THE ROLE OF MICROFINANCE IN SEKHUKHUNE DISTRICT

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THE ROLE OF MICROFINANCE IN SEKHUKHUNE DISTRICT

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ABSTRACT

The purpose of this study was to explore the role of microfinance in the Sekhukhune District, Limpopo Province. The Hulme's Impact Framework and the Capabilities Approach were used to understand the role of microfinance. A qualitative approach was used to gain an insight into the perspective of both the beneficiaries and the providers of microfinance. Semi-structured interviews were used to collect in-depth data from 30 participants from two developmental Microfinance Institutions operating in the Sekhukhune District.

The results showed that Microfinance offered a variety of services, such as savings, small loans as well as business and health education, mainly to women who were interested in doing business. Loan eligibility for the institutions depended on both the ability to pay back and to save. Failure to pay back resulted in being excluded from the programme. Although loans were meant for business purpose, some clients found a way to use them for income smoothening and loan repayment. Overall, the results indicate that microfinance was used to supplement other government poverty-eradication tools such as monthly grants to the elderly and children. Moreover, microfinance is perceived by both beneficiaries and providers to bring about both economic and social capabilities.

It was also revealed that, even though microfinance has some benefits, there are still some challenges faced in the industry. Beneficiaries perceived the interest rate to be satisfactory microfinance. However, the interest rates charged by the Microfinance Institutions is higher than what is charged by commercial banks. In the quest to cover operational costs, such interest rates that have left some of the poor in an unending cycle of poverty.

Based on the findings, this study recommends that, the government should come up with other intervention strategies in addition to supplement microfinance. For instance, to help micro-entrepreneurs, the government could assist by building smaller shops to rent out to micro-entrepreneurs they could sell their goods. In addition, the government should build financial systems that work for the poor; create legal systems which that encourage market entry.

KEYWORDS:

Financial Services, Credit, Microenterprises, Microfinance, Interest Rates, Beneficiaries, Financial Inclusion

DEDICATION

To Professor Johannes Lotter, first supervisor - MHSRIP.

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LIST OF ABBREVIATIONS/ACRONYMS

ACCION	Americans for Community Cooperation in Other Nations
ANC	African National Congress
ASA	Association for Social Advancement
BRAC	Bangladesh Rural Development Scheme
CGAP	Consultative Group to Assist the Poor
DBSA	Development Bank of South Africa
DTI	Department of Trade Industry
FINCA	Foundation for International Community Assistance
FOCCAS	Foundation for Credit and Community Assistance
IDC	Industrial Development corporation
LDO	Loan Development Officer
MFI	Microfinance Institution
MFRC	Microfinance Regulatory Council
NGO	Non-Governmental Organisation
NCR	National Credit Regulator
NCT	National Credit Tribunal
NHFC	National Housing Finance Corporation
NLR	National Loans Regulator
PRIDE	Promotional for Rural initiatives Development
RHLF	Rural Housing Loan fund
SAMAF	South African Microfinance Apex Fund
SBDC	Small Business Development Corporation
SEFA	Small Enterprise Finance Agency
SSA	Sub-Saharan Africa

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OVERVIEW

Microfinance, as a poverty-alleviation tool, has spread all over the world since its introduction in the 1970s. The most comprehensive global count on microfinance, according to Daley and Harris (2009), totalled 13 million institutions/organizations in 2005. In 2007, the number of clients had expanded to 155 million, with an investment of US$5.4 billion. In the same year, in Bangladesh, where microfinance has its origin, the major Microfinance Institutions, such as Grameen, Bangladesh Rural Advancement Committee (BRAC) and the Association for Social Advancement (ASA), were serving about 20 million clients (Morduch & Armendariz, 2010). Daly and Harris (2007) report that microfinance has also spread to the developed world. In the USA, similar programmes have been set up in New York, Chicago, Arkansas and Washington, DC.

Microfinance plays an ever-increasing role in approaches to poverty alleviation (Van Rooyen, Stewart & de Wet, 2012). However, in sub-Saharan Africa, where the population includes the highest number of poor people living in extreme poverty, 80% of the 800 million people living here have no access to Microfinance Institutions (Care Report, 2011). The nature of the microfinance sector in South Africa has largely been defined by the dual economy consisting of an economically advanced and globally integrated minority (Black and White population groups) that co-exists with a Black marginalised majority, and the presence of structural unemployment (Aliber, 2005).

According to Calvin and Coetzee (2010), 48% of the low-income groups in South Africa, as of 2005, did not utilise formal banking services. The lack of access to formal bank was because of two reasons. Firstly, the poorer members of the society founded informal financial services because of their convenience and simplicity. Secondly, very few banks were prepared to do business with the poor. The main reason for focusing on the Sekhukhune District in Limpopo Province is that this district is mostly rural and poor, with an unemployment rate of 85% (Provide, 2009).

With a population of 895 390, the Sekhukhune District comprises five local municipalities, which are, namely, Fetakgomo, Greater Tubatse, Makhuduthamaga, Greater Groblersdal and Greater Mable Hall. These municipalities are predominantly characterised by poor infrastructure, limited resources and economic activity. The district is one of the areas of Integrated Sustainable Rural Development (ISRD) nodes. ISRD nodes are the poorest regions marked by the South African government as areas of priority for development (Drimie, Germishuse, Radmeyer & Schwabe, 2009). With the service sector as the main source of formal employment, residents highly depend on the informal sector, remittances from family members, as well as government transfer payments in the form of Old Age and Child Support Grants (Njaremba, Ntsala & Pillay, 2008).

The above characteristics therefore created an opportunity for microfinance operations as a development strategy. South Africa has six different types of suppliers of microfinance service, namely: developmental microfinance lenders, co-operatives, salary-based micro lenders, stokvels, primary banks (Capitec, Standard Bank, FNB, Nedbank, ABSA) and government-owned retail development (BANKSETA, 2013).

However, this research focuses on developmental microfinance lenders. Two of the major Microfinance Institutions operating in Sekhukhune are, namely, Small Enterprise Foundation (SEF) and Phakamani. On the one hand, with a total of 11 200 active clients, SEF has the following branches in Sekhukhune: Fetakgomo, Burgersfort, Atok, Jane Furse and Nebo. On the other hand, though the headquarters are in Mpumalanga, Phakamani, has three branches in Jane Furse, Nebo and Burgersfort and a total of 3061 active clients (SEF, 2019; and Phakamani, 2019).

Globally, over the past thirty-five years, numerous studies have used quantitative methods to evaluate the role of microfinance in poverty reduction (for example, see Banerjee, Duflo, Glennersier & Kinnan, 2015; and Maitrot & Nino-Zarazua, 2017). Similarly, in the South African setting, there have been a few studies that examined the impact of microfinance using quantitative and mixed methods, but mainly in an urban setting (for example, Afrane, 2002; Baumann, 2004; Mkhize, 2017; and Olubenga & Mashigo, 2017).

In one of the studies conducted in South Africa, Kirsten (2011) used mixed methods to examine whether microfinance improved the well-being of the poor in rural Sekhukhune. Alongside the previous empirical studies, the current study will contribute to the body of knowledge as it is one of the few qualitative studies that investigate the role of microfinance in South Africa in a rural setting.

A qualitative method was used in this study in order to record the experiences of the beneficiaries and the providers of microfinance from their own point of view. Since the qualitative approach focuses on words and not numbers, respondents were able to disclose freely their experiences without any constraints, which is in line with the recommendations (Creswell, 2003). Therefore, the qualitative approach made it possible for the researcher to gather in-depth information, which is not possible with a quantitative approach. The knowledge will provide an insight on how to provide microfinance that is tailored to the needs of the poor in a rural setting of Sekhukhune.

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Currently, there are over 3000 Microfinance Institutions operating in South Africa (National Credit Regulator, 2015). However, due to the constraints of time and cost, this research limited itself to developmental MFIs operating in Sekhukhune. The focus was on the role of microfinance and its ability to alleviate poverty.

A strong financial sector plays a positive role in promoting economic development. An entrepreneur who wishes to invest may utilise credit as an additional means for the enterprise when savings are not enough (Gross, 2001; and Brue & Grant, 2013). However, the benefit from financial mediation can only be realised when the interest rate charged on the loan is less that the actual profit generated by the enterprise (Mckinnon, 1986).

Since financial markets are characterised by imperfect information, financial institutions therefore request for collateral in the form of assets before credit can be granted (Stiglitz, 1990; and Gross, 2001). Unfortunately, micro-entrepreneurs and poor people are mostly denied credit by commercial banks due to lack of collateral. Yanus (2003) identifies this risk averseness as a market failure. Microfinance Institutions (MFIs) identified this market failure as an opportunity to provide financial access to the segment of the market that was previously denied loans. Generally, the MFIs charge a higher interest rate than commercial banks to factor in high transaction cost and to factor in anticipated losses due to lack of collateral. Thus, MFIs aim to provide opportunities for generating income and to protect the poor against serious shocks but at a higher cost to the borrower (World Bank, 2008; and Balkenhol, 2018).

The motivating theoretical frameworks for this study are Hulme's Impact theory and Sen's Capability Theory. Hulme's (2000) theoretical "Model of Impact Chain" states that, behind all microfinance programmes, is the assumption that intervention will change human behaviour and practices in ways that lead to the achievement of desired outcomes. The Capability Theory asserts that the aim of a poverty-reduction programme is to expand choices to achieve things most valued by individuals (Sen, 2003).

The research problem was to determine whether the intervention by developmental MFIs leads to the desired outcome, which is, namely, the enhancement of capabilities of the residents of the Sekhukhune District.

The qualitative method was used. Semi-structured interviews of beneficiaries and providers of microfinance was the technique employed in collecting data. The data were analysed using the formerly known Non-Numerical Unstructured Data Indexing NVIVO programme – a software programme designed to assist with organising and analysing qualitative data.

The research questions were based on Honohan's (2005) guidelines on assessing the outreach and the effectiveness of Microfinance Institutions and included the following:

1) How do beneficiaries access microfinance?
2) How do the beneficiaries utilise loans?
3) What are the actual economic and the social benefits of microfinance?
4) What challenges are encountered within microfinance programmes?

CHAPTER 1
INTRODUCTION

1.1 Background to the study

Since its inception in the 1970s, microfinance[i] has been lauded by government donor agencies and scholars alike for its ability to alleviate poverty among the poor. The basic assumption has been that microfinance leads to investment by poor[1] people in micro-enterprise (Van Rooyen et al., 2012). However, despite the perceived advantage, global access to microfinance is still insufficient: 2.5 billion people do not have access to a formal bank account; 59% of adults in developing countries; 77% of adults earning less than a dollar a day; and 11% of the adults in high-income economies (countries with a gross national income per capita US$12,236 or more) do not have access to banking facilities (BANKSETA, 2013). This situation is alarming globally considering that access to affordable financial services is linked to overcoming poverty, reducing income inequalities and increasing economic growth. According to CGAP (2016), access to financial services enables the poor to attain the Sustainable Development Goals (SDGs). Thus, poor can diversify income, build human, social and economic assets.

There seems to be a consensus globally that one of the major problems that a nation faces is access to capital and savings by the poor. Several reasons have been brought forth for the financial exclusion of the poor. These, namely, lack of money, the cost of operating a bank account and market failure, make formal banks unable to provide credit to those without collateral (BANKSETA 2013). Since access to financial services occupies a central position in economic development, microfinance became the "silver bullet" to poverty alleviation. Microfinance as a tool for economic development was recognised by the United Nations as well, and 2005 was declared the International Year of Micro Credit. Since then, microfinance has had such a significant social and economic impact throughout the world, especially in developing countries.

The basic idea behind microfinance is to provide high quality, affordable financial services, such as savings, credit and insurance, to low income and self-employed individuals who have basically been denied financial access by banks and formal financial institutions. Access to

[1] Individuals who live on less than $1.25 a day poverty line lack materials such as food, housing, land and other assets for their wellbeing (World Group Report)

financial services would help the poor build assets through saving or financing income-generating activities; stabilise their consumption; and protect them against risks such as medical emergencies, death, theft or natural disasters (CGAP, 2012).

Stimulated by initial success of the Grameen Bank (est.1976), which currently serves 400 000 clients, other giant Microfinance Institutions such as BRAC (est. 1972), ASA (est.1978), Proshika (est. 1976) and Basic Unit for Research and opportunities (BURO) Tangail (est.1989) started operating as well (Hulme & Moore, 2006). Since then, Microfinance Institutions around the world have evolved. Lutzenkirchen and Weistroffer (2012) report the significant changes that took place in the micro lending business between 2000 and 2008 in South East Asia, Latin America, the Caribbean, Eastern Europe as well as the Sub-Saharan Africa. From just lending to the rural poor for income-generating purposes, MFIs were now supplying financial services to all unbanked[2] people in emerging developing markets; offering services other than just start-up capital; providing individual contractual borrowing almost replacing group borrowing; expanding more into urban areas, where the client base is 50 percent. Currently, approximately 90% of lending by MFIs was to higher-income groups (Lutzenkirchen & Weistroffer, 2012).

According to Lutzenkirchen and Weistroffer (2012), there has been an increase in borrowing for consumption purposes rather than for investment. On the supply side, the Non-Government Organisations (NGOs)[3] have up scaled to either non-bank or bank financial institutions with the intention of securing funding in the form of deposits. Existing commercial banks have downscaled as well by creating departments within the banks that would provide microfinance. It has also become inevitable for most MFI to commercialise because of the failure of most donor Non-Governmental Organisations (NGOs) and government funded Microfinance Institutions. Currently, microfinance is not only funded by government and NGOs, but also by the private sector. According to Chen and Rutherford (2013), the major MFIs in Bangladesh began to compete amongst themselves to claim the largest market share by mobilising funding from borrowers, public savings, as well as loans from commercial banks.

Among other highlights of the financial and banking sector is the global financial crisis that occurred about a decade ago. Banks' desire to maximise profit resulted in a rapid expansion

[2] Adults who do not have access to the services of a bank or similar financial institution (Investopedia)
[3] These are non-governmental non-profit organisations that function independently of the government (Investopedia 2018)

and a crisis on both clients and MFIs between 2006 and 2008. As clients were becoming more and more over-indebted, banks were becoming more vulnerable (Chen & Rutherford, 2013). The MFIs vulnerability was worsened by MFIs that failed to keep up with the fast market growth as they lacked well-trained personnel to handle risk management (Bateman, 2014). To alleviate the crisis in the microfinance industry, many scholars have recommended a balance between a development approach[4], on the one hand, and a commercial approach[5] one the other hand (Lutzenkirchen & Weistroffer, 2012).

Microeconomic theory has shown that financial intermediation improves the level of production per worker and leads to economic growth and development (Gross, 2001). This theory implies that lack of access to starting capital is a major constraint for entering self-employment and many job-creating opportunities. Evidence also shows that poor people need saving, insurance and credit to smoothen income fluctuation. The importance of financial inclusion as an important ingredient in social and economic development has been recognised by the Global Financial Standard Setting Bodies (international committees that exercises influence over the development of banking and payment system laws) as well as forty developing countries and emerging markets whose combined population is 1.7 billion (CGAP, 2012). Microfinance, therefore, can be viewed as part of financial sector development; economic development; as well as social development. These unique features have led to the survival of microfinance will most probably continue to exist as an area of research and a field in Development Economics (Balkenhol, 2018).

The situation in Sub-Sahara Africa (SSA) is not exceptional where MFIs have expanded more rapidly than any other financial institutions in the last thirty years. MFIs could become the main driving force for financial inclusion because, in SSA, there is a very large informal sector as well as a lack of safety nets and social security. MFI in SSA can, however, only have a significant impact on economic growth if they become more efficient (Chikalipah, 2018; and Inoue & Hamori, 2016). According to Abudulai and Tewari (2016), most of the MFIs in sub-Sahara

[4] A kind of approach that is impact driven and based on support from the government and NGOs (Lutzenkirchen & Weistroffer, 2012)

[5] An approach that focuses on creating sustainable financial institutions by charging commercial interest rates (Lutzenkirchen & Weistroffer, 2012)

Africa were found to be inefficient as compared to MFIs in other continents because of the excessive dependency on external funding.

Microfinance Institutions (MFIs) in South Africa have been offering financial services to the poor in the last four decades, with the aim of reducing poverty and contributing to the survival of the poorest of the poor. Prior to1994 there were only a few not-for-profit and commercial Microfinance Institutions (MFIs). However, after the abolishment of apartheid, South Africa, like many developing countries, chose microfinance as one of its development strategies. In the early 1990s, there was a rapid increase of MFIs because of international development communities and government support through legislation such as the exemption to the Usury Act of 1990 that removed price control on small and short-term loans (NCR 2011; and Bateman, 2014). The ANC government was convinced that an increase in access to microfinance will lead to positive transformation of the lives of the poor who had been previously disadvantaged (Bateman, 2014).

The liberalisation of the credit market resulted in the formation of diverse MFIs. There are numerous Microfinance Institutions operating in both rural and urban areas in South Africa. By March 2009, there were 3690 credit providers that had registered with the National Credit Register (NCR). One hundred and fifty-two (152) of these had been granted supplementary registration as developmental lenders (Calvin & Coetzee, 2009).

Microfinance industry in South Africa can be classified into two broad categories. There is Microfinance South Africa (MFSA), which is an association of commercial MFs, and has approximately 1500 members, as well as the Association for pro-poor Microfinance Institution for South Africa (AMFISA); a not-for-profit association committed to pro-poor development microfinance and has a membership of 14. Of the two broad categories, AMFISA is mostly under-developed. The largest of the developmental MFIs is SEF, with a total of 95 825 active loans, followed by Phakamani & Tetla Financial services with active loans of 8000 and 3000 respectively (BANKSETA, 2013).

The rapid expansion of the microfinance industry came with negative consequences. Bateman (2014) refers to it as the most calamitous post-apartheid development strategy. The poor found themselves over indebted and in a poverty trap. By 2013, 47% of the 20 million active consumers were over indebted. In addition, there has been criticism and debates as to whether the MFIs in South Africa do contribute to the reduction of poverty because of inadequate access to developmental MFIs; reckless lending; as well as high interest rates charged by the MFIs (BANKSETA, 2013; and Olugbenga & Mashigo, 2017).

1.2 Objectives of the Study

The main objective of this research is to investigate the role of microfinance in the Sekhukhune District.

Specific objectives of this study are, namely, to:

- examine how the beneficiaries of microfinance utilise the credit provided by MFIs;
- determine the level of access to microfinance;
- document the benefits accruing from microfinance; and
- explore the challenges faced by both the clients and providers of microfinance.

1.3 Statement of the Problem and Justification of the Research

Despite the presence of both developmental and commercial Microfinance Institutions in Sekhukhune, this district remains one the poorest districts in the country. The present study investigates whether the residents of Sekhukhune benefit adequately from microfinance services. The purpose of this research is to investigate the role of microfinance in the Sekhukhune District. While microfinance is hailed as a tool for poverty alleviation by many scholars, recently, there has been concerns raised about effectiveness due to the levels of indebtedness MFIs clients; 47.5 South Africans were reported to be over-indebted (BANKSETA), 2013. The indebtedness has been linked mainly to the very high interest rates charged as well as the competition for clients by MFIs (Bateman, 2014). Furthermore, BANKSETA (2009) reported that there was still a shortage of developmental microfinance.

Given the above information, one can conclude that there is microfinance available to South Africa's population. Access to credit is supposed to alleviate poverty, yet South Africa is said to have escalated poverty levels with 40 percent of the population living below the poverty line (BANKSETA, 2015).

This research investigates whether clients of micro-entrepreneurs benefit adequately from microfinance. Literature indicates that microfinance has shifted away from investment to consumption purpose in South Africa as well as in other countries (Bateman, 2014). An investigation into the utilisation of micro-loans therefore becomes necessary. Furthermore, the present research evaluated the kind of benefits micro entrepreneurs have received from MFIs. The present study focuses on the Sekhukhune District where there is a considerable presence of MFIs.

The Sekhukhune District Municipality is one of the four districts in Limpopo Province, South Africa. The district's population is approximately 1 million and is rather vulnerable due to high levels of poverty and lack of infra structure. Sekhukhune is one of the districts in South Africa that was included in the Integrated Sustainable Rural Development (ISRD) node[6]. Because of high levels of unemployment, many of the residents either depend on the informal sector or family members for survival (Provide, 2009).

Because of the above contextual factors, there are various government projects in Sekhukhune that have received a lot of scholarly attention. Projects such as Limpopo Business Agency (LIBSA); SEFA Small Enterprise Finance Agency (SEFA) and Sekhukhune Development Agency (SDA), which are aimed at combating poverty through financing of SMMEs in the Sekhukhune District, are well-documented (IDP 2018). However, there are limited research findings that document how the residents of Sekhukhune benefit from MFIs, which are also the tools for poverty alleviation.

A qualitative approach through semi-structured interviews allowed the researcher to obtain in-depth knowledge from the perspective of the beneficiaries whose lives are directly affected by microfinance. The study enabled the beneficiaries to share their experiences anonymously so that their responses would not be affected by the fear of victimisation. The study investigated the accessibility, determined whether microfinance is beneficial, as well as documented any challenges faced by both beneficiaries and providers of microfinance.

[6] This is a district set as a priority for development by the South African government (Drimie, Germishuyse, Radmeyer & Schwabe, 2009).

The data that were collected are likely to be used by scholars, providers of microfinance, the Sekhukhune District Municipality, as well as the government. While Scholars could use the findings for further research, MFIs, the Sekhukhune District Municipality and the government can use the information for improvement of policies and further training in the field of microfinance.

1.4 Limitation of the Study

The purpose of a qualitative research is to get in-depth knowledge of people's perceptions about a problem. However, qualitative research deals with a limited sample size. The results of this study, therefore, may not be generalised to other areas with the same degree of certainty as the results of a quantitative paradigm that deals with a larger sample size (Atieno, 2009; and Delport, Fouche & Schurink, 2011).

1.5 Organisation of the Study

This introduction provided a summary of the nature of microfinance and its role in poverty alleviation; the justification of the research; and aims as well as objectives of the research. Following the introduction, Chapter Two provides the theoretical framework; the global, sub-Saharan African, as well as South African literature review on microfinance. Chapter Three provides a discussion of the qualitative approach, the methodology used by the researcher. While Chapter Four presents the findings, Chapter Five discusses the findings in relation to the literature reviewed in Chapter Two. Finally, Chapter Six concludes the research with recommendations on how microfinance can be used best to benefit its clients.

CHAPTER 2
LITERATURE REVIEW

2.1 Introduction

The discussion of this chapter includes theoretical arguments as well as empirical findings in microfinance. Specifically, in section 2.2 section, important concepts in microfinance are defined to gain a clear understanding of the subject of microfinance. Section 2.3 provides the discussion of the theoretical framework, starting with Adams Smith's Classical Theory.

Other theories that assist in the tracing of the historical thought of microfinance include the neo-classical theories such as exogenous and endogenous growth models; new development economic theories such Yanus' Theory of Microfinance, Hulme's Impact Framework and the Sen's Capability Theory. Section 2.4 of this chapter presents a review of literature on microfinance such as – its origin, its role globally and in sub-Saharan Africa. Thereafter, Section 2.5 presents an overview of microfinance in South Africa. Section 2.6 concludes the chapter.

2.2 Concepts

Microfinance[7]

Most scholars, such as Gulli (1997), Otero (1999) and Ledgerwood (1999), view microfinance as the provision of small-scale financial services to business and households, who were traditionally kept from the financial system.

Microcredit[8]

Although microfinance and microcredit tend to be used interchangeably, some scholars such as Sinha (1998) draw a distinction between microfinance and micro-credit. According to Sinha (1998), micro-credit is the provision of small loans. On the other hand, microfinance is appropriate where NGOs and MFIs supplement the loans with other financial services such as savings and insurance. It can therefore be concluded that microcredit is part of microfinance. Robinson (2001) views microcredit as new technology in the field of developmental economies.

[7] Microfinance and microcredit are used synonymously, although a distinction is made in their definitions.
[8] Microfinance and microcredit is used synonymously, although a distinction is been made in their definitions.

Microfinance Institutions

Remenyi (1999) defines a microfinance institution as a bank co-operative, a credit union, a non-governmental organisation or some other non-financial intermediaries that seek to provide clients from poor households with a range of management and banking services. Balkenhol (2018) also states that the world of MFIs is diverse and may exist in various legal forms such as Non-Governmental Organisations (NGOs), co-operatives and commercial banks.

Non-Governmental Organisations

These are unregulated non-profit non-deposit-taking microfinance organisations whose funding comes from donors (Zuru, Mshim & Arshad, 2016).

Co-operatives

Co-operatives are non-profit member-owned financial institutions authorised by the government to take deposits from their members – but not from the general public – with aim of providing their members with financial services (Balkenhol, 2018).

Commercial Banks

These are regulated deposit-taking financial institutions that could have been formed, either through transformation of NGO for the purpose of mobilising funds from the public or traditional regulated bank, which have penetrated the microfinance market (Lutzenkirchen & Weistroffer, 2012).

Pro-Poor Microfinance Institutions

These are MFIs that are formed either by non-governmental organisation or government and have a non-profit status. Their aim is to give access to credit to poor people who have or want to start a business. They are also called developmental microfinance (Aubert, Janvry & Sadaulet, 2008).

For- Profit Microfinance Institutions

MFIs that are funded from share capital (capital drawn from the public) in order to be self-sustaining generally charge a higher interest rate (Aubert, Janvry & Sadaulet, 2008).

Public Banks

Banks that are controlled by and funded by government rather than private investors (Bhatt & Tang, 2001). Bhatt and Tang (2001) explain that over the years, Non-Governmental Organisations have gained widespread appeal as vehicles for delivering microfinance because they have gained a reputation for their ability to establish linkages with civil societies and their provision of innovative and entrepreneurial skills in technical assistance relating to adult education, health and business practices. Therefore, they have generally been considered more reliable as agents for serving the poor than either government or private organisations. Bhatt and Tang (2001) also argue that the non-availability of large numbers of NGOs providing microfinance has led to the consideration of downscaling of existing commercial banks to establish new development banks as alternatives to delivering financial services to the low-income groups in the informal sector.

Similarly, Robinson (2001) identifies the poverty lending approach that requires many ongoing subsidies from both government and donor and the new commercial microfinance approach, in which financial intermediaries can charge interest rates that enable them the full cost recovery and institutional self-sufficiency.

2.3 Theoretical Literature

In this section, theories such as the Classical Theory; the Solow Growth Model, the Endogenous Growth Models, Yanus' Theory of Microfinance, Hulme's Impact Frame, and the Capabilities Approach, which either relate to or laid a foundation for microfinance and economic growth, are discussed.

2.3.1 The Classical Theory

The Classical Theory is discussed to demonstrate that without financial intermediation economic development is constrained. Investment in microenterprise for economic growth has its roots in Classical Theory. When Adam Smith, a classical economist wrote "The Wealth of Nations" in 1776, he proclaimed the principle of the "invisible hand", which states that every individual is selfishly pursuing his or her own personal gain (Samuelson & Nordhause, 1989). Adam Smith believed that there were three elements that brought about universal prosperity, namely, thrift, hard work and self-interest (Samuelson & Nordhause, 1989), whereas self-interest was for the trader to make profit by selling goods at a price that customers were willing to buy. Thrift and savings were important virtues, especially when savings were used to invest. Through investment, industries can have capital to buy machinery and encourage innovation. Samuelson and Nordhause (1989) state that Smith did not see the need for governments to interfere in a free-market mechanism as this would be injurious.

Thus, the drive towards self-interest, which is restricted by competition, will bring about social good and maximum output as well as economic growth (Brue & Grant, 2013). However, there are limitations to this theory because of market failure (i.e., imperfection in the markets) that requires some form of intervention. Micro-lending is a development strategy that was stimulated by in neo-Classical Theory of capital and growth rate. Since the Classical Theory postulated that institutions and policies were not important to economic growth, it got the new growth economist to think about the importance of such factors.

2.3.2 Neoclassical Growth Models

The two-neoclassical growth model discussed in this section laid the foundation for introduction financial intermediation as an important ingredient in economic growth. These are the exogenous and endogenous growth models. Both these models built their theories on the foundations laid by Adam Smith classical theories.

2.3.2.1 The Solow Growth Model (Exogeneous growth Model)

This is an exogenous model that states that growth is determined by forces outside of capital investment such as technological progress and rate of saving. Although there are recent growth models, the Solow Model, which was developed between 1956 and 1957, remains the important point of origin for studying economic growth (Snowdon, Howard & Vane, 2005). Solow states that short-run economic growth is determined by a change in capital investment, labour force growth and depreciation rate. In the short run, according to the Solow Model, diminishing returns will be experienced because capital is fixed, and only labour is increasing (Snowdon et al., 2005). In the same way, an increase in capital to fixed labour will yield diminishing returns. However, the change in capital investment arises from the change in saving rate in the long run. If increases are made in both labour and capital, output will show constant returns to scale. (Snowdon, Howard & Vane, 2005).

According to Meier and & Rauch (2005), the Solow Model is based on the neo-classical production as follows:

Y=At (K, L)

Where Y is output

K is Capital

And L is labour

The Solow Model predicts that economic growth is achievable through technological progress (Snowdon et al., 2005). In this theory, therefore, there is no room for government, institutions or policies that can influence economic growth (Gross, 2001).

2.3.2.2 Endogenous Growth Models

Contrary to the exogenous models, endogenous growth models are of the view that the economy adjusts internally to achieve an equilibrium (Gross, 2001). The most basic of the endogenous model is the AK model that was developed by Romer in 1986. It asserts that diminishing returns are not realised as result of the production function f(K) = AK). In the AK Model, all inputs are capable of being reproduced through research and development (Meier & Rauch, 2005).

Lucas (1988) argues that labour is endogenously determined, and it is not only the quantity of labour but also the quality of labour that matters. Lucas (1988) adds that skilled labour is produced because households invest their savings in labour. The highly skilled labour will therefore not only produce but also handle advanced technology. An increase therefore in savings for investment in capital and labour will ultimately lead to endogenous economic growth (Gross, 2001). Easterly and Levine (2001) later demonstrated that, in the AK model, government and policies do affect economic growth. The endogenous models thus allow the inclusion of financial intermediaries that can channel funds from savers to borrowers, who are the investors in the economy.

The real issues that had to be considered ultimately were, namely, how to finance this investment and how financial intermediaries can allocate these funds for growth and distribution. The financial intermediaries are best positioned to channel funds in the economy from savers to investors.

2.3.3 The Impact of the Financial Sector on Economic Performance

The argument that the financial sector has a positive effect on economic performance in both industrialised and developing countries is supported by a large body of empirical findings. According to Gross (2001), economic models that include financial intermediation as crucial to economic development, postulate that the share of aggregate output saved by the economy is available for investment.

Modern growth theorists such as Schumpeter advocated a strong financial sector that can promote economic development (Brue & Grant 2013). An entrepreneur who seeks to make profit through innovation can transform a static situation into a progressive system of economic growth. Schumpeter (in Brue & Grant, 2013) further added that the savings generated by the circular flow is not enough therefore the entrepreneur has to rely on credit to provide additional means for his enterprise. From Schumpeter's argument, it is evident that economic development arises from the economic system itself and not from the outside as suggested by the exogenous growth models. Thus, Schumpeter rejected Solow's role of diminishing returns.

Similarly, Veblen (in Brue & Grant, 2013) as well as McKinnon (1986) support the importance of credit-for-business growth but add that it has its limitations as the profits of a business are subject to the interest charged on the loan. A business therefore would make profit if the profit earned exceeds the interest charged by the lender. McKinnon (1986) also adds that financial intermediation should be improved in such a way that funds are channelled to project that profitable. Otherwise, economic growth may not be achieved. On interest, Gross (2001) adds that financial intermediation improves efficient distribution at a cost. This happens because financial intermediation is affected by uncertainty asymmetrical information and transactional costs.

When Goldsmith (1969) investigated thirty-five countries from 1860-1963, he found that there was a positive relationship between the size of financial intermediaries and economic growth. However, in Goldsmith's findings the direction of causality could not be determined. Furthermore, his study could not control other factors that could affect economic growth. King and Levine (1993) studied the impact of financial intermediation on long-term economic development by analysing data on economic growth in seventy-seven countries. In trying to address the problems found in Goldsmith's (1969) studies, they used four different measures of financial deepening. They were able to control factors such as education, political stability, trade monetary and fiscal policies, which can also affect economic development. In their studies, King and Levine (1993) were able to show that reverse causation can be eliminated.

Gross (2001) also argues that, in showing that there is causal effect from economic performance, endogenous growth theories demonstrated that there is a role for policies. Gross (2001) admits that microeconomic studies are unable to provide details about the transition mechanism among financial development, economic growth, employment creation and poverty alleviation. Nevertheless, Gross (2001) concludes that the explanation lies in the firms' ability to create jobs, thus playing a major role in economic development.

2.3.4 The Cost of Financial Intermediation and Its Relationship to Microfinance

The financial market can be a hindrance to self-employment, specifically its constraint on access to financial capital. Stigliz (1990) identified a failure in the financial market in which the distribution of credit is inefficient. Stigliz (1990) explains that the financial market is characterised by inconsistent preference, information asymmetries and non-competitive markets because individuals and institutions pursue self-interest. According to Gross (2001), to overcome the problem of imperfect information, risk of failure attached to certain projects and potential default, financial intermediaries require collateral in the form of physical assets.

It is therefore evident that microenterprise and poor people who might want to start up business will be denied credit as they may not have such collateral. This is where Yanus' (2003) idea of microfinance steps in to provide financial intermediation to poor people who are assets constrained and may not have access to capital to start up business and to encourage them to save for investment and unforeseen eventualities.

2.3.5 Yanus' Theory of Microfinance

Yanus' Theory of Microfinance was conceptualised after an interview with a woman who made bamboo stools in rural Bangladesh. The woman had made a profit of a penny after she had borrowed, at an interest rate of 10 percent, a loan of 15p that she had invested in her business. Yanus realised that, if the interviewed woman had borrowed at a more advantageous rate, she could have increased her profit margin (Yanus, 2003).

From this, Yanus concluded there was something wrong with the current system of things. He had been teaching that in Classical Theory of economics in which markets cleared and people were employed and there was no one who was credit constrained in equilibrium. Low-income entrepreneurs who had no collateral were excluded from participating in the economy. Yanus undertook an experiment by lending out of his pocket an equivalent of US$27 out of his own pocket to a group of basket weavers. With this small amount that they had invested in weaving, they were able to make enough profit that improved their income levels (Brue & Grant, 2013). From that experience, Yanus, who is described as a banker to the poor, established the Grameen Bank that provides credit specifically to women who cannot be financed by commercial banks because of lack of physical collateral.

Yanus thus revolutionised the way we think today about credit in relation to the poor. New development economists such as David Hulme Chen and Dunn who have been influenced by Yanus, support the idea that of Microfinance Institutions and programmes are important tools for bringing about development. The next section focuses on Hulme's Impact Framework.

2.3.6 Hulme's Impact Framework

Hulme (2000), like other modern development economists, relates the concept of economic development to personal and community welfare. Hulme, in his Impact Framework, demonstrates the importance of institutions in bringing about change. Specifically, Hulme (2000) identified several units as well as variables that should be impacted as result of interventions by Microfinance Institutions.

Hulme (2000) presents a theoretical framework for assessing the performance and the impact of microfinance on both the institution and the beneficiaries of microfinance. He identifies three elements to his framework, namely, the model of the impact chain, the specification of the units and the types of impacts to be assessed.

Hulme (2000) further argues that behind all microfinance programme is the assumption that intervention will change human behaviour and practices in ways to lead the achievement or raise the probability of achievement of the desired outcome. Hulme (2000) describes the impact chain as a microfinance project that offers capital, loans and financial advice to the clients with the expectation to change their micro-enterprise activities. By bringing transformation to microenterprise activities, the impact chains could either increase or decrease the client's income or ultimately bring about greater or lesser economic security.

According to Hulme (2000), a modified level of household security changes the health, mortality, education, future economic and social choices of the household members. Yaron, Benjamin and Pipher (1997) agree that since the impact chain is complex, the assessor needs to distinguish between two schools of thought: the intermediary school (that focuses on the MFI institution) or the intended beneficiary (that focuses on which client benefits and how they benefit). Hulme (2000) discusses five units of assessment, which are, namely: the individual; the household; the enterprise; the community; and the institutional environment in which the MFI operates. He also provides benefits and challenges that one may encounter when assessing the impact of microfinance on such units. Chen and Dunn (1996) state that, through the Household Economic Model, one can assess impact at various levels, such as household, enterprise, individual and community in order to get a fuller picture.

Hulme (1997) also discusses the types of impacts that can be assessed. He identifies economic indicators such as income, expenditure, consumption patterns and assets as well as social indicators such as educational status, access to health services, nutritional level anthropometric and contraceptive use. However, Hulme (2000) cautions to researchers to limit the number of variables to be assessed.

Barnes (1996) makes a strong case for assets as a reliable economic indicator as they do not fluctuate as much as other indicators. In his studies, Hulme (2000) examines the choice conceptual framework and presents three paradigms of Impact Assessment, namely: scientific[9], humanities[10] and participatory learning[11]. He concludes that the central issue in Impact Assessment is how to combine different methodological approaches so that a "fit" is achieved among objectives, programme context and the constraints in Impact Assessment costs. It is against this theory and background that the role of microfinance in the Sekhukhune District is investigated.

[9] This type involves experiment and cannot be feasible in the Social Sciences (Hulme, 2000).

[10] The paradigm that interprets processes that are involved when an intervention takes place. It also accepts there are various accounts of what had taken place and accomplished by a specific program (Hulme, 2000).

[11] A paradigm that combines participation, visual and interview techniques (Hulme, 2000).

To understand the role of microfinance, this research utilised the intended beneficiary approach (that focuses on the client) as discussed by Hulme (2000). In this study, this approach is complemented by the Capability Approach, which is also beneficiary centred and goes beyond the financial aspect to include how his capabilities are enhanced to provide more freedom to achieve things one values, emanating from a specific kind of intervention; in this case, microfinance.

In the next section, the history and the normative claims of the Capabilities Theory are discussed. The Capability Approach is multidimensional in that it focuses on the following: what is valued by an individual, what an individual is capable of, and what choices are available to him (Sen, 2003).

2.3.7 The Capabilities Approach

Deeply concerned about the famine, poverty levels and violence that he witnessed, Sen concluded that income inequalities, undemocratic institutions and ineffective policies were the cause of the economic and social problems (Brue & Grant, 2015). Conceived in 1980 as an approach to welfare economics, the Capabilities Approach is a theory that attempts to bring together a range of ideas based on what people are able to do as a result of a specific idea on a combination of interventions. This approach had previously been excluded from traditional welfare economics. It is an approach that allows development economics and other social scientists to assess outcomes of interventions that can bring about real social and economic freedom.

Although classified as a welfare economist, Sen refutes the classical utilitarian theory of satisfaction based on an individual's choice (Kuriakose & Lyer, 2014). According to Kuriakose and Lyer (2014), Sen was able to prove that preference, revealed by choice, was inconsistent. Instead, he introduced the adaptive preference, which is common among the low-income groups and the deprived. Sen explains that when an individual has been deprived for so long, they learn to be satisfied with the hopeless situation. Utility approach therefore may never be a true measure of welfare. Sen's Capability Approach recommends that humans' well-being should be measured by capabilities.

The *Stanford Encyclopaedia of Philosophy* (2011) defines the Capabilities Approach as the theoretical framework that entails two or more core normative claims. They are as follows: i) the freedom to achieve well-being is of primary moral importance; and ii) freedom to achieve well-being is to be understood in terms of people's capabilities. The Capabilities Approach examines individual differences in abilities to transform resources into valuable activities. It enables economists and other social scientists to evaluate both materialistic and non-materialistic factors (Robeyns, 2011).

Inspired by the human development index and collaborating with other theorists such as Nussboun and Foster, Sen developed the Capabilities Approach as paradigm for human development. Alkire (2002) adds that the Capabilities Approach can be developed into an alternative tool that can replace the cost-benefit analysis. It can also be used as a framework to evaluate and design policies in both developed and developing countries (Wolff & de Shalit, 2007).

The Capabilities Approach, which criticises the neo-Classical Utility Theory but adds to new development economics, assisted to evaluate whether Microfinance Institutions can enhance both materialistic and non-materialistic capabilities possessed by beneficiaries. The two theories, namely: Hulme's Impact Framework and Sen's Capability Theory, were chosen to assess the role of microfinance in this study. While Hulme (2000) talked of an impact chain, Sen (2003) spoke of the enhanced capabilities as a result of a microfinance intervention.

2.4 Empirical Literature on Microfinance

This section presents an outline of empirical literature on microfinance. Specifically, the literature will include discussions of the history of microfinance, other studies, findings and current debates from global, Sub-Saharan Africa and South Africa order to establish the knowledge gap, which makes this research relevant.

2.4.1 A History of Microfinance

There is a considerable amount of debate on the evolution of microfinance. According to Balkenhol (2018), although the name microfinance might have been contemporary, long before the 70s there had been programmes that were directed at improving the lives of the poor by means of financial accessibility.

Seibel (2003) traces the origin of microfinance to the 16th century. Seibel (2003) argues that if the recent initiative by the Grameen Bank in Bangladesh is attributed as the origin of Microfinance, the historical depth and scale of operation will be missed because a model like the Grameen Model emerged in Ireland in 1720. This model used peer monitoring to enforce the weekly repayment of loans obtained. As such, loans were from donated funds, and therefore were without interest. Seibel (2003) further states that these charities were later transformed into financial intermediaries by a special law that allowed them to take deposit and add interest on their loans. Similarly, microfinance in Germany dates to the 18th century (Seibel, 2003). According to the article, such financial institutions were based on self-help and self-reliance. The source of finance was from savings for local outreach. Furthermore, in developing countries such as Nigeria, microfinance was also initiated in the 18th century. It was later transported by the slaves to the Caribbean. To this day, the original term for microcredit '*susuis'* still exists in West Africa (Moody & Fite, 1984, in Seibel, 2003).

Nevertheless, in modern times, microfinance became popular as a tool for poverty alleviation in 1983 when Yanus established the Grameen Bank to lend money exclusively to poor households. Nearly 30 years later, it now serves six million villages and about eight million borrowers in Bangladesh (Morduch, 2017).

2.4.2 Microfinance Lending Models

There are various microfinance lending models. However, the most common ones are the village banking model; the rotating savings and credit association and the Grameen Solidary Group method. The village banking method is used by an association of twenty-five to fifty low-income members who belong to a specific community. Village banking groups are usually founded by NGOs. The purpose of the group is to encourage its members to save and to provide loans for creating or supporting self-employment in order to improve the lives of the members (Holt, 1994). All members enjoy the following privileges: electing their own officers; making by-law distribution; and collection of loan repayments. The village-loan method uses moral collateral, which is the promise by group members to guarantee each loan taken by a member (Balkenhol, 2018).

There is also the rotating savings and credit, which is a method of giving a lump sum contributed by other members to an individual member. Members of a rotating savings and credit are usually friends or neighbours, who agree to make contributions to a common fund. Each member gets a turn of receiving the lump sum (Harper, 2002).

The Grameen Solidarity Group is based on granting a loan to a person who belongs to a specific group of four to seven (Balkenhol, 2018). A guarantee for the loan is collectively made by other group members. Furthermore, all group members can only get subsequent loans if previous loans have been repaid successfully by all the members of that group. Commonly, loan repayments are made on weekly basis. After the Solidarity Group Model, other more lending models developed, which made the area of microfinance more diverse. Approaches that were advocated by ACCION and focused more on the individual micro-entrepreneur spread from Latin America (Balkenhol, 2018). All these models rely on social collateral and have poverty alleviation as their main aim. Today, however, microfinance has been transformed from group lending into contractual group lending whereby group members sign a contract, which makes them their neighbours' co-obligator to loans (Lutzenkirchen & Weistroffer, 2012).

2.4.3 Is Microfinance a Global Necessity?

The question as to whether microfinance is a global necessity has been a bone of contention for several years. Most debates on microfinance are centred on its effectiveness in alleviating poverty among its clients, the poor. On the one hand, the arguments brought forward that support microfinance as a necessity and the idea that, even with the presence of Microfinance Institutions, there is still a global unmet demand for formal commercial services that cannot be ignored (Robinson, 2001). If commercial banks were able to provide loans to clients even without security such as land, machines or buildings, then microfinance would not have been necessary (Balkenhol, 2018). On the other hand, we have arguments that state that Microfinance Institutions are unnecessary and that they complicate the lives of the poor by making them to be over-indebted.

According to Robinson (2001), 80 percent of the world's 4.5 billion people, who live in lower-middle[12] income economies, do not have access to formal financial services – that is about 720 million households. Robinson (2001) further adds that most of the demand come from

[12] Countries with a Gross national Income (GNI) of US$ 1006–9955 (World Bank Report 2017)

households and enterprises operating in unregulated informal sector of the economy. The poor in developing countries are already involved in some form of financial transaction with moneylenders and ROSCAS (Balkenhol, 2018). To justify their existence, MFIs should therefore provide financial services that are of higher a quality. Peachey and Roe (2004) view access to financial services as a public good analogous to access to safe water, housing and basic health services. In the quest to find solutions to poverty, microfinance initiatives have emerged (Hulme & Mosley, 1996).

The well-documented failures of government rural schemes and the formal sector to provide services to low-income households have led to the need for microfinance initiatives. Otero (1999), the former president of ACCION[13] international, argues that the aim of microfinance is not only to alleviate poverty at the individual level, but also at institutional level. Otero (1999) adds that microfinance aims at creating institutions that deliver financial services to the poor in the informal sector, which banking had ignored in the past. This idea is further emphasised by Littlefield and Rosenberg (2004) explain that MFIs' aim is to fill the gap or correct the market failure explain caused by lack of financial services for the poor. Likewise, Morduch (2019) states that microfinance is still relevant in present day as it brings reliable microfinance services to millions of borrowers who were once ignored due to lack of collateral.

The proposition to reduce poverty by commercial means – the double bottom line continues to appeal globally. Various scholars have linked microfinance to the Millennium Development Goals (MDGs)[14], which are aimed at eradicating hunger, achieving universal primary education, promoting gender equality reducing child mortality improving maternal health and combating HIV and AIDs (UN, 2003). Littlefield, Murdoch and Hashemi (2003) emphasised the critical role microfinance played in meeting the MDGs and the financial needs of the poor globally. The Impact Assessments done by Hannover, Steinwand and Neufeld (2005) in India, Nepal, Sri Lanka, Ivory Coast, Niger and El Salvador reveal that access to microfinance has assisted clients in increasing their businesses, income, employment, improved their living conditions and reduced poverty (CGAP, 2005). Furthermore, in the same study, it was found that access to microfinance promoted gender equality, empowered women reduced child mortality, as well as helped to combat HIV/ AIDS.

[13] A global non-profit organisation that supports microfinance institution in their work to provide financial services to the poor.

[14] MDGs that ended in 2015 have since been replaced by Sustainable Development Goals (SDGs)

According to Balkenhol (2018), the products provided by microfinance have become more diverse order to meet the ever-changing client needs as well as address the sustainable development goals (SDGs). Balkenhol (2018) gives an example of micro Housing Finance (MHFC) in India, which provides micro-housing loans to meet SDG11 (sustainable cities and communities). In the same manner, to meet need for food security (SDG2), there are MFIs in Jordan, Uganda, Peru and Morocco, among others, which provide agricultural micro-security (Balkenhol, 2018).

In addition, microfinance was found to enhance the well-being of the poor and the low- income groups (Sayed, Majid, Rizal & Mohammed, 2015). Microfinance creates jobs and for the unemployed women who have a low level of education. Furthermore, a greater microfinance impact was found on women who had spent more than three years than those who had spent fewer years on the programme.

Microfinance has also been beneficial in term of economic development at a national level. Using a macroeconomic approach, Bangoura (2016) examined a sample of 52 developing countries around the world to find the relationship between microfinance and poverty levels. The study found that microfinance gave the poor the ability to take part in income-generating activities, but also that there were much lower income inequalities in those countries that had a higher concentration of MFIs than those with a lower concentration of MFIs.

In recent studies, there seems to be a consensus, however, that microfinance should not be used in isolation. Bangoura et al., (2016) caution that, with all its benefits, microfinance still needs to be complemented with other social interventions, such as skill development, to assist women to graduate from microfinance. Sayed et al., (2015) recommend that government should be involved in transforming lives from relying on credit to capacity building. Morduch (2017) argues that access to microfinance does not automatically result in a significant of transformation of lives and should not be a replacement of other poverty-eradicating strategies by the government. Morduch (2017) adds that microfinance should be seen as a credit card that can be helpful at times and harmful at other times. Thus, microfinance should be used within a wider development strategy.

Not all scholars agree, however, that microfinance can improve the lives of its clients – especially the ultra-poor[15] who do not seem to benefit from it. Amin, Ra and Top (2003), after conducting studies on the Grameen Bank of Bangladesh, state that: "We find that while microfinance is successful in reaching the poor". It is less successful in reaching out to the group most prone to destitution, i.e., the vulnerable[16] poor". Similarly, Matroit and Nino-Zarazua (2017) conducted a systematic synthesis of literature over the past 30 years and they found that there was no convincing evidence that microfinance had any impact on non-land assets per capita income as well as poverty levels. However, a considerable number of studies had indicated that, although the vulnerable poor benefitted from microfinance, it was less helpful to extreme poor. Hulme and Mosley (1996) concluded that the ultra-poor have a greater need to divert micro-credit to consumption, because they have a more limited range of investment opportunities. They are more likely to have to sell their assets because of adverse shocks. Thus, the impact of microfinance on their income is low or negative because they are plunged into deeper debts. On the other hand, the non-poor invest their loans in income-generating activities and therefore experience and increase in income.

On the necessity of microfinance, Gulli (1998) argues that his studies conducted in Latin America and the Caribbean indicate that the lack of credit is not always the main constraint that micro entrepreneurs face. He explains that poor people need a wide range of services for business and household purposes like market for their products, basic public services such as roads and clean water. Lipton (1988) argues that initial needs assessment revealed an-ultra poor population that needs assistance for survival purposes might not need a microcredit only as a suitable input. Lipton (1988) recommends other development interventions such a combination of microfinance, health and education to improve the welfare of such destitute populations. However, Balkenhol (2018) argues that different approaches should be used because MFIs deal with different clients. The ultra-poor, for instance, need first to be assisted with food, savings promotion and asset transfer to 'jump-start' them into an income-generating activity before they can become legible to borrow from a microfinance.

[15] Those who live on at less than half the $1.25/day poverty line (less than 50 cents a day) spend 80% of their earning on food and cannot meet 80% of their calorie need. The majority is landless and lack any form of skills. These are also referred (BRAC, 2013).

[16] Used synonymously with ultra-poor

Microfinance Institutions have been criticised for charging very high interest rates and some aggressive peddling. Balkenhol (2018) compared the interest rates charged by commercial, MFIs and informal lenders in six East Asian countries. In all these countries, it was found that MFIs in general charged a higher interest rate, which ranged from 28% to 80%, and was much higher than the one charged by commercial banks. In defence, supporters of microfinance argue that, even if MFIs charge an interest rate that is higher than commercial Banks, their rates are still lower than informal money lenders. Furthermore, Balkenhol (2019) states that the interest rates charged by MFIs remain higher than those of commercial banks because of operational costs, financing costs, provision for loan losses.

A study of 456 MFIs institutions across the globe indicates that MFIs charge, on average, 26.9%, which is about 10% higher than commercial banks' interest rates. Through legislation, governments may attempt to protect the poor against exorbitant interest rates. However, there is a limit to which they can lower MFIs' interest rates without putting them out of business. MFIs handle comparatively small loans to the poor. To off-set the high transactional cost, banks need to charge very high interest rates and must increase the number of clients to enjoy economies of scale (Balkenhol, 2018).

Bateman and Chang (2009), after examining data collected from several countries in Asia, explained that microfinance programmes may generate some positive impacts in the short run, but in the long run any benefit from them is doubtful. The study concluded that MFIs were an institutional barrier to a sustainable social and economic development. Bateman (2014) further argues that the microfinance theory was the one worst poverty-intervention strategies as it created a poverty trap for its clients. Similarly, Karman (2007) argues that money spent on microfinance should be better spent on other methods that would create jobs – like supporting industries that are labour intensive. Roodman and Morduch (2009), after their studies on microcredit in Bangladesh, concluded that, even after thirty years of the microcredit movement, there was very little measurable evidence to prove that it has changed the lives of the clients for the better.

Yanus (2011) criticised the commercialisation of MFIs and added that poverty should be eradicated and not perceived as chance to make a profit. Similarly, Hulme and Maitrot (2014) argue that MFs have drifted from their social mission of poverty reduction by focusing on financial performance. In the quest to achieve individual target loans, officers end up ill-treating women who default. Based on the studied undertaken in Bangladesh, Paprocki (2016) argues that incidents of farmer suicides; borrower defaults; abuses by loan officers have harmed the reputation of the microfinance industry. In addition, Paprocki (2016) argues that there was a social disposition of the clients that was driven by microfinance. Women not only lost physical assets such as farming tools through confiscation by loans officers, they were also ostracised by the community when they failed to pay their loans.

Furthermore, there were practices such as poor selection criteria of clients; forcing clients to renew their loans; aggressive behaviour by loan officers when collecting loan repayments as well inadequate follow-ups, which were done by MFIs in Bangladesh that rendered them ineffective (Maitrot, 2019). Hulme and Mosley (1996) criticise programmes that give out credit without considering the entrepreneurial capacity of its clients. They argue that rather than reducing poverty level, these programmes increase it. To enhance financial discipline among clients, Besley (1995) recommends that microfinance practitioners should consider the need for compulsory savings among its clients. Heshemi (1997), on the other hand, argues that it is not that microfinance practitioners want to keep the ultra-poor out of the credit system, rather such clients 'self-select' themselves out of credit programmes after they have realised that they cannot use their loans profitably.

In defence of microfinance, Wrenn (2005), Dichler (1994), and Mosley (1996) argue that although the performance of microfinance is below expectation, there are positive impacts that do take place. Mosley (1996) and Dichler (1994) both state that their findings show that microfinance helps consumption smoothening effects, redistribution of wealth, especially among women. Mosley's (1996) further explains that, instead of dismissing it completely, microfinance should be tested whether it manages to do something or not.

Furthermore, Balkenhol (2018) states that questions on the impact of microfinance will always be there because of its combination of commercial and social goals. However, having survived three decades of criticism, crises and transformation, microfinance are now stronger and more certain to face challenges that come their way.

Although a consensus cannot be reached on whether microfinance is effective or not, it can be concluded that microfinance is still relevant in society and it is a phenomenon that still needs to be researched to determine the best practices that can help poverty alleviation; which is a current major global concern.

2.4.4 Microfinance in Sub-Saharan Africa

There have been different views on the level of economic development in SSA. Inoue and Hamori (2016) state that, for a very long time, the sub-Saharan has been a poverty-stricken region that lags behind other developing countries of the world. However, from the beginning of the 21st century, real GDP of the region has been increasing at a more rapid rate than the world's growth rates (Inoue & Hamori, 2016). According to Glisovic, Mesfin and Moretto (2012), the 48 countries in the sub-Saharan Africa represent 14 percent of the world's population and this includes seven of the fastest growing nations in the world. On the other hand, Boucher (2016) identified SSA as the only part of the world characterised by continual increase in levels of absolute poverty. Fifty percent of the population in the region lives below the poverty line, i.e., less than USD1:25 a day (GAP & World Bank, 2010).

The SSA region is characterised by a highly unequal dualistic economy, whereby the formal and informal sectors exist at quite dissimilar proportions. Notably, the region comprises the formal sector, which is coupled with an extremely large informal sector (Boucher, 2016). The poor in sub-Saharan Africa are engaged in various economic activities such as small-scale manufacturing, trading, carpentry, small-scale farming, traditional brewers and dressmakers (Doocy, Norell, Taffera & Burnham, 2005).

Various scholars recommend the necessity of financial intermediation to improve the economic situation in SSA. After studying the data from thirty-seven countries in SSA, Inoue and Hamori (2016) concluded that access to finance has a strong effect on accelerating economic growth. Specifically, Boucher (2016) recommends that the MFs can be used to convert the informal sector of the SSA into a formal sector Boucher (2016). Similarly, Chikalipah (2018) identified the microfinance industry as the core solution to financial exclusion in SSA.

There is a general concern about the lack financial inclusion in Sub-Saharan Africa Inonue and Hamori (2016) argue that although there has been a rapid increase in the number of MFIs, there is still limited access to financial intermediation in SSA compared to other developing nations – in terms of the number of commercial banks per thousand adults as well as number of outstanding deposits as a percentage of the GDP. SSA has only a 12 percent of households who use banks, the lowest in the world (Glisovic et al., 2012). In addition, Chikalipah (2018), in his studies of 36 SSA countries, found that only one third of the adult population had access to formal financial institutions. The need for financial access is even more critical in rural SSA. Abdulai and Tewari (2016) link the development of this industry closely to the colonial legacy when financial services were mostly focussed in urban areas, and funding from donors had to pass through the government officials in the colonies.

Balkenhol (2018) reports that there is a severe shortage of social safety nets and social security in SSA. Currently only about 17 percent of the older population in SSA have access to old age pension. MFI institutions therefore provide low income groups with the ability to withstand shocks due to lack of health, accident, old age, and unemployment insurance.

Despite the current deepening crisis in the industry, Stewart et al., (2012) report that microfinance in sub-Saharan African is still seen as a development tool for the poor and continues to grow. MFIs in Africa are dynamic and growing. It has been found that of 163 MFI that provided information for their study, 57 of them were created between 1997 and 2007 (Lafourcade, Isern, Mwangi & Brown, 2005). In terms of productivity, Lafourcade et al., (2005) report that the sub-Saharan African MFIs are among the most productive globally as measured by the number of borrowers and savers per staff in terms of breadth of outreach. The reporting 163 MFIs served 6.3 million savers and 2.4 million borrowers (Lafourcade et al., 2005). Buss (2005) reported to the *Microcredit in sub-Saharan Africa Symposium* that there were 365 MFIs serving 2 million people living in 13 African countries. Their aim was to serve 54 million clients by the end of 2005.

Despite the reported growth of microfinance in the region, various scholars have found that microfinance in sub-Sahara has both positive and negative impacts on the livelihoods of its clients. Morris and Barnes (2005) conducted an impact study of three microfinance programmes in Uganda. They found that the microfinance programmes, Foundation for international community Assistance (FINCA), Foundation for Credit and Community Assistance (FOCCAS) and Promotion for Rural Initiative and Development (PRIDE), had made numerous positive impacts on their clients, the micro-entrepreneur. In terms of business, their clients were able to add new products and services; expand their markets and increase their sales volume. At the household level, their clients experienced an increase in the amounts they spent on durable assets, increased amount of agricultural land, increased household income and a reduction in financial vulnerability (Morris & Barnes, 2005).

Doocy et al., (2005) examined the impact of participation in the Ethiopian microfinance on the social, economic and general well-being of household. They found that, due to the on-going drought, participation in the microfinance programme did not increase household income, but borrowing from an MFI led to a diversified income, thus reducing financial vulnerability. In another study conducted on rural Senegal, Kah et al. (2005) found that microcredit brought positive social and economic changes such as improved dressing; increased contributions to households; brought unity in the rural communities; provided capital for business; and improved the social status of women in their families and communities. However, they concluded that microcredit and social capital[17] alone could not lift communities out of abject poverty. They stated that Senegal, like other countries in the sub-Saharan Africa, faced a lack of social amenities, a deprivation suffered by rural communities because of structural adjustment programmes; the program of the IMF that have failed. Furthermore, the poor people of Gossas in Senegal encounter more obstacles such as very high interest rates, low personal savings and inaccessibility to formal lending institutions (Kah et al., 2005).

Buckley (1997) criticised the enthusiasm that lies behind microfinance as a solution to poverty in Africa. His results are based on the research undertaken on microfinance in Kenya, Malawi and Ghana. Like Kah et al. (2005), Buckley (1997) concludes that the problems in sub-Saharan Africa are more profound and could not be tackled solely by capital injections in the form of microfinance. Buckley (1997) argues that these problems of microenterprises require major structural changes and an understanding of socio-economic conditions that determine activities in the informal sector enterprises. Likewise, Ukanwa, Xiongi and Anderson (2018) concluded from their studies that women in Nigerian rural areas perceive borrowing from a MF as a great risk that would be impossible to recover from. The poor women of rural Nigeria viewed business growth as secondary to livelihood for survival, food consumption, as well as paying

[17] The bonds of trust and mutual concerns that rise through volunteering and taking part in organisations and solidarity groups (OECD)

school fees for their children. Thus, Ukanwa et al., (2018) conclude that the very poor who could be recipients of microfinance may not benefit at all.

On the impact of microfinance and micro saving in sub-Saharan Africa, Stewart et al., (2012) arrived at various conclusions, some of which concur with what was found by other scholars. They considered the impact of microfinance on income, savings, expenditure, accumulation of assets and non-financial outcomes such as health, nutrition, housing, job creation and social cohesion. To arrive at their conclusion, they conducted evaluations of different programmes in Ethiopia, Ghana, Kenya, Madagascar, Malawi, Rwanda, South Africa, Tanzania, Zanzibar, Uganda and Zimbabwe (Stewart et al., 2012). The results found by Stewart et al., (2012) showed that credit alone provided by MFIs increased in some cases while reducing income in others. Furthermore, evidence suggested that the longer a borrower was involved in microfinance the lower the income. The borrower would get deeper and deeper into debt and become dependent on credit for survival. They do admit, however, that although combined credit and savings appear to increase spending on housing and consumer goods, the data were not hundred percent reliable.

On accumulation of assets, combined credit and savings showed varied impact. Based on evidence, it was found that microfinance increased poverty for some and decreased it for others. In the same study, it was recommended that scholars should not believe everything they hear; rather they should test out theories with rigorous research design. Furthermore, Stewart et al., (2012) explained that microfinance was not just about financial wealth, but also about other outcomes such as education, health, women empowerment and food security. It was concluded that microfinance practitioners should consider short-term and long-term horizons that impact clients differently (Stewart et al., 2012).

There are numerous challenges that face Microfinance Institutions in Sub-Saharan Africa. Most of the challenges have to do with efficiency, effectiveness dropping out as well as outreach. Within the MFIs in SSA, there is still (a) the struggle to balance outreach and sustainability; (b) the perceived inefficiency of MFI that has led to a reduction in donor funding; (c) the reality that they are only accessible to a small fraction of their intended market; as well as (d) the very high interest rates charged on small loans to cover administration costs (Abdulai & Tewari, 2017).

Chakalipah (2018) argues that there is a negative relationship between micro savings and financial performance.

Buss (2005) reports some of challenges facing the operation and effectiveness of Microfinance Institutions in sub-Saharan Africa. Most of states in the sub-Sahara have failed to transform MFIs from subsidized agents to private regulated institutions. This means that they must continually rely on donor funds. MFs in sub-Sahara have also to bear with the issue of HIV/AIDS, which is currently plaguing Africa. They have become institutions that have to teach about the AIDS pandemic to the beneficiaries of microfinance.

After studying the microfinance situation in Zambia, Kingombe (2004) concluded that MFIs in that country do not design their products to meet the requirements of micro-entrepreneurs. Clients were forced to accept the products that already existed, which obviously are not tailored to their needs. Increased drop-out rates are common among MFIs in East and Southern Africa (Wright, 2000). Like their counterparts in East and South Asia, microfinance in sub-Saharan Africa struggle to balance between sustainability and outreach. In Zambia, for instance, MFIs are concentrated in urban areas, yet the extreme poor are in the rural areas. Kingombe (2004) points out that MFIs are not keen to operate in rural areas, which are characterised by a low population density, high operational costs and high default rates, all of which could potentially affect their profitability.

The absence of reliable impact evaluations that can determine the effect of microfinance programmes is another major challenge in sub-Saharan Africa. Buss (2005) states that impact evaluations are not as common as they should be although there are thousands of microfinance programmes serving millions of people in the region. The industry in sub-Saharan Africa lacks reliable information about what works and what does not (Buss, 2005).

To promote economic growth, Inoue and Haman (2016) recommend that governments in SSA should support the development of the financial sector by increasing the level of deposits (financial deepening) as well as increasing the number of branches per 1000 square kilometres (Financial access). Alternatively, Abdulai and Tewari (2017) suggest that, to improve efficiency of microfinance, managers and decision makers could step up their monitoring of the cost side variables, provide incentives and training for hardworking employees, as well as introduce different financial products and services at a low cost. In another view, Chikalipah (2018) recommends that micro-savings should not be administered by the MFIs, but rather channelled to other institutions to minimise expenses.

Salia, Hussain, Tingbani and Koladi (2018) concluded that, while women empowerment through microfinance could improve household welfare, it could also lead to negative effects such as domestic violence, which can neutralise the benefits of microfinance. Salia et al., (2018) recommend the mentoring of all members of the household before credit could be granted by an MFI. There is thus a consensus that if MFI are to be effective and accessible, they need to be self-sustainable as well as tailored to meet the needs to their beneficiaries.

2.4.5 Microfinance in the South African Context

Baumann (2005) reports that the way microfinance operates in the South African context has been affected by dualistic nature of economy. Many scholars argue that the apartheid system of government, prior to democratisation, left a dualistic type of economy[18] that is made up first and second economy (Mbeki, 2003).

Gumede (2008) identifies several challenges in the second economy, such as, underdevelopment; poor skills; structural disconnection from the first and global economy and inability to attain economic development by itself. In addition, the informal sector experiences a shortage of funding (Willemse, 2011).

Regarding the informal sources finance in South Africa, Ndabeni (2013) explained that most of the businesses in the informal were started with loans from friends and relatives, therefore not using ‘formal microfinance’. Mashego (2015) also named various sources of finance, such as: local money lenders and rotating credit, popularly known as *stokvels* in South Africa. Mashego (2015) explained that stokvels are formed to fund businesses, funerals and entertainment, as well as buy food or kitchen utensils. However, even with the above informal sources, there is still a need for funding. Ndabeni (2013) argues that the majority of the participants of the informal sector lacks assets that can be used as collateral, resulting in the failure to raise start-up capital and thus cannot make a meaningful contribution to the economy.

[18] A combination of features of both the advanced, highly industrialised existing side by side with third world underdevelopment. Sik (1992) Stated that in a macrostructure there are two segments of the economy, namely: the first and second economy in the rational distributive (socialist) economy, as well as the formal and informal economy.

2.4.5.1 Evolution of Microfinance in South Africa

Before 1990

Even though government support of micro-entrepreneurs through microfinance gained momentum after 1994, it dates to five decades ago. This support was initiated by the National Government Department of Trade and Industry, and the Industrial Development Corporation (IDC), which was established in 1940; the Small Business Development Corporation (SBDC) established in 1981 and the Development Bank of South Africa (DBSA) established in 1983 (SMME Review, 2013). Rapid urbanisation and world depression that took place in the early 20th century pressurised the then ruling government to create jobs and alleviate poverty mainly among the White communities.

In addition, there existed many development implementation agencies that were SBDC-incorporated and ethnically structured. Institutions such as the Coloured Development Corporation; the Indian Development Corporation; and Homelands Development Corporation were established to serve different races. In addition, each homeland had a development corporation (SMME Review, 2013). Unfortunately, these agencies did not do much to redress the inequalities and poverty among the poorest of the poor who were mainly Blacks because the apartheid laws perpetuated the underfunding of such institutions (SMME Review, 2013).

Prior to 1992, the financial industry operated under the Usury Act of 1968. However, the act did not promote expansion of MFIs because it had placed a ceiling on interest rates (Kirsten, 2011). Thus, there were only a few MFIs such as the Get Ahead that was established in 1987 (Calvin & Coetzee, 2009).

1990-2000

During this period, several policy measures were introduced to redress the inequalities of the past in South Africa (Mbeki, 2003). The policy intervention made with regard to the first world may not necessarily impact the second economy. This seems to suggest that there should be specific intervention policies for the informal sector in South Africa and microfinance was one of them (Mbeki, 2003). On the other hand, Ndabeni (2013) concluded, while it cannot be denied, that the informal sector occupies a significant position in the labour market, there is no single prescription that can be applied to the entire sector. Furthermore, Ndabeni (2013) suggested intervention measures, such as skills, training, and provision of credit, to transform the marginalised survivalist activities into decent forms of work.

African National Congress (ANC, 2005) reported to the Economic Transformation Committee that out of the 27 million South Africans, 13 million did not have a basic bank account. Of these, 11 million were Africans who fell within the bottom half of the distribution of income, reflecting the apartheid legacy. Among the unemployed, 83% did not have a bank account. Therefore, microfinance was vital in forming part of asset-based community development strategy. Bateman (2017) reported that South Africa has one of the world's worst income inequalities, a Gini coefficient[19] of 0.62. The income and social inequalities make microfinance business very expensive to run because MFIs were not self-sustaining and had to rely on donor funding (Baumann, 2005).

One of the ANC's aims when it brought democracy in 1994 was to redress the existing social and income inequalities. In 2005, the ANC Transformation issued a report that they wanted to overcome the two-economy divide. Their objective was to transfer vast resources into the second economy. By deepening the financial market in a manner that provides access to the poor, they could stimulate job creation as small businesses developed, and access to housing finance generated new cycles of employment and created higher levels of effective demand.

The South African government, like those of many developing nations in the rest of the world, decided to use access to credit and savings as one of the means to create jobs and bring about economic development. Therefore, MFIs were perceived as institutions that would eradicate the social exclusion of the Black majority created by the apartheid regime. Furthermore, the development of microfinance in South Africa was driven by objectives of the ANC and the international excitement about microfinance after the 'success story' of Grameen Bank established by Yanus in 1983 (Bateman, 2014).

From 1992 onwards, the South African government took up the responsibility of creating a conducive environment in which the MFIs could operate through legislation and the setting up state owned MFIs. In 1993, the government passed the exemption to the Usury Act, which

[19] A measure of inequality, the closer to 1 the higher the inequality

brought about the deregulation of the financial industry as a result of removing the ceiling on the interest rate on loans that were less than R 6000 (Kirsten, 2011).

According to Calvin and Coetzee (2009), the microfinance industry became very popular and, consequently, there was the formation of quite a number of MFIs. Among them were, namely, Small Enterprise Finance (SEF); Marang; Akanani; Tiisha and Women Development Bank, which were supported by NGOs. At the same time, through the Department of Trade and Industry, the government formed two major Financial Institutions, namely: Khula, which was a wholesale enterprise created to fund MFIs; as well as the South Africa Micro Finance Apex Fund (SAMAF)[20], which was to provide loans to Small, Micro and Medium Enterprises (SMMEs) (Calvin & Coetzee, 2009).

The deregulation of the financial institutions resulted in customers being charged very high interest rates by the MFIs. In 1999 the Microfinance Regulatory Council (MFRC) was established to control abusive practices resulting from 1992 Exemption to the Usury Act (Kirsten, 2006). It was also expected that the MFRC would supervise all the operations of micro-lending institutions. Furthermore, such institutions were also required to register with the National Loans Register (NLR): the database of all micro-loans disbursed by the lenders (Kirsten, 2011).

2001 -2009

In 2003, a Financial Sector Charter was formed by banks, insurance companies and brokers for setting targets that provided banking services and entrepreneur support, among other things, to people previously denied such facilities. The Mzansi, a low-cost bank account available in the four major banks (viz., ABSA, FNB, Nedbank, Standard Bank) is one of the success stories of the Financial Sector Charter (Kirsten, 2006). There were other types of legislation that were passed such as the National Credit Act (NCA) of 2005 and the Co-operative Act of 2007. The NCA of 2005 was aimed at protecting the consumer by reducing interest rates for loan below R10 000 as well providing debt counselling (Calvin & Coetzee, 2009). In 2007, the National Credit Act, among other things, removed the credit limit from R10 000, which helped to increase

[20] In 2012, SAMAF was merged with Khula enterprises to form Small Enterprise Finance Agency that, currently, provides wholesale funds for micro financing. SEFA has been criticised for not serving the bulk of the micro-enterprise market as its loans start from R50 000 (BANKSETA, 2013)

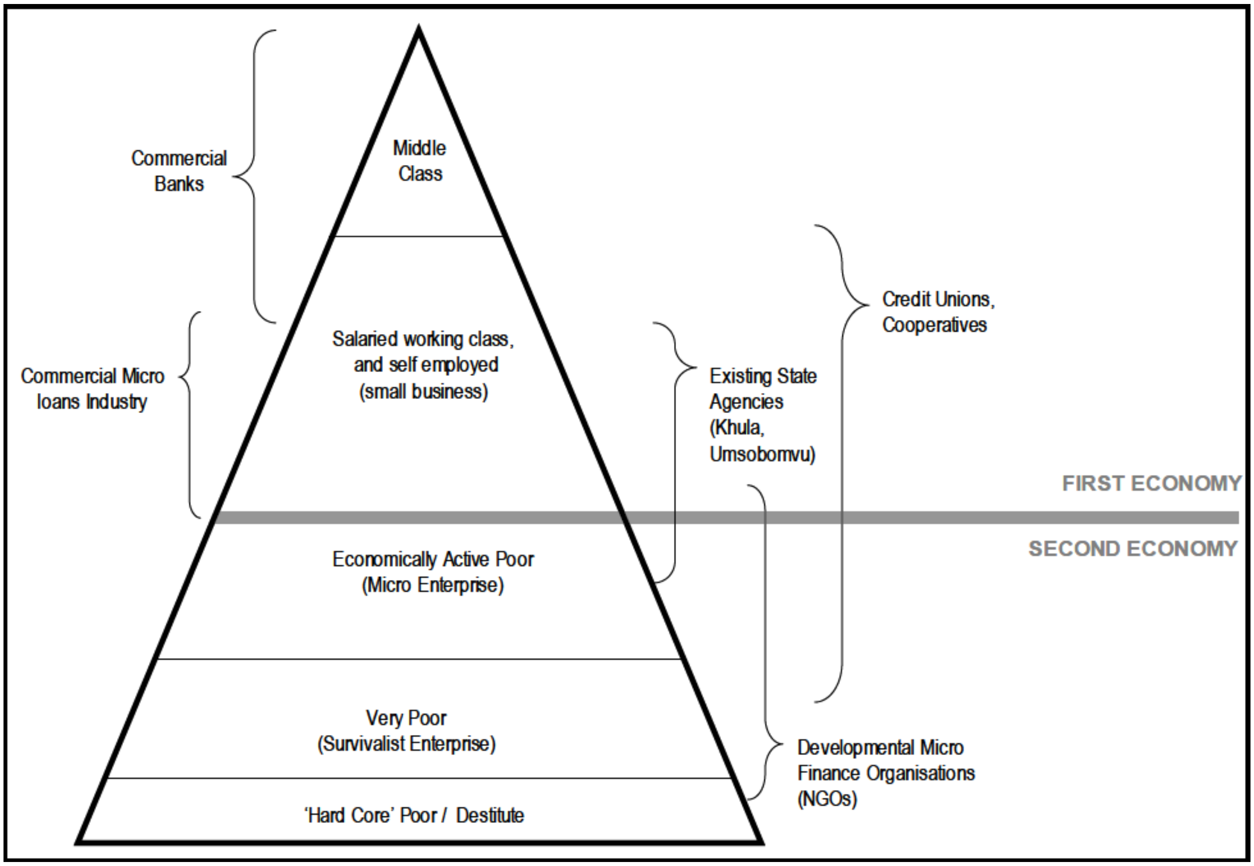
the volume of micro-loans. By the end of 2007, the loans had increased by 22%. The 2007 NCA Act also included deregulation, liberalisation, commercialisation of MFIs and garnish orders (Bateman, 2019).

There was a rapid expansion of MFIs between 2000 and 2009. By the end of 2009, 3990 credit providers had registered with NCR and only about 152 registered as developmental lenders (Calvin & Coetzee, 2009). According to Hoskinson (2008), the rapid growth in the number of MFIs necessitated a need for networking and advocacy. Two main professional bodies were formed. While Microfinance South Africa (MFSA) was established to serve the for-profit MFIs, Association for Pro-poor Microfinance for South Africa (AMFISA) was created to serve the poor. However, in 2010, the Development Microfinance (DMA) was formed to replace AMFISA. DMA currently has the following members: WDB Trust; Phakamani; Siza Capital; SEF, as well as Tiisa (DMA, 2017).

2.4.5.2 The Suppliers of Microfinance in South Africa

The main suppliers of microfinance in South Africa can be classified in six broad categories: not-for-profit microenterprises; retail development institutions; the co-Operative Financial Institutions (CFIS), which currently has eighteen members; twenty-three salary-based financial institutions that target salaried worker; alternative banks such as Africa Bank, Capitec Bank, U Bank, and Post Bank, which mainly target the lower income market); the primary banks (i.e., ABSA, FNB, NEDBANK and Standard bank), as well as affordable housing finance that is mainly subsidised by government (BANKSETA, 2013).

Access to financial institutions by South African population has been summarised by Skowronski (2010). At the top of the first economy, there is the middle class, which is serviced by the four major commercial banks, namely: ABSA, Nedbank, FNB and Standard Bank; and below are the salaried workers who, to a certain extent, are serviced by the “Big Four”. However, a larger group is serviced by micro-lending institutions and credit unions. The greatest deficit in accessing financial services is amongst those in the second economy (BANKSETA, 2013).



Source: Skowronski 2010

In the Sekhukhune District basically, there are two forms of MFIs. On the one hand, Microfinance Institutions for development, such as SEF and Phakamani, which target the economically active poor and the very poor who needed to survive; and, on the other hand, commercial banks (such as ABSA, FNB, Capitec, Standard Bank and Nedbank) which are for-profit purposes and target the salaried workers (SEF Annual Report, 2016; and Phakamani Foundation, 2019).

2.4.5.3 Impact of Microfinance in South Africa

The impact studies conducted in South Africa reveal both positive and negative outcomes of microfinance. Based on evidence from SEF, Kirsten (2011) states that microfinance is a feasible and sustainable instrument that can lower multi-dimension poverty in South Africa's rural areas. A lot of women who live in the rural areas of South Africa are poor, illiterate, isolated and do not have access to economic and health services. Microfinance, therefore, can be used to for smoothening consumption, provisioning of secure livelihoods, as well as welfare improvement (Kirsten, 2011).

An investigation of SOMED in Soweto, South Africa, by Afrane (2002) found that intervention through microfinance can have positive results in the following areas: economic, social and spiritual. Similarly, Mkhize (2017), in a case study conducted in Ethekwini Metropolitan Municipality, found that MFIs are important instruments that reduced poverty among the poor. However, Mkhize (2017) recommended that, for MFIs to be effective, there was need for regulation and subsidisation by the government.

Despite the enthusiasm about the role microfinance would play in the new South Africa, the industry faces several challenges. Despite their growth, MFIs have been criticised because of their failure to reach a broader spectrum of the poor population. Nduru (2005) reports that most Black people, especially women in South Africa, are still excluded from microfinance. Bauman (2005) also argues that distance and mobility affects the way microfinance is provided in the former homelands. The rural clients are separated by large tracts of commercial farmlands owned by White farmers making it difficult for MFIs to reach their clients. The low levels of literacy among the Black communities has contributed to low skills among the MFI staff themselves and this had a negative effect on the training of their clients.

Although the salary-based sector is saturated, micro- enterprise lending is still lacking with only about 7.5% of the survivalist enterprises having access (Calvin & Coetzee, 2009). Similarly, based on studies conducted in Ga Rankuwa, Olubenga and Mashego (2017) found that MFIs failed to achieve their objective of meeting the requirement of micro-entrepreneurs because of their focus on salaried workers who possessed collateral.

In terms of skills, according to Bauman (2005), the women in South Africa are particularly disempowered to run businesses because of the patriarchal social structures. Bauman (2005) further questions the rationale of financing micro-enterprises that cannot effectively compete against the sophisticated and highly efficient formal sector. Rather, he recommends using microfinance for smoothening income through locally based saving and credit. Bateman (2014) also argues that developmental MFIs have been funding the *wrong type of enterprises*[21] in South Africa and, as such, they have not made a significant impact.

One of the major concerns about the South African working class is the state of over-indebtedness in which they have found themselves. Most loans obtained from Microfinance Institutions have been used for consumption purposes and to pay-off old loans rather than for investments. Many clients are now trapped in an unending cycle of borrowing, which has been worsened by their desperate financial circumstances (KPMG, 2012). This statement is supported by Bateman (2014) who describes micro-credit as the most calamitous post-apartheid policy implemented by the ANC government. Rather than reducing the inequalities, micro-lending companies have expanded at the expense of their clients. Champeshamano (2014) describes South Africa as one of the latest casualties of micro-credit, with 11 million South Africans who are over-indebted.

Furthermore, Bateman (2014) links the 2012 massacre at Marikana in the North West Province to micro-credit. Bateman (2014) and Champeshamano (2014) argue that miners at Marikana had been enticed by micro-credit to loans that they could not repay. Thus, micro-credit companies have been criticised for their predatory lending schemes that threaten the livelihood of the working class. In addition, some scholars have linked indebtedness to violence and social unrest. Both Bateman (2014) and Cohen (2012) agree that micro-credit brought about aggressive competition with the arrival of immigrants from Zimbabwe, Malawi, Somali and Mozambique making the situation even more precarious.

Furthermore, Bateman (2019) criticises MFIs in South Africa for perpetuating the rise of control fraud. CEO of MFIs encourage reckless lending to its customers for the purpose of increasing their profit and ultimately justifying their salaries and bonuses. According to Bateman (2019), the rapid increase in the supply of microcredit was not because there was demand, rather, it was motivated by ambition, which led to the over-indebtedness, extensive poverty and degradation of many of the Black populations in South Africa.

[21] The simple one-person, self-employed ventures, unregistered, without financial links to local enterprises and operating below efficiency (Bateman, 2014).

In recent years, it has become even more debatable than ever whether MFIs in South Africa can become effective poverty alleviating instruments. MFIs have also been criticised because of the high interest rates they charge yet they must factor in the risk and lack of security in their loan pricing. Furthermore, the morality of foreign-owned micro-enterprises has been questioned, flourishing in South African townships to the extent of sparking civil unrest (Bateman, 2014). There has been a call for the usage reliable instruments or assessment tools in South Africa to determine whether MFIs are achieving the desired outcomes (Stewart et al., 2012).

2. 5 Conclusion

In this chapter, the theoretical framework was explained and the literature on the role of microfinance in economic development was reviewed. The discussion was focused on a global overview of microfinance, debates on its effectiveness as a tool for poverty alleviation, its evolution globally, in sub-Saharan Africa and South Africa. The first part of the chapter discussed theoretical framework such as the Classical Theory that puts emphasis on the entrepreneur who is an important component to economic growth without intervention of institutions or the state; the Solow Growth model, an exogenous model, which laid a foundation for the endogenous growth models and include the importance of financial intermediaries as vehicles to channel funds from savers to investors for the purpose of economic growth; Yanus' Theory of Microfinance; the Hulme's Impact Theory and the Capabilities Approach that argue that microfinance intervention results in certain outcomes.

The second part of the chapter presented a discussion that, although the idea of microfinance dates back five hundred years back, it only gained popularity as tool for poverty alleviation in the 1970s in Bangladesh. It was also noted that, despite the different views about its effectiveness as well as its challenges, microfinance has continued to evolve and expand to every part of the world, including the sub-Saharan Africa and South Africa. The literature also revealed that, in South Africa, the growth and provision of microfinance has been shaped by the country's historical past. The chapter was concluded by highlighting some of the major challenges faced in the microfinance industry in South Africa.

CHAPTER 3
METHODOLOGY

3.1 Introduction

This chapter presents the methodology of the current study. In the first section of this chapter, the study re-states the objectives of the study and the research questions. This is followed by the description of the strategy that was used to collect data, employing a qualitative approach. How the qualitative approach fits into the theoretical framework is explained. Thereafter, the study discusses the methods of selecting the participants and data collection. Purposive sampling, snowball sampling, semi-structured and their suitability for the present research are also discussed. Finally, the limitations and data control for this research is outlined.

3.2 Research Methodology

This research used Sekhukhune district municipality as a case study to investigate the role of microfinance. The choice of study participants was guided by theory and previous studies on microfinance. According to Buraway (2009), the theory of an extended case study requires the researcher to have conversations with the participants. A dialogue enables the researcher to understand the participants instead of being a remote and detached academic. Researchers are not expected to thrust their understanding on the respondents. Rather, spending a longer time with participants allows the researcher to get the valuable in-depth data (Buraway, 2009).

A qualitative approach is one that enables the enquirer to make knowledge claims based on constructivism – there are multiple meanings to human experiences. Nieuwenhuis (2007) defines qualitative research as a method that is concerned with understanding processes and the social and cultural contexts that underlie the patterns of behaviour. The qualitative approach will permit the researcher to collect open-ended data that will help provide answers to the research questions on the role of microfinance (Creswell, 2003). Similarly, Holloway and Wheeler (1996) recommend the use of a qualitative approach to achieve depth and quality of information, rather than scope.

In conducting a qualitative research, Buraway (2009) argues that social reality needs to be understood within the framework of a theory. The Capability Approach and Hulme's Framework were therefore utilised for assessing the impact of MFIs. Hulme's (2000) assumption is that intervention will change human behaviour to achieve the desired outcomes. In this case, intervention is the form of technical assistance and finance; insurance and savings by microfinance will change the activities of the beneficiaries in the form an increase in income.

This research also used the Capability Approach theoretical framework to determine the outcome of microfinance intervention. Since the Capabilities Approach is concerned with two main aspects of the human being, namely, the state of being and the functioning of the human being, the researcher, through explanations provided by the participants can determine whether the clients of MFIs are still living below the poverty line, are financially self-sufficient, are healthier or possess skills (state of being). We can also determine their capabilities in terms of ability to earn a higher income; ability to eat regular meals; ability to pay for medical expenses and children's school fees; and ability to expand their businesses and take care of unforeseen predicaments such as death in the family, sudden illnesses or theft of property, as well as any other outcomes that might come up during the study.

Hulme's Impact Assessment Framework vs Sen's Capability Theory

The above theories are similar in the sense that they both measure outcomes of a poverty-intervention strategy. They both measure even outcomes that are beyond income and wealth. Both frameworks extend measurements that include social, political relations and structures. They both permit the assessment of the success of an intervention in a multi-dimensional way. However, there is a difference in the number of and the nature of outcomes that can be measured. While Hulme (2000) only describes, indicators such as income, economic security, morbidity, mortality, educational, social and political structures, the Capability Theory includes processes of how substantial freedom and a set of interrelated opportunities are enhanced by an intervention to bring about alternative combinations of functioning that become feasible for a person to accomplish. In line with Sen (2003), therefore, a poverty-alleviation strategy such as microfinance should be assessed whether it provides the freedom to access quality of life valued by an individual.

It is believed that using both frameworks provides the study with an in-depth understanding of the role of microfinance in Sekhukhune. Economics can never be a value-free science because it deals with people who have values, faith, hope, beliefs, ideologies, prejudice etc.

This researcher acknowledges the limitations of the qualitative approach. In the qualitative approach, knowledge produced might be unique only to the few people and setting studies, thus not general to other people. However, the purpose of this study is not to generalise the findings, but rather to gain an in-depth understanding of the microfinance phenomenon (Delport, Fouche & Schurink, 2011).

A qualitative research focuses on interpreting and understanding a social meaning in a natural setting. Buraway (2009) asserts that location should be part of the world being studied. The researcher therefore spent time observing and interviewing the participants. Since the volume of data, emanating from an in-depth study is large, it may be costly and time consuming, the researcher spent up to six months collecting data. The researcher acknowledges that there is the element of the researcher's bias that could influence the results of a qualitative study (Anderson, 2010). To minimise bias, the researcher attended a training conducted by the University of South Africa (UNISA) on methodology and data collection methods – which improved her research skills.

Because of the complex nature of microfinance, the researcher selected the qualitative approach, which has several characteristics that would be beneficial to the research. Mason (2010) stated that a qualitative approach allows a researcher to generate and develop themes and determine beliefs and attitudes on a research topic. By utilising the qualitative approach, the researcher was able to find out the clients' attitudes towards microfinance. Based on the beneficiaries' category of meaning or interpretations, the role of microfinance can be determined.

A qualitative research uses multiple sources of evidence for triangulation. In this study, different categories of participants, such as microfinance providers, beneficiaries, males, females and micro-entrepreneurs, provided qualitative data in words, which explained how microfinance had affected their lives. The researcher was able to use these important cases to provide a vivid demonstration of how microfinance has impacted the lives of the residents of Sekhukhune. Nieuwenhuis (2007) states that qualitative research is concerned with describing and understanding a phenomenon within the natural context of the participants with the intention of developing an understanding of meaning imparted by the respondents, that is, seeing through the eyes of the participants who are the beneficiaries of microfinance. The qualitative approach provided freedom to the present researcher to be responsive to new information and change the focus of study if need be (Anderson, 2010).

3.3 Data Collection and Instruments

The researcher finds the case study an ideal approach for this research as it allows an in-depth collection of descriptive data from different clients and key informants from Microfinance Institutions. Creswell (2007) defines a case study as an approach that involves exploration of a bounded system (bounded by time and context or place, or a single or multiple cases) over a period of time through an in-depth data collection involving multiple sources of information.

3.3.1 Sampling

Sample size

According to Mouton (1996), the aim of the researcher in a qualitative research is to get a sample that is as representative as possible of the target population. Since different respondents may have opinions that are diverse, the researcher must select a sample size which is large enough to ensure that important perceptions are revealed (Mason, 2010). In this study, a sample of 30 participants was selected from the population – in this case the microfinance providers and beneficiaries in the Sekhukhune District. Mason (2010) recommends a sample size of between 15 and 50 for qualitative research. Mason (2010) investigated five hundred and sixty studies that fitted the qualitative criteria and the results showed a mean sample size of 31. Different scholars have recommended varied sample sizes for various types of qualitative researches. However, generally the numbers range between 15 and 50 (Creswell, 2007; and Morse, 2000).

Nevertheless, Mason (2010) adds that while there is no theory driven reason that specifically stipulates sample size in qualitative research, data saturation is the guiding principle for sample size. Saturation in a qualitative research is a situation in qualitative research when new data do not add any new information to the topic being investigated (Mason, 2010). Therefore, in this study, the sample size of 30 participants was guided by the principle of saturation.

Sampling method

Purposive sampling, which is a type of non-probability sampling, was preferred by the researcher, to target the participants involved with the provision of microfinance and the beneficiaries of microfinance specifically. Purposive sampling is also referred to as Judgemental sampling as it depends on the judgement of the researcher (Rubin & Babbie, 2005). The research used homogeneous type of purpose-sampling to select participants who have similar characteristics such as the poor, and micro-entrepreneurs who have access to microfinance.

According to Creswell, Plano and Clark (2011), purposeful sampling involves identifying and selecting individuals who are especially knowledgeable and experienced. There should also be a willingness, availability and ability to communicate experiences and opinions on part of the respondents (Palinkas, Horwitz, Green, Wisdom, Duan & Hoagwood, 2013). For that purpose, the researcher therefore selected employees from Sekhukhune who are knowledgeable on MFIs and to obtain the views from the supply side of microfinance. To obtain information from the demand side, the clients who were the beneficiaries of microfinance were selected so that they could narrate their experiences. From the dialogue with beneficiaries, the researcher could make connections between common sense and theory as well as capture data from different dimension of the same phenomenon. In this way the validation of the data collected can be ensured (Buraway, 2009).

Snowball sampling was used to add to purposive sampling since, during the pilot study, the researcher encountered problems locating some key informants from Microfinance Institutions. Snowball sampling is normally used when there is limited knowledge of the sampling frame and access to appropriate participants for the intended study. The researcher decided that it would add value to the research as it would help to identify the hard-to-reach prospective participants. The researcher approached the selected Microfinance Institutions and information was sought to locate other MFIs (Babbie, 2007). Selection of participants continued until data saturation was reached.

3.3.2 Semi-Structured Interviews

In the present case study of Sekhukhune, Semi-structured interviews were the main source of information. This method allowed the researcher to capture important impact statements from the clients. This enabled the researcher to comprehend the changes that took place in lives beneficiaries of microfinance as well as the contributions that have been made by the MFIs.

The interviews also showed how the MFI delivered their products to the beneficiaries as well as the relationship between the products and beneficiaries' satisfaction.

Furthermore, the semi-structured interviews provided an opportunity for the researcher to explore themes and further responses. The researcher prepared interview schedules for microfinance beneficiaries and key informants. The schedules are predetermined questionnaires that were used by the researcher to engage the participant in a way that allowed them to narrate their experiences with microfinance (de Vos, Strydom, Fouché & Delport, 2011). The researcher ensured that the questions were open-ended, to ensure that the participants were given the opportunity to express themselves freely and information key to the research could be obtained (de Vos et al., 2011). Pre-determined questions, which have been attached in the appendix, are an advantage because they ensure focus and uniformity (Creswell, 2003).

At the beginning of the interview, the researcher introduced herself and the topic of the research. During the interview, recordings were made using a cell phone voice recorder and notes were written down in a journal. To create a rapport, the respondents were asked if they were comfortable with a recording. In most cases, the respondents expressed discomfort with the recording. To put such participants at ease, the recorder was switched off and only notes were taken down instead.

3.4 Ethical Issues

Since humans were involved in this research, an approval had to be obtained from the Economics and Management Sciences Ethics Committee, UNISA, prior to conducting the research. A Letter of Consent was sent to the participants beforehand. In the letter, the nature and the purpose of the research were stipulated. The participants were informed that they were under no obligation to participate in the research and that the interviews would be anonymous, and all the information on the participants used for the research would be confidential.

The authenticity of qualitative methods is often questioned by positivists. Shenton (2004) recommends the following criteria that should be satisfied to ensure trustworthiness and authenticity of a qualitative research: credibility, dependability, conformability and transferability.

3.4.1 Credibility

The researcher adopted methods (semi-structured interviews) that are well-recognised in conducting a qualitative research. A pilot study was done prior to conducting the research to make sure that the researcher was familiar with data collection methods.as well as to test if the investigation instruments would provide the relevant data. Strydom and Delport (2011) recommend that a pilot study in a qualitative approach be informal, and utilising a few respondents possessing similar characteristics as those in the main investigation.

Before commencing with main investigation, the researcher conducted a pilot study by interviewing a loans manager and five clients of MFIs at Mamone village in Makhuduthamaga Local Municipality to evaluate the quality of the semi-structured interviews. The researcher involved of a wider range of informants from two different MFIs in order to verify the view points and experiences providers of microfinance (supply side) were interviewed. Debriefing sessions held between the researcher and her supervisor to monitor progress also contributed the credibility of the research.

3.4.2 Dependability

Each person approached was given an opportunity to participate or not to. Giving them the option to participate ensured that participants answered interview questions truthfully as they were not coerced. The researcher reported the results as truthfully as possible. Furthermore, peers were allowed to scrutinize the researcher’s work.

3.4.3 Conformability

Lincoln and Guba (1985, in Shenton 2004) define conformability as degree of neutrality or the extent to which the findings the findings are shaped by the respondents and not the researcher’s bias, motivation or interest. Bias was reduced by a process of triangulation. Information was obtained from two different MFIs, beneficiaries as well as employees of MFIs to get different perceptions. The researcher also admitted her personal beliefs and assumptions. A diary in which regular entries were made was developed by the researcher. Notes were made of the methodological decisions and the reasons for them; the logistics of the study as well as the researcher’s reflections upon what was happening in terms of her values and interests (Maiterud, 2001; and Shenton, 2004). In addition, the researcher went through training on collection, analysis and presentation of data throughout the duration of the study from the workshops conducted by the University of South Africa.

3.4.4 Transferability

Transferability refers to the extent to which the findings of the research have applicability to other contexts. Although transferability in a qualitative research is perceived to be limited, the researcher has investigated and provided the background data on the study area with its population to establish the context of the study, as well as provide a detailed description the phenomenon of microfinance. This process enables a reader to ascertain for which situation the findings may be applicable. The purpose of the qualitative approach is to obtain in-depth information to understand a phenomenon.

3.4.5 Control Group

Since this study used a humanities and qualitative approach, a control group was not necessary. Hulme (2000) argues while the use of a control group is necessary under scientific approach, it may not be the case in a qualitative and humanities approach. The humanities approach is different from a scientific method because it seeks to provide an understanding of the processes involved in the intervention. In this approach, it is accepted that one can get different accounts of what happened and what had been achieved from beneficiaries and key informants without using a control group (Hulme, 2000). Besides, using a control group would be difficult because residents who were not clients of Microfinance Institutions and therefore would not be willing to participate in the study.

3.4.6 Conditions of MFIS Clients Prior to Obtaining Microfinance

Determining how clients benefited from microfinance required assessing conditions before and after intervention. During the study, an assumption was also made that the participants had a good memory that would allow them to report their conditions accurately prior to obtaining microfinance.

3.5 Conclusion

This chapter discussed the research and sampling method as well as the tools for gathering data. In addition, the limitations of the research and ways of controlling and ensuring the validity of data were outlined. Subsequently, in Chapter 4, methods of analysing data are explained, culminating in the presentation of data analysis.

CHAPTER 4
RESEARCH FINDINGS AND DATA ANALYSIS

4.1 Introduction

In the preceding chapter, a discussion of the research method used was presented. Specifically, the qualitative approach, purposive and snowball sampling method were explained. For gathering data, the semi-structured interviews, was outlined. Limitations of the research design were also given.

A detailed explanation of how the data were analysed is given in this chapter. Thereafter, the researcher presents the findings of the investigation undertaken in the Sekhukhune District, Limpopo. As discussed in Chapter 3, the findings are based on the beneficiaries and providers' perception of the role of microfinance. The findings are presented according to the five research questions. This chapter presents the findings of the study after data analysis. It also shows a discussion of narratives from the nineteen participants. Thematic Content analysis was used to analyse data. Central themes as well as subthemes are presented, discussed and integrated with present literature.

According to Burns and Grove (2011), results in a study are translated and interpreted to become findings, which are a product of evaluating evidence from a study. Firstly, the participants were selected and handed out an Informed Consent Form (Annexure E), which explained the purpose, procedures, risks and the participants' rights in the study. The participants then indicated their willingness to participate in the study by each signing a copy of the consent document. Secondly, the researcher went through the interview schedule to ensure that the participants understood the questions or contents before they responded. The participants were assured that the information disclosed would be treated as confidential. Analysis of data was done through the Thematic Analysis of verbatim transcriptions of the interviews using NVIVO 10 software for qualitative data.

Data analysis was presented based on two different sample sizes - sample size of 19 and sample size of 30. The original sample size was 19. However, upon recommendation by the examiner, the sample size was increased to 30 to determine whether different results would be obtained if the sample size were to be increased. The aim of the study was to investigate the role of Microfinance in the Sekhukhune District, an area designated by the South African government as a poverty node.

4.2 Demographical Data

The demographical data of the respondents who participated in this study are presented hereunder. According to Petersen (2001), demographic information refers to socioeconomic characteristics of a population expressed statistically, such as age and gender. For the purpose of this study, the focus is only age, gender, marital status, and level of education. This was done because the researcher intended to establish how this information had a bearing on the client's involvement with microfinance. The term 'client' and 'beneficiary' (which refers to the recipients of microfinance) are used interchangeably in the analysis of data.

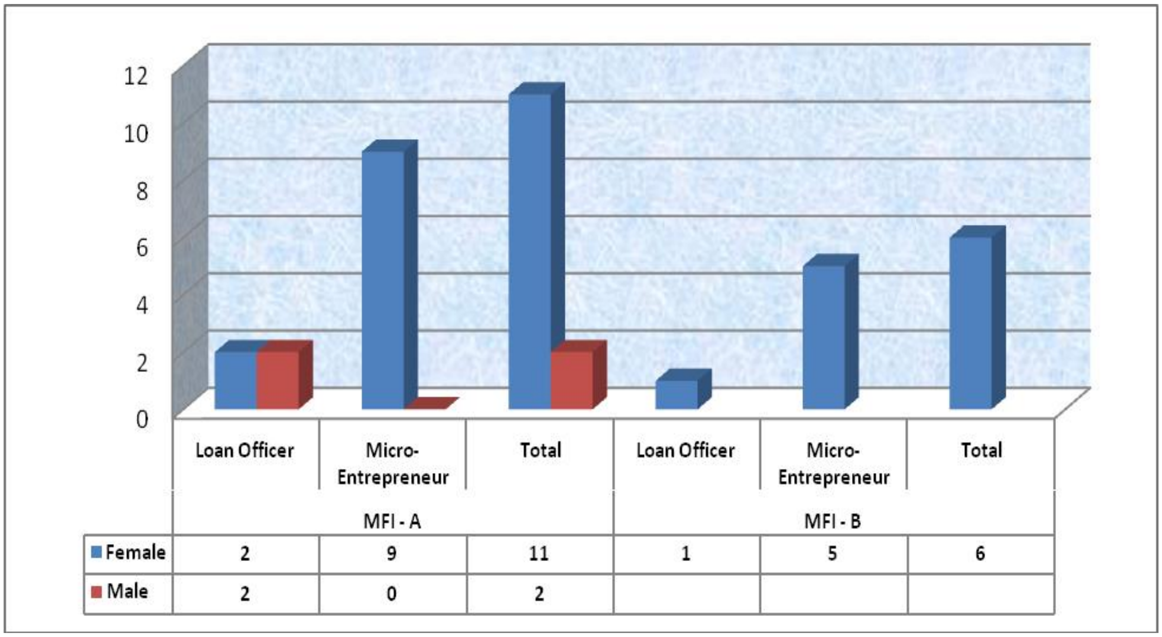
4.2.1 Demographical Data of the Organizations by Gender and Position

Table 1 A shows that seventeen (17) out of nineteen (19) respondents who were interviewed in the first round of interviews in 2016 were female micro-entrepreneurs from two MFIs. For the sake of anonymity, the respondents will be called MFI-A and MFI-B. Only five (5) out of nineteen (19) respondents were loan officers. The rest were beneficiaries.

Table 1 A: Organisation by Gender and Position based on 19 participants

Name of organisation	Position	Gender		Total
		Female	Male	
MFI-A	Loan Officer	2	2	4
	Micro-Entrepreneur	9	0	9
	Total	11	2	13
MFI-B	Loan Officer	1		1
	Micro-Entrepreneur	5		5
	Total	6		6
Total	Loan Officer	3	2	5
	Micro-Entrepreneur	14	0	14
	Total	17	2	19

Figure 1A: Organisation by Gender and Position



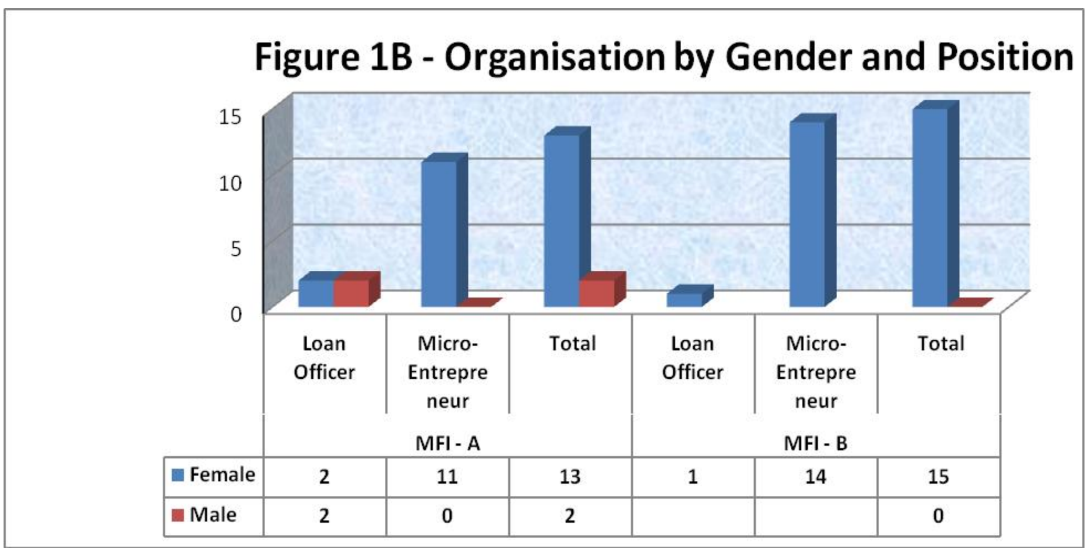
Source: Field notes 2016

On the second round of interviews, the researcher interviewed 30 participants as recommended by one of the examiners. Of the 30 respondents 28 were female and 2 were male. Out of the interviewees 25 were micro-entrepreneurs and 5 were loans officers

Table 1B: Organisation by Gender and Position (30 Participants)

Name of organisation		Gender: Female	Gender: Male	Total
MFI - A	Loan Officer	2	2	4
	Micro-Entrepreneur	11	0	11
	Total	13	2	15
MFI - B	Loan Officer	1		1
	Micro-Entrepreneur	14		14
	Total	15	0	15
Total	Loan Officer	3	2	5
	Micro-Entrepreneur	25	0	25
	Total	28	2	30

Figure 1B: Organisation by Gender and Position Based on 30 participants

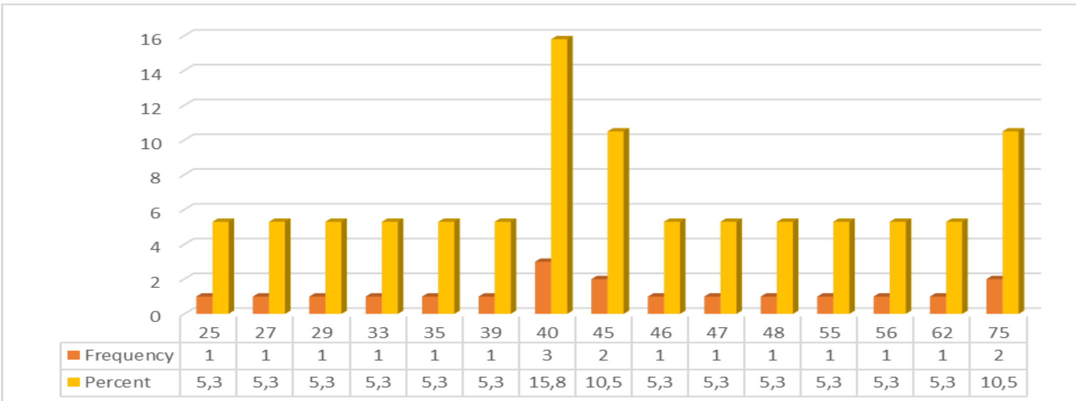


Source: Field notes 2019

4.2.2 Demographical Data of the Respondents by Age

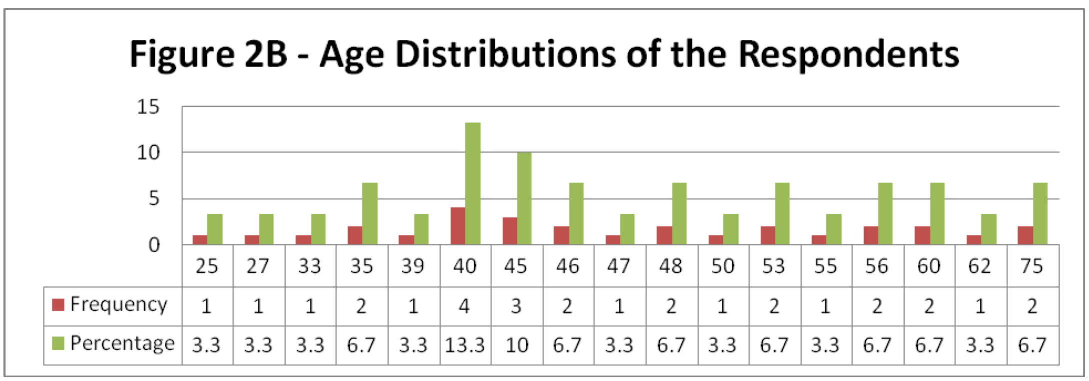
It is very important to be aware of the age distribution of the respondents. This enabled the researcher to know whether respondents are old or young (Zindiye, 2008). This would also help to determine whether age played a role on the access and utilization of microfinance. Table 2 below shows the age categories of the respondents.

Figure 2A: Age Distributions for 19 participants



Source: Field Notes 2016

Figure 2B Age Distribution for 30 participants

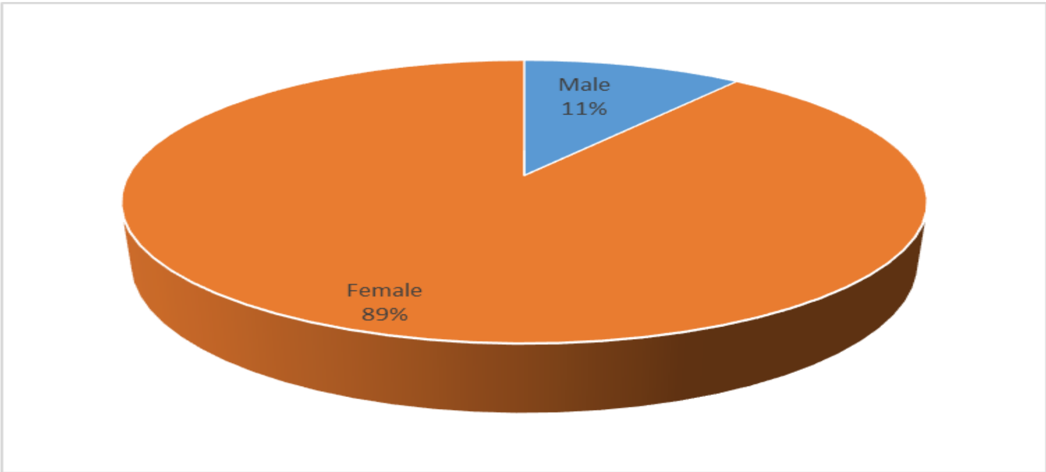


Field notes:2019

The age distribution of the respondents was vital in order to determine whether our respondents who are involved in microfinance were young or old. This would assist in finding out whether microfinance is accessible to adults of different age groups. The respondents who were interviewed in MFI were born between 1941 and1991 (ages between 25 and 75 year olds). This could be because the MFIs that I studied did not use age as a determinant of microfinance accessibility. Due to low employment rates in the Sekhukhune District, women of all ages were more likely to be engaged in the informal sector activities and therefore more inclined to need some form of financing. The majority was below 50 years old. This could be caused by the fact that they had more family responsibilities such the education and diet of their children.

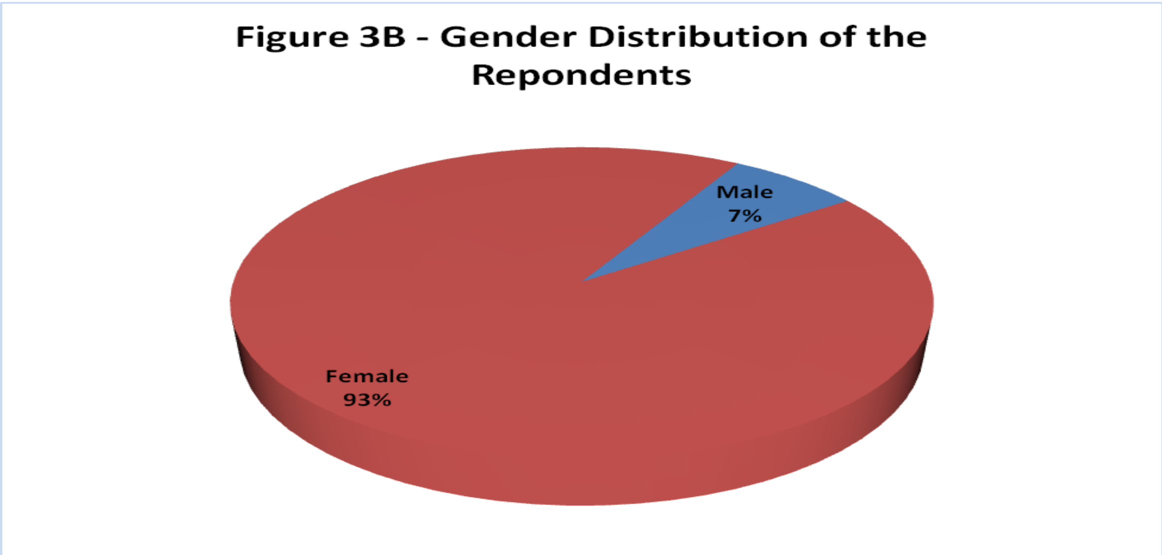
4.2.3 Demographic Distribution of Respondents by Gender

Figure 3A: Gender Distribution Based on 19 Participants



Source: *Field Notes 2016*

Figure 3B Gender Distribution Based on 30 Participants

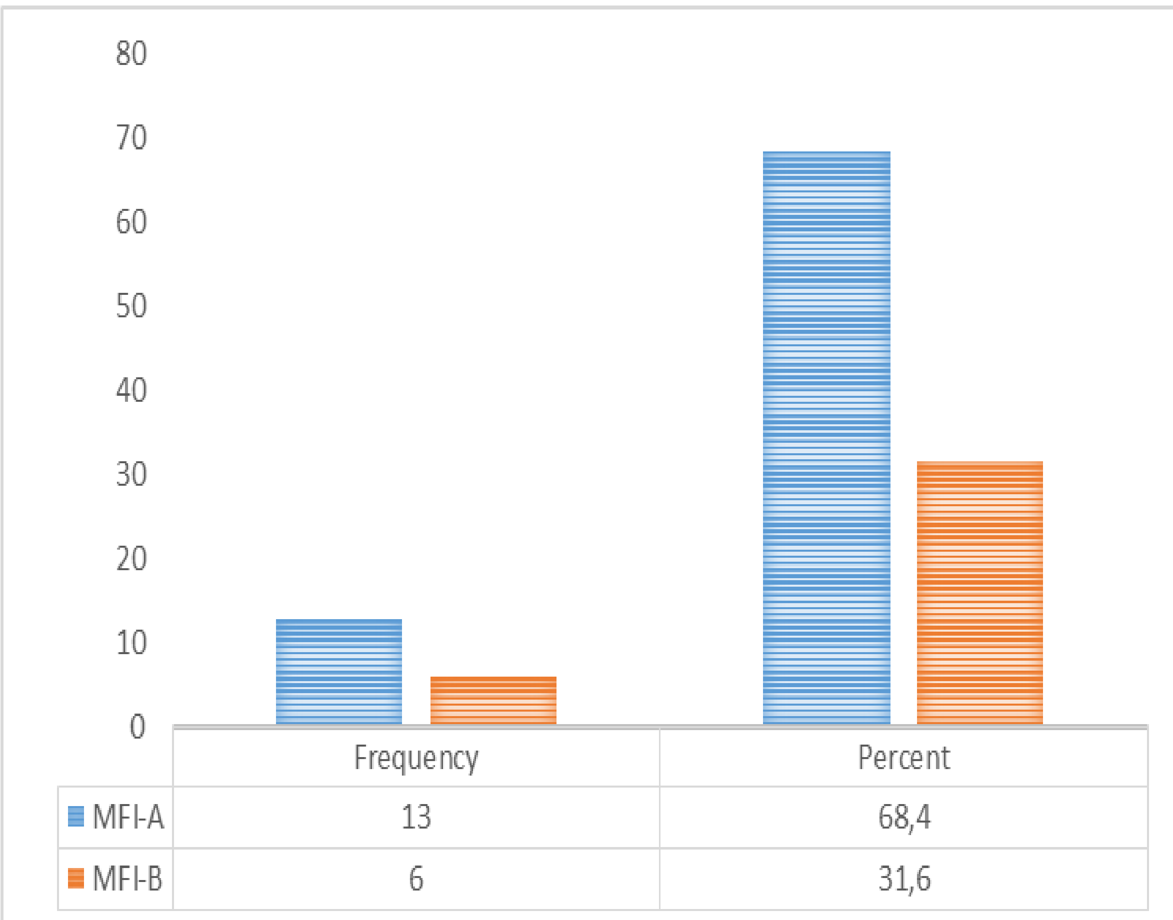


Source: Field Notes (2019)

Out of the ninteen repondents interviewed, eighty-nine percent were women and eleven percent were male who were actually employees of MFIs and not beneficiaries of microfinance services. When respondents were increased to thirty, ninty-three percent was women and seven percent was male. It was important that the gender of the participants was determined for the purpose of finding out whether it influenced accessiblity of microfinance. The literature revealed that most developmental microfinance targets women as they are ragarded as the most vulnerable members of the society. The purpose of microfinance is to empower women to succeed in micro-enterprise (Pitt & Khandker, 1998).

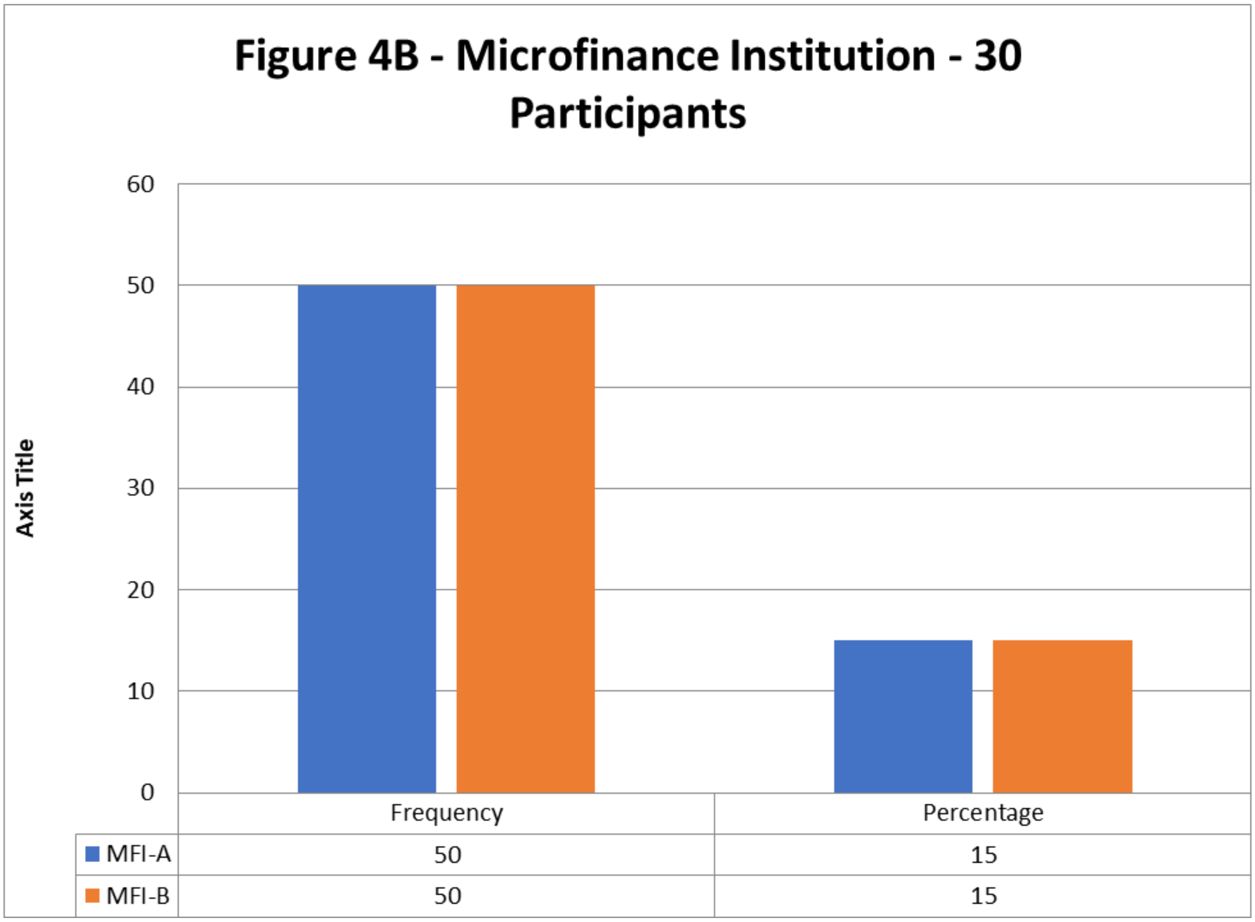
4.2.4 Distribution of Respondents by Microfinance Institution

Figure 4A: Microfinance Institutions for 19 participants



Source: Field notes 2016

Figure 4B for 30 participants



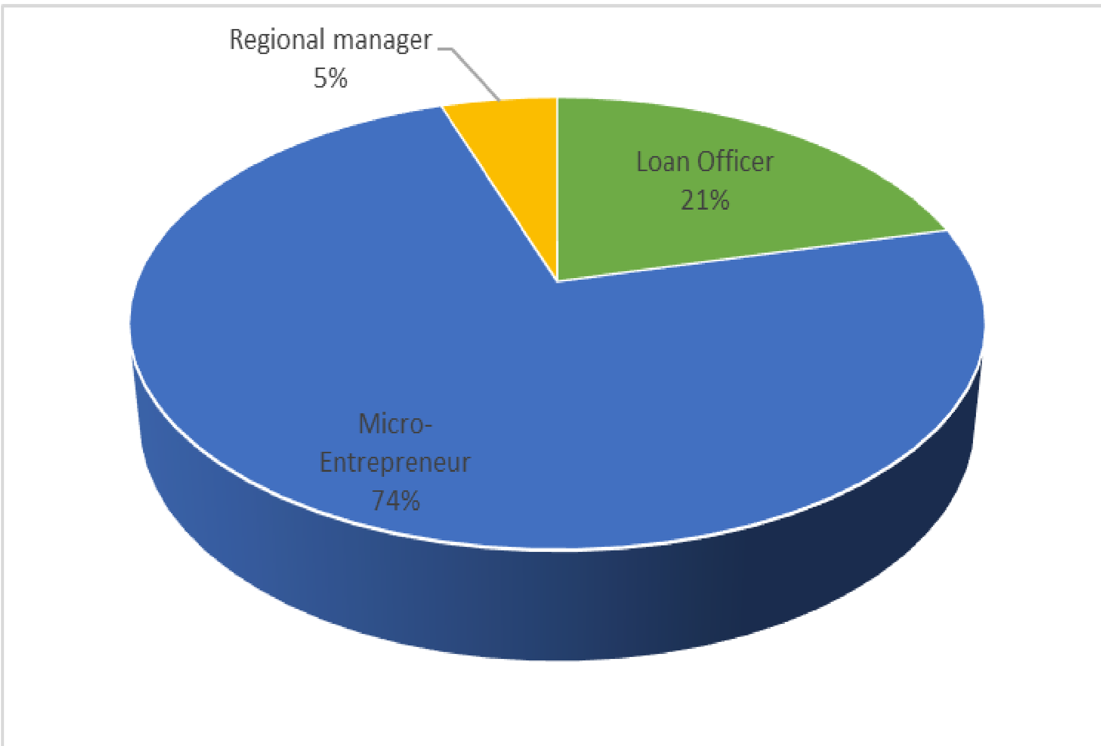
Source: Field Notes 2019

Data were collected from two Microfinance Institutions situated in the Sekhukhune District. One powerful tool in research is triangulation. It helps researchers to validate data by verifying from at least two or more sources. Since snowball sampling was used, a pool of initial informants – the stakeholders – were identified and they nominated and provided contacts participants who were also involved with their microfinance. Participation depended on the willingness of potential respondents and information saturation. While 68% of the respondents came from MFI-A, only 31% came from MFI-B. This could be attributed to the fact that participants of MFI-A were more willing and had more centres (six) in the area under study, the Sekhukhune District (Jane Furse), than MFI-B that had fewer centres (2).

4.2.5 Distribution of Respondents by Occupation

Figure 5A: Occupation of the 19 Respondents

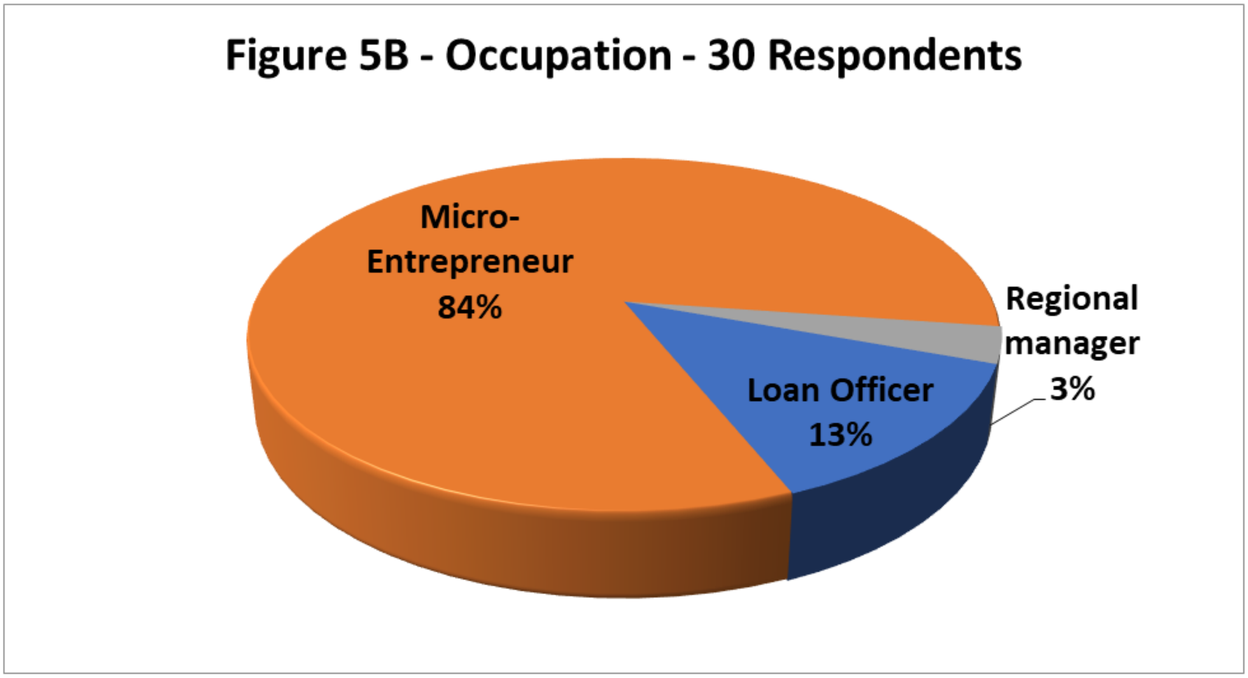
Position		Frequency	Percent
	Loan Officer	4	21.1
	Micro-Entrepreneur	14	73.7
	Regional manager	1	5.3
	Total	**19**	**100.0**



Source: Field data 2016

Figure 5B: Occupation of 30 Respondents

	Frequency	Percentage
Loan Officer	4	13%
Micro-Entrepreneur	25	83%
Regional manager	1	3%
Total	30	100%

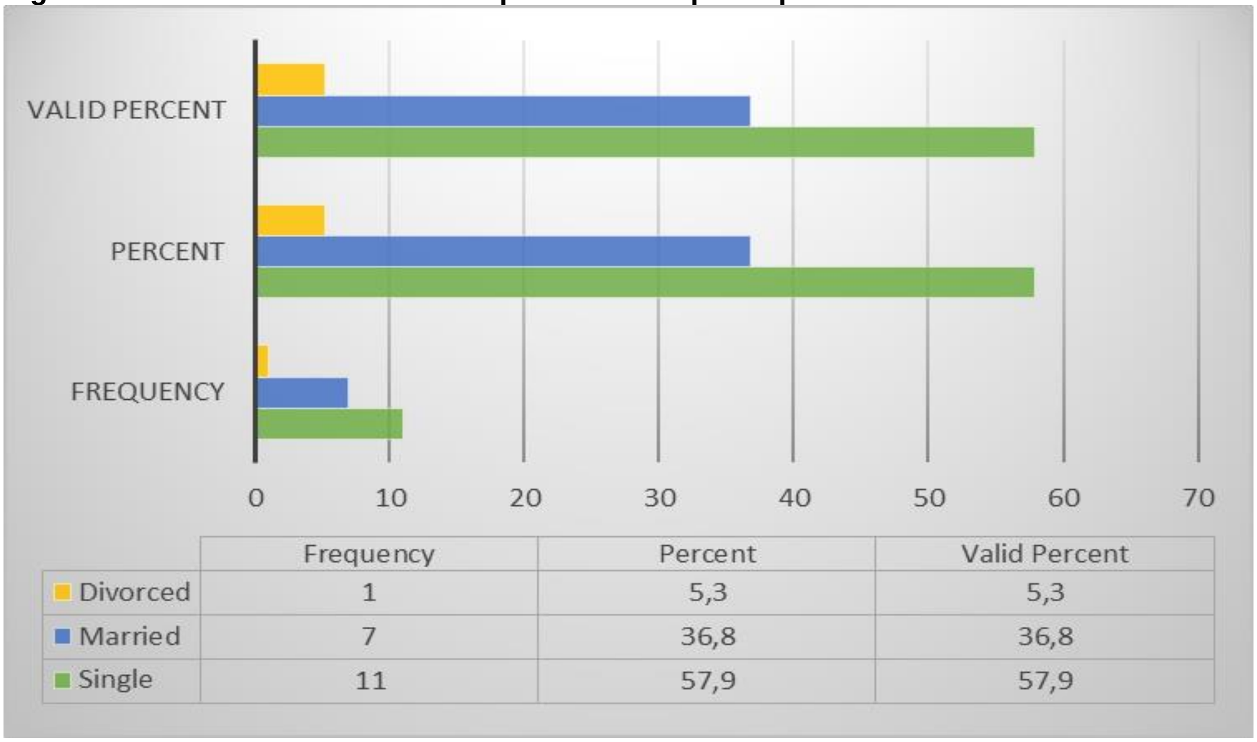


Source: Field Notes 2019

Data were also collected on the occupations of the correspondents to establish the role microfinance played in the occupation of the beneficiaries, as well as discover the occupations of the providers of microfinance. Seventy-four percent of the respondents were micro-entrepreneurs and twenty-six percent were loan officers who were responsible for the provision of microfinance services. When the researcher collected additional data from a total of 30 respondents, eighty-three percent were micro-entrepreneurs; thirteen percent regional manager loans officers and three percent were regional managers. Both MFIs developmental MFIs fund micro-entrepreneurs in the informal sector who cannot access loans from the formal sector due to lack of collateral (OFID, 2012). Most studies affirm that respondents from the informal sector recorded the highest repayment rates compared to other sectors (Onyeagocha et al., 2012).

4.2.6 Distribution of Respondents by Marital Status

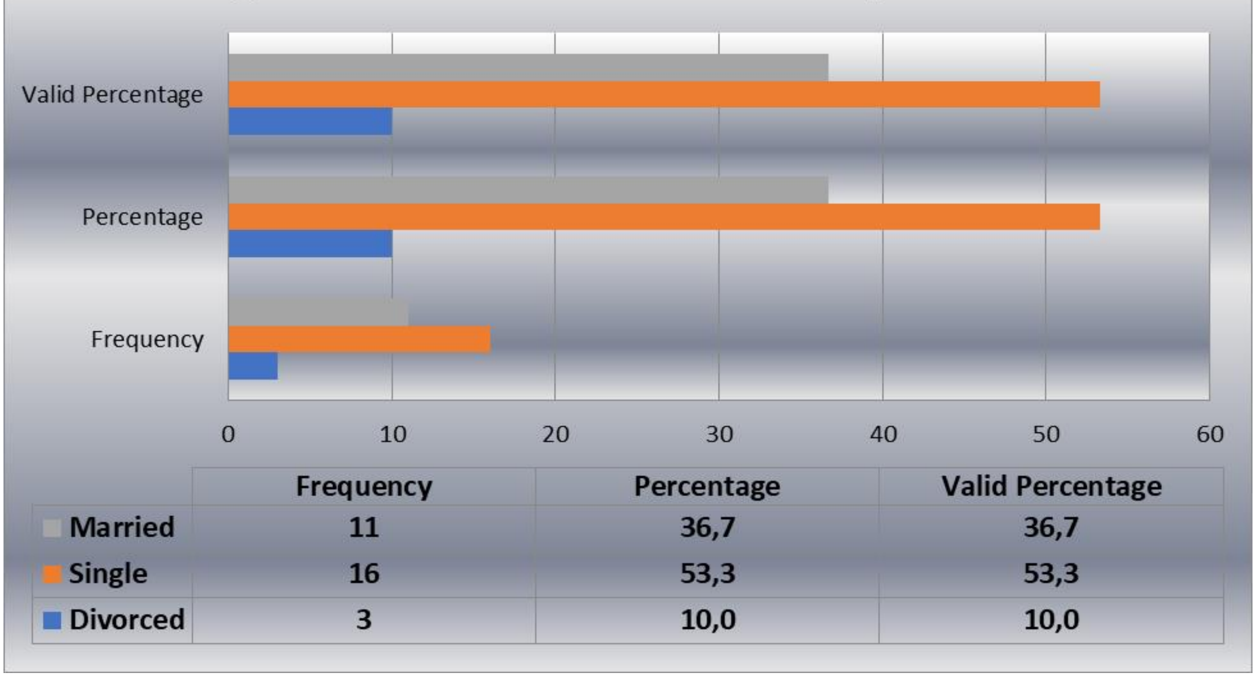
Figure 6A: Marital Status of the Respondents: 19 participants



	Frequency	Percent	Valid Percent
Divorced	1	5,3	5,3
Married	7	36,8	36,8
Single	11	57,9	57,9

Source: Field Notes 2016

Figure 6B - Marital Status - 30 Respondents



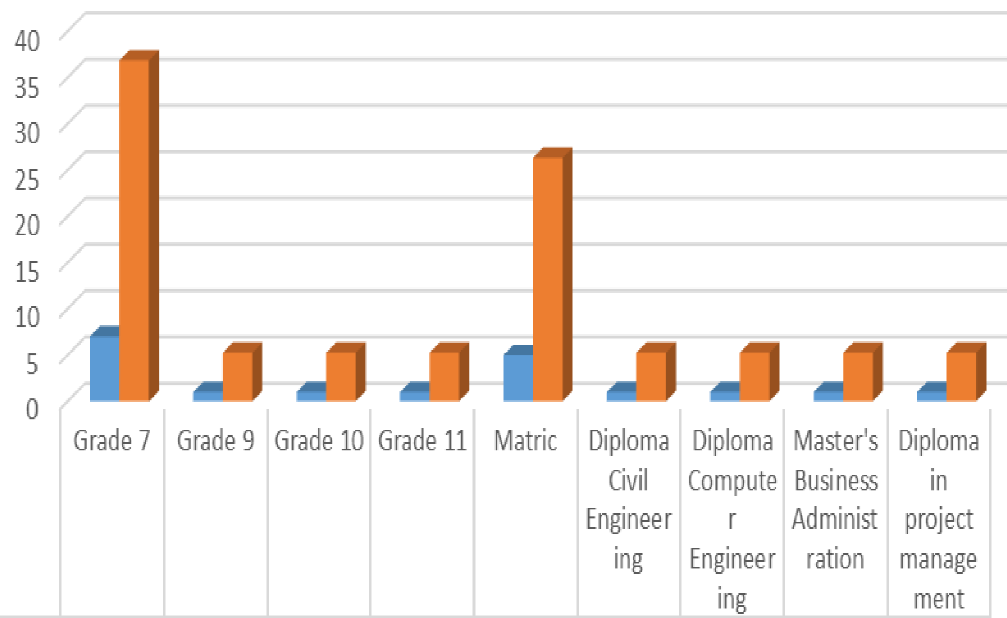
	Frequency	Percentage	Valid Percentage
Married	11	36,7	36,7
Single	16	53,3	53,3
Divorced	3	10,0	10,0

Source: Field Notes 2019

In Figure 6A, about fifty-eight percent of respondents were single; thirty-eight percent were married, and five percent were divorced. After the sample size was increased to 30 as shown in Figure 6B fifty-three percent were single; 10% divorced. For both sample sizes, most of the respondents were single. When faced with unemployment, single women are more inclined to starting up their own business as the responsibility of taking care of the family lies sorely on their shoulders. The research enquired on the establishment of loan utilisation and benefits of microfinance. Knowing the marital status would assist in determining the relationship between the marital status and loan utilisation, as well as the benefits thereof. Studies show that the savings and loan use were related to marital status (Sooryamoorly, 2005).

4.2.7 Distribution of Respondents by Level of Education

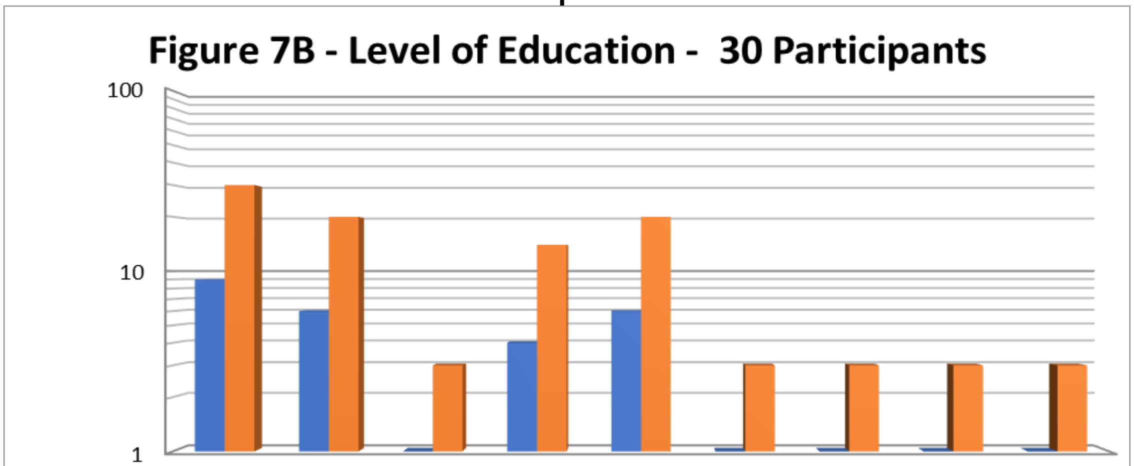
Figure 7A: Level of Education: 19 participants



	Grade 7	Grade 9	Grade 10	Grade 11	Matric	Diploma Civil Engineering	Diploma Computer Engineering	Master's Business Administration	Diploma in project management
Frequency	7	1	1	1	5	1	1	1	1
Percent	36,8	5,3	5,3	5,3	26,3	5,3	5,3	5,3	5,3

Source: Field Data 2016

Figure 7B – Level of Education for 30 Participants



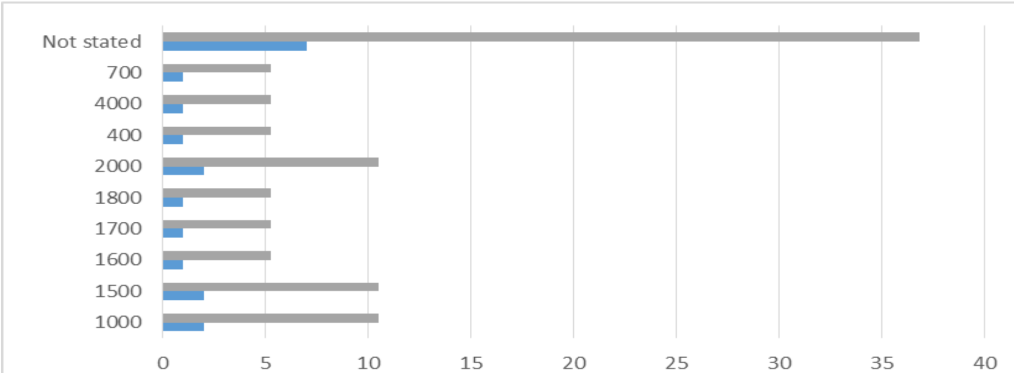
	Grade 7	Grade 9	Grade 10	Grade 11	Matric	Diploma - Engineering	Diploma - Computer Eng	Diploma - Business Admin	Masters
Frequency	9	6	1	4	6	1	1	1	1
Percentage	30,00	20,00	3,00	14,00	20,00	3,00	3,00	3,00	3,00

Source: Field Data 2019

For sample size of nineteen and thirty, the highest percentage of thirty-six and thirty respectively was represented by respondents who had not gone beyond Grade 7 education. This was possibly due to the nature of the environment, which is rural and wherein chances of schooling were limited. In historical South Africa, Black learners were not offered sufficient educational opportunities. The educational sector still disadvantages Black South African wherein only about 69% of Black learners matriculated in 2016 (African Business, 2017). People without post-matric qualification are most unlikely to find jobs in the formal sector and would be more inclined to find informal sector occupations. On the other hand, all loan officers and managers had post-matric qualifications that would be required to undertake the responsibilities of providing microfinance.

4.2.8 Distribution of Respondents by Level of Income 19 Participants

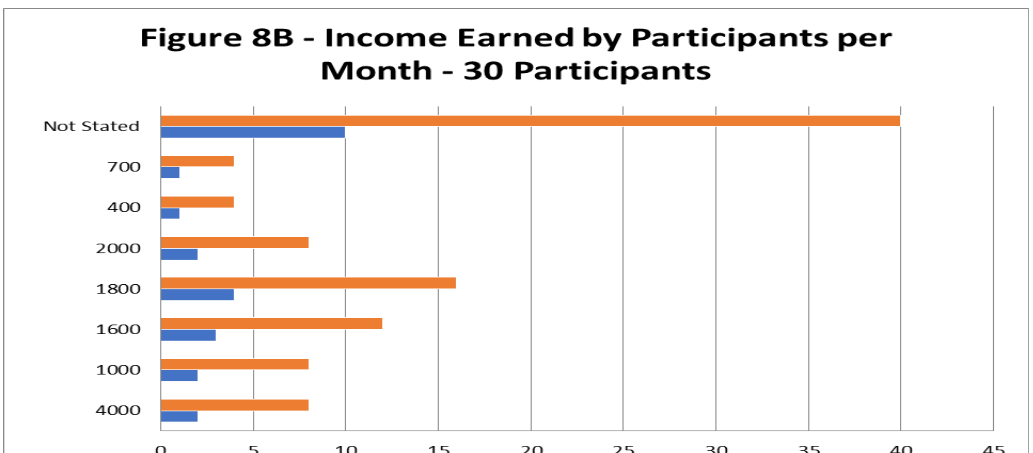
Figure 8A: Income Earned by the Beneficiaries: 19 Participants



	1000	1500	1600	1700	1800	2000	400	4000	700	Not stated
Percent	10,5	10,5	5,3	5,3	5,3	10,5	5,3	5,3	5,3	36,8
Frequency	2	2	1	1	1	2	1	1	1	7

Source: Field Notes 2016

Figure 8B: Income Earned by the Beneficiaries: 30 Participants



	4000	1000	1600	1800	2000	400	700	Not Stated
Percentage	8	8	12	16	8	4	4	40
Frequency	2	2	3	4	2	1	1	10

Source: Field Notes 2019

Data above were collected in order to find out how much income was earned from the micro-enterprised by the beneficiaries. This would assist in determining the economic benefits of microfinance. According to the information in the graphs, most of the income stated by microenterpreneurs was less than the South African minimum wage of R3500. Thus the participants were poor.

4.3 Themes

The themes were generated from the data collected under each research objective. The term 'theme' is used to describe an integrating, relational idea from the data and elements identified from text or data (Richards, 2005; and Bazeley, 2013). This makes it easy for the researcher to develop themes because of the repetition same words. Categories and sub-categories were discussed to explain the link between the main themes. Data presentations of this study were discussed firstly in groups, then later compared with other groups, which helped to develop themes. The following is the interpretation of data according to groups. Four themes and nine sub-themes that were identified.

The initial sample of 19 participants resulted in data saturation. This was a criterion that the researcher used to stop sampling. At this stage the researcher was obtaining same instances over and over (Saunders, Sim & Jinks, 2018). However, upon recommendation from the examiner, the researcher went all out to search for respondents who would extend the diversity of the data. Therefore, Sampling continued up to 30 participants. The same codes that appeared with a sample of 19 participants kept on appearing and no new ones appeared. At this stage, additional data did not result in the emergence of new themes (Saunders, Sim & Jinks, 2018). The themes that were identified are illustrated in the table below.

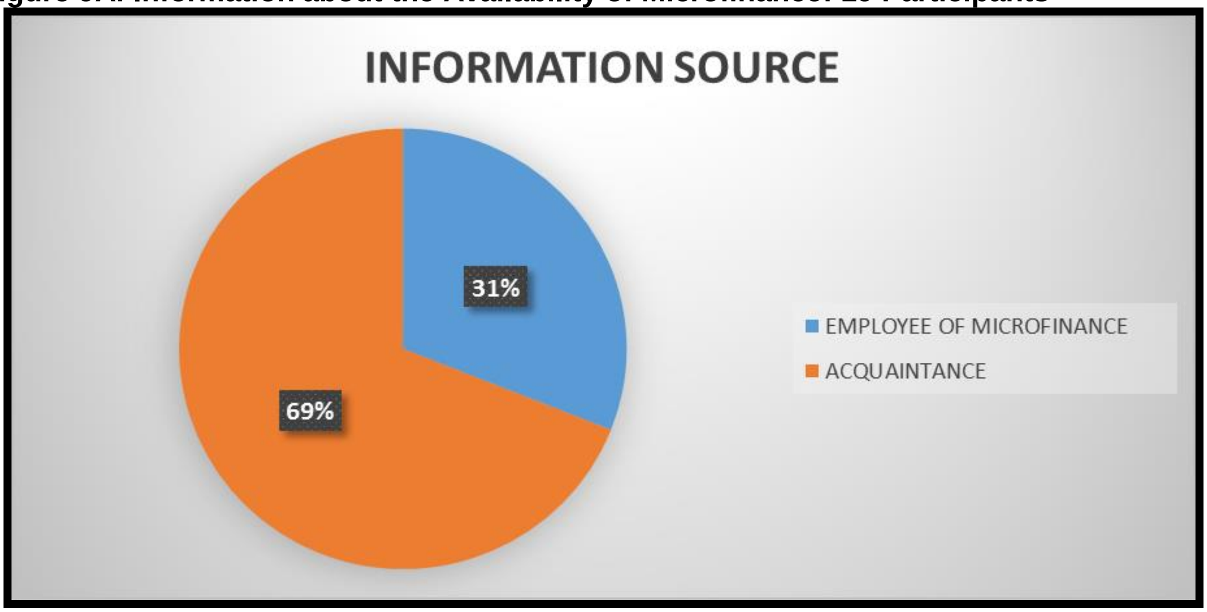
Table 2: Identified Themes

Item no	Themes	Sub themes
1	Availability/ accessibility	• Establishment of institution • Number of the clients and loan size • Loan approval criteria • Nature or type of loan
2	Utilisation	• Purpose and the role of Microfinance • Loan Duration • Repayment procedure and requirements • Actual loan utilisation.
3	Benefit	• Incentives and benefit
4	Challenges	• Types of challenges

4.3.1 Availability and Accessibility

Accessing credit is an important factor in increasing the development of small businesses. it is thought that credit arguments income levels, increases employment and thereby alleviate poverty it is believed that access to credit enables poor people to overcome their liquidity constraints and undertake some investments (Hiedhues, 1995). It was perceived by the beneficiaries that microfinance was available and accessible. MFIs ran awareness campaigns were mainly targeted at women in Jane Furse. The researcher, in all cases, was told that the following were the requirements before any of them could access loans: an ID book; willingness to do business, opening a group Savings Account and belonging to a group of five. The beneficiaries were never asked to present any collateral before accessing any loan. The microfinance centres were accessible to the clients. It only took them between 5-20 minutes to get to the centre meetings that were held either once a month (MFI-A) or fortnightly (MFI-B).

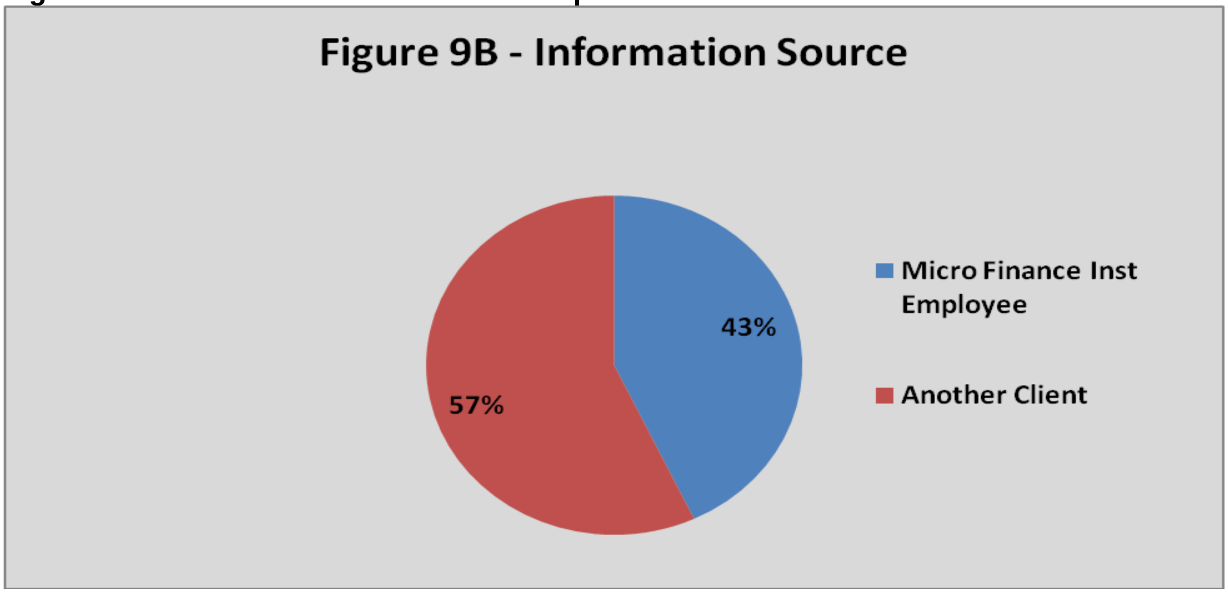
Figure 9A: Information about the Availability of Microfinance: 19 Participants



Source: *Field notes 2016*

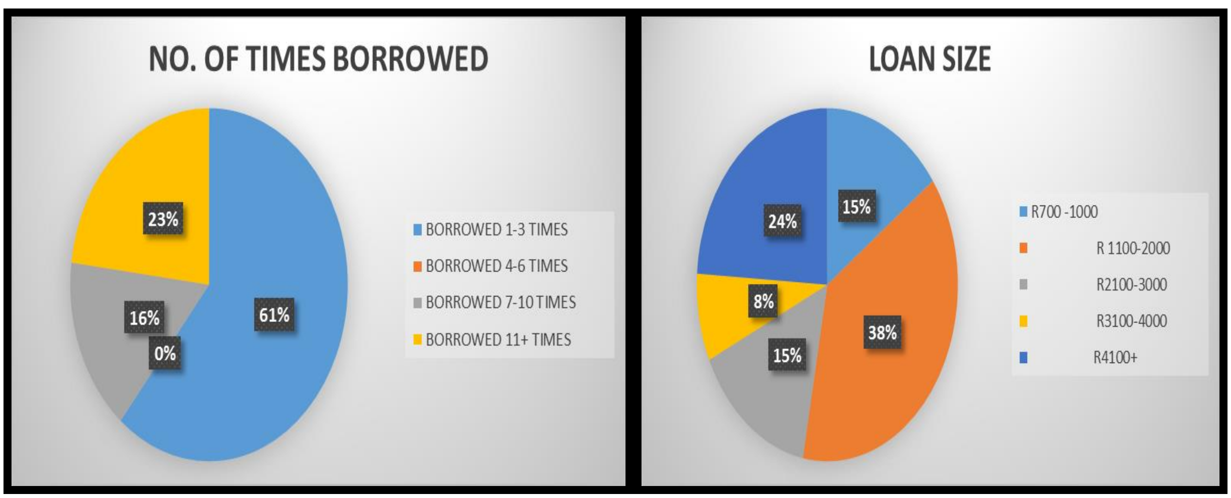
Information about the availability of microfinance was obtained either from employees of microfinance or their neighbours who were clients of a MFI.

Figure 9B: Information Source: 30 Participants



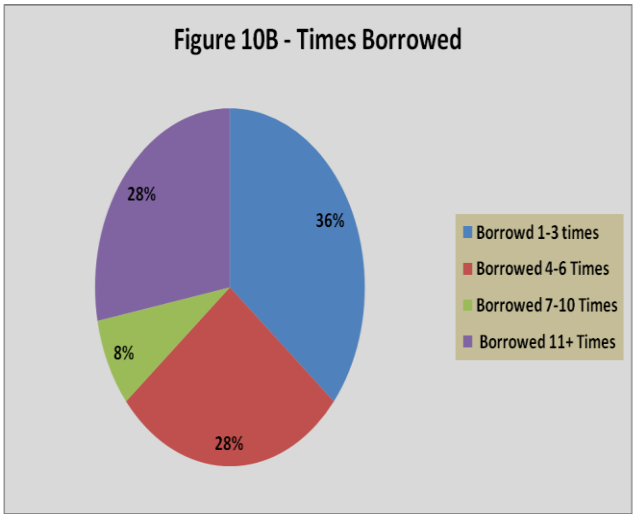
Source: Field Notes 2019

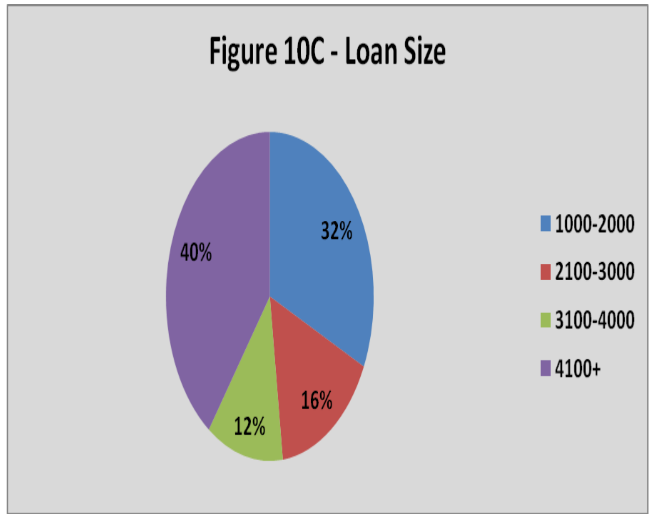
Figure 10 A: Accessibility in Terms of Loan Frequency and Size: 19 Participants



Source: *Field notes 2016*

Figure 10B Loan Frequency and Size: 30 Participants

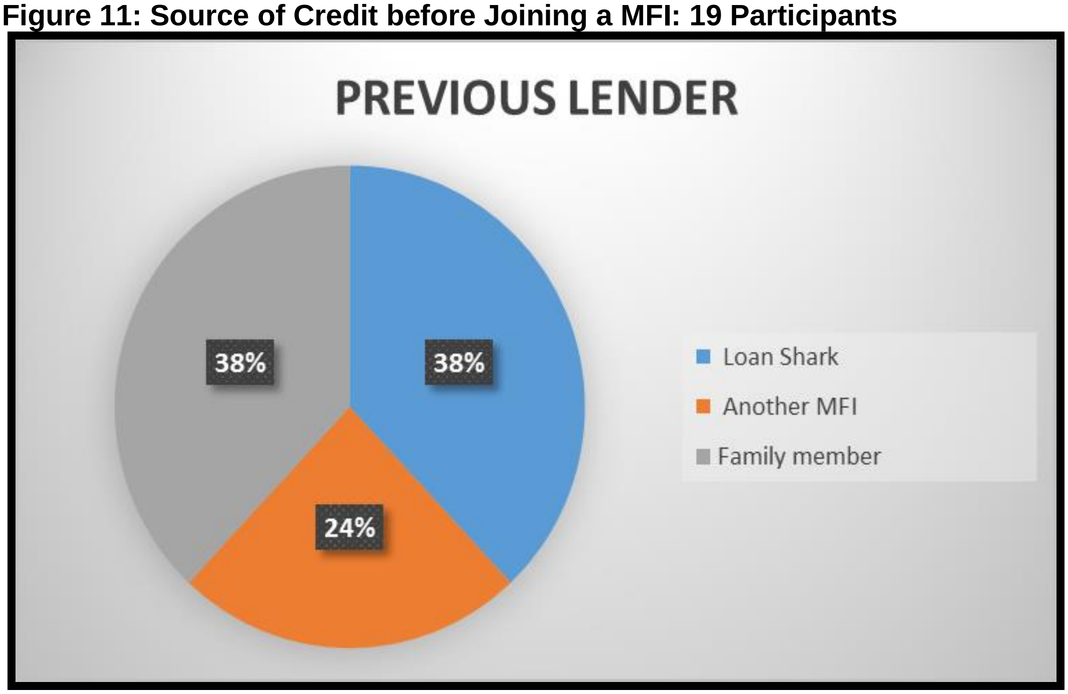




Source: Field Notes 2019

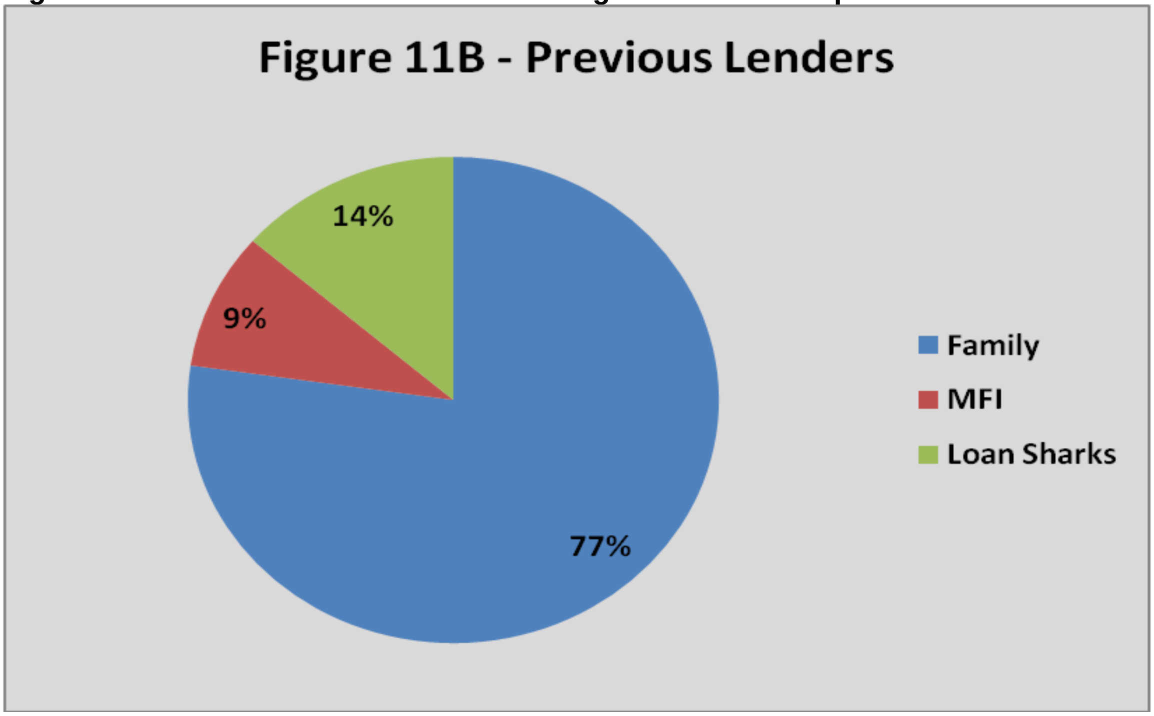
Respondents indicated that, overall, the loans that could be accessed ranged between R1000 and R15 000. If beneficiaries paid back, they were legible for subsequent loans. Results showed that there were some who were first-time borrowers and those who had borrowed up to eleven times or more.

Figure 11: Source of Credit before Joining a MFI: 19 Participants



*Source:*Field Notes 2016

Figure 11B: Source of Credit before Joining MFIs: 30 Participants



Source: *Field Notes 2019*

Respondents indicated that they had always needed finance to start business. They obtained loans from loan shark, another microfinance as well as friends and family members.

Table 3: Availability and Accessibility

The table below is a summary of the actual narration of the respondents that were classified under the theme of availability and accessibility.

Availability and accessibility
AA learnt about the existence of her current MFI from the institution's employee who came to their village to explain to them how microfinance worked and its benefits. Having no source of income prior to joining the current MFI, she depended on her husband. Since joining MFI-A she had borrowed 12 times and there had never been a time that she was denied finance. At the time of the study, her loan size is R2000. She was satisfied with the accessibility of microfinance as she did not have to walk far to get to the MFI centre. She said that qualifying for a loan was quite easy; all that the MFI wanted was an ID, a willingness to do business, membership to a group of five and opening a Savings Account.
AB learnt about the availability of microfinance from an employee of her current MFI. Access to microfinance was an exciting thing to her as she did not have any other sources of finance. Being relatively new to microfinance, AB borrowed twice from the institution. At the time of the study, she had borrowed a sum of R2400 that she wanted to use for the purposes of growing her business. She said that microfinance was fairly accessible because all they asked for was her ID book and to belong to a

group of five. She said that she did not need to have a Savings Account as they would use a group Post Office account in which the MFI would deposit their group loans.
Respondent AC was introduced to microfinance by an employee of her current MFI who came to them and explained how it helped women. AC did not have a source of borrowing before coming to MFI-A. Nevertheless, she admitted depending on the government Child Support Grant. Since joining MFI-A she had borrowed three times without difficulty. Accessing a micro loan was easy as she lived near the tribal council where the microfinance meetings were held on a monthly basis. She said: "*I walk to the monthly meeting and I do not need to pay a taxi fare to get to the centre which makes everything easier*". In order to get a loan, they needed to show proof of identification, belong to a group and should be willing to use the micro loan for investment purposes and not consumption. Her loan amount was R1500
Respondent AD told the researcher that she heard about microfinance from a person who worked for MFI-A. "*The nice lady who explained that there were loans provided by the institution"*, she said. Before joining the MFI, she relied on the Child Support Grant that she received from the government for her children. Now her business supplements what she receives from the government. Having borrowed only twice respondent AD was relatively new to microfinance. She admitted that accessing microfinance was easy because the centre meetings were held close to her home, which was about a 20-minute walk. She explained that getting the first loan was quite easy as woman who worked at the MFI-A asked them to organise themselves into a group of and open a group Savings Account into which loans could be disbursed. R1500 was her loam amount.
Respondent AE learnt of microfinance from a friend who was already a client of MFI-A. MFI-A is the second MFI institution from which she has been borrowing funds. When some members in her group quit, she had problems finding a group in her previous MFI. She therefore had to leave as she could not access loans. At the time of the interview, MFI-A was her sole lender. However, Child Support Grant provided by the government for her two children supplemented what she earned from her micro business. She has borrowed 10 times from MFI-A. She did not experience any problems getting subsequent loans as she always made sure that she met her obligation to pay back the loans. Her current loan size was R1500. Microfinance was accessible for Respondent AE because her home was used as a venue for centre meeting for MFI-A. She said that obtaining the loan the first time was not complicated because the requirements by the MFI were few. There was no physical collateral required. All they needed was an ID book for identification, belonging to a group of five, and ability and commitment to do business. In addition, her group was asked to open an account with the Post Office for saving and loan disbursement purposes.
AF learnt about the existence of microfinance from a neighbour who was a client of MFI-A. Prior to joining her current MFI, AF used to borrow money to do business from a loan shark, '*mashonisa*.' She also receives a government social grant of R980 for her three children. Her first loan was R1500 but for now she could only borrow R1000 as she could not save the required 10 % of the loan amount. She was satisfied with the loan conditions so far. She said, "*the MFI lends you what you can pay back which is good enough for me*'.'
AG learnt about the availability of MFI-A from her neighbour who was already a client of the MFI. AG used to be a client of different MFI. Due to her mother's illness she

had to stop doing business and take care of her mother. Ever since she joined her current MFI, she never had to not borrow form any other institution. Being relatively a new client, she had only borrowed two times. She had never been denied any loan so far. Her current loan size R1000. She revealed that she also received Child Support Grant from the government for her grandchild. Thus, her business was not her only source of finance. She said that micro loans are readily available because they have never denied her a loan and she only walked 3km to get to the nearest centre. AG said, "*as long as you can pay back you are assured of getting another loan. AG explained that you had to belong to a group in order to get a loan. This is also helpful because group members help you to pay back if experiencing challenges when paying back your loans*".
Respondent AH learnt about the existence of an alternative microfinance from a client of MFI-A. AH used to be a member of another MFI but left because of too many meetings. Meeting every two weeks prevented her from doing her business. I had no one to take care of the business while she was busy attending meetings. She explained that she did not regret joining the current MFI. When she started her loan amounted to R1700 but then it had increased to R3400. Joining MFI-A was not complicated. They asked her to join a group of four other women and open a Savings Account with Post Office. Her group members were helpful in times when she was struggling to pay back the loans. Accessing loans was easy. It was only 15 minutes' walk from her home to the house where they held their centre meetings.
Respondent AI was excited when she heard about MFI-A. Getting involved in microfinance brought an end to borrowing from friends and relatives in order to finance her business. This was a relief because her friends were getting tired of her. She had borrowed twice from her current MFI at the time of the interview. She relied on Child Support Grant to supplement her income. She never experienced any problem accessing her loans of R1500 each. Getting to the centre meeting only took her about 20 minutes. She was expected to belong to a group in order to be granted a loan. She was grateful now that she had a savings account in which could save 10 percent of her loan amount.
Respondent AJ learnt about MFI- A from a neighbour, who was already a member of the MFI. AJ borrowed 6 times and her current loan was R 3000. To get to the microfinance centre which about 5km way, AJ uses a local taxi. She said that the prerequisite for getting a micro loan was to belong to the group a group of 5 women, open a savings account, submit an ID copy and sign a group contact.
AK learnt about the existence of microfinance from a loans officer who had ran a door to door campaign about the benefits of borrowing for investment in micro-business. She joined MFI-A three years ago and has borrowed four times which she successfully paid off. Her loan was R4000 at the time of the interview. In order to join the MFI, she was asked to join 4 other women, open a savings account with post office and submit an ID document.
In his capacity as branch manager, A1 was able to reach 263 clients in the past five years. He reported that he ensured that clients are granted only business investment loans of R700 minimum and R10 000 maximum. He also made sure that his clients saved up to 10 % of the loan that they had borrowed. Before he approved client loans, he made certain that they belonged to a group of five members who knew one another. As long as they paid back the whole loan in a four-month period, clients were assured of getting another loan. For collateral purposes, clients were expected to sign a contract drawn by the MFI. Specifically, they did not provide

individual loans. Reaching clients was fairly easy as he owned a car and he was able to claim for fuel expenses from his employers.
Respondent A2 told the researcher that since their target market were women, she was involved a mass motivation campaign in which they went from house to house in the villages around Jane Furse explaining what services they had. She said that they provided microfinance to women from all walks of life as long as they were willing to start business. In the five months, she had been with MFI-A she has managed to reach 13 groups of micro entrepreneurs. Her employers could provide loans from R700 to a maximum of R10 000. One of her duties was to ensure that her clients saved part of their earnings every month. She explained that the savings were for the client's personal use. By examining the client's savings books, she was assured that their clients saved. She told the researcher that she was responsible for drawing up group lending contracts which stipulated how much each group member had borrowed and how much they would be paying back. Respondent A2 also said that she did not own her own transport but used taxis to get to her clients. She described herself as a mobile bank which delivered a service to the people very close to their homes
Respondent A3 explained that they provided microfinance to the poor to better their lives with business skills and small loans. Respondent A3 has been able to reach 300 clients in the past five years and all her client have been women as per company policy. So far, the loan amounts for which she is responsible range between R2000 and R10 000. Loans are granted on ability to pay back basis. She explained that they did not ask their client to provide any collateral. As the organisation stipulates their clients have to bring an ID book and form part of a group of five. Reaching her clients has been fairly easy. She used public transport to get to her clients for which she claimed from her employers. Sometimes she contacted them telephonically to arrange for meetings.
Respondent A4 explained that they have offered microfinance to the people of the Sekhukhune District since March 2008. For the past five years, the number of clients nationally has steadily been increasing from 4025 in 2011 to 9215 in 2015. They only target microfinance to women. The average loan for their clients was R1486. Saving is one of the requirements for accessing a loan. Clients were forced to save as was it compulsory for each member to save a minimum of R30 per month in a group Savings Account – R150 per group per month. He said, '*At the end of the loan cycle (4-6 months), the client savings amount per client is one of the factors which determine the size of the next loan, i.e., clients must have saved at least 10% of the next loan amount'*. He added, '*If clients do not have savings, they can receive a loan to the same value as the previous amount, thus their loan will not increase. The only collateral we ask for is shared accountability by each of the group members who sign a group lending contract.*' He also added that their loans are only offered to women.
Respondent BA has borrowed twice in the 8 months she has been with MFI-B. Her current loan is R2,600. She walked about 5 kilometres to get to the microfinance centre. She was relieved that the only collateral that they ask for is to belong to a group of five. She told the researcher that her group members had to stand with her in a meeting to pledge that they would help her pay the loan should she fail to pay. She also had to pledge to help other members to pay back their loans if they encountered difficulties. In addition, MFI made them open a Savings Account.
Respondent BB has borrowed from the MFI-B 22 times and her current loan was R15, 000. Accessing a micro loan had not been difficult as long one could repay

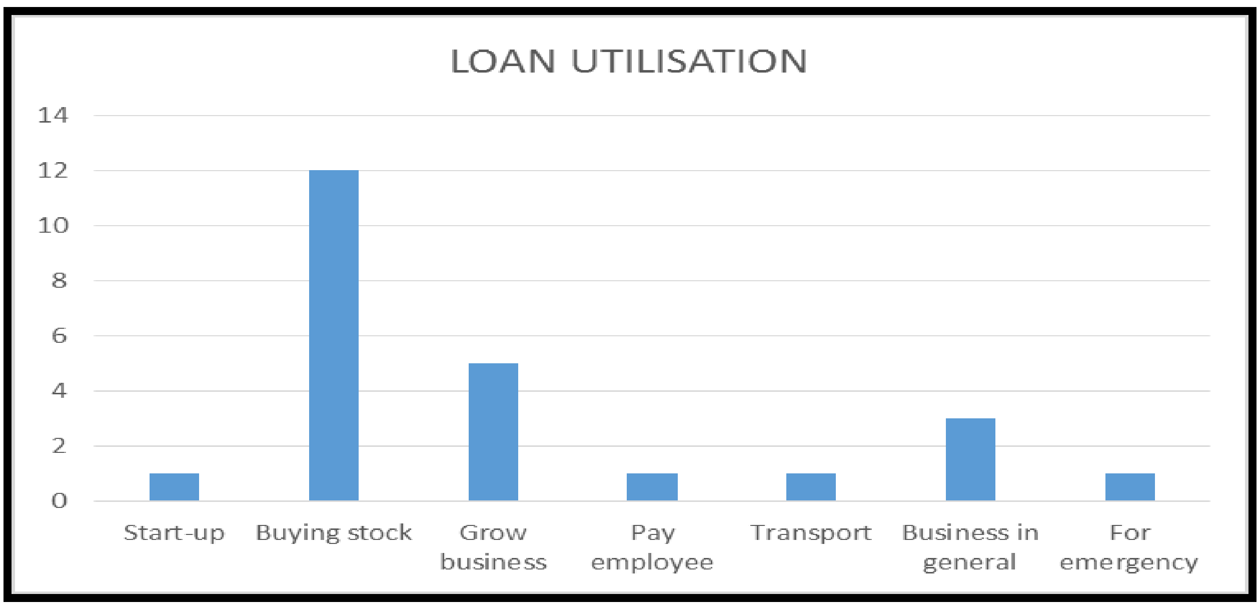
one's loan instalment. The MFI also asked them to belong to a group of five people from their village. She lived 5 kilometres away from the MFI, which made it easy to attend the microfinance meetings. The MFI also required them to save 2.5 % of the loan amount.
Respondent BC said that obtaining microfinance was easy. Since she joined 5 years back, she had borrowed 14 times. Her current loan was now R9, 800. She said, '*Accessing microfinance is not complicated as I live 7 kilometres from the microfinance centre, and I do not mind taking a taxi to the centre.*' BC belonged to a group whose members pledge with her every time they needed to get a loan that they would help each member to pay should any one of them experience any challenges. She also added that she needed to have a Savings Account before she could be granted a loan
BD was a new client of MF-B. She had borrowed only once from the MFI. Her loan was R1600 at the time of the interview. She expressed surprised that all she needed to do was belong to a group of five and open a Savings Account where she had to save 2.5% of the loan amount. She used a taxi to the centre, and it was only a 10-20 minutes' journey.
In the last nine years, Respondent BE had borrowed 24 times from MFI-B. Her current loan stood at R 5000. She said that, she had to belong to a group of five before she could be granted a loan. Her collateral was an assurance from the members of her group that they would assist with loan repayment should she face any challenges at the time of repayment.
BF learnt about the MFI-B from a relative. She lived 2km from the centre were meeting were held. In the four years that she had been with MFI she has never been denied a loan. She said that as long as she and her group members paid back their loans, they were granted other loans. So far, she had borrowed 5 times. She explained that the MFIs did not ask for collateral. However prospective clients were expected to apply using and ID book and were expected to be part of a group of five. At the time of the interview her loan was R5000.
BG was invited to join the MFI by a friend who was already a member of the MFI-B. She travels 7km by taxi to get to the centre were meetings are held every two weeks. She said that she could access the loan if she paid back the previous loans. In order to access the loan, she needed to be part of a group of five women as well as open a group savings account. She has been part of the MFI since 2017. She borrowed six times BG's loan stood at R6000 when she was interviewed. She explained that she has never been denied a loan since the joined two years ago.
BH has been with the current MFI for the past 10 years. Her loan was R 15 000. She explained that joining MFIs was not complicated. She had to be part of a group of five women, as well as open a savings account. She only walked 2km to get to the MF centre.
BI learnt about the existence of microfinance from a neighbour who already belonged to MFI- B. She has been with MFI-B for two years. She lives 3km from the centre. She said that mostly walked to the centre where meetings are held every two weeks. She added that she was glad that joining the MFI was quite easy. The MFI did not need any collateral like the local money lenders. She only had to belong to a group of five women with whom she pledged to assist one another with loan repayments before accessing any of their loans. The women in her group also needed to save 2.5% of the loan amount with the post office. She had borrowed 6 times and her loan was R 5 000 at the time of the interview.

Respondent BJ borrowed more than 10 times since she joined MFI-B. She lives 10 km from the microfinance centre where she attends meeting fortnightly. She was encouraged to join because two of her neighbours were part of MFI-B. She decided to give it a try. Accessing the loan has not been difficult. The first time she needed to provide a copy of the ID book, join a group of five other women. She said that before accessing a loan, all five women had to stand together and give a pledge to be responsible for each other's loans.
BK had been with the current MFI for the past 9 years and she has borrowed about 12 times. She does not live far from the centre – about 2km away. She has never been denied a loan because she always pays back her loans. Before joining, she was asked to be part of a group of five other women. Before getting a new loan. The women in her group were asked to make a pledge as well as save 2.5% of the loan. She started with a loan of R2500 and now her loan is R10 000.
BL has been a client of MF-B for only one year and she has borrowed from the MFI twice. At the time her loan was R2000. She heard about the MFIs from her neighbours. They invited her to come to one of their microfinance meetings. She was satisfied with what she saw and decided to join. The loans officer explained to her that she needed to join other women and that they will be applying for loans as group. She was also expected to open a savings account with the post office.
Respondent BM learnt about MFI-B from a relative who was already a client of the institution. She travels 20km by taxis to the centres where the meetings are held. AH has been now been a client for four years She has borrowed six times. She said that qualifying for the loan was not complicated. She was asked to join a group of five women, complete a form; submit a copy of the ID book and open a group savings account with the post office. Her loan is now R3000.
BN has been a beneficiary of microfinance for the past two years. She was informed by an employee of MFI-B who explained to the villagers the importance of borrowing for investment. She was convinced and decided to join. So far, she has borrowed from MFI-B four times. At the time of the interview, her loan stood at R4000. BN walks 2km to get to MF centre where meetings are held every two weeks. She was required to join a group of four other women before becoming part of the MFIs
BO has been part of microfinance for the past 10 years. She was invited by a friend. Has borrowed more than 22 times. Her current loan is R15 000. She runs a restaurant by the bus stop. Loans have been accessible every time. She belongs to a group of 5 women who are all micro entrepreneurs.
From the time she joined the microfinance institution respondent B1 had reached about 445 clients. She only worked with female clients who were the target of her MFI. Her clients' loans ranged between R1000 and R20,000. One of her responsibilities was to ensure that clients had a Savings Account and were able to save a minimum of 2.5 percent of the loan amount. Before they could be legible for a loan, her clients were expected to belong to a group of five. In are addition, the members were required to know each other. Her clients were given a four to six months' period in which to pay back the loans. New members were expected to pay back their loans fortnightly. Loan Repayments for all member (both new and old) were done through the Post Office and Nedbank.

4.3.2 Utilisation

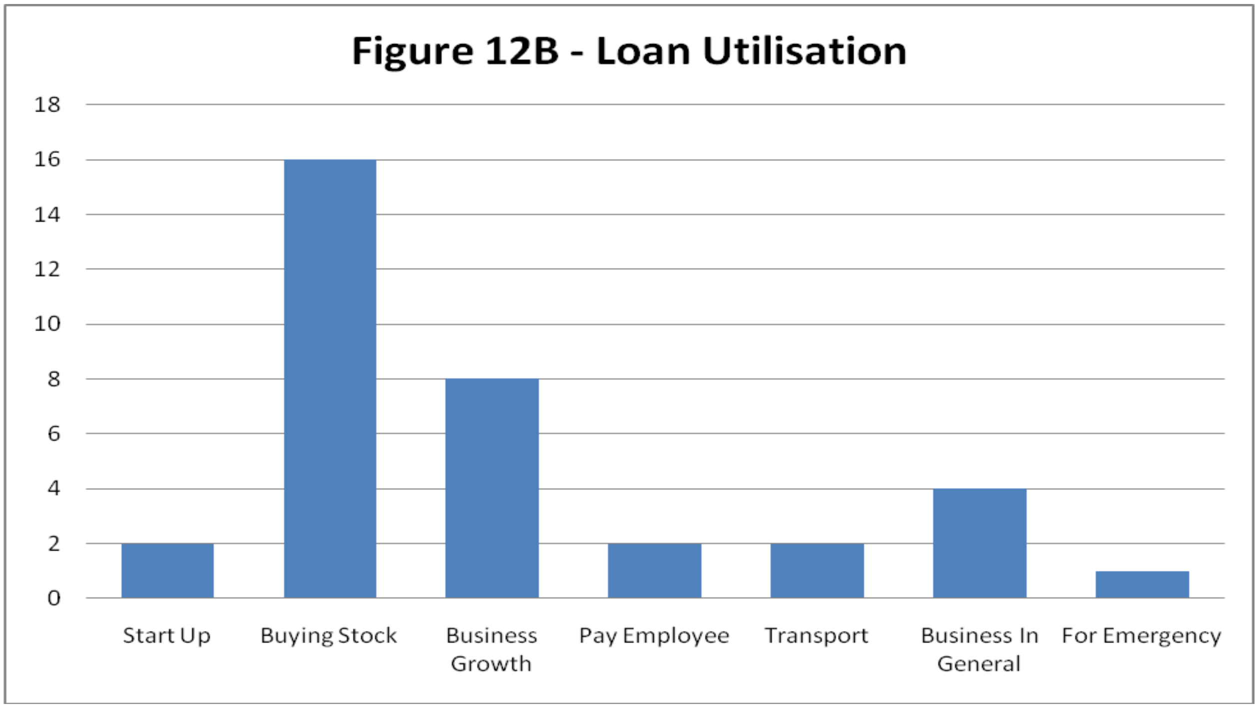
Both MFIs that were investigated only granted loans for business purposes specifically to buy and transport stock. From the two institutions, all the DLOs who were interviewed stated that they made follow-ups to ensure that stock was bought. Though this was done, interviews revealed that some clients found a way of keeping some of the money for the first loan instalment so that they would get into 'trouble' with MFI. Their greatest fear was being excluded from the microfinance. Loans officer from both MFIs also revealed that, if stock was not bought, then clients were given a period of seven days to do so. Failure to do that, clients were asked to repay the loan with interest immediately.

Figure 12 A: Loan Utilisation: 19 Participants



Source: Field notes 2016

Figure 12 B: Loan Utilisation:30 participants



Source: Field Notes: 2019

Based on the findings from Figure 12B, this study concludes that most of the loans were used for business-related activities such as transport costs, pay employees, start-up capital, as well as the buying of stock and growing business, which received the highest occurrence of twelve and five respectively. In addition, some used the loan for family emergencies.

Table 4: Loan utilisation

The respondents' accounts from which the theme of loan utilisation was identified are given in the table below:

Respondents	Utilisation
AA	Respondent AA applied for the loan buy stock that she re-sold at a profit.
AB	Respondent AB borrowed from the MFI to start up her business. She also used subsequent micro-loans to buy stock which sold at a higher price to make profit.
AC	Respondent AC borrowed the money from the MFI-A to grow her business. She said that she always used her loans to buy more stock for re-selling.
AD	Respondent AD who had borrowed R1500 and R2000 consecutively used the two loans to purchase stock which enabled her business to expand.
AE	Respondent AE borrowed money to buy stock for her business. Specifically, she used the loan to buy dresses, materials for making clothes, steel wool for cleaning pots and pay for transport to and from Groblersdal where the stock is sold at a much cheaper price. She also uses some of the money to pay

	the dressmaker who sewed traditional aprons, skirts and dresses.
AF	Respondent AF borrowed money for the purposes of expanding her business. She used the loans for buying and transporting Simba chips, sweets, soap, sugar, bread and buns from the wholesaler to her *spaza* shop.
AG	AG applied for a loan in order to buy cosmetics hair products which she either sold in her salon or used them to treat or plait her clients' hair.
AH	Respondent AH had borrowed from MFI six times for the past two years for the purpose of buying stock such vegetables, fruits, umbrellas and clothes for re-selling on the road side.
AI	She used the loan to buy Simba chips ice cream, soft drinks and sweets which she would re-sell at a profit.
AJ	Used the loan to buy stock for her business. She buys blankets and bedsheets from the wholesalers and resales at a profit.
AK	AL sells cleaning materials that she buys from wholesalers in Groblersdal. She uses the loan to buy stock.
A1	A1 said that It was his duty to make a follow up on loan utilisation. From his experience, most of the clients had used their loans for business purposes.
A2	Respondent A2 explained that they provided microfinance to all the women who could not approach banks to be assisted with loans. These women were expected to use these loans for business purposes and not personal use. She was satisfied with her clients' repayment rates, which she estimated with a recovery rate of about 80%. Respondent A2 also made follow-ups five days after disbursement. These follow-ups involved checking physically whether clients had bought the stock for business. If this is not the case, she gave the client up to three days to rectify the mistake. After three days, usually the client was asked to pay back the whole loan with interest. Nevertheless, Respondent A2 said that she was satisfied with the loan utilisation which she described as correctly utilised most of the time, as per agreement. A2 stated that clients paid back loans through the Post Office or Nedbank where the MFI has a bank account.
A3	A3 said that the MFI stipulated the purpose of the loan which had to be repaid within a four-month period. She admitted that not everyone paid back the loans although they monitored their clients closely. In most cases, during the follow-up on the clients, their findings confirmed that the loans had been used for the purpose of investing in business.
A4	Respondent A4 explained that loans were only provided to women for the purposes of establishing business or to grow their existing business. They only specify that the loans should be used for business. However, they did not dictate what type of business in order to allow their clients to decide for themselves what the community needs were and what their clients could afford. Clients were given 4 - 6 months to repay the loan. The interest rate on the loan is 31%, which was divided as follows 2.2Xrepo rate+ 10% initiation fee+ 8% service fee. They also conduct loan utilisation checks within 7 working days of disbursing the loans to confirm that stock had been purchased within the agreement. It was only in rare cases where loans had not been used properly.
BA	Respondent BA borrowed money to invest in business. On both times, she bought Simba chips, potatoes and sweets, which was the stock for her

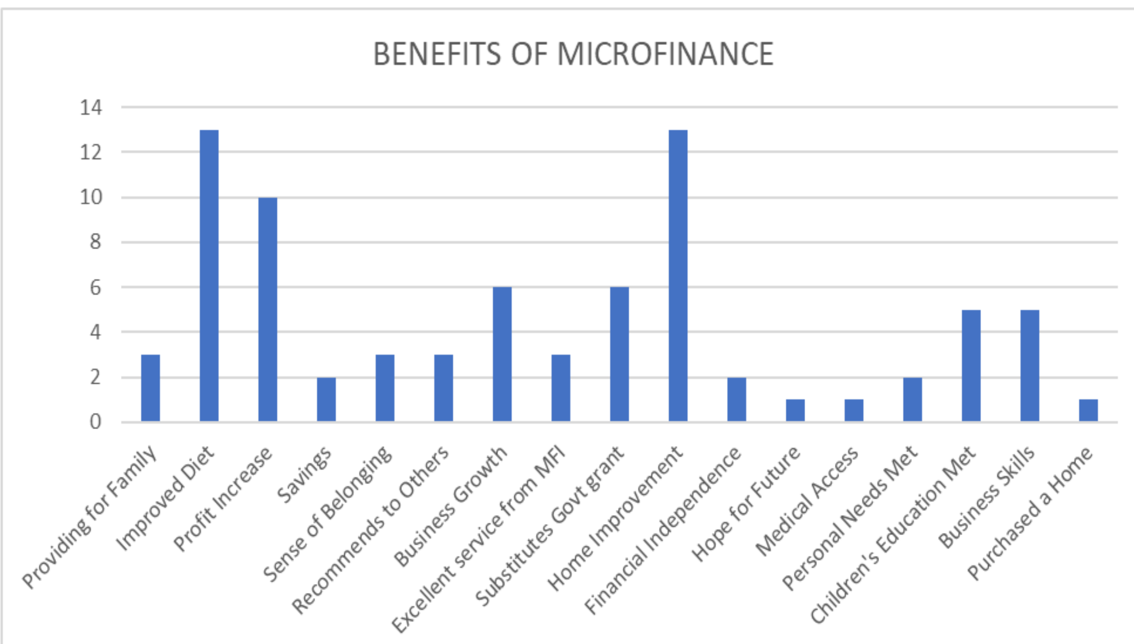
	business.
BB	BB borrowed money to buy calves for re-selling at a higher price.
BC	Respondent BC borrowed money and travelled to a nearby town to buy blankets for re-selling. She sold these blankets at pension pay point centres.
BD	She borrowed the R1600 to grow her business. She used the loan to buy bananas, potatoes and tomatoes which she sells from home.
BE	Every time BE took out loans, she invested in her business. With the current loan, she used R3000 to buy stock, such as: sugar, bread, spices, soup, soft drinks, tinned foods etc., and the other R2000 she kept aside for repaying her current loan any other emergencies that may arise.
BF	BF got a loan for transport and to buy stock (clothes) from a wholesaler for her business.
BG	Respondent BG borrows from MFI to increase the stock, such as blankets and duvets clothes and curtains, for re-selling.
BH	BH obtained the loans for the purpose of buying baking ingredients and equipment for baking. She bakes cake and scones for sale. She also bought material for her sewing business.
BI	BI buys snacks, such as Simba chips, sweets, peanuts and fizzy drinks, for selling.
BJ	BJ bought a machine and materials to expand her already existing business
BK	BK uses her loan to buy African print material from the Chinese shops in town, fruits and vegetables in bulk, which she sells from her stall by the roadside near the shopping mall.
BL	BL got a loan to buy equipment and hair product for her salon that she runs from her home.
BM	BM borrowed for start-up capital for her business. She buy and sell shawls and blankets in winter and bags in summer.
BN	BN borrowed in invest in a Day Care Centre that she runs with a friend.
BO	Her first loan was for start-up capital. Now she uses her loans to buy inputs for her restaurant.
B1	She expected the clients to use the loans for business purposes only. She specified to them how the loan should be used. They had to tell the whole group what they intended buying. She made follow ups on clients' loan utilisation. If clients did not buy stock, they were given seven days in which to buy the stock. When they, failed to buy stock, clients were ordered to pay back the whole loan with interest. Getting to her clients was easy. She owned a car, but the MFI paid for the fuel.

4.3.3 The Benefits of Microfinance

The results of the interviews revealed that since joining the MFI-A, the beneficiaries could provide better for their families. Regarding the education of their children and grandchildren, they could pay school fees, buy school uniforms, stationery and pay for transport to and from school. The providers of microfinance also confirmed to the researcher that their clients could also send their children to tertiary institutions as result of their involvement with microfinance. In terms of diet, the beneficiaries reported that their families could now eat better. While some stated that they could now eat a balanced diet, others said they had more protein in their diet. DLOs also reported that the clients could now eat three meals a day, which was not the case in the past.

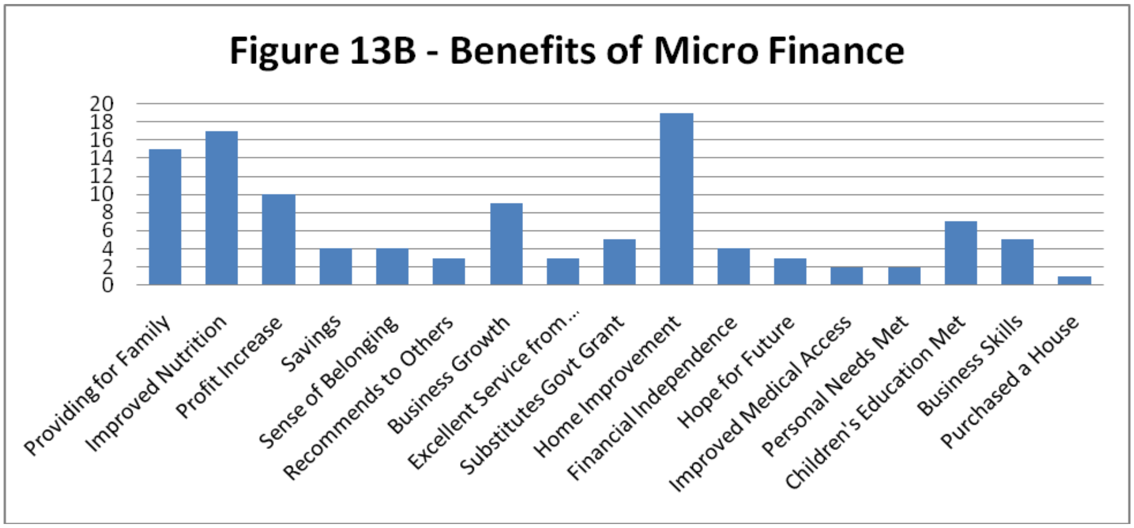
Many of the clients reported business expansion visible by the quantity of stock they were now able to buy in comparison to the past. Some were able to start-up a business that they could otherwise not do so in the past. Others were able to do some improvements on their homes by buying cups, plates, microwaves and electric stoves from business proceeds. In addition, DLOs reported that some of their clients could build better houses. Although none of the clients mentioned that learning of business skills as a benefit, the providers of microfinance told the researcher that they taught the clients business skills and how to look after their health. The researcher observed friendliness and mutual respect between the DLOs and their clients. This was confirmed by the client who described DLOs as honest, polite respectful and kind. However, in most cases, results of the interview suggest that the client do not rely entirely on micro businesses. Child Support and Pension Grants are used to supplement income.

Figure 13A: Benefits of Microfinance: 19 participants



Source: Field Notes 2016

Figure 13B Benefits of Microfinance: 30 Participants



Source: Field Notes 2019

From the benefits given, the ability to provide for the family and ability to improve the diet had the highest frequency.

Table 5: Benefits of Microfinance

The table below presents the descriptions of the benefits of microfinance as perceived by the respondents.

Respondents	Benefit
AA	AA stated that prior to joining microfinance, she did not have enough money to provide for her family. She added that with the micro-loan she could now sell goods at a profit. She proudly explained than her family fed better and she could buy uniforms for her grandchildren. "*Since I joined, I have learnt how to save, and I have never failed to pay off a loan. I am happy with the interest rate paid on the loan which leaves some money to save from my business*", AA said. She added that she borrowed a sum of R2000 on which she had to pay an interest of R500. She said that with benefits she currently enjoys, she still wanted to be part of MFI-A. Respondent AA Summed up by saying MFI-A was helpful in solving her financial problems and would advise other women in her village who are not part of microfinance to join because she had seen how it was assisting a lot of families.
AB	Respondent AB attributed her success as an entrepreneur to microfinance. She said that before joining MFI-A she could not provide for her family. She added that she was a business woman who could provide

	enough food. She explained that she was satisfied with the interest rate, which allowed her business to grow. She told the researcher that on her current loan of R2400 she paid an interest of R763. She assured us that she had never had a problem paying back her loan adding that she was now capable of contributing towards her children's education by buying school uniform. She added that she can now contribute towards family wedding and any other events such as funerals. She wanted to encourage other single women to join so that they could start up their businesses like her.
AC	Respondent AC told us that she was grateful because of MFI-A. She was convinced had helped her to provide for her family better. She added that she had more money at her disposal to buy more stock for her business. She emphasised that because her profit had increased, she could feed her family better than before. She said that the interest of R445 on her loan was in order okay for her because she had seen her business growing. She revealed to the researcher that with the help of microfinance, she could now afford to buy school uniforms, stationery and pay school fees for her children. AC did not admit facing any challenges since joining MFI-A. She added that now she can even contribute to village burial society that has given her security. She described the service of the DLOs as excellent.
AD	The respondent revealed to the researcher the following information: before joining the MFI the Child Support Grant she received from the government was not enough to support her and her two children. With the loan from the microfinance she could buy stock and re-sell at a profit. With the help of the MFI, she could buy better food for her family. She said, "*Now we can eat beef more often – at least twice a week. In the past beef or chicken was eaten once or twice a month''*. She added, "*Now we can have a variety of salads such as beetroot, Greek salad and pumpkin on a Sunday*". Furthermore, there was now money to buy stationery and school uniforms for her children.
AE	Respondent AE told the researcher that was pleased with way microfinance has assisted her. Consequently, she never failed to pay back a loan. She added that with the proceeds from her business, she contributed towards payment of school fees, buying uniforms for her children as well as paying taxi fares to school. AE also revealed that she had improved her kitchen by buying plates and cups. With regards to nutrition respondent AE had this to say, "*In the past eating pap and chicken feet was the order of the day. But now we can afford chicken braai pack, beef, eggs and milk*." AE is convinced that her business had expanded since now her stock has increased from R200 before joining the MFI to R1500 after joining. On the services provided by Development Loans Officer (DLO), respondent AE was pleased. She explained that their DLO was honest, polite, respectful and caring. AE is determined to remain a client of MFI-A for the rest of her life. She said she would recommend that all unemployed women in her village should join her MFI for it enables women to do it by themselves and for themselves.
AF	Respondent AF told us that she was satisfied with what she had gained so far from her microfinance. She said that she had never failed to pay off

	her loans. She added that her profit margin increased because of the lower rate of interest. She explained that with proceeds from her business, she was able to improve her kitchen by buying new plates and cups. She further explained that the family diet had improved as her family could now eat a balanced meal with different kinds of salads on Sunday.
AG	Respondent AG was excited that microfinance was already improving things for her. She said that she used to have problems paying for her grandchild's transport to school. "*I do not worry about the transport as there is money for that,"* she explained. Furthermore, she could now buy fruit, vegetables and snacks that she could not afford before. She pointed out that she was happy with the progress she had made so far. She revealed to us that lives in an incomplete a two-roomed house, owns a TV, one bed, a fridge, and a stove, which were all acquired before joining the MFI-A. She expressed her hope that microfinance would assist her to complete building her house.
AH	Respondent AH told the researcher that microfinance brought a lot of benefits to her life. She elaborated that since she joined microfinance, the size of her stock had increased. She attributed her ability to contribute towards her children's education, such as buying uniforms and paying school fees, to her business expansion. She informed us that she had bought the following items for her home: electric stove, microwave, plates and cups. She added that her family diet had improved as they eat healthier. She said that they could now afford cereal for breakfast; fruit juice and salads with their meals. She also indicated that her family could now occasionally visit a private doctor. AH did not admit to facing any challenges, rather she emphasised that she would be 'crazy' to exit from her current MFI. Respondent AH told the researcher that she jointly owned four-bed-roomed house with her husband that they build before joining MFI-A. She also admitted the borehole as well as household goods, such as sofas, refrigerator, stove and four double beds, were acquired before joining microfinance.
AI	AI informed us that she has was able to grow her business because of microfinance. She said that, initially, her stock was R200 it increased to about R1500. She added that after selling there was enough money to pay off her loan, as well as take care of her personal needs. She said that she used the profit to pay school fees and now her fridge was full. She explained, "*there is meat, vegetables and fruits*". Other than that, she has nothing to complain about and is here to stay with her current MFI. "*Ever since I joined, I have been stress-free because I can solve most of my financial problems*", she said. She also told the researcher that the following assets: a four-bed roomed house, stove, fridge, washing machine, four beds and television were bought before joining microfinance.
AJ	She used to borrow from loan sharks. If business expands, she hopes to clear her debts with loan sharks. Her business has not really grown but she had hoped to invest more now that she has cleared her debts.

AK	She contributes to the family to substitute husband's income by helping with school fees and transport costs for their two children who are in high school. With proceeds from her business. She bought a new stove. The family diet has improved with increased income. She can afford to visit a private doctor whenever she is sick as the government hospitals are congested.
A1	AI told the researcher that he had observed several of his clients who did not have proper shelter before joining the programme but now they have built better houses for themselves. Clients who could not afford when they just joined now could have three meals a day. He revealed that he was also involved in teaching his clients business skill development: how to start and manage a business. He explained that clients could now mobilise themselves as a group of five to ensure that the instalments on the loan are repaid into the MFI bank account.
A2	Respondent A2 was convinced that microfinance had a lot of benefits. She stated that she saw the clients' business expand. She indicated that she received reports from her clients about how they could pay fees at tertiary institutions for their children, built houses and improved in the quality of food they eat. She also added that the loan impact on the client usually became visible after 6 loan cycles. Other than facilitating loans, Respondent A1 also informed us that she taught skills development and health education to her clients. She added that upon joining the MFI she and other LDOs were provided with workshops on skills development and how to come up with business ideas.
A3	She told the researcher that as a result of being involved in microfinance, her clients managed to expand their business; build their houses with proper materials; and have paid fees for their children who tertiary institutions. A3 added that her clients had also learnt how to save because they needed to save a minimum of R50 a month. Respondent A3 also indicated that she taught her clients business skills and how to take of their health.
A4	Respondent AD told the researcher that with each loan cycle, business evaluation and savings improve. Anecdotally, they are told of improved housing, better clothing, purchase of a house, roof that has been fixed, adequate food and nutrition for the family, the ability to pay school fees and buying of books and access to a local health clinic.
BA	Respondent BA said that micro-finance has assisted her. She explained that she used to divert Child Support Grant to buy stock for her business, something which deprived her children of the money for food and clothing. Now, MFI-B provides her with capital for her business. She stated that the interest rate of 31% allowed her to earn profit, thereby expanding her business. Then she added that the proceeds from her business allowed her to pay for her children's education. She told the researcher that with the profit from the business, she had bought a chips making machine. She is optimistic that with that investment her business would grow, and she would continue to be part of MFI-B because her life had already started to improve.
BB	She believed that microfinance had brought a lot of positive changes in her life. In a month, she made a profit of R2000-R4000. Before she joined

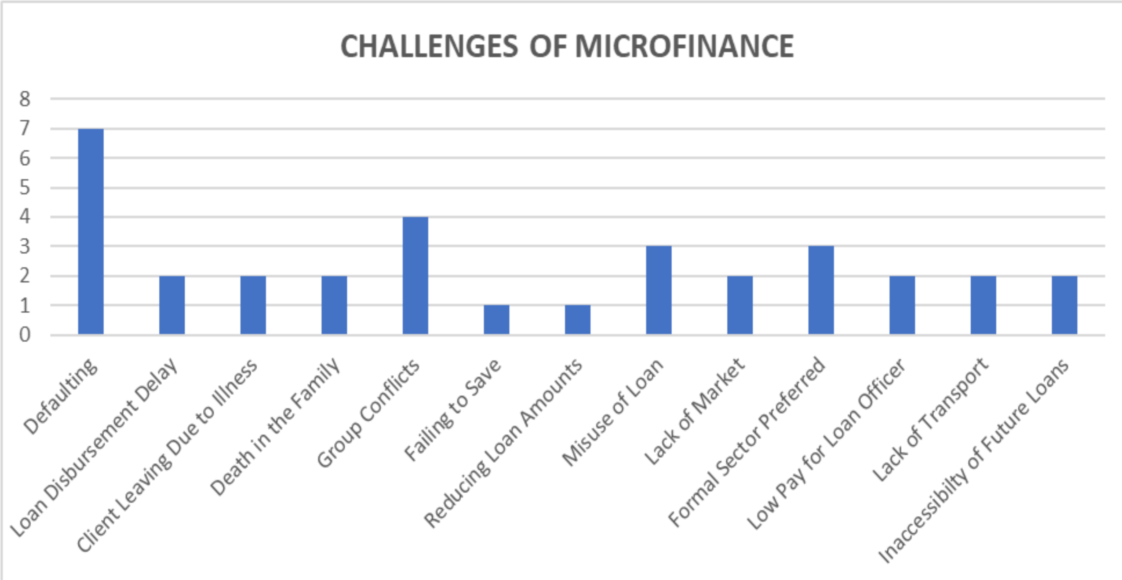
	microfinance ten years ago, she used to sell traditional beer. She did not like that lifestyle. She decided to stop. She wanted to start another form of business but could not because she had no capital. When she heard of MFI-B, she joined. Her business has grown. With the proceeds, she was able to pay for school fees and buy uniforms for her two grandchildren. She also acquired other assets such as a stove and a washing machine. There was a time when she used to go her neighbours to ask for food. However, that was no longer the case as they enough food to eat. BB said they were very happy with their manager who taught them the importance of saving. They now knew that when savings had accumulated, they can buy more stock.
BC	BC said that her business has expanded. Before she joined, she used to only depend on pension and a small income from selling tomatoes. Now she could buy stock of up to R9800. She explained that she bought blankets from the nearest town, Groblersdal, and sold at a profit. She said, *"I buy blankets at R180 and sell at R350. With the proceeds from my business I was able to educate my two sons who are now independent and have their own homes. I have also been able to buy an electric stove, three beds, a water tank and I have rebuilt my toilet. Our diet has improved. We now eat three meals a day*". BC told us that lived with one son who had Down's Syndrome. She added that she no longer had to travel long distances to fetch water and firewood as she had acquired a water tank and can harvest water. She also used an electric stove.
BD	BD revealed that currently she did not have a proper house but lived in a shack made of corrugated iron sheets that she built before joining the MFI. She had a bed and a few chairs and got water from the village tap. She told us that although it was too early to tell, she was optimistic that things would improve for her. She indicated that she joined because of what she had seen happening in the lives of other women who are clients of MFI-2. They had bought stoves and water tanks. She was determined that she could do it if other women could.
BE	BE said that microfinance had assisted her. Before accessing the micro loan, she never used to have enough stock in her shop. She now has enough stock for her customers. She said that, even with the 31% interest, she could still make profit. She added that, with the income she earned, she contributed toward her daughter's education at a tertiary institution. She told us that she was to buy new sofas, a kitchen unit and paved around the house. She also revealed that now she had more than enough to eat unlike in the past before joining microfinance. She did not admit to facing any challenges and emphasised that MFI-B would not find any fault with her.
BF	BF is now able to supplement Child Support Grant from the government and has learnt how to save. BF explained that she now no longer have to explain herself to friends when borrowing. She added that she didn't mind the interest rate as there is no other source of finance. She said that the diet has improved. Furthermore, she is more financially Independent as she is single mother.
BG	BG stated that her business had grown she was able to open a spaza

	shop. She stopped working as domestic help.
BH	BH is now able to contribute to family upkeep, e.g., buying of groceries. She assisted with daughter's school fees. She aspires to open a shop at a local Shopping Centre.
BI	BI can now support her siblings who are still in school. She helped her parents to make improvements on their home. She has built good relationships as a result of the microfinance.
BJ	BJ said that her business has expanded. She was able to buy two more sewing machines to meet the demand. She sent one of her children to the driving school. Their diet has improved, and she has more financial freedom.
BK	Bk was able to paint her house; buy a water tank and save part of her profit.
BL	Business has expanded, and she has employed an assistant. She can now supplement Child Support Grant. She has been able to save
BM	BM stated that with microfinance, she was able to expand her business. The proceeds from her business have helped her to complete building her new house; pay for transport cost for her school going child. Being divorced, she now is now financially independent
BN	BN says that she has not really benefitted
B1	Respondent B1 stated that she had observed a number of changes in the years she had been with her clients. She explained that they were able to contribute towards their children's education; improve their home; get Drivers Licence; buy furniture; expand their businesses from selling along the streets to opening *spaza* shops. She also added that clients had learnt to save, and how to run their business from her.

4.3.4 Challenges Encountered in Microfinance

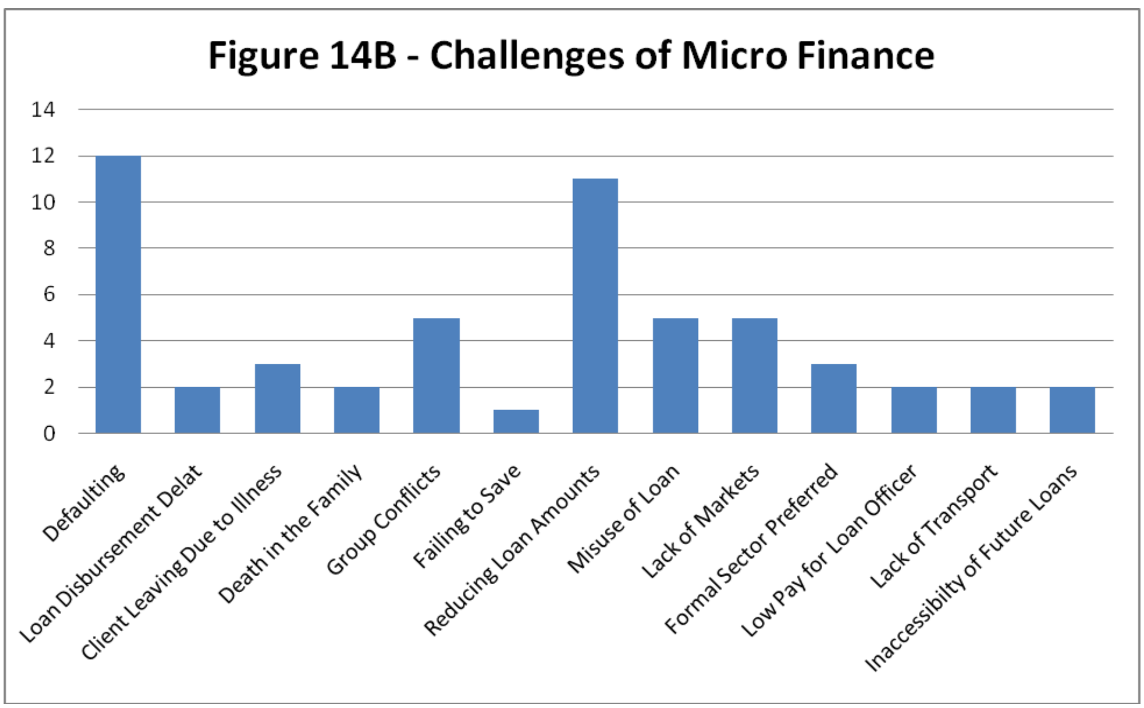
From the table above, it is evident failure to pay back was the most common reason given The challenges that were given by the clients and providers of microfinance were as follows: there were clients who could not pay back their loans either because their businesses was not doing well or they had used the loan to buy food; DLOs had to make follow-ups on a client who had left the MFIs or were in arrears; some clients left for formal employment, which was still preferred over micro entrepreneurship; the local Post Office delayed paying clients their loans after they had been approved by the MFI; Clients had to incur transport costs to Post Offices out of town to withdraw their loans; clients whose main customers were school going children found it difficult to find a market for their product during school holidays; mismatch of signatures on group contract forms delayed loan approvals; and business skills were taught by fellow clients who appeared not to be well-equipped to teach others.

Figure 14A: Challenges of Microfinance: 19 Participants



Source: Field Notes 2016

Figure 14B: Challenges of Microfinance: 30 Participants



Source: Field Notes 2019

The inability to pay back the loans; using loans for consumption; as well as the attraction of the formal sector, were mentioned more frequently as the challenges of microfinance.

Table 6: Challenges of Microfinance

Below are the narrations of the respondents on the challenges. Each participant's response is presented in the table below:

Respondents	Challenges
AB	She stated that not everyone benefits from microfinance unfortunately. Her friend, who was in another group, left because she could not pay back the loan.
AF	She also admitted to facing challenges such as delay in loan disbursement after approval. Nevertheless, that problem has since been rectified. She also explained that group formation was a challenge when some members left due to illness or failure to pay. For example, one member left because her husband, who used to assist with loan repayments, passed away. She disclosed that another member left because she became sick and had to be initiated as traditional healer. She had to reduce the loan amount because she could not save the required 10% savings.
AG	AG revealed that a friend who was in the same solidarity group had to quit because business was not doing well. This made paying back the loan a burden
AH	AH admitted that there have been some clients who left because they had misused the loan for consumption, and this resulted in their failure to pay back the loan. Nevertheless, she still recommended microfinance for unemployed women who want to do business.
AI	AI revealed that the only challenge she would face now was how to find a market for her goods when schools were closed. She told us about her friend, who was a client of MFI-A, but had left because she did not use the loan to buy stock. "*She must have used it for consumption purposes*", she said.
AJ	AJ said that debt collection was a challenge because customers who bought things on credit did not pay back on time. Sometimes her good do not sell and she must borrow from her group members to pay the loan instalment. A group member left due to illness. They could not access credit until they found a replacement.
AK	She said that she found it burdening having to pay for a group member who was struggling to pay.
A1	A1 identified these challenges: clients who could no longer sell their goods, struggle with loan repayments. Other clients left when their business was no longer making profit or when they get permanent jobs in the government or larger retail shops.
A2	A2 said that the main challenges that she faced was collecting payments from clients who were in arrears, which forced some of them to resign from the MFI. She added that other clients resigned after they had used the loan for consumption. Respondent A2 admitted that she would leave her current job if she got a better paying job.
A3	Responded A3 faced challenges of clients who failed to pay back their loans

	because of their businesses that had failed. She stated that her current salary of R3500 was not very competitive she added that other MFIs paid better. Furthermore, it was not enough to take care of herself, her three-year-old son and her siblings who depend on her. Nevertheless, she added that people should be satisfied with what they got.
A4	The respondent explained that they did experience challenges every now and then. For example, there could be a dysfunctional member in a group, illness of a group member, inter-group dispute, all of which have a direct impact on other group members who may not have access to subsequent loans. "*Despite these challenges, our repayment is 98 percent*", he added.
BA	The respondent did not experience any challenges since joining the MFI
BD	She took long to join MFI-B because she was told that they were like *mashonisas* (i.e., Loan Sharks) but now she is relieved. Because their interest rate is manageable, and they do not threaten you by keeping your ID book or your property. She said that Loan Sharks charged as high as 50% interest on the loan and they harassed you if you did not pay. "*They can even cease your property if need be*," she added.
BF	BF said that the previous year she had fallen ill and her business was affected negatively.
BI	Bi stated that she did not experience challenges personally, but she knew of women in the MFIs who had exited because they could not pay back their loans
BK	BK said that her main challenge is collecting money from customers who owe her, and this affects her loan repayment.
B1	B1 Stated the following as the main challenges that she faced: clients who failed to pay back the loan; Clients who did not even tell her that they had a problem but simply disappeared: as well as those who did not understand the group solidarity even, she taught them; rather operated as individuals. She said that she explained to them that if one failed to pay, the whole group suffered. She added that clients sometimes left the MFI when there was no longer a good relationship with other clients; family problems; when they got formal employment; or when they experience problems such as death or illness of a family member. She also revealed that women who were younger than thirty years of age came for one purpose, namely, to get loans for personal use, although they would indicate that it was for business. Once they achieved what they wanted, they would disappear without paying back the loan.

4.4 Conclusion

This chapter focused on the presentation and analysis of data collected. Data were collected using semi-structured interviews. This chapter also provided the profile and background for the sample microfinance. For each of the research questions, data collected from each of the methods were utilized to inform the presentation and analysis. Furthermore, the data for each research question were presented and analysed separately.

In the next and final chapter, focus is on summarizing the research findings, providing a discussion of the emerging concepts identified from the study, and providing recommendations for the study and for further research.

CHAPTER 5
DISCUSSION OF RESULTS

5.1 Overview

This chapter presents a discussion of the main issues emanating from the findings. The significance of the findings was established by comparing them to the theoretical framework and literature review given in Chapter 2. The results are discussed according to the focus of research questions, namely: access and availability, utilisation, benefits and challenges of microfinance.

5.2 Accessibility

Our study found that microfinance was available to the resident of Sekhukhune who had the freedom to access it. In this study therefore, accessibility was discussed in terms of loan amounts issued to clients; eligibility for future loans; distance from microfinance centres where microfinance staff operate as well as conditions such as group lending and savings requirements set by MFI for accessing first-time loans. Similarly, Ledgewood (1999) categorised access to microfinance under three types, namely: loans outreach; client and staff; and savings outreach. Furthermore, Sen (2003) explained that freedom is valued by an individual because it gives a chance to an individual to pursue the things that he values. The residents of Sekhukhune have the freedom to pursue the things that they value – participating in microfinance – as postulated by Sen (2003).

This study found that in both, the MFIs had increased in outreach over the years. There are three contributing factors were given for this. First, there was a steady increase in the amount of loan that was given longer the clients stayed with a microfinance. Likewise, Meier and Rauch (2005) found that selected banks in Bangladesh, Indonesia, and Bolivia used progressive lending[22] as an incentive for loan repayment. In general, loans issued by MFI-B were higher than those issued by MFI-A because MFI-B has been in existence for a much longer period than MFI-A. While MFI-B was established in 1982, MFI-A was established in 2012. In MFI-A, the loans were reported to range between R1000 and R3400, whereas for MFI-B the respondents reported loans ranging between R1600 and R15000. Second, the Loan Development Officers themselves conducted a door-to-door campaign recruiting clients for their microfinance

[22] Increasing of loan amounts over time (Meier & Rauch, 2005).

institution. Third, existing clients of MFIs informed their neighbours and friends about the existence of microfinance services.

In this study, it was found paying back of the previous loan was a major determinant for accessing further loans. As a result, clients who had been able to repay their loans have remained clients of MFIs – some even for more than seven years. In the same way, according to Meier and Rauch (2005), when clients were cut off from accessing any further credit if they failed to pay did not pay back previous loans. Clients found it easy to access the MFIs at the group centres where the meetings were held. All the respondents interviewed stated that their group centres were close, by within a radius of 5 to 10km.

In this study it was found that all the clients interviewed were micro-entrepreneurs operating in the informal sector who had no access to formal banking institutions before joining microfinance. Our findings are supported by Littlefield and Rosenberg (2004), as well as Otero (1999) who state that, MFIs aim is to correct the market failure and fill in the gap caused by lack of financial services to the poor in the informal sector.

The researcher found that, in both MFI-A and MFI- B, women had to form groups of five in order to access loans. They therefore had adopted the Grameen Bank lending model. While in the Grameen only two members of a group receive a loan at a time (Sengupta & Aubucho, 2007), in this study, all five members in the group not only made a joint loan application that was approved at the same time, they also announced their loan repayments publicly at centre meetings, which were held once a month for microfinance MFI-A and fortnightly for MFI-B. Similarly, Sengupta and Aubuchon (2007) report that in the Grameen Lending Model the loan applications and loan repayments were done publicly during the meeting.

This study found that the ability to save was not only compulsory but al also determined the access to subsequent loans and was also compulsory to all member of MFI-A and MFI-B. In the same way, Sengupta and Aubuchon (2007) found that, in the Grameen Model, savings requirement was incorporated in their lending structure. It was thus found that microfinance is accessible to the residents of Sekhukhune because microfinance centres were close by. Clients could access future loans if they were paying back; they had group collateral and were expected to save 10 percent of the loan amount.

5.3 Utilisation

The discussion on loan utilisation was in two-fold – the intended utilisation (what the loan was supposed to be used for) and the actual utilisation (what the clients did with the loan after obtaining the loan).

The findings by the researcher showed that all loans issued by the two MFI were for business purposes, specifically to buy and transport stock as well as pay employees in some cases. When follow-ups were made on clients by DLOs, it was found that most of the loans had been invested in the business. This was in line with Hulme's (2000) Impact Framework that states that microfinance programmes and institutions were established to form an important constituent of policies to decrease poverty or assist micro and small enterprise development. Yanus (2003) stipulated that the idea of microfinance was to provide small loans to poor people for income-generating activities. In addition, the CGAP (2012) reports that access to financial services would help the poor build assets through saving or financing income-generating activities, stabilise their consumption and protect them against risks.

Likewise, in this study, there were instances where respondents admitted that, loans had been kept aside to be used for emergencies and others had used the loans for consumption purposes. Although follow-ups were made to force beneficiaries to pay back, the fact remains that they had used the loans for consumption. Sen (2003) explained that having a capability is doing what you value and having reason to value. Clients who valued providing for their families, as well as being able to take care of emergencies, were given the capability to do so by microfinance. In like manner, Morduch (2008) argues that not all credit is used for small businesses. Poor households have a diversity of needs that go beyond funding business – such paying school fees and enabling acquisitions of consumer goods. Morduch (2008) further adds that the question is not whether loans should be used for consumption or not rather MFIs should question themselves whether they address clients' requirements or not.

5.4 Benefits of Microfinance

The benefits of the microfinance programmes accruing to the clients were discussed within two broad categories: Financial and social benefits. The financial benefits perceived by the participants were discussed in terms of the desired outcomes as explained by Hulme (2000) or enhanced capabilities after intervention as described by Sen (2003).

5.4.1 Financial Capability

Financial capability enabled beneficiaries to engage in economic activities; increase income; diversify income; increase their saving as well as acquire more assets in their homes and business

5.4.1.1 Capability to Participate in Economic Activities

In this study, it was found that the two MFIs had set women as their main target for microfinance because they were as more vulnerable to poverty than men. Those who had no business reported that the availability of start-up capital through microfinance. MFI provided the clients with an important capability being employed or participation in economic activities in the absence of formal sector jobs in their community. Each woman who joined a MFIs meant that one informal job had been created. In Sen's (2003) Capability Approach, the most important aim of a poverty-reduction programme should be to expand the choices and opportunities of freedom to accomplish the things that individual's value.

Poverty was defined by Sen (1999) as the deprivation of basic capabilities. In the case of the Microfinance Institutions that were investigated, there was generally a positive change in client's behaviour that led to the desired outcomes such as a source of finance for their business; and the ability to invest in a business at a lower cost. Clients who were already in business reported business expansion identified in the increase in the value of stock they were able to buy. Thus, the findings are supported by Hulme (2000) in the Impact Framework, which postulates that, behind all microfinance programmes and virtually all aid sponsored initiative, is the supposition that intervention will change human behaviour and practices in ways that will lead to the accomplishment of anticipated results.

The findings from both MFIs, was that microfinance provided beneficiaries with a choice for a source of financing for the businesses business expansion. In some cases, respondents told the researcher that they no longer depended on Loan Sharks[23] also known as *mashonisas who* practically took clients profit due to exorbitant interest rates. Some clients stated that they

[23] These were local money lenders who charge very high interests

would pay up to 50 percent interest rate on loans. One client stated, "*I took long to join the MFI because I was afraid that it was like a mashonisa who charged very high interest and who threatened to cease your property if you default*". "*I now realise that MFI-B is different and better*," she added. Similarly, when Yanus (2003) started the Grameen Bank most of the clients of the bank had relied on local money lender called the *paikers.* Yanus (2003) discovered that by lending money from his pocket and later from the bank and charging a lower interest than the local money lenders, the clients could retain more money for themselves.

The results revealed that in some cases, MFI had provided the clients the freedom to employ another person to assist either in making clothes or selling in the shop. By so doing, additional employment was created. All the beneficiaries this study were micro-entrepreneurs operating in the informal sector. According Ligthelm (2006), the informal sector forms a significant part of the economy because of its size and of its potential role in providing employment as well as income-generating activities. Canagararajah (2005); Sethuraman (2001) and Cichellar (2005 in Willemse, 2001) state the shortage of funding as one of the major challenges of the informal sector – women being in the majority, lack assets that can be used as collateral.

It was further found that even older clients between 65 and 75 years were also involved in microfinance. Although some participants were past the age of retirement, they continued to work. This is in line with an observation made by Kelly (2016) that microfinance has an opportunity to play in the problem of age and financial inclusion by recognising and taking advantage of the fact that older people continue to be economically active. Thus, it was found that microfinance enhanced the women's capabilities' – which is the freedom to continue to be economically active for as long as they were able.

5.4.1.2 Increased Income

The evidence collected in this study shows an increase in income that ranged between R400 and R4000. However, the reported income for clients in MFI-B was higher than income for clients in MFI-A. Most of the respondents reported an increase in income since joining microfinance. These findings are similar to those found by Wrenn (2007) on the impact of microfinance projects in Kenya, Uganda and Rwanda; sponsored by the Irish aid agency, Tricaire, found that all in the three projects microfinance has a positive impact on the financial capital of their clients. Wrenn (2007) reported that clients were now earning a greater income than they did prior to joining the project. These findings are also in line with Littlefield and Rosenberg (2004) who stated that there was a rise in the number of studies that suggest that microfinance can cause income stability and growth. Hulme (2000) also explained that services offered by a MFIs can result in a client changing his or her microenterprise activities, which leads to improved or reduced microenterprise earning that, in turn, causes a change in household income.

5.4.1.3 Income Diversification

The results of the study indicated that because of participating in microfinance programmes, some clients also were provided with the capability to diversify their income and to reduce vulnerability. The majority of the clients reported that their micro business provided another source other than social grants and spouses. Most clients reported than an increased income had given them the freedom to not ask for food from their neighbours, which was very important to them. Similarly, studies conducted by Norell, Teffera and Burnham (2005) suggested that microfinance led to diversification of income. This is also supported by Hulme (2000) who stated that a change in income leads to economic security. Sen (2003) explains that poverty should not be merely be seen in terms of low income rather in terms of capabilities that are deprived as a result of the lack of it

5.4.1.4 Savings

In this study, it was found that an increase in the income earned from the microbusiness gave the clients the capability to save for unforeseen circumstances. Both MFI-A and MFI-B made savings of R30 of 10% of the loan amount, compulsory. A loan development officer from MFI-A stated that clients, who managed to save 10% of their loan, were granted and opportunity to apply for larger amounts. Many clients of these projects were saving to access larger loans in future and to cover any emergency or to meet loan repayments when they were due. This is consistent with Sen's (2003) Capability Theory in which freedom and choices are important concepts. Our study therefore concludes that a change in income is not the result, rather it is the gateway to other choices that would now be available to an individual.

The compulsory savings had instilled a culture of savings. Client who were between the ages of 35 and 75 years were now saving even more that what the MFI was asking for. In MFI-B a seventy-five-year-old client had accumulated enough saving to buy a "bakkie" (van).

Unfortunately, she stated that she was too old to drive. Thus, the client had the freedom to choose whether to buy a van or not. Lack of income was no longer an obstacle to saving. This also concurs with Kelly's (2015) argument that MFIs can empower working-age customers to prepare for older life.

5.4.1.5 Acquisition of Assets

Most of the respondents in the study stated that they had acquired more household assets than they had prior to joining the project. Few clients who had been longer with the Microfinance Institutions reported that they were even able to build houses with help of microfinance. One client reported that she was able to complete building her shop. In addition, clients were able to make household improvements such as paving, building of new toilets; and roof repairs. Assets for the household that were bought included stoves, microwaves, fridges, as well as kitchen utensils. For the business, assets such as popcorn machines were attributed to an increased income generated from businesses supported by microfinance. These findings concur with by Kabeer's (2005), based on Society for Helping Awakening Rural Poor through Education (SHARE) in India, which concluded that microfinance improved housing. Similarly, Morduch, Littlefield and Hashemi (2003); Rosenberg (2004); as well as Wrenn (2007) found that microfinance had a positive impact on physical capital of the clients of the MFI. In our theoretical framework, Hulme (2000) made a strong case in support of utilising the assets as an indicator of an impact of microfinance because their level does not fluctuate that much compared to other economic indicators.

5.4.2 Social Benefits

Our study used social indicators from the early 1980 such as educational status, access to health facilities, dietary levels based on Hulme's (2000) Impact Theory.

5.4.2.1 Education

This study found that microfinance provided our respondents with the freedom to contribute towards their children's education. Educating their children was valuable to the clients and microfinance provided them with the capability to pay school fees; pay for transport to school; buy uniforms and stationery; school attendance; and nutrition. Similarly, based on studies of MFIs in South East Asia, Kabeer (2005) found that children's education frequently improved with access to microfinance. Dally and Harris (2007) argue that "microfinance may not the solution to primary school enrolment crisis in the developing world, but it is an important tool for helping families educate their children". Therefore, it can lead to breaking bonds and intergenerational illiteracy and poverty. The results of this study therefore concur with Wrenn (2007) who found that an additional income of up to 40% from microbusinesses was spent on paying for children's education. Therefore, intervention by a microfinance programme can change the skills and educational level of household members and, in the end, effect changes in social and political relations (Hulme, 2000).

5.4.2.2 Skills Development

In this research, there was an attempt to provide skills development. Branch manager and loan officers said that business skills and health education were taught to their clients.

Although this may be the case, none of the clients from both MFI mentioned skills development as the benefit of microfinance. Therefore, it was not very clear to determine client's perception of the impact of business and health education intervention in their lives. Furthermore, the researcher observed that even though there was some attempt by one client to teach others, many of the clients lacked the confidence to teach and they were pressurised to explain business skills to fellow clients. These findings therefore are contrary to Wrenn's (2007) findings that indicated that clients perceived that they were now more comfortable running a business than they were prior to receiving education in business skills. Although Bhatt and Tang (2001) reported that, over the years, MFIs have been associated with providing finance, entrepreneurial skills and technical assistance relating to health and business education, there was not enough evidence that indicated an improvement in skills development in my findings. Hulme and Mosley (1996) criticised programmes that provided loans without ensuring that their clients had ability to succeed as an entrepreneur. Hulme (2000) clarified that, although the most common intervention by microfinance is in the form of loans, MFIs were expected to offer a variety of services such as technical assistance.

5.4.2.3 Nutrition

In this research, it was said by most respondents in this research that they now were able to eat a balanced diet and could afford three meals a day; something which had not been the case prior to joining the respective MFI. In terms of capability, therefore, microfinance provided them with the freedom to not only improve the quality of their diet, but also to eat more regular meals.

These results are supported by Kabeer's (2005) findings that show that there is a significant improvement in food security and quality resulting from one involvement in microfinance programme. A nutritional change has been identified by Hulme (2000) as one of the variables that can be assessed to determine the impact of a microfinance programme.

5.4.2.4 Health Benefits

From both MFIs, health benefits from microfinance were alluded to but not really emphasised by both beneficiaries and their loan officers. A few clients reported that micro financing had helped them to access the private doctors who had been out of their reach due to lack of enough funds. Although health lessons were taught to the clients, it was interesting that only the loan officers reported such lessons. Clients, on the other hand, did not mention such lessons during the interview. According to loan officers, clients were taught how to look after their health. They were informed about how to prevent or live with diseases such as HIV/AIDS, diabetes and high blood pressure. Also recorded during the interview was that clients' quality of life had improved because they did not have to travel long distances to fetch water and firewood now that they had bought electric stoves and water tanks that enabled them to harvest water during the rainy season. The conventional impact chain presented by Hulme (2000) suggests that the modified household economic security due to MFI mediation leads to changes morbidity and mortality.

5.4.2.5 Sense of Freedom and Empowerment

Some participants said that from both MFI-A and MFI-B said that their involvement MFIs had helped the income earned from their business to increase. They added that an increased income gave the participants from the ability to pay their bills and make contributions to village burial and wedding societies. Therefore, they provided with the functional freedom to be active participants in village social functions. Similarly, in Sen's (1999) Capability Approach, the capabilities are not just the abilities residing in a person, but rather it is the economic, social and political surrounding that permit functional freedom.

5.4.2.6 A Sense of Belonging Dignity and Trust

The study revealed high repayment rates with some clients doing whatever it takes to pay back their loans so that they are not kept out of microfinance. Both MFI-A and MFI-B were characterised by high repayment rates of 80% to 90%. Similarly, Littlefield and Rosenberg (2004) conclude that there is no doubt that the poor clients themselves value microfinance very highly. This is evidenced by both their strong demand for such services and their willingness to pay the full cost of these services and high loan repayments rates that are motivated mainly by a desire to have access to future loan, which correspond to findings of the Grameen Bank wherein the repayment was as high as 95% (Sengupta & Aubuchon, 2007). The findings are supported by Sen's (1999) Capability Theory that states that a person feels that a life is worth living if that life is compatible with one's aspirations and values. Participants valued a sense of belonging, trust, empowerment and dignity.

Several participants spoke with pride about their DLOs who respected them; were honest and caring. In addition, belonging to a group made them socially responsible as they had to look out for one another. Most were willing to pay for group members who were struggling to pay their instalments. "*The system forces us to care for one another*", one of the respondents said. Furthermore, women felt a sense of empowerment. Respondent AE stated that she was proud that women were doing it for themselves and by themselves.

It was reported by the respondents that microfinance intervention had improved the quality of lives of the beneficiaries of microfinance, both socially and economically. Thus, evidence indicated that intervention had brought economic and social freedom to the participants in microfinance who were mainly micro-entrepreneurs. The researcher's conclusion is that there are economic benefits that result from participation in microfinance. This is supported by Kabeer (2005) who states that access to microfinance has a positive impact, such as improved economic position of the poor, especially for those closest to the poverty line.

5.5 Challenges

The challenges faced that emanated from both Microfinance Institutions were similar. Some challenges caused clients to drop out and others were encountered by those who were still clients on the microfinance programme. While some challenges discussed are supported by previous literature, others may be unique to this specific study.

5.5.1 Clients Dropping Out of the Microfinance Programme

Both MFIs reported the exit of some of the clients. The following were the main reasons that were given for clients dropping out were: loans had been used for consumption instead of business; businesses had failed and death of family members.

In as much as loans provided by the MFIs were supposed to be used for business purposes only, interviews indicated that some clients used the loans for consumption purposes. Loan Development Officers from both institutions also explained that, in cases where stock was not bought, clients were given a period of seven days to buy stock for the business. If they failed to comply, then the loan had to be repaid with interest immediately. They admitted that, even with such measures, some clients still failed to pay back the loans, and this resulted in their dropping out of the programme. Heshemi (1997) argued that clients self-selected themselves out of credit programmes when they realised that they could not use their loans profitably. Loans Manager B1 explained that there were clients who just joined to buy personal items for themselves and once they got what they wanted they left the MFI. This is supported by Buss (1999) who concluded that some clients may get loans without the intention of paying back or using it for business.

Interviews from existing clients indicated that when business failed, clients from their solidarity group had no choice but to leave microfinance as they could not pay back the loans. Others failed to save the minimum amount required by the MFIs. This is reinforced by Khandker's (1998) statement that not all rural people can benefit from microfinance. Some people require entrepreneur skills before they can use loans productively.

In some cases of this study, there was a reduction of income because clients had become indebted after a microfinance intervention. It was indicated that there were situations where the other family had to assist microfinance beneficiaries to pay back some of their loans. This created a problem when a family member who used to assist in paying back a loan passed away. Such beneficiaries who failed to pay back the loan had no choice but to exit the MFI. In the same way, Buss (2005) stated that microcredit may force poor people into debts that they cannot pay. In Hulme's Impact Assessment, it is explained that microfinance intervention may lead to an improvement or reduction of an income. The evidence is therefore supported by Hulme's argument that microfinance intervention may lead to an improvement or reduction of an income.

As stated at the beginning of the chapter that for both MFIs in this study were based on group lending model. An interview with respondent B1 revealed that some clients had left microfinance programmes due to conflicts within the group. Members could not agree on contributing towards the loan repayment of a member who had defaulted. Thus, groups did not provide freedom or capabilities to achieve what all the clients valued. In the same way, according to Sen (2003), capabilities are about achieving what one values.

5.5.2 Challenges Faced by Existing Clients

Challenges faced within MFIs included: not using loans for business; lack of business skills; failure to find markets for their goods; transport and delays in accessing the loans from the Post Office. It was revealed that some clients found a way of keeping some of the money from the loan for the first loan instalment so that they do not get into 'trouble' with the MFI. Their greatest fear was being excluded from the microfinance.

Both MFIs encouraged clients to share business experience amongst themselves. Loan officers stated that it was believed that their clients were experts in their own lives. However, it was observed that when asked by Loan Development Officers to teach business skills to others, clients were reluctant. They appeared to lack confidence in this area. This was coupled with lack of education. It was also found that very few beneficiaries had gone beyond 7^{th} Grade – even fewer had gone beyond matric. The findings further revealed that the employees of the MFIs possessed other qualifications other than business qualifications. From the interviews, none of the beneficiaries mentioned that business skills were taught. I concluded that there was very little emphasis put on business education. This is in line with Bauman's (2005) conclusion that women in South Africa were particularly disempowered in terms of skills to run a business. Bauman (2005) adds that low levels of literacy among the Black communities contributed to the low skills among the client and the staff themselves. In the same manner, Hulme and Mosley argue that entrepreneurial capacity should be considered before credit is given out. Otherwise, rather than reducing poverty, it will increase it.

It was found in this study that clients sometimes struggled to find a market for their products. Those who targeted school children as their customers struggled to sell their goods during school holidays. This meant a loss of income during that period. Similarly, Bateman (2011) points out that there is a limited demand for goods that are sold in the informal sector. Our findings are, therefore, inconsistent with Yanus' (1989) statement that there is unlimited demand for products produced in the informal sector; this may not always be the case.

Another major challenge discovered was the difficulty in mobility of loan officers who did not own their own transport. Only loan managers owned cars. To reach the clients, loan officers had to use public transport, which was not always reliable. In some cases, they had to use unauthorised public transport. It was found that the microfinance centres were scattered across the district. Some clients had to travel for 70km to get to the Post Office for them to access their loans that had been approved. In some cases, such clients had to make as appointment with the Post Office before accessing their loans. This caused delays in purchasing of stock for the business. This concurs with Bauman's (2005) findings that distance and mobility made it difficult for MFIs to reach their clients.

The research found that clients were happy with interest rates that they paid on their loans. However, all of the clients who were interviewed had not gone beyond matric. Most of them had only primary school education and thus possibly financially illiterate. They could not therefore compare interest rates in various financial institutions. Clients simply accepted what was given as they did not have an alternative. Our findings are in line with Morduch and Haley's (2002) argument that clients of MFIs bear the high interest rates because of financial illiteracy.

In conclusion, microfinance will not solve all the problems of the poor. Littlefield and Rosenberg (2004) also state that microfinance alone is not a magic solution that will propel all the poor – particularly the very poor people out of poverty. First, we have seen that, for some, access to microfinance resulted in an increase in income, which provided them with other capabilities that opened opportunities to achieve aspects of their lives that were important to them. Second, we saw that some of the clients of both Microfinance Institutions relied on government grants such as pension and Child Support Grant. Thus, they do not only rely on microfinance supported business, but also government support or intervention. These findings are like Gully's (1997) recommendations that the poor need a wider range of services for business and household purposes. Third, other clients defaulting and dropping out. Fourth, there were challenges such as lack of business skills; failed businesses; lack of transport; and limited markets. Finally interest rates charged by MFIs will always be higher that of commercial banks leaving MFIs beneficiaries worse off There is a need for Microfinance Institutions that will provide services that are tailored to the needs of the clients.

CHAPTER 6
CONCLUSION AND RECOMMENDATIONS

6.1 Summary of the Study

The purpose of this study was to investigate the role of microfinance in the Sekhukhune District. In line with the research objectives, the study investigated the key issues surrounding microfinance in the study area. In seeking to address the research objectives, five research questions were identified, namely:

i. How do the residents of Sekhukhune access microfinance?
ii. How do beneficiaries utilize microfinance?
iii. What are the economic and the social benefits of microfinance?
iv. What challenges do the providers of microfinance face?
v. What challenges do the beneficiaries’ microfinance encounter?

The study used a qualitative method to answer the research questions. A qualitative approach allowed the researcher to get primary data from the perspective of both the recipients and providers of microfinance. Semi-structured interviews were held with a sample size of thirty participants to give room to the researcher to re-direct the questions depending on the answers received. NVIVO software was used to analyse the collected primary data.

6.2 Summary of Empirical Findings

6.2.1 Availability and Access

To determine access, the respondents were asked to explain how they learnt about microfinance, the conditions for joining microfinance, their loan amounts, as well as how far beneficiaries were from microfinance centres. It was found that microfinance services were available and accessible to women who were the main target of the MFIs. Beneficiaries did not need to have collateral before receiving loans. Both MFIs used the Grameen Solidarity Model for accessing loans. However, they needed to have an ID book (had to be South African citizens), belong a group of five, as well as opening a group Savings Account in which they would save 10 percent of their loan amount. Although clients could receive a loan of up R15

000, eligibility of amount depended on ability to pay back the previous loan and ability to save. Loans were not available to former clients who had failed to pay back a previous loan.

6.2.2 Loan Utilisation

To establish loan utilization, the respondents were asked to explain why the loans were given and how they had used the loans disbursed to them. All loans, as matter of principle, were for business purposes. Loan officers made follow-ups to make sure that the funds were not diverted for other uses. Loan officers said they physically checked that stock for business had been bought. If stock had not been bought the client was given seven days to buy stock. Failing to do so, the client was instructed to pay back the loan with immediate effect. If the client failed to pay back the loan, they were excluded from microfinance for good. This study found that, even with follow-up, clients still found a way of putting aside a part of the loan to meet the loan repayment obligation. This suggested to the researcher that the physical checks by loan officers are not as accurate as they believed them to be. Thus, not all loans were used for business purposes.

6.2.3 Benefits

The researcher asked the respondent to explain how microfinance had helped in order to determine the benefits of microfinance. It is perceived by the respondents that microfinance has both economic and social benefits. Microfinance had helped them to provide better for their families.

Economically, the beneficiaries were able to expand their business. This was evident over the years the value of the stock bought had increased. Those who were not in business were given start-up capital. Income had increased given that they were now even able to save a part of their proceeds. Microfinance provided them with a financial capability as now they no longer had to go to local money lenders who would cease their property if they failed to pay. Beneficiaries were given the capability to engage in economic activities. Employment had been created for those who were previously unemployed as they were now micro-entrepreneurs. Beneficiaries also valued the home. They were given the capability to make improvements to their home. They also bought household assets. Microfinance was used to supplement government grants.

The social benefits experienced by the clients of MFI were, namely: ability to contribute towards their children's education; improvement of family diet; access to private medical practitioners; health education received at the microfinance centres; and ability to be part of social insurance, such as burial societies. Women of pensionable age had access to microfinance, thus allowing them to remain economically active.

6.2.4 Challenges Faced by Beneficiaries

When asked about challenges, only a few admitted experiencing any challenges.

Although interest rates were on loans were not admitted as a major challenge, they seem to affect clients' indebtedness. Beneficiaries had friends who excluded because they could not pay back their loans. Failure to pay back loans was caused by the following: (a) a business that had failed; utilizing loans for consumption; (b) inability to collect debts from business clients; (c) death of a family member who assisted with loan repayment; and (d) lack of market for their products. Other challenges included delay in loan payment by the Post Offices and errors on Loan Application Forms.

6.2.5 Challenges Faced by Providers of Microfinance

Loan officers did not own transport they had to depend on public transport. Loan officers indicated that they would leave their current employment for better opportunities. There was a mismatch between qualification and the actual job they were doing. They had deal with some young clients who were there just to get the first loan and disappear without paying back the loan.

6.3 Recommendations for Policy

The study raised important aspects that warrant government's attention. Such are, namely: (a) the poor, who form a significant part of the population in South Africa and have very low unstable incomes and few or no assets at all, cannot access credit; (b) the informal sector that has risen as result of government failure to provide employment, which require funding; and (c) the existence of the ultra-poor who have no entrepreneurial capacity. In support of the ultra-poor, the government should come up with other intervention strategies in addition to microfinance because it is not a silver bullet that can solve all poverty problems. In this research, the researcher found that microfinance was not for everyone; especially those who would use the microfinance for consumption as they do not have any other source of income.

In support of MFIs, this research recommends that the government plays a constructive role to end poverty. The government may need to increase the amount of social grants as it is not enough, the elderly people end up having to operate micro- enterprises in order to increase their income. The government should build financial systems that work for the poor; create legal systems that encourage market entry; recognise that microfinance is a legitimate financial activity within the financial sector; and refrain from directly being involved in credit delivery because their political independence cannot be guaranteed.

To help micro-entrepreneurs, the government could assist by building smaller shops to rent out to micro-entrepreneurs they could sell their goods. Evidence indicated that micro-entrepreneurs sold their goods by the roadside.

6.4 Recommendation for Microfinance Institutions

For MFIs, this study recommends that MFIs move away from group lending to individual lending, especially for those who have been with the institution long enough; incorporate other services, such as deposit taking and insurance, in order to provide diverse services for their clients so as to cut out the middleman, such as the Post Office. Clients perceived MFIs as institutions for just getting loans, therefore, more emphasis should be given to business training instead of utilising fellow clients to teach other clients, as was the case in thus study. MFIs should enter into partnerships for teaching business skills, such as was entered by SEF, with Intervention with Microfinance for AIDS and Gender Equity (IMAGE) for promoting health among microfinance beneficiaries. Microfinance should recognize that people need a wider range of approaches. This may require flexible loan repayments or consumption loans instead of just investment loans.

MFIs should employ loan officers who are qualified in business or microfinance. To retain staff, MFIs should into the benefits of their employees to remain competitive with other employers. Loan officers had indicated that they would leave their current jobs if they found something better.

6.5 Limitations of the Study and Recommendations for Future Research

This study is a qualitative research and the results cannot be generalised. Furthermore, despite the efforts taken in this study, there are further questions that remain to be answered. Among other issues, it remains unclear whether the poor are ever going to progress, such that they move away from heavily relying on microfinance. It also remains unclear as to how long should the poor rely on microfinance as their major source of finance. Other unanswered issues involve probing into the extent to which Microfinance Institutions can be made to continue to be an effective tool of poverty alleviation.

The present study recommends more rigorous and comprehensive impact studies to fully determine the actual role microfinance plays in the lives of the beneficiaries. Such studies could employ econometric tools to estimate the impact of microfinance. The other recommendation for future studies is that studies like this one could be carried out in other districts. Alternatively, a research that looks at the role as well as working conditions of microfinance employees could also be undertaken. In addition, more studies could be undertaken on clients who have dropped out of microfinance as these would provide valuable source of information on how best microfinance can be provided.

In conclusion, although the current study suffers from the limitations stated above, it is believed that the overall findings of this study have not been significantly affected.

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APPENDIXES

Appendix A: Interview Questions for Key Informants

PROCEDURE FOR DATA COLLECTION

1. Introduce yourself;
2. Inform the interviewee your purpose of the study;
3. Explain why the interviewee is legible for the study and enquire if he is willing to participate;
4. Provide the interviewee with a written consent, which he/she needs to sign;
5. Fill in the form with demographic information and place in the file; and
6. Proceed with the interview.

Schedule A: Questions for employees of Microfinance Institutions
Introduction

My name is Regina Sampa and I am undertaking a research on the role of microfinance in the Sekhukhune District. This study seeks to establish the availability, the utilization and the benefit of microfinance in this district. It also seeks to come up with recommendations on how to improve the availability, utilization and benefit of microfinance. This research is for a Master of Commerce (Economics) dissertation at UNISA. The data that I will collect will be strictly used for academic purposes and confidentiality is assured.

1. Fill up the following before the interview

Age____
Gender____
Position____
Educational qualification______________________________________
Name of organization____
District____
Municipality____

2 Proceed with interview

Availability

1. When was the institution established?

   ____

2. How many clients have you reached per year in the past in the past five years?

   ____

3. Who are your clients? (Male /female/ entrepreneur/farmers?

   ____

4. What are the loan sizes?

   ____

5. State the relationship between the savings and the loan granted?

6. What form of collateral do you ask for before approving a loan?

7. Do have drawn up group lending contract for your clients? Why or why not?

8. Do you provide loans to individuals? If so what measures are taken to ensure loan recovery?

9. How do you reach your clients? Do you own you own transport?

10. **Utilization**

1. For what purpose do you provide microfinance?

2. Do you specify how the loan should be utilized?

3. What is the repayment period?

4. What are the repayment rates?

5. Do you have compulsory savings for your clients?

6. What is the minimum savings requirement?

7. Do you make a follow up on clients' loan utilization?

8. If so, what are the findings?

Benefits

1 What are challenges do you face with your clients?

2 Is there a difference in loan repayment between men and women?

3 Do you have clients that have resigned from your organisation? If so, what were their reasons for resignation?

4 How has microfinance affected the lives of your clients? Mention changes in their lives that you have observed?

5 Explain what methods you use for debt collection.

____
____
____

What other services do you offer to your clients other than loans?

____
____
____

Schedule B: Questions for Clients of Microfinance Institutions

Introduction
My name is Regina Sampa and I am undertaking a research in the role of microfinance in the Sekhukhune District. This study seeks to establish the availability, the utilization and the benefit of microfinance in this district. It also seeks to come up with recommendations on how to improve the availability, utilization and benefit of microfinance. This research is for a Master of Commerce (Economics dissertation) at UNISA.

The data that I will collect will be strictly used for academic purposes and confidentiality is assured.

Interview questions for focus groups:

1. Demographic Data

Average age____

Gender____

Average education ____

Marital Status
____

Type of occupation
____

Average income
____

Name of microfinance organization ____________________________________

District____

Municipality____

Village____-

Availability

1. How did you learn about the existence of microfinance?

2. Did you have any other sources of finance before joining your current MFI? Explain.

3. Do you borrow elsewhere other than your current MFI? Explain

4. What are your other sources of income apart from your current business

5. How many times have you borrowed from a microfinance institution?

6. What were the reasons for your borrowing?

7. What was the loan size? / How much was the loan?

8. How far do you have to travel to reach the nearest MFI?

9. Do you have to belong to a cooperative to get a loan from the micro finance institution?

---

10. Do you need to have a Savings Account to access microcredit? Do they explain why?

Utilisation

11. For what purpose did you borrow from the MFI?

____
____
____
____
____

12. For what did you use the loan?

____
____
____
____
____

13. Describe the type of house that you own?

____
____
____
____
____

14. Explain how you acquired it?

____
____
____
____
____

15. What household furniture and appliances do you own?

____
____
____
____
____

16. Describe the fuel you use. ____

17. From where do get you water supply?

____
____

Benefits

19 Do you think microfinance has assisted you?

____
____
____

20 How has microfinance assisted you?

21 If not Why not?

22 How much interest did have to pay on the loan?

23 Have you ever failed to pay off a loan?

24 What was the reason for failure to pay off the loan?

25 How has microfinance affected the following areas of your life?

A. Children's education

B. Acquiring non-land assets

C. Nutrition

D. Health care

F. Employment status

26) Could you share any challenges that you face as a result of being a client of microfinance?

27) Explain why you still want to be part of microfinance?

28) Do you know of anyone who has left the organization? What were their reasons?

29) Would you recommend microfinance to anyone? Explain

Appendix B: Letter of Introduction

DATE____________________

LETTER OF INTRODUCTION

Dear prospective participant

You are invited to participate in a research conducted by me, Regina Sampa, under the supervision of Professor Lotter in the Department of Economics and Management Science. This research is towards a Masters degree in Commerce specializing in Economics at UNISA.

The invitation you have received has been designated to study the role of Microfinance in the Sekhukhune District. You were selected to participate because you are a client of microfinance who resides in the Sekhukhune District. By participating in the interview, you agree that the information you provide may be used for research purposes. It is anticipated that the information we gain from the research will help us to identify the availability benefit the utilization of microfinance in the Sekhukhune District. You are, however, under no obligation to participate in this research. The data obtained from the interviews will be anonymised to ensure that it will not be able to connect the information to you.

Furthermore, if you choose to participate in the research, it will only take 20 minutes of your time. There will be no remuneration for participating in the interview. However, it is envisioned that the findings of this research will contribute to our understanding of the way microfinance is provided in your district.

I undertake to keep the any information provided confidential. This research has received the approval of the Department of Economic and Management Sciences at UNISA. I can be contacted on this number 0722926293. Professor Lotter can be contacted at this number 01243334676 during office hours.

Your valuable response is appreciated.

Kind regards

Regina B. Sampa

Kindly sign this letter to indicate that you accept to be interviewed by me

Signature____

Appendix C: Letter of Permission Request

59 Thabo Mbeki Street
Polokwane
0699

26/9/2016

Kgoshi Mampuru
Jane Furse
1085, Sekhukhune District

Dear Sir

LETTER OF INTRODUCTION

I, Regina Sampa, under the supervision of Professor Lotter in the Department of Economics and Management Science, would like to request for permission to conduct a research in your area. This research is towards a Master's degree in Commerce specializing in Economics at UNISA.

I have identified Jane Furse because there are several Microfinance Institutions that proved financial services to thousands of unbanked residents in your area. The information I will gain will be only for research purposes.

It is anticipated that the information we gain from the research will help us to identify the availability, benefit and utilization of microfinance in the Sekhukhune District. The participants are, however under no obligation to participate in this research. The data obtained from the interviews will be anonymised to ensure that it will not be able to connect the information with any participant.

Furthermore, if they choose to participate in the research, it will only take 20 minutes of their time. There will be no remuneration for participating in the interview. However, it is envisioned that the findings of this research will contribute to our understanding of the way microfinance is provided in your district.

I undertake to keep the any information provided confidential. This research has received the approval of the Department of Economic and Management Sciences at UNISA. I can be contacted on this number 0722926293. Professor Lotter can be contacted at this number during office hours.

Your valuable response is appreciated.

Yours faithfully
Regina B. Sampa

Appendix D: Permission to Conduct Research

59 Thabo Mbeki Street
Polokwane, 0699

11/6/16

The CEO
Phakamani Foundation
Po Box 4556
White River, 1240

Dear Sir

RE: PERMISSION TO CONDUCT RESEARCH

I would like to obtain approval to conduct research in your organization under the supervision of Professor Lotter in the Department of Economics and Management Science. This research is towards a Masters degree in Commerce specialising in Economics at UNISA. Your Microfinance Institution was selected because it provides microfinance services in the Sekhukhune District in Jane Furse area.

The research involves interviewing some of your clients and employees and the results thereof will be used only for research purposes. It is anticipated that the information we gain from the research will help us to identify the availability benefit the utilization of microfinance in the Sekhukhune District. However, your clients and employees are under no obligation to participate in this research. This interview will be anonymous, meaning there will be no way of connecting the information to them. Furthermore, if they choose to participate in the research, it will only take 20 minutes of their time. There will be no remuneration for participating in the interview. However, it is envisioned that the findings of this research will improve the way microfinance is provided to alleviate poverty in your district.

I undertake to keep the any information provided confidential. This research has received the approval of the Department of Economic and Management Sciences at UNISA. I can be contacted on this number 0722926293. Professor Lotter 0833021593 can be contacted at this number during office hours.

Your valuable response is appreciated.

Kind regards
Regina B. Sampa

This is a follow up to the last telephone conversation we had regarding my research on the role of microfinance in the Sekhukhune District. I hereby guarantee the following

1) You will be allowed to read the final report before it is published
2) Your will be allowed to have a say should you not agree with some findings or contents of the final report
3) Should the results be negative, I will publish the results, but the name of your organization will remain anonymous.

I thank you for your co-operation.