

"THE SOLIDARITY GROUP PROGRAMME:
A MECHANISM FOR DELIVERING CREDIT TO
INFORMAL SECTOR MICROENTERPRISES"

by

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Preface

This study represents original work by the author and has not been submitted in any form to another University. Where use has been made of the work of others it has been duly acknowledged in the text.

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INTRODUCTION

One of the distinguishing features of development in the Third World during the past two or three decades is, what has commonly been described as, the urban explosion. Besides unprecedented growth in population rates, there has been an exodus of rural population towards urban centres in most developing countries. This trend has also been evident in South Africa where the repealing of the influx control laws and the Group Areas Act have added to this phenomenon. Unable to find work in the urban areas, an increasing proportion of the labour force turned to what has generally become known as the informal sector.

A significant proportion of economic activity in developing countries is conducted, by choice or by necessity, in very small enterprises in the informal sector. Some individuals are drawn into the informal sector by the incentive for profit, signalled by the demand for goods and services; others are left no alternative but to struggle to subsist through self-employment alongside and in competition with others in the formal sector. The businesses of the poor, called microenterprises because of their extremely small size and minimal capital investment, are too important an economic force to be ignored. Firms employing fewer than ten full-time employees account for between 40 to 90 percent of manufacturing employment in developing countries (Liedholm and Mead 1987:15).

Despite their importance, the continued growth and profitability of these smallest enterprises is hindered by several factors. Lack of small amounts of capital is the problem most frequently mentioned by these entrepreneurs. Traditional financial institutions have been reluctant to extend their lending to firms in the informal sector because administrative costs and risks involved in lending to them are markedly higher than those associated with their regular larger scale clients.

Recognising this credit constraint, many government and non governmental agencies have sought to make credit available to the small borrower. Unfortunately, many targeted credit schemes have been made available through highly subsidised public or quasi-public Development Finance Institutions. As recently noted by the World Bank (1990:40), Development Financial Institutions have frequently failed in the past; they are characterised by poor financial performance, low loan collection, high transaction costs, and inadequate financial reporting.

However, experience in many developing countries has shown that lending to informal sector businesses can be successful. Innovative credit schemes e.g. the Grameen Bank in Bangladesh, The Association for the Development of Microenterprises (ADEMI) in the Dominican Republic, and the Get Ahead Foundation in South Africa have been developed to cater for the credit needs of informal sector

microenterprises. Combining a number of innovative procedures with the active participation of the population, they have met with enough success to show that a different type of banking strategy is possible. The most important innovation in this respect has been to replace traditional collateral requirements with group liability. Groups consisting of five to eight owners of very small businesses, join together to receive credit and other services such as training. Group members collectively guarantee loan repayment, and access to subsequent loans is dependent upon successful repayment by all group members. The peer pressure system therefore replaces physical assets as a form of collateral. This type of lending is commonly referred to as Solidarity Group Programmes.

The purpose of this study is to examine the concept of Solidarity Group lending and to evaluate its effectiveness as a credit delivery mechanism for microenterprises in South Africa. To this end an empirical study of the Solidarity Group loan programme of the Get Ahead Foundation in South Africa was carried out to determine the impact of the loans on the clients and their businesses. The study also explores some of the salient features and operational details of successful Solidarity Group lending programmes in other developing countries, and in the light of these experiences makes recommendations for the establishment of a bank using Solidarity Groups as a mechanism to deliver credit to those who have been marginalised by the formal banking sector.

In order to give perspective to Solidarity Group Programmes within the overall context of the informal sector, Chapter One provides a review of the various theoretical approaches regarding the informal sector, examines the way the concept of the informal sector has been interpreted by different authors and reviews various alternative approaches to defining the sector.

Chapter Two shifts the focus from a discussion of the informal sector in general to the informal sector in South Africa. It discusses the role played by the informal sector in the South African economy, the characteristics of the sector, and the problems faced by the participants in the informal sector.

Chapter Three studies the concept of credit and its role in development. It also examines the various institutions, both formal and informal, that provide credit to the informal sector. By underlining the similarities and differences of functioning, and identifying those areas where the two financial sectors are complementary, eventual points for potential "bridge building" between them are identified.

In Chapter Four the concept of Solidarity Group lending is examined in detail and a description of two of the most successful Solidarity Group Programmes in the world, namely, the Grameen Bank and ADEMI is provided.

Chapter Five examines the concept of Solidarity Group lending in South Africa, using the Get Ahead Foundation as an example.

In Chapter Six the results of an empirical study conducted to evaluate the effectiveness of the Solidarity Group Programme of the Get Ahead Foundation are presented. Certain limitations of the Programme, when compared to Solidarity Group Programmes operating in other countries, are also highlighted.

The final Chapter, noting the limitations outlined in Chapter Six, makes recommendations for the establishment of a new financial intermediary, in the form of a Bank, aimed specifically at providing financial services to informal sector microenterprises.

CHAPTER ONE

THE INFORMAL SECTOR: THEORETICAL PERSPECTIVES

In recent years, many theorists have based their analysis of urban poverty and employment in Third World countries on the dualistic model (Bromley 1978:1033). This approach was based on the post-war development theories, broadly referred to as the "Modernisation or Diffusionist Paradigm" (Fair in Bendheim 1987:9) which viewed the economies of most developing countries as consisting of two sectors, namely, a highly efficient and capital intensive "modern" sector, and an inefficient and backward "traditional" sector (Dewar & Watson 1981:30). The "traditional" sector was, however, regarded as a temporary phenomenon which would eventually fade away as the benefits of the "accelerated growth" policies filtered downwards leading to a redistribution of resources and incomes throughout society. The assimilation of urban norms by the newly urbanised migrants would result in a transition from the "traditional" marginalised economy of the rural areas to the integrated "modern" economy of the urban area (Moser 1978:1042).

During the late sixties, however, it soon became apparent that the modern industrial economy failed to either "filter down" or redistribute its benefits to the poor, and the "traditional" sector, instead of being transitional as was previously believed, began to increase in size due to the

inability of "modern" sector employment to absorb the increasing number of migrants to the urban areas (Bendheim 1987:10).

The realisation that the dualistic models were incapable of influencing development strategies, led investigators to comprehensively explore and assimilate both theoretical and empirical information on the "traditional" sector. This literature has gradually become polarised between two major theoretical approaches, namely, the Reformists, who believe that the informal sector could play an important role in providing employment and income for a significant proportion of the population if policies were aimed at encouraging rather than harassing it, and the Radical school which bases its theory on a Marxist explanation of underdevelopment where the exploitative nature of capitalism is seen to be responsible for the emergence of the informal sector.

This chapter aims, firstly, to outline the theoretical stances adopted by these schools, and secondly, to consider the various ways that the informal sector has been defined by different authors. This theoretical discussion is necessary in order to give perspective to Solidarity Group Programmes within the overall context of the informal sector.

1.1 The Reformists

The reformist approach, based on the concept of a dual economy, attempts to view the informal sector as a positive opportunity rather than an undesirable portion of the economy to be absorbed by the modern sector.

Among the earliest empirical works in the reformist school was Keith Hart's (1973) seminal study on urban unemployment in Accra, Ghana, in which the terms "formal and "informal" were first applied to the sub-sectors of the urban economy. Hart's significant contribution was the identification of a variety of new income generating opportunities, both legitimate and illegitimate, which were concentrated in the "unorganised" sector of the urban economy. He termed these activities "informal" in order to contrast them with formal contractual wage labour. He also suggested that the informal sector may probably grow at a faster pace than other sectors of the economy and may perhaps "take up some of the slack created by inadequate rates of growth in the well- documented modern sector" (Hart 1973:87-88).

Hart's contribution had placed the concept of the informal sector firmly into the realm of development economics, and led to a reassessment of the potential that the informal sector held for creating self-employment for new entrants to the urban labour force. The promotion of the informal sector as a means of alleviating poverty became a central point in

reformist thinking. In the words of one observer "Development planning emphasis now shifted from economic growth per se to employment, and particularly the kinds of employment that local economic activities might generate. The poor had become an asset" (Hansen 1980:201). Bromley (1978) questions the reasons why Hart's paper, despite receiving a lot of criticism, was received with such high acclaim. He suggests that "the terminology and associated concepts happened to be put forward in propitious places and at propitious times" (Bromley 1978:1036). Hart's paper was delivered at a high profile conference on "Urban Unemployment in Africa" in 1971 and provided the much sought after rationale which the mainstream international development community wished to recommend to Third World countries. He argues that "the informal sector concept was adopted because it arose through effective channels at a convenient moment, and because it embodied policy implications which were convenient for international organisations and politically middle-of-the road governments. Support of the informal sector appeared to offer the possibility of 'helping the poor without any major threat to the rich', a potential compromise between pressures for the redistribution of income and wealth and the desire for stability on the part of economic elites" (Bromley 1978:1036).

In many developing countries, the authorities' previous hostile attitude towards the informal sector began to change to one of approval and even admiration (May & Stavrou

1989:3). The International Labour Office (ILO) Employment mission to Kenya (1972), ".... represented this watershed in official thinking. For the first time, the informal sector was being hailed as an integral part of the urban sector which has an important and positive role to play in the solution to the Third World development problems" (May & Stavrou 1989:3). In its report the ILO challenged the traditional attitude towards the informal sector and recommended a string of policies it felt would promote the sector and help solve the unemployment problem since "the bulk of employment in the informal sector far from being marginally productive is economically efficient and profit making" (ILO 1972:5). Authorities would need to adopt a positive attitude to the sector and to reverse all policies that were adversely affecting the sector. The theoretical stance in the report, based on a distinction between the formal and informal sectors, was clearly reformist in nature.

Dipak Mazumdar (1976) adopted a different dualistic approach and based his model on the dichotomy within the urban labour market. He describes the informal sector as 'protected' as opposed to the 'unprotected' informal sector. This distinction is based on the theory that employment in the formal sector is in some sense protected, either by the actions of governments, of trade unions or of both acting collectively, while those in the informal sector have no formal protection at all. Here the dichotomy is within the urban labour market rather than between the enterprises

composing the urban economy (Mazumdar 1976:656).

John Weeks (1976) bases his distinction between the formal and informal sectors "on the organisational characteristics of exchange relationships and the position of economic activity vis-a-vis the state" (Weeks 1976:2-3). He maintains that the formal sector includes the state and all other enterprises nurtured, by means of various benefits and incentives, by the state. Economic operations in the formal sector are therefore dependent, to varying degrees, on the favour of the state. In contrast, enterprises in the informal sector operate without these benefits and regulations and thus without access to formal credit institutions or foreign technology (Weeks 1976:3). Weeks's formal/informal sector distinction differs from that of the ILO and Hart in that it is based on the structural position of the operation, within or outside the privileged sector, rather than on the characteristics of the enterprise.

One of the main criticisms of the above studies is that it perpetuated a dualistic conception of the urban economy. Bromley (1978) identifies some of the particular deficiencies of the informal/formal classification: The formal/informal sector distinction was considered too general and vague. Classifying the myriad of variant relationships and characteristics that exist in the urban economy into two distinct categories is regarded as over simplistic. This broad distinction did not allow for the identification for

intermediate categories and of those informal activities which had the potential for growth. The dualistic model therefore falls short of placing the informal sector along any continuum, prohibiting any assessment of change and growth that could have occurred within the sector, to be made.

The informal sector is often regarded as a homogenous unit and it is mistakenly believed that a single policy prescription can be applied to the whole informal sector. This would effectively mean that manufacturers, sellers of basic food stuffs and prostitutes, an obviously diverse group of informal sector activities, being subject to a single set of policy recommendations. Policies should be specific to the particular informal sector activity under consideration. "the informal sector is large enough to permit and diverse enough to necessitate a wide range of different policy measures,..." (Bromley 1978:1034).

Investigators using the dualist approach tend to assume that the two sectors are separate and independent and neglect the many and varying linkages that exist between the informal and formal sectors of an economy. "... it is more likely to be the case that they are in a continuously fluctuating state of interaction and that parts of one sector may be dominated and even be created by, parts of the other sector" (Bromley 1978:1034).

1.2 The Radical School

The Radicals, or neo-Marxists believe that encouraging the informal sector would merely result in a perpetuation of capitalism, and poverty could only be alleviated through the overthrow of capitalism. They view the informal sector as a form of petty commodity production that coexists on subordinate terms with the capitalist mode (Bromley & Gerry 1979:4). They base their analysis in terms of Marx's concept of "Petty Commodity Production". According to Moser (1978) and Davies (1979), petty commodity production could be described as a 'form of production' which holds a marginal and subordinate position within the overall capitalist mode of production. "The 'informal sector' constitutes a peripheral or marginal activity in the world system of capitalist production ... functioning to 'service' the formal sector" (Davies 1979:90).

Within the proletariat, Marx distinguished between active workers and a reserve army of labour'. Given the labour surplus in the formal sector, potential wage labourers have to seek temporary employment in the informal sector. The informal sector thus consists of wage labourers in waiting (Davies 1979:94). This reserve army of labour is necessary for the continued success of capitalism in that it both holds down the cost of labour and disciplines the labour force.

Petty producers are seen as functional for the urban

capitalist sector in many ways. According to May and Stavrou (1989), much informal activity involves the production of cheap, marginally profitable goods and services for the domestic market. This reduces the cost of living, resulting in reduced wage demands in the capitalist sector, which in turn increases the profit of the capitalists. This also allows the formal sector to concentrate on the production of more profitable goods for the domestic as well as export markets.

There is a direct transfer of profits from the informal sector to the formal and state services sector in the form of hire fees, interest payments, bribes, licence fees and taxes.

By providing employment to family members, the informal sector reduces the burden of the state in providing adequate systems of social security and welfare.

Marx saw petty producers as a transitional class. Their survival depended on producing goods and services that large scale capitalists found unprofitable. Through increases in the scale of production, some petty producers may be converted into capitalist entrepreneurs, while the rest would be forced into the proletariat (Maasdorp 1983:13).

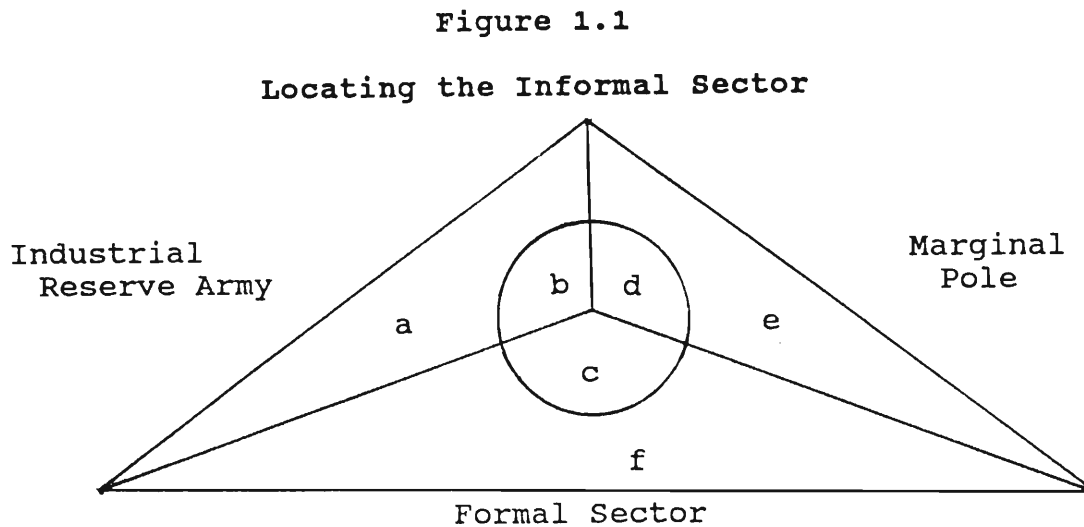
Today, however, Marxists concede that Petty Commodity Production cannot be adequately classified as a 'Transitional mode of production'. Moser (1978) argues that Marx's

diagnosis of Petty Commodity Production as a transitional mode related to the development of capitalism in nineteenth century industrial Europe and that "in the light of the experience in contemporary underdeveloped capitalist urban economies ... there is little indication that wide-scale proliferation of petty commodity production is losing momentum" (Moser 1978:1057).

Although the Radical School's approach to the informal sector is less simplistic than those theories based on dualism, such a radical stance is impractical as it does not counter the present and immediate problems of food, shelter and basic survival (City Engineer 1984:35).

1.3 An Integrated Model of the Informal Sector

Nattrass (1984) argues that in adopting a certain paradigm, insights offered by rival interpretations are automatically excluded. She advocates an integrated theoretical approach which locates the informal sector in the general economy. This she does with the aid of the following diagram:



Source: Nattrass 1984:2

Figure 1.1 consists of three adjacent triangles representing the Industrial Reserve Army, the Marginal Pole, and the Formal Sector of the economy.

The Industrial Reserve Army triangle consists of those people who have the skills and experience to be employed in the formal sector, but due to inadequate demand for labour are unable to find employment in the formal sector. It is likely, however, that they would be the first to be employed if some macroeconomic expansion took place. The Industrial Reserve Army has two sub-components, namely, 'a' consisting of those people who are full-time job seekers, living off savings, family support or unemployment insurance. They are not productively engaged and therefore are not part of the informal sector.

The second sub-component, 'b', consists of persons similar to

those described above, but, have sought employment in the informal sector as a temporary measure until jobs in the formal sector become available.

The Marginal Pole triangle represents people who have no formal skills or experience and have little hope of ever being employed in the formal sector. This group includes recent immigrants, unskilled workers and those unwilling or unable to seek formal employment. Part 'd' comprises those who make a living working in the informal sector. They are likely to be on the lower rungs of the informal sector and the most poorly paid workers. Part 'e' consists of what Nattrass describes as the 'dregs' within the marginal pole who are not even active in informal production. They include beggars, garbage pickers, thieves, etc. Finally, the formal sector triangle comprises those working in the formal sector full-time, 'f', and 'c' those full-time employees who supplement their income through informal sector activities.

The circle overlapping the apex of all three triangles comprises the informal sector.

Nattrass's model is significant in that it indicates the extent to which the informal sector is integrated into the general economy. "Thus far we have uncritically accepted the categories 'formal' and 'informal' sector. In terms of the diagram the informal sector as a concept has thus been conflated with that of petty enterprises" (Nattrass 1984:50).

1.4 Defining the Informal Sector

Due to the different theoretical approaches employed in analysing the informal sector a universally acceptable definition of this sector is virtually impossible. Each major study has generated its own definition and it would be useful at this stage to consider some of the various ways in which the informal sector has been defined in order to facilitate a greater understanding of this sector in terms of its activities and scope.

1.4.1 Definitions Based On Type of Activities

One of the earliest attempts at defining the informal sector was that of Hart who regarded this sector as "... the unenumerated sector characterised by self-employment" (Hart 1973:68). Hart's definition, as shown in Table 1.1, relates to the categorisation of a range of income opportunities, both legal and illegal, distinguished on the basis of self as opposed to wage employment.

Table 1.1

Hart's Taxonomy of Income Opportunities

Formal income opportunities

- (a) Public sector wages
- (b) Private sector wages
- (c) Transfer payments - pensions, unemployment benefits

(continued)

Informal income opportunities: Legitimate

- (a) Primary and secondary activities - farming, building contractors, self-employed artisans, tailors.
- (b) Tertiary enterprises with relatively large capital inputs. Housing, transport utilities, commodity speculation.
- (c) Small-scale distribution - market operatives, petty traders, street hawkers, caterers in food and drink, commission agents, and dealers.
- (d) Other services - musicians, shoe-shiners, barbers, vehicle repairs and other maintenance workers, magic and medicine.
- (e) Private transfer payments - gifts and similar flow of money and goods between persons: borrowing; begging.

Informal income opportunities: Illegitimate

- (a) Services - hustlers and spivs in general, receivers of stolen goods, drug pushing, prostitution, smuggling, protection rackets.
- (b) Transfers - Petty theft (e.g. Pickpockets), larceny, embezzlement, confidence tricksters, gambling.

Rogerson and Beavon (1980) have developed a more refined variant of Hart's taxonomy of income opportunities and adapted it to Southern African conditions.

Table 1.2
Informal Sector Income Opportunities in Southern
Africa

-
1. **Retail Distribution:** Pedlars, street hawkers, caterers in food and drink (vetkoeke, samoosas, popcorn, candy floss), jumble sellers, flower sellers, commodity speculators, clothing sellers, news vendors, shebeen operators.
 2. **Personal Services:** Shoe repairers, hairdressers, barbers, photographers, sangomas, muti sellers, baby minding.
 3. **Other Services:** Gardeners, caddies, charwomen. 'informal' schools, musicians.
 4. **Security Services:** Night watchmen, speculative car parking attendants.
 5. **Gambling:** Confidence tricksters, fah-fee runners, games of chance.
 6. **Repair Services:** Tinkers, 'back-yard' mechanics, home appliance repairers.
 7. **Productive and Secondary Activities:** Building contractors and persons associated with the building trade, knitters, beadworkers, liquor brewers, grass broom makers.
 8. **Transfer Payments:** Lenders, beggars, receivers of lobola.
 9. **Garbage collectors and scavengers:** Garbage dump and bin scavengers, dung collectors, fuel wood collectors, bottle collectors and bone collectors.
 10. **Intra-urban transport:** Mini-bus operators, taxi-men, truckers.
 11. **Crime:** Prostitution, drug pushers (including dagga sellers)
-

Source: Rogerson & Beavon 1980:180.

1.4.2 Definitions Based on the Characteristics of the Enterprise

The ILO Mission to Kenya (1972) defined the informal sector as distinct from the formal sector on the basis of certain characteristics as shown in Table 1.3.

Table 1.3
Contrasting Characteristics of the
Informal and Formal Sectors

Formal Sector	Informal Sector
Ease of entry to the sector	Restricted entry to the sector
High degree of resourcefulness	Frequent reliance on overseas resources
Family ownership	Cooperate ownership
Small-scale operation	Large-scale operation
Labour intensive	Capital intensive
Skills acquired outside the formal school system	Formally acquired skills, often expatriate
Unregulated and competitive	Protected markets

Source: ILO 1972:6

A more comprehensive definition of the informal sector has subsequently been provided by the ILO (1982):

" The 'informal sector' would seem to include only activities which are marginally productive such as small-scale trading and household personal services. While it is true that such activities account for half or more of the 'informal sector', it is important to emphasise that it comprises many other productive operations such as manufacturing, construction, transport and repair services as well" (ILO in Bendheim 1987:13).

The importance of the Kenya report is that it classified enterprises and not individuals as belonging to the informal sector, thereby reducing some of the uncertainty in defining this sector.

Sethuraman (1976) has identified a number of factors which should be considered when deciding on whether an enterprise is part of the informal sector or not.

An enterprise may be classified as informal if it displays one or more of the following characteristics:

- (a) It employs 10 persons or less (including part-time and casual workers).
- (b) It operates on an illegal basis.
- (c) Members of the household or the head of the enterprise work in it.
- (d) It does not observe fixed hours/days of operation.

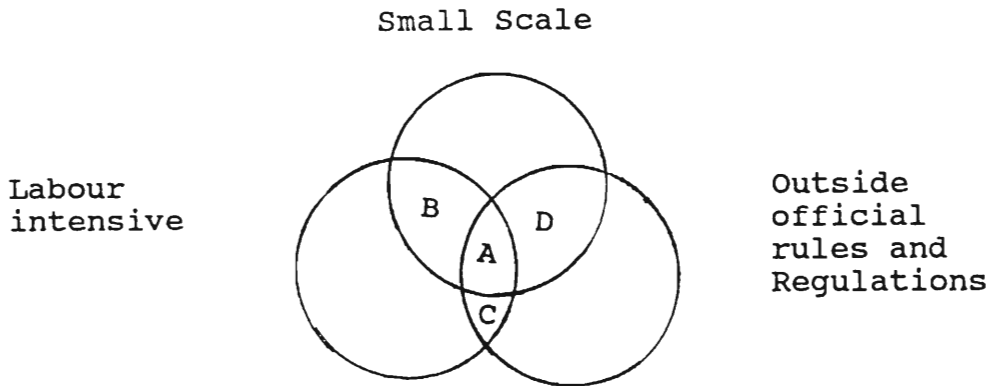
- (e) It operates in semi-permanent or temporary premises, or in a shifting location.
- (f) It does not use any electricity in the manufacturing process.
- (g) It does not depend on formal financial institutions for its credit needs.
- (h) Its output is normally distributed direct to the final consumer.
- (i) Almost all those working in it have fewer than six years of formal schooling.
- (j) It deals in second goods, or sell prepared foods.

Source: Sethuraman 1976:81.

Nattrass (1984) identifies three criteria in terms of which an enterprise or activity could be classified informal, namely, small scale, labour intensive and operating outside official rules and regulations. She argues that an enterprise does not have to show all three characteristics simultaneously in order to be classified as informal, and similarly, showing only one of the characteristics would be insufficient. As a rule, she maintains that an informal sector enterprise should exhibit at least two of the three characteristics. This is illustrated in Figure 1.2.

Figure 1.2

Characteristics of the Informal Sector



Source: Nattrass 1984:6

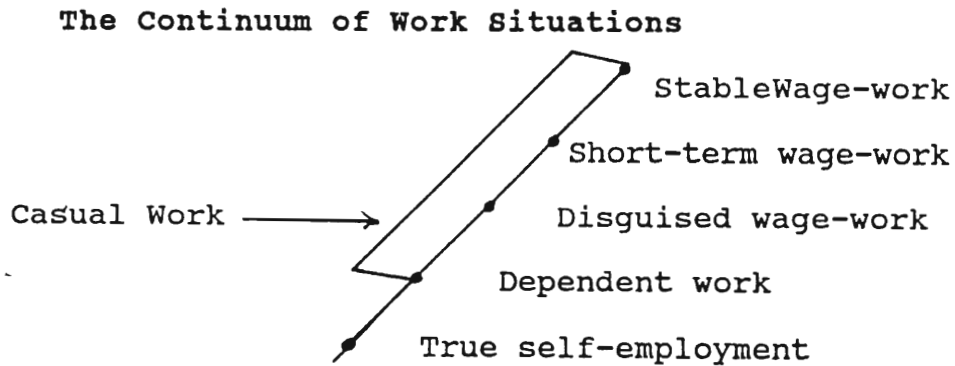
Figure 1.2 is a Venn diagram consisting of three intersecting circles representing three criteria, namely, labour intensive, officially recognised and regulated, and small scale. Nattrass concludes that most informal activities would most likely fall in group 'A', that is, small scale, labour intensive and operating outside official rules and regulations.

1.4.3 Definitions Based on a Continuum

In line with Marxian analysis, Bromley and Gerry (1979) have defined economic activities in terms of their relationship to the means of production on a dynamic continuum. According to this approach, the economy as a whole must be seen as a continuum of activities from stable wage labour on the one

hand to informal self-employed persons on the other (Bromley & Gerry 1979:5). In arguing the validity of this approach, Rogerson and Beavon maintain that the continuum "facilitates the recognition and analysis of a variety of transitional forms located between the two poles" (Rogerson & Beavon 1980:177). The continuum may be illustrated as follows:

Figure 1.3



Source: Rogerson & Beavon 1980:179.

The continuum as illustrated in Figure 1.3 is divided into five broad categories, the first, 'stable wage-work' being contrasted with other types of income generating opportunities collectively referred to as 'casual work'. Casual work embraces all income opportunities, both legal and illegal, that lack income and employment security. Rogerson and Beavon summarise the various stages in the continuum as follows:

Stable wage-work: a work situation offering relative employment security and stability.

Short-term wage-work: work paid and contracted by the day, week, month, season or for fixed terms or tasks with no assurance of continuity of employment.

Disguised wage-work: work remunerated by a piece-wage and undertaken away from the employer at home, on the streets or door-to-door.

Dependent work: work conducted on the basis of a dependent contractual relationship with one or more large enterprises.

True self-employment: work situation in which there is relative freedom of choice of suppliers and outlets and where ownership of the means of production is in the hands of the worker (Rogerson & Beavon 1980:179).

The importance of the continuum approach is that it does not regard the capitalist nature of the informal activities as being fundamentally different to that of formal business, and also allows for a more adequate description of economic linkages.

1.5 Definition adopted in this study

From a review of the above definitions it is obvious that there is no one explicit, universally acceptable definition of the informal sector. Rather the definition varies according to the circumstances within which the informal sector activity is being considered, the purpose of the study and the theoretical approach being adopted. For the purpose of this study it was felt that rather than attempting to formulate yet another definition of the informal sector, it would be more useful to identify and define the target group in the study. As Mathur and Moser (1984) argue "...it is universally agreed that the informal sector is not homogenous. ... The important point ... is that policy prescriptions cannot be formulated for the informal sector as a whole, but only for specifically identified groups and activities within it" (Mathur & Moser 1984:xi).

An example of this 'group targeted' effort is provided by Trager (1987), who observes that development agencies, recognising the heterogenous nature of the informal sector, have directed their efforts towards promoting a specific sector, namely the microenterprise sector. Since the focus of this study is on providing credit to the smallest businesses in the informal sector, namely microenterprises, this target group will be defined.

The term, 'microenterprise' apparently originated with the

Inter-American Development Bank (Hunger Notes 1988:2) and refers to the smallest businesses operating at the lower end of a continuum of economic activities ranging from survival oriented activities to large formal corporations.

At the World Conference on Microenterprises held in Washington in June 1988, the following characteristics of microenterprises were identified (Levitsky 1988:6):

They are very small, usually one person operations, or employ very few workers, usually unpaid family members and are labour intensive.

They keep no or very simple business accounts.

They operate from home or trade as itinerant hawkers.

They possess very little or no assets that could be used as collateral.

They are not officially recognised by the authorities.

They are not very attractive customers to the commercial banking sector and most of their investment or working capital is self-financed or obtained from informal lending sources.

Judging from the characteristics listed above, microenterprises meet the three requirements for classification as informal sector as suggested by Nattrass. As such, for the purpose of this study, microenterprises are regarded as part of the informal sector.

CHAPTER TWO

THE INFORMAL SECTOR IN SOUTH AFRICA: A DESCRIPTIVE PROFILE

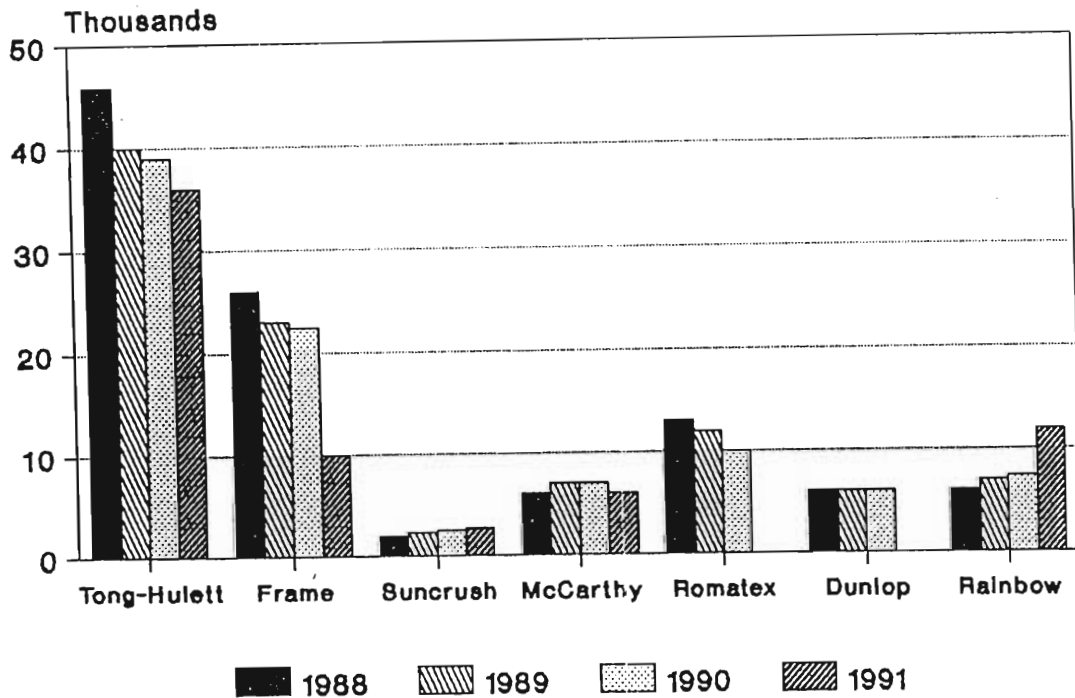
The focus of this Chapter is on the informal sector in South Africa. A profile of the informal sector in this country is presented in order to arrive at a better understanding of its role in the economy, its characteristics and the problems faced by its participants.

2.1 Importance of the Informal Sector in the Economy.

2.1.1 Source of Self-Employment

Informal businesses represent a vital source of income and self-employment, especially for the disadvantaged. According to Wellings and Sutcliffe " ... structural unemployment in the 'unskilled' or 'deskilled' sector may reach 75 percent in South Africa by the end of the century" (Wellings & Sutcliffe 1984:521). At present, South Africa is experiencing a rapid decline in formal sector employment. It is estimated that between 25 - 30 percent of the economically active population is either unemployed or underemployed (S.B.D.C. 1988:3). Figure 2.1 illustrates graphically the rapid decline in employment of seven major corporations in Natal.

Figure 2.1
Calling The Roll in Natal
Companies' Employee Strengths 1988 - 1991



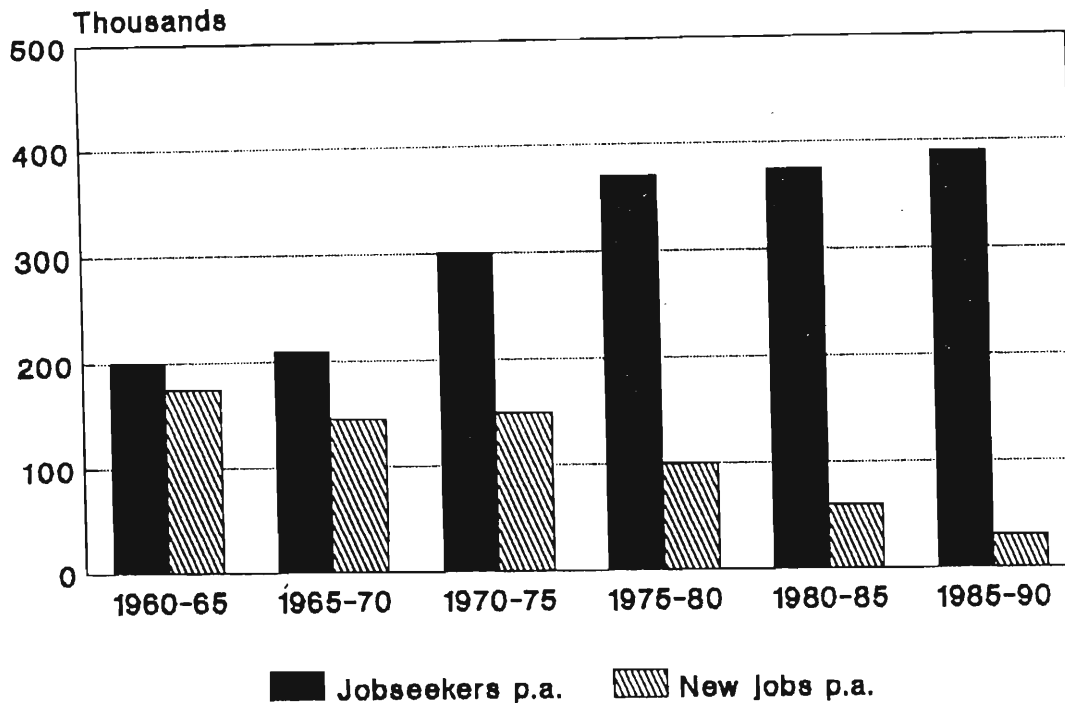
Rainbow's 1991 figures shows the addition to the workforce following the acquisition of Bonny Bird.

Source: The Daily News 1991:16

There is an alarming gap between work-seekers and new jobs. With a population growth of approximately 2,5 percent per annum, the present population may be expected to double in about 25 to 30 years. This means that an estimated 1 500 to 2 000 new jobs must be created every working day in order to avoid a major unemployment crisis (S.B.D.C. 1988:3). At present, however, there is an alarming gap between work-seekers and new jobs. This gap is graphically illustrated in Figure 2.2.

Figure 2.2

Jobs and Job-Seekers in South Africa 1960 - 1990



Source: The Daily News 1992:20

It is clear that large scale enterprises in the formal sector cannot absorb the expanding labour force and many would be forced to seek self-employment in the informal sector. This is true for several reasons: There are very low capital requirements for these businesses; with a few rands of merchandise a vendor can start selling on a street corner. The flexibility of these enterprises makes it easier for women to build their work hours around child-care. Informal businesses avoid many regulatory boundaries, such as licensing, safety inspection, and taxes (Farbman 1981:11).

2.1.2 The Provision of Basic Needs

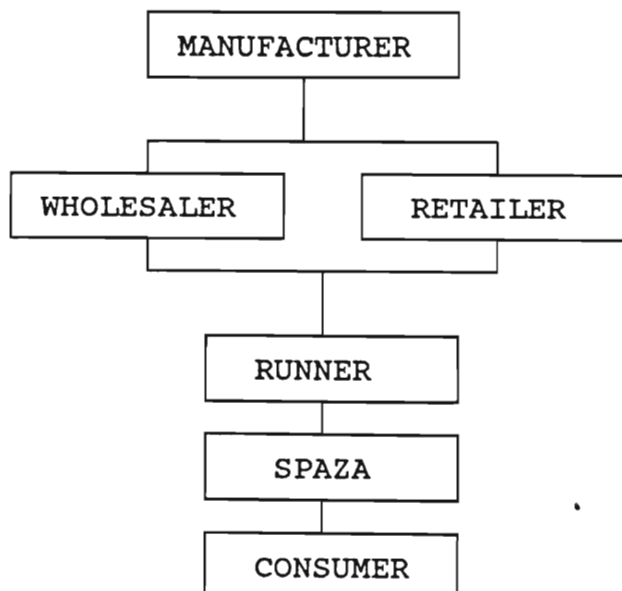
A significant characteristic of informal businesses is the fact that most of the final products cater for the basic needs of the low-income sector of the population. Since most of the small units utilise indigenous technology, they produce unsophisticated low-cost goods that satisfy the basic consumption needs of the poor (Richardson 1984:22). They also provide goods and services to the poor, at a price they can afford and amounts they can use - a cup of washing powder, one cigarette etc. Prepared street foods, for example, are important for those who lack refrigeration facilities to keep perishables, and for male migrant workers living in hostels with no cooking facilities. Informal operators may also extend informal credit to regular customers.

2.1.3 A means for distributing goods produced in the Formal Sector.

Many informal traders provide an efficient distribution service for large manufacturing enterprises. In South Africa, there is an increasing awareness by large formal sector businesses of this link, and manufacturers are devising various methods of reaching the informal traders. For example, a leading shoe polish manufacturer, realising that hawkers are not able to purchase in large quantities, has produced a mixed pack whereby up to three sizes of polish, namely 50g, 150g and 350g, are contained in a special

'Hawkers Special' (Markinor 1989:5). Some innovative methods have been devised by large companies to reach "spaza" shops. The "spaza" shops (informal shops operated from peoples homes) account for almost eight percent of household expenditure on foodstuff, groceries and cleaning products in metropolitan areas (Markinor 1989:9). Companies sometimes contract an employee by selling him a truck. This enables him to distribute the goods to traders and spazas at a profit to himself. The truck is paid for over a period of time. Some non-competing manufacturers have grouped together in setting up a 'runner' thus reducing overheads and improving efficiency and effectiveness of the distributor. The township 'runner' is an important link in this chain of distribution by delivering goods from the formal sector to the informal sector as shown in Figure 2.3.

Figure 2.3
Reaching the Spaza



Source: Markinor 1988:9

2.1.4 Optimal Use of scarce resources

In the informal economy capital is extremely scarce, energy is expensive, and labour is abundant; reflecting this, production and distribution are labour-intensive and waste products - bottles, cans cardboard and scrap metal - are collected and used in a variety of ways. The reliance of informal operators on savings of owners, family, friends and relatives ensures that maximum use is made of capital which may not otherwise have been invested (Richardson 1984:22). Informal businesses are also very resilient. In hard times larger enterprises, heavily dependent on foreign markets and imported inputs, tend to fail. The 'survival economy' persists under adverse conditions because it is small-scale, flexible, uses local inputs and because the owners are resourceful and hardworking.

2.1.5 Source of Employment for Women

Informal sector activities are a major source of employment for women. Being able to work at home, or where they can take care of their children, makes informal sector activities advantageous for women. Women are at a disadvantage in the formal sector employment due to their exclusion from educational skills and training, sexual discrimination, and the incompatibility of wage employment with household responsibilities. Self-initiated household oriented enterprises are often the only viable alternative (Sebstad 1982:22).

2.2 Characteristics of the Informal Sector in South Africa

This section presents a descriptive profile of the informal sector in South Africa. It draws primarily on the recent survey done on the statistically unrecorded economic activities of Coloureds, Indians and Blacks undertaken by the Central Statistical Services (CSS 1990) and is supplemented with findings from a recent study on the informal sector in two Pretoria Townships by Liedholm and McPherson (1991). The Central Statistical Service (CSS) survey is the first officially published statistics regarding the informal sector in South Africa. However, one of the major criticisms regarding the survey was directed at the parameters which were taken into account when conducting the survey. The CSS study explicitly excludes the following areas of economic activity:

Do it yourself work

The White informal sector

The independent homelands, viz. Transkei, Boputhatswana, Venda and Ciskei.

Informal activity conducted by Blacks residing in White urban areas.

Informal savings associations

Despite the criticisms it still represents the most comprehensive investigation into the informal sector yet undertaken in this country and forms the basis for the discussion that follows.

2.2.1 The Size of the Informal Sector in South Africa

The size of the informal sector in South Africa has been the subject of intense debate with estimates of the sectors contribution to Gross Domestic Product (GDP) ranging from ten percent to as much as 40 percent (Finance Week 1989:34). It must be borne in mind, however, that any attempt to determine the size of the informal sector, whose very existence may depend on its ability to avoid detection, is fraught with difficulties and estimates may differ considerably depending on the definitions used, the method of measurement and sometimes the vested interests of the researcher. Two broad approaches in determining the size of the informal sector may be distinguished, namely, direct and indirect measurement.

2.2.1.1 Direct Techniques

The direct, or micro-data, approach uses systematically collected micro observations through individual surveys of a sampled population, and is specifically designed to generate data on particular characteristics of firms and individuals involved in informal sector activities (Kirsten 1991:150). An example of this approach is the survey conducted by the Central Statistics Service in 1989 on the informal economic activities of black South Africans (CSS 1990). The CSS concluded that the contribution of the informal sector to the country's Gross Domestic Product amounted to R16 027 billion in 1989. This was equivalent to 7,9 percent of the total GDP

of the Republic of South Africa which amounted to R202 359 billion in 1989.

2.2.1.2 Indirect Techniques

Indirect techniques involve the use of statistics that are already available to estimate the size of the informal sector. The approaches most frequently used to estimate the size of the informal sector are based on an examination of monetary data (Hartzenberg & Leiman 1990:36). Proponents of the monetary statistics approach (Guttman 1977; Feige 1980; Tanzi in Hartzenberg & Leiman 1990) assume that currency is the predominant medium of exchange in the informal sector. Participants in this sector usually operate outside the ambit of the formal banking sector, where demand deposits are the primary means of payment. Even if informal traders did have access to current accounts, many will opt for cash-based transactions in order to avoid detection. Guttman (in Kirsten 1991) postulates that currency is the sole medium of exchange in the informal "hidden" economy, and thus an increase in activity in that sector would be evidenced by an increase in the ratio of currency to demand deposits. Feige (in Kirsten 1991) hypothesises that activity in the underground economy is likely to be recorded in measures of total transactions and assumes a constant relationship between the nature and volume of economic transactions and the official GDP. Based on the assumption that most transactions in the informal sector is cash based, an

increase in the demand for currency relative to bank deposits is a proxy for unrecorded economic activity. Brian Kantor (1989) used the methods developed by Feige to analyse unrecorded economic activity in South Africa. He attributes the significant increase in the real demand for notes after 1980 to an increase in unrecorded economic activity and concludes that Gross Domestic Product at market prices may be estimated as between 16 percent and as much as 41 percent higher than official recorded levels in 1987. Kirsten (1988) uses a combination of direct and indirect techniques to quantify the contribution of the informal sector in South Africa. Her calculations are based on the data obtained from forty five community-level studies in black areas throughout South Africa, including the TBVC states, undertaken since 1975, by various universities, institutions and individuals. The informal sector's contribution to the GDP in South Africa was calculated by measuring directly the income generated by the various informal sector activities in the forty five studies and, through a process of aggregation, calculating the total. Kirsten concluded that the informal sector contributed to 6,5 percent of the total GDP of South Africa in 1985, and is comparable to the figures calculated in other countries.

Whilst there may be some disagreement with some of the conservative and exorbitant estimates regarding the size of the informal sector, the sectors contribution to GDP should not be underestimated.

2.2.2 Employment in the Informal Sector

Table 2.1 gives a breakdown of employment by type in the informal sector in South Africa.

Table 2.1
Employees Employed in the Informal Sector

	Number ('000)	Total ('000)	%
FULL-TIME:		740	27,1
Workers for own account	345		12,6
Employed by others	395		14,5
PART-TIME:		1 987	72,9
Full-time workers in the formal sector, also involved in part-time work in informal sector	699		25,6
Persons working in the informal sector while looking for work in the formal sector	232		8,6
Housewives and scholars	1 055		38,7
TOTAL EMPLOYMENT		2 727	100,0

Source: Adapted from Central Statistical Services 1990:5

The above Table shows that almost 2,7 million Black people are involved in the informal sector in South Africa. Of

these almost three quarters are involved on a part-time basis, suggesting that far from providing work for the unemployed, the informal sector is in many instances merely serving as a means for enterprising people to improve their standard of living. Of those involved in the sector on a full time basis, approximately half run their own businesses while the rest work as employees in such businesses. This is also evident in the study by Liedholm and McPherson (1991) where it was found that owner/entrepreneur in an informal sector business is also the wage employee and participates directly in production process. The results are summarised in Table 2.2.

Table 2.2
Labour Force Composition in Small Scale Enterprises in
Mamelodi and Kwazakele Townships, 1990

Worker Type	Percent of Total
Proprietors	50,0%
Unpaid family workers	29,7%
Hired	18,9%
Trainees	1,4%
TOTAL	100,0%

Source: Liedholm & McPherson 1991:11

Table 2.2 shows that proprietors are the dominant labour type, followed by family and hired labour. In the informal sector, family labour, usually without remuneration, is an

extension of the owner's participation in the production process. Informal sector businesses often operate out of the owner's homes or from makeshift quarters. In the study by Liedholm and McPherson (1991) it was found that over 70 percent of informal businesses in Pretoria townships operate from home. The results are summarised in Table 2.3.

Table 2.3

Firm location in Mamelodi and Kwazakele

Firm Location	Percent of Firms
Home or Homestead	71,1%
Traditional Market	2.2%
Commercial District	7,0%
Roadside	10,7%
Mobile	9,0%

Source: Liedholm & McPherson 1991:13

2.2.3 Trading Activities

The income generating activities according to the CSS study are summarised in Table 2.4.

Table 2.4
Trading Activities

	Number ('000)	Percentage
Trade and Hawking	965	35,4
Crafts	603	22,1
Home Crafts	327	12,0
Services	249	9,1
Scavenging	164	6,0
Transport	161	5,9
Accommodation	20	0,7
Other	238	8,8
TOTAL	2 727	100,0

Source: Adapted from Central Statistical Services 1990:17-18

The definitions of what jobs are contained in the occupation categories follows:

Trade and Hawking includes occupations such as catering of food and drinks; commodity speculator; flower seller; news vendor; peddling; street hawking.

Services include occupations such as baby sitter; caddie;

charwomen; gardener; night watch; shebeen operator.

Crafts include occupations such as backyard mechanic; barber; brick-layer; building contractor; cobbler; electrician; hairdresser; home appliance repairer; plasterer; plumber; thatcher; tinker; welder.

Home Crafts include occupations such as beadworker; beer and liquor brewer and distiller; carver; grass broom maker; knitter; sour milk producer.

Scavenging includes occupations such as bone collector; bottle collector; dung collector; fuel/wood collector; garbage dump scavenger.

Accommodation includes occupations such as room letting; taking in borders/lodgers.

Transport includes taxi operators and other providers of transport.

Other includes occupations such as agriculture/garden production; car-parking attendant; informal school; musician; muti seller; photographer; renting of vehicles; sangoma and unspecified.

Table 2.4 shows that 35 percent of people employed in the informal sector are engaged in trading (including spaza

shops) and hawking. Crafts, accounting for 22 percent of informal sector employment is the second important category.

2.2.4 The informal Sector: Areas of Concentration

The concentration of informal activity in South Africa by region is reflected in the following Table 2.5.

Table 2.5
Informal Sector by Region

	Urban	Non-Urban	Total	Per-cent
Natal/KwaZulu	448 286	534 499	982 786	36,0
PWV/Kwandebele	782 811	87 439	870 250	31,9
OFS/Qwaqwa	106 210	99 822	206 032	7,6
N.TVL/Lebowa & Gazankulu	12 814	191 333	204 147	7,5
E. Transvaal & Kwangwane	39 107	144 510	183 617	6,7
Eastern Cape	89 117	18 041	107 158	3,9
Western Cape	92 763	2 307	95 070	3,5
Western Transvaal	37 940	17 291	55 233	2.0
Northern Cape	16 878	5 657	22 535	0,8
TOTAL	1 625 296	1 100 900	2 726 826	100,0

Source: Adapted from Central Statistical Services 1990:6-11

Table 2.5 shows that the split between urban and non-urban is

approximately 60 percent and 40 percent respectively. In examining the regional breakdown of the informal sector reflected in Table 2.5, the most striking feature is that the largest area of informal activity is not in the PWV area, but Natal/KwaZulu. This is probably due to the high rate of unemployment in the area. The table also shows that over two-thirds of the informal sector is employed in Natal/KwaZulu and the PWV/Kwandebele regions. Apart from these, there appears to be substantial areas of informal activity in the Northern and Eastern Transvaal. The Cape does not feature much as an area of informal activity.

2.2.5 Gender

The CSS study reveals that 46 percent of those involved in the informal sector are women.

Table 2.6
Informal Sector by Gender

	Male	Female
Cities	62,1	37,9
Towns	50,9	49,1
Non-urban	46,7	53,3
TOTAL	55,0	46,0

Source: Adapted from Central Statistical Services 1990:21

Participation by females in the informal sector is lower in South Africa than elsewhere in the region, for example, studies carried out in Lesotho show that female workers account for over 80 percent of the workers in the informal sector (Fisseha in Liedholm & McPherson 1991:12).

2.2.6 Income Earned By Informal Sector Employees

Table 2.7
Average Monthly Income

Trading Activity	Amount
Transport	R1 776
Crafts	614
Trade and Hawking	460
Home Crafts	357
Accommodation	118
Services	161
Scavenging	101
Other	192
TOTAL	426

Source: Adapted from Central Statistical Services 1990:37

The average income earned by a worker in the informal sector, as reflected in Table 2.7, amounted to R426,00. The average of those involved in the black taxi industry is approximately

three times as great as for the informal sector as a whole. The other occupational category with above-average monthly income is the craft industry. The high relative skills of much of the work in this sector is reflected in an above average monthly income in this sector.

2.3 Problems Faced by Informal Sector Traders

The most common problems faced by informal traders are summarised in Table 2.8.

Table 2.8
Primary Business Problem Categories by Business Sector

Problem	Business Sector		
	Manufacturing	Commerce	Service
Funds/Credit	33,3%	23,2%	41,2%
Tools/machinery	11,1%	0,0%	0,0%
Market	13,9%	33,9%	23,5%
Government Policy	22,2%	8,0%	11,8%
Transport	2,8%	14,3%	0,0%
Labour	0,0%	0,9%	0,0%
Inputs	2,8%	1,8%	5,9%
Miscellaneous	8,3%	5,4%	17,6%

Source: Liedholm & McPherson 1991:Appendix

As shown in Table 2.8 informal sector traders operate in the face of much adversity. According to Liedholm and McPherson

(1991) the most frequently cited problems involved finance, market difficulties, work space or location inadequacies, and transport.

Banks and other formal financial institutions cite a variety of reasons for not wanting to lend to informal traders, including high transaction costs and greater risks. The requirements of institutional lenders work against the informal traders and they are forced to rely on their own resources, those of their families or on the high cost of informal credit.

Businesses in the informal sector are subject to the same stringent regulations applicable to other businesses in general (Nattrass 1986:3). It is very difficult, time consuming and expensive for the informal sector to comply with all these regulations, and is therefore forced to operate illegally. "The co-existence and interdependence of the first world and third world economic conditions ..., has left South Africa with a legacy of inappropriate regulations and standards. These may be relevant to the first world sector of the economy, but are highly unsuitable for the development of the third world business sector" (Nattrass 1986:4).

Markets in the informal sector are often very competitive due to the free entry and exit into the sector. This results in market saturation and a consequent decline in sales volume.

CHAPTER THREE

BANKING ON THE POOR: SOURCES OF CREDIT AVAILABLE TO INFORMAL SECTOR MICROENTERPRISES

It is generally agreed that credit is one of the basic ingredients in any successful recipe for development (Cross 1989:1). Almost all studies on the informal sector have shown that microenterprises rarely obtain credit from formal financial institutions such as commercial banks. Virtually all their financial needs for starting up a business, fixed capital investment and working capital are met through personal savings schemes supplemented by borrowing from other individuals. Informal financial systems, such as Rotating Savings and Credit Associations (known under various names in different countries), have been playing an increasingly important role in mobilising and channelling financial resources into the informal sector. After initially discussing the important role that credit plays in microenterprise development, and the factors limiting the access of credit to small borrowers, the primary focus of this chapter is on a discussion of existing financial institutions that, in a limited way, have made it easier for microenterprises to obtain credit. For the purposes of this discussion, these financial institutions have been categorised into informal, quasi-formal and formal financial institutions.

3.1 The Role of Credit in Microenterprise Development

Credit has long been regarded as a key element in microenterprise development strategies and has been the most common and significant form of direct assistance to this sector (Liedholm & Mead 1987:103; Farbman 1981:28). At the most elementary level, credit is simply a means to facilitate exchange. It is part of a system of financial intermediation which transfers money, goods and/or services from one party, or economic transactor, to another, against a specific promise of repayment at a future date (Morgenrood 1980:79). Financial intermediaries accept deposits - providing their clients with a secure place to hold money while offering a monetary return - and use these funds as loans to others who lack sufficient funds for working capital or investment. Credit may, therefore, be regarded as a lubricant for business transactions and its availability is, therefore, important for ongoing production as well as investment.

Based on the principle that inadequate access to credit hinders development and that by controlling credit it is possible to guide the development process, many development agencies and governments in Third World countries have focused their efforts on creating institutional structures that improve the small borrowers access to credit. Experience from the PISCES Studies, an investigation into direct assistance to the smallest economic activities of the

urban poor undertaken in Africa, Asia and Latin America by the Agency for International Development (Farbman 1981), shows that credit is used by microentrepreneurs for the following purposes:

To start a new business. Many people have technical and entrepreneurial skills but lack the capital to start a business. The provision of credit to these individuals gives them the opportunity to take their first steps up the economic ladder.

To reduce time-consuming trips for the purchase of stock and raw materials. With insufficient working capital each days supplies must be purchased with revenue from the previous day. Credit affords the seller the opportunity of buying in bulk thereby reducing the time and effort spent in frequent trips to the supplier.

To reduce the cost of stock and raw materials by allowing entrepreneurs to take advantage of quantity discounts.

To increase turnover and income. As a result of the increase in working capital, entrepreneurs may be able to extend small amounts of credit to their customers thereby increasing the total number of sales and the size of transactions. Raising the incomes of poor people creates multipliers which increase the demand for

locally produced goods and services, thus stimulating economic activity. As income rises, families spend more on education, health care, food, housing and consumer goods.

To improve equipment and methods of production. e.g. replacing manual equipment with electric ones significantly increases the output of businesses.

3.2 Factors Affecting the Small Borrower's Access to Institutional Credit.

Despite the importance of credit, microenterprises in developing countries face substantial growth constraints, partly due to imperfections in the domestic capital markets which result in sub-optimal credit allocation. Evidence suggests that both supply and demand factors are responsible for these imperfections. On the supply side factors limiting poor people's access to formal credit include high transaction costs incurred by formal institutions in administering a large number of small short-term loans, and interest rates ceiling that prevent these institutions from charging a high enough interest rate to recover these costs. On the demand side the inhibiting factors include stringent collateral requirements, high borrower transaction costs and poor people's limited experience with formal financial institutions (Holte & Ribe 1991:9).

3.2.1 Supply-Side Factors

The higher transaction costs of lending to microenterprises as compared to large-scale enterprises is a reason invariably given by bankers for rationing credit to microenterprises. Transaction costs consist of a combination of the cost of administering the loans, and the cost of default risk. Administrative costs are those directly incurred when loans are processed, for example, salaries, rent, stationery, etc., while default risks include provision for reserves to cover the risk of non-payment, and actual bad debts incurred (Saito & Villanueva 1981:632).

There is a fixed cost associated with each lending transaction which does not vary with respect to loan size, and the smaller the loan the higher is the per unit transaction cost. This is supported by evidence from the Philippines where it was found that the estimated transaction costs of lending to small scale industries to be between 12,5 percent to 15 percent of outstanding loans, while the cost of lending to large scale industries was between 10 and 11 percent (Saito & Villanueva 1981:636).

Governments in many developing countries have imposed interest rate ceilings on the formal banking system thereby keeping interest rates artificially low (Sarap 1990:283). This prevents banks from recovering the high transaction costs involved in small scale-lending, resulting in a

rationing of credit to this sector. Hesketh (1989:38) proposes that interest rate ceilings prescribed by the Usuary Act in South Africa be abolished and lenders should be allowed to charge rates commensurate with risk. Those who support this view maintain that small borrowers are used to paying high rates of interest rates in the informal credit markets anyway. Ian Hetherington, Managing Director of Job Creation says that the problem for small businessmen is not the high interest rates, but the availability of funds (Financial Mail 1988:32). In a survey carried out on small-scale enterprise in two Pretoria townships (Liedholm & McPherson 1991) it was found that even at an annual rate of 35 percent, 56.6 percent of the proprietors indicated a desire to borrow funds for their business. Removal of interest rate ceilings will increase the supply of loans to small borrowers at a high but affordable rate.

The selection criteria adopted by formal financial institutions are generally unsuited to the informal nature of microenterprises. These institutions rely on a comprehensive economic analysis of trading results to assess the current state of the business and may sometimes require projections of how the loan will be used. However, using this criteria, many owners of informal sector enterprises will not qualify for assistance because they are unaccustomed to keeping records or maintaining written documents regarding their production or commercial activity (Hesketh 1989:37). A further impediment is their limited practical experience with

formal financial institutions. In a study carried out by Cross (1987) on a peri-urban population in the Durban Metropolitan area, only 25 per cent of those interviewed said they would consider banks as possible loan sources.

"The image of banks is one of authoritarian remoteness which enforces an abject discomfort on the borrower. Respondents associated banks with hard loan terms which do not take account of circumstances, accompanied by the danger of losing your property and being put in jail. For those who did approve this loan source, remarks suggested that it took a person with a cool nerve and ready assets to deal successfully with a bank" (Cross 1987:91).

A common perception among formal lenders is that borrowers in the informal sector use their loans for consumption rather than for investment in their businesses. They ration credit on the grounds that if the loan is not used for productive purposes, sufficient cash flow cannot be generated to pay back the loan. Holte and Ribe (1991) disagree with this perception and quote examples from Bangladesh, the Phillippines and Latin America to substantiate the fact that the majority of borrowed funds are used for productive purposes by clients in the informal sector.

3.2.2 Demand Factors

The higher borrowing costs incurred by small borrowers, as compared to large borrowers, discourages them from approaching formal credit institutions. Microentrepreneurs face several different kinds of costs when they apply for and

receive a loan from a formal credit institution. The effective interest rate of each loan, which includes the interest costs as well as the commissions and fees paid to the lending institution, represents the financial costs of the loan to the borrower. The financial costs, especially the portion determined by the nominal interest rate, are often considered the most critical borrowing costs for poor microentrepreneurs (Adams & Nehman 1979:166). Depending on the source of the loan, however, the financial costs may be a relatively insignificant portion of the borrower's total operating costs and the real cost of borrowing from formal institutions, however, is probably much higher than revealed by the interest rate alone. A significant proportion of the borrower's transaction costs is made up of travelling expenses as well as the opportunity cost in terms of lost working hours. Borrowers are generally required to visit the formal institution several times to negotiate a loan and once the loan has been granted, to pay instalments. A study carried out in Bangladesh shows that the average number of days lost by a borrower in obtaining an institutional loan is 11,5 days, and the average cost of obtaining a loan (excluding interest) was 3,5 percent of the loan (Ahmed 1984:71-73). These expenses may vary depending on the level of development of the banking infrastructure in a particular area. A poorly developed infrastructure will mean larger travelling costs and greater time lost.

One of the most pervasive barriers to formal credit for small

borrowers is their inability to offer collateral security (Ahmed 1984:68). This is a problem for many small borrowers, who generally have little equipment to repossess, are unlikely to have land titles and would have difficulty finding someone to guarantee a loan for them. This problem is compounded for women borrowers because assets that may be used as collateral are usually registered in their husband's name (Holte & Ribe 1991:10).

Ignorance on the part of borrowers about the availability of institutional loans is another reason limiting the small borrower's access to institutional credit (Adams & Nehman 1979:165). This may have resulted from inadequate dissemination of information by the lending agencies and also lack of initiative from some borrowers who never look for the relevant sources (Ahmed 1984:73).

3.3 Types of Financial Institutions involved in Lending to Microenterprises.

Financial intermediaries in developing countries are usually divided into three categories, namely, the informal, quasi-formal and formal institutions (Holte & Ribe 1991:x)

The informal institutions cover all financial activities outside the ambit of institutional finance. It includes borrowing and lending among individuals and firms not registered by the authorities as financial intermediaries and

are not subject to supervision by the government. Finance in the non-institutional sector and includes, arrangements among friends and relatives, lending by professional moneylenders, and, the activities of traditional savings and credit associations (Chandavarkar 1985:129).

Quasi-formal institutions have attempted to combine the positive features of both formal and informal institutions and are usually operated by Non Governmental Agencies who specifically target microenterprises.

The formal financial sector is characterised by those financial intermediaries that are organised on formal, structured and impersonal basis. They operate under government charters, are subject to government supervision and usury laws (Von Pischke 1991:1). They include commercial banks and Development Financial Institutions.

3.3.1 Informal Financial Institutions

Informal finance is often the most common source of credit for the poor because access to informal finance is relatively easy in comparison to the formal sector. A large proportion of credit to the informal sector in developing countries, including South Africa, is provided by non-institutional sources (Miracle et al 1980:703; World Bank 1989; Cross 1985). In small enterprise surveys in several developing countries, as shown in Table 3.1, the vast majority reveal

that less than one per cent of initial investment funds for small producers came from formal sources.

Table 3.1

**Sources of Finance for Initial Investment by Small
Enterprises in Selected Developing Countries
(Percentage by Source)**

Source	Bangladesh 1980	Nigeria 1970	Sierra Leone '76	Tanzania 1968	Haiti 1979
Own Savings	73	94	60	78	72
Relatives	2	4	20	15	9
Banks	**	1			
Government	**	**	**	1	**
Money Lenders	1	**	1	**	1
Other*	23	**	18	6	16

* includes non-responses

** less than one percent

Source: Liedholm & Mead 1987:39

Evidence from a study in KwaZulu (Cross 1985) suggests that the situation in South Africa is not essentially different from other developing countries. Only three out of sixty eight respondents in the study indicated that they have ever received a bank loan (Cross 1985:26).

The popularity of informal credit may be explained by its simple procedure and timely availability. Informal financiers are characterised by freedom from regulation which allows greater flexibility. They are not bound by interest rate ceilings, strict banking hours, reserve requirements etc. Quick decisions based on personal appraisal and the immediacy of disbursement are characteristic of the informal lender (Holte & Ribe 1991:15). Informal moneylenders often provide credit on the spot, implying zero opportunity and transaction costs. The following is a discussion of the types of informal financial arrangements prevalent in developing countries.

3.3.1.1 Family and Friends

The first steps towards self-employment or starting a micro-enterprise rarely calls for borrowing from an institution (Levitsky 1988) and friends and relatives are the most important source of credit for this purpose. Liedholm and Mead's (1987) survey of developing countries found that more than 90 percent of small business owners obtain their initial capital from friends and relatives. Although no statistics for South Africa are available, friends and family are probably the most important source of finance in the informal sector (Financial Mail 1988:33). In most instances there are no or very low interest charges and the conditions of payments are not clearly specified. Fernando (1988) argues that although the nominal interest rate may be zero, and the

real rate negative, depending on the rate of inflation, loans to family and friends may not be totally unproductive for the lender. In societies with a strong tradition of mutual assistance, where a number of activities are characterised by reciprocity, the borrower may be obligated to reciprocate by providing non-financial help or funds when the lender is in need. This possibility of the debtor/creditor relationship being reversed sometime in the future may have a bearing on the interest rate charged (Fernando 1988:257).

3.3.1.2 Moneylenders and Pawnbrokers

Moneylenders have been financing microenterprises ever since commerce began. Due to lack of alternatives small entrepreneurs often make use of moneylenders as a source of credit. Loans from moneylenders are typically short-term and without collateral. Since most small entrepreneurs need quick working capital, the ability of the moneylender to respond quickly and provide short-term finance makes them the only accessible alternative. Among black South Africans, moneylenders are called "mashonisas" which literally means "the one who kills" because of the high interest rate they charge, typically about 20 percent a week (Financial Mail 1988:32). According to the Financial Mail, they usually lend to people they know and suffer very few bad debts. While there is the ultimate sanction of using physical threat to induce repayment, the more rational reason for the low default rate is that if a person defaults once, he loses the opportunity

to borrow again. The reason for this is that moneylenders generally confine their lending to a group of known clients in order to reduce the risk of default (Bell 1990:312).

Moneylenders do, however, inflict high financial costs on their borrowers, for example, interest rates of up to 75 percent p.a. are common (Hoff & Stiglitz 1990:235). Moneylenders operate on a very small scale, the same general scale as their borrowers. Because they face similar investment opportunities as their borrowers in markets characterised by relatively free entry and exit, they must weigh available returns to lending against available returns from alternative, small-scale productive activities. Thus the financial return to a moneylender must be at least as high as the returns on productive capital for other small-scale activities. They must also charge a high enough interest rate to cover losses on defaulted loans and offset their risks. Furthermore, in some places the demand for quick credit is much greater than the supply, and the only suppliers are the moneylenders. In such circumstances, moneylenders can capitalise on their monopoly and ration the available supply of credit by charging very high interest rates. While the interest rate may be higher than that charged commercial banks, the borrowing costs of obtaining a loan (discussed earlier) and the risk of denial by the bank are so high that it may be cheaper to obtain the loan from the moneylender (Adams & Nehman 1979:173). According to Ian Hetherington, chairman of Job Creation, an organisation that

provides skills and entrepreneurial training, allegations that moneylenders exploit their clients are not true because "mashonisas" provide a service that is needed and most customers use them repeatedly (Financial Mail 1988:32).

Pawnbrokers are another source of credit available to clients in the informal sector. They take possession of assets for a fixed term and lend against them at an agreed rate of interest. Once the loan has been repaid the asset may be redeemed (World Bank 1989:114). This type of borrowing is especially attractive to women, since in many cases, jewellery is the only type of valuables that women have access to. They are readily accepted as collateral by pawnbrokers but not by formal financial institutions (Berger in Holte & Ribe 1991:10)

3.3.1.3 Informal Savings and Credit Associations

Informal savings and loan associations, especially the rotating credit associations have a long history in developing countries where they continue to be a major source of credit (Hoff & Stiglitz 1990:243). These associations may be classified into two types, namely, Fixed Fund Associations and Rotating Fund Associations.

Fixed fund associations operate on similar lines as banks do in the formal sector. Members form a group in which they agree to contribute a fixed amount at regular intervals,

monthly or weekly. This amount is held for safekeeping by the treasurer who is elected by the group. At the end of the year, or any other period that the group decides, the contributions made by the members are returned to them. In the simplest case there is no borrowing and the association serves a savings function only. In most other cases, the association may lend to its members on interest. If loans to non-members are made, the interest rate is usually higher. Interest income is divided amongst all the members (Miracle et al 1980:703).

The most popular form of credit association, however, is the Rotating Savings and Credit Association which has been defined as a group of participants who make regular contributions to a fund which is given, in part or in whole, to each member in turn (Ardner in Bouman 1977). If there are twelve participants contributing R10 each then R120 will accrue to each member when his or her turn arrives. The cycle is complete after twelve months. In its simplest form, no provision is made for the organiser's honorarium or any other payments. The person who receives his money first, in fact, receives an interest free loan, while the last person is merely saving his money while extending credit to the others. The other members alternate between debtor and creditor positions (Miracle et al 1980:711-712). It is for this reason that Bouman (1977) finds the term Rotating Credit Association inaccurate and prefers the term Rotating Savings and Credit Associations or RoSCA's for short. Table 3.2

shows some of the informal savings and loan associations that prevail in countries in Africa.

Table 3.2

Informal Savings and Loan Associations in Africa

Country	Local Name	Selected Organisational Characteristics
Liberia	Esusu	Fund rotates
Gambia	Osusu	
Sierra Leone	Asusu	
Senegal	Tontine	Fund rotates
Ivory Coast	Diaou, moni	
Ghana	Nanemei akpee	Fund rotates
Benin	Ndjonu, tontine	Fund does not rotate
Nigeria	Esusu, isusu, Dashi, oha	Fund rotates in some but not in others
Niger	Asusu	
Cameroon	Njangi, tontine	Fund rotates
Cameroon	Mandjon	Group pools funds for investments
Zaire	Ikelemba	Fund rotates
Congo	Tamo	
Sudan	Sandukm khatta	
Ethiopia	Ekub, ikub	Fund rotates
Uganda	Chilemba	Fund rotates in some groups
Zambia	Chilemba	
Zimbabwe	Chilemba	Fund rotates
South Africa	Stokvels	
Egypt	Gameya	

Source: Adapted from Miracle et al. 1980:705

The existence in almost every country in Africa of a large network of informal savings and credit associations attests to the extent of the credit needs and savings potential, even among the poor.

In South Africa, Informal Savings and Credit Associations are

broadly referred to as Stokvels (discussed further in Chapter Five) and are either Fixed Fund or Rotating Associations.

3.3.1.3.1 Advantages of Informal Savings and Credit Associations

Traditional savings and credit associations are accessible to even the poorest segments of the community. Some groups are formed with contributions of just a few rands, while others may contribute hundreds of rands. They are ubiquitous and are to be found operating in both rural and urban areas (Lukhele 1990:1).

Procedures for Rotating Savings and Credit associations are, simple, flexible and informal. The group members themselves form the rules for deciding the amount of the contributions to be paid, who is eligible for participation, the sanctions to apply in cases of default. Because the rules are made by the members themselves, they are easily understandable and consistent with culturally acceptable norms (Bouman 1979:259). Because groups are usually small, members know each other very well, thus limiting the chances of fraud and default.

Traditional Savings and Credit Associations develop a savings discipline because of the commitment required. They are a form of forced savings for individuals who would otherwise be tempted to spend their money on trivialities or withdraw

their savings if it were in a savings account.

Traditional Savings and Credit Association give small income groups access to the informal capital market. They are approachable and sympathetic to the needs of their members. They make it possible for people, who would not qualify for loans from formal institutions, to obtain loans.

They offer their members an opportunity to socialise with each other (Lukhele 1990:27). It is customary to serve food and drinks and to participants at their periodic meetings.

While banks have to pay interest to attract deposits , capital accumulation on traditional savings and credit associations usually take place without any charges. Although this may be a disadvantage to savers, it is doubtful whether members consider this to be a handicap since he or she also has access to an interest free loan (Bouman 1979:261).

3.3.1.3.2. Disadvantages of Informal Savings and Credit Associations.

Although these associations do provide start up capital for businesses, they are inadequate for financing running costs because of the length of time it takes for a person to receive his share of the contributions (Financial Mail 1988:33).

Although precaution is taken when screening members, the chances of fraud and default cannot be ruled out.

The alleged primitive financial technology of RoSCA's have been criticised, especially from the formal sector because the order of rotation makes it difficult for members to finance ventures simultaneously (Bouman 1979:256).

Another drawback is that members cannot dispose of their savings or receive credit at will, since each has to wait for his or her turn (Bouman 1979:267).

3.3.2 Quasi-formal institutions

During the last two decades many government and Non Governmental Organisation (NGO's) have made attempts to adopt the positive attributes of informal finance with those of formal finance in developing financial institutions to meet the savings and credit needs of the poor people. These projects have adapted to local needs and overcome most of the barriers that have restricted poor people's access to financial services. Because they contain both formal and informal characteristics they are referred to as "Quasiformal Alternatives" (Holte & Ribe 1991:18). Berger, in Holte and Ribe (1989) identifies certain broad categories that these quasiformal institutions may be divided into, namely, Intermediaries, Parallel Programmes and Poverty Oriented Development Banks.

3.3.2.1 Intermediary Programmes

Intermediary programmes offer informal sector businesses a link to the formal banking institutions. They are generally run by Non Government Organisations that provide character references, assistance with loan applications and guarantees to lenders. This reduces the implicit costs of formal borrowing and reduce the banks costs and risks of lending to the poor. Non Governmental Organisations (NGOs) may be, for a number of reasons, well positioned to facilitate the development and positive impacts of informal sector enterprises. It may therefore be useful, at this stage to consider some of the advantages of NGO's.

At a Workshop on Private Voluntary Organisations (U.S.A.I.D. 1985) the following advantages of NGOs were identified:

The capacity to induce trust among beneficiaries in target communities. NGOs are seen as more neutral than governments and are more concerned with development in the community.

They have the ability to mobilize human resources and to encourage participation by beneficiaries in projects.

They serve as a bridge between beneficiaries and their community on the one hand and government on the other.

Their willingness and capability to specialise in areas of particular competency rather than trying to everything a multipurpose development agency does.

They are able to keep costs down, particularly because of lowered staff costs.

They have a tendency to keep equity concerns more central in development efforts and more likely to be motivated by conscience than other development agencies.

Their willingness to take risks and to start new, experimental projects.

They are less subject to political controls and intervention than projects of public development institutions.

Some of the disadvantages of NGOs identified at the Workshop are:

They usually operate with limited resources and with a small staff that may lack technical competence.

They work more on the micro rather than macro policy level.

They focus on the needs of the poor rather than on the

profitability of a project. Consequently they may have a "do-gooder" image and may not be business minded.
(U.S.A.I.D. 1985:12)

However, despite these limitations, NGOs, because of their comparative ability to work with the poor and unorganised, are well suited to execute projects aimed at assisting informal sector enterprises.

A typical example of an intermediary credit model administered by a Non Governmental Organisation is Women's World Banking, an international network of women's organisations. The description of Women's World Banking that follows has been summarised from Ashe (1986).

Womens World Banking is an independent financial institution with its own capital fund who operate in many developing countries. Womens World Banking tries to create more incentives for local banks to increase banking services to women so that they will have optimal sources of credit. It maintains an international network of women with financial expertise who can encourage other institutions to provide assistance to women microentrepreneurs in local economies. While the primary focus of Womens World Banking is the development of small enterprises, it also touches upon the broader issues of discrimination against women in the financial market place. Underlying the approach is a desire to encourage national institutions to change their lending

policies towards women. Field staff assist women to band together in solidarity groups for the purpose of training and obtaining credit. Most members are in the same business and know each other and can help assure that loans are repaid timeously. With the help of donations from various sources a guarantee fund is formed that is used as collateral against loans that it authorises. Local banks provide the loans and administer their repayment. WWB and the local banks share the liability for default.

By February 1986, six years after its inception, Women's World Banking in Cali, Colombia helped form 425 solidarity groups with a total membership of 1 507. Seventy one percent of the groups are micro-vendor groups, the poorest of the poor in Cali and Puerto Tejada. The success of the Women's World Banking Cali project is due to a large extent to the efficient way it uses institutional networking to reach the poor.

3.3.2.2 Parallel Programmes.

Parallel programmes provide credit directly to the poor via non-bank institutions. These institutions are usually NGOs that have been set up expressly for the purpose of lending, or have added a credit component to their portfolio of development and social programmes. Examples of such programmes are the Small Business Scheme of the National Christian Council of Kenya (NCKK), the Womens Working Forum

in India and the Get Ahead Foundation in South Africa. An example of the functioning of parallel programmes is provided in Chapter Five, where the Get Ahead Foundation's Solidarity Group Programme is discussed.

3.3.2.3 Poverty Oriented Development Banks.

These institutions are officially registered as banks, but their focus on development differentiates them from commercial banks. They reach very large numbers of poor borrowers, offering a range of services centred on credit. Presented below are two examples of successful lending by Poverty Oriented Development Banks.

3.3.2.3.1 The Money Shops of the Philippines Commercial and Industrial Bank

The Philippine Commercial and Industrial Bank (PCIB) is one of the oldest and largest in the Philippines. The Money Shops of the PCIB are a mechanism through which it can make small loans of between \$125 and \$1 250 to, for example, market stall holders at a reasonable profit. The first two money shops were opened in May 1973. By August 1979 there were 70 shops scattered throughout the Philippines. In setting up the Money shops PCIB identified two objectives:

1. to provide a unique credit mechanism that is relevant to the needs of microentrepreneurs in the informal sector.
2. to disperse the concept of credit use to as wide a popular base as possible (Farbman 1981).

Money Shops are located either within, or on the fringe of, private or public markets and meet the short-term, 30 to 60 day credit needs of commercial customers. Facilities are very simple, often consisting of nothing more than a wooden stall of a sufficient size to accommodate four employees. The Money Shops usually function in fairly large urban markets, as they feel there must be approximately 400 businesses in the immediate market site to justify placement.

Money Shops accept deposits and also make loans. The average yearly operating cost is \$13 600. To reach its yearly income goal, set at \$18 500 per Shop, it must have deposits of \$59 219 and make loans totalling \$47 375 (80 percent of deposits). Money Shop staff typically includes a Junior Officer, an experienced teller and two teller/collectors. All are college graduates. Their duty is to accept savings deposits, appraise loans and accept loan payments. Loans are appraised and granted on the basis of the borrower's character. Because Money shops are situated in close proximity to the borrower it is unlikely that any borrower will be more than five minutes away from the Money Shops.

Merchants are known to each other and to Money Shop Staff on a very personal basis. Quite often family members of the Market Leader - the person in charge of administering the market, are employed by Money Shops to assess borrower risk. In the event that someone fails to come in for several days to repay, he can be contacted easily. If necessary, social and economic sanctions can be applied through the informal market leadership.

The interest rate charged is 14 percent per annum plus a 2 percent monthly service charge. Repayment is daily. Historically, only 2 percent of all loans made have not been recoverable. Depositors receive 9 percent interest compounded quarterly.

The PCIB experience with money shops indicates that extremely small loans can be made at a profit to market stall holders, in the right circumstances. One important element in the success of the Money Shops seems to be its proximity to, and daily interaction with its clients.

The PCIB Money Shops show that the major urban markets of the developing world are good potential clients of a micro-enterprise credit programme.

(Farbman 1981).

3.3.2.3.2 The Badan Kekataman Programme, Indonesia

The Badan Kecamatan Programme (BKK) began in 1970. It operates in Central Java, just one of Indonesia's 27 provinces but a large one, with a population of about 30 million. BKK consists of some 500 autonomous units operating at the sub-district level under the supervision of the Provincial Development of Central Java. It makes very small loans (90 percent are below \$60) to poor rural borrowers, initially selected on the basis of character references and then permitted to take out subsequent loans for larger amounts if they repay satisfactorily. The motto of the BKK is "fast, cheap, and productive credit" and its primary objective is to supply convenient capital to the rural poor in Central Java for off-farm income-generating activities.

The programme is composed of 486 BKK, each of which is an independent sub-district credit institution that is locally administered and financially autonomous. BKK's are subject to instructions and guidelines from provincial government. The key components of the BKK programme are to:

- Rely on character references from local officials for loan eligibility, rather than on the availability of collateral or lengthy staff analyses of a proposed enterprise's feasibility;
- Reduce risk by making small initial loans to a new

borrower, and then gradually raising that client's credit ceiling as his or her repayment record warrants;

- Use repeat loans as the borrower's primary incentive for full and timely repayment;
- Charge interest rates high enough to cover operating expenses, including the cost of funds.
- Blend local autonomy with overall programme quality and control, by stressing a highly decentralized organisational structure with villages as the focus of operations, together with central programme supervision.

The BKK programme is one of the few publicly funded and administered credit programmes in the world that makes money from providing loans to small enterprises. The interest rates of BKK, high in comparison with other programmes but low by most informal sector standards, can cover their cost of funds, administrative expenses, capital erosion due to inflation, and any reasonable bad debt losses. They can also allow substantial reinvestment of retained earnings. The BKK programme has blended the speed and convenience of traditional moneylenders with the operating philosophy and profit margin of a commercial bank.

Survey results show that the BKK loans have promoted the expansion of most borrowers' businesses. In addition to improving ongoing activities, about one quarter of BKK clients have begun new economic activities since receiving their first BKK loan. BKK loans have had a positive, although moderate effect on employment.

The BKK, unlike the Grameen Bank, is more an economic venture than a social movement. As such it is probably easier to replicate. The BKK has also shown that micro-lending can be profitable, and that clients can sustain high interest rates. The most common loans are given for 12 weeks and charge 3,6 percent interest per month in addition to 3,3 percent per month in forced savings. Despite these high rates, the businesses assisted through the programme have prospered. (Goldmark & Rosengard 1983).

3.3.2.4 Credit Unions

Credit unions were established mainly in South America during the 1960's in order to extend financial services to the poor who were usually excluded from formal financial institutions (Vogel & Burkett 1986:18). Basically, credit unions provide an outlet for savings that is in turn made available as credit to the same group. A credit union may thus be defined as a group of people who join together to save money, make loans to each other at low interest rates and are united by a common bond (Cape Credit Union league 1986:1). Credit

Unions are voluntarily administered by its members because the underlying principle governing them is service to its members rather than the profit motive.

Credit is usually provided in the form of Provident Loans, for household expenditure and emergencies, or Productive Loans, for the purposes of starting a business. The interest charged on a loan is usually 1 percent per month (12 percent p.a.) on the unpaid balance of the loan (Cape Credit Union League 1986:4).

3.3.3 Formal Institutions

Although on a very limited scale, some formal financial institutions have developed ways of directing credit to small borrowers. Some of these examples are presented here.

3.3.3.1 Commercial Banks

Traditionally commercial banks have been reluctant to extend their lending to informal sector businesses for reasons discussed earlier. However, one method of involving banks in lending to small borrowers is the action of a few governments of imposing "portfolio quotas" i.e. commercial banks are required to set aside a percentage of their loan portfolios to provide loans to very small enterprises. For example, in India, the Reserve Bank rediscounts money to commercial banks which are in turn required to allocate one per cent of their

total loan portfolios to small scale borrowers. Up to 85 per cent of the lending is guaranteed under the Credit Guarantee Scheme of the Reserve Bank of India (Farbman 1981:344).

The banking system, and particularly the nationalised banks in India, have given priority to the credit requirements of this sector. The rate of interest charged on short-term and the medium-term loans to small industries is lower than for other types of loans. As a result of the concerted efforts made by the banks, the volume of credit as well as the number of beneficiaries has increased substantially. The Bank of Baroda operates a Multi-Service Agency Branch, which was established for the sole purpose of providing small loans under this scheme. Bank officials group their clients by community and depend on recommendations from other clients to involve new business owners. According to bank reports, over 90 per cent of the loans have been repaid (Farbman 1981:135).

Another example of successful commercial bank lending to small enterprises is the Banco del Pacifico in Ecuador. The Bank's main objective is to provide small loans to established artisan manufacturers with good credit histories and co-signers. A unique feature of this programme is that the Bank makes a detailed analysis of the business and helps borrowers to draw up a plan on how to utilize the loan funds (Farbman 1981:220.). There is a lack of paternalism and clients are treated as responsible persons with contractual obligations. This is important for the psychological growth

of the individual as it stimulates self-esteem and confidence in their own abilities through using credit and paying back loans. The formal banking system, with its well developed institutional structure and branch system, is probably best suited to provide credit to large numbers of people in the informal sector. However, banks that target the small borrower are still small in number. In South Africa no commercial bank has a programme that specifically targets the small borrower. It is hoped that as more evidence that "banking on the poor" can be successful becomes available, the formal banking system will be prompted to face up to the needs of this sector.

3.3.3.2 The Small Business Development Corporation

The Small Business Development Corporation (SBDC) was established in 1981 as a joint development initiative between leading South African businesses and the State with the objective of developing small business for the benefit of all South Africans. Although the government and private sector are equal shareholders in the SBDC, the private sector has majority representation on the Board of Directors. The SBDC offers a variety of loan programmes to both the formal and informal sectors. Programmes aimed specifically at the informal sector include:

The Comprehensive Assistance Programme, which provides special assistance to informal and semi-formal small

businesses. The maximum loan is R50 000 and the interest can be subsidised up to a maximum period of 36 months. A variety of aftercare services accompany this loan programme.

The Credit Guarantee Scheme, operated in conjunction with Commercial Banks, in which the SBDC guarantees loan repayments to banks. The Mini-Loan Programme, available to very small businesses, provides loans up to R5 000. The repayment period is six months and the interest rate is 1 percent per month (S.B.D.C. 1988).

3.3.4 Informal and Formal Institutions Compared

Attempts to use commercial bank or development bank format with modern offices, unionised staff, and national wage scales when retailing small scale financial services are likely to be unsuccessful. In comparing formal and informal financial institutions Von Pischke (1991) identifies certain important lessons that can be drawn. He suggests that considerable attention should be given to informal financial arrangements and to an understanding of those characteristics of informal finance that make them so attractive to their users, for example, trust and confidence, low transaction costs, convenient hours and locations for transactions, and continuity of relationships and effective procedures for dealing with defaulters. These traits have been taken into account in many of the quasi-formal institutions discussed in this chapter.

These programmes, although operating in different economic environments, were designed for the poorest level of entrepreneur and have a high percentage of female participation. They are effective at working at this level because their components are designed with this level in mind. The programmes are also similar in their self-selection and self-promotion techniques. A character reference with the promise of larger future loans avoids lengthy and costly visits to the business, accelerates the loan application process, and results in high repayment rates.

Because they are providing a service that is in great demand, the programmes need very little promotion beyond an initial phase that lets people know of their existence and policies.

In all these programmes, the initial size of the loan is small, which, in addition to discouraging the participation of wealthier businesses, minimises the programmes' risk. Prompt repayment of initial loans proves to programme staff that the borrower is creditworthy and can use a loan of that size productively. The entrepreneur, realising that prompt repayment virtually assures the availability of larger loans, would try to maintain a good credit record, and the daily or weekly loan repayment schedules are designed to make it easy to do this.

Another common feature of these programmes is that interest rates are not subsidised; they are as high or higher than commercial interest rates. The high interest rates promote the self-sufficiency of the programme and discourages the participation of entrepreneurs who have access to credit at commercial rates.

Many Non Governmental Organisations have a tradition of social service and are not accustomed to dealing with beneficiaries as clients. The quasi-formal institutions described in this Chapter deal with their clients in a professional manner. They realise that clients can manage their own businesses and are capable of development. Their role is to help them achieve their goals, and the beneficiaries are treated as responsible clients with financial obligations.

CHAPTER FOUR

THE SOLIDARITY GROUP STRATEGY

Solidarity Group lending, conducted by Non Governmental Agencies and Poverty Oriented Development Banks, is a model for delivering financial services to informal sector businesses that has been widely introduced over the last two decades. This form of lending emerged during the 1970's in diverse settings such as Africa, Asia and South America and was initially described in a comprehensive survey on microenterprises by the United States Agency for International Development (Farbman 1981).

Basically, the Solidarity Group methodology is a programme in which members of borrower groups are jointly liable for loan defaults by individual group members (Burkett 1989:401). It adopts elements of the traditional model for Rotating Savings and Credit Associations (ROSCA's) that are widespread in the developing world. Several development organisations have introduced group lending schemes modelled on these indigenous practices, for example, the Grameen Bank in Bangladesh, Association for the Development of Microenterprises (ADEMI) in the Dominican Republic, and the Get Ahead Foundation in South Africa.

The purpose of this Chapter is to firstly describe the Solidarity Group methodology as a mechanism for delivering

credit to microenterprises, and then to discuss how the experience of Solidarity Group lending offers insights into several issues influencing the development field in general and microenterprise lending in particular. The Chapter also focusses on the experience of two of the most successful group lending programmes in the world, namely, the Grameen Bank and ADEMI.

4.1 The Solidarity Group Methodology

Solidarity Groups are usually formed among beneficiaries of small and microenterprise support projects both as a requisite to receive credit, and voluntarily for mutual business and social service support. The groups of five to eight members are often neighbours who operate similar businesses. One loan is disbursed to each group, which is in turn divided equally among all the group members. The groups are responsible for collecting payments on time and are legally constituted to the degree of sharing responsibility for the credit borrowed by each of the group members. Usually the members of the group sign an agreement that each is responsible for the total credit borrowed by the group. In this way, if one member is unable to make a payment the other group members pay his or her quota. Solidarity Groups take the place of collateral and co-signatures but still assure a high level of self-supervision.

Group formation is a credit requirement for three reasons.

Firstly, it simplifies credit delivery. The Solidarity Group disburses one loan instead of four or five, which is more efficient because it decreases administrative and operating costs. Secondly, it creates group incentives and group pressures to assure timely repayment. Thirdly, it is a way to introduce collective, problem-solving mechanisms among the beneficiaries, and is an intermediate step to the broader goal of organizing microentrepreneurs around issues of mutual concern.

4.2 Characteristics of effective Solidarity Group Programmes.

Based on their theoretical analysis and a review of case experience, Otero (1986), Hupi and Feder (1990) and Stiglitz (1990) independently, identify group lending features that strengthen the likelihood of success and are consistent with the practice of Solidarity Groups. A discussion of these features follows.

The number of members in a group is important for the successful performance of the programme. With groups of eight or more members it is less likely that clients will know each other well and problems may arise in the collection of payments from each member. If the groups are too small (less than five) non-payment by any member may be too costly for the other members to absorb. Research in the Dominican Republic has shown that default rates are directly related to

group size. There was a significant drop in recovery rates as the size of the group increased (Desai 1983 in Huppi & Feder 1990:192). In a study of group credit schemes in Zimbabwe, Bratton (1986) found that larger groups had a greater delinquency rate than smaller groups. One of the most successful group lending schemes in the world, the Grameen Bank in Bangladesh, has after experimenting with various group sizes, settled on five as the optimal number (Fuglesang & Chandler 1988:21)

Loans are generally made to groups that are relatively homogenous i.e. they come from the same neighbourhood or village and have similar economic backgrounds. Since the group takes responsibility for the payback of all its members, the members must know each other well, and have a sense of responsibility and commitment to each other for the system to be effective. The Grameen Bank lends only to groups from the same village whose members are of the same sex and have a similar economic background (Fuglesang & Chandler 1988:29)

A major factor contributing to the success of Solidarity Group Programmes is that groups are formed by the business owners themselves with the minimum of staff intervention. It is unlikely that a person who is regarded as a poor credit risk would be invited to join a group. As one chairman of a solidarity group in Zimbabwe remarked, "when people join they have to agree to repay: we are wary of the laggards, who can

easily promise but cannot perform" (Bratton 1986:126).

Orientation courses are held for groups before they receive their loans. During these courses programme staff explain the Solidarity Group concept, the obligation of the group members to each other, assist in group consolidation and emphasise group responsibility for the repayment of loans. Regular training sessions are also conducted by programme staff on a variety of issues related to economic production and enterprise management.

The first loan is generally very small and is used for working capital. The repayment period varies from three months to one year. The first loan is a test for the solidarity group. The risk is minimal for the business owners as well as the lending institution.

Solidarity Groups have developed a variety of mechanisms to facilitate timely repayment. Among these, the most important is the group itself. The group members are responsible for collecting the total loan. No member of a Solidarity Group is eligible for additional credit until the whole group has repaid its loan. In addition, second and subsequent loans are made immediately and in larger amounts to groups that repay on time. This continued availability of quick credit promotes repayment.

4.3 The Economic Rationale for Solidarity Group Lending

The economic rationale for peer group lending has been outlined in articles by Huppi and Feder (1990) and Stiglitz (1990). In economic terms, these authors underscore many of the practical problems that the group lending approach resolves. For example, Huppi and Feder note that group schemes allow lenders to reach economies of scale by lowering their per unit transaction costs (for example, lending to five people but administering one loan). Although acknowledging that the lender's transaction costs may be reallocated to the borrower, this cost to the borrower is considered reasonable when evaluated against the implicit cost of the inaccessibility to credit.

These authors contend that group lending contributes enhanced information about borrowers. Because economists believe that the principal cost to lenders is determining the probability of default and credit-worthiness of borrowers, the screening function provided by the group is vital. Next they note how the risk pooling through joint liability has served an important deterrent for default. Peer pressure among group members may induce repayment. More importantly, rather than forgo access to future loans, remaining group members will make good on missing payments of group members. Huppi and Feder note, "A lender's ability to deny credit to groups or cooperatives if any member defaults is often the most

effective and least costly way to encourage loan repayment." (Huppi & Feder 1990:190).

Finally, the authors note the improved bargaining position of the borrower. By decreasing transaction costs and lowering the risk of default, financial services can be provided to individuals who would otherwise have no access to credit. Participating group members improve their access to credit and obtain better terms than they would be able to obtain as individual borrowers.

Stiglitz has developed a general theory of peer monitoring. Building on the "Imperfect Information Paradigm" discussed by Hoff and Stiglitz (1990), peer group lending addresses the three principal problems of the lending relationship: screening - determining the risk of each borrower; incentive - actions that ensure repayment, and enforcement - measures that compel repayment. By allowing groups to screen members, lenders benefit from intragroup familiarity of their members' likelihood to default. Second, the potential for repeat loans provides a clear incentive for repayment. Finally, peer group members assume the enforcement function, thus reducing lender costs.

Although Huppi and Feder, and Stiglitz have explained Solidarity Groups from a more traditional perspective, Floro and Yotopoulos (1991) provide an alternate explanation. Referring to the new institutional economics, they emphasise

the effect of behaviour and attitudes on economic relations. In this perspective, the strength of peer group lending lies in its ability to mobilise borrowers through social and institutional forces, rather than traditional economic forces. They argue that in the third world, where commercial institutions are largely underdeveloped, personal relations (family or community ties) hold precedence over legally prescribed covenants such as formal loan agreements. In that sense, a borrower is more likely to respond to the mutual guarantee obligation in a peer group lending arrangement than to a legally binding credit agreement signed with a public agency. Personalised relationships often serve an important economic function in societies characterised by social and economic sanctions and conventions that have nothing to do with standard profit maximisation behaviour.

Fuglesang and Chandler (1988) in describing the group loan scheme of the Grameen Bank commented that observers, brought up in a Western society, may react uncomfortably to the functioning of the social pressure of the Solidarity Group.

"The starting point for Western democracies is largely premised on individual rights to freedom and privacy. Yet, it is becoming increasingly clear that Western individualism is constraining to social life. People are taken up with their individualness to such a degree that they stop relating to others as human beings. More damaging is the diminishing awareness of the human condition of interdependence" (Fuglesang & Chandler 1988:116).

Referring to the communal spirit among Blacks in South Africa, Lukhele (1990) observes:

"Since 1652 ... when the first whites arrived in South Africa, the black experience has been one of conquest, domination and control. Blacks have been sustained throughout this period by the indigenous African system of communalism, sharing and co-operation. The stokvel concept cannot be clearly understood unless one realises that it thrives on this tradition" (Lukhele 1990:1).

An argument can therefore be made for a credit delivery method such as Solidarity Groups, that effectively draws on the communal spirit, so prevalent in developing countries, to deliver credit.

Although Solidarity Group Programmes draw on many of the same social dynamics of ROSCAs, they resolve several problems commonly associated with their operations. Members can control the timing of their loans so that they may obtain financing when their business can best use it. Members are not obliged to divert a significant share of the loan to meet hospitality obligation. The timing and use of the loan then is not subject to factors beyond the group members' controls. Further, members need not risk the group disbanding midway or a group member misappropriating funds.

4.4 Solidarity Group Programmes as a form of Development Finance.

Many targeted credit schemes have been made available through highly subsidised public or quasi-public Development Finance Institutions. Development Financial Institutions have been defined as financial intermediaries that emphasise the provision of medium and long term capital for development (World Bank 1990:ix). Burkett (1989), Huppi and Feder (1990), the World Bank (1990) and Yaron (1991) note that Development Finance Institutions have frequently failed in the past; they are characterised by poor financial performance, low loan collection, high transaction costs, and inadequate financial reporting. Presented below is a discussion of Solidarity Group lending considered in the light of traditional Development Financial Institutions.

Solidarity Group Programmes provide services that are more akin to commercial lines of credit, whereas Development Financial Institutions traditionally concentrate on term financing. In most cases, working capital is financed and the borrower enters into a repeat lending arrangement, much like what would occur with a commercial bank and a small business in other environments. This contrasts with most Development Finance Institutions that conduct project financing for business start-up through fixed medium-term loans (World Bank 1990:38).

Development Finance Institutions concentrate on new project development; preference is given to industrial firms that may demonstrate higher economic rates of return (World Bank 1990:38). Solidarity Group programmes lend almost exclusively to existing businesses or for businesses for which borrowers may have shown some experience. Further, Solidarity Group programmes are made available to all sectors of the economy: commerce, service and manufacturing. Loan distribution across sectors parallels the prevalence of those sectors in the economy. In that sense, Solidarity Group programmes respond to demand that exists in the financial services market, rather than attempting to generate demand.

Development Finance Institutions typically invest considerable time and financial resources to assess the viability of each proposed project. Independent and costly marketing analysis and feasibility studies are often conducted for each project financed. For expansion of existing operations, historical financial records are needed. Yet, such studies have not proved to be reliable predictors of project success (World Bank 1990). Solidarity Group programmes limit their analysis to a cursory review of repayment prospects. In some instances, project-specific review is not undertaken at all. By focusing on working capital to existing businesses and by securing the loan through the group arrangement, the lender side-steps the need to conduct in-depth project appraisal.

Solidarity Group programmes explicitly aim at reaching poor households. Poor households, particularly women, are interested in the small loan amounts made available through Solidarity Group programmes. Development Finance Institutions, instead, typically provide financial services to more affluent segments of the population (Egger 1986; Anderson & Khambata 1985). Unfortunately for Development Finance Institutions, this same set of affluent borrowers have proved to be less reliable borrowers, particularly if the project encounters difficulties. Poorer borrowers, who have received very little prior development assistance and are likely to be denied access to future services in the case of loan failure, place greater value on the services received and are more likely to respond with responsible borrower behaviour (Yunus 1988:30).

4.5 Examples of Solidarity Group Programmes in other Developing Countries

In this section, two group lending programmes, namely, the Grameen Bank and the Association for the Development of Microenterprises (ADEMI) are presented in order to demonstrate the performance of Solidarity Group Programmes. These programmes have been selected because they:

- Have been transformed from donor-oriented pilot projects to successful client-centred lending institutions;

Have a stable performance for three years or more;

Operate on a significant scale (active portfolio greater than \$1 million); and

Have attained self-sufficiency.

4.5.1 The Grameen Bank, Bangladesh

In Bangladesh, the rural landless people who are desperately in need of credit generally remain outside the ambit of the formal banking system. Dr Muhammad Yunus, Professor of Economics at Chittagong University, launched an action research programme in 1976 to explore the possibility of designing a framework which would bring the rural poor within a viable banking network. Yunus reasoned that if financial resources can be made available to the landless people at terms and conditions which are appropriate and reasonable, "the millions of 'small' people with their millions of small pursuits can add up to create the biggest development wonder" (Yunus 1988:29). This action-research programme which he called the "Grameen Bank Project", came into being with the following objectives in mind:

1. To extend the banking facilities to the poor men and women.
2. To eliminate the exploitation of the moneylenders.

3. To create opportunities for self-employment for the vast unutilised and under utilised manpower resources.
4. To bring to the disadvantaged people within the folds of some organisational format which they can understand and operate, and can find socio-political and economic strength in it through mutual support.
5. To reverse the age-old vicious cycle of "low income, low savings, low investment, low income" into an expanding system of "low income, credit, investment, more income, more credit, more investment, more income" (Siddiqui 1984:3).

The project demonstrated its strength in the village of Jobra during the period 1976 to 1979, and with the sponsorship of Bangladesh Bank and some of the nationalised commercial banks, the Grameen Bank Project was transformed in 1983 into an independent bank with the name "Grameen Bank". (The Bangla word, 'grameen', means rural). The government provided sixty percent of the initial paid up capital of the bank, while the remaining forty percent was held by the clients of the bank. Except for foreign exchange transactions, the bank is empowered to carry out the entire range of banking functions.

Clients are landless men and women who must form themselves into Solidarity Groups of five in order to receive loans for which no collateral is required. The group members should enjoy mutual trust and confidence, and have similar economic and social backgrounds. Any person whose family owns less than half an acre of land is eligible to take loans from the bank for any income generating activity.

Before loans are given to the eligible borrowers they have to undergo an intensive training of one to two weeks about the philosophy of the bank and its rules and procedures. During this period the members must satisfy the bank staff of their integrity and seriousness, understanding of the principles and procedure of the bank and the ability to write his or her name.

Each group selects its own chairperson and secretary who hold office for one year only. The group chairperson is responsible for discipline in the group, and members conduct their business with the bank through him or her at weekly meetings, which all members are compelled to attend. Several groups in the same village are federated into a "centre" and from amongst the chairpersons of the groups a "centre chief" and a "deputy centre chief" are elected. They conduct the weekly meetings of the centre, recommend loan proposals, supervise the loan activities and assist bank workers in their work.

When a new group is formed it is kept under observation for a month to see if the members are conforming to the discipline of the group. After the observation period is over, only two members are selected to receive their loans. All loans are repaid in weekly instalments amounting to two percent of the loan received. The current interest rate is 16 percent per annum. If after a month, the first two clients maintain a satisfactory repayment record, then the next two members will receive their loans. The fifth person, usually the group leader, receives his or her loan when the second set of borrowers have established their reliability. In this way the individual is kept in line with a considerable amount of peer pressure. Equally, he is sustained by a considerable amount of peer support. If a member experiences difficulty in meeting his or her repayments, the group may arrive at a private arrangement to pay the instalment because the credibility of the group as a whole and its access to future loans may be in jeopardy if one member defaults. This is the whole basis for the reason why the Grameen Bank can lend without collateral surety. Social collateral replaces material collateral.

The basic principle of Grameen Bank is that the people will not go to the bank, but the bank must go to the people instead. All transactions are done with the group members at their weekly meetings. A bank worker attends the weekly meetings to collect instalments, and receive the Group Fund deposits. All loan proposals are discussed with the bank at

these meetings.

Every member is required to deposit one taka (1 US dollar = 33.15 taka) every week as a personal saving, This is accumulated in an account called the Group Fund. Over and above this, when a group member receives a loan an obligatory deduction at the rate of five percent of the loan amount is made. This is known as Group Tax. A member pays "tax" for the financial services he or she enjoys by being in a group, and also to build up a reserve for the group itself. Group tax collection is also deposited into the Group Fund account. Any member can borrow from the Group Fund for any purpose, either investment or consumption, with the consent of the remaining members at terms and conditions decided by the group. The Group Fund is explained to the members as being their "little bank" - to protect them from going to the moneylender when they need immediate cash.

Besides the Group Fund, members create another fund called the Emergency Fund, which is basically an insurance fund against default, death or accidents. Each member contributes twenty five percent of the total interest on his or her loan to the Emergency Fund. Although this may seem that the member is in effect paying twenty five percent higher interest rate, in actual fact the client is being "forced" to pay an insurance premium to cover against a whole range of emergency situations.

The Grameen Bank represents one of the most successful microenterprise lending schemes in the world. As of April 1986, the Grameen Bank had grown to over 200 branches, covering more than 4 000 villages with almost 200 000 members. At the same date over 98 percent of the loans had been recovered within one year of disbursement. (Fuglesang & Chandler 1988:107).

4.5.2 The Association for the Development of Microenterprises, (ADEMI), Dominican Republic

ADEMI is a private, non-profit organisation located in Santo Domingo, Dominican Republic. It was established in April 1983 by the Dominican private sector to confront the problem of unemployment and underemployment in the country. Its goal is to create employment and increase incomes through credit and technical assistance programmes to a countrywide clientele of small businesses. ADEMI's successful credit programme has expanded from a Santo Domingo-centred pilot programme to a larger programme throughout the Dominican Republic.

ADEMI lends to microbusinesses in the informal sector. Through the programme, participants are first eligible for small loans and gradually qualify for larger loans as previous loans are repaid. Clients are also required to maintain savings accounts in commercial banks. Through this

process, a client builds up a credit record and gains valuable experience working with banks. ADEMI has two loan programmes designed to reach two categories of beneficiaries. The first programme offers individual credit for microenterprises that have a fixed place of business such as shoemakers, carpenters and seamstresses.

The second programme is for Solidarity Groups of five or six business people who are held jointly responsible for repayment of the group's loan. One group member is elected as a representative and is responsible for collecting payments. Solidarity Group members are the smallest and poorest enterprise owners and do not have a fixed place of business. Many of the solidarity groups are comprised of mobile vendors. Such businesses represent an extremely high credit risk, and individually would not meet the requirements for the microenterprise loan programme. The objectives of the Solidarity Group programme are not only to increase incomes and employment, but also to increase empowerment by means of developing mutual support and leadership through group processes. The Solidarity Group structure not only allows ADEMI to meet the needs of the poorest businesses, but has generated higher repayment rates than those of the microenterprise loans.

ADEMI's programme focuses on access to credit, advice on business organisation, and simple administrative assistance. At first clients are only allowed to borrow small sums of

money, similar to the sums they are used to obtaining from moneylenders. The amount a client becomes eligible for increases as the client demonstrates that he or she is creditworthy. Financing is based on the business owner's production cycle which varies from one to six months. Initial loans are for raw materials and wages. As the business cycle grows, ADEMI offers supplementary loans for the purpose of fixed assets.

Since the initial loan is small, the credit analysis is simple and usually takes only a few days. There are also no initial training requirements, so clients do not have to spend many hours away from their businesses. As the client qualifies for progressively larger loans, ADEMI provides accounting and management training through advisors sent to the clients business. The clients are required to open a savings account, and are urged to deposit part of their loan in the bank.

ADEMI's protection from financial risk lies in the incremental structure of its loans. The prospect of receiving larger loans in the future provides the incentive for the microenterprise owners to repay. Co-signing of loans by all members of a solidarity group encourages repayment in that programme. There is a 0,5% finance charge for every day payment is late. If this is not sufficient, ADEMI takes legal action against the defaulters.

ADEMI does not subsidise interest rates but charges market rates that are very reasonable relative to the high rates charged by moneylenders. In this way, ADEMI can cover its own operational costs.

ADEMI has achieved outstanding levels of loan repayment, income growth, and employment generation. In just three years of operation, the programme achieved self sufficiency and covered its administrative costs with interest earned on its loans. Although ADEMI's clients are a high risk group, the programme has maintained a 1 percent late payment rate for individual loans and a 6 percent late repayment rate for solidarity group loans. ADEMI's success is due to the methods it uses to support the entrepreneurial talents of microbusiness owners. It starts with individuals who have displayed entrepreneurial talents and who have at least one year's business experience. ADEMI does not try to reshape the business plans of its clients, but helps the business owners to carry out their own plans.

The programme has reached the urban poor, and over one-third of its clients are women. It now serves over 40 cities in the Dominican Republic and disburses 300 to 550 loans monthly (Bowman 1987).

4.6 Limitations of Solidarity Group Programmes

Despite the growth and success of Solidarity Group Programmes worldwide they have been criticised in many areas. The principal criticisms are outlined below.

Burkett (1989) contends that joint liability may provide borrowers with access to formal loans which individual group members would otherwise be unable to obtain. However, joint liability and group membership also impose costs on individual borrowers, for example, any loss of wealth in the event that another group member defaults. This cost may be just the denial of access to future credit from the institution, and/or the actual liability for repayment of the defaulted balances of other group members. In addition, other transaction costs may be incurred by group members when they participate in group meetings specifically related to obtaining the loans, or with the enforcement of loan repayment by group members.

Critics have contended that the high interest rates charged by Solidarity Group Programmes have spawned a segment of the microentrepreneur population that have become addicted to working capital loans. Because of the high interest rates paid on these loans, once paid back, critics contend that working capital of the borrowing enterprise is the same or perhaps even lower than before borrowing, thus requiring future loans for the enterprise to keep going. As soon as

the first loan is repaid, borrowers require a second larger loan to maintain their business and possibly grow and have difficulty weaning themselves from this credit dependency (Grameen Bank 1988:32)

Another feature critics have found problematic has been what is perceived to be coercive tactics used among solidarity group members to enforce on-time payment. These tactics reach dramatic proportions in very poor communities. Members may be obliged to borrow from moneylenders to meet payment shortfalls, placing in jeopardy what little household assets the poor families may own. In other instances, fellow group members may coerce a group member through other social pressures. Although the emergency funds have been created specifically to establish a fall-back position, it is clear that adhering strictly to the repayment schedule may indeed represent a hardship for some group members at some times.

By concentrating on reaching the very poorest strata of the informal sector, Solidarity Group lending emphasises self-employment over employment generation. Some argue that maximum economic benefits can be achieved through employment generation in slightly larger enterprises. (Grameen Bank 1988:45)

CHAPTER FIVE

SOLIDARITY GROUP LENDING: THE SOUTH AFRICAN EXPERIENCE

Solidarity Group lending programmes in Africa are able to draw on the widespread practice of Rotating Savings and Credit Associations that proliferate in almost every country on the continent (refer to Table 3.2 on page 66). March and Taqqu (1982) highlight the social foundations of traditional ROSCA's that influence their success and note that any programme designed to improve the economic viability of informal sector enterprises should share many structural and functional patterns of these rotating associations. In South Africa, the Get Ahead Foundation, a Non Government Organisation that supports local economic development, has established a Solidarity Group lending scheme based on the traditional stokvel rotating savings associations. A description of the organisational structure and activities of the Get Ahead Foundation is presented in this Chapter to show how Solidarity Group lending operates within the South African context, and also to provide the background material to the empirical study in Chapter Six. However, in order to fully understand the process of Solidarity Group lending in this country, it is necessary to understand the economic and social importance of stokvels from which Solidarity Group lending has evolved. This Chapter, therefore, begins with a discussion on the stokvel movement in this country.

5.1 Stokvels in South Africa

Rotating Savings and Credit Associations (discussed in Chapter Three) have been in existence in South Africa since at least the early years of this century (Thomas 1991:290). They have been known by a variety of terms such as stokvels, gooi-goois and umgalelos. However the name stokvel seems to be the most popular and is probably a corruption of the term "stock-fairs" - referring to the rotating cattle auctions of the early English settlers in the Eastern Cape.

Stokvels in South Africa are either Fixed Fund or Rotating Associations. They are ubiquitous and are to be found in urban as well as rural areas, in hostels, factories, squatter camps, amongst the employed and unemployed people. Although mutual financial assistance is the primary objective of stokvels, they also serve important social and entertainment functions (Lukhele 1990:1).

Membership of stokvels are usually based on friendship ties or some form of mutual trustworthiness. As one stokvel member put it, "A stokvel is like a religion - it takes commitment and cooperation. We must trust each other because it's got to do with money" (Thomas 1991:295).

Every savings club has elected officials, for example, a chairperson, secretary and treasurer. Careful records of all

transactions of the club are kept by the secretary (Thomas 1991:295)

According to research done by Markinor (1989) 25 percent of Black adults in metropolitan areas belong to stokvels, and 20 percent of stokvel members belong to more than one stokvel. Stokvels have been formed for different purposes as shown in Table 5.1.

Table 5.1
Types of Stokvels

Purpose	Members	Estimated No. of Stokvels
Burial costs	568 000	7 100
Buy major items	166 000	9 800
Parties	44 000	2 300
Invest Business	17 000	1 200
Other	50 000	3 600

Source: Markinor 1989:8

There are an estimated 24 000 stokvels in the metropolitan areas of South Africa. Forty one per cent of them are savings clubs, 29 percent are burial societies and 5 percent are for investment in business.

The total amount contributed by members of stokvels, as shown in Table 5.2 is estimated at R52 Million per month.

Table 5.2
Income From Stokvels

	Average Monthly contributions	Total Income R Million
Burial	R39	22
Savings	R105	18
Parties	R118	5
Other	R100	7
TOTAL		52

Source: Markinor 1989:10

Forty three percent of these are contributions by members of burial societies, 35 percent by savings clubs, and 22 percent by other types of stokvels.

According to Lukhele (1990), default or arrears in contributions is rare. The reason for this is that stokvels screen members carefully and select only those who are known to other members in the group. However, if default does occur, the type of action that is adopted depends on the particular circumstances of each case. Fines are usually imposed on members who do not maintain regular payments. Groups, however, display considerable sympathy when defaults are due to unemployment, illness or death, and if membership ceases due to any one of these reasons, the amount owed to a member is paid out.

5.1.1 Links with the Formal Sector

In recent years, the major financial institutions in South Africa have begun to realise the significance of stokvels and are competing vigorously for stokvel accounts (Lukhele 1990:53). However the financial institution that has been most successful in tapping the stokvel market is the Perm. After extensive research, they developed an account, called the Club Account, to suit the requirements of the stokvel movement. Below are some of the features of the Club Account:

As the balance grows, the rate of interest grows.

Interest is capitalised monthly.

There is no minimum balance.

Members can draw every cent out of the account without closing it, and can then start afresh from a zero balance, There are no service charges.

Every club is given a savings book, so that members can keep track of their balance.

There is no limit to the number of withdrawals.

The stokvel itself stipulates which members are

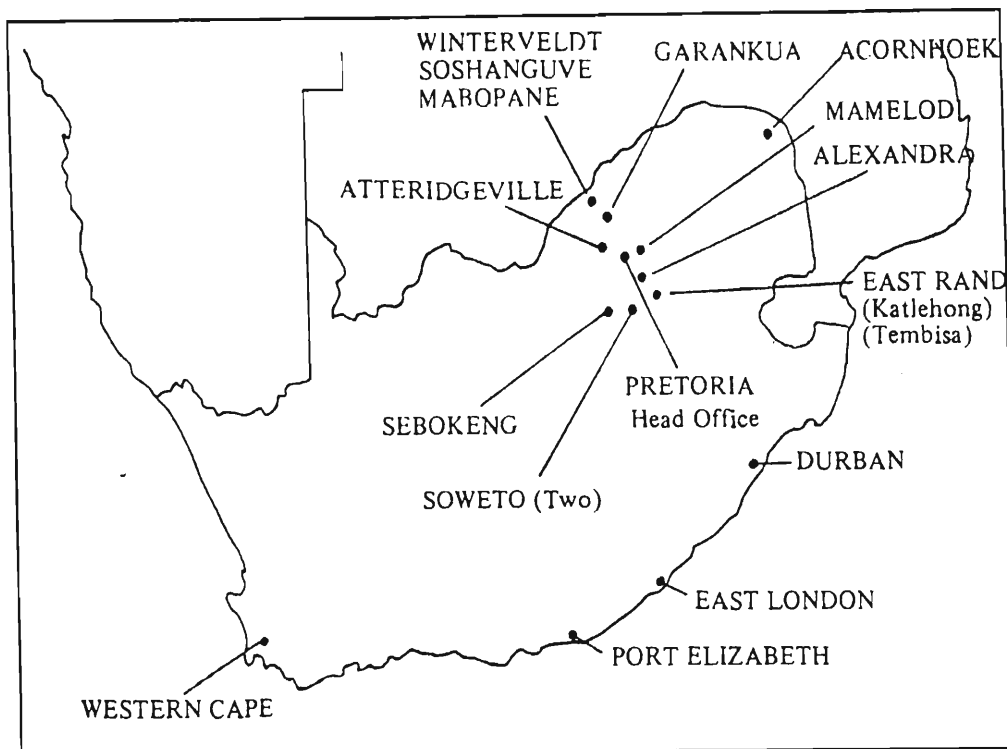
authorised to sign for withdrawals.

By the end of February 1990, 44 500 groups opened these group accounts with the Perm (Lukhele 1990:57).

5.2 Solidarity Group Lending in South Africa

Solidarity Group lending has been pioneered in South Africa by the Get Ahead Foundation. The Get Ahead Foundation is a black owned and directed Non Governmental Organisation with its head office in Pretoria and regional offices situated countrywide (refer to Map below).

Map 5.1



Get Ahead Foundation Offices throughout South Africa

The Foundation is registered as a section 21 Company with the Registrar of Companies in South Africa. Its goal is to promote the economic advancement and empowerment of black people by providing credit and business training to a countrywide clientele in the informal sector. The philosophy attached to Get Ahead is that there can be no political solution without there being a solution to the economic issues. Black South Africans have been precluded from freely entering into the country's economy through a host of restrictive laws, regulations and practices. As the political situation changes in South Africa, Get Ahead believes that more must be done to develop black people economically (Get Ahead Foundation:1989:2).

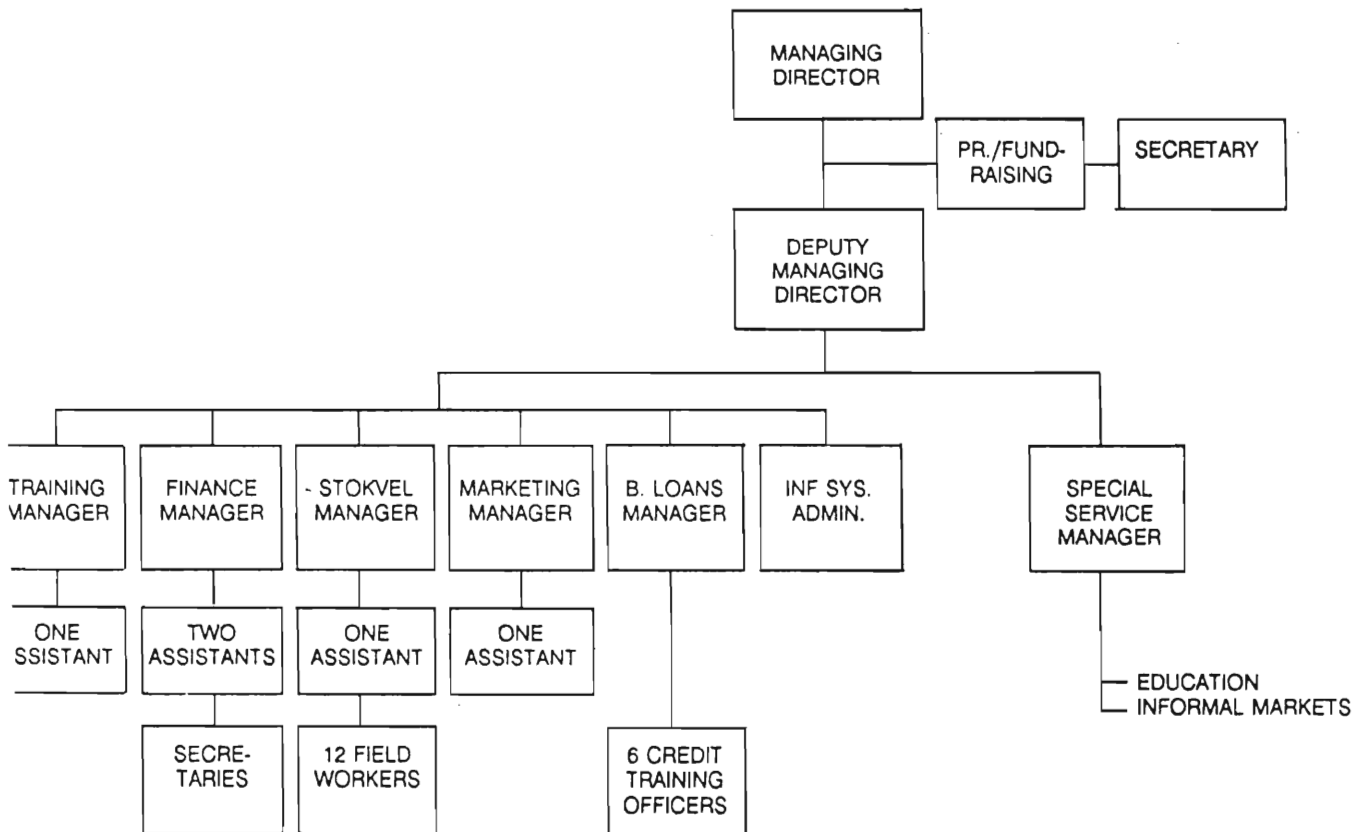
5.2.1 The Get Ahead Foundation: General Structure and Operations

The Get Ahead Foundation is headed by a nine member Board of Directors, composed of business and community leaders. Figure 5.1 on page 116 illustrates the structure of the organisation.

The Chairman of the Board is Dr Nthato Motlana, a medical doctor and prominent civic leader in Soweto. The staff is headed by a Managing Director who is assisted by the Deputy Managing Director. The managing director is responsible for managing the organisation and maintaining outside relations with donors and other supporters.

Figure 5.1

Get Ahead Foundation: Organisational Structure



Source: Get Ahead Foundation 1990:2

There are seven middle-level managerial positions:

Training - responsible for training clients in simple business administration,

Finance - taking care of accounting and internal audit,

Stokvel - the administration of the Stokvel Loan Programme,

Marketing - helping clients in marketing their products,

Business Loans - administering the business loan scheme,

Information Systems - assisting in general administration

Monitoring and evaluation - responsible for evaluating the various programmes of the organisation, and

Special Services - responsible for education and informal markets.

5.2.2 Services Offered by the Get Ahead Foundation

Since the Get Ahead Foundation is a multifaceted community development organisation, a short description of each of its various programmes is necessary to give perspective to the credit component within the context of the overall programme. The various programmes offered by the Get Ahead Foundation may be broadly divided into two categories, namely, Commercial Services and Social Services.

5.2.3 Commercial Services

Within the Commercial Services Division four kinds of activities may be distinguished: The Stokvel Loan Programme, the Business Loan Scheme, Training, and Marketing.

5.2.4 The Stokvel Loan Scheme

The Stokvel Loan scheme gives loans from R100 up to R1 000 to entrepreneurs to enable them to take their first step up the economic ladder. This scheme is an adaptation of the traditional stokvel rotating savings association described in Chapter Three. However in the case of the Get Ahead Foundation, the purpose in forming a group is to obtain a loan from the Foundation, unlike the traditional stokvel whose primary aim is to provide a savings facility for its members, and any loans granted to members is funded from the savings mobilised. In this sense the term "stokvel" as used by the Get Ahead Foundation is somewhat of a misnomer and should not be confused with the type of stokvel described in Chapter Three. The Get Ahead Foundation has used this term because its loan programme, like the traditional stokvel, relies on character referrals and group pressure to ensure that loans are paid. However for the purposes of this study, the term "Solidarity Group Programme" will be used from now on instead of "Stokvel Loan Programme" in order to avoid any confusion.

Persons who wish to borrow money under the Get Ahead Foundation's Solidarity Group Programme must organise themselves into groups of five entrepreneurs, preferably living in close proximity to each other and who know each other well enough to collectively guarantee the loan made to the group. Loans are only disbursed for business purposes and the responsibility falls on the group to ensure that repayments are made upon due date. Loans are granted under the following terms and conditions:

1. The maximum amount for first loans is R500, for second loans R800 and third loans R1 000.
2. The loans are made to the group and not to its individual members. Individual members assume liability for the outstanding funds both jointly and severally.
3. Groups may have no fewer than five members and all members must live in the same area. No person may be a member of more than one Get Ahead group at any one time.
4. Groups are required to hold monthly meetings at which each member must make a minimum contribution of R20 to the Group pool. The members of a group appoint a group leader and a deputy. The leader is responsible for ensuring that the members arrive on time for their meetings, that loans and repayments are correctly processed and will generally supervise all administrative and control functions. As

long as all stated terms and conditions are met, the Get Ahead Foundation does not prescribe to the group on how to conduct its affairs.

5. Loan repayments are calculated as follows:

For every R100 borrowed:

R12 interest per annum, to increase the capital base of the fund.

R10 service fee to cover the Foundation's cost of bringing these loans to the area.

R10 Guarantee Fund. This is a compulsory saving on the part of each member and is returned to them once all members of the group have repaid their loans. This amount is forfeited if the loan is not repaid in full.

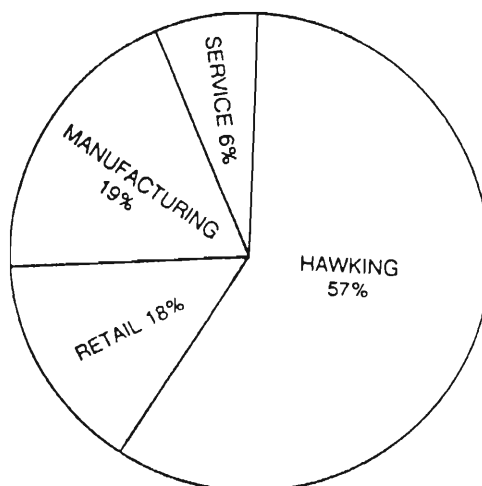
Thus R132 is payable per annum i.e. R11 per month for 12 months (Get Ahead Foundation 1991 b).

All members then attend a promotion meeting with a field worker where the terms and conditions of the scheme, described above, are explained. The group is then required to open a savings account where each member must have made at least two deposits before a formal application for finance is made. After the initial promotion meeting, a field worker visits the owner at his or her place of business to verify

that the business exists. Once verification has been completed and the members evince a regular pattern of savings, a formal application for finance is made. The application forms are then sent to the head office for final approval. Once approved, cheques payable to individual members are forwarded to the regional office from where they are collected by the clients.

Loans are granted for a variety of business activities. Figure 5.2 shows that hawking is the primary economic activity of the majority of the clients. This is followed by manufacturing, retail and service businesses.

Figure 5.2
Solidarity Group Loans: Type of Borrower



Source: Get Ahead Foundation 1990:3

The recovery rate of loans granted under the Solidarity Group

Programme since inception is 91 percent as shown in Table 5.3. Five of the areas reported a recovery rate of 100 percent.

Table 5.3

Recovery Performance Since Inception (1983)

Area	Due for Recovery	Amount Recovered	Recovery Rate
Acornhoek	R325 567	R287 857	88%
Atteridgeville	80 442	71 000	88%
Khayelitsha	121 478	86 875	72%
Kwamashu	194 440	166 649	86%
Kwazakhele	398 841	398 463	99%
Mamelodi	250 755	211 776	84%
Mdantsane	86 442	90 363	105% *
Motherwell	156 995	155 539	99%
Sebokeng	63 998	66 530	104% *
Soweto	64 748	61 225	95%
Thulamahashe	68 609	47 184	69%
Zwide	85 922	87 645	102% *
Tembisa	3 982	3 762	94%
Umlazi	2 662	2 178	82%
Evation	2 156	2 706	126% *
TOTAL	1 907 037	1 739 752	91%

* Figures greater than 100 percent indicate that clients have opted not to withdraw their Guarantee Fund amounts.

Source: Get Ahead Foundation 1991:3

The Get Ahead Foundation estimates that more than 8 000 jobs have been created under the Solidarity Group Loan Programme (Get Ahead Foundation 1991 a:2).

5.2.5 Business Loan Scheme

Get Ahead's Business Loan scheme makes venture capital available to Blacks to enable them to set up their own businesses. Lending levels range from R1 000 to R20 000 with the average loan being about R5 000. Typically, these loans relate to the acquisition of equipment to enable the borrower to manufacture goods (e.g. welding, carpentry, sewing). Many former Solidarity Group borrowers have successfully 'graduated' to the Business Loan scheme after fully repaying their loans under the Solidarity Group Programme. Table 5.4 gives a breakdown of the number of Business Loans that have been disbursed since inception.

Table 5.4

Loans Approved/Disbursed Since Inception (1983)

Town	Number	Value R's
Port Elizabeth	67	193 368
Atteridgeville	11	66 697
Mamelodi	55	283 418
Garankuwa	20	130 991
Soweto	28	166 908
Sebokeng	34	133 089
Total	215	R974 471

Source: Get Ahead Foundation 1991:2

On average, enterprises assisted through the Business Loan Scheme employ five workers each. More than 1 200 jobs have been created through this programme for the 1990/1991 financial year (Get Ahead Foundation 1991:4).

5.2.6 Business Training

Get Ahead's Training Division offers training courses in the townships which reach thousands of people every year. Experience has shown that rates of repayment improve greatly as the efficiency skills acquired through these courses of costing, bookkeeping and marketing, lead to better management. With the assistance of First National Bank, the Foundation has produced a training video which covers the above topics. Coupled with the video is a series of simple booklets produced for Get Ahead's Training department by the Pretoria 6 Rotary Club. Get Ahead has also linked up with leading Business schools in preparing special courses for the emerging black entrepreneur. These courses are held at the Business Schools with Get Ahead sponsoring transport and tuition costs.

5.2.7 Marketing

In most instances, black manufacturers located in the townships struggle to find markets for their products or services. They therefore have to spend a considerable amount of time travelling to cities in order to promote and sell

their goods/services to a wider market. Get Ahead's Marketing Division organises a range of programmes aimed at alleviating these differences. They include:

Matchmaker Fair - at this venue, small business people advertise their wares/services to their big business counterparts who are encouraged to visit the fair and place orders.

Trade fairs - These are held throughout the year in many townships. These fairs give the township people the opportunity to see and buy the goods available from their township business community.

Sub-contracting - Approaches are made to large corporations to embark on special programmes for placing orders for goods/services provided by township business people. Get Ahead works closely with the corporations who have set up their own small business division.

Resource Directory - The Get Ahead Foundation has produced a resource directory which lists all organisations relevant to the emerging entrepreneur and which may offer that person some form of assistance in ways and means of publicising these goods and services.

5.2.8 The Social Services Division

Being a community based organisation, Get Ahead tries to respond to some of the other needs of the township communities. Get Ahead's specific focus in this area is Job Creation, the Winter School and the new Institutional Building Programme.

The Winter School programme provides additional instruction for township students in their matriculation year. Many thousands of students benefit from this programme every year. Teacher enrichment courses are an important part of this programme.

The Job Creation programme tries to create job opportunities for the township people who are struggling due to the economic recession and the many disadvantages experienced by these communities. Unemployed people are taught basic building skills and these people are then used to build classrooms, community halls etc. A successful car-wash project has been initiated where unemployed people are taught how to establish a small car wash business. Get Ahead also builds informal markets consisting of simple shelters where entrepreneurs can make and sell their goods.

Due to financial and other constraints the Get Ahead Foundation cannot open offices in all the areas from which it receives requests for assistance. It has therefore embarked

on a programme of Institutional Building. Get Ahead works with church groups, civic associations and other community organisations in training their members to render services such as micro-credit, job creation and other programmes similar to those provided by the Foundation.

CHAPTER SIX

AN EVALUATION OF THE GET AHEAD FOUNDATION'S SOLIDARITY GROUP LOAN PROGRAMME IN KWAMASHU.

This chapter presents the findings of an empirical study on the Solidarity Group Loan Programme of the Get Ahead Foundation in KwaMashu. This programme was chosen because it is the only Solidarity Group lending scheme currently operating in South Africa.

6.1 Objectives

The objective of this empirical study is to evaluate the effectiveness of Solidarity Group lending as a method of extending credit to microenterprises in South Africa. In all development efforts, the success of any given programme strategy is measured by the level of economic and social change sustained by the beneficiaries as a result of participation in that particular programme (The Calmeadow Foundation 1988:68). Therefore in assessing the success of the Solidarity Group Programme of the Get Ahead Foundation it was necessary to assess how changes in the economic situation of the beneficiary, as a result of obtaining a loan, translated into changes in the quality of his or her life. In measuring this effect, three types of impact were considered:

1. Economic impact, that is, the changes in the life and the productive activity of a person resulting from participation in the programme which can be measured in monetary terms;
2. Impact on employment, the determination whether the programme has affected the employment potential of the microenterprise.
3. Social impact, those changes in human development which cannot be easily measured, but without which the economic gains achieved lose considerable thrust.

6.2 Survey Methodology

In considering the three types of impact described above, it is obvious that the success of a programme is measured as much by the hard quantifiable economic changes sustained by the beneficiary, as well as by broader benefits that are measured in qualitative terms.

The selection of a method of evaluation for this study was determined by this need to gather both quantitative as well as qualitative data, since both types are identified as valid measures of programme impact which are not mutually exclusive, but which can be used in a compatible way (Cook and Reichardt (eds) 1979). Consequently, data collection was

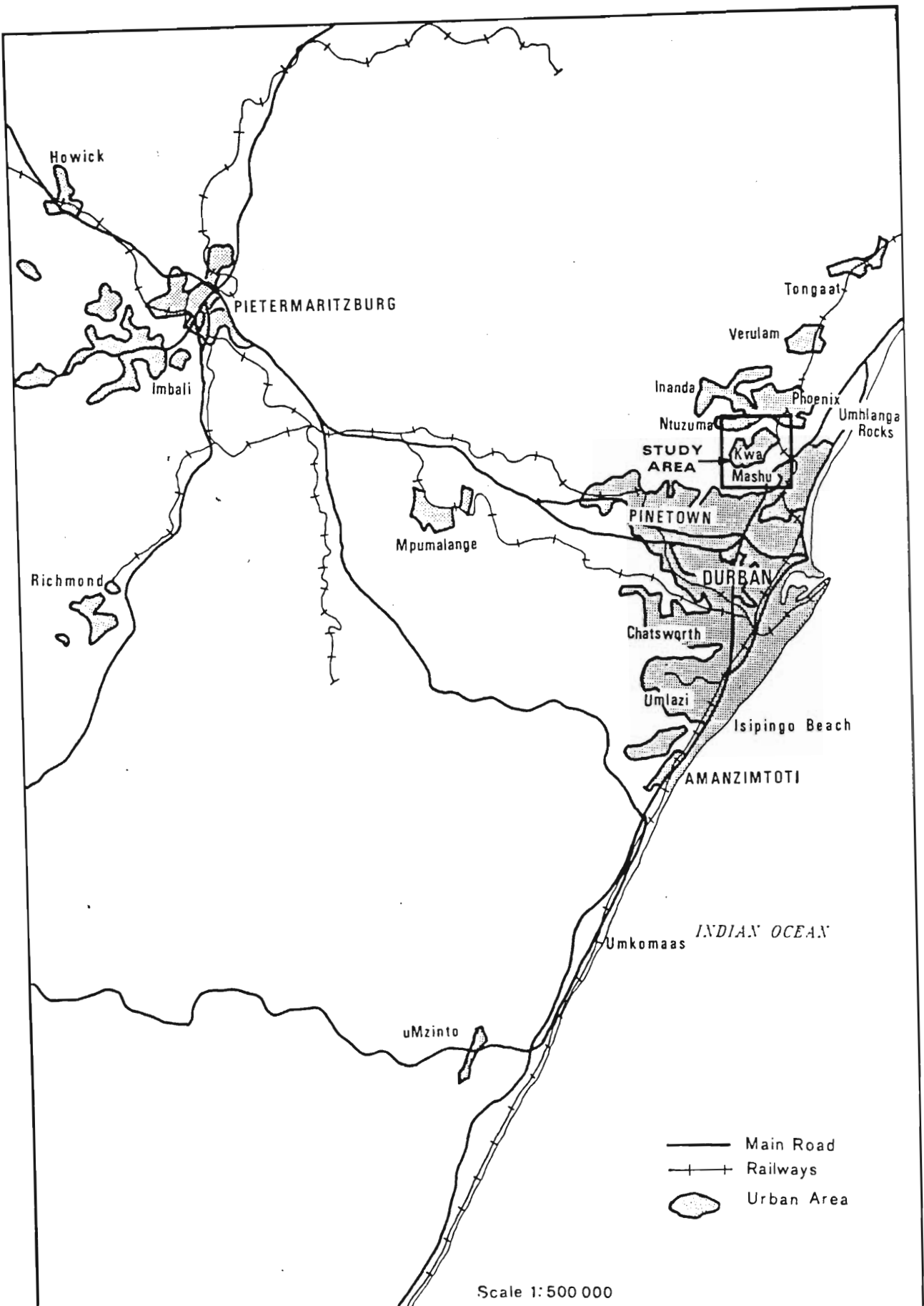
done by means of a questionnaire containing both pre-coded as well as open ended questions that was administered to a random sample of clients. A copy of the questionnaire is included in Appendix A.

6.2.1 The Sample

The universe consisted of the clients from the Get Ahead Foundation's Solidarity Group Programme that reside in KwaMashu, a black residential area seventeen kilometres north of Durban, under the jurisdiction of KwaZulu (refer to map on page 131). KwaMashu was chosen as the area of study because the Get Ahead Foundation's Stokvel programme in Natal was initially launched in this area and had been in operation for a sufficient period of time (five years) to justify a meaningful assessment of the impact of the programme on the clients.

The sample was selected from a list of all clients in KwaMashu obtained from the files the Get Ahead Foundation. Numbers were assigned to each name on the list and with the aid of a random-number generator, sample members were selected.

Map 6.1



Map Showing KwaMashu in Relation to Durban

6.2.2 Pre-testing the Questionnaire

It was decided to pre-test the questionnaire on a small group of randomly selected clients in order to identify potential problems. Originally a group of three university undergraduate students who were residents of KwaMashu were engaged and trained to administer the questionnaire. The pilot study revealed that these enumerators experienced considerable difficulty in completing the questionnaires. Clients refused to divulge sensitive information about their personal lives and business performance to strangers, and many clients were difficult to locate from the address list given because, in many cases, houses did not have their house numbers displayed. It must be remembered that the field study was undertaken at a time when there was considerable violence and tension in the black areas of Natal and strangers who asked questions about people's personal lives were always viewed with suspicion. As a result of these problems, field enumeration for the pre-testing as well as for the final survey was carried out by the author himself with the assistance of a Zulu speaking fieldworker from the Get Ahead Foundation. Since the field worker was someone that the clients knew and trusted, the majority of respondents cooperated willingly. The fieldworker was born and raised in KwaMashu and knew the area extremely well, which made locating the clients easier. By accompanying the fieldworker the author gained first hand experience of the interaction between the fieldworker and clients and among the members in

a Solidarity Group. Many new insights about the functioning of Solidarity Groups were gleaned from casual conversations with clients after the formal questionnaire was completed. This proved to be invaluable in further understanding the process of Solidarity Group lending.

Although many of the clients were able to speak English, the field worker acted as interpreter when needed to do so.

The pre-testing revealed that very few of the respondents kept records of their transactions. Therefore it was not possible to obtain precise information on indicators of business success such as volume of sales, volume of purchases and profits. Many of the clients relied on recollection or on guesses to provide the information and felt obligated to volunteer some information, however accurate or inaccurate it may have been, rather than providing no information at all. Similar problems were experienced in other studies (Bendheim 1987:41). Most studies on the informal sector that required respondents to provide detailed statistics on business performance have the caveat that the results should be treated cautiously (Krige 1985; Nattrass & Glass 1986; City Engineer 1984). It was therefore decided to change these questions from requiring precise figures, to the client's perceptions of whether any changes occurred in these indicators as a result of using the loan from the Get Ahead Foundation. It is conceded that this method may not be wholly satisfactory, but it is one of the limitations imposed

by the informal nature of microenterprise activity that must be accepted.

6.2.3 Administering the Questionnaire

After revisions the final questionnaire was completed and administered to a random probability sample of seventy clients of the Get Ahead Foundation in KwaMashu. However it was not possible to interview all the clients in the sample due to the following reasons:

It was difficult to locate many clients because the physical address given was not precise. Often, all five members in a group would give the address of the group leader making it difficult to locate the other members of the group.

Many clients, especially hawkers were not at home during the day when interviews were conducted.

Due to the above constraints, additional sample numbers were drawn and those clients from the original sample who could not be interviewed were substituted with those who were most easily accessible and willing to co-operate. This means that the sample is probably biased towards the manufacturing sector and the spaza owners because they were relatively easy to locate.

Once completed, the questionnaires were checked for accuracy and then coded. The analysis of the data was done with the aid of the Superstats computer programme primarily using the frequency response and the cross-tabulation options.

6.2.4 The Reliability of the Data

In this study, the impact of the programme on the credit recipients was studied at a single point in time. Yet the informal sector is highly dynamic and changing in response to conditions in the wider economic and political environment (Trager 1987:241). The rapidly changing political situation in South Africa, the escalation of violence, deregulation, etc. all have an effect on businesses in both the formal and informal sectors. Ideally, changes in the income level of the client, employment etc. should be measured over a period time in order to obtain a more realistic assessment.

Another problem facing an evaluation is to determine whether any observed changes in the income level of the beneficiary may be directly attributed to the programme itself. To judge whether the progress of the businesses assisted by the Get Ahead Foundation with loans and management training was attributable to the programmes, or would have occurred without this assistance, businesses receiving loans should be compared to a control group made up of respondents with the same size and investment limitations as the sampled group. However, the cost and time involved in a study using time

analysis and a control group were regarded as prohibitive for this study, and it is hoped that one of the major research institutions in the country who have access to adequate funding will embark on such a study.

The purpose of the research and the complete confidentiality of the information provided were explained to respondents and they were given the assurance that their responses would have no impact on their relationship with the Get Ahead Foundation. Nevertheless, it may be argued that the presence of the fieldworker, an employee of the Get Ahead Foundation, at the interview may have prevented clients from making adverse comments about the services being offered, and the possibility that their answers were influenced by their interest in maintaining a line of credit with the Foundation cannot be overlooked. While acknowledging that this argument may be valid in some cases, it must be pointed out, however, that the fieldworker enjoys an extremely cordial and trustworthy relationship with her clients, and instances of misrepresentation are likely to be the exception rather than the rule.

6.3 The Survey Results

6.3.1 Personal Characteristics of the Clients

Over 92 percent of the respondents interviewed were women. This must be seen against the background of the increasing need for women to engage in productive activities in their own right. In addition, women, in many cases, find it difficult to obtain wage employment in the formal sector, and resort to self employment in the informal sector out of necessity. Many women cannot depend on an income from a husband or family. According to the International Labour Organisation the total proportion of households in the world which are headed by women is now as high as 30 percent (Van der & Romijn 1987:4). This trend is also evident among the respondents interviewed in the sample where 30,8 percent of the women indicated that they were heads of households.

The emphasis of Solidarity Group Programmes on collective responsibility through participation in a group may also contribute to the high percentage of women in these programmes. One can argue that the group mechanism is particularly attractive to women because of the informal associations and networks that women have formed throughout the developing world. For example, in South Africa, black women were particularly responsible for shaping the stokvel concept (Lukhele 1990:6). In the 1920s and 1930s when Black women started arriving in the towns and cities of South

Africa they united to respond to adversity and crisis. Lukhele (1990) recounts how black women used the stokvel movement to assist one another when they were harassed by police for illegal beer brewing.

"When a stokvel member was arrested, the others would help with the home and children until the member came out of jail. In this way stokvels became more than just organisations for the circulation of money and evolved into comprehensive support systems for members in times of hardship" (Lukhele 1990:8).

Groups also seem to help women in their economic tasks. Findings by Till and Chaudri (1986) regarding women's co-operatives and group formation in Honduras, argue for the importance of group formation as a starting point for enhancing women's economic activities. Through interviews with over fifty co-operatives, associations and informal groups, and over 360 women in urban and rural areas in Honduras, these authors establish a correlation between a women's ability to manage credit and her participation in a group.

The age structure of the sampled group is given in Table 6.1 on page 139. The average age of the sample as a whole was forty years with the oldest being seventy three and the youngest, twenty. The majority of the clients were in their prime earning group, 25 to 50 years. Approximately twenty five percent of the sample were over fifty years of age indicating the need for older people to continue working in order to support themselves, or to supplement family income.

Table 6.1
Age of Respondents

Age Group	Percent
21 - 30	25,7
31 - 40	32,9
41 - 50	18,6
51 - 60	15,7
Over 60	7,1

N = 70

Source: Survey Data

There was an average of 7 members currently living in the household of each loan recipient. Over 55 percent of the clients interviewed were married, while almost 31 percent were single. Many of those clients who were married had large families at home and have been compelled to enter the informal sector in order to ensure the economic survival of the family unit. The marital status of the clients in the survey sample is summarised in Table 6.2.

Table 6.2**Profile of Marital Status**

Marital Status	Percent
Single	31,4
Married	55,7
Divorced	2,9
Widow	10,0

N = 70

Source: Survey data

An analysis of the educational achievements of the respondents, summarised in Table 6.3, indicates that the level of formal education attained was high.

Table 6.3**Level of Education Attained**

Level of education	Percent
No formal education	1,4
Class 1 to Std 1	5,7
Std 2 to Std 4	8,6
Std 5 to Std 7	34,3
Std 8 to Std 10	50,0

N = 70

Source: Survey Data

Fifty percent of the clients interviewed had completed Standard eight or higher while only 1,4 percent had received no formal education at all. This is higher than most African countries where almost 75 percent of small entrepreneurs had no formal education (Chuta in Nattrass 1984:51). The high level of education is also an indication of the difficulty in finding employment in the formal sector for relatively well educated individuals. Although the relationship between educational levels and small enterprise success in both developing and developed countries might be quite different, Richardson (1984) and Van der Wees and Romijn (1987) maintain that there is little evidence that formal education is essential for informal sector employment.

Twenty four per cent of the respondents indicated that they and their families relied entirely on their informally derived income as a means of support, while the remaining sixty six percent used their informal activity to supplement an inadequate household income. For those families with more than one income source, wages and salaries earned by a spouse (60,4 percent) was the main source of additional income, followed by income earned by children (15,1 percent).

6.3.2 The Range of Economic Activities

For the purposes of this study the economic activities engaged in by the sample is divided into four broad categories, namely, Hawking, Other Retail, Manufacturing and Service. Hawking, as defined by the City Engineer's Report (1984) includes two types, namely, street traders - those who offer their goods and services for sale in public places, usually at a fixed place, and, itinerant hawkers - those who itinerate from place to place in order to sell their goods and services. These vendors operate at the lower end of the continuum of informal sector activities and usually earn a marginal or subsistence income.

At the other end of the continuum is the Other Retail sector. This sector consists, almost exclusively of what is commonly referred to in the townships as "Spaza" shops. "Spaza" is the Zulu word for camouflage, alluding to the fact that these shops were once regarded as illegal and had to remain hidden to avoid detection by the authorities. Krige (1985) notes that the part of the income for financing the administration of KwaMashu was derived from the issue of trading licences and considerable attempts were made to stop these so called "illegal" traders. The owners of these stores operate from their homes, usually converting one of the rooms into a mini General Store. They stock nearly all the daily requirements of the community they serve and are to be found in almost every street. According to research carried out by Markinor

(1989), Spazas are to be found in one out of every forty households in metropolitan areas. Although this proportion varies from area to area it does reflect the overall level of activity in this sector.

Also included under the heading Other Retail are shebeens. It should be noted that although shebeens have been legalised in most black areas in South Africa, they have still not been legalised in areas under the jurisdiction of KwaZulu, of which KwaMashu is a part. The Get Ahead Foundation, recognising that shebeens form an integral part of the social life in the black townships, has no reservations about lending money to shebeen operators. The importance of shebeens have also been recognised by South Africa's largest brewery, South African Breweries, which has now set up a separate division to assist what they term "tavern" (shebeen) owners.

The Manufacturing sector consists of clients who process raw materials into finished products, and in this study, consisted exclusively of dressmakers or knitters.

The service sector refers to those people who make their living by providing a service e.g. hairdressers.

Table 6.4 summarises the economic activities of the respondents.

Table 6.4

Range of Economic Activities

Economic Activity	Percent
Manufacturing	45,7
Hawking	27,2
Other Retail	15,7
Service	11,4

N = 70

Source: Survey Data

Manufacturing was the primary economic activity for over 45 percent of the sampled group. All respondents in this sector were involved in garment manufacturing, either dressmaking or knitting. That no other form manufacturing was evident, is probably due to the high percentage of women in the sample who traditionally have refrained from entering male dominated occupations such as carpentry, panel beating, shoemaking, etc. This trend is also evident in other developing countries where clothing manufacturing accounts for no less than one fifth and frequently greater than half of all small enterprise employment (Liedholm & Mead 1987:18). The dressmakers in the study were the most highly skilled. Many had invested in specialised training, by apprenticing themselves to someone in their trade, or by attending one of the numerous dress-making schools that have mushroomed in Durban.

The hawkers, accounting for 27,2 percent of the sample, were involved in the sale of prepared foods, fruit and vegetables, clothing (new and second hand), cosmetics, etc. This percentage is low when compared to other studies (City Engineer 1984). A possible reason for this is the probable bias in the sample towards the manufacturing sector and spaza shops because of the difficulty in locating many hawkers.

The spaza shops made up 15,7 percent of the clients interviewed. These businesses appeared to be the most prosperous of all the economic activities surveyed. They invested a considerable amount of their own capital in transforming a section of their homes into a shop. Unlike the hawkers, whose trading activities may be regarded as subsistence in nature, the spaza shop owners were true entrepreneurs, driven by the profit motive.

The service sector, which accounted for 11,4 percent of the sample, was dominated by hairdressers, either operating from their homes or sharing a room in the city centre with a dressmaker from the same solidarity group. Like the dressmakers they were relatively skilled and were usually trained by apprenticing themselves to other hairdressers.

6.3.3 Impact of the Loan on the Client's Business

Changes in beneficiary income as a result of receiving a loan from the Get Ahead Foundation was one of the indicators used to determine how the programme has affected the economic condition of a beneficiary and his family. Eighty per cent of the clients interviewed indicated that their businesses had experienced an overall improvement after receiving their Get Ahead Foundation loan, while 10 percent reported no significant change at all. Just over one percent indicated that their businesses had become worse, while 8,6 percent said that it was too early for them to judge whether there was any improvement in the business. Their responses to this question are summarized in Table 6.5.

Table 6.5

State of the Client's Business after Receiving the Loan

	Percent
Improved	80,0
Not improved	10'0
Worse	01,4
Too early	08,6

N = 70

Source: Survey Data

Strongly linked with the above area of inquiry was the need to determine how certain aspects of the client's business, for example, volume of sales, volume of raw materials purchased, net profit, etc. had changed since receiving their loans, and whether they thought these changes had occurred as a result of their loans.

Table 6.6
Impact of the Loan on Client's Business

	De- creased %	Remained Same %	In- creased %	Too Early %
Volume of Raw Materials/ Stock	1,4	,3	85,7	8,6
Volume of Sales	1,4	8,6	80,0	10,0
Net Profit	2,8	,6	80,0	8,6

N = 70

Source: Survey Data

Table 6.6 shows that 85,7 percent of the clients thought that their purchases of raw materials or stock had increased as a result of the Get Ahead loan. However, only 7,1 percent of the clients received any new discounts from suppliers as a result of the increased volume of purchases. The reason for this is probably that most of them were not buying in sufficient quantities to warrant discounts from suppliers.

Eighty percent of the clients indicated that their sales volume as well as their net profits had increased as result of their Get Ahead Foundation loans. It should be noted that since most of the clients do not keep systematic records of purchases and sales, and many of them did not differentiate between turnover and profit, the statistics in Table 6.6 should be viewed cautiously.

6.3.4 Impact of the Loan on Employment

Considered by many to be the most important contribution of the informal sector to alleviating urban problems (Liedholm & Mead 1987), the impact of a programme on employment levels warrants careful consideration. It should be noted that employment questions do not relate exclusively to the beneficiary, since a programme's impact in this area can extend well beyond the primary beneficiary to those indirectly affected by the aggregate growth or decline in the productive activities of the enterprise. It was, however, considered outside the scope of this study to consider employment creation beyond the primary beneficiary, and the questionnaire sought to determine the number of people, including the owner, employed in the enterprise, as well as new jobs created.

The study revealed that each informal business interviewed provided employment for 1,77 people, including the owner. This figure is quite typical of the results found in similar

studies elsewhere. Comparable average sizes in other countries are 1,9 in Lesotho, 1,8 in Niger and Zambia (Liedholm & McPherson 1991:7). Data from several other studies (Dewar & Watson 1981, 1982; Rogerson & Beavon 1982; Nattrass 1984) also tend to show only a limited capacity for employment generation. None of the clients reported any changes in the employment capacity of the enterprise. It must be borne in mind that microenterprises operate at or near subsistence levels and cannot be regarded as large creators of jobs. At most, assistance to microentrepreneurs may help to retain existing jobs or engage family members in more productive activities, than actually creating full-time jobs. A small infusion of working capital (R500 for a first time Get Ahead client) cannot be expected to increase the employment of microenterprises and any marginal increase in trading activities can be expected to be handled by the existing owner.

Eighty one percent of the respondents indicated that they were involved with their businesses on a full-time basis. Of those who worked part-time, 61,5 percent were hawkers. Many of these clients held full-time jobs and worked in the business after hours to supplement their income or employed family members during the day to operate their businesses.

6.3.5 Impact of the Loan on the Client's Family

The changes that occur within a family resulting from an improved economic situation are important indicators of whether the programme has impacted on the overall quality of life of the family unit. An important indicator of this is how much of additional earnings the family spends in meeting its basic needs, especially in the purchase of food, clothing and the provision of education and housing.

Of those who indicated an increase in income after receiving their Get Ahead Foundation loan, 46,4 percent said they used this increase for working capital while 53,6 percent said they used it to pay for family expenses like food, clothing, rent, education etc. Of those who used the additional income for family needs, 73,7 percent were heads of households and 64,7 percent indicated that the business income was the sole source of income for the family.

6.3.6 Details Regarding the Loan from Get Ahead Foundation.

For many of the beneficiaries, participation in the Get Ahead Foundation's Solidarity Group Programme is their first experience in handling credit beyond that obtained from informal sources. Securing and managing a loan becomes an educational process that contributes to the microentrepreneur's ability to remain self-employed. Further, since credit provision constitutes the most important aspect

of the Get Ahead Foundation's Solidarity Group Programme there was need to include details about the loan and credit management as specific areas of inquiry. Beneficiaries were questioned on their reasons for borrowing from the Get Ahead Foundation. Their responses are summarised in Table 6.7.

Table 6.7

Reasons for Borrowing from the Get Ahead Foundation

Reasons	Percent
No Alternative Sources	10,0
Convenient	2,9
Good Terms	1,4
Low Interest	11,4
Easy to obtain	74,3

N = 70

Source: Survey data

It is significant that the majority of respondents (74 percent) regarded easy access to loans as being far more important than factors like low interest, convenience and favourable terms. It should be noted that although the Get Ahead Foundation's office is situated in central Durban, many clients felt that the monthly visit to the office was not a problem since most of them had to travel to the city centre to purchase supplies anyway. The simple office and the cordial relationship that staff members enjoy with clients

are in sharp contrast to the imposing banking halls and the very formal client/bank relationship that exists in the formal banking sector.

The fact that only 11,4 percent indicated low interest rates as a reason for borrowing from Get Ahead Foundation further emphasises the fact that it is not the cheaper interest rate (as compared to informal interest rates) that attracts clients, but rather the availability of finance.

A high percentage (91,4 percent) said they would not have attempted to borrow from other sources if Get Ahead Foundation did not exist.

Table 6.8 gives the breakdown of the number of loans taken by the respondents since joining the Get Ahead Foundation.

Table 6.8
Number of Loans

Loans	Percent
1st Loan	68,6
2nd Loan	22,8
3rd Loan	8,6

N = 70

Source: Survey Data

The majority of respondents (68,6 percent) were first time clients of the Get Ahead Foundation while 8,6 percent had

received their third loan. The average length of each loan was 5,5 months. Of those who had taken previous loans, 82 percent had taken loans with the same group. All of those who took previous loans indicated that they had used them for working capital. Those who had taken their third loan said that they had outgrown the Solidarity Group Programme because it restricted the amount they could borrow to R1 000, and were now ready to graduate to the Business Loan Scheme.

6.3.7 Credit Management

Almost all clients said that their loans were used as working capital to buy raw materials or goods for resale. This is not surprising given the needs of people at this economic level to quickly turnover stock and materials to maintain income. However, it was not possible to judge whether the money was used for business purposes or whether it was diverted to personal consumption or if some was used for personal consumption, how much of the money remained for business purposes. In an environment where business and household are closely intertwined it is difficult to draw a sharp distinction between business use and consumption.

A few (2,9 percent) purchased equipment with the loan. The equipment purchased was usually a refrigerator or a sewing machine. That more machinery or equipment was not purchased may be due to the large amount of capital needed to buy such items as compared to the relatively small loans offered.

An important indicator of the success of the Get Ahead Foundation's Solidarity Group Programme was the desire of the majority of clients (91,4 percent) to take another loan after completing the present one. Despite some problems, 65,6 percent said that they would take a loan with the same group, 15,56 percent with some members of the same group, and 28,8 percent would prefer to take out their loan with another group altogether. This desire of the majority of the respondents to take out a second loan is an indication of their confidence in their own ability to repay a second loan.

The majority of the clients (81,4 percent) indicated that they had experienced little difficulty in meeting the instalment on time. This could be an indication that the clients were using the money for productive purposes that generate a cash flow sufficient to cover the interest charges. Those who did experience difficulty in repayment said that poor business performance as a result of boycotts and stayaways, as well as the increased costs of providing for family expenses were some of the reasons for failing to pay.

6.3.8 Experience with Alternative Credit

It was useful to gauge the extent of alternate credit experience of business owners to see to what extent credit was available to informal sector businesses. Most of the clients interviewed had very little prior experience with

credit. Only 8.6 percent of the respondents indicated that they had received credit from other sources. This may, however, understate the true numbers of those receiving alternate credit, since some may not wish to admit loans from so called "illegal" sources such as "mashonisas" (money-lenders) or from savings and credit associations. Interest rates charged by some of the moneylenders were as high as forty percent per month. The main reason why these clients had selected these alternative sources was that they borrowed the money before the establishment of the Get Ahead Foundation and no other sources were available to them.

6.3.9 Benefits of Compulsory Savings

The Get Ahead Foundation's Solidarity Group programme includes a savings mobilisation scheme to enable the microentrepreneur to develop a habit of saving, build a reserve, and begin perceiving the use of banks and other financial institutions as within his or her reach. Clients' attitude to the compulsory savings programme as well as the use of savings were assessed. Almost ninety nine percent of the respondents indicated that the compulsory savings scheme was beneficial to them. Some of these benefits were:

1. increase in their financial independence;
2. it enables them to gain access to commercial banking institutions;
3. it forces them to save regularly.

Another benefit of the compulsory savings process is that it helps to promote an accounting/financial management discipline that is important in managing any enterprise.

6.3.10 Social Changes that Occurred Since Joining a Solidarity Group.

The impact of a Solidarity Group Programme on its beneficiaries goes well beyond the quantifiable. Participation in a solidarity group, perhaps for the first time a group of persons have sought each other to resolve their needs, affects the way that each beneficiary perceives himself and the world around him. These changes in perception may translate into changes in actions, and may contribute to an improved overall situation for the beneficiary and his family. These programme benefits may broadly be classified as "social changes" (The Calmeadow Foundation 1992:74). The following areas of inquiry were identified in order to measure the social impact of the Get Ahead Foundation's Stokvel Scheme.

Solidarity: This term refers exclusively to a beneficiary's participation in a Solidarity Group, and the behaviour that he or she manifests which enhances or weakens the cohesion of the group. Three areas were investigated here:

Collective activities: Whether related to the provision and management of the loan, a Solidarity Group determines how often to meet, what other topics to discuss, and what other actions to take as a group.

Economic support: Instances in which group members assist each other financially, whether in the repayment of the loan or in other areas.

Cooperation: Mutual support is an important aspect of Solidarity Groups. A major justification for the delivery of credit through solidarity groups is that the group, formed as a requirement for receiving credit, will come to serve mutual support functions. Mutual support efforts that emerge within the group were investigated.

Ashe (1986) identified three levels of solidarity that could be distinguished among Solidarity Groups, namely, minimum, intermediate and high:

Minimum solidarity refers to a situation where the group is viewed simply as a mechanism for receiving credit. Members meet only to conduct transactions related to the loan and no other form of assistance, whether personal or business, is given or received.

Intermediate solidarity is where there is evidence of mutual

assistance between members of the group, usually limited to the extent of helping a fellow member to pay his or her instalment.

In cases of high solidarity, there is more evidence of mutual assistance within the group. For example, in Solidarity Groups consisting of dressmakers, members in a group usually pooled money together to buy materiel in bulk, exchange dress patterns and teach each other skills. In a few groups, some members specialised in manufacturing while the others marketed the products. Another instance of mutual support is where group members enter into a private arrangement where a specified sum is contributed monthly by each member. This amount is deposited into a bank and withdrawn at the end of the year. Other systems work on a rotation basis where each member receives the pool in a specified month. This acts as a small emergency fund to pay for household emergencies. Table 6.9 summarises the three levels of solidarity that were evident among the respondents.

Table 6.9
Degree of Solidarity

	Percent
Minimum	42,8
Intermediate	34,3
High	22,9

N = 70

Source: Survey Data

From the Table 6.9 it is clear that the degree of solidarity among the clients in the sample is relatively high. Almost fifty three percent of the respondents showed evidence of high and intermediate solidarity. The fact that 42,8 percent of the clients showed minimum solidarity among their members is probably due to the large percentage (68,6 percent) of the sample that were first time clients of the Get Ahead Foundation and have not yet realised the benefits of greater mutual assistance. This fact is also supported by evidence from Zimbabwe where it was found that groups that were operating for some time had performed better than newly formed credit groups (Bratton 1986:128).

When questioned whether client's would prefer to receive their loans individually or in a group, sixty one per cent of the respondents indicated that they preferred to receive their loans individually rather than in a group. These respondents complained about the irresponsibility of some members of the group in not paying their instalment on time. They also wanted to be independent and not be liable for the debts of others. Reasons for preferring the group loan included solidarity with others: getting to know each other well and being collectively responsible, providing each other with mutual aid. Others indicated that they liked the group because it was the only way to obtain a loan. It is significant that almost 60 percent of those who preferred group loans belonged to the manufacturing sector, (consisting

mainly of dressmakers) where there was evidence of greater group cohesion and mutual assistance.

Clients were also questioned on how the problem of non-payment by any member was solved by the group. In most cases, whenever a person experienced difficulty in meeting their instalment, other members of the group would contribute towards that member's instalment and then recover the money later. There was also the expectation that other members of the group would respond similarly if they were unable to pay an instalment. It is interesting to note that of those who preferred the group to individual loans, 92,6 percent had paid their instalments without difficulty, indicating that group cohesion was a strong factor in motivating people to pay their instalments on time.

6.3.11 Clients Evaluation of the Programme

The questionnaire also included questions that gave the clients the opportunity to express their own opinions about the programme and to suggest changes and improvements. Table 6.10 summarises respondents overall assessment of what they liked best about the programme.

Table 6.10

What Client's Liked Best about the Programme

	Percent
Loans were easy to obtain	28,6
Low interest	22,9
Economic Empowerment	37,1
Group solidarity	4,3
Other	7,1

N = 70

Source: Survey Data

In analysing the responses to this question it is striking that economic empowerment ranks highest, (37,1 percent). Clients praised the Get Ahead Foundation for providing assistance to large numbers of black businesses that were previously denied this type of assistance, thereby promoting equity and empowerment. Equity in this context means providing the poor with the same opportunity and services as the rest of the population so that they can partake in the benefits of development. Empowerment refers to enabling the poor to voice their concerns and have a say in the formation of the policy and decisions that affect them. The Get Ahead Foundation's Solidarity Group Programme encourages active participation of the clients in group formation, collection of instalments and holding monthly meetings. These meetings provide a forum for clients to voice their grievances, discuss their problems and propose solutions.

Other aspects of the programme that they liked best included ease in obtaining the loan as compared to commercial banks, and low interest charges.

When asked what they liked least about the programme, 81,4 per cent of those interviewed had no complaints about the programme at all. Those who did comment on problems remarked that:

1. loans were too small;
2. there were long delays in receiving their loans;
3. they did not like the obligation of belonging to groups;
4. poor dissemination of news regarding changes in policy and the holding of workshops.

When the respondents were asked in what ways would they like to see the programme changed or improved, the most significant response (53 percent) was to increase the size of the loans, 7,1 percent indicated that individual loans should be granted, and the same percentage said that more training should be given on how to manage and run a business. Thirty two percent of the respondents could not offer any suggestions for improvement.

6.4 Summary and Conclusions

The Get Ahead Foundation's Solidarity Group Programme is a fine example of how a development programme evolved out of the needs and infrastructure of the target group rather than a preconceived scheme in some government or central office. It has demonstrated that a loan programme, properly designed, can serve the poor, and that the poor can utilise credit and other forms of assistance effectively to improve their standard of living. The results also revealed that the microentrepreneurs are not poor credit risks after all and dispels the perception that they use their loans for consumption rather than investment purposes.

The Solidarity Group Programme of the Get Ahead Foundation has succeeded in achieving its major goals. It has directly reached and assisted a client group which is isolated from the mainstream of economic activity in South Africa. This is especially true for black women who have suffered both racial as well as sexual discrimination in the business environment in this country. Women made up ninety two percent of the sampled group, indicating that Solidarity Group programmes are highly successful in enhancing the economic activities of women in the informal sector.

In general, sales, incomes and profit were all positively influenced for the majority of the clients. Eighty percent of the clients interviewed indicated that their businesses

had improved since joining the Get Ahead Foundation's Solidarity Group Programme. The increased income was used as additional working capital as well for meeting family expenses.

In all cases the clients indicated that they used the loan for working capital purposes. Almost eighty one percent of the respondents indicated that they had experienced little difficulty in meeting the monthly instalment on time.

The majority of the clients were first time borrowers of the Get Ahead Foundation with the average length of the loan being 5,5 months. Very few of the respondents had experience with other credit sources prior to their Get Ahead Foundation loan and indicated the ease of obtaining the loan as their primary reason for borrowing from the Foundation.

An average of 1,77 workers, including the owner, were employed in each business. Although no significant increase in employment was reported by the beneficiaries, it must be borne in mind, however, that in a deteriorating economy, job retention and not just job creation, is a significant achievement. The effectiveness of Solidarity Group Programmes must be measured by what they prevent as well as what they permit, by the number of jobs and amount of income retained as well as new employment created.

Sixty one percent of the respondents indicated that they

preferred to receive the loan individually rather than in a group, citing the irresponsibility of some members in not paying their instalments on time, and the need to be independent, for this preference. Although the level of mutual support was not as high as expected, nevertheless, there were many instances where group members assisted one another, either financially or with help in the business. Although mutual support and group solidarity were not as evident in the sample group as some other programmes (Farbman 1981; Bowen 1987; Hoosain 1988) the Solidarity Group method of delivering credit has been successful if measured according to the criteria of beneficiary impact discussed at the beginning of the chapter.

The Get Ahead Foundation does have many characteristics in common with other Solidarity Group Programmes discussed in Chapter Four. For example, it is designed for the poorest level of entrepreneur, it has a high number of female participation, it uses the Solidarity Group approach in delivering credit, the size of loans are progressively increased as previous loans are repaid, and it does not charge a subsidised rate of interest. However, despite the undeniable success of the programme, a comparison with other programmes reveals certain limitations:

Presently, the Get Ahead Foundation is not financially self-sufficient and its ability to expand is dependent on local as well as international funding.

The Get Ahead Foundation does not mobilise savings. There are a variety of reasons why savings mobilization should be an important component of finance projects (Vogel 1984; Vogel & Burkett 1986). Since true financial intermediaries normally deal with a larger number of savers than borrowers, programmes which include improvements in deposit services should reach larger numbers of households than subsidised credit projects funded from external sources. Deposit mobilisation can improve the long run viability of financial institutions by making them less dependent on the availability of government funds. For international donors, deposit mobilisation may be a highly cost-effective method of promoting capital formation, especially when compared to subsidised credit project whose continuation often requires sizable and sustained inflows of funds. Von Pischke (1978) provides a particularly useful statement of the advantages that may be achieved by linking savings with credit. Although he refers specifically to rural finance projects, it can be applied to urban finance projects as well.

" Linking credit access to the existence of a deposit relationship with the borrower or prospective borrower is a useful device from several points of view. It encourages the intermediary to employ funds locally. It gives the potential borrower greater incentive to accumulate deposit balances. It reduces the lenders risk in two ways: the first is that savings accounts may be used to secure loans, and the second is that the lender acquires more knowledge of his customers by dealing with them as depositors than he would if the only relationship were with customers as borrowers. Linking savings and credit also helps to promote a continuous relationship between intermediary and customer, and the prospect of a continuous relationship gives each an incentive to treat the other

party in a businesslike manner, and also reduces the lender's risk. Combining credit and deposit services helps to integrate rural financial markets, which may lead to more efficient intermediation" (Von Pischke 1978:52).

Clients savings are increasingly important to a programmes's ability to expand its source of funds and reach more clients. In the long term the future viability and growth of these programmes will depend on their being able to mobilise savings as a source of funds for their own lending activities. Programmes now recognise that through financial intermediation, that is, through taking deposits and lending them out, programmes that have a large number of clients can attract funds at a lower rate.

Although recognising the role that Non Governmental and Community Based Organisations have played in extending credit to the poor, extending credit is just one of many social and economic functions they perform. Banking is not their speciality. An important consideration for loan programmes is that there is an element of "seriousness" about a bank. In this sense, programmes involved with lending to microenterprises should strive to develop this "businesslike" image of a bank. The Get Ahead Foundation, however, may be perceived by their clients to be "soft" regarding its loan default policy (Financial Mail 1988:33).

The Get Ahead Foundation does not have a huge network of branches as compared to the Money Shops and the Grameen Bank.

For example, there is only one branch in Durban catering for the whole of Natal.

The Get Ahead Foundation does not have the legal authorization to act as a deposit taking institution. Interest among programmes is growing, however, to take the necessary steps to satisfy regulatory requirements and to transform group lending development programmes into banks. The Grameen Bank and Banco Sol of Bolivia are examples of group lending programmes that have endeavoured to become commercial banks (Accion International 1992:2).

The ultimate goal should be the development of autonomous financial institutions, which are not merely retailers of money obtained from outside donors, but true financial intermediaries who are able to cover their operating costs with their own income, and capitalise their portfolios with savings mobilised from their clients. Proposals for the establishment of such an institution are presented in the next chapter.

CHAPTER SEVEN

A NEW FINANCIAL INTERMEDIARY: A PROPOSED MODEL

The ultimate goal in developing financial institutions for the informal sector should be the development of autonomous financial intermediaries that are able to generate their own funds by mobilising savings from the public. At present no microenterprise lending scheme in South Africa is a true financial intermediary, that is, accepting deposits from, as well as granting loans to clients. The potential for savings mobilisation among the black population in South Africa is immense. The total amount contributed by stokvels is estimated at R52 million per month (Lukhele 1990:3). Most of this money is invested in banks and building societies, the Perm being the most popular choice. This is in turn channelled into the formal sector credit market in the form of loans to formal big businesses or housing finance for the affluent. A very small percentage of black stokvel members qualify for any type of loan from the large banks in which they invest their savings.

Empirical evidence both in and outside South Africa seems to indicate that the time has come for the establishment, in this country, of a financial intermediary in the form of a specialised bank, whose operational philosophy should be geared towards development. Such an institution should be able to mobilise the millions of rands contributed by stokvel

members every month, and plough this money back to the same group of savers in the form of loans for productive purposes. This Chapter presents some recommendations for the establishment of such an institution. These recommendations are based largely on the experience of several highly successful, large-scale microenterprise credit programmes discussed in previous chapters, and draws important lessons from each one of them. These programmes are The Grameen Bank in Bangladesh, The Money Shops of the Philippines Commercial and Industrial Bank, the Badan Kecamatan Programme (BKK) in Indonesia, and the Association for the Development of Microenterprises (ADEMI) in Dominican Republic. Although these programmes are located in different countries, their underlying approach is remarkably similar with emphasis on very small loans, community based selection of clients, group based loan guarantees, and a streamlined highly efficient approach for supervising in some cases hundreds of small branch offices.

7.1 Objectives of the Proposed Bank

The main objectives of the bank would be to provide the following financial services to its clients:

The full range of savings facilities available at commercial banks, but with special emphasis on group savings accounts.

Provide loans, using the Solidarity Group mechanism, to those who normally would have no access to commercial bank loans. Loans should be given to the owner of any enterprise, no matter how small. These businesses may include examples of petty commerce (hawkers); services (hairdressing); and micro-industries (dressmaking). Any activity that is not illegal and that enables a person or family to survive should be eligible for financing.

7.2 Organisational Structure

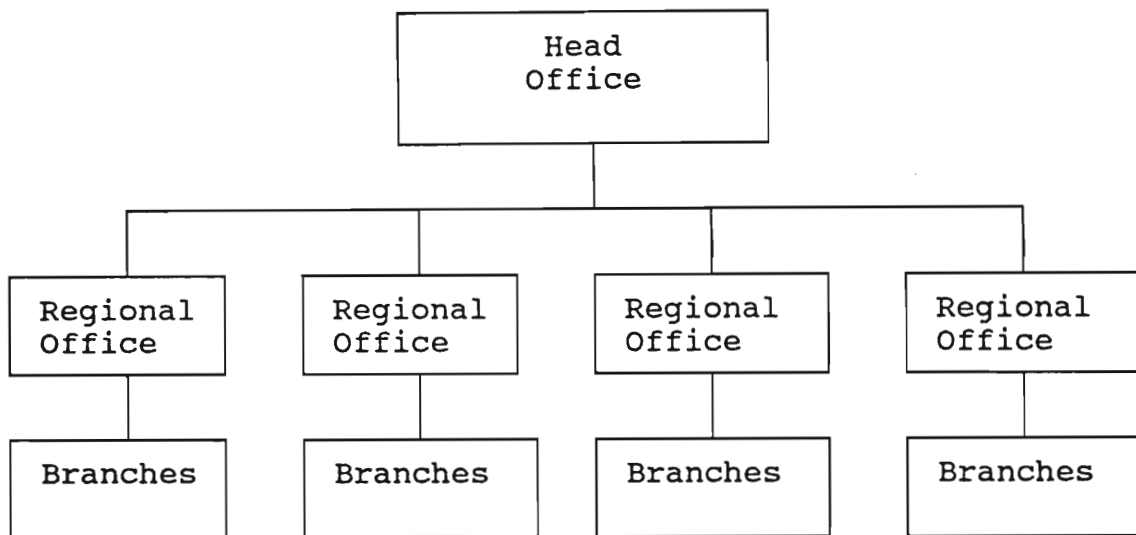
The initiator of this venture could be the National Stokvels Association, the umbrella body for stokvels throughout South Africa. It has good leadership and has a proud record of working with formal sector institutions, in trying to organise better deals for its members (Lukhele 1990).

Initial capital to set up the infrastructure of the Bank and to create a loan fund could be obtained from local as well as overseas donors, or in the form of low interest loans from one of the international organisations such as the World Bank, International Fund for Agricultural Development (IFAD) or the Agency for International Development. It is envisaged that once the bank has been in operation for a few years, it will have mobilised sufficient savings and earned enough interest from its loans to be independent of outside funding.

The ultimate goal should be self-sufficiency.

The bank should be governed by a Board of Directors, consisting of the Chairman, the Managing Director and a number of directors representing the community, business and the clients. The Board should be in charge of formulating general policy guidelines and supervision of the business of the bank. The Managing Director should be responsible for the general administration of the bank. Details of the organisational structure and operational methodology of the proposed bank presented here have been synthesized from the programmes referred to earlier in this Chapter. The organisational structure should be characterised by a decentralised decision making process. Experience from the ADEMI programme in The Dominican Republic shows that there was an overall improvement in programme efficiency when the organisation shifted from a centralised organisational structure to a more decentralised structure (Bowman 1987). A suggested organisational structure for the proposed bank is shown in Figure 7.1

Figure 7.1

Organisational Structure of the Proposed Bank

The organisational structure should consist of a Head Office, Regional Offices in each province, and a number of Branches wherever there is a sizable amount of informal sector activity. Since most of the business of the bank will be conducted at the branch office, the details and functions of this unit will be discussed first.

7.2.1 The Branch

Each branch should be an independent unit designed as a profit making entity on its own. The BKK and the Grameen Bank both require their units to operate as independent profit making units. Fuglesang and Chandler (1988) note that this helps to develop the local staff's identification with

the local clients, places responsibility for the success or failure of the unit squarely on their shoulders and improves their decision making ability.

Maintaining a balance between centralising decision making in the Head Office and delegating it to the branches will be important for the bank's long term success. As in the case of BKK, the clients of the Head Office will be the Branch Units, not the individual loan clients. While the Head Office sets the parameters for who should receive loans, and the categories of loan sizes, the Branch staff should decide who will be granted a loan. This is important for several reasons; the most obvious are reducing paperwork at the Head Office and speeding the loan approval process. More subtly, microenterprise programmes work well when they have a personal relationship with their clients and have a mechanism for selection based on the community's knowledge for who is reliable or not. Solidarity Group members select those whom they feel confident will repay their loans, often based on years of personal knowledge and experience. The Head Office (or even the branch staff) cannot efficiently make these decisions.

It is at the branch level that all financial transactions with clients are to be carried out. As such, branches should be located as close as possible to their potential clients. An important lesson from the Money Shops, the BKK and Grameen Bank is that banking facilities are brought as close as

possible to the clients they serve. In the Philippines most clients are within five minutes walking distance from the nearest Money Shop. The Grameen Bank goes further by taking the bank to the people. Bank workers make weekly visits to their clients to disburse loans as well as collect instalments.

It may be argued that a large number of branches would not be viable because of the costs involved in setting up these branches. If it is assumed that these branches would have a similar appearance as the branches of traditional commercial banks, then this may be true. The experience of the Money Shops has, however, shown that simple structures are adequate. A simple office with counters, filing cabinets, safe and a computer, operating with a staff of four or five people has been adequate in all the programmes described above.

It is envisaged that each branch should generate enough savings to fund its own revolving loan fund, and charge a high enough interest on loans to show a profit or at least cover its operating costs after approximately five years of successful operation. Savings by the clients and other members of the public is essential for sustaining the loan fund. Savings may be mobilised from four sources:

Forced savings, that is, a percentage of the face value of the loan, deposited with the interest and instalment

payment on the loan each month.

The voluntary savings of borrowers over and above the minimum required amount.

The savings left by clients who left the programme.

Other savings mobilised from community members who do not take out loans with the bank but who want a safe, convenient and accessible place to invest their savings.

Each branch should initially be capitalised with loans (at the prevailing bank rate) from the Head Office to fund their loan fund as well as to cover initial operating expenses. As borrower savings increase and sufficient income is generated through interest charged on loans, these initial loans from Head Office should be repaid. Branches should be allowed to borrow funds from the Head Office to supplement their loan funds, if the need arises. Surplus funds in some Branches may also be invested with the Head Office which may in turn lend to Branches that may experience shortages in their loan funds.

7.2.1.1 Functions of the Branch

Each Branch should be responsible for the following:

1. Assisting in Group Formation

Branch staff should act as facilitators for forming Solidarity Groups. Although the selection function is performed by the group themselves, the Branch field staff should assist in the group formation process and visit potential client businesses to verify that the business in fact exists.

2. Client Orientation

The Branch field staff should be responsible for orienting group members and guiding their operation. The purpose of orientation is to make sure that groups understand the Bank's requirements and procedures before loans are granted.

3. Supervision

Although the collection of instalments and payment to the bank is the function of the group, problem clients should be visited by field staff to stress the importance of repayment and to consider what action to take.

7.3 The Head Office

The primary function of the Head Office would be to formulate general policy guidelines for the organisation as a whole. The Head office should also be responsible for maintaining relations with government and other public and private organisations.

At the initial stages Head Office would be required to obtain the necessary funding in the form of donations or loans, to set up the structures of the bank, as well as to finance the loan fund.

The Head Office will not grant loans to, or receive deposits from, clients. The clients of the Head Office will be the number of various branches who would borrow money from the Head Office in order to capitalise or supplement their loan funds. Other functions of the Head Office will include:

Recruiting and training of staff. Clerical staff should be selected from the areas where the Branch is based, people who have a good knowledge of the community, and who are committed to living in the areas. Branch managers and accountants should be university educated and recruited nationwide. Field and clerical staff should have completed their secondary education. The Head Office will also design and conduct an orientation and training programme for Branch Staff.

Providing incentives for staff. Two of the problems facing the staff of most microenterprise credit programmes are the lack of upward mobility for staff and poor salaries. As a result of this there is a high staff turnover rate and it is difficult to attract highly qualified staff. With this in mind, the most efficient Branch managers should be promoted to Head Office to serve as Head Office field representatives responsible for supervising local units. Other incentives could be paying competitive salaries, and distributing a portion of the profits to supplement staff salaries. The BKK units as well as Grameen Bank branches distribute 10 percent of unit profits quarterly to their local staff (Goldmark & Rosengard 1983; Fuglesang & Chandler 1988). Staff, realising that their income depends on their performance, are motivated to work harder.

Monitoring and reporting branch performance. A good monitoring system will provide the Head Office with the information it needs to determine which Branches are performing poorly. Administration costs incurred by the Head Office could be funded by charging a monthly levy on each Branch.

7.4 The Regional Office

The Regional Office should be responsible for general supervision of the branches under their control. Field officers from the Regional Office could carry out activities

as varied as carrying out an informal audit, training local staff, discussing management problems with the branch manager, accompanying the branch staff on their visits to clients and participating in training activities with clients.

7.5 The Loan Granting Procedure

7.5.1 Selection Criteria

The following criteria should be used to decide who is qualified to receive a loan:

The client should live in the area served by the branch.

Be a member of a Solidarity Group.

Have an income generating economic activity

Have a need for short-term (less than six months) credit.

After ensuring that clients fit general programme parameters the bank should use two mechanisms to select clients, delegating selection largely to ones's peers through the Solidarity Group mechanism, and selection through the internal structure of the programme. The reliability of the clients will be proved over time by starting small "test loans" and increasing loan size gradually as the group's capacity to pay is demonstrated. As each loan is paid back, the Solidarity Group can remove members who have proved

unreliable and replace them with new members. Selection is a continuing process but it is done by the groups, not the programme. Those groups that do not pay their loans are ineligible for new ones. If an individual does not pay, the group has two options: to not make the complete payment, which means that none of the five is eligible for a new loan and that the loan will be handed over to the collections department, or to make the payment and be eligible for the next loan. At this point the group may choose to remove the unreliable member and add a new person to the group.

7.5.2 Basis for Forming Groups

Prospective members form Solidarity Groups by selecting friends and co-workers whom they can rely on to repay a loan. Existing mutual respect and friendships are the usual basis for forming groups. No more than two group members should come from the same family. Group members should be occupied in similar economic activities of either selling, manufacturing or services. Businesses should be approximately the same size. A group should consist of five members. To facilitate loan repayments, members of a group should work or live near one another. Groups may remove unreliable members at the end of each loan.

7.5.3 Group Orientation

Once a group has been formed the members must undergo an

orientation programme to make sure that they understand the Bank's requirements and procedures before loans are granted. The proposals presented here are based on the Grameen Bank experience (Fuglesang & Chandler 1988).

Ideally, orientation occurs over a period of three weeks through a series of three meetings, lasting about two hours each. This is the average period of orientation in most Solidarity Group Programmes. These meetings should involve no more than five groups. Only groups with all members present should be allowed to participate.

During the first meeting the staff talk about the philosophy and objectives of the bank, requirements for individual participation and criteria used to form Solidarity Groups. Attempts should be made to determine the level of acquaintance or friendship among group members and their commitment to the concept of "solidarity guarantee".

The second meeting starts with an explanation of "solidarity" and "mutual assistance". Through solidarity, group members can improve their position and that of their families. Another theme of this meeting should be to define the functioning of the Solidarity Group loan process and the implications of taking out a group loan. It should be stressed that if a member defaults on his or her share of the loan, the group will have to pay on that person's behalf. In particular, it should detail the rules governing the

revolving loan and savings funds. Before the formal constitution of the groups in the third meeting, each group should be encouraged to consider carefully the membership of each individual. At the end of the second meeting each group member completes an application for finance form. After field workers have verified that the business exists and all other requirements have been met, the application is sent to the credit committee for approval. Once approval has been obtained, the third meeting is called.

At the third meeting the group is formally constituted as a Solidarity Group. To fulfil the requirements at this stage, each group must do the following:

Elect its first group leader and secretary and set up a rotation sequence for these positions. The group leader will be responsible for making the group's payments, to maintain discipline, and to call weekly meetings of the group where loan instalments will be collected and other relevant matters discussed. The group leader will be assisted by the secretary who will also act as cosigner for any withdrawals from the group's savings account. These positions rotate among members in order to divide evenly the time-consuming process of making loan payments and also to minimise the risk of dishonesty.

The group will be required to select a name and will then be given a number. The group assumes the status of a joint and

several liability, signing a joint document to that effect and giving power of attorney to the group leader and the secretary. As a joint and several liability group, the group works out a contractual savings and loan scheme with the bank which will include the following:

1. Clients will be required to save a certain percentage of the face value of the loan and this will be deposited with the interest and principal payment on the loan each month. Clients may save in addition to this amount. The groups' savings remain with the bank as collateral.
2. One loan is granted to the group. This money is in turn distributed to all members in the group. Loans may be used for income generating activities only.
3. Alternatively, the bank may also give individual loans to those members who have their own collateral, or bring in guarantors with their collateral, or one guaranteed by the group.

The group acts as a financial intermediary, collecting members savings and repayments and handling the groups savings and loans with the bank, thus lowering the banks transaction costs.

For standing guarantor and acting as an intermediary, the

group should charge a premium on all loans granted to their members. This money should be deposited into a savings account in the name of the group to form an Emergency Fund. This fund should be administered by the group to help members who are unable to make their payments due to unforeseen circumstances such as robbery, fire, domestic calamities, or other liquidity difficulties in their business. As a measure of control, withdrawals from the should be countersigned by the secretary and the group leader.

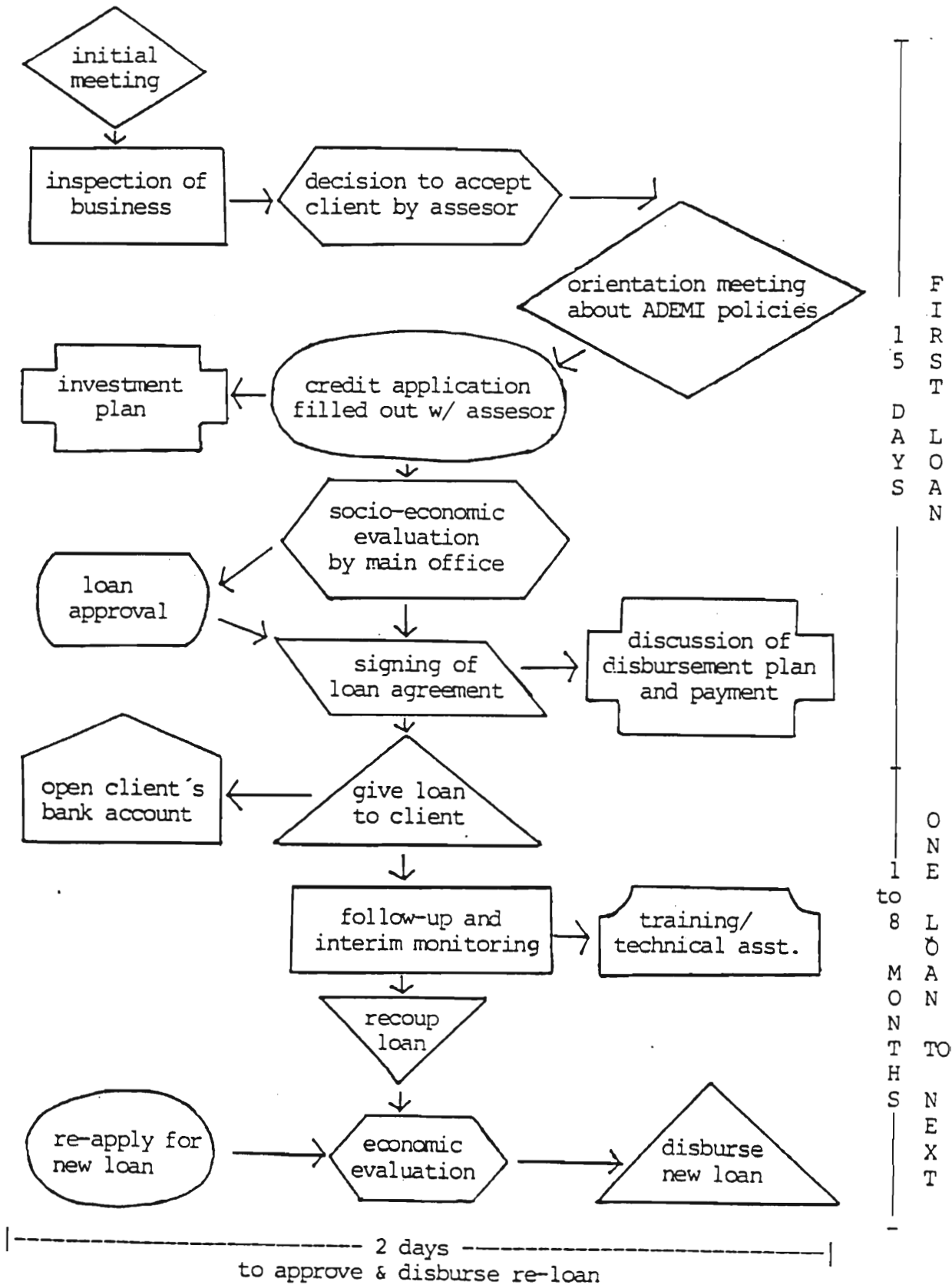
7.6 General Credit Policy

Simplicity, agility and good follow-up are the most essential components of a well administered credit programme. One goal should be a one to two-page application form, a credit committee that meets weekly, and the issuing of a first loan within two weeks of the application. Subsequent loans should be approved on the cancellation of the previous one. The ADEMI's method of extending credit, illustrated in the flow chart on page 186 is provided as an example.

The size of the loan and the payback period should be scaled to the needs of the clients. The better the fit, the better loan repayment will be. The logical point for determining the appropriate size of the loan is the client's own plans because they reflect the owner's own thinking rather than the pre-conceived formula of the field staff's perception of how much credit is needed.

Figure 7.2

FLOW CHART OF ADEMI CREDIT PROCESS



Even though a client's needs for credit may be comparatively large, from a few hundred to over a thousand rand , this does not mean that the initial loan should meet all these needs. A series of short-term loans enabling the business to build gradually to meet the expansion plans of the owner is often the most prudent course.

This example from the Bangalur Layout project in India Farbman (1981) provides a good example. To sell paraffin at a good profit requires an investment of about \$425. This includes:

Working capital	\$50
Three barrels	\$125
Cart	\$125
Bullock	\$125
TOTAL	\$425

The loan is staged in this way. The initial loan for \$50 is for working capital; the bullock, cart and barrels are rented with part of the loan. Once in business, the women will net \$3,13 to \$4,35 a day, and pay \$5 each week to cancel the loan. When the first loan is paid, she is lent \$125 to purchase barrels. When this is paid, she purchases the cart, and with the final loan she purchases the bullock. In one year and eight months she owns her own business outright (Farbman 1981:361-365).

Bank lending to the group should follow a system of repeat loans, whereby loans are contingent upon two factors: the amount of savings deposited and the number of cycles of satisfactory payments. A major incentive for high loan payback is the immediate availability of a second loan. Clients should think not in terms of an individual loan but of their access to a line of credit that increases in size as their businesses prosper. In the Kenyan experience (Farbman 1981) the lack of access to second loans and the laborious and time consuming process required to process these second loans, was cited as a major source of client dissatisfaction.

Interest on deposits and loans between the group and the bank should be the prevailing commercial rates with a percentage added on for service fees on loans. In the microenterprise field, one of the most debated issues is whether clients should be charged a subsidised interest rate, or a rate that covers the full costs of the project. The case for a non-subsidised interest rate is convincing:

Before the business owners' had access to the credit offered by the various programmes, some were already paying exorbitant interest rates to informal sources.

Charging a subsidised interest rate encourages a dependence that makes it even more difficult to break into regular credit channels when they have to pay the commercial rate.

Charging a subsidised interest rate prevents a project from achieving self-sufficiency. Grameen Bank, BKK and ADEMI have covered their operational expenses through interest charges. Loans with short payback were found to be a crucial element in achieving high payback rates. Year long initial loans proved difficult for clients to pay. Their experience with moneylenders involves payment within a very short period. The Grameen Bank is an exception, granting one year loans but with weekly payback. The high level of solidarity and group development in the Grameen programme helps the very high rate of loan payback. This level of commitment and intensive contact with clients is unrealistic in a more commercially oriented effort like the proposed bank.

The frequency of payback is another area that needs to be monitored and adjusted to client needs. Weekly payback schedules generally seem to work best. For certain manufacturers e.g. shoemakers, dressmakers etc. fortnightly or monthly payments may be more appropriate. The determining factor should be the frequency that merchandise turns over in a certain business. After a group or individual has been tested, loan repayment might be rescheduled on a more infrequent basis. Paying the loan can waste valuable hours during the working day.

The best incentive for high loan payback is a well administered project. If staff are not available as scheduled or if group representatives need to spend half a

day waiting in line to make their payments, payback will sag. Ideally, loan payback should be convenient, simple and quick. Once field staff know about a repayment problem, they should take prompt action and this action should be backed by the Branch Unit manager. The consequences of late payment and non-payment should be explained as clearly as possible, and a plan for repayment should be worked out with the group. The following steps are suggested:

In their promotional work the field staff should emphasise the importance of prompt payback. A feeling of ownership of the Branch by the clients should be emphasised because it is their savings that are financing their loans. Group leaders of groups that are performing well should be encouraged to pressure groups that are falling behind.

Field staff should meet with individual Solidarity Groups to understand why the group is late in their payments and to work as a mediator in working out a repayment plan. In some cases the loan may have to be rescheduled so that the loan payments will not be so burdensome, but a small extra interest charge per month should be charged for the extra time.

If all these measures fail legal proceedings should be instituted to obtain the amount due.

These measures may seem drastic, but the consequences of not taking immediate action are often severe. Once a few clients realise they do not need to pay their loans, the attitude quickly spreads to the rest that they do not have to pay either. The problem compounds itself if remedial action is not taken.

There is need for some flexibility, however. Family emergencies do occur, businesses can fail, clients can make poor choices in their use of capital, capital can be lost or stolen or businesses can be destroyed by fire. After all measures are exhausted, a few loans, hopefully under 5 percent of the total amount loaned, should be written off.

7.7 Monitoring and Evaluation

A good monitoring system is needed to provide the Bank with information it needs to determine which of the Branches are performing poorly and which are performing well. Choosing the proper indicators will help to "red flag" units in trouble and identify general patterns and trends. The monitoring system should track important indicators of administrative and operational performance on a monthly basis, so that problems can be identified and dealt with promptly.

A brief report should be produced every month, summarising basic programme indicators, such as the number of new participants, amounts loaned and recovered, average value of loans, amount of savings mobilised, etc. The statistical report is useful in evaluating the Bank's achievements. An adaptation of the standardised monthly report form used by ACCION International, a South American organisation involved in Solidarity Group lending, is presented in Appendix B as an example.

7.8 Conclusion

The purpose of this study was to examine the concept of Solidarity Group lending and its effectiveness as a method of delivering credit to informal sector microenterprises. From the empirical study on the Get Ahead Foundation in South Africa and a review of Solidarity Group Programmes in other countries, it may be concluded that, despite certain limitations, Solidarity Group Programmes are a successful mechanism for providing credit to microenterprises in the informal sector.

The subject of microenterprise development will continue to gather importance in South Africa as scarce resources are mobilised to respond to the growing needs of the urban poor. This study throws some much needed light on an innovative mechanism for extending credit to microenterprises, that,

except for the Get Ahead Foundation, has not yet received the attention of Development Institutions in South Africa.

It is hoped that the proposals put forward in this Chapter will generate discussion and further research on the viability of establishing an autonomous bank whose principal aim would be to provide financial services to clients in the informal sector.

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APPENDIX A

UNIVERSITY OF NATAL

DURBAN

STOKVEL MEMBERS' QUESTIONNAIRE

1. Stokvel No.:

2. Member's Age:

3. Gender

Male	1	Female	2
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4. Marital Status

Single	1	Widow	4
Married	2	Widower	5
Separated/ Divorced	3		

5. What is the highest level of education attained by you?

No Formal Education	1	Std. 5 - Std. 7	4
Class 1 to std. 1	2	Std. 8 - Std. 10	5
Std. 2 - Std. 4	3		

6. How many people live and eat with you?

7. Are you the head of the household?

Yes	1	No	2
-----	---	----	---

8. Is the business income the only income of the household?

Yes	1	No	2
-----	---	----	---

9. If additional income is received by the household, please state:

The source:
e.g. Wages, Pension

Income Earner.
e.g. Son, Daughter

.....

.....

.....

10. What type of business do you operate? (Please specify under the appropriate heading.)

Hawking (e.g. street hawking, door to door selling)	1
Other Retail (e.g. spaza shops, shebeen operator)	2
Manufacturing (e.g. beadworker, seamstress)	3
Service (e.g. shoe repairer, hairdresser, mechanics)	4
Other	5

11. Do you work part-time or full-time in the business?

Part-Time	1	Full-Time	2
-----------	---	-----------	---

12. How many people including yourself do you employ in this business?

13. Have you taken any previous loans with Get Ahead Foundation?

Yes	1	No	2
-----	---	----	---

14. If "yes" please state

Year	Amount of Loan
.....
.....
.....

15. Have the previous loans been with the same stokvel?

Yes	1	No	2
-----	---	----	---

16. What was the purpose of your first loan?

Working capital for current business	1
Equipment, machinery for current business	2
Start a new business	3
Other (specify)	4

17. What is the amount of your present loan?

.....

18. How long have you had this loan?

19. For what purpose did you use the loan?

Working capital for current business	1
Equipment, machinery for current business	2
Start a new business	3
Other (specify)	4

20. Before your GAF loan, did you borrow money from any other source?

Yes	1	No	2
-----	---	----	---

21. If 'Yes' please state:

From whom:

The interest rate:

The payback conditions:

22. Why did you select this source?

Loan received prior to GAF establishment	1
More convenient	2
Easier to obtain	3
Lower interest rate	4
Rejected by GAF	5
Rejected by commercial banks	6
Other (specify)	7

23. (For all borrowers)

What made you borrow money from GAF Stokvel scheme?
(Most important reason)

No alternative sources	1
Convenient	2
Quick	3
Good terms	4
Low interest	5
Easier to obtain	6
Other (specify)	7

24. What would you have done without the Gaf loan?

Would not have received any loan	1
Would have gone to other credit sources (Please specify the other source)	2
.....	

25. Since receiving your first GAF loan, has the volume of raw materials or goods you purchase

Decreased	1
Remained the same	2
Increased	3
Or is it too early to judge?	4

26. Has the volume of sales

Decreased	1
Remained the same	2
Increased	3
Or is it too early to judge?	4

27. Has your income after expenses

Decreased	1
Remained the same	2
Increased	3
Or is it too early to judge?	4

28. If income has increased how have you spent your additional earnings from this activity?

Working capital for capital business	1
Equipment, machinery for current business	2
Start a new business	3
Family needs (food, clothing, school fees)	4
Housing improvement	5
Other (specify)	6

29. Have the number of people working in this business with you since you received your first GAF loan

Decreased	1
Remained the same	2
Increased?	3

(If employment has increased then answer question 30 and 31.)

30. How many new full-time people have you hired since receiving your first GAF loan?

.....

31. How many new part-time people have you hired since receiving your first GAF loan?

.....

32. Do you receive any new discounts from suppliers as a result of you GAF loan?

Yes	1	No	2
-----	---	----	---

33. After receiving the loan, would you say that your business has:

Improved	1
Not Improved	2
Become worse	3
It's too early to judge	4

34. Do you experience any difficulty in meeting your instalment on time?

Yes	1	No	2
-----	---	----	---

If 'Yes' please state the nature of the difficulty.

.....

.....

.....

35. In your opinion, is it better to receive a group loan or an individual loan?

Group	1	Individual	2
-------	---	------------	---

36. Give reasons for your choice.

.....

37. Would you take another loan with GAF once you've repaid your present loan?

Yes	1	No	2
-----	---	----	---

38. If "Yes" would you take the loan with

The same group	1
Some members of the present group	2
Another group altogether	3

39. There may be a time when a group member is unable to meet his or her instalment on time? How does the group solve this problem?

.....

40. Besides ensuring that the members in the group pay back their loans on time in what other ways do members help each other?

.....

41. Do you think that the introduction of the compulsory savings scheme has benefitted Stokvel members?

Yes	1	No	2
-----	---	----	---

42. If "yes" please state in what way?

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

43. What aspect of the Stokvel loan scheme do you like best?

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

44. What don't you like about the scheme?

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

45. Can you suggest ways of improving the scheme?

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

APPENDIX B

MONTHLY STATISTICAL REPORT: BRANCHES

BRANCH _____ MONTH _____

	Individuals	Solidarity
1. Number of new businesses/ groups financed		
2. Number of loans disbursed		
3. Amount of loans disbursed		
4. Average loan value		
5. Number of loans recovered		
6. Amount of loans recovered (principal)		
7. New participants: Male Female		
8. Current client savings accounts		
9. Interest on client savings		
10. Cost per unit loaned		
11. Loans refinanced		
12. Default rate		
13. Active loan portfolio		
14. Interest and fees (income)		
15. Administrative and operational costs		
16. Training costs		

Explanation of Line Items

1. The number of enterprises or groups that received a loan for the first time during the current month.
2. Total number of loans disbursed during the month.
3. The total value of loans in number 2 above
4. Number 3 divided by number 2
5. The total number of loans repaid in full during the month.
6. The amount of principal recovered in a month.
7. Only new clients who joined the programme during the current month.
8. The amount of current client savings.
9. The amount of interest paid to clients on savings accounts.
10. The cost per unit loaned is derived by dividing the total monthly Bank costs by the amount loaned during the month. Monthly costs include salaries and benefits, rent, transport, and all other operational expenses.
11. The number of loans that are refinanced during the current month.
12. The default rate is calculated by:

Amount of principal in default

X 100

Amount of principal in the active loan portfolio

13. The active loan portfolio equals the amount of principal loaned minus the amount of principal recovered.
14. All income from interest and service charges.
15. Monthly Bank operational costs. (refer to number 10)
16. The type of training or course and the number of participants.

Source: The Calmeadow Foundation 1992:56