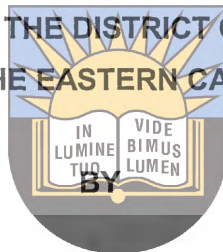


UNIVERSITY OF FORT HARE

AN ASSESSMENT OF SOCIO-ECONOMIC IMPACT OF MICROFINANCE ON SMALL
MICRO ENTERPRISES (SMEs) AT THE DISTRICT OF ALFRED NZO MUNICIPALITY
IN THE EASTERN CAPE



PELEKA PATHEKILE DZINGWE
University of Fort Hare
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A DISSERTATION SUBMITTED TO THE FACULTY OF MANAGEMENT AND
COMMERCE IN FULFIMENT OF THE REQUIREMENTS FOR THE MASTER OF
ADMINISTRATION DEGREE

SUPERVISOR: H.R NENGWEKHULU

DECEMBER 2009

DECLARATION

I Peleka Pathekile Dzingwe solemnly declare that the topic “**Assessment of socio – economic impact of microfinance on small micro enterprises (SMEs) at the district of Alfred Nzo in the Eastern Cape**” is the author’s original work. The research is the result of my sole efforts through the professional guidance of the supervisor and it has not been submitted by anyone for any degree or examination at the University of Fort Hare. All the sources that I have used or quoted in the text have been indicated and acknowledged by means of a complete reference.



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A handwritten signature in black ink, appearing to be 'P.P. Dzingwe', is written over a horizontal dotted line.

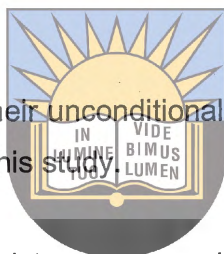
P.P. Dzingwe

ACKNOWLEDGEMENTS

The endeavor of compiling this study involved the creative collaboration and contribution of many individuals. It is a joy to record my gratitude to many people who have assisted me, some without realizing how helpful they were in making this study possible. In particular my deepest gratitude and acknowledgement go to the following:

1. "God" Almighty, for carrying me through the ups and downs of this study for he has never left or forsaken me.

2. Special thanks go to my family for their unconditional support, faith in me even in times of despair throughout the course of this study.



3. My sincere appreciation is extended to my supervisor to Prof Nengwekhulu, for his constant professional guidance, fortitude, extreme useful criticism, guidance and altruistic devoted through out in making the study a success.

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4. A lot of thanks are due to Prof Rahim and Prof Thakhathi, for their words of encouragement.

5. Grateful indebtedness goes to Mr Gwiliza the CEO and to Ms Mehlomakhulu of Eyethu Community Finance Centre for allowing me to collect data and for their willingness, enthusiasm to participate in the study. Without them the study would not have materialized.

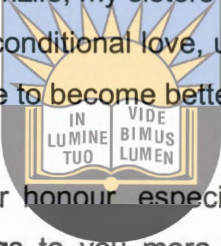
6. I treasured the support from Mr Ndlovu, Ms Mcako ,Ms Mbalo and Ms Dikana for words of encouragement that helped me to develop a sense of independency and confidence in approaching the study highly motivated and with interest.

DEDICATION

This study is dedicated to my late *father*, sister "*Pumeza*" my nephew "*Yandisa-Yibanathi*" whose desire for education knew no bounds and whom I know would have encouraged me and loved to see me succeed.

I also dedicate this study to my mother "*Mangwane*" who is the pillar and the source of my strength in my life. My brother Pumzile, my sisters Bathabile and Thandile as well as my nephew Gwiba-Zenkosi. Your unconditional love, undying patience as well as words of encouragement always inspired me to become better everyday.

I have undertaken this study in your honour especially my late father, Pumeza and Yandisa-Yibanathi, this study belongs to you more than to me. I love, respect and admire all of you.



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ABSTRACT

Microfinance is not a new phenomenon. Its origin can be traced back to 1976, when Muhammad Yunus set up the Grameen Bank, as experiment, on the outskirts of Chittago University campus in the village of Jobra in Bangladesh. Since then several countries with South Africa inclusive came up and piloted microfinance strategies like Khula and SAMAF in an attempt to reach the poorest of the poor. South African Khula and SAMAF microfinance strategies are distinct replica of Grameen Bank in terms of their methodology and are microfinance wholesalers. The adopted strategies are the agencies of the Department of Trade and Industry who then sell their services to microfinance institutions that are mostly serving SMEs situated in rural areas.

The motive of adopting microfinance wholesale agencies was also to implement the resolution of Strauss Commission on provision of rural finance in an attempt to bridge the gaps between first and second economies. These included the provision of collateral free loans to poor people, especially in rural areas, at full-cost interest rates that are repayable in frequent installments. Borrowers are organized into groups and group members put pressure among each other to ensure prompt repayments, which reduced the risk of default. Microfinance is now being considered as one of the most important and effective mechanism for poverty alleviation. Above all, many microfinance programs have targeted one of the most vulnerable groups in society – women, who live in households with little or almost no assets.

This study is about microfinance and to investigate the socio-economic impact of microfinance on the SMEs in the district of Alfred Nzo in the Eastern Cape. Therefore, the objective of this study is to evaluate the socio –economic impact of microfinance on factors such as poverty, education, health, living standards, employment creation, savings, income, asset acquisition on SMEs, households of small business owners and the welfare of women. The sample has been chosen based on the random sampling technique, from two microfinance institutions and have collected data from the clients of microfinance activities.

Therefore, the accuracy of the analysis heavily relies on the data provided by the clients. From the analysis of data, it has been found that microfinance has the positive impact on the socio economic status of the poor people .It has not only helped the poor people to come over the poverty line, but has also helped them to empower themselves. There is an argument that the interest rate of MFIs is high, but it is traced that most of the respondents did not agree on this issue and found it to be reasonable. Despite of the debate about higher interest rate, MFIs are contributing not only in alleviating the poverty and improving the living standards of the poor people, but also in offering extensive human development programs.



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LIST OF ACRONYMS

ABSA- Amalgamated Banks of Southern Africa
CGAP – Consultative Group to Assist the Poorest
COSATU – Congress of South African Trade Unions
DTI- Department of Trade and Industry
FNB – First National Bank
GAF – Get Ahead Foundation
MCP – Micro Credit Project
MFIs – Micro Finance Institutions
MFRC – Micro-Finance Regulatory Council
NEPA – Ntsika Enterprise Promotion
NGO – Non-governmental Organization
NSBC – National Small Business Council
RFF – Rural Facility Finance
RFI – Retail Financial Intermediaries
ROSCAs – Rotating Savings and Credit Associations
SA – South Africa
SAMAF- South African Microfinance Apex Fund
SMEs – Small Micro Enterprises
UFH – University of Fort Hare



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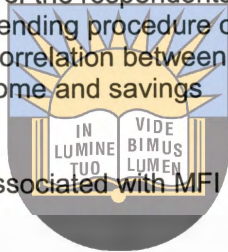


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CHAPTER ONE

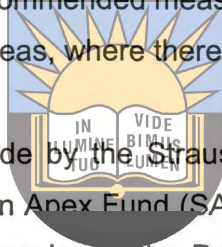
General Background to the Study

1.1 Introduction and background of the study

In South Africa, like in many developing countries, microfinance holds a big promise to generate income, reduce unemployment and alleviate poverty by granting financial services to small micro enterprises that are not served by the formal banking sector. In contrast, the real income and 'lifestyles' of the very poor, particularly in rural areas, are comparable to those in the poorest 20% of countries (Baumann, 2001:123). The South African economy and banking systems reflect a highly skewed income distribution and economic structure that has produced a large number of so-called 'unbankable' households. Political attempts to 'export' South African banks to serve such people on social grounds are pointless and ~~contradict the government's broader emphasis on a globally competitive economy~~ Hazelhurst, (2004:104). However, according to Khandker (1998:2), a financial sector is not good enough if it is not accessible, so that as many people as possible can contribute to economic growth and enjoy the benefits that accrue from access to economic opportunity.

As a result of the biased access to micro credit, it was therefore viewed necessary to appoint the De Cock Commission in 1987 to assess the effects of monetary policy on financial system in South Africa. The committee criticized overregulation of the financial sector, which had made it ineffective in terms of providing access to finance particularly to informal "third world" synonymously referred as "unbankable segment". However the recommendations made by the commission were implemented with the adoption of the new Banks Act, 1990 (Act No. 94 of 1990).

Simultaneously in 1990 microfinance industry explored in South Africa and pinned high hopes that there will be improvements in economic and social living standards of the society. In order to extend access to financial services in 1995, President Mandela also appointed the Commission of Inquiry into the Provision of Rural Financial Services, called the Strauss Commission. The commission submitted its interim report in March 1996 and its final report in September 1996 (Strauss 1996). It looked at demand in the rural financial sector, at least in qualitative terms, described the financial services of the different financial institutions. The recommended measures primarily aimed at improving access to financial services in rural areas, where there was a lack of supply.



As a result of recommendations made by the Strauss commission, Khula Enterprise Finance Ltd (Khula) and South African Apex Fund (SAMAF) “microfinance wholesalers” were established as independent agencies of the Department of Trade and Industry. Both agencies play a role of a complementary financial institution by bridging financing gaps that are not addressed by commercial financial institutions (www.dti.gov.za). Hence the need to assess its impact to the community of Alfred Nzo. Nevertheless, the assessment will be done to surface the socio economic effects of provision of microfinance to the economically active population that is regarded as unbankable segment in the jurisdiction of the Alfred Nzo district municipality.

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It is therefore also the intention of this study to uncover the successes and failures of the above acts and commissions to advise accordingly on provision of financial services to small businesses in informal economy.

1.2 Statement of the research problem

Most developing countries struggle to democratize access to finance to the marginalized population in the informal economy, South Africa is no exception. Despite its economic rebirth, financial sector is still faced with a challenge of inadequate access to financial services to support small micro enterprises (SMEs) particularly at Alfred Nzo district.

Access to formal financial services base its criteria on individual's socio and economic status, that restrict access to formal financial services to well established firms whilst small micro enterprises (SMEs) under the jurisdiction of Alfred Nzo district municipality are left with little or no access. As a result small micro enterprises under the jurisdiction of Alfred Nzo district municipality fall prey of informal financial service providers who charge excessive interest rates. The dire consequence is that, some small micro enterprises (SMEs) in this district find themselves trapped in debt, while others operate businesses at a break-even point or close their businesses.

Due to limited or no access to microfinance, owners of small micro enterprises (SMEs) at Alfred Nzo district who are dependant on their business profits for survival become more vulnerable to opportunistic diseases, high levels of unemployment, migration, some find illegal ways of surviving. Provision of access to microfinance should not be looked as business development strategy only but it must also be recognized as livelihood strategy (Daley-Harris, 2002:237). It is in this regard that the researcher's interest is to assess the socio-economic impact of microfinance to small micro enterprises at Alfred Nzo district that have access to microfinance services in the informal economy.

1.3 Objectives of the study

This study seeks to evaluate socio economic impact of microfinance on economically active communities at business and household levels. Underpinning the assessment of socio economic impact are consequences bared by access to microfinance by SMEs particularly classified as unbankable. In light of the research topic, the objectives of the study will be classified as primary and secondary objectives:

1.3.1 Primary objectives


- a) To evaluate the socio –economic impact of microfinance on factors such as poverty, education, health, living standards, employment creation, savings, income, asset acquisition on households of small business owners.

- b) To assess how microfinance impact on rural women's livelihood structure, empowerment and welfare of women.
- c) To examine and compare past and present commercial performance of SMEs supported by microfinance institutions.

1.3.2 Secondary objectives

While not among its main objective, the study also seeks to explore and understand the following:

- a) Legislative framework and design of microfinance programs.
- b) Contribution of microfinance compared to other sources of finance.
- d) Constraints and opportunities facing microfinance institutions in their efforts to increase the outreach of their programs.



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1.4 Hypothesis

- a) By extending supply of microfinance services to unbankable segment there will be a decrease in poverty levels as well as in income inequality whilst levels of entrepreneurship activities will increase coupled by enhanced profile of women and other underprivileged groups.
- b) Small micro enterprises (SMEs) attain profitability which in turn is invested on business development and on social wellbeing of small medium business owners provided that they can gain access to microfinance services.

- c) With microcredit adopting training as its essential element, people living below poverty line will not use credit for fungible purposes and chances of people trapped in debt will decrease.

1.5 Research methodology

The study will mostly adopt qualitative but will also use quantitative and document analysis designs methods to collect the necessary information. The research's objective to assess socio economic impact can never be assessed and expressed solely in neither descriptive nor numerical ways.

1.6 Target population



The researcher will consider two hundred economically active entrepreneurs (Small micro enterprises) that operate under the jurisdiction of Alfred Nzo District municipality in the province of the Eastern Cape as eligible target population of the study. In addition the target population will be the executive members of small micro enterprise owners who have been recipients of microfinance products and services in the past five years.

1.7 Data analysis procedure

In the context of the study the researcher will analyze data on bases of themes which will emerge from the data collected. The first step will be to collect enough data; code the data and themes will be established. The researcher will after this stage subject data to reduction. Analysis of qualitative data yielded from open ended questions, in semi-structured questionnaires and semi-structured interviews will involve sorting and classifying the data, extracting themes and identifying patterns, tallying the responses and quantifying and making generalizations in terms of these patterns.

Quantitative data gathered from closed ended and liket scale questions will be subjected to the statistical package for social sciences (SPSS), a quantitative method of analysis. SPSS will perform a variety quantitative data analysis and presentation functions, including statistical analysis and graphical presentation. Among its quantitative data analysis function will be statistical data analysis, including descriptive statistics, such as plots, frequencies, charts and lists

1.8 Significance of the study

The phenomenon of Microfinance in South Africa did not go unscrutinized, various scholars like Roussos and Ferrand, in 1999 conducted a study aiming at measuring the supply and demand of microfinance to microenterprise at rural areas.



A study to assess the extent of the outreach made by a financial wholesaler “Khula Finance Limited” was also conducted by Human Science Research Council (HRSC) in 2003. Additionally, T Baumann (2003) conducted a study on four (4) micro finance institutions (MFIs) and compared their performance against benchmarking standards set in the micro banking bulletin. However the study that assesses the impact of microfinance to the end beneficiaries has not been conducted yet.

It is in this regard that this study seeks to assess socio economic impact of microfinance on small micro enterprises (SMEs) at the district of Alfred Nzo in the province of the Eastern Cape. According to Tambunan, (2001) provision of access to microfinance to small micro enterprises lays a favourable cornerstone towards any regions’ socio-economic condition. Inter alia, the study at hand will assess the contribution of microfinance on economically active communities who are recipients of microfinance services.

However, the magnitude of the study stands to benefit and will be of value to the policy makers, microfinance institutions and funders.

On the side of local economic development policy makers, findings of the study will provide inputs for grassroots development strategy. Whilst microfinance institutions (MFIs) will be able to evaluate and measure the extent of the effect of their programs and understand what services their target clients need. MFIs will also be in a position to re-visit lending, collection methodologies if the situation at hand deems so. Additionally MFIs will be able to lobby and advocate for more funding. Funders will also be able to validate and comprehend if the investment made is achieving the intended objective and to what extent. It is in this regard that the researcher believes it is significant that the assessment of socio –economic impact to the end beneficiaries be conducted.

1.9 Delimitation of the study

The study will be limited to the clients and microfinance institutions at Alfred Nzo, a district that incorporates the former magisterial districts of Mount Ayliff, Mount Frere and Maluti. The study will be limited to evaluation of the socio- economic impact of microfinance to small micro enterprises (SMEs). On the other hand there are basically four limitations that a researcher is anticipating. Firstly, the data will be collected only in the district of Alfred Nzo municipality which may fail to represent the actual scenario of the whole country, so generalization of those results out of the context of this research should be done with caution.

Secondly, most of respondents are illiterate; this might pose a challenge in terms of making them to understand some technical terms like capital, liquidity, inflation et cetera. Thirdly, finance and time limitations may impact significantly on the scale and magnitude of the study, as the researcher believes that with at least more financial resources the findings could be generalized to all provinces. Lastly, social factors have a direct effect on availability of critical informants during interviews for example attendance of funerals on scheduled times and days of interviews.

1.10 Outline of the chapters

Chapter 1

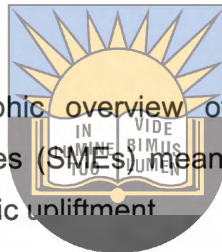
This chapter presents the introduction and background of the study, statement of a research problem, objectives, hypothesis, significance and delimitation of the study as well as key concepts.

Chapter 2

The chapter focuses on the South African context of microfinance, summarizes South African model of microfinance, explores the role of government and provide an overview of the legislative framework of microfinance.

Chapter 3

This chapter provides a demographic overview of Alfred Nzo district, analytical explanation of small micro enterprises (SMEs) meaning, nature, categories and their role with regard to social and economic upliftment.



Chapter 4

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The prime purpose of this chapter is to depict related literature reviewed on the bases of the objectives of the study and the problem being studied.

Chapter 5

The principal purpose of this chapter is to portray the nature of the study, research methods and designs, choice of subjects of the study, population and sample selection. Moreover, this chapter later describes data collection instruments and gives an idea about secondary data sources.

Chapter 6

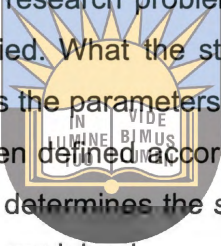
In this chapter, presentation, interpretation and analysis of the data obtained are presented. The researcher first presents, interprets and analyzes data after carrying definite research based on the results obtained using methods outlined on chapter three. It is in this chapter where the researcher presents the empirical findings on the impact of microfinance activities bases on the data collected.

Chapter 7

In the phrase of this chapter, conclusions are drawn based on the results presented in the empirical study and analysis .The researcher suggests recommendations and areas of study for future researches.

1.11 Conclusion

The pertinent issue in this chapter has been to put to perspective the research problem. The background has been given and research problem has been defined. The critical research hypothesis has been identified. What the study hopes to achieve has been spelt out and the constraints as well as the parameters delineated. The terms that could pose problems to the reader have been defined according to the context in which they are used coupled with outline of what determines the structure of the study. In the next chapter an overview of microfinance is explained.



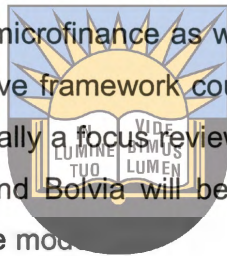
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CHAPTER TWO

An Overview of Microfinance in South Africa

2.1 Introduction

This chapter provides a synopsis on overview of microfinance in South Africa by articulating background of microfinance from both public and private sector perspective. An outline of supply and demand of microfinance as well as a boarder discourse of an overview of the microfinance legislative framework coupled by microfinance regulatory institutions is also explained. Additionally a focus review of microfinance model of India, Bangladesh “the Grameen model” and Bolivia will be explained with an endeavor to display the South African microfinance model.



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2.2 Background of microfinance *Together in Excellence*

The background of microfinance in South Africa reveals that the financial sector has historically been unable to serve the majority of the population effectively. Almost 13 million of South Africans remain unbanked, whilst 11 million are South Africans who fall within the bottom half of the distribution of income, reflecting the continuing realities of apartheid's legacy (www.bankseta.org.za/17 February 2009). Baumann, (2001:11) states that, it was only in 1990 when paradoxically processes that conceived the birth of increased interest in microfinance sector unfolded. The processes deposited mounting political pressure to both private and public sectors that financial services be extended to the unbankable segment.

2.2.1 Public sector perspective

The Communist Party and Congress of South African Trade Union (COSATU) launched a public campaign against the banks for their failure to serve the poor, which attracted more than a little middle-class sympathy.

In response, the African National Congress (ANC) government adopted a contradictory stance when the former minister of housing, Sankie Mthembu-Mahanyele, echoed the populist refrain and demanded that banks 'do the right thing' by extending credit to the poor (Christodoulou, N.T., Kirsten, M.A. and Badenhorst, J. 1993:139). Whereas the economic former ministries such as Trade and Industry and Finance largely avoided the issue, as they felt that such populist criticisms were both misplaced and ineffectual in a globalizing economy. For its part, the South African Reserve Bank has remained aloof (Adams, Z. and Von Pischke, J. (1992:97). Nevertheless, soon after 1994 elections South African public sector devised initiatives which were aimed at extending credit to the unbanked population (www.dti.co.za /15 February 2009). The public sector surfaced the initiatives that are stated below (www.khula.org.za/15 February 2009).



a) Khula enterprise limited(LTD)

This is a government backed institution (parastatal) formed under the Department of Trade and Industry as an independent agency that was established in 1996. Khula Enterprise Finance Ltd (Khula), aimed at providing wholesale microfinance through collateral guarantees to financial intermediaries and institutions that lend credit small medium micro enterprises (SMMEs) in South Africa. Khula LTD put forward the methodology and products as means for maximization of access to finance by SMMEs in a way that leads to the development of sustainable small and medium businesses, job creation, economic growth and equity.

i. Non-bank retail financial intermediaries:

Retail financial intermediaries (RFIs), are independent organizations or companies accredited by Khula to lend money directly to small micro enterprises (SMEs). Once accredited, RFIs receive loan funds from Khula to disburse to SMMEs according to Khula lending policies. RFIs have to ensure that loans disbursed are paid back by the SMMEs order to enable them to be sustainable.

ii. Khula credit indemnity scheme:

The purpose of the Indemnity Scheme is to share the financing risk with banks thus enabling Small medium micro enterprises (SMMEs) to access funding from a participating bank or other financial institution. The scheme enables entrepreneurs to access funding for purposes of establishing, expanding or buying out an existing business, business assets and working capital. Finance has to be approved by the financial institution and the latter will only apply to Khula for a guarantee where there is inadequate collateral.

iii. Khula land reform empowerment facility:



The land reform empowerment facility is funded by the department of Land Affairs (DLA) and supported by the European Union (EU). The aim is to facilitate land transfer and economic participation by black people in economically viable land based agricultural enterprises (both primary and secondary) and eco-tourism sectors.

iv. Khula mentorship program:

The primary aim of the mentorship program is to act as a risk mitigator and facilitator of access to finance for small medium micro enterprises (SMMEs). It offers two services, namely; pre-loan and post loan mentorship services. During the pre-loan stage entrepreneurs are assisted by experienced mentors with advice, counseling and the development of viable business plans in order to access funding. In the post-loan stage clients are assisted with various aspects of managing a successful business as identified by the client, mentor, bank and Khula (Coetzee, S.K., Kirsten, M.A. and Christodoulou, N.T, 1995:79).

v. *Joint ventures*

Khula also make use of joint ventures that are outlined below:

a) The Business partner's -Khula start-up fund, a fund that is created to enable entrepreneurs to establish new enterprises as well as early phase business expansion. Both Khula and Business partners have co-invested in the venture, and the fund is managed by the latter.

b) The Anglo-Khula mining fund is a joint venture between Anglo American and Khula enterprise finance which facilitates entry of junior but commercially viable mining ventures into the mainstream mining sector. The fund provides seed capital to assist junior mining projects at pre-feasibility and pre commissioning stages.



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c) Regent factors - reverse factoring is a joint venture between Khula enterprise finance Ltd and regent factors Ltd and is aimed at addressing the cash flow gap that is currently experienced by small micro enterprises (SMEs) that have been awarded contracts by public and private sector entities. In a reverse factoring arrangement, funds are advanced to SME suppliers based on the credit worthiness of the buyer, who makes direct payment to the factoring house. This arrangement allows entrepreneurs to access working capital, thus reducing the time gap between the delivery of goods or services and recipient payment.

d) The Enablis-Khula loan fund: is a partnership between Enablis entrepreneurial network, Khula enterprise finance limited and First national bank (FNB) enterprise solutions. The fund provides 90% guarantees for loans extended to information communication technology (ICT) focused and enabled businesses (www.khula.org.za /15 February 2009).

b) The South African micro apex fund (SAMAF)

The South African micro apex fund (SAMAF) is a wholesale funding institution formally established in April 2006. It is a trading entity and is governed by the Public Finance Management Act (PFMA), 1999 (Act 29 of 1999). SAMAF facilitates the provision of affordable access to finance by micro, small and survivalist business for the purpose of growing their income and asset base. However, the primary purpose of SAMAF is to reduce poverty, unemployment and to extend financial services to reach into the rural and peri-urban areas. Further to this, SAMAF is mandated to build a network of self-sufficient and sustainable micro-finance institutions as well as to act as a catalyst for the development of an effective microfinance sector through:

- 
- The logo of the University of Fort Hare is a circular emblem. It features a sun with rays at the top, a central shield with a book, and the Latin motto 'IN LUMINE TUO VIDE BIMUS LUMEN' (In the light of you, we see light). Below the shield, the text 'University of Fort Hare' and 'Together in Excellence' is written.
- i. Support for the establishment of sustainable microfinance institutions, financial services cooperatives (FSC's) and microfinance institutions (MFI's) that are intended to reach deeper and broader to the SMMEs in the rural and peri urban.
 - ii. Facilitate the establishment of an enabling environment for effective financial intermediation and creation of working markets for the enterprising poor; and build a strong, effective and efficient apex fund (Du Plessis, P.G. Research Report, and University of Stellenbosch Cape Town: 2007).

MFI's and FSC's offer the products that are stated below:

a) Loans

- i. The micro-enterprise loans, loans that are offered to the financial intermediaries who lend to the poor people to establish and grow their micro survivalist businesses. To qualify, one must earn not more than R3 500 per month.
- ii. The development loans that are aimed at FSC's and MFI's for on-lending to clients who are not working but be a group of not more than 15 people or household earning R1 500 per month and below (Hazelhurst, E. et al.2004:43).

b) *Capacity building incentive*

Capacity building is subdivided into the following elements.

i. Training funds:

This is aimed at providing training and skills improvement to the board; management and staff of the FSC's and MFI's to assist in managing the loan portfolio effectively and efficiently. Training is provided in areas such as cooperate governance, financial management and loan delinquency management (Human Science Research Council, 2006: 11).



ii. Working capital:

Qualifying financial intermediaries would also receive once off working capital. This is aimed at assisting institutions to purchase items such as office furnisher, computers and other essential items to improve appearance of institutions.

c) *Operational cost*

Operational costs of MFI's are subsidised in order to cover some of establishment costs and to promote sustainability. This subsidy also helps the institutions which are still struggling after set up before they reach break-even point and sustainability.

d) *Management information system (MIS)*

The MIS fund is aimed at helping and supporting the institutions to acquire modern MIS to provide accurate and reliable information. MIS is critical to ensure that the correct profile of each client; performance of their loans is kept and used as a monitoring tool by the intermediary (www.samaf.org.za/ 16 February 2009).

e) *Savings mobilisation*

This product is aimed at assisting and supporting the intermediaries to grow their savings book for on-lending activities. This is also the contribution to the government's objective of promoting a culture of savings amongst South Africans (Human Science Research Council, 2006: 11).

c) ***Umsobomvu youth fund (UYF)***

The purpose of the UYF is the creation of effective youth programs and to give young people what they need to create their own sustainable livelihoods and to ensure that a broad spectrum of young people even in remote areas are covered. UYF offer a variety of services such as counseling, job search outreach programs, youth advisory centres, business consulting vouchers, youth cards and magazines, mentorship programs, training and SME funding. The focus of these interventions is targeted towards the unemployed youth, both the young graduates and the not so highly educated youth as well as the youth who may have viable business propositions (www.youthportal.org.za/ 16 February 2009).



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However for the purpose of this study more attention will be given to UYF microfinance program. Umsobomvu youth fund's (UYF) microfinance program provides funding to unemployed, under-employed or self employed youth to assist them in establishing new businesses or expanding existing businesses. To qualify for any microfinance service there is a business plan approval process and criteria that focuses more on sound business plan and sustainability of the venture proposed. UYF offers in its microfinance program the following financial services:

- i. Enterprise loans
- ii. Consumer loans
- iii. Savings and other deposit products
- iv. Remittance & transfers

Other than the above mention service, UYF has entered into partnerships of payment of services with two microfinance providers that offer loans that are not less than R750 but not more than R20 000. The partnerships of payment of services has been entered into with the following providers:

- The nations trust youth enterprise finance company
- Nicro enterprise finance

d) Mafisa



This is an intervention by the department of Agriculture, aimed at supporting the emerging and developing farmers who have not built a credit worthiness to qualify for the loans with commercial banks. These loans are distributed through Land and Agricultural bank at below market interest rates, for amounts ranging from R500 to R100 000, with minimal credit requirements (Graham, D.1998:19).

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2.2.2 Private sector perspective

With reference to line one of 2.2.1 the private sector responded to the mounting pressure that was deposited by opting to creation of separate 'off-book' institutions specializing in the low-income market. This allowed banks to maintain their core traditional operations at levels that satisfy global markets, whilst extending some services to the "unbanked" (Kirsten, J. van Zyl, J. and Vink, N.1998:345). However due to lack of banks' experience in this area, logic of the strategies had mixed results.

This suggested that the overall trend of these initiatives had been to recreate a 'stripped-down' version of the same banking practices and assumptions operative in the existing retail bank sector Kuiper, K. (1998:108) argues.

The picture traditionally painted by commercial banks is that they predominantly do not serve the unbanked population, chiefly because the high costs involved make it unattractive and a different alternative rather need to be adopted. As a result banks such as Nedbank, Amalgamated banks of Southern Africa (ABSA), and First national bank (FNB), Standard bank's, Capitec and African bank ventured into the low-income market. Nedbank also ventured into the low-income market via its Peoples Bank division in 1995, the latter later becoming Nedbank's empowerment subsidiary with its own banking license. The first branch of Absa's NuBank division, aimed at serving the unbanked population, was opened in February 1996. In April 2000 Amalgamated banks of Southern Africa (ABSA) immediately gained a significant share in the micro-lending market and at the same time illustrated its commitment to the development of this market (State of the micro- credit summit campaign report 2006:18: Sam Daley-Harris).



Whilst First national bank (FNB), Capitec and African banks also ventured to micro-lending thereafter. Standard Bank only entered the micro-lending market in 1999 and nonetheless rather than going to it alone, it followed a cautious approach by entering into a joint venture with African Investment Bank Limited (Abil). In terms of which Abil, loan products were sold to Standard Bank's E Plan customers through Standard Bank's branch network (Nedcor, 2002:45). On the next page is the table 1 that gives comparison between the various banks and their microfinance initiatives.

Table 1: Different banks and their microfinance initiatives

Names of banks	Amalgamated banks of southern Africa (ABSA)	First national bank	Standard bank	Nedbank	Capitec	African bank
Personal	Loan limits	R15k	R6.750k	R4.5K	R15k	R1K
Document requirements	Employed, Pay slip, Bank statements, ID	Employed, Pay slip, Bank statements	Employed, Pay slip, Bank statements, ID	Employed, Pay slip, Bank statements, ID, Insurance	Employed, Pay slip, Bank statements, ID	Employed, Pay slip, Bank statements, ID
Term of loans	12-84 Months	18 – 60 Months	N/A	24 – 48 Months	3-24 Months	3 -60 Months
Business loan	0 to R5m	R20k to R5m	R50K	0-R100K	N/A	N/A
Training	Yes	Yes	Yes	Yes	Yes	Yes



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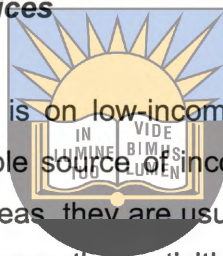
2.3 Demand and supply for microfinance services

Historically there has always been a demand for credit that has resulted in someone supplying the service. As other markets, the market for microfinance is also comprised of two main sides, the demand and the supply side. As there is no way to separate the supply side from the demand side of the industry, this section will look at magnitude of the elements that comprise both demand and supply sides of microfinance.

2.3.1 Demand for microfinance services

The typical demand of microfinance is on low-income persons, poor and vulnerable non-poor who has a relatively unstable source of income who do not have access to formal financial institutions. In rural areas they are usually small businesses and others who are engaged in small income-generating activities such as food processing and petty trade. In urban areas, microfinance activities are more diverse and include shopkeepers, service providers, artisans, street vendors, etc. Access to conventional formal financial institutions, for many reasons, is inversely related to income: the poorer you are the less likely that you have access. On the other hand, the chances are that, the poorer you are, the more expensive or onerous informal financial arrangements. Moreover, informal arrangements may not suitably meet certain financial service needs or may exclude you anyway. Individuals in this excluded and under-served market segment are the clients of microfinance (Oelofsen C at al 2000:192).

Additionally, microfinance can be extended beyond the individual and household into community demand. In this regard microfinance can effectively address issues associated with non-material poverty, which includes social and psychological effects that prevent people from realizing their potential. However the formal banking sector seems inappropriately structured to satisfy the stated demand. Microfinance is however also required for a wide variety of applications by small borrowers (Lascalles, K.1998:75).



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The list below identifies some of them:

- (a) Seasonal fluctuation in cash flow
- (b) Fund or start a small income generating activity
- (c) Consolidate other loans (actual means of paying off other loans)
- (d) Access other sources of capital
- (e) Housing improvements
- (f) Emergencies
- (g) Education
- (h) Purchase consumer products
- (i) Fund bad habits, like drinking, etc.

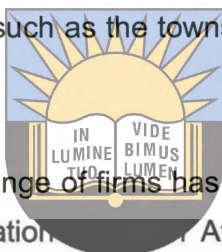


Poor and low-income households and micro enterprises have a large demand for safe and convenient deposit services. Reason for that is, the poor need to save for emergencies such as death in the family, payments to hospitals; investment; consumption; social obligations; and education of their children. These savings are therefore critical for funding micro enterprises, providing working capital and loans etc. Analyzing the demand for microfinance services, it is then evident that microfinance can help the poor by advancing micro credit, providing micro savings and micro insurance to them (Lascelles, K. 1998:76).

2.3.2 Supply of microfinance services

The modern microfinance industry that we see in South Africa today is a relatively recent phenomenon. Apart from pressure exacted by pressure groups, it arose out of the Exemption to the Usury Act of 1992. There are many different types of individuals and companies that are involved in microfinance. Some are in the formal sector, semi formal sector and many are in the informal sector as listed on the next page

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



On the side of formal sector a wide range of firms has developed over the past 9 years to supply microfinance to the population of Africa. Table 2 on the next page illustrates the list of the formal lenders by legal category (www.mfrc.co.za / 08 February 2009).

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Table 2: Estimation of registered formal lenders in South Africa

Type of Institution	Number of Registered Firms	Number of Certificates	Outstanding Book	Number of Debtors
Section 21	7	43	29,224,477	48214
Private Company	122	1960	1,202,456,352	558961
Closed Corporation	597	1025	191,864,981	270488
Bank	7	355	3,352,586,312	1389813
Public Company	8	284	302,465,465	224218
Trust	47	110	61,175,040	41164
Natural Person	58	72	8,874,228	16167
Mutual Bank	2	8	116,403,082	14604
Co-operative	4	16	66,010,133	31137
Total Registered	852	3,873	5,331,080,070	2,594,766

Source, MFRC data collected as of February, 2007

The data above does not include those institutions that have not been registered by the MFRC after the February 2007. Estimations to date from the Credit bureau indicate that there has been a significant drop in the number of storefronts officially serving as cash lenders over the past two years. Their studies estimated 6,000 storefronts two years ago, between 3,500 and 4000 storefronts in early 2007. Projected additional drop in storefronts is about 2,500 by the end of 2007. However, while the number of storefronts has decreased, the number of clients has remained constant or increased. Table 3 presents estimated numbers of the informal lenders in the country. These figures are estimates drawn from other sources, such as associations and other research documents.

Table 3: Estimated totals of informal money lenders in South Africa

	Lenders	Outstanding Book	No. of Clients
Mashonisas	25,000	150,000,000	500,000
Pawnbrokers	5,000	300,000,000	100,000
Stokvel/ROSCA	800,000	240,000,000	8,000,000

Sources: Du Plessis, Assn. Of Pawn Brokers, NASASA

2.3.3. Comparison between registered firms and those that have not yet been registered



The data collected by the MFRC indicates that there are a large number of firms (about 400) that have applied, but have not been registered for a variety of reasons. These usually included incomplete applications, not having a legal registration, or missing important pieces of information, either financial statements or incomplete information on clients. The main differences will certainly be among the smallest lenders, where the least accurate data is presented. The statistics from the MFRC show that most of the firms that have applied but have not yet been registered are in the 30 day money lenders and the 1-6 month lenders. It appears from the statistics that the total client base, according to the registration statistics, is more than 1.1 million for the 30-day lenders, an increase of nearly 700,000 clients (150%) over those that have been officially registered.

The next biggest gap is in the 1-6 month category of lenders, where there are an additional 250,000 clients (an additional 100%) listed with an extra R200 million in outstanding book. These different lenders can be regrouped into different categories based on the type of lending that they are involved in. Some are focused on "consumption" lending and lend only to customers with bank accounts and regular salaries.

The other lenders, either developmental or enterprise lenders, generally base their repayments on cash flow from the productive activity. The source of repayment is the main differentiating factor between the two groups of lenders (www.mfrc.org.za /8 February 2009).

2.4 An overview of microfinance legislative framework in South Africa

In this section a brief outline of the regulatory environment of microfinance industry in South Africa will be depicted. According to Du Plessis P.G (1998:123), legislative framework endeavor to accomplish beyond facilitation of the efficient allocation of resources but also to safeguard the financial system against systemic risk, protect consumers from opportunistic behaviors, improve the efficiency of the financial system in a manner that will achieve broad range of social objectives and combat organized crime. Chriten Robert. P and Rosenberg R. (1999:98) is of the opinion that the challenge in this regard is therefore, how to create 'good' institutions that will be able to lower transaction costs and increase efficiency in economic exchange. Explained below are various pieces of legislations that regulate the industry of microfinance:

a) The Banks Act, 1990 (Act No. 94 of 1990)

The Banks Act, 1990 (Act No. 94 of 1990), addresses the function of deposit-taking, rather than the institutions accepting deposits. The Act also introduced a general prohibition on the taking of deposits from the general public by an institution not registered as a bank. This prohibition has a significant impact on the ability of micro lenders and microfinance institutions (MFIs) to take wholesale deposits from corporate investors. A suitable exemption notice under the provision of the Banks Act, 1990 (Act No. 94 of 1990) provide explicit for accredited MFIs to take wholesale deposits that are not less than R1 million. Since the proposed notice would not allow retail deposit-taking, the notice would affect only when the wholesale deposits of larger investors, who are able to assess the risks involved, and not the deposits of small depositors.

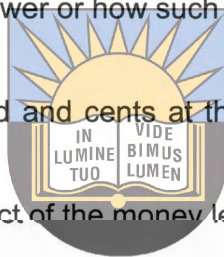
b) The Usury Act, 1968 (Act No. 73 of 1968)

The Usury Act, 1968 (Act No. 73 of 1968) remains the piece of legislation in the country that directly controls the lending rates. In terms of a notice published in the Government Gazette on 31 December 1992, money lending transactions of less than R6 000 and with a maturity not exceeding 36 months were exempted from the Usury Act, 1968. The effect of this exemption notice led to the development of a new industry whereby lenders advanced cash loans to poor people with the objective of increasing their personal gain (Chriten Robert. P and Rosenberg R. 1999:178). Although the objective of the exemption was largely developmental, and it opened a whole sector for moneylenders making short-term consumption loans at high interest rates.

The Department of Trade and Industry, therefore, revisited the previous exemption notice of the Usury Act, 1968 (Act No. 73 of 1968). The second Usury Act exemption notice, which came into effect on 1 June 1999 also attempted for the first time, to place a cap on the interest rate that a moneylender may charge a borrower. The new exemption amount applicable to micro lenders was increased from R6000 to R10000. This notice further included confidentiality rules, whereby the lender may not disclose, without the express consent of the borrower, any confidential information obtained in the course of a money lending transaction. Should the lender wishes to obtain from, or disclose to, a third party, the borrower's credit record and payment history, the borrower's consent has to be obtained through specific and prominent clauses in the application for the relevant money lending transaction or other documentation signed by the borrower.

Another condition applicable to the lender includes that the lender has to provide the borrower, prior to the conclusion of the money lending transaction and upon conclusion of the agreement, with a schedule setting out the following:

- a) The loan amount in rand and cents.
- b) The total amount repayable in rand and cents, at the then current interest rate, over the repayment period.
- c) The annual rate for the total charge of credit, whether this is fixed or variable, and, if variable, how it may vary.
- d) The nature and amount of any insurance, including the name of the insurer.
- e) The penalty interest and any additional costs that would become payable in the case of default by the borrower or how such interest and costs would be calculated.
- f) The installment amount in rand and cents at the then current interest rate, and the number of installments.
- g) The repayment period in respect of the money lending transaction.



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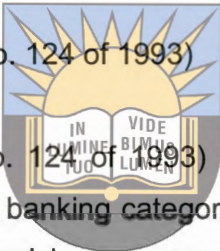
A further condition included in the new exemption was that the lender, in terms of the provisions of the agreement with the borrower, has to allow the borrower to terminate the money lending agreement within a period of three business days after the date of the signing of the agreement. In addition, the lender may not make use of personal information, such as pin codes and bankcards, for security or collection arrangements. The lender may also not make use of any process documents signed in blank. Other conditions include that the lender may not charge any fee to be paid by the borrower in circumstances of the money lending transaction not being granted or money not being paid out. The borrower may make additional payments or settle the outstanding amount in one payment when the repayment period does not exceed 12 months, and the lender may not make use of any illegal collection methods.

- c) The National Credit Act, 2005 (Act No. 34 of 2005)

The above act was formulated to promote a fair and non discriminatory marketplace for access to consumer credit and to provide for the general regulation of consumer credit and improved standards of consumer information.

It was also formulated to prohibit certain unfair credit and credit-marketing practices, encourage promotion of responsible credit granting and use for prohibition of reckless credit granting. The national Credit Act, 2005 (Act No. 34 of 2005) provides for debt re-organization in cases of over-indebtedness, regulate credit information, credit providers and debt counseling services; establish national norms and standards relating to consumer credit and it promotes a consistent enforcement framework relating to consumer (A Framework for Regulating Micro-finance Institutions, November 2006:19 Annexure E.)

d) The Mutual Banks Act, 1993 (Act No. 124 of 1993)



The Mutual Banks Act, 1993 (Act No. 124 of 1993) attempts to add depth to South Africa's financial system by creating a banking category that have less stringent capital adequacy prerequisites but with similar risk management requirements. It also attempts to involve communities in banking by including a provision for local boards for branches of mutual banks, organizations which must be mutually based rather than equity-based. The primary share capital of mutual banks is in the form of permanent interest-bearing shares that are not redeemable but may be transferred at the discretion of the board of directors. It is expected that over time the members of the community in which a mutual bank operates will acquire shares in the financial institution. The Act provides that a mutual bank may accept deposits and grant loans, advances or other credit by establishing a relationship with an equity bank (referred to as a "guardian bank") to assist the applicant with technological infrastructure, management, and advice.

e) National Empowerment Fund (NEF) Act, 1998

NEF was set as a legislative instrument for the promotion and facilitation of ownership of income generating assets by historically disadvantaged persons through a Trust. The Act provides for the sale of shares in state owned commercial enterprises at a discount to the trust or by the trust to the beneficiaries and as a pre-eminent funder of black empowerment initiatives.

g) The Financial Sector Charter

The charter was developed as a result of an industry negotiation commitment to achieving the objectives of the Broad Based Economic Empowerment Act (BBBEE) Act 53 of 2003. The Charter came into effect in January 2004 as a result of the financial sector summit hosted by the National Economic Development and Labour Council [Nedlac], the multilateral social dialogue forum on social, economic and labour policy. Below are the specific commitments related to promotion of the following:

i. Access to financial services



The financial sector acknowledges that access to first-order retail financial services is fundamental to black economic empowerment (BEE) and to the development of the economy as a whole. In terms of the Declaration of the Financial Sector Summit on 20th August 2002, it was agreed that strategies would be put in place to ensure that the financial sector is more efficient in the delivery of financial services, which enhance the accumulation of savings and direct them to development initiatives. Insofar as it relates to access to financial services, specific actions were agreed in relation to:

- ensuring the provision of first-order retail financial services including:
- sustainable and affordable banking services;
- contractual savings schemes; and
- credit for small and micro enterprise and poor households.
- the development of sustainable institutions to serve poor communities;
- the regulation of Credit Bureaux;
- discrimination;

ii. The financial sector furthermore commits to:

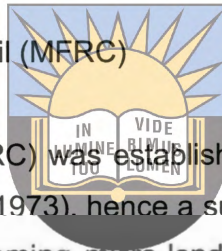
- the elimination of discrimination in the provision of financial services;

- supporting the establishment of third tier community based financial organizations or alternative financial institutions.

2.5 Watchdogs and regulatory institutions of microfinance industry.

This section contains an overview of supervisory institutions of microfinance as affected by statutory provisions and other financial bodies. Below is the explicit explanation of the watchdogs.

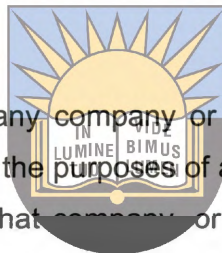
a) Microfinance Regulatory Council (MFRC)



Microfinance regulatory council (MFRC) was established in terms of section 21 of the Companies Act, 1973 (Act No. 61 of 1973). hence a suitable regulatory framework was needed in order to regulate the booming micro-lending industry in the country. The main objective of the MFRC is to promote the common interests of microfinance members advancing small loans through compliance with the regulations and rules of the MFRC. The MFRC has also made rules with which lenders wishing to register with the MFRC have to comply with. With regard to the regulations of the micro-lending industry, the MFRC has the following specific powers (Marsh, D. and Saran, N. 1999:87):-

- to perform specific functions as may be set out in terms of any exemption notice under the Banks Act, or the Usury Act, or any substituting legislation in respect of a regulatory institution contemplated in any such notice for the purposes of regulating the activities of microfinance members that advance small loans.
- to regulate the activities of microfinance members that advance small loans and to keep and maintain a register of microfinance members registered with the MFRC.

- to establish an independent complaints mechanism for members of the public with regard to the activities of microfinance members that advance small loans.
- by resolution, to establish specific committees or "chambers" in respect of the regulation of various categories of small loan or industry, with such powers as may be appropriate, subject to the overall control of the board of directors of the MFRC.
- to make and enforce rules with which microfinance members that advance small loans have to comply with.
- to form and have an interest in any company or companies having the same or similar objectives as the MFRC for the purposes of acquiring the undertaking or all of any of the assets or liabilities of that company or for any other purpose that may seem, directly or indirectly, calculated to benefit the MFRC.
- to take part in the management, supervision and control of the business or operations of any other company or business having the same or similar objectives as the MFRC, and to enter into partnerships having the same or similar objectives as the MFRC; provided that if the MFRC is exempt from income tax, such other company or business shall be exempt from income tax.
- to conduct regular inspections of all accredited microfinance members. The number of inspections per member will depend on the number of queries received from clients and the number of branches or outlets of a microfinance member.



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b) South African Reserve Bank (SARB)

The Reserve bank is the central bank of South Africa with the responsibility of protecting the internal and external values of the currency in the interests of balanced and sustainable economic growth.

To achieve these goals, the Reserve Bank influences the total monetary demand in the economy by controlling the South African monetary supply and the availability of credit. It is important to note the independence of the South African Reserve Bank. Its ability to make practical and policy decisions independently of the government are guaranteed by the constitution. The Reserve Bank is responsible for holding a minimum reserve balance for all banks and for supervising banking institutions.

c) The Financial Services Board (FSB)

The Financial Services Board is a unique independent institution established by statute to oversee South Africa's non-banking financial services industry in the public interest. The Financial Services Board's mission is to promote sound and efficient financial institutions and services together with mechanisms for investor protection in the markets South Africa supervises. Major financial institutions regulated by the board include the country's exchanges and insurers, both short term and long-term.



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d) National Credit Regulator (NCR)

The National Credit Regulator (NCR) was established as the regulator under the National Credit Act, 2005 (Act 34 of 2005) and is responsible for the regulation of the South African credit industry. It is tasked with carrying out education, research, policy development, registration of industry participants, investigation of complaints, and ensuring enforcement of the Act. The NCR is also tasked with the registration of credit providers, credit bureaux and debt counselors; and enforcement of compliance with the Act.

e) Micro Enterprise Alliance (MEA)

The Micro Enterprise Alliance is a membership association of South African organizations and individuals working in the field of micro enterprise development.

The formation of the alliance was an organic response to shared needs by institutions in the field. The membership of the alliance is wide ranging in scope, capacity and geographic distribution. The membership includes very small, under-resourced NGOs based in townships and rural areas, established NGOs, private companies, provincial development corporations, large and small banks. Of interest is the resource centre which aims at creating an ethos of understanding and creativeness within the micro-enterprise sector. The service is available to practitioners, consultants, managers, research institutions, students and the general public, looking for specialized information in this field (Monji, R. 1999: 154).

f) Registrar of banks



The Registrar of banks, an official of the Reserve bank, heads the department of banking supervision in the Reserve bank and reports to the Minister of Finance. Extensive powers of supervision and inspection vest in the Registrar who may call upon the auditors of a bank to furnish notices and other information. Moreover, auditors must inform the Registrar of any matter relating to the affairs of a bank which, in their opinion, may endanger the bank's ability to continue operating, may impair the protection of the funds of the bank's deposits, may be contrary to the principles of sound management, or amounts to inadequate maintenance of internal controls.

g) Policy board for financial services and regulation

The Policy board was established in 1993 to advise the Minister of Finance on matters relating to financial services and regulation either of its own accord or by the Minister's request. The Board's scope of advice includes laws that affect financial regulation, policy considerations that impact from the regulation, and any matter referred to the Board by the Minister. The Policy board also facilitates communication between the Reserve bank and the Financial services board to ensure the efficiency of financial regulation and the stability of the financial system (Staten Michael E (Phd), Johnson

Robert W.(Phd). The Case for Deregulating Interest rates on Consumer Credit. November 1995 *Annexure 1.13*)

2.6 Microfinance models

Countries worldwide have adopted different models of microfinance and below are the synopsis of microfinance models of India, Bangladesh, Bolivia as well as of South Africa.

2.6.1 India's microfinance model:-Credit Delivery Models

The Self Help Group (SHG-bank linkage model) and the joint liability group model are the most prominent microfinance operational models in India. Although some MFIs use one model exclusively, most use both or hybrid models. A SHG is a group of around fifteen to twenty poor individuals. This model is where women provide financial support to one another in the form of pooled savings and internal credit assistance. SHG members generally use the loan for both consumption and productive purposes. Given the fungible nature of money, most MFIs do not scrutinize loan utilization. The bank issues a loan to the group, after rating them based on their savings and internal credit behavior. The loans are kept on the banks balance sheet. The SHG can also lend internally both before and after the bank linkage takes place. The SHG may choose to keep only part of their savings in the bank account, partly in order to maintain internal financing capability for emergency loans (Otero, M. and Rhyne, E.1994:98).

A joint-liability group (JLG) is a small group of borrowers (typically 4-5) who are jointly liable to an external lender (MFI) for a loan that they receive. Unlike the SHG, the sole purpose of existence of a JLG is to receive a group loan from an MFI.

i) Regulation and Legal Forms

At present, there is not one universal legal definition or form or parliamentary regulation or regulatory authority for what constitutes a MFI in India.

The term is broadly applied to an organization engaged in lending of very small amounts to low-income households previously disconnected from or underserved by the formal banking sector. The organization may be for or not for profit. It may operate under a variety of legal forms governed by different pieces of legislation and different regulators.

ii) Financing Models

Traditionally, civil society organizations financed all operational and capital costs incurred for small lending activity through donor funds. Now, MFIs take on commercial debt for on-lending and raise capital by securitization of assets and portfolio sales. Other avenues available are equity investment, quasi-equity through the partnership model, and loan guarantor funds.



a) On-lending

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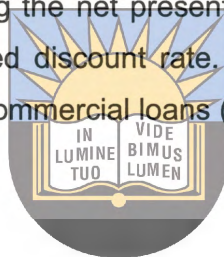
It involves the MFI borrowing from banks and then lends the money to clients. On-lending is the predominant model of financing.

b) Securitization

In India, in the absence of a secondary market for microfinance securities, people often use the term synonymously with portfolio sales. The first step of a securitization is the buy-out of a micro-finance loan portfolio against a purchase consideration calculated by computing the net present value of receivables at an agreed discount rate.

The originator (MFI) or a third party (such as USAID or Grameen Foundation USA) provides partial credit protection i.e. credit enhancement to the investor (Bank) in the form of a guarantee or over collateralisation etc. amounting to a certain percentage of the receivables under the portfolio by way of a lien on fixed deposit.

The MFI continues to service the loan portfolio in exchange for service fees. Although Industrial Credit and Investment Corporation of India (ICICI) have purchased several microfinance portfolios, there have been only two securitization deals. In 2004, the largest ever securitization deal in microfinance was signed between ICICI Bank and SHARE Microfin Ltd, a large MFI operating in rural areas of the state of Andhra Pradesh. Technical assistance and the collateral deposit of \$325k (93% of the guarantee required by ICICI) were supplied by Grameen foundation. Under this agreement, ICICI purchased a part of SHARE™ microfinance portfolio against a consideration calculated by computing the net present value of receivables amounting to \$4.3 Mn (Rs.215 Mn) at an agreed discount rate. The interest paid by SHARE is almost 4% less than the rate paid in commercial loans (Sherbow, A.1997:98).



c) Equity funding

Few MFIs receive much equity funding, and few large institutions invest in equity. The exception to this latter rule is the Bellwether Fund, which has invested millions of dollars into microfinance start-ups. Foreign private equity funds entering the sector include ACCION Equity Fund and Lok Capital.

d) ICICI Bank created the partnership model

It involves lending money directly to MFI™ s clients, while the MFI services the loan and charges a service fee to the client. Thus the effective interest rate to the client is higher than the ICICI Bank rate as stated on official bank documentation. To incentives the MFI to efficiently collect repayments, the MFI must repay all the defaults up to a certain limit. This is the dominant mode of financing in India right now.

e) Charitable grants

MFIs receive charitable grants from numerous domestic and international donors. Two types of grants are:

- operating grants which can only be used to meet operating costs,
- capital grants which go straight into an MFIs equity.

2.6.2 Bangladesh's microfinance model : Grameen model

According to Hatch, J.K. & Hatch, M.S. (1989:76) the concept is the brainchild of Dr Muhammad Yunus of Chittagong University who felt concern at the pittance earned by landless women after a long arduous day's work, working for other people. He reasoned that if these women could work for themselves instead of working for others they could retain much of the surplus that is currently enjoyed by their employers. Established in 1976, the Grameen Bank (GB) has over 1000 branches (a branch covers 25-30 villages, around 240 groups and 1200 borrowers) in every province of Bangladesh, borrowing groups in 28,000 villages, 120 000 borrowers with over 90% being women. It has an annual growth rate of 20% in terms of its borrowers. The most important feature is the recovery rate of loans, which is as high as 98%. A still more interesting feature is the ingenious manner of advancing credit without any "collateral security".

a) The Grameen Bank lending model

The model is simple but regarded as effective to obtain loans. Potential borrowers must form a group of five; gather once a week for loan repayment meetings and to start with, learn the bond rules known as "16 Decisions". These decisions incorporate a code of conduct that members are encouraged to follow in their daily life e.g. production of fruits and vegetables in kitchen gardens, investment for improvement of housing and education for children, use of latrines and safe drinking water for better health, rejection of dowry in marriages etc. Physical training and parades are held at weekly meetings for both men and women and the "16 Decisions" are chanted as slogans (Lascelles, K. 1998:99).

Though according to the Grameen Bank management, observance of these decisions is not mandatory, in actual practice it has become a requirement for receiving a loan.

A number of groups in the same village are federated into a centre. The organization of members in groups and centers serves a number of purposes. It gives individuals a measure of personal security and confidence to take risks and launch new initiatives. The formation of the groups - the key unit in the credit program - is the first necessary step to receive credit. Loans are initially made to two individuals in the group, who are then under pressure from the rest of the members to repay in good time. If the borrowers default, the other members of the group may forfeit their chance of a loan. The loan repayment is in weekly installments spread over a year and simple interest of 20% is charged once at the year end.



The groups perform as an institution to ensure mutual accountability. The individual borrowing member is kept in line by considerable pressure from other group members. Credibility of the entire group and future benefits in terms of new loans are in jeopardy if any one of the group members defaults on repayment. There have been occasions when the group has decided to fine or expel a member who has failed to attend weekly meetings or willfully defaulted on repayment of a loan. The members are free to leave the group before the loan is fully repaid; however, the responsibility to pay the balance falls on the remaining group members. In the event of default by the entire group, the responsibility for repayment falls on the centre.

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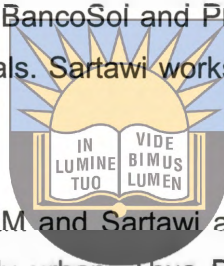
The Grameen Bank has provided an inbuilt incentive for prompt and timely repayment by the borrower i.e. gradual increase in the borrowing eligibility of subsequent loans. Thus, the Grameen Bank has helped to generate new jobs for a large proportion of the members. Only insignificant portion of the loans (6 percent) was diverted for consumption and other household needs. About 50 percent of the loans taken by male members were for the purpose of trading and shop keeping. 75 percent of loans given to female members were utilized for livestock, poultry raising, processing and manufacturing activity. How savings can be a continuous source of adequate financing can be seen from the experience of Grameen Bank which has more money in deposits than in outstanding loans (Hilhorst, T. and Oppenoorth, H.1992:145).

2.6.3 Bolivia's microfinance model

According to Ashe, J et al (1993:232) in Bolivia, microfinance services are offered by Centro de Fomento a Iniciativas Económicas (FIE), Fundación para la Promoción y Desarrollo de la Microempresa (PRODEM), and Fundación Sartawi. BancoSol NGOs. However the best-known microfinance organization is a bank that is a split off from PRODEM and Caja de Ahorro y Préstamo Los Andes (Rock, 1997: 34). In Bolivia microfinance lenders are grouped by their lending technology and by their geographic market niche. In lending technology, BancoSol and PRODEM lend to groups, and FIE and Caja Los Andes lend to individuals. Sartawi works through communities to lend to both groups and individuals.

In geographic market niche, PRODEM and Sartawi are mostly rural, while BancoSol, FIE, and Caja Los Andes are mostly urban. Thus BancoSol lends to urban groups, PRODEM lends to rural groups, FIE and Caja Los Andes and FIE lend to urban individuals. Sartawi lends to rural groups and rural individuals. The differences in technology and in market niche among the five lenders reflect their history of external support and the forces that spawned their creation. PRODEM lends to groups because, when founded in 1987, it followed the model of the Grameen Bank of Bangladesh. Although PRODEM worked at first in an urban market niche, it later shifted to a rural focus so as not to compete with BancoSol, which inherited most of the urban borrowers of PRODEM when it was split off in 1992.

BancoSol was created in part to mobilize large deposits from rich households and firms in order to relieve the constraints on funds that had limited the growth PRODEM, in part to test whether an NGO could become a commercial bank, and in part to mobilize small deposits from poor households and firms. The development of both PRODEM and BancoSol was heavily shaped by technical assistance from the Calmeadow Foundation of Canada and from Acción International, a U.S.-based NGO with links to group lenders in many countries in Latin America.



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Caja Los Andes was founded in 1992 and received funds from the Inter- American Development Bank, GTZ of Germany, and the Swiss government. Its individual loans reflect the influence of extensive technical assistance from the German consulting firm Inter dizciplinäre Projekt Consult. According to Gabriel, T. (1991:63) at first, Caja Los Andes lend mostly for manufacturing in the belief that industry had the greatest effects on employment, but it soon added loans for commerce. When FIE started to make loans in 1988, its clients were urban artisans who had completed classes with a training branch of the NGO. FIE only made loans for manufacturing until 1993, when, like Caja Los Andes, it started to lend for commerce. By 1995, the lending and training arms of FIE were separated. Sartawi started to lend to rural communities in part because it already worked with rural communities in non-financial development projects. The bulk of its funds came from Plan International, a rural-development NGO, and from the German Lutheran Church. Like FIE, Sartawi has had little external technical assistance. It separated lending from other activities in 1995.

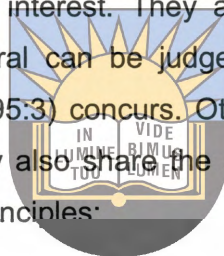
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The five lenders have several traits in common. They all work in niches untouched by traditional banks. All five make small loans to first-time borrowers and bigger loans to repeat borrowers. All five charge high prices, and all five keep arrears and loan losses low with various mixes of screening, monitoring, and contract enforcement. All five have received grants, technical assistance, and low-priced loans from USAID and other donors. Still, very little of their success has been due to access to funds from second-tier lenders in Bolivia. Compared with peers, all five have high outreach and sustainability. They all aim to reduce poverty, but none explicitly targets the poor. Bolivia, while sparsely peopled, may have the densest microcredit in the world. The five microfinance organizations are the most important of the about 30 in Bolivia. They account for more than half of both clients and portfolio outstanding (La Razón, 1997:78).

2.6.4 South Africa's microfinance model

The model of Grameen Bank is copied in many parts of the world; South Africa included (Lascelles, 1998:32). In South Africa microfinance wholesale institutions like Khula and SAMAF as well as microfinance institutions such as Get Ahead Foundation (GAF), Rural Facility Finance (RFF) and Small Enterprise Foundation (SEF) derived their microfinance model on the basis of the core assumptions of Grameen model. Grameen Bank model assumes that the economical active poor (unbankable segment) have the ability to save, repay loans and its interest. They are most committed clients and respect the contracts made. Collateral can be judged on trustworthiness of clients not assets they have Coetzee et al. (1995:3) concurs. Other than the same assumptions Khula and SAMAF models have they also share the same operational principles with the Grameen model. Below are the principles:



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- * Clients are jointly liable for loans borrowed.
- * Clients are jointly accountable.
- * Clients must save.
- * Clients must attend centre meetings.

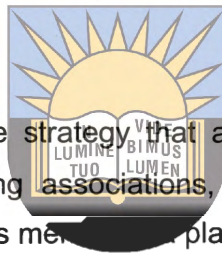
Conversely, the methodology that is also used is a replica of Grameen bank which is explained below

a) Group lending

Group based lending is one of the most novel approaches of lending small amounts of money to a large number of clients who cannot offer collateral. The size of the group can vary, but most groups have between five to eight members. The group self-selects its members before acquiring a loan. Loans are granted to rest of the members after the centre has acknowledged and confirmed that the newly formed group members are known.

MFI encourages that groups must save regularly, which determines the ability to make regular payments and serve as collateral. Group members are jointly accountable for the repayment of each other's loans and they attend weekly meetings to ensure that payments due have been made. The entire group will be disqualified and will not be eligible for further loans, if one member of the group becomes a defaulter. The creditworthiness of the borrower is mostly determined by the members of the group rather than by the MFI. It is believed that loans expanded to women benefit all the household members with improved level of food intake, health, and education.

b) Village Banking



Village banking is a financial service strategy that assists the poor communities to establish their own credit and saving associations, or village banks. Village bank provides non-collateralized loans to its members. It provides a place to invest savings and promote social solidarity. The sponsoring agency provides loan for the village banks and village banks in turn provide individual loans to its members.

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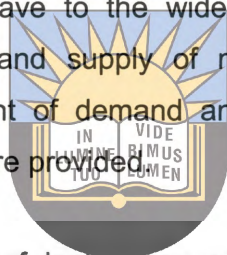
Peer pressure and peer support among the members are considered as the bank guarantees of these loans, to ensure repayment where small working capital is repaid every four to six months by its borrowers. Borrowers start with a very small loan and gradually they establish loan ceiling. Loan sizes depend on the amount which borrower has saved. Member's savings are kept for the purpose of lending or investment to increase the resource base of the bank. Commercial standards are applied to determine interest rates and fees.

c) Savings mobilization

Savings mobilization has recently been recognized as a major force in microfinance. In the past, microfinance focused almost exclusively on credit; savings were almost not taken into consideration by financial intermediaries (Vogel 1984:89). The savings serve as a requirement to access loans by MFI clients. This is done because if a client fails to repay the loan, the savings are used to assist in loan repayment.

2.7 Conclusion

This chapter made an overview discourse about the nature of the background of microfinance in South Africa by providing a historical elucidation from both private and public perspective. The discourse indicated that the unbanked segment form the majority of the population which does not have access to financial services because they do not meet the conditions required qualifying them as eligible clients. It endorsed and showed the contribution this have to the widening gap within the two divide economy. The nature of demand and supply of microfinance services was also explored. To unpack this, the extent of demand and the character of the various suppliers of microfinance services were provided.



In this chapter the various pieces of legislations coupled with the regulatory and watchdogs institutions that impact on the functioning of microfinance sector were summarized in terms of how they regulate the industry which was done by indicating how they operate. An explanation of financial regulations was also done, focusing on the role of the government in controlling financial markets. Furthermore, the issue of interest rates was discussed to indicate how lenders operate and the regulations that must be adhered to, to protect clients. A discussion on the role of the MFRC was also surfaced.

The different models of microfinance from the countries like Bolivia, Bangladesh, and India were surveyed coupled by highlights of their lending methodologies, principles and assumptions. A synopsis of similarities between Bangladesh "Grameen model" and South African micro-finance model was explained. In a nutshell the discussions incorporated in this chapter demonstrated how intertwined the social and economic aspects with regard to microfinance are.

The third chapter provides the a demographic overview and an analysis of livelihoods of Alfred Nzo so as to bring an understanding of the problems that the people have in that

rural settlement, coupled with the explanation of nature of small micro enterprises (SMEs).



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CHAPTER THREE

An Overview of Alfred Nzo District and of Small Micro Enterprises in South Africa

3.1 Introduction

This chapter will start by providing a demographic overview of Alfred Nzo district, the focus of this chapter will therefore shift to analytical explanation of small micro enterprises (SMEs) , meaning, nature, categories, challenges small micro enterprises (SMEs) face and their role with regard to social and economic upliftment.



3.2 Demographic overview of Alfred Nzo

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Following the demarcation process of 2000, the Alfred Nzo District Municipality (ANDM) emerged from the former Wild Coast District Council, but with only half the area and population of the former municipality. ANDM was established as a completely new municipality in an area that was part of the former Transkei homeland. It therefore started from a zero base of local government with no structures, systems or capacity. All existing services in the area (which were limited in extent), were previously provided by the former Transkei homeland government. This district municipality lies within the former Transkei (Wild Coast District) area and is bordered by Lesotho, the KwaZulu-Natal Province, Eastern Cape districts of O.R. Tambo and Ukhahlamba.

Until recently, ANDM consisted of two local municipal areas with 881 rural villages and covered an area of 7870.28 km². One local municipality, Umzimkhulu, was an island within the neighbouring KwaZulu-Natal Province and has since been incorporated into that Province. The remaining district extends over 5434.15km and incorporates three former Transkei magisterial districts into the local Municipality of Umzimvubu and O'Connors camp district management area (ECDMA44).

ECDMA44, established for the reason of being a provincial nature reserve, extends over 136.34 km² and is uninhabited (www.socdev.org.za/ 17 March 2009).

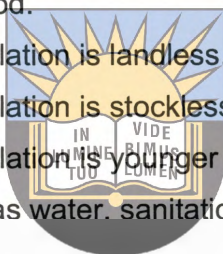
This mountainous landlocked district in the north-eastern portion of the Eastern Cape Province is characterized by high rainfall and grassland vegetation. The District is situated from 1000m above sea level, rising to the southern Drakensberg. ANDM's administrative centre is Mount Ayliff, whereas the District's economic centre, Kokstad, falls beyond its borders. Alfred Nzo district municipality is reflecting on limited institutional capacity, a low urbanization rate and a rural character. ANDM points to general economic characteristics of subsistence agriculture and of small resource-poor centers, limited SMEs, market opportunities, dependence on government support, and LED activities that are principally at the level of the small project.

Along with OR Tambo, the District has the lowest human development index (HDI) (0.44), with the overwhelming majority (84.38%) of the population living in poverty and an unemployment rate of 77.58%. The poverty gap of R676.64m accounts for 7.59% of the provincial total, which is significantly district's small population. Alfred Nzo contributes less than one percent (0.85%) of gross domestic product (GDP) to the provincial economy, faring slightly better in contribution to provincial formal employment (1.42%). Its is also regarded as a home to high levels of poverty and unemployment, coupled with high dependency rates and a very youthful population. An indication of the poverty in the area is revealed by the proportion of total expenditure on food which, at 31.07%, is the highest in the province.

The municipality's low productivity score points to low GDP per worker (formal and informal), a relative shortage of skills available to the economy, and low growth in value creation relative to employment and labour remuneration. ANDM's low formal economy performance score reflects on the highly concentrated local economy, high financial grant dependence and low growth performance of both GDP and employment generation.

The District is heavily reliant on the community services sector for both formal employment (56.68%) and GVA-R (61.26%). The 2005 development plan of the Alfred Nzo District Municipality summarizes the socio-economic 'perspective' as follows:

- a) The people are very poor with 432 145 people having no individual income.
- b) Formal employment rate of 8.7%.
- c) Low incomes with 54% of household dependant on remittances (for example state pensions, child grants and disability grants).
- d) 45.6% of income is spent on food.
- e) Approximately 30% of the population is landless.
- f) Approximately 50% of the population is stockless.
- g) Approximately 44% of the population is younger than 14 years old.
- h) Access to basic services such as water, sanitation, electricity, roads and health services is poor.
- i) There are low educational levels throughout most of the population.



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3.3 Definition and meaning of small medium and micro enterprises (SMMEs)

A small medium and micro enterprise (SMMEs) is defined from both South African and an international perspective. These definitions are aimed at highlighting the similarities and differences of definitions that exist in these definitions due to differences in economic systems of countries and some of the variables used in the description of SMMEs world-wide. Some of these similarities in the definitions of small medium and micro enterprises (SMMEs) are mainly due to the importance of the SME sector globally.

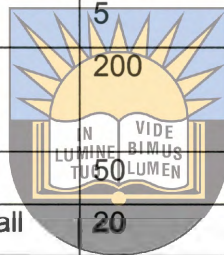
a) *South African definition of small medium and micro enterprises (SMMEs)*

In South Africa small medium and micro enterprises (SMMEs) will be defined in terms of National Small Business Amendment Act of 2003 (Act No. 26, 2003), which defines small medium and micro enterprises (SMMEs) in terms of their industrial classification, size, number of employees paid, turnover and total gross asset value. Table 5 below provides a diagrammatical explanation of SMMEs.

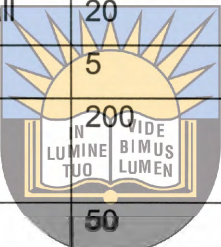
TABLE 4: Definition of small medium and micro enterprises (SMMEs)

Sector or sub sector in accordance with the standard industrial classification	Size and class	The total full-time equivalent paid employees	Total turnover	Total gross asset value (fixed property excluded)
Agriculture	Medium	100	R 5m	R 5m
	Small	50	R 3m	R 3m
	Very Small	10	R 0.50m	R 0.50m
	Micro	5	R 0.20	R 0.10m
Mining and Quarrying	Medium	200	R 39m	R 23m
	Small	50	R 10m	R 6m
	Very Small	20	R 4m	R 2m
	Micro	5	R 20m	R 0.10m
Manufacturing	Medium	200	R 51m	R 19m
	Small	50	R 13m	R 5m
	Very Small	20	R 5m	R 1.90m
	Micro	5	R 0.20m	R 0.10m
Electricity, gas and water	Medium	200	R 51m	R 19m
	Small	50	R 13m	R 5m
	Very Small	20	R 5.10m	R 1.90m
	Micro	5	R 0.20m	R 0.10m

Sector or sub sector in accordance with the standard industrial classification	Size and class	The total full-time equivalent paid employees	Total turnover	Total gross asset value (fixed property excluded)
Construction	Medium	200	R 26m	R5m
	Small	50	R 6m	R1m
	Very Small	20	R 3m	R 0.50m
	Micro	5	R 0.20m	R 0. 1 0 m
Retail and Motor Trade and Repair Services	Medium	200	R 39m	R 6m
	Small	50	R 19m	R 3m
	Very Small	20	R 4m	R 0.60m
	Micro	5	R 0.20m	R0.10
Wholesale trade, Commercial Agents and Allied Services	Medium	200	R 64m	R10m
	Small	50	R 32m	R0. 60m
	Very Small	20	R 6m	R0. 10m
	Micro	5	R 0.20m	R0 1m
Catering accommodation and other trade	Medium	200	R 13m	R 3
	Small	50	R 6m	R 1.
	Very Small	20	R 5.10m	R 1.90
	Micro	5	R 0.20m	R 0.10
Transport, Storage and Communications	Medium	200	R 26m	R 6m
	Small	50	R 13m	R 3m
	Very Small	20	R 3m	R 0.60m
	Micro	5	R 0.20m	R 0.10m



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Sector or sub sector in accordance with the standard industrial classification	Size and class	The total full-time equivalent paid employees	Total turnover	Total gross asset value (fixed property excluded)
Finance and Business Services	Medium	200	R 26m	R 5m
	Small	50	R 13m	R 3m
	Very Small	20	R 3m	R 0.50m
	Micro	5	R 0.20m	R 0.10m
Community, Social and Personal Services Micro	Medium	200	R 13m	R 6m
	Small	50	R 6m	R 3m
	Very Small	20	R 1m	R 0.60m
	Micro	5	R 0.20m	R 0.10m
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b) *International definition of small micro and medium (SME)*

TABLE 5: The international definition of small medium and micro enterprises (SMMEs) .


INTERNATIONAL DEFINITIONS		
No.	Reference	Definition
i.	Ayyagari, Beck & Demirguc -Kunt (2003:4-5)	Small medium and micro enterprises (SMMEs) are formal enterprises which have a cut-off range of 0-250 employees
ii.	Cronje et al. (2001:495)	An SMME in other countries is any business with fewer than 200 employees, an annual turnover of less than R5 million, capital assets of less than R2million, and the owners are directly involved in the management of the business.
iii.	European Union (2004)	A small firm employs fewer than 50 employees and a medium firm has fewer than 250 employees
iv. D	Quartey (2001:5)	In developing countries a small firms employs between 5-9 employees, whilst a medium firms employs between 20-90 employees
v.	International Small Enterprise Development Cooperation (2007)	An SMME is an enterprise that employees not more than 75 people with a fixed asset base not exceeding \$ 500 000.

3.3.1 Common element from South African and international definition of SMMEs

Characteristics to the South African and international definitions of SMMEs are similar or have related features which are regarded as common elements.

These elements are encompassed in almost all the definitions. Common elements of the definitions of SMMEs are surfaced and explored below.

- a) Employees, this element is considered to be the most critical element of business. The increase in number of employees is taken to signal the growth of business entity and the business performance.
- b) Assets, which are divided to current (cash, money, in a bank account) and non current assets (land, buildings, equipment, machines, and motor vehicles). Assets are required in the production function and meeting day to day business operating expenses.
- c) Capital, every business needs capital; however capital needs of a business differ. Without capital, entrepreneurship will not take place; any opportunity that surfaces requires capital for it to be exploited. Sufficient capital need to be available, so that the small micro enterprises (SMEs) can successfully grow and develop.
- d) Legality or registration, in South Africa in both formal and informal businesses is critical. The informal businesses are not registered and they do not pay tax whereas governments when calculating the GDP and GNP focus on the formal and registered businesses.



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3.3.2 The nature and characteristics of small micro enterprises (SMEs).

The term “nature” literally refers to the essential characteristics and qualities of a person or a thing. In this context the nature and essential characteristics of small micro enterprises (SMEs) are outlined because the economies of countries differ, it is difficult to provide a universally accepted definition of an SME. A considerable number of scholars and researchers explain small micro enterprises (SMEs) either from a formal perspective or informal perspective not a blend of both as it is claimed that a distinction between the two or both is not always a clear one.

Although there is no universally accepted definition of what constitutes informal small micro enterprises (SMEs), there is consensus that they are small scale, and operate outside registration. Informal SMEs also do not pay tax, have limited social security frameworks, health and safety rules for workers, with informal economic activity being defined by its 'precarious' nature (PER&O 2006). Furthermore explaining small micro enterprises (SMEs) according to size can be done in more than one ways, thus leading to a situation where enterprises identified as small in a formal sector are regarded as medium in an informal sector. However, some important characteristics of small micro enterprises (SMEs) can be distinguished. In developing countries, with a shortage of capital and growing labour surpluses, the following characteristics of small micro enterprises (SMEs) are observed (Cronje, Du Toit & Motlala:, 2004: 492)

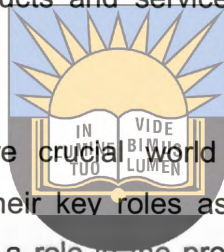


- * Small micro enterprises (SMEs) are generally more labour intensive than larger businesses.
- * Small micro enterprises (SMEs) are an instrument for utilizing the talents, energy and entrepreneurship of individuals who cannot reach their full potential in large organizations.
- * Smaller businesses often flourish by rendering services to a small or restricted market which larger business do not find attractive.
- * Small micro enterprises (SMEs) make a contribution to the competitiveness of the economy.
- * Small micro enterprises (SMEs) create social stability since they cause less damage to the physical environment than larger enterprises,
- * They stimulate personal savings and enhance the population's general level of economic participation.

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Small micro enterprises (SMEs) also offer ample opportunities for personal initiative, innovation and the development of new products, services and techniques. Because of the competition that small micro enterprises (SMEs) engender, they serve as a cornerstone of free markets. Small businesses also play an important role in the social life of the free-market system as they bring competition in the business environment.

This competition eliminates monopolies and encourages free trade and which result in quality product and a service being offered to customers (Longenecker et al, 2006: 14). The small businesses are partners to big business and provide products and services that normally cannot be provided by the latter. This they do through special niche markets and niche might consist of a uniquely specialized service or product, or it may be a focus on serving a particular geographical area. By finding a special niche, a small business may avoid intense competition from big firms. A small business gives an entrepreneur an opportunity to enter the business world. Sometimes a small business is the only provider of necessary products and services in thinly populated and small markets.



Small micro enterprises (SMEs) are crucial world wide and their contribution is recognized globally. In addition to their key roles as providers of employment, they initiate technological innovation, play a role in the production of new products and the establishment of new businesses, and support large businesses as suppliers and subcontractors. Small business is important world -wide and the World Bank estimates that one of the strongest factors in the growth of any nation's GNP is the presence of small micro enterprises (SMEs). Today, widespread efforts range from small contributions of capital or time, to large, multi-dimensional programs that cross multiple national boundaries. For these reasons small businesses deserve much more attention, especially with regard to management education (Cronje et al, 2001:498).It is against this background that the role of Small micro enterprises (SMEs) in SA is discussed in next section.

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3.4 The role of small micro enterprises (SMEs) in South Africa

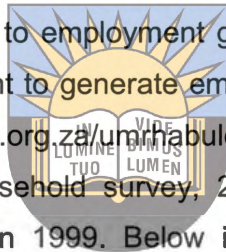
a) Economic contribution

In developing countries Small micro enterprises (SMEs) contribute up to sixty percent (60%) to the gross domestic product (GDP).In South Africa, small micro enterprises (SMEs) contribute not only economically but to the broader development objectives.

These objectives include poverty alleviation, spreading employment opportunities to rural areas, improving situation of women (decreasing dependency of women to men) and increasing indigenous ownership of investment in the economy. The explanation below explains contribution of small micro enterprises (SMEs) in the country.

* *Job creation*

Since the opportunities on formal employment are shrinking globally and in South Africa (SA), there is a need to turn the focus to SME sector as the potential for investment and for making a meaningful contribution to employment generation. Statistics concur that the investment levels are not sufficient to generate employment for 500 000 graduates on annual bases source (www.anc.org.za/uninhabulo/17 March 2009). Additionally according to the 2002 October household survey, 2002:17, S.A. had twenty three percent (23%) unemployment rate in 1999. Below is the current employment rate contributed by small micro enterprises (SMEs) of the economically active population (www.bankseta.org.za/17 March 2009).



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TABLE 6: Rate of employment opportunities created by small micro enterprises (SMEs)

SME SECTOR PROFILE													
Current employment profile													
Occupational group	AFRICAN		COLOURERD			INDIAN			WHITE			Total	
	M	F	D	M	F	D	M	F	D	M	F	E	
Clerical work	360	870	0	30	207	0	83	162	0	120	585	0	2397
	360	870	0	30	207	0	83	162	0	120	585	0	2397
Labourers	27	36	0	0	0	0	3	0	0	0	3	0	69
	27	36	0	0	0	0	3	0	0	0	3	0	69
Professionals	186	210	0	27	24	0	27	27	0	228	240	0	969
	186	210	0	27	24	0	27	27	0	228	240	0	969
Managers	118	108	0	32	30	0	64	64	0	402	288	0	1088
	118	108	0	32	30	0	64	64	0	402	288	0	1088
Service workers	156	225	0	12	24	0	0	6	0	12	84	0	519
	156	225	0	12	24	0	0	6	0	12	84	0	519
Professionals	54	78	0	6	0	0	6	9	0	33	75	0	261
Total	901	1527	0	107	0	163	250	0	0	795	1275	0	5303

Business partners limited (a specialist investment company providing debt and equity investment, mentorship and property management services for small firms in South Africa) is taking the initiative and is addressing the question of developing an entrepreneur-driven economy. Its five points –plan for developing small micro enterprises (SMEs) resolves around the following:

- a) Creating an environment that will encourage entrepreneurship and development of SME.
- b) Mobilizing financial resources to promote small firms by means of financial support programs.
- c) Making available low-cost and affordable business sites in areas that lack them.
- d) Upgrading small firm’s managerial skills and knowledge.

e) Introducing appropriate professional aid programs

** Introducing innovative products*

Innovation is the transformation of an idea or invention into new, socially acceptable and usable products or services. Small firms are extremely innovative and can generate more innovation per worker than large firms (CSS, 2002:18)

** Stimulating economic competition*

When economic competition exists, businesses compete for sales and customers have greater freedom of product choice. Some producers may set high prices, withhold technological development, exclude new competitors or abuse their position power. Small firms compete against large producers and improve the nature of the competitive environment.



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** Supply and distribution function*

Small micro enterprises (SMEs) can function as supplies to and sub contractors for large firms. Where the large firms agree to a long –term relationship with the small micro enterprises (SMEs), the latter can supply a specific level of quality goods, offer lower prices and can generate cost-saving ideas. Small micro enterprises (SMEs) such as wholesale and retail outlets perform a valuable service for big firms by distributing their products to customers.

b) Socio-cultural contribution

Small micro enterprises (SMEs) provide jobs in rural areas where population is too small to justify large enterprises. As a result small micro enterprises (SMEs) could play a meaningful role in under-developed areas.

The provision and creation of jobs by the small firm sector therefore ensures a balance in economic growth and stability in urban and rural areas (Thomas, 1998:4). In the current climate of economic and political reform, the development of small micro enterprises (SMEs) can be seen as one of a number of instruments by means of which black economic aspirations can be realized. The contribution of small firms to the community in the form of social services, training and job provision is therefore of crucial importance.

An important priority of small micro enterprises (SMEs) in South Africa is also towards the broader community. This refers to the evolutionary theory that the community consists of a number of interdependent parts, which all function in important ways for the maintenance of the whole, and social responsibility plays a predominant role in serving this community. A decade ago, social responsibility was a relatively unknown concept in the South African business world. Changes in all walks of life forced enterprises and the government to take note of their social responsibility. Government can no longer afford to accept the social consequences caused by increasing unemployment, and therefore it has become significant that small micro enterprises (SMEs) as the employers of human resources take a leading role.

c) Environmental contribution of small micro enterprises (SMEs)

The developing community recognizes the critical importance of domestic private sector development as a key to driving economic growth and achieving the millennium development goal of poverty reduction. Growing small micro enterprises (SMEs) sector in South Africa leads to broad based growth, job creation, economic stability and a more flexible economy. Small firms are risk takers, and provide innovation and an entrepreneurial approach in the commercial sector. They are critical engines for private sector growth and are increasingly important from an environmental perspective.

Dereskey (2000:102) noted that the political and cultural environment in countries where small micro enterprises (SMEs) are situated are important determinants for the long term profitability and success of establishments and must be closely monitored for business risk.

3.5 Constraints and challenges facing the small micro enterprises (SMEs) in the informal sectors

There can be no doubt that, compared to big business in South Africa and in other countries, small micro enterprises (SMEs) face a wider range of constraints and challenges and are less able to address the challenges on their own, even in an effectively functioning market economies. The South African small business sector has also been neglected during much of the century following the discovery of diamonds and gold, and the establishment of the capitalist economy with almost exclusive white control (DTI SA, 1995). However, even after fifteen years of the attainment of democracy, some small micro enterprises (SMEs) appear not to have shaken off the legacy of apartheid, which narrowed and confined their sphere of activity to a very narrow segment of economy. Constraints of small micro enterprises (SMEs) include:-

- Lack of access to finance,
- Legal and regulatory environment confronting small micro enterprises (SMEs),
- Access to markets,
- Business premises (at affordable rentals),
- Acquisition of skills and managerial expertise,
- Inability of small micro enterprises (SMEs) to compete with big businesses,
- Access to appropriate technology,
- Quality of the business infrastructure in poverty areas and,
- In some cases, the tax burden.

Baumol (1999:50) estimates that the failure rate of small micro enterprises (SMEs) in South Africa is between seventy (70%) to eighty (80%).

In addition to sector-specific differences of constraints, the legacy of apartheid constitutes an important factor in the inability of black owned or controlled small enterprises to face business development constraints. For decades, if not centuries, the majority of South Africans were deprived of viable business opportunities in the following ways:-

- i. Bantu Education restricted opportunities for the acquisition of technical and professional skills by black people;
- ii. there was total absence of entrepreneurial education or sensitizing for young people in a way that could encourage them to enter into business and acquire a culture of entrepreneurship;
- iii. apartheid confined the majority of the African people to homeland areas which were not only the poorest in terms of living standards and business opportunities, but also lacked a dynamic business environment;
- iv. even outside the homelands the system of apartheid made it impossible for black to be entrepreneurs to participate in business apprenticeships and partnerships with more established (non-black-owned/controlled) enterprises;
- v. racially segregated residential areas, enforced through the Group Areas Act, not only uprooted millions from the places of residence and business, but also led to large capital losses and virtually destroyed the fabric of black small enterprises;
- vi. segregation increased the distance between black residential and working areas, thereby increasing the cost and risk of conducting business;
- vii. the drastic curtailment of property ownership rights of blacks made it impossible for them to acquire assets that could serve as collateral for loan financing; it also excluded blacks from the long-run process of capital accrual and growth through rising property values and share prices;
- viii. apartheid left no real space for the business involvement of black women. Marriage laws reduced women to unions with no contractual capacity at all; even though marriage laws have changed, customary law remains intact and there are cultural, behavioral and attitudinal constraints which affect women's participation in business, particularly in rural areas. There are also restrictions in terms of access to land.



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Below are the glimpse of common constraints and challenges that are faced by small micro enterprises (SMEs).

3.5.1 Access to financial services

DTI SA, 1995 emphasizes the problem of accessing SME finance and mentioned that for many years only eighteen percent (18%) of the total credit went to previously disadvantaged individuals (PDI) while eighty –two percent (82%) went to non-previously disadvantaged individuals (NDPI). Access to financial services, specifically savings, insurance, remittance management and credit facilities, is seen by many to be critical to the success of private enterprise, whether located in the formal or informal sector. Such facilities help firms and their owners purchase equipment and stock; cope with irregular and often unpredictable cash flow problems; and make larger scale investments required to expand the business. However, small firms in general and informal firms in particular find it difficult or even impossible to access formal sector credit, due to perceptions of their higher risk. Informal sector firms are, therefore, often forced to cope without credit or must access credit from less reputable and significantly more expensive sources of credit, with negative consequences for the firms' sustainability.

Capital constraints are important to the SME sector for two reasons. Firstly, they may keep individuals from engaging in SME activities and secondly, they may impact negatively on the growth rates of existing small enterprises. A 2003 Micro-Enterprise Investment Climate (MICA) Survey conducted in Tshwane, Ekurhuleni and Stellenbosch found that 43 per cent of manufacturing micro-enterprises cited access to finance as a serious concern. The lack of access to finance is a major challenge which small micro enterprises (SMEs) regard as invariably result in most small micro enterprises (SMEs) liquidating at an infancy stage. Table 3 illustrates the estimated number of small micro enterprises (SMEs) whose liabilities exceed the assets during 2004.

Table 7: Estimated number of small micro enterprises (SMEs) whose liabilities exceed the assets (2004)

<i>Type Of Industry</i>	<i>Compulsory Liquidation</i>	<i>Voluntary Liquidation</i>	<i>Total</i>
Manufacturing	57	99	156

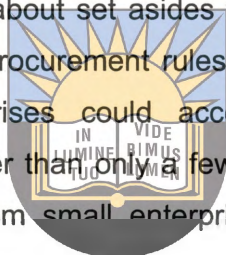
3.5.2 Legal and regulatory environment

All over the world small business-support policies perceive small micro enterprises (SMEs) as their best tool in economic development. Bannock (1997:45) noted that small manufacturing firms are often seen as the leading edge of modernization and skilled job creation. In addition government facilitate the growth of small micro enterprises (SMEs) with special tax incentives and relatively low tariff rates for importers of manufacturing machines, equipment yet business licensing and labour laws still constitute major problems. Small micro enterprises (SMEs) are also subject to various business laws and regulations affecting their business growth and the intensity of the barriers they face. Small micro enterprises (SMEs) rely on the actions of local government in a number of ways. They are also subject to a number of municipal regulations. A review and a simplification of overall legislations and regulation procedures can have a significant impact on the local economy in particular in the following acts:

- a) A National Small Business Act, this act should give formal recognition to the government's involvement in small business support. In order to facilitate the differentiation of support, such an act should also define and introduce the principle of automatic phasing out of developmental support (also known as sunset clauses). The act will also have to address the principle of SMME membership of some (self-chosen) business association as precondition for their eligibility of state support.

This act could also incorporate an appropriate legal framework for those that are co-operatively organized small enterprises which currently fall outside existing legislation on co-operatives.

- b) A Transaction and Procurement Act, market access for small enterprises is a major issue in South Africa as elsewhere in the world. Voluntary action by large enterprises, parastatals and government departments can go as far away towards better market access. Yet, progress may still be rather slow. Legislation laying down certain conditions and principles about set asides for small enterprises, producers, non-discriminatory public-sector procurement rules and incentives for big business subcontracting to small enterprises could accelerate progress and lead to participation among all firms rather than only a few progressive ones. It could also highlight commitment needed from small enterprises and the supply of support services.



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- c) A Small Business Finance Act, a new act, or the addition of relevant clauses to existing legislation, could address a number of fundamental issues regarding the access to finance by small micro enterprises (SMEs). This could include steps to encourage existing financial institutions to become more active in the SME-market segments, the facilitation of deposit-taking by lender-NGOs, the recognition of certain non-conventional collateral types and the widening of scope for more specialized lending and investment institutions focusing primarily on SME needs.

3.5.3 Access to markets

Small micro enterprises (SMEs) face serious market constraints which include the inability to sell their products and services. This perception is paralleled by many studies in South African and internationally which view market access as a critical factor in business growth, in particular in the case of entrepreneurs from disadvantaged communities (Department of trade and industry South Africa, 2002:18).

A number of small micro enterprises (SMEs) operate from the start with a plan on how to achieve a suitable competitive advantage through proprietary technology. Furthermore most small micro enterprises (SMEs) do not give priority to marketing in their overall business approach. Small micro enterprises (SMEs) do not probe and segment their markets, analyze customer demand, know their competition or interpret their trends (Shepherd & Shanley, 1998:30).

Responsibility for steps to overcome this constraint falls upon many different groups: individual entrepreneurs and groups of small micro enterprises (SMEs), which have to compete with others for the same clients. Local government and business associations should reconsider regulations hindering market access of newcomers. The established business community should practice what they preach, open up competition rather than controlling markets. Public-sector departments as well as big enterprises, should re-orientate procurement towards small-enterprise suppliers and subcontractors.

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3.5.4 *Access to appropriate technology, the quality of the business infrastructure*

Technology is often seen as a crucial factor in influencing the success of the business just like training, financing, and business premises which are not accessible to SMEs. Technology in this context applies to both ends of the scope, i.e. information and communication technology (ICT) has been identified as a major area to develop the SME sector. Information and communication technologies enable small micro enterprises (SMEs) to manage their businesses efficiently and thus enhancing their competitiveness in the global markets

3.5.5 *Access to information and advice*

Lack of access to appropriate, relevant, and understandable information and advice is one of the most important problems of small micro enterprises (SMEs), in particular micro-enterprises, survivalists and small start-up enterprises. Due to past discrimination and lack of opportunities this problem is most severe among black entrepreneurs.

The significance of this constraint is recognized all over the world. In South Africa some progress has been made with the preparation of information material relevant for small enterprises and the dissemination of information and advice. Yet, to date the number of enterprises effectively reached remains small, compared to the vast number of people involved in self-employment in both urban and rural areas. As an operational principle, information and advice should be as focused and sector-orientated as possible and it should be supplied at grassroots level wherever this can be done. Responsibility for the preparation and dissemination of relevant material falls on all the agencies active in the SMME support sector, i.e. public, parastatal, private and NGO, operating at the national, provincial and in particular local as well as sectoral levels.

3.5.6 *Acquisition of skills and managerial expertise*



The acquisition of relevant vocational, technical, and business skills is generally regarded as one of critical factors for success in the SME sector. In addition, literacy and entrepreneur awareness are seen as particularly important to enable people to advance from survivalist activities into large and better earning enterprises with the rapid expansion in the range and number of small enterprises all over the country, South Africa faces a daunting challenge in the sphere of small firm orientation education and training.

Lack of education and training is one of the problems that lead to low entrepreneurial activity in South Africa. According to Central statistics services (CSS) 2000:15 expects in South Africa isolate education and training as South Africa's main weakness with regard to an enabling environment for small micro enterprises (SMEs). These problems in the education system are associated with a lower prevalence of entrepreneurial activity among young adults in South Africa.

3.6 Conclusion

This chapter provided a demographic synopsis of Alfred Nzo district and an overview of the meaning, nature, categories, challenges that small micro enterprises (SMEs) face as well as their role with regard to social and economic upliftment. During the discourse it became apparent that SME sector plays an important role in the South African economy although it is still experiencing some limitations and challenges through creation of employment opportunities, contribution towards economic growth, eradication of poverty, and improvement of the living standards of the people. These challenges contribute to high failure rates of small micro enterprises (SMEs) in South Africa.



A lack of access to finance, lack of technological advancement, an unskilled workforce, a lack of infrastructure et cetera needs to be overcome in order for small micro enterprises (SMEs) to be successful in today's globalised economy. Chapter four of the study at hand provides a detailed analysis of different theories related to microfinance. The theories include modernization perspective, the dependency theory, the neo-liberal scrutiny and the basic need theory.

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CHAPTER FOUR

Theoretical Review of Related Literature

4.1 Introduction

Microfinance in the context of this study is inquired if it is a possible strategy that may be entrusted to facilitate access to finance to small micro enterprises (SMEs) classified under unbankable segment. Principally so, to reduce socio economic effects suffered either from no and limited access or access to microfinance. According to United Nation's report on human development and poverty, (2000: 23) it is revealed that in South Africa approximately 76% of the population in the second economy live on less than \$2 per day or at the current exchange rate less than approximately R360 per month while 68% population remain unbanked. Given the cost of living in the country this means that every day, millions of South African's are not able to fully meet their basic needs. Many of these people often fall outside of the mainstream economy and they rely on government grants, remittances from family members who are employed, on temporary work, and on other income generating activities in order to survive.

However in fact, the world admits that efforts to date have not been successful in eliminating the effects of two-divide economy that includes redressing the imbalance of access to financial services and elimination of poverty. Additionally, Woolcock M (1997:86-91) argues that "overcoming the two- divide economy requires the transfer of vast resources into the second economy and that wherever possible these resources should take the form of productive assets that enable people to empower themselves". This in turn requires that the economic institutions be transformed and be constructed on the basis that redresses the apartheid fragmentation to new institutions that are capable of meeting the urgent challenges of limited access to financial services in second economies.

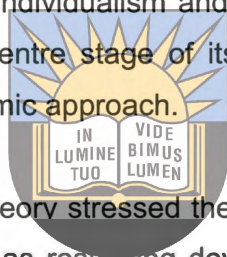
Furthermore, the works of Yunus M (1998:76-78) highlighted that one of the major reason for less and underdevelopment is limited and lack of access to finance. Limited and lack of access to finance is intertwined to the central aspect of underdevelopment and poverty. According to Yunus M (1998:77-78), transformation of the financial sector is critical because access to financial services is an important contributing factor in the accumulation of capital among poor people and has been shown to reduce vulnerability and extreme poverty.

It is from this foundation that this research becomes a worthwhile study. Herein this chapter hopes to depict conjectures of different theorists related to the studied phenomenon. While discussions on these theories do not form a major part of the study nevertheless it is indispensable to take into account their conventional debates to be able to put microfinance into context. Conversely this chapter begins by reviewing a modernization perspective, the dependency theory then the neo-liberal scrutiny respectively. Noticeable so there are no claims that are made to build a new theory although a discussion on basic need theory is exhorted. Thereafter, the basic need theory is explained with regard to the concept of microfinance as it is the theory that is viewed to form the basis of this study and that mostly puts microfinance into perspective.

4.2 The modernization theory

Some leading conventional literature view the theory of modernization from different but similar angles. They are of the assumption that all societies tend to follow one route to development, the route of modernization. According to Gunder Frank et al (1972:111) it is argued that by its virtue modernization refers to the process in which society goes through industrialization, urbanization, education and other social changes militating against traditional beliefs and practices. Thus completely transforms the lives of individuals and of society. Additionally, the modernization concept comes from a view of society that has standard revolutionary patterns according to which each society would evolve inexorably from barbarism to ever greater levels of development and civilization.

In this argument Gunder Frank et al (1972:111) are of the view that changes from traditional to modern specialization through breakdown of traditional elements will increase levels of development thereby resulting to positive socio economic change. Adding to this notion modernization theorists believe that the crux of the modernization theory is growth-centered development and that the growth in economic output will extend and trickle down benefits to the poor. According to Kingsbury et al (2004:45) the mentioned view basically purports that poverty and underdevelopment result from inadequate capital investment to overcome low levels of productivity and employment. In this regard trend in development, individualism and the supposed utility maximizing behavior of individuals occupy the centre stage of its rationale, theory and practice, which led scholars to call it the economic approach.



Larrain, (1989: 143) states that the theory stressed the importance of societies to open to change and see traditional forces as restricting development since maintenance of traditions are also viewed to be harmful to progress and development. On par, Wenner, M.D. (1990:85) states that modernization is conflated with westernization whereby the modernization of society required the destruction of the indigenous culture. It replaces tradition through identifying the values of western society and aping westernization values to their societies. Additionally to be wealthier and more powerful, with their citizen freer and having higher standard of living, modernization theories believe westernization need to be adopted. In essence this essentially means that for the backward nations to develop, they need to accept westernization into what is called development and not what they term development.

Rostow's stages of growth' model is seen as one of the theories falling under modernization which suggested that development occurs in a linear fashion, with societies moving from traditional stage through preconditions to take off and drive to maturity stages towards the age of high mass consumption (Todaro, 1989:70). Todaro, (1989:71) sees societies as having a universal path to follow in order to develop and be at the same level with those that are already developed. The traditional society in this case has structures which are developed within limited production functions.

The structures with limited functions are based on prenewtonian attitudes towards the physical world. The precondition for take off on the other hand embraces societies that are in the process of transition. Traditional societies are being transformed in a way necessary for it to exploit the fruits of modern science, to fend off diminishing returns and thus the blessing and choices opened up the march of compound interest. Take off stage is when the old blocks and resistances to steady growth are finally overcome. Drive to maturity has higher investment and finally, the high mass consumption where real per capita income per head rises and the structure of the working forces changes (Rostow, 1965:5-10).



Another model falling under modernization domain is the structural model. Its focus is on the transformation of developing country's economies from a heavy dependence on subsistence agriculture to an urbanized industrialized economy. These are two examples under this model, Lewis's two sector surplus labor model and Charney's patterns of development. Lewis assumes that developing economies, which he called underdeveloped economies, consist of two sectors. These two sectors are traditional, rural subsistence sector with surplus labour that can be withdrawn from agriculture without any loss of output. The second is high productivity urban industrial sector. This is where labour from the rural is transferred. He assumes that the transfer of labour from rural to urban continues until all labour is absorbed into industries. Therefore, the structural transformation of the economy takes place (Todaro, 1989:80).

When viewed critically, this kind of development is found to be empirically invalid when confronted with reality. Looking at the huge difference in social, political and economic conditions of South Africa with those of the counties in the west, modernization is inadequate in terms of its own classical and policy wise. It is ineffective for pursuing its supposed intentions of promoting the development of backward economies instead it is a major contributing factor on catalyzing South Africa's dual economic system which had dire socio-economic consequences (Otero, M. and Rhyne, E. 1994:89). In this regard question arise as to "what is development then?" it is value-laden or purely a utilitarian.

Dulley Seers's argument that "development is a nominative concept, a synonym for improvement which is centered on the realization of the potential human personality by fulfilling physical necessities" cited in (Rahim, 2006:82). In other words, the concept of development should have a human face, it should go beyond the reproduction of physical existence and thus complement other social variables which make human beings more than utilitarian creatures. In a sense each society should regain the right to organize its existence as it sees fit outside the system. It can limit the roles of economics by giving up the accumulation of material goods, encourage creatively that the decisions be taken by those directly concerned.

Associating the so called westernization with development in South Africa is also largely criticized in the works of Smets, P. (1996:32) as it is viewed as resulting to South Africa's financial institutions stemming their financial sector policies in accord of strange British financial policies. Thus British financial policies perpetuated classification between the rich and the poor people as the adopted criterion to access finance became attached to socio economic status of individuals and businesses. Traditionally a trustworthy and well known person increased chances of access to financial services as opposed to collateral tied to value of your assets, securities and your bank balance.

The modernization theory's assumption that many problems of developing countries should be resolved by modernizing their social structures according to an idealized western notion of development was an additional failure. The so called problems in developing countries had different dimensions altogether to those of western societies. It is however evident that those reformers were poorly informed about political, economical and social conditions of developing countries. Hunting, (1993:234) emphasizes that it was indeed also a mistake to equate modernization with development as many of its aspects such as urbanization coincided in developing countries with their stagnant political development. Haines (2000:32) is of the opinion that the modernization theory oversimplified the differences between traditional and modern societies.

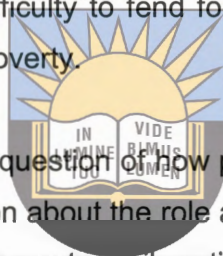
The modernization approach did not question the applicability of externally led (or top-down) development planning. De Beer and Swanepoel, (1998:06) mainly criticized its “top-down” nature. It offers relief to symptoms only to a limited extent without addressing the root causes of poverty. Furthermore, for its lack of focus on the empowerment of the intended beneficiaries to provide for their own needs, it can be seen as a method that maintained the status quo (De Beer and Swanepoel, 1998:06).

On contrary modernization also emphasizes on the growth of modern industries, whilst traditional industries were impeded during the colonial era and suppressed in order to secure the colonial powers. It should however, have encompassed changes with regard to all the different spheres of development which would eventually lead to a ubiquitous transformative development. This is because with minimal capital and maximum labor input, limited commercial and technical knowledge, using procurable tools and locally available raw materials these businesses could not produce goods and provide services for the local people in town and country. Intrinsically there is therefore a direct linear relationship between diffusion of modern orientations and growth because the greater the number of modern individuals the greater the possibilities for societal development.

Practically speaking however, in the African context, the more modernized the people are, the more mobile they become and as such Africa records the highest brain drain of skilled labor. There is more of the depletion of the scarce resources in developing a workforce which in turn does not directly contribute to development of the country rather attains a license to fly abroad. Fundamental question therefore is, if one looks reflexively on modernization, is it about individual mobility, which seems to be a great opportunity for individuals to finally be free and plan their own biographies? In other words, the individuals are valued more than the community because here status is achieved and not ascribed.

This has an intense challenge to mankind especially in an African context where collectivity plays a major role in daily lives.

It has a lot of pitfalls for instance; traditional social relations and values disappear and are replaced by a much harder competition between people (Gabriel, 1991:1). Notwithstanding the existence of the solution of social problems, the experience of the past decades proved this belief mistaken. Modernization theory implies that the standard of living is likely to go up as poor countries industrialize. Industrialization, has however, had some negative impact on lives of rural women and children who are left by men to fend for themselves. As modernization encroaches, the traditional stand of the extended family weakens and extends the responsibility to neighbors. Women who are abandoned or divorced find it difficult to fend for themselves. This has led to an increase in the levels of all forms of poverty.



While there is no easy answer to the question of how poverty can be alleviated, various studies now provide a strong indication about the role access to financial services to the unbanked segment in reducing poverty. Liberation of women from domestic confinement as access to financial services will accord freedom and opportunities. In countries like Bangladesh, Asia for example, a notable success in poverty reduction has been achieved. Indonesia is also the one that attained highest rates of domestic product growth. It must be noted that encouraging economic activities in the secondary economy encourages a high rate of economic growth which is a criterion itself for poverty reduction.

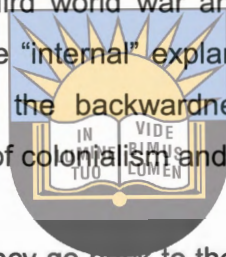
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The failure of development as defined by modernizations has thus precipitated a shift in theory because though the vision of development had appeared to be offering a more inclusive path to progress than had been the case previously, the discourse was little more than a superficial reformulation of old colonial prejudices. In other words, the whole aspect of focusing on development of the people and their well being covers a wide range of perspectives and involves so many issues that it becomes naïve to seek a universal meaning to the notion of development. It is imperative therefore, to acknowledge that all aspects around the concept of development are basically linked by the fact that development is a human undertaking involving humanity in its totality.

The concept of development as a process of self determination and empowerment is now emerging as a desirable alternative to past theories.

4.3 The dependency theory

The dependency arose as a third world response to the intellectual heritage of the modernization theory. Emerging from the historical context of the 1960s, the dependency theory critiqued the modernization theory as being deficient because it offered an internal explanation of third world war and underestimated the impact of external influences. In reaction to the “internal” explanation, dependency theory offers an external explanation that views the backwardness of third world countries as resulting from historical experiences of colonialism and foreign domination.

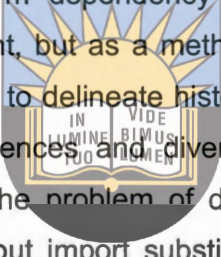


The intellectual roots of the dependency go back to the 1930s Latin America, especially to rural Prebisch. Working in the cities, Prebisch (more structuralists in approach) noticed that economic growth in the North did not seem to lead to economic activity in the less developed countries. It actually seemed as if economic activity in the North lead to greater problems in the less developed countries. Their analysis is that the difference lies in the type of products the different countries produce. While the less developed countries produce primary goods, the North produces manufactured goods. Over time, the exchange rate between the two will deteriorate to the advantage of the part producing the manufactured goods. Largely due to wage increases for workers in the north, the manufactured got relatively more expensive over time. It meant that south had to buy most of its needed manufactured supplies at steadily higher prices than what it would get for the sale of its primary goods to the North (Todaro, 2003:124).

Prebisch’s solution was that poorest countries should embark on programs of import substitution so that they need not to purchase the manufactured products from the richer countries. The idea that one replaces many of the technically advanced imported goods over time by substituting them with home produced equivalents, thereby industrializing one’s self.

Therefore one needs to protect infant industries (industries that have only recently started up) that can not yet compete on the world market with Northern producers. Import substitution is the practice of putting taxes on these industries, so that foreign competition will not be able to wipe home grown products. After a while this should lead to a strong declining rate of import of finished products and an industrialization of the country in question (Todaro, 2003:125).

Unlike the classical dependency theory, Cardoso's methodology is "historical- structural" (So, 1990:135) and he employs the term "dependency" not as a theory to generalize the universal pattern of underdevelopment, but as a methodology for the analysis of third world development. Cardoso's goal is to delineate historically specific new situations of dependency in the search for differences and diversities. Hettne and Wallenstein explain that according to Cardoso, the problem of development in our days cannot remain restricted to a discussion about import substitution, not even to a debate on different stages of growth.



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The main issue is people's movements and consciousness of their interest"(cited in So, 1990:136). Consequently, "what was significant was the "movement", the class struggles, the redefinition of interest and the political alliances that maintained the class structures while at the same time opening the possibility of their transformation" (Cardoso,1977:14). Cardoso asserted that developing countries could achieve substantial development despite their dependence on foreign business, banks and governments for capital, technology and trade. He believed that developing nations could defend national interests and oversee a process of steady economic growth by bargaining with foreign governments, multinational corporations and international lending agencies.

It is in this regard where Smets, P. (1996;66) differs with Cardoso,1977:14 as Smets, P argues that levels of underdevelopment differ from country to country , South Africa's economy for instead is characterized by dual economy.

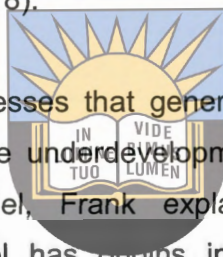
The nature of its dual economy is in so much that the first world economies can import, export while able to compete globally but the second economies constitute a large portion of economy that can barely import their primary products, therefore borrowing from international agencies is impossible as they have difficulty to access finance from internal lending agencies. South Africa needs a strategy to bridge the gap between the two economies and the one that will re-examine the role of internal political struggles to avoid reverse development.

While Cardoso contributes to the dependency school by re-examining the role of internal political struggles, he clarifies that “the relationship between external and internal forces are forming a complex whole” Their structural links are rooted in coincidences of interests between local dominant classes and international ones on the other side are challenged by local dominated groups and classes (cited in So, 1990:136). Thus Cardoso calls for an analysis of the internalization of external interests which makes it possible to have dependent-associated development, Cardoso, (1977:20).

Other, Scholars, such as American sociologist Peter Evans, have gone even further than Cardoso in recognizing the importance of negotiations between governments in developing countries and governments as well as firms from industrialized nations. These analysts believe the way nations respond to dependence on foreign capital can be as important as the dependence itself. The refinements to dependency theory suggest the promise of new approaches to the problem of development, approaches that seriously take into account the role of politics and government level negotiations in determining economic outcomes.

Although the dependency theory arose as a third world challenge and provided much needed counterpoint to the modernization theory, it was however limited in that it also “restricted its attention almost exclusively to the economic and a lesser extent the political mechanisms of domination and control”(Tucker,1999: 12).

Tucker further explains that despite the challenge it posed to the hegemony of the modernization discourse, dependency theory shared some of its basic premises. Whilst the radical dependency theory is associated with Andre and Gunder Frank, it is similar in the analysis to the structuralist dependency theory except that it uses Marxist terminology. In Marx view, economies are often defined by exploitation. In an effort to capture this historical experience, Frank formulates the concept of “development of underdevelopment” that explains that “underdevelopment is not original or tradition of the now developed countries which were never underdeveloped, though they may have been undeveloped” (Frank, 1966:17-18).



This means that the historical processes that generate development in the western metropolis also significantly generate underdevelopment in the third world satellites. From the metropolis-satellite model, Frank explains how the mechanisms of underdevelopment work. His model has origins in the colonial period when the conqueror founded new cities in the third world countries with the aim of facilitating the transfer of economic surplus to western metropolises. As a result, Frank explains that a relationship of metropolises to satellites exist in the world, where the metropolises tend to develop and satellites to underdeveloped. Development and underdevelopment in a sense are opposite sides of the same system because they are the product of a single but dialectically contradictory economic structure of capitalism.

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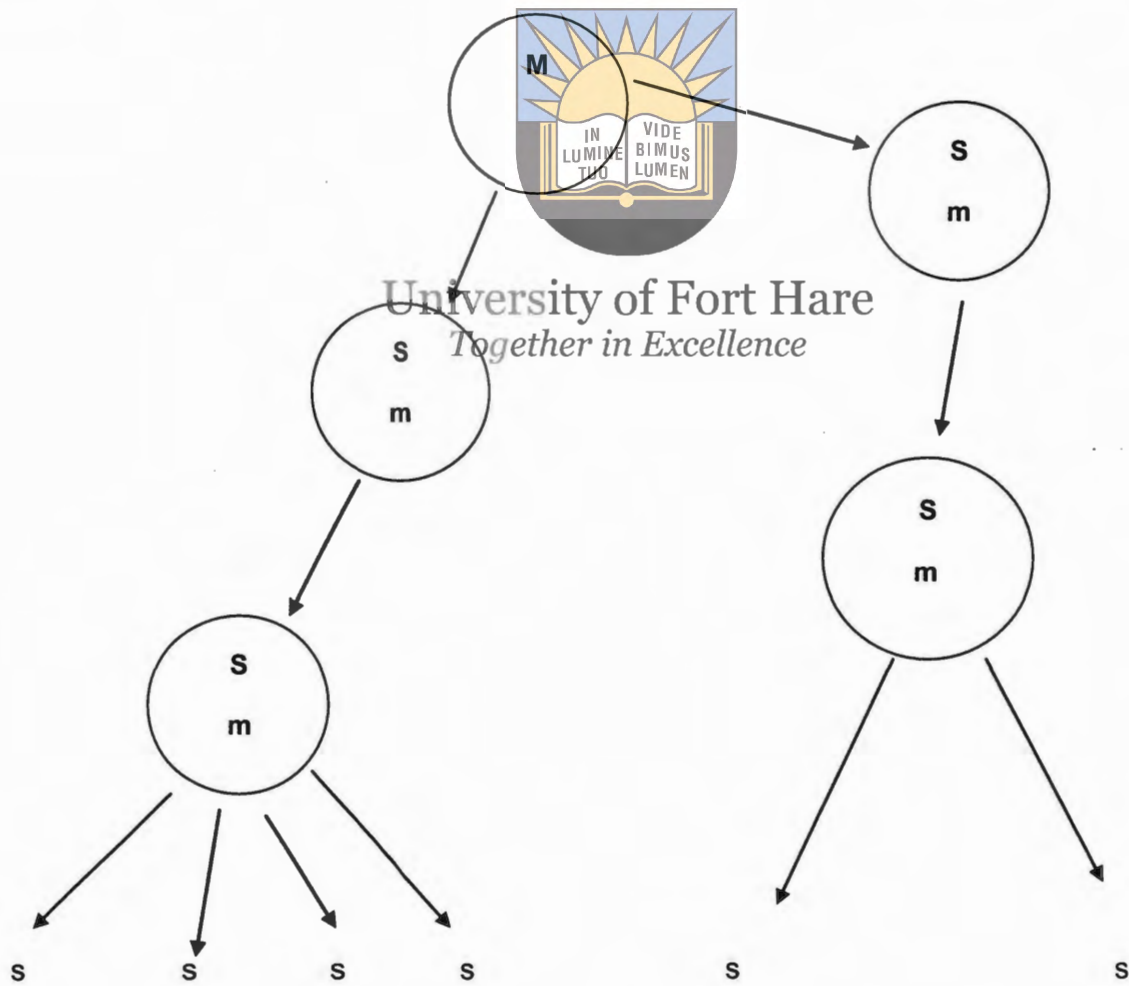
According to Frank, there is an exploitative relation who in chain-like form that extends the capitalist link between the capitalist world and national metropolises to the regional centers (part of whose surplus they appropriate). It also continues from these to local centers and so on to large landowners or merchants who expropriate surplus from small peasants or tenants and sometimes even from the latter to the landless exploited by them in turn. At each step along the way, the relatively few capitalist above exercise monopoly power over the many below, expropriating some or their entire economic surplus and appropriating it for their own use.

Thus at each point, the international, national and local capitalist system generates economic development for the few and underdevelopment for the many (see the metropolis- satellite model as illustrated in figure 1)

Figure 1: The Metropolis- Satellite Model

**Metropolis
model**

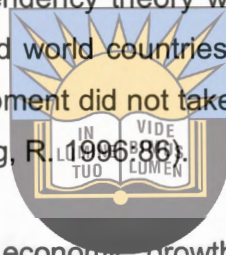
satellite



M – The world metropolis
 m- metropolis
 s- satellite

Source: Peter, Steward.2001: 58. *Development Administration Theories*. Pretoria: University of South Africa.

Critically, Prebisch's perspective on dependency theory was difficult to follow, firstly because the internal markets of the poorer countries were not large enough to support the economies of scale by the richer countries to keep their prices low. Secondly, there was a concern as to whether the political will offer poorer countries actual control on the primary products. As such, the dependency theory was viewed as a possible way of explaining the exploitation of the third world countries. Additionally, the implications of this growth-oriented model of development did not take into account the dualistic nature of South African economy (Rosenberg, R., 1996:86).



What is desired is not merely the economic growth of the economy, but also the transformation and development of the financial sector. In 1971 Ernesto Laclau critiqued Frank's version of dependency and highlighted the weaknesses of Frank's version of dependency vis -a-vis class and modes of production. For Marxists, what distinguishes capitalism from other modes of production is that workers are free to sell their labour, but Laclu claims that for Frank, capitalism appeared simply as a system that produces for profit and is oriented to the market. However, this weakness is what led Frank to locate the causes of the periphery's exploitation in the sphere of exchange rates rather than in the sphere of production (Bloonstrom and Hettene, 1984:82-83). As a result of the weaknesses of the radical theory, a more moderate theory was discussed by Fernando Henrique Cardoso (who later became president of Brazil). While criticizing the modernization theory, dependency did not question the desirability of access to financial services by small micro enterprises (SMEs) and their development.

It also continued to perceive development largely in terms of economic growth and industrialization. As such the dependency theory implicitly accepted the evolutionary model of growth or progress- the fundamental goal of development thus remained the same.

Economic growth is necessary “so long as the purely instrumental nature of role of real incomes and commodities is borne in mind- not confusing instrumental effectiveness with intrinsic importance”.

Therefore success in economic growth must ultimately be judged by what it does to our lives, the quality of life we can enjoy and the liberties we can exercise”(Dreze and Sen,1995:43). As such the modernization and the dependency theories are purely structural for they have underplayed the role of human in development, presenting an inaccurate picture of humans as passive recipients with very small degree of freedom. Therefore the perspective tend to ignore investment on poor people and this has resulted in a shift in the whole thinking about the problem of growth and development from physical to human capital.



4.4 Neo-liberalism

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Neo-liberalism which sometime is called neo-classical is considered to be a post traditional theory, that began to take charge and enjoyed increasing popularity from the mid -1970s. This theory refers to an economic model that called for freer markets and dismantling of ownership, static planning and government regulation of economic activities. Yet similarly, development for neo liberalism is viewed to flow from market forces. The central argument under neo liberalism is that underdevelopment results from poor allocation of resources due to incorrect pricing policies and too much state intervention by overly active Third World governments. In this regard neo liberal theory call for no more price controls. Concisely, total freedom of movement for capital, goods, and service in an unregulated market are perceived as the best way to increase economic growth, which will in ultimately benefit everyone through trickling down effects, Skidmore and Smith (2005: 538).

According to Todaro, (2000:95) neo-liberal economic model followed the “Washington Consensus” on development policy and was adopted by International monetary fund (IMF), the World Bank and many significant Unites State agencies.

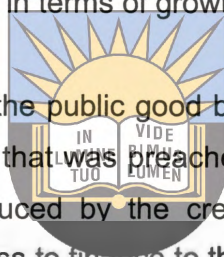
The consensus always included fiscal discipline, taking steps against inflation, opening economies to foreign trade and investment, reducing the role of government in general and promoting exports. Any country that implemented all of these goals into their development strategy, was taking on neo-liberal development in its most orthodox form. Haines (2000:48-49) cited the seminal neo-liberal thesis on Africa that was first enshrined in the 1981 annual world bank report on Sub-Saharan Africa, where the role of the state in development was first questioned. The main points of neo-liberalism according to Martinez and Garcia include: the rule of the market liberating “free” enterprise or private enterprise from any bonds imposed by government (the state) no matter how much social damage this causes.



Neo-liberalism also calls for cutting public expenditure for social services like poor and even health care. Reducing the safety net for the poor and even maintenance of roads, bridges, water supply, this again is done in the name of reducing government regulation of everything that could diminish profits, including protecting the environment and safety on the job was also called for. Martinez and Garcia also included privatization, which entailed selling state-owned enterprises, goods and services to private investors as one of the basic tenets of neo-liberalism. This includes banks, key industries, railroads, toll highways, electricity, schools, hospitals and even fresh water. Although usually done in the name of grater efficiency, which is often needed , privatization has primary had the effect of concentrating wealth in the few hands and making the public pay even more for its needs. It entailed eliminating the concept of the public good or community and replacing it with individual responsibility. Pressuring the poorest people in the society to find solutions to their lack of food all by themselves then blaming them if they fail as “lazy” (Martinez and Garcia, “neo-liberalism: A practical guide for practitioners).

Neo-liberalism was however not without its criticisms, despite its envisaged growth in the economy, the gap between the developed and the developing nations widened besides causing increased inequalities.

The global capitalistic institutions with their financial supremacy also managed the political elites and served their interest often leading to bad governance and loss of accountability in the delivery system (Pattnaik, 2008:8). However this orthodox policy made no mention of reducing inequality or the need to eliminate absolute poverty as a meaningful way to achieve development (Todaro and Smith, 2006: 548). In the process, it created a world of winner and losers – a few blooming with prosperity and many sunk in a life of distress (Pattnaik, 2008:8). Over and beyond these weaknesses, neo-liberalism is purely an economic theory that does not really put humanity at the centre of development. As it is measured solely in terms of growth of gross national product



Although the objective of eliminating the public good by adopting neo-liberal reforms is one of the main ideas of neo-liberals that was preached around the world, neo-liberals overlooked that poverty can be reduced by the creation of public resources, “Anti poverty, programs like providing access to finance to the economically active population and to build capacities of the poor communities to help themselves” (world Bank, 2000:101.) Theoretically, after structural adjustment programs (SAPs), neo-liberals stressed on the total disengagement of the state from providing social services, as well as funding initiatives. Neo- liberalism destroyed welfare programmes and cut back on social programmes. The ideology favors a minority not disadvantaged masses. A follow up on neo-liberalism leaves scholars doubtful of who should be players in rural development as it removes the idea of collective ownership of assets and state investment in small micro enterprises (SMEs) and public institutions.

Ake reviews the “...years in which Africa was pre-occupied with development...” and sees “meager returns”. Ake draws the conclusion that a plethora of factors has militating against this development. Among these factors has been militating against this development. Among these factors, he mentioned poor planning, incompetent management, and inappropriate policies (Ake, 1996:1-3). Todaro (1989:91-92) supports this assertion and explains the development dilemma of Africa by using a false paradigm model. Africa gets”...inappropriate expert advice provided by well meaning often-uniformed advisers from the developed world.

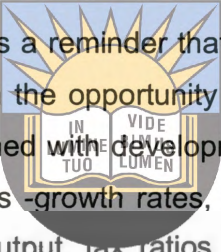
The advice leads to inappropriate policies”. Pre-packaged solutions come from abroad with total disregard for the socio-cultural reality of the recipient society. The researcher is of the notion that that limited interference of state and large dependence in foreign advisors is detrimental to any development.

4.5 A basic need theory (BNT)

The basic needs perspective appeared as a precise goal of development in an international labour organization (hereafter, ILO report) to indicate “the minimum standards of living which a society should set for the poorest group of its people” (ILO, 1976:7). Casen, (1994) surfaced that the focus ideology of this theory appear to follow naturally from the evolution of development thinking during the 1970s. A school of thought developed which argued that human societies were not to follow luxurious standards for all, and that if the focus was on fulfilling “basic need” of all human beings, the world still has enough resources to meet the needs of all (Kothari, 1993:12) the theory was named ‘basic needs’. During that time the emphasis shifted from economic growth towards the issue of poverty and income distribution after it became evident that previous development efforts largely by-passed the poor. However, after the realization that economic development would not eliminate underdevelopment, and that the discrepancy between the poor and the rich had in fact escalated, it’s promulgated that the issue was not the resources but their availability to all.

The basic needs theory is therefore grounded directly at reduction of poverty through minimum requirements entering family consumption (adequate food, shelter, and clothing), a minimal public provision of social services (safe water, sanitation, health, education, public transport) employment freely chosen, decentralized decision making. Later on the World Bank viewed the basic need theory as adopted as the approach to development that attempted to provide the opportunities for full physical, economical, mental and social development of human personality (Streeten et al 1981:33). This approach came as a counter approach to practical problems of poverty in developing countries.

In this regard the approach suggests that the development should begin with people at the grassroots level. The theory concludes that at every stage of development, local people can be relied upon to determine their own priorities of development as they know best their needs. Similarly, in South Africa a strategy like “Vukuzenzele campaign” encourages the same perspective. In this theory the critical question that needs to be addressed is an issue of equitable allocation of resources to allow people to meet their basic needs in a way that does not promote state dependency. According to Streeten et al (1981:20-22) the basic needs theory had basic three advantages:

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- The logo of the University of Fort Hare is a circular emblem. It features a sun with rays at the top, a central shield with a book, and the motto 'IN VIDE TUO LUMEN' written across the book. The shield is flanked by two vertical bars.
- a) Foremost, basic needs concept is a reminder that the objective of development is to provide all human beings with the opportunity for meeting basic needs. In the previous decades, those concerned with development have sometimes got lost in the technical intricacies of means -growth rates, production, productivity, savings ratios, export ratios, capital – output, tax ratios and so on. They come near to being guilty to borrow term from Marx, of “commodity fetishism”. Thus the basic need approach recalled the fundamental concern of development, which is human beings and their needs.
- b) Basic needs approach appealed to the members of the national and international community and was therefore capable of mobilizing resources. Unlike though important objectives such as raising growth to 6 percent, contributing 0.7 of gross national product (GNP) to development assistance, redistributing for greater equality, narrowing income gaps. Meeting basic needs approach therefore has the power to mobilize support for policies that more abstract notion lacked.
- c) The main goal of the basic need theory was to provide in the basic needs to the poor within the shortest possible period. The focus of basic and wealth redistribution are its strong points.

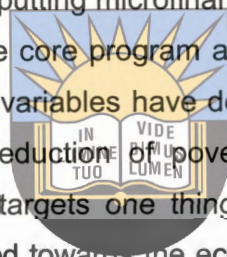
The approach is also regarded with respect on the basis of the fact that meeting the needs of the poor would not help reduce poverty, but also improve on the education and skills levels of the population with the concomitant potential for contributing to greater economic growth and development. Stemming from the failures of the modernization approach, Gabriel sees a way forward as being a situation whereby a welfare approach is based on the transformation of the backward economies by industrialization, urbanization, technological transfer, financial aid and the integration of the third world economies into the capitalist world system. Additionally this theory is viewed as people centered theory.

Contrary to the modern theory (De Beer and Swanepoel, 1998: 8) argues that despite its advantages, the basic needs theory is regarded as too narrowly focused and the absence of a strong and explicitly philosophical foundation left the approach open to translation into policy .Its main focus on meeting people's material needs or "count, cost and deliver" at the expense of non-material needs such as freedom, participation, human rights is viewed as impractical. Fukuda-Parr, (2003:304) states that these non-material needs are not only ends in themselves, but they are also means by which more physical or material needs can be met.

It does however appear that while the basic need approach focuses on what to achieve, namely meeting the basic needs of the people, it never really developed a methodology on how this should be achieved. The approach also focuses on improving public services, which is financially demanding, and in most cases, governments are not willing to bear the burden. The approach's focus on small-scale activities has been criticized as a brake to rapid economic growth and has been viewed as a method of continuing to trap developing countries in primary production. According to De Beer Swanepoel, (1998:5) basic needs consequently lost its appeal in the early 1980s as a separate approach to ending poverty and enhancing human potential towards the development of poor countries.

4.6 Reflection on basic needs theory

One of the most important elements that need to be discussed is the aspects of the above-mentioned theory that is linked to the phenomenon studied as the study aims to investigate the socio economic impact of microfinance on small micro enterprises (SMEs). In this regard it is significant to note that the MFIs are providing loans to the poor not only to increase their income but also to mobilize their savings. By mobilizing savings, poor people can secure their future and feel safe. For this reason, basic need theory deems to be more relevant in putting microfinance in the context of the study, as its variables are mostly related to the core program and methodology of microfinance. However, it is true that microfinance variables have deep relation with development as development is deeply related to reduction of poverty rather than raising average incomes. All microfinance program targets one thing in general, access to financial services by poor people that is geared towards the economic development, social uplift of the people and reduction of poverty.



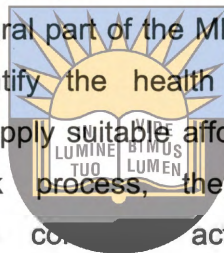
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On the other hand, how these kinds of development can be achieved? It is possible to achieve those development indexes, if disposable income is increased. Without maintaining balance between income and expenditure, it is difficult to tackle poverty. Microfinance programs target both economic and social poverty. As a strategy for reducing poverty, microfinance institutions emphasize on improving the health of the poor, which is a main concern worldwide and particularly in low-income countries, where the burden of disease is heaviest. The relationship between poverty and ill health has been characterized as synergistic and bidirectional. Poverty confines the shrinking capacity to produce and ill health as the major cause that lead to further impoverishment. This also diminishes the potential of individuals and households to improve their socio economic status. Poverty alleviation strategies (PASs), like micro-credit programs, may pilot to health benefits. There is a growing recognition that poor health is a dimension of poverty; therefore, one potential result of poverty reduction is progress in the health of the poor. PASs can adopt various forms.

Debra Lipson's (1998) review of potential pro-health PASs included community and micro-enterprise economic development, agriculture and food policies, education policies, macroeconomic policies, environment or infrastructure investments to improve the supply of safe water and basic sanitation. Basic needs theory has a close relation with few other development programs of microfinance; some of them are described below.

4.6.1 Health program

Health intervention has been an integral part of the MFIs. Different organizations apply different or similar policy to identify the health problems, undertake rigorous experimentation, try to explore and apply suitable affordable and culturally acceptable technology. Throughout the work process, they measure and monitor its implementations and recommends corrective actions to modify methods of implementation of program, health message, training and management, where needed.



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4.6.2 Education program

Another important goal of all MFIs is to spread the light of education throughout the society. Development through this program, along with the health program, indicates human development among the people. Their effort and mission is to build a society that is free of poverty, illiteracy and disease. Their goals are to expand education opportunities for disadvantaged children and provide them with necessary technical and financial support.

4.6.3. Food security program

In the developing countries, achieving household food security remains a critical objective of rural development. This can be done in principle by escalating agricultural productivity and off-farm income, thus improving the capability of households to steady their income and food purchasing power.

Food security, at the household level, is defined in its most basic form of access by all people at all times because food is needed for a healthy life of all people.

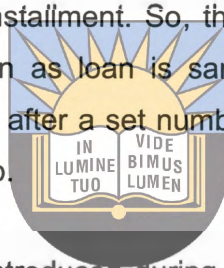
4.6.4 Solidarity

Almost all microfinance institutions believe in motivating repayment through group solidarity or group liability. For example, village banks put emphasis on loans to finance income-generating activities and savings. Providing loan to the individual through groups is an unconventional policy. In this policy, banks do not expect group members to meet the collateral requirements. The basis of this methodology is the mutual trust among the group members. The groups member usually lend money on unsecured basis, just using five-person group guarantee, whereby each individual is responsible for the repaying loans among the selected group. This principle of micro-credit is borrowed from the Grameen Bank of Bangladesh. Solidarity group lending schemes involve the formation of groups. In these groups all members are jointly liable for each individual's loans, thereby creating an alternative to conventional loan requirements (which poor people can rarely fulfill).

From the lenders' perspective such joint liability lending enables a transfer of default risks from the institution to the borrower, and can reduce the transaction costs of providing a larger number of small loans (by concentrating clientele in groups, at regular village based meetings, rather than dealing with individual borrowers at different times). However, this methodology engages women clients in financial activities in which female solidarity is created through promoting shared visions and goals and developing collective strengths. It can serve as a powerful tool for progressive social change as long as it fosters critiques of dominant cultural ideologies. It helps to elevate awareness and empowerment in society, especially among the women clients.

4.6.5 Liquidity

With respect to increasing savings products for the rural poor, more emphasis has to be placed on liquidity and low transaction costs than on attractive interest rates. Financial institutions arrange reliable options for obtaining liquid funds quickly when needed (line of credit for example) and for safely investing excess liquid funds at reasonable returns. MFIs collect obligatory savings from the clients on weekly or monthly basis, before further loans are disbursed. When the loan is disbursed, the net amount received by the client is after the deduction of first installment. So, the first installment for the loan is already taken by the lender as soon as loan is sanctioned. Clients are allowed to withdraw at the end of the loan term, after a set number of weeks, months or years or when they terminate their membership.



Despite numerous policy initiatives introduced during the past decades, the growth of small-scale industry in South Africa has been disappointing because of liquidity problem. In addition to liquidity, a number of factors have been designated to explain the failure of large enterprise to emerge from the micro-enterprise sectors. These factors are poor infrastructure, weak entrepreneurial and management skills and inadequate access to machinery and materials. Insufficient credit access and lack of financial services from formal financial institutions has also been recognized as a constraint on the expansion of the micro-enterprise sector.

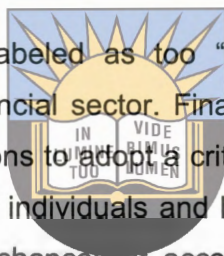
As a result, family and informal moneylenders have become the major source of finance for SMEs. During the 1990s, group-lending methodology brought about a revolutionary change in microfinance movement. This approach has now become popular to address many of the problems of supply-led lending methodology associated with high transactions costs, risk, low repayment rates and poor targeting and sustainability. For many, the 'new world of microfinance' had the potential to provide access to credit to the poor on a massive scale by offering numerous financial services.

4.7 Conclusion

The aim of this chapter is focused on finding theoretical framework to investigate the research question of the study. The researcher did not only table the discourse on each theory but the researcher also critically look at each theory and rounded off by providing summary of reflexive opinion on theory that forms the basis of the study. Conversely this chapter reviewed a modernization perspective, the dependency theory, the neo-liberal and the basic need theories.

The modernization perspective is labeled as too “Western” and as what created inequalities in the South African financial sector. Financial policies created under this perspective allowed financial institutions to adopt a criterion of access to finance that is attached to socio economic status of individuals and businesses. In other words your zero bank balance jeopardizes the chances of access to financial services and the lesser the chances of access to finance whereas the greater the chances of remaining with a zero bank balance will increase. However the dependency perspective restricted its attention almost exclusively to the economic and a lesser extent to the political mechanisms of domination and control. The perspective overlooked the impact of no price controls and a freedom of movement for capital, goods and service and unregulated market.

On the other hand neo-liberals overlooked the fact that poverty can be reduced by the creation of public resources and anti- poverty programmes like providing access to finance to the economically active population and to build capacities of the poor communities to help themselves. Whilst the basic needs perspective favoured the equitable allocation of resources to allow people to meet their basic needs in a way that does not promote state dependency, hence thus the perspective that forms the theoretical framework to investigate the research question of the study. The immediate chapter clearly outlines the methodology explored to collect data and to analyze the findings of the research.



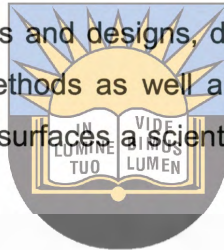
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CHAPTER 5

Research Methodology

5.1 Introduction

The main objective of this study is to empirically examine the impact of microfinance on SMEs with regard to socio-economic effect. However, the principal purpose of this chapter is to depict research methods and designs, data collection instruments, target population, sample and sampling methods as well as sources of data utilized in the study. Moreover, this chapter initially surfaces a scientific approach and later concludes by surfacing how data is analyzed.



5.2 Scientific approach **University of Fort Hare** *Together in Excellence*

According to Pons (1992:123) all social research concerned with substantiation and all statements made in a research report should be based on evidence presented in it or on evidence from other sources which should then be cited. This can only be achieved by following a scientific methodology, it is the only way to acquire reliable knowledge about those aspects of human experience that are considered "social", "political", "economic" and "psychological". So did, the researcher in this study. Certain socio-economic phenomena such as unemployment, rural poverty can best be understood by the use of the scientific approach. There are usually two approaches used in conducting a scientific research. One is deductive approach and another is inductive approach. All scientific theories involve both induction and deduction and they sometimes differ in the degree to which they emphasize one over the other. A researcher examines and then authentically records what is observed, without any prejudice (Saunders et al. 2007:72).

In order to establish what is true or false, and to draw conclusions, two ways are applied: induction and deduction. The basis of induction is empirical evidence, while that of deduction is logic. If the deductive approach is used, the researcher generates hypothesis from theory. In a deductive approach, conclusions come from the evidences. The conclusions are true when the evidences are right and reliable. Graziano et al (2006:79) mentions that the deductive approach emphasizes on deductions from constructs. The deductions are started as hypotheses and then empirically tested for the research. Deductive approach is commonly used when a positivistic ideal is taken. In the study the researcher used the theory to make the assumptions from the objective point of view. In an inductive approach, researchers start working with empirical observations. Based on these, the researchers make hypotheses that are used to develop new theories and later these new theories are added to the established ones. Inductive approach emphasizes on induction and stays very close to the empirical data. So an inductive approach focuses on developing new theories, which are then used to elaborate general statements, deriving from empirical observations.



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Creswell (1994:99) has suggested number of practical criteria to distinguish between the deductive and the inductive approaches. Perhaps the most significance of these criteria is the nature of topic of research. That is, a topic on which there is a wealth of literature from which one can define a theoretical framework, and a hypothesis lends itself more readily to deduction. When the topic of research is new, there exists much debate, and on which there is little literature available, it may be more appropriate to work inductively by producing data, analyzing and reflecting on what theoretical themes, the data points to. The intention of this research is not to build a new theory, but to investigate the research questions based on empirical research and primary data. Furthermore, study generated hypotheses from theories and then, the researcher used empirical research and primary data to test the hypotheses. When conclusions are drawn, the researcher applies logic. Therefore, based on research question and scientific ideal, the researcher chooses to follow the inductive approach.

5.3 Research methods

Research methods can be defined as a scientific process that seeks to provide answers to questions through a systematic approach with the support of credible data. The process assists with broadening the understanding of a problem and therefore leads to an appropriate solution. Leedy (1993:121) on the other hand describes research methodology as an operational framework within which the facts are placed so that their meaning may be seen more clearly. Whilst, Kothan (2005:8), states that “research methodology” is a way to systematically solve the research problem. Kothan further states that ‘research methods’ may be understood as all those designs or techniques that are used for conducting research.



5.4 Research design

Mouton and Marais (1988:92) define a research design as “the arrangement of conditions for collecting and analyzing of data in a manner that aims to combine relevancy to the research purpose with economy in procedure”. Tripodi in Grinell (1988:210) defines a research design as a “logical strategy that plans research procedures and provides evidence for the development of knowledge”. Moreover Brewer (2003, 203) sees research design as a blueprint on how you intend conducting the research. The study mostly adopted qualitative but also used quantitative and document analysis designs to collect the necessary data.

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5.4.1 Qualitative and quantitative methods

This research aims at assessing socio economic impact which can never be solely expressed either in neither descriptive nor numerical ways. Quantitative method is described as the scientific method, where facts, claims and assertions are presented in a numerical form and statistically is predominantly used as a synonym. (Blanche 2006: 1-3).

Qualitative method on the other hand can be defined as an interpretive approach which investigates hidden social aspects of the problem and allows the researcher to obtain an insider perspective on social action. It also provides in-depth understanding of human behavior and the reasons that govern human behavior. It relies on the reasons behind various aspects of behavior, in a nutshell it investigates (Graziano et al. 2004:176). Therefore, the other difference between qualitative and quantitative data is that, the qualitative data refers to words, such as pictures and video-clips, rather than numerical results. Hence, this study focuses on the numerical data and performs the statistical tests. Thus, the result of the research depends on numerical and non-numerical analysis, using both quantitative and qualitative methods.

5.4.2 Document analysis design



In order to examine the impact of microfinance on small micro enterprises (SMEs) on thirty SMEs, the researcher also consulted existing documents on microfinance. Various sources on microfinance were consulted such as, South African Microfinance Apex Fund policy, local economic development (LED), integrated sustainable rural development program, reconstruction and development program (RDP). Secondary sources containing information and evidence on Microfinance include books, conference papers, newspapers; research reports and internet were also consulted.

5.5 Data collection instruments

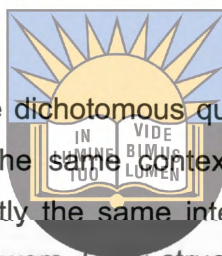
This study utilized both interviews and questionnaires as its main data collection instruments. Both questionnaire and interviews had produced primary data from the respondents on the socio-economic effect of microfinance on beneficiaries after microfinance institutions (MFIs) have provided their small micro enterprises (SMEs) with access to microfinance services.

5.5.1 Questionnaire

Lombard (2002; 202) argues that a questionnaire is a set of questions formalized to obtain data from respondents. In this research questionnaires were used to gather biographical information about gender, age, education, number of family members, living standards, and questions related to income, saving, capital et cetera (etc). Questionnaire enables data to be collected in a relatively large number of people and facilitates easy comparison process amongst the respondents as well as easy quantitative analysis process.

Semi- structured questions and some dichotomous question were asked to collect the information from the respondents. The same context of questions was given to all interviewees and they received exactly the same interview stimulus. Questions were very specific with a fixed range of answers. Semi-structured questionnaire had multiple-choice questions in which the researcher provides a choice of answers and respondents were asked to select one or more than one alternative, and dichotomous questions that had only two response alternatives, yes or no. The researcher also used 'likert scale' (considered on 1-5 points scale) to measure the respondents' perceptions based on few statements to perceive the socio –economic impact of microfinance on small micro enterprises (SMEs).

The points of the scale indicate the degree of satisfaction or agreement level of the household or a person after he or she has received loan from an MFI. '1' represents the lowest level of satisfaction or high disagreement, whereas '5' represents the highest level of satisfaction or high agreement. Open –ended and closed-ended questions were used. The closed-ended forms of questions were restrictive because they kept the respondent on the subject and are relatively subjective, easy to tabulate and analyse. The researcher has also used the open-ended questions where different answers were quite acceptable also for the purpose of probing and seeking to find what respondents know (Brewer and Miller 2003:166).



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The researcher self-administered the questionnaires and all questionnaires were written in English. Structured questionnaires were used by the researcher in this study to minimize interview bias, to maximize clarity and to provide a sequence of questions that would lead to reliable responses. On the other hand a self-completion component allowed privacy of reporting by respondents, with consequent advantage for validity (Yates 2004:53).

5.5.2 Interview

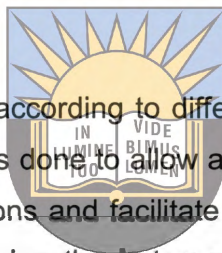
The Semi-structured interviews were conducted to some of microfinance beneficiaries who cannot read nor write even in their native language. Interviews were conducted using interview schedule of the same design as the above stated questionnaire. An interview allows the researcher to explain jargons and technical terms that may not be easily understood by the respondents in particular those who are illiterate. Interviews create an atmosphere of trust and rapport and allow respondents to say what they think with richness and spontaneity (Brewer and Miller, 2003:166). Moreover, the semi-structured interview allows interviewers to decide in advance which main questions to ask. There was flexibility in that the interviewer asked certain major questions each time but had altered the sequence in an attempt to probe for more information.

5.6 Target population

The target population refers to the subjects who possess attributes which the researcher wishes to study and a universe of units from which the sample is to be drawn (Bryman, A et al 2003:56). The researcher considered two hundred economically active entrepreneurs (small micro enterprises) supported by microfinance institution that operate under the jurisdiction of Alfred Nzo District municipality in the province of the Eastern Cape as eligible target population of the study. The target population was the executive members of small micro enterprises who have been recipients of microfinance products and services in the past five years at Alfred Nzo District.

5.7 Sampling procedure

Sample was selected using both probability (stratified random method) and non probability sampling (purposive sampling method). Probability sampling is whereby all elements in a population have an equal and calculable chance that each element of the population can be included in sample despite the fact that this method guarantees accuracy and preciseness. Whilst non-probability sampling suggests that chances of all elements to be included in the sample are not equal and are unknown (Bless and Higson-smith, 2002:87).



Participants were randomly selected according to different strata from the database of two microfinance institutions. That was done to allow a researcher to draw respondents in accordance to their required positions and facilitate equal chances for each SME to be selected, in the meantime increasing the heterogeneity of the sample. Purposive sampling, a non probability method was also utilized, as the researchers' judgment was used to select alternate informants in cases where the informants were unavailable due to unexpected social incidents such as funerals to represent a specific portion of the sample. When replacing the informant, the researcher replaced unavailable informant with the informant that had same or similar characteristics with the replaced one (that if it is the chairperson who is unavailable the researcher made a replacement by deputy chairperson).

5.8 Sample

Bless, (2006:195) regards the sample as the subset of a whole population that is actually investigated and whose characteristics will be generalized to the entire population. Additionally according to Yates (2004:25) sample is a segment of the population which the researcher attempt to control the various factors that might influence their research. It is also what is used to ensure that the results the researcher gains are representatives of the set you have chosen to study.

Researcher opts to use samples when one conducts research as it is generally impossible to question everyone when studying a large population although everyone has equal chances of being included in the study.

In the study conducted, the sample comprised of thirty (30) small micro enterprises, within which three (3) informants will represent each small micro enterprises (SMEs). Three informants encompassed the chairperson or manager, secretary, treasurer or bookkeeper. Informants were chosen on the assumption that they have experience in microfinance activities enough to know the pros and cons of its activities and that they represent the population studied. The total sample consisted of ninety (90) participants. Out of the ninety (90) participants twenty (20) participants were interviewed, seventy (70) were given the questionnaires.



5.9 Sources of data

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The researcher utilized primary and secondary data in this study as the researcher was seeking an understanding of the socio-economic impact of microfinance.

5.9.1 Primary data source

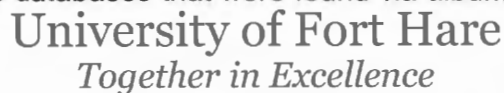
The researcher employed primary data sources. Primary data is the data that is collected with a primary aim of answering the research question and is first hand information written on account of a direct witness (Roberts-Lombard, 2002:57).

5.9.2 Secondary data source

Although the result of the research is highly dependent on the primary sources that have been gathered from the structured interview, it is also required that secondary sources broaden the understanding of the key concepts, definitions, theories and empirical results (Bryman, A. et al 2003:69). The researcher has used several books, research literatures, articles, journals and thesis, as secondary sources in this study.

Internet sources were also used as a secondary source. Since the internet sources are less reliable, the researcher has limited the use of internet sources to the web pages of prominent organizations like Department of Trade and industry (DTI), Bank service SETA. Most of the sources, the researcher used are reliable and are acceptable almost everywhere. Furthermore, the researcher has also used the handbooks and annual reports of some of the microfinance institutions (MFIs) and Khula Limited.

However, it is not always easy to find out the appropriate research materials for the thesis. Many studies have been conducted on microfinance over the last few decades. Nevertheless, from them the researcher had to choose the most appropriate literature for the study, for this reason, the researcher had to go through numerous references related to this topic, to find the suitable materials. These materials were mainly collected from the university library and using available search tool. The researcher have accessed and searched the databases that were found via album on the website of the University of Fort Hare.



5.9.2.1 Criticisms of secondary data sources

It is important that the secondary sources, the researcher have used, should be of relevance and should be of good source of inspiration. Hence, the researcher tried to pick up most of the researches, which were peer-reviewed and used by other researchers for their studies. This criterion of selection ensured the quality of secondary sources. It is necessary to ensure that the sources used in the thesis were up-to-date due to the fact that microfinance is a new, rapidly growing and developing methodology. New researches, articles, books, ideas and previews, linked to microfinance, appear regularly. To ensure the reliability of this study in the present situation and scenario, the researcher has tried to refer to the latest articles or studies available. While getting acquainted with the facts about the origin and working of MFIs, the researcher tried to link the recent studies with the earlier ones.

This helped to give a true picture of things as these studies were updated regularly to ensure the availability of most facts. One of the most remarkable achievements of the MFIs is to spread their idea over many other developing countries. Starting from the small village in Bangladesh, its impact has been recognized even at the highest international body. To give the idea of this impact, the researcher has referred to many recent economic and social reports from other important institutions such as World Bank etc. The most important thing, which the researcher liked to point out, is the problem involved in the collection of secondary data. There are some books and articles used as references in the theoretical framework which are quite practically oriented rather than based on pure theory.



5.10 Data analysis

According to Lombard (2002:166) data analysis is a descriptive analysis of data which provides ways of looking at determining relationships and trends as well as influential observation to describe or summarize data sets. However, Schwandt (1998:129) defines data analysis as the process that allows research findings to emerge from the frequent dominant themes inherent in raw data.

In the context of the study the researcher analyzed data on bases of themes which had emerged from the data collected. The first step was to collect enough data and code the data to establish themes. Thereafter the researcher subjected data to reduction. Analysis of qualitative data yielded from open ended questions, in semi-structured questionnaires and semi-structured interviews were involved in sorting and classifying the data, extracting themes and identifying patterns, tallying the responses, quantifying and making generalizations in terms of the patterns.

Quantitative data gathered from closed ended and liket scale questions were subjected to the statistical package for social sciences (SPSS), a quantitative method of analysis. SPSS performed a variety quantitative data analysis and presentation functions, including statistical analysis and graphical presentation of data.

Among its quantitative data analysis function was the statistical data analysis, including descriptive statistics, such as plots, frequencies, charts and lists.

5.11 Conclusion

The aim of this chapter was to clearly elucidate the methodology explored, which also represents the choices the researcher has made in order to make the right option about the nature of the study, approach adopted by the study, sample, data collection instruments, data analysis et cetera.

In the immediate chapter an overview of the analysis of the data obtained is presented. It is on the next chapter where the researcher presented, interpreted and analyzed the empirical findings on the socio-economic impact of microfinance activities bases on the data collected.



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CHAPTER SIX

Data Presentation, Interpretation and Analysis

6.1 Introduction

The previous chapter described the nature of the study, research methods and designs, data collection instruments, gave an idea about the secondary data sources, choice of subjects of the study, population and sample. This chapter provides the empirical findings gained from the data collected. However this chapter begins by a presentation of data, followed by interpretation and analysis of data. The presentation, interpretation and analysis of the data is done both qualitatively and quantitatively. The quantitative analysis is mostly done through use of statistical package for social science (SPSS).

6.2 Presentation of data

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On this section the researcher delineates the data collected from the respondents to directly elicit the opinions of respondents before the data can be interpreted and analyzed.

6.2.1 Demographic information of the respondents

The respondents who participated in the study were both males and females. Table number (no.) 8 shows that 95.6% of respondents were females whilst 4.4% were males. In terms of age, 5.6 % of the respondents were in the age group of less than 25 years, 40 % were between 25-40 years of age and 54.4 % .were 40 years and above. The respondents were also classified the in terms of their level of education. From the data collected 67.8% of respondents have obtained secondary education. However 22.2% had no formal education, whilst 8. 9 % had matric and only 1.1 had post matric qualifications.

On the side of the total number of family members, the data collected indicated that 6.7% of respondents had less than two members in their family and out of 6.7% some respondents had no children. 32.2% had 2 to 5 members and significant size of respondents (61.1%) had more than five family members. Data collected also revealed that, 83.3% of the participants were eking a living from social services grants, whilst 11.1% depended on pension and the remaining 5.6 depended on remittances. A quantitative summary of demographic information of the respondents is illustrated on the next page.



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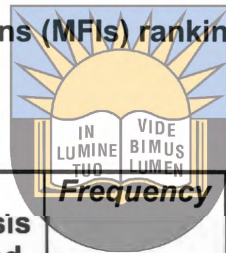
Table 8: Demographic information of respondents

Variables	Measuring Group	Frequency	Percentage (%)
Gender	Male	4	4.4.
	Female	86	95.6
	Total	90	100
Age	< 25	5	5.6
	25-40	36	40
	> 40	49	54.4
	Total	90	100
Educational qualification	No formal education	20	22.2
	Secondary	61	67.8
	Matric	8	8.9
	Post matric	1	1.1
	Total	90	100
No. of family members	<2	6	6.7
	2-5	29	32.2
	> 5	55	61.1
	Total	90	100
Source of income in your family	Pension	10.	11.1
	Social services grants	75	83.3
	Remittances	5	5.6
	Other	-	-
	Total	90	100
Income per month	>R1000	47	52.2
	R1100-R2000	36	40
	R2100-R3000	5	5.6
	<R3100	2	2.2
	Total	90	100
Family expenditure	> R1000	30	33.3
	R1100-R2000	41	45.6
	<R 2000	19	21.1
	Total	90	100
Source : Dzingwe:2009 (data collected)			

6.2.2 Microfinance institutions (MFIs) and commercial banks (CBs) lending practices

The figures on table 9 displayed that 70% of the respondents believe that the interests rates of MFIs is reasonable, 73% of the respondents were also of the opinion that obtaining loans from MFIs is easier that with commercial banks and 67.8 % made claims that MFIs provides a reliable source of finance to small micro enterprises (SMEs) .

Table 9: Microfinance institutions (MFIs) ranking with commercial banks on lending procedure



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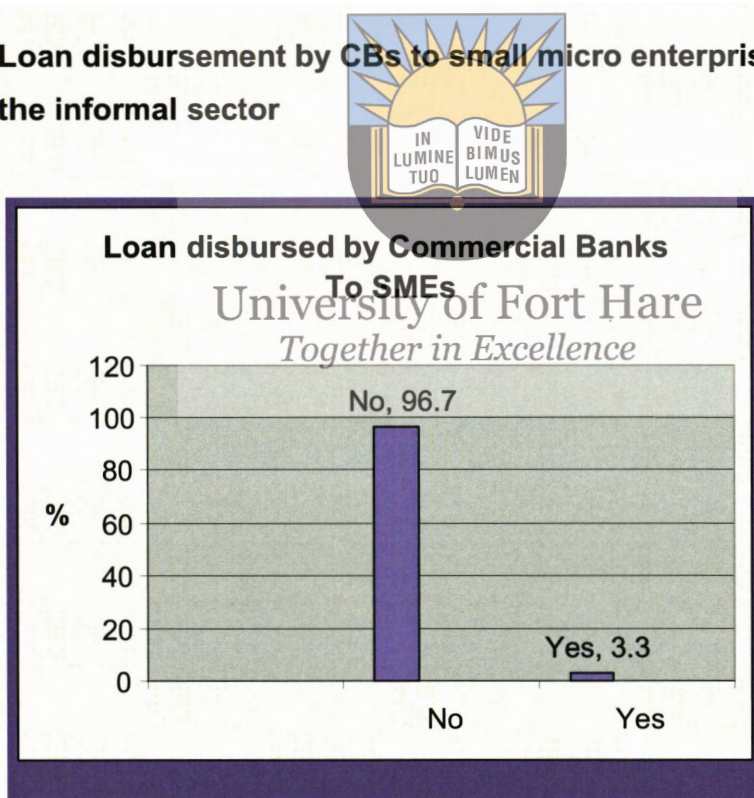
Variables	Frequency	Null hypothesis expressed in (%)	Frequency	Alternate hypothesis expressed in (%)	Total N	Total %
Interest rate of microfinance credit is reasonable	27	30	63	70	90	100
Complexity of obtaining loans from MFIs is easier than of commercial banks	24	26.7	66	73.3	90	100
MFIs provides reliable and affordable source of finance to Small micro enterprises (SMEs)	29	32.2	61	67.8	90	100

Source: Dzingwe :2009 (Data collected)

6.2.3 Amount of loans borrowed from MFIs and CBs by the SMEs

Figure 2 indicates that only 3.3% of respondents received credit from commercial banks whilst a massive 96.7% borrowed loans from MFIs. The enormous 96.7% of respondents surfaced that they were not offered loans by commercial banks because they have no guarantees, pay slips and did not have regular income. Consequently the bulk 96.7% has borrowed money from MFIs to start their businesses, expand them and not from their personal savings or family members.

Figure 2: Loan disbursement by CBs to small micro enterprises (SMEs) in the informal sector



6.2.4 Amount of loans borrowed from MFIs by the SMEs

Figure 3, illustrates the loans size granted to individuals on three different scales, less than R4000 (four thousand rand), R4000 to R8000 (four thousand rand to eight thousand rand) and more than R9000 (nine thousand). 72.2% of the loans granted were less than R4000, 16.7% of loans granted were less than R8000 and only 11.1% of loans granted were above R9000 within a period of five years.

Figure 3: Amount of loans disbursed to the clients by MFI (Eyethu community finance centre)

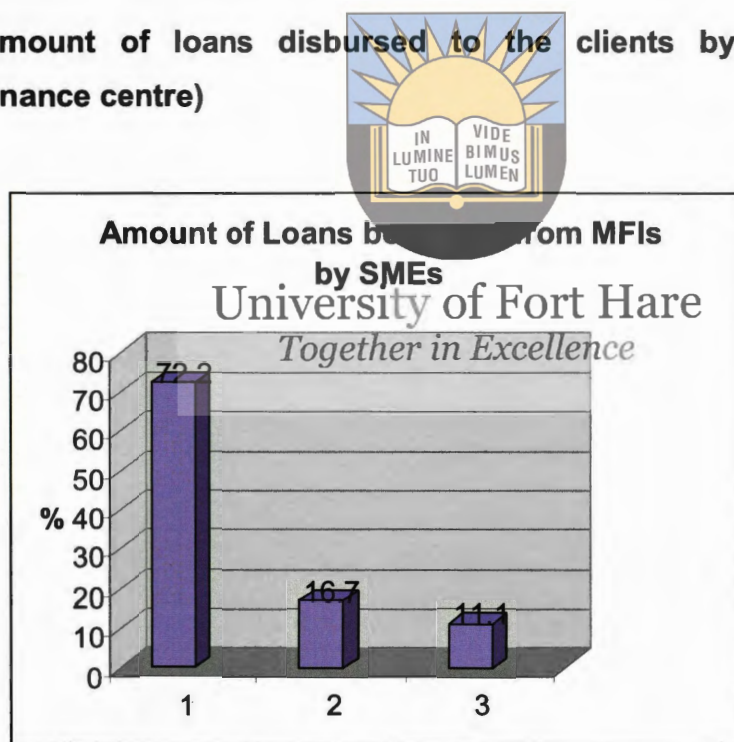
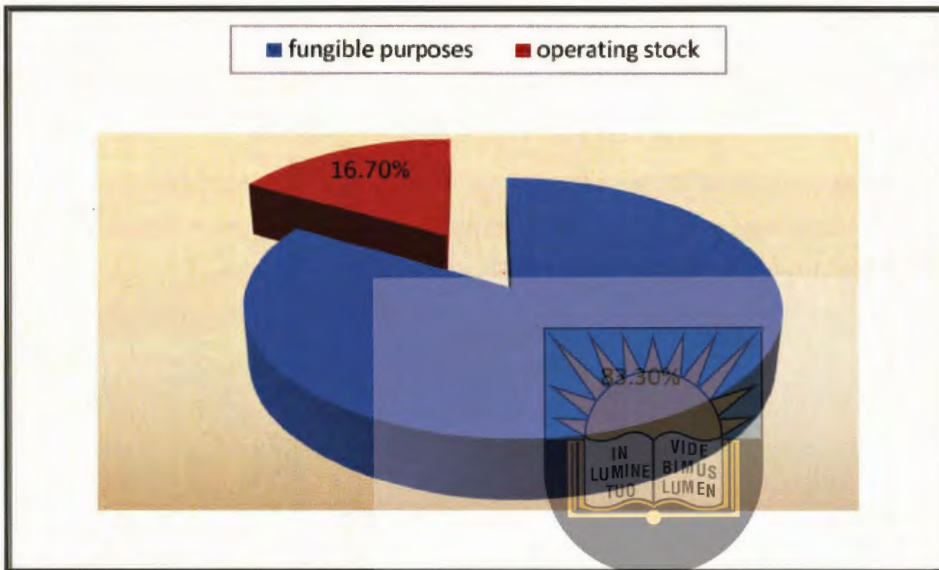


Figure 4 points that 16.7 % used the loans for fungible purposes like buying walking rings for their children. 77.8 % of the 16.7% used the money to buy basic necessities like clothes for children. 83.3 % of respondents used the loans from MFIs to buy operating stock according to the nature of their businesses.

Figure 4 : Utilisation of microfinance loans by clients



6.2.5 Demand for MFI services

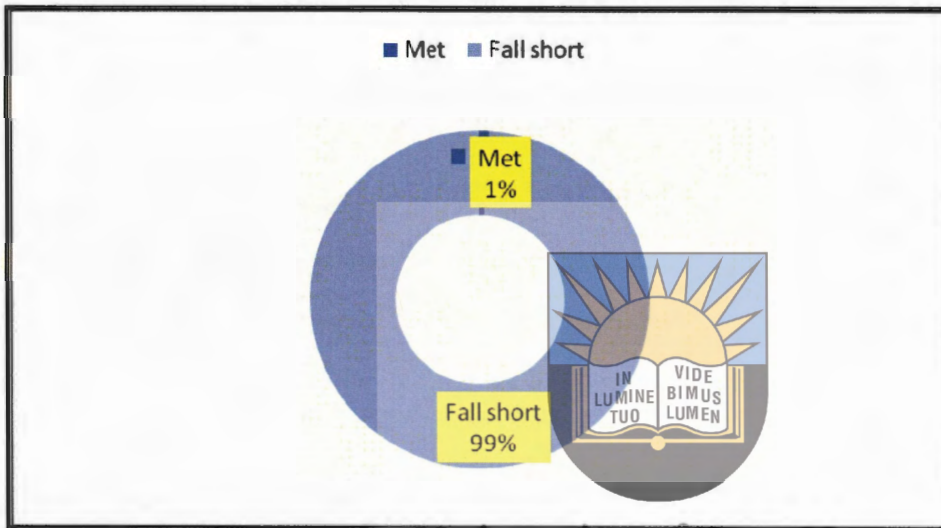
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99% of respondents articulated that MFIs were unable to meet demand of small micro enterprises (SMEs). Only 1% agreed that MFIs are able to meet SMEs' demand for microfinance services. The 99% suggested that the loan amounts that were offered by the MFIs were too small to allow them to grow and be sustainable. In addition, 99% of respondents were also of the opinion that MFI was only able to offer its services to less than half of small micro enterprises (SMEs) in their communities. From the interviews it also emanated that demand for credit is required for various purposes by SMEs other than for capital and expansion purposes. The list below identified some of various purposes:

- Seasonal fluctuation in cash flow.
- Natural disaster insurance policies.
- Consolidate other loans (actually probably means to pay off other loans, not so much consolidate them).
- Housing improvements.

- Emergencies.
- Education.

Figure 5: Demand for MFI services



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6.2.5 Multiple different variables

94.4 % of the respondents stated that there has been a positive impact on living condition of the people who made use of microfinance services for the past five years. However 5.6% had an opposing opinion about the impact that was brought by MFIs. More people surfaced different opinions by using examples of what they experienced after having received assistance from MFIs. Below is the glimpse of the experience and the fruits that some ripped after using microfinance loans.

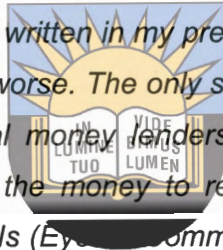
Respondent- A

“MFI has brought immense tension, anxiety in my live. Before getting assistance from MFI, I could sleep well without any anxiety. Now I worry about paying installments of microfinance loan. I have to pay it even if I cannot eat (interview, September, 2009).”

On the par side respondent B revealed the experience below:

Respondent- B

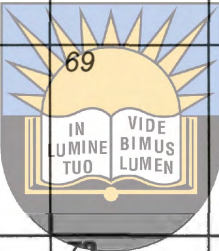
“Eating one meal a day was my daily life practice, my two elderly children dropped out of school before they could reach high school level. The situation put more strain into not so my good health condition. This made me to become more vulnerable to diseases. Yet, I could not afford to buy medicine. Madzikane ka-Zulu hospital was not of much help as I would be normally referred to Link chemist to buy the medicine in written in my prescription. Hence I could no afford such money, my situation got worse. The only solution that came over me was to borrow money from traditional money lenders (unregulated) with no hope of where and when I could get the money to repay the loan with its excessive escalating interest”. “Local MFIs (Eyethu Community Finance Centre) came as a solution. I was thought not use their loan to solve my problems but to use the profit obtained from the loan as well as my savings. I thank tata Gwiliza for bringing Eyethu Community Finance Centre to my community” (interview, September, 2009).



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Table 10: Descriptive analysis of correlation between multiple variables

Variables	Frequency	Null hypothesis expressed in (%)	Frequency	Alternate hypothesis expressed in (%)	Total N	Total %
Better access health care	19	21.1	71	78.9	90	100
Better access to education	18	20	72	80	90	100
Better access to financial situation of the family	21	23.3	69	76.7	90	100
Improved living standard of the family	18	20	72	80	90	100
Improved employment opportunities	29	32.2	61	67.8	90	100


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Source from Dzingwe: 2009 (data collected)

6.2.7 Income and expenditure (per month)

With reference to the data collected and illustrated on table 8, 52.2% of the participants had income of not more that R1000, 40% earned between R1100-R2000 and only 7.8% had an income of more than R2000. Whilst the expenditure of the same respondents were almost negatively skewed compared to the income they receive. 45.6 % of respondents had monthly expenditure amounting between R1100-2000, 33.3 % of the respondents' monthly expenditure was R1000 and 21.1 % of respondents.

6.2.8 Relationship between the increase in income and the increase in savings

The null hypothesis showed that there is no relationship that exists between the increase in level of income and the increase in level of savings. In contrast, the alternative hypothesis indicates that there is a clear relationship between increase of income and increase of savings. The table 12 demonstrates that the null hypothesis is rejected and it is statistically insignificant and the relation between these two variables is strongly positive.

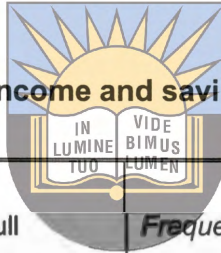


Table 11: The correlation between income and savings

Variables	Measuring Group	Frequency	Null hypothesis expressed in (%)	Frequency	Alternate hypothesis expressed in (%)	Total N	Total %
Income	Male	2	2.2	2	2.2	4	100
	Female	25	27.8	61	67.8	86	
Savings	Male	3	3.3	1	1.1	4	100
	Female	14	15.6	72	80	86	

Source :Dzingwe, 2009 (data collected)

6.2.9 SME management positions

The data indicated that 72% of women occupied management positions. In this 72 %, it was only women who occupied chairpersonship, deputy chairpersonship, secretarial and deputy secretarial positions. Only 6% of males occupied the treasury office whilst male respondents have increased their majority positions on additional member's office.

Table 12: Management portfolios

Summary of Management portfolios expressed in %			
Males	Females	Percentage	Respondents
28	72	100	90
<i>Source :Dzingwe , 2009 (data collected)</i>			

6.2.10 Women empowerment



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All respondents irrespective of their gender were of the opinion that MFIs have indeed empowered women. In few some instances respondents highlighted that though generally they were the ones (women) who were borrowing microfinance loans, their husbands had a decisive role in how the money should be used. Usually the men were in charge of the money but did not take the responsibility of paying the installments. It would be women who get blamed and suffer the consequences of not paying the installments. In times of loan repayment men usually spent their time in the nearby shops and tea stalls chatting or buying alcohol. It would be women who face all the trouble from the installment collector when they cannot pay installment. In a nutshell women suffered the consequences of the irresponsible behavior of their husbands.

After having gone to attend gender workshops that was facilitated by Eyethu community finance centre most of the women stated that both them and their husbands played equal part in decision making. For the economic benefit their husbands allowed them to spend time in joining the meetings and other activities after completing their regular household work. Being involved in awareness activities made them to be aware of their rights and they were trying to stand against problems like physical torture (wife beating), childhood marriage drinking. Additionally 80% respondents applause Eyethu community finance centre for conducting trainings like motivation and dependency syndrome, basic

bookkeeping, management, governance et cetera .The trainings have empowered them not only in business but also in social life surfaced the respondents.

Table 13: Women empowerment

Women empowerment			
Respondents	Yes	No	Percentage
Males	100	0	100
Females	100	0	100
<i>Source :Dzingwe, 2009 (data collected)</i>			



6.2.11 Benefits of community from MFIs

100 % of the respondents said that people of Alfred Nzo community were neglected and discriminated because they are extremely poor. For the lack of education and awareness deprived them of the general facilities provided by the government. MFIs helped to make significant changes in their socio-economic condition. Respondents voiced out that they were also getting benefits from the additional programs like children and adult education, health awareness, social awareness against drinking, early marriage etc through involvement with Eyethu Community Finance Centre. They concurred that awareness programs were assisting them to break out from their traditional shy and illiterate image and they were getting accepted with more respect by their immediate social middle class. The data collected also surfaced that inside the community the households which have made economic progress were now being treated differently than before. They were gradually gaining higher status in the community. It was reflected by the importance given to their presence and opinion in group meetings, settling disputes, planning religious festivals, imbizos.

On the other side communities suggested that they were also able to get fresh produce at cheaper prices because SME owners did not add transportation cost when they determine selling price. Respondents argued that community members cut travelling costs as they no longer go to town to buy what buy what was available locally. SMEs owners also said their businesses employed community members and in some instances family members. In so doing respondents felt that idle hands were occupied for their socio-economic benefit thereby reducing poverty and crime rate.

6.2.12 Problems identified by MFI clients:

The data collected showed several problems that were experienced by MFI clients. The summary of the problems identified is on the next page.



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- Clients felt that their views needed to be taken into consideration, for an example they felt ignored on their concern about the mistrust amongst group members.
- 33.3% of clients were of the opinion that the money need to be given to individual clients not to groups as they stated that IMF would not experience the problem of declining repayment rate. Amongst other problems the problems below were surfaced:
 - a) high risk of stock theft due to crime rate
 - b) short terms of repayment rates as this does not allow enough time to sell
 - c) minimal loan size
 - d) legal requirements that govern MFIs are not development oriented
 - e) some clients are not acquainted with record keeping
 - f) clients loose their stock when natural disaster occurs
 - g) some clients deliberately do not want to pay on time that affect the creditworthiness of the entire group.

In addition to the problems highlighted above respondents also surfaced that sometimes MFI clients accounts were used by friends, neighbors' or relatives when they needed money and do not have the eligibility of taking it from the MFIs. This is termed as forward lending. Noticeable the interest rate of microfinance is lower than those of local money lenders and people in such situation prefer to use forward lending as favour. However, situation got complicated when the owner of the account needed money or the user fails to repay the loan in time. In such cases they had hot arguments and their relationship deteriorated.

While discussing about that it was found that community members frequently tried to borrow money from neighbors when they face difficulty to pay the weekly installment. As it is a very close community everyone knows about others financial condition. So, when someone denies lending money with having the ability to do so, it creates tension on their relationship. It also happens when the borrower neglects to return the loan.

Respondents were also of the opinion that the amount of informal borrowing among the community members is not big but it happens frequently and in many cases it is responsible for degrading relationship.

6.2.13 Other forms of impact associated with MFI programs

According to the overwhelming 86.7 % responses, the operational assistance offered by MFIs is critical and was viewed of great significance towards the establishment of their businesses. They also agreed that given the fact that most of the respondents had no business management training it would not have been possible for their businesses to survive. Below is the illustration that reveals the opinions of respondents with regard to a motion that suggested that MFIs have other impacts such as improved self sufficiency, self reliance.

Table 14: Other forms of impact associated with MFI programs

Variables	Frequency	Null hypothesis expressed in (%)	Frequency	Alternate hypothesis expressed in (%)	Total N	Total %
MFI programs created self – sufficiency	20	22.2	70	77.8	90	100
Operational assistance helped Small micro enterprises (SMEs)	12	13.3	78	86.7	90	100



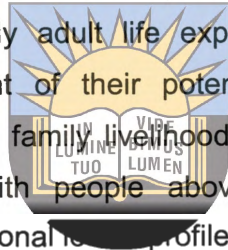
Source : Dzingwe, 2009 (data collected)

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6.3 Interpretation and analysis of data

In this section the researcher interprets and analyses the data to give the meaning to the data collected. Even though the sample of small micro enterprises (SMEs) was selected randomly from the database of MFI without any bias towards the gender and in a way that would ensure that urban or rural SME owners under the jurisdiction of Alfred Nzo district were included. The data collected reflected a negatively skewed gender distribution and that the geographical concentration of SMEs was mostly in rural areas not in urban or peri urban areas. That therefore signified that a huge number of the respondents were small micro enterprises (SMEs) that were owned by women who operated their businesses in rural areas. It is on that regard that the researcher suggested that compared to men, women take an active part on income generating activities and that MFI (Eyethu Community Finance Centre) serves mostly rural communities.

Data collected suggested that most of respondents who utilized microfinance services were above 40 years of age. Nevertheless that age is mostly married and normally has greater social responsibility than youth. Extra income generated by that age group was more likely to be used in improving the livelihoods of more people than would be the case of the youth. In other words a rand invested on that age group, assuming equal returns on investments is likely to have greater impact on livelihoods. Whilst in general unemployment is higher among the youth. Youth is viewed as a very significant and impressionable age group that required some special attention. They are the future leaders who require nurturing. Early adult life experiences determine their future productive capacities and fulfillment of their potential roles in society. And yet unfortunately their social impacts on family livelihoods in general were normally less than what would be the case with people above 40 years because of their responsibilities. Based on the educational profile of respondents, one could safely argue that criteria to afford credit and probability of positive performance of an enterprise may not be judged by the level of education one have.



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Hence the bulk of respondents had secondary and others were without formal education but had profitable businesses and were not defaulters. Additionally, almost all the respondents managed to undergo small enterprise business development training programs to strengthen their capabilities in the field of business. Ironically commercial banks ignored the potential of respondents as the strength that could make their businesses a success and enable them to repay loans. Instead commercial banks (CBs) considered and required educational level as important and an indirect eligibility criterion for a loan and business success. The rationale behind is that educated people mostly had better salaries and job security, so they are the suitable target market. They are a target market with minimal risk on CBs investments. The scenario on the other side put enormous increased demand for access to credit to MFIs.

Consequently, MFIs became the major source of credit for the poor or the unbanked segment and were playing a significant role hence MFIs basically emphasized on financing minimal microfinance loans. An example is that based on the data collected few of respondents got loans above R9000 in a period of five years. Indirectly, there is a lack of sufficient financing for capital to start up a medium-scale business. The lack of sufficient funding by MFIs and the discrimination of the poor by commercial banks led to a huge gap between socio-economic status of the employed and the unemployed. It is also one of the catalysts of the widening gap between the first and second economies (South African dual economy).



The other catalyst and contributing factor to the handicap on both MFIs and CBs on granting of credit appeared to be the legislative environment. Commercial banks and MFIs are regulated institutions combined to profit oriented nature of commercial banks. MFIs are also regulated in various aspects such as the ceiling on interest rates issuing of loan amounts and they have watchdog institutions (Dzingwe: 2009, Chapter 2).

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This led to a situation whereby the small micro enterprises (SMEs) and the unemployed face difficulties to compete with SMEs in the first economies. It may also take them decades to advance to the level of medium -macro enterprises (National Small Business Amendment Act of 2003 (Act No. 26, 2003). On the other side the nature of the family structure of respondents (SME owners) suggested that the majority of respondents have many dependants at their disposal. Hence according to the researcher's opinion the increase in family size leads to an increase of the expenses and suggested that the poorer the family will become. Similarly the observation from the data collected was of the same opinion with the researcher's perspective. The respondents utilized the returns from doing a business as the substitute income. Social grants seemed not to be a sufficient income to cater for all the basic necessities. Most of the respondents might be vulnerable to all kinds of money lenders whether regulated or unregulated. The basis of this argument was stemmed by the data collected that concurred that 42% of the respondents' expenditure exceeds their income.

The 42 % of respondent battled to make ends-meet. Therefore they needed extra income to meet the basic daily necessities. However with regulated money lenders chances were slim for them to qualify because of the criteria.

On the other side with unregulated money lenders, respondents were extremely vulnerable to over in-debtness and all sorts of exploitation. Generally, people take the loan to invest to their businesses so that their economic condition can be improved. After investing in their businesses SME owners save because they believe savings brings hope towards improvement of their financial status as well as improvement in their living conditions. The positive correlation shown by the data collected signifies that. Increase in income results to increase in savings. This therefore means that MFI clients have a better chance of increasing their savings which might help them on rainy days.

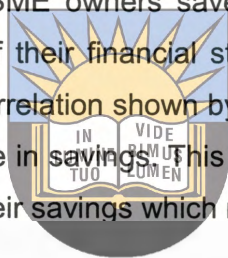


Table 9 displayed the level of satisfaction by clients about the way microfinance services were offered on variables like interest rates et cetera. The respondent with scale 5 is strongly agreeing and the respondent with scale 1 is strongly disagreeing with the opinion. To examine the level of satisfaction and dissatisfaction as well as acceptance and rejection region, the researcher sited that the null hypothesis as what was less than an average level of satisfaction (2.5). Whereas, the alternative hypothesis represents what was more than the average satisfaction level (3). The null hypothesis signified the rejection and the alternate signified the acceptance level. The null hypothesis is rejected and it is strongly insignificant. The table 9 pointed out the satisfaction level of the respondents is more than average satisfaction level and is quite high. The results are in favor of alternative hypotheses.

The assessments were made in a comparative sense, it is however the reason that the findings should come as good news to MFIs. Among the positive assessments made by the clients were that the loans processed from time to time that the applications are rarely disapproved. The positive assessments were not without negative assessments. On the negative side the clients pointed out that the repayment period is too short.

The respondents also surfaced that the consent that is needed from youth below age of 21 is discouraging the youth to join the MFIs. In the event of default, the group is jointly liable which poses a risk in their assets.

Table 10 shows the means of the variables in the regression analysis. It can be noticed that access to education, to health care, increased employment opportunities, improved living standards and a better financial situation, all are above the mid-point of the 5-points which indicates the satisfaction scale. Therefore shows the positive perceptions of the people about these attributes. Additionally table 11 illustrated the opinions of respondents considering improvement in the living standard of family as dependent variable to better access to education, increased employment opportunities, better financial situation better access to healthcare.



Here the null hypothesis stated that there was no relationship between improvement in the living standard of family and better access to education, better access to healthcare and better financial situation of the family. The alternative hypothesis claimed the opposite opinion.

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In this regard the researcher established the clear interdependence and interrelationship between the variables. The improvement of the living standard does not rely on one variable but on a mangle of many variables. The researcher also made claims that the profit (economic effect) from running a small micro enterprises (SMEs) resulted to a direct positive social impact on SME owners. MFIs are also famous for creating women empowerment by emancipating women through provision of income generating activities. Although traditionally it is a norm that, a women's place is at the kitchen while man is the only person that head and make decisions at home.

Besides being a head, a man is the chairperson, deputy chairperson, secretary and deputy secretary and the treasure at home. That traditional socialistic point of view did not allow empowerment of women instead it injected "a yes person" in them.

Whereas, MFI programs gave women more leadership opportunity in their family, in business and in societal structures by allowing them to take an active role in the decision making process. Despite of the stated norm its was ironically surfaced on figure 5 that a huge numbers of respondents that occupied executive positions were women, although in their household women were viewed as subordinates who can not lead their households. It was this point that concurred that women who were beneficiaries of MFI services were in turn given opportunity to actualize their potential.

6.4 Conclusion



In this chapter, the data has been presented, interpreted and analyzed. On open questions qualitative analysis was employed and on closed questions quantitative analysis was utilized to assess the socio economic impact of microfinance on small micro enterprises (SMEs). It was evident that the impact of microfinance had both positive and the negative impact. However the positive side outweighed the negative side. To sum up, it can be noticed from the overall analysis that the significant impact of microfinance activities is not only evident in economic terms but also in social terms on individual, business and at community levels.

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CHAPTER SEVEN

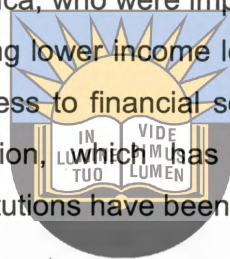
Conclusions, Recommendations and Areas for Further Research

7.1 Introduction

The first chapter of the study elucidated the introduction and background to the phenomenon studied, statement of a research problem, objectives, hypothesis, significance and delimitation of the study as well as key concepts. Chapter two focused on the South African context of microfinance, summarized South African model of microfinance, explored the role of government and provided an overview of the Legislative framework of microfinance. Chapter three illustrated a demographic overview of Alfred Nzo district, analytically explained small micro enterprises (SMEs) meaning, nature, categories and their role with regard to social and economic upliftment. Chapter four depicted related literature reviewed on the bases of the objectives of the study and the problem being studied. Chapter five portrayed the nature of the study, research methods and designs, choice of subjects of the study, population and sample, data collection instruments and gave an idea about secondary data sources. Whilst the preceding chapter illuminated presentation and analysis of the data collected that supported the hypothesis.

However this final chapter brings to conclusion the findings, suggests recommendations as well as areas for further research. Suggestions are provided to indicate how microfinance institutions can be seen as the ultimate solution that has an important role to play in socio- economic development. However it also intends to round off what has been stated from the introduction through unfolding what have been discovered and the worth of it. According to Aristotle (cited in Hofstee, 2006:155) now a whole is that which has a beginning, middle and an end. In this study the focus was on evaluating socio economic impact of microfinance (MF) on small micro enterprises (SMEs). Hence chapter unveils synopsis of microfinance perspective based on the findings on the next page.

It became patent from the background stipulated on chapter two (2) that the South African financial sector is sophisticated and is amongst the most advanced sectors in the world in terms of its depth. The structure of the sector changed somewhat relative to other upper-middle income countries. Despite the tumultuous times witnessed at the aggregate level in the financial sector, the MF industry has grown to an impressive four percent of the total financial sector in terms of total disbursements in 2007(www.mrfc.co.za/ 09 November 2009). For the industry to have grown to such a substantial size in just ten years is testimony to the tremendous demand for financial services among the poor in South Africa, who were implicitly excluded from participating in the formal sector by virtue of having lower income levels. The growth of the industry has consequently led to greater access to financial services for the lower and middle categories of the income distribution, which has mostly positive than negative implications. Numerous financial institutions have been cautious of lending money to the poor.



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The involvement of the key informants by collecting data through use of questionnaires and semi structured interviews enabled the researcher to evaluate both qualitative and quantitative socio - economic impact of microfinance. Eyethu community finance centre on the par side affirmed that the field workers ensured the necessary steps are encapsulated in lending methodology and are adhered to before loans was disbursed. The loans need to be disbursed in a way that will ensure that the credit risk is minimal for example step one is the pre-loan activities. The pre-loan activities step ensures that applicants meet the eligibility requirements, determines their ability and willingness to repay, and ensures that the clients understand the terms and conditions of the loan. Besides designing effective screening tools, it became crystal that it is crucial to provide staff with the skill and the incentives to properly implement them. Some micro-lenders have a strong screening process, but staff members are not trained to use those tools effectively. Or even more commonly, financial incentives or social pressures may encourage credit officers to take shortcuts with the assessment process to achieve volume targets.

7.2 Conclusions to the findings

The conclusions drawn are from the findings of the research and were based on the purpose of the study. Furthermore pompous signs below, which invited attention, were surfaced.

a) The ability to repay debt might decline for many lower and middle income groups if the loans from MFI are used for fungible purposes, owing to the combined effects of inflation and costs of living.



b) Furniture and retail stores have become more means of indirect source of loans, as more people were being exposed to hire purchase agreements, where interest rates were often exorbitant.

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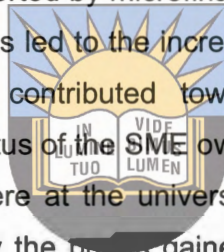
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c) The potential vulnerability of the poor to aggressive lending practices on the part of the informal moneylenders that were confused with MF institutions and formal retail institutions raises the question of the role of the regulatory framework in SA.

d) The long history of state involvement in the provision of credit to the poor where the state was often regarded by its citizens as providing entitlements, for example, the state interacts with millions of poor people through the welfare system. Where the state has sought to extend credit directly, it has been the experience of many that the wires of welfare 'entitlement' and credit extension get crossed, resulting in large debt defaults from citizens that equate state-led credit extension to welfare handouts.

On the other side the overall data presentation, interpretation and analysis drew the conclusions than there is an unquestionable negative and positive impact of microfinance activities on small micro enterprises (SMEs) both in economic terms and in social terms. On the side of the positive conclusions the researcher outlined the conclusions below:

- a) The 95.6% of the 83.3 % of the SME owners that depended on social grants did not only brought about a positive change to their socio-economic situation but liberated women to take active part in the decision making process of the family and of the society.
- b) Another impact that was found to be important was that of a positive commercial change of present commercial performance compared to the past performance of small micro enterprises (SMEs) since supported by microfinance institution. From the study, it can be interpreted that MFIs programs led to the increase in rate of returns. It was also found from borrowers that loans contributed towards running of the business successfully improved their social status of the SME owners. Whilst 20% of respondents also confirmed that their children were at the university some have graduated. Their children's education was financed by the profits gained from doing business that was financed by the MFI (Eyethu Community Finance Centre)
- c) 96.7 % of the respondents started and developed their business by borrowing loan from MFIs as compared to other sources. It also surfaced that the procedure of obtaining loans from MFIs is easier than that of commercial banks.



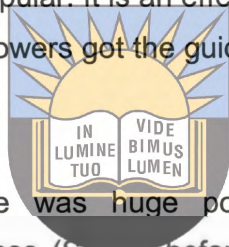
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Based on observation made it can be concluded that no requirement of collateral was required by MFIs and that MFIs have made it possible for everyone to join the formal monetary process. Hence it became one of the most propitious reasons to borrow loan from MFIs unlike the commercial banking where collateral was the first and foremost requirement.

- d) Furthermore 73%, a significant portion of the respondents considered the interest rates of microfinance as reasonable. Yet microfinance is becoming popular day by day among the poor people. As was explained in the analysis section, also a correlation analysis affirmed that income and savings were positively correlated which implies that if income increased, the client's ability for savings also increased. If the savings

increased, then there will be a positive impact on financial situation of the family. Henceforth, increase in income as well as savings is mostly associated with the establishment of economic empowerment because income, savings and employment opportunities were interrelated. The linear relationship among those economic components was also found in findings.

- e) The findings also established that operational assistance from MFIs affected positively the running of the business successfully. That was also one of the reasons of microfinance programs were being popular. It is an effective mechanism, which assisted both lenders and borrowers. The borrowers got the guidelines from the MFI's workers to develop or to run the small business.
- f) It also became evident that there was huge positive difference gauged from performance of small micro enterprises (SMEs) before and after the receipt of loan from MFI. Most of the respondents agreed that they witnessed an increase in assets acquisition, product range, profit and number of employees.
- g) In addition, the analysis illustrated that 95.6% clients of MFIs were women with 89% of them having obtained just had secondary and primary education.



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23% respondents were able to increase their income and provided not only financial help to their families but also had positive impact on other factors of daily life. These poor women brought about a positive change to their financial and social situation and started taking active part in the decision making process of the family and society. The results obtained from the analysis regarding the success of increasing role in decision making process in the family, revealed that microfinance schemes were highly associated with building up of social and economic empowerment.

Microfinance activities were not without negative impact however 4.7% SMEs who through microfinance loans has smoothed living expense and food consumption instead of utilizing the profits from the business for social consumption. These SME owners

were unable to pay the loan and moreover, have claimed that their situation has deteriorated since they started borrowing microfinance loans. They had to borrow loans from the traditional money lenders to pay MFI loans. From that perspective it could be said that microcredit has failed to serve its main purpose for these people. Some clients have developed a loan dependent living pattern. However, it was also found that small micro enterprises (SMEs) with a loan dependent pattern were not trained. One in that regard can safely conclude that without any prior training, disbursing loans to SMEs perpetuated debt dependence and debt trap. In a nutshell debt trap equals vulnerability.

7.3 Recommendations



Based on the above conclusions and the intention of the study that was to weigh the status of socio-economic impact of microfinance on the small micro enterprises (SMEs) in Alfred Nzo district, it is advisable that the proposed following recommendations be taken into account to address the issues confronting the microfinance institutions and its clients.

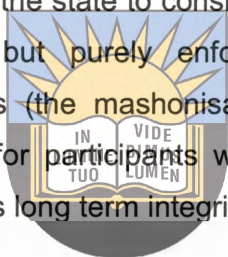
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- a) Insurance be taken by the MFI to cover for the cases of unexpected natural disaster is recommended so that the clients could be able to recover their loss and continue with their businesses as planned.
- b) MFIs need to review their operational strategies such as screening of clients before disbursing the loans, monitoring techniques, adopt a particular technique that would assist in updating and reminding the clients owing MFI, set a credit bureau and develop an electronic networking system.
- c) The study recognized that the core business of Eyethu community finance centre is lending not to a training institution. The institution could also extend its networks to various government departments. However, Eyethu community finance centre could partner or invite training institutions like SEDA and social organizations to conduct the training to both loan officers and the clients. The

trainings may also make use of awareness campaigns, promotion of the development and delivery of improved education materials for prospective borrowers by the microfinance institutions.

- d) Communication between MFIs and clients need to be strengthened, preferable in a relaxed setting where clients can air their complaints and suggestion freely for example through exchange visits and imbizos.

- a) MFI need to consider lobbying the state to consider development orientated regulatory efforts on MFIs but purely enforce necessary regulatory measures on informal lenders (the mashonisas and stokvels). This will promote a smooth transition for participants within the sector where the market is protected and there is long term integrity of the market.



7.4 Areas for further research

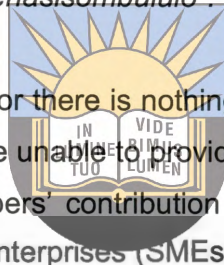
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The current study was based on small sample size taken from one district in the Eastern Cape .Therefore; the results cannot be generalized to other districts in South Africa especially on the analytical terms. Further research done on a bigger scale with large sample size could shed light on how microfinance activities impact on small micro enterprises (SMEs) and social effects of the owners of small micro enterprises (SMEs) in South Africa, analytically. The current study did not entirely consider the reasons of motivation to join the microfinance program. There is also another field, which is not the focus of this study that the supply gap of MFIs and for finding the reasons for the gap between demand and supply in terms of microfinance services. Actually, to what extent the MFIs are capable to deliver their service to the poor people. The study of the development of corporative microfinance may also be explored. Further research could be conducted in this area. Analysis of the regulatory and supervision of developmental microfinance institutions: These areas deserve to be studied by future researchers in the field.

7.5 Conclusion

Conclusively it can be argued that the economic impact has a clear interrelationship with social impact. Improvement of economic conditions directly leads to improvement of social conditions. It also came out that impact of microfinance is more of a positive nature than of a negative nature. The findings suggest that microfinance is silently making a positive contribution towards the improvement of socio-economic conditions of the poor. On the par side and in terms of Xhosa culture there is a say that suggest that *“indoda engenasibaya ayinakuze ibenasisombululo.”*

This say in English means if you are poor there is nothing constructive you can suggest that could build the nation, since you are unable to provide for your own family. This say is practiced because community members' contribution is judged on socio- economic grounds. Once owners of small micro enterprises (SMEs) have acquired assets and are known business women and men they are recognized as dignified constructive human beings by their societies.



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Communities on the other hand need to know that poverty is not created by poor people. It has been created and sustained by the political, cultural, economic and social system that were designed; the institution and, the policies. Findings suggested that depending solely on the income of your husband somehow makes you to play an inactive role in the decision making. Whereas, doing the businesses bought the independence and saved women from ill-treatment from their spouse. On a similar note the Krishna, Uphoff and Esman (1997:17) indication that loans made to women bring more benefits to the household, as women tend to be more farsighted and more concerned with the long-term security of the household. A woman usually gives first priority to her children and her second priority is the household. To help poor households, loans could be given more to women than to men as they are likely to build a future for their children.

The women in Alfred Nzo district have to start being involved in development projects and they should make efforts in attending community meetings and contribute to their own development. If they do not come forward, their needs will not be known and they will not be involved in development planning. They have to realize that the power is on their own hands and they have to make all the effort to make sure that they improve their living standards. They should also know that participation in projects is very important but it should not just be participating in projects that were planned by other people but their involvement from the early stages of the projects.

The institutions and government departments that are responsible for developing Alfred Nzo district and other rural areas should always join hand and consider the comparative and the competitive advantage the region has. The joint venture that are geared for social and economic development of rural areas like Alfred Nzo district should be able to handle the needs of the community and adapt to the structures of the community. Handouts only perpetuate dependency and encourage communities to fold their arms and wait for government to support them.



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Development practitioners and academics have shown a resurgence of interest in indigenous knowledge and indigenous organizations. This therefore provides the firm foundation of stating with and building on what you have and know before exploring complex foreign development oriented initiatives that may not suit the socio economic condition of your region.

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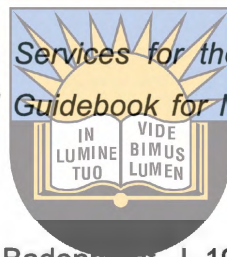
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Appendix A: A letter to request permission to collect data

2009-12-12 13:41

EYETHU

0392551006 >>

P V1

University of Fort Hare

FACULTY OF MANAGEMENT AND COMMERCE

Alice (main) Campus:
Private Bag X1314, King William's Town Rd, Alice, 5700, RSA
Tel: +27 (0) 40 602 2533 - Fax: +27 (0) 40 653 1007



8 July 2009

Eyethu Community Development Centre
P.O Box 92067, Mount Frère, 5090

Dear Mr Gwiliza

Re: Request to collect data from the SMEs working with Eyethu Community Development.

I hereby request permission and assistance in collection of data by conducting interviews and administering of questionnaires to selected SMEs pertaining to the stated research topic. The research topic is "An assessment of socio-economic impact of microfinance on the SMEs at the Alfred Nzo District". However, I am currently in the closing stages of my Master of Public Administration (63003) degree with the University of Fort Hare under the Faculty of Management and Commerce. In accordance with the programme requirements, as a post-graduate student I am to undertake a research.

I would also like to assure your organization that all those who will be partaking in the data collection process will be treated with respect and that all the data collected will be used for academic purposes.

Your support will be highly appreciated.

Ms P.P. Dzingwe

Masters student (9755535)

Approved Not Approved

Comments

*EYETHU WISHES YOU THE BEST IN YOUR RESEARCH
YOU CAN CONTACT THE OFFICE ANYTIME YOU NEED
ASSISTANCE. GOOD LUCK*

The Chief Executive Officer

Signature

Date

L.M. GWILIZA

10/07/2009

Bhisho Campus:

P.O. Box 1153, KWT 5600, Independence Ave, Bhisho, 5600, RSA
Tel: +27 (0) 40 639-2445 - Fax: +27 (0) 40 639-2447

East London Campus:

P.O. Box 7426, 50 Church Street, East London, 5201, RSA
Tel: +27 (0) 43 704-7000 - Fax: +27 (0) 43 704-7095
VIC Dial Up: +27 (0) 43 754-7143/7144

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www.uft.ac.za

Appendix B: A letter from the supervisor

Mr Ggoboka
E-mail address: Eyethu.fin@TelkomSA.net
Cc: Pels@thecricket.co.za

From: Prof. R.H. Nengwekhulu

SUBJECT: CONFIRMATION OF PELEKA DZINGWE'S STUDENT STATUS

1. This is to confirm that Peleka Dzingwe a registered student for the Masters Degree in Public Administration of the University of Fort Hare.
2. She is currently working on her dissertation of Micro Finance.
3. I am the supervisor for the said dissertation.
4. I would like to request you to allow her to collect data essential for her research.
5. The data will be used for academic purposes only and in instances where confidentiality is required, the student will respect that confidentiality.



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Thank you


Prof. R.H. Nengwekhulu

Cell: 082 808 4020

Appendix C: Questionnaire

University of Fort Hare

“Assessment of socio-economic impact of microfinance on
SMEs at Alfred Nzo District”

Questionnaire

Dzingwe P.P (9755535)



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2009

QUESTIONNAIRE

Instructions

This questionnaire has got 3 sections that comprise of closed and open –ended questions. In each section, clear guiding instructions are provided. Please note that all questions must be answered; where you are given options to choose amongst diverse answers please choose only one answer that best explains your option. Whereas, on narrative parts please be precise: *use of bulleted answers might assist in this regard*. It will take approximately 10-15 minutes to complete. Please be acknowledged that the information given will be treated as of high confidential nature and will in no way be divulged to a third person without your consent. Note that you may remain **anonymous**.

Section 1

Please write in full



1.	Name of the business
2.	Surname and your initial (you may remain anonymous)
3.	Position
4.	Municipality

Please tick (✓) on the box that appropriately explains yourself in all questions.

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5. What is your gender?

Male Female

6. Which age category do you belong to?

Less than 25 years (25-40) years 40 and above

7. Indicate your level of education

No formal education Secondary Matric Post Matric

8. How many family members do you have?

Less than 2 members (2-5) Members More than 5 Members

9. What is the source income in your family?

Pension Social Service Grants Remittances Other

10. What how much income does your household receive per month?

Less than R1000 (R1100-R2000) More than R2000

11. How much is your family expenditure per month?

Less than R1000 (R1100-R2000) More than R2000

Section 2

Kindly note that in this section you need to circle the number, which accurately reflects your opinion. The numbers of following table indicates the degree of satisfaction or agreement level (on a scale of 1-5*) of the SME or a person after he or she has received loan from a microfinance institution. * '1' represents the lowest level of satisfaction or high disagreement, whereas '5' represents the highest level of satisfaction or high agreement

No	Statement	Optional Answers
12.	The rate of interest of micro credit is reasonable	Strongly disagree ←————→ strongly agree 1 2 3 4 5
13.	The procedure of obtaining loans from MFIs is easier than conventional banking	Strongly disagree ←————→ strongly agree 1 2 3 4 5
14.	The income has increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
15.	The savings has increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
16.	Better access to education	Strongly disagree ←————→ strongly agree 1 2 3 4 5
17.	Better access to healthcare	Strongly disagree ←————→ strongly agree 1 2 3 4 5
18.	Better Financial situation of the family	Strongly disagree ←————→ strongly agree 1 2 3 4 5
19.	Role in decision making process has increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
20.	Operational assistance received from MFIs was helpful to run the business	Strongly disagree ←————→ strongly agree 1 2 3 4 5
21.	Employment opportunities have increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
22.	Improvement in the living standard of the family	Strongly disagree ←————→ strongly agree 1 2 3 4 5
23.	MFIs offer shark loan	Strongly disagree ←————→ strongly agree 1 2 3 4 5
24.	MFIs provides a reliable source of finance to Small micro enterprises (SMEs)	Strongly disagree ←————→ strongly agree 1 2 3 4 5

Appendix D: interview schedule

University of Fort Hare

“Assessment of socio-economic impact of microfinance on
SMEs at Alfred Nzo District”

Interview Schedule

Dzingwe P.P (9755535)



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2009

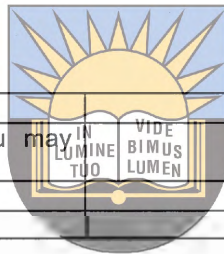
QUESTIONS

Instructions

This questionnaire has got 3 sections that comprise of closed and open –ended questions. In each section, clear guiding instructions are provided. Please note that all questions must be answered; where you are given options to choose amongst diverse answers please choose only one answer that best explains your option. Whereas, on narrative parts please be precise: *use of bulleted answers might assist in this regard*. It will take approximately 10-15 minutes to complete. Please be acknowledged that the information given will be treated as of high confidential nature and will in no way be divulged to a third person without your consent. Note that you may remain **anonymous**.

Section 1

Please write in full



1.	Name of the business	
2.	Surname and your initial (you may remain anonymous)	
3.	Position	
4.	Municipality	

Please tick (✓) on the box that appropriately explains yourself in all questions.

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5. What is your gender?

Male Female

6. Which age category do you belong to?

Less than 25 years (25-40) years 40 and above

7. Indicate your level of education

No formal education Secondary Matric Post Matric

8. How many family members do you have?

Less than 2 members (2-5) Members More than 5 Members

9. What is the source income in your family?

Pension Social Service Grants Remittances Other

10. What how much income does your household receive per month?

Less than R1000 (R1100-R2000) More than R2000

11. How much is your family expenditure per month?

Less than R1000 (R1100-R2000) More than R2000

Section 2

Kindly note that in this section you need to circle the number, which accurately reflects your opinion. The numbers of following table indicates the degree of satisfaction or agreement level (on a scale of 1-5*) of the SME or a person after he or she has received loan from a microfinance institution. * '1' represents the lowest level of satisfaction or high disagreement, whereas '5' represents the highest level of satisfaction or high agreement

No	Statement	Optional Answers
12.	The rate of interest of micro credit is reasonable	Strongly disagree ←————→ strongly agree 1 2 3 4 5
13.	The procedure of obtaining loans from MFIs is easier than conventional banking	Strongly disagree ←————→ strongly agree 1 2 3 4 5
14.	The income has increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
15.	The savings has increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
16.	Better access to education	Strongly disagree ←————→ strongly agree 1 2 3 4 5
17.	Better access to healthcare	Strongly disagree ←————→ strongly agree 1 2 3 4 5
18.	Better Financial situation of the family	Strongly disagree ←————→ strongly agree 1 2 3 4 5
19.	Role in decision making process has increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
20.	Operational assistance received from MFIs was helpful to run the business	Strongly disagree ←————→ strongly agree 1 2 3 4 5
21.	Employment opportunities have increased	Strongly disagree ←————→ strongly agree 1 2 3 4 5
22.	Improvement in the living standard of the family	Strongly disagree ←————→ strongly agree 1 2 3 4 5
23.	MFIs offer shark loan	Strongly disagree ←————→ strongly agree 1 2 3 4 5
24.	MFIs provides a reliable source of finance to Small micro enterprises (SMEs)	Strongly disagree ←————→ strongly agree 1 2 3 4 5

Section 3

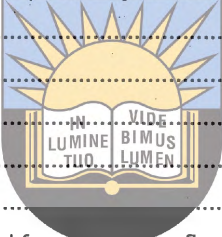
Kindly make short comments on the following questions:

25. What is the total amount of microcredit you have taken so far?

26 What did you do with the money?.....

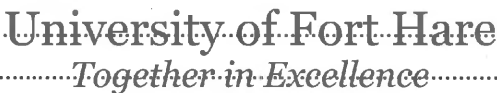
27. What are the improvements that have taken place in your business?

.....



28. What are the problems that you have faced for using microfinance?

.....



29. Have you received any practical and extra-palatable training from the MFI ?..... if yes list them

.....

30. How many male and female members that are in the management position of the business?

31. What kind of difference do you see now that you have been working with MFI in your business

(Please compare the following to the time when you were not working with MFI)

Past previous

Assets.....		
Product range		
Profit		
No of employees		

Thank you very much for your cooperation!