIs in the urban areas frequently in making follow-ups on their applications.

5.8 Conclusion

Although financial liberalisation in South Africa has had the potential to increase access to finance due to competition and an improved integrative financial system, access of microfinance among rural clients is still very limited. The impact of microfinance institutions has not been very much pronounced because of the lack of connection between the MFIs and the rural clients. Most of the MFIs have no motivation to open branches or send their loan officers within the rural communities because of the high risk and high operational costs associated with operating in the rural areas. If microfinance is to have a significant impact upon the livelihoods of the rural people, it must not be spent on domestic consumption. Rather it must be channeled into some income-generating projects so that the poor clients can afford their daily minimum needs from the proceeds instead of the initial capital from the MFIs.
CHAPTER SIX

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

6.0 Introduction

From the study results, it is clear that most of the microfinance clients are not the poorest of the poor but also the not so poor clients who reside in the urban areas. Only a small percentage (3.7%) of microfinance clients constitutes the rural clients. This chapter will give a summary of the research in terms of the findings and will give recommendations which are informed by the results and finding of the study.

6.1 Summary

Recently microfinance has been recognised to be one of the tools that are useful in alleviating poverty among the poor. The impact of microfinance institutions in alleviating poverty showed that the poorest of the poor seem not to be benefiting as much those who are not so poor. A greater percentage (76.4%) of the MFIs is the urban dwellers. This study showed that MFIs which are private owned prefer urban clients than rural clients because of the relatively lower risks associated with the urban clients. The major setback of the rural poor is their geographical location in relation to the location of the MFIs.
The majority of the rural areas in South Africa are typified by Amathole rural district and all these rely heavily on social grants to meet their day to day needs. The study has also shown how other developing countries are addressing the challenge of poverty. Most of the developing countries spend less on social grants and spend more on financing entrepreneurial projects for the poor communities. Most of these developing countries have relied upon the World Bank funding to carry out the entrepreneurial projects. Most of the entrepreneurial projects have focused on agriculture. Most of the South African rural communities are not in the culture of farming but rather selling commodities. Within these rural settings, one of the major hurdles to economic development is the issue of the start-up capital for the entrepreneurial activities.

The majority of the entrepreneurial projects within these developing countries of Latin America, Africa and Asia have had many positive benefits in terms of employment and food security for the poor (Hamada, 2010). The observation that most poor clients access microfinance in order to be able to buy food and clothing is one of the major setback in helping them escape the poverty trap. Rather than using microfinance in purchasing food and other minimum daily needs, microfinance can be channeled into some economic development projects. It is from these projects that the poor can utilise these funds to meet their daily needs. This study tried to exhibit what the other developing countries have done in trying to improve the entrepreneurial sector rather than directly engaging in social spending. In Ghana, emphasis is put on the MFIs like the SAT which provides funding to the poor people who wish to engage into income re-generating projects (Ghana Statistical Services, 2007). Developing countries need to encourage entrepreneurial initiatives in order to help the poor escape poverty.
Microfinance can be a very good source of start-up capital for the small initiatives that earn the poor income to spend on their daily consumption needs. When microfinance is sorely spent on consumption, the hope of the reducing poverty by the year 2015 will be thwarted.

6.2 Complimentary Structural and Policy Reforms

Most of the branches of the microfinance institutions are situated in the urban areas. Only a few (3.7%) of the microfinance institutions are located in the rural areas in the Amathole rural district. If really the government of South Africa wishes to reduce poverty in the country, there must be policies that emphasise and encourage decentralisation of the MFIs into the rural areas. It is however important to understand thoroughly the needs of the poor so that the designing of the microfinance products are tailor made to help the poor with their daily consumption needs and income generating funds. In a conference paper *Mainstreaming Microfinance* presented in the Philippians in 2010 by Micu (2010), evidence showed that most of the rural poor borrow funds for consumption purposes rather than for income-generating activities. Poverty is a multi-faceted phenomenon, hence the need to address it in a more comprehensive and multidimensional approach. All the measures adopted to alleviate poverty must be complimentary towards fighting chronic poverty especially among rural people.

Among other strategies, the government of South Africa has used both micro-enterprise development and social grant system to address the problem of poverty (Coetzee, 2000). Whilst social grants are meant to meet the daily consumption needs of the poor, enterprise development finance must meet the income-generating needs of poor. When microfinance provides finance for small enterprise development, the effect is that, the
poor will eventually become independent and self-employed. When MFIs provide funds that are meant for income-generating activities, more poor people will become independent and escape from the poverty trap permanently.

The poor people are able to participate in the economy when they are granted access to capital and rural financial markets. Whilst the government is promoting the sustainability of microfinance industry, it must also enact complimentary reform policies that address the structural causes of poverty.

The policy challenges that the government of South Africa must consider in order to address the issue of microfinance and poverty are as follows: a) increasing outreach to the rural poor, b) promoting the integration of micro-entrepreneurs into mainstream market, c) making sure that MFIs are operating profitably so that they can continue to exist and push the frontier of poverty alleviation, d) increasing of access of microfinance from formal institutions. It is also important for the government of South Africa to base these policies upon two main principles which are as follows; Firstly, the government must play a diminishing role in lending to the poor and promote a market-driven environment. Secondly, the government must create an environment that is conducive for microfinance and enterprise development.

Increasing of microfinance is a two-fold challenge in the sense that, whilst any MFI has to maintain the existing clients, they must also be able to reach-out into the poorest households who lack access. Most of the clients who fail to be access the services from the MFIs are located in the rural areas. Access of microfinance should happen at grassroots levels within the poor rural communities. Most of the microfinance services
are designed mainly for cash flow financing and are not normally suitable for rural financing. South African MFIs must try and reach out to the rural communities themselves and not wait for the rural clients to visit their branches in the towns and cities (Bauman, 2004). This could be done by giving the loan officers transport that makes them reach into the remote areas of South Africa.

Siebel (2006) also stressed on the issue of having an integrative approach to microfinance development which includes the upgrading of informal MFIs into the formal mainstream sector. This upgrading includes transforming ROSCAs, funeral societies and deposit collectors into financial intermediaries with a permanent loan fund.

6.3 Recommendations Towards Entrepreneurial Development

Based on the findings discussed in the preceding chapter, this study submits the following considerations:

- **The government of South Africa needs to carry out many rigorous checks on the demand for microfinance funding so as to enact mandatory financial allocations for banks**

The government of South Africa needs to enact regulations that set the mandatory financial allocation to each and every bank. Within these mandatory allocations will be financial regulations that initiate and start some private investment projects within the rural communities. The rural investments mandate to banks could include financing projects that help develop the infrastructure like the transport networks, communication infrastructure and marketing infrastructure within rural areas. When the financial institutions provide these economic infrastructures mentioned above within the rural
communities, then it will be easier and convenient for the rural poor in accessing the micro-financial services. This will in turn lead to the improvement in physical infrastructure within rural areas and also boost the credit-worthiness for farm-workers concerned.

If incentives to encourage private investments in financial services for the poor living in the rural areas this will lead to a steady improvement in infrastructural development within the remote inaccessible areas.

- **Creation of an inclusive financial system by providing a range of financial services tailor-made for the poor’s needs.**

In this study, results showed that even the clients who have engaged in micro-entrepreneurship in the Amathole rural district are not linked to mainstream markets. Promoting the integration of micro-entrepreneurs into mainstream market is one of the main contemporary challenges in microfinance industry. For Bauman (2004) promotion and encouragement of micro-entrepreneurs into mainstream market requires scaling up the client-training inputs. From the data gathered during the study, evidence showed that only a few household-heads were literate enough to understand all the business technical know-how. Bauman (2004) noted that one of the effects of the apartheid era in South Africa was that of low literacy levels, low self confidence among the poor and also low business skills.

When all the measures have been put in place in terms of scaling up the literacy levels and the training of the poor clients on how to do business, then integration of the micro-entrepreneurs into the mainstream market will be sustainable.
• Facilitate access of micro-entrepreneurs to business development services and facilitation of registration and entrance into the formal economy as a way of increasing microfinance outreach to the poor.

The 10% of the micro-entrepreneurs in the study area concerned expressed concerns that they lacked support from the government to help their small businesses develop into better profitable ventures. It is important to find sustainable and commercial relationships that will support micro-entrepreneurs’ integration into the mainstream market. Scaling up of financial resource within the department of trade and industry and the department of Agriculture must have a direct positive impact on the entrepreneurial development. The policies around the registration of micro and small enterprises must be made easy and straight forward in order to make the micro-entrepreneurs participate in formal market. There must also be a decentralisation of the government institutes that are responsible for the registration of micro-enterprises within the remote rural areas. When these registration centres are present within the rural communities, they will attract many rural poor for registration due to the convenience of their location. The research findings of this study advocate for that the government can increase the outreach of microfinance to the poor through the scaling-up of micro-entrepreneurial development.

• Monitor indicators of social performance management (SPM) among MFIs and promote the use of SPM tools.

The results of the study showed that only a small (10%) number of the rural clients who have engaged into entrepreneurial activities have managed to improve their social life
conditions. The positive impact of the MFIs on education, and business skills among the rural poor, has not been significantly high because of the strict loan repayment burden. The interest charged by most of these MFIs depletes the profit that is reserved to cater for the educational needs of the people of Amathole rural district. Since microfinance does not only focus on the micro-entrepreneurs, it has recently been used as a tool used to alleviate poverty among rural communities. There is a growing concern that the commercialisation of microfinance institution has diverted the focus of many MFIs from their original aim of poverty reduction. However the more an MFI is sustainable, the higher the chances in reaching out to a large number of the chronic poor people (Micu, 2010). When the poorest of the poor receive financial support from the MFIs, all the funds they get are channeled straight into consumption. The entrepreneurial poor are not so poor because when they access the funding from the MFIs, they use it for business purposes and hence generate surplus income for consumption. The financial success of the MFIs that operate commercially is also closely linked to the success of their clients. It is thus important to determine if the MFIs are increasingly measuring their success in alleviating the vulnerability and poverty of their clients while also becoming profitable. Only a few MFIs have adopted the use of the Social Performance Management (SPM) system in South Africa. In countries like the Philippians, the practice of the SPMs has become one of the common practices among MFIs.

The weaknesses limiting the outreach of microfinance to the rural clients call for sound government interventions which are premised on South Africa’s developmental objective. The direct state interventions in terms of subsidies and rural investment incentives must be carefully scrutinised to avoid the same failures witnessed in many
countries during the 1970s and 80s (Helms, 2006). The government of South Africa has a responsibility in ensuring that the rural poor are assisted in ways that afford them sustainable livelihoods.

In this line of thought, sustainability of access of microfinance rests on the improved financial systems, reduced microfinance institutions’ conditions on lending to the poor and improved infrastructure. Savings mobilisation among the rural poor is very crucial as it helps them to increase their capacity to borrow micro-loans. This mobilisation could be done through the changing of the attitude of the rural poor on the matters of savings and credit.

6.4 CONCLUSION

Reduction of poverty can never be a once-off event if the developing countries are willing to eventually eradicate poverty. When microfinance is used to reduce poverty, then the MFIs should be sustainable and be prepared to serve the poor for a long time. When the rural poor are afforded a chance to engage into small business projects, they will be able to generate surplus income that will meet their daily consumption needs. In order to increase access to microfinance from the grassroots levels within the rural communities, the government of South Africa must provide incentives to bank for operating within these rural areas. Microfinance is still a relevant tool that can be used to achieve one of the millennium development goals which is poverty eradication. It is high time that the governments of developing countries adopt an entrepreneurship approach to poverty reduction.
REFERENCES


Coetzee G, Access and use of rural financial services in South Africa, by especially farmers and the potential for cooperative approach to financial services in rural areas, DGRV, SA, Working paper. Series No.1, August 2000


Department for International Development. 1999. “Sustainable Livelihoods Guidance Sheets”


Flick, U. 2006. An introduction to qualitative research, Sage Publications Ltd.


Fraser N, 2003. Redistribution reconocimiento of social exclusion. Department of Social Administration & Faculty of Political Sciences and International Relations. International Seminar Memorial, DABS, PUJ: 55-69


IL: National Textbook Co Lincolnwood


Patrick H.T. 1966. Financial Growth and Economic development in Developing countries


Townsend. 2006. What is poverty? An historical perspective', in Poverty in Focus, December, pp. 5-6, UNDP International Poverty Center.


138


Internet sources

www.bti-project.org [Accessed 08 October 2012]


www.mail&guardian.com [Accessed 12 July 2012]


www.tradeeconomics.co.za [Accessed 30 November 2012]


Appendices

Appendix A

Source: ECSECC, 2011
Appendix B

Research Questionnaire on Individual Rural Households

Date......................................... Household No/code..................................

Location: Village......................................................

Introduction of the interviewing panel

Introduction of the research topic

A) Household Basic Data

1) Interviewee’s Sex  [Male]  [Female]  (mark with an X on the correct box)

2) What is the size of your family?..........................

3) How many economically active members of the family do you have?.................................

4) Are you a member to any socio-economic organisation?  [yes]  [no]

B) Household Income and Expenditure

1) Which one would you consider to be your source of income from the following:
2) Over the period of five years, has the income mentioned above has been able to cater for:

a) subsistence needs like shelter, food and clothing? *(Mark with a X on the correct box)*

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Partly disagree</th>
<th>Agree</th>
<th>Partly agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

b) Education (ie payments of school fees)? *(Mark with a X on the correct box if applicable)*

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Partly disagree</th>
<th>Agree</th>
<th>Partly agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

c) Investments (specify if it is Farming, livestock or any entrepreneurial activity)?.................
<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Partly disagree</th>
<th>Agree</th>
<th>Partly agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

(Mark with a X on the correct box)

d) The overall general family needs? *(mark with a X on the correct box)*

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Partly disagree</th>
<th>Agree</th>
<th>Partly agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>

d) Other. *(specify.............................)* *(mark with a X on the correct box)*

<table>
<thead>
<tr>
<th>Strongly disagree</th>
<th>Partly disagree</th>
<th>Agree</th>
<th>Partly agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
</table>
Appendix C

c) Interview schedule with Village Heads

Date of Interview ………………………………………………………………………..

Name of Interviewee …………………………………………………………………

Responsibility in the Village ……………………………………………………………

1) Village name………………………………………………………………………

2) How can you describe the level of access to finance among the households within the village?
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………

What do you think could be causing these trends in the level of access of microfinance?
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
……………………………………………………………………………………………………
3) What are the major economic activities that help the local people get income in the village?

…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………

4) On average, the household income and expenditure of an average household could be described as what?

…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………

5) What other forms of rural financial services available in the village?

…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………

6) In your own opinion what are the problems related to the development of rural financial services?

…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………
…………………………………………………………………………………………………………………………

7) What savings type are available for the rural households, be it formal or informal?
8) Do you have other issues you think could assist in understanding the situation on the ground in terms of expanding outreach and access to microfinance within the village households?

Appendix D

Interview Schedule

Interview Schedule for formal financial institutions

Date of Interview .................................................................

Name of Interviewee ............................................................
Position Held in the organisation .................................

Name of institution......................................................

What is the name of the town in which the institution is: ..............

Is your organisation an ngo, private financial service provider, or government owned financial service provider)? ......................

How long have you been serving your clients in the local surroundings ........ years?

Products/services offered

What are the type of services/products do you offer? ......................

What type of savings do you provide? What keeps you motivated to continue providing these type of savings in particular? .................................................................
.................................................................................................
.................................................................................................
.................................................................................................

What is the interest charged on the different types of savings?

......................

......................

......................

......................
What type of credit do you offer is it short term, medium term or long term?

Do you have a specific group of clients that you prefer to serve (Rural or Urban)? If yes, which one do you prefer serving?

Why do you prefer the group of clients that you mentioned above?

Savings Regulations and Procedures

What products are available How have these evolved to suit the clients’ needs?

How is the percentage of interest on savings determined and arrived at?
Are savings treated as collateral, when one wants to access a loan?..........................

Give a reason for the answer you provided above.

Loan procedure or policy

Is there any type of loan policy
What type of loans and loan portfolio do they have?

How much is your Interest on loans that you charge?

How long it takes for one to get a loan after applying for it?

How many times can one get a loan?

What collateral security if any, is needed in order to access a loan?

What is the Loan repayment rate over the last five years?

. How frequent were loan delinquencies over the last five years?

Loan processing and monitoring
What are the necessary main conditions for loan application?

In terms of Loan appraisal, what qualifies one to get a loan?

Loan review: After how long does one gets approval to get a loan?

How long can one be deferred to get a loan?

In terms of loan disbursement, how often does the institution give out loans to the people?

Does the organisation do loan follow-up and monitoring checks after they give the loans to people.

Have you ever experienced loan write offs and how often have you experienced this?
Is there any other information that you would like to share that can help us in understanding the relationship that you have with the rural clients in terms of microfinancial services?

Appendix E

Clearance Certificate.