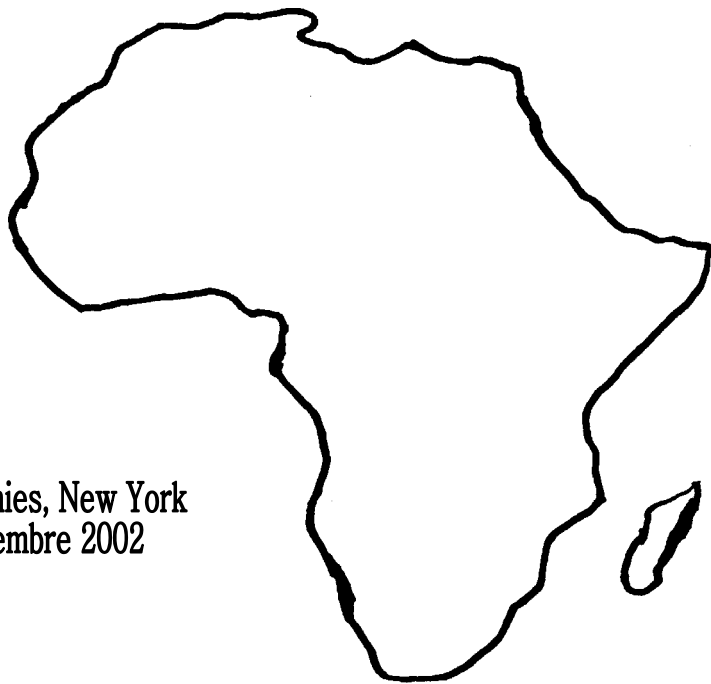


Africa Advocacy Forum II: Microcredit – A Solution for Africa?

United Nations, New York
14 November 2002



Nations Unies, New York
14 novembre 2002

**Forum du plaidoyer pour l'Afrique II:
Microcrédit – une solution pour l'Afrique?**

Office of the Special Coordinator for Africa and the Least Developed
Countries (OSCAL)

Africa Advocacy Forum II:
Microcredit – A Solution for Africa?
United Nations, New York
14 November 2002

Co-Organized by the United Nations
Office of the Special Coordinator for Africa and the Least Developed Countries (OSCAL/DESA)
Division for ECOSOC Support and Coordination (DESC/DESA)
Office of the High Representative for the Least Developed Countries, the Landlocked Developing Countries and
Small Island Developing States (OHRLLS)
The Graduate Center of the City University of New York



United Nations • New York

KOFI ANNAN
SECRETARY-GENERAL OF THE UNITED NATIONS

MESSAGE TO THE “MICROCREDIT SUMMIT + 5”

Microcredit is a critical anti-poverty tool and a wise investment in human capital. Now that the nations of the world have committed themselves to reducing by half, by the year 2015, the number of people living on less than a dollar a day, we must look even more seriously at the pivotal role that sustainable microfinance can play, and is playing, in reaching this Millennium Development Goal.

The global effort launched in 1997 to highlight the wide-ranging benefits of microcredit has found strong resonance in the United Nations General Assembly, which declared 2005 to be the “International Year of Microcredit”. The last five years have also seen grassroot community development organizations and the financial services sector working more and more closely together, creating partnerships that provide the financial services the very poor require to work their way out of poverty and move towards self-reliance, while ensuring that successes and failures are quantified.

The phenomenal growth in the number of microcredit beneficiaries represents the combined achievements of thousands of innovative institutions around the world, the tens of thousands of their dedicated staff. The United Nations system is proud to be your partner in this work, and you can count on our support as you continue your efforts to achieve your goal of reaching 100 million of the world’s poorest households by the year 2005.

In this spirit, please accept my best wishes for a successful summit.

(Messaged delivered by Mr. Anwarul K. Chowdhury, Under-Secretary-General and High Representative of the Secretary-General for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States. New York, 10 November 2002)

AFRICA ADVOCACY FORUM II

Microcredit – A Solution for Africa?

Summary and Follow-up

Following the Microcredit Summit + 5 held in New York on 10 – 13 November 2002, Africa Advocacy Forum II was organized on November 14, 2002, by the Office of the Special Coordinator for Africa and the LDCs (OSCAL/DESA), in collaboration with the Division for ECOSOC Support and Coordination (DESC/DESA), the Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS) and the Graduate Center of the City University of New York.

The forum was co-chaired by Mr. Anwarul K. Chowdhury, Under-Secretary-General and High Representative of the Secretary-General for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, and H.E. Matia Mulumba Kamakula Kiwanuka, Permanent Representative of Uganda to the United Nations. The co-chairs were introduced by Mr. Ejeviome Eloho Otobo, on behalf of Ms. Yvette Stevens, Special Coordinator.

Africa Advocacy Forum II benefited from the high-level participation of H.E. Mrs. Isatou Njie Saïdy, Vice President, the Gambia; Mrs. Hajiya Aisha M.S. Ismail, Minister of Women Affairs and Youth Development, Nigeria; former first lady of Ghana, Mrs. Nana Agyeman-Rawlings. Mr. Sam Daley-Harris, the Executive Director of Microcredit Summit organization, representatives of UN missions and organizations, NGOs, Academia, Young Professionals Association, as well as African practitioners who attended the Microcredit Summit+5 also attended. Representatives from the Missions of Japan and Finland to the United Nations actively participated to the Forum.

Participants put microfinance issue into a global context. They acknowledged the critical role of microfinance in mobilizing resources for the implementation of NEPAD. They highlighted the importance given to microfinance, as a tool for poverty eradication, in General Assembly resolution 52/194 of December 1997 and the Monterey Conference on Financing for Development (March 2002). They recalled the ECOSOC resolution 1998/28 that dedicated year 2005 as an international year of microfinance. To the question **Microcredit – A Solution for Africa? They answered, YES, a solution but not the only Solution.**

Consensus emerged that successful microfinance operations relied upon the existence of enabling environment consisting of efficient and adequate infrastructures, health related schemes, insurance policies, adequate regulatory framework, sound macro-economic environment and financial stability, as well as a greater involvement of civil society.

Moreover, the informal economy, which represents more than half of the African economies, should be put at the heart of the development process in the region. As far as the outreach of microfinance is concerned, it was also mentioned that youth, women, poorest of the poor, and rural population had not received enough attention and focus.

The forum recommended that microfinance operations should capitalize on the existing African knowledge and practises while learning from other countries' experiences. In the same vein, there was a suggestion to create a unified front of African microfinance institutions, researchers, trainers and financial supporters to network at the Microcredit Summit and other international fora to support African practitioners. Impact assessment was pointed out as an important tool to assess the progress made in reaching the goals of microfinance.

This report is presenting the fruitful debate that took place. Statements, research papers, comments and observations will appear in the language in which they were presented.

FORUM DU PLAIDOYER POUR L'AFRIQUE II
Microcrédit: Une Solution pour l'Afrique?
RESUME ET SUIVI

Suite au Sommet sur le Microcredit +5 tenu à New York du 10 au 13 novembre 2002, le Bureau du Coordinateur Spécial pour l'Afrique et les PMA, en étroite collaboration avec la Division de l'appui au Conseil Economique et Social et de la Coordination, le Bureau du Haut Représentant pour les Pays les Moins Avancés, les Pays en Développement sans Littoral et les Petits Etats Insulaires en Développement (OHRLLS, en anglais) et du Centre du Troisième Cycle de L'Université Municipale de New York, a organisé un Forum de Plaidoyer pour l'Afrique II.

Le Forum a été co-présidé par Mr. Anwarul K. Chowdhury, Secrétaire Général Adjoint et Haut Représentant du Secrétaire Général pour les Pays les Moins Avancés, les Pays en Développement sans Littoral et les Petits Etats Insulaires en Développement, et Son Excellence Matia Mulumba Kamakula Kiwanuka, Représentant Permanent de l'Ouganda auprès des Nations Unies. Les deux co-présidents ont été introduits à l'assistance par Mr. Ejeviome Eloho Otobo, au nom de Madame Yvette Stevens, la Coordinatrice Spéciale.

Le Deuxième Forum de Plaidoyer pour l'Afrique a bénéficié de la participation de personnalités de premier rang, en l'occurrence de Ses Excellences Madame Isatou Njie Saidy, Vice-Présidente de la Gambie, Madame Hajiya Aisha M.S. Ismail, Ministre de la Femme et la Jeunesse du Nigeria, et Madame Nana Agyeman-Rawlings, Ex-Première Dame du Ghana. Monsieur Sam Daley-Harris, le Directeur Exécutif de l'organisation du Sommet du Microcrédit, des représentants des états membres, d'autres organisations du système des Nations Unies, des ONG, du milieu académique, de l'Association des Jeunes Professionnels, et d'autres praticiens africains de microfinance étaient également du rendez-vous.

Les participants ont recentré la microfinance dans un contexte global. Aussi, ont-ils reconnu le rôle crucial que pourrait jouer la microfinance dans la mobilisation des ressources nécessaires à la mise en œuvre du NOPADA. Ensuite, ils ont fait mention de la résolution 52/194 de décembre 1997 et de la Conférence de Monterrey sur le Financement du Développement de mars 2002 qui reconnaissent en la microfinance un instrument adéquat au service de l'éradication de la pauvreté. Enfin, ils ont rappelé la résolution 1998/28 du Conseil Economique et Social qui a décrété l'an 2005 Année Internationale de la Microfinance. A la question **Le Microcrédit : Une Solution pour l'Afrique ? Les participants ont répondu, OUI, une Solution mais pas la Seule Solution.**

Il ressort du forum que le succès des activités de microfinance est tributaire de l'existence d'un environnement propice, singulièrement de bonnes infrastructures, de mécanismes prenant en compte les besoins en santé et en couverture sociale, d'un cadre réglementaire adéquat, d'un cadre macroéconomique et financier assaini et d'une plus grande implication de la société civile.

De plus, les participants ont demandé à ce que l'économie informelle, représentant plus de la moitié des économies africaines, soit au cœur de tout processus de développement sur le continent. En ce qui concerne la population cible, les participants ont souligné le peu d'attention accordé à la jeunesse, les femmes, les plus pauvres parmi les pauvres et la population rurale dans les activités de microfinance.

En guise de recommandations, le forum suggère que les activités de microfinance prennent appui sur le savoir et les techniques locales disponibles tout en étant ouvertes aux expériences étrangères. Dans le même ordre d'idées, le Forum appelle à la création d'un front uni regroupant des institutions africaines de microfinance, des chercheurs, des formateurs, des financiers. L'objectif d'un tel front serait de tisser des liens et plaider en faveur des praticiens africains au Sommet sur le Microcredit et aux autres assises internationales. Une analyse d'impact a été identifiée comme un instrument important permettant d'apprécier les progrès enregistrés par rapport aux objectifs de microfinance.

Ce rapport présente le débat fructueux qui a eu lieu durant le Forum. Les discours, les documents de recherche, les commentaires et les observations apparaîtront dans la langue où ils ont été exposés.

Table of Contents

Secretary-General's Message to the Macrocredit Summit + 5	4
Summary and Follow-up	5
Resumé et Suivi	6
Session One: Opening Statements	8
Session Two: Efforts.....	15
Session Three: The Way Forward.....	34
Session Four: Comments & Observations	56
ANNEXES	
UN/OSCAL MODEL	71
Microfinance Research Project Report	87

* The texts appear in the language in which they were presented
Les textes apparaissent dans la langue de presentation

SESSION ONE:
OPENING STATEMENTS

Introductory Remarks

Mr. Ejeviome E. Otobo
Principal Economic Affairs Officer
OSCAL/DESA

Opening Statement

United Nations activities since the last Microcredit Summit
Mr. Anwarul K. Chowdhury, Under-Secretary-General and High Representative
for the Least Developed Countries, Landlocked Developing Countries and Small
Island Developing States

Opening Statement

Microcredit and Poverty Eradication: Mixed results in Uganda
H.E. Matia M. Semakula Kiwanuka, Permanent Representative of
Uganda to the UN

Introductory Remarks

by

Ejeviome Eloho Otobo
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I am pleased to extend a very warm welcome to all of you attending, the Second Africa Advocacy Forum. We thank you for honouring our invitation.

My name is Ejeviome E. Otobo, standing in for Ms. Yvette Stevens, Special Coordinator for Africa, who is unavoidably absent owing to the need to attend to some other pressing commitments.

The convening of this Second Africa Advocacy Forum on Microcredit follows a tradition in which OSCAL has organized a Microcredit Forum immediately after each Microcredit Summit. Thus, OSCAL organized the First Africa Advocacy Forum on 6 February 1997 after the First Microcredit Summit in Washington on 2-4 February 1997.

By convening these Advocacy Forums, OSCAL is fulfilling a key component of its mandate, namely to assist the UN Secretary General in his advocacy role in support of Africa's development. Consensus has evolved that poverty reduction should be the major goal and, indeed, the yardstick of development. Microcredit can make an important contribution to the realization of the goal of poverty reduction. This Forum affords an opportunity to put the spotlight on the role and importance of microcredit in Africa.

Today's Forum has two distinguished personalities as its co-Chairs. The first co-Chair is Mr. Anwarul Chowdhury, Under-Secretary-General and High Representative for the Least Developed, Landlocked Developing and Small Island Developing Countries. Prior to assuming his present position, Mr. Chowdhury has had a long and distinguished career in the government of his country, Bangladesh; including a tour of duty as Permanent Representative of Bangladesh to the United Nations. As you all know, Bangladesh is home to the Grameen Bank – one of the most successful microcredit organizations in the world.

The second co-Chair is H.E Matia M.S. Kiwanuka, the Permanent Representative of Uganda to the United Nations. Ambassador Kiwanuka has held his current position for 6 ½ years. Prior to assuming the current position, Ambassador Kiwanuka was in the academia.

It is a pleasure to ask Mr. Chowdhury to deliver his remarks and assume his role as the Chair of the first part of this meeting.

Summary of the Opening Statement

by

Mr. Anwarul K. Chowdhury

USG, OHRLLS

Tel: 963-9078

Greetings

Welcomed participants on behalf of the United Nations and all co-organizers to the Africa Advocacy Forum II (AAFII).

Recognized the presence of the Vice-President of the Gambia

Recalled the First Microcredit Summit in 1997 and appreciated the participation of the Executive Director of the Microcredit Summit Organization, and his willingness to personally brief AAFII on Microcredit Summit + 5, with emphasis on Africa.

Recognized the presence of donor countries including Japan and Finland and their interest in Microcredit.

Recognized co-chair, Ambassador Matia Mulumba Semakula Kiwanuka of Uganda and the efforts of his country to use microcredit in rural areas.

Welcomed the presence of representatives of City University of New York as a sign of partnership between UN and Academia in shaping the thinking and activities towards poverty eradication in Africa.

Recognized the presence of African practitioners whose experience will shape our actions and thinking.

Congratulated OSCAL for creating this forum, which meets immediately after each Microcredit Summit, to allow the UN to sharpen its advocacy and commitment to Africa and to microcredit as an important tool for poverty eradication.

United Nations Actions since the last Summit

Immediately after the First Summit in 1997, the UN General-Assembly adopted resolution 52/194 of 18 December 1997 entitled *Role of Microcredit in the Eradication of Poverty*. The following year the ECOSOC resolution 1998/28 declared 2005 as the International Year of Microcredit.

This legal base led various organizations of the UN system to launch or support projects in Africa, each according to their specific mandate including: UNIFEM, UNCDF, UNFPA, UNICEF, UNDP, ILO, etc.

With the support of Japan, OSCAL developed a Microfinance Model, which combines the best practices of traditional, and modern microfinance approaches towards poverty eradication. We will hear more about it in the course of this meeting.

This vast activity by the United Nations shows a strong commitment and the assurance that, by the year 2005, many of the set goals will be achieved.

Microcredit: A Solution for Africa?

Africa has a large number of Least Developed Countries (34/49), which means a major concentration of the poorest of the poor. Microcredit's role as a poverty eradication tool needs considerable strengthening in Africa. The Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States (OHRLLS) will work with all relevant partners, including OSCAL to strengthen microcredit institutions in Africa.

Africans have a tradition and local institutions that are used to pooling, finances, human, material and technical resources together to solve local problems. This already existing capacity and these local institutions must be strengthened through the microcredit.

At the time when the United Nations has decided to support African Development through the New Africa's Partnership for Development (NEPAD), we need to place microcredit in the context of the global mobilization of resources needed.

The success of the United Nations efforts regarding microcredit will come through increased advocacy, better coordination of initiatives of organizations of the UN system, increased donor support, and increased efforts to ensure that resources generated through the microcredit campaign are strictly utilized for poverty eradication.

OPENING STATEMENT

by

**H.E. AMBASSADOR SEMAKULA KIWANUKA
(CO-CHAIR)**

Permanent Mission of the Republic of Uganda to the United Nations
New York

H.E. the Vice President of the Gambia, Hon. Ministers,
H.E. the Under Secretary-General/
High Representative for Least Developed Countries,
Landlocked Developing Countries and Small Island Developing States (Co-Chair),
The Executive Director and Coordinator of
Microcredit Organisations,
Mr. Sam Daley-Harris,
The Director of OSCAL and the Organisers,
Madame Ruth Bamela Engo, Senior Economic Affairs Officer,
Distinguished ladies and gentlemen,

I am particularly honoured to **CO-CHAIR** this very important Africa Advocacy Forum II.

Madame vice President, we are honoured to have you in our midst.

I shall preface my remarks with the title, “**POVERTY ERADICATION: A WAR THAT AFRICA MUST WIN.**”

The persistence of mass poverty in the 21st Century is the biggest challenge that faces the world.

It is a war that Africa must fight and win. It will be a slogging war because poverty is rooted in all sectors. Because it is multisectoral, that makes it **STRUCTURALLY** intractable.

The war must be seen as a long-term struggle that calls for determined commitment by Governments and the International Community.

WHY CALL IT A WAR? I have used this expression deliberately. When a country faces a war or is in a war-like situation: (a) it directs all its energies; (b) all its resources and commitment; and (c) to a single issue of fighting the war and winning it.

The PRIORITY: Poverty eradication must, therefore, be a top priority on all governments’ agenda in Africa.

WHY FAILURES IN THE PAST?

1. Not appreciated by national governments and donor community that poverty was multisectoral and therefore, the war had to be waged on many fronts.
2. Did not appreciate that there was no Blue Print and therefore there was no single tool.
3. No targets or goals or time frames were set.
4. Not appreciated that money or financial resources alone, though important, they were not sufficient.
5. The strategy, therefore, **MUST BE FINANCIAL RESOURCES PLUS.**

THE NEW STRATEGIES

1. The situation is very encouraging today because the problems and linkages are better understood and can thus be identified.
2. **FINANCIAL RESOURCES PLUS:** It was not always lack of resources. The problem was and still is how those resources are **TARGETED AND MANAGED. (EXAMPLES AND CAUSES OF FAILURE)**
3. There was lack of focus as to:
 - (a) who received the money.
 - (b) what it did or how it was used or managed.
 - (c) There was no regulatory framework by Government.
 - (d) Donors imposed their models.
 - (e) Policies were not owned due to minimal participation by the recipients.
 - (f) Government took no interest in the rates of interest charged. These were often prohibitive;
 - (g) Elite women as major beneficiaries. These include elected councillors.
 - (h) Educated youths whose ambitions are further education, a new motorcycle, etc.
 - (i) Both these classes are not the wealth producers and pouring resources into them has resulted in minimum impact.
 - (j) These two categories are not the ones to be lifted from poverty.

TO MAKE IMPACT: MICROCREDIT must be targeted to wealth producers. These are: (a) the rural poor especially women and the youth and (b) the urban poor, especially women and the youth.

FINANCIAL RESOURCES PLUS AND MICROCREDIT. Plus What are the ADD ON or the PLUSES?

There is need for a unified or integrated approach which consists of:

1. **ROLE OF GOVERNMENT**
 - (a) First and foremost, creates an enabling environment.

- (b) Public sector investment in infrastructure – roads, energy or power, water, health services, education. (Important to understand the needs and worries of poor people.
 - (c) Government need to put legislation or a legal framework in place to regulate the activities of NGOs and other non bank financial institutions.
2. The role of the Community as recipients.
 3. The Role of Donors.

The Millennium Development Goals

The Secretary-General said at the opening of the Microcredit Summit that the UN System was proud to be “your partner”. The MDGs have come at a time when the problems of poverty and development are better appreciated. Indeed the MDGs comprise a package. To my mind, they include the FRONTS of the Poverty War. Examples of Uganda in Education, gender empowerment, HIV/AIDS.

WHAT IS STILL MISSING OR THE MISSING LINKS

1. Lack of focus on Agricultural development and modernization.
2. Lack of focus on rural development both by national Governments and by Donors, and yet this is where 60% to 80% of the people live and most are poor.
3. Lack of focus on energy – even in the MDGs.

THE INFORMAL SECTOR (I.S.)

WOMEN AND YOUTHS are entering this sector in very large numbers. Unfortunately, there is lack of focus in national plans and by many donors on this vital sector. And yet, the I.S. acts as a buffer against unemployment, allowing:

- (a) An increasing number of people to earn a living (largest employer)
- (b) I.S. plays a very big role in cushioning the adverse effects of economic down turns.

MICROCREDIT should be directed much more to this sector.

Role of Microcredit or Microfinance

1. An effective tool to assist and empower 80% of the poor.
2. Contribute to the growth of the financial system in the country.
3. Helps growth of subsectors.

SESSION TWO:

EFFORTS

***Mobilization of resources for poverty eradication: Main Pillars of the OSCAL
Microfinance Model and paragraph 148 of NEPAD***

Ms. Ruth Bamela Engo, Senior Economic Affairs Officer, OSCAL/DESA

Strengthening local business: Credit and Capital needed for small entrepreneurs

Ms. Esther Agbodo Nyamalor, President of Women Entrepreneurs Guarantee Fund
Ltd (WEGFL), Ghana

Microfinance, Agricultural Output and Food Security

Mr. Edem Y. Tsogbe, Ph.D, Lecturer, Howard University,
Department of Economics

Mobilization of Resources for Poverty Eradication:
Main Pillars of UN/OSCAL
Model and paragraph 148 of NEPAD

by

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I just want to add my thanks to all who are joining us here today, specifically those who went through a very busy and informative Summit this week. I would particularly like to thank Mr. Daley-Harris for accepting to be here this morning. His commitment to this process is a strong model for all who work toward poverty eradication. The animated discussion that just took place is the same type of debate registered during the first Africa Advocacy Forum in 1997. It probably means that Africa Advocacy Forum and the Microcredit Summit are complementary concepts.

One thing that we kept hearing in relation with microcredit during the last five years is, that though there is still a great need to mobilize funds to meet the goals set by the Microcredit Campaign, available funds have not been oriented to poverty eradication projects. The concept of active poor led to the marginalization of the poorest.

The other aspect of the problem is that, when some funds finally reach the poorest, the level of management of these funds is not sufficient enough to boost the results. **Consequently, who receives funds and how they are managed have emerged as major challenges for the African region.**

1. HOW DID OSCAL FIND ITSELF IN THIS PROCESS?

- a) Because of OSCAL's mandate as outlined by my colleague Mr. Ejeviome E. Ootobo at the opening session. In this capacity, OSCAL follows debates and trends and in partnership with other organizations of the UN system, encourages viable trends as part of its advocacy role.
- b) Also, in the early 1990s, well before the first Microcredit Summit and as part of an effort to mobilize resources for African development, the UN General Assembly asked the Secretary-General to produce a report on Financial Intermediation putting an emphasis on African traditional savings systems and the need to strengthen them.

- c) OSCAL's participation to the First Microcredit Summit and the support of the Government of Japan (as part of the TICAD process) led to a search of a methodology that would focus on domestic mobilization of resources for the poorest of the poor with an objective of strengthening their own local institutions.

2. DIFFERENT STEPS IN BUILDING OSCAL's MODEL:

Phase I: A preliminary desk research presented in a publication titled: **Microfinance and Poverty Eradication: Strengthening Africa's Microfinance Institutions** (UN/OSCAL, 2000). Over 85 microfinance fact sheets were compiled examining successful and unsuccessful microfinance initiatives in Africa, as well as non-African and international initiatives. Emphasis was placed on identifying strategies for a microfinance model responding to Africa's realities.

Phase II: Women, Microcredit and Poverty Eradication (Ethiopia, Cameroon, Nigeria): Three one-week observation missions were undertaken in 1999 – 2000 to examine initiatives from three different Africa sub-regions, each culturally different in language, population distribution and management skills. Besides the learning process that was a step in the process of building a model, each of these women's groups received a small grant that enabled them to consolidate their efforts to eradicate a common aspect of poverty in their community. In Ethiopia, it allowed a group of small entrepreneurs to match funds and start buying their raw material in bulk, leading each of them to a substantial savings. In Nigeria, it allowed villagers to match funds to bring a medical doctor four times a month in a village of 2000 people, bringing health and well being to all. In Cameroon, it allowed a village to match funds to send all children to primary school and to give them a meal 5 days a week, achieving universal primary school with healthy children.

Phase III: Experts-Group Meeting on Microfinance and Poverty Eradication in Africa (Addis Ababa, 25-29 September 2000). This meeting provided a platform for African practitioners of Microfinance to exchange experiences and lessons among themselves and with other international experts. The meeting reviewed the main pillars of the UN/OSCAL Model.

Phase IV: With the support of UNDP/Africa Bureau, the Model was field-tested by the Department of Economics, University of the Western Cape, Cape Town, South Africa. Using it as a Masters Degree research for four students. Two of these students are adult students who are already involved in poverty projects in their communities.

The results of the field test are presented in a research report (see Annex II). Findings indicate that OSCAL model's four pillars were important factors of success in the MFIs operations reviewed.

3. UN/OSCAL MODEL: (see Annex I)

Drawing upon the dialogue and discussion of the Experts-Group meeting, and building upon the findings of previous phases of this project, a model/methodology was proposed under the title: **Microfinance in Africa: Combining the Best Practices of Traditional and Modern Microfinance Approaches towards Poverty Eradication**. As the title reflects, emphasis was placed on looking inwards and building upon Africa's inherent potential, and reinforcing this

methodology with the innovations and lessons of modern microfinance practices for the African context. It is understood that African microfinance is as diverse as the continent itself. Consequently, the following model is not proposed as an inflexible blueprint for micro finance initiatives. Microfinance must maintain its innovative edge, adjusting to the specific cultural, political, and economic settings in which it operates. Allowing for such diversity, the methodology proposed as a guideline to assist African microfinance initiatives, drawing upon lessons from and for the African context. The main ideas are presented in four principles:

- a) **Principle 1: Strengthening local institutions by pooling resources.** For example by joining forces, members of the group send all children to school, or gave them one meal a day; join forces to bring a doctor or nurse in a village, instead of each individual trying and may be not succeeding to see a doctor; join forces for business people to buy in bulk, instead of bearing heavy cost of raw material alone. This is traditional solidarity adapted to modern conditions.
- b) **Principle 2: Strengthening local institutions by building on what people know.** School for an African is always a process that goes from the unknown to the unknown. School in Africa is learning about who other people are and what they do. Never about who Africans are and what they do. This creates a lot of stress and confusion. Therefore the second principle of this model stresses the need to strengthen what people know already.
- c) **Principle 3: Reinforce microfinance to empower the African private sector.** By identifying viable micro entrepreneurs with whom to provide either start up capital, working capital or expansion capital, microcredit can nurture a future class of independent entrepreneurs.
- d) **Principle 4: Striving for efficiency,** which include the culture of maintenance, better management, marketing, local governance. One of the conclusions of our observation missions was that the United Nations should create a DECADE FOR MAINTENANCE IN AFRICA. A lot of money is spent on replacement of tools that are either lost or not maintained. A culture of maintenance will probably save more than 15% of local institutions' resources.

4. PARAGRAPH 148 OF NEPAD AND MICROFINACNE

We wanted to associate para. 148 of NEPAD in this debate. This paragraph deals with issues related to mobilization and management of resources. It deals mainly with public and private sectors. We believe that national and international policies in support of NEPAD should encourage local savings through microfinance. At the time when NEPAD has become the framework of cooperation with Africa, microcredit can consolidate the concept of ownership.

5. CONCLUSIONS:

- a) The model needs additional testing in other African sub-regions. We would like to continue our partnership with African Universities, so that they get used to working on local issues.
- b) The cooperation that OSCAL benefited from other UN entities, including UNDP, UNIFEM, UNFPA, UNCDF, and UNOPS should be strengthened and expanded.
- c) The donor support, basically from the Gouvernement of Japan made the process possible. We hope that this example will be pursued and emulated by other donors. Donor support is needed to build up appropriate institutions and mobilization of domestic resources.
- d) We look forward to the year 2005, with the hope that the combination of the Micro credit campaign and the Millennium Development Goals will lead to accelerated poverty eradication in Africa.
- e) Advocacy should be grounded on a continuous effort to study trends. OSCAL will continue to follow trends through the methodology that it has put in place.

Microcredit, Agricultural Output, and Food Security

by

Mr. Edem Y. Tsogbe, Ph.D.

Lecturer, Howard University, Department of Economics

Tel: (202) 806 6717

Microcredit is a small capital given to the poor to do business. To some, it is a life line out of harshest of living conditions. To others, it is detrimental to the living conditions of the poor.

Today I wish to introduce other ideas to elucidate issues around microcredit. This presentation comprises three parts; first, I will explain the debate and the theory behind microcredit's contribution to the increase of agricultural output. Second, I will provide some illustrative examples of increase in agricultural output toward food security, and improvement in infrastructure, technology, and training due to microcredit financing in the last five (5) years. I will conclude with remarks and on conditions likely to lead to the sustainability of microcredit's contribution.

1. The Debate and the Theory about Microcredit and the extent to which Microcredit has been reported to help increase Agricultural Output.

For many people, microcredit is considered as a limiting factor because they support the notion that credit is all that the producers need to be successful in their businesses and to alleviate poverty.

For others, microcredit is not a limiting factor because they support the notion that credit is not only needed for input purchases but also for training purposes. Credit, "unlikely" is to be sufficient for all the production needs of poor people or is to lead the poor to their changing priorities". *The Oxfam Handbook of Development and Relief, Vol. II.*

Some consider microcredit as a harmful factor: there is the contention that credit is "more useful for those who are better off than the poorest since business crises are more serious for them when loans fail". Ben Royalty of *Oxfam* told a meeting of leading charities involved in microfinance. Nicholas Colloff of *Opportunity International*, said it is a "dangerous illusion" to believe that large injections of private capital will create new and viable MFIs.

How is the debate cleared?

As we examine the literature that emanates from the developed countries such as the United States of America, it appears that farmers produce enough crops in part because their governments provide financial incentives and operating loans to their farmers. More importantly, there is a theory, the neoclassical theory, that stipulates that economic growth is dependent upon the amount of land, labor, and capital. Likewise, agricultural output is dependent upon these same inputs.

Today this theory can be modified when capital inputs such as fertilizer, seeds, pesticides, irrigation and drainage technologies have a crucial impact on agricultural output. Since increases in output can be obtained by investing in those inputs by means of microcredit, there is ample evidence to suggest that microcredit plays an important role; as well, it serves as a catalyst in the production and living conditions of the poor despite some natural calamities such as drought, and flood.

2. Food Production, Infrastructure, Technology, and Training

In Africa, some farmers can obtain inputs, increase their production if they are given some type of credit. That is how microcredit can promote increases in agricultural output with greater equity or introduce farmers to the small-enterprise.

Now, let us discuss credit disbursed for food production and some results of the last five years taken from few African countries from IFAD's website: Gambia, Mozambique, Nigeria, and Tanzania. Of course, this is not to suggest that there was no improvement in other African countries. These results do not suggest or indicate that food security is attained, but an effort toward it; food security itself is a situation in which enough food is available at all times for all people in a given country, namely an African country, to allow them to lead active lives.

Tanzania

The goal was to improve food security and increase income. To reach this goal, IFAD helped transform Savings and Credit Cooperatives (SACCOs) from credit channels into self-help organization. Savings were mobilized and disbursed as credits to the agricultural sector. The impacts are as follows:

- Empowerment of the poor including women, as user-owners
- Substantial improvements in food security and income.

Gambia

The goal was to improve traditional rice production to enhance food security for impoverished rural households. To reach these goals there was a long-term effort community driven development of lowlands areas and credit disbursements.

The impacts are as follows:

- Rapid Increase of rice growers with increase in different villages ranging from 50% to 200%

- Each household has more than one rice farmers

Nigeria

The goal was to improve technology. The purpose was to promote productivity increase in food production, disburse credit, develop, and apply agricultural techniques for poor farming households that need intensification through external inputs only. The impacts are as follows:

- The CMP (Cassava Multiplication Programme) increases cassava production in the country; from less than 14 millions tons in 1987 Nigeria produced over 30 million tons in 1998, becoming the world's largest producer of cassava. But:
- Little attention to processing product, diversification, and market infrastructures costs some value-added.

Mozambique

The goal was to improve training, infrastructure, and savings mobilizations. The purpose was as follows: improve the level of income, employment and food security of fishermen and their families, through provision of fishing inputs and credit. Main achievements are:

- 57 women's savings clubs;
- Fish processing and marketing;
- Rural infrastructure: Rehabilitation of 130 out 138 km to facilitate fish marketing and reduction of post harvest losses;
- Some 122 wells and boreholes and training of community members to maintain the pumps;
- Two health posts.

3. Concluding Remarks

The examples taken from these four countries do show that microcredit can be a catalyst tool in reaching the goal of increasing agricultural production. For instance, the increase in the fish, rice, and cassava productions was due to the provision of microcredit. However, it is important that these productions be linked to other sectors. In the Nigerian experience, limited attention to processing and marketing of cassava cost some value-added due as a result of the lack of intersectoral linkages.

It is important to foster intersectoral relationships by establishing consumption or demand-induced linkages in order to create employment and income and strengthen the poor's purchasing power. This involves backward and forward linkages:

Forward linkages would occur in units such as cassava production unit that become inputs into units such as a small tapioca making industry or a small cassava dough industry. Employment will be created in the processing sector as well.

Backward linkages would occur when for example a given farmer makes use of cassava plants and fertilizer to produce cassava.

If these intersectoral linkages can be established, food security and employment would be greatly improved. But these linkages require the provision of some simple technology. Technology may be engine of agricultural growth but microcredit too can contribute to the functioning of this engine

The dynamics of production, technology, and even price determine the tendency to become poor or to remain poor for farmers who produce crops and those who do non agricultural business. If a technological change occurs it would influence the level of agricultural production; and the change in price policies, that is, price stabilization, would influence the amount of goods the poor can buy in the market with the income they earn. In this regard, it is important to introduce a technological change and a reasonable price policy by the government.

“STRENGTHENIG LOCAL BUSINESS: CREDIT AND CAPITAL NEEDED FOR SMALL ENTERPRISES”

by

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I. Background

The traditional mainstay or economic activity for Ghana has been agriculture with the production of cocoa as the major export earner for the country. There are also other natural resources such as gold, manganese, bauxite, timber etc., which add up to exportable products. In recent times non-traditional exportable commodities have been introduced in the economy, these include tourism, trade and services. Majority of the population, forming about 80% reside in the rural areas and work in agriculture.

II. Government Initiative

The Government of Ghana adopted the Economic Recovery Programme (ERP) in the mid 80's in response to better improvement of her economy. This is with the support of the World Bank and International Monetary Fund.

Others were programmes of action to mitigate the social cost of adjustment (PAMSCAD) and the Ghana Poverty Reduction Project/Social Investment Fund (SIF). Under PAMSCAD the government showed interest in the development of support to serving the needs of economically active but poor people in the rural and urban communities. The SIF initiative of government also got the support of UNDP & AFDB. The purpose of the fund is to provide direct assistance to poor communities through community-based organizations (CBOs). SIF's approach has been to work in partnership with government agencies, donors, non-governmental agencies, the private sector and the project beneficiaries to reduce poverty.

The National Poverty Reduction Programme (NPRP) is a multi-sectorial programme, which aims at:

- Building the capacities of stakeholders at management levels;
- Setting up fund from which communities can draw from to support their developmental projects;
- Introducing appropriate technologies to enhance labour productivity;
- Institutionalising of societal development mechanisms to safeguard the disadvantaged in the society.

The programme's approach is very participatory as all communities; beneficiary groups & individuals identified for support, are all involved in the design, implementation and evaluation of their poverty reduction activities.

III. Need for Microfinancing in Ghana: Why?

Since independence, considerable premium has been placed on agriculture credit as a crucial panacea for national economic development and reduction of poverty especially in the rural areas. Provision of agriculture credit and subsidies were regarded as the surest way of achieving increased productivity, and thereby improving the standard of living of farmers or the rural community.

As a result, a specialized institution, Agricultural Development Bank, was established to address the needs of these farmers. Unfortunately, the ADB appears to have lost focus of its mission of establishment since the poor farmers are still crying for credit assistance to enable them to increase productivity and to reap the benefits of the economic growth of the country.

One problem of the past has been the emphasis on supply driven intervention and the neglect of encouraging savings as an important component of the financial development of the beneficiary groups. Where this was addressed, the only focus had been at the national level as against the household level, which should be as crucial to favourable economic development. These made the operations of the ADB on the rural communities not sustainable and consequently the majority of their branches in the settings were closed down. This brought the problem of the failure to reach those who needed credit most. This position affected women and other vulnerable groups.

Such a development has aroused a lot of concerns internationally and compelled many researches and governments to explore alternative approaches to providing finance to the rural population. Especially the poor and also financial services that can be sustained and seen to be viable and affordable. To address these challenges, micro-finance has been developed as the panacea, as all the traditional banks restricted themselves to distributive trade and commerce and their outreach confined to the urban centres of the country.

IV. Problem and Existing Gap

Access to Microfinance services in Ghana is very low. In 1999, for instance, the rural Finance Development of the Central Bank of Ghana indicated that access by low-income clients to financial services provided by key micro-finance institutions reached only 7% out of the targeted clientele of 3,600,000.

According to Ghana population census of 2000, approximately 40% of the population (of 18 – 20 million people) in Ghana is considered to be below the poverty line i.e. they live below the national per capital income of \$400 i.e. less than \$2.00 a day. From the geographical perspective, five out of ten regions (provinces), had more than 40% of the population living in poverty.

Significantly, the larger proportion are engaged in informal sector income generating activities and women form 70% of those operatives. The low income levels resulting from the factors indicated earlier has and the ramifications of low savings mobilization drive due to higher propensity to consume the limited disposable incomes by such informal sector operators the majority being women as stated earlier.

Formal financial institutions (the traditional banks) are unable to mop up excess incomes for on-lending with the view of generating further capital.

They typically mention the FF:

- Risk of default
- High cost of delivery
- Socio-economic factors
- Cultural barriers

Limited logistics and infrastructure are among the main reasons that prevent them entry into the micro-finance industry.

Mr. Chairman, distinguished guests, the aim of this paper is to suggest means of making financial services especially credit available to low income persons with a view of providing them with the opportunities to organize themselves financially and to achieve the summit's goal of reaching 100 million of the worlds poorest and their families. Access to credit is a basic human right irrespective of which part of the world you live in.

Additionally, the author wishes to suggest means of developing and promoting sustainable methodologies for providing micro-financial and non-financial services to low income and disadvantaged groups of deprived communities in Ghana.

To suggest ways of strengthening the capacity of indigenous grassroots and related community-based institutions such as Women Entrepreneurs Guarantee Fund Ltd- - as well as – groups, co-operatives, and NGOs that are involved in the provisions of micro-finance services to low-income micro entrepreneurs.

To suggest ways of improving local and global knowledge of the impact micro-finance have on clients and suggest means to building capacity of organizations wishing to provide direct micro-finance services as part of Ghana's poverty reduction strategy.

Before I come back to that let me quickly take you through the models/products we have in Ghana.

1. Credit and spiritual transformation schemes – examples are World Vision Ghana, Women Entrepreneurs Guarantee Fund Ltd. And Sinapi Aba Trust;
2. Rotational savings and credit examples are Citi Savings and Loans Co., Action Aid, Enowid Foundation & Susu Groups;
3. Inventory credit schemes – some rural banks, Techno Serve International;
4. Susu-on-lending – Rural banks --- Gupt Kath Mali, Math an Tudu;

5. Village/mobile banking schemes, Catholic Relief Services, SNV, Rural Banks, just to mention a few;
6. Governmental schemes – Pamscad, IFAD, SIF, ESRP.

Characteristics of MFI's

- Group lending;
- Commerce/Agro based activities;
- Clientele – predominantly women micro entrepreneurs – women are more reliable in this particular respect;
- Regular meetings of clients and programme officers (training and education offered)
- Ease of replicability and adaptability;
- Inculcation of saving habits;
- Linkage programme (such as non-financial services, health education, HIV/Aids, STDS, breast cancer awareness provision of insurance, business development services);
- Flexibility of methodology/strategy;
- Collateral based on joint and several liabilities;
- Collective approach to monitoring programme/services (usually tripa---);
 - o Group Members
 - o Credit Officers
 - o Community Members
- Fixed and regular deposits mobilization;
- Flexible interest rate policy;
- Repeat and increased loans guaranteed;
- Targeting the very poor;
- Simple procedures for reviewing and approving loans;
- Quick disbursement of small, short term loans (4 months to 1 year);
- Accurate management of information systems that are actively used to make decisions, motivate performance and provide accountability of management performance and the use of funds.

V. What then is the Size of the MFI Industry in Ghana

- **Formal**
Commercial Banks, banks, savings and loans companies – 37%
- Semi formal MFIS
Credit oriented NGOS, cooperative credit unions – 52%
- Informal
Susu groups and clubs – susu are the traditional and unregulated forms of voluntary/informal associations in Ghana for mobilizing savings – 11%

Source: *Quarterly bulletin – June 2000*

TARGET CLIENTELE

- Informal sector operators;
- Unemployed youth who have completed training;
- Women in small and micro enterprises;
- Low-income salaried workers;
- Subsistence and smallholder producers in agriculture;
- Vulnerable groups, especially the physically challenged people;
- Women form 65% of the target clientele in Ghana.

Mr. Chairman, distinguished guests, ladies and gentlemen, the main issues the author wishes to address is what credit and capital is needed for small entrepreneurs. The current requirements for the 2000 is based on the estimates in the GPRS, Agriculture requires 934.3 billion cedis to grow at 6% per annum and only 313 billion cedis of this amount was available, creating a demand gap of 616 billion cedis or 66%.

Secondly, the present allocation of public expenditure to agriculture is 2%, which is far below the 20% recommended by the World Food Summit in 1996.

The result of this is that an emergency Social Relief Programme has been launched since July 2001, as part of a national effort to reduce poverty in Ghana.

Total disbursement, as of May 2002 , of C9.3 billion to 3,379 clients/fish processors and 500 (poultry farmers).

C1.96 billion was disbursed to 2,610 women

C2.5 billion was disbursed to 493 poultry farmers in 2001

C4.3 billion has been earmarked for 4,300 women in food marketing in 2002

C1.7 billion disbursed to conflict and disaster prone areas in the 2 Northern Regions.

269 outboard motors purchased and supplied to fishermen. The programme is expected to cost C700 billion over a 3 year period beginning 2001.

VI. Provision of Micro-finance Services

Currently, micro-finance is being provided by NGOs savings and loans companies and some banks to support the development process of beneficiaries with the ultimate aim of enhancing national economic development. The activities of some of these intermediaries are described here below.

VII. Women's World Banking Ghana (WWBG)

The mission of WWBG is to enhance the social and economic empowerment of women in micro, small and medium scale enterprises through the provision of savings and credit delivery services and other technical and business advisory support services.

VIII. Impact of Activities

- Improved savings through which investments are made;
- It helps macro-economic policy makers, e.g. Bank of Ghana with their forecast of savings in the informal sector;
- The financial basis of clients have been improved;
- Over 20,000 clients have acquired the culture of savings;
- Over 15,000 new and repeat borrowers have been assisted to improve and expand their businesses and enhanced standard of living for them and their families;
- Over 15,000 participants acquired skills in marketing, storage and processing, in like manner business and financial management;
- Job creation and employment – community projects have been implemented.

IX. Sinapi Aba Trust (SAT)

SAT is a microcredit development agency in Ghana. Its mission is to provide small loans that serve as a “mustard seed” through which opportunities for enterprises development and income generation are provided to the economically disadvantaged to transform their lives.

The target group of SAT is the poor who are engaged in or desire to develop micro enterprise activities. These are all individuals and groups who operate mainly in the informal sector of the economy and find it extremely difficult to access the required resources to establish and or expand their enterprises.

The challenges of these operations in the informal sector are always worsened by their inability to access the necessary capital from the traditional banks, as they are perceived to be risky and working with them being unprofitable. However, Sinapi Abu is well resourced by opportunities Intl.

X. Impact of Credit Scheme

Growth is considered very significant; SAT has so far given over loans to over 27,000 clients. These clients comprise new and repeat borrowers.

SAT started its programme on individual lending basis in 1994 until it introduced the group methodology in 1996.

The gender ratio of beneficiaries’ stands at **8:20 women to men** preference to women is always emphasized as women are considered to shoulder most of the household expenditures.

XI. Women Entrepreneurs Guarantee Fund Limited (WEGFL)

1. Background

Women Entrepreneurs Guarantee Fund Limited was incorporated in May 2000. It evolved from an NGO, Youth Aid Ghana, that has primarily focused on a variety of training programmes for youth groups and owners of small enterprises (SMES).

In July 1998, the author attended an Asia/Africa Forum in Economic empowerment in Bangkok Thailand and this was followed up with a study tour in India and Sri Lanka for African women managers in the food processing sector in 1998 under the auspices of the UNDP and then there was a follow-up meeting again on the study tour of India and Sri Lanka which took place in Bujumbura, Burundi in June 1999. It was after these meetings that the idea for setting up a guarantee fund to support women entrepreneurs cropped up. This idea has been achieved through the collaborative efforts of other consultants with varied expertise in financial, human resources and strategic marketing management.

2. Mission

WEGFL believes that emphasis on micro-financing for the dominant middle and lower sectors of the economy would help create a better economy and reduce the level of poverty in Ghana. Our mission is to provide financial and business development services to the micro and small scale sectors of the Ghanaian economy with special emphasis on women entrepreneurs and to satisfy clients through research to meet their needs and contribute significantly to the socio-economic development of the nation.

3. Objectives

- Promote financial and business development services to the micro and small sector of the Ghanaian economy;
- Encourage the active participation of potential women entrepreneurs in economic activities to support the family income;
- Contribute significantly to socio-economic development opportunities and contribution to government tax revenues;
- Provide knowledge on micro business management and financing.

4. Clientele

WEGFL focuses on women groups in churches, markets and the community, such as women in urban, peri-urban and rural areas who are engaged in small scale enterprises.

5. Achievements

- Provided Entrepreneurial development training for women and their families in batik production, gari processing, basketry, sewing and hairdressing;

- Provided a total of 600 women have received loans to 600 women to the tune of approximately ₺300,000,000.00 (\$36,000.00). The beneficiaries are scattered in Tema, Ashiaman, Ada and Dawhenya;
- Provided vocational training equipment and assorted tools to beneficiaries of vocational training programmes;
- Organized workshops on health, i.e. HIV/AIDS and Sexually Transmitted Diseases (STDs) for selected Senior Secondary Schools in Tema asec;
- Guided and counselled young entrepreneurs;
- Provided Business Development Services for women entrepreneurs.

6. Operational Performance

- Total number of clients: 600
- Total number of trust banks: 15
- Portfolios amount: ₺300,000.00 (\$36,000.00) (provided from family sources)
- Repayment rate 100%
- New clients awaiting disbursement: 1,000

Performance at a Glance

GROUP NAME	NYAME YE ODO	BE TRUE TO YOURSELF	MAWU NYE LOLO	BE FAITHFUL TO GOD	MAWU BEE JI BEE
No. of Clients	40	27	30	26	32
1 st Distribution	₺19,000,000	₺14,800,000	₺16,000,000	₺12,400,000	₺17,800,000
2 nd Distribution	₺31,000,000	₺23,800,000	₺24,000,000	₺24,800,000	₺28,500,000
Total	₺50,000,000	₺38,000,000	₺40,000,000	₺37,200,000	₺46,300,000
Savings	₺15,000,000	₺12,000,000	₺14,000,000	₺12,000,000	₺14,000,000

ALL BUT ONE OF THE GROUPS IS CHURCED BASED

7. Market

From September 2002 (5) five new groups have been formed and undergone training satisfactorily. The total number of clients awaiting loan disbursement are now approximately 1,000.

Apart from WEGFL, WWB, of which I am a board member, there are other NGOs that are credit orientated and few susu groups and a couple of other rural banks, as I mentioned earlier.

8. Challenges

- Micro finance institutions find it very difficult to obtain commercial loans to finance their operations, hence there is inadequate capital for the operations of MFIs;
- Lack of co-ordination among micro finance institutions leads to double registration by clients;
- Competition with rural banks is a great challenge since the rural/commercial banks have access to larger credits unlike the micro finance institutions;
- Problems of becoming a financial institution due to bureaucratic process of acquiring a licence from the Central Bank – to be a savings and loan company, the BOG deposit requirement is 15 billion cedis;
- Problems with finding ready market for the produce of clients and this makes it very difficult for clients to repay their loans;

- Preparation of feasibility/business plans are too expensive;
- MFI's lack the needed capacity to cope with their work.

9. What is the Way Forward

- Expansion of coverage area to other regions of Ghana (Ashanti, BrongAhafo, Upper East and West, Volta) and other countries in the sub region by the year 2006, but all of these programmes are dependent on availability of funds or credit.
- Increase loan portfolio to 5000 clients by the end of 2003;
- To become a savings/loan company by the year 2006, we need to meet the 15 billion cedis Bank of Ghana requirement;
- Establish export channels for the production of clients;
- To build the capacity of the company to meet the demands of our expansion objective.

10. Conclusion

In conclusion, despite the numerous productive roles the poor play in society, access to credit in Ghana has never been easy for them. It is fraught with several difficulties; the most notable

being the country's monetary policies, which engender the incidence of high rates that affect the volume of borrowing. Current lending rate is about 33% on average.

In addition, the majority of people, the poorest of the poor are not able to provide the collateral security usually demanded by the banks for granting of loans. It is also clear that the traditional banks favour dealing with large businesses, which require substantive amount of loans because of the heavy administrative costs involved in the processing of micro loans. These factors coupled with the high rate of illiteracy among the poor impact adversely on the operators in the informal sector.

Government, Donors and Researchers know that improving productivity in the informal sector will contribute significantly to higher growth, more efficient use of resources and accelerated poverty reduction. The productivity of the poorest of the poor remains low in many sectors of our economic activities. This situation certainly calls for a concerted action by the government, donors, the private sector and civil society to address the negative factors in the development and promotion of the micro enterprise of the poor. Micro financing by these savings and loans companies, MFIs/NGOs and other developmental agencies has been a breakthrough for the poor and the necessary environment should be created and support given to enable these institutions give improved services to the poor.

Yes resources needed to sustain the activities of these operators in the micro-finance industry is woefully inadequate. Who is to do that for the African communities?

Very often we hear success stories of Asia-Bangladesh, India, Bolivia, etc.

What about Africa, which in my opinion has the poorest of the poor?

Africa has reached only 6% of the poorest families through micro-finance. What about the remaining 94%? It is very difficult for Africans themselves to provide equity as was the case with SHARE in India.

If Africans cannot help themselves because they are poor due to many factors such as low productivity, conflict wars, disease then how can we get out of this vicious cycle of poverty? Who bails the cat? The donors? Or obtaining loans at commercial rates from international community? If yes, then when - now that an African is the executive of the United Nations. If not now, then when? May I request for an African Microcredit Summit to be held in 2003 that will address specific issues affecting the micro-finance industry in Africa, this way we will be able to chart a path for progress in this area.

Africa must wake up. Africa must shake off the shackles of poverty. How and when? Your guess is as good as mine.

Thank you for your attention.

SESSION THREE:
THE WAY FORWARD

**Learning from others: How microfinance institutions and entrepreneurs
helped to build the economy of Japan in the 1950s**

Dr. Tomohisa Hattori, Professor of Political Science, Lehman College, the City
University of New York

Donor countries' perspectives

Mr. Masashi Mizukami, Minister, Permanent Mission of Japan to the United Nations

Ms. Eeva-Liisa Myllymaki, Minister Counsellor, Permanent Mission of Finland to
the United Nations

**ECOSOC resolution 1998/28: Scaling up with information and
communication technologies**

Mr. Sarbuland Khan, Director, Division for ECOSOC Support and Coordination

Learning from Others: How Relationship Loans Helped Entrepreneurs Rebuild the Economy of Japan in the 1950s

by

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Introduction

The revival of the Japanese economy after World War II was often characterized as the "Japanese Miracle" by scholars. Some observers were struck by the concerted industrial development orchestrated by powerful economic bureaucracies, such as the Ministry of Finance and the MITI (the former Ministry of International Trade and Industry, currently the Ministry of Economy and Industry), or by the international effort orchestrated by the US-led occupation force.¹ Others were impressed by the flexibility shown by the network of small innovative high-tech companies.² Still others noted a "dual structure" in industry, where large corporations take advantage of layers of small subcontracting companies to save labour costs, gain financial flexibility, and keep a lean staffing.³ Decades later, some observers noticed similarities between the newly industrializing countries of Asia and Japan, especially in the active role of the state in economic development, the role of traditional patriarchy, and the use of the model of labour

¹ Chalmers Johnson, *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, CA: Stanford University Press, 1982). On the significance of international, as well as domestic, factors to Japanese economic growth, see Laura E. Hein, "Growth versus Success: Japan's Economic Policy in Historical Perspective," in Andrew Gordon, ed., *Postwar Japan as History* (Berkeley, CA: University of California Press, 1993), pp. 99-122.

² David Friedman, *The Misunderstood Miracle: Industrial Development and Political Change in Japan* (Ithaca, NY: Cornell University Press, 1988).

³ Tadao Kiyonari, *Nihon Chuushou Kigyou no Kouzou Hendou [Structural Changes in Small and Medium Business]* (Tokyo: Shin Hyouron, 1970); Robert P. Dore, *British Factor- Japanese Factory: The Orgins of National Diversity in Industrial Relations* (Berkeley, CA: University of California Press, 1973); Kazuo Koike, *Chuushou Kigyou no Jukuren [The Maturing of Small and Medium Business]* (Tokyo: Doubunkan, 1981); Felix Twalfhoven and Tomohisa Hattori, *The Supporting Role of Small Japanese Enterprises* (Schiphol, Netherlands: N. V. Indivers Research, 1982).

relations.⁴ Others, mostly economists, noted a more universal neo-classical economic model at work.⁵

What is at stake in these debates is the role of the state in economic development, both externally (in relation to other states) and internally (in relation to domestic social forces). Should the state direct economic development or should it let the market take care of it? At the core of this theoretical and practical debate on the state's role is the fundamentally political nature of economic development.⁶ What appears to be economic always has a political face or dimension. Viewed from this vantage point, the process of economic development must be understood as loci of social struggles. Thus, instead of neutral and apolitical processes assumed by some development economists, my approach to development projects and programmes is to assume that they take place among a set of social struggles, then analyze their political dimensions, and finally identify the implications of such political constraints.

This paper examines one aspect of the post-war development of Japan from this perspective: the extensive use of small family loans. This type of loan, as I will argue, played a critical role in the emergence of the dense subcontracting networks -- so characteristic of the post-war Japanese industrial order -- and in the transformation of a largely rural peasantry into an industrial working class. The significance of this experience to current academic and policy debates over economic development is the similarity of these family loans in Japan to microcredit finance (or microfinance) programmes in the industrializing world. In contrast to depoliticized processes favoured by many development experts, this paper approaches these programmes in the political context in which economic development actually takes place.

This paper is organized in three parts. The first part draws a conceptual parallel between microfinance programmes today and small family loans in Japan, redefining both as a form of what I call "relationship loans," or loans that involve both social and contractual relations between debtor and creditor. The second part identifies the significance of family loans in post-World War economic development in Japan, paying particular attention to the larger political and legal changes that conditioned the use of these loans. The third part contrasts this experience with the political and legal context of the today's microfinance programmes in the "South." What emerges from this analysis is the centrality of the struggle between peasants and landlords.

⁴ Frederik Deyo, ed., *The Political Economy of the New Asian Industrialization* (Ithaca, NY: Cornell University Press, 1987). The original work of this genre is Alexander Gerschenkron's *Economic Backwardness in Historical Perspective* (Cambridge, MA: Harvard University Press, 1962), which compared the role of the state in Europe between early and later industrializers. For a culturalist explanation, see Ezra Vogel, *The Four Little Dragons: The Spread of Industrialization in East Asia* (Cambridge, MA: Harvard University Press, 1991). For the Japanese model of labour relations, see Robert P. Dore, "Industrial Relations in Japan and Elsewhere," in Albert M. Craig, ed., *Japan: A Comparative View* (Princeton, NJ: Princeton University Press, 1979); "Where Are We Now: Musings of an Evolutionist," *Work, Employment and Society* 3 (1989): 425-46. For the views that are contrary to these "convergence" theories, see Stephen Frenkel and Jeffrey Harrod, eds., *Industrialization and Labor Relations: Contemporary Research in Seven Countries* (Ithaca, NY: ILR Press, 1995).

⁵ World Bank, *The East Asian Miracle: Economic Growth and Public Policy*. (New York: Oxford University Press, 1993). For more moderated views by those affiliated with the World Bank, see Danny M. Leipziger ed., *Lessons from East Asia* (Ann Arbor, MI: University of Michigan Press, 1997). For a critique of this perspective, see Robert Wade, "Japan, the World Bank, and the Art of Paradigm Maintenance: *The East Asian Miracle* in Political Perspective," *New Left Review* No. 217 (March/June 1996): 3-36.

⁶ Ellen M. Wood, "The Separation of the 'Economic' and the 'Political' in Capitalism" in her *Democracy against Capitalism: Renewing Historical Materialism* (New York: Cambridge University Press, 1995), pp. 19-48.

How this struggle unfolds (in relation to other key social struggles) played the determining role in the success of these kind loans in Japan and, as I conclude, in the difficulty they are encountering in the South.

Relationship Loans

According to Marshall Sahlins, there are essentially three forms of resource allocation in human society: economic exchange, redistribution, and giving.⁷ Economic exchange is characterized by a voluntary and simultaneous exchange of goods or services between two parties that is generally mediated through market or market-like institutions (e.g., mechanisms of price and barter) which define and enforce equivalence in value. In premodern societies, purely economic exchange often required third party witness, as under Islamic law.⁸ In modern society, such institutions are complex construction of rules (e.g., contract law, property law) and enforcement powers (e.g., the executive and judiciary branches of government).

Loans from commercial lenders fit this category of economic exchange because the interest charged is, effectively, the cost of time. Parties involved in economic exchange are understood to be nominally equal, and their benefits mutual: creditors gain the interest, while debtors can make use of the principal. The nominal equality between creditor and debtor is maintained as long as the debtor is current on the schedule of interest and principal payments mutually agreed upon. Once the debtor begins to miss a few payments, the nominal equality and mutuality begins to shift. The creditor backed by the institution of economic exchange begins to coerce the debtor to repay. Missing payments on a periodic basis, the debtor is obliged to request a rescheduling of such payments to avoid default, indicating a fundamental shift in the creditor-debtor relationship. The rescheduling, which redefines the terms of the loan relation, signals the beginning of debt-bondage: the creditor's coercive power over the debtor, imposing certain conditions to ensure future repayments, is now written into the terms of the loan relation.

Loans between friends or relatives, by contrast, are motivated at least as much by social considerations as the potential for economic return. Friends and relatives make the loans that commercial lenders generally avoid (often after a commercial loan application has been rejected). These family loans also carry below-market interest rates, unspecified terms, and no collateral, making the risk of loss even higher.⁹ Risks notwithstanding, this type of loan tends to have contributed to starting up new enterprises in most countries. The dominance of social, over economic, considerations distinguishes these loans as a unique form of economic exchange I call "relationship loans," in which, instead of strictly following the rules and norms of market exchange, the creditor is readily willing to loosen them.

According to the above definition, the microcredit is a type of relationship loan. In a typical case as in Grameen Bank, for example, acquaintances from the same village form a group that

⁷ Marshall Sahlins. *Stone Age Economics* (Chicago: Aldine, 1972), pp. 185-230; following Karl Polanyi. *Great Transformation* (New York: Farrar and Pinehart, 1944), pp. 43-55.

⁸ For example, Paul Dresch. *Tribes: Government and History in Yemen* (New York: Oxford University Press, 1989), pp. 373-9.

⁹ Advices regarding these relationship loans or "love loans" are can be found in many trade magazines. See, for example, Paul Simao. "For Love and Money," *Canadian Business* 69, 4 (1996): 121; and Lori Rohlk and Gerda Gallop-Goodman. "Borrowing Wisely," *Black Enterprise* 30, 7 (2000): 62-3.

personally guarantees the loan taken out by other members.¹⁰ Trust based on the existing relationships among members of the group constitutes the primary basis for the credit decision; and the more typical concerns of commercial creditors -- financial risks and securing them via adequate collateral -- are distinctly secondary. Finally, the record of these loans is fairly good. In the case of Grameen Bank, the recovery rate exceeds 95 percent.¹¹ For all these reasons, microcredit has been enthusiastically promoted as an effective means of helping the rural (especially female) poor in developing countries.

Official loans, or sovereign loans, between states or between international organizations and states can also be understood as a type of relationship loan. Official creditors, like the World Bank or the International Monetary Fund (IMF), appear to be less concerned with financial return than the economic and political stability of recipient countries. Thus, as opposed to commercial creditors who attempt to maximize interest income and minimize loss, official creditors often give loans to those states which commercial lenders deem too risky. They also give concessional loans with a longer grace period, a longer repayment period, and below-market interest rates to high-risk poor countries.¹² While commercial creditors have recourse to "write-offs," official creditors are constrained to "work-outs" if their debtor state cannot pay.¹³ The debtor states that are not capable of repayment are subject to a rescheduling of debt with coercive policy conditions (also known as "structural adjustment" in the Debt Crisis of the late 1970s, 1980s, and 1990s) that require changes in the debtor country's economy. As in family loans, the key condition that precludes the "write-off" option is the necessity of maintaining the relationship. Just as friends and relatives often keep rescheduling debt payments, states reschedule debt payments for fear of cutting off the relationship. It is rare that a country declares a default, a declaration of no intention to repay the interest and principal.¹⁴

The Case of Japan after World War II

Three critical conditions enabled swift reconstruction and industrial development in Japan after World War II: (1) a low level of debt as a result of the peace treaty that forswore reparations, (2) the radical reform of land tenure that transferred the land to the peasants, and (3) a series of labour and civil code reforms. These conditions involved dramatic changes in three key social relations that had defined pre-war Japan: (1) interstate relations, (2) the landlord-peasant relation, and (3) the capitalist-labourer relation after the War. In the following, I will argue that the

¹⁰ Rahman, Atiur, *Demand and Marketing Aspects of Grameen Bank: A Closer Look* (Dhaka, Bangladesh: Grameen Bank, 1986)

¹¹ World Bank, *World Development Report 1990* (New York: Oxford University Press, 1990), p. 68.

¹² For OECD's definition of concessional loans in development finance, see DAC [Development Assistance Committee]. *Development Cooperation* (Paris: Organisation for Economic Co-operation and Development [OECD], 1998), pp. 129-31.

¹³ On "write-off or work-out," see Charles P. Kindleberger. "Write-off or Work-out: A Historical Analysis of Creditor Options," in his *Historical Economics: Art or Science* (Berkeley, CA: University of California Press, 1990), pp. 287-300. For a new approach to individual and corporate debt reorganization and rehabilitation, see Karen Gross. *Failure and Forgiveness: Rebalancing the Bankruptcy System* (New Haven, CT: Yale University Press, 1997), pp. 91-134.

¹⁴ For the most recent default, see Larry Rohter, "Argentina Defaults on Big Payment to World Bank," *New York Times* (15 November 2002), p. W1. On extensive efforts to avoid it, see International Monetary Fund, "Advisory Panel Appointed for Argentina; Extension Approved for SRF Repayment," *IMF Survey* 31, 14 (22 July 2002), pp. 225-6.

changes in all these conditions were fundamental to the so called "Japanese miracle" or the remarkable post-war industrial development.

As badly defeated and destroyed as Japan was, it came out of World War II with a relatively low level of debt. As one of the seven principles of peace, the 48 signatories of the San Francisco Peace Treaty forswore the right of reparations.¹⁵ Japan's reparations were limited to Asian countries (including Burma or current Myanmar, Vietnam, Indonesia, the Philippines, Laos, Kampuchea, Thailand, Singapore, Malaysia, and Micronesia) and totalled 1.5 billion dollars or about seventeen dollars per Japanese citizen.¹⁶ This limited obligation for reparations made it easier for Japan to rebuild its war-torn economy. Some argue that the occupation of Japan by the Allied forces was the equivalent of the Marshall Plan in Europe.¹⁷ Others argue that the Korean War staged from Japan was a timely gift for the Japanese economy.¹⁸ These favourable conditions met with ambitious post-war economic development plans by Japanese industrialists and government planners and put the Japanese economy on a fast track of reconstruction and development.¹⁹

The relative lack of external indebtedness was paralleled domestically by a radical reform of land distribution characterized by the principle of "land-to-the-tillers."²⁰ By 1950, this wholesale land reform reduced the amount of land owned by landlords from 46 to 11 percent of the arable land and increased independent land-owning farmers from 57 to 88 percent of the agrarian population.²¹ This reduction of tenant peasantry resulted in increased agricultural productivity; agricultural production grew rapidly; and rural purchasing power increased, resulting in capital investment in agricultural machines that further increased productivity.²² In short, Japanese tenant peasants emerged from World War II as independent farmers with their own land and little debt.

To elaborate, the Japanese land reform was a part of a larger set of post-war reforms initiated by the Supreme Command for Allied Power (SCAP). The primary aim of these reforms was to democratize social and political institutions and deconcentrate the economic power of landlords and *zaibatsu* conglomerates. These included electoral reform with universal adult suffrage, Constitutional reform with popular sovereignty and extensive human rights, educational reform that de-emphasized militarism and nationalism and emphasized freedom and equality, and civil

¹⁵ This was one of the seven principles of the peace treaty announced on 24 November 1950 by Dulles, U.S. Secretary of the State. Nobutoshi Nagano (ed) *Nihon Gaikou Handobukku [A Handbook of Japanese Diplomacy]* (Tokyo: Simul Press/Saimaru Shuppankai, 1981), p. 20.

¹⁶ *Ibid.*, pp. 240-2. Japan paid all reparations off by April 1977.

¹⁷ Theodore Cohen. *Remaking Japan: The American Occupation as New Deal* (New York: Free Press, 1987), especially pp. 401-13.

¹⁸ John W. Dower. *Embracing Defeat: Japan in the Wake of World War II* (New York: Norton, 1999), pp. 540-6 on "gifts from the gods."

¹⁹ *Ibid.*, pp. 536-40. Chalmers Johnson focused on the government side of this success story. See his *MITI and the Japanese Miracle: The Growth of Industrial Policy, 1925-1975* (Stanford, CA: Stanford University Press, 1982).

²⁰ Junnosuke Masumi. *Nihon Seijishi*, vol. 4, *Senryou Kaikaku, Jimintou Shihai [Political History of Japan, vol. 4: Reforms under Occupation, The Rule by the Liberal Democratic Party]* (Tokyo: Tokyo University Press, 1988), pp. 142-9.

²¹ *Ibid.*, p. 145.

²² *Ibid.*, pp. 145-6. See also Russell King, *Land Reform: A World Survey* (Boulder, CO: Westview, 1977), pp. 192-206.

code reform that eliminated the legal underpinnings of patriarchy which favoured the eldest sons in inheritance. The reforms even attempted to democratize aspects of everyday language called honorifics that privileged the powerful over the powerless, men over women, and the senior over the junior.²³

Another key target of reform involved labour rights. The Labour Union Law of December 1945 gave workers the right to organize, bargain collectively, and strike.²⁴ As a result, union membership grew from 380,000 in December 1945 to 3.75 million by June 1946.²⁵

Other key labour reforms included the Labour Relations Adjustment Law of September 1946, which clarified the role of the national and prefectural labour relations commissions, made up of labour, management, and 'public' representatives, in mediating labour disputes, and the Labour Standards Law of April 1947, which set the minimum standards for working conditions, such as hours, wages, insurance, compensation for work-related injury, and unemployment benefits.²⁶ Unlike land reform, however, the initial enthusiasm for the democratization of work places waned as international tension rose in the late 1940s both in Europe (with the Soviet enclosure of Berlin) and in East Asia (with the communist revolution of China). By 1950, the occupation force with the cooperation of Japanese industrialists and government had repressed the most radical elements in the Japanese labour movement.²⁷ The unification of labour factions under moderate leadership with the support of the American-led Supreme Command of Allied Power (SCAP) conditioned the development of what became known as "company-based" unions.²⁸

These three conditions of the post-war era -- the relative lack of external debt upon defeat in World War II, radical reform of land distribution (along with civil code reform), and a partial reform of labour laws -- contributed to a mutually reinforcing process that made Japanese industrial corporations unusually flexible. To elaborate, the partial labour reform created an opportunity for industrial corporations to reduce the higher labour costs of their unionized factories by subcontracting parts production to smaller companies that were only partially covered by the new laws. The result was a rapid decrease of temporary workers hired as a cost-cutting measure during the heyday of the labour movement in the late 1940s and 1950s over the course of the 1960s.²⁹ At the same time, it also created a problematic social division of labour between unionized labourers at large corporations and the largely non-unionized labourers at smaller subcontracting companies. Reminiscent of the pre-war tradition of "norenwake," in which a master craftsman allowed an apprentice to use his name or trademark, large corporations often encouraged experienced workers to establish their own subcontracting firms under the unwritten understanding that they would receive orders from their former bosses.³⁰ In effect, a

²³ Dower, pp. 244-53.

²⁴ Ibid., p. 246. For more details, see Andrew Gordon, *The Evolution of Labor Relations in Japan: Heavy Industry, 1853-1955*. Cambridge, MA: Harvard University Press, 1988, pp. 329-39.

²⁵ Masumi, p. 149.

²⁶ Gordon, pp. 331-2.

²⁷ Masumi, pp. 150-5.

²⁸ Ibid., pp. 222-35; Gordon, pp. 329-411. Kazuo Koike, *Shokuba no Roudou Kumiai to Sanka [The Labour Union and Participation at Work Places]* (Tokyo: Touyou Keizai Shinpousha, 1977).

²⁹ Gordon, pp. 400-1, 406.

³⁰ "On the diffusion of familistic management" prior to World War II, see Hiroshi Hazama, *The History of Labour Management in Japan* (New York: St. Martin's), pp. 50-9. As an indicator of the strength of this tie, see Twaalfhoven and Hattori, p. 37 on the extensiveness of oral contracts (over 50 percent for micro-companies with one to four employees even in the late 1970s).

patron-client relationship was established between large corporations and small subcontracting suppliers.³¹

With these new conditions, in effect, the labour of under-regulated and under-unionized small companies became up for grab and were progressively integrated into the production process -- and subsequently praised -- as the basis of "just-in-time" inventory management measures. Subcontracting became, in short, the very essence of labour relations in the Japanese industrial process.³² The downside, of course, was a new social division of labour between the highly paid unionized labourers at large corporations and largely non-unionized workers at smaller subcontracting companies: unionized workers at large corporations became a kind of labour aristocracy, whereas workers at the subcontracting companies suffered a high degree of exploitation, limited benefits, and job insecurity. A shift in this patron-client relationship (as indicated by the diversification of orders at the subcontracting workshops) became an issue only when it came under challenge in the 1970s and 1980s by the new international division of labour as subcontracting work was increasingly moved overseas.³³

The dominant source of start-up capital for these new subcontracting firms was the new wealth of the countryside created by the post-war land reform.³⁴ Land reform enabled peasants-turned-land-owning-farmers, in effect, to use their land as collateral for financing the small subcontracting firms of their relatives. Tiny as they were (often less than five employees), these subcontracting firms could not have been established because family loans from tenant peasants would have been impossible under pre-war Japanese social relations. Land reform combined here with an egalitarian reform to the patriarchal inheritance code, compelling those siblings who inherited the land to assist their siblings who wanted to start a new firm. Under the old law, primogeniture was the rule, and there was no legal obligation that an inheritance be shared; under the new law, an inheritance had to be divided equally. Because the acreage of the new independent farms remained too small to be divided up (just a little over one hectare or a few acres on average), a ready way to satisfy the inheritance obligation was to use the land as collateral for a new workshop or business.

Indeed, relationship loans of this type were the main source of the start-up capital for small subcontracting firms in Japan.³⁵ Although the Japanese government established a series of financing agencies for small- and medium-sized companies, such as the Small Business Finance

³¹ Norma J. Chalmers, *Industrial Relations in Japan: The Peripheral Workforce* (New York: Routledge, 1989). See also an excellent fictional account by Ikko Shimizu, *The Dark Side of Japanese Business: Three "Industry Novels"* (Armonk, NY: M. E. Sharpe, 1996), especially "Keiretsu," pp. 83-277.

³² On Toyota's (and more generally Japanese corporations') Ohnoism (as opposed to Fordism), see Benjamin Coriat, *Penser a l'Envers: Travail et Organisation dans l'Enterprise Japonais [Gyakuten no Shikou: Nihon Kigyō no Rōdō to Soshiki]* (Paris: Christian Bourgois Editeur, 1991 [Tokyo: Hujiwara Shoten, 1992]).

³³ Chalmers, pp. 114-5.

³⁴ Shuzou Teruoka, "Land Reform and Postwar Japanese Capitalism," in T. Morris-Suzuki and T. Sekiyama, eds., *Japanese Capitalism since 1945: Critical Perspectives* (Armonk, NY: M. E. Sharpe, 1989); Hugh T. Patrick and Thomas P. Rohlen, "Small-Scale Family Enterprises," in Kozo Yamamura and Yasukichi Yasuba, eds., *The Political Economy of Japan*, vol. 1, *The Domestic Transformation* (Stanford, CA: Stanford University Press, 1987), pp. 331-84.

³⁵ Twaalfhoven and Hattori, pp. 51-6. In addition, the younger siblings saved more of what they earned as factory workers in the city due to the lack of obligations to send remittances home than before the land reform.

Corporation and the National Finance Corporation, most of these loans went to financing the purchase of equipment at well-established small- and medium-sized firms to make industrial production more efficient and cost-effective (thus internationally competitive).³⁶ Although local municipal governments provided more aid to very small firms than national or prefectural financing agencies, and credit unions and agricultural and fishing cooperative provided more than commercial banks, few of them provided the start-up capital of tiny firms. Though the large patron companies in rare cases did help to finance the start-up capital of subcontractors, they did so only when these small client firms held special patents or know-how that the big companies could not do without.³⁷ In general, for large corporations, subcontracting was not for investment but primarily for cutting labour costs. In short, debt-free Japan had debt-free farmers with land, which enabled the provision of relationship loans for their entrepreneur relatives. These small subcontracting enterprises, in turn, helped large Japanese corporation slow down the increase of labour costs predicated by the labour reforms and keep the international competitiveness.

Conditions for Relationship Loans in the Poorest Countries

In contrast to relatively debt-free post-war Japan, most of the UN-designated least developed countries (LLDCs) had become heavily indebted by the late-1970s. The nominal equality between creditor and debtor turned into sustained inequality, that is, hierarchy. According to *The Least Developed Countries Report 2000* by the United Nations Conference on Trade and Development (UNCTAD), by 1998 virtually all LLDCs underwent structural adjustment programmes by the World Bank and the International Monetary Fund (IMF).³⁸ The seven countries that did not go through them were either too busy fighting a war (i.e., Afghanistan and Eritrea), too isolated and tiny (i.e., Kiribati, Maldives, Tuvalu, and Vanuatu), or anti-modernist (i.e., Bhutan).³⁹ In addition, a large majority of so called "less developed countries" (LDCs) -- 80 countries -- rescheduled official or private debts.⁴⁰ What this means is that, with the exception of the members of the OPEC (Organization for Petroleum Exporting Countries), only a handful of "developing countries" could boast the relatively debt-free status enjoyed by Japan at the end of World War II today. Although there has been much talk about the "debt crisis," initiatives have been limited to debt relief, that is, a partial reduction of debts.⁴¹ No creditor, private or public, cancelled all debts owed by "developing countries."⁴²

³⁶ Ibid., p. 41.

³⁷ Ibid., p. 54.

³⁸ UNCTAD, *The Least Developed Countries Report 2000* (Geneva: UNCTAD, 2000), pp. 245-51.

³⁹ Ibid.

⁴⁰ Ibid.; World Bank, *Global Development Finance* (Washington, DC: World Bank, 1999), pp. 132-9, 117-21. 73 LDCs underwent official debt rescheduling, while 55 rescheduled the private debts; all together, 80 LDCs underwent some form of debt rescheduling.

⁴¹ For the recent Heavily Indebted Poor Countries (HIPC) Initiative by the Group of Eight, see "Leaders Agree on Action Plan for Africa, More Grant Aid for Poor Countries," *IMF Survey* 31, 13 (8 July 2002), pp. 209, 212.

⁴² Though it has not materialized, for an exceptional initiative of debt forgiveness by US President Clinton, see the White House, "Remarks by the President to the 1999 Annual Meeting of the International Monetary Fund and the World Bank at Marriott Wardman Hotel, Washington, DC, 29 September 1999."

<<http://www.pub.whitehouse.gov/uri-res?IZR?urn:pdi://oma.eop.gov.us/1999/9/30/2.text.1>> (6 October 1999).

The absence of effective land reform known as "land to the tillers" provides another sharp contrast between Japan and "developing countries."⁴³ Although the World Bank has acknowledged the positive effects of the kind of radical forms achieved by Japan, it has not been a forceful agent in pursuing them over the decades largely because of political resistance from powerful land owners.⁴⁴ In place of radical land reforms, the Bank attempted to transplant models of successful rural development schemes from highly industrialized countries. When these failed, the Bank shifted to an emphasis on institutional bases of market economy in rural areas, such as securing property rights through formal titling, building effective land markets, and building effective and accessible rural financial institutions.⁴⁵ Although there has been some discussion of the importance of a wider distribution of "human" and "social" capital (i.e., forms of intangible assets that are not formally titled like education and social networks), there is a conspicuous absence of any discussion of the redistribution of private properties (such as land and capital).⁴⁶

Without the kind of radical land reform or egalitarian inheritance law imposed on Japan after World War II, the internal sources of relationship loans in "developing countries" are, indeed, scarce. In fact, one can go so far as to suggest that the absence of such reforms has contributed to the creation of the type of externally funded relationship loan programmes known as microfinance.⁴⁷ The microfinance programmes pioneered by Grameen Bank in Bangladesh are self-consciously promoted as potential solutions to a wide range of social and even political problems. The low purchasing power of the poorest peasants (especially women), for example, can be increased through the production of locally consumable goods. A question thus arises: can such microfinance programmes compensate or substitute for the absence of the type of land reform (and other reforms) as discussed above? Can they fill the gap?

The answer is likely to be 'no'. The kind of socially progressive, local consumption-oriented, rural and agrarian microfinancing programmes are vulnerable to three powerful forces: (1) external creditors, (2) male-dominated rural leadership, and (3) national politicians. First,

⁴³ Russell King, *Land Reform: A World Survey* (Boulder, CO: Westview, 1977). Hernande de Soto, *The Mystery of Capital: Why Capitalism Triumphs in the West and Fails Everywhere Else* (New York: Basic Books, 2000).

⁴⁴ The Bank also notes the achievement of the radical land reforms in South Korea and Taiwan. World Bank, *World Development Report* (New York: Oxford University Press), 1982, pp. 84-5; 1990, pp. 64-5; 2000/2001 (published in 2000), pp. 88-94; 2002, pp. 31-53.

⁴⁵ Ibid., 2002, 31-53; Alain de Janvry, Jean-Philippe Platteau, Gustav Gordillo, and Elisabeth Sadoulet, eds., *Access to Land, Rural Poverty, and Public Action* (New York: Oxford University Press, 2001).

⁴⁶ Ibid., 2002, pp. 112-3; 2000/2001, pp. 128-30. On the maldistribution of assets, *ibid.*, 2000/2001, pp. 3-4, 34-7. On the emphasis on economic growth, institutional changes, and temporary transfers as solutions for poverty, see *ibid.*, 2000/2001, pp. 45-96, 99-131, and 135-76. For the original rational-choice concept of "human capital," see Gary S. Becker, *Human Capital: A Theoretical and Empirical Analysis with Special Reference to Education* (Chicago: University of Chicago Press, 1992). For "social capital," see James Coleman, *Foundations of Social Theory* (Cambridge, MA: Harvard University Press, 1990), pp. 302-8; Robert D. Putnam, *Making Democracy Work: Civic Traditions in Modern Italy* (Princeton, NJ: Princeton University Press, 1993), pp. 163-85. For a relational (that is, non-rational-choice) notion of asset, "cultural capital," see Pierre Bourdieu and Jean-Claude Passeron, *Reproduction in Education, Society, and Culture* (Chicago, IL: University of Chicago Press, 1977).

⁴⁷ Ismail Adams and Associates, "Research Report: Field-Testing the UN/OSCAL Microfinance Model," unpublished paper, circulated during the conference, held at the United Nations in New York on 14 November 2002, *Africa Advocacy Forum II: Microcredit -- A Solution for Africa?* (New York: United Nations Department of Economic and Social Affairs, Office of the Special Coordinator for Africa and the Least Developed Countries, OSCAL), p. 9 on the South African case.

because external creditors are primarily interested in recovering as much of their principal and interest as possible, they are not interested in releasing the indebted by forgiving all debts. As a logical consequence, they always lend their weight to the production of exportable goods and services.⁴⁸ The majority of microfinance programmes, by contrast, finance the production of goods and services that are locally consumed.⁴⁹ Although they also foster local knowledge and skills, as well as networking and group formation, that can assist "human" and "social" capital formation, the lack of tangible exportable products that earn hard currency (thus repaying debt) means that most creditors will continue to regard such programmes with indifference.

Secondly, microfinance programmes do not seem to address the issue of the poor as a source of inexpensive labour. In fact, due to their progressive orientation, these programmes do not always elaborate ways to integrate the untapped source of cheap rural labour into capitalist production. In the case of Japan, small subcontracting companies successively integrated inexpensive rural labour into the capitalist production process, first as seasonal or temporary migrant (often male) workers in urban workshops and then as part-time (often female) workers in rural areas as rural industrialization proceeded.⁵⁰ Small subcontracting companies that relationship loans helped to start up integrated cheap labour into the production process -- in many instances, of export-oriented industries -- outside the confines of the labour unions and the labour standards laws that regulated labour relations at larger corporations. In many countries where externally financed microfinance programmes operate, by contrast, landlords are key economic and political leaders in the rural areas. If these programmes provide employment opportunities for rural labourers, they are likely to face resistance from these powerful landlords, whose wealth has been dependent on the exploitation of these workers.⁵¹

Finally, the political base of national politicians is more likely to be in cities than in countryside. This is why development projects in the past tended to focus on urban issues (infrastructure, social services, etc.) rather than rural development.⁵² The survival and success of government planners depend on their ability to navigate through the landmines of external creditors, rural landlords, and national politicians and negotiate a developmental path acceptable to all. Of these groups, the planners are most sensitive to their bosses: national politicians. Given the low priority by the external creditors and the national politicians as well as the resistance from rural

⁴⁸ On the effect of debt relief on producing tradable goods, see Arnoud W. A. Boot and George Kanatas, "Rescheduling of Sovereign Debt: Forgiveness, Precommitment, and New Money," *Journal of Money, Credit, and Banking* 27, 2: 363-77. Whether this was externally forced by the creditors or not is a secondary question that I will not treat here.

⁴⁹ Adams and Associates, p. 27.

⁵⁰ Chalmers, pp. 67-96. For a comparative analysis, see Keijiro Otsuka, "Rural Industrialization in East Asia," in Yujiro Hayami and Masahiko Aoki, *The Institutional Foundations of East Asian Economic Development: Proceedings of the IEA Conference held in Tokyo, Japan* (New York: St. Martin's Press, 1998), pp. 447-75.

⁵¹ On the contrary view based on the pro-poor coalition building without confronting power and class, see World Bank, 2000/2001, pp. 108-15. On the significance of confronting the problem of uneven power relations in development planning, see Bent Flyvbjerg, *Rationality and Power: Democracy in Practice* (Chicago, IL: University of Chicago Press, 1998).

⁵² Michael Lipton, *Why People Stay Poor: Urban Bias in World Development* (Canberra: Australian National University Press, 1977). What is regarded as significant in rural development is such rural road network programmes that are central to the ruling of the national territory. See James Ferguson, *The Anti-Politics Machine: 'Development', Depoliticization and Bureaucratic Power in Lesotho* (New York: Cambridge University Press, 1990).

landlords, the government planners are not easily persuaded to spearhead the progressive microfinance programmes on their merits.

These three political forces present formidable obstacles to microfinance programmes. As Alexander Wendt and Michael Barnett say, "[s]ecurity is always for someone or some social order...The definition of security, in other words, is always relative to particular interests."⁵³ Because the particular interest whose security the microfinance programmes aim to promote is the rural poor, especially peasant women, these programmes are unlikely to become a major force for social and political change until their clients achieve sufficient political power or material wealth to effect more basic reforms. In short, the fundamental conflict of interest between the rural poor and the three political forces mentioned above needs to be resolved.

Conclusion

To briefly summarize, this paper contrasted the conditions behind the emergence of what I call "relationship loans" in two very different times and places: family loan in post-war Japan and microcredit in contemporary developing countries. The favourable social conditions for the integration of rural labourers into an industrial economy through the use of relationship loans in Japan sharply contrasted to the adverse conditions in the use of relationship loans for consumption-oriented production and services in the rural area of "developing countries." In simple terms, the dominant power relations of Japan -- at the local, national, and international levels -- were forcibly changed after World War II, whereas the power relations governing most developing countries remain stubbornly unchanged. The grip of external creditors, rural landlords, and city-based national elites on social and economic life has, if anything, increased. And all indications suggest that they remain, at best, indifferent, and, at worst, actively opposed to microfinance programmes because they potentially challenge the existing order of things.

Two insights follow from this analysis. The first is quite sobering. In order to achieve the progressive aims of these microfinance programmes, the beneficiaries of microfinance programmes must extend their new found social organization well beyond their small villages or credit groups. They must, in short, become an effective political force on the local and national scene -- an extraordinarily difficult and dangerous task for these weakest members of society. The other insight is a little less sobering. The weakest might not have to carry the burden of social change in this case. The critical determinant of Japan's economic success after World War II was not internal revolution but externally imposed reforms. The Japanese people were not the authors of the changes described above. They simply had the good fortune of being occupied by a foreign power with relatively "benign" intent.⁵⁴ Arguably, industrialized states today -- official creditors who hold the bulk of both the debt of industrializing states and the votes at the international financial institutions -- have a level of coercive power over indebted poor countries similar to that of the Supreme Command of Allied Power (SCAP) over Japan and could redirect their power to projects of more basic social and political reform. Although their past performance in the use of coercive power via "structural adjustment" programmes and their current preference for incremental "market-oriented" solutions suggest that such a redirection is

⁵³ "Dependent State Formation and Third World Militarization," *Review of International Studies* 19 (1993): 321-47.

⁵⁴ James C. Thompson, Jr., Peter W. Stanley, and John Curtis Perry, *Sentimental Imperialists: The American Experience in East Asia* (New York: Harper Torchbooks, 1981).

unrealistic,⁵⁵ external creditors with their well-pronounced intention of helping the indebted states, especially the poorest, still seem to be best positioned to challenge the internal political forces that resist the kind of social and political changes that the microfinance programmes are asked to achieve.

⁵⁵ For a historical materialist argument for debt cancellation, see Alain Lipietz, *Towards a New Economic Order: Postfordism, Ecology and Democracy* (New York: Oxford University Press, 1992), pp. 119-24.

Statement

by

Mr. Masashi Mizukami, Minister
Permanent Mission of Japan to the United Nations
New York

Mr. Chairman,

First of all, I am very honored to have been invited to offer some remarks on the occasion of the Second Africa Advocacy Forum, and I would like to convey my appreciation to Mr. Chowdhury for his commitment to the development of the microcredit concept. It is quite interesting that Mr. Chowdhury comes from a country where, through the Grameen Bank, microcredit has changed the lives of so many, mostly poor women, and I believe that his experience and commitment will enrich our discussion and activities.

I also appreciate the participation of Mr. Daley-Harris, Executive Director of the Microcredit Summit Organization. His cooperation gives an impetus to our assistance to the people of Africa through the microcredit scheme.

My appreciation also goes to Ms. Yvette Stevens for the efforts she and her staff have made to find an applicable methodology for extending microcredit in Africa as an effective tool for poverty eradication.

Mr. Chairman,

I would like to introduce the contribution of Japan in this area, first, from the perspective of microfinance, and, second, from the perspective of partnership with Africa.

The Government of Japan has committed itself to promoting the concept of microfinance to the world. It does this through both bilateral and multilateral assistance. In the area of bilateral assistance: by the end of July of this year, it had provided 155 billion yen, or approximately 1.2 billion dollars, in financial intermediary, or two-step loans to aid small- and medium-scale enterprises. To the above-mentioned Grameen Bank, Japan made such a loan for 3 billion yen, or about 23 million dollars, in 1995.

While the discussion today is mainly on the UN's activities in the area of microfinance, I would like to focus my remarks on Japan's contributions to the UN, taking as an example those it makes to the UNDP through the Japan Women in Development Fund (Japan WID Fund). Here are a few of the microfinance activities that have been made possible by the Fund:

(1) OSCAL conducted the fact-finding study in Ethiopia, Cameroon, and Nigeria that led to the formulation of its microfinance model for rural people, especially women, under a project entitled "Women, Microcredit and Poverty Eradication."

(2) An Experts-Group meeting on Microfinance and Poverty Eradication in Africa was held in Addis Ababa from the 25th to 29th of September 2000. This meeting brought together 18 African and Asian countries, along with regional and international financing institutions, including the Japanese Postal Savings System.

(3) Public advocacy tools have been developed. OSCAL published “Combining the Best Practices of Traditional and Modern Approaches towards Poverty Eradication,” which focuses on microfinance activities in Africa. The publication “Entrepreneurial Skills for Women in Microenterprise–Training Manual” presents five training modules that have been tested by a sample group of entrepreneurs in Jamaica. A documentary video, entitled “Economic Empowerment of Women in Post-Conflict Cambodia,” illustrates how local women have been able to participate in the reconstruction of a war-torn society with the assistance of a local microfinance institution.

(4) ICT-related training has been provided to promote microfinance activities. Projects are being conducted in the Ukraine and Jordan.

(5) Other microfinance projects of the Japan WID Fund are taking place in Ghana, Kenya, Laos, Vietnam, the Philippines, Palestine, Kazakhstan, Fiji and Vanuatu.

(6) The total value of these microfinance projects is in excess of 3 million dollars.

Mr. Chairman,

Regarding the partnership that exists between Africa and Japan, Japan turned its attention to the development of Africa in the early 1990s, when most other donors were losing interest in the continent. In 1993, Japan hosted the first Tokyo International Conference on African Development (TICAD I), the first ministerial conference on African development of this kind to be held in the Asian region. A second Tokyo Conference (TICAD II) took place in 1998, and was very well attended. Last December, a ministerial-level meeting was held in Tokyo to review the progress made since TICAD II, draw some conclusions, and formulate a strategy for TICAD III, which will be held in October 2003.

Through the TICAD process, Japan, together with other co-organizers, such as UN-OSCAL, the Global Coalition for Africa (GCA), the UNDP, and the World Bank, has made every effort to persuade the international community to pay greater attention to the difficulties and development needs of Africans. We have been constant advocates for the idea of ownership of Africa and partnership of the international community. While we believe that the recent establishment of NEPAD goes a long way towards realizing both of these concepts, ownership and partnership, remain vital factors to the success of microfinance activities.

The Government of Japan has sponsored a series of Asia-Africa cooperation initiatives on substantive subjects contained in the Tokyo Declaration, including private sector development, advancing financial intermediation, desertification, and women in development. And in fact, the

subject of the Second Africa Advocacy Forum is one of the priority areas identified in the Tokyo Agenda of Action adopted at the 1998 TICAD II.

One example of this kind of cooperation is the Asia-Africa Forum, which Japan helped to establish in order to provide an opportunity for high-level policy dialogue between political leaders from both continents. The Asia-Africa Forum has been convened three times: first in Bandung in 1994, in Bangkok in 1997, and most recently in Kuala Lumpur in 2000. The second Asia-Africa Forum focused on the economic empowerment of women, and was co-organized with OSCAL and the UNDP.

Mr. Chairman,

Through experience, we have learned that microfinance is not a panacea. Microfinance activities are actually very difficult because they require leaders to demonstrate a high level of management skills and supporters to provide strong assistance. Nevertheless, I stress the importance of microfinance since it seems to give those people who are ignored by both public and private financing institutions a chance to improve their lives. Those excluded are really the people most desperately in need of assistance. We have to think seriously about how to assist them and extricate them from the poverty in which they are mired.

Mr. Chairman,

The Government of Japan is privileged to attend this important forum, and pleased to work together with the United Nations in the area of microfinance. We expect the United Nations to continue supporting the people of Africa, especially those who are suffering from poverty, by helping them to gain their independence through microfinance.

THE WAY FORWARD - DONOR COUNTRIES' PERSPECTIVES

by

Ms. Eeva-Liisa Myllymäki

Minister Counsellor

Permanent Mission of Finland to the United Nations

New York

Mr. Chairman,

Ladies and Gentlemen, Colleagues

The Africa Advocacy Forum focuses for the second time on the role of microcredit. This year it is more timely than ever.

- The International Conference on Financing for Development was held in March 2002 in Monterrey, Mexico. The Monterrey agenda took a wide approach towards development financing. Mobilizing domestic financial resources is a central element of development financing. We explicitly stated that microfinance and credit for micro, small and medium-sized enterprises, including in rural areas, particularly for women, as well as national savings schemes, are important for enhancing the social and economic impact of the financial sector.
- The General Assembly dedicated a high-level plenary meeting on the New Partnership for African Development in September 2002. An important evaluation of the United Nations New Agenda for the Development of Africa (UN-NADAF) was brought to the review of the Member States and we had the opportunity to explore the new NEPAD approach. Poverty reduction can only be achieved under African ownership and management.
- This forum was preceded by an impressive gathering of politicians and practitioners around the Microcredit Summit + 5. I will not compete with their expertise, knowledge or visions but I will try to share some thoughts that reflect the thinking of a long-term bilateral donor country, Finland, and my own background in the development cooperation administration and in the field for more than 20 years.

FINNISH DEVELOPMENT COOPERATION

Africa has been for several decades the most important region in the Finnish bilateral development co-operation. We implement aid programmes with several African countries, mainly in the Sub-saharan Africa, through a variety of activities in the economic and social field. Finland also contributes to the development cooperation efforts through European Union programmes and the multilateral cooperation in collaboration with the United Nations agencies, the World Bank and the regional banks. In the development cooperation, we highly value the potential of private organisations, especially at local level, and in the income-generating projects.

The Ministry for Foreign Affairs of Finland has defined general guiding principles some years ago for selecting and supporting microfinance intermediaries in development cooperation projects. In our view, the purpose of microfinance is to provide savings and credit services for the poor and very small entrepreneurs and businesses, which are micro enterprises by character. The idea is based on enhancing the capacity of saving. There is a great demand for formal saving services among the poor to facilitate access to initial finance. Assistance is provided to overcome vulnerable situations.

WHY MICROCREDIT

Economic empowerment is one of the benefits and justifications for creating microfinance possibilities for individuals and communities, providing necessary incentives against exclusion in the society.

The central aim of the microfinance projects supported by Finland is to strengthen local financial institutions. The selection of microfinance intermediaries is essential, for which some basic criteria need to be applied. Microfinance institutions should become self-sustaining and viable. **We need to keep in mind that institution building is a long-term process and requires sufficient commitment.** There must be realistic expectations for the donor. Especially if microfinance is a component in an integrated project, too many results may be expected and **the focus on the institutional sustainability may be lost.**

Regarding the specific criteria for choosing the microfinance institutions, they should be able to:

- establish an efficient credit methodology and an operational delivery strategy;
- develop a good management information system;
- develop a financial reporting system which meets international standards;
- ensure effective administrative structures to hold the management accountable with autonomy and flexibility.

Reaching the intended clients is another factor of concern. The criteria for the selection of the target clients should be clearly defined, including their income levels. The rules must be well understood by everybody, e.g. charging the market interest rates, limited amounts of the loans and other requirements to comply with.

The OSCAL model details the general principles for microfinance modelling, and we can share the collective knowledge that it comprises. The principles derive from the general good practices of development policy - as they should. Microfinance projects follow the usual project design scrutiny and assessment of the preconditions for sustainability. **The acknowledgement of the local context is a cornerstone for success.** Participatory planning methods have become a vital tool in aid interventions. A greater ownership by the beneficiaries is the starting point as well as the final goal if development cooperation projects are expected to bear sustainable results. **The OSCAL approach is helpful in finding a common ground.**

MONITORING AND EVALUATION

Donor agencies follow a system of monitoring performance in all types of development cooperation. Specific performance indicators are applied for microfinance programmes. They are related to the overall sustainability of institutions as well as their operational efficiency. The donor government has responsibility to ensure formal performance monitoring as the basis for the assessment of the actual results and achievements of the project objectives.

Many lessons have been learnt but there is further need for concrete, independent evaluations of microfinance activities. We have established good principles and there is a lot of ground for enhancing microfinance. As donors, we have to be accountable to the public and able to show results of the money invested. These requirements may be regarded as a burden to the recipient institutions - but it is a joint task.

There are some interesting studies about microcredit and microfinance projects as a strategy for addressing women's poverty. **There are also critical notes that microfinance schemes require a more gender-sensitive programming and management approach so that they do not undermine women's empowerment. We need these critical questions and fact-based evaluations to alert us about the reverse effects that the projects may have, in spite of the well-defined purpose.** The judgement lies, of course, in the hands of the immediate stakeholders.

The Finnish Foreign Ministry has compiled a review of the existing and completed bilateral microfinancing projects. Still an in-depth analysis and evaluation of this instrument remains to be accomplished.

MACROECONOMIC POLICY FRAMEWORK

As microfinance projects are implemented in the overall framework of the societies, the support programmes can only be successful if there is an appropriate macroeconomic and regulatory environment. Microfinance interventions require a stable fiscal and monetary environments. The financial markets should provide incentives to save. The local governments should also meet the enabling provisions. Local resources and investments need to be available, which brings in the role of the private sector. These issues are part of the poverty reduction strategies and they belong to the regular agenda of the development cooperation dialogue between the partners.

In our view, it is vital to place microfinance in the right context. Institutional sustainability needs to be the driving aim in microfinance institution level interventions. There is adequate evidence that transaction level subsidies - like unsustainable interest rates, inefficient loan recovery - are both unsustainable and not well poverty targeted. **Therefore donors should not provide microfinance as such but support the microfinance institutions to become better functioning and to expand their activities.**

In many cases and markets, also in Africa, there is rather oversupply of capital from different sources and inadequate number of institutions to manage the funds. The often-stated lack of capital as a development problem could often be interpreted as lack of access to capital. So

before offering more money, the donors should assess if selected institutional interventions could bear more fruit.

Summary of the Statement

by

Mr. Sarbuland Khan

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1. In the past few decades, knowledge-driven innovation has become a decisive factor of the competitiveness of both nations and firms. This trend is particularly pronounced in developed countries, where, by 1999, knowledge-based industries represented more than 50 percent of GDP. There is growing evidence, however, that the less developed economies are being left behind in the expansion of a global economy, where knowledge is the driving factor behind productivity growth.
2. Information and Communication Technologies (ICT) are the backbone of knowledge-based economies. A firm that lacks ability to innovate and grow through the efficient use of ICT in its operations and commerce will lose market share to its competitors. In the Region and elsewhere, ICT have now become the key element for strengthening the competitiveness of the national economy and improving the productivity and efficiency of private firms.
3. For individual private firms, appropriate use of ICT solutions and services improves efficiency in the value chain by providing better and faster communication between trading partners, integrating transactions with logistics functions, reducing intermediation costs, facilitating the search for new markets, and allowing better pricing policies. ICT technologies also serve as important tools for other corporate functions such as banking service, accounting, post-sale customer service and support management functions through the provision of rapid and strategic information.
4. Developing economies and economies in transition are typically characterized by a predominance of small businesses. Until recently, the lack of financial, human and technical resources prevented such businesses from swiftly adopting new technology to compete in national and international markets. What is more, they lack the technical and business knowledge to assess the new opportunities and threats facing their businesses in a global economy.
5. One way of alleviating this problem is Microcredit. Extending small loans and other financial services to poor people for self employment projects not only helps them care for themselves, but it also encourages development through revitalizing an important segment of the business sector. Helping people build businesses, create jobs and lift themselves and their families is, on a larger scale, also helping to build a foundation for an economy based on innovation, hard work and independence.

6. Insuring availability of Microfinance in developing communities is no doubt a difficult task. Obstacles vary from one society to another however, common problems include lowering costs, improving efficiencies, and expanding the range of services.
7. However, thanks to rapid technological development and innovation in ICT, services and solutions that were once limited to larger companies and international corporations are now available for smaller businesses that strive for market penetration and efficiency. The power of ICTs in lowering costs and enhancing productivity has been established in businesses of all sizes. Further expansion of innovative and affordable ICT solutions and applications for private firms will have a significant impact on improving the competitiveness. In this context, development of a thriving local ICT industry is becoming an essential factor for economic development.
8. In fact, an incipient ICT industry emerged in many developing countries between 1999 and 2000, confirming the potential for a small, vibrant, information sector that could count on a reservoir of technology and business talents. These technological and business operators, many of which are small tech firms, are called upon to deliver services and tools for the development of other economic and civil sectors. They also act as agents that can add value to raw data, making them accessible and ensuring that they respond to the information needs of their client firms.
9. The United Nations needs to harness the power of ICT to help bridge the digital divide and improve the lives of the poor and the under-privileged. We see the establishment of the ICT Task Force not only as a symbol of commitment to support the least developed and low-income countries but also as an important and necessary step towards achieving greater effectiveness in support for new policies that will help achieve the development goals of the International Community.
10. The unique platform provided by the UN ICT Task Force, bringing together leaders from the public and private sectors, including non-profits and civil society as equal members, each offering a unique perspective and expertise from their respective fields, is an important key that is helping formulate new strategies and approaches, and is forging strategic partnerships between the United Nations and the different stakeholders.
11. Through its decentralized, open and inclusive approach in the membership of its working groups and regional networks, the Task Force can play a strategic role in the development of human capacities and skills, can demonstrate the technical feasibility and commercial viability of proposed new ICT solutions and services for the benefit of MSEs in the developing world, and can analyze and widely disseminate the best practices and lessons learned obtained from implementation of projects for demonstration effects and possible replication.

SESSION FOUR:
COMMENTS & OBSERVATIONS

Marie Louise Secke-Pouka
SOS Women, Cameroon

Ms. Swati Raut
International Young Professionals Foundation

Mr. Ibrahima Seck
Federation des Organisations non gouvernementales du Senegal

Mr. Oumar Makalou
CERDES, Mali

Mr. Siméon T. Numbem
Afriland First Bank, Cameroon

Mr. Justin Bomda
ADAF/MC2, Cameroon

M. Robert Demanou
Le Défi des Pauvres

Microfinance et Santé en Afrique

La microfinance pour les plus pauvres peut-elle survivre en Afrique sans une action conjointe de prise en charge des soins de santé ?

Marie Louise Pouka Secke

Coordonnatrice Nationale de SOS WOMEN

Cooperative feminine d'épargne de crédit et de promotion de l'Investissement.

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Les clients auxquels s'adressent les institutions de microfinance en Afrique font partie des tranches de populations les plus vulnérables, celles dont les taux de morbidité sont les plus élevés et qui, par ailleurs, sont les plus désarmées face à la maladie. Ces populations ne sont couvertes ni par une sécurité sociale publique qui n'existe pas dans nos pays, ni par des systèmes d'assurance maladie, cette pratique ne cadrant pas avec nos habitudes. Certes, les femmes dans les associations bénéficient d'une certaine solidarité qui pourrait être assimilée à une sorte d'assurance, mais cette dernière d'une manière générale n'agit qu'en cas de décès. Notre expérience de praticiens sur le terrain nous a amené à constater que la maladie est le principal facteur de l'échec des activités entreprises par nos clientes, et, par conséquent, de leur impossibilité à rembourser les crédits qui leur sont alloués.

Cet état de fait s'explique par l'accroissement des coûts liés aux soins qui absorbent, dans certains cas, toute l'épargne du ménage et même entame le capital dont il dispose, les soins de santé absorbant dans ces situations, toute l'épargne y compris le capital. Ceci constitue un véritable risque pour la pérennité des établissements de microfinance en Afrique qui, pour contourner ce risque, ont tendance de s'adresser à des cibles financièrement beaucoup moins fragiles, mais ayant tout aussi besoin de leurs services; la conséquence étant une fois de plus, la marginalisation des plus pauvres parmi les pauvres.

Ainsi, si nous croyons que la microfinance durable se présente comme l'une des solutions pour réduire la pauvreté dans notre continent, si nous souhaitons que son action atteigne les populations les plus démunies, nous devrions tous (partenaires de la microfinance, Etats, Organisations Internationales ..etc) réfléchir à des politiques de prise en charge des coûts des soins de santé des populations auxquelles s'adresse la microfinance.

International Young Professionals Foundation (IYPF) intervention at the Africa Forum

by

Swati Raut

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About the Organization:

The International Young Professionals Foundation (IYPF) (<http://www.iypf.org>) is a not-for-profit public company based in Australia working in the fields of human rights, poverty eradication, environment and social capital, within the broad context of sustainability. It utilises and promotes the resources, skills and knowledge that Young Professionals can bring to this arena in order to create a better world for current and future generations.

IYPF has Africa Chapters in Ghana, Zambia, Kenya, Gambia, Senegal and Uganda. IYPF will be hosting an upcoming Africa Youth Assembly in December 2003. The event will bring together over 300 youths from 39 countries in Africa and international participants, five representing each country of Africa to discuss Poverty Alleviation, Youth in Conflict, Integration of Youths in Africa, Leadership and Governance and the formation of an African Youth Union plus other issues affecting the youth of Africa. Please check the website for further information www.africa.web.aplus.net. Eddy Orinda is the focal point for this summit and could be reach at eddyorinda@iypf.org

Intervention:

Under the current scenario of abundance in **supply** of unemployment and **demand** for addressing social and economic breakdowns in the world, it is about time to innovatively invest into solutions to address unemployment and sustainable livelihoods. Is microcredit the answer to this question? Does it address the question related to luring young professionals back into farms

or making agri-business as lucrative as IT industry? Or will it face challenges around financing that the youth are hardly patient enough to sort out?

Given the context, how can one invest into social entrepreneurship conversations that young professionals can actually invest their careers into? **Millennium Goals** actually provide an **opportunity** to come up with addressing these issues – particularly when providing \$1 a day is one of its intended outcome – can microcredit be the solution to this – because clearly employment generation is such an impossible task for a developing country given its magnanimity that providing employment has to be created through innovative means.

Understanding that it is almost always a developing country that experiences breakdowns around environmental issues largely because it is not its priority – these countries need to look into the conversations around **social entrepreneurship**. Invested properly this scenario will be a **win-win situation** wherein governments generate income out of a breakdown adding value to a country GDP – because an income generating young professional is revenue to a country.

COMMENTAIRE

by

Mr. Ibrahima SECK

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Pour mieux développer le microcrédit en milieu rural en Afrique, il est nécessaire de considérer l'impact des subventions agricoles des pays du Nord, singulièrement l'Union Européenne et les Etats Unis, sur les marchés locaux africains. En effet, ces produits parviennent sur les marchés africains à des prix de « dumping » et concurrencent dangereusement les produits locaux. Les produits locaux restent invendus, et cette situation accentue la pauvreté des petits paysans.

Des présentations faites au Sommet de Johannesburg sur le Développement Durable estiment les subventions accordées par les pays riches à leur agriculture à 300 milliards de US dollars en 2001, tandis que pour la même année l'Aide Publique au Développement pour la même année ne serait que de 55 milliards de US dollars.

Par ailleurs, les produits africains connaissent des problèmes d'accès aux marchés des pays développés en raison des « mesures sanitaires et phytosanitaires » imposées par les pays du Nord. Ces mesures ont été définies dans le cadre des Accords de l'Organisation Mondiale du Commerce (OMC), qui ont des répercussions perverses sur les pays africains.

Les « semences » africaines peuvent être aujourd'hui récupérées et modifiées génétiquement par les compagnies multinationales des pays du Nord, et revenir en Afrique avec le « copyright » pour être revendues très chères aux pays africains. Ainsi, les pays deviendront dépendants de ces semences modifiées et perdront leur savoir local acquis et développé durant des centaines d'années.

L'OMC est également l'instigatrice des « accords sur la Propriété Intellectuelle liés au commerce » ; c'est le « brevetage du vivant » appliqué tant aux semences animales que végétales. Est-ce que les Nations Unies peuvent intervenir auprès de L'OMC et des pays développés afin de revoir ces politiques négatives qui affectent les économies africaines et qui ont pour corollaire d'accroître la pauvreté ?

Merci.

Comments

by

Dr. Oumar Makalou

CERDES MALI

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Excellences, Co-chairman, Ladies and Gentlemen,

We Africans welcome this meeting, Africa Advocacy Forum II organized by the Office of the Special Coordinator for Africa and the Least Developed Countries (OSCAL). We would like to thank the United Nations for its initiative and Sam Daley Harris, Executive-Director of the Micro-credit Summit Organization for his inaugural statement and report on Microcredit Summit + 5, which closed yesterday. We know that everybody is in good faith, nevertheless I would like to take this opportunity to underline the following:

1. Africa is still under-represented in the Microcredit Summit, in terms of participants, observers, speakers, chairs and case studies;
2. The cost of travel and accommodation is not affordable by the MFIs and other institutions dealing with microcredit in our countries;
3. Grassroots MFI's are not interlinked in the intellectual debate, which dominates the summit;
4. Therefore Africans should create a unified front of MFIs, composed of practitioners, researchers, trainees and financial suppliers, to network at national and international levels.

You can help us to achieve that goal, which is the condition to meet the medium term view (2005) and long-term view (2015) goals of the summit.

Microfinance in rural development:
The challenge of making it work

by

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Microfinance is heralded today as the miraculous solution for the alleviation of rural poverty and for the stimulation of broad-based social and economic development of African countries. As a factor of production, finance has often been one of the most critically missing factors in the development efforts of rural African and Cameroon.

Rural development in this context should be taken simply as the development of the potential economic and social activities of the rural area. In Cameroon, as in most of Africa, more than 70% of the population still live in the rural areas, where their livelihood depend on rural activities such as agriculture, animal husbandry, fishing and other forms of natural resources exploitation. It is this rural area, which produces through the labour of the majority womenfolk the bulk of the food that supports the steaming urban areas of just 30% of the total population. It is this rural area that produces directly or indirectly in the case of Cameroon 60% of the (gross domestic product) GDP. It is this rural area where development assistance has been cut both from the government and from the international circles by more than 40% between 1988 and 1989. It is this rural area whose bulk of activities is mainly on subsistence, is increasingly getting poorer, with an increase in poverty index of 51% today compared to 40% in 1983. It is this rural area where the financing of activities by formal financial institutions has failed, yet paradoxically microfinance, still in its infancy is being projected with much hope in alleviating an age-old problem of rural development.

The economic crisis of the 90s prompted the government to recognize the potentials of microfinance as an alternative means for financing economic and social activities in Cameroon. Since then more than 700 microfinance institutions (MFIs) have been created and many more are in creation. Today, government and practitioners alike are grappling with the problems of how to integrate microfinance into the fabrics of rural development. However, the microfinance sector is still grossly underdeveloped, with limited financial resources and the meagre funds mobilized are very inadequate to finance rural development activities, since most rural activities need long term investments.

A 1998 World Bank study of the priorities of rural development problems in 10 provinces in Cameroon puts lack of rural credit or the need for rural financing at the top. Another study by (International Food Programme Research Institute) IFPRI in 1998 shows that for every dollar investment in the rural area, there is four dollars return or generated in return. Furthermore, it has become clear to governments including that of Cameroon and international organizations such as the World Bank, FAO, UNDP, that microfinance can be a promising solution to rural

development and especially poverty alleviation. But the question is how to make microfinance succeed where the financing by formal financial institutions failed? Compared to the formal banking institutions MFIs have a number of advantages that make them much suitable for assisting rural areas. First, there is proximity. Many of these institutions are created in the rural areas closer to the people. Second, the simplification of membership procedures open access to many people to the services that the MFIs provide. Third, the less stringent conditions for loans, often with no collaterals are also favourable to the community borrowers. Fourth, in most cases, people in the rural areas through the savings they mobilized have a feeling of ownership and real participation in their own development. All these lead to a better channelling of resources to end-users in the rural areas at lower transaction costs.

The challenge today is to know whether microfinance at its present level can fulfil the hopes and expectations of the rural poor? This paper aims at discussing some of the critical issues regarding the integration of microfinance in rural development. In making microfinance work effectively in assisting rural development three main hurdles have to be overcome from the microfinancial, rural developmental and organizational standpoint. In this issue of “Le Défi” only the microfinancial considerations in rural development will be treated, and the agricultural and organizational issues will come in the subsequent publications.

MAKING MICROFINANCE WORK IN RURAL DEVELOPMENT

From the microfinance standpoint, there are still major obstacles to overcome in order to make microfinance an instrument for rural development. These obstacles among others include: i) institutional stability is a must. Many MFIs today are ephemeral, created today and dying tomorrow. Institutional stability is characterized by a permanent location, it must stay long enough in an area to build trust and gain the confidence of the local population. It should have secured infrastructure. It should be managed by people from the community, thus be community-based. It should equally develop a pattern of savings mobilization to provide the financial resources for their own development, before seeking for external assistance, ii) Making financial resources available is the key to keeping the MFIs alive. Although savings mobilized by the rural population is small, rural people must start by counting on themselves and on their own savings. In addition to local savings in the MFIs, governments and donors should help. This help can come in the form of subvention, cheap loans for onward lending, or direct assistance. These external sources of finances are necessary today in the microfinance sector in order to stimulate productivity at the base. For the moment, we are looking and hoping for broad-based financing from the (Heavily Indebted Poor Country) HIPC initiative. Furthermore, alternative types of long-term financing such as venture capital fund MITFUND (Micro Trust Fund) for micro-rural enterprises, and micro leasing are options to experiment in the long-term development of rural activities, iii) Re-education of rural people about loans is another crucial point. A very poor precedence was set by the mismanagement procedures in the formal commercial and banking institutions, where loans were considered like handouts from the state benefactor. Farmers today need education not only in loan management but the technical knowledge in developing their activities far beyond the subsistence stage or level of development, iv) Stabilization of rural savings: Capital flight from the rural to the urban areas should be checked in order to have enough money for the development of rural activities. It is often the case that lack of well rewarding rural activities would oblige MFIs to fructify their mobilized resources by putting them in high yielding deposit accounts in commercial banks in the cities, v) The issue of

institutional viability versus poverty reduction is a paradox to address. Governments and donors especially should assist MFIs that have a vocation for poverty reduction to resolve this paradox. This assistance can come in the form of start-up subvention for the infrastructure needs of the new MFIs, in the establishment of a revolving fund, or by creating financial services opportunities for MFIs in rural areas. For example, MFIs may pay social insurance allowance to retired workers of the village. In this way, MFIs will not wholly depend on the profit from loans to reach their administrative sustainability. Great flexibility and ingenuity must be exercised by MFIs in order to strike a comfortable paradoxical balance.

Rural poverty is real and the place of microfinance is becoming more and more evident. However, the integration process still remains problematic and ill defined. While emphasis is to be placed on the points developed above, a strong political will to alleviate poverty through the use of microfinance is the motor that steers all the economic and social processes. It is the coach whose performance reflects the result of the match. There should be no more hesitations; the Cameroonian government must take the responsibilities to give priority to its own development. For Cameroon, especially, the material resources are abundant, the financial resources are available, but the missing ingredient is the political will to make the right mix.

Les défis de la microfinance en Afrique

by

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Le lourd fardeau de la dette qui a mis à genoux presque tous les pays du tiers monde, constitue aujourd'hui l'un des principaux obstacles dans leur processus de développement. Même les initiatives PPTE (Pays Pauvres Très endettés) de réduction de la dette lancées dans ces pays risqueraient ne pas fournir les résultats escomptés dans la mesure où, parallèlement, il est observé à nouveau un fort endettement, et curieusement pour des projets de lutte contre la pauvreté (développement communautaire, vulgarisation et recherche agricole, infrastructures rurales, éducation, promotion féminine, microfinance, etc.) pour lesquels les fonds PPTE (faiblement ou inefficacement utilisés) sont pourtant destinés. Ainsi, il y a un grand risque qu'au bout de cette initiative, le niveau d'endettement des pays bénéficiaires soit le même, voire plus important qu'au début.

De ce qui précède, il y a lieu de se poser des questions sur le rôle du crédit dans le processus de développement et d'amélioration des conditions de vie des populations (surtout vulnérables). Ces questions sont assez préoccupantes à cette époque où la globalisation de l'économie mondiale est de plus en plus envahissante et rude, entraînant des mouvements de capitaux de plus en plus accélérés, et présentant des risques de déstabilisation des systèmes financiers nationaux. Ces risques sont plus marqués dans des pays comme ceux de l'Afrique au sud du Sahara, où le système financier formel est encore en gestation. Le secteur de la microfinance émergent qui présente de nombreux espoirs dans le cadre de la lutte contre la pauvreté devrait être géré avec beaucoup d'attention, afin d'éviter qu'en plus des états déjà lourdement endettés, les pauvres ne soient à leur tour directement enchaînés à ce système d'endettement mondial.

Dans le milieu des spécialistes de la microfinance, le rôle que joue le crédit dans le processus de développement et d'amélioration des conditions de vie des populations défavorisées est très controversé. Les positions d'Adams et Nowak ci-dessous en donnent une illustration.

« Le crédit peut être un remède à la pauvreté et permettre de résoudre les problèmes de production dans les pays à faibles revenus, en partie parce que les donateurs et les politiciens sont prêts à soutenir les efforts de crédit. Pourtant les prêts traitent généralement les symptômes et non pas les causes des problèmes. L'imposition de dettes supplémentaires sur les individus ne résout pas les problèmes posés par leur manque de discipline, par leur manque de techniques de gestion, par l'absence d'opportunités en investissements hautement rentables, et par une multitude d'autres facteurs qui empêchent le développement économique. La remarque de Shakespeare : « Ne sois ni emprunteur ni prêteur ; parce que le prêt bien souvent disparaît et avec lui l'ami » (Hamlet I, iii 65) semble toujours être pleine de sagesse. Plus vite on comprendra que les

individus, les entreprises et les pays ne peuvent pas sortir de la pauvreté grâce aux dettes, plus vite on pourra identifier des méthodes plus adéquates permettant de résoudre les problèmes liés au développement. Il est temps de ne plus suivre le mouvement en faveur du « développement-grâce-au-crédit » et de s'attaquer à une tâche bien plus importante : l'établissement de marchés financiers ruraux durables et qui offrent des opportunités équitables, tout d'abord aux épargnants, et ensuite, aux emprunteurs ».

Dale W. Adams, 1993, pp. 14-15

Nowak, prolongeant la réflexion d'Adams mais avec une vision plus optimiste sur l'idée du crédit comme facteur de développement potentiel dit ceci :

« La présentation des programmes de crédit, d'abord considérés comme 'clés' du développement, puis, comme échec engouffrant d'énormes sommes d'argent, semble excessive et trop dichotomique. Il n'y a pas eu erreur dans la conception du crédit instrument de développement (le crédit est par nature créateur de richesse), il y a plutôt eu erreur sur le mode d'emploi en Afrique où les systèmes financiers ont été trop vite transplantés, centralisés et mal gérés... Ce n'est pas parce que le crédit est un instrument à double tranchant, qu'il ne faut pas s'en servir. Le feu brûle et on ne peut pas s'en passer. Il faut maîtriser au mieux le risque et tirer le meilleur parti du potentiel. Car le crédit est un instrument de croissance. On ne développe pas l'investissement et la productivité sans le crédit ; il peut être un instrument d'équité, dans la mesure où il est utilisé au bénéfice des pauvres, pour casser les murs d'argent et réduire le dualisme économique ; il est un instrument de l'économie du marché que l'on conçoit mal sans la mobilité de capital ; enfin, c'est un instrument de la démocratie dans la mesure où il peut permettre de décentraliser le pouvoir économique... La recherche a un rôle très important à jouer dans ce domaine car le crédit rural en Afrique reste à inventer à partir des besoins et contraintes de la population et à partir du métissage des techniques bancaires. Semer une graine et la faire pousser est un processus plus sûr que de transplanter un organe... Et pour terminer sur une note plus optimiste que la vision Shakespearienne du crédit..., je voudrais m'appuyer sur une conception plus modeste mais plus constructive de Confucius qui disait 'Il vaut mieux allumer une chandelle que maudire l'obscurité' ».

Maria Nowak, 1993, pp. 22-23

Des positions présentées ci-dessus, il ressort un certain nombre de défis pour l'avenir de la microfinance et le développement en Afrique :

Premièrement, le défi du développement des systèmes financiers efficaces et durables qui permettent une forte mobilisation de l'épargne (surtout locale), pour réduire les effets néfastes du phénomène d'endettement. Ici, la forme de l'institution (mutualistes ou « fenêtre de distribution de crédits ») à encourager jouera un rôle important. La forme mutualiste permet une forte mobilisation de l'épargne. Elle est plus stable, lente dans le développement, mais efficace et soutenue dans le développement global de la société, facilite l'accès d'un plus grand nombre et de manière durable aux services financiers (le cas de l'Allemagne en est une illustration), etc. Plusieurs bailleurs de fonds et investisseurs trouvent que cette forme ne présente pas un « ownership » précis, la difficulté de prise de participation au capital (à cause du principe de « une personne une voix »), et ne permet pas de gains importants (enjeu du taux d'intérêt). A la place de cette forme, ils préfèrent l'approche ONG de microfinance (ou « fenêtre de distribution

de crédit ») ou projet de « crédit » financé par la dette ou des subventions (cas de la Grameen Bank, de l'Amérique latine avec l'exemple de la Bancosol, etc.).

Deuxièmement, le défi du taux d'intérêt. Il est lié à la forme de l'institution développée ci-dessus. En effet, dans les institutions de forme mutualiste ou coopérative, le membre est à la fois actionnaire et client ; ce qui fait que les taux d'intérêt sont fixés à des niveaux raisonnables (en préférant ainsi jouer sur le mécanisme de l'économie d'échelle pour couvrir les charges). Ces taux d'intérêt raisonnables ou bas (selon certains) ne sont généralement pas du goût des investisseurs internationaux qui souhaitent rapidement beaucoup de profit. Ici, il convient de se poser la question suivante : A qui profitent les taux d'intérêt élevés dont la littérature dans le domaine de la microfinance fait largement la publicité ces derniers temps ? Contribuent-ils à lutter durablement contre la pauvreté ?

Troisièmement, le défi de la pérennité financière des institutions de microfinance. Il s'agit ici d'un enjeu majeur, dans la mesure où, plusieurs facteurs entrent en jeu : la dualité apparente entre intermédiation financière et sociale, le niveau des taux d'intérêt (soulevé ci-dessus), la bonne gouvernance, le professionnalisme, la transparence et surtout l'impératif d'une gestion rigoureuse du portefeuille de crédit.

Développement durable: Le NEPAD au secours de l'Afrique

by

M. Robert Demanou

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Le NOPADA (Le Nouveau Partenariat pour le Développement de l'Afrique) est un programme conçu par quatre chefs d'Etat africains : Abdoulaye Wade du Sénégal, Thabo Mbeki de l'Afrique du Sud, Olusegun Obasanjo du Nigéria et Abdelaziz Bouteflika de l'Algérie. Il vise à développer l'Afrique de façon endogène. Le NOPADA est né de la fusion de deux initiatives, le Plan Oméga du président Abdoulaye Wade et le MAP (Millenium African Program) conçu par les présidents Mbeki, Obasanjo et Bouteflika. Très proches par leur contenu, ces programmes avaient été présentés dans plusieurs rencontres internationales au cours du premier semestre 2001. Après moults tractations, ils ont fusionné lors du sommet de l'Organisation de l'Unité Africaine (OUA) en juillet 2001 à Lusaka en Zambie.

Mieux définie, disposant d'organes décisionnels, l'initiative est devenue en octobre 2001, le NOPADA. Mais faute de financement, le NOPADA a encore du mal à entrer dans sa phase concrète. Pourtant des secteurs prioritaires de développement ont été déjà identifiés à l'instar de l'éducation, de la santé, de l'agriculture, de la bonne gouvernance, etc. Même le dernier sommet de l'UA (Union Africaine) tenu les 8 et 9 juillet 2002 à Durban en Afrique du Sud n'a pas apporté une réponse claire à cette question du financement du NOPADA. Car, à la conception très libérale du président Wade, pour qui le secteur privé doit jouer un rôle déterminant dans la mise en œuvre du NOPADA, s'oppose celle de ses trois collègues (Mbeki, Obasanjo et Bouteflika) qui pensent que le processus doit rester sous le contrôle des responsables politiques africains en partenariat avec les investisseurs privés.

Il faut noter qu'au Cameroun, une expérience endogène de développement a déjà cours avec les Mutuelles Communautaires de croissance (MC²) initiées depuis 1992 par le Dr Paul K. Fokam. Dans sa thèse de Doctorat qui portait sur le système de financement décentralisé au Cameroun, il proposait déjà une approche de développement endogène qui devait « amener les Africains à devenir maîtres de leur propre destin ». Selon lui, la Victoire sur la pauvreté (VP) n'est possible que si les Moyens (M) et les Compétences (C) de la Communauté (C) sont mis ensemble, d'où sa célèbre formule $VP = M \times C \times C = MC^2$ qui aboutit à la création de la première MC². Ces Mutuelles Communautaires de Croissance sont des micro banques de développement rural créées et gérées par les populations pour financer leurs activités. Bien plus, Dr Fokam proclame « une foi inébranlable en la créativité de l'Africain, en sa capacité à trouver lui-même des solutions à ses problèmes », dans son livre intitulé « Et si l'Afrique se réveillait ? » (Ed. Du Jaguar, juillet 2000).

L'auteur prescrit quatre priorités auxquelles les Africains doivent s'atteler pour sortir du joug de la domination étrangère : revaloriser le travail, repenser la politique de développement, accorder la priorité à une éducation de qualité, créer et former une nouvelle classe d'entrepreneurs. En somme, les mêmes priorités définies par le NOPADA pour amorcer le développement endogène de l'Afrique.

ANNEXES

UN/OSCAL MODEL

Microfinance in Africa
Combining the best practices of traditional and modern
microfinance approaches towards poverty eradication

MICROFINANCE RESEARCH

Project Report

Testing the UN/OSCAL Microfinance Model in South Africa

Registered Participants

UN/OSCAL MODEL:
Microfinance in Africa:

**Combining the Best Practices of Traditional and Modern Microfinance
Approaches towards Poverty Eradication**

I. WHAT CAN MICROFINANCE DO FOR AFRICA?

When properly harnessed, microfinance offers a variety of benefits to the African people. Foremost, microfinance initiatives can effectively address material poverty, the physical deprivation of goods, services, and the income to attain them. When properly guided, the material benefits of microfinancing can extend beyond the household into the community. At the personal level, microfinance can effectively address issues associated with “non-material poverty, which includes social and psychological effects that prevent people from realizing their potential.

The economic performance of Sub-Saharan Africa (SSA) and other regions over the past three decades has been closely associated with their savings and investments. In fact, Africa’s relatively slow economic growth has been linked to its poor capital accumulation.

Three approaches could be used to assess the performance of savings:

- ◆ Africa lags behind others regions of similar size and structure. Its gross domestic savings averaged 8 percent in the 1980s, while for the same period South East Asia, and especially Newly Industrialised Economies (Republic of South Korea, Taiwan, Singapore) reached respectively 23 and 35 percent.
- ◆ Africa’s saving performance over time displays a downturn of saving rates over the past three decades.
- ◆ There is a disparity between actual performance and planned performance. The use of the two-gap model revealed that the targeted regional savings rates of 16.6 percent in 1995 and 20 percent in 2000 was needed to achieve overall economic growth of 5 percent in Africa by 2000. Up to 1998, the achieved average saving rate was far from the target (Calgagovski et al., 1991)⁵⁶.

⁵⁶ Calgagovski J., V. Gabor, M.C.Germany and C.Humphreys 1991. “Africa’s Financing Needs in the 1990s” in I.Hussain and J. Underwood (eds), African External Finance, World Bank, Washington D.C.

Other patterns of Africa's saving include its dependence on public savings in contrast to Asia, where private savings are critical. Promoting private savings in Africa is crucial for two reasons. First, evidence from South East Asian countries shows that sustaining high economic growth is contingent upon significant levels of capital accumulation. Second, SSA characterised by its heavy dependence on foreign savings, mostly ODA, to fill the investment-saving gap that averaged 11 percent of GDP for the 1970-95 period. Due to the binding lending constraints that SSA countries are facing in the international capital markets or external balance conditionality imposed by bilateral and external donors, the promotion of national saving could boost investment and influence the prospects for sustainability of growth. Identifying policies and institutions that promote saving should be crucial in any strategy aimed at easing the transition to less aid dependence of SSA.

Total saving is low in SSA and even worse, only a small share of it is transformed into financial savings. For instance, in Senegal, the financial savings (the change of the difference between $M2-MI$)⁵⁷ averaged solely 8 percent of national savings, showing the difficulties of formal financial sector in mobilizing savings and providing financial services, especially for the poor. Microfinance institutions could play an important role in meeting the financial needs of households and microenterprises. Above and beyond the microcredit facet, microfinance could contribute to poverty reduction by offering adequate savings services. On the supply side, microfinance could be the best instrument to bring about poverty eradication by loosening constraints on capital, opening the door to investment, smoothing consumption over time, and meeting emergency needs for liquidity. On the demand side, empirical evidence shows that a significant segment of the poor are savers and that the microfinance institutions could support them by looking after their savings in a secure manner and by helping them accumulate interests on their deposits. The poor will be able to deal with emergency and to make significant investment expenditures.

The performances of microfinance institutions could be caught through their institutional financial viability and their outreach to the poor people. Technical, political, social factors could influence these performances, reinforcing the need to combine the strengths of traditional and modern Micro-finance approaches.

II. HOW CAN MICROFINANCE SUCCEED IN AFRICA?

African microfinance is as diverse as the continent itself. An array of approaches have been used, ranging from traditional group-based systems, to specialised lending by banks and funded by international non-governmental organisations (NGO) financial intermediaries. Consequently, examples of African microfinance offer an array of lessons of what works and doesn't work. Drawing from these lessons, and those from non-African examples, OSCAL developed a Microfinance model based on four principles:

- i) Pooling together people's resources
- ii) Relying and building upon what people know (tradition)

⁵⁷ $MI = \text{transferable deposits} + \text{currency outside bank}$
 $M2 = M1 + \text{time savings} + \text{foreign currency deposits}$

- iii) Reinforcing microfinance to empower the African private sector
- iv) Striving for efficiency, which include maintenance of tools and better working habits.

The model has been field-tested (2002) by the Department of Economics, University of the Western Cape (UWC), South Africa, with the financial support of UNDP Africa Bureau. The model has also been the foundation of a Master's Thesis on *Challenges to the Development of Women-Owned Export Businesses in Developing Countries – The Case of Ghana*, at Alborg University, Sweden (2003), by Ruta Januleciviene.

The design and execution of this project were overseen by the United Nations Office of the Special Coordinator for Africa and the Least Developed Countries, now known as the **Office of the Special Adviser on Africa (OSAA)**. Ruth Bamela Engo coordinated it, in close collaboration with the United Nations Development Programme, Gender and Development Programme (UNDP/GIDP).

III. BACKGROUND

The model seeks to identify a microfinance methodology-model adapted to Africa's specific needs for poverty eradication. It draws upon the findings from the project GLO/99/315/A/11/31, titled *Women, Microcredit, and Poverty Eradication*. This project follows up the Second Tokyo International Conference on African Development (TICAD II), and the Asia/Africa Forum on the Economic Empowerment of Women. It reflects the ongoing United Nations commitment towards poverty eradication, a key theme expressed in the United Nations New Agenda for the Development of Africa in the 1990s (UN-NADAF, GA 46/151), at the 1995 World Summit for Social Development in Copenhagen (A/CONF.166/9), and by the United Nations resolution (A/RES/50/107) proclaiming 1997-2006 as the First United Nations Decade for the Eradication of Poverty.

The project also takes into account and builds upon United Nations documents pertaining to microfinance and poverty eradication in Africa, including Advancing Financial Intermediation in Africa (A/50/490 of 6 October 1995), the final report of the *Africa Advocacy Forum: Microcredit and Poverty Eradication, The Tokyo Agenda for Action: African Development Toward the 21st Century* (TICAD II, October 1998), *Poverty Eradication in Africa: Selected Country Experiences* (UN/OSCAL 1998), *The Constraints and Challenges Associated with Developing Sustainable Microfinance Systems in Disadvantaged Rural Areas in Africa* (UN/CDF, CIDR/Renee CHAO BEROFF, 1999), and *Case Study on Best Practices Aimed at Popularizing Micro-Financing* (UNECA, Working Paper Series, ECA/DMD/PSD/WP/98/8).

The design and execution of this project were overseen by the United Nations Office of the Special Coordinator for Africa and the Least Developed Countries (UN/OSCAL) in close collaboration with the United Nations Development Programme, Gender and Development Programme (UNDP/GIDP). The process consisted of three phases:

Phase I: Microfinance Factsheets: Presented in the publication, *Microfinance and Poverty Eradication: Strengthening Africa's Microfinance Institutions* (UN/OSCAL, 2000).

Phase II: Women, Microcredit, and Poverty Eradication (Ethiopia, Nigeria, Cameroon): Three one-week observation missions were undertaken in 1999-2000 to examine initiatives from three different African sub-regions.

Phase III: Expert-Group Meeting on Microfinance and Poverty Eradication in Africa: The Expert-Group Meeting provided a platform for African practitioners of microfinance to exchange experiences and lessons during the Expert-Group Meeting held in Addis Ababa, Ethiopia (25-29 September 2000).

IV. MICROFINANCE IN AFRICA: THE MODEL

1. Introduction

The last twenty years has seen significant advances in understanding and providing financial services to better advance development and eradicate poverty. This includes providing the financial means to save, access credit, and start small businesses, with the potential to enhance community development, as well as local and national policy making. When properly harnessed and supported, microfinance can scale-up beyond the micro-level as a sustainable part of the process of economic empowerment by which the poor can lift themselves from poverty.

Microfinance is not a panacea for poverty and related development challenges, but rather an important tool in the mission of poverty eradication. Poverty is a multi-dimensional problem, embedded in a complex and interconnected political, economic, cultural, and ecological system. Owing to poverty's large scope and multiplicity of actors, there is no single guaranteed approach to its eradication. Within this system, solutions are as multifaceted as the causes. Such a **systems' perspective** is critical in creating an enabling environment for sustainable poverty eradication. Problems and solutions are not isolated phenomenon, but occur within an interconnected system in which actors and actions have reciprocal consequences.

Consequently, poverty eradication is a complex mission and requires commitment, cooperation, and cohesion at all levels of development – individual, household, community, national, and global. While microfinance alone does not improve roads, housing, water supply, education and health services, it can play an important role in making these and other sustainable contributions to the community. As microfinance becomes more widely accepted and moves into the mainstream, the supply of services to the poor may likewise increase, improving efficiency and outreach, while lowering costs. This, in turn, can have a multiplier effect on people's standard of living. Perhaps the greatest contribution of microfinance is that it empowers people, providing them with confidence, self-esteem, and the financial means to play a larger role in their development. The potential of microfinance far exceeds the micro-level, scaling-up to address macro-problems associated with poverty eradication.

This report examines microfinance as a strategy for poverty eradication in the African context, extracting common lessons and principles for an African microfinancing model. Certainly, microfinancing and the context in which it occurs – Africa – are both dynamic and diverse, and can not be limited to the confines of any one model. Thus, this microfinancing

model is not proposed as a definitive formula for successful microfinancing, but rather a guideline to inform and be adapted to the specific microfinance contexts that characterize such a vast continent as Africa.

This report could be titled, *Banking on Africa's People*, in that input from **Africans themselves were foremost in designing the methodology and the desired outcome of this study**. Research methodology stressed a participatory perspective, providing a space for Africans to express themselves, listening to and learning from their experiences and lessons. As the foregoing *Preface* notes, the overall study producing this report combined and drew upon not only development literature, but also field observations and dialogue with and between Africans working in microfinance.

Emphasis has been placed on adapting principles of traditional finance schemes to modern finance methods, building upon existing African culture to improve microfinance initiatives that are well adapted to Africa's specific needs. The report reflects the conviction that Africa's most valuable resources and ally in poverty eradication is its own people and institutions. Microfinancing, like any strategy for poverty eradication, must involve the people themselves in examining the problems and creating the solutions if it is to be sustainable with those upon whom development is targeted.

2. Module I: Key Principles for an African Model of Microfinance

African microfinance is as diverse as the continent itself. An array of approaches have been used, ranging from traditional kinship networks and Revolving Savings and Credit Associations (ROSCAs) to NGOs and development projects, and funded by both the informal and formal financial sectors, as well as domestic and international and donors. Consequently, examples of African microfinance offer an array of lessons of what works and doesn't work. This section summarizes some of the key principles for microfinance institutions (MFIs) to become more ideologically and institutionally sustainable, building their capacity to better serve the poorest while becoming financially viable and self-reliant. It is understood that there is no blueprint for microfinance initiatives; each initiative must adjust to the specific cultural, political, and economic setting in which it operates. Allowing for such diversity, the following principles are highlighted:

- **Pool together people's resources through group organizing**
- **Rely and build upon what people know – tradition**
- **Reinforce microfinance to empower the African private sector**
- **Strive for efficiency.**

Principle I: Prioritize Group Formation and Networking

Collective and cooperative support is a critical microfinance strategy at both the local level, in the form of solidarity groups, and at the national and regional level in the form of networking groups. Collective organization has several advantages in microfinance initiatives, the foremost that they pool together human and material resources. In the Africa, group organizing has proven itself an effective strategy for MFI sustainability that Africans are especially predisposed. Group

formation for individual and community goals is a pre-existing, "homogeneous" mode of organization in Africa that already operates in traditional financial schemes and is readily adaptable to new microfinance initiatives. The group has proven especially effective in the rural setting, where 80% of Africa's population reside (Box 1). The relative isolation, small size, and common resources of villages engenders a mentality and approach to problems that are seen as mutual rather than individual.

MFIs can utilize and support groups with regular meeting to reinforce group solidarity, discipline, and consistent repayments. Groups are especially effective for educating and training microfinance participants, enhancing networking and information dissemination. They are also an important participatory tool that can reduce administrative cost by giving certain responsibilities, such as loan monitoring, to the members themselves. Typically, small group size is more effective to ensure that members genuinely know and trust each other.

Microfinance group members are typically more ready to take ownership for and support microfinance initiatives. Mutual trust and peer pressure within savings and credit groups ensure participation and repayment in microcredit programmes. The support and strength of a group often raises community consciousness and creates a common infrastructure to solve problems common to all, pooling local knowledge and resources for initiatives, such as bulk purchasing and transportation, collective bargaining, and common infrastructure development – i.e. water pumps, health care, and education schemes. Groups empower individuals to support each other not just financially, but also emotionally. The group impresses upon members that they are not alone or helpless, but can rely upon the support of their community, and cultivate self-esteem through contributing to each other. This non-material benefit is an important resource, especially during individual or collective crisis.

Box 1: Utilizing the “Yum” Philosophy to Strengthen Group Solidarity in Cameroon

The Group of Common Initiative of the Women Farmers of Bogso (GICPAB) utilizes traditional group practices to empower members and enhance the village community. Referred to as the Yum, this group methodology initially focused on improving cassava production, processing, transportation, and marketing, enabling members to work together to save time, reduce costs, and to share resources, infrastructure, and knowledge. Gradually, the Yum scaled-up to other activities, including school and library construction, establishing a village market and operating a school canteen. The Yum now extends into microfinance initiatives, including a credit line for GICPAB members with a child or grandchild registered at the local school to obtain a loan for school fees, books, meals, and other needs to ensure that within three years all village children will attend primary school. A credit line has also been provided for primary health care. The success of these microfinance programs rests in the traditional group practices embodied in the Yum, which uses the local proverb, “You can’t wrap a gift box with just one hand.”

The benefits of organizing is not limited to the local group level, but can scale-up through networking MFIs. Microfinance networks enhance MFI coordination, monitoring, advocacy, and

outreach. Networks allow MFIs to integrate approaches and better consolidate, share, and disseminate human and productive resources, including technical, traditional, and cultural knowledge. Such collaboration widens the group of stakeholders involved in the microfinance dialogue, and provides a legitimate and accountable vehicle to lobby for State and international actors to channel assistance. Access to these support structures available in networking enables MFIs to benefit from economies of scale and scope, providing certain services at lower institutional costs that otherwise possible. In some case it may be cost effective for MFIs to outsource part of its operation to partner organizations more capable of efficiently performing a service (i.e. establishing an information management system).

Principle II: Prioritize Local Knowledge and Participatory Planning

Microfinance initiatives that recognize and build upon local knowledge and tradition are more culturally compatible and hence sustainable with the local community. People feel more familiar and comfortable with concepts that borrow from their own tradition; this, in turn, improves MFI acceptance and outreach. Microfinance approaches rooted in local culture are also more participatory because clients are more ready to identify with and thus participate in the financial decisions and actions shaping their lives. As a result people become more invested in and committed to the sustainability of the microfinance initiatives, assume ownership and responsibility for their development, and become more self-reliant (Box II).

As already noted, the group methodology is an important indigenous institution. Traditional and informal African savings and loan schemes include, Ekub in Ethiopia, Tontines in Cameroon and Niger, Esusu in Nigeria, Susu in Ghana, Gameya in Egypt, and Sanduk in Tunisia. These schemes are based on traditional knowledge and values, and microfinance initiatives that build upon them can count on legitimacy, accountability, and self-enforcement. Certainly, traditional methods need to adapt to the modern context, but while they can be rendered more efficient and benefit from modern innovation, they should not be replaced. When people rely and build on traditional knowledge and values, it is easier for them to go further and learn more because their knowledge base builds on a secure foundation rooted in their own identities and society.

Box II: COWAN's African Traditional Responsive Banking (ATRB) in Nigeria

In Nigeria, African Traditional Responsive Banking (ATRB) is a unique loan scheme that draws from the best of African traditional microcredit practices but tempered by modern knowledge. The Country Women's Association of Nigeria (COWAN) was established by merging traditional with modern practices. At its core are the traditional Esusu and Aajo practices, combined with a community based institutional structure, training and advisory services, and a "social banking" model that is traditional and responsive. ATRB has succeeded on a number of fronts in its first five years: savings mobilization has increased by 100%, the loan fund portfolio over 50%, and loan repayments remain at 98%. ATRB successfully empowers poor and rural women economically, socially and politically, while creating a sense of belonging and ownership.

Principle III: Reinforce Microfinance to Advance the African Private Sector

Microfinance and microenterprise are critically linked; microenterprise development is an essential extension of microfinance schemes. If microfinance is to have a sustainable impact on poverty eradication, it must eventually scale-up into creating a private sector of entrepreneurs who function in the formal economy. In other words, microfinance has the potential of formalizing the informal sector, empowering micro-entrepreneurs to participate and benefit from the formal economy.

Microfinance can support initiatives for direct supply and market linkages to small and medium businesses targeting promising micro-entrepreneurs in non-traditional, low volume but high value-added products in potential niche growth areas of the economy. Such an approach could reach existing micro-entrepreneurs who are seeking to graduate from the survivalist profile of microenterprises into a more secure and productive foothold of the formal sector of the economy. It would expose microenterprises to larger enterprises "higher up the chain", encouraging forward and backward linkages with established companies. Targeted micro-entrepreneur can potentially develop, produce, and perhaps market low-volume but higher profit products, expand, and take on additional employees, thus scaling-up.

This potential, however, is contingent upon a supportive environment at all level and among all actors, supporting business incubation and expansion. For example, at the local level, regulation and standards among MFIs and their respective microenterprises can lend legitimacy to these initiatives, while networking among MFIs can provide a lobby platform to propel enterprises stemming from microfinance into the formal economy. MFIs can work together to ensure that Governments and donors do not support organizations that undermine the market for microfinance services and microenterprises by subsidizing loans.

At the national and international level, actors can promote legislation, business services, and infrastructure to enable African micro-entrepreneurs and producers to increase market opportunities, technical know-how, and management. Government policies are often biased to the formal and urban sectors of the economy, pre-empting opportunities for informal and micro-entrepreneurial initiatives to scale up into the private formal sector. Taxation schemes should be fair, progressive, and economically efficient, with particular sensitivity to the vulnerable sectors of the economy which microfinance serve and in which microenterprises operate.

Principle IV: Prioritize Operational Efficiency

If MFIs are to have a sustainable impact on poverty eradication, they must be efficient, financially viable institutions that can develop the financial leverage to expand outreach at a sustainable level. Adequate attention must be given to business practices to make MFIs financially sustainable in a reasonable timeframe. Leaders of African microfinance institutions stressed that practical and efficient operation is essential in achieving self-determined development, as well as accountability to clients as well as donors. This section highlights some of the key principles of operational efficiency underscored in this study:

Target the Poorest of the Poor: Microfinance is a means to poverty eradication, and not an end in itself. Efforts for operational sustainability must target not only the less-poor capable of repaying loans, but include the otherwise marginalized poor.

Mobilize Savings: Savings services not only provide a valuable financial assistance to low-income clients, but they also strengthen institutional self-sufficiency, membership commitment to microfinance initiatives, and build a sense of discipline, self-esteem, and wellbeing. When funds are internally generated rather than borrowed from or granted by external sources, MFI members become more invested and participatory in the prudent administration of savings towards credit and other MFI services. If priced correctly, savings instruments can contribute to capital mobilization and wider market coverage.

Charge Interest Rates that Cover Operational Costs: Successful microfinance schemes are characterized by non-subsidized interest rates linked to competitive market rates. Interest rates should allow to sustain the MFI operation. The administration of many small loans, including processing and tracking services, is a costly operation. Consequently, MFIs need to charge higher interest rates than what commercial banks charge, yet can continue operations at rates that remain lower than the informal financial sector.

Market Research: Preliminary and ongoing research is an important investment for microfinance initiatives. Feasibility studies and ongoing research of the target population, geographic scope, and the local economy is vital to propose financial products and services that complement these realities. Market research helps to predict and control for costs (i.e. transportation or training), to better innovate and tailor services to the target population (i.e. develop effective selection, appraisal, and collection processes), and to maintain practical geographic coverage (i.e. ensure that loan officers are not over-extended and can have effective follow-up with clients).

Streamline and Decentralize Operations: Lean, simple infrastructures utilizing basic design of microfinance products facilitates administrative procedures and increases operational efficiency. Simple and clear savings and loans criteria, preferably based on traditional mechanisms, are also easily understandable by local people. When possible, computerization instead of manual administration of accounts helps to reduce administrative costs. Decentralization reduces costs associated with travel for collection and disbursement of funds, risks associated with transferring funds, and inefficiency associated with delays in communication.

Utilize Volunteer Staff: Voluntary staff and profit sharing from revenues are effective strategies for reducing operational costs. This is especially true in disadvantaged and rural areas, offsetting the additional costs arising from such constraints. Training can promote the transfer of otherwise costly administrative responsibilities to volunteer staff. This is not only cost effective, but it also reinforces commitment to and sustainability of microfinance initiatives, empowering people to be more self-reliant and take initiative in their development. Furthermore, volunteer staff people are typically intimately familiar with the area serviced, offering valuable knowledge and commitment.

Target Women: In Africa, women are a better credit-risk than men and more responsible managers of meager resources. Furthermore, they are more committed to using their loans for the

benefit of their household rather than self-gratifying consumption (as common among men). The most compelling reason for MFIs to prioritize women is to assist the poorest, who are disproportionately women.

Develop Monitoring and Assessment Tools: Credible and reliable mechanisms to monitor and evaluate MFI operations improve overall institutional efficiency and effectiveness. Assessment tools allow for the generation of systematic information to identify and address weaknesses in MFI services and management systems, streamline procedures, and improve the user-friendliness of programmes. Reliable monitoring also fosters accountability, raising the investment attractiveness of MFIs.

Invest in Training: Microfinance training is an investment capable of reducing recurring costs and improving operational efficiency, sustainability, and outreach. Well-trained staff cultivates a sense of ownership and investment in the MFI mission that transfers to the client base, creating client loyalty (Box III). Financial and business training in savings and credit utilization, basic management, bookkeeping, and marketing ensure that clients effectively invest microfinance funds into productive income-generating initiatives.

Confront Problems: Problems are inevitable, and when they do escalate, it is imperative to identify them and respond immediately before they become serious. This entails developing performance standards, monitoring tools, and institutional integrity to identify and address weaknesses and problems in their infancy.

Utilize Pre-Existing Support Organizations: Utilize pre-existing support organizations, such as the Special Unit for Microfinance (SUM), CGAP, Women's World Banking (WWB), the World Council of Credit Unions (WOCCU), and establish linkages with other NGO networks, bankers' associations, and international groups.

Box III: The African Village Academy's Seven Step Training

The African Village Academy (AVA) is an Ethiopian NGO that supports self-sustaining development activities that stress participatory involvement. In its Savings and Credit for Enterprise Development program (SCED), a seven step training methodology plays an essential role. Step one introduces various types of financial institutions and tools. Step two encourages participants to discuss and examine themselves and their markets to identify potential microenterprise activities, which they then research individually. In step three, participants discuss in detail their market findings (i.e. material, transportation, and market costs), and then are asked to form groups of typically four to five people. Step four elaborates the purpose of group formation in creating support and collateral for individuals, as well as developing specific business plans and budget planning. In step five, participants meet each other's groups in units of up to ten groups, and discuss specific credit arrangements and requirements of SCED. In step six,

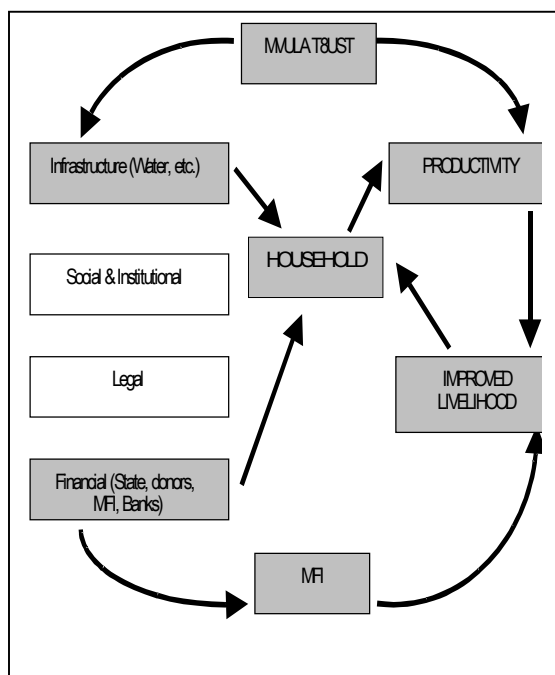
group members present their basic plans for final approval of the unit, and in step seven all steps are reviewed to reinforce understanding of the program.

Avoid External Dependency: Whereas donor funding can play an essential role in the start-up of a microfinance initiative, if MFIs are to make a lasting impact, they cannot remain dependent on donor funding, but must become self-sufficient. Self-reliant MFIs are better able to maintain their identity, autonomy, and mission.

3. Module II: Linking Microfinance to Poverty Eradication

There is a fundamental linkage between microfinance and poverty eradication in that the latter depends on the poor gaining access to, and control over, economically productive resources, which includes financial resources. For the resource-poor of Africa, survival often depends on subsistence agriculture and/or small income-generating activities at the home or in the local marketplace. In many instances, microenterprises rather than formal employment creates an informal economy that comprise as much as 70% of the national economy. Yet the lack of saving and access to finances creates a state of perpetual scarcity, a poverty cycle that restricts people's potential to improve their livelihoods. As already noted, the lack of financial services is not the only limiting factor in income generation: other pervasive social, economic, and political barriers also play a key role. Within this complex system, however, there is a clear need for better microfinance services for Africa's poor, which can play a key role in poverty eradication (Box IV).

Box IV: MVULA Trust of South Africa



MVULA is a national South African water and sanitation infrastructure development NGO based upon the principle that an enabling infrastructural environment is necessary component of poverty relief at the household level. Government funds however, are insufficient for infrastructure that provides better than basic water provision. In collaboration with the Financial Services Association (a village bank co-operative) MVULA makes financial services accessible to rural villagers. Villagers are encouraged to save for their own infrastructure – particularly yard water taps – in order to enhance the household's potential productive capacities. The principle of water as an entry point for economic development

underpins this philosophy, and microfinance is an essential tool in achieving this goal.

An understanding of how microfinance initiatives impact poverty eradication necessitates a definition of poverty that corresponds to a local definition of wealth. This, of course, can vary from context: i.e. whereas financial assets may equate with wealth in urban areas, livestock or land may be valued in rural areas. Allowing for such diversity, the following discussion will focus on the material and non-material benefits of microfinancing.

Material Benefits of Microfinancing

Microfinance initiatives can play an effective role in addressing material poverty, the physical deprivation of goods, services, and the income to attain them. MFIs can help people become more economically secure. This, in turn, has a multiplier effect on people's standard of living, enhancing basic household welfare, such as food security, nutrition, shelter, sanitation, health and education services. MFIs can help prevent and extricate people from debt. Oftentimes, they liberate low-income households from moneylenders with outrageous interest rates that often reach 100% annually. Savings and credit services help people start or improve their own small businesses, providing income generation and employment for themselves and their families.

Credit can be used as working capital so that clients' efforts become more productive; for example, clients can buy rice or grains in bulk at wholesale prices and resell it at retail prices or buy a refrigerator to keep produce fresh. As clients become more productive, their income increases and they are able to accumulate savings for other investments and emergencies. Savings serve as reserves for important household expenditures (such as school fees and funeral costs), and as insurance against sudden crises (such as illness, natural disaster, or theft) that can otherwise result in destitution for people already living at the poverty line. In many cases low-income people want to save, and have been saving in a variety of traditional ways, ranging from kinship networks to Revolving Savings and Credit Associations (ROSCAs), but lack appropriate saving facilities that offer a combination of security of funds, liquidity, positive real return, and convenience. MFIs can build upon Africa's traditional savings ethic to enhance outreach and quality of services. It is important to keep in mind that for any financial service to have a lasting impact on poverty eradication, it must be flexible and innovative to adapt to their needs of its clients.

Non-Material Benefits of Microfinancing

Microfinance initiatives offer more than just material benefits; they can also address issues associated with "non-material" poverty, which includes social and psychological effects that prevent people from realizing their potential. Microfinance initiatives individually and collectively empower people. A steady income, a savings account, training, and the discipline to honor loan repayments usually raise the self-esteem and status of clients, in societies where they

are often treated as second-class citizens. MFIs often utilize microfinance groups to provide training in financial management, legal rights, business management, as well as other support-services. Principles of collective organization and solidarity empowered people to bargain for higher wages, better work conditions, health services, child-care, and common forms of insurance to protect their lives and livelihoods.

MFI participants, especially women, are often empowered to speak out more, assume leadership roles, and address issues beyond their workplace, such as domestic violence. For many women, the group is the first opportunity to meet formally with other women to discuss problems and develop joint action. The groups serve as a channel of information. For example, members may tell each other about counseling services that have been established for women victims of violence and drug and alcohol addicts. Many women participants experience a change in their household and community status. Some experience an increase in financial responsibilities when their husbands noticed that they are involved in lucrative activities.

4. Module III: National, Regional, & International Support

Microfinance initiatives are more likely to succeed in a supportive national, regional, and international environment. Applying a systems' perspective, poverty eradication is recognized as a multi-scale endeavor with different partners participating at the local, national, regional, and international levels. Whereas the foregoing discussion has focused on microfinance lessons for the local level, this section will broaden the scope with lessons that scale up through the state to the global community.

Acknowledge and Empower African People. Outside intervention should adopt learning approaches rather than blueprint approaches to microfinancing that recognize and utilize African insights and experience. In many cases, "outside experts" are paternalistic or distrustful with resource-poor Africans, holding them responsible for their state as a result of low motivation, initiative, and education. This attitude reinforces charity and relief rather than the capacity-building of the poor towards self-reliance and development. Outside assistance must employ bottom-up, participatory approaches that ensure that microfinance schemes are built around people rather than people around them. Participatory approaches are not only more culturally appropriate and hence sustainable for local needs, they foster more equitable distribution of benefits as development is accountable to a more representative community.

Establish Realistic Expectations. Drawing upon participatory input and reliable research, donors must establish practical and culturally sensitive goals for microfinance initiatives. Institutional sustainability typically takes between eight to twelve years in Africa, and in many instances self-sufficiency is not feasible. While an increase in MFI revenue can be achieved by an increase in volumes of loans, pressure to scale-up and achieve greater outreach can over-extend MFIs, which are often unable to recruit personnel and establish an suitable infrastructure to sustain such operational expansion. This is especially true when operating in disadvantaged rural areas, which incur additional costs associated with low and dispersed population density. Research supports

that the cost of establishing a microfinance network in remote areas is approximately 80% higher than in a more accessible regions. Wherever the MFI operates, it is also important to adjust credit and production expectations to the material needs of the resource poor. Too often outside donors base their expectations on assumptions of unlimited growth imported from industrialized economies; in a world of limited resources, such assumptions are ultimately unrealistic.

Conduct Research. Research is an invaluable tool to better understand and support microfinance initiatives. An analysis of the local microfinance environment, (i.e. population, organizational culture, natural resources, and economy), helps to promote microfinance strategies that complement these realities, utilizing assets of the area, and reinforcing the capacity for social, economic, and organizational innovation. Institutional appraisal is another research tool that allows donors to better access and support MFIs' poverty outreach and impact, the quality of the financial services and the loan portfolio, governance and transparency, management capacity and efficiency, financial performance, and plans for the future.

Adopt Policies Supporting Microfinance Infrastructure. Policies changes can reinforce a supporting infrastructure in which MFIs function, influencing the practices of finance ministries, central banks, the commercial banking system, and donors in the country (Box V). Policies should encourage MFIs to establish themselves as formal, regulated financial institutions, provide low minimum capital requirements, and streamline reporting standards. Other important infrastructure changes should support liberal interest rates so that MFIs can charge necessary rates to sustain operations; develop financial networks for resource transfers among retail microfinance institutions; and establish credit ratings on clients, (thus reducing the risk of clients who repay one institution while borrowing from another).

Box V: The Tanzanian National Policy for Microfinance

In May 2000, the Government of Tanzania approved a national microfinance policy. The Government recognized that microfinance systems are and will increasingly become integral parts of the country's financial system, with the potential of better financially serving the people, the majority of who reside in rural areas. The policy formulation process began in 1996 with a comprehensive review of the micro-finance market. The review was followed by a joint Government-donor review mission, along with participatory input from MFIs and other stakeholders. The policy identifies three categories of implementation strategies: regulation and supervision, development and maintenance of standards, and capacity building. Although it is too early to access the impact of this policy, it does reflect the recognition of microfinance as a formidable economic sector among national policy makers.

Create a Supportive Legal Environment. A supportive legal environment builds credence and confidence in MFIs. With legal authority as a financial intermediary, MFIs are able to improve their outreach and performance. MFI regulations should be flexible, involve microfinance practitioners in policy development, and encourage a range of institutions. A legal framework in which the microfinance community operates can support microfinance standards, and a

competent and uncorrupt judicial process can ensure people of prudence in the managing of financial transfers.

Develop Standards & Assessment Tools. Policy leaders in the national and international community can work with microfinance practitioners in Africa to build consensus and commitment on core principles and standards in microfinance. Microfinance standards include organizational, operating, financial and reporting standards that will lead to the recognition of microfinance as a legitimate sector in the financial services industry. Reliable microfinance standards reinforce trust and confidence in MFIs and can be used to enhance operational efficiency.

Transform Public Structures. In many cases, an effective infrastructure for microfinance exists within public agencies, such as the postal system. Postal Savings Banks (PSBs) already exist in countries such as Uganda, Kenya, Tanzania, and Cameroon. PSBs have a comparative advantage to develop microfinance services on a large-scale basis. Their geographic coverage of both urban and rural national territory can offer effective outreach through preexisting networks. This potential, however, is contingent upon the proper restructuring, guidance, and monitoring of PBSs.

Supportive Microenterprise Initiatives. It is important to remember that microenterprise development is an essential extension of microfinance schemes. National and international actors can promote legislation, business services, and infrastructure to enable African micro-entrepreneurs and produce to increase market opportunities, technical know-how, and management.

Reinforce Staff Training. Staff training improves operational efficiency, sustainability, and outreach. Training includes financial management, credit and savings management and methods, and alternative management information systems, using technological resources from the region when possible. Staff training creates social ties between staff members, and strengthens overall morale, loyalty, and the MFI's corporate identity. Trainers can train and develop a pool of trainers from the local population, who are familiar with local languages, customs, and norms. Typically, qualified trainers who are intimately familiar with the area and people perform better and are willing to accept sacrifices for the cause.

Utilize pre-existing structures, such as the Postal Savings Banks (PBS). In many cases, an effective infrastructure for microfinance exists within public agencies, such as the postal system. Postal Savings Banks offer an important comparative advantage in geographical coverage for both rural and urban outreach. The transformation of PBSs into microfinance institutions is contingent upon proper restructuring, monitoring, and the introduction of appropriate technology and training. Building upon examples elsewhere, such as Japan's PBS, can reinforce this transformation.

Promote Networking & Cooperation. National and international actors should reinforce cooperation and coordination among actors at all levels in the design, management, and assessment of microfinance initiatives. Mechanisms should be created for the exchange of knowledge and experience among African microfinance practitioners, including the use of the Internet, dissemination of written material, field level practitioner exchanges, and best practice workshops. Regional coordinating committees and sub-regional conferences can bring together microfinance policy makers, leaders, and representatives from bilateral, multilateral and inter-governmental development partners to access and compare microfinance progress. Coordination among various microfinance actors also ensures complimentary rather than competing policies.

MAP OF SOUTH AFRICA



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EXECUTIVE SUMMARY

This study was undertaken in order to field test the UN/OSCAL model of micro finance in the South African context. The study looked at six case studies in South Africa examining both formal and informal micro finance institutions. Three quarters of the cases studied were taken from rural South Africa because 72% of the poor in South Africa live in rural areas. The study reveals a number of findings pertaining to the four principles of successful micro finance as discussed in Chapter Four. Moreover, the research findings relative to each pillar covering in a comprehensive manner all research sites are set out in Table 2 in Chapter Four. Thereafter a number of recommendations are made.

A survey of South African literature shows that except for village banks, the influence of formal micro finance institutions is limited as a result of their inability to reach out to many rural clients. Village Banks have penetrated rural South Africa at a fast pace in the last three years. Informal financial institutions in South Africa are therefore a major source of creating and providing the type of financial services needed, especially by rural people.

The field survey reveals that there are financial initiatives at the local level in rural South Africa to pool local financial resources for the common good. This is demonstrated by the existence of both Village Banks and informal financial institutions at the community level that mobilise savings for the benefit of community members. Material resources are pooled together only to a limited extent and mostly limited to consumption purposes. The principle, however, does exist and with appropriate facilitation can easily be extended even to productive resources. The local institutions in this survey utilise local human resources in terms of planning, monitoring and implementation of activities. Boards constituted by elected community leaders are the decision-making bodies.

Results of this survey show that informal financial institutions, as well as micro enterprises, have linkages with formal macro money markets. In fact, there is a chain from the informal grouping to the community based formal institutions that are in turn linked to commercial banks.

Not all financial institutions have computerised management information systems. The village banks in this survey for example are still utilising manually operated systems loan tracking. The village banks, stokvels, and funeral societies reach the poorest because they take services to where the commercial banks and other financial institutions would not reach. They also prioritise savings mobilisation because they encourage even the very poor community members to save. The study shows that rural based institutions seek to empower women upon who a lot of family responsibilities rest and as such tend to reach more women than men. Local volunteer staff are trained and utilised in the management of the financial institutions.

One of the major weaknesses of the institutions studied is that they charge minimum or no interest on credit and savings. Apart from the moneylenders, other institutions in this sample do

not, at the moment, charge interest rates to cover costs. Informal group based arrangements also charge minimum interest if at all.

Some of the most common constraints faced by institutions especially in rural areas include inadequate infrastructure. Most MFIs lack adequate funding for expansion and hence there is still the indication of dependence on external funding.

The suggested recommendations of the study are grouped as two interrelated and overarching components. The first set of recommendations pertains to the individual research sites. The second set of recommendations is of a more general and generic nature, applicable to micro financing in South Africa. The first set of recommendations indicates, inter alia: the need to prioritise operational efficiency; the penetration of formal MFIs to rural areas is adequate; the pooling of resources is restricted to consumption purposes rather than business purposes as a form of investment; there is a lack of the use of modern information technology; economic empowerment is not the goal of moneylenders but rather profit seeking activities; most of micro-finance institutions researched are not sustainable; and there is an inadequate network between community-based institutions and the wider micro-finance world.

The more general recommendations are summarised in Chapter Four. Some of these include: Micro-finance Institutions should encourage the formation of groups in rural and urban settings; Government involvement in partnership formation through procurement; Savings mobility should be encouraged; MFIs should aim for sustainability; Indigenous knowledge should be tapped; and the Empowerment of women should be encouraged.

CHAPTER ONE

BACKGROUND

The thrust underpinning this research project is that of challenging the conventional wisdom of established concepts and conventions regarding African development and poverty. Since 1994 the South African government has adhered to this notion in its development and policy programmes. Some of these programmes target the local South African economy and others are destined for implementation in the Southern African region. These development programmes include:

- Reconstruction and Development Programme (RDP)
- Strategic Development Initiative (SDI)
- Local Enterprise Development (LED)
- Integrated Rural Sustainable Development
- Millennium Africa Plan (MAP)
- New Programme for Africa's Development (NEPAD)

The research project is overseen by UN/OSCAL in close collaboration with the United Nations Development Programme, Gender and Development Programme (UNDP/GIDP). The project was completed in three phases:

Phase I: Micro-finance Fact Sheets: Presented in the publication, *Micro finance and Poverty Eradication: Strengthening Africa's Micro-finance Institutions* (UN/OSCAL, 2000), over 85 micro-finance fact sheets were compiled examining successful and unsuccessful micro-finance initiatives in Africa, as well as non-African and international initiatives. Emphasis was placed on identifying strategies for a micro-finance model that would respond to Africa's realities.

Phase II: Women, Micro Credit, and Poverty Eradication (Ethiopia, Cameroon, and Nigeria)

Phase III: Expert-Group Meeting on Micro finance and Poverty Eradication in Africa.

This research project focuses on Phase I only, and is an attempt to identify strategies for a micro-finance model that would respond to African realities. Using the micro-finance fact sheets referred to above, the following general principles constitute the UN/OSCAL model for successful micro finance in an African development context. The model is based on four principles, namely:

Principle 1: Prioritise Local Knowledge and Participatory Planning (Strengthening local institutions by pooling resources)

This principle acknowledges the scarcity of resources in a developing country and advocates pooling of these scarce resources through group formation. Group formation is encouraged because many traditional groups already exist in most African countries, which makes it easier to mobilise people in an orderly and efficient manner.

Principle 2: Prioritise Group Formation and Networking (Strengthening local institutions through more dynamic and larger networks)

This principle affirms the fact that collective and cooperative support is fundamental to micro finance. Moreover, micro-finance institutions build upon local knowledge and traditions, and are culturally more compatible and hence sustainable in the local communities. Since there is a pre-existing "homogeneous" mode of organisation in Africa, micro-finance institutions should be able to thrive and develop and become part of everyday life in Africa.

Principle 3: Prioritise Operational Efficiency

This principle postulates that micro-finance institutions can strengthen local institutions through better management, marketing, maintenance and monitoring activities, thus enhancing operational efficiency at the community level.

Principle 4: Reinforce Micro finance to Advance African Private Sector

This principle postulates that micro-finance institutions can reach out to the poorest people in remotes parts of African countries in order to encourage the establishment of microfinance groups to work with banks and formal macro-money markets, with special reference to the economic empowerment of women.

INTRODUCTION

There are many factors, which interact to impact upon the livelihoods and poverty status of the poor, but it is widely recognised that the main cause of poverty among the vulnerable in the informal sector is a lack of means of production (Getu, 1996:521).

There is, therefore, a need to empower all people by increasing their access to the means of production, including credit. The entrepreneurial capacity of the poor can be enhanced with access to small-scale loans, which would introduce them to the small enterprise sector (Micro Credit Summit, 1997). Empowering the poor with micro credit enhances self-reliance and employment creation. The role of micro credit is therefore even more important in developing countries where poverty levels are very high and most governments cannot meet the needs of the majority.

“About 50% of the South Africa population is considered to be poor. Most of the poor are in rural areas which account for 72% of the poor in South Africa” (Bonti-Ankomah & Chamba, 2000:5). It is estimated that 45% of the population (18 million people) live on less than \$2 a day, a poverty line suggested by the World Bank (Taylor, 2002). In South Africa, unemployment is also higher in rural areas than in urban areas (Ibid). Most of the poor in rural areas depend on agricultural sector employment, pensions and remittances from family members in urban areas. In this context, there arises a need to create and support rural micro enterprise for which the availability of financial services, therefore, becomes a necessity.

Rationale of study

The main purpose of micro finance is to provide large numbers of poor people, including the very poor and women, with quality financial services, thereby reducing poverty. The success of micro-finance institutions is therefore normally measured according to the extent of their outreach to the poor and their financial viability or sustainability. Both these variables are influenced by many factors ranging from technical and political factors to social factors. Many micro-finance programmes that have been designed and implemented in developing countries vary in terms of their content, experience and performance. Some programmes have been highly successful while others are spectacular failures. As such, international experience in micro finance provides a range of lessons of what works and what does not work. Taking these lessons into account, the UN/OSCAL Micro Finance Model was developed as indicated above.

The research problem was to field test this model of micro finance in the South African context, in order to assess the extent to which these principles are being applied by South African micro-finance institutions and the subsequent impact thereof on poverty eradication.

Aim and objectives of the study

The aim of this study is to determine the extent to which the OSCAL model of microfinance can be applied in South Africa. The objectives of the study are to

- desk appraise both formal and informal micro-finance interventions in South Africa;
- examine four case studies of micro-finance initiatives in South Africa;
- interpret findings of research in terms of the four principles of the OSCAL model; and

- summarise findings, draw conclusions and make recommendations.

METHODOLOGY

The nature of the study entailed the gathering of information from both primary and secondary sources. Secondary information (based on the review of relevant reports) was used to make a desk analysis of both formal and informal micro finance in South Africa, as well as the constraints affecting delivery of micro finance in this country. The research methodology was designed to be participatory, thereby including the views of community members and groups as far as possible. As a result, focus-group and informal discussions were used to a large extent. The guiding questions developed for the focus-group discussions are attached as Appendix II. Primary information was also obtained through an interviewer-administered questionnaire (see Appendix I) to gather information from the institutions. The questionnaire was given to village bank officers and board members to elicit the following information:

- Background information of institutions
- Staffing and structure of organisation
- Funding of organisation
- Characteristics of clients
- Linkages with formal and informal institutions
- Management systems
- Monitoring and evaluation
- Networking
- Gender characteristics of clients and staff

The focus-group discussions were held with informal credit associations and were meant to elicit information pertaining to

- the nature and size of groups;
- group activities; and
- relationships with other informal and formal organisations.

In addition, informal discussions were held with community members, as well as with development and field workers. This was done as a means of supplementing and explaining some of the responses that emanated from the questionnaire and focus-group discussions. People of special significance to the research sites and importance to the overall micro-finance landscape of South Africa that were interviewed, included:

- The co-ordinator for the Financial Services Association (Regulatory body of village banks), Limpopo Province.
- The champion for Kgautswane village bank – Ms Clara Masinga
- The champion for Mathabatha village bank - Ms Agnes Qwabe

Selection of case study institutions and sites

Four research sites were chosen. Two from Limpopo Province in the northern region of South Africa, one from the Eastern Cape and one from the Western Cape. Two organisations were chosen that work with both formal and informal local microfinance institutions namely the

Financial Services Association (FSA) and FARM Africa. Three of the four research sites were chosen from deep rural areas. The rationale behind this is that poverty is more pervasive and prevalent in the deep rural areas than in the urban areas of South Africa. The fourth site, although decidedly rural in its geographical location, can be described as more developed in terms of socio-economic indicators and criteria.

STUDY SITES

The study used six case studies on micro-finance initiatives from the following sites: Mathabatha village (Limpopo Province), Kgautswane village (Limpopo Province), Oudtshoorn (Western Cape) and Mtshabe (Eastern Cape).

Mathabatha village

Mathabatha village is situated 100km outside Polokwane, the capital of Limpopo Province (the former Northern Province). There are eight villages under the Mathabatha village district with a total population of roughly 15 000. All the villages fall under one traditional leader, Chief Mathabatha, who is also recognised by the Provincial and National Governments as the highest district officer in the Mathabatha community. The Chief is assisted by a Tribal Council in the governance of Mathabatha village. The Tribal Council contains representatives from each village, called Indunas.

The Mathabatha community is situated in the poorest province of South Africa, with approximately 70% of its population unemployed. The persistent scarcity of employment opportunities, and concomitant endemic poverty is evident across this province's rural areas. In a desperate search for work, people migrate to surrounding provinces, especially Gauteng, which has a significantly more vibrant and developed industrial sector. The main source of employment for the people in Mathabatha is the mine, situated a few kilometers away from the community. But finding employment on the mine is becoming increasingly difficult, as the mining authorities have started to retrench people. There are very few commercial farmers in the area, though people are trying their hand at gardening in order to feed their families. The illiteracy rate is also very high with almost 60% of the population being illiterate.

The village bank is the only banking facility in the Mathabatha community. The nearest other bank and the post office are situated in the town Lebowakgomo, approximately 50km away.

Kgautswane

The Kgautswane village, also situated in the Limpopo Province, can also be described as having a "deep rural" location. That means it lies beyond the reach of the national electricity and telephone grids, sufficiently remote to place it out of radar range of regional development planners. The electricity grid passes nearby en route to the big towns in the north, but Kgautswane is unlikely to have electricity for several years because the state-owned electricity utility, Eskom, considers it a low-priority village.

The ethnic composition is rather diverse, encompassing Northern Sotho, Zulu and Shangaan. The village and its surrounds support a population of about 60 000, mostly reliant on subsistence farming as a means of survival. The economy is largely an informal one, with a number of general convenience stores as well as a few service and utility shops, for example hairdressers, liquor stores and car repair locations. Shops and businesses are spread out throughout the villages. A well-organised and adequately sourced Central Business District, offering essential goods and services is totally absent, as is the case in the two other *deep* rural sites included in this study. Also, similar to many rural villages in South Africa, a high percentage of able-bodied men and women are forced to seek employment elsewhere in cities such as Johannesburg or Pretoria, several hundred kilometers away, or in Lydenburg, the nearest major town, about 70km away. Children are often raised by their grandparents or extended family members who remain behind and rely on financial support (remittances) from those who leave to seek work elsewhere.

Although these people and communities may be considered and categorised “poor” in the accepted financial sense, they have shown themselves to be rich in faith, vision, action, enterprise, resourcefulness, compassion and cooperation. By using their initiative, they have gained in self-respect, self-confidence and self-reliance.

The area is well served by schools. There are ten primary schools and seven secondary schools – one of these lying sufficiently close to the grid, has electricity. The rest rely on daylight and candles. Some of these ill-equipped schools are performing outstandingly well against all odds - in the case of one school, achieving a nearly 90% final year pass rate.

Given the social, economic and environmental handicaps and constraints that confront inhabitants, the people of Kgautswane have very successfully learnt to be self-reliant. The developmental and transformational activities in their community have attracted the respect and subsequent sponsorship of many institutions and companies, as well as corporate enterprises, including the Livener Beehive, Safmarine and Old Mutual.

The Integrated Community Building (ICB) programme was developed a number of years ago. The aim of the ICB was to empower and capacitate local organisations and individuals to conceive and implement projects aimed at community improvement. Led by Clara Masinga, the ICB has achieved some commendable successes. “What we learned in the ICB programme course is that the success of any community, lies in good leadership skills, coupled with consultative abilities,” said Clara.

The people of Kgautswane have shown increased social and economic activity over the last couple of years. Through their Development Centre, formally called the Kgautswane Multipurpose Community Centre (MPCC), they operate the following projects: a village bank, the aged/older peoples project, seventeen crèches, a computer centre, a cooperative, a juice making project, a carpentry workshop, a tree planting/nursery, as well as projects in gardening, poultry, brick making, tile making, primary health care, fence making, art and crafts. Clara Masinga, the Director of the Kgautswane Development Centre stated, “We have done all these activities because Technikon SA taught us to work integrated”, which was part of the ICB programme.

Oudtshoorn

Oudtshoorn is classified as a peri-urban town situated in the Western Cape. It is the capital of the Klein Karoo sub-region and serves as a key service and administrative area. The population is estimated at 65 000 with a labour force of 29 300 (1998 estimates, Wesgro) and an unemployment rate of 26% (1996 estimates, StatsSA). Estimates indicate that roughly 52% of the population is female. Oudtshoorn is widely regarded as the world capital of the ostrich industry, responsible for approximately 70% of ostrich related primary goods such as leather, meat and eggs.

Community, social and personal services are the largest industries in Oudtshoorn, followed by wholesale and retail trade and manufacturing. The central business district houses all the major commercial banks and retail stores. The region has access to most modern conveniences, including piped water, electricity, refuse disposal, adequate housing and a sophisticated telecommunications infrastructure (telephones, cellular networks, fax and internet). The town is well connected with different regions and markets in South Africa through a network of quality roads and rail network, as well as a national airport 60km away.

Although a substantial percentage of the working class population of Oudtshoorn, which is predominantly black and coloured, live under impoverished conditions, they are substantially “better off” than people living in the so-called deep rural areas of South Africa. It is important to note that the phenomenon of poverty in South Africa is highly relative, nuanced and multi-faceted and dimensional.

Mtshabe

This is a rural community situated in the Tsomo administrative district of the Eastern Cape and falls under the Amatola district council. The village is situated next to the District road, 32km from Tsomo, 46km from Cofimvaba, 41km from Engcobo and 67km from Queenstown, a relatively big town with modern amenities, facilities and services. The community of Mthsabe consists of eight sub-villages and is represented by the headman and eight sub-headmen. There are 611 families with a total population of 4 300. The villages take up approximately 250 hectares with 1 716 hectares of veld and 692 hectares of arable land (information supplied by Farm Africa in Umtata)

This is a poor community with 13% having no fixed income, 78% reliant on pensions and remittances and only 7% of the community sells some produce. Women head 50% of the households, 59% of the community is literate and a further 38% is semi-literate and 3% illiterate (FARM Africa Report. 2000).

CHAPTER TWO

REVIEW OF FORMAL AND INFORMAL MICROFINANCE INTERVENTIONS IN SOUTH AFRICA

TYPES OF INSTITUTIONS

There are various types of micro-finance institutions supplying micro credit in South Africa and these are broadly divided into formal and informal institutions.

Formal Institutions

Formal institutions comprise of commercial banks, non-governmental organisations (NGOs), development finance institutions, development finance co-operations, agricultural co-operatives. Commercial banks, however, serve mostly commercial farmers and urban clientele who are employed and have a steady income. Also, commercial banks in South Africa usually insist on some form of collateral before extending credit. Most deep rural households have either very little or usually nothing to offer as surety or collateral. As a result commercial banks limit their activities to cities and formal towns with no branches in remote rural settlements.

Development finance institutions (DFIs) are mostly government assisted. They are still geared towards the promotion of large-scale agriculture, although some institutions do supply loans to emerging farmers (Bonti-Ankomah & Chamba, 2000). Most DFIs are limited to the former Apartheid government's homelands and by and large provide credit only, with no provision for deposit takings. An example is the Land Bank that acts as the national agricultural development bank. Since its inception during the Nationalist Party's regime, this bank focussed on, and serviced virtually exclusively the commercial farming sector, which comprised overwhelmingly of white farmers. However, since the African National Congress (ANC) government came to power in April 1994, the Land Bank has made major policy and paradigm shifts in terms of *inter alia* its goals, objectives and methodology. The empowerment and support of the so-called informal or non-commercial farming sector, consisting of resource poor, small-scale and emerging farmers became a central concern of the Land Bank.

Khula Enterprise Finance Limited is another DFI set up by the Department of Trade and Industry in 1996. Khula supplies wholesale finance to Retail Financial Intermediaries (RFIs) as a means of overcoming their difficulties to obtain loan capital. The RFIs find it difficult to source capital from the open market because they deal with SMMEs who are regarded as risky due to their lack of collateral.

NGOs are amongst the few institutions that supply rural people with micro finance. They also largely provide credit services only. Their influence is, however, limited due to their inability to reach out to many rural clients. The only exception to this is the village or community banks that provide a range of services including savings.

Informal Sector

Informal financial institutions in South Africa include rotating savings and credit associations

(ROSCA'S) such as stokvels and credit unions, moneylenders and money keepers, families, relatives and friends. A stokvel is a type of credit unit whereby a group of people contribute a fix amount to a common pool on a regular basis. Members either rotate to make withdrawals or withdraw at the discretion of stokvel members in times of need. "Informal financial institutions in South Africa are a major source of creating and providing the type of financial service needed by rural people" (Bonti-Ankomah & Chamba, 2000). Rural people also seem to prefer this kind of arrangement because it is user-friendlier than financial structures and institutions located in the formal sector. Table 1 below, for example, compares transaction costs of informal and formal financial institutions in South Africa. Access to informal finance is easier, transaction costs less and there is greater willingness to handle the small amounts needed by clients. There is very little red tape in informal arrangements. For example, in Lebowa and Kangwane survey results indicate that 70% and 60% of credit transactions respectively are based on informal arrangements (LAPC, 1993 quoted in Bonti-Akomah & Chamba, 2000).

The loans are used for different purposes. It is often used for consumption and productive purposes such as for working capital. According to Ankomah and Chamba (2000), participants in informal financial institutions involve small-scale farmers, business entrepreneurs, and members of low-income households. The authors are of the opinion that a tightly knitted, thriving and resilient network of informal money lending and borrowing connections are common in the rural areas of South Africa.

Savings in informal financial arrangements are not necessarily deposited with the formal financial institutions, (often these institutions are situated to far away from rural villages for villagers to access), but are held in cash, or often converted into assets such as livestock and/or business inventory. Savings are also made in the form of loans to friends and relatives. Transactions are often for a shorter time, involving small amounts and are regulated by customs, the negotiation skills of the parties and by competition among borrowers (ibid.).

Table 1: Comparison of transaction costs of formal and informal financial institutions

Variables	Formal	Informal
Distance to source (km)	40	34
Number of visits to obtain loan	6.4	3.1
Application time (days)	60	8
Form of payment; cash and kind in %	95% and 5%	19% and 81%
Interest rates (% per annum)	12	16
Deposit requested (%)	36	11
Size of loan (R)	1952	446

Source: Coetzee, 1995 in Bonti-Ankomah & Chamba, 2000.

Government Policies

Policies made during the apartheid era created a dualism in the financial sector. The formal financial sector catered for the needs of the economically active urban population, as well as those of the rural based commercial farmers. The micro-lending sector served the needs of the majority of the black urban and rural populations of South Africa. Commercial farmers had access to finance at subsidised rates while rural micro enterprises were denied access to the formal financial markets. These distorted policies contributed to the poor performance of South Africa's rural financial sector.

The legal financial and tax environment for micro lenders, for example the Banking Act prohibits micro lenders to mobilise savings. The Treasury Act places a ceiling on interest rates charged by micro lenders without taking into account the high transaction costs incurred by micro-lending institutions (LAPC, 1993 quoted in Bonti-Ankomah & Chamba, 2000). As a result "even though micro lenders have filled the void left by the inability of formal institutions to care for marginalised rural households, they lack the capacity to reach the majority in the rural areas of South Africa" (Bonti-Ankomah & Chamba, 2000).

NGOs (and informal financial markets) as a result play a major role in providing micro finance to the rural poor. Their outreach is, however, limited because of financial and human capacities.

High Transaction Costs

Transaction costs tend to be high because of a combination of the following factors.

- The issuing and administrative managing of large numbers of small loans is relatively expensive, as it requires a large number of staff.
- The constant monitoring over protracted periods of loans is very costly.
- The relative dispersion of the rural population, poor physical and social infrastructure that lead to more travel time and costs make it expensive to deliver credit especially to the rural areas.

Lack of Savings Mobilisation

The assumption that poor people cannot save has been proved wrong internationally. Bonti-Ankomah and Chamba (2000) point out that surveys conducted in South Africa show that the propensity to save among rural people is high. In South Africa this is further proved by the existence of informal savings arrangements in the form of stokvels (ROSCAs) and savings clubs. A recent unofficial calculation done by the formal banking sector in South Africa, estimates that ARZ50 million is saved every week by inhabitants of SOWETO, the biggest township in this country through informal saving arrangements. (Radio Interview on SAFM, SABC, 08-08 2002)

An interesting observation is that most financial credit programmes in South Africa still ignore the savings side and its potential contribution to enhance the viability and sustainability of these financial programmes and institutions (Coetzee 1995 quoted in Bonti-Ankomah & Chamba, 2000). Low savings have actually reduced the amount of working capital for the institutions.

This in turn tends to limit the number of clients that can be reached by the NGOs.

Lack of Collateral

In South Africa as a result of the legacy of apartheid the vast majority of rural people have no land rights. Most people live on communal land that belongs to the community and no title deeds are issued. As a result of this, banks in particular are reluctant to lend money.

Conclusion

Most formal financial institutions are unable to penetrate rural areas, their services and conditions not being appropriate and cost effective to most of the rural poor. In South Africa therefore, informal financial institutions continue to play an important role in catering for the financial needs of the poor. Hence MFIs providing services to the poor need to support and reinforce the existing financial arrangements at the community levels especially in rural areas. These have developed over time and are more likely to be sustainable as they are most suited to the needs of the poor.

CHAPTER THREE

PRESENTATION OF STUDY RESULTS

This chapter presents results of the field survey undertaken in three deep rural and one more developed rural location. Institutions studied included both formal and informal ones. In addition to these, two important related institutions or organisations are discussed (see two appendices). The one services and regulates the local formal and informal community-based financial institutions, (Financial Services Association, FSA). The other organisation, called FARM Africa (Food and Agricultural Research Management), is an NGO that aims at empowering and agriculturally capacitating rural communities and livelihoods through programmatic intervention. One very innovative and successful programme launched by FARM Africa, involves the extension of credit facilities to rural based small-scale farmers by way of a revolving credit system.

The discussions and analyses of the formal and informal rural-based financial institutions that were researched in the different geographical locations of South Africa, include an analysis of the different organisation's objectives, management and operational structures, numbers of clients served, types of services offered, linkages and networks, monitoring of activities and management information systems, as well as constraints faced by these institutions. The relationship of these institutions with other relevant formal and other informal financial institutions was also examined.

The following institutions were studied:

Formal Institutions

Mathabatha village bank
Kgautswane village bank

Formal money lender
Financial Services Association (Appendix III)
FARM Africa (Appendix IV)

Informal Institutions

Swaranang (an example of a ROSCA serviced by the Mathabatha village bank)
Lending groups (serviced by FARM Africa)

Informal Money Lender

Informal savings club

MATHABATHA VILLAGE BANK

Background of Mathabatha Village Bank

The Mathabatha village bank was opened in May 2000 with the mission of providing a financial service centre to the local community. The official name of the village bank is Mathabatha Village Financial Service Co-operative. The village bank was established with the assistance of the Financial Services Association (FSA), an organisation that helps communities all over South Africa to set up their own village banks. FSA provides initial training in basic management and business administration to members of the communities. It also donates some stationery and the salary of the administrator for the first year. In addition, FSA monitors all village banks by reviewing their monthly reports and by performing an on-site visit every two months. A provincial officer for FSA was interviewed and the result of this interview and an analysis is attached as Appendix III.

Ownership and Management of the Village Bank

The bank has seven board members (3 male, 4 female) comprising of the chairperson, vice chairperson, secretary and four additional board members. These members deal with internal audit, credit and investment, marketing and security. All board members are from Mathabatha community and they all offer their services on a voluntary basis.

The village bank is entirely owned by its members. According to the bank rules, “a share gives a member ownership rights in the bank. Ownership entitles the member to vote and receive dividends. Members use their votes to elect board members, change by-laws, set board meeting dates and determine policy” (Mathabatha village bank constitution). There is only one full time administrator who runs the bank on a daily basis.

Membership of the Village Bank

By May 2002 membership totalled 507. Both groups and individuals can save with the village bank. The number of savers according to the different categories are: Pensioners (30), school

children (27), Fanang Diatla projects (7), social clubs (27), small businesses (9), employed & unemployed individuals (405).

According to the administrator of the bank almost 70% of the clients are women. Any one from the community is eligible to save, regardless of age and sex. Under-aged children are, however, required to provide birth certificates on becoming a member of the village bank.

Services offered by the Village Bank

a) Savings

This is the main service offered by the village bank. Potential savers have to buy shares on becoming new members of the bank. Keeping the level of poverty in mind, shares are available for as little as R10. Shares will be distributed as a dividend once the bank start showing a profit. Savings are easily accessible and can be withdrawn at a client's convenience. There is a R3 charge for any withdrawal made up to R500. For a larger amount of cash, there is a R6 service charge.

In spite of the absence of interest payment, people save at the village bank essentially because of its close proximity and because the depositors feel their hard-earned cash is safe and secure at the village bank.

The village bank's future plans include offering a fixed deposit loan scheme. This refers to a long-term investment whereby money is committed to an investment for a given period of time, ranging between three and twelve months. This will enable the clients to earn interest.

b) Funeral benefit schemes

This is the most recent new product offered by the village bank. Its importance lies in the fact that one death can cost a family up to R5 000 for the funeral service. This is very expensive and usually beyond the capacity of the poor villagers. But this does not deter them because it is a matter of great traditional pride to bury the beloved ones with the greatest honour possible. So the villagers borrow money from friends or families or alternatively become members of the traditional burial societies. The funeral benefit scheme offered by the village bank is a cost-effective way of insuring themselves against the financial effects of unexpected death.

The funeral benefit service offered by the Mathabatha village bank is opened to all members of the community. A joining fee of R20 is payable by all new members and an additional R25 is paid as premium every month. The maximum entry age of a principle member is 80 years. Membership covers a household totalling 9 members. Benefits payable range from R500 to R5 000 depending on whether one is a member or a dependant of a member.

The prevalence and incidence of HIV/AIDS amongst all sectors of the rural population of South Africa has taken on crisis proportions and has resulted in the funeral benefit scheme becoming an indispensable necessity. It is estimated that the infection rate in certain deep rural locations is higher than 40% of the population. This places an enormous additional financial burden on already impoverished and vulnerable households. A sudden death, or even worse, multiple deaths due to AIDS, can completely deplete a household's financial reserves and lead to

protracted financial hardship. The funeral benefit scheme offered by village banks is of strategic importance, not only in the strict financial sense, but also in a sociological context. It allows households to bury their family members with dignity and according to cultural norms, prescriptions and rituals.

Funding of the Village Bank

Besides the initial funding provided by the Financial Services Association (FSA), the Mathabatha village bank did not receive any other outside funding. The village bank, as a community driven project is owned and run by the community. But it is still a long way from being sustainable and needs outside funding. Currently the village bank is negotiating with Old Mutual, one of the biggest corporations in South Africa, for loans in order to start providing loans to the small businesses in the community.

Networking/linkages with Formal and Informal Institutions

The village bank is linked to ABSA commercial bank. When a saving of a client reaches more than R5 000, it is taken to the nearest ABSA branch where it is deposited under the village bank's name in an interest-earning account.

The Mathabatha village bank has a strong relationship with the Kgautswane village bank. Members of the two village banks visit each other on a regular basis, sharing experience and valuable information. They also train each other in different aspects of effective management and operational efficiency of village banking.

The members of the Mathabatha village bank are also helping communities in nearby villages to set up their own village banks. They are involved in marketing the idea of village banking by visiting these communities and by informing them about the advantages of a community driven financial service centre. The bank is also forming close relationships with ABSA, the largest commercial bank in South Africa and Old Mutual, a large life insurance conglomerate. These relationships extend beyond strictly financial and monetary affairs - it also incorporates training and other supportive endeavours.

Members of the bank have also approached traditional informal financial institutions to participate in, and utilize, the village bank. The different Rotating and Savings Associations (ROSCAs) found in the villages, have started to save at the village banks. The ROSCAs, called Mogodishano in the local language, is a traditional saving scheme constituting of groups ranging between 5-10 members. This method of saving is especially popular with women.

SWARANANG (ROSCA)

Hold one Other

Swaranang is one of the many mogodishanos in the villages. The name, which is given to a group of five, quite simply means 'hold one another'. Before the village bank was established the women used to save their own share of the money by buying household utensils mostly plates and cups. One of the members of the group, Portia, explained " you can never have too many

plates or cups because it comes in very handy at funerals and weddings”. They still do that even now but they have started to save some of the money in the village bank in the name of ‘Swaranang’. They are going to share the money at the end of the year in December so that they can pay their children’s school fees.

Other societies have also opened accounts at the village bank. Burial societies like the ‘Sehlabeneng Burial Society’; social clubs like the ‘Ekganang Social Club’ and the football association are examples of NGOs and CBOs that have decided to support the village bank by depositing their funds there.

The biggest and strongest relationship the bank has is with the Fanang Diatla project. This is an overarching or umbrella type community development project, which has initiated and is still at the moment coordinating several income generating projects. These micro and small businesses are established to generate income, reduce unemployment and encourage entrepreneurs. Examples of the projects are, shoe making and shoe-repair, baking and catering, juice making, welding, home-based care for HIV/AIDS and a school for disabled children

The Fanang Diatla project receives funding from the Nelson Mandela Children Fund. Members of the project, who are mostly women, receive training in the different skills necessary to run the above-mentioned projects. They were given basic training on how to provide home-based care and look after HIV/AIDS victims, orphans and disabled people. These three projects are financed with the income earned from the other income-generating projects. The profits earned are saved in the village bank. Each project has an account in its own name. Recently the Nelson Mandela Children Fund donated almost half a million rand to the Fanang Diatla Project. The money is going to be deposited in the village bank so that the projects can all have easy access to the money. At the same time it is boosting the economy of the village bank

KGAUTSWANE

Kgautswane Village Bank

The village bank is a community driven initiative to provide an effective financial service to the Kgautswane community in support of sustainable economic development. In October 1999 the community of Kgautswane attracted the attention of Wezi Ximina, the chief executive officer of the Financial Services Association (FSA), who addressed them on the methodology of opening their own village bank. Within two weeks they had collected the names of 350 shareholders and formed the required Board of Directors and Management team. Shares in the bank were sold for R10. The date for the official opening of the bank was set for 11th December 1999, to be performed by the premier of the Limpopo Province. The other village banks in the North West Province had taken many months to be established, but local canvassing as well as an aggressive advocacy and an information campaign in the community, had already engendered an understanding of the meaning, responsibility and benefits of having their own banking facility amongst ordinary villagers.

The village bank was officially opened early in December 1999, and named the ‘Kgautswane Financial Services Cooperative. From the outset the village bank was registered with the FSA. One of the requirements set by the FSA was that the village bank establishes links with First

National Bank (FNB), one of the oldest and biggest commercial banks in South Africa. This bank is located in Lydenburg, situated approximately 70 kilometres from the village. Part of the sustained success of the Kgautswane Financial Services Cooperative (KFSC) must be attributed to its excellent working relationship with the link or “mentor” bank, that provides training in operational systems and sound business practices, technical assistance as well as a general empowering, facilitation and monitoring role and service. As part as the social compact between the FNB and KFSC, deposits made with the village bank, are held at FNB. Therefore the success of KFSC is important to both KFSC and FNB because both benefit from the synergistic relationship.

The establishment of the village bank in Kgautswane in such a short period of time was a significant achievement - it was the first village bank in South Africa to be launched within three months. In addition, the bank succeeded in its first six months of operation, to attract meaningful savings, fixed deposits, and shares (investment). After only six months, the village bank established itself to such an extent that it was able to offer credit/loan and funeral benefit services to its members.

Although a village bank initiative like the KFSC is essentially concerned with the empowerment of people, livelihoods and structures of civil society of the *local* community, it will be erroneous and short sighted not to extend the potential benefits and positive impact of these institutions on *inter alia* household poverty levels. It is therefore encouraging that the board of control of the KFSC has decided that their bank will be open to anyone who meets the minimum requirements set by the bank.

The village bank was established for a variety of reasons. Some of the more important ones include:

- Distance from commercial banks. Especially for older people, who are unable to travel long distances. In some cases, the transportation costs of travelling to the commercial banks exceed the amount to be deposited.
- The need for financial management amongst both individuals, organisations and micro and small entrepreneurs
- To accommodate the unemployed and so called “unbankables” who have no sureties and collateral to offer to formal or conventional credit and lending institutions. The village bank only requires a valid identity document and a minimum deposit of R10.
- Empowerment of women. Because of the previous government, people within the community, especially rural women were not allowed to buy shares in commercial banks.
- Job creation. To create career opportunities and empowerment within the local community.
- The need for funeral and insurance benefits. Funerals are a huge expense and without coverage, families are faced with a financial burden that they cannot afford. The severity of HIV/AIDS has a dramatic impact on the mortality rate, creating havoc with already poor households’ budgets

The goals of the village bank are to empower people in the community, increase the client base of the bank, become completely self sufficient, and attain and sustain the operational standards of commercial banks.

Funding

During the start-up process, the village bank in Kgautswane was a recipient of funds from the FSA. These funds were to cover costs to establish the bank, i.e. to purchase stationary and equipment and to pay the wages of the administrator during the first year of operation.

The KFSC received an unexpected and substantial financial windfall when Clara Masinga, who was the initiator and driving force behind the founding of the village bank, was awarded a prize from the World Bank in Washington DC in 2000 for fighting poverty. The prize money was US\$60 000. The project was officially called “DEVELOPMENT MARKETPLACE PROJECT #463 Leveraging Savings for Development – Village Banking”.

This project’s main and overarching objective and strategy was to facilitate the process whereby the community’s ownership and the capital base of local savings is built up for local development purposes through the integration of the village banking system into community-identified development plans. In addition, management and control of funds are strengthened in order to minimise the risk of fraud. The project will extend to three existing village banking projects in the North West Province of South Africa, as well as to two new projects in KwaZulu-Natal and the completion of Kgautswane’s training requirements.

The three major project-implementing agencies were Technikon SA, which was responsible for most of the training and procurement and installation of equipment; FSA for some technical training and management support; and Inter Plan Africa, which was responsible for course design and overall project coordination.

The FSA monitors the bank through financial reports, and on site visits – people from the FSA audit the bank. The bank, however, has its own auditor, a local schoolteacher. This is because the FSA does not come very often to do the audit. Once the schoolteacher has completed his audit, a copy is sent to the FSA, Technikon SA, and the World Bank.

At present, the bank is operating without any external funding. The initial start-up funding was, however, vital for the smooth operation of the bank. Even though the bank is currently sustainable without external funding, more funds are required to:

- Improve general operational standards.
- Develop facilities e.g. computerisation of transactions, security of the building.
- Provide more/larger loans, especially to farmers.

In order to decrease the level of dependency on donors, the bank had to develop its income base. This was done by charging its clients an administration fee, as well as through interest earnings from savings deposited at its link-bank at First National Bank.

Staff and Structure of the Village bank

There are eleven board members of which seven are women volunteers. About 50% of the staff is women and all reside within the local community. The administration staff consists of one woman, Bertha Mkhondo. When the bank is busy, the board members voluntarily assist Bertha. The staff receives a very low income and most work on a voluntary basis – altruism. The Board of Directors usually makes all decisions concerning the village bank. All proposals, initiatives etc. must therefore go via the board, where a democratic decision is taken. Although all of the residents within the community are marketed for membership and volunteer their involvement, the recruitment emphasis is placed on leaders of organisations and pensioners. These individuals are ideal candidates for volunteer workers, board members, or staff members.

Staff training

Continuous and regular training of all staff and volunteers involved in the running of the bank is regarded by the board as essential to the efficient functioning of the bank. Staff undergo training at least once every two months. Experts from the FSA, in collaboration with Technikon SA do the training free of charge. The objective of the training is to increase the overall level of professionalism of the bank, which will enhance the credibility of the village bank. This will hopefully lead to more people embracing and partaking in the bank. By training skills to more people, information becomes common property; this again discourages fraud and malpractices because information is not concentrated in a few people only.

The format of the training is formal, on the job, during meetings. It also involves participation in FSA activities and audit feedbacks. Training is conducted in such a way that the staff can become trainers themselves. The new trainers are all from the local village and only local villagers are drafted to be trained as workers at the Kgautswane Financial Services Cooperative. This model of training and policy of recruitment of new workers, ensures that meaningful empowerment, capacity building and subsequent career development occurs within the community. This will ultimately lead to more stable career opportunities, higher income, and the eradication of abject poverty in the households of the beneficiaries.

The Board of Directors was trained in cooperative governance skills. Many shareholders have no banking experience. To educate them, FSA, Technikon SA, and staff from Kgautswane Financial Services Cooperative conduct quarterly meetings at which the products and services of the village bank are explained in easy and accessible language. These meetings cover investment and credit counseling, effective budgeting, and banking facilities.

Clients

The bank does not target any specific clients, however, it is the ordinary people in the community that mostly use the bank. It is exactly this easy accessibility and non-discriminatory entrée to the village bank, that makes it such a well-designed and appropriate concept and tool to use in both the process of empowerment of ordinary people and in the battle against rural poverty.

Currently the bank has 295 shareholders, 247 savings deposits, 72 funeral benefits, and 11 loans.

Thus far, nobody has defaulted on his/her loan repayments. About 80% of the clients are women, as the men usually bank in the towns where they work.

Group Loan Service

Loans are granted to groups of four to five members. Currently the bank has six groups. Various other stockvels also operate in the area, such as: Nailed Group, Dopiast Group, and Refemaatla Group. Other groups are informal and unknown. The village bank interacts with these other groups by providing advice and consultation concerning the financial operations of the groups.

Individual loan/credit Service

Loans generate the bulk of income necessary to support operations and the community's demand for additional financial services. The interest rate charged is subject to the Treasury Act. Loan size varies from R1 000 to R30 000 per group. Interest varies from 10%, for loan amounts between R1 000 and R10 000 and 5%, for loan amounts above R30 000.

The interest income covers all operational costs, for example administrative staff salaries, stationary and so forth. The default rate at present is zero percent. If clients default on their repayments, the following measures may be taken:

- Members of the bank pay visits and make enquiries.
- Measures to recover costs e.g. liquidate businesses, reposes farmers' stock etc.

There are no competitors or other similar institutions in the area.

Savings

Open account

This is the short-term service account. It benefits members by providing a secure place for the safe keeping of their cash balances. The balances earn interests, which provides an incentive for increasing services.

Fixed deposits

This product is a long-term investment. Money is committed to an investment for a given period of time, e.g. 3 months, 6 months, or 12 months. Because money is committed for a fixed period, members earn higher interest rates than they would in an open account.

Shares

A share gives the member ownership rights in the village bank. Ownership entitles the member to vote and receive dividends. Members use their votes to elect board members, change by-laws, set board-meeting dates, and determine policy.

Savings in the open account are easily accessible up to an amount of R2 000. The client needs to give notice if he/she requires anything above R2 000. This is because the bulk of the bank's money is kept at the link bank. The village bank, therefore, has to arrange with the link bank for

the required funds. This, as well as the transportation of money takes time. Other means of saving within the community include saving at home, which is not safe, and stokvels.

The accumulated savings of clients are used for

- granting loans;
- deposits in interest earning accounts at the link bank; and
- once substantial savings have been generated, the bank intends to invest in local community development programmes.

Funeral Benefits

As was mentioned earlier in this report, funerals constitute a huge expense and people in the community are often unable to afford the costs associated with a burial. The advent of HIV/AIDS plays an enormous contributing factor in this regard. For funeral benefits, an amount of R30 is contributed monthly. Benefits range from R500 to R5 000.

Educating Clients

In collaboration with the Development Center, clients are educated in:

- Management and other business skills
- Vocational training and entrepreneurship
- Basic education and literacy programmes
- Leadership programmes

Trainers from the local community, as well as experts from outside conduct these training courses. The FSA pays for this service.

Management Information Systems

The bank uses both manual and computerised management information systems. Due to a lack of electricity, and therefore an unreliable computer system, manual recording of all transactions is vital. Data is also computerised and stored on a floppy disk. However, until the computerised system is deemed reliable, the main management information system (MIS) remains manual.

The MIS can produce data/information at any given time. However, under the manual system, someone must physically go through all the files/records and this can be time consuming.

Monitoring and Assessment Tools

Other monitoring and assessment tools include effective budgeting, physical visits to borrowers, reporting on daily activities, daily financial recording, audits – FSA, governance system – board of directors, staff monitoring, and system monitoring – chair/vice chairperson.

These monitoring and assessment tools help to identify problems and to solve problems while still in their infancy. A common problem mentioned for example, is when a client's handwriting is illegible. This needs to be checked and rectified, as it can lead to other larger problems.

Marketing and Promotion

The initial marketing and promotion was crucial to the eventual sustainability and success of Kgautswane Financial Services Cooperative. It was, and still is conveyed to the target market, i.e. potential clients, that this is a serious and credible effort that is worthy of the residents' support and trust. Great emphasis was from the outset placed on the cooperative, member-owned nature of the village bank. Other concepts that were emphasised include:

- Every member is an owner of the institution regardless of income level or position held.
- Every resident within the target area has an opportunity to become a shareholder and the village bank cares about its members and their well-being.

These ideas are marketed in the following manner:

- Members of the village bank in collaboration with the Development Center conduct seminars and workshops. The aim of this is to address outreach, publicity, education and training, and resource development.

Linkages with Other Institutions

Kgautswane Financial Services Cooperative has linkages with the FSA, Technicon SA, - FNB, ROSCAS/Stokvels, Schools, Landbank, Beehive and other village banks. The KFSC collaborates with these organisations in terms of funding, human resources, sharing technologies and expertise, and various other ways as mentioned in the report. This contact is viewed as crucial to the smooth and efficient operation of the village bank

Constraints of the Institution

Constraints confronting the village bank that were identified by the research range from the lack of the most basic amenities and facilities like piped water, a constant source of electricity, a more secure, permanent building and a more accessible road system, to a serious lack of resources, notably funds, to enable the bank to extend its service to the community of small-scale and emerging farmers in the villages. Small-scale agriculture forms the backbone of the local community's economy. The development and fortification of this sector will have an immediate and sustained beneficial impact on the income, and therefore on the status and security of local households. The same applies to small businesses in the villages that desperately need access to funds in order to expand and improve their businesses.

FORMAL MICRO LENDER (Oudtshoorn)

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

Micro lender is a micro-lending business operating in Oudtshoorn for just over five years, providing only credit services to the inhabitants of the local town and its surroundings rural areas. The service offered is that of individual loans only. A woman in the community with

private capital started the business; hence the organisation received no external funding as start-up capital.

Objectives

The goal of the organisation is not based on that of poverty alleviation and economic empowerment, but is simply to become the most profitable micro lender in Oudtshoorn, offering the best interest rates in comparison with its micro-lending competitors.

Staff Structure and Management

There are 12 people working for the organisation, of which 75% are women and all are from the local community. The staff structure comprises a manager, the manager's assistants, agents, who must canvass new clients, and a secretary. Only one of the four employees in managerial positions is a female. Every three or four months, staff undergo training concentrating on the regulatory environment in which the organisation operates. The Micro Finance Regulatory Council (MFRC) regulates the micro lending industry in South Africa. Staff training has placed emphasis on recent MFRC rules and regulations, particularly the National Loans Register (NLR) which will be in place from the beginning of July 2002. The NLR requires that all loans disbursed be registered.

Client Profile

At present the organisation has between 1 000 and 2 000 clients (the respondent did not want to be more specific), with 80% of these being recurring clients. All clients are either currently employed or receive a stable income (e.g. a pension). The majority of the clients are women. Each time a client applies for a loan the client is required to specify the purpose of the loan. Clients request loans for consumption purposes, including large purchases such as furniture, funerals and for business purposes. Business clients consist mainly of informal sector/unregistered businesses and small businesses. Approximately 10% of the organisation's clients are small or medium enterprise business owners. Credit checks and valid bank statements are used to screen prospective clients, although before the new MFRC regulations, loans were given to clients previously blacklisted by other creditors. Clients are also required to complete a form outlining their income and expenditures to assist in determining the amount the client qualifies to borrow. The only collateral required is proof of permanent employment or income.

Loan Tracking

The organisation utilises a sophisticated computerised system used by other organisations in the industry as well, to track loans. The system is capable to instantly produce loan data, e.g. loan repayment rate, bad debts and arrears. Bad debts due to default is quite low, with a default rate of 10%. Rebates are offered for early settlement as an incentive and there is the option of debt rescheduling if customers are unable to repay on time. Common reasons cited for default are loan instalments that are too high (which can occur as a result of income/expenditure forms being completed untruthfully) and clients having insufficient funds to repay both their loan with the organisation as well as those of other creditors. Agents conduct physical visits to monitor loans

issued, and for clients who borrow for business purposes it is mandatory to produce financial reports for evaluation.

Linkages

It is interesting to note that the formal micro lender is not keen to develop links with the formal banking sector as commercial banks are regarded as competitors. However, a link exists between micro lenders and commercial banks in the sense that micro lenders are currently using an electronic debit order payment system managed by a leading commercial bank in South Africa, ABSA. The micro-lending organisation interviewed indicated that of late, it utilises the NUPAY system. As such, its clients have been confined to clients of ABSA bank. This is because clients have to be ABSA clients for monthly payments of their loans to the micro lender to be collected electronically.

The organisation is financially sustainable although its outreach to the poor has been hampered by the incorporation of the NUPAY system confining its target market to clients of one bank only. Outreach is also hampered by the requisite that clients have permanent employment or income. The National Loans Register presents a legal barrier, as loans may not be granted to clients who do not qualify as per the NLR. Thus, it is clear that the really poor, often referred to as the poorest of the poor, or the so called unbankable sector of South Africa, is not targeted and cannot be accommodated by the formal micro lender. This exclusion is further evidence of the inability of both the macro and micro formal financial and banking sector in South Africa, to address the present widespread and systematic financial marginalisation of the really impoverished households in this country.

INFORMAL MONEYLENDER (Oudtshoorn)

Background of the Informal Moneylender

This organisation has been operating in Oudtshoorn for the past three years as a micro-lending business. Prior to that, the individual who started the business, a prominent business and community figure in the black and impoverished areas of the town, extended personal loans to the individuals in the community on a very informal basis and on micro lenders' terms. It was these frequent borrowers who approached the owner of the micro-lending business to "open shop" in order to make finance more accessible to them. To date, no external funding has been used. The owner has provided the initial start-up capital and has continued running the business from the income generated by the lending activities.

Objectives

Loans are generally provided for consumption purposes and funerals. The organisation does not lend money for business purposes or start-up capital. Clients approach this organisation for loans mainly because their incomes are not sufficient to cover their expenses. Pensioners who solely receive the government pension grant often cannot cover basic needs, such as rent, food and clothing. The organisation originated as a response to the material poverty amongst the really vulnerable sector of South African rural society - including the aged, the chronically unemployed, young uneducated single mothers with no support, and the need for finance to

cover basic subsistence needs and provisions. Economic empowerment is not a feature of this type of micro-finance operation because most clients do not use financing for income-generating activities, but utilise credit to finance the deficit between their incomes and expenditures. Their dependence on loans has led to many borrowers spiralling into a debt trap.

Client Profile

The majority of the clients are pensioners from the more rural areas in Oudtshoorn. The loans are small, with the minimum loan size R20 and the maximum that can be borrowed R1 000. The duration of all loans is one month only and, is generally used for crisis management, for example to purchase food and pay for medical expenses and funeral costs.

Requirements for a loan include: proof of address, identity document, three months' bank statements, newest salary slip, bank or pensioner cards which are retained by the lender - a blatant transgression of the relevant legislation.

The interest rate charged is sufficient to ensure the financial sustainability of the organisation. Loans are tracked via a manual system where debt collectors conduct physical visits to borrowers. Between 5% and 10% of clients default every month and the main reason cited for default is when pensioners do not receive their monthly pension grant or death of a client.

Management and Staff Structure

There are three employees working for the organisation, all from the local community. The staff structure simply comprises the owner/manager and two debt collectors who all receive a salary. The organisation operates independently of any regulatory body or any other financial institutions. The only link to the formal sector is the business' saving account held at a local commercial bank.

INFORMAL SAVINGS CLUB (Oudtshoorn)

Background of the Informal Savings Club

An informal savings club was started by a public primary school in Oudtshoorn by the school's governing body. The unfortunate situation in many South African public schools is that inadequate funding often creates the need for the school and the community it serves, to undertake initiatives to increase their finances in order to offer a good quality education to learners.

The school that was included in the research sample is relatively well maintained and resourced. It creates a neat impression and appears to be well managed and run. The school is located in, and serves a low to middle-income community where many parents of learners struggle to cope with paying everyday expenses that include school fees.

Objectives

The main goal of the savings club was to generate income to compensate for the loss in unpaid school fees and to assist with funding of the school's operation and activities. The savings club has been operating for about ten years and has proved to be beneficial both to the school and to the savers.

Basically parents, neighbours and family of learners deposit amounts with the school. Every Monday savings are brought by the learners to the school and are recorded by individual class teachers. It is not compulsory for savers to make a deposit every week; the frequency and value of deposits depend on the savers. Detailed records are kept of individual savers to keep track of the amounts invested for the year and deposit slips are given to savers to acknowledge receipt of the money. The coordinator of the club, also a teacher at the school, deposits the savings into an interest earning account at a local commercial bank. At the end of the school year, savers receive exactly what they have invested and the school receives the interest earned on those savings. It is a system based on mutual agreement and trust between the participants in the saving club and the school. Savers are content that their money, which would otherwise have been spent, is being saved for the end of the year, and that it assists the school that their own children or children from their community attend.

Savings

This is basically the only service provided by the savings club. The school has 1,970 registered learners and it is estimated that 50% of the parents of the learners are using this service. Because of the flexibility of the savings system in terms of frequency and value of deposits (which the formal banking system places limits on), savers prefer this method to the more formal saving products offered by banks and financial institutions. It is also important to realise that the savings club is extremely accessible – an important aspect to people and households often without cars – it is virtually on their doorstep, compared to the banks, which are all situated in the business district of Oudtshoorn, approximately five kilometers away from them.

For many poor people in the community this informal savings club is their only means of saving besides holding the funds themselves. The goal of the savers is to have extra cash at the end of the year's festive season when it is needed. Savers cannot access their savings until the end of the year with the exception of special cases and emergencies. In this way, savers are disciplined to save as well as guaranteed extra money at the end of the year, which is often used for additional household expenditures and improvements, clothing, school requisites for the following year and the usual Christmas expenditures such as food and gifts.

A major constraint preventing the savings club from optimising the interest on the savings is the high bank charges payable to the commercial bank where the savings account is held. Savings are collected weekly from savers and this results in frequent deposits at the commercial bank. These frequent deposits incur high bank charges, which erode the interest that could potentially be earned.

Savings Tracking

The savings club is also constrained from reaching optimal sustainability by the lack of computer software and packages that could be used for recording the savings deposits and transactions. Currently all administration is done manually by teachers during instruction time. The savings club also appear to lack information on alternative investment instruments that could yield higher returns on their deposits. Clearly it would be to the advantage of the savings club if the administrators of the savings club undergo regular and relevant training in this regard.

MTSHABE: A CASE STUDY OF COLLABORATION BETWEEN A RURAL COMMUNITY AND A NGO IN THE EASTERN CAPE.

Background

As was detailed in a previous chapter in this report, Mtshabe village is set in a deep rural agricultural setting characterised by a lack of basic services and facilities. Most of the people in the community are materially impoverished and in a constant struggle to secure enough money to pay for basic foodstuff and other subsistence commodities as well as for services like health, transport and education. For centuries the economic life of Mtshabe has been deeply rooted in small-scale and communal farming with precious few alternatives and sustainable economic activities evident in the area. The economic and social well being of the community is thus intimately interlocked with the relative health and prosperity of the local agricultural economy.

Lending groups

FARM Africa, the most significant rural based NGO active in the Eastern Cape has identified a chronic lack of cash and credit as one of the fundamental constraints preventing small and emerging farmers in the region of becoming more effective, and less vulnerable farmers.

Consequently FARM Africa decided to launch a credit extending scheme in the community. Essentially the scheme entails the provision of funding to the community through *group lending*. FARM Africa has introduced similar schemes or projects in other locations in the Eastern Cape, e.g. Ndonga, and Qamata. The system of lending follows the very familiar model and principles of the Grameen Bank. Funding is made to groups engaged in community projects. Support to community projects includes training in relevant agricultural and technical topics in collaboration with the extension and field programmes of relevant government departments e.g. the Department of Agriculture and Land Affairs. Training offered by FARM Africa is comprehensive and wide-ranging, dealing with *inter alia*:

- Institutional development.
- Project management.
- Organisational development.
- Financial development.

The format of the training is very much hands-on, and is aimed at helping the communities to establish and sustain their own management systems and development processes.

Revolving Fund

The establishment of the Revolving Fund within each community group or development programme is an important exercise. The fundamental principle underpinning the Revolving fund project is that of self-reliance, i.e. it aims to ensure that these agricultural development projects, and ultimately the entire community, develop and sustain financial independence. A revolving fund is set up for each project, using group solidarity. It focuses on the poor and is characterised by simple loan and administrative procedures. This ensures that the local community can take and keep control of the administration of the fund, which guarantees the transparency and accountability of this system of credit extension. It also establishes a high degree of equity between the parties involved, i.e. the different projects and external funding NGO, i.e. FARM Africa. Individual projects can apply for loans which must be repaid monthly. The loans are used for income generating activities chosen by the community group.

Projects in Mtshabe Village

As was mentioned earlier, the people in Mtshabe mainly live off the land. A substantial percentage of the agricultural activities in the village are organised and structured around group activities. These groups have initiated (and still continue to start new ones) a diversity of development projects. These include four maize growing projects, as well as wool farming, a piggery, fencing and community garden projects. Other institutions include a funeral scheme, and a teachers' stokvel.

Management and Structure of Solidarity Groups

Each of these eight groups has a chairperson, a treasurer and a secretary. A group must have a minimum of five members and each group has rules to structure and govern activities and dictate and prescribe repayment of the loans made. These rules were developed by the group members themselves.

There is also an umbrella body (a liaison between the community and FARM Africa), which oversees all the projects. The chairpersons of the groups and the chief of the village constitute this body. The treasurer of this umbrella body works closely with the treasurers of the different participating projects. This involves *inter alia* giving loans and receiving the repayments from the chairpersons of the groups who are responsible for loans paid to their groups.

The treasurer's duty also includes ensuring that the money reaches successful applicants and they do repay it, through the group's chairperson. The groups are not formally registered (this is in progress, assisted and facilitated by FARM Africa). However, they have bank accounts, as this is one of the conditions set by FARM Africa when they apply for money.

Loan Application

The umbrella body also has a bank account in which the community's money is deposited. When the groups apply for the money, they must have a business plan. This constitutes a considerable hurdle to some of the groups. FARM Africa has done substantial training in this regard, but during the fieldwork it became clear that much more capacity building is necessary.

Once an acceptable business plan has been drawn up, the chairpersons of the different groups submit the applications (including the business plan) to the umbrella body for approval. If the application complies with the agreed upon conditions, and the business plan is passed, it is funded.

FARM Africa further supports the different agricultural groups by connecting them with, or linking them to other organisations and institutions that can render assistance, including training in farming methods, as well as other capacity building programmes and training courses. FARM Africa plays an important facilitating role by introducing marginalised rural communities to a variety of much needed resources of information and expertise.

The organisations are non-financial and financial. In the financial organisations, FARM Africa is recommending the groups should they want other financial services (deposits savings) and the necessary interests and information of how they transform to formal organisations in the future. The groups must have bank accounts with the banks and deposit/save in them for lending purposes.

To join the scheme, a membership fee of R10 is paid. The borrower has to belong to a group of which the minimum number is five members. Each group is required to open a bank account as the loan can only be paid into a bank account. The group is then required to fill in an application form and a repayment schedule for the amount they are borrowing and also to submit their bankbook. The group also submits a business plan that has to be approved by the extension officer (government person also member of umbrella body). Interest on any loan taken with the revolving fund is set at 3% per month. The maximum period allowed for repayment is nine months.

The loan is payable in equal monthly instalments. An additional 3% will be charged on the capital amount should one fail to repay the monthly instalment. A group will not be granted a new loan until all of its members have repaid their loans. It is the group's responsibility to ensure that all of its members repay their loans. The maximum amount that can be loaned is R1 000 per individual within a group. For repayment, the group collects the monthly instalments from its various members and deposit it at the bank after which the deposit slip is presented to the umbrella body. Should a borrower die, his/her family takes responsibility for the outstanding amount.

The fact that the groups compile their own rules indicates that the model used by FARM Africa is the solidarity group model where people are responsible for their own development. This is an important step towards sustainability and self-reliance in the communities. The people have fundamental trust amongst them and are able to initiate projects themselves for their own good and if such trust exists, the rest will be easy to overcome and prosperity becomes a reality. If more and more people support the groups, poverty will be reduced fundamentally.

CHAPTER FOUR

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

This chapter interprets and summarises the findings of the field survey. It sets out to interpret the

results generated by, and information obtained through the empirical and field research conducted at the different sites in South Africa, with regard to the four pillars of strengthening local institutions through pooling of local resources, forming stronger and larger networks, better management, marketing, maintenance and monitoring, linking local institutions with formal macro-money markets. A summary of the research site findings relative to each pillar of the OSCAL Model is presented in Table 2 below. Recommendations are made after the summary.

Summary and Conclusions

Pooling of Local Resources

Financial resources

Rural areas experience an outflow of their financial resources to urban areas, resulting in perpetual poverty due to an inability to retain local income, which is caused by the lack of banking services. This survey shows that there are initiatives at the local level in rural South Africa to pool local financial resources for the common good. This is demonstrated by the existence at the local level of both formal and informal financial institutions. Informal financial institutions include stokvels or ROSCAs. In the case study of one ROSCA, locally called Mogodishano in Limpopo Province, results show that members pooled money as well as other household items. There are also other forms of savings societies like savings clubs. The money saved is used at a later stage to invest in business or is used for consumption purposes.

All the study areas also have burial societies, which cater for members' needs in this regard. As was referred to more than once in this report, the impact of the AIDS pandemic in South Africa has placed a nearly intolerable financial burden on impoverished rural livelihoods. These households find it impossible to cope with the extremely high costs associated with funerals without the assistance of a burial savings scheme or death insurance policy. In rural South Africa, especially in African culture, enormous significance and importance are attached to the proper execution of the funeral process. Burial societies, by enabling poor people to bury their family members according to cultural and normative prescriptions, perform a very important socio-cultural function in this society.

A closer examination of ROSCAs indicates that members do not only save money, but they also pool goods to build up their asset bases. The pooling of local resources to cater for the needs of members enable them to make good/durable investments because other savings are used to take care of consumption needs.

Formal institutions in this survey constitute the two village banks (Mathabatha and Kgautswane) and a moneylender (Oudtshoorn). The village banks also empower people to save because they introduce the concept of secure saving and actually take the service to village. Commercial banks in South Africa are unable to service small account holders, with the result that over 50% of the South African population is not catered for in terms of banking services (FSA Annual Report, 2001). The village banks enable the rural communities to mobilise and pool together financial resources, which are in turn made available to the local people in the form of loans and other services. In Mathabatha village, for example, people used to hide or bury their money until such time as they would need it, before the introduction of the village bank.

Material resources

Results of this study show that material resources are pooled together only to a limited extent. Informal institutions pool together material resources although this is mostly limited to consumption purposes. This is, however, also limited to household needs with regard to house ware and groceries. The principle, however, does exist and can easily be extended even to productive resources. The pooling of material resources is mostly practiced in the informal stokvels or ROSCAs. In the example of a ROSCA (Swaranang) used as a case study, members pool together kitchenware that is mostly used for social functions. They also pool together groceries in order to help ease the pressure on limited household resources.

Over and beyond this, other groups have come together in the three rural communities to work on community projects to meet common needs. These groups include the home-based care project, education centers, tree planting, arts and crafts, gardening and baking. These community projects enable group members to pool material resources. FARM Africa services a diverse selection of developmental projects in Mtshabe that were all started by the community.

These projects demonstrate the ability of community members to mobilise material resources for economic and other purposes. This is demonstrated in all but one of the case studies. In the Mathabatha, Kgautswane and Mtshabe areas micro-financial services are related to, and part of, other (bigger), developmental initiatives and structures and also service other non-financially orientated community-based groups and organisations.

The only exception is Oudtshoorn where lending is done on an individual basis by moneylenders. The moneylenders operate alone, according to strict business guidelines and not according to altruistic principles. They do link up with other organisations and they do not lend for the purpose of alleviating poverty but for enriching themselves and often at the expense of the poor.

Human resources

The village banks in this survey utilise local human resources both in terms of planning, monitoring and implementation of activities. The study clearly shows how the local people in Mathabatha and Kgautswane visited other areas, and inspired local people and NGOs in these areas to set up village banks using their own *human resources*. *The local champions receive the necessary training in various skills like market research, bookkeeping and monitoring from FSA. Local board members carry out internal auditing to ensure the bank is conforming to standards and licensing requirements.* Apart from its training function, the FSA's involvement is limited to the required verification, monitoring and auditing. The village bank boards make their own decisions and manage their own affairs. Sustainability of any community-based institution depends on the effective participation of community members who should own and control the process and the structure. The institutions (*village banks and NGOs*) that were researched in this study all appeared to have adhered to this principle. They chose to identify, capacitate and work with local human resources and skills. To illustrate this point, several years ago, the Integrated Community Building (ICB) programme was formed at Kgautswane to conceive and implement

projects aimed at community improvement. Led by Clara Masinga, the ICB has achieved some commendable successes. “What we learned in the ICB Programme course is that the success of any community, lies in the identification and utilisation of good local leadership skills, coupled with consultative abilities,” according to her.

Utilising traditional and indigenous resources or knowledge

Results emanating from research studies conducted in rural communities of developing countries are increasingly pointing to the strategic importance of utilising, acknowledging and incorporating existing and indigenous systems, practices, beliefs and knowledge when conceptualising and implementing developmental programmes and projects. Indigenous “stuff do not have to battle to become acceptable, it is part-and-parcel of the social and cultural fabric and texture of communities. Local people and/or groupings are significantly more willing and able to embrace and accept foreign and new ideas if these innovations are “in touch” and in harmony with familiar concepts, conventions and principles.

This is undoubtedly also the case as far as traditional arrangements of saving and credit extension in South Africa are concerned amongst stokvels (ROSCAs), credit unions, and moneylenders as well as, so-called money keepers, families, relatives and friends. Culturally well-known and socially entrenched, informal financial and credit institutions in South Africa have been a major source of creating and providing the type of financial services well suited for and needed by rural people. Rural people often prefer this kind of informal and localised credit and savings arrangements because it is more trusted, comprehensible and convenient.

Comparisons of transaction costs for informal and formal institutions in South Africa show that access to informal finance is easier, transaction costs less and there is a greater willingness to handle the small amounts often needed by clients (See Table 1 in Chapter Two). There is very little red tape to deal with in informal arrangements. For example in Lebowa and Kangwane survey results indicate that 70% and 60% of credit transactions respectively are based on informal arrangements (LAPC, 1993 quoted in Bonti-Ankomah and Chamba, 2000).

In the case study the traditional name for ROSCAs is Mogodishano. The number of group members ranges between five and ten. This research shows that the informal systems continue to exist and other studies show that most of the poor in South Africa seem to prefer informal traditional arrangements because they are more convenient.

It is also interesting to see that good-working relations exists between traditional and more modern and formal credit and savings systems. For example, in Mathabatha and Kgautswane, the informal traditional groups have opened savings accounts with the village banks. The village banks have simply reinforced what already existed in the communities and did not replace the traditional arrangements.

It is important to note that in all three case studies, the micro-finance institutions are mostly working with existing groups in the various communities. In fact the micro-finance institutions only came to reinforce what already existed. The various micro-finance groups own and support their micro-finance initiatives. The groups are self-selecting and members have built mutual trust over time so that repayment and mutual accountability is assured. The group members depend on

each other not only financially but also for moral support in times of crisis. Examples of this are the ROSCAs and burial societies. Group sizes vary between five and ten members per ROSCA while burial societies can accommodate as many as required.

Group Formation and Networking

In the Eastern Cape FARM Africa has encouraged the formation of groups for the purpose of not only providing group guarantee for credit, but also for helping them pool and better manage some local resources, e.g. livestock and grain production and vegetable gardening. In fact the revolving loans are granted to groups who already have defined projects and drawn up business plans.

Other groups that save with the village banks are social clubs and projects already engaged in various economic and social activities. For example, Mathabatha village bank services 27 social clubs including burial societies and eight community projects.

In all the cases studied there is evidence of networking with other organisation in order to facilitate operational efficiency. The Mathabatha village bank has a strong relationship with the Kgautswane village bank. Members of the two village banks visit each other on a regular basis sharing experiences and valuable information. They also train each other in different aspects of village banking and management. Members of the Mathabatha village bank, for example, are also helping communities in the nearby villages to set up their own village banks. They are involved in marketing the idea of village banking by going out to those communities and teaching them the advantages of community driven financial services.

Reinforcement of Micro Finance to Advance the African Private Sector (possibilities to work with the formal macro money markets with special reference to women's empowerment)

Village banks are community-based institutions that are inevitably linked to the formal financial sector through which community members can obtain financial services. One of the requirements set by the FSA is that the village banks link with the macro-money market. Initially this relationship is for the purpose of providing some training, technical assistance and overseeing, although it is expected that the village banks could later utilise their savings as surety for sourcing of capital for lending. Both village banks studied in this report are linked to the formal banking sector. For example the Mathabatha village bank is linked through ABSA bank, while the Kgautswane village bank is linked through the FNB. The village banks deposit their money in interest-earning accounts at these commercial banks. Dividends are paid to village bank members from time to time. In the South African micro-finance community, village banks are viewed and afforded the "status" of formal institutions, albeit with very unique characteristics, among others the fact that they are community based and controlled.

Informal institutions like the ROSCAs and burial societies are indirectly linked to the formal macro money markets through the village banks. The lending groups in the Eastern Cape, discussed in this report, are eligible to a loan only if they have an account with a commercial bank.

In the case of both the Kgautswane and Mathabatha village banks, it is noted that respectively approximately 80% and 70% of the clients are women. ROSCAs are also predominantly women driven institutions. At the level of informal financial institutions therefore there are women making decisions concerning the management of household finances. This empowers women because space is created for them to make some very important decisions concerning their financial destiny and subsequent well-being. The gender composition for the village banks, as tabulated in Appendix V, is further proof of the important role played by women in village banks.

The Mathabatha and Kgautswane Financial Services Cooperatives have linkages with the Financial Services Association (FSA) that acts as a regulator of the village banks. But over and above this, the FSA provides capacity building and training for the village banks for the purpose of building sustainability. The village banks also have link banks at which they maintain accounts. In the case of the Mathabatha village bank, it is ABSA while Kgautswane maintains an account with FNB. The village banks have not borrowed from these banks as yet. In Kgautswane, Teknikon SA, was responsible for most of the training and procurement and installation of equipment; FSA provided technical, training and management support. Both village banks have linkages with the leading community programmes in Mathabatha and Kgautswane namely the Fanang Diatla and the Kgautswane Multipurpose Community Centre (MPCC) respectively.

Various community projects use village banks for the safekeeping of their savings and finances. By saving through the village bank, community projects improve both their own capital base as well as that of the village bank. Thus, there exists a healthy reciprocally advantageous relationship between the two entities. Both village banks have linkages with each other and exchange visits. This ensures mutual learning and a stronger hand in bargaining for a common cause. ROSCAs/stockvels are also the other links that village banks have, though informal. The formal and informal moneylenders also have linkages with the formal banks.

On the whole, linkages of the case study institutions with other organisations led to collaboration in terms of funding, human resource development, and sharing of technologies and expertise.

Management, Marketing, Maintenance and Monitoring (prioritise operational efficiency)

The village banks, located in the remote and deep rural areas of South Africa, have deliberately targeted the poorest people, households and livelihoods as part of their vision and philosophy of empowering the marginalised rural areas through engaging in and facilitation of development initiatives in these areas.

Village banks take services to people and communities classified by the commercial banking sector as “unbankable”, as well as to areas described by the latter mentioned as too remote and inaccessible, and financially not worthwhile. Village banks decided to prioritise savings mobilisation. Through this they wanted to establish the habit of saving among the poorest households. However, the fact that village banks engage in relatively straightforward and un-diversified services and operations, the fact that the value of transactions are modest and that clients are mostly so-called financially unsophisticated with limited or no formal education, does not mean that these banks can operate in a financial and administrative haphazard, undisciplined

and unprofessional fashion. For village banks to establish themselves as legitimate, credible, trustworthy and sustainable community based institutions, it is imperative that they operate in an efficient, professional and transparent way, offering a consistently high quality of service to their rural clients.

The village banks included in this research were started for various reasons. However, these banks had to make sure from the outset that they offer products and services that are sought by rural communities, and that these are offered in a format that is aligned to the needs and style of rural consumers. Village banks deal with a captive market. The two banks interviewed, realised from the outset that they perform a strategic financial and social service by offering banking facilities on peoples' doorstep, eliminating the need to travel to commercial banks. In most cases, the transportation costs of traveling to and from the commercial banks exceed the amount to be deposited. They further realised that if they could break through the inertia to change, something rural villagers are well known for, the village bank will be widely supported and that the concept will market itself through the products it offer - e.g. village banks are able to accommodate the poorest and the unemployed who have no collateral. Banks require that clients have a valid identity document and a relatively high minimum deposit. The various informal micro-finance groups like the ROSCAs and solidarity groups encourage asset owners because it encourages people to come together and pursue projects that can be funded by the MFIs, specifically FARM Africa.

The village banks also seek to empower women upon whom a lot of family responsibilities rest. Appendix V shows that the women form a high percentage of clients participating in the informal micro-finance sector. The auxiliary services that village banks offer to communities, i.e. funeral and insurance benefits are of strategic importance to their proper functioning. Funerals especially, are a huge expense and without coverage, families are faced with a financial burden, which in most cases, they cannot afford. The severity of HIV/AIDS has a dramatic impact on the mortality rate. As such, the village banks encourage even the poorest members of the community to save. It is anticipated that with increased savings, the village banks will accumulate capital, which in the end will enable them to be self-sustaining.

In the case of both village banks included in this study, the FSA clearly played a pivotal role in the continuous training and empowerment of the staff in fulltime employment, the volunteers and board members of these banks. An important module that forms part of the curriculum deals with marketing and product development. Those interviewed at the two village banks expressed a high degree of satisfaction with the training they received from the FSA, and attributed their ability to develop appropriate products for their clients to the focused and relevant training offered by the FSA.

Because of the general low levels of existing skills and capacities amongst the locals that are drafted for staff and volunteers and board members, sustained training is imperative. Training required by those involved in the village banks is often also generic and broad – simply because of the lack of task differentiation board members, staff and volunteers are expected to perform a wide variety of duties, e.g. most board members of both village banks are trained to help with the daily running of the village banks.

The institutions are at differing levels of developing management information systems. The formal moneylender utilises a computerised system while the village banks use a manual system.

Table 2: Application of OSCAL Micro-finance Model: Identification of major research site findings in South Africa

Principle 1: Prioritise Local Knowledge and Participatory Planning	Principle 2: Prioritise Group Formation and Networking	Principle 3: Prioritise Operational Efficiency	Principle 4: Reinforce Microfinance to Advance African Private Sector
<p><i>Financial Resources:</i></p> <ul style="list-style-type: none"> • An outflow of financial resources (savings) to urban areas, without reciprocal investment in rural areas • Existence of pooling local financial resources for the common good (e.g. Stokvels/Roscas; Savings Clubs; Burial Societies) • Prevalence of members pooling together goods and building up their assets base • Concept of securing savings envisaged as village banks take their services to the local community • Microfinance services shared to and part of other developmental initiatives • Rural financing experiences also shared with other non-financially orientated community based groups and organizations • Exception is Oudtshoorn site where lending is done on an individual basis by moneylenders. 	<ul style="list-style-type: none"> • Evidence of networking with other organisation to facilitate operational efficiency well established <ul style="list-style-type: none"> - Members of two different village banks meet each regularly sharing experiences and information - Training on different aspects of village banking management takes effect - Assistance given to nearby villages in establishing their own village banks - Marketing of village banking financial services takes place • Formation of groups encouraged <ul style="list-style-type: none"> - Provides group guarantee for credit - Groups better manage local resources - Revolving loans given to groups who have already defined projects and business plans - Social clubs and burial societies established (27) - Community projects in action (8) 	<ul style="list-style-type: none"> • Village banks take services to people and communities who otherwise classified as “unbankable” • Village banks decided to prioritise savings mobilisation • Village banks realised that they perform a strategic financial and social service by offering banking facilities on people’s doorstep • Transportation costs of travelling to and from commercial banks exceed the amount deposited, thus village banks realised they break through the inertia to change by marketing itself through the products they offer (e.g. they could accommodate the poorest and unemployed) • Women form the largest percentage of clients • The FSA played a pivotal role in the continuous training and empowerment of the staff in full time employment, volunteers and board members • An important component of the training module deals with marketing and product development • The formal moneylender utilises 	<ul style="list-style-type: none"> • Village banks are formally linked to the formal banking sector through the Financial Services Association • FSA provides training, technical assistance and oversight service • FSA acts a regular of village banks • Informal associations (e.g. Rosca’s and burial societies) are indirectly to the formal sector through the village banks. • Village banks are used by community projects for the savings and finances, thus improving their own capital base as well as that of the village bank • A healthy reciprocal relationship have developed between village banks and community organisations in terms of funding, human resource development, sharing technologies and expertise

		a computerised system while the village banks use a manual system.	
<p>Material Resources:</p> <ul style="list-style-type: none"> • Material resources are pooled together to a limited extent for consumption purposes (houseware and groceries) • Rural communities (three) have joined and participated in community projects to meet common needs (e.g. home-based care project, education centers, tree planting, arts and crafts, gardening and baking) 			<p>Gender issues:</p> <ul style="list-style-type: none"> • About 80% to 70% of the two village banks clients' are women. • ROSCAs are predominantly women driven institutions • At the informal financial institutions women in control of and manage household finances
<p>Human Resources:</p> <ul style="list-style-type: none"> • Local skills are shared between communities in terms of planning, monitoring and implementing village banking activities • Training to some extent provided by government through its Financial Services Association • Community based organizations nurtured by effective participation of community members on a voluntary basis • Adherence to traditional indigenous systems, practices, beliefs and knowledge embraced: <ul style="list-style-type: none"> - Traditional arrangements not replaced but reinforces village banking because system based on mutual trust - Repayments assured because of mutual accountability - Group members dependent on each 			

other financially as well as for moral support			
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RECOMMENDATIONS

The suggested recommendations are grouped as two interrelated and overarching components. The first set of recommendations pertains to the individual research sites. The second set of recommendations is of a more general and generic nature, applicable to micro financing in South Africa.

Research sites

The findings of this research indicate that there is a need to prioritise a number of aspects of operational efficiency. For example, the village banks do not at the moment charge interest rates to cover costs. Informal group based arrangements also charge minimum or no interest. There is therefore a need for MFIs to encourage the incorporation of interest rates in order to enhance self-sustainability of village banks and other group-based credit arrangements. At the moment, the institutions are depending to a large extent on external funding. There is a need to raise funding locally rather than to look for donors as this can perpetuate the dependency syndrome.

Evidence from the research done in South Africa shows that the penetration of formal MFIs to rural areas where most of the poor live is inadequate. Therefore, donors and other stakeholders need to support local institutions owned by communities like village banks because these institutions are able to reach rural areas and hence are more appropriate, and sustainable instruments for poverty-reduction.

Although at an informal level (ROSCAs) there is evidence of pooling of local resources, it is restricted more to consumption purposes than business purposes. This is, however, a good indicator that the concept is not strange. Micro-finance institutions in South Africa therefore need to encourage clients and support the pooling of material resources.

Findings of this research show that not all local institutions have access to the Internet with the result that information flow is affected negatively. There is a need to support local institutions by way of introducing information technology even to the rural based institutions. This will enable the institutions to have access to and disseminate important information.

Evidence from this research shows that economic empowerment is not the goal of moneylenders but rather to make a profit for themselves. Since the objective of moneylenders is based on interest seeking activities and not on altruism, there is a need for appropriate regulation by government. Their loans usually finance the difference between clients' incomes and expenditures which often leads to a debt trap for most clients. Lending criteria of moneylenders automatically excludes the poor who do not have a salaried income. Moneylenders are therefore not the best intervention as they tend more to drain local resources rather than invest in poor peoples' well-being. This study shows that these are more prone to prosper in urban areas where

social cohesion is relatively poor to sustain-group based micro-finance support systems. Therefore micro finance in urban areas should seek to facilitate the formation and networking of groups. Micro finance should also strengthen and promote micro-enterprise development by offering loans to micro-entrepreneurs who have no salaried income. This will increase outreach to the poor.

It is increasingly becoming clear that not many micro-finance institutions are sustainable and hence there is more emphasis on strengthening local, community owned institutions in a number of ways. Stakeholders and donors in micro finance need to direct resources to appropriate interventions that encourage and build upon local know-how and organisation, as this is more sustainable than introducing new systems that have little or no relationship with local institutions.

There is inadequate networking between community-based institutions and the wider micro-finance world. Networking is mostly restricted to between village banks and at an informal level. The community based institutions need to be formally incorporated into the wider micro-finance network in order to make them stronger and more efficient. This will enable institutions servicing the poor to acquire and share information on technology, experiences and best practices.

General

Micro-finance Institutions should Encourage the Formation of Groups in Rural and Urban Settings

Group solidarity has proven to be an effective micro-finance strategy in rural settings where human and material resources are pooled. Using pre-existing networks of kinship and community organisation has proven to greatly facilitate the implementation and success of micro-finance activities. The Grameen Bank model is an example of this. Micro lenders who lend on an individual basis are the dominant source of micro financing in non-rural areas. Based on the findings in Oudtshoorn, most micro-lending operations deepen the poverty levels of the poor. It is for this reason that alternative approaches to credit and saving provision in urban and peri-urban areas should be considered. Micro-enterprises and those who are self-employed who cannot access financing individually stand to benefit from group guarantees by pooling their financial resources to meet collateral requirements.

The traditional groups, societies and clubs found in rural areas all over South Africa is an indication of how important group formation is. People tend to form a group instinctively to perform any kind of activity ranging from a savings club to any other economic venture and community development programme. This is the essence to the phrase “pooling of resources”. Thus, micro finance institutions encourage group formation not only as a guarantee for their loans but also as an instrument to help various community development programmes.

Government Involvement in Partnership Formation Through Procurement

Partnerships can be formulated between the NGOs, formal financial institutions and the non-formal micro-financial institutions, facilitated by the government. The government can use its

procurement to join and build these parties. Informal institutions can be coached by the formal institutions for a certain period of time, feeding them with information and skills, exposing them to the other areas of operations in the same field of finance, and sharing experiences. In return the committed institutions receive the procurement in the form of a subsidy.

Savings Mobility

The government should formulate a policy that encourages people to save money. Savings play a significant role in economic growth. Investment depends on the rate of savings. This can stimulate domestic production demand, creating more jobs and result in GDP growth. Government should increase its expenditure for a certain period to promote saving by its citizens.

Network Formation

Among the micro-financing institutions' services and operations, there are common aims and objectives, to serve the poor and help them develop sustainably by achieving financial and food security. These organisations can have different capacities and resources. Should these resources be brought together and the organisations strengthened, poverty can be reduced. The organisations should share information, share skills, come together in workshops and training, exchange managerial operations and skills, develop their computer operations, etc. All this need a body formed by these organisations as a center for networking with the help of the government and the formal institutions.

Charge Interest Rates that Cover Operational Costs.

The micro-financing institutions need to cover the costs they incur. For that, they should charge high interest rates to cover these costs and grow. There is a need for independence and if they do not charge rates that will cover the costs, they will keep on depending on the funding for operations. Interest rates are reasonable and comparable. Village banks could apply the following guidelines:

Setting appropriate interest rates is a matter of estimating the unit costs of administration, loan loss, funds, and capital. A good set of guidelines is found in CGAP Occasional Paper No. 1. There, it is noted that "the annualized effective interest rate (R) charged on loans will be a function of five elements, each expressed as a percentage of average outstanding loan portfolio: administrative expenses (AE), loan losses (LL), the cost of funds (CF), the desired capitalization rate (K), and investment income (II)" (CGAP Occasional Paper 1, p.1):

$$R = [(AE + LL + CF + K) / (1 - LL)] - II$$

Typical ranges for MFIs in Asia on these items are:

	Administrative Expenses	Loan Losses	Cost of Funds	Desired Capitalization Rate	Investment Income
Range	15%-25%	2%	12%-15%	8%-10%	2%

Source: (CGAP Occasional Paper 1, p.1)

Based on the above formula, this means that appropriate interest rates for MFIs working with the poor in Asia range between 35% and 51% per annum.

MFIs should aim for Sustainability

Achieving sustainability is one of the main challenges facing any micro-finance institution. The ability to survive on its own is a sign of institution's maturity and reliability, and an ensurance of future growth. Micro-finance institutions usually rely on outside funding as a result of many different reasons. Frequently, it is because of poverty alleviation programmes supported and set up by governments and local and non-local non-governmental organisation. While initiating these institutions is good for development, it could lead to dependency syndrome. Subsidising the firms for the first few years are common and necessary. Most micro-finance institutions even like the famous Grameen Bank in Bangladesh still rely on outside subsidies. The village of Mathabatha is unique in a sense that it has never received any kind of continued financial support besides the initial donation done for accessories by the FSA. The bank was started by the community, for the community of Mathabatha. It has the basis to become fully sustainable, but it is still a long way from achieving that. It is believed this bank still needs some funding to accelerate its growth to sustainability and to support the establishment of a new product, mainly a loan service.

Government should play a more Active Role

Funding does not mean money only. What Mathabatha village bank, along with many other similar village banks, needs are also educational advice and other support. Education in terms of teaching the community how to operate a bank and technical advice on how to follow their savings' progress are really valuable to the community. In addition, the village banks want to participate in other community development programmes such as illiteracy campaign, health education and most important of all teaching the community some business skills and management. This responsibility fall upon the Government of South Africa but more specially the government officials in each province. They should take an active part in the village banks and insuring that these tiny banks survive to enrich the poor communities in the rural areas. Closer supervision and performance appraisal would be valuable to ensure the sustainability of these village banks.

The government should play a clear role in formulating policies that protect all financial institutions that are willing to work with the informal micro-finance organisations. Their scope of operations should be widened to embrace these micro-organisations. The department of Trade and Industry together with the Minister of Finance can play a large role in this regard.

Big Banking Institutions should Look at these Small MFIs

It is also the responsibility of the formal financial institutions to support and look after these village banks. By just building an ATM or a link bank in the rural areas is not going to help the poor community that much. It is unaffordable to the community and beyond their capacity. Formal institutions should take the small micro-finance institution under their wings and support them not only financially but also provide them with technical advice on how they to manage their money.

FSA is doing a very commendable job with poverty alleviation programmes. It is helping the rural community to set up village banks and providing them with initial funding.

Empowerment of Women should be Encouraged

The empowerment of women should also receive a lot of attention in the process of development. The results of the survey show how actively women participate in all community endeavors. Most clients of the village banks are women. They are diligent savers at the village bank and are always a member of one savings club or another. They try their hands at different business ventures in order to feed their families. These women, it can be said, are the engines of growth in the rural communities and as such should be receive full consideration. Literacy programmes and business management skills are really imperative if women are to be fully utilised.

Indigenous Knowledge should be Tapped

Traditional craft making and other indigenous skills could be a great source of income to the poor communities if properly encouraged and incorporated into development programmes. It can also be a way of supporting the village bank through the increased savings and the loan transactions. In addition, since most rural areas are led by traditional chiefs and follow strict cultural rules and formalities, it would be advantageous to work in cooperation with village authorities to ensure the smooth operation of development programmes.

Potential for Future Research into Urban Micro Financing

There have been many success stories of rural micro-finance initiatives that have both empowered and reduced poverty levels among the poor. Factors such as solidarity groups, networking and indigenous institutions, which have contributed to the success of rural micro financing are often not present in urban areas where low levels of social cohesion exist. Moneylenders as an intervention to provide credit services for the urban poor often leads to spiraling debt situations. Methods to transform the survivalist role that moneylenders play in households into a development oriented initiative needs to be investigated. The provision of micro credit should take place in a context of promoting small business and self-employment as a tool for alleviating unemployment and poverty.

Improved Regulation Among Moneylenders

The case of the informal micro lender in Oudtshoorn provides rationale for regulatory authorities such as the MFRC to increase their capacity to deal with unregistered lenders, specifically those

who exploit borrowers by charging unusually high interest rates. Marsh and Saran (1999:35) cites the following reasons for the ineffectiveness of the MFRC: no specific function for dealing with moneylenders and consumer protection seen as a secondary function. The practices of such micro lenders are not in the best interests of the poor and proactive action needs to be taken to ensure consumer protection. The regulatory framework should ensure that markets operate competitively and facilitate micro-finance operations.

Encouraging Community-based Savings Schemes

Incentives should be provided to community-based savings schemes to encourage saving and investment. One such incentive could be rebates on bank charges for schemes with frequent deposits. If such a link was created between micro-finance initiatives and the formal banking sector it would reinforce a savings culture among the poor. The model of savings used by the school in Oudtshoorn could be adapted for use by schools and communities facing similar socio-economic conditions, provided there is a link with a formal commercial bank.

The Link between Micro Finance and Micro Enterprise needs to be strengthened

Despite an adequate supply of consumer credit in Oudtshoorn, the research findings concluded that credit for productive purposes is in short supply for those with no conventional collateral. Alternative mechanisms could be used such as group guarantees where business owners are mutually responsible for repaying loans, machinery or value of contracts at worth. Application procedures for finance should be simplified as some potential clients are eliminated because of lack of business plans or records. Many informal micro entrepreneurs do not have the skills required to keep proper records, it is therefore, recommended that provision of credit for small and informal businesses be accompanied by basic business training.

Market Research

Market research is an activity designed to understand the environment in which the MFI is operating and to identify the needs of the MFIs clients and potential clients. According to Write (2000:4), market research is usually conducted with a view to responding to those needs and opportunities by

- improving current marketing/ promotion/ outreach activities;
- refining existing products;
- developing new products;
- re-engineering delivery systems.

The village banks can improve on their marketing activities and focus more on the points listed above.

Avoid External Dependency

The argument for institutional financial self-sufficiency is well known:

"... as MF[I]s begin to wean themselves away from their dependence on subsidies and start to adopt the practices of good banking they will be forced to further innovate and lower costs. Not

only may this ultimately mean better service for the poor borrowers, but more importantly, it is argued that as MF[Is] become profitable they will be able to increasing[ly] tap into the vast ocean of private capital funding. If this happens the micro-finance sector as a whole will soon be greatly leveraging the limited pool of donor funds and massively increase the scale of outreach in ways that is hoped it could begin to make a truly significant dent on world poverty" (Conning, 1998:2).

Besides relying on the support organisations such as FSA, and Technikon SA, the Kgautswane village bank has managed to wean off donors such as the World Bank.

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APPENDICES

APPENDIX I – Research Project Questionnaire

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

A. **BACKGROUND INFORMATION**

1. What type of institution is your organization?
 - a. Microfinance business
 - b. Credit Union
 - c. Community based organization
 - d. Village Bank
 - e. Commercial Bank
 - f. Other. Please specify
2. What kind of services do you offer? (*Mark all that apply*)
 a. Credit b. Savings c. Training/counseling
 d. Insurance. Specify type _____
 e. Other. Specify type _____
3. For what reasons did you start this organization?
4. How long has the organization been operating?
5. What is the mission statement of your organization?
Have no mission statement.
6. What are the goals of your organization?
7. Do you work in
 - a. Urban areas
 - b. Rural areas
 - c. Rural and urban areas
8. Who started this organization?
 - a. Government
 - b. Private Non- governmental organizations
 - c. IndividualsPlease specify.

B. **FUNDING**

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

1. Did your organization receive any outside funding when it started?
2. If yes to the above question, from whom?

3. What type of funds are these?
 - a. Grants
 - b. Share capital
 - c. Other, specify. _____
4. What are these funds used for in the organization?
 - a. Grant loan capital
 - b. Grants for operating expenses
 - c. Donation of building or equipment
 - d. Other, specify.
5. Does the organization at present still receive funding from an outside donor?
6. If yes to Q5, please indicate the following:
 - 6.1 Name of the funder: _____
 - 6.2 The size of the donation: _____
 - 6.3 How the funding is used in the organization: _____
7. How important is outside funding to the working of this organization?
 - a. Very important
 - b. Important
 - c. Of very little importance
 - d. No importance

Please explain your answer.
8. What are you doing to decrease the level of dependency on donors (e.g. charging for training and administration costs)?
9. Do your donors set conditions for funding?
10. If yes to Q9, what are these conditions?
 - a. Geographical location of clients
 - b. Level of poverty of clients
 - c. Economic activity of clients
 - d. Other, specify _____
11. Do the donors monitor your organization through: *(mark all that apply)*
 - a. Financial reports
 - b. On site visits
 - c. Performance appraisal
 - d. Other. Please specify _____
12. In your opinion, will this organization be able to function well without any outside funding in future? a. Yes b. No c. Uncertain
13. Additional comments regarding funding.

C. STAFF AND STRUCTURE OF THE ORGANIZATION

1. How many people are working for this organization at the moment?
2. How many are from the local community?
3. Briefly explain the structure of your organization? (Decentralized; centralized management).
4. Explain the decision making process.
5. What percentage of your staff are women?
6. What percentage of the management of the organization are women?
7. Do the staff of this organization
 - i. Receive salary/wage

- ii. Are all volunteers
- iii. Combination of the above two
- 8. Where do staff reside? (Voluntary; non-voluntary)
- 9. How often does the staff undergo training?
 - (a) Very often (+/- once a month)
 - (b) Often (+/- every two months)
 - (c) Seldom (3 - 4 months)
 - (d) Very seldom (+/- once a year)
 - (e) Never
- 10. Describe type of training programs that the staff received.
- 11. Who conducts the training courses?
- 12. Trainers from local area who do it free of charge
- 13. Trainers from local area who charge a fee
- 14. Experts from outside who do it free of charge
- 15. Experts from outside who charge a fee
- 16. In your opinion, does the training help the organization to do its work better?
- 17. Yes b. No c. Uncertain

Please motivate/explain.

D. THE CLIENTS

1. What is your target market? (*Mark all that apply*)
 - a. No client specific targeting.
 - b. Poverty targeting.
 - c. Gender Targeting.
2. Why are these people targeted?
3. How many participants does your organization have at the moment?
4. How many active clients (not more than 3 month in arrears) do you have?
5. What percentage of your clients are women?
6. Does your organization lend money for business purposes?
7. For business lending activities, which types of clients does the organization lend to? (*Mark all that apply*)
 - Informal sector / unregistered businesses
 - Registered businesses with less than 5 employees.
 - Registered businesses with more than 5 employees.
 - Other. Specify
8. What percentages of your clients have registered businesses?
9. Do you screen/evaluate prospective clients/participant that want to join your organization?

If yes, please explain the criteria's you use.
10. Do you recommend your clients for higher loans to formal financial institutions?
 - a. Yes b. No

Explain your answer.

E. GROUP COMPOSITION

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

GROUP LOAN

2. What is the average size of a group?
3. How many groups do you currently have?
4. Are the groups registered?
5. Are you aware of informal or traditional groups already existing in local area? E.g. Stokvels. a. Yes b. No
If yes, name them
6. Do you work with already existing groups? a. Yes b. No
If yes, how many are they?
Please explain your interaction with the groups
7. Do you facilitate group formation?
a. Yes b. No
Please explain your answer
8. How many new groups are established in your organization?
9. Do you get your groups to register after they are formed? a. Yes b. No

INDIVIDUAL LOAN

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

F. SERVICES

CREDIT SERVICE

1. Do you provide loans for: (*mark all that apply*)
[] a. Start ups
[] b. Working capital
[] c. Consumption
[] d. Other specify
2. What is the loan size? Minimum Maximum
3. What is your rate of interest?
4. What costs does your interest rate cover? (*Mark all that apply*)
[] a. Operational costs [] b. Inflation
[] Other. Specify
5. Are there any competitors (other similar institutions) in the area?
6. If yes, do they have an influence on the interest rate charged?
7. What systems do you use to track your loans?
a. Manual b. Computerized
8. If computerized is it
a. Package developed for your organization
b. Ready made package used by other organizations as well

9. Can your MIS produce loan data at any given time (e.g. loan repayment rate, arrears, and bad loans)?
 - a. Yes
 - b. No
10. Any other monitoring and assessment tools? E.g. Effective budgeting; physical visits to borrowers; reporting on daily activities; daily financial recording; audits; governance system; staff monitoring; system monitoring.
11. Do monitoring and assessment tools or the management information system help identify problems in their infancy?
 - a. Yes
 - b. No
 Please explain your answer.
12. Did you conduct any market research before you started your lending activities?
 - a. Yes
 - b. No
13. If Yes to Q12, What type?
 - a. Used questionnaire or interview schedule
 - b. Used participatory method
 - c. Both a. and b.
 - d. Other, specify
14. How is the institution promoted/advertised?
15. What kind of market research is undertaken?
16. Do you feel that marketing the institution is beneficial in terms of outreach?
17. Do you offer any kind of incentive to insure repayment of loans?
 - a. Yes
 - b. No
 If yes, Specify.
18. What is your default rate?
19. In your opinion, what are the most common causes of default?
20. Does your organization monitor the loan it issued through: *(mark all that apply)*
 - a. Financial report
 - b. Physical visits
 - c. Performance evaluation
 - d. Advice on the business plans

SAVING SERVICE

21. In your organization, is saving
 - a. Compulsory
 - b. Voluntary
22. Are savings generated
 - a. Internally, from members.
 - b. Externally, from non-members.
 - c. Both externally and internally.
23. Do clients earn interest on their savings deposits?
 - a. Yes
 - b. No
 If yes, how much? _____
24. What does your organization do with the accumulated savings of clients?
 - a. Use for on lending
 - b. Deposit them in interest earning accounts
 - c. Invest in local community development programs
 - d. Invest in outside communities

- e. Other specify
- 25. Are the savings easily accessible to clients on demand?
 - a. Yes b. No
 If not, explain why
- 26. Do you have any knowledge of traditional informal or other formal of ways of saving used by your clients?
 - a. Yes b. No
 If yes, please list them down:

TRAINING

- 27. What type of training do you offer to clients? (Mark all that apply)
 - a. Management and other business skills.
 - b. Vocational training and promote entrepreneurship.
 - c. Basic education and literacy programs
 - d. Leadership programs
 - f. Other, specify.
- 28. Who conducts the training courses?
 - a. Trainers from local area who do it free of charge
 - b. Trainers from local area who charge a fee
 - c. Experts from outside who do it free of charge
 - d. Experts from outside who charge a fee
- 29. Do the groups provide an input in training in terms of traditional know-how and expertise?
 - a. Yes b. No
 If yes, Please explain.

G. LINKAGES WITH OTHER INSTITUTIONS

INFORMAL INSTITUTIONS

- 1. Do you have any linkages with other informal financial-related institutions (e.g. ROSCAs)?
 - Please list down their names
- 2. If Yes to Q1, where are they situated?
- 3. What kinds of services do they offer
- 4. Do you have any linkages with other informal non financial-related institutions?
 - a. Yes b. No
 If yes, Please explain who they are
- 5. In what way do you collaborate with these organizations? (*Mark all that apply*)
 - a. Human resources
 - b. Sharing technologies expertise
 - c. Sharing information
 - d. Others. Please specify.
- 6. How often do you meet with these institutions?
 - a. Very often (+/- once a month)
 - b. Often (+/- every two months)
 - c. Seldom (3 - 4 months)
 - d. Very seldom (+/- once a year)
- 7. Do you participate in any of the local community development programs?

FORMAL INSTITUTIONS

8. Do you have any linkages with other formal financial institutions (e.g. banks)?
9. If no, can you explain why not?
(If yes answer questions from 11 to 21)
10. If yes to Q9, Please list down their names
11. Where are they situated?
12. What kinds of support services do they offer your organization?
13. In what way do you collaborate with these organizations? *(Mark all that apply)*
 - a. Funding
 - b. Human resources
 - b. Sharing technologies expertise
 - c. Sharing information
 - d. Others. Please specify.
14. Do you have any linkages with other formal non-financial? a. Yes b. No
If yes, Please explain who they are
15. In what way do you collaborate with these organizations? *(Mark all that apply)*
 - a. Human resources
 - b. Sharing technologies expertise
 - c. Sharing information
 - d. others. Please specify.
16. Is your institution supervised by central bank or any other supervision agency?
(Questions 19-21 are applicable to money lending institutions only)
17. Is your organization a member to Microfinance regulatory council (MFRC)?
18. If yes, how has the MFRC regulations benefited your current operations?
19. Are they any regulations that paused constraints to your organization?
20. If your organization is not affiliated to the MFRC, why not?

H. CONSTRAINTS OF THE INSTITUTION

1. What would you say are the major constraints to reaching financial sustainability?
2. What assistance does your organization require at the moment?
(Mark all that apply)
 - a. Financial
 - b. Management
 - c. Marketing
 - d. Training
 - e. Bookkeeping
 - d. Other. Specify
3. What would you say are the major constraints to increasing your ability to reach the poor
4. What would you say are the major constraints to increasing your ability to reach women?
5. Are there any legal/regulatory barriers hampering the organization?

APPENDIX II - Guide for Focused Group Discussion

1. When was group formed and what type is it?

2. Group size and composition (gender)?.
3. Who selected group members?
4. How were group leaders selected?
5. Who plans the activities of the group? Is it the whole group or just leaders?
6. How often does the group meet and for what purpose?
7. Do you receive any form of training from any organisation? What type of training and who trains you? Learn from each other, (local from community or from outside the community).
8. For what purpose did group come together? For example, to form rotating and saving association (ROSCA), solve common problems.
9. What criteria were used for group selection e.g., all women, doing same business, living in same village etc.
10. What common activities do you do? E.g., bulk purchasing, shared transporting
11. What do group members contribute to group e.g., financial, material, equipment, skills etc?
12. Do you know of any other groups existing in your community? Outside community? How do you relate? Share information and knowledge. How is information relayed from group to group?
13. Are there any traditional moneylenders and whom do they lend to?
14. Do you have any common problems and how do you solve them?
15. Did you at any time approach government, local government or other institutions for assistance or lobbying as a group?

Other Observations

Find out what the common infrastructure development is in the community and the adequacy of the infrastructure?

Example: water facilities (pumps, tanks, taps dams) health care facilities, adult education, agricultural facilities, banks, telecom facilities, post office.

APPENDIX III - Financial Services Association

The Financial Services Association (FSA) regulates the two village banks. This is only one of the three regulators of village banks in South Africa. The FSA is a non-profit making organisation, which acts as a regulatory body for village banks although it is in fact owned by the village banks. FSA was formed in Feb 1996 by the Dept of Welfare and coordinated by a seconded official of the Dept of Agriculture. Between 1994-1998 development of the village bank within the context of South Africa and formation of three pilot village banks in the Limpopo Province. The FSA commenced operations as an organisation in 1999. FSA is incorporated under the Company's Act of 1993.

National distribution of village banks

The FSA is only one of the three regulators of village banks in South Africa. There are a total of 38 village banks regulated by this organisation throughout South Africa (see Appendix V). This study covers two cases of the 38 village banks namely Mathabatha and Kgautswane in Limpopo Province.

Vision and mission

The vision of FSA is the creation of a sustainable village banking system that will result in a fully-fledged and vibrant commercial and cooperative banking network in South Africa. The mission is to empower rural, remote and poor communities, to become economically independent through financial and social support programmes. Endeavour to enhance the quality of life of the people by providing financial and non-financial corporate services at local level.

Funding

Initially funded by National Department of Welfare and Social Fund Program. FSA was given a grant by Micro Save Program of R7 million in 1999, for a period of 18 months. The grant was for: capacity building, the establishment of 27 new village banks, and the development of specific products to benefit Dept of Welfare clients.

FSA objectives

1. Formulation and coordination of a national village banking programme, policies and procedures, research, collection and dissemination of information
2. Facilitation and strengthening of village bank through capacity building and training, in order to impact upon local economic development, job creation and welfare
3. Facilitate registration, licensing and regulation of village banks, according to the statutes and exemption from the Reserve Bank
4. Receiving, evaluation and consolidation of financial statements of member village banks for submission to the registrar of banks
5. Development and marketing of products

Mobilisation of programme funds nationally and internation-ally

Governance and staffing

It is governed by six FSA member directors (Provincial Chairpersons) and four non-member directors (from funding agencies for transparency) including the FSA CEO. There are 17 positions, which include nine provincial coordinators throughout the country. FSA conducts staff training to impart skills in

- the elements and principles of the village bank concept;
- community organisation and participation process; and
- establishment of community based financial institutions.

Training is conducted once in three months. Training is regarded as important because it enabled provincial staff to engage communities in a process of establishing their own banks. Future training is to include business development, management and maintenance skills. This is to enable village banks to be financially viable in the long run.

Services provided by the FSA

The following training services are provided by FSA.

Training for village banks

Training is provided for board members and staff of village banks. Training is also extended to whoever is in need of it, including traditional leaders like the chief's Indunas. Training for product development is also conducted. Initial training conducted for village banks was funded and facilitated by CARE International.

Monitoring

FSA monitors through on-site visits once a month or whenever the need arises. Monitoring activities include receiving and checking of financial reports, evaluating performance of village bank board members, marketing performance (FSA does this by way of conducting a random survey to assess how effectively the village bank is marketing itself. FSA also checks on compliance with license standards.

Initial financial support

Every new village bank receives initial support from the FSA who pay the salary of the administrator for the first year and also provide stationery. Thereafter, the village banks take responsibility for their expenses.

Linkages with other institutions

1. National and provincial Departments of Welfare to create more awareness of the concept and support for the future
2. E People group for provision of business centers and technology to FSA clients and membership
3. Carewell Group for the provision of trading and primary health facilities
4. Social finance programme NGO network Group
5. Linkage with both FNB and ABSA for village banks
6. The reserve bank- to increase its intervention in the process of village banking and provide exemption for three years
7. FINASOL and FAF for creating a merger facilitated by National Dept of Agriculture.

Regulation (monitoring)

FSA was granted authority by the Reserve bank to regulate its member village banks. Main activity of regulation (monitoring) is the audit function which is offered to member village banks on a monthly basis or when need arises. This informs the system on the following.

- Compliance with license standards
- Performance and non performance
- Effectiveness and weakness of internal controls

- Business management and process

Monitoring activities include receiving and checking of financial reports, evaluating performance of Village bank board members, marketing performance (FSA does this by way of conducting a random survey to assess how effectively the village bank is marketing itself).

Product development

FSA works with village banks to facilitate provision of the following products

- Shares and savings
- Bankers bond
- Funeral burial schemes
- Investment scheme
- Pension remittance
- Loans

Challenges

According to the FSA annual report (2001), one of the problems being faced is that the concept is still very new, in both the minds of people and within the formal banking, government and private sectors. The development of the concept is largely dependent on external support. This makes it susceptible to corruption, if support is not vigilant in terms of adhering to the concept principles of community participation, ownership, management and control.

The target group is still recovering from dehumanising effects of apartheid which impacts on the pace of development and demands huge resource investment into the process.

Benefits of village banks

It is an infrastructure that will enable the rural community to mobilise its financial resources, discover its economic value which can be leveraged for local economic development. (pooling of local resources).

FSA village bank national distribution

Province	Number Planned	Number Achieved	Total
North West	4	5	8
Mpumalanga	5	5	5
Limpopo	5	5	5
Eastern Cape	4	6	6
Kwazulu Natal	4	8	8
Northern Cape	2	2	2
Gauteng	0	2	2
Free State	2	1	1
Western Cape	1	1	1
Total	27	33	38

Source: FSA Annual Report 2001

Commercial banks are unable to service small account holders, with the result that over 50% of the South African population is not catered for in terms of banking services.

Rural areas experience an outflow of their net income to metropolitan areas resulting in perpetual poverty due to an inability to retain local income, caused by the lack of banking services.

A community based structure linked to the formal financial sector in a commercially viable manner, through which community members can obtain financial services through village banking (linkages).

The sustainability of this community based institutional structure depends on the effective participation of community members who should own and control the process and the structure (pooling of local human resources).

APPENDIX IV - Farm Africa

FARM (Food and Agricultural Research Management) AFRICA, is a United Kingdoms based international, independent non-governmental organization (NGO) with head offices in London and funded by the fund raising organizations in UK which are Court-8 European Union; German Agro-Action and British Lottery Board. The organization was founded in 1985 and is currently involved in Ethiopia, Kenya, Uganda, South Africa and Tanzania. It focuses on rural development with strong emphasis on agricultural development. The approach that Farm Africa follows is a “holistic (group) approach with basically two major components; technical agricultural development and human empowerment (capacity building)” (Director to Farm Africa, Tommy Phillips).

FARM Africa’s involvement in South Africa started in 1992 through a joint venture with the University of the Western Cape in establishing the Land Development Unit (LDU) within the institute for Social Development (ISD). Since then, it worked with the Riemvasmaak community as one of the first Resettlement projects in South Africa’s Land Reform Program. In 1999 it started a program in the Northern Cape focusing only on land reform projects.

The program in the Eastern Cape is the latest effort by the organization in S.A. and concentrates as far as its community projects are concerned on the old Transkei (former homeland) and is called the small holder farmer support program.

HOW FARM AFRICA OPERATES IN THE EASTERN CAPE

The organization works in close relationships with the Provincial Department of agriculture and both parties have signed a memorandum of understanding (MOU). In this MOU it is spelled out that the organization will select ten rural communities and assist them with the establishment of agricultural related projects and also empower these groups through a capacity building program.

Aims/Objectives

The ultimate aim is to enhance the household welfare of selected communities through the implementation of sustainable community based natural resources management system.

CONTENT OF COMMUNITY PROJECTS

Support to community projects entails training in relevant agricultural technical topics in collaboration with the department. The following are covered:

1. Institutional development.
2. Project management.
3. Organizational development.
4. Financial development.

The training is very much hands-on and it aims at helping the communities to establish and sustain their own management systems and development process.

The establishment of the Revolving Fund within each community group is an important exercise and is aiming to ensure that communities develop and sustain financial independence.

WHAT IS THE REVOLVING FUND AND WHO GETS IT

The revolving fund is a Grameen bank method of offering credit to the poor who have no collateral. This method uses group solidarity to create peer pressure to ensure loan repayment. The method focuses on the poor with simple loan procedures administered in the communities, small loans repaid monthly and used for income generating activity chosen by the community group.

The people who receive this revolving fund are people in the (identified) rural areas in South Africa, in Eastern Cape these are in the old Transkei. The identified sites/communities in the Eastern Cape are Ndonga, Qamata and Mtshabe (the research site).

APPENDIX V - Village Bank Membership, Female Composition and Poverty Distribution

Province	Village bank	Date of operation	Membership	% of female clients	% below poverty line
North West	Kraaipan	1994	949	60%	80%
	Lothlakane	1995	284	75%	63%
	Motswedi	1996	1126	68%	56%
	Lehurutshe	1999	392	72%	40%
	Mankwe	2000	297	56%	35%
	Disaneng	2000	181	80%	62%
	Modimoola	2001	150	56%	67%
	Winterveldt	2001	120	60%	57%
Mpumalanga	Sakhaleftu	1999	259	57%	36%

	Boschfontein	2000	74	73%	58%
	Driefontein	2001	105	65%	60%
	Motse West	2001	85	58%	45%
	Fernie	2001	240	67%	40%
Limpopo Prov	Kgautswane	1999	262	72%	80%
	Mathabatha	2000	132	64%	79%
	Gakwete	2001	182	66%	68%
	Sekhukhuni	2001	166	59%	52%
	Botlokwa	2001	337	53%	59%
Eastern Cape	Hewu	2000	462	82%	68%
	Middledrift	2000	419	79%	63%
	Lubisi	2001	319	68%	70%
	Masikhule	2001	319	56%	65%
	Luzopho	2001	160	48%	52%
	Pearston	2001	290	56%	51%
KwaZulu Natal	Ingwavuma	2000	1454	65%	73%
	Qudeni	2000	280	60%	75%
	Msinga	2000	431	62%	74%
	Nkandla	2000	464	68%	67%
	Louwsburg	2000	230	61%	70%
	Ngcolosi	2000	210	60%	75%
	Ozwatini	2001	259	59%	70%
Gauteng	East Rand	2000	3130	61%	35%
	Fukama	2001	55	99%	56%
Northern Cape	Noupoort	2000	90	87%	99%
	Rietfontein		104	60%	99%
Western Cape	Genadendal	2001	102	54%	45%
Free State	Mautsendal		90	50%	52%
Total			14,209		

Source: FSA Annual Report, October 2001.