The London School of Economics and Political Science

Banking on the Poor: Savings, Poverty and Access to Financial Services in Rural South Africa

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Declaration

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Abstract

Microfinance has gained prominence as a policy option for addressing poverty. Although microfinance has a long history, its growing appeal is usually associated with the attention given to the Grameen Bank of Bangladesh, which pioneered group-based lending to poor women. Following the 'successes of Grameen and the promotion of 'cloned' institutions, advocacy for microfinance has focussed primarily on microcredit. Consequently, microfinance as savings, insurance, and other forms of financial intermediation received far less attention. It was believed that microcredit was a more reliable and faster means to achieve poverty reduction, especially through supporting the entrepreneurialism of the poor. Microcredit then became a mantra of the microfinance sector, increasingly identified as its 'raison d'être' and the justification for the investment of billions for dollars.

This thesis focuses on the relationship between microfinance and poverty. It puts savings at the centre of the research through an analysis of a savings-led financial services co-operative known as the 'Village Banks' in South Africa. The research considers the asserted link between microfinance and poverty from both a theoretical and empirical interrogation. It questions the limited engagement that the microfinance literature has had with the various theories on poverty and attempts to formulate a more nuanced understanding of relations between the two.

The empirical contribution is a mixed method of qualitative analysis, in the form of focus groups held in four different Village Bank communities, and quantitative analysis from an original panel of households in one community. The thesis argues that a savings-led model of microfinance has the ability to contribute to the challenges of poverty reduction more than is currently acknowledged. It will also argue that, when provided with the necessary support, member-owned financial institutions, such as the Village Banks, offer a potential solution to addressing the inherent challenges of providing low-cost banking services in rural areas.

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Acronyms and Abbreviations

AIMS	Assessing the Impact of Microenterprise Services (a USAID project)
ASCA	Accumulating Savings and Credit Associations
ATM	Automatic Teller Machine
BEE	Black Economic Empowerment
BKD	Badan Kredit Desa
BRAC	Bangladesh Rural Advancement Committee
CB	Commercial Bank households (a stratum in the empirical section)
CGAP	Consultative Group to Assist the Poorest
DESA	Department of Economic and Social Affairs
DfID	Department for International Development
DRA	Development Research Africa
EA	Enumerator Area
FINCA	Foundation for International Community Assistance
FSA	Financial Services Association
FSB	Financial Services Board
GDP	Gross Domestic Product
GNP	Gross National Product
HDI	Human Development Index
HIV/AIDS	Human Immunodeficiency Virus / Acquired Immune Deficiency Syndrome
HSBC	Hong Kong and Shanghai Banking Corporation
HSRC	Human Science Research Council
IA	Impact Assessment
IDS	Institute for Development Studies (University of Sussex)
IFAD	International Fund for Agricultural Development
IFPRI	International Food Policy Research Institute
ILO	International Labour Organisation
ING	Internationale Nederlanden Groep
KIDS	KwaZulu-Natal Income Dynamics Survey
K-REP	Kenya Rural Enterprise Programme
KZN	KwaZulu-Natal (Province of South Africa)
LSM	Living Standards Measure
MFI	Micro Finance Institution
MFO	Micro Finance Organisation

MOI	Member-owned Institution
NGO	Non Government Organisation
NASASA	National Stokvel Association of South Africa
PAT	Poverty Assessment Tool (CGAP)
RCT	Randomised Control Trials
ROSCA	Rotating Savings and Credit Associations
RSA	Republic of South Africa
SALDRU	South African Labour and Demographic Research Unit (UCT)
SAMAF	South African Microfinance Apex Fund
SA-PPA	South African Participatory Poverty Assessment
SACCO	Savings and Credit Cooperative
SASI	South African Savings Institute
SHG	Self Help Group
SMME	Small, Medium and Micro Enterprises
UB	Unbanked households (a stratum in the empirical section)
UCT	University of Cape Town
UN	United Nations
UNDP	United Nations Development Programme
USAID	United States Agency for International Development
VB	Village Bank households (a stratum in the empirical section)
VSLA	Village Savings and Loan Associations
WHO	World Health Organisation

Currency Values are first presented in South African Rands (ZAR) followed by their conversion to US Dollars. As the ZAR/USD exchange rate has been subject to significant fluctuation, calculations have been made based on the average for the relevant year. Below is a list of the exchange rates used in the thesis.

One Dollar equivalent in South African Rand

1996	4.30
1999	6.11
2000	6.93
2001	8.60
2002	10.50
2003	7.54
2004	6.42

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Preface

> "... the principle which prompts us to save is the desire of bettering our conditions, a desire, which though generally calm and dispassionate, comes with us from the womb, and never leaves us till we go to the grave."(Smith 1801, pg.111)

This thesis is about microfinance and it is about poverty. Its origins were inspired by two particular sources, one theoretical and one applied. The applied source was an introduction to Village Banks – a financial services co-operative operating in South Africa, made up of individual banks that are wholly owned by community members. My curiosity was sparked by the notion of a community owning a bank – I was sceptical and I wanted to understand if it could work. I was curious too about the fact that Village Banks was a savings-led financial institution which appeared to run counter to the preferred institutional models described in the microfinance literature, which are predominately credit-led. Village Banks seemed to be doing something different. I wondered therefore what implications a savings-led microfinance method might hold for the reduction of poverty.

My interest in development has always been framed by the context of poverty; how poverty is understood, how it is defined and measured, and how our understanding of poverty drives particular policy choices. The microfinance movement has long espoused its contribution as a 'poverty fighting' instrument. Given the overwhelming dominance of credit over other forms of microfinance (savings and insurance), the conclusion one might draw from the literature is that "access to credit = reduction in poverty". But what about savings? Does access to savings also reduce poverty? Why is microfinance biased towards credit? How does the microfinance industry define poverty and how does it make causal links with credit? Might access to savings have a greater impact on poverty reduction compared with credit, as it does not include the additional risk and burden associated with debt?

The theoretical inspiration for this thesis was drawn from the work of Stuart Rutherford and a very short but profound essay published in 2000 entitled 'The Poor and their Money'. Based on his observations of working with poor people in the slums of Dhaka for over 20 years, Rutherford argued against promoting access to credit for the specific purposes of microenterprise development. Instead, he argued that what poor people need is access to amounts of money greater than their usual (small) income streams which he termed "usefully large lump sums" (Rutherford 2000a, pg.1). The need for such lump sums arises

from three main sources: *life-cycle events* such as births, deaths, marriages and education; to protect oneself against *risk*, i.e. emergencies such as ill-health, death or loss of assets; and to respond to *investment opportunities,* such as being able to purchase an asset or start/expand a business. Rutherford argued that savings is the most beneficial way for poor people to gain access to such 'usefully large lump sums'.

If one considers Rutherford's line of reasoning, it becomes apparent that the need for access to financial services for poor people is no different to the needs of the 'non-poor'. When they can, people save for the birth of a child, for marriage, for death and for education (we also borrow money for the same purposes). Many people have short-term and/or long-term insurance policies to protect against loss of property, ill health and death. And we also access finance, usually credit, to purchase large assets and to run businesses. Despite different positions on the 'income/wealth' spectrum, people's needs seem fairly universal. The main difference is the use of the word 'micro', which becomes a prefix for signalling the size of the transactions. Unlike Rutherford's advice to focus on 'usefully large lump sums' microfinance institutions tend to stress – and seemingly identify a virtue in – providing very small sums, although the eventual debt can mount up to many multiples of income. I began to feel uncomfortable at how the 'world of microfinance' had transported us to a world in which 'the poor' are identified as needing different and special attention. But if the life stressors faced by the poor are similar to those of all people in principle, notwithstanding that the consequences of these stresses might be significantly different, then would the poor not benefit from enhanced mechanisms to save, as well as access to instruments to borrow?

The motivation for the research therefore is to question the perceived bias towards credit in the delivery of micro-financial services and to advocate for greater emphasis on savings. I suggest that an enhanced understanding of the relationship between savings and poverty is needed. The research explores how savings might theoretically reduce poverty and the means and extent to which this capability can be supported empirically. The Village Banks, a community-owned and savings-led financial institution which makes savings facilities available in poor, rural areas, of South Africa seemed to offer the ideal case study for this purpose.

The research is framed by two questions:

1. To what extent is the Village Bank model of a member-owned financial institution a viable mechanism for addressing the challenges of providing low-cost banking services to the poor? And more specifically:
    a. How does the membership structure assist with this process; and to what extent is Village Bank governance and members' sense of 'ownership' important to sustainability and effectiveness?
    b. What socio-economic benefits arise from participation and what importance do members place on being able to save?

2. What is the relationship between the utilisation of financial instruments (namely savings and borrowing) and the developmental outcomes achieved by households?
    a. What role do savings play in helping households to acquire assets, secure livelihoods and reduce vulnerability?
    b. To what extent have Village Banks contributed to assisting households in these terms?

The thesis presents data from a case study of four remote, rural communities in South Africa, examining the relationship between households, poverty, financial instruments, and a member-owned Village Bank. It reveals that savings play a crucial role in the day-to-day survival tactics of these households, especially in relation to how assets are accumulated and how negative shocks are managed. Despite challenges faced by the banks during the period of field research, which are captured both in the qualitative research and a longitudinal panel data set, the analysis indicates that the relationship between member households and poverty was positive but weakening over time.

Thesis Outline

The First Chapter starts with a review of the literature on microfinance, commencing from the 1950s, long before the Grameen Bank came into existence. The pertinent themes of poverty, savings, credit, gender and institutions are examined according to how they are addressed by two broad approaches to microfinance that have been identified. The chapter considers the main lines of argument for each approach for the purpose of presenting how they make underlying assumptions about the relationship between

microfinance and poverty, which in turn influences policy and practice. The chapter also provides a detailed discussion on member-owned institutions and considers the role that governance, democracy and ownership play in creating sustainable institutions.

The Second Chapter then delves into the discourse on poverty, from the perspective of poverty theorists. Seven contemporary theories on poverty are presented, with each theory interrogated on how, if at all, it engages with the microfinance literature. The microfinance literature is then recast within this poverty discourse, and consideration is given as to how and where these two fields coincide. The themes of risk and vulnerability, coping with shocks, building asset portfolios and stabilising consumption within the household are examined, with a particular interest in how financial instruments may assist.

From the Third Chapter the focus is narrowed from universal debates to a specific focus on South Africa. To provide context to forthcoming empirical chapters, an outline of both the salient features of poverty within the country, and the main attributes of the financial services sector is provided. The Fourth chapter discusses ontological and epistemological position of the thesis and presents the research purpose, questions and design. This is followed by a description of the banks visited and of the data collection process.

Chapter Five presents the findings from original qualitative research (focus groups) which were undertaken with members in four rural communities (all in different provinces). The research seeks to explore the 'democratic' nature of these banks, and to what extent having a safe, affordable savings facility nearby has impacted on members' quality of life. Chapter Six presents data from a longitudinal panel of households, which was collected two years apart, in one of these communities. The purpose of the quantitative research is to present a picture of 'poverty lived' and to explore the extent to which various financial instruments (formal/informal and savings/debt) assisted in their daily struggle.

Chapter Seven draws together the main themes and positions presented in the various chapters to form some concluding remarks on the precarious and complicated relationship between savings, poverty and access to financial services in rural South Africa.

Chapter 1 The Evolution and Development of Microfinance

Microfinance has risen dramatically up the development agenda in recent years. A zealous campaign, drawing from rock and movie stars, royalty, heads of big banks and politicians have raised microfinance to levels of popularity and 'cool' rarely attained by development instruments. The high-point of microfinance's profile was reached in 2005, which was declared the 'International Year of Microcredit' by the United Nations and 2006 when Professor Muhammad Yunus and the Grameen Bank were awarded the Nobel Peace Prize. The launch of the International Year of Microcredit at the United Nations Headquarters in New York, included laudatory speeches from the then Secretary General, Kofi Annan and Princess Mathilde of Belgium, Spokesperson of the International Year of Microcredit, among others (United Nations 2005a). Indicative of the tone, a statement by Mark Malloch Brown, Co-chair of the Coordinating Committee, noted:

> "Nobody in this room needs reminding that microfinance is helping transform the lives of millions of people .... microfinance has a vital and central role to play in achieving the Millennium Development Goals, particularly the overarching aim of halving poverty and hunger in our world by 2015". (Malloch Brown 2004 pg.1).

The potential of microfinance according to the Nobel Peace Prize committee was even greater. It noted:

> "Lasting peace cannot be achieved unless large population groups find ways to break out of poverty. Microcredit is one such means…. Microcredit has proved to be an important liberating force in societies where women in particular have to struggle against repressive social and economic conditions. …. Yunus's long-term vision is to eliminate poverty in the world. That vision cannot be realised by means of micro-credit alone. But Muhammad Yunus and Grameen Bank have shown that, in the continuing efforts to achieve it, micro-credit must play a major part". (Norwegian Nobel Committee 2006).

Described by *The Economist* as "The start of something big" (Easton 2005 pg.2) microfinance had become, moreover, more than a 'big idea', it was also beginning to capture significant quantities of 'development' finance and to influence national policy. According to the Consultative Group to Assist the Poorest (CGAP), a global microfinance resource centre representing 31 bilateral, multilateral and private donors, billions of dollars are committed annually to microfinance (CGAP 2005). Unlike most development ideas,

and especially those that are targeted at the poorest and at the grassroots, microfinance is not the sole domain of donors and not-for-profits. Some of the world's largest financial companies are involved, including Citigroup, Deutsche Bank, HSBC, ING and ABN Amro (Easton 2005). The trend is not only the downward shift of big banks into grassroots areas, but the Initial Public Offerings of two major microfinance institutions – Compartamos from Mexico in 2007, and India's SKS in 2010, has now blurred the boundaries between these previously divergent arenas (CGAP 2010).

For many years, microfinance was almost immune from criticism. Even the idea of criticism received short shrift and critics were cast as unhelpful and deliberately oppositionist (Bateman and Chang 2009). In the past few years, however, a more reflective stance has been taken to microfinance. In many ways these reflections indicate uncertainty rather than overt critique and, rather like the arguments in favour of microfinance over the preceding decades, lack empirical validation. Edging toward a more cautious tone, the State of Microcredit Campaign Report in 2007 noted: "While we know that microcredit is not a panacea, it is still one of the most powerful tools we have to address global poverty" (Microcredit Summit Campaign 2007 pg.3). An uncharacteristic note of caution also came from CGAP that observed:

> "For now, it seems an honest summary of the evidence to say that we simply do not know yet whether microcredit or other forms of microfinance are helping to lift millions out of poverty". (Rosenberg 2010 pg.3)

Other more critical assessments of microfinance are now appearing and gaining an audience. According to Bateman (2011) microcredit's potential as a development and poverty reducing policy is highly questionable, especially its ability to promote growth and profitable enterprises. In the words of Harper "... the impact of microfinance, for good or for ill, is exaggerated. It is no more than second-rate retail banking for people who cannot afford relatively decent services" (2010 pg.1).

In order to appreciate how such a large 'microfinance industry' emerged and the form this took, it is helpful to understand its genesis. This chapter is structured in three parts. The first offers an historical examination of the trends and developments in 'microfinance' – although it should be noted that the term did not enter common usage until the 1990s -

from the 1950s to the present day.[1] This discussion is organised around three main periods: the early years of the 1950s to 70s, consolidation during the 80s and 90s, and the point of departure for this thesis: microfinance in the 21st century. The rationale is to acknowledge the importance of understanding the present through appreciating the past. It is evident that some issues and concerns actually predated the emergence of the Grameen Bank, and still remain unresolved today, whilst emerging debates and contentions also demand interrogation and response. The second part of this chapter examines key themes within microfinance, namely poverty, savings, credit, gender, interest rates, and formal and informal institutions. It proposes two broad approaches to microfinance around which most literature gravitates and examines how these viewpoints approach these critical themes. The third part introduces member-owned institutions in more detail, describing their various formats and main challenges.

1.1 Review of the Literature

There has been a long-standing interest in the social sciences of how people engage with money and the cash economy (see Parry and Bloch 1989). Thus, although many claim that microfinance first began in the 1970s with the advent of the group lending methodology and the Grameen Bank, research on lending to the poor, especially farmers, dates back to at least the 1950s. The initial focus was on the rural sector, how it could be developed and how it could provide the necessary surplus to facilitate industrialisation (Lipton and Ravallion 1995). Accordingly, the focus was on the provision of subsidised rural credit. Concern later turned to welfare and basic needs, and on the social organisation of communities and their ability to stave off crises of income and consumption. We observe at this point greater attention to the informal sector, the household and especially to the role of women. Finally, there has been increased interest in development generally and in terms of microfinance specifically toward poverty alleviation and support for microenterprises.

[1] Although this 'historical' review commences in the 1950s it is acknowledged that banking facilities to serve the poor can be dated back to the 18th century in Germany and Ireland. This will be discussed in more detail in the third section of this thesis. See Seibel (2005).

1.1.1 In the Beginning: the 1950s to 1970s

During the 1950s to 1970s, interest in microfinance came mainly from two distinct disciplines. The first source of interest was from agriculturalists who were interested in the management of financial resources of impoverished farmers and in particular how to improve access to credit to increase yields. A landmark study was conducted in India by the Reserve Bank known as the All-India Rural Credit Survey which revealed that the local moneylender was the predominant source of rural credit but his practices worked against the best interests of the farmer and were considered 'anti-developmental' (Ayyar and Ramaswami 1956). An important contribution to the literature, and still heavily cited, was an analysis of interest rates undertaken by Wai (1957), who considered non-institutional sources of agricultural and rural credit to be the main determinants of the cost of credit. His main area of concern was the high rate of interest charged by informal moneylenders.

Momentum on the interest rate debate continued into the 1960s with a number of important publications by Bottomley, (1963a; 1963b; 1964a; 1964b; 1964c) whose research extracted the component costs involved in determining interest rates, including administration and opportunity costs, risk, and monopoly profit. Despite Bottomley's identification of monopoly profit among rural moneylenders the formal banking system seemed unable to extend services and/or meet the needs of the local population: see Amogu (1956) for a discussion of Nigeria. Instead, as Gamba (1958) argued on the basis of research in Malaya on links between savings, poverty and capital formation, the only means to ensure that poverty could be tackled in Asia was for capital investment to be facilitated either through local savings or foreign assistance. The response of governments and donors was to replace the money lender through the provision of formal credit facilities via banks and co-operatives.

The second source of interest came from anthropologists who documented the means by which indigenous people interacted with money. Anthropologists were interested in the way in which poor people formed clubs to help manage their cash resources. These clubs, later termed 'Rotating Savings and Credit Associations' (ROSCAs) by Ardener (1964), were found to exist in countries throughout the developing world. Reining (1959) undertook research on the Azande people in Central Africa, considering how they adapted to the monetisation of their local economy. The period also saw continued calls for the formulation of institutionalised finance (Gersdorff 1960) in the rural sector, again for the purposes of replacing the local moneylender and strengthening the sector in general. A

publication entitled “Capital, Savings and Credit” by Firth and Yamey (1964), however, criticised anthropologists and economists for failing to synchronise their joint interest in understanding the operations of households and communities and how they interacted with economic institutions. Even so, research described the many non-monetary means by which households save money (Dewey 1964), as well as continued discussion on the role of household savings and economic development (Kelley and Williamson 1968). One of the earliest publications that considered the issue of entrepreneurship amongst indigenous populations and the role of access to credit was Geiger and Armstrong’s 1964 study. This appeared to be the first time that the non-rural sector received any focused attention.

The 1970s witnessed continued interest in ROSCAs but a shift from an emphasis on describing activities to greater study of their relationship to poverty. In the course of the decade research considered the merits of informal credit versus formal/institutional credit (Nisbet 1971; Ghatak 1975; Lipton 1976; Wells 1979). Consideration of interest rates also continued, with discussions dominated by economists who attempted to formulate models that would explain the high interest rates found in rural areas (Ghatak 1975). The broad concept of ‘rural credit’ dominated policy makers’ minds. Some publications took the form of evaluations, assessing whether applied institutional credit programmes were working (Colyer and Jiménez 1971; Bardhan and Rudra 1978; Wells 1978a; Wells 1978b). Other authors criticised the idea of subsidised interest rates that most of these programmes were applying (Adams 1971; Datey 1978; Ladman and Adams 1978), whilst others attempted to measure the size of credit uptake and whether or not it met demand (Harvey 1975; Nweke 1978).

A growing body of literature emerged dedicated to the topic of ‘savings’. A number of authors expressed concern about the development of a banking system to facilitate savings (Bhattacharyya 1971; Ruozi 1973; Masini 1977; Mottura 1977), others considered the relationship between savings and the development of the national economy (Mauri 1972; Mikesell and Zinse 1973; Nijhawan 1975; Masini 1977) and a further group focused primarily on savings at a household level (Dell'Amore 1977; Adams 1978; Bhalla 1978; Delancey 1978; Hyun, Adams et al. 1979). Contributions from Mauri (1977) and Masini (1977) take a slightly different tactic and consider the relationship between households and the banking sector. Mauri starts with the premise that development can only take place through capital formation – that capital formation is a combination of savings, finance and investment, and that, with the exception of foreign investment, all savings essentially

originate from households. Therefore the mobilising of household savings into investment is the basis of all forms of development and that the key role of a banking system is to act as an intermediary in this process. Masini argued that banks in developing countries should be assigned the tasks of drawing household savings into the credit system, transforming the condition of household savings, financing production and enhancing the efficiency of the economic sector.

Finally, discussion also focussed on the appropriate organisations, their structure and reach to poorer groups. Publications proliferated on development banking and the role of central banks. Views came from both the top down – central banks and how they serve the economy - and from the bottom up on how the banking system should serve households. Furness (1975) provided an introduction to the various layers of a banking system and how they differ in a developing country, compared with a developed country. Bhattacharyya (1971) confirmed the viewpoint that the role of a central bank in a developing country goes beyond that of maintaining prices – through monetary policy, and exchange stability, and extends to the role of facilitating economic growth – primarily through monetary expansion.

Discussions on co-operatives also started to appear with publications testing the relationship between access to co-operative credit and agricultural output (Hunt 1972; Kainth 1979), the ability of co-operative banks to have better outreach compared with commercial banks (Hope 1975) and the relationship between management and leadership and the likelihood of a successful co-operative scheme (Delancey 1977).

1.1.2 Gaining Traction: Microfinance Research in the 80s and 90s

The initial development decades of the 1950s, 60s and 70s regarded the poor as members of male-headed, small-farmer, households. Accordingly, poverty reduction was to be achieved through the provision of subsidised credit to the archetype ‘peasant farmer’. However, by the 1980s, there was a growing awareness that the poor were disproportionately female who, moreover, had little or insecure access to land or any surplus. Economic change would come now through microenterprises, obliging a rethink regarding microfinance which shifted focus to the subject of entrepreneurship (Matin, Hulme et al. 2002). Discussions adopted a gendered approach with specific consideration being given to the needs of women and how microfinance might contribute to their

empowerment (Berger 1989; Jiggins 1989; McKee 1989).[2] Hashemi et al. (1996) examined the effects of the Grameen Bank and the Bangladesh Rural Advancement Committee (BRAC) and found them both to have an empowering affect on women (also Ackerly (1995). Findings from econometric analysis of data demonstrated a greater household consumption expenditure from women participants compared with men (Pitt and Khandker 1998). Mayoux (1995; 1999), however, was less positive and more doubtful of the ability of microfinance to be an effective vehicle for gender empowerment.

The different mechanisms for which financial services existed now started to be identified as either 'informal' or 'formal'. Rather than being discussed separately, as a mutually exclusive phenomena, authors started to consider the two in relation to each other, which was also a trend in other areas of development research and policy. A number of writers began to acknowledge the limited effect formal financial systems were having in reaching the poor and appreciating the size and extent of the informal sector (Miracle, Miracle et al. 1980; Holst 1984; Ligeti 1984; Bouman, Bastiaansen et al. 1989). The issue of formal versus informal was to gain even more momentum during the 1990s when academics started to realise that the indigenous mechanisms that the poor adopt should warrant much closer attention (Bouman 1990; Kashuliza 1993). The lines of contention were that:

- Donors have neglected to understand existing indigenous practices surrounding savings and credit and should redesign their programmes accordingly (Shipton 1990).
- The actual size of the informal sector and how it interacts with the formal sector needs to be better understood, especially how it may influence the effectiveness of existing monetary and financial policies (Ghate 1992).

The resulting outcome was an increase in the perceived legitimacy of the informal sector, something that rural credit sector was still struggling to obtain.

The delivery of rural credit as a topic of research adopted a different focus, largely as a result of a group of academics from the University of Ohio who examined the efficacy of subsidised rural credit. Their argument was that subsidised credit had suffered three decades of high default rates and a general inability to reach those agencies it wished to target. The team, which also included members from the World Bank and later became known as the Ohio School, advocated that the practice of subsidising credit was the

[2] Although many studies made no attempt to distinguish between the gender of their clients (Bayda, Meyer et al 1994; Christen, Rhyne et al. 1995; Dunn 1996).

primary cause of the general widespread failure of rural financial institutions (Adams and Graham 1981; Von Pischke, Heffernan et al. 1981; Adams, Graham et al. 1984a; Adams and Vogel 1986; Adams 1988; Von Pischke 1989). In particular, they argued that viewing credit as a farming input rather than a product of financial intermediation was one cause for failure. They claimed that traditional assumptions regarding poor households such as their high sensitivity to interest rates, an inability to save in a liquid form, that lender behaviour can be controlled via nationalising banks that the informal sector does not produce any social benefits and that cheap credit helps the poor, were unfounded. Motivations behind providing subsidised credit were also found to be politically driven and in many cases the larger, wealthier farmers benefited most. Their views began a controversial and still unresolved debate on the merits of subsidies versus sustainability.

Microfinance and how financial systems operated in developing countries was starting to gain widespread attention.[3] The 1980s closed with the World Bank dedicating the 1989 World Development Report to 'Financial Systems and Development'. The Report made mention of the large-scale failure of financial institutions, which they blamed on the control of interest rates, targeting of credit to priority sectors (i.e. rural) and the securing of inexpensive donor credit to finance such initiatives. The report made numerous, predominantly macroeconomic, recommendations on how to remedy these problems, including a focus on macroeconomic stability, more robust regulatory, accounting and financial systems, and greater disclosure of financial information and enforcement of lender's rights. By doing so, it was argued, a more balanced and robust financial structure should emerge that will help facilitate the ability of the domestic financial system to promote growth (World Bank 1989).

The Grameen Bank also came on the scene during the 1980s. In the wake of many failed attempts, the development sector could now highlight a model of success from, importantly, one of the world's poorest countries. Founded as an action research project in 1976 by Mohammed Yunus at Chittagong University, the bank implemented a unique method of distributing credit via a group liability approach (Yunus 2003). Also unique was its particular targeting of women, the lack of focus on farmers or farming per se, and the

[3] The terminology "microfinance" was first coined in 1990 by Seibel (2005) who defined it as the sphere of finance that comprised of microcredit, microsavings and other microfinancial services. He saw it as a synonym for the intermediation between microsavers, microborrowers and microinvestors. He considered it to include formal and informal, large and small financial institutions.

setting of interest rates close to market levels. Initial evaluations reported a wide outreach, low default rates, and financial sustainability (Hossain 1988; Meyer and Nagarajan 1988). The following decade saw a number of attempts to replicate the model, especially in terms of the group-based method which was seen as a means for containing moral hazard and adverse selection.[4] Grameen-style methods, sometimes referred to as 'clones', were extended in many developing countries and formed part of an incipient 'model' for microfinance institutions as development agencies and NGOs became ever-more enthusiastic about transferability of 'good practice' and replicability. The Grameen clones received broadly positive evaluations from Huppi and Gershon (1990) and Wenner (1995) (although failed attempts at replication were reported by Ladman and Afcha (1990), Woolcock (1999) and Reinke (1998). Moreover, based on research in Malaysia, Malawi and Sri Lanka, it was argued that the success of replication had less to do with lending policies and more to do with management and organisational structure (Hulme 1990; Jain 1996). A number of authors, but especially Rahman (1999), raised concern that the high repayment rates on microfinance – usually trumpeted as a virtue of the approach – were achieved with coercive tactics.

In sharp contrast to government efforts to make financial services more accessible to the poor, which even involved legislating for the presence of commercial banks in rural areas, despite continued research demonstrating their high cost structure, regulated and inflexible products, and perceived inapproachability by the local population (Wells 1981; Anyatonwu 1983; Feinberg and Kallab 1984), institutions such as Grameen, BRAC (Chowdhury, Mahmood et al. 1991), BancoSol of Bolivia, Bank Rakyat (BRI) and Badan Kredit Desa (BKD) of Indonesia, the Foundation for International Community Assistance (FINCA), and the Kenya Rural Enterprise Programme (K-REP) (Christen, Rhyne et al. 1995) appeared to offer a better approach.[5] In addition to tracing a growing number of high-profile institutions, some statistics on the size of the microfinance sector became available. A postal survey administered by the World Bank and distributed to nearly 1 000 institutions was undertaken in September 1995. Based on the findings from the 206 institutions that responded, seven billion dollars in loans to over 13 million individuals were outstanding,

[4] Group schemes, the implications for moral hazard and potential for social capital, drew attention from economists who attempted to create econometric models to explain the phenomena (Stiglitz 1990). Econometric models of ROSCAs attempted to reveal how they assist households in accumulating consumer durables (Besley, Coate et a. 1993; Besley and Levenson 1996); their insurance role (Calomiris and Rajaraman 1998); the efficiency of random and bidding ROSCAs (Kovsted and Lyk-Jensen 1999); transaction cost efficiencies (Handa and Kirton 1999); and the determinants of participation (Kiko Kimuyu 1999).

[5] The 'success' prompted some researchers to suggest that the poverty-alleviating capacity of microfinance could be replicated in developed countries such as the US and Canada (Wahid 1994).

along with $USD19 billion which was mobilised in 45 million active deposit accounts. Non-government organisations represented over half of the institutions surveyed (World Bank 1996).

One important trend, which would shape some of the defining issues of microfinance in the 21st Century, emerged at the beginning of the 1990s. The poor, it was argued, should be seen as commercial clients rather than as beneficiaries (Jackelen and Rhyne 1991). This move towards a ‘financial systems approach’ involved offering financial services to the poor in the same manner that financial systems also do elsewhere – with a market perspective that understands the needs of the clients and designs products accordingly; an acknowledgement that savings is as important as credit; and the imperative that financial institutions are also sustainable. This approach was described as a:

> “... clear departure from the assumptions behind the vast majority of microenterprise programmes financed by donors and governments during the 1970s and 1980s” (Rhyne and Otero 1992 pg.1561).

Moreover, as Murdoch (1999a) argued, the effective subsidy of $25-30 million to banks such as Grameen meant that potential new institutions were unable to compete.

Finally, the attention to microfinance during this period saw increasing interest in the relationship with poverty and poverty alleviation. Although few studies provide detail on how poverty is defined and measured, and how changes in poverty should be tracked, the consensus was growing that the real issue was poverty – whether of the rural male farmer, the urban female street trader, or the household in general. The question was whether or not microfinance could make a difference (Holt and Ribe 1991; Wright 1997; Zaman 1999). The publication of ‘Finance against Poverty’ in 1996 provides one of the first assessments of measuring this relationship. In assessing the effectiveness of innovative programmes in influencing poverty outcomes, ‘reductionist’ income-poverty measures as well as ‘holistic’ vulnerability and deprivation measures were applied. It was found that income approaches lead to policy conclusions of a ‘promotional’ focus, whilst entitlement/vulnerability perspectives lead to policy recommendations of a ‘protectionist’ tactic. The authors conclude that the inability of most microfinance schemes to have a significant reduction in poverty is due to their manner of treating the poor as homogenous and their focus on promotional strategies of rigid loan disbursement rather than more diverse savings and credit services (Hulme and Mosley 1996).

1.1.3 Point of Departure: Microfinance in the 21st Century

At the beginning of the 21st century an influential essay by Stuart Rutherford entitled "The Poor and their Money" illustrated the many and varied ways in which poor people manage their money. Other than providing a detailed description of mainly informal mechanisms, including deposit collectors, savings clubs, ROSCAs and funds, Rutherford presented a new paradigm for understanding the relationship between savings and credit. Referring to 'saving up' and 'saving down' he graphically illustrated how credit, which involves receiving a larger lump sum payment up front, and is offset by repayments in the future, is essentially the inverse of savings, which involves putting aside smaller payments now to enable the drawing of a larger lump sum in the future. A similar parallel is drawn with insurance which is also described as the setting aside of smaller payments now to enable the drawing down of a lump sum at some unspecified time in the future. Rutherford went on to illustrate more sophisticated variations of this practice (2000a).

Although Rutherford's treatise is uncomplicated, he presented perhaps one of the most holistic and intuitive exposés on how poor people view and manage their money, and therefore how we might understand their basic financial service requirements. Although Rutherford's work was the foundation for a paradigm shift in how microfinance could be understood, it took nearly a full decade for this to be properly appreciated. The publication of "Portfolios of the Poor: How the World's Poor live on $2 a Day" (Collins, Morduch et al. 2009) provided the first empirical evidence to support and demonstrate Rutherford's theories. Research was undertaken in South Africa, Bangladesh and India, and was based on a 'financial diaries' method, which involved visiting households once a fortnight to collect data on all household financial transactions. It confirmed Rutherford's theories by finding that households are active money managers who draw upon a large number of financial instruments to assist them in their daily struggle to smooth consumption and access useful lump sums.

This alternate hypothesis underpins one of the growing themes of discussions that Jackelen and Rhyne referred to in 1991. The provision of microfinance to the poor must go beyond just credit and a 'one size fits all' assumption to offering more flexible services which better fit the needs of this diverse group (Matin, Hulme et al. 2002; Meyer 2002; Ruthven 2002). In line with a changing view of microfinance 'beneficiaries' to microfinance 'clients', the discourse also moved beyond just referring to 'services' to include rarely used terminology such as 'products', 'product development', 'marketing' and 'market research'

(Woller 2002a; Wright 2003). This tactic would also entail identifying more specific market segments or target markets which are composed of identifiable clients with specific needs or potential demands (Kalala and Ouedraogo 2000).

It was argued that market research and improved product development that is demand-driven should be the key focus of microfinance (Cohen 2002; Meyer 2002; Wright 2003). Other suggested product features included flexible repayment schedules, variable loan sizes and differential loan pricing (Meyer 2002). Additionally, products that are able to assist households to secure savings; mitigate against risk; and build personal, social, business and consumption assets, would also be highly desirable, especially if they are delivered in a format that is convenient, appropriate, safe and affordable (Hickson 2001; Matin, Hulme et al. 2002).

Understanding the role of risk and how it impacts on the poor is a concern which also grew in prominence. Churchill (2002 pg.382) made specific mention of the need for 'risk-managing financial products', which should be made available in one of three formats – a) liquid savings, b) emergency loans, and c) micro-insurance for death, illness, disability and theft. The issue of micro-insurance, one of the three main microfinance commodities, finally began to emerge as a dedicated field of research (Ebony Consulting 2001; Churchill 2002; Mosley 2003). Although, very little is understood of the actual demand for this 'missing third' of microfinance (Zeller and Sharma 2000 pg. 143), the limited research that has been undertaken on micro-insurance does show that the lack of protection of assets during a time of shock can be a source of significant stress (Cohen and Sebstad 2005), whilst access to micro-insurance contributed greatly to the peace of mind for clients (Mosley 2003).

Many researchers have also argued that in the absence of access to suitable micro-insurance products, savings deposits serve as one of the most important alternatives to help the poor mitigate against negative income shocks and losses. This in turn reduces vulnerability and can help reduce poverty. Savings can also play a vital role in helping people smooth consumption, allowing them to set aside money when there is a surplus and draw down on this when there is a shortage (Rutherford 2000a; Churchill 2002; Matin, Hulme et al. 2002; Kaboski and Townsend 2005; Weiss and Montgomery 2005; Kapoor 2007; Christen and Mas 2009).

Savings also has an important role in helping households achieve certain priorities such as paying school fees, participating in important lifecycle events (marriages, funerals, religious festivals etc.) and responding to investment opportunities if and when they arise (Rutherford 2000a; Matin, Hulme et al. 2002; Allen 2007). Research in India found that amongst the members of SEWA (Self-Employed Women's Association), longer-term members, who held savings accounts, and who had greater earnings shares to total family income, also experienced much lower stress levels, than members who did not (Noponen and Kantor 2004). Another study, also undertaken in India, which sought to understand the attributes of savings products desired by poor people, found that farmers and petty traders placed a high priority on security, whilst for wage earners, liquidity was most important. Interest rates did not appear to be an important attribute (Kapoor 2007). In fact the findings from a field experiment in rural Kenya showed that the demand for a savings account was so high that the withdrawal fees (effectively creating a negative interest rate) did not deter the targeted beneficiaries from taking up the opportunity (Dupas and Robinson 2009).

There has clearly been a growth in the number of writers holding the position that savings are just as, if not more, important to the poor than credit (Woller 2002b; Basu, Blavy et al. 2004; Allen 2007; Kapoor 2007). According to Richardson (2000) the credit union experience has shown that the poor have a greater demand for savings, than for credit, whilst Dowla (2003) proposes that the introduction of flexible savings services in Bangladesh (compared to compulsory savings attached to most group-lending methodologies), is a sign of maturation of the industry. It was also found that MFIs that collect savings achieve better outreach (Harkarska and Nadolnyak 2007).

A major impasse within the industry, however, has been the issue of regulation, and the fact that in many developing countries, government regulation only enables registered banks to collect deposits. As most microfinance providers are not-for-profit organisations, becoming a registered bank is an expensive and onerous task beyond many, thus curtailing the ability to expand savings services. Central banks argue for this regulation to protect the integrity of a country's financial system and to guard the savings of depositors in the event of a financial institution's failure (Wright and Mutesasira 2001).

Ironically, the justification for regulation, which essentially curtails many MFIs from offering savings, may seem misplaced. Research undertaken by Wright and Mutesasira (2001) in Uganda looked at savings lost by clients from formal, semi-informal and informal sector

institutions, and found that whilst 15% claimed that they had lost some savings in a formal institution, and 26% in semi-formal institutions, 99% of respondents had lost savings using an informal method. The average amount lost was also greatest in the informal sector (22%), compared with the other two (3.5% and 9.1% respectively). He argues that concerns over the possibility of institutional failure (and thus depositors losing their savings) should rather be considered in relation to the alternatives that a financial system offers (both formal and informal). In most cases this will probably reveal that the risk of depositors losing money with an MFI is far less than the other alternatives being utilised.

Gender issues maintained a strong focus of research well into the 21st century, mostly in relation to women and savings. Vonderlack and Schreiner (2002) proposed that access to safe-deposit boxes and matched savings accounts for healthcare and education could contribute substantially to the well-being of women. A randomised control trial that offered women access to a commitment savings product found that it led to an increase in female decision-making power within the household, which was manifested in female-oriented durable goods being purchased (Ashraf, Karlan et al. 2010). Research also tackled the long-held assumption that women will likely use income gains to improve the well-being of their children, thus having a greater 'poverty reducing' effect, against the view that men would focus on investing in business, which might have a greater 'economic growth' effect. The assumptions were tested empirically for Guatemala where it was found that only microfinance for women of child-bearing age produced positive pro-child effects, while women passed their mid-thirties hired labour as much as men (Kevane and Wydick 2001).

However, criticism also began to emerge of the assumed positive relationship between microfinance and women's empowerment. Mahmud (2003) argued that the assumptions regarding impact on women's empowerment from participation in microcredit programmes need to be reassessed, as there has been a conceptual shift in emphasis when defining well-being, which now expands beyond issues of improved welfare, to include notions of choice and active agency in the process. Using this framework, her research in Bangladesh indicated that impact is limited as it does little for improved gender-based access to resources, although some increased agency in intra-household processes was found. The issue of agency and how it relates to risk was also raised by Maclean (2012) who undertook research with women belonging to a FINCA-style Village Bank in Bolivia. She argues that the assumption of giving women the responsibility to run their banks, and thus 'empowering them', overlooks the increases in responsibility and the associated risks,

which actually encumbers women further. In a culture that already overburdens women with multiple responsibilities and tasks, relative to men, participation in the Village Bank absorbs the little time left. Furthermore the increased risk of being responsible for safekeeping the accumulated payments between the bi-monthly collections from the MFI is a substantial burden. The rigid repayments and high interest rates left women feeling they were simply working for the bank. In a separate paper, Maclean (2010) deconstructs long held assumptions about the role that social capital plays in maintaining successful women's groups. Oversimplifications of the relationship between social relationships and economic gains and the use of women's social capital upon which a MFIs operations are dependent, can easily ignore the conflicts this may create when also concurrently promoting competitive entrepreneurial activities that are considered anti-social.

These findings complement those of Onyuma and Shem (2005) who uncovered: increased workloads and higher social pressure on women to repay loans; increased indebtedness resulting in further dependence on husbands and/or more loans to pay off existing debts; husbands and other male family members taking control of loans and businesses; increased family conflict and resentment from husbands when businesses succeed; and the use of loans for consumption purposes. They concluded that microcredit can only enhance women's empowerment when loans are available for a variety of purposes and when women are actually able to control the financial resources they have acquired. Finally McKenzie (2009) argues that there is insufficient evidence to maintain the economic justifications for favouring women and that more products need to be developed to suit the needs of urban males.

Another defining feature of the discourse during the decade has been a growing focus on 'institutional' issues, relating specifically to the changing nature and role of Microfinance Institutions (Holden and Prokopenko 2003; Imboden 2005). The commercialisation of microfinance, which was traditionally seen as the domain of the semi-formal not-for-profit sector became a highly contested issue. Benefits of a more commercial approach were identified to include lower prices, new products and services, technological innovations, improved product and service quality, wider client base, increased financial sustainability and improved capital structure (Woller 2002b; Chahine and Tannir 2010). Cull (2009) argues that commercial investment is necessary to fund the expansion of industry. In defining microfinance as the "extension of profitable banking to a new market" (pg. 1), Harper and Singh Arora (2005) argue that the reasons for justifying MFIs as the most

suitable vehicle for delivering financial services to the poor, which may have held 30 years ago, are no longer valid today. Instead, commercial banks should be encouraged replace, take over and/or compete with MFIs, as they are much better placed to achieve the scale required to make banking truly accessible to the poor. The growing focus on commercialisation in turn reignited the still unresolved 'sustainability' debate. Arguments in favour of sustainability ranged from: demand is high enough to absorb cost-covering interest rates; financially sustainable institutions can achieve scale and therefore make a greater impact on poverty; sustainability enables access to commercial financial markets; subsidised credit usually ends up benefiting the non-poor; and subsidising credit undermines savings mobilisation(Mcguire and Conroy 2000; Morduch 2000).[6]

Referring to it as a 'Microfinance Revolution', Robinson (2001) argues that the only future for microfinance, if it is to make any contribution to reducing poverty, is one of large-scale outreach of multiple, competing self-sufficient institutions with a commercial approach, that offers a full range of financial intermediation services to the economically active poor. She refers to this as the 'financial systems' approach, which she contrasts to the 'poverty lending' approach of donor-funded credit for the poor and poorest of the poor – whose capacity for scale and impact is limited by its unsustainability.

Despite the arguments for sustainability, estimates claimed that only between one and five percent of all MFIs were financially sustainable (Mcguire and Conroy 2000). By the end of the decade there appeared to be a growing consensus for a mix of business and funding models (Schicks 2007). As Morduch (2000) argued, there had never been a general presumption that poverty alleviation programmes should be self-financing. The point is also supported by Mcguire and Conroy (2000) who claim that well-managed programmes that could demonstrate an effectiveness in reducing poverty should receive subsidies. Indeed, whilst a commercial ethos might be necessary to fund the continued expansion of microfinance, institutions with strong social missions that take advantage of subsidies are best placed to reach and serve the poorest customers (Cull, Demirguc-Kunt et al. 2009).

Closely related to debates around sustainability of institutions, is that of access and targeting. Numerous assessments had shown that microfinance in general failed to reach the poorest of the poor and that most beneficiaries are usually immediately above or

[6] Of less 'business' concern was the realisation that donors responded to fads, and funding for microfinance might dry up quickly and without warning.

around the poverty line (Hulme 2000; Copestake, Bhalotra et al. 2001; Hickson 2001; Solomon, Ballif-Spanvill et al. 2002; Woller 2002a; Lucarelli 2005; Onyuma and Shem 2005; Weiss and Montgomery 2005; Kono and Takahashi 2010). A panel study of Grameen Bank households in Bangladesh revealed that the bank's programme was successful in reaching the poor, but not in reaching the vulnerable (Amin, Rai et al. 2003). These studies confirmed what one author observed was an assumption among sponsors and staff who "consider achieving sustainability and reaching impoverished clients mutually exclusive objectives" (Solomon, Ballif-Spanvill et al. 2002 pg.309). Wright (2001) argued that programmes should be allowed to target non-poor clients who are more profitable, allowing institutions to cross-subsidise their outreach to the poor.

A number of publications also focused on describing what is meant by access and outreach and what are the critical steps involved. Porteous (2003b) describes access as having three dimensions: product offering, physical access and affordability, whilst Christen and Mas (2009) contend that it is fundamentally an issue of distribution and that systems that can handle a large volume of daily, low-value transactions are required in every neighbourhood and every village. McGuire refers to six dimensions that define outreach: quality, cost, depth, breadth, length and variety (2000). After researching the poverty-targeting strategies of 25 MFIs, Mathie (2002) concluded that strategies depended mostly on how much pressure there was for financial self-sufficiency, and whether or not attraction was built upon offering other social services ('targeting-plus') or if a marketing tactic of designing products to appeal to clients ('targeting by attraction') was employed.

However, Ruthven's research on the dwellers of a squatter settlement in West Delhi reveals an altogether different dimension to understanding service take-up. Her research sought to identify the key factors which influence whether or not people access an adequate choice of services. It revealed that financial relations are strongly embedded in social relationships and personal networks and that financial devices utilised were determined by either social security relations, relationships of shared origin or circumstance, patron/client relationships, formal family relations, tied economic relations or professional relations based on commercial transactions (Ruthven 2002).

The discourse relating to 'poverty' became more explicit during this period but was framed in relation to methodological concerns around impact assessments (IAs). Publications that reported on the findings of empirical research indicated varied results. Copestake,

Bhalotra et al. (2001) found higher growth in profits and household income for recipients of second loans in Zambia (compared with those who only ever took one loan). Makina and Malobola (2004) found a positive impact on beneficiaries, especially women in rural areas in South Africa and, in India, Swain (2009) found that self-help groups had a positive impact on asset creation, especially in terms of livestock and savings. In Guatemala, current clients, who had participated in a Village Bank for more than a year earned more money daily and were less poor than whose recently joined (Hiatt and Woodworth 2004). Research by Basher (2010) in Bangladesh found that microcredit enabled borrowers to move gradually into more productive activities as their experience grew, and Imai (2010) found loans to have significant positive effects on multidimensional welfare indicators in India.

Other impact assessments, however, reported mixed or negative outcomes. After reviewing 13 different impact studies, Brau and Woller concluded “findings vary considerably from study to study, suggesting that impacts are highly contextually specific” (2004 pg. 28). A similar conclusion is drawn by Mcguire and Conroy (2000) who, after reviewing numerous impact evaluations, stated: “There is insufficient evidence based on these studies to draw strong conclusions” (pg. 100). In Thailand, Coleman (2006) evaluated two NGOs that followed the FINCA Village Bank model and found that the programme had positive effects for committee members, but negligible impact for ordinary members. Mosley (2001) found in Bolivia that whilst assets and income increased with access to MFI services, so did vulnerability if borrowers over-leveraged. Those that reported outright negative findings included Hoque (2003) who found BRAC’s microcredit programme in Bangladesh had an insignificant impact on household consumption, and an econometric analysis by Nino-Zarazua (2007) of credit impact on income poverty in Mexico was found to be insignificant.

The efficacy of Impact Assessment methodologies became a subject of debate in and of itself. Some argued against traditional approaches of complex, high-cost quantitative studies that take a long time to yield results; that are undertaken primarily to serve the interests of donors and academics; and whose findings are of limited use to the MFI themselves (Copestake, Bhalotra et al. 2001; Copestake, Johnson et al. 2002). The alternative was for Social Performance Management, which is the institutionalisation of goal-setting, monitoring, assessment and auditing of the social impact that an MFI has on the well-being of its clients. Social performance is given a broad definition to encompass

the physical, social, economic, political, cultural and psychological impact that may result – and therefore includes the impact of microfinance on poverty. Promoters argued that such an assessment methodology should be integrated closely with client status monitoring and be part of a continuous and flexible programme of data collection, analysis and reporting (Copestake 2003; Kabeer 2003). By integrating this type of data collection with ongoing market research activities, whereby the focus is on understanding client behaviours, motivations and needs, some cost-benefit analysis has shown that the benefits outweigh the costs (primarily from reduced client exit rates, product innovation and reduced inefficiencies) (Copestake 2004).[7]

The rigours of impact assessments are also called into question by Roodman and Morduch (2009) who note that very few studies have merited publication in economics journals, with almost all impact assessments being non-experimental. He laments that:

> ".... 30 years into the microfinance movement we have little solid evidence that it improves the lives of clients in measurable ways. At the risk of over-generalising from one data point, this experience leads us to conclude that when studying causality in social systems with strong endogeneity, claims of non-experimental identification need to be held to demanding standards." (pg.4)

Karlan (and others) argues that any assessment methodology that does not deal with the issues of bias is fundamentally flawed and will result in an overstatement of programme impacts. In particular, criticism is targeted at cross-sectional surveys, promoted by USAID through its AIMS project, which compare old to new participants and considers any difference between these two groups the "impact" of the programme (Karlan 2001). There are three main biases identified and discussed by a number of authors (Karlan 2001; Weiss and Montgomery 2005; Coleman 2006; Alexander Tedeshi 2008). These are described as:

- *Self – Selection Bias:* This occurs when those that join a programme are considered to be different from those that don't. If these differences are unobservable then it is not possible to control for them.[8]

[7] An example includes the Small Enterprise Foundation in South Africa, which applied a performance management system to monitor and manage loan officer performance, analyse and understand performance problems, monitor impact of new policies and procedures, and track performance against the organisations objectives (Roper 2003).

[8] Examples usually refer to personal traits such as entrepreneurial ability, risk preferences, trustworthiness, attitudes towards the role of women in the household, and attitudes towards belonging to a program that targets the poor. Such traits maybe stronger determinants of business success than access to credit, and therefore overestimate the impact of a microcredit program.

- *Placement Bias:* This occurs when an MFI chooses to locate itself in a non-random manner.[9]

- *Drop-out bias:* An incomplete sample bias occurs when those that drop out of a programme are not included in an assessment. It is assumed that those that drop out are different in some systematic way.[10]

Whilst the methodology of comparing old clients to new is supposed to overcome the self-selection bias, Karlan argues that this is still insufficient as there are also possible systematic reasons as to why some people choose to join a programme now rather than later. These reasons could include life circumstances, such as the health status of the household (everyone is healthy and not in need of constant care). He also posits that the peer selection nature of joint-liability groups results in better quality participants being selected first, and those less desirable selected later. Additionally, cross-sectional methodology does not properly control for drop-outs or placement bias.

One suggestion offered by Karlan is to include drop-outs in the analysis and include their consumption and income levels within the 'old' group. This opportunity was made available to Alexander Tedeshi (2008) who obtained panel data from a Peruvian MFI included data on drop-outs. Her analysis found that those that become borrowers have significantly higher incomes than those that do not. Whilst those entrepreneurs who did borrow money earned higher profits than those that did not, the impact would have been overestimated if the study had not controlled for this bias.

To address the problem of selection bias and attribution, a recent technique in the study of microfinance (which has long been applied in the medical science field) is the experimental method known as Randomised Control Trials (RCT). In a RCT the eligibility to participate in a programme is randomly assigned allowing the research to identify what would have happened without an intervention in order to establish causality (Karlan, Goldberg et al. 2009; McKenzie 2009; Kono and Takahashi 2010; Rosenberg 2010). Unfortunately, so far, only a handful of RCTs have been undertaken. These include a field experiment in Kenya where daily income earners were offered an interest-free savings account (Dupas and

[9] Examples include placing offices in villages closer to main roads, or those with better infrastructure, more growth potential, or other unobservable characteristics which result in more spending on education and health or generally have higher welfare measures. Problems then arise if control villages do not exhibit the same initial characteristics. A similar problem will arise if the MFI changes its client identification process.

[10] If those that drop out are poorer than those that stay, than impact assessment will overestimate outcomes, and underestimate if it is the other way around.

Robinson 2009), the offering of consumer loans to originally rejected applicants in South Africa (Karlan and Zinman 2010a), the offer of microenterprise loans to 'marginal' applicants in the Philippines (Karlan and Zinman 2010b), and the random allocation of new branches of a microfinance bank in India (Banerjee, Duflo et al. 2009).[11]

A significant shift in the discussion of microfinance in the 21st century was an overtly more critical outlook from a number of authors. In 2007, a book entitled "What's Wrong with Microfinance" was published, which argued that the sector had overstated its positive impact (Dichter and Harper 2007). In a disparaging article entitled *Is Microdebt Good for Poor People: A Note on the Dark Side of Microfinance*, Hulme (2003) insisted that loans should be referred to as 'microdebt' and not microcredit and states that "the microfinance industry needs to practice more humility about what it has achieved" (pg.26). Although borrowers profess they want business loans, he argues what they really need is loans for school fees and medical emergencies. More dramatically, Lucarelli (2005) describes a "microcredit bandwagon" which "threatens to derail" (pg.78), arguing that the "real danger at present appears to be an unfounded sense of managerial euphoria and hype over the ostensible benefits to be derived by these programmes" (pg.85-86). In a similar vein, Ellerman (2007) describes microfinance as possibly "the mother of all development fads" (pg.151): it shows quick results on the ground; is amenable to public relations activities; and shows heart-warming results that project an image of success. Even better it appeals to the left, as it targets the poor, and to the right, as it is associated with entrepreneurship and business development, thus enabling the poor to 'help themselves'. Adams and Raymond (2008) believe the lack of empirical scholarship in the field is overlooked by donors and non-governmental organisations "whose enthusiasm for a buzzy, fuzzy fad has far outraced analytical grounding on the one side and careful project assessments on the other" (pg.441) and has drawn attention from the important, underlying growth mechanisms required to reduce poverty.

Critics have cast especial attention to the Grameen Bank (Mosley and Dahal 1987; Osmani 1989; Wahid 1994; Khandker, Khalily et al. 1995; Morduch 1999a; Amin, Rai et al. 2003; Schicks 2007; Cull, Demirguc-Kunt et al. 2009). Some research has even gone as far as measuring the relationship between contraception use and participation in the banks activities (Schuler, Hashemi et al. 1997). Considerable attention has also since been given

[11] Whilst essentially RCTs seek to address bias issues, it will still take time for a body of proof to emerge. As Rosenberg noted, emerging RCTs have only covered short-term interventions of 18 months or so, whilst longer term studies are needed before any general conclusions can be drawn (Rosenberg 2010).

to the replication of this model, and as a result an endless stream of publications debating the efficacy of the group lending/joint liability model, compared with individual lending, which has proven highly successful in some regions (Desai 1983; Mosley and Dahal 1985; Ladman and Afcha 1990; Stiglitz 1990; Wenner 1995; Reinke 1998; Ghatak and Guinnane 1999; Nino-Zarazua 2007; Harper 2007a; Mersland and Oystein Strom 2009). Some feel that the attention given to the Grameen Bank has been unbalanced and has lost focus of the real issues. To quote Rutherford:

> "For every ten articles on whether the Grameen Bank is pushing people above the poverty line, or whether its members use contraceptives more than non-members, whether they send their children to school more, or get beaten up less often by their husbands, you will find only one article asking basic questions about the design of Grameens *products*. Questions like 'should there be other loan terms besides the one-year weekly-repayment term?' " (Rutherford 2000a pg.109)

Less concerned with contraception and more concerned with bigger, macro issues is another group of critics who have raised questions about the relationship between poverty, economic development and microfinance (mostly microcredit), which they consider to be problematic. Vanroose (2007) states that the main focus of MFIs is transforming subsidy-dependent institutions to financially sustainable ones, and as such any effect on poverty reduction is not a goal but rather a possible side effect.[12] Lanzi (2008) describes the assertion that microfinance is always good for poverty as being "technically ambiguous", especially given that financial development is the result of economic growth, and not the cause. Accordingly microfinance can be seen as a natural financial service existing in an economic system of both poverty and economic growth.

Another censure of the dissents has been the use of poorly conceptualised and inappropriate services. Rippey (2007) complains that microfinance in Africa has been dominated by Asian-type models, supported by European and North American donors, and are unsuited to the population. Practices such as indiscriminate lending with bad products, tolerance of and collusion in pricing obscurity and donor support of inefficient institutions all erode the trust people place in financial systems and ultimately undermining the ability of any institution to deliver quality services. He also states that the consistent demand by poor people for small loans is "no more evidence that microcredit is a social

[12]Following the logic of a theory of change, Datar, Epstien et al (2008) maintain that if an MFI's goal is to alleviate poverty, then their core focus should be on helping clients build successful enterprises, rather than necessarily making more and bigger loans.

good, than is the steady demand for other products like alcohol, cigarettes and commercial sex" (pg.116). In the same publication, Harper (2007a pg.35) is highly critical of the group lending methodology, describing it as a "regrettable short-term second-rate expedient" which he likens to shared toilets, primary school classes with 60 children and clinics without doctors – all of which should be done away with as soon as possible.[13]

Finally a number of critics label microcredit as driven by a 'neoliberal' agenda, although one author casually referred it to a neo-Marxist activity, whereby capitalists no longer need to exploit labour, but can rather extract a higher rate of return on their capital by financing their (the poor's) businesses at high interest rates (Harper 2009). In trying to understand why microfinance has received such strong support over a sustained period, a number have deduced that due to its emphasis on individual entrepreneurship, it sustains a strong political/ideological contribution to the prevailing neoliberal/globalisation model (Bateman and Chang 2009). Adding to this concern is the growing interest in seeing microcredit as a way for the poor to access education and health services, thus voiding the key beneficiaries of global capitalism from taking any responsibility for poverty (Bond 2007).

What then can be drawn from this extensive review of literature pertaining to microfinance over the past 60 years? How does this inform and guide the research process? Despite the considerable 'explosion' of microfinance from its humble beginnings in the agricultural sector to a multi-billion dollar industry in the 21st century, it would seem that the most basic of challenges still remain. Are financial services accessible to the poor, especially those in remote rural areas? What is the importance of savings? How exactly does it or can it reduce poverty and affect household developmental outcomes?

1.2 Dominant Discourses: Credit First and Integration Next

To facilitate a more in-depth analysis of the ideas surrounding microfinance and how these relate to the research questions of this thesis, the next section outlines a meta-grouping of the literature which share similar theoretical frameworks or agendas. I have identified two

[13] In a different chapter, he also argues a major short-coming in crop-farming finance, where high interest rates of borrowing outweigh the relatively lower margins on farming, thus rendering microfinance irrelevant to most farmers. And given that many of the world's poor are farmers, this is a matter of significant concern (Harper 2007b).

broad themes around which I loosely term ‘approaches’.[14] Although each approach is not mutually exclusive, and there is some overlap of thoughts and topics discussed, many contributors and their ideas can be identified within one of these approaches. The two approaches are named ‘Credit First’ and ‘Financial Services’. The order in which they are presented is indicative of their historical development. The oldest, the Credit First approach, advocates increasing the productive capacities of the poor via the provision of credit, which should enable individuals and households to start, maintain or grow microenterprises, or raise farming capacity. The Financial Services approach represents a more recent development in thinking regarding how the poor manage their money and provides a more holistic assessment of the relationship between the two, as all forms of financial instruments are examined.

As stated in the Preface, the motivation for this research has been to question the perceived bias towards credit and to advocate for a greater emphasis on savings. This question needs to be based on what can be drawn from the literature. Evaluating the literature through the lens of these two approaches provides an opportunity to explore the main themes of this research from competing perspectives. The link therefore between this analysis, the research questions (particularly number two) and the empirical findings lies in the argument that the focus first and foremost should be on understanding the day to day activities of the poor, and how and when they draw on financial instruments to assist them, rather than making uncritical assumptions with regards to their need for credit.

1.2.1 The Credit First Approach

Having its origins in the rural sector, as early as the 1950s, an assumption was made that the growth and development of agriculture was a necessary precursor to industrialisation but hampered by the lack of access to credit (Gersdorff 1960). This concern grew out of the belief that poor small-scale farmers were being exploited by local moneylenders, who were described in many instances as ‘usurious’ (Bhaduri 1977). The earliest discussions were based on the assumption that credit was the solution to the problem with or without the provision of complementary services such as marketing, technical assistance (Jena

[14] A third approach was identified and loosely termed the ‘Macroeconomic’ approach. Its interest lies in the banking system and the need for domestic savings mobilisation to stimulate economic developments. Whilst it discusses savings at length – which is an interest of this thesis; it is not presented here as its focus on ‘macro’ issues is too removed from the research questions which are concerned with household level processes.

1956; Harvey 1975) or agricultural pricing policies (Viggiani 1956) and water supply improvement (Wells 1978b).

In order to extend formal financial services to rural areas, a number of countries, notably India (Copestake 1988) and Tanzania (Furness 1975), went as far as nationalising some of their banks. Other countries put their efforts into the creation of specialised agricultural banks and other parastatal agencies, or the creation of new indigenous banks (Ibid.), whilst some forced commercial banks to expand their operations in rural areas (Anyatonwu 1983). The outcome of these reforms was mostly failure. Political interference, high default rates and unsustainable operations were found to be widespread (Von Pischke, Heffernan et al. 1981; Kane 1984; Ray 1984; McGregor 1989). It appeared that the main beneficiaries were larger farmers who were much easier to service and became favoured customers (Ladman and Adams 1978; Wells 1978a). Knowing that the programmes were heavily subsidised, many recipients viewed loans as grants and made little effort to repay (Adams, Graham et al. 1984a). It was also noted that the agricultural sector was probably the most precarious sector to serve due to its vulnerability to exogenous factors such as the weather to determine productivity and therefore loan servicing (Long 1968). Despite early warnings about weaknesses of this model (Adams 1971), government and donor subsidised credit provision continued (Helms and Reille 2004).

As presented in the Preface, the purpose of this thesis is to question the current bias toward credit in the provision of microfinancial services, and to advocate for a greater emphasis on savings. It is therefore helpful to understand the historical development and motivating factors that drove and still drive the advocates of a Credit First approach to microfinance. It is not possible to appreciate the developments of this approach without first understanding the issue of interest rates and the informal sector. Understanding the informal sector and what attracted poor people to it, was also an area of interest to academics in this field. Another defining feature of the literature has been with institutions, with debates contending: their desired format; measures of success; and modes of delivery, amongst others. How the Credit First approach has defined poverty and what role it identifies for savings, is of interest to this thesis. The approach has also been strongly associated with the issue of gender. A specific and deliberate bias has been identified with regards to the provision of credit to women, which also deserves closer examination.

Interest Rates and Informal Credit Provision

The apparent shortage of formal credit in the developing world and people's reliance on informal credit drew attention to the level and justification for interest rates. The supply of credit was considered insufficient and while this remained the case then informal sources at higher than sustainable interest rates would work against productivity and growth. The assumption was that the behaviour of the moneylender was exploitative, thus trapping poor farmers with no other alternatives and constraining economic growth (Bhaduri 1977). One area of debate was whether the interest rates charged by the informal sector reflected the cost of supplying credit or if monopoly profit was also a factor. It was recognised, for example, that the high level of administration costs, opportunity cost, and a risk premium were contributing factors (Bottomley 1964a). Chandavakar (1965) also pointed to the multiple role of the moneylender as a merchant/middleman come landlord, indicating the existence of a multiple-level relationship between lender and client (Desai and Baichwal (1959); Wharton Jr. (1961). Nisbet observed that informal credit in rural areas consists of two forms – those whose activities can be described as commercial, i.e. for profit, such as moneylenders, store keepers and itinerant traders, who lend at very high interest rates, and those activities deemed non-commercial such as lending among friends, neighbours, relatives and patrons who often lend at no or even negative interest rates (Nisbet 1967).

However other research suggested that moneylenders enjoyed monopolistic advantages (Aleem 1990; Bolnick 1992).[15] Even though writers such as Bottomley concur that a lack of competition was a driving force for moneylender rates he did not see the provision of state-sponsored schemes as a solution, but rather the general development and economic growth of the sector (1963a). Long (1968) was also doubtful of government intervention, citing scarce capital, high administration costs, seasonal demand and the uncertain nature of agriculture as the driving force behind high interest rates. If the answer was to be found in the expansion of money markets, then the question remained what researchers thought should happen to interest rates.

[15] Adams (1984c) argued that the negative and often anecdotal stories of poor farmers who have lost their land to moneylenders ignore the much larger number of borrowers who have benefited from this form of intermediation. Additionally, research found the response to competition by MFIs by some moneylenders was to lower interest rates, increase the number of transactions, and offer a 'friendlier' service whilst others responded by threatening and intimidating clients (Hulme and Mosley 1996).

Adams and his colleagues at the Ohio School maintained an argument against the practice of subsidised interest rates, claiming that it did far more harm to the sector than good. Specifically, Adams questioned the assumptions that subsidising interest rates was based on the perceived level of demand for credit (Adams 1971; Adams and Nehman 1979). He also raised two new issues – that an urban bias existed, which denied credit to rural areas, and that it is primarily the high transaction costs which discourage financial institutions to lend to the poor. The call was for interest rates to be raised to reflect their real opportunity cost and the costs of borrowing. This would reduce excess demand, improve income inequality (due to the fact that large farmers were the main beneficiaries hitherto), reduce non-price rationing mechanisms, and allow financial institutions to become financially viable and less dependent on government and donor grants (Graham and Firestine 1984; Adams, Graham et al. 1984a; Gonzàlez-Vega 1984b; Adams, Graham et al. 1984d; Adams 1984e). The calls of the Ohio School for the removal of subsidised interest rates were heavily based on the assumption of an inelastic demand for credit by the poor.[16]

The influence of this view has been pervasive up to the present moment. The view of CGAP, for example, is that interest rates should accurately reflect the cost of lending to the poor. Due to the high administration and monitoring costs involved, this means that most MFIs will have to lend at rates higher than those offered by regular commercial banks. The assumption is implicit that poor people can afford these rates which are still lower than those offered in the informal sector. Despite this, over 40 countries still adopt the practice of establishing interest rate ceilings which from an Ohio standpoint serves only to drive micro-lenders out of the market and reducing access to financial services for the poor (Helms and Reille 2004).

Given the relatively high rates of interest charged among informal credit providers, researchers investigated why the demand for credit continued. Some of the earliest reasons identified remain as relevant now as they were half a century ago. In 1957 (Wai) described informal sources of credit as locally based, capable of being obtained quickly and with flexible repayment schedules, few rules and often without collateral. These

[16] This view is questioned by for example Dehejia, Montgomery et al (2005) who present evidence from a sample of slum dwellers in Dhaka who participated in a microcredit scheme which experienced an unexpected increase in interest rates. Their economic estimates indicate the presence of interest elasticises, suggesting that borrowers are highly sensitive to rate charges, with the less wealthy clients being the most sensitive. They argue that with the exception of one other study, no other estimates of interest rate elasticises for customers in the microfinance market exists and therefore the current position held by CGAP is unfounded.

qualities stood in contrast to what Gamba (1958) found to the experience of conventional banks as depersonalised, formal, slow-moving and with branches that were too far apart. Many staff members in banks and other credit institutions were found not to speak the same language as their clients, nor did they appreciate or respect the customs and culture of such people. Low levels of literacy also make such services difficult to access (Miller and Ladman 1983).

In contrast, the quick and flexible responsiveness of the informal sector in meeting the credit needs of the poor was noted by Nisbet (1971) and Wells (1979). In addition, Bouman, Bastiaansen et al. (1989) identified the sector's immediate willingness to accommodate new categories of clients and businesses as they arise. One further advantage of the informal sector is its willingness to provide loans for consumption purposes, whilst the formal sector has historically only provided loans for productive purposes (Lipton 1976; Bardhan and Rudra 1978; Okurut, Schoombee et al. 2005). This inability to appreciate the fungible nature of money and the fluid relationship between household and farm income and expenditure is ridiculed by Lipton who notes:

> "Failure to realize this has led to endless time-wasting by credit agencies seeking to tie loans to particular production purposes .... More seriously, attempts to solve the small farmer's credit problem – i.e., to give him access to loans at competitive rates of interest that he can repay and will want to repay – regularly flounder because the agencies concerned, often by statute, omit consumer credit. Any sensible person given a loan, first sees that he and his family do not starve; second, uses the residual for high priority (high-return) outlays, notably the repayment of existing debt now costing 30-50% yearly, as is common with rural moneylending; and only then considers what profitable investments (e.g. on his farm) he can make.
>
> To lend without regard to the first two needs, while tying loans to the third, is to repel the sensible, unless they lie about how they use the sums borrowed. Moreover, to neglect consumer credit is to blind oneself to a major source of potential expansion of producer credit …." (1976 pg.547).

Whilst significantly lower interest rates are supposed to be the saving grace of formal credit provision, this advantage is unfortunately very often offset by high transaction costs. Engaging with a formal service provider often requires significant amounts of paperwork, multiple, time-consuming and costly visits to offices, and sometimes participation in compulsory meetings and activities (Ahmed 1989).

Institutions

One of the defining features of the Credit First approach is the heavy focus on institutions. A great deal of debate is conducted with regards to which types of institutions are the most appropriate for credit delivery, along with analysis on the institutional aspects of failed delivery. The main debates cover questions regarding the best or most appropriate institutional format between banks, co-operatives, credit unions, MFIs, and delivery models such as group versus individual lending, measurements of institutional success and analysis on the reasons for failure, organisational design and management practices, commercialisation and mission drift, politics and donor/government/institutional relations, and sustainability.[17]

Inherent conflicts in the internal design and organisational mandate were identified as the reason for failure of some institutional types. In particular many agricultural banks were commanded to lend to small farmers but were still expected to operate using the standard practices of a commercial bank, including prudence in lending and obtaining operational profitability (Ladman and Adams 1978). Kane (1984) identified a short-run versus long-run conflict which existed within development banks whereby in the short run banks are judged on how quickly they can lend funds and how well they manage to target beneficiaries. During this period little emphasis was on credit screening, contractual safeguards or project evaluation. However, in the longer term the banks were expected to make a surplus with emphasis then shifting to borrower repayment capacity. The result being that the originally intended beneficiary group was squeezed out. Writers in support of the 'credit first' approach have accused governments and donors of undermining financial in preference for political objectives. According to Blair:

> "A number of observers feel that politics is the main reason for the persistence of subsidized credit. The large borrowers who gain most from cheap credit want to protect that benefit, and at the same time politicians and bureaucrats want the power and the fruits of corruption that these programmes put into their hands. …. Through steering loans in this direction or that, politicians are able to protect and enlarge their constituencies and assemble the necessary support to aspire to higher offices" (Blair 1984 pg.185).

[17] The features of these debates have mostly been presented in the previous section on the 21st Century.

The 'project' of some Credit First supporters has been to correct for political interference by making the case for greater sustainability, the acceptance of market interest rates and growing rates of commercialisation. Instead of direct involvement attention is given to the facilitating role that government needs to play via creating appropriate legislative and policy environment and addressing specific market failures (Yaron, Benjamin et al. 1998).

For the microfinance institutions themselves research has considered the strengths and weaknesses of particular organisational design and structure, and staff motivation as the critical success factor. With regard to Grameen, for example, decentralised decision-making and dedicated field staff have often been quoted as a key success factor (Mosley and Dahal 1987). A study of eight rural financial intermediation systems in Indonesia found successful design features to include performance-based compensation (i.e. profit sharing), efficiency wages for staff and more managerial discretion over transactions (Chaves and Gonzalez-Vega 1996).

Poverty

Although reference to the 'poor', either directly or indirectly, is made in almost all 'credit first' discourse, most authors make minimal reference to how poverty is defined and how the poor have been identified. Additionally, only limited commitment is provided as to the extent to which access to credit will or should reduce poverty and by how much. Despite the almost widespread tacit assumption that credit does help the poor, without any substantial debate or exposition on how this happens, some authors do present research that provides measurable definitions of poverty and tests the effects of specific programmes on this measure.

Of the empirical research presented, most present multiple indicators and measures of poverty using income-based measures. A single measure test is provided by Khandker, Khalily et al. (1995). They undertook a village-level wage impact analysis to test whether or not the Grameen Bank's programme had the ability to improve the local economy through the creation of self-employment. The assumption being that in turn this will reduce the number of labourers in the market which will then lead to an increase in the local wage rate. Using data from programme and control villages, this hypothesis is tested and a

significant positive effect on wages are found, thus leading the research to conclude that the Grameen Bank makes a viable contribution to economic development.

A much broader set of indicators are used in another attempt to measure the impact of the Grameen Bank on poverty (Hossain (1988). Again, using programme and control households he finds positive outcomes in relation to capital accumulation, the generation of new employment and household income levels. Under the specific title of ‘Alleviation of Poverty’ a head count poverty index and a Gini concentration of income ratio is presented, along with expenditure on ‘basic needs’ including food, clothing, health, education and housing.

Pitt and Khandker (1998) undertook a comparative assessment of three major microcredit programmes in Bangladesh estimated the impact of participation by gender on household behaviours and intra-household distributions such as men’s and women’s labour supply, boys and girls schooling, expenditure and accumulation of assets. They found credit to be a significant determinant on this income and the influence likely to be greater if the credit is supplied to women, rather than men. The findings from this study became one of the most noted for discussion of the impact of microcredit on women and on poverty. However, their calculations are disputed by Morduch (1999b) and Roodman and Morduch (2009) who undertake their own calculations on the data set and claim the estimators are overstated.

A more recent innovation in poverty measurement is the creation of poverty assessment tools (see Bonomo 2010; Imai, Arun et al. 2010). Perhaps the most widely used has been produced by CGAP (2000). The operational tool is designed to be a simple and low cost means for assessing the relative poverty of MFI clients in comparison with non-clients. The step-by-step guide which includes a standard questionnaire that can be modified to local conditions uses a number of different poverty indicators to create a relative poverty score per household. The tool has been piloted in a number of countries with the aim of creating transparency in measuring the targeting effectiveness of microcredit programmes.

Savings

Intuitively one might assume that a discussion of savings would not feature prominently within this literature. Indeed, most writers do not examine saving for savings sake but for

one of three purposes. First, savings were considered a possible alternative to insurance (i.e. the compulsory savings component built into many group-lending methodologies to provide a back-up in the case of default) (see Dowla and Alamgir 2003). More specifically, crop insurance would reduce the risk of credit default by farmers in the event of a crop failure (Shah and Shukla 1956; Hulme and Mosley 1996).

Second, research investigated how savings (deposits) enhance the sustainability of institutions the primary focus of which is credit delivery. One of the reasons provided by the critics of failed credit institutions during the 1980s was their lack of savings facilities. In calling for a reform of the rural financial market sector Graham et al (1984) argued that institutions would perform better if they mobilised their funds from voluntary savings. This he believed, would improve repayment problems (clients would not see loans as 'soft'), reduce political interference, force institutions to behave more like businesses and provide a valuable service to rural savers. An increase in interest rates to a positive level would also reduce demand for cheap credit and attract savers away from other means of protecting themselves against inflation. In Bangladesh, it is becoming far more common for MFIs to offer voluntary savings products, rather than the standard compulsory savings that accompany most group lending schemes (Dowla and Alamgir 2003).

In one of the few campaigns for a more equal relationship between savings and credit, Adams (1984a) believes that the parlous state of rural credit is due to not viewing credit as a product of financial intermediation. In his opinion the role of savings and the overall performance of the financial system are of greater importance than just focusing on trying to measure the impact of loans on borrowers. The third reason for placing greater emphasis on savings mobilisation by Vogel (1984b; 1986) include greater efficiency as resources are taken away from unproductive investments, and the improved opportunities for reciprocity, meaning that individuals will be attracted to save with an institution if it means that they will be able to access credit at a later date. This also benefits the institution as they are able to gain valuable information regarding a possible client before lending them money.

Gender

By virtue of the fact that gender became the prevalent issue within development studies during the 1990s, with almost all development initiatives being scrutinised for their gender awareness, gender accordingly became an issue of importance within the 'credit-first' approach. Following the success of the Grameen Bank model and its high rate of lending to women and by its facilitation of microenterprise development, microcredit became a highly favoured vehicle for gender empowerment. It did not however take long for people to critique the blanket assumption that access to and use of credit by women was equivalent to empowerment. Ackerley recognised that although many programmes have empowerment as a stated goal, few define what this means, although the implicit assumption, as she defines it is:

> "[A] borrower wisely invests money in a successful enterprise, her husband stops beating her, she sends her children to school, she improves the health and nutrition of her family, and she participates in major family decisions….Although it is commonly presumed to be, credit itself is not empowering. By definition it is actually a liability." (Ackerly 1995 pg.56)

The shortcomings of this proxy indicator were also identified from research in Bangladesh which found that even though women demonstrated a high demand for loans and a high propensity to repay, a significant proportion of women's loans were controlled by male relatives (Goetz and Gupta 1996). Other criticisms of the general 'empowering' nature of credit was that programmes did not take into account the special nature of women's business (Holt and Ribe 1991) and that credit alone was not a panacea to cure the ills of self-employed women (Berger 1989).

Despite criticism of a lack of nuanced understanding of gender empowerment and insensitive programme design, a number of empirical studies have reported positive findings with respect to the relationship between credit and women's empowerment. Pitt's quasi-experimental survey on labour supply, schooling, household expenditure and assets within households that participated in one of three different credit programmes in Bangladesh, found a larger effect on households who had a female programme participant. For every additional 100 taka borrowed, annual household consumption increased by 18 taka in female-participant households, compared with 11 taka in male

participant households (Pitt and Khandker 1998)[18]. From a construction of 16 'female empowerment' indicators and the empirical analysis of 1,568 women (again in Bangladesh), Zaman (1999) found the greatest effect to be on female control over assets and on her knowledge of social issues.

1.2.2 Integration: The Financial Services Approach

> "One of the least remarked-on problems of living on two dollars a day is that you don't literally get that amount each day. The two dollars a day is just an average over time. You make more on some days, less on others, and often you get no income at all. .... Your greatest source of support is your family and community, though you'll most often have to rely on your own devices. ....., how do you manage your money if there is so little of it?" (Collins, Morduch et al. 2009 pg.2)

The preceding quote aptly describes the point of departure of the Financial Services approach, which has a different perspective on the poor and how they manage their resources. The poor are defined as heterogeneous and are viewed in a multi-dimensional, less production-capacity perspective. Poverty is about risk, vulnerability, livelihoods and income/consumption smoothing. Financial services, as credit, savings or insurance are an important mechanism to assist the poor to cope. Creating flexible financial services that affectively target the poor and assist them in a way that is meaningful and that best meet their needs is the primary goal of this approach. This section therefore presents a number of themes that are pertinent to this approach, either because they identify salient characteristics – such as the discussions on poverty, savings, credit and insurance, or because of the value obtained from contrasting with the Credit First approach – namely the discussions on institutions and interest rates.

Poverty

In recognising that poverty is more than just a lack of income, this makes much more use of terms such as 'vulnerability', 'risk' and 'livelihoods'. Acknowledgment is given to the fact that the poor adopt a wide range of livelihood strategies to protect themselves against the effects of possible negative events. The Financial Services approach recognises that it is important to first understand all of these different strategies and then to design a wide range of flexible products and services that reduce household vulnerability, not increase it (Churchill 2002; Mahajan 2007). This is pointed out by Wright who states:

[18] Although, as mentioned previously, the findings of this research has since been bought into question by Roodman and Morduch (2009).

> "When examining the income impacts of microfinance programmes, it is important to recognise that there is a significant difference between 'increasing income' and 'reducing poverty'. Despite the prevalent emphasis on raising incomes as the central objectives of development programmes, the two are not synonymous. … It is also important to recognise that poverty is neither linear nor static, and that today's not-so-poor may well be tomorrow's poorest – and vice versa. It is for this reason that the poor place so much emphasis on diversifying their sources of income – it reduces their exposure to catastrophic income loss." (1997 pg.1)

According to Wright, Kasente et al. (1999), financial services help households to deal specifically with risk by:

- Providing sums of money to build assets
- Providing sums of money to better manage cash flows
- Enabling households to diversify
- Providing a safe place to store money
- Increasing control of assets by women

They can help households to cope with shocks by providing means for households to accumulate savings and to access emergency loans (and not insisting that loans only be used for productive reasons). They can additionally help households to build assets, which can be either sold or pawned when cash is required to cope with a shock.

Savings

The discourse relating to the poor and savings generally follows one of three themes. The first focuses on defending the fact that the poor can save, i.e. attacking assumptions that they are too poor to do so. The second theme describes the different ways in which the poor save or provide us with records of savings behaviour in particular regions. The third, which is closely related to the first, considers why poor people save, with the debate being how valid or nuanced these explanations are.

Given the historical bias towards providing only credit services, many proponents of the need for a wider range of services have had to first argue against the assumptions that the poor, by their very nature have little money, are therefore unable to save. Research has otherwise found that the poor do want to save, their capacity to save is considerable, and in the absence of formal mechanisms, quite innovative (Wright and Hossain 1997; Rutherford 1998; Wright 1999c; Richardson 2000; Rutherford 2000a; Ashraf, Karlan et al.

2005a; Ashraf, Karlan et al. 2005b; Allen 2007; Collins, Morduch et al. 2009; Dupas and Robinson 2009).

The poor save in many and varied formal and informal ways, with one of the most popular mechanisms via ROSCAs and ASCAs (discussed in more detail in the following section). Other formal and informal means by which the poor save have been well document. Deposit collectors or mobile bankers are both a formal and informal service that has been identified. These deposit collectors visit savers in their homes or place of business, sometimes on a daily basis to collect what is usually very small amounts of money. Often no interest is earned and a fee is charged, indicating that the poor are willing to pay for the security and convenience of having their money safely saved, away from temptation and demanding household members (Miracle, Miracle et al. 1980; Aryeetey and Steel 1995; Rutherford 2000a).Giving money to friends or a money guard to hold as well as hiding money in the house or keeping it in a tin box is also a common practice. Shipton (1990) describes the need to avoid having any visible cash in the house to evade claims from relatives. Other than these informal mechanism, the poor also make use of formal financial services, including savings accounts, post bank accounts, fixed deposits, pension/provident funds, savings annuities and unit trusts (Collins 2005b; Collins, Morduch et al. 2009).

Although the concern and interest lies primarily in cash savings, it has to be recognised that the poor also save in many non-cash ways. The reasons for this are many and varied and are related to traditional and cultural practices, degree of monetisation especially within rural areas, – and access to and trust in formal financial institutions. Additionally, some physical assets held by the poor can also be viewed as investments, such as livestock, which can multiply, and land, which can appreciate. Early mention of the many non-cash ways of savings included preferences for land, a house, livestock, cloth and jewellery in Java, Indonesia (Dewey 1964) and cattle and gold in Malaysia (Swift 1964). Even more recent studies found this practice to still be common amongst indigenous people, with the Mandika people in Gambia preferring livestock, food, jewellery, tools and household goods (Shipton 1990).

In discussing the reasons to save, according to Rutherford (2000a) poor people save money because they need to gain access to ‘usefully large lump sums’ of money. In the absence of access to credit and insurance, savings is often the only alternative. The poor

face a great number of risks and are extremely vulnerable to negative changes in their circumstances. Saving for emergencies can take the form of either personal or impersonal. Personal emergencies refer to the death of a breadwinner, injury or illness, loss of a job or crop/livestock, or loss through fire or theft. Impersonal emergencies include events such as war or natural disasters. As a result, and due to the fact that very few have access to insure against such disasters, this is one of the greatest motivations for savings (Morokolo, Coetzee et al. 1999; Rutherford 2000a; Collins, Morduch et al. 2009).

Rutherford (2000a) describes a common practice of savings for 'life-cycle needs'. He refers to life-cycle events that require access to lump sums associated with birth, dowries and marriage, and funeral expenses at death, as well as savings for education and homebuilding. Recurrent events including religious festivals such as Christmas, Eid and Diwali also require saving in advance. The poor also save to accumulate assets and wealth such as consumer durables, which can improve their quality of life and provide a buffer in times of economic stress. This phenomena was recorded as early as the 1950s (Warmington 1958; Reining 1959). Delancey also found evidence of savings for community development projects (1977). Richardson provides heavy criticism of the general lack of appreciation within the microfinance industry for the relationship between savings and poverty:

> "One of the most misunderstood concepts of poverty alleviation is the relationship between income, wealth, and savings. The focus of many traditional microfinance programmes has been credit-oriented: loans will provide poor people with a means to generate more income. Very little mention is made of wealth, or the difference between what you earn and what you spend ….. It is both heretical and hypocritical to talk about poverty eradication without incorporating savings accumulation into the poverty alleviation strategy." (2000 pg.2)

Essentially, what the poor need are mechanisms that help them turn their savings into lump sums that are substantial enough to fulfil a wide variety of consumption, personal, business, social and asset-building needs (Matin, Hulme et al. 2002). These exchanges must provide for not only short term needs, but also medium and long term needs. Such financial services are only effective if they are provided in a format which is expedient, appropriate, safe and affordable.

The need for the poor to save for business or other opportunities is also well documented (Otero 1991; Rutherford 2000a; Collins, Morduch et al. 2009). Starting or expanding a

micro-enterprise is a common practice and whilst the majority of the literature focuses on access to credit, few recognise the importance of family savings in contributing to these enterprises. Other opportunities such as the ability to purchase land or another productive asset, or to pay a bribe necessary to get access to a job, paperwork or information, also serve as motivations for delaying consumption and accumulating savings.

<u>Credit</u>

A great many of the criticisms levelled at the ideas of the Credit First approach came from researchers of the Financial Services approach, which rather argues that the poor require access to credit for a whole variety of needs, not just for productive requirements; that financial institutions need to provide a much broader range of services; that the credit activities of the informal sector deserve greater respect and more detailed research; and that credit for many is simply a euphemism for debt.

Observations made by Meyer and Alicbusan (1984) in their research into farm households in Thailand led them to conclude that households were far more complex than current formal agricultural credit programmes accommodated for, and that the financial services sector was fragmented, one sided, and too specialised. They concluded that what was needed was:

> “Flexible, multipurpose financial intermediaries would better serve farm households. These institutions should be one-stop centres that offer both borrowing and savings services. Production, consumption, investments, and non farm loans should all be available to borrowers, with the amount and timing based on repayment ability rather than fixed formula or simple packages”. (Meyer and Alicbusan 1984 pg.33)

In a scathing attack of donor agencies who push credit, Shipton (1990) argues that savings, rather than credit should be subsidised. Whilst the term ‘credit’ has positive connotations, he argues that it is only another way of saying debt and that it is depends on whether one is the borrower or the lender, or whether one is referring to before or after the loan is taken. In keeping with the request for a more balanced perspective, Shipton notes:

> “Farmers need not just credit, but more and better opportunities for savings, partly to reduce their dependency on borrowing. A financial policy based on only credit without savings is not only ethically dubious, but also impractical; it is like walking on one leg” (pg.2).

Insurance

The provision of formal micro-insurance is a growing industry. In many respects, as it is not directly linked to the provision of credit, nor is it associated with economic development at the macro level, the provision of insurance facilities designed specifically to meet the needs of the poor essentially falls within the ambit of the Financial Services approach. However, as this industry is in its infancy, available research and literature on the topic is limited. However, it is safe to conclude that demand does exist, and that access to insurance can reduce stress and bring about peace of mind to its clients (Zeller and Sharma 2000; Mosley 2003; Cohen and Sebstad 2005).

Some research into the micro-insurance sector in South Africa has revealed that it predominately takes the form of funeral insurance. However a range of other products targeted at household enterprises are beginning to emerge, including hire-purchase insurance (Ebony Consulting 2001). The evaluation of a health insurance scheme, attached to a microcredit product, offered by two separate MFIs in Uganda found it to demonstrate positive effects on investment and loan growth and to a lesser extent, on repayment rates (Mosley 2003).

The bulk of the literature relating to the poor and insurance refer mainly to informal insurance mechanisms. Noting that the poor are particularly vulnerable to risk and disaster, many researchers have investigated the different ways in which the poor attempt to protect themselves from such events. Research on two village fishing economies in India found a number of varied ways in which the poor used credit as a form of insurance, including: as a way to insure against the risk of falling into distress via providing interest free, unsecured credit, without an explicit duration – to ensure reciprocity; to minimise the risk of income losses due to lack of labour via wage advances - thus ensuring an obligation to provide labour at the required time; and to ensure a secure access to output via local merchants providing loans in return for a supply of fish (Platteau and Abraham 1987).

Households have also been found to adhere to a particular structure as a form of risk-mitigation. By ensuring that the daughter is married to someone located outside the village this allows for consumption smoothing via cross-region and cross-village income sharing during times of stress (Rosenzweig 1988). Mordoch (1999c) identified drawing down savings, engaging in reciprocal gift giving, selling physical assets and diversifying income-

generating activities as an example of the number of different ways in which the poor deal with economic hardships. These personalised arrangements between individuals and communities were however found to be weak for the poorest households and insufficient in times of a large-scale natural disaster.

Institutions

One of the more defining features of the Financial Services approach in relation to its commentary on institutions is its call to go 'back to basics', by first taking the time to understand in more detail the needs of the poor and then use this as a basis for designing services and products. This closely relates to another recent demand, that the poor should not just be considered beneficiaries of a programme, but as clients – in the same manner as all other users of commercial financial services (Kalala and Ouedraogo 2000; Dale 2001; Cohen 2002; Woller 2002a; Wright 2003; Maru 2009).

The formal banking sector has long received a barrage of criticism from the perspective of the poor. In Mexico they have been considered 'exploitative and rude', 'unfriendly' and 'demanding' (Kurtz 1973). According to Bouman and Harteveld (1976) many West Africans are suspicious of banks and their impersonal approach, and complicated formal and legal procedures. The commercial banking system in Gambia has been described as 'almost useless', with access prohibited by distance and travel costs, inconvenient opening hours, requirements of minimum deposits, difficult paper work, and untrustworthy staff (Shipton 1990). Despite many decades of 'bad press' there appears to have been little response from the formal banking sector in trying to better serve this large portion of the population.

It is therefore unsurprising that reports of informal sector institutions 'outperforming' the formal sector can be found. Earlier research recorded participation in the Djanggi, a Cameroonian ROSCA, to be ten times that of the credit unions and twenty times the volume (Bouman and Harteveld 1976). More recent research into the affects of liberalisation of repressive financial policies in four countries in Africa had showed that it had little impact on formal financial deepening whilst the informal sector continued to grow. It was noted that the informal sector was particularly effective in mobilising household savings and financing small business, and that this sector should be more fully integrated into financial development strategies (Steel, Aryeetey et al. 1997).

Interest Rates

Compared with the Credit First approach, the Financial Services supporters take a much less active role in the debate on interest rates. Reference to interest rates appear more as a matter in passing than a point of contention (Delancey 1978; Miracle, Miracle et al. 1980; Bouman, Bastiaansen et al. 1989; Thomas 1991). Rather than complaining that low interest rates provide a disincentive to save, there is greater concern for the fact that the poor have few opportunities for formal savings and therefore have to resort to informal mechanisms that have zero and even negative interest rates (Rutherford 2000a; Dupas and Robinson 2009).

Given a more sympathetic view of the informal sector, the debate over whether or not the moneylender charges a monopoly profit does not appear to be as great an issue. Bouman (1990) points out the irony in the fact that informal sector interest rates are calculated at annual levels even though loans are usually short term, and are therefore considered usurious, whilst a street trader who marks up his product by a similar margin is considered entrepreneurial. In general, there seems to be an overall acceptance that the poor are able to pay commercial rates of interest, and higher, and that issues of access and appropriate services are of greater importance than that of the interest rate charged.

In concluding this section, which has presented the salient features of the dominant discourses within the microfinance literature, clear trends and biases are emerging, but also evolving at the same time. The analysis has shown how Financial Services approach has differed from the Credit First approach on a number of key issues. The attitudes towards and the perception of the informal sector is almost diametrical. To the later, it is treated with a great deal more legitimacy and significance, as adherents to this approach acknowledge the poor have already devised many creative and ingenious methods for coping with the demands for and available supply of money. As a result more attention and research is devoted to this sector and more of the discussion focuses on how informal sector practices can be replicated, rather than replaced.

One of the main differences of the Financial Services approach is their starting point, which does not appear to be derived a preconception or assumption about what the poor need. Their first objective is to understand how the poor cope with small and irregular flows of money, and how they convert them into useful lump sums. For this reason, savings is one of the most important mechanisms for doing this. Although credit can help

achieve the same outcomes, savings is considered from the research to be preferable. Financial Services adherents give minimal attention to the issue of institutions and interest rates. Explicit engagement with discussions regarding poverty is more limited, and is usually conceptualised in relation to the notions of risk and vulnerability, and how various financial services may assist households.

In contrast to the Credit First and its obvious concern with credit delivery, the Financial Services advocates for a more balanced approach between the joint and equally important needs of households for both savings and credit. Additionally, advocacy is given for credit for consumption purposes and not just for productive reasons. A unique perspective of the approach is to view credit as the correspondent of savings, the difference being a matter of the order in which small amounts that are paid out/set aside and when lump sums are drawn down (referred to by Rutherford as 'saving up' and 'saving down'). This blurring of the line, with both being considered legitimate mechanisms of the poor for coping with variations in cash flow, also represents a divergence in position.

In line with its more holistic approach to understanding household financial management, the Financial Services approach devotes more time to understanding issues of consumption smoothing, risk management and vulnerability. Their pragmatic view means that there is a greater appreciation of the fungibility of money and a general acceptance that because of this it is very difficult to determine how credit is utilised.

This analysis, along with the historical review presented in the previous section, has demonstrated a historical bias towards the provision of credit, within the ambit of microfinance service provision. However, what has also clearly emerged is a turning tide away from this bias, and a growing appreciation from both camps that an increase in the provision of savings and other services (including insurance) is imperative. This can be seen in the growing number of MFIs developing new and innovative savings products, alongside their credit counterparts.

However, even with this growing swell of enthusiasm, the provision of financial services to the masses still faces many challenges. Not the least of this is cost and coverage – especially in rural areas where many of the poor live. The following section introduces the concept of member-owned institutions, describing their numerous formats, their predominantly 'savings-led' nature, and their many challenges. It also introduces the

Village Bank concept, which is the focus of this thesis, and therefore lays the groundwork for addressing the first research question.

1.3 Member-owned Institutions: A Savings Led Model

The provision of financial services to the poor is plagued with many challenges, especially for those living in rural areas which normally contain greater proportions of the poor. Common impediments include low population densities, inadequate infrastructure, and low levels of literacy. Economic activities generally yield low returns and are high risk in nature. In such environs, member-owned institutions (MOIs) are often the most suitable and sometimes only form of financial service delivery. This is the realm of service provision that is driven and owned by members. It is community-based and founded on a 'savings first' model, given that often the only capital available is that raised by members themselves. Member-owned institutions are seen as a legitimate institutional format that offer decentralised financial services organised by the local community. Such groups cover a spectrum of formality ranging from ROSCAs to Village Banks to Financial Cooperatives. A savings first model is normally emphasised with slow growth and the need for some level of pre-existing social capital. One of the advantages of member control is mutual monitoring which improves information flows and quality of decision making, which can help address problems of adverse selection and moral hazard (Cross and Coetzee 2001; Sivramkrishna and Panigrahi 2001).

Some of the earliest MOIs emerged in 18th century Europe as a result of substantial increases in poverty over the 16th and 17th centuries (Seibel 2005). Irish Loan Funds emerged during the 1720s and were based on financial intermediation between savers and borrowers that distributed short term loans with weekly repayments and peer monitoring. Although initial growth was slow, by 1840, 300 self-reliant and sustainable funds existed that covered 20% of all households in Ireland. The rapid expansion a decade earlier was credited to the introduction of legislation that allowed funds to accept interest bearing deposits and charge interest on their loans, and to the establishment of a Loan Fund Board, which was responsible for supervision and regulation.

In Germany, during a similar period, Seibel (2005) describes two microfinance networks that emerged: community savings funds; and member-owned cooperative associations. As the largest set of institutions to emerge of any country, he attributes their success to self-

help, regulation and supervision. Driven by the hunger years of 1846/47 when many farmers lost their land to moneylenders and many small businesses went bankrupt, one man in particular, F.W. Raiffeisen, took action in rural areas, forming credit associations, mostly with farmers. In urban areas, Schulze-Delitzsch established savings and credit cooperatives with small entrepreneurs and craftsman. By 1997, these two microfinance networks (rural and urban) comprised of 39 000 branches, 75 million customers and 64% of all financial intermediation (Ibid). Seibel (2001) attributes the success of this movement to the self-help and self-reliance based on the growth of savings and local outreach with long term personal relationships. The provision of an enabling legislative framework and the establishment of legal and national apex organisations were also considered crucial, as was the provision of supervision through auditing federations.

In general terms the attributes of success are as relevant to the developing world as the developed argues Seibel (2001), who believes that sustainable poverty reduction must be built upon the self-help capacity of people and their self-reliance on local institutions, including local financial institutions that are owned and managed by the poor. Outreach, growth and sustainability are dependent on the mobilisation of local savings, ensuring independence from external interference and subsidies. Such institutions will need to offer attractive interest rates and profit sharing margins with positive real returns on savings; rural market rates of interest must be charged on loans to ensure costs are covered, and institutions must make a profit to enable expansion to be funding from own returns.

In 2008, the Coady International Institute, at St Francis Xavier University in Canada undertook a major international study of member-owned institutions. The methodology included a detailed literature review and case studies on seven different MOIs around the world. They found that MOIs mainly serve rural areas, are often the only service provider in deep rural areas, and provide lower transaction and financial costs, compared with other service providers. They also found that they have the potential for large scale outreach, and for low cost, client-demanded service provision. Whilst most MOIs are able to cover their operating costs from inception, the greatest threat to their longevity is weak governance, management capacity and inappropriately complex management systems (Hisrchland, Jazayeri et al. 2008).

Some of the challenges with governance lay in socio-cultural norms, which make it difficult to hold leaders accountable, and the inability to monitor leaders (and managers) due to

management systems that are beyond the capacity of members to understand. Challenges were also acknowledged between individual organisations and any supporting/umbrella institutions they may have a relationship with. If MOIs are dependent upon these second-level institutions for technical support, then their own survival is entwined in the sustainability of these bodies (Ibid).

There are five main types of MOIs in existence today, which are briefly introduced below. Although Village Banks is the focus of this research, other forms, especially informal MOIs make important contributions in assisting the poor to manage their day to day cash transactions. As the issue of outreach is crucial to the sustainability of MOIs, a discussion on its key drivers, governance and regulation, is included.

1.3.1 MOI Types

<u>Informal MOIs: ROSCAS and ASCAS</u>

ROSCAs are an important savings and credit mechanism which have featured heavily in the literature, and have captured the attention and interest of researchers and academics from a wide range of disciples for over 50 years now. Some of the earliest publications on the topic come from Bascom (1952) who described the activities of the Yaruba people in Nigeria, Katzin (1959) who described the Jamaican form known as 'Partners', and Campbell et al. (1962), who documented two related activities in South Korea referred to as 'Kyes' and 'Mujins'. This was to be the beginning of a groundswell of interest in this phenomenon that has been found, in one form or another, in almost every country and culture in the developing world.

The first recorded definition of this activity, which became widely accepted, was from the work of Shirley Ardener who provided descriptions of their various types from three separate continents. Her accounts cover issues of their origins, membership, organisation, contribution, the fund, sanction and transferability. She defines them as:

> "An association formed upon a core of participants who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation" (Ardener 1964 pg.201).

Interestingly, she refers to them as a rotating *credit* association, [own emphasis], a term she took from the earlier work of Geertz. It was at least another two decades baefore the

term Rotating *Savings* and *Credit* Associations (ROSCAs) [own emphasis] became generally used. Prior to this, some authors also referred to them as 'Savings Associations', 'Savings Clubs' and 'Contribution Clubs'. The key defining feature is their rotating and regular nature.

Although Geertz (1962) used 'credit' in the title he gives to the activity, his greatest interest was in their ability to mobilise savings and facilitate capital accumulation. He describes them as a "penetration of commerce into a peasant life" (pg. 260), with more and more sophisticated variants moving away from a primarily social institution to a formal, impersonal economic one. He views them as a transitional mechanism:

> "It is suggested here that the Rotating Credit Association is such a middle rung in the process of development from a largely agrarian peasant society to one in which trade plays an increasingly crucial role" (pg.262)

The general consensus is that ROSCAs are an efficient mechanism that render many benefits to its participants and that they address a need that the formal sector has so far not managed to meet. In fact, according to Rutherford "the ROSCA is the world's more efficient and cheapest financial intermediary device" (Rutherford 2000a:32). Praises for the ROSCA model include; the recognition that it has in-built mechanisms to monitor credit worthiness, reliability and repayment capacity (Bouman and Harteveld 1976); provides a safe place to store money and an incentive to save (Delancey 1978; Adams and de Sahonero 1989); lower administration and transaction costs (compared with banks), able to mobilise joint action, exchange economic intelligence and provide assistance in technical and managerial aspects, and facilitate joint bulk purchases (Miracle, Miracle et al. 1980); highly efficient, low default rates and save people from having to go to moneylenders (Shanmugam 1989); and provide an alternative form of insurance (Calomiris and Rajaraman 1998; Rutherford 2000a).

Another sister-form of ROSCA exists which is referred to as an Accumulating Savings and Credit Association (ASCA). The ASCA acts more like a savings club where the funds are not distributed on a rotational basis every month but are usually accumulated for payment at the end of an agreed period, often around a time when a large expenditure is required, such as Christmas or when school fees are due. Often these groups will lend out the

money that is accumulated at interest, either to member or other non-members and thus make a profit whilst their money is accruing.

Village Savings and Loan Associations (VSLA)

Village Savings and Loans Associations are described as a more structured, transparent and democratic version of informal savings groups that are more commonly found in villages and slums (VSL Associates n.d.). They were first developed by Care International in 1993 and were designed to fill the gap not being met by MFIs who traditionally target established entrepreneurs, and are unable to profitably service rural areas. They aim to serve the very poor who are not full time business people, and who experience irregular and unreliable sources of income. Their main purpose is to assist households in managing cash flow and in accessing lump sums for life cycle events. VSLAs facilitate the intermediation process of small amounts of local capital at very low costs. They claim to overcome the problems of sustainability, high transaction costs, unfamiliarity with MFI staff, and weak incentives to save (Allen and Staehle 2007).

The methodology consists of forming self-selected groups of 15 – 25 individuals who meet on a weekly basis on an annual cycle. The group elects a five member committee which is designed to ensure that roles are clearly defined and decentralised so that the group cannot be dominated by any one individual. Savings take place through the purchase of shares – the value of which is determined by the group at the beginning of each cycle. Members can purchase between one and five shares at each meeting. Members can therefore save more or less than the others and in differing amounts, depending on their circumstances, making the system quite flexible. The savings are then available as a loan fund, and members can borrow up to three times the amount they have in shares. Groups may also form a social fund that acts as a type of insurance, available to members. By 2012 there were over six million active participants in 58 countries (VSL Associates n.d.).

Self Help Groups

Self Help Groups (SHG) maintains features similar to the aforementioned MOIs in their group-based nature, normally 10 – 20 members. They are mostly associated with India where they are very popular and are predominately female. They differ from other types of savings groups in that they are established via some external intervention, and hold an

account with an institution. Members must save first for a given period of time and/or to a certain threshold, before they can access greater amounts of loan capital. Swain (2009) describes three main ways in which they are formed: either via a bank, which acts as a SHG promotion agency; by an NGO (the most common model), or by an NGO that forms groups and lends money to them, which they themselves have obtained from a bank. SGHs formed by NGO usually have a dual purpose of also addressing a social development issue such as women's rights, literacy, family planning, child development, etc. Features similar to other small scale MOIs include small loan sizes, frequent meetings and frequent repayments instalments, all designed to be unattractive to the non-poor.

Criticisms of the methodology are that it is possible for members to free ride on others; that the savings amount can exclude the very poor; high cost of attending meetings and workshops (Ibid). In India, there is said to be over 1.6 million SHGs comprising of over 30 million members. They are also found in other parts of Asia and Mexico (Hisrchland, Jazayeri et al. 2008)

Financial Services Association and Village Banks

The Village Bank was first conceptualised and implemented by the International Fund for Agricultural Development (IFAD).[19] As explained by Jazayeri (1996), the rationale was based upon the high demand for safe savings facilities in rural areas, the need for reliable transmission facilities for people dependent upon remittances (especially women), the need for bridging loans to meet unexpected consumption expenses, and the limitations inherent on ROSCAs (rigid systems, risk of break up, time consuming etc.). It was expected that their member-owned nature would address the challenges of sustainability and the limited interest and participation communities have with entities that are externally owned. Additionally, it was expected that the information asymmetries which plague most formal financial institutions, would be overcome due to its structure of being managed by people known by its members.

The Village Bank concept is a 'hybrid' financial institution that combines a co-operative shareholding company with links to a formal commercial bank, which enables access to a wider range of financial services. The banks are characterised by simple systems and

[19] As well as South Africa, since 1994 IFAD introduced the FSA model in Benin, the Congo-Brazzaville, Gabon, Guinea, Mauritania, Uganda and Kenya.

procedures, uncomplicated support systems and a limited range of products (Pearce and Helms 2001). The institutions, as described by Jazayeri (1996):

> "... capitalises on the informal local rules, customs, relationships, local knowledge and solidarity while introducing formal banking concepts and methods in addition to being formally registered. People are likely to save with the FSA since it would belong to the villagers and would be associated with a formal bank hence benefiting from linkage with the banking sector. The FSA would reinforce the local identity and sense of belonging to the community where it has its roots. The share-holding system would also allow easy entry for new members and it would not become a closed club. Loans would be financed from locally mobilised savings, and to a lesser degree from equity which is FSA's risk capital. The FSA would customerise [sic] its services to member requirements and to local characteristics". (1996 pg. 5)

Account holders must first purchase at least one share in the bank, available at a nominal price, with the option to buy more shares. This 'ownership' also enables democratic management of the banks with voting rights proportional to shareholding. Members have the right to receive dividends on shares which they may also sell if needed. [20] The governance of the individual banks is dependent upon a general assembly of shareholders, who elect a board of directors and an audit committee. The board of directors is responsible for the overall management, but an appointed bank manager is responsible for day to day operations. The shareholders have the power to approve policies, set interest rates, budgets and dividend payments and elect office bearers (Pearce and Helms 2001). After the initial start-up of the banks, an Association of FSAs would need to be established which would be responsible for consolidation and expansion (Jazayeri 1996). [21]

Institution-building is related directly to sustainability and hence to addressing poverty. Specifically, sustainability is promoted via local ownership, effective participation, customised services, debt capacity limited to local-level savings mobilisation, and lowered transaction costs via its self-financed, self-managed nature (Jazayeri 1996). In turn:

> "The FSA concept has a strong emphasis on institution-building and sustainability as an initial priority and as a prerequisite for poverty alleviation. The emphasis on institution building is therefore given priority over credit delivery and targeting the poorest. Therefore, even if the initial FSA membership is not the poorest in a village,

[20] Although voting rights would be capped at no more than 5% of all votes.

[21] Confusingly, Jazayeri uses the term FSA to refer to an individual bank, in South Africa, the term FSA refers to an umbrella organisaiton intended to oversee Village Bank operations (see next section).

> the status of being an open and accessible institution with low entry fees would facilitate membership by the poorer and poorest members of the community who would benefit from savings and later from loans service. …. The FSA is likely to reduce the cost of money in the village hence benefiting the net borrowers who are likely to be the poor and poorest members in the community.” (1996 pg. 8-9)

In the outline concept of the Village Banks, therefore, it was hoped that individual banks would graduate from being a deposit-taking facility to a full-service institution, a process that was estimated to take approximately three years. As loans would be financed through members’ deposits, each Village Bank would be responsible for approving individuals eligible for loans, the amount given, and how much interest is charged, although some guidelines are provided. As the banks’ position strengthens it may approach its link bank to obtain additional loan capital.

Financial Cooperatives (SACCOs, Credit Unions, Savings and Credit Organisations)

The World Council of Credit Unions defines a credit union as a ‘member-owned, not-for-profit financial cooperative’ which provides a range of financial services, including savings and credit. Union membership is based on a common link, such as belonging to the same community, organisation, place of worship or employment. They pool member deposits and shares to finance their loan capital, rather than rely on external funds. It is claimed that members receive higher returns on savings, lower rates on loans and fewer fees (compared with a commercial bank). Total membership in the developing world spans 81 countries, with over 40 000 credit unions serving 75 million clients (WOCCU 2013).

Members of financial cooperatives elect a management committee who are responsible for organisational governance. They are usually supported by a separate credit committee and supervisory committee, who are also elected by members. Whilst the committees play a large role in the running of the unions, employing staff is usually required. Cooperatives range in size from as small as a few hundred in remote areas, up to national cooperatives consisting of hundreds of thousands of members (Hisrchland, Jazayeri et al. 2008)

1.3.2 Drivers of Outreach

The comprehensive research undertaken in 2008 by The Coady International Institute identified what they termed ‘key drivers of outreach’. Two of these three factors – governance, and regulation and supervision, which are discussed below, speak directly to

my first research question. This question is concerned with understanding the relationship between governance and a sense of ownership. Given that ownership is the central feature of MOIs and a foundational component of their 'low-cost' nature, how does good governance relate to a members' sense of ownership and does this in turn affect the sustainability and effectiveness of the institution? Whilst the qualitative research that is presented in forthcoming chapters will explore these subquestions in more depth, the Coady research presented here provides some initial insight.

Governance

In the focus note entitled "What is good governance for MOIs in Remote Rural Areas," Chao-Beroff (2008) finds that good governance is one of the critical requirements for MOIs if they wish to provide effective financial services to large numbers in remote areas. One of the main challenges relating to governance is described as the principal-agent dilemma – when a member (principal) is not able to supervise the person (agent) responsible for managing their capital investment. As she explains:

> "Members may not have the capacity, literacy, power or resources to hold their representative decision makers accountable. Good governance occurs when MOIs have been able to adequately address this dilemma and the risks that accompany it. Where there is no adequate oversight, there is a risk that some members will dominate the governance process or access to services, or even commit fraud. (Pg. 1)"

The size of an MOI strongly determines the governance model in place. In small, time-bound cash-out MOIs all members participate in the all decision making activities. More sophisticated networked structures that are a consolidation of primary groups typically provide more complex financial services than their primary groups can manage. They are governed by elected representatives and depend on employed staff. The particular challenge faced by these groups are that they are too big for peer monitoring to work, but too small to afford the necessary controls such as professional auditors or better skilled staff. Larger representative MOIs can usually afford the necessary controls and skilled staff, as their economies of scale allows them to cover this costs. Lee concludes that small 'cash out' and large representative MOIs appear to have the strongest forms of accountability and governance, whilst those that operate in between "operate in a murky area between simple, informal norms and complex institutional rules" (pg.3).

A number of other key issues related to governance with MOIs were also identified by Lee. She observed a strong relationship between member's sense of trust and ownership with savings and returns. All of the case studies examined revealed that ownership for ownerships' sake are not sufficient and that a sense of ownership is directly proportional to how confident members feel about how easily they can access their capital, how safe their funds are, and reasonable return of profits to themselves and their community. It was noted that if members did not see a clear link between savings and returns they were receiving from their second-tier associations, they would not hesitate to look for a better deal elsewhere. In summary, high mobilisation of savings and growth in savings were considered to be a sign of trust by members. However, a strong sense of ownership was still apparent when the MOI was located within the community and was seen to be socially benefiting the community.

The research also concluded that community MOIs are affected by local power structures, which can be both advantageous and problematic. The benefits are that local customs and norms can be used to pressure individuals to behave appropriately and sanction defaulters. Problems can arise when village elites play a dominant role (often men) which may range from mobilisation and capitalisation to day-to-day management, control and governance. The implication being that corporate governance can at best compliment elite authority but is unlikely to substitute traditional structures. In summary:

> "In remote areas, particularly at the village level where cultural identities are strong, these structures are the default. Local governance solutions must be based on a clear understanding of how conventional norms and institutional rules function, without overestimating what corporate governance can do (pg. 6)".

Regulation and Supervision

Regulation within MOIs is concerned primary with the protection of losses of small savers from fraud, default or mismanagement. This is of particular concern in MOIs as available loan capital is member's own savings. Regulation is therefore crucial to provide protection and increase MOI outreach. MOIs face additional challenges as existing cooperative laws in many countries are not designed for financial cooperatives. Additionally supervising entities often do not have sufficient technical expertise, capacity or resources to carry out these important functions (Chao-Beroff 2008).

One of the key challenges facing regulation and supervision is finding the appropriate level to match the size and sophistication of the MOI. Too burdensome regulation could stifle small MOIs whilst insufficient could result in the problems mentioned above. Other common challenges have been the delegation of these roles, usually with government, which were given to departments without the skills to supervise financial institutions. The recommendation given was that for those MOIs that are too small for bank-type supervision, and too big to rely on peer-monitoring, that they be required to use standard accounts and submit standard financial statements that have been audited by an external body. The yardstick being that good regulation is something that is understood and implemented by both parties (Ibid.).

1.4 Conclusion

This chapter has provided a comprehensive review of the literature on what by the 1990s was conventionally known as 'microfinance'. The purpose of the review has been provide to provide a context for my research questions and the research. This research is concerned with the Village Bank model, and whether it is a viable option for providing low-cost banking. This includes understanding both the relationship members have with the institution, and the role that savings may or may not play in household attempts to address their poverty.

The overview has revealed that poor people still do not receive the financial services they need. Distance, transport and transaction costs create the first of many barriers. High rates of interest in both the formal and informal sectors increase the risk of unsustainable household debt or impose costs that mitigate against the management of shocks. Ill-fitting financial products that poorly match the needs of consumers mean that informal mechanisms for money management still dominate. As a result, institutional sustainability is attained by only a small number.

Although hailed as a poverty fighting machine that was honoured with an 'International Year', there have been few studies that have explored the poverty-reduction relationship of microfinance in detail, or over time, and in terms of the bias towards the provision of credit over savings. As the review suggests, the bias to credit remains strong (although weakening). The two main approaches identified in the literature have demonstrated considerable divergence on the role of credit and its relationship to poverty. For the Credit

First approach, it is the raison d'être, whilst the Financial Services approach has maintained a more balanced and limited view of its contribution. Whilst there is a growing appreciation of the role that savings can play and ever more MFIs are adding savings to their product offering, the focus of the microfinance sector and of research remains predominantly the provision of credit. This adhesion has failed to consider other important issues such as the fact that not all poor people have an entrepreneurial capacity or even inclination, the fact that the market can only support so many micro-enterprises, and the fact that the poor already borrow money for many non-productive purpose.

This chapter has also set out to provide a foundation to the methodologies and research activities that are presented in forthcoming chapters. The purpose as described in the Preface includes questioning the current bias towards credit. It also sought to explore the notions of poverty, as described and understood by those in the microfinance sector. It has introduced the concept of member-owned institutions, in their various formats, but with particular interest on Village Banks. The challenges faced by these types of community owned institutions have been discussed, especially in relation to governance and regulation. A crucial claim of Village Bank in South Africa was that it would be member-owned and governed, with institutional arrangements allowing for account-holders to become board members and/or hold the board to judgement. The Village Bank would be regulated by an independent financial organisation, and subject to legal provisions, and 'democratic' in its dealings with members. With the discussion of governance and regulation outlined in this chapter in mind, the claims of Village Banks are put to the test in Chapter Five.

As understanding notions of poverty is central to this thesis, an important finding has been to uncover how the differing views on poverty are very much dependent upon the approach that is defining them. From a Credit First perspective, concern for the poor is focused mostly on their productive capacity, and how a lack of physical and working capital has impeded the ability of poor people to work their way out of poverty. When referring to poverty, a Financial Services adherent's initial concern would be on its monetary nature, mainly how do households, with so little money, manage to ensure that day to day survival is possible, that negative shocks can be mitigated, and that participation in important social activities and rituals is possible. The importance of my research therefore is to test which of these positions can be supported with evidence.

The literature has also shown that savings is an important mechanism that can act as a proxy for insurance, and enable households to cope with negative shocks. It can assist in helping households to maintain consumption levels when income variation is the norm; it can allow households to make important investments in human development, especially in education and health; it can facilitate participation in important social events, rituals and celebrations; and it allows for the purchase of consumer durables and productive assets. Although it could be argued that credit can facilitate similar achievements, I propose that given the opportunity households would prefer to accumulate savings to debt. Indeed, one might go so far as to claim that the need for small amounts of credit is because of difficulties households face in protecting small amounts of savings which might be needed at short notice. The literature is mostly silent on this, and other, relationships, which form the basis to the field research.

Chapter 2 Poverty and Microfinance

Whilst Chapter One examined the literature on microfinance and its many and varied references to poverty, this chapter will examine poverty in greater depth, from the perspective of poverty theorists. In this chapter I argue that the point of departure for examining the relationship between microfinance and poverty should be grounded in poverty theory and not in the microfinance discourse; in short, the debate should be led by those dedicated to studying, examining and theorising poverty, from whose labours the advocates of delivering financial services to the poor should take heed.

This research seeks to answer questions on the importance of low-cost banking services to the poor and what role savings can play in mitigating the negative outcomes of poverty. To do so I claim that, first, it is important to comprehensively understand what it meant by the term 'poverty', which is used extensively throughout the developmental discourse. How does the term mean different things to different people? What has been the historical evolution of our thinking on poverty and how has this been reflected in the microfinance literature? Do those who study poverty in-depth independently identify a role for microfinance? How central is financial management, and specifically in the form of microfinance, to their thinking? Does an explicit theory of poverty and microfinance exist? If not, what could it look like? By way of introduction, a presentation of the history of ideas about poverty, tracking the major historical shifts in thinking is presented. This provides a backdrop to understanding the context of contemporary poverty theories, which are discussed next.

There is no singular understanding or agreement on what constitutes poverty. Within the literature it is possible to identify five main poverty theories; namely Income; Basic Needs; Human Capability; Chronic Poverty; Subjective Poverty; Assets and Sustainability Livelihoods; and Poverty and Vulnerability. The defining characteristics of each are examined for the purposes of asking: What does this 'theory' believe to be the causes of poverty and how is it conceptualised? How should poverty be addressed? And how do they identify a role for microfinance? This examination is necessary if we are to interrogate the relationship between savings and poverty, which demands an appreciation of the specific conceptualisation of poverty.

Having gained this appreciation, the microfinance literature that was presented in Chapter One is re-examined with a specific poverty lens. The literature is interrogated for the extent to which it has formally engaged with poverty theory. As the relationship is found to be weak and wanting, the foundations for an actual theory of poverty and microfinance are proposed. This proposition will be used to guide the type of analysis that is undertaken on the original data set that was collected for this thesis, and is presented in the empirical chapters.

2.1 History of Ideas about Poverty

In discussing the history of ideas about poverty and the poor, Lipton and Ravallion (1995) refer to a first and second transition, with the first taking place in the mid-18th century, and the second emerging post-World War II. The first transition corresponded with the Industrial Revolution in the United Kingdom prior to which it was widely held that an improvement in the position of the poor could only occur through redistribution. Adam Smith was the first to advocate an imperative for addressing the situation of the poor when he stated “no society can surely be flourishing and happy, of which the far greater part of the members are poor and miserable” (Smith (1776/1884) quoted in:Lipton and Ravallion 1995). What marks both transitions is their characterisation of an accelerated investment in human and physical capital, technological increases in the production of food and restraint in the spread of diseases. Demographic transitions and some political enfranchisement of the poor were also common features.

According to data presented by Ravallion (2010), publications that made reference to poverty during these two transitions tended to increase and peak. However, during the 18th century the heightened interest in the topic did not translate into a tone that was sympathetic to the plight of the poor or an expectation that the status quo should or could be challenged, nor that capitalism was a mechanism to address it. In fact, poverty was viewed as a necessary condition for capitalism. By the time of the second transition, which took place not only in the developed world but had its locus in Asia, Latin America and to a lesser degree in Africa during the 1950s and 1960s, the focus was very different. The orthodoxy was for a closed economy model that extracted capital and labour from agriculture for the purpose of developing industry, and the expectation that economic gains from industrialisation would ‘trickle down’ to the poor. The focus on economic growth as the means for reducing poverty corresponded with the understanding that poverty was

defined by the level of income required to maintain a minimum, socially acceptable level of consumption, with those living below this level, i.e. the poverty line, considered to be poor (Ravallion 1996). Critics of course pointed to income inequality and the need for redistribution-with-growth (Lipton and Ravallion 1995; Kanbur and Squire 1999).

In reaction to the inability of planned industrialisation to reduce poverty, a number of alternate views emerged during the mid-1960s to early 1970s. Partly spurred on by the Green Revolution, donor priorities started to shift from infrastructure lending, back to rural development and small farmers. Another critique of the industrialisation bias was its neglect of social sectors, and the role of general human resource development, especially in education and health, in improving productivity. This, coupled with a growing focus on household surveys, led to shifts from a macro-view of the economy, to the micro-view that focussed on households and how they function. The emphasis on the productivity of the poor – and associated levels of income earnings – failed to recognise that many poor people do not earn an income, especially the elderly, children and the disabled, which are often over represented in this group (Lipton and Ravallion 1995).

In 1976 the International Labour Organisation (ILO) proposed the addition of 'Basic Needs' as a conceptual and strategic approach to aid and development. This expanded focus included minimum standards of household consumption (food, shelter, clothing and furniture), the public provision of essential services (water, sanitation, public transport, education, and health), freedom to choose employment, participation in decision making, dignity of individuals and people's, and freedom to determine one's future. The rapid adoption of the Basic Needs theory by the international donor community indicated a shift away from government-to-government relations, to people-to-people and people-to-government relations (Hoadley 1981). Streeten, one of the main advocates for the adoption of Basic Needs, argued that in preference to the previous focus on growth, employment and income redistribution:

> "The evolution, from growth as the principal performance criterion, via employment and redistribution, to basic needs is an evolution from abstract to concrete objectives, from a preoccupation with means to a renewed awareness of ends, and from a double negative (reducing unemployment) to a positive (meeting basic needs). The basic needs strategy builds upon the experience gained in the past and carries it a step further" (Streeten and Burki 1978 pg.412).

One can trace the influence of the Basic Needs theory on subsequent shifts, for example to the 'Capabilities Theory' promoted by Amartya Sen (Desai 2001). Sen defined capabilities as the freedoms people have to lead a life that they value, which may encompass aspects of social functioning, education, healthcare and longevity. His theory placed emphasis on the 'means' of commodities, rather than an 'ends' focus and created a paradigm shift from the focus on economic growth, to the promotion of human well-being. He also placed a strong emphasis on gender issues which he argued should be at the centre of development. His work therefore influenced not only how poverty should be conceptualised, but also how it should be measured.

Sen contributed directly to the launch of the first Human Development Report in 1990, a publication of the United Nations Development Programme, and to the creation of the Human Development Index, a composite index that ranks countries according to average life expectancy, literacy and average incomes. The purpose was to create an alternative benchmark for tracking progress in poverty reduction, and as a counter response to the World Development Report, and its central focus on economic growth as the primary indicator of development. The central thesis of the first Human Development Report was that 'people are the real wealth of a nation', with the purpose of the data presented to provide insight into how human beings in each society live, and what substantive freedoms they enjoy (Greeley 1994; Kanbur and Squire 1999; UNDP 2010).

Although both theories have their shortcomings, the consensus was that a commodities-focused conceptualisation of poverty was too restrictive, and whilst an individual's command over commodities is important, it is an insufficient measure (Lipton and Ravallion 1995). By the turn of the century, the World Bank proposed that a strategy for attacking poverty would need to happen on three fronts. First, promoting economic opportunities through better access to markets for jobs, credit and produce, and expanded access to public assets such as electricity, schooling, water, sanitation and health services. Second, the facilitation of empowerment by making state institutions more responsive and eradicating social barriers for women, the disadvantaged and ethnic and racial minorities. And third, enhancing security through reducing vulnerability to economic shocks, natural disasters, ill health, disability and personal violence (World Bank 2000). Attention to multidimensional understandings of poverty with an emphasis on restrictions in opportunities, vulnerability to shocks and social exclusion, took on widespread appeal

(United Nations 2009). This last shift opened a 'space' in development thinking to the role of microfinance.

2.2 Definitions and Concepts

The definition of poverty determines the measure that is used to assess its existence, which in turn determines the application and choice of poverty reduction policies and programmes (Kanbur and Squire 1999). Yet there is no one single definition of poverty. According to Lipton and Ravallion:

> " … poverty exists when one or more persons fall short of a level of economic welfare deemed to constitute a reasonable minimum, either in some absolute sense or by the standards of a specific society." (Lipton and Ravallion 1995, p.2553) [22]

The World Bank has defined poverty as "the inability to attain a minimal standard of living" (World Bank 1990, p.26), whereby 'standard of living' is a measure based on household income and expenditure. A decade later, however, the Bank was proposing a broader and more nuanced definition:

> "Poverty is pronounced deprivation in well-being. ... encompassing not only material deprivation but also low achievements in education and health. ...include[s] vulnerability and exposure to risk – and voicelessness and powerlessness" (World Bank 2000)pg. 15).

This revised one more closely aligns with the longer-standing definition applied by the UNDP:

> "… poverty means that opportunities and choices most basic to human development are denied – to lead a long, healthy, creative life and to enjoy a decent standard of living, freedom, dignity, self-respect and the respect of others." (UNDP 1997, p.15)

Although the numerous agencies of the UN do not hold to a single definition most are cognisant of a commitment to live a life free of poverty is a human right and one of the fundamental freedoms of the Universal Declaration of Human Rights (United Nations 2009).

In order to appropriately interrogate the literature, it is important to have a clear delineation between poverty concepts, measurement classes, and the prevailing ideological theories

[22] They define economic welfare as "command over commodities", i.e. the consumption of goods and services.

on poverty. A useful schematic is provided by Lok-Dessallien (2000) which employs three poverty concepts: *absolute and relative poverty*; *objective and subjective perspective*, and *physiological and sociological deprivation*.

An absolutist view of poverty focuses on material deprivation and the absolute minimum required for survival, i.e. nutrition, clothing, shelter etc. Absolute poverty is usually translated into an equivalent income level needed to obtain this minimum and is expressed as a poverty line. Positions around this line, the composition of deprivations and constraints that cause them are expressed by relative measures of poverty. By contrast the objective perspective requires normative judgements about what constitutes poverty, and adopts a more 'universal' and 'distanced' description of poverty, whilst a subjective perspective calls upon the poor themselves to define what poverty means to them. Lastly, physiological deprivation is palpable, with concerns centring on issues of food, clothing, shelter, as well as one's state of health and education. Whereas a sociological perspective of poverty opens up a much broader conceptualisation which argues that existing forms of structural inequalities and forms of social exclusion are the root causes of poverty. As exclusion is understood in terms of an individual or group's position in relation to another or society as a whole, it is a relative approach to understanding poverty. In contrast with other concepts, attention is drawn to those groups perpetrating the exclusion as well as those that are being excluded (Laderchi, Saith et al. 2003).

Lok-Dessallien describes two basic types of categories that differentiate families of poverty indicators. First, a means/ends dichotomy creates an important conceptual divide which is an axis for separating the different classes of poverty indicators. 'Means'-based measures and indicators focus on the inputs required to achieve an end result, whilst 'ends'-based measures are concerned with the ultimate outcome. Traditionally, means-based measures such as measures of income and consumption have been favoured as they are easier to collect and there are numerous types available. Ends-based measures are based on Sen's conceptual approach of human capability and entitlements, and as the notion suggests are outcome based, a measure of what an individual is able to obtain, such as the ability to live a long and healthy life, to be literate, and be productive. Such types of measures are becoming more prevalent in national-level poverty studies and reports (May 2001). The second categorisation is between qualitative and quantitative measures. Qualitative

measures are those that are descriptive in nature and are not usually aggregated, whilst quantitative measures can be. [23]

It is clear that there is no one single definition or conceptualisation of poverty, although many use descriptors that encapsulate similar meanings. The two main differences are those that make reference to a material state, and use words such as standard of living, welfare and deprivation, compared with those that make reference to the state of self, using descriptors such as freedom, dignity and self-respect. Given the widespread use of the word 'poverty', both in popular and academic discussions, and the loaded meanings that are often attached, the framing of concepts as described above helps in indicating where the various classes of poverty are placed along these different spectrums (i.e. means/ends, qualitative/quantitative, subjective/objective etc.)

2.3 Theories of Poverty

2.3.1 Income

Income-based measures have dominated the traditional understanding of poverty. Income poverty focuses on material well-being which is quantified using a monetary expression. The status of 'poor' is then usually assigned to households and individuals whose income falls below a deemed acceptable level. Poverty lines and their associated challenges are the mainstay of the income class of poverty indicators. It is an objective, means-based, quantitative measure. Despite its multiple shortcomings, as it is conceptually and analytically easy to understand and to implement corresponding policies, it still remains one of the most frequently used methods for measuring poverty (Bourguignon 2006).

For the most part, other classes of poverty indicators evolved as a critical response to inherent shortcomings of this theory. One of the key concerns is the reliance on the market to determine values and therefore the omission of non-market goods, including publicly provided goods and subsistence production (although many surveys do attempt to include these in their measurement). Issues of regional price differences and inflation provide an added complication in using monetary measures.

[23] Additionally, measures can be presented in a single or composite format. The weighting (if any) involved in forming composite indicators is a contentious and challenging issue, with the allocation usually being arbitrary (Kanbur and Squire 1999).

According to the income perspective, poverty is a result of a number of factors including low labour productivity, low agricultural output, lack of capital investment, weak demand, and other influences that impede people's income earning capacity. The key to addressing poverty, according to the income theory, is economic growth. (World Bank 1978 pg.iii).

According to the 2000 World Development Report, which had the theme of 'Attacking Poverty':

> "Poverty is the result of economic, political, and social processes that interact with each other and frequently reinforce each other in ways that exacerbate the deprivation in which poor people live. Meagre assets, in-accessible markets, and scarce job opportunities lock people in material poverty. That is why promoting opportunity—by stimulating economic growth, making markets work better for poor people, and building up their assets—is key to reducing poverty" (World Bank 2000 pg.1).

Although the Bank has often acknowledged the important role that human capital can play, the role of public health services, improved sanitation and nutrition, education, safety nets and social protection, improved participation and voice for the poor, infrastructure development, and many other policy options, the following quote, from a review of 30 years of the World Development Report best encapsulates their position:

> "…poverty is most likely to retreat and to stay down when economies grow fast. If growth is slow, services and safety nets are not a substitute and become difficult to finance." (Yusuf 2008 pg.78)

Thus confirming its seemingly 'economic growth is paramount' position, with all other alternatives appearing to be secondary.

Given that the World Bank is one of the main proponents of the income theory, they provide an interesting test case for interrogating how this theory relates to microfinance. One might assume that given their focus on the income dimensions of poverty, in which cause is attributed to the rate and quality of economic growth, this would lend itself to incorporating a discussion of microfinance, at least in parallel with its rising position on the development agenda. Yet, microfinance is not listed as a 'topic in development' under the 200 plus topics found on the World Bank's website (World Bank 2011). A search for 'microfinance' does produce numerous hits, all of which are directed to the website of

CGAP which is housed within the World Bank. Microfinance does feature in some World Development Reports (WDR). The 1998 WDR expressed support for the group lending methodology as a mechanism for addressing information asymmetries, which had traditionally made it difficult to lend to the poor (World Bank 1998). Much of the focus subsequently has been on the role of financial markets in aiding development, and the contribution that microfinance can make. According to the 2000/01 report, access to financial markets for the poor is crucial, with the poor being able to benefit from credit, savings and insurance, which can help them to manage risk, smooth consumption, and take advantage of profitable business opportunities (see Chapter Four: 'Making markets work better for poor people'). In Chapter Eight: 'Helping the poor manage risk', microfinance is listed alongside health insurance, old age assistance and pensions, unemployment insurance, workfare programmes, social funds and cash transfers, as a form of safety net to support immediate consumption needs and protect the accumulation of assets.

Microfinance also features in the 2005 report under a "Better investment climate for everyone", and again in 2008 that promoted "Agriculture for development". In the former, the Bank advocates an increase in scope, depth, impact and range of products, which it believes can best be achieved through commercialisation. They reiterate that there is a strong relationship between financial system development and economic growth, and a causal relationship between strong financial systems and per capita income, but that government should not attempt to engineer credit expansion, and should rather focus on developing a sound business environment (World Bank 2005). In the 2008 report, the focus is on rural credit and the report calls on innovation within the sector to provide more flexible forms of lending. The Report also argues that the ability of rural households and agricultural enterprises to make long-term investments and calculated decisions on risky and time-patterned income flows, is determined by the financial system of the economy (World Bank 2008).

So whilst clearly some 'lip service' is given to the role of microfinance, in the broader scheme of things – as understood by those adherent to an income based approach to poverty, its role is somewhat limited, and certainly not central.

2.3.2 Basic Needs

It became widely recognised during the 1970s that a narrow focus on monetary measures, such as income and expenditure, was inadequate on many levels, and that a broader view of poverty was required. Although the need for improved health care and education was recognised as an important factor in improving labour productivity, with the shift away from economic development towards human development, the role of health and education also changed to becoming an important end in itself, and not just a means to an end. The broader perspective of development therefore meant a growing focus on the public provision of services and the consumption of non-monetary of goods and services (Streeten 1981).

First conceived as a "Basic Needs" perspective of poverty, it not only focused on addressing material deprivation, but was also described as a "human right" and "freedom from want" (Streeten 1981 p.26). Although the Basic Needs theory was readily adopted by the international donor community and soon became part of development rhetoric, in terms of actual serious financial support, Hoadley (1981) suggests that true commitment to the theory lasted no longer than five years, and that by the beginning of the 1980s attention had shifted towards building the 'New International Economic Order'. The short lifespan of this theory meant that very little discussion or debates focused on what its proponents believed to be the underlying causes of poverty, the intention seemed more to focus on expanding the definition and broadening the focus of poverty's various manifestations.

Nonetheless Basic Needs theory believed that issues of production, productivity and income were too narrow an understanding for the causes of poverty, and that the poor should also be seen as consumers. To address poverty therefore, one has to also consider assisting the poor in addressing their consumption needs in relation to health, education, nutrition, water supply, housing and sanitation (Streeten 1981). The objective of Basic Needs theory therefore is to assist the poorest of the poor in reaching their potential as human beings, by addressing their non-material needs – which includes a sense of purpose in work and in life, self-reliance, access to power, political freedom, national and cultural identity, as well as their material needs (Streeten and Burki 1978).

Do then the advocates of Basic Needs identify microfinance, or access to financial services, a "basic need" and an integral part in the fight against poverty? Is any reference to it found in their literature? No direct mention of access to credit, insurance or savings, is

provided as a basic need. Whilst any mention of savings by Streeten or Hoadly is usually given in reference to national savings, they make almost no reference to credit. In actual fact, provision of credit receives some criticism as it is given primarily as means for increasing productivity, when little emphasis is given on the contribution that nutrition, health and education also play, in increasing productivity (Streeten 1981). The conclusion drawn from this brief survey is that the promoters of Basic Needs did not identify any obvious or explicit role for microfinance.

2.3.3 Human Capability

Expanding on the work of Streeten and the Basic Needs theory, Amartya Sen and Jean Dreze introduced new terminology to the poverty discourse, describing an individual's ability to command a set of alternate bundles of commodities as an 'entitlement', which is determined by what is owned – an 'endowment' (Dreze and Sen 1989). An entitlement failure, which may be a result of the loss of an endowment or an unfavourable change in an exchange, is what leads to the inability to survive.

Sen argued that what was important was what people were able to 'do' rather than what people could 'buy' with their income and that the focus should be on the intrinsic value of life, rather than the value and utility that goods provide. From this he conceptualised the idea of 'capabilities', which is the ability to be well-nourished, to be able to avoid morbidity or premature mortality, to be able to communicate, to read and write, and to contribute to community life (Pressman and Summerfield 2000). He argued that economics should first and foremost be about expanding options available to people and hence increasing their capabilities.

The work of Sen and the human capability theory has strongly influenced the policy positions of the United Nations, and in particular the United Nations Development Programme. The 1997 Human Development Report referred to three perspectives on poverty: Income perspective; Basic Needs perspective; and the Capability perspective; and noted that the UN's 'human development' conceptualisation of poverty drew most heavily on the Capability perspective, which it defined as:

> "…. represents the absence of some basic capabilities to function – a person lacking the opportunity to achieve some minimally acceptable levels of these functionings.

> …[which] can vary from such physical ones as being well nourished, being adequately clothed and sheltered and avoiding preventable morbidity, to more complex social achievements such as partaking the life of the community.” (UNDP 1997 pg.16)

In essence, the capability theory views the causes of poverty to be whatever it is that undermines the capacity of individuals to live a long, healthy and active life, be that access to education or health services; undemocratic processes that disempower people from participating in society and structures that influence their well-being; or gender disparities that shorten the life expectancy of women, deny them access to resources and leave them unable to leave their homes. The solution to addressing this lies in the public provisioning of social services (health, education, clean water etc.) (Anand and Ravallion 1993; Desai 2001); and addressing issues of gender inequality and other forms of social exclusion and discrimination.

What then do Sen and the United Nations have to say about microfinance? Is lack of access to financial services considered a capability failure or access to it an entitlement? The availability of electronic versions of Sen’s published works, which are quite extensive, enables a rapid search for the use of key words to identify where in his publications this issue may have been discussed.

In this instance, ‘microfinance, ‘credit’ and ‘savings’ were applied as searches in available electronic books. In the over dozen books examined, only three made any reference to these terms; and two of these only fleetingly. In ‘Beyond the Crisis: Development Strategies in Asia’, he referred to the availability of credit as a ‘basic economic entitlement’ (along with education, training and land reform) (Sen 1999 pg. 7), and in ‘India: Development and Participation’ the non-availability of credit is referred to as an ‘economic handicap’ (Dreze and Sen 1996 pg.199).

In the book ‘Development as Freedom’ he does elaborate on the issue in more detail. In the second chapter, he refers to ‘instrumental freedoms’, which are those that either indirectly or directly contributes to overall freedoms. These consist of political freedoms, economic facilities, social opportunities, transparency guarantees and protective securities. In relation to economic facilities, Sen states:

> “The availability and access to finance can be a crucial influence on the economic entitlements that economic agents are practically able to secure.” (Sen 1999 pg.39)

In relation to gender equality and the ability of women to be economic agents, he notes, twice, the important role that the Grameen Bank has played in assisting women to find employment outside of the home and to remove the discriminatory treatment evident in rural credit markets.

And of the United Nations Development Programme? It’s naming of the year 2005 as the International Year of Microcredit, and associated affirmations (see Chapter 1), is strong evidence of the institution’s support for microfinance. In a report issued in 2009, entitled ‘Rethinking Poverty’, microfinance, along with cash transfers, and employment guarantee schemes, were identified as part of a menu of poverty reduction programmes available in most developing countries. However, in a brief review of impact, it noted that due to insufficient research, the ability of microfinance, especially microcredit, to reach the poorest of the poor, and to make a long-term impact on reducing poverty, is yet to be established. The report does note however that there is a growing consensus on the role that microfinance can play in helping the poor maintain levels of consumption during cyclical downturns and unexpected crises, and therefore serves as an important safety net in countries that do not have state-sponsored social security systems (United Nations 2009) .

2.3.4 Chronic Poverty

Analysis of poverty in the traditional ‘static’ state tends to provide little information on the longer-term experiences of poverty, which is often characterised by fluctuation. Aggregated data on poverty does not enable a distinction between those that are persistently poor with those who are transitorily poor. Hulme and Shepherd propose a working definition of chronic poverty as: “occurring when an individual experiences significant capability deprivations for a period of five years of more” (2003, p.405). The chronic poor are identified as those that have little or no mobility and often experience multiple forms of disadvantage concurrently. The Chronic Poverty Report 2004-05 described the chronically poor as:

> "…. People who remain poor for much of their life course, who may pass on their poverty to their children, and who may die of easily preventable deaths because of the poverty they experience". (CPRC 2005 p. 3)

The report also made a distinction between *maintainers* of chronic poverty – namely: low economic growth; social exclusion; disadvantaged geographical regions; high capability deprivation; and failing or failed states, with *drivers* of chronic poverty – namely: shocks or series of shocks, and how resilient people are at coping with these shocks.

Based on the review of a number panel studies, McKay and Lawson (2003) identified five main causes, or characteristics, of the chronically poor. These were: low levels of human capital – i.e. poor educational attainments and illiteracy; demographic factors, namely large household sizes, increased dependency ratios and three-generation households; location – being that chronic poverty is more prevalent in rural areas; lack of physical assets; and occupational status, with particular economic activities more likely to correlate with chronic poverty (although the actual nature of activity varies from country to country). In a micro-study of one household, Hulme (2004) identified major health shocks, few assets, and social exclusion based on age, gender and disability as being one of the main factors keeping the household in a state of chronic poverty. Given the limited prospects for social and economic mobility, held in place by a rigid structure of social interactions, Green and Hulme (2005) argue that the intergenerational transmission of poverty should rather be seen as an outcome of non-egalitarian social relations.

What steps are therefore advocated to address Chronic Poverty? Hulme and Shepherd (2003) propose that in countries where a significant proportion of the population are chronically poor then necessary actions involve the need to redistribute assets, invest in basic physical infrastructure, reduce social exclusion (in employment, markets and public institutions) and provide long-term social security. Additionally, economic growth which increases demand for labour, adequate health care and a regulation of the private health care market, and addressing gender discrimination, are measures that would make an impact, particularly in the Bangladeshi context (Hulme 2004).

The Chronic Poverty Reports of 2004-05 and 2008-09 also made policy recommendations for addressing chronic poverty. The earlier report called for a policy framework that prioritises livelihood security which provides the necessary social protection to prevent and mitigate against shocks. Additionally, there needs to be real transfers of resources through

sustained and predictable financing. The later report again maintained the position on the importance of social protection, the building of individual and collective assets and addressing issues of discrimination and empowerment. To this was added the need for public services for the hard to reach – especially reproductive health and post-primary education, and strategic urbanisation and migration, given the rural bias of chronic poverty.

It therefore needs to be asked – what, if any, mention does microfinance get from those with expertise in the field of chronic poverty. Is there a place for it, can it help, and if so, how?

Over 15 years ago, before chronic poverty was a specialised sub-sector of poverty research, Lipton and Ravallion (1995), in their seminal work on poverty and policy, devote a subsection to credit. They discuss it in the light of chronic poverty, first stating that policies aimed at reducing chronic poverty typically focus on making the poor more productive. Credit, specifically in rural areas is therefore used to obtain current and capital inputs, which are required before farm income is realised. Despite the promising contribution they feel credit can make, they rather uphold that:

> "…. It is hard to maintain hope that chronic poverty can be reduced appreciably by credit-based interventions. Chronic poverty is not typically due to "market failure" in credit or other markets, but to low factor productivity, and/or low endowments-per-person of non-labour factors. If these conditions prevail, even perfect responses of all factor, product and credit markets may leave substantial chronic poverty" (pg 2630).

Hulme and Shepherd (2003) many years later, maintained a similar position, stating that micro-credit is more appropriate in countries where poverty is mostly a transient phenomenon. They argue that very different policies are required for populations that experience predominately chronic poverty. They further argue that the strong emphasis on livelihood promotion during the 1980s and 1990s and the related provision of microfinance and microenterprise development, may have even been detrimental to the chronically poor, as it diverted resources away from livelihood protection – a more pressing need for those in this situation (Hulme 2004).

According to the Chronic Poverty Report (2008/9), the chronically poor also find it difficult to access credit, due to the inappropriate design of products, being excluded by loan

officers for being 'too poor' and self-exclusion due to fear of indebtedness. Financial services in difficult environments and among hard-to-reach groups must therefore be provided in a format different to the 'standard' model. These include member-based systems (financial co-operatives) and decentralised and low-cost structures (Village Banks). Schemes shown to be most effective in reaching the chronically poor are those that are paired with other activities which also include protective and transformative offerings (CPRC 2009).

The role of assets, social and livelihood protection in reducing chronic poverty are also important. Assets are important in providing the capital to create and sustain a livelihood, and to create buffers to protect against shocks. The role of savings and insurance is therefore very important. The final report of the Chronic Poverty Research Centre, notes that the: "Ability to save and insure assets is more important for chronically poor people than access to credit" (CPRC 2011 p.24).

2.3.5 Subjective Poverty

The subjective approach to understanding poverty places a premium on what the poor think, and how they define their own poverty. A participatory theory of poverty, which was pioneered by Robert Chambers, allows the poor to participate in the process of expressing in their own words, how poverty is lived and experienced (Laderchi, Saith et al. 2003).

In the second half of the 1990s the World Bank engaged in an unprecedented process of participatory poverty assessments in over 60 countries. The final product – the 'Voices of the Poor' reports – spans over 3 volumes, and was based on participatory research with over 60 000 poor people. It is possibly one of the richest sources of subjective data on poverty and how it is experienced. It therefore serves as a valuable resource from which to examine how poor people themselves identify a role for microfinance (or not).

The second chapter of the first volume attempts to synthesise and craft a definition of poverty, based on the descriptions provided by participants. The six main findings from this distillation were that:

- Poverty is an interlocking, multidimensional phenomenon.
- Poverty is most commonly defined in terms of a lack of material well-being – especially a lack of food, but also housing, land and other assets.

- Important psychological aspects exist, especially in terms of voice, powerlessness and independence.
- A critical concern is the lack of basic infrastructure, especially roads, transport and water.
- Illness is dreaded and its arrival can plunge a household into destitution
- The poor focus on assets rather than income and relate their vulnerability and exposure to risk to their lack of physical, human, social and environmental assets. (Narayan, Patel et al. 2000)

How then do those that advocate for a subjective theory of poverty, believe poverty should be addressed? The conclusions drawn from the Voices of the Poor research identified four main areas for action:

1. *Start with people's realities*. This includes a diagnosis of poverty, by poor people themselves. It requires much greater focus on the informal sector, recognising that this is where the majority generate their livelihoods from. The protection of health, improvements in infrastructure, and improving literacy and skills are also necessary, as is addressing lawlessness and corruption.
2. *Invest in the organisational capacity of the poor* – who are often unable to organise themselves and therefore ensure their interests and needs are heard. This involves a community driven approach and partnership with civil society.
3. *Change social norms*. As it is social norms, rather than laws, that dictate the nature of relationships, especially those that holds power over poor people (landlords, officials, local elite etc.) these must change if behaviour is to change. It requires changing mindsets and combing the power of the individual, with the power of institutions, and addressing persistent gender inequalities.
4. *Support Development Entrepreneurs*. The use of this term is not referring to entrepreneurs in the typical business sense, but to those individuals who are driven to be change agents, and to form new relationships between the state and the poor, between civil society and international development agencies.

The above findings appear to indicate almost no mention of a role for microfinance. In light of this, all three volumes were revisited to specifically test the question: Is microfinance mentioned, and if so, how? Of the over the 1 200 pages of discussions, only 6 pages deals exclusively with issues of credit and savings, although references to both are dotted throughout the text. It is mentioned briefly though in terms of lack of savings and other

factors keeping Armenian farmers poor; the presence of savings as in indicator of those who are better off in Vietnam; the stresses associated with cycles of indebtedness in India and Pakistan; and the heavy reliance on credit from moneylenders in Nigeria during the hungry seasons.

The common themes that emerge from the modicum of comments include: frequent complaints about the lack of access to formal credit and savings facilities, sometimes with corruption involved; and clear discrimination towards the poorest, especially those without collateral; the sometimes aggressive and intimidating behaviour of formal microloan collectors; negative connotations associated with debt and indebtedness; the importance of informal savings and credit activities; and the heavy reliance on moneylenders, store keepers and pawn brokers for credit.

In conclusion, although the negative comments appeared to outweigh the positive, it was still clear that the need for financial services was relevant and important to the lives of the poor, as this following quote indicates:

> "Men and women say they need credit, not only to improve their livelihoods and for emergencies but also sometimes for daily expenditure during difficult times. When networks of relatives and friends are not sufficient, poor people say that, to survive, they frequently turn to moneylenders, shopkeepers and pawnbrokers" (Narayan, Chambers et al. 2000, p.56)

2.3.6 Assets and Sustainable Livelihoods

Based on the work of Chambers and Conway (1992), the 'Sustainable Livelihoods' approach expands on the idea of capabilities to also include the assets people own and the activities they engage in to create a living. A livelihood is described as:

> "…comprising people, their capabilities and their means of living, including food, income and assets. Tangible assets are resources and stores, and intangible assets are claims and access. A livelihood is environmentally sustainable when it maintains or enhances the local and global assets on which livelihoods depend, and has net beneficial effects on other livelihoods. A livelihood is socially sustainable which can cope with and recover from stress and shocks, and provide for future generations." (pg.1)

‘Sustainable livelihoods’ is not explicitly a theory of poverty, but rather a framework for understanding the objectives, scope and priorities of development, according to poor people themselves. Adopted and developed by the United Kingdom’s Department for International Development (DfID), its poverty-reducing intentions are based on the principles of being people-centred, responsive and participatory, multi-level, partnership-based (private and public sector), sustainable (environmentally, institutionally, socially and economically) and dynamic. It conceives poverty as being multi-dimensional, complex, local and affected by risk and variability (Carney 2002).

A schematic model developed by DFID notes that people operate within a context of vulnerability, in which they have access to assets, which obtain meaning and value through prevailing social, institutional and organisational environments. Five specific livelihood capitals (or assets) are identified: human, physical, social, natural and financial. Assets are referred to as strengths and resources people can call upon to convert into a positive livelihood. No single asset category can sufficiently yield the many and varied livelihood outcomes that people obtain. Human capital refers to the knowledge, skills, good health and the ability to labour, whilst physical capital consists both of infrastructure and producer goods. Social capital refers to the social resources such as networks, group membership, relationships of trust, cooperation, reciprocity and other exchanges that serve as a safety net to poor people (DFID 1999).

According to DFID, financial capital refers to the financial resources people rely upon to obtain certain livelihood outcomes. They include both stocks (cash and liquid assets such as livestock, jewellery, and credit), and regular inflows of money (earned income, remittances, pensions etc.). Such stocks and flows can contribute both to production as well as consumption. The main benefit or purpose of financial capital is its versatility in being convertible into other asset types, its direct use in achieving a livelihood outcome – i.e. purchasing food to achieve food security, and how it can be transformed into political influence (Ibid.).

Of all the different theories of understanding poverty, Sustainable Livelihoods most clearly articulates the role and importance of financial assets and services and locates it in a place of prominence. In fact, it is the only theory (of the ones discussed here), that explicitly notes the role of financial services in addressing poverty. DfID very specifically made an effort to not place emphasis on any one singular type of service, but rather

advocate for a holistic approach of supporting the relevant structures and processes, which include: supporting the development of financial services organisations (savings, credit, insurance, remittances); extending access to these services; reforming industry legislation and regulation; and marketing support (for those who hold assets in non-cash forms).

2.3.7 Poverty and Vulnerability

Vulnerability refers to the likelihood that people will fall into poverty as a result of either a shock in the economic system or due to personal misfortune. Not all vulnerable people are poor, but poor people are usually amongst the most vulnerable. Those not living in poverty may face a high risk of becoming poor should there be a major change in their personal situation – with the loss of a job or a major illness being one of the more common events which plunge individuals and households into poverty (United Nations 2009).

Vulnerability is not just another dimension of poverty, but it can also be a cause of poverty. Narratives consider the insecurity and sensitivity of individual, household and community well-being in an environment of change. In this case, vulnerability is understood as one's responsiveness and resilience to risk (Moser 1998). In one sense, poverty is described in the static, whilst vulnerability more closely aligns with the dynamic nature of poverty. Whereas poverty is a state which is assessed after the fact, vulnerability "focuses on assessing the extent of the threat of poverty or low well-being, measured ex ante, before the veil of uncertainty has been lifted" (Dercon 2005 pg.486).

Although vulnerability is not a form of poverty, the two are strongly entwined. Therefore in defining vulnerability, it should be relative to some benchmark, in this case – vulnerability to poverty. Vulnerability is therefore "…determined by the options available to households and individuals to make a living, the risks they face and their ability to handle these risks" (Dercon 2001 pg.27). Whilst poverty is the 'ex-post' outcome of a process in which individuals make choices about assets and incomes in the context of risk, vulnerability to poverty is ex-ante to this process – it measures or describes exposure to poverty, rather than the poverty outcome itself. It is described as forward looking – making a statement about future poverty, and is a product of risk.

Like poverty, vulnerability is multidimensional and conceptions should not be limited to monetary or consumption measurements, but can also be conceived as having educational, nutritional, and health related dimensions, for example. Vulnerability to poverty is determined by the options available to individuals and households to make a specific living, the risks they face in making this living, and their ability to mitigate against such risk (Dercon 2001).

Therefore, by reducing poverty, one also reduces vulnerability, and by addressing vulnerability, one can also reduce poverty. What then, do the experts on vulnerability, say are the most appropriate ways to address it? Whilst sustained, pro-poor, economic growth is an important strategy for reducing poverty in the long term, the immediate interest in relation to vulnerability shifts to risk, and how one can go about reducing risk and mitigating against its eventualities. The provision of social safety nets is becoming an increasingly recognised policy response to vulnerability. This can include conditional and non-conditional cash transfers, food aid, food for work, vouchers for education or health, unemployment benefits, health insurance, etc. Other policy interventions identified by Dercon include:

- Macroeconomic stability with low inflation (so as to not erode savings)
- Better functioning asset and product markets
- Microcredit which enables households to build up assets.
- Microsavings and micro-insurance to pool risk
- Improved health care and insurance to strengthen human capacity.

Financial services have a direct and obvious role to play in reducing vulnerability. As risk is strongly related to vulnerability, access to micro-insurance products, which seek to spread various risks over a large group of people, can play a role in reducing the negative outcomes of vulnerability. Savings can play a similar role to insurance, as it can enable the household to access cash to protect against the negative consequences of an economic shock. It can be used to allow households to build up assets, and thus reduce their levels of vulnerability. Credit facilities can also play a similar role in assisting households to build their assets, but can at the same time increase a household's vulnerability in terms of its exposure to debt.

This section has looked at microfinance *from* the perspective of various theories of poverty. It assumes that the importance of microfinance is dependent on the poverty

theory being examined. Consequently, a review of the literature suggests that from an income perspective microfinance is not central issue. Rather, the financial sector plays the key role through its contribution to economic growth. From a Basic Needs perspective, microfinance is almost entirely absent. For Sen and his theory of Human Capability, microfinance is afforded a cursory mention although this is extended by the UNDP that promotes microfinance as a mechanism for smoothing consumption during seasonal fluctuations and unexpected shocks. Those concerned with chronic poverty believe that microcredit is not an appropriate response, but that savings and insurance can play a role in helping to protect the assets of the very poor. A much more prominent and dynamic role to microfinance emerges in the literature on Assets and Sustainable Livelihoods theories where financial assets are explicitly identified as one of five asset groups that can contribute to a sustainable livelihood. And in the related issue of vulnerability, microfinance is clearly identified as a possible tool, especially insurance, for reducing risk

2.4 Revisiting References to Poverty in the Microfinance Discourse

The previous sections of this chapter provided a tour of the concepts and definitions of poverty, the evolution of thinking on the topic, and major contemporary theories. In light of what has been presented, it is necessary to revisit the microfinance literature and more closely examine the application of poverty terminology and theory. In their quest for reducing poverty, to what extent have microfinance theorists drawn upon the poverty discourse, and aligned themselves with specific poverty theories? If alignments are noted, are they implicit or explicit? Which articles make direct reference to one of these theories, and in which cases do inferences need to be drawn?

Unlike the first chapter, which covered more than 60 years of literature, this section will be limited to discourse mostly from the last decade, as it is given for illustrative purposes. This examination identified four main positions around which most of the discourse clusters. That being: those that only made a cursory acknowledgement or passing mention of poverty; those that made an explicit affiliation – mostly in reference to the type of poverty measure used in an impact assessment; those that made an implicit affiliation with one or more of the poverty theories; and finally those that engaged directly with the theory and discourse.

2.4.1 Cursory Acknowledgement

For the large body of publications that only mention poverty in passing, a void is created as to what they may understand poverty to mean, which can only be filled with assumptions regarding what they may or may not be implying. Examples of this include Dale (2001) who discusses creating people-centred institutions, Reille, Sananikone et al. (2002) who compare impact assessment methodologies of various MFIs, stating the need for them to scale up to help the world's poor, but with only mentioning the word poverty twice. Wright and Mutesasira (2001) undertakes a study of savings habits of 'poor' people, but without providing a definition of 'who' is poor and how it was determined that they were poor. Woller (2002b) makes a number of references to 'poverty focused microfinance NGOs' but without providing an explanation of what this might mean. Dowla and Alamgir (2003) discuss the importance of expanding services to include flexible savings for the 'poor', and Fernando (2003) discusses the important role of pawnshops. The relationship between insurance and poverty reduction is discussed by Mosley (2003), again without any clarity of definition.

A slight improvement on those who mention poverty in passing, are publications which provide some explanation, but usually in a cursory form, and sometimes with the presentation of empirical data. This includes Kalala and Ouedraogo (2000) who present empirical data on 'the poor,' but without describing which measure they used to identify these people. Many of the discussions on targeting discuss poverty lines and 'poor people' in general as their measure, but don't go into any further detail, just that microfinance is not reaching the "poorest" – for example Hickson (2001). Copestake, Johnson et al. (2002) discuss the use and importance of qualitative data on measuring impact of microfinance on poverty, again, without explaining which conceptualisation they were applying.

Another cluster of publications that also does not discuss poverty in a conceptual sense, but refers to 'poor people' in conjunction with some related microfinance topic. This includes Wright and Mutesasira's (2001) discussion on how savings should be deregulated and Wright (2001) who focuses on differentiating the product needs of the poorest of the poor, the poor and the not so poor. In a literature review of over 350 articles on microfinance, Brau and Woller (2004) make use of the word 'poverty' 31 times, but at no point provide any indication of how they themselves have conceptualised it, or how they interpret the use of the term in the 350 articles they review.

2.4.2 Explicit Affiliations

The second group refers to those articles that explicitly draw upon specific or multiple conceptualisations of poverty. Examples of this include Wright (1997), who directly questions the ‘income poverty’ bias in microfinance and the ‘promotional’ role of microfinance, which has the underlying assumption that the provision of credit results in the generation of income, and therefore the reduction in poverty. He directly references the works of Sen and calls for a broader and less linear conceptualisation of poverty which appreciates fluctuating income levels (a reference to the concepts of transitory and chronic poverty) and that microfinance products can play a protectionist role, which help minimise shocks, in conjunction with supporting income generating opportunities. Ssewamala, Sperber et al. (2010) also directly reference Sen, and detail his impact on the development discourse, when describing what they term an ‘asset-based’ development approach, and the role that savings-led programmes can play in building community and household assets.

A limited number of articles were found to use the words microfinance and capabilities in the same sentence, and was done so in the context of improving women’s health capabilities. The research presented a framework and empirical data of how participation of women in a microcredit programme provided them with access to resources, social support, self-efficacy and voice, which in turn provided them with the means to seek out health-improving activities (Mohindra and Haddad 2005). A similar paper that evaluated the effects of self-help groups in India (a form of ASCA), also identified this mechanism, when done in a participatory manner, and with enabling partnerships, as an effective means for empowering women and improving their capabilities (Tesoriero 2005).

These two examples refer to typical ‘Credit First’ approach to microfinance, but effectively identify access to credit as a means to achieve a different type of capability – that of the empowerment of women. In Mosley’s assessment of the impact of microfinance on poverty in Bolivia (2001), he seeks to measure impact on income, asset holdings and vulnerability. He makes use of income measures which are employed within the poverty sector, of the headcount measure, and the poverty gap measure. However, the use of assets is in reference to it being a more reliable indicator of income and it leading to wealth accumulation, than of the assets as it is referred to in the sustainable livelihoods theory. Vulnerability was discussed in terms of risk and the potential for asset diversification to reduce risk and vulnerability.

Woller (2002a) identifies the very poor as the bottom 50th percentile of households below the poverty line within a country. In his review of microfinance impact he states:

> "Taken as a whole, the evidence demonstrates a positive impact on enterprise and household income and asset accumulation, household consumption, and women's empowerment, and in helping poor households to manage and cope with risk". (pg. 304)

In his discussion of 'pro-poor' microfinance institutions in South Africa, Baumann (2003) also provides a income based, poverty line description of how the poor have been identified, but in this description of 'poverty-oriented' MFIs, he does not provide any explanation as to what he means by this.

2.4.3 Implicit Affiliations

The next subset of publications are those that don't directly acknowledge the poverty discourse, but demonstrate an implicit affiliation to one or more of the more common theories of poverty. These include a group that use poverty lines and income levels as their measures of impact. Examples include Hoque (2003) in Bangladesh, Paxton (2003) who developed a scale sensitive poverty outreach index by a modification of the Foster, Greer, Thorbecke poverty measure (which incorporates headcount, depth and inequality). Again in Bangladesh Amin, Rai et al. (2003) use income and consumption data to test the targeting ability of an MFI. Hiatt and Woodworth (2004) undertake a quantitative study to measure poverty impact by comparing, old, new and ex-clients. Poverty measures were socio-economic (food security, health, housing, education, empowerment & social capital), daily per capita expenditure and daily minimum wage equivalent.

In an input report for the 2000/01 World Development Report, Wright, Kasente et al. (1999) made use of an assets and vulnerability approach to measuring the impact of microfinance on poverty. They specifically sought to test if financial services improve a client's capacity to manage and control assets and to build up their asset base to manage and cope with risk. Their findings, based on research on the Uganda' Women's Finance Trust, found that access to and use of financial services (including the full spectrum of formal and informal offerings) reduces vulnerability by providing access to 'chunks' of money which can help households protect against risk and cope with shocks. This drew on

both the 'Assets and Sustainable Livelihoods' and 'Vulnerability' theories to understanding poverty[24].

Zeller and Sharma (2000) draw a schema to illustrate the relationship between financial services and food security, and present three pathways by which the former can lead to the later: a) improved income generation; b) decreasing costs for self-insurance through more cost-efficient assets, c) consumption credit. The discussion is presented in the context of an 'assets based theory', and basically believes that formal financial services can provide more efficient, lower cost mechanism for securing consumption and reducing risk. They conclude that MFIs could do more to address poverty by making consumption loans available.

References made to poverty in Mcguire and Conroy (2000), who review the microfinance 'phenomena', is done so in a context of the role that microfinance plays in improving the productivity of the poor, existing lack of opportunity for wage employment, and that microfinance works best where income generating opportunities exist. In identifying an implicit assumption of allegiance to an income-based understanding of poverty, CGAP (2001) attempts to cover a number of bases, when it describes microfinance as a having the ability to improve livelihoods, reduce vulnerability, strengthen assets and empower economically.

Mathie 2002 describes poverty targeting strategy of 25 MFIs – and how they identify the poor – a combination of testing income levels and subjective identification by locals. Whilst Cohen and Sebstad (2005) provide a detailed study on micro-insurance from their interest in vulnerability and how insurance can help poor people deal with risk and coping with shocks etc. Interestingly though, it does not draw upon any of the vulnerability literature, only publications from within the microfinance arena.

2.4.4 Direct Engagement

Of the over 150 articles published on microfinance in the last decade and reviewed in this thesis, only a handful have been found that actually engage directly with poverty theory. Greeley (2003) calls for a 'measurable and comparable' concept of poverty within the

[24] It is also clearly entrenched within the position of 'Financial Services School's' concept of 'useful lump sums' – which is discussed in the following section.

sector, cautioning against the focus on market failure as the root cause behind lack of financial services provision, instead of a failure in poverty reduction policy. He identifies three main reasons as to why the sector does not have a suitable poverty performance standard. Firstly, he states that there is confusion over what is meant by the term poverty; secondly that there is a perception that measuring outreach can be expensive and difficult to undertake, and thirdly, there has been little incentive to measure poverty impact as it has not been a condition of funding. He proposes a combination of measuring impact on income poverty, along with other 'social' dimensions, which he notes includes health, education, and empowerment. To this list, Copestake (2003) adds food security, adequate housing, water supply, sanitation and personal freedoms. Both of these lists appear to draw upon the basic needs and human capabilities conceptualisations.

Kabeer (2003), in the quest to widen understandings of poverty, as they influence cause-and-effect conceptualisations in impact assessment methodologies, raises his concerns on the focus on 'economic' understandings of poverty, i.e. income-based theories, which in turn lead to preoccupations with increasing household incomes. He argues the need for a non-economic conceptualisation of poverty as:

> "It reminds us that poverty is multidimensional: the poor are characterised not only by low levels of income, but also by having no assets, poor access to government services, vulnerability, isolation, dependence and a sense of powerlessness and fatalism (Appadurai 1989; Chambers 1992). A social understanding of poverty takes account of these other "deficits" that matter to people, sometimes more than money." (pg. 107)

Kabeer then goes on to make direct reference to Amartya Sen, including a descriptive on the human capabilities theory. He uses Sen's emphasis on non-metric approaches, including the importance of human capital – nutrition, health, education etc. as well as the role of social networks and abilities to exercise agency, as a further justification for tracking progress in these fields.

Yunus, in 2003, rejects conventional economic theory and claims that the route to eradicating poverty is to create an entirely new conceptualisation of it. Entrepreneurship and self-employment lay at the centre of his ideas. He believes that it first needs to be recognised that the concept of employment needs to be widened and that every single human being should be seen as a potential entrepreneur (and thus financial service

access must be universal). According to him, social entrepreneurs (entrepreneurs who are first motivated to do good, before making a profit) are the key agents for creating a world of peace, harmony and progress.

Given that poverty reduction is considered the ultimate goal of microfinance, it is indeed concerning that such limited engagement with the poverty discourse is so evident. Of course many published and refereed articles are not primarily focused on theoretical issues or debates, but rather many are presenting new ideas and positions or simply the findings of some empirical research. Unfortunately though, this substantial non-alignment to any specific poverty theories creates a large gap which can only be filled with assumptions – assumptions about who are the poor, why they are poor, and how exactly microfinance is going to help them. This raises the question as to how microfinance delivery might actually look like, if a foundation based within poverty theory, was used as its departure point.

2.5 Formulating a Theory of Microfinance and Poverty

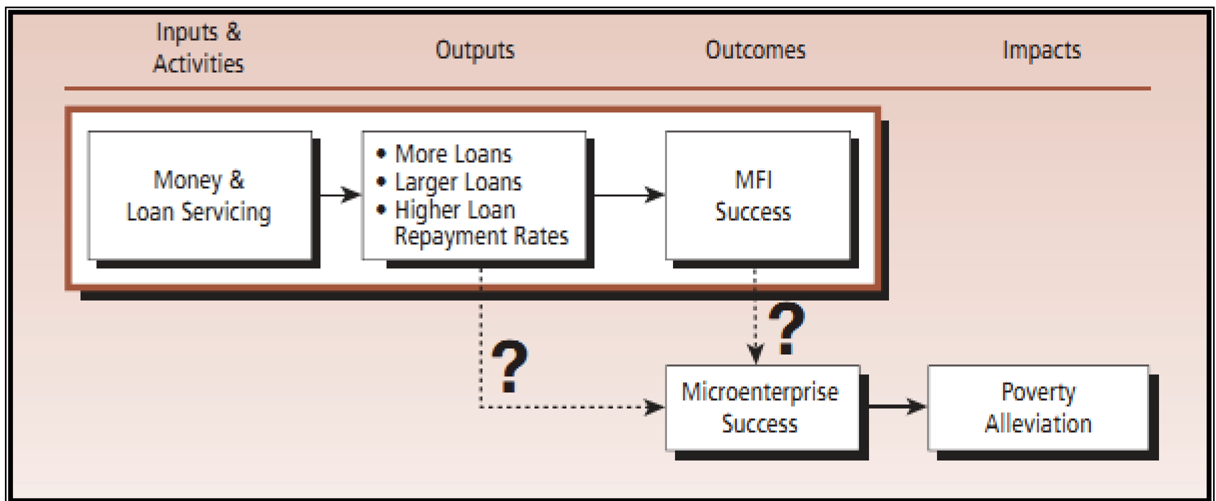
Whilst the above section has examined individual publications, and the extent to which they have engaged with the poverty literature, this section will attempt to formulate a theory of microfinance and poverty by drawing alignments between the two main microfinance approaches: Credit First and Financial Services and the seven poverty theories described in section four.

2.5.1 The Credit First Approach

Although rarely stated explicitly, the provision of microcredit is most closely aligned to the 'income' theory to conceptualising and measuring poverty. An income-based understanding of poverty focuses closely on the market-based production and consumption activities of households. Credit First advocates prioritise the provision of micro-loans to poor farmers and entrepreneurs. The premise is that a cash advance will allow them to commence or expand activities that will improve their productive output, which in turn will increase their household income. The theory is firmly entrenched in the notions of market-based solutions. It must however be acknowledged that the emphasis on access to women and their related empowerment does align with one of the Sen's main priorities.

The promotionalist/income view of the relationship between access to credit, and increased income can be seen as somewhat overly simplistic. Those critical of this view (Datar, Epstien et al. 2008) argue that the largest barrier for understanding whether or not microfinance reduces poverty is that very few MFIs have actually articulated would it would mean for microfinance to work, how it could work, for whom, when and where it could work. What is missing is a formulated theory of change which articulates how inputs and activities create outputs which lead to outcomes and impact. Whilst most MFIs state that their ultimate goal is to alleviate poverty, the assistance provided ends with the handing out of loans. The assumption is that this credit will lead to beneficiaries establishing profitable businesses, which in turn will lead to economic self-sufficiency – as illustrated in the Figure 1 below.

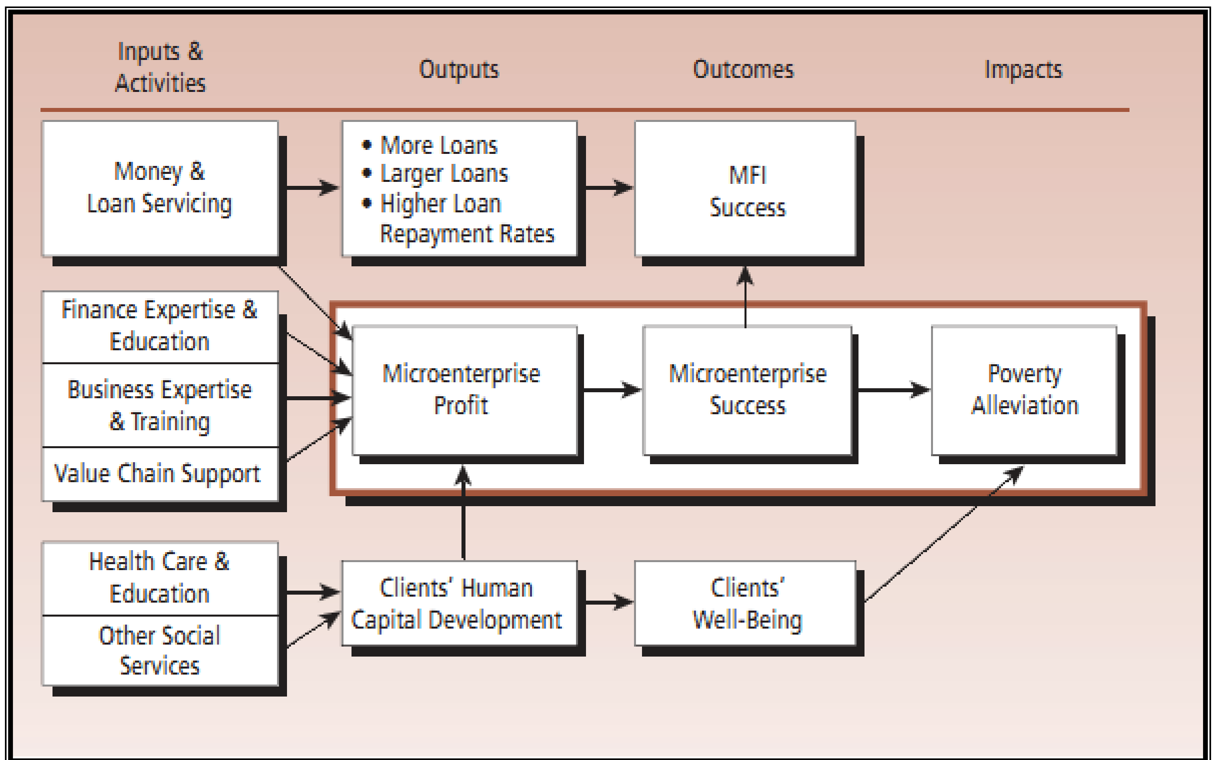
Figure 1: Institution-Centred Microfinance



Source: Data, Epstein et al. 2008, pg. 42

Such MFIs are labelled as 'institution-centred' as they aim to reach greater numbers of people by offering a limited number of basic, low-cost services. Indicators of impact are provided in the form of loan repayment rates, loan size, and number of clients. In attempting to address the flaw in this logic, the authors advocate 'Client-centred' MFIs, which are based on a different theory of change. Such MFIs are focused on nurturing the profitability of the borrower's business, and therefore must offer a greater range of services, including financial education, management training, value chain support and social services (as illustrated below in Figure 2). Only then, can an MFI make any claim to having a direct impact on the poverty status of their clients.

Figure 2: Client-Centred Microfinance



Source: Data, Epstien et al. 2008, pg. 43

Another critic who draws attention to the defects in the line of reason / correlation between access to credit and poverty reduction is Richardson (2000), who argues wealth and wealth accumulation is the missing link in equation:

> "One of the most misunderstood concepts of poverty alleviation is the relationship between income, wealth, and savings. The focus of many traditional microfinance programmes has been credit-oriented: loans will provide poor people with a means to generate more income. Very little mention is made of wealth, or the difference between what you earn and what you spend ….. It is both heretical and hypocritical to talk about poverty eradication without incorporating savings accumulation into the poverty alleviation strategy". (pg. 2)

When expressed this way, it is argued that poverty reduction occurs when a household accumulates wealth, an activity which is facilitated by setting aside the differences between income and expenditure, i.e. savings.

2.5.2 Financial Services Approach

The financial services approach can be seen as having close affiliations with more than one of the poverty theories. Its focal point of interest is in the money management strategies of the poor, and in particular how cash is handled, has some resonance with the income theory, which also has a monetary focus. That is perhaps where the similarities end, as productive capacities and market based focus of the income theory creates a fork in the road. This theory is also very much centred around understanding the needs of the poor, as articulated by them, and working alongside them to strengthen them through formal and informal solutions. This rings true with the subjective understanding of poverty.

Considering the human capability theory, which defines poverty as a capability failure, the contribution of microfinance would be the inability of microfinance services to reach the poor in a way that is meaningful and useful to them. As Sen defined a person's capability as the ability to satisfy certain important functionings, then it is fair to examine the microfinance provision in such a light. Ruthven (2002) attempts to do this in his detailed description of the complex and varied forms of financial intermediation of slum dwellers in Delhi, highlighting a chasm that existed between the needs and potential of this population and the formal financial services they are offered. She concludes:

> "… the research has highlighted the weak foundations of many assumptions that development organisations and financial institutions make about the urban poor …. The development of services that related to the 'real markets' in which slum dwellers operate, rather than simplified models of such economic and social relationships, is the next step in financial service provision". (pg. 270)

Hulme (2004) also takes on a similar perspective when using the case study of a single household in rural Bangladesh, unpacking the reasons why a relatively well-off household fell into a state of poverty and how the malfunctions of state, markets, family and societal institutions kept them in continued state of suppression. He cites cases including lack of health and life insurance to protect against the devastating effect of poor health and ultimate death of a breadwinner, along with the inability to benefit from the presence of local MFIs, as one of the many capability failures inflicted upon this household.

The sustainable livelihoods theory could also provide support to the Financial Services approach in its recognition for a broader range of services that more closely link to supporting and strengthening the existing livelihood strategies of poor people. Coping with

risk is one of the three main needs of money management, as identified by Rutherford (2000a). The financial services approach therefore also has very a high resonance with the vulnerability and poverty theory. Matin, Hulme et al. (2002) neatly summarise all of the above when they state:

> “Most recently, the poor have been conceptualized as a heterogeneous group of vulnerable households with complex livelihoods and varied needs (Carney, 1998; Scoones, 1998; Ellis, 2000). From such a perspective microfinance is seen as a means for achieving household priorities (e.g. paying school fees, meeting funeral expenses), reducing vulnerability (e.g. a sudden drop in consumption, income or assets) and/or increasing income. It is this broader understanding of poverty that informs our paper and leads us to argue that ‘microfinancial services’ is the concept that should inform external agents intervening in the area of finance for the poor.” (pg. 274)

The concepts of risk, vulnerability and consumption smoothing appear to make the greatest contributions towards poverty, or at least vulnerability to poverty, as understood by the financial services approach.

2.6 Conclusion

The purpose of this chapter has been to create a focused discussion on the various conceptualisations of poverty, how these have evolved over time, and which theories and approaches currently inform our understanding. This has been for the purpose of exploring the extent to which poverty theories engage with the microfinance discourse. Equally important as been a re-interrogation of the extent to which the microfinance literature has embedded itself within the various poverty theories.

The first contribution made by this chapter has been to identify which of the various poverty theories have independently identified an explicit role for microfinance as a policy response. The findings have revealed restrictive and limited opportunities. The importance of such an undertaking is justified given the extent to which microfinance has advocated itself as a poverty-reducing tool. The revealing outcome of this exercise is the limited attention to microfinance on the landscape of policy options. Whilst some of the theories made cursory acknowledgements, only one – Assets and Sustainable Livelihoods - identified an overt position with regard to ‘microfinance’. And even in this case, it is not conceptualised as microfinance as it is normally characterised, but as ‘financial assets’, in a broad and comprehensive sense.

The review of poverty theory was then juxtaposed with an analysis of the ways in which the microfinance literature has engaged with poverty theory, poverty terminologies and measurements. The outcome revealed a considerable shortcoming in the extent to which microfinance research has grounded itself in recognised poverty theory. Drawn from this, the second contribution of this chapter has been the identification of gaps that exist. Clearly, a theory of poverty and microfinance is not explicitly evident. The nature of a causal relationship between access to financial services and a reduction in poverty has yet to be made evident. Rather, what has emerged is the potential for financial services to reduce risk and vulnerability – via a number of mechanisms including assistance in coping with unexpected shocks; building a households' asset portfolio, and enabling stable consumption in spite of income fluctuations. Most of these ideas have emerged mostly from the Financial Services approach. It is imagined that microfinance's ability to increase household income via access to production loan capital, as promoted by the Credit First approach, would be tabled as a secondary outcome.

This finding therefore identifies an opportunity to test the boundaries of this proposed relationship more explicitly. In particular, it highlights the need to better understand the role savings can play in helping households to acquire assets, to secure their livelihoods and to reduce their vulnerability. More comprehensive evidence, which empirically tracks the activities of households and their engagement with various financial instruments, including over time, is required.

Chapter 3 South Africa in Context

This chapter provides the context for the fieldwork, and the empirical data and results presented in subsequent chapters, focusing on the characteristics of poverty and financial service provision and access in South Africa. Although it is tempting to position discussion around contemporary data, as the fieldwork was mostly undertaken in 2002 and 2004, I have restricted the chapter so far as possible to an account of conditions up to and including that period. Moreover, as some of the qualitative fieldwork and all the quantitative fieldwork were undertaken in KwaZulu-Natal (KZN), the discussion concentrates on conditions in this province (see Figure 3 for a map of the Republic of South Africa including its nine provinces).

Figure 3: Map of the Republic of South Africa and its Provinces

Source:http://www.123rf.com/photo_14167485_south-africa-map.html%27%3Ebogdanserban

3.1 Defining Characteristics of Poverty in South Africa

It is not possible to discuss poverty in South Africa, without first making reference to Apartheid. The National Party, which was in government from 1948 to 1994, ensured that the white population had priority access to economic opportunities, services and infrastructure, which was denied to the rest of the population.[25] The government actively dispossessed black people of their assets and an ability to generate income and wealth by restricting access to markets, infrastructure and education (Carter and May 1999; Carter and May 2001). The legacy of Apartheid is the main determinant of the most salient features of poverty in South Africa: high levels of inequality, founded along lines of race; high unemployment; low agricultural productivity in small scale farming; high levels of labour migration; gender bias in the economy and social life; high levels of crime and endemic HIV/AIDS.[26]

Given the limited interest in the welfare of the African population, very little data on living standards were collected under the apartheid regime. The first comprehensive survey of the entire population was conducted only in 1993, a joint undertaking of the World Bank and the University of Cape Town. It followed a similar format to the World Bank's Living Standards Measurements Surveys, and was known locally as the South African Labour and Development Research Unit (SALDRU) household survey. The results of the survey provided the first comprehensive picture of the distribution and characteristics of poverty in the country (Klasen 2000). The publically available data set has been one of the primary sources of empirical analysis and publications on poverty in South Africa.[27]

Another important dataset which has been influential in informing poverty policy was the first household panel study in South Africa – known as the KwaZulu-Natal Income Dynamics Survey (KIDS). The panel, based on surveys conducted in 1993, 1998 and 2004, used a subset of households from KwaZulu-Natal that were interviewed in the 1993

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[25] Under apartheid all individuals were classified as belonging to one of four population groups: white, African, coloured or Asian/Indian. Black people were generally referred to as the three non-white groups.

[26] South Africa has one of the highest crime rates in the world (Terreblance 2002).Whilst wealthy people are more likely to be victims of property crime, poor people, largely black and female, are at greater risk of personal crime. In terms of victimisation, 23% reported having been a victim of crime in the preceding 12 months, with the most prevalent crimes being housebreaking, corruption and theft of personal property (Burton et al 2004).

[27] From 1993 a number of additional sources of data have appeared including: the national population census (1996, 2001), the annual October Household Surveys (1995 - 1999), the annual General Household Surveys (2000 – 2010), five-yearly Income and Expenditure Surveys (2000, 2005 and 2010) and the bi-annual Labour Force Surveys (since 2000). These are collected by the central government statistics agency, commonly referred to as 'Statistics SA'.

SALDRU survey. Of the 1 389 households interviewed in KZN in 1993, 1 171 were re-interviewed in 1998 (including 41 households that had split to form separate households) (Roberts 2001).[28] The 2004 wave involved interviewing all households of core members, including those that had split. New households, consisting of adults who were children at the time of the original surveys and had established their own households since were interviewed, as were children of core members, under the age of 18, but were being cared for elsewhere. From 2004, information is available on 74% of the 1998 dynasties, and 62% of the households from 1993 (Aguero, Carter et al. 2007).

At the end of Apartheid, South Africa had one of the highest scores for income inequality in the world, a figure that did not improve over the subsequent decade. In fact, South Africa's Gini coefficient rose from 0.69 in 1996 to 0.77 in 2001 (HSRC 2004). [29] Although inter-racial inequalities in the distribution of income have been one of the main driving factors, there has also been a substantial increase in intra-racial inequalities. Table 1 show that inequality has grown within all population groups. These and other data illustrate a picture of the rich getting richer and the poor, relatively, getting poorer. Such high levels of inequality can have the effect of distorting the utilisation of productive resources, undermining economic growth potential and exacerbating poverty levels (UNDP 2003).

Table 1: Gini coefficient by population group

	1991	*1996*	*2001*
African	0.62	0.66	0.72
White	0.46	0.50	0.60
Coloured	0.52	0.56	0.64
Asian	0.49	0.52	0.60
Total	**0.68**	**0.69**	**0.77**

Source: HSRC (2004)

In addition to income inequality increases within population groups, average poverty rates paint a picture of poverty disparities according to race, gender and location. As can be seen from Table 2, more than half of all Africans (56%) were considered to be living below the poverty line in 2002, compared with only one-third of Coloureds (36%), one in seven Indians (15%) and one in 14 whites (7%). Females are also more likely to be poorer than

[28] White and Coloured households were excluded due to low numbers and possible sampling bias.
[29] A Gini coefficient is a number between 0 and 1 which represents the level on income inequality in a country or defined population. A score of 0 represents perfect equality, where everyone earns an equal amount, compared with a score of 1, indicating that one household has earned all the income and all other households have earned nothing.

males – 51% compared to 46%. The province with the highest poverty rate is the Eastern Cape, followed by Limpopo and the Free State. Although ranked seventh out of nine provinces, half of all residents in KwaZulu-Natal, the most populous of the country's provinces (containing approximately 20% of the country's 40 million inhabitants), are considered to be living in poverty (HSRC 2004).

As suggested by Table 2, the poverty gap – that is, the difference in the mean shortfall below the poverty line, expressed as a percentage of the national poverty line - is significant and has grown despite economic growth, provoking what Aliber described as ''jobless growth'. At its peak in 2000 growth reached a four year high but job losses in the formal sector were still increasing (Aliber 2003). In 1996, the poverty gap was equivalent to 6.7% of Gross Domestic Product (GDP). By 2001, this had increased to 8.3% (HSRC 2004).

Table 2: Poverty Rate and Poverty Gap (2002)

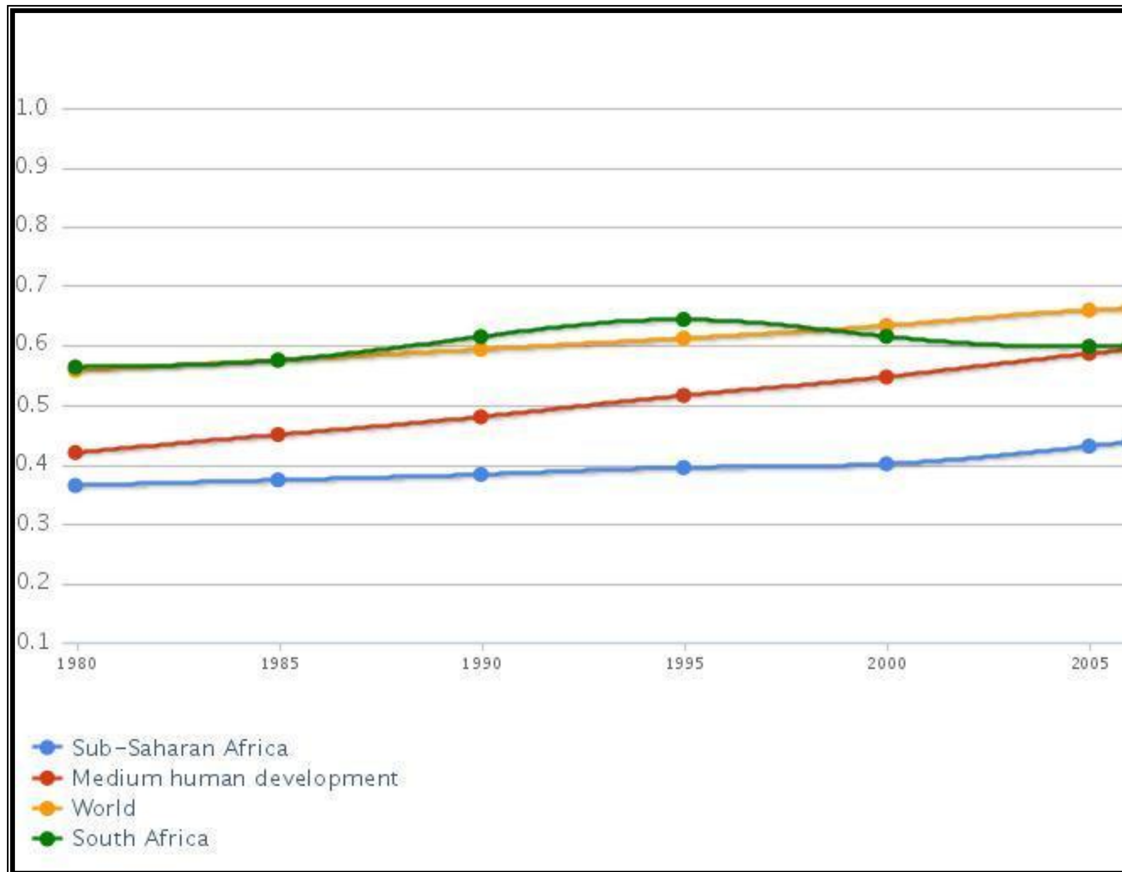
	Rate[1]	*Gap*[2]
South Africa	**48.5%**	**18.0%**
Male	45.9%	17.8%
Female	50.9%	18.2%
African	56.3%	21.5%
Coloured	36.1%	11.6%
White	6.9%	2.4%
Indian	14.7%	4.4%
Western Cape	28.8%	8.5%
Eastern Cape	68.3%	27.9%
Northern Cape	54.4%	19.6%
Free State	59.9%	20.3%
KwaZulu-Natal	50.5%	18.9%
North West	56.5%	21.9%
Gauteng	20.0%	7.9%
Mpumalanga	54.8%	20.0%
Limpopo	60.7%	23.5%

Source: UNDP (2003)
1: Rate is the percentage of the population below the national poverty line of R354 ($33.71) per month per adult equivalent in 2002.
2: Gap is the mean shortfall below the poverty line, expressed as a percentage of the national poverty line.

On a Gross National Product (GNP) per capita basis, South Africa is considered a 'middle-income' country, with an income similar to countries such as Brazil, Mauritius and Malaysia. However, as has been discussed in previous chapters, income is only one way of expressing poverty and this status disguises the reality for the majority of people. Using non-monetary comparisons of poverty and well-being, such as the Human Development

Index (HDI), reveals a different picture. Figure 4 plots the South African HDI from 1980 to 2005, showing its position in relation to the rest of sub-Saharan Africa and the world. In 1990 South Africa's HDI was 0.615; by 1995 it had improved to 0.644, after which a decline was experienced in 2000 to 0.616, with a further drop to 0.599 by 2005. The main contributor to this decline was a fall in life expectancy from 63 years in 1990 to 56.3 years by 2000 (WHO 2011).[30]

Figure 4: Human Development Index Trends – 1980 - 2005



Source: http://hdrstats.undp.org/en/countries/profiles/ZAF.html

As these studies indicate, poverty for a great many people in South Africa is long-term and possibly inter-generational. In discussing chronic poverty in South African, Aliber notes:

> "In South Africa, the question of whether poverty tends to have an intergenerational dimension is complicated by the fact that until very recently the policy of apartheid cruelly limited the opportunities available to the majority black population. Almost all

[30]A consequence of the HIV/AIDS epidemic, which is discussed further on.

poverty was intergenerational, because colonialism and apartheid left little room for it to be otherwise." (2003, pg.479)

Aliber then goes on to identify and describe eight different categories of chronically poor people. Seven of these categories are: female-headed households; people with disabilities; the elderly; retrenched farm workers[31]; cross-border migrants – including refugees, asylum-seekers and undocumented migrants; homeless / street dwellers / informal squatter settlement dwellers; and AIDS orphans and households with AIDS sufferers. An eighth category is the rural poor, which Aliber regards as poor through lack of employment opportunities and access to productive resources.[32]

Such an observation is in line with the results from other studies. Using the 1993 SALDRU data, Klasen (2000) created a multi-component deprivation index based on 14 capability components.[33] The scores generated were also compared with an expenditure-based poverty line. Both indicators were found to correlate highly with living in a rural area, living in a former homeland, being African, a low level of education and being a female-headed household. Using the KIDS data set Roberts (2001) calculated that in KZN, 87% of chronically poor households were located in rural areas.[34] According to calculations undertaken by May, Woolard et al. (2000), 70% of poor individuals reside in rural areas. Various policy measures under the Apartheid regime enabled the systematic removal of prime farming land from the indigenous population, leaving many people in rural areas essentially landless. As a result of the 1913 Native Land Act, 90% of the total land surface was appropriated by white people, with African people sent to 'reserves' (Ntsebeza and Hall 2007). For those with access to land, plot sizes were shown to be small and of poor quality. Very few are able to obtain any economic benefit from this land, even in subsistence farming, due to lack of market access, finance and training (Aliber 2003).

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[31] Between 1970 and 2000, 860 000 farm jobs were shed, resulting in eviction from the farms where many were raised, with no other "roots" elsewhere to return to, leaving many homeless.

[32] During the second half of the twentieth century, the Apartheid government, through various acts of legislation, sought to control the residence and movement of the African population. Labour and pass controls resulted in the splitting of families, with men working in cities and mines, and woman based in rural 'reserves' – which were small pockets of marginal land, allocated for Africans. The poor income earning opportunities in these locations meant that many rural African households were entirely dependent on a system of migrant labour with daily commutes of up to 50kms to workplaces not uncommon (May 1996).

[33] Indicators to measure capability included education, income, wealth, housing, water, sanitation, energy, employment, transport, financial services, nutrition, health care, safety and perceived wellbeing.

[34] These data also show that the chronically poor have bigger households – especially more children - have lower educated adults, are more likely to be female-headed, and to have at least one adult migrant worker. They are more likely to receive an old-age pension, spend less money on food per adult, and have less access to arable land.

Again, using the KIDS dataset, and based on an 'entitlements' perspective, Carter and May (1999) identify eight discrete livelihood strategy classes for people living in rural areas. Firstly, identifiable from the data are the different clusters of activities from which households generate an income, with most undertaking more than one of the following: agriculture: for own sale and consumption; small and microenterprise activities; wage labour, claiming against the state, household and community members; unpaid domestic labour; illegitimate activities; and non-monetised activities. From these possible income earning activities, then identified strata of households which utilised a similar bundle of tactics that share common survival strategies and thus formed distinct livelihood classes. These included: marginalised households which had no access to wages, remittances, or welfare payments; welfare dependent households; remittent dependent households; secondary wage dependent households (informal labour); primary wage dependent households (formal labour); mixed income with secondary wages; mixed income with primary wages; and entrepreneurial households.

One of the poverty theories discussed in the previous chapter was that of subjective poverty, which focuses on involving the poor in defining what poverty means to them. Reference was also made to the 'Voices of the Poor' publication, which drew on participatory research from over 60 countries. The South African Participatory Poverty Assessments (SA-PPA), which took place in 1995, as a complement to the 1993 SALDRU survey formed the South African contribution to the 'Voices' research. The SA-PPA encompassed 15 linked studies undertaken by 45 researchers from 20 different organisations. The fieldwork covered 25 communities from seven provinces, including ten sites in KwaZulu-Natal (May and Norton 1997). At the local level, perceptions of poverty clustered around five main issues. These included: a sense of isolation from family and community (especially the elderly, young single mothers and those with HIV/AIDS); lack of income, expressed in terms of low wages, lack of employment opportunities and lack of employment security; poor nutrition, unable to educate children and lack of access to water; differences in experiences based on age and gender; and finally issues relating to vulnerability and concerns for the future, including how people cope with negative shocks (Ibid.).

It is quite apparent that it would be impossible to fully address the issue of poverty, without concurrently reducing the high levels of unemployment – which requires both improvements in human capital (skills and education) and sustained and rapid economic

growth (UNDP 2003). According to Aliber: "Protracted unemployment is a major determinant of protracted poverty" (2003, pg.479). From 1970 to 1995 unemployment rose from 20.1% to 36.1% in the population as a whole and from 24% to 46% among Africans. Women are more likely to be unemployed than men, with African women experiencing the highest rate of unemployment at 60%, whilst 65% of African youth, those aged between 16 and 24, were found to be unemployed (Terreblanche 2002). Reasons for the drastic increases in unemployment have been attributed to slow growth in the economy since 1974, an increasing capital-intensity, structural shifts in production (especially a decline in the primary sector and increase in services sector) and a sharp increase in the population growth amongst Africans (Meth and Dias 2004; Banerjee, Galiani et al. 2006).[35] To provide some perspective on the magnitude of this problem, Table 3 compares unemployment in South Africa with other regions and relevant clusters. The table shows that unemployment levels in South Africa far exceed the average unemployment rates in all other developing country regions, in some cases by a factor of ten!

Table 3: International comparison of unemployment rates (%) 2000 - 2002

	2000	*2001*	*2002*
Asian and the Pacific	3.8	4.1	4.2
East Asia	3.2	3.6	4
South-East Asia	6	6.8	6.5
South Asia	3.4	3.5	3.4
Industrialised countries	6.1	6.4	6.9
Latin America & the Caribbean	9.7	9.6	9.9
Middle East & North Africa	17.9	18.9	18
Sub-Saharan Africa	13.7	14	14.4
Transition Economies	13.5	12.6	13.5
South Africa (official)[1]	**25.8**	**29.5**	**30.5**
South Africa (expanded)[1]	**35.9**	**41.5**	**41.8**

Source: UNDP(2003)
1The official unemployment rate only counts those as unemployed actively looked for work in the last 4 weeks, whilst the expanded definition also includes discouraged work seekers.

The provision of basic facilities, especially access to water and sanitation, electricity, formal housing, and other forms of infrastructure all have an important impact on the living standards enjoyed by a country's citizens. The following tables compare the percentage of households that access/enjoy selected 'basic needs', from the 1996 population census, to the 2001 census. In Table 4, data are presented according to population group at a

[35] High unemployment amongst Africans has also been exacerbated by the segregated education system that provided sub-optimal education and employable skills to this population group.

household level. The facilities include households that live in a formal dwelling, those that use electricity as their main source of lighting, those with piped water to the house or stand, and those with a flush or chemical toilet. A very clear picture emerges from these data – African households experience the worst provision of basic facilities. However, a closing of the gap, with improvements in access between 1996 and 2001 for Africans, can be seen. Other population groups also experienced marginal improvements, and in a few cases (formal dwelling and flush toilets for whites), a marginal decline. The data are indicative of a government policy during this period of improving access to basic services to the previously disadvantaged communities (May and Meth 2007).

Table 4: Households with access to basic needs (%) by population group

	Formal dwelling		*Electricity*		*Piped water*		*Flush toilet*	
Year	**96'**	**01'**	**96'**	**01'**	**96'**	**01'**	**96'**	**01'**
African	45.5	55.5	44.0	62.0	75.1	80.2	34.1	41.9
Coloured	83.1	85.7	84.0	88.9	96.0	97.8	79.9	84.5
Indian	91.7	92.7	99.0	98.8	99.1	99.2	97.9	97.9
White	96.0	95.1	99.6	99.2	97.1	99.4	99.6	98.7

Source: Statistics SA(2004)

The other major contribution of public policy to poverty mitigation or reduction is the well-established and functioning system of social grants. Since the end of apartheid these grants have undergone considerable expansion with coverage now extended to all race groups. The five means-tested state security grants include three targeted at children: the care dependency grant; the foster care grant; and the child support grant, and two at adults: the disability grant and the old-age pension. In February 2003 it was calculated that just under six million people received grants worth a total of R2 250 million ($214 million) per month, representing approximately 3% of GDP and 13% of total government spending (Lund 2006). Nevertheless, despite this commitment and the widespread coverage, only 30% of those considered poor were eligible to receive grants in 2002, leaving approximately 15 million people without support (UNDP 2003).

It is not possible to understand poverty in South Africa without also understanding its relationship to HIV and AIDS. South Africa has one of the highest rates of HIV prevalence in the world, and has the largest number of people living with the illness (UNAIDS/WHO 2004). The relationship between poverty and HIV/AIDS are strongly interlinked, with poverty being a major driver of the epidemic. It also increases the rates of poverty as those in the productive age bracket become too ill to work, culminating in losses in household

income which is concurrent with increases in expenditure on health care and funerals (UNDP 2003). The nature of the epidemic has far reaching consequences from the macroeconomic to the microeconomic. As Whiteside (2002) aptly puts it:

> "There is a cycle between HIV/AIDS and poverty. AIDS deepens poverty and increases inequalities at every level, from household to global. The epidemic undermines efforts at poverty reduction, income and asset distribution, productivity and economic growth. AIDS has reversed progress towards international development goals. It is one of the most profound developmental challenges faced in modern human history, not because of its direct impact, but for the influence it has on other development policies and goals". (pg. 325)

As government expenditure on health care increases, fewer resources are available to spend on measures for poverty alleviation and social welfare, and as productivity and economic growth slows, government collects less revenue (Whiteside 2002).

The first, and so far only, nationally representative household survey on HIV prevalence in the general population, was conducted by the Human Sciences Research Council (HSRC) in 2002. Along with a questionnaire that collected information on demographic characteristics, knowledge and communication about HIV/AIDS, sexual experience and behaviour, willing participants also provided an oral swab, which was used to test for HIV. The estimates revealed prevalence in the population as 11.4%, and 15.2% of those aged between 15 and 49. Prevalence by province revealed Gauteng, the Free State and Mpumalunga to be the highest (ranging from 14.9% to 14.1%). The fourth highest was KwaZulu-Natal, at 11.7%. Considering only those within the reproductive age bracket (15-49), the prevalence rates by locality revealed urban informal areas to be the highest (28.4%), followed by urban formal (15.8%), tribal areas (12.4%) and farms (11.3%). In South Africa, females are more likely to be infected than males (17.7% compared with 12.8%), and Africans more likely to be infected (18.4%) compared with Coloureds (6.6%), whites (6.2%) and Indians (1.6%) (HSRC 2002).

3.2 The Landscape of Financial Services in South Africa

As expressed earlier, all aspects of South African society and economy have been affected by apartheid. The financial services sector is no exception, often considered to exist in two worlds – the first offers well regulated and highly sophisticated products and services to a minority of the population, and the second, consisting of informal, sub-

standard and limited options of financial intermediation for the majority. In 2004, when the final elements of the fieldwork were completed, South Africa celebrated the ten year anniversary of the country's first democratic elections and was a timely moment to reflect on the achievements and challenges faced by the financial services sector (Ardington, Lam et al. 2003; Porteous and Hazelhurst 2004; Rogerson 2004).

An important change to the financial landscape since 1994 has been the greater role for foreign capital, banks and companies, previously disallowed, as well as new sets of regulatory and structural changes introduced to realign domestic practices with international standards (Daniels 2001; Ardington, Lam et al. 2003; Singh Arora and Leach 2005).[36] The financial services sector has also taken steps to widen participation in terms of black ownership and management, procurement from black-owned companies and expanding access of the general population and specific target areas such as housing and Small, Medium and Micro Enterprises (SMMEs). The commitment to transformation and black economic empowerment (BEE) was voluntary from the private sector, and in October 2003 an agreement between government and all regulated institutions (banks, insurers and fund managers) was signed (Porteous and Hazelhurst 2004).

The Financial Services Charter committed signatories to increase access to poor households and communities, invest in transformational infrastructure, agricultural development and small and medium black-owned businesses (Singh Arora and Leach 2005).[37] The Charter refers to three different tiers of financial institutions. Explained in more detail by Porteous and Hazelhurst (2004), the first tier refers to traditional commercial banks which are governed by the Banks Act and require a minimum R250m ($39m) for start-up. Second tier banks have more relaxed requirements, are allowed to take deposits and facilitate payments, but are limited in certain high-end transactions, such as foreign exchange or capital market trading. These are specialist, low-end participants such as PostBank (based within post offices), Ithala and Teba Bank. Third tier banking refers to member-based financial institutions, which can be either formal or informal and

[36] Despite the relaxation of controls, the retail sector is still dominated by four main banks.

[37] Accessibility is not only a matter of the geographical distance between the consumer and the banking outlet. Someone may have access to a particular service or product and may choose not to use it. It could therefore be argued that the focus should be usage, as opposed to access. For policy makers, the distinction is crucial as it enables an identification of what proportion of the population can use a service or product, if they choose to, and what proportion choose not to, due to one or more aspects of the 'value proposition' (Eighty 20 2007).

include ROSCAs, burial societies, Village Banks, Credit Unions/Savings and Credit Co-operatives, and other developmental NGOs.

Although the Charter was primarily driven and owned by the private sector, the government has not been a passive player. Most of its interests and interventions, however, have been focused on the SMME sector, and the hopes this sector might make to employment creation and income redistribution. From within the National Department of Trade and Industry, support was mainly offered in the form of two dedicated agencies – Ntsika Enterprise Promotion Agency and Khula Enterprise Finance. As the names suggest, Ntsika's mandate focuses on business development services, whilst Khula is a wholesale finance institution supporting retail financial intermediaries that deal directly with SMMEs (Rogerson 2004). Its three main functions are, first, Apex financing for retail financial intermediaries that lend to microenterprises[38], second, a credit guarantee scheme and, third, provincial private equity funds (Porteous and Hazelhurst 2004). These national initiatives were complemented by other parastatals include the Land Bank, for agricultural entrepreneurs, and the Umsobomvu Youth Fund which focuses on job creation and skills development aimed at young people. Ithala Bank, based in KwaZulu-Natal and a subsidiary of the provisional development corporation, provides retail transaction services to low-income clients, from its 40 branches. It is the only provincial level institution to do so (Ibid.).

3.2.1 The Microfinance Sector in South Africa

Numerous articles and reports refer to the almost 'overnight' creation of the microfinance sector in South Africa in 1992 (Coetzee and Cross 2001; Daniels 2001; Meagher 2002; Siyongwana 2004; Eighty20 2007). The story is best described by Porteous and Hazelhurst (2004) who recount:

> "In the early 1990s, making finance available to micro enterprises was seen as one way of addressing the country's growing unemployment crisis. To support the sector, micro finance was effectively legalised by the last Minister of Trade and Industry of

[38] Although in 2003 the government announced it was to establish a separate apex-financing body for MFIs (and remove this service from Khula). The South African Microfinance Apex Fund (Samaf) was not established though until 2006 see: www.samef.org.za

the apartheid era on 31st December 1992 when he signed into law an exemption to the Usury Act.[39] This exemption removed price control on small loans.

> The outcome was totally unexpected: the subsequent emergence of commercial micro lending in SA has proved to be one of the most dramatic developments in the landscape of access over the past decade. Few predicted the explosive growth in micro lending, or the degree of commercialisation. Nor did they anticipate that micro lending would be channelled mainly into consumer spending rather than into micro enterprise. Lenders were only too happy to lend, often well in excess of consumers' ability to repay – if indeed lenders even bothered to calculate this. And millions of consumers, who had little or no access to formal credit before the 1990s, found they had easy access to small loans; in fact credit was now actively marketed to them" (pg. 77).

Compared with the 'average' client in other developing countries, that are usually rural, female, poorly educated and lacking other sources of savings and credit, the 'typical' client of the South African microfinance market are government and private sector employees (Meagher 2002). According to Porteous and Hazelhurst (2004)"…lending to self-employed people for their micro enterprises has been marginal in its overall penetration and its impact" (2004 pg. 78). In terms of overall size, the volume of loans disbursed by the microfinance sector, as a percentage of total credit extended by the entire finance sector, was estimated in 1999/2000 to be 2.08%. Given that this was achieved within a 10 year period from a virtually non-existent sector, Daniels (2001) describes this growth as "remarkable".

Table 5 provides a picture of the size and institutional contribution of credit within the microfinance sector, at the beginning of the century, whilst Table 6 illustrates the same contribution, with regards to savings. The data confirms the dominance of retail store lending and the registered small loans industry, compared with commercial banks. Furniture sold on credit is responsible for the largest proportion of retail store credit (Ardington, Lam et al. 2003). With regards to savings, Stokvels, the local name given to ROSCAs, clearly play an important role in facilitating savings, with the largest number of participants, although commercial banks hold the greatest volume of actual savings.

[39] This Act was later amended in 1999 to curb some of the exploitative behaviour of highly profitable lenders on low-income borrowers. At the same time, the Micro Finance Regulatory Council (MFRC) was established (Daniels 2001).

Table 5: Retail outreach in the micro-lending market in South Africa

Retail Institutions	*Date of Source*	*Loans (ZARm)*	*Loans ($USDm)**	*# of Loan Accounts*	*# of Outlets*	*% Rural*
Public sector		**320**	**52**	**65000**	**75**	
Land Bank	Mar-00	20	2.9	30,000	25	80
Provincial parastatals	Jun-99	300	49	35,000	50	80
Private sector		**12,591**	**1,820**	**7,975,580**	**15,944**	
NGOs	Dec-99	80	13	50,000	27	35
Credit Unions	Apr-00	9	1.3			
Co-operatives	Dec-99	7	1.1		25	80
Commercial Banks	Dec-99	25	4.1		4,000	33
Retail stores	Apr-00	5,000	721.5	2,173,913	1,000	35
TEBA Cash	Apr-00	130	18.8	86,667	172	40
Microenterprise focused	Dec-99	40	6.5	65,000	20	100
Registered small loans	Apr-00	7,000	1,010	5,600,000	5,700	35
Pawn Brokers	Apr-00	300	43.3		5,000	35
Informal sector		**400**	**57.7**		**825000**	
Mashonisas[40]	Apr-00	150	21.6		25,000	35
Stokvels	Apr-00	250	36		800,000	35
Total		**13,311**	**1,930**	**8,040,580**	**841,019**	

Source: Ardington, Lam et al. (2003)
*USD conversions based on the average for the year given

Table 6: Retail outreach in the micro-saving market in South Africa

Retail Institutions	*Date of Source*	*Savings (ZARm)*	*Savings ($USDm)*	*# of Savings Accounts*	*# of Outlets*	*% Rural*
Public sector		**1,696**	**277.6**	**2,840,000**	**2,415**	
Provincial parastatals	Jun-99	650	106.4	840,000	50	80
Post Office Outlets	Jun-99	1,046	171.2	2,000,000	2,365	35
Private sector		**4,662**	**751.5**	**4,742,000**	**4,279**	
NGOs	Dec-99	5	0.8		27	35
Village banks	May-00	2	0.3	3,000	60	100
Credit Unions	Apr-00	10	1.4	6,000		
Commercial Banks	Dec-99	4,000	655	4,000,000	4,000	33
TEBA Cash[41]	Apr-00	600	86.6	700,000	172	40
Microenterprise focused	Dec-99	45	7.4	33,000	20	100
Informal sector		**200**	**29**	**8,250,000**	**800,000**	
Stokvels	Apr-00	200	29	8,250,000	800,000	35
Total		**6,558**	**1,058.1**	**15,832,000**	**806,694**	

Source: Ardington, Lam et al. (2003)
*USD conversions based on the average for the year given

[40]Mashoniasas is the local term used for individual informal lenders / loan sharks.
[41] TEBA cash is a paymaster service for the mining industry which pays salaries, pensions and deferred pay throughout all of Southern Africa.

The target beneficiaries of third-tier banking are the poor, and those living in rural areas, but not exclusively so.[42] They are decentralised, community-level institutions which are controlled and managed by members, and usually based on a 'savings-first' method (Cross and Coetzee 2001). In 1994, an exemption to the Banks Act made allowances for 'common bond' organisations to accept deposits, but under the adherence of certain conditions, which included membership of a self-regulatory umbrella body. According to ECI Africa (2003) this sector has not received the recognition and government support it deserves, and has been subject to largely uncoordinated approaches to support and expansion.

Baumann (2001) argues there is a diminishing consensus on what microfinance is for and what it should achieve. Other than the 'microcredit for enterprise development' paradigm, other visions exercised by various government departments include:

- Microfinance as a substitute for transfer payments (as expressed in the Department of Social Developments' Social Finance Programme).
- Savings mobilisation as a social good (driven by the former Finance minister).
- Social asset mobilisation (driven mostly by NGOs).

As he points out, there has been only limited state-support to member-owned financial institutions and policies have done little to address the financial service needs of poor households. As he put it:

> "Unfortunately, in the past, lack of clarity about these different forms and functions of microfinance [promotionalist versus protectionist] has led to debate at cross-purposes, with some implicitly assuming an SMME microcredit focus, whilst others assume a social mobilisation focus…..microfinance policies intended to meet the needs of economically marginalised households must carefully define the developmental challenge if they are to be effective". (2001 pg. 2)

Instead, he laments, the record shows promotion as a subset of a growth and employment policy that does not and cannot address issues of poverty reduction and social development.

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[42]Although Coetzee and Cross (2003) state: "… if rural people do not turn to self-help organisations, no real volume of financial services will be forthcoming in rural areas" (pg. iii)

In searching for the truly 'pro-poor' microfinance sector, Baumann (2003) set out criteria for identifying not-for-profit institutions which employ social intermediation methodologies for the purposes of augmenting the livelihood strategies of the poorest, in order to alleviate poverty. Social intermediation methodologies are defined as "… programmatic strategies that identify, develop, and employ community-level relational resources to extend micro-financial services, almost always to very poor households" (pg. 11). Four institutional types were identified – solidarity lenders, financial service co-operatives/credit unions, Village Banks, and savings and credit networks. His detailed research, however, only revealed a total of ten existing microfinance institutions that met this 'pro-poor' standard.

So whilst a limited number of pro-poor MFIs have been identified to exist in the country, the 'self-help' sector of grass-roots, community owned and driven initiatives, however is not in short supply. Much has already been written and researched about stokvels in South Africa, which are considered to be informal solidarity groups, with many known variations and purposes. An umbrella body, the National Stokvel Association of South Africa (NASASA), was established in 1988 to lobby the interests of stokvels. NASASA provides education and public awareness programmes, encouraging low-income communities to save in this 'self-managed' format. There are an estimated 800 000 stokvels, burial societies and ROSCAs in South Africa (Philip 2003). Although enjoying a substantial heritage and history, there are still substantial risk factors involved for participants. Based on qualitative research involving 63 case studies, Coetzee and Cross (2001), found the single greatest risk factor affecting groups was financial mismanagement, lack of transparency and lack of prompt reporting on financial issues. These issues form part of the qualitative research described in Chapter 5.

Following a similar format to stokvels, burial societies in South Africa are another example of member-based, third tier institutions that provide an important form of financial intermediation. More than seven different traditional, hybrid and commercial forms of burial societies have been identified. Although they fulfil important social needs, the main reasons for belonging is to receive assistance, cash and in-kind, at the time of a death. Most societies pool contributions and accumulate funds to pay out when required. The 2003 FinScope estimated eight million South Africans belong to a burial society, and with an average of 88 members per group, indicating approximately 100 000 societies in

operation in South Africa.[43] Average contributions are R61 ($9.50) per month, with the majority of members being black (Porteous and Hazelhurst 2004).

Savings and credit co-operatives (SACCO) also referred to as 'credit unions', are a further example of a member-driven, financial self-help arrangement active in South Africa. SACCOs in South Africa are registered with and regulated by the South African Credit Co-operative League (SACCOL), which was established in 1993. In 2003 there were just over 8 000 members spread across approximately 40 SACCOs (SACCOL 2012).

3.2.2 Village Banks in Practice: The South African Experience

The launch of the Village Banks in South Africa took place in 1994 with three pilot initiatives in the North West Province. IFAD's involvement consisted only of funding the work of international and national consultants during the initial ten month set-up period after which the project was taken over by the provincial Department of Agriculture (IFAD 1997). The three pilot communities were Kraaipan, Lotlhakane and Motswedi. The purpose of the pilot was to develop the Village Banks concept further and to assess its viability, with the potential for creating a national and/or regional strategic plan. At the time of inception, there were no structures, systems or procedures in place, and no final agreement with the link banks as to the extent of their involvement (ECI Africa 2003).

An assessment was carried out at the end of the pilot phase in 1997. All three of the pilot banks had focused on depository activities and basic statistics on their context and structure are presented below (Table 7). It is noticeable that Motswedi bank, which was established last, and has a substantially smaller client population, managed to obtain a total deposit value that far exceeded the other two.

Although the banks evolved differently, similar strengths and weaknesses across the three were identified in the review. High levels of interest and support were shown towards the banks by the community members; they all enjoyed committed and trusted staff and were able to generate adequate financial activities. Their low operating costs and proximity to users meant they were able to offer a service competitive with the next best option (the post office). According to the review, local control helped to create a sense of ownership and personal responsibility. On the downside, the need for training was noted, especially

[43] "FinScope" is introduced in more detail in the following section.

for board members to understand their roles, for shareholders to understand how they can be involved, and for book-keeping skills for the banks' staff. There was limited institutional support and some form of association to support the banks was needed. Relationships with the link banks needed to be clarified and it was noted that the banks were vulnerable to outside influences. This risk included governments, NGOs and local authorities that may be eager to assist in their expansion or control their actions, which could result in a reduced sense of control and ownership by shareholders. The legal identity of the banks were also a concern, along with inadequate internal controls (van Zyl 1997).

Table 7: Basic information of pilot banks

	Kraaipan	*Lotlhakane*	*Motswedi*
Estimated population	24 000	20 000	7 000
Date Established	December 1994	July 1995	February 1996
Number of Shareholders	370	150	206
Total Deposits in Rands	R134 600	R57 000	R241 000
$USD equivalent*	$31 300	$13 230	$56 050
Link Bank	First National	Volkskas	Volkskas

Source: van Zyl (1997)
* Based on the average annual exchange rate for 1996

Following the review, an association of the banks, known as the Financial Services Association (FSA) was formed to provide support services to members, including training and the development of new products and services, and to fund the development of new Village Banks. [44] The first task of the FSA was to make a submission to the Registrar of Banks for a special exemption from the Banks Act. This was published in March 6, 1998, and meant that the FSA had to take responsibility for regulating its members, effectively a form of self-regulation. After numerous attempts to find a sponsor, the Department of Social Development, provided a grant of R7m (approx $1.15m) to enable the proper establishment of the FSA's structure and capacity, and for it to take responsibility for establishing 70 Village Banks in seven provinces. [45] Over the funding period of 30 months, 29 Village Banks were established (ECI Africa 2003).

The story of the FSA was unfortunately a short lived one and it was wound-up at the end 2002. After the initial pump-priming from the Department of Social Development, it did not receive any further funding from the Department or any other source (see (ECI Africa

[44] In South Africa, the individual banks are registered as Financial Services Co-operatives. The FSA in this case refers to the umbrella body which is an association of all the individual banks.
[45]The interest and involvement of the Department of Social Development came from its Social Finance Programme which had been looking for sustainable mechanisms for grant distribution in rural areas.

2003; Basu, Blavy et al. 2004; Porteous and Hazelhurst 2004). Individual Village Banks were left therefore to continue with their operations but without additional external funding or further assistance for training or product development. Responsibility for Village Bank regulation was passed eventually to The South African Microfinance Apex Fund (SAMAF), which was established in 2006.[46] According to their website (www.samaf.org.za), 16 of the banks are currently registered. Although unfortunate, the demise of the FSA strengthens the Village Banks as perfect experiment as sustainability and impact were not influenced by additional institutional support and outside donors.

3.2.3 Secondary Research and Empirical Findings

One of the challenges in obtaining a comprehensive picture of microfinance within South Africa has been the lack of available data. Two important research initiatives have made a significant contribution to understanding the money management practices of South African households. These are the annual FinScope surveys managed by FinMark Trust and first undertaken in 2003, and the Financial Diaries project, which was ran 2003/04. Other available findings include small scale localised studies on funeral insurance and money lenders, as well as two studies that made use of secondary data sets.

FinMark Trust was established in March 2002 with initial funding from the United Kingdom's Department for International Development (DfID). It is an independent trust with a mandate to make financial markets work for the poor through promoting financial inclusion and regional integration. This is achieved primarily by its research and advocacy activities (FinMark Trust 2008). In 2003, FinMark initiated an annual survey known as 'FinScope' which is funded by a syndicate of institutions. The survey is nationally representative and tracks consumers' perceptions on financial services, management and related issues (FinScope Africa 2005). The results of the 2003 survey include:

- 51% of the population is considered 'banked', 36% were previously banked and 13% have never been banked. [47]

[46] SAMAF is a wholesale funding institution that took over part of the responsibilities of Khula Finance. Its purpose is to finance micro, small and survivalist businesses and to build a network of sustainable self-sufficient MFIs.

[47] People were considered banked if they held any of the following accounts: ATM/Debit/Credit card, savings book, post office savings or transmission account, current/cheque account, fixed deposit, garage card, money market account, or a mortgage.

- 43% of Black people are banked, compared with 94% of Whites, 48% Coloured and 74% Asian.
- 54% of the 'never banked' are from rural areas, 88% are black and 86% are low income.
- 85% of the currently banked are employed.
- Main reasons given for never being banked were 'do not have a job', 'don't have a regular income', and 'I earn too little'. Only 3% stated that their reason for not having an account was that they didn't need one. (FinScope South Africa 2003)

The findings illustrate a fair degree of movement in and out of a state of being 'banked', with over a third of the population having once used a bank account, but no longer do. A clear bias is evident indicating that access is more likely denied if one resides in a rural area, is of a low income, black and unemployed. Although these four indicators are highly correlated, increases in unemployment may explain the high rate of 'previously banked' people.

In contrast to this broad, nationally representative survey, the Financial Diaries Project, undertaken by Daryl Collins from the University of Cape Town, consisted of a year-long study in three different areas in South Africa – Langa, a township in Cape Town, Lugangeni, a rural village in the Eastern Cape, and Diepsloot, a peri-urban area on the edge of Johannesburg. In the study, the every-day financial transactions of 166 households were tracked through fortnightly interviews.[48] The objective was to compile a picture of their financial lives by recording daily income, expenditure and financial exchanges and changes in physical assets (Collins 2005c). All possible known transactions on formal and informal instruments were recorded, a total of 14 formal and ten informal instruments (Collins 2005a).

The study revealed the poor to be active financial managers – having so little money requires that every cent be managed well. Some of the main findings were that:

- On average, households used 17 different financial instruments over the year, which included four savings instruments, two insurance instruments, and 11 credit instruments. The split between formal and informal was 30% formal, 70% informal.

[48] The study followed a similar methodology that was used by Rutherford in Bangladesh and Ruthven in India.

Rural households were found to use approximately the same number of instruments, as urban households.

- Two-thirds of the sample had savings accounts at a bank, although most of them appeared to be used as transaction accounts, and not for long term savings.
- Two-thirds of the sample belonged to at least one stokvel (ROSCA), whilst only 38% had a long term savings instrument. Stokvels are used as savings for a specific time or event.
- The most frequent unexpected event is the request to contribute to an out-of-household funeral, which occurred in 81% of all households, whilst 47% had two or more requests. In-house funerals were funded from a number of sources including savings, insurance pay-outs, borrowing and contribution from neighbours.
- Almost all (95%) of households paid some form of debt each month. One quarter were considered highly indebted.
- Just under half of the survivalist businesses started and stopped within the year of the study (Ibid).

Whilst the large number of financial instruments being utilised is certainly one of the more unexpected findings, equally surprising was the finding that formal financial instruments do not necessarily replace informal ones. Even the wealthier households which utilise a range of formal instruments still choose to interact with the informal sector. This was especially the case with regards to savings instruments, notably stokvels and burial societies, perhaps indicating that such instruments still meet particular needs that formal offerings are unable to do. One possible explanation is that, unlike banks, stokvels provide social pressure to make regular payments and a structure for accumulation (Collins and Morduch 2009).

As mentioned previously, funerals are a major and unfortunately common expense in poor black households. A study undertaken by Roth (2000) used in-depth interviews of affected township households in Grahamstown, Eastern Cape, the country's poorest province. It explored the nature of products available and examined the use of formal and informal insurance providers in assisting households to cover funeral costs, which can sometimes be up to 15 times a person's monthly salary. The large costs are due to the hosting and transport costs for possibly hundreds of visitors to the household in the days leading up to the funeral, and on the day of the funeral, as well as the heavy social pressure to provide expensive coffins and other paraphernalia. The means identified for paying for such costs

included: selling assets (although not a common option as cash is needed quickly); obtaining credit (from traders, lending ROSCAs, moneylenders and banks), drawing on savings, receiving gifts and using insurance.

Four main categories of funeral insurance providers were found to be available to township residents:

1. Formal assistance providers: for-profit insurers registered with the Financial Services Board (FSB).
2. Formal ‘friendly societies’: also registered with the FSB but which operate on a not-for-profit basis and are often started by churches or trade unions.
3. Informal ‘friendly societies’: local township organisations that are run by members on a not-for-profit basis and are not registered with the FSB. Burial societies, a variant of ROSCAs fit into this category.
4. Informal for-profit insurers: also not registered with the FSB, and are technically illegal. They are often run by township funeral parlours which accept monthly premiums from clients. Upon the death of a nominated beneficiary the insurer provides a coffin, related funeral expenses, and a cash payout.

Given the specific nature of the event and the likely consequences, Roth (2000) identified the key features required for a financial product to be attractive to poor people. It needs to provide a relatively large lump sum to meet the significant costs involved; payments need to be immediate, as households begin to incur costs immediately; flexible payment of premiums are required as often poor people cannot make the payments on the exact date each month; given the low levels of education, policy terms and conditions need to be simple and clear; buyers prefer to transact with people known to them to provide a sense of security and accountability; a level of privacy is required – as widows are often accused of ‘cashing in’ and using witchcraft to cause the death of their husbands; and finally coverage is needed for households and not necessarily families – as typical nuclear structures are uncommon. This helps to explain why the township residents prefer informal insurers who understand the local socio-economic environment and shape their products and services accordingly. The need for local knowledge is central and transaction simplicity is paramount.

Another important informal provider of financial intermediation in townships and rural areas is the 'mashonisa' or money lender. In an unprecedented study, Siyongwana (2004) interviewed 657 unregistered micro-money lenders in three provinces – Eastern Cape, Gauteng and Limpopo. The purpose of the study was to undertake an analysis on how the individual businesses are organised, conducted and marketed, and how income is generated. He found that the majority of businesses are run from home, and that over half also earned money from other activities. Three quarters of business comes from referrals whilst 9% used marketing agents. In many cases, the facilitators take some degree of responsibility in the case of default. Half of the money lenders interviewed made between one and 100 loan transactions per year, whilst 14% made between 101 – 250, 11% made 251 – 500, and the remainder made in excess of 500 loan transactions. The loans were short-term in nature and were usually repaid within two weeks to three months. The most common collection point was at the borrower's residence, followed by their place of work. Siyongwana (2004) concluded that the 'illegal' informal money lending business provides a valuable service to a large section of the population which is unable to access the formal banking system. It is also very much a factor of the prevailing economic conditions:

> "Ironically, the expansion of informal micro lending is essentially a reflection of inadequate incomes in an economic environment of escalating poverty levels and workers' retrenchments. To the majority of the South African informal moneylenders, the business is primarily a struggle for sheer survival rather than growth in the informal economy". (pg. 864)

Intriguingly, as the quote indicates, Siyongwana found that moneylenders take significant risks in their lending practices and sometimes get in to financial difficulties themselves. Looking more closely, the research found that *their* source of capital is usually a combination of personal savings, retrenchment packages, borrowing from friends, relatives and the bank.

Finally, two other pieces of research have drawn upon secondary data to build models which seek to describe the relationships between households and various financial instruments and services. Rasmussen (2002) used the data from the 1993 and 1998 wave of KIDS to consider the ability of households to cope with shocks, and what role financial instruments might play. She found that whilst the percentage share of households with debt averaged around 42% across both waves, the sources of debt changed, with debt from formal sources dropping from 36% in 1993 to 29% in 1998, and informal debt

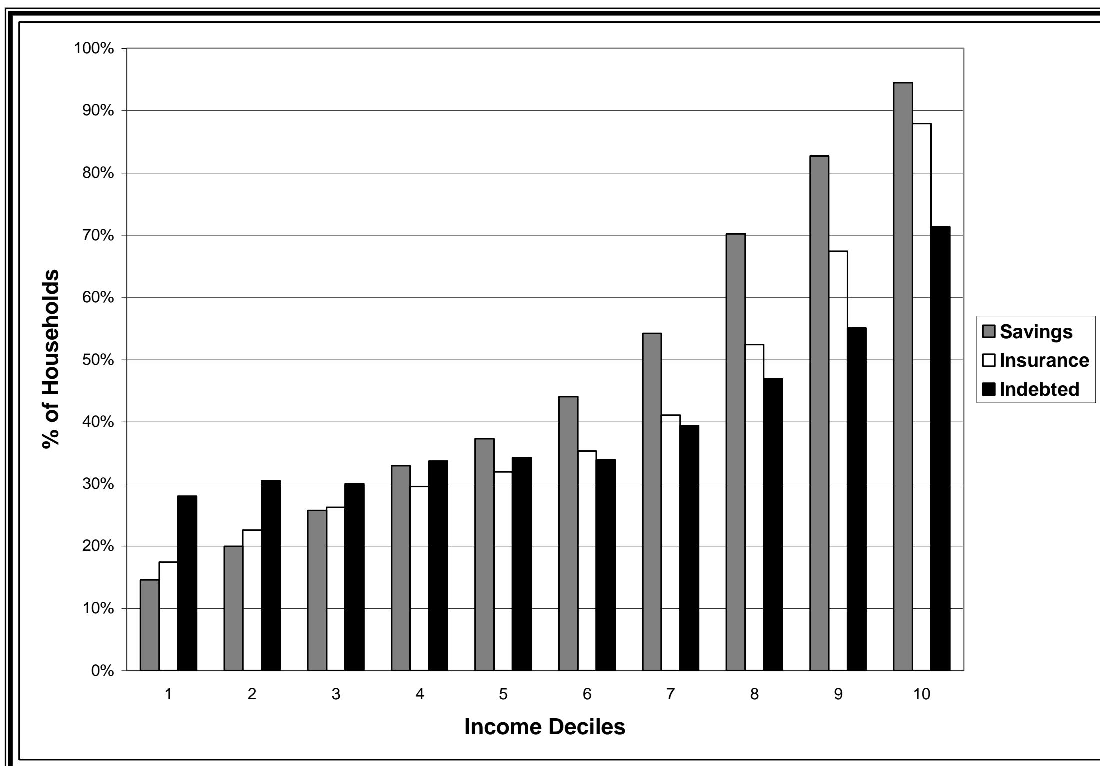
increasing from 13% to 21%. Relatives and friends remained the most common source of debt in both waves. She then constructed an indicator of “lack of access to finance”, which included households that had borrowed in the previous five years, but weren’t able to borrow as much as they would have liked, combined with households that did not borrow and expected they would not have been able to borrow as much as they would have liked. According to this definition 69% of households lacked access to finance. Additionally she found no difference in the income of households with and without access to finance. Household expenditure however was affected by access to finance, as households with access had higher expenditure than those without.

In modelling the impact of access to finance on poverty status, Rasmussen (2002) found that when controlling for the poverty status of households in 1993, those with access to finance lowered their probability of living in poverty in 1998 by ten percentage points. When faced with a negative shock, lack of access to finance also increased the probability of taking children out of school or selling an asset. However, those households that were able to utilise insurance in the event of a negative shock (used by less than 3% of the sample) were able to significantly reduce the chances of falling into poverty between the waves. Insurance also assisted households in moving out of poverty.

In examining the relationship between savings, insurance, debt and consumption smoothing, Ardington, Lam et al. (2003) made use of a data set which combines data from the 2000 Income and Expenditure Survey, conducted in October, and the 2000 Labour Force survey held in September. Using these data, the percentage of households that accessed some form of savings, insurance or made a debt payment during 2000 is plotted, according to income deciles, in Figure 5. The graph clearly shows a relationship of increasing access to savings, debt and insurance as income increases.[49] For savings, this goes from 15% in the bottom decile to 95% in the top, for insurance, a similar pattern shows increases from 17% to 88%. The relationship with indebtedness – those that have borrowed money in the past 12 months, is not as pronounced, with the range starting at 28% in the bottom decile and maximising to 71% in the tenth decile.

[49] The analysis by Ardington, Lam et al. (2003) focuses only on ‘access’ – meaning utilisation of the service, and not on the actual monetary value being deposited or withdrawn.

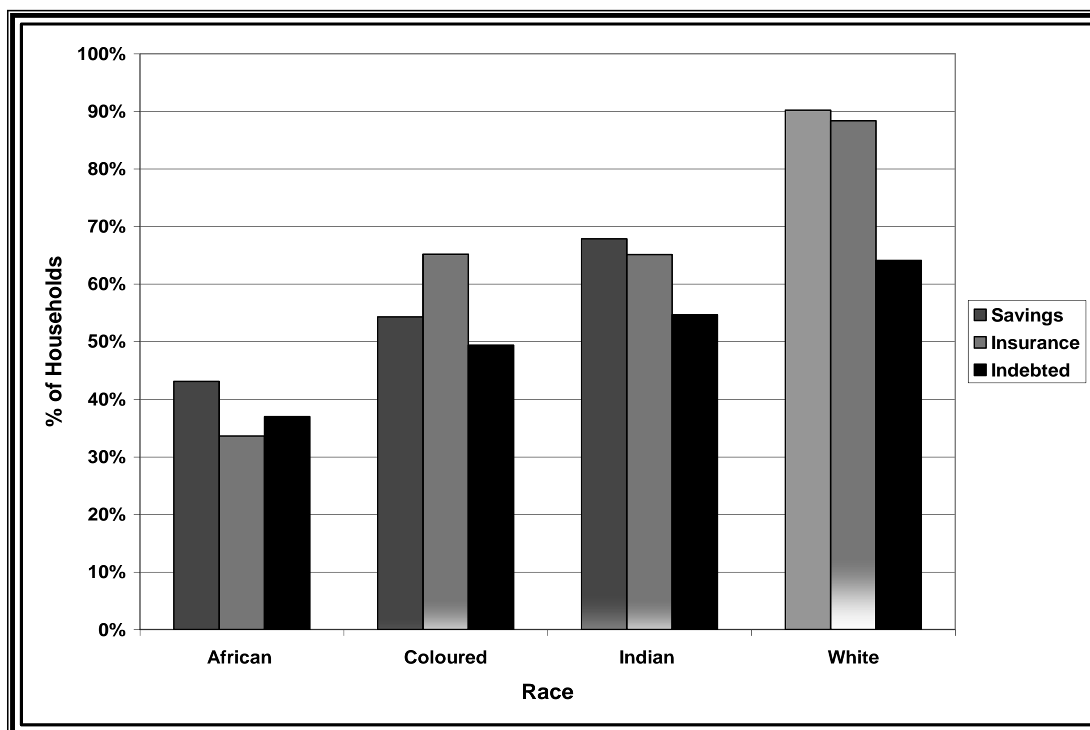
Figure 5: Percentage of households with savings, insurance and debt



Source: Ardington, Lam et al. 2003

Figure 6 below translates the data above according to race. This shows a strong relationship again with savings and insurance, according to race, but less so for indebtedness. Whilst 90% of White households accessed savings, only half of this proportion (43%) is found in African households. Coloureds and Asians/Indians lay in-between at 54% and 68% respectively. Similar disparities are found according to insurance – 34% of African households compared with 88% of White households. However in the instance of insurance, access for Coloureds is on par with Indians. The differences in ranges for indebtedness are again less explicit, at 37% for African households and 64% for White households.

Figure 6: Percentage of households with savings, insurance and debt by Race



Source: Ardington, Lam et al. 2003

Ardington, Lam et al. (2003) extend their analysis to control for income, and other correlates, in assessing the use of savings, insurance and debt, according to race. They proceed in creating a number of probit models for savings, insurance and debt, with each model controlling for race, income, location (urban/rural), sex of household head, age of household head, years of education for most highly educated adult household member, presence of state old-age pension and employment status. The findings of these models, specifically those related to savings, are presented in more detail in the section below.

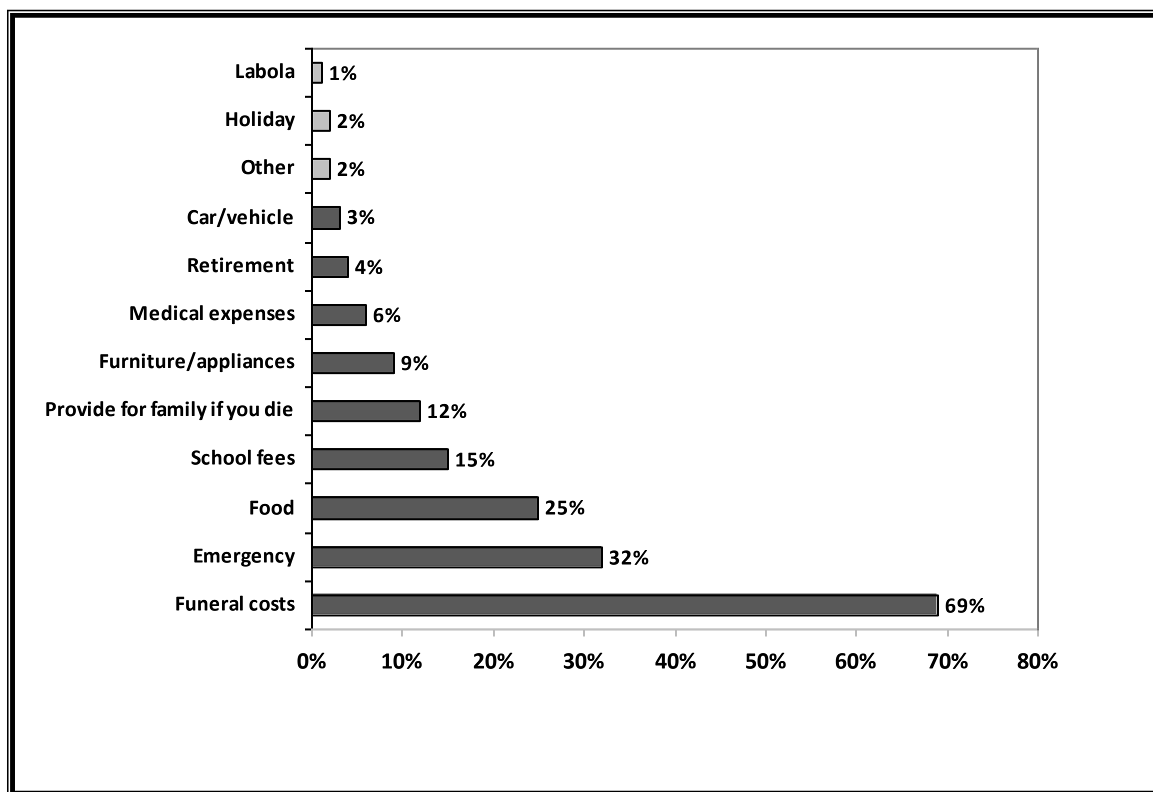
3.2.4 Findings specifically related to savings

From the research and analysis described above, three particular sources go into more depth in relation to savings, the primary focus of this study. The South African Savings Institute (SASI) and FinMark Trust commissioned an in-depth look at the opportunities for, and barriers to, expanding access to savings for low-income South Africans, which drew upon the 2005 FinScope data (Eighty20 2007). The Financial Diaries project also released a separate Focus Note which calculated the marginal propensity to 'manage', and Ardington, Lam et al. using the data described above, were able to create models which

predict the impact of savings on the likelihood of households going hungry, of increasing their expenditure on education and on healthcare.

The SASI/FinMark study focused only on access to savings for low-income South Africans. The terms 'low income' and 'poor' were used interchangeably, and the criteria used to identify this cohort from the data, were those classified as living in Living Standards Measures (LSMs) 1-5.[50] According to this criteria, one third (33%) stated that they were actively saving. However, using an augmented definition, which would also include those that save in burial societies and funeral insurance, the proportion of people who save increases to 44%. The reasons given for savings are presented in Figure 7. It can be seen here that the motive for savings are primarily for 'precautionary' reasons – to protect against the impact of negative shocks, and to ensure food security in the household.

Figure 7: What 'poor' people are saving for



Source: Eighty 20 (2007)

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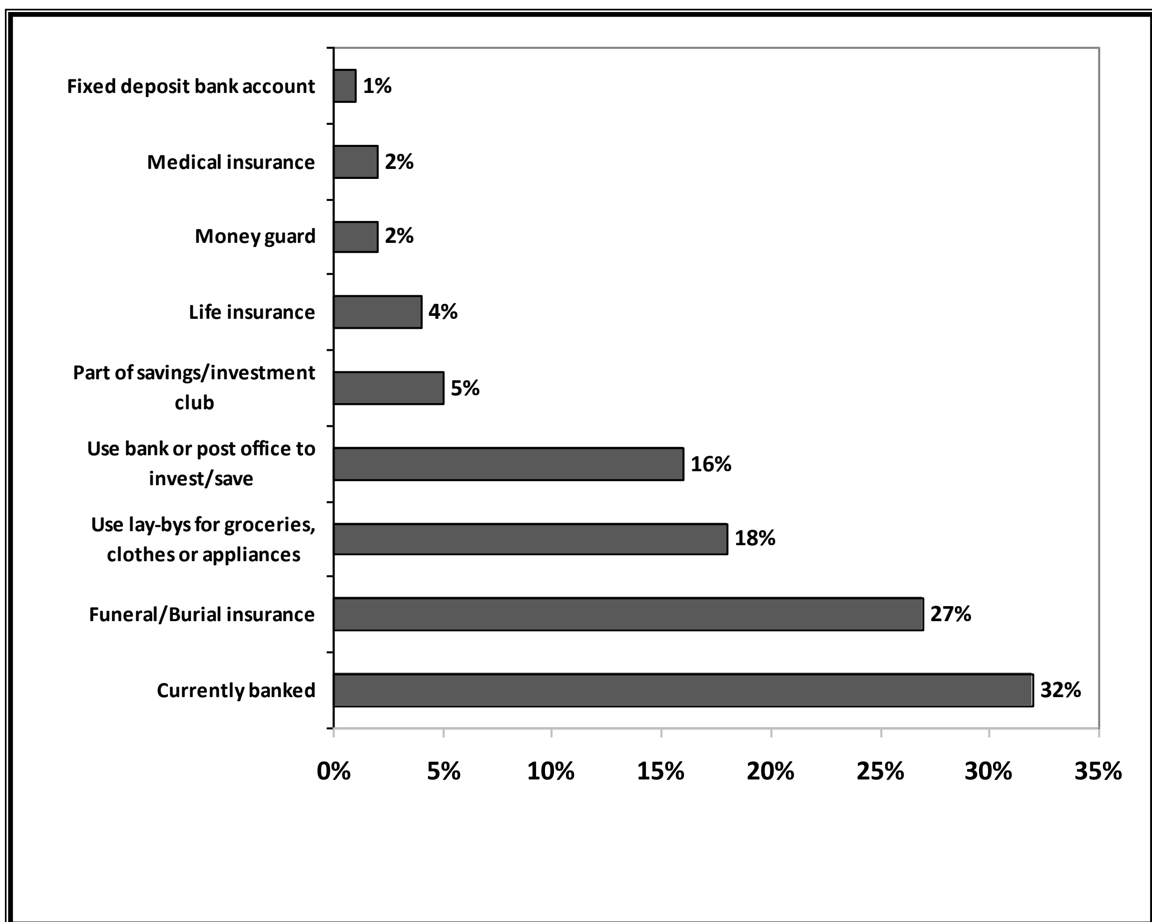
[50] LSM stands for Living Standards Measures. It is a segmentation model which divides households into one of ten categories (one lowest, ten highest) based on access to certain services and ownership of durable goods. It was created by the South Africa Advertising Research Foundation and is used widely within the market research and advertising industry. Although not used widely within the academic community, LSMs 1-5 were identified in the Financial Sector Charter as the target group for expanded access.

The 2005 FinScope survey also collected data on the various savings instruments used, and it was found that around 48% of those in LSMs 1-5 used at least one type of savings product. These included formal mechanisms such as bank accounts, insurance products – including burial and medical, as well as informal mechanisms such as stokvels and money guards. There is however a distinction between the savings products that people have – as shown in Figure 8, and those who currently save.[51] An example being that whilst 32% of the cohort stated they have a bank account, only 16% stated that they use it to save or invest. The most common form of savings is using lay-buys, the process of putting down a deposit and paying off in instalments, for groceries, clothes and appliances.

Figure 8: Instruments Used to Save



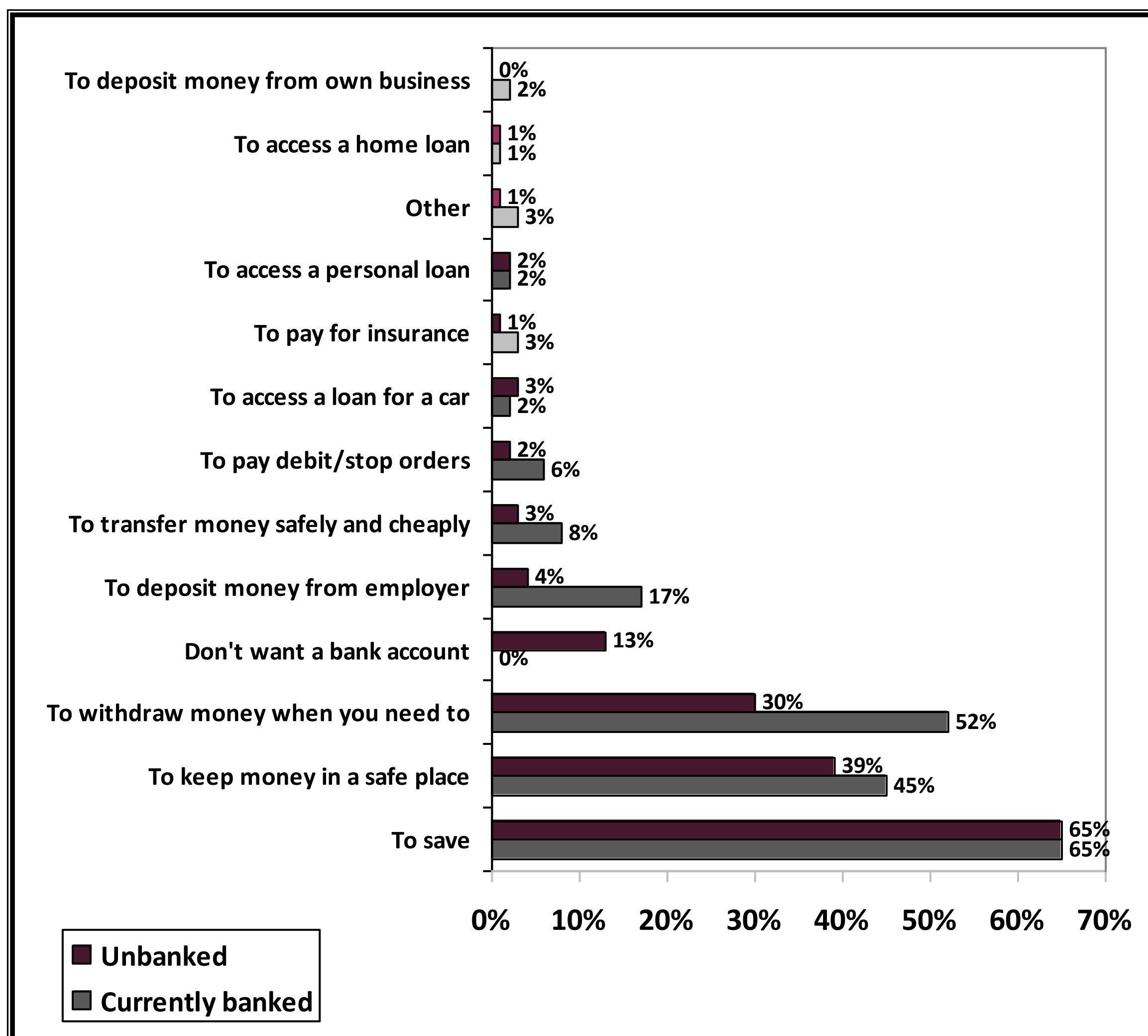
Source: Eighty 20 (2007)

As discussed above, and also identified by Collins and Morduch (2009), having a bank account is not synonymous with savings. People choose to open bank accounts for many

[51] Not all saving mechanisms were recorded; other studies have revealed methods such as hiding money in the house or field. Additionally individuals may have a bank account, but not actually use it for savings.

reasons. It would seem from Figure 9 that the reasons given for having a bank account are very similar to the reasons given for wanting a bank account – by those who don't yet have one. Being able to save is not given as the only reason, although it does appear to be the most important one. Other reasons include saving for transaction purposes.[52]

Figure 9: Reasons for having, or would like to have, a bank account



Source: Eighty 20 (2007)

The final findings of interest from the SASI/FinMark study relates to stokvels, which they refer to as informal, voluntary savings associations. Whilst historically the formation of

[52] With regards to savings accounts held at banks, it seems that most households who used savings accounts withdrew their entire payment in one go. This was mostly due to the distance they have to travel to reach an ATM. Considering the cost involved; multiple withdrawals within a month were considered unaffordable. Also, if an emergency arose, they would have money at hand. One of the downsides of this was a much greater temptation to spend the money that is at hand.

stokvels may have been in response to a lack of formal savings opportunities, people today appear to hold a stokvel account as much out of choice rather than lack of formal opportunities. Of those studied (LSMs 1-5), 60% of stokvel members were also banked. Their contribution to stokvels was high – with the median contribution sitting at 10% of personal income and 6% of household income. The risk associated with membership was also high – 10% recorded having experienced theft, fraud, poor administration or misuse of funds (Eighty20 2007).

Some of the findings from the Financial Diaries project support the findings from FinScope, whilst some of them also contradict. What must be kept in mind are the varying methodologies applied. The FinScope data set is a large-scale, nationally representative survey, with the cohort presented numbering in the thousands.[53] The Financial Diaries data consists of only 166 households and in no way claims to be representative. However, it is most likely to more accurate and informative, as the trust developed over the year-long relationship between fieldworker and household would encourage the household to reveal more information. Moreover more detailed information was collected and constant checks for internal consistency allows for correction of any miscoded or missing information[54].

In published Focus Notes relating specifically to savings, Collins (2005b) observes that savings were almost always linked to a specific time, purpose or event, which does leave households vulnerable to unplanned events. In Langa and Lugangeni, saving in a stokvel was the most commonly used savings instrument, followed by using a bank account. In Diepsloot, it was the other way around – a savings account was most common, followed by stokvel. The most common purpose for saving in a stokvel was for 'groceries', followed by 'school fees/uniforms' and 'Christmas'.

In possibly the first study of its type, Collins (2005d) quantifies the savings power of the poor by calculating a marginal propensity to consume. The residual – what she terms the marginal propensity to 'manage', represents the household's capacity to put aside flows of money. She then looks at how this surplus is used by households to build stocks of money and assets. The results of the model created by Collins are presented in Table 8. Control variables include net worth, area, age, gender, and whether or not the household has a

[53]The total sample size was 3885 individuals, but FinScope did not release details on what proportion of the sample belonged to LSM 1-5. However based on poverty distributions, it would expected that at least half, if not more, of the sample came from LSM 1-5.
[54]See discussion on 'margins of error' in (Collins and Morduch 2009).

bank account. The results show that from the 152 households in this model spent on average 75% of their income and the remaining 25% is available to be "managed"; the latter represents the proportion of income subjected to financial management such as savings, debt servicing and insurance. Interesting to note is that there are few differences in the marginal propensity to save across the different household types. Female headed households tend to save relatively the same amount as male, as do richer and poorer households. The only significant difference was found between the areas – the rural area had a higher propensity to consume compared with urban, which may represent differences in food and transport costs. Interestingly, households with bank accounts were not found to be a significant variable in the model (data not provided by author).

Table 8: Marginal Propensity to Consume

	# of households	*Marginal propensity to consume*	*Marginal propensity to 'manage'*
Diaries sample[1]	**152**	**0.75**	**0.25**
Gender[2]			
Male	69	0.74	0.26
Female	83	0.76	0.24
Income level[1]			
Low[3]	75	0.76	0.24
High[3]	77	0.78	0.22
Area[4]			
Langa	45	0.72	0.28
Lugangeni	58	0.76	0.24
Diepsloot	49	0.74	0.26

Source: Collins (2005d)
[1] Holding area, net worth, gender and age constant.
[2] Holding area, net worth and age constant.
[3] Defined as a binary dummy variable where low income households have an income per capita as less than R658 ($87) per months (the average for the entire sample) and high income households have an income per capita of more than R658 per month ($87).
[4] Holding net worth, age and gender constant.

Collins then asked: although poor households have demonstrated their capacity to save – does this actually translate into changes in the net worth of households? Defining net worth as physical assets plus financial assets less financial liabilities, substantial change in household's net worth over the period of the study, was observed. Although it only covered a ten month period, Table 9 demonstrates the ability of households to turn small monthly cash flows in to larger lumps of financial assets. The median net worth increased by 83% in Langa, 32% in Lugangeni, and 92% in Diepsloot. The ability to sustain this over the long term and to translate this into sustained growth in physical assets, however, cannot be demonstrated.

Table 9: Median percent changes in Net Worth

	Langa	*Lugangeni*	*Diepsloot*
% Change in:			
Net worth	83%	32%	92%
Financial assets	287%	243%	261%
Financial liabilities	121%	255%	204%
Physical assets	0%	3%	2%

Source: Collins (2005d)

Returning to a data source of national representation, the Ardington, Lam et al. (2003) research provides one of the more sophisticated analyses available on the relationship between savings and household income. Their first model is a probit of household savings, which seeks to identify predictors of savings – with the dependant variable being a binary of whether or not households had accessed savings (i.e. actively saved using a number of formats such as bank accounts, investments, pensions, stokvels etc). In this, and subsequent models: race is set as a dummy variable, with 'White' omitted; annual income is expressed in a log per capita (meaning the coefficient reflects the change in probability for a percentage change in per capita income); an urban/rural dummy takes a value of 0 for urban areas and 1 for rural areas; a dummy variable of 1 if the household has a female head, and 0 if male; age of household head – whereby the coefficient indicates the change in probability for using savings as age increases by a year; years of education for the adult in the household with the highest level of education; a dummy variable of 1 if the household has at least one person drawing a state old age pension; dummy variable with 1 indicating the household has an employed member; dummies for access to other financial services (insurance and debt) to test for complementarities between the use of one form of service with another.

Table 10 shows the changes in probability and the standard errors for this model. Bearing in mind the data presented in Figure 6 which appeared to indicate substantial differences in savings (as well as debt and insurance) between races, being able to control for income levels, the estimates for Africans (compared to Whites) is lower than for Coloureds and Indians, indicating that African people will make use of savings options, when available, in amounts that are not dissimilar to Whites. The coefficient of 0.177 for per capita income indicates that the probability of savings will increase by almost 18% for every 10% increase in income. Other coefficients show that:

- The probability of savings based on rural/urban location is statistically insignificant.
- Female headed households have a reduced probability of savings by 5%.
- Yearly increases in the age of the household head increases the probability of savings by 0.4%.
- Yearly increases in the education of the most educated adult in the household increases savings by 2.1%.
- A decrease of 10.7% in access to savings in a pension household.
- An increase of 8.4% for households with an employed member.
- Positive and statistically significant coefficients with the indebtedness and insurance variables indicating a strong relationship between being in a household that made a debt payment or accessed insurance and saving.

Table 10: Probit Model of Savings

	Change in Probability	*Standard Errors*
African	-0.043	*0.02*
Coloured	-0.133	*0.029***
Indian	-0.123	*0.038***
Log of per capita income	0.177	*0.006***
Rural = 1, else 0	-0.005	*0.01*
Female headed household	-0.05	*0.009***
Age of household head	0.004	*0.000***
Highest education level for adults in HH	0.021	*0.001***
Household member receives social pension	-0.107	*0.015***
Working household member	0.084	*0.011***
Debt	0.112	*0.009***
Insurance	0.19	*0.009***
Observations	25169	
Wald chi2	4180.05	
Degrees of freedom	12	
Pseudo R-squared	0.29	

Source: Ardington, Lam et al. (2003)
*Significant at 5%, ** Significant at 1%

Separate models are then run for probability of access to savings in a bank account, investments (unit trusts or shares), and stokvels. Some of the more relevant findings were that: rural coefficient became large and significant in the 'bank savings' model, indicating that rural households are less likely to have savings in a bank account; although the relationship between indebtedness and bank savings remained significant, the coefficient halved. 'Stokvels' and 'investments' were added to this model, with a strong, statistically significant relationship identified. In the stokvel model, the race variable become positive

and significant, signifying that Whites are least likely to use stokvels. Also, unsurprisingly, the rural coefficient was positive and significant. Whilst the log per capita coefficient remained significant it was much smaller compared with the banking and investment savings model, indicating that the relationship between household per capita income and stokvels is less strong than with the other modes of savings (Ibid).

In the concluding stages of their analysis, Ardington, Lam et al. (2003) sought to understand the role that savings, borrowing and investments may play when households have to deal with negative shocks, and its effect on human capital investment. Using the same control variables as previous, they build three probit models with dependent binary variables of whether or not adult household members had gone hungry, had spent money on education, and expenditure on healthcare. Controlling for the factors mentioned above, Table 11 reports on the impact of savings, insurance and debt on the probability of going hungry. It shows that, all else being equal, households with access to savings are 7% less likely to have an adult household member go hungry. The impact of having insurance is much weaker (0.4%) and not statistically significant, whilst savings and indebtedness is. Being indebted increases the probability of going hungry by 8%.

Table 11: Probit analysis of the probability of going hungry

	Change in Probability	*Standard Errors*
African	0.075	*0.016***
Coloured	0.005	*0.023*
Indian	-0.002	*0.03*
Log of per capita income	-0.079	*0.003***
Rural = 1, else 0	-0.05	*0.006***
Female headed household	0	*0.006*
Age of household head	0	*0*
Highest education level for adults in HH	-0.005	*0.001***
Household member receives social pension	-0.028	*0.008***
Working household member	-0.025	*0.007***
Debt	0.082	*0.006***
Insurance	-0.004	*0.006*
Savings	-0.072	*0.006***
Observations	25169	
Wald chi2	1548.97	
Degrees of freedom	13	
Pseudo R-squared	0.16	

Source: Ardington, Lam et al. (2003)
*Significant at 95%, ** Significant at 99%

A similar model was then constructed for educational expenditure, with the dependent variable being a logarithm of total education expenditure divided by the number of household members between the ages of six and 25. The probability scores produced would measure whether households that have access to savings, insurance or debt are more or less likely to spend money on education, again using the same control variables. The findings revealed that access to savings has a large and positive impact (16.4% probability, standard error of *0.031***) as did insurance (13.6% / *0.030***). The relationship with indebtedness was weak and not significant (1.1% / *0.027*).

The final model was built around a dependent variable of a log of total per capita health expenditure in the household. In a trend similar to above, savings in insurance were found to increase health expenditures, in a large and statistically significant manner. The impact of indebtedness was small, but significant.

3.3 Conclusion

The general consensus from a number of publications employing a range of available data (KIDS, Income & Expenditure Surveys, General Household Survey and the Labour Force Survey) has been that poverty in South Africa increased in the decade following democracy (Aguero, Carter et al. 2007; May and Meth 2007; Ozler 2007; van der Berg, Louw et al. 2008). This outcome has been mainly due to slow economic growth, a rapid increase in unemployment, and the emerging impact of the HIV/AIDs epidemic. However, improvements were made from the middle of the 2000s, with attribution being given to the rapid expansion and take-up in social security grants, and an expansion in the provision of basic services and infrastructure. Nevertheless, the majority African population, especially those who live in rural areas, and women, continue to represent a disproportionate number of the country’s poor.

The same population profile that forms the group mostly likely to be in poverty, and chronic poverty, are also those who lack access to financial services. To address this inequality the response of government has been limited and uncoordinated, with most of the assistance being given to SMME-development type programmes. The characteristics of the microfinance sector in South Africa are uncommon in that the bulk of available credit is for consumption, and it is targeted towards those with permanent employment. Despite this, informal instruments, especially stokvels and burial societies play a dominant role in

the landscape of financial services, even for those that have access to formal products. Funeral costs are an often cited expense which has a major impact on household finances, and thus a major driver of savings, as is saving for other emergencies, and for food.

Available research has also revealed that holding a bank account is not a guaranteed assumption of savings, as many are underutilised or used primarily for transaction purposes. South African households link their savings to particular times, purpose or events. Models that were created on nationally representative data revealed that the urban/rural location does not necessarily drive savings in general, although it does determine savings in a bank account. Being a female headed household will drive down the probability of savings, whilst having an employed household member will push it up. Having savings will reduce the chances of a household going hungry, and will increase the likelihood of spending on education and health care.

This journey through the landscape of poverty and financial services in South Africa has provided a foundation for appreciating the features and nuances of the empirical research which is to be presented in the following chapters.

Chapter 4 Research Design and Methodology

The formulation of research questions, how these translate into the design of a research project and the selection of available tools, is not something that happens in isolation, but rather within a broader context influenced by philosophical questions on the nature of reality, truth and knowledge. As highlighted by Havercamp and Young (2007) it is essential to understand and appreciate how varying philosophical paradigms relate to research design, which in turn determines the choice of qualitative and quantitative methods. These broader 'contexts' refer to the study of the form and nature of social entities and what exists that can be studied – referred to as 'Ontology', and to 'Epistemology' - how we know things and what is considered acceptable knowledge (Walliman 2006).

The purpose of this chapter is to present the ontological and epistemological approach of the research, to describe the research design, choice of specific methodologies and how these relate to the research questions. The fieldwork process and the varying challenges that emerged will also be presented and discussed.

4.1 Ontology and Epistemology

Ontology is concerned with understanding the nature of that which is being examined. It questions whether social entities can and should be considered as separate, objective entities whose reality can be differentiated from those undertaking the examination. Bryman (2004) identifies two main ontological positions, frequently referred to as objectivism and constructionism. An objectivist position believes that social phenomena and their meaning exist independent of social actors. As such, an organisation can be seen as a tangible object which has a reality external to the individuals that make it up. Furthermore, such social organisations can exert pressure on individuals to act in a particular manner. Objectivists hold a similar view with regards to culture, which is considered to be "repositories of widely shared values and customs" (pg.16). Culture and societies, like organisations, are considered to have the characteristics of an object and therefore have an 'objective reality'. In contrast, constructionists argue that it is social interaction that produces social phenomena, which is in a constant state of revision. Any examination undertaken by a researcher is therefore "a specific version of social reality, rather than one that can be regarded as definitive" (pg. 17).

An epistemological position, which is concerned with the relationship between the knower and what can be known, is constrained by the ontological position. Epistemology concerns itself with what is considered as acceptable knowledge within a particular discipline. In social sciences, one of the main contentions is whether the social world can and should be studied in the same manner as practiced within the natural sciences. This approach, commonly referred to as 'positivism' is characterised by a belief that phenomena and therefore knowledge must be confirmed by the senses (phenomenalism), that hypothesis testing is most appropriate for assessing theory (deductivism), that knowledge is arrived at through gathering facts (inductivism), and that science should be conducted in a value-free manner (objective) (Bryman 2004).

Along with positivism, other commonly applied paradigms include post-postivism, interpretivism, and critical theory. Havercamp and Young (2007) provide a useful synopsis of each. First, the realist/postpositivist paradigm is based on the ontological assumption that reality is separate from the perceiver and that knowledge can be definitively identified. The researcher adopts a detached observer role. Second, the interpretive or constructionist approach is based on a relativist ontology which believes that multiple, and equally valid, realities exist. Knowledge and meaning is co-constructed when people interact; it cannot be directly observed but is rather 'interpreted'. In comparison to the postpositivist view of objectivity on behalf of the researcher, it is assumed that the researcher's presence influences the process. Third, the critical or ideological paradigm adherents also support realist ontology, believing that a discernible reality exists, but that it is determined by oppressive social, political and historical factors. The role of the researcher is to be both interactive and proactive, facilitating change through emancipation from restrictive social conditions.

The paradigms are sometimes referred to interchangeably, without necessarily clear delineations from one paradigm to the next, whilst others are still in a formative stage. Some texts, such as Havercamp and Young, Bryman, and Walliman discuss these main paradigms under the heading of Epistemology, whilst Guba and Lincoln (1994) place these paradigms at a higher order, determining both ontology and epistemology. They describe these paradigms as basic belief systems that determine ontological, epistemological and methodological assumptions. Whilst the ontological and epistemological questions have already been described above, the 'methodological question' is defined as "How can the

inquirer (would-be knower) go about finding out whatever he or she believes can be known" (pg. 108). Table 12 sets out a summary framework for these relationships.

Table 12: Basic Beliefs of Alternative Inquiry Paradigms

Item	*Positivism*	*Post positivism*	*Critical Theory*	*Constructivism*
Ontology	Naive realism – "real" reality but apprehendable	Critical realism- "real" reality but only imperfectly and probabilistically apprehendable	Historical realism- virtual reality shaped by social, political, cultural, economic, ethnic, and gender values; crystallized over time	Relativism- local and specific constructed realities
Epistemology	Dualist/ objectivist; findings true	Modified dualist/ objectivist; critical tradition/ community; findings probably true	Transactional/ subjectivist; value-mediated findings	Transactional. subjectivist; created findings
Methodology	Experimental/ manipulative; verification of hypotheses; chiefly quantitative methods	Modified experimental/ manipulative; critical multiplism; falsification of hypotheses; may include qualitative methods	Dialogic/ dialectical	Hermeneutical/ dialectical

Source: Guba and Lincoln (1994). Page 109

This thesis and its corresponding research methods are aligned to a postpositivist paradigm[55]. Guba and Lincoln (1994) described the ontological position of a postpositivist as 'critical realism', which defines reality as observable but "imperfectly apprehendable", due to the imperfect nature of intellectual inquiry and the inflexible nature of phenomena i.e. to understand reality (as closely as possible) it must be subject to a wide range of critical examinations. Multiple measures are necessary and triangulation across multiple errorful sources is the best approach to obtaining consensus. This should be best undertaken in an environment of a community of 'truth-seekers' who critically review the works of each other (Trochim 2006). The 'modified dualist/objectivist' epistemological view is an acceptance that the positivist assumption of the investigator and investigated as independent entities that can interact without influencing each other is not realistic, even though it is considered 'ideal'. Findings that are replicated are considered to be 'probably true', but subject to falsification (Ibid).

[55] I am personally drawn towards postpositivism as it sits most comfortably with my own world view which has most likely been influenced by an undergraduate degree in economics and a number of years of experience in quantitative research.

The shortcomings of a postpositivist approach are best illustrated in the alternate paradigms. So whilst the aim of the postpositivist is one of explanation, which in due course facilitates ‘prediction and control’, and where the inquirer is considered to be the ‘expert’, a critical theorist considers the role of the inquirer to be an ‘instigator and facilitator’, whose aim is the critique and transformation of the various structures (social, political, cultural, economic, ethnic and gender) which confine and manipulate people. A constructivist hopes to achieve ‘understanding and reconstruction’ by building consensus, which is open to additional interpretations. The constructivist inquirer is considered to be a participant in the research (Guba and Lincoln 1994).

4.2 Research Purpose and Questions

These differing paradigmatic positions lead to corresponding variations in methodological differences relating to design, data collection and analysis. Each of the paradigms suggests different methods and outcomes determined by the different rules and assumptions of the underlying frameworks. Havercamp and Young (2007) describe the formulation of a research rationale as the intersection of two specific elements: the purpose for undertaking the specified investigation and the researchers’ own foundational philosophy of science paradigm. So whilst the epistemological question is constrained by the ontological, the methodological question of how the knower goes about finding out what they believe can be known, is constrained by the epistemological position. The first step to be undertaken is to articulate a clear overarching purpose for embarking on a research process. The formulation of lucid research questions is the next step, after which a design process can be undertaken along with the selection of appropriate methods and tools.

The need for a clear understanding of the purpose behind a research question is the first step in identifying the most appropriate methodology. To ensure credibility, there must also be congruency between purpose and paradigm. Havercamp and Young (2007) identify three main types of research purpose, namely: theory or construct oriented; practice or evaluation oriented; and action or change oriented. Newman, Ridenour et al. (2003), however, unpack the issue of research purpose in more detail, including identifying nine possible ‘types’ of research purpose. They aptly note that a singular research endeavour may have multiple purposes and that this may change the course of the study and “sometimes lead in an unforeseen direction” (pg. 172). The nine tentative, and non-

exhaustive possible research purposes identified are: to predict; to add to the knowledge base; to have personal, social, or institutional impact; to measure change; to understand complex phenomena; to test new ideas; to generate new ideas; to inform constituencies and to examine the past. These purposes are not necessarily independent but may overlap.

As deliberated in the beginning of this thesis, our concern is aligned with that of Stuart Rutherford and in understanding how access to 'useful lump sums' assist the poor, how this access interacts with poverty and vulnerability, and whether or not access to savings should be a greater priority than access to credit. The initial chapters of this thesis outlined the various roles that financial services can play in assisting the poor. In particular it highlighted the contribution made by savings, namely: how it can act as a proxy for insurance; how it assists households to smooth consumption when income flows are irregular; how it can enable households to invest in human and productive capital; and how it facilitates participation in important social events. Furthermore it was argued that when given the option, poor people prefer to save than to borrow money. Despite this, it was also acknowledged that financial services are most scarce in rural areas. The challenge to providing sustainable financial services in rural sub-Saharan Africa requires overcoming poor communications, limited infrastructure, low population density, high illiteracy, and high-risk economic activities that are relatively undiversified (Pearce and Helms 2001).

As such, the overarching purpose of this thesis is articulated below as:

> *The purpose of this research is to question the current bias towards credit in the delivery of micro-financial services and to advocate for greater emphasis on savings. An enhanced understanding of the relationship between savings and poverty is needed. The research explores how savings might theoretically reduce poverty and if this capability can be supported empirically. The Village Banks, a community-owned and savings-led financial institution which makes savings facilities available in poor, rural areas, of South Africa is used as a case study.*

As explained by Newman, Ridenour et al. (2003), a complex research purpose will often necessitate multiple research questions which in turn may call upon the need for a mixed methods research design. The research design for this thesis was shaped to answer two

mutual but complimentary research questions, which make equal contributions to the research purpose. These questions and their related sub-questions are:

1. To what extent is the Village Bank model of a member-owned financial institution a viable mechanism for addressing the challenges of providing low-cost banking services to the poor? And more specifically:
    a. How does the membership structure assist with this process; and to what extent is Village Bank governance and members' sense of 'ownership' important to sustainability and effectiveness?
    b. What socio-economic benefits arise from participation and what importance do members place on being able to save?

2. What is the relationship between the utilisation of financial instruments (namely savings and borrowing) and the developmental outcomes achieved by households?
    a. What role do savings play in helping households to acquire assets, secure livelihoods and reduce vulnerability?
    b. To what extent have Village Banks contributed to assisting households in these terms?

In returning to the research purpose typology provided by Newman, Ridenour et al. (2003), the purposes that this thesis most closely align to are: 'to add to the knowledge base', 'to have a personal, social, or institutional impact', and 'to measure change'. The first, to add to the knowledge base should be one of the primary objectives of any doctoral research. The substantive discussion on literature and theory presented in the first two chapters provide the context and prevailing arguments to which this research intends to build upon and advance. The first research question, in its investigation of the relationship between the Village Banks and its members, also intends to have an institutional impact. According to Newman, this involves: "breaking down policies and practices to reveal how they work ... furthermore, those at the margins .... or their advocates, examine their own experience as it is juxtaposed to the dominant discourse" (pg 178-179). The second research question, which is driven by a quantitative methodology, focuses on measuring change, which involves the construction of instruments to measure outcomes and the linking of treatment to effects.

4.3 Research Design and Methodology

Bryman describes a research design as a "framework for the collection and analysis of data" and a "structure that guides the execution of a research method and the analysis of the subsequent data" (pg. 27). The choice of a particular research design is guided by whether preference is given to: a) being able to make causal links between variables; b) wanting to generalise to population groups beyond the subjects involved in the study; c) wanting to understand behaviour and meaning within a specific context; or d) wanting to obtain a temporal appreciation of particular phenomena (Bryman 2004 pg.27). In comparison, methodology refers to the techniques used in collecting data, which may involve the use of a wide variety of instruments. The five main research designs identified are: experimental; cross-sectional; longitudinal; case study; and comparative design.

The design of this research most closely follows that of a case study. It is a comprehensive and concentrated analysis of a single case – namely, the Village Banks. Case studies are often set in a single location; however this case study is spread across four Village Banks located in different provinces within South Africa. Although case studies have a leaning towards the use of qualitative methodologies, it is not uncommon for them to draw on both qualitative and quantitative methodologies, as does this study. In some instances, when a case study draws heavily on quantitative research, such as a survey, it may be argued that it more closely mirrors a cross-sectional design. Depending on where the boundaries are drawn with regards to the research location, almost all research designs could be construed as a case study. Additionally, it is possible for a research endeavour to contain features of more than one research design (as is the case here). However, despite the ability of a case study to resemble the features of other research designs, the distinguishing characteristics of a case study is the intention to explicate the unique features of that particular case (Bryman 2004).

Although Bryman acknowledges that distinctions between different types of case studies have been made, i.e. selecting cases for their 'critical', 'unique' or 'revelatory' nature, many cases are rather chosen for their 'exemplifying' potential. They are not chosen because they are extreme or unusual, but rather because they provide an ideal context for testing certain research questions. This is the reasoning, in part, for the selection and focus on the Village Banks, not just because of their 'democratic' and 'member-owned' nature, but also because of their savings-driven provision of financial services. As he states: "... the case merely provides an apt context for the working through of these research questions" (pg.

51). Thus also explaining the choice of a case-study design is –the opportunity it creates to work through and test the bigger questions relating to savings and poverty.

With regards to methodology, this research design has adopted a mixed-method approach, in the selection of both qualitative and quantitative methodologies to address the research questions. Qualitative lines of enquiry have been selected to investigate the first research question which examines the institutional relationship between the individual banks and their host communities. The instrument chosen for collecting the data to answer this question are focus groups.[56] The second research question has adopted a quantitative approach, which was intended to objectively measure the magnitude of the relationship between poverty in Village Bank member-households, compared with non-member households, ideally over time. The methodology used is a structured household questionnaire that visits the same households over a two year period. Known as a panel study, this in effect embeds an additional design – longitudinal research, within the case study. A longitudinal element within a case study is not an uncommon occurrence and the possibility of returning to a site after the first visit is often kept open as an option, as was the case with this design.

Mixed methods research designs are highly varied in their balance of quantitative and qualitative methods. Leech and Onwuegbuzie (2009) propose an integrated, three dimensional typology of mixed methods designs. Defining mixed methods designs as involving the collection, analysis and interpretation of both qualitative and quantitative data to investigate the same principal phenomena, a continuum is apparent, ranging from one single method (monomethod) to a partially mixed method to a fully mixed method. The qualitative and quantitative data can be collected either concurrently or sequentially across the different phases of the study. In a fully mixed design, qualitative and quantitative methods are mixed within one or more stages, whilst with partially mixed designs the quantitative and qualitative phases are not mixed within or across the various phases. The data are therefore only 'mixed' at the interpretation stage.

The three dimensions Leech and Onwuegbuzie (2009) refer to are: the level of mixing (partial or full); the time orientation (concurrent or sequential), and emphasis of approaches (equal or dominant) – which refers to whether or not the qualitative and

[56] The choice of this instrument and its appropriateness is discussed in more detail in a forthcoming section.

quantitative phases make an approximately equal contribution to answering the research questions, or if one dominates over the other. These dimensions lead to the creation of eight possible frameworks. The design for this study would be described as a "partially mixed, sequential, equal status design". Although further elaborations on the data collection process will be provided in later sections of this chapter, it is helpful to note that the qualitative component of this research was completed in full before the quantitative component began, that the data are only 'mixed' at the interpretation stage, and that each component is considered to contribute equally to study.

Creswell and Clark (2007) suggest a similar format, presenting four key decisions involved in choosing the appropriate mixed methods design, namely: the level of interaction between the strands[57]; the relative priority of the strands; the timing of the strands; and the procedures for mixing. Their reference to 'interaction' aligns with the partial/full level of 'mixing' defined by Leech and Onwuegbuzie, as does their 'priority' terminology equate with 'emphasis' identified by Creswell and Clark. Whilst Leech and Onwuegbuzie only note two options for time – concurrent or sequential, Creswell and Clark add a third which they refer to as "multiphase combination timing". This occurs when the study has multiple phases of both concurrent and sequential activities. The fourth additional dimension – 'procedures for mixing', refers to the process used by the researcher in implementing the independent or interactive format. Mixing can take place either within a theoretical framework, at the level of design, during data collection, during data analysis, and during interpretation. Given the independent nature of the two research questions, the mixing in this design will take place during the interpretation. This involves drawing conclusions and inferences on what has been learnt once results have been drawn and combined.

From these decision points, Creswell and Clark suggest a framework of six mixed methods designs. The design that this study most closely aligns to is the 'convergent parallel design'. The purpose of the convergent design is to use different but complementary data to better understand the research problem. It can also help in developing a more complete understanding of a phenomenon and allows a comparison of multiple levels within a system. They also recommend that people, who use this design, work from a single philosophical position. The steps involved in a convergent design involve firstly collecting the data, followed by analysing the two data sets separately and independently from each

[57] A strand refers to a component of the study that entails the basic components of a quantitative or qualitative research activity.

other. The third step involves merging the data sets, whilst the final step involves deciphering to what degree and in which ways the results converge or diverge from each other, how they relate to each other and how they combine to create a greater contribution to the overall purpose of the study.

A mixed method research design is an ambitious undertaking that is not very common, especially in the microfinance field, and by those who study poverty. This approach is not without its challenges, one of which is how to merge the data sets in a way that is meaningful; another is what to do if the results do not agree.[58] Furthermore, some may find the combination of qualitative and quantitative methodologies epistemologically challenging as the different techniques often draw from different philosophical paradigms. As stated earlier, this research is aligned to a postpositivist paradigm. This is more obviously demonstrated in the second research question, which applies quantitative methods through a structured, fieldworker-administered household questionnaire. Data analysis is undertaken on numerical values to construct mathematical models in an attempt to identify possible causal relationships (presented in forthcoming chapters). However, the first research question, which seeks to understand how Village Banks operate, is particularly interested in their member-owned nature and how this plays out in the context of a country recently having transitioned to democracy. I am interested in better understanding how members relate to their banks, what socio-economic benefits arise from their participation, and how important ownership is, vis-à-vis simply being able to access close, affordable and safe savings.[59] Although this line of questioning may be associated with other paradigms, qualitative research is not necessary inconsistent with post-positivistism.

In qualitative research, the role of the researcher is that of an interpreter, rather than a reporter. The concern then is how one goes about ‘interpreting’ or ‘understanding’ these texts. This can be guided by hermeneutics, which is the study of interpretation, or ‘theory

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[58] See Davis and Baulch (2011) who compared household poverty transitions created from a life histories exercise with a sub-set of household panel data that used an expenditure measure. In less than one third of the cases did the quantitative and qualitative transitions agree. Five plausible reasons for explaining most of the observed differences were offered, which included cases where per capita income did not match with household economic wealth, cases where household expenditure was close to the poverty line in either or both rounds; cases where measures of expenditure or wealth did not capture other aspects of well-being or ill-being, cases with changing household size which changed per capita income but no changed in perceived well being, and problems with the reliability of household recall, especially in the qualitative phase. They concluded that “...different ways of observing, assessing, and measuring poverty yield quite different findings for the same households or individuals...” (pg. 136).

[59] With specific reference to qualitative research, Mason (2002) refers to this as a form of ‘mechanical’ intellectual puzzle which seeks to understand how x or y works.

of understanding' (Havercamp and Young 2007). There are three distinct traditions in hermeneutics that relate to qualitative research: validation, philosophical and critical. The approach taken in the interpretation of this qualitative research is that of 'validation', which focuses on what the speaker intended to say - where meaning resides with the research participant and interpreting that meaning as accurately as possible is paramount (Ibid). This is not incompatible with a postpositivist position.

4.3.1 Qualitative Strand: Research Question One

Newman, Ridenour et al. (2003) describe qualitative research as a "research paradigm designed to address questions of meaning, interpretation, and socially structured realities" (pg. 170). Mason (2002) identified three common elements which characterises qualitative research, namely: its concern with how the social world is interpreted, understood, experienced, produced or constituted; based on data generation methods that are flexible and sensitive to context; and a holistic analysis which is rich, nuanced and detailed. The strength of qualitative research lies in its ability to explain "how things work in a particular context" (pg 1.) Mason also claims that the researcher should be engaged in constant self-scrutiny, acknowledging their role in the process, and not assuming that they are neutral, objective or detached. Ultimately, qualitative research should produce explanations or arguments, rather than simply providing descriptions of the world (Mason 2002 pg. 7).

Our main interest is in the 'mechanical puzzle' (see footnote 59) of how Village Banks work, whether members have confidence in the staff and its governance structures, what it means to be a shareholder, and what benefits are accrued to members. There are no pre-determined or expected answers, only a curiosity to understand these issues in more detail. Meaning is in the hands of the participants, not the researcher, it is their interpretation and experience that is of interest here and therefore suggestive of a qualitative approach as most appropriate to address this dimension of the research.

Qualitative research is associated with five main methods, namely; ethnography/participant observation, qualitative interviewing, focus groups, language based approaches (discourse and conversation analysis), and analysis of texts and documents (including visual images). Focus groups, which involve interviewing more than one, and usually at least four people at the same time, was determined as the most appropriate technique for generating the data needed to answer the research questions.

This is because focus groups enable individuals to discuss their views of certain issues as members of a group, whereby the process includes not only what individuals think but also how they respond to the views of others (Bryman 2004). They are small discussion groups held with people of similar backgrounds, interests and concerns. Questions are raised in an informal, non-threatening manner that enables people to respond to the interviewer and to the answers given by their fellow participants. In this setting it is expected that ideas and experiences are more openly shared in a social context where people stimulate each other and consider their views with each other (World Bank 2002).

Focus groups most usually follow a loose interview schedule that guides the facilitator through the main topics of interest. It is up to the researcher how closely the schedule is followed. Schedules will most likely evolve over the course of a study as the relevance of some questions, and the irrelevance of others becomes obvious. It should be noted that very little research has been conducted at the micro-level to explore the functioning of the individual Village Banks, their relationships with shareholders and whether 'membership' has an impact on socio-economic benefits, perceived or actual. Additionally it must be highlighted that this is in the context of a country that had only recently embraced democracy, and therefore not something that has a long or deep-rooted history. Questions regarding democracy and governance aim to understand the concept of ownership and how it is understood by the members.

One of the main benefits of Village Banks is their low cost nature; they should be located conveniently and staffed by local people. As high cost is one of the biggest obstacles to providing banking services in rural areas, Village Banks may well be one of the few options for providing basic banking services. The reason for the low operational costs of Village Banks are the low level of technology required along with the need for only basic facilities in terms of infrastructure. The other reason for this low cost model is the fact that each bank is individually owned and operated by community members, thereby reducing administrative overheads. Although comparatively speaking, overhead costs are low, each bank still needs to generate minimum revenues to cover these costs in order for it to remain solvent. A successful Village Bank therefore needs the following as a minimum:

- The full support of the whole or the majority of the community.
- Active participation from a minimum number of community members that bank there on a regular basis.

The active participation of the community members is therefore dependent upon the following:

- Faith in the competence of the staff and the management of the bank.
- A belief, backed up with verified information such as financial statements that their money is in safe hands and can be drawn upon if and when they need it.
- An understanding of what it means to be a shareholder (and therefore part owner) of the bank and what entitlements and responsibilities come with this.
- A belief that the board of the bank takes their fiduciary responsibilities seriously and has sufficient competence to deal with ordinary and extra-ordinary issues when they arise.

The most effective means to uncover whether or not all of the above actually exists in practice is to visit a selection of banks and hold discussions with shareholders and the banks' management board. As ideas of membership and experience of management are likely to vary between banks but also be determined by existing social, cultural and political structures, it was decided to select banks from different regions of South Africa. Four banks were purposively chosen to represent the various characteristics of geographic location, population group, length of operation and services offered.[60]

In order to capture the different experience of members and to take account of likely distinctions of experience across gender and age divides, as well as levels of involvement, four focus groups were undertaken at each bank location. Specifically, a group was held with men, women, pensioners and board members. Pensioners were chosen as, according to the FSA, they form a large part of the client base for the banks. The Department of Social Development provided funding to Village Banks with the expectation that they could become a means for transferring social grants. The board members were chosen, so as to gain insight into the difficulties and obstacles that they face in managing the bank, and how they understand their responsibilities. The 'men' and 'women' groups were to represent the general membership base (i.e. other than pensioners and board members), but it was decided to keep the sexes separate, as in many South African cultural groups, women, and especially younger women, are less likely to speak up in the presence of men.

[60] More detail on these banks is provided in a forthcoming section of this chapter.

The focus group interview schedule can be viewed in Appendix One.

4.3.2 Quantitative Strand: Research Question Two

Newman, Ridenour et al. (2003) describe quantitative research as a "research paradigm designed to address questions that hypothesise relationships amongst variables that are measured frequently in numerical and objective ways" (pg. 170). Quantitative research has been the dominant strategy for conducting social research, steeped in a positivist tradition with a deductive approach to theory and research, and an objectivist view of reality (Bryman 2004). Quantitative methods have an underlying assumption that reality is external and objective, and are preoccupied with four main concerns: measurement; causality; generalisation, and replication.

A commitment to measurement is one of the key differentiating features of quantitative from qualitative research, with an interest in an ability to make consistent measures for comparability, both over time and across different studies, i.e. an ability to generate consistent results that are reliable and valid. Measurements also facilitate specific estimates of the extent of a relationship between concepts. Explanation and an ability to identify underlying causes, especially in terms of the cause and effect is another primary concern of quantitative research. Direction however cannot be confirmed in a cross-sectional study, but can only be inferred (unlike in an experimental design where the independent variable is manipulated). Longitudinal designs can also be used to provide more valid causal inference.[61] Generalisation or the ability to ascribe findings beyond the contexts of the study often translates in to participant selection and the use of probability based sampling. Also linked to the concept of objectivity and the desire for the researcher's values and biases to have a minimal impact on a study, is replication – the ability of study to be successfully reproduced and to yield similar findings. Although not often undertaken in practice, the need for all elements of the study to be carefully documented, so that replication is possible is also important (Ibid).

In terms of my research, the aim is to establish, or at least test for, a causal relationship between savings and poverty. More specifically, does access to savings, and households

[61] According to Trochim (2006), confirming a causal relationship is not easy and generally requires the following three criteria to be met. Firstly, there should be a temporal precedence, meaning that it is possible to show that the 'cause' took place before the 'effect', secondly, there should be a co-variation of the two variables, i.e. some type of relationship is evident (on its own, this level of association or correlation is not sufficient, but is sometimes taken as demonstrating causation). Thirdly, there should be no plausible alternative, i.e. there are no missing variables or alternative explanations. The use of a control group can help with this.

that save, have any impact on poverty and related concepts including a household's ability to acquire assets, reduce vulnerability and secure livelihoods? As discussed in Chapter Two, it has been noted that financial services, particularly savings, have been shown to be a useful mechanism for assisting households to cope with unexpected shocks – especially in the absence of insurance mechanisms (formal and informal). Savings and also credit have been identified as a means to enable households to build their asset portfolios of both productive and non-productive assets. Additionally the two instruments have also been shown to help households' smooth consumption during periods of income fluctuations.

As the research is interested to identify a causal relationship at the household level, a household survey was identified as the most appropriate instrument to generate the necessary data to build testable models. Given high levels of illiteracy in the target population, and the need to collect standardised information from a complex and detailed questionnaire, it was decided that data quality would be highest if collected by trained and experienced interviewers (fieldworkers), than as a self-administered tool (more details on this process is explained further).

One of the main shortcomings of cross-sectional surveys is that they only provide a 'snapshot' at one point in time. They cannot identify trends or the direction of phenomena or if an outcome is 'typical' or 'atypical'. Such research does not capture whether phenomena are transient or persistent, nor is it necessarily able to identify underlying causes of outcomes (Roberts 2001). Household panel studies, which involve revisiting the same households more than once over a given time period, offer one such solution to these shortcomings (May, Carter et al. 2000). Although not without limitations, panels do enable researchers to track changes over time and to identify the direction of the change.[62] Additionally, panel studies have the potential to track micro-level changes to a macro-level events (Harpham, Huttly et al. 2003). With this in mind, the original survey was designed with the potential for the study to become longitudinal.

The unit of analysis chosen was the household. This was not a straight forward decision, especially as savings and credit activities are linked to individuals. However, many of the indicator variables used in poverty analysis are measured at a household level, so whilst not ideal, it was decided that any individual information collected would be aggregated to

[62] Ideally a minimum of three waves is required to be confident of the direction.

the household level. As the study is focused on Village Banks the unit of analysis was therefore chosen as households that belong to a Village Bank and, in order to identify causal relationships, to devise a control group of non-Village Bank households (more detail on the sampling procedures is provided in a further section).

Households in South Africa

At this juncture, it is important to make an observation regarding the challenges of defining households. Defining what is a household, especially in South Africa, is not a straight forward exercise. The standard definition used by Statistics SA in the 2001 census is "A household is a group of persons who live together and provide themselves jointly with food and/or other essentials for living, or a single person who lives alone" (Statistics South Africa 2001 pg.10). This definition was applied during the data collection process, but it is not without some problems. Due to Apartheid and poverty, household structures are fluid and extensive as people are forced to migrate from rural or former homeland areas to towns and cities in search of work. As a consequence of this fluidity, Hosegood and Timaeus describe households as a "social construct with no biological base" that may encompass non-resident and multiple household memberships (2005). Many urban-based individuals have a rural home with which they maintain strong ties, visit regularly, and support financially. As a coping mechanism, poor households will often send children to live with better-resourced members of their families for an indefinite period of time. These factors combine to create a household with few clearly defined boundaries. Often what ends up being recorded on a household roster is dependent upon the perceptions of the respondent who is being interviewed at the time.

High levels of mobility also have an impact on household surveys. A respondent might for example list assets that belong to a household member who has essentially abandoned the residence or is located in an urban area. Similarly, another complication, especially in rural areas is the practice of polygamy. In this instance one man, and his assets, can appear on two separate questionnaires, without it being realised that double counting is taking place. The main issue associated with this practice from a survey perspective is that it reduces the ability to accurately attribute household assets during the analysis stage, as it is possible that the same assets are recorded as belonging to the two households. The crucial concern is whether a household has control over particular assets which should form a buffer to reduce household vulnerability. When this is overstated, a household may be recorded as being less vulnerable than it actually is.

Questionnaire Design

The questionnaire format applied to the households in the survey consisted of two main parts. Part One collected household-level information and could be completed by any knowledgeable adult from the household, whilst Part Two collected individual information from pre-selected household members. The household-level questions were made up of seven main sections. Section One contained interviewee details, Section Two collected information on household demographics, including a household roster, relationship to household head, sex, age, educational attainment, vocational status, expenditure on clothing and footwear, and membership of groups. Section Three examined household living standards and asked questions pertaining to housing quality, number of rooms, water and sanitation, and energy usage and types. Section Four collected information on food security in the household whilst Section Five collected detailed information on household shocks and coping mechanisms. Section Six was a detailed roster of household asset ownership, whilst Section Seven looked at household income and livelihood strategies.

Part One of the questionnaire drew on a number of different sources, including adaptations of previously applied questionnaires. Sections One through to Four and Section Six were based on a Poverty Assessment Tool developed by the International Food Policy Research Institute (IFPRI) on behalf of Consultative Group to Assist the Poorest (CGAP 2000). The purpose of this tool is to create a simple, low-cost measure of poverty of MFI clients, relative to non-clients. Other than providing descriptive insight into the lives of clients, compared with non-clients, the tool provides detailed instructions on how to create a relative poverty score, using principal components analysis. More detail on how this was constructed, and the findings of the analysis, is presented in Chapter Six. Sections Five and Seven of the questionnaire were modifications of sections from other income and expenditure surveys.

In the second half of the questionnaire (Part Two), up to three adults were asked questions about their use of banking facilities, as well as borrowing, lending and savings activities, in the last 12 months. These questions were devised entirely by the researcher. Individuals were pre-selected from the household roster that was collected during a mapping phase, and was based on the following criteria and in the following order:

1. Bank account holders;
2. Bank account users;
3. those with a regular income – including grant recipients;
4. those that may have access to and manage money – such as spouses etc.

In some instances, only one person was eligible to be interviewed. The individuals interviewed for Part Two were referred to as 'core' household members, as their presence as a manager of household financial resources is a key element of the purpose for the research. Both versions were translated into Zulu. A pilot test of the questionnaire was undertaken prior to going into field. See Appendix Four for a copy of the household questionnaire.

CGAP Poverty Assessment Tool

The development of the CGAP Poverty Assessment Tool (PAT) came about at the time of preparation for the study design, and appeared to be an appropriate, relevant and reliable tool. One of the pilot-tests had been undertaken in South Africa and had yielded relevant and insightful information (Ruit, May et al. 2001). It was one of the emerging composite indicators being promoted within the microfinance sector. Its appeal lay in the creation of a single household score, which would enable an objective comparison of Village Bank households compared with other households that had chosen not to make use of the facility, and which drew upon a range of means and ends indicators.

The central purpose of the tool is to measure the depth of poverty outreach of MFIs, with the objective of creating a low-cost operational tool to measure the poverty of an MFI's clients, relative to non-clients (CGAP 2000). The design is an indicator-based methodology. IFPRI argues that this approach is preferable to the alternatives of a detailed household expenditure analysis with the computation of a poverty line, or the use of rapid and participatory appraisal methodologies. In the case of the former, the disadvantages of such a methodology is the comprehensive and lengthy set of questions required to measure accurately consumption activities, the extensive cost and time involved, and the advanced statistical skills needed for analysis. With regards to rapid and participatory appraisal methodologies, the disadvantages are that: the results are difficult to verify; it is likely to find poor people in each location and therefore not be able to distinguish between the poor and the poorest across villages and regions; national and international

comparisons are not possible; and skilled and experienced facilitators are required (Ibid). In a review of the tool, Simanowitz (2003) describes it as a:

> "straightforward and universal tool that can be used by donors in the appraisal of MFOs. It provides transparent and reliable data about the people a MFO is actually trying to reach" (pg2).

Accordingly, an indicator methodology allows for the selection of a wide range of measures that are easily observable, verifiable, and objectively able to describe poverty. Acknowledging the multifaceted nature of poverty, IFPRI applied the following set of parameters for developing the generic questionnaire:

- Indicators that express the means to achieve welfare. They capture the earning potential of a household and relate to: human capital; asset ownership; and social capital.
- Indicators that relate to basic needs fulfilment: health status and access to health services; access to food, clothing and shelter.
- Indicators related to other aspects of welfare i.e. security, social status and the environment.

Then, from an exhaustive list of possible indicators, a smaller subset was chosen according to their ability to meet the following criteria: nationally valid; not too sensitive; practical; good quality; reliable; simple and universal. The final version of the questionnaire included indicators which fell under the following categories:

- Demographic characteristics of the household and members
- Quality of housing
- Wealth
- Human capital
- Food security and vulnerability
- Household expenditures for clothing (poverty benchmark)[63] (CGAP 2000, pg.4-5)

See Appendix Six for the complete list of recommended indicators.

There are, of course, weaknesses with the PAT. First, given that it calculates a 'relative' poverty score of MFIs clients in a specific operational area, the findings cannot be

[63] Per capita expenditure on clothing and footwear is used a benchmark poverty indicator as it holds a stable and highly linear relationship with total consumption expenditure, which is considered to be a inclusive measure of household welfare (CGAP 2000 pg6)

compared with results for other MFIs, nationally or internationally. The lack of 'absolute' measure impinges on comparability, meaning that only households within a single survey activity can be compared with one another, and not with surveys undertaken in other regions and countries. Second, the PAT is designed as a 'once-off' exercise and not something that could be integrated easily into an MFI's organisational information system (as per the advocates of social performance management – as discussed in Chapter One). Third, Simanowitz also raises concerns over possible biases in the household sampling methodology, which suggests fieldworkers start off from the centre of a village and choose a random direction in which to select households. Fourth, the sampling design in PAT calls for a sample of new clients and non-clients. The new clients (treatment group) are selected because they have not yet been in the programme long enough for any beneficial impacts to be apparent, but represent a sample of how the MFI has been recruiting clients. The non-clients are the control group. Although not directly referring to the PAT, Karlan (2001) has criticised this approach for its self-selection, placement and drop-out bias (as discussed earlier in Chapter One).

The design of the present study addresses most of these concerns. First, a number of questions in the CGAP manual were altered to ensure the wording and coding corresponded with questions asked in the 2001 national census. As will be seen in the following chapter, it was possible to contrast findings from the study with provincial and national data, thus allowing some broad comparisons to be made between the study community and the rest of the country on key poverty indicators. Second, the sampling frame involved a complete census of the community and a simple-random means of selection, thus eliminating possible biases that a random walk approach might create. Third, the 'depth of outreach' purpose of the PAT is enabled by its sampling technique – selecting households that have just joined the MFI and comparing these with non-member households. The sampling of this study took almost the opposite approach of ensuring that households put in the relevant strata had a minimum of one year's relationship with a bank. Fourth, the sampling procedures, the longitudinal nature of the study, and the fact that the interest is in savings and not credit for enterprise development, means that the biases raised by Karlan are addressed.

4.3.3 Ethical Considerations

All social science research activities are expected to adhere to a minimal set of ethical guidelines and acceptable behaviours. These guidelines include the principles of voluntary participation, informed consent, risk of harm, confidentiality and anonymity (Trochim 2006). The way in which incentives are used, and if participants are compensated for their time, is also a matter for consideration.

All participants in the qualitative and quantitative strands of the research were informed of the purpose of the study and that their participation was voluntary. They were also informed that they could refuse to answer any questions they did not feel comfortable answering and they could cease participation at any time. Additionally, it was explained that their information would be kept confidential and not shared with anyone not involved in the immediate research team. It was not possible to promise anonymity, especially with regards to the household survey. As it was a panel and households were to be revisited it was necessary to keep detailed information on all households in the study, so they could be re-identified and household records accurately matched. Anonymity is not possible in a focus group setting and all the participants were known to each other. In the focus groups only minimal information was collected on participants, namely gender, age, vocational status and number of years with the bank. There were no foreseeable reasons for why participation would or could result in direct harm to the respondents.

As participation required individuals to give up their time it was felt that some form of compensation should be given. Small gifts or food parcels were provided to participants, although respondents were not informed of this until after the interview was completed.

4.4 Pre-Field Preparations

Before proceeding with describing the communities that were selected and some of the challenges that were faced, it is necessary to explain the relationship I had with the FSA, how the study came into being, how it was funded, and the field research team.

4.4.1 Access and Funding

I was first introduced to the FSA and the Village Banks when I was approached by them in my capacity as Managing Director of Development Research Africa (DRA). DRA was a

privately owned socio-economic research agency that undertook a data collection and analysis on behalf of its clients. It had four offices, in Cape Town, Johannesburg, Port Elizabeth and the head office in Durban, and employed a sizable number of research, logistics, data and field staff. The agency offered end to end services of research design, data collection, data capture, analysis and report writing. The FSA was introduced through a third party and requested DRA's services in undertaking an impact evaluation. At the time I was considering embarking on a doctoral programme, was interested in microfinance and poverty, and the FSA enquiry presented an opportunity to gain access to an important institution.

An initial idea was for the FSA to fund the DRA research from which I would have agreed access to any data for PhD purposes. Unfortunately, the FSA were unable to raise the necessary funds to undertake the research, but it was agreed that I could raise funding independently for the research. Eventually two sources of funding were secured. The Centre for Civil Society at the University of KwaZulu-Natal funded to qualitative phase and Finmark Trust (described earlier in Chapter Three) funded the first wave of quantitative data. The second wave of quantitative panel data was funded by the Poverty Node Research Grant at the University of Cape Town. The availability of funding in many respects determined the scope and the timing of the study. The Centre for Civil Society awarded the maximum amount for a grant, which covered the costs of visiting four different Village Bank sites. It was also felt that four different sites would provide sufficient variations to draw meaningful distinctions. Although it was originally hoped that all four sites would be revisited in the quantitative stage, Finmark Trust was cautious (they were aware of the financing difficulties being faced by the FSA) and agreed to fund research in only one site. By the time it came to collecting the second wave Finmark declined to assist, stating that the topic was no-longer a priority or interest for them.

The timing of the fieldwork was therefore dictated to a large degree by the contractual agreements with the funding bodies and their own funding cycles and requirements. The qualitative research took place between September and October 2002 and also had to accommodate my other commitments, as I continued to work with DRA part-time to fund my PhD. The level of assistance provided by the FSA also influenced the timing of the fieldwork. As described in the previous chapter, during the study design period leading up to the fieldwork, the FSA were plagued with their own funding concerns and were therefore often difficult to access and seemingly uncooperative, despite approving the research. I

was very much kept at arm's length and struggled to obtain any information about the number, location and financial standing of the banks. The FSA chose the sites on my behalf. The four communities selected to participate in the qualitative strand were Bhambanana in Kwazulu-Natal, Mathabatha in Limpopo, Motswedi in the North West Province, and Sakaletfu in Mpumalunga. A description of the communities and a summary of the individual banks' history are provided in the following section. I chose Bhambanana as the site for the quantitative strand as it was located closest to my home in Durban and I was more familiar with the socio-economic and cultural influences of the province compared with the other locations.

The FSA also provided a contact person at each Village Bank branch who was tasked with assisting the formation of focus groups. They were requested to choose a variety of shareholders across an age range (except for the pensioners), gender (in the pensioners group), and educational attainment and vocational status. Discussions were conducted in local languages.[64] As I was not fluent in any of the languages I was accompanied by trained and experienced research assistants who worked with and had been trained in field methods at DRA.

Data collection for Wave 1 of the quantitative research took place in two phases, the first phase, which involved a household mapping and scan exercise, was undertaken between October 20th to November 4th, 2002, whilst the in-depth household survey took place between November 15th and December 11th, 2002[65]. MZANSI DRA, an empowerment arm of DRA, undertook the fieldwork with a team of eight experienced field workers and two field managers. A two-day training exercise on the questionnaire took place lead by me before going to Bhambanana where I also oversaw the fieldwork. As I accompanied the fieldworkers any problems that I identified with a questionnaire or any issue identified by a fieldworker could be addressed the following day with the identified household.

Data collection for Wave 2 took place from November 13th to November 27th, 2004. I managed the process and accompanied the field teams to the study area, and was able to oversee the process, monitor the quality of the data collection and address concerns and queries. Approximately half of the field team that were involved in Wave 1 also worked on

[64] In Bhambanana people speak isiZulu, in Mathabatha the principal main language is Northern Sotho (Sepedi), in Motswedi it is Setswana and in Sakaletfu people mostly speak seSwati.
[65] More detail on the sampling procedures and data management are provided in following sections.

Wave 2, which meant some continuity and assisted identifying correct households. Having data collected at the same time of year in both waves ensured that any seasonal anomalies should be consistent in both periods. Reports on the qualitative strand and Wave 1 of the quantitative strand were written and provided to the funders. The findings from the qualitative research also feature in a published article co-authored with my supervisor – see Jones and Dallimore (2009). The text in the following chapter is entirely original and not a reproduction of this publication.

4.4.2 Selected Communities

Bhambanana

The village of Bhambanana is located in northern Kwazulu-Natal on a t-junction. The town of Ingwavuma is 22kms to the west, Kosi Bay, 74km to the east, and Jozini, 38kms to the south. The village itself is en route to a number of game and nature reserves including the popular Ndumo Game Reserve, Thembe Elephant Park, and Kosi Bay. It is a small, but growing hub of economic activity, and has a petrol station, two Cash & Carry's, two liquor stores, one supermarket, one café, as well as fruit and vegetable markets. The bank is located in rented office space in a small shopping complex on the main road. The 'village' has no formal or demarcated residential area. Homesteads are scattered throughout the countryside. The area is covered in dense shrub and many of the households are not visible from the road. Traditional houses of mud, brick and thatch are common and very few homes are connected to electricity. Unlike the other study sites, alternative formal financial services were found in the area. Ithala Bank, a provincial development bank, has branches in Ingwavuma, Jozini and Manguzi (56km east). References to Ithala Bank were made during the focus groups.

In 1999, the Department of Social Development introduced the concept of forming the Bhambanana Village Bank to the community and the bank opened officially in June 2000. At the time of the initial visit, there were a total of 3 060 members, who also had shares in the Village Bank. [66] It is not only inhabitants of the local village that utilise the Bank's services but also people from as far as 25 – 50 kilometres from the village are members. To members the bank offers savings accounts, fixed deposits and a funeral scheme, which

[66] This number of account holders appeared high despite the bank manager's instance that only 15 accounts were dormant. A participant at another site, Mathabatha, speculated that the large number of shareholders was probably due to the local Inkosi (chief) instructing all members of the community to buy shares.

was only being utilised by 15 people. The branch had also just started offering loans to small businesses. The bank had approximately R290 900 ($27 700) in deposits held at First National Bank, its link bank. Charges on accounts were R1 ($0.09) for every R100 ($9.5) deposited, and R2 ($0.19) for withdrawals of less than R100 ($9.5), then R1 per R100 thereafter.

Figure 10: Entrance to Bhambanana Village Bank

Source: Taken by author

Mathabatha

Mathabatha Village Bank is situated in Mathabatha village in the Limpopo Province, near Lebowakgomo township. Pietersburg, now called Polokwane, which is about 80 kilometres away from Mathabatha, is the nearest major town. The Bank is located in close proximity to the village's shops, community projects and the post office. According to one of the participants, the bank's office is in a building owned by a water project.

The Village Bank was formed after one of the board members heard of the concept from a meeting in Kgautswane. When she proposed the idea, the community supported her because they were aware of the distance that people had to travel to access banking services. The bank was opened officially in May 2000 and at time of fieldwork had 279 account holders, of which 216 own shares. The services that are provided at the bank are savings, fixed deposits and a funeral benefit scheme. No charges are made on deposits and a R3 ($0.29) charge is levied on any withdrawal between R10 – R500 ($0.95 -

$47.60). Withdrawals over R500 ($47.60) are charged a R6 (0.57) fee. The total of all deposits at the time of the research was approximately R47 000 ($4 765).

Figure 11: Mathabatha Village Bank

Source: Taken by author

Motswedi

Motswedi Village bank is situated in the North West province near the border with Botswana. Zeerust is the nearest town, which is about 35 kilometres away. The Village Bank is located in a block of shops in the village's business area, where it is central and accessible, both for people from neighbouring villages as well as the locals. The tribal office, an important part of the village's governance structure is just a few minutes' walk from the bank.

Motswedi was one of the original pilot banks set up with IFAD and government support in February, 1996. The Village Bank has 1 451 account holders and 237 shareholders (reasons for this discrepancy is discussed in the following chapter). The services that are offered at Motswedi Village Bank are savings, fixed deposits and funeral scheme benefits. State old age pensions and disability grants are also paid directly into the individual Village Bank accounts. The bank had approximately R1.4m ($133 333) in deposits held at its link bank, ABSA, located in Zeerust.

Figure 12: Motswedi Village Bank

Source: Taken by author

Sakaletfu

The Sakaletfu Village Bank is located in eastern Mpumalunga surrounded by the borders of Swaziland, Mozambique and Kruger National Park. The closest major town is Malelane, which is 25km away. The area is peri-urban with a number of densely populated townships surrounding the bank, which is located in an area of fruit growing.

The Sakaletfu Village Bank started in November 1999. At the time of the visit, the Bank had 515 account holders owning 580 shares between them. Account holders are also able to have their government pension and disability payments transferred directly into their accounts. Other than savings and fixed deposit accounts, loans are also available. Currently 36 people have borrowed money with the first loan being no bigger than R200 ($19), which must be paid back within four months. After successfully paying back the loan, people may borrow larger amounts. At the time of the fieldwork there were no reported defaults.

Figure 13: Sakaletfu Village Bank

Source: Taken by author

4.5 Quantitative Data Collection: Challenges in Field

The design of the quantitative field research was particularly complicated, especially as it featured a probability based sample and a household panel. At various stages of the design and implementation, additional challenges arose which required further deliberation and decision making. This section describes the steps that were taken when drawing up the sample frame and selecting households. The panel feature meant the need to record household attrition and split households. An unexpected outcome, which was to have a substantial impact on how the data could be analysed, was a large number of households that changed their 'status' between the two waves. This is also described and explained below, together with a discussion of how the data were captured and managed throughout the process.

4.5.1 Sample Size and Sampling

The research design is a representative survey of households using a structured, pre-coded questionnaire. This design was considered to be the most effective means for addressing a research question which seeks to measure the existence and size of a

relationship between two quantifiable phenomena; namely, savings and poverty.[67] An additional advantage of a quantitative methodology is that it allows conclusions of an objective and replicable nature to be drawn, thus enabling possible inferences and comparisons beyond the specific community surveyed.

The following formula was used for calculating the ideal sample size (Israel 1992):

$$n = \frac{N * p(1-p)}{(N-1)\ (MofE/1.96)^2}$$

where:

N = population size

p= estimated proportion, in this case the proportion of the population that belongs to Village Bank

MofE = Margin of Error

Based on the estimates of a 5% margin of error, and a p value of 0.175, an estimated sample size of 221 was calculated.[68] To ensure that the sample would be representative, the survey design allowed for a probability sample using a stratified simple random sample. This type of sample design is one of the most efficient and should yield high precision. The original sampling frame was to consist of all households that lie within a ten kilometre radius of the Village Bank office. Although the bank serves clients beyond this radius, membership and the effects of the bank are likely to be concentrated closer to the bank.

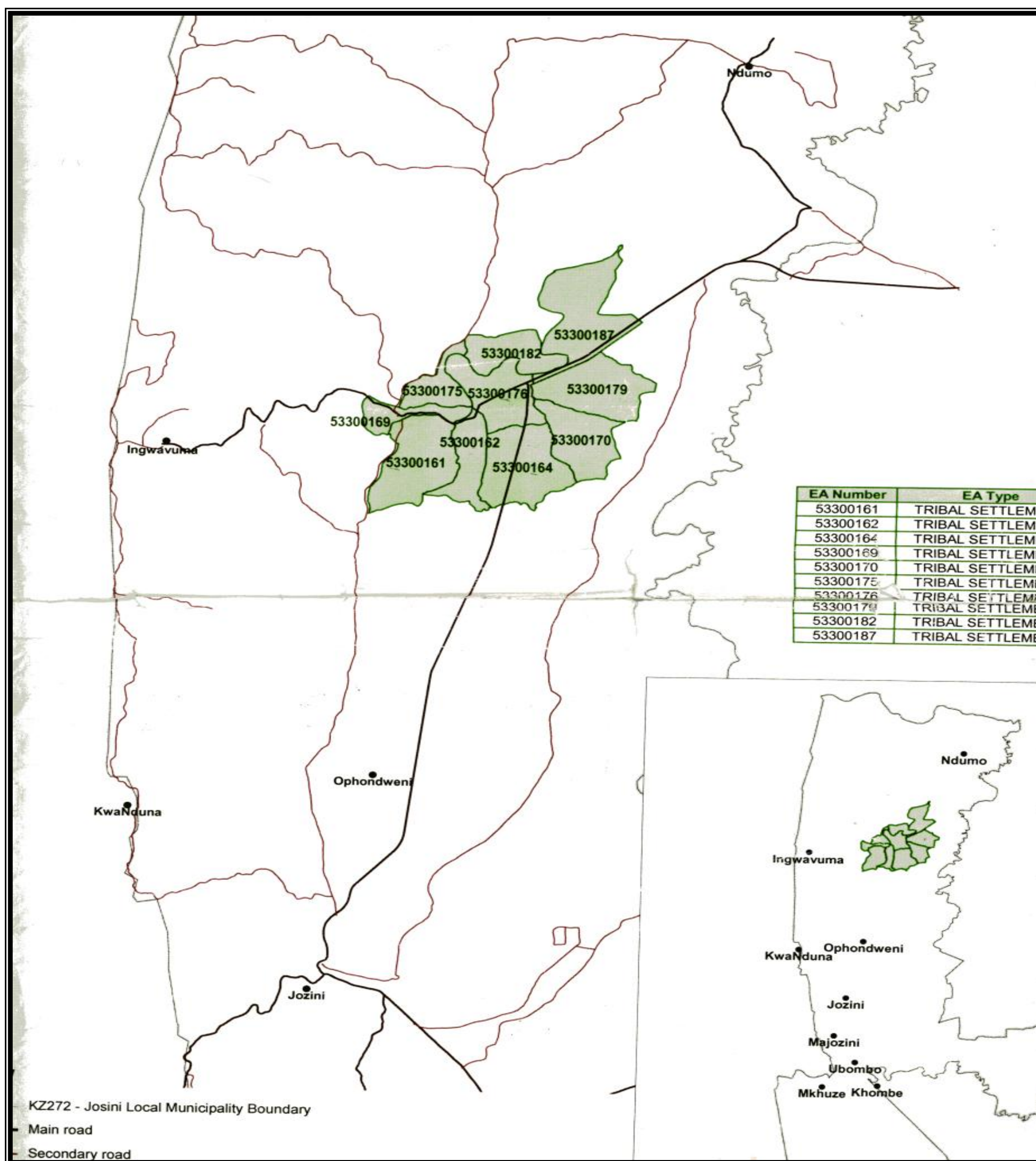
However, this design was altered during the course of the study in response to a number of unanticipated factors. First, the terrain surrounding the village was frequently inaccessible, which necessitated narrowing the study population to include all households that lived within a five kilometre radius. With the assistance of the provincial office of Statistics SA, ten census enumerator areas (EAs) were identified to lie within this

[67]It was acknowledged in Chapter Two that poverty has both qualitative and quantitative dimensions which equally contribute to our understanding of its nature. Savings, however is a distinctively measurable and quantitative observable. To some extent, the non-measurable aspects of the relationship between poverty and savings have been explored in Chapter Four.

[68]The p was calculated on available estimations, which were later found to be incorrect. They were that there was an approximate adult population of 11 400 and that there were approximately 2000 Village Bank shareholders.

approximate area. Maps of these areas take the form of aerial photographs, copies of which were then ordered. Typically, between 100 to 250 households are located in an EA and it was therefore anticipated that the study population would consist of between 1 000 and 2 500 households. The map below represents the region and the EAs selected with the t-junction of the roads (in black) in the centre being the location of Bhambanana.

Figure 14: Enumeration areas surrounding Bhambanana



Source: Produced by Statistics SA specifically for this study

To enable the construction of a sampling frame, the aerial photographs of the EAs were used to identify boundaries and major landmarks. Hand drawn maps were made by a team of fieldworkers, who identified all households within the individual EAs. During this

exercise a short household scan was administered to each household and they were allocated a unique household identification number to enable ease of recognition and management throughout the fieldwork. A copy of one of these hand drawn EA maps can be seen in Appendix 2. Data collected from the household scan included: number of people in the household; their age; highest level of education; vocational status; and if they hold a savings account. If the person held a bank account they were asked to provide details on the branch, how long the account had been held, and how often it was accessed. A copy of the household scan questionnaire appears in Appendix Three.

A second challenge emerged during the stratification of the sample. The original intention was to allocate each household into one of two strata – "Village Bank household" or "Unbanked household". The scan exercise, however, revealed that the EAs were more sparsely populated than anticipated, with a total number of only 540 households in the area. Third, it was also discovered that a large proportion of households contained commercial bank account holders. Given the considerable distance to the nearest commercial bank, this was a surprising finding. As commercial banks primarily serve those with formal employment, it was thought that households with a commercial bank account may be different from those with Village Bank accounts, in that they most likely have a higher income. For this reason it was decided that it would be more appropriate to introduce a third strata into the design to include commercial bank households. The final sample, therefore, included 70 Unbanked households, 70 Village Bank households and 70 Commercial Bank households, instead of the original sampling plan which planned to interview approximately 110 Village Bank households and 110 Unbanked households.[69]

The separation of households into one of three categories created a further challenge, as it was found that some household contained members that held both commercial bank and Village Bank accounts. This suggested households either switching between banks or possibly leaving an account dormant. This finding prompted consideration of how account holding needed to be handled in the research. It was decided that households that had held bank accounts for less than a year had not held the account long enough to render an effect on the economic well-being of the household. In response to these concerns, a further two decisions were made. An individual who held a bank account for less than one

[69] A calculation of a second sample size based on these more accurate parameters yielded an estimated sample size of 194, which is very close to the original sample size. The possible loss of precision due to dividing the sample into three strata can only be fully appreciated by observing the individual confidence intervals calculated for each separate analysis.

year was classified as “Unbanked”. And households that contained both Village Bank account holders and commercial bank account holders were classified as belonging to “Commercial Bank” households. It was felt that as these households had been able to access a higher order banking service, the household characteristics would more closely resemble that of a Commercial Bank rather than a Village Bank household.

According to the above classifications, the household scan identified 299 (55%) ‘Unbanked’ households. For Village Bank households, where at least one household member held a Village Bank account 84 (16%) cases were found. Commercial Bank households were defined as those that contained at least one household member who held a commercial bank account at either Ithala or another bank. There were 157 (29%) cases of these households. Once households were classified, 70 households from each category were chosen on a simple random basis to participate in the study. Households that were not available or refused to participate were replaced with other households from their respective stratum.

4.5.2 Attrition

As with all panel studies, some level of attrition can be expected between waves. Of the original 210 households interviewed in Wave 1, 192 were re-interviewed in Wave 2. Four households had split and a remaining 14 households were unavailable. A total of 93% of the original sample was therefore contacted and interviews completed. This represents a low level of attrition, especially in light of the high levels of migration present in the province and the district. One-half of the 14 ‘lost’ households were members of the Village Bank, whilst only three were Commercial Bank households and the remaining four were Unbanked. Only two households refused outright to be re-interviewed, and a further three provided ‘no reason’ for non-participation (although the fieldworker should have prompted a response), and remaining households were not interviewed due to death or household members dispersing, or a combination of the two (see Table 13).

Table 13: Household attrition

Household ID number	*Household type**	*Reasons for not re-interviewed*
161061	VB	No reason given
187015	VB	No reason given
179071	VB	No reason given
169005	VB	Sole household member died
176005	VB	Refused to be interviewed
175009	VB	Core person moved out of area, children moved to relative
179014	VB	Household moved out of area
164052	CB	Household moved out of area
164171	CB	Sole household member died
169024	CB	1 core member died, other moved out of area
164146	UB	Refused to be interviewed
161088	UB	Could not find, possibly moved out of area
179011	UB	Sole household member died
182002	UB	Household dispersed

*VB = Village Bank, CB= Commercial Bank UB=Unbanked

4.5.3 Splits and Changes in Household Status

Household structures are bound to change between the two data collection waves. If we consider a ‘household’ not to be defined by its physical location or dwelling structure, but as a social construct, defined by its members, then one cannot simply return to the original interviewing point and assume the same household is present. One or more household members may have left, perhaps formed a second household, placing in doubt whether the same household is present. This raises the question as to what proportion of the household needs to have moved out for it to no longer be considered the same household, or if it should rather be determined by who has moved, such as a household head, compared with a child.

A judgment therefore had to be made as to what determined a ‘split’ household and whether or not this second household should also be interviewed. It was decided that the presence of ‘core’ household members was crucial and should therefore be tracked. Fieldworkers were given a copy of the household roster from Wave 1 with these ‘core’ people marked. When filling out the household roster during Wave 2, all original household members that were no longer living in the household were recorded in a separate section.

If core members were located in this section then the fieldworkers were instructed to track these individuals – providing they still lived in the area, and also complete an interview with them in their new household.

In total, four households that were interviewed in Wave 1 were found to have split with a result of eight household interviews being undertaken in Wave 2. A final count of 196 household interviews was therefore completed in Wave 2 – 192 original households and four new split households. The banking status of the core individual to have left determined the classification of the new household. Each of the original households and their new status is presented in Table 14.

Table 14: Split Households

Original HH ID Number	*Original Household Type*	*New Household ID Number*	*New Household Type*
175025	VB*	175025	UB
		175026	CB
164128	UB	164128	UB
		164129	UB**
164034	CB	164034	UB
		164035	CB
162002	VB	162002	UB
		162005	VB

* In the scan a core member said she held a VB account for over two years, however in the main survey round – Wave 1, she reported only having it for 7 months. In Wave 2 she does not have a Village Bank account but now has a Commercial Bank account which she has had for 1 year 7 months.
** Has VB account, but only for 9 months.

One of the biggest surprises to emerge during the second wave of data collection was a sizable shift in the banking status of households. I had expected that only a small number of households would alter their status. This was not the case. A large number of Village Bank households abandoned their account, leaving just over one-third of the original Village Bank households intact. This rate of desertion is the highest of the three different categories. Almost two-fifths of the Commercial Bank households changed their status, whilst only a fraction of the Unbanked households changed theirs.. Although an important finding in itself, this outcome added another layer of complexity to the analysis. No additional follow-up questions on the reasons why a household may have changed its status were in the Wave 2 questionnaire, so the opportunity to understand people's motivations for shifting from one banking type to another was missed.

A transition matrix, which indicates the changes in banking status between the two waves, is shown below in Table 15. The figures in bold highlight the ‘unchanged’ sub-sample from each of the three strata. Only 64% of the households interviewed in Wave 2 had maintained their original status. This appears to represent households’ rather fickle relationship with their bank of choice. Anecdotal evidence provided by the fieldworkers suggested that a number of households were unhappy with the Village Bank and felt that the FSA had let them down and not delivered on their promises. These observations are consistent with some of the more critical observations forwarded by members in the focus groups (see Chapter Four).

Table 15: Transition Matrix

	Village Bank in W1		*Commercial Bank in W1*		*Unbanked in W1*	
Outcome in Wave 2	Count	%	Count	%	Count	%
Not interviewed	6	8.6%	7	10.0%	1	1.4%
With Village Bank	**26**	**37.1%**	3	4.3%	4	5.7%
With Commercial Bank	16	22.9%	**40**	**57.1%**	7	10.0%
Unbanked	22	31.4%	20	28.6%	**58**	**82.9%**
Total	70	100%	70	100%	70	100%

4.5.4 Data Management

The management of the data post-field, required detailed attention and a further set of decision points regarding its final shape. The questionnaires were captured using the Epi-Info programme, which allows for double entry data capture. Each questionnaire was captured twice, by separate capturers and a report was run to highlight differences between the two files. Corrections of discrepancies were made by reverting to the original questionnaires. Further cleaning was undertaken and extreme outliers were truncated to within the 98th percentile. Most of these outliers applied to the value of assets, which were based on respondent estimates. Other data management decisions, which required altering the original raw values of some variables was required. This was in respect to weighting, inflation, and adult equivalency scales.

Any analysis of the data by strata does not require weighting as selection took place on a simple random basis. However, an analysis undertaken on the sample as a whole must be weighted to adjust for the unequal probability of selection across the strata. The formula used to calculate the weight per household type is one divided by the probability of selection. The following weights were applied to the data depending on household type:

Village Bank:	0.4647
Commercial Bank:	0.8647
Unbanked:	1.6484

The data sets also needed modification to control for inflation. Currency values in Rands were discounted between the two waves. According to Statistics SA the Consumer Price Index was 120.9 in November 2002 and 131.7 in November 2004 (base year 2000), which, when dividing one from the other, gives a deflation rate of 0.918. [70] This value was then applied to all Rand denominated variables in the 2004 database. For these data US dollar conversions, also at 2002 prices, have been made where appropriate ($1USD was equivalent to R10.5 ZAR). A conversion table for exchange rates in other years is provided under ‘Acronyms and Abbreviations’ at the beginning of the thesis.

Per capita calculations used by the data also raise the complexity of adult equivalence scales: not all household members receive equal access to or consumption of resources. Some economies of scale can be achieved when two or more individuals live together. Additionally, it is also accepted that children do not consume at the same rate as adults. A system of weights is therefore required whereby children account as a fraction of an adult, and some allowance is made for economies of scale within the household (Deaton 1997). A number of different adult equivalency formula exist with different assumptions regarding the consumption rates of children at various ages and by gender, as well as assumptions regarding achievable economies of scale . Accordingly, the choice of a particular scale can alter the proportion of households identified as living in poverty. Although each of the available scales have their merits (see Klasen (2000) and Table 1 for an examples), the final choice is somewhat arbitrary. For the present study, it was decided to apply the formula used by Roberts (2001) in the analysis of the KIDS data, which has also been used by other researchers when analysing poverty in South Africa (May, Carter et al. 1995; Woolard and Barberton 1998). The formula is shown below. To calculate the number of adult equivalents, all adults and those over the age of 15 are given a value one and all children 15 years or younger are given a value of 0.5. A small amount of economies of scale is accommodated for by raising the total value to the power of 0.9.

$$ADEQ = (A + 0.5.C)^{0.9}$$

(A=adult C=child <15)

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[70] http://www.statssa.gov.za/keyindicators/cpix.asp

4.6 Conclusion

The purpose of this chapter has been to set out the motivation and lines of inquiry behind the research in order to provide the necessary context and background for the results that are presented in the following two chapters. The ontological and epistemological philosophies underpinning the research have been identified as postpositivist in nature. They represent the view that reality is something that can be comprehended, although imperfectly, and that social phenomena can exist independently of social actors. This separate, observable reality can therefore be examined through the use of both quantitative and qualitative methodological tools.

The broad purpose for undertaking the study was explained in detail: it should be clear that we are concerned with enhancing our understanding of the relationship between savings and poverty, using the exemplifying nature of Village Banks as a test case. The ambitious undertaking of a mixed methods design which called upon both qualitative and quantitative tools to answer two mutual but complimentary research questions, allows the researcher to undertake a comparison of multiple levels within the same system. The results from the two strands will be presented separately in the two forthcoming chapters and then only combined at the interpretation stage in the final concluding chapter.

The following chapter, Chapter Five, will present the results of efforts to understand how the Village Banks work, if the members have confidence in the staff and governance structures and what benefits accrue to them as members. This, in a sense seeks to test the 'social' sustainability of the banks and whether or not they present a viable alternative for the inherent challenges of providing low-cost banking services in rural areas. Chapter Six will present the findings from the household panel study – whose design and details were mapped out in this chapter. Numerous challenges arose from this design, starting at the very beginning of the household mapping exercise, which revealed an unexpectedly high number of commercial bank account holders, and ended with revelation in the second wave that many households had left the Village bank and even more had changed the banking status altogether. This in many ways speaks to the 'financial' sustainability of the bank. More than that, the quantitative data, the longitudinal design, along with the presence of a control groups, enables the possibility of testing for the most elusive 'cause' and 'effect' relationship between savings and poverty.

Chapter 5 How Village Banks Work: Qualitative Findings

South Africa still remains a young democracy with its first democratic elections held just under two decades ago in 1994. Many who have witnessed the long struggle to freedom are interested in assessing the extent to which this change in political state has affected the non-political functioning of South African society, namely that of civil society. Whilst the current government has accepted responsibility in addressing the social ills that face the country, such as poverty and inequality, it has also called upon other spheres of society to assist them in their struggles.

Civil society, as defined by Narayan, refers to "those groups, networks, and relationships that are not organised or managed by the State. Civil society ... covers a wide range of formal and informal networks and organisations including Non Government Organisations (NGO), community based organisations and networks of neighbours and kin." (1999:101).

In many ways, South Africa has a unique history and has experienced a transition from an authoritarian state that was fiercely separated according to race and class, to one based on a liberal constitution of freedom and equality for all of its citizens. The relative absence of a thriving civil society in South Africa may be partly explained by the political theorist Adam Przeworski who argued that authoritarian regimes detest independent organisations: "they either incorporate them under centralised control or repress them by force" (Przeworski, 1986 in (CASE 1998)).

One of the many challenges facing the country is how to establish, encourage and promote a thriving and diverse civil society. Previously, civil society organisations were focused on overpowering a common enemy - apartheid. However, with the introduction of democracy they have had to redefine their roles. New roles adopted by civil society have included: participating in the policy-making process; becoming partners in the role of service delivery; and becoming watch dogs and monitors of the new government and its performance (Ibid.)

These newly defined roles of both government and civil society and the success with which the two interact, are of significant importance to the economic and social wellbeing of South Africa. A strong and vibrant civil society can make a significant contribution to strengthening democracy and fostering political and economic stability. According to

Heinrich (2001), NGOs can contribute to fostering democratic norms. In particular, member-based NGOs, by adhering to democratic decision making practices, can function as 'schools of democracy'. At an individual level, participation in such organisations may help to develop greater levels of tolerance and the ability to contain divergent and contradictory views. This enables conflicts to become more manageable and can contribute to a less fractious society (Hadenius and Uggla 1996).

The purpose of this chapter is to present the findings from the 16 focus groups, which were undertaken in 2002. The communities in which these focus groups took place were introduced in the previous chapter. The material that was generated from this exercise will address the first research question posed, which was discussed in the previous chapter. This question seeks to understand whether the Village Bank model of a member-owned financial institution is a viable alternative for delivering financial services for the poor. Questions posed in the focus groups were clustered under two broad themes: Democracy and Governance, and Social and Economic Benefits. The line of questioning regarding the former was to explore the functioning of the board and the frequency of elections, to understand if any conflict had arisen and how it was managed; and to establish if the banks were about to represent diverse interests, or were being hijacked by a narrow agenda of a few influential people. With regards to the questions of Social and Economic benefits, these were more loosely formed, for the purpose of encouraging the participants to identify such benefits themselves, with limited prompting. The main positive outcomes related to the accessibility of the banks, the fact that people now had a safe place to save and were able to save. It was also found that the banks were benefiting community groups, not just individuals. Their potential as a catalyst for local economic development was also recognised in one of the communities.

5.1 Democracy, Ownership and Governance

Democracy in the context as it was discussed with participants, was considered to be more meaningful than 'transparency' and broader than the occasional chance to vote for board members. Rather, the term was used to capture issues of participation, tolerance towards diverse interest and openness in decision making processes. It does not necessarily mean that the wishes of all members are met or that all members have the same goals and expectations from the bank. However, there should be a forum for members to express concerns and views should be tolerated and accepted. It was

expected that if a majority view was expressed that this should be reflected in decisions and actions.

Respondents were first asked what the term democracy meant to them. At least one group in each community made reference to broader concepts such as equality, freedom of expression, freedom of rights and freedom from oppression. Some went as far as assimilating the concept to freedom itself. One pensioner from Mathabatha stated that 'Democracy is Unity'. Comments also referred to relationships within the community, with some focus groups making direct and unprompted parallels with the Village Bank. They mentioned that the whole community was involved in forming the bank; therefore it was in this broad sense democratic.

Residents from Mathabatha were the most vocal on the topic and appeared confident in their understanding of the concept and how it applied to their everyday lives. The board members in particular gave detailed answers that made reference to transparency and the accountability of the board to the community, as shown below:

> In the light of the Village Bank, it is a concept that was developed by the people for themselves. They have full access to all information regarding the bank; they have the right to demand the financial statement of the bank at any time without fear. It is much easier to address a person that you know on a personal level. If at the end of the day a person feels a sense of ownership as well as belonging and is comfortable with the set-up, that to me describes democracy. **Mathabatha Board Members.**

The insights from Mathabatha were not however common across the four board committees. In comparison, the board members from Motswedi contributed the least on the topic and stated simply that 'democracy means freedom'. However, the men's and women's groups from the same village were far more articulate in describing the concept. During the men's focus group, which was the first focus group to be held, it become apparent that most did not own shares in the bank and did not know that they could be purchased. There seemed to be 237 shareholders and 1 126 account holders in the bank. One participant, who did own shares, informed the others that the board closed the purchasing of shares a number of years ago. This angered both the men and women who were in the same position. As a result, their comments regarding the bank and its 'democratic' structure changed during the course of the discussion.

> I think democracy in the village is a controlled one because we are not exercising some of our rights, most of the people who are here, all the decisions are taken by the tribal people. **Motswedi Men.**

> It seems that we are contradicting ourselves; we should have maybe indicated earlier that especially in the questions about democracy, we should have said something about the board that it is not democratic. If we are not involved in the decision-making it is not democratic. **Motswedi Women**

The men in particular expressed strong opinions about the board, which they described as closely linked to the tribal authority.

To gain an appreciation of the relationship between shareholders and the board members, participants were then asked about the bank's operations, how decisions are made and by whom. Some did not seem to understand the question properly as the pensioners from Moswedi mentioned that the bank was democratic because they did not tell you what to do with your money, whilst the pensioners from Bhambanana stated that they knew nothing about how the bank operated. Most of the other groups however were able to recognise the role of the board members and their relationship to the shareholders as the main vehicle for decision-making.

The focus groups also identified discrepancies in accounts of bank operations. In Bhambanana the men's group stated that decisions are taken by the shareholders, whilst the pensioners said they did not know who is on the board. The Mathabatha board members believed that the shareholders were the main decision-takers and the women agreed that they do not make decisions without their consent. Pensioners from Sakaletfu also agreed that the shareholders in their community make decisions. The women from Motswedi continued in their dissent, as shown below:

> The Village Bank operates properly, but we have a problem with the board. Normally these people in the board don't consult with community members, they are the ones who decide what to do about the Village Bank, who should do this and who should be doing that. **Motswedi Women.**

Indeed, each of the banks had a different story to tell regarding board elections, a tangible litmus test of 'democratic' ownership. The Motwsedi Village Bank, the longest operating bank, had not held an election since the board was first established. When asked why no elections were held since 1996, one board member explained that the original suggested period of service for board members was one

year. It was then felt that members were still learning how to do their job and it would therefore be unhelpful to continuously change the board members. It was then decided that the board would continue without change until they were able to stand on their own. But members' views on the first and only election held in Motswedi appeared to contradict even this account. Asked by the focus group facilitator whether all shareholders elect the board, the board member focus group participants confirmed 'yes'; But members of the men's focus group indicated that "No, there was no voting, the board was just appointed because if they were voted they could have called together the shareholders" and the women's group pointed out, "The elders of the community elect them, they are the ones who elect the board".

The board members it seemed were highly protective of their control of the bank. When the issue of share purchase was discussed the board focus group argued that any member of the village was allowed to buy shares but that people from outside the village were not allowed. Board members explained that they did not want the bank to be governed by somebody from outside their own village.

The board of the Bhambanana Village Bank was elected on May 15, 2000 when the bank first opened. According to board members, a community meeting was called by the Department of Social Welfare together with the FSA and the local Amakhosi.[71] At the meeting, community members were explained the purpose of the Village Bank and were requested to elect the board. Members of the crowd then pointed out various people, stating that they wanted such people on the board. It was also organised so that each of the four tribal authorities had a representative on the board.

The women from Bhambanana mentioned that they participated in the election process whilst it was not raised during the discussion with the men. When the pensioners were asked if they were present when the board members were elected they all stated that they were not present. When asked if they were happy about this, one man replied by saying, "It does not make a difference because we do not know anything; the only thing we know is that we save money in this bank".

[71]Amakosi is the plural of Inkhosi, both referring to the local chiefs or leaders of the traditional authority. Their headmen are referred to as 'Indunas'.

In Bhambanana, although not everyone had participated in the elections and none had been held since the first one, nor had any official report backs been given to the shareholders by the board, there did not appear to be any general discontent with the board members about this. Shares were still available for purchase for any resident in the area and the board is actively encouraging people to purchase shares. The board however did acknowledge regret for their failure to call any shareholder meetings.

The situation in Sakaletfu was quite the opposite to Motswedi and Bhambanana, where there were 580 shares owned by 515 people. The board had held its second elections in the year of the visit, and at the same time given a financial year-end report. About half of the shareholders attended the meeting and voting took place via nominations and a show of hands. A member of the board stated "We didn't have them last year [elections]. Things were not fine with the Village Bank. We had problems". It was later established that people were very unhappy with the previous chairman and the way he was running the bank. They finally managed to call an election at the beginning of the year and he was voted out of office. Because of this, the board members were very aware of their responsibilities and were committed to ensuring that elections take place on an annual basis. Some people felt that this chairman had hindered the growth of the bank and since his departure there has been an increase in the level of interest in the bank. The board members were actively encouraging people to buy shares and are encouraging them to buy multiple shares as a form of investment.

The bank at Mathabatha had also just experienced its second election at the beginning of 2002, with the first being when the bank opened. According to the board, the election was also attended by shareholders who had voted via a show of hands. There had been some changes in the board members with the new election and the board felt quite confident that people would not re-elect those who under performed. According to the board members, the bank manager issues quarterly statements to the shareholders. As there is a shortage of paper and many of the shareholders are illiterate, reports are usually given verbally. Yet, despite these apparent procedures, participants in the focus groups articulated disparate levels of knowledge about how the bank was run. Some in the men's group, for example, expressed ignorance about whether they could own shares whilst some of the women mentioned that they could not afford to buy shares. When these issues were raised with the board members, they stated that they strongly encourage all people to buy shares but that they do not have to do so. They also stated that some of them may not know the

difference between shares and a savings account and may own shares but have not actually realised it.

One of the tests of a member driven organisation is how it goes about resolving any conflict that may arise between account holders and those with designated responsibilities. What is also important is what systems and procedures are in place to deal with conflict or misconduct to ensure that it is addressed in a timely, fair and transparent manner. In exploring how conflict was managed, it was expected that participants would be able to articulate a known set of procedures that are to be followed, should any problems arise with the management, the board and/or its interaction with the shareholders.

When the participants were asked if they had ever encountered any problems or conflicts within the Village Bank, responses varied across different communities. In Bhambanana, the board members felt that any complaints or concerns are first raised with the bank administrators who in turn would notify the board if he/ she cannot resolve the issue. The men stated that there had never been any problems and they had not been called to any meetings to deal with problems. The women seemed confident that the board would deal with the problems. However, the pensioners stated that they did not know about the shareholder meetings or how the board operated, therefore they could not comment on how and if problems are resolved.

> There has never been a problem, and we have never been called to such a meeting. **Bhambanana Men**
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> We do not have a platform to raise our concerns. They never organised any meetings with the shareholders. It is difficult to comment. **Bhambanana Pensioners**

Some of the pensioners in Mathabatha believed that the chief would be called in to deal with conflict, whilst others stated that the board would deal with it. They all agreed, however, that there had not been any problems. Sakaletfu participants unanimously agreed that the board resolves problems, although one pensioner added that the Induna (headman) would be called to the meeting.

Some participants mentioned that they had heard of problems in the past and continued to give their opinions on the problems and how they were addressed. Lack of security at the Village Bank in Mathabatha was a concern that one participant felt was not being

effectively addressed. This issue brought out opposing views amongst the participants of the Mathabatha men's focus group. One participant in the Mathabatha men's focus group stated his dissatisfaction with the fact that he was not informed about the robbery that took place at their Village Bank. In response to the statement made by the participant in the men's group, one of the board members however, stated that the members had been informed and believed that the matter had been handled in a correct manner.

Broad participation is another key indicator of a healthy democratic institution. To foster a healthy tolerance of other people it is important that organisations do not act explicitly to exclude particular individuals on any unfair or unprincipled grounds. This section seeks to understand the types of people that use the bank's services and whether or not particular individuals may be excluded perhaps because they are too poor, illiterate or come from a different tribe etc. Other than asking directly, another way of trying to measure exclusivity was to understand why certain people chose not to use the bank's services. Another indicator of a vibrant and participatory organisation is one in which a wide range of views are tolerated, even if they do not reflect that of the majority.

When asking the question, "What type of people are members of the Village Bank", it was hoped that a picture would be painted of a typical shareholder, in terms of their income, educational and vocational status. In some cases, such as the men and women's' group in Bhambanana, they had simply stated that they were "account holders" or "shareholders". The pensioners mentioned that they were "people who could save"; whilst the board members recognised that it was primarily "poor" people who were members of the bank.

In Mathabatha, most of the respondents described members according to their vocational status such as "youth", "pensioners" or "small business people". The men did, however recognise that the bank primarily served "poor" people. In Sakaletfu people were described according to their actions, such as "people who are banking", "responsible people" and "any person who saves". The board members noted that any person may join the Village Bank as long as they are a South African citizen.

> …that poor people like us are the ones that use the bank's services the most.
> **Mathabatha Men**

The women from Motswedi recognised that the bank was open to anyone over the age of 16, regardless of their employment status, and that there was "no discrimination". The

pensioners felt that it was "good people" and "people who behave", who were members of the Village Bank. The men responded in a similar vein to that of the women and mentioned that there were "no gender or age restrictions".

> There is no discrimination in the bank. Young, old, rich and poor can join the bank. Our bank is still new so the people who bank here are, if I look at the standard of education, it is not high and mostly it is the pensioners. **Motswedi Women**

Similar types of responses were given to the question on whether or not certain people feel that they cannot join the Village Bank. It became more apparent that those people who do not join, do so largely by choice or through lack of knowledge of the bank and how it operates. Those people who do not join tended to be from the higher income bracket, who either did not think the Village Bank was a real bank or wanted a bank that offered more sophisticated services such as an Automatic Teller Machine (ATM) and other electronic services. This seemed to be the case in Mathabatha, where respondents said that they felt the bank was below their standards. Also some people, such as teachers, did not like the idea of another local person in the bank knowing what their salaries were.

> They are not discriminated against; they just feel that it is below their standard. **Mathabatha Board**

> There are some people who think that they would never save in the same place as poor people. They believe that if they have a lot of money it should go to town, not here in the village. **Mathabatha Men**

The discussion on why people choose not to use the bank's services elicited similar responses to the discussion above with points being made about the lack of computerised services and no ATMs. Some respondents relayed that people were suspicious of banks in general and felt that they "eat" their money. Others believed that it was a lack of knowledge in the bank and how it operated which explained why some people choose not to use the bank's services. One woman respondent from Mathabatha said that it was the extreme poor that did not use the bank because they had no money to save.

> They have no confidence in us. They want to see us working with the computer. They don't trust us with our pencils and paper they say their money is not safe. **Bhambanana Board Members**

> Most of the people that do not use banks are those that live in extreme poverty… **Mathabatha Women**
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> It's ignorance. People lack education. They don't have knowledge about the functioning of the banks. They need education about the banks and their importance. Like how important it is to save and bank money. **Sakaletfu Board Members**

5.2 Social and Economic Benefits

The next set of questions turned to other viewpoints outside the actual functioning and structure of the bank and to what extent has the bank and its services improved the quality of life for members. Respondents were asked to comment on what it was like before the bank arrived and how life has changed as a result. They were also asked how important is it for them to have banking services located within their community, and what alternatives people used previously.

A number of themes emerged from the responses. These included the issue of access, which goes beyond physical proximity and other transaction costs, approachability, and joining criteria. Having a safe place to store money was also very important, not just to protect the account holders from theft but also the temptation to spend. Comments on the simple appreciation of being able to save money also emerged. As expressed below, the arrival of the bank even touched upon issues of dignity:

> The people of Mathabatha are proud to have a Village Bank, we have a bank and we have destroyed the myth that banks are institutions that are only be found in towns, in high class areas. **Mathabatha Women's Group**

The provision of basic services can make a significant contribution to improving the quality of life of poor people. For those located in rural areas, access to even the most basic services is usually denied. As with most services, provisioning in rural areas is hampered by distance and smaller population densities, which often push cost per client to a level beyond feasibility. This is especially the case for financial services, which are usually not economically viable.

For most poor people living in rural areas, making use of a bank account often requires expensive trips over long distances. Transport costs are usually relatively large compared

to the small amounts of money that people have available to save, thus serving as a major deterrent to doing so. Cost is not the only hindrance of long distance banking, but also time and convenience. If money is required for an emergency, which is often a medical one, it often cannot be obtained as quickly as it is needed. Therefore, one of the most frequently cited benefits of the Village Bank given by respondents was the time and money saved due to its proximity.

> Most people had a problem where if they wanted to go to the bank to withdraw money and did not have any for transport, they would borrow from neighbours so that they would get to the bank. However this meant that when they came from withdrawing for example R50 ($4.80), they would be left with R30 ($2.80) because they would have to pay back the neighbours. **Sakaletfu Old Age Pensioners**

> It is not the same as before because if you needed some money urgently, you could not get it because of the distance that we had to travel to access money. Now the Village Bank is very close to us and very accessible to us. This helps a lot. **Mathabatha Old Age Pensioners**

> We waste a lot of money getting to town instead of saving. **Mathabatha Old Age Pensioners.**

Access goes beyond that of geographical distance and also considers how approachable or user-friendly the services are, and if certain types of people are excluded from using them. For some of the respondents, they preferred the use of passbooks as they had an aversion to automatic teller machines and bank cards, which do not display balances.

> I used to use the Standard bank where they changed the system to ATM's and when we told them that we couldn't use that machine we were told that we should ask our children to help us. **Sakaletfu Old Aged Pensioners**

> What I like most about the Village Bank is that it's using a bankbook. I know how much precisely I have in my account. **Sakaletfu Women's Group**

In South Africa most commercial banks require people to be employed, and to provide proof of employment, before they are able to open a bank account. This not only excludes the large portion of the population who are unemployed but also those not formally part of the workforce such as the elderly/retired and homemakers.

> The Village Bank differs from other commercial banks, it accommodates unemployed people. We can discuss finance issues with the bank employees easily compared to other banks. **Bhambanana Women's Group**

> …having this bank has helped a lot. When we go to the other banks in town to open accounts, they want to know where we work. **Mathabatha Board Members**

Finally, access to services can also be denied due to issues of language and culture. Although South Africa has 11 official languages, commercial bank literature and other communications are usually only carried out in either English or Afrikaans. This is not the first language of most poor rural South Africans. Being unable to communicate with bank staff in a language that clients know or feel comfortable with can be a significant cause of exclusion. In addition to this, many commercial bank staff are not trained about how to respond appropriately to a client, according to their culture. This, combined with language barriers has made dealing with a commercial bank to be a frustrating and humiliating experience, as expressed below by a number of the respondents.

> There is respect from the employees in the Village Bank whereas in other Banks there is no sense of respect where they do not use the language that I would understand. Sometimes they call us "Grandmother" and "Aunty"; to me it's an insult. **Bhambanana Old Age Pensioners**

> This bank is important because our children who speak our language and understand our culture run it. It is very nice to talk about money with somebody who understands me. So it is so important to know that when I go to the bank I will find so and so and he or she is so friendly. It is a very user-friendly bank. **Mathabatha Board Members**

Having a safe place to keep money is something that many people take for granted. However, for those that do not have access to basic banking services, this can be a major source of stress. The safety required is not only from the possibility of theft from criminals; it is also protection from the pressures of family members to make available the cash, and from one's own temptation to spend it. The absence of banking services means that those who are otherwise able to save money, have to keep it under precarious situations that leave the physical cash exposed to the elements and the possibility of forgetting where it is hidden.

Respondents were asked how they stored/saved money before they opened accounts. Reports included keeping money in suitcases or padlocked metal cases which were buried in the ground. Others would put spare cash in a can which they flattened and hid under a rock, whilst some reported keeping cash on their person by wrapping it in cloth and stitching it to the inside of their clothes. There was even a fear that people would die without anyone else knowing where their money was hidden.

> Our parents used to dig holes and hide the money there; others would die without letting anyone in on the secret. Therefore a lot of money would be wasted. **Mathabatha Women's Group**

> It is very important because it is not safe to keep money with you in your pocket or at home. Anything can happen, for instance, if your house is being burnt down you will lose all that money. But when it is in the bank it is protected. **Bhambanana Men's Group**

> I remember a long time ago, this old woman had hidden money in a …, when she decided that she wanted to use the money to buy food for her children, rats had eaten part of the money. Because of that experience, she was among the first people to open a bank account in the Village Bank. **Mathabatha Board Members**

Safety for many respondents meant being able to keep their cash away from marauding family members.

> Our children do not steal anymore because they do not see money lying around the house now. Now when they search our pockets, they do not find anything. **Mathabatha Board Members**

> The bank has been very helpful. It is much better than keeping money with us in our homes, where there could be the danger of our children to steal from us. **Mathabatha Old Age Pensioners**

Unsurprising in South Africa, where crime rates are known to be exceptionally high, being robbed of one's cash is of great concern to many, especially the elderly who are more vulnerable. Respondents felt particularly vulnerable standing in the long queues which they complained were common in commercial banks, as well as at pension pay days.

> Pensioners are able to save their money because before they used to be mugged and now it is easy. **Bhambanana Old Age Pensioners**

> They used to get so scared that thugs would rob them of their pension funds, now that there is a Village Bank, they bank their money in there. When they need to use the money for something, they go to the Village Bank to withdraw the amount that they need. **Mathabatha Old Age Pensioners**

> To other banks, I have to wait in line and the people are assessing and waiting for you. They plan to steal from you. This is so scary. I would be afraid even to withdraw my money. **Sakaletfu Old Age Pensioners.**

This also confirms the reason for old age pensions being identified as one of the key beneficiaries of this initiative.

Underlying all of these comments on access and safety is a simple desire for people to be able to save their money. It is a fairly uncomplicated procedure, and according to Adam Smith, is a basic human desire which comes from the womb (Smith 1801). However for the vast majority of poor people, this basic facility is often denied, far more so than the ability to access credit. For this reason, all of the respondents reflected on how grateful they were that the arrival of the Village Bank meant that they were able to save money, either more safely than they had in the past, or with more regularity. In Mathabatha and Bhambanana, board members had both reflected that the arrival of the Village Bank had helped to foster a 'culture of savings'.

> I think it encourages a sense of saving in the community. It is a very important to save for the future. If the saving institutions are very far, people get discouraged. But once the institutions are available within their vicinity, they develop a culture of saving. Ultimately, it helps people to have something when there is a need for money. **Mathabatha Board Members**

> I think people now have plans to save their money. Before they were knowing that if they have money they have to use it, they have to buy but now they know that they should save before they buy. The culture of savings has now developed. **Bhambanana Board Members**

More often than not, the reflection from respondents was a simple statement of gratitude that they are now able to save their money.

It helps people to save and discourage them from wasting their money. **Mathabatha Old Age Pensioners**

We are able to save money today which was not the case before, we are very thankful. **Bhambanana Women's Group**

The most important thing is that the Village Bank assists those who cannot save their money properly. **Motswedi Menes Group**

The opening of the Village Bank has changed so many things. It has helped me a lot. It has taught me to save and bank money. Like before I wasn't saving money at all. I was spending money on worthless things. **Sakeletfu Menes Group**

It appeared that the Village Banks were also having an influence on the way in which people could save with one participant noting they were now moving away from the traditional and riskier forms of savings.

People used to save money by investing in buying livestock like goats, and when they needed money they would sell their livestock to have access to cash. This way of saving created problems for us the investors, because sometimes we will lose our livestock. **Bhambanana Men's Group.**

A final means for improving the savings capacity of respondents was the simple convenience of being able to deposit cheques:

Before there was a bank, if a person received a cheque as payment, in order to cash it within the community, he or she was forced to buy something in order to get cash. This meant that we were sometimes forced to buy things that were not planned for. Now that we have a bank, pensioners for instance can deposit their pension fund into their bank accounts and only take it out when they need it. **Mathabatha Men's Group.**

The focus groups also revealed a range of other benefits being generated by the presence of a local Village Bank. Other than accounts for individual use, a number of groups noted that the Village Bank was also being utilised by community groups and projects, which also benefited in the same way. The payment of school fees appeared to be a big issue in all four communities. The ability to save for school fees was not the only benefit noted. A number of people were also thrilled that the schools could also open accounts and fees could be paid directly into the Village Bank account. This appeared to be of great benefit to the parents and it also meant the school had somewhere safe to store their cash.

> Before we had a Village Bank in the community, burial society groups, soccer clubs, church groups and other organisation used to waste a lot of money on transport to get to town to save money. Schools also had this problem because part of the money that was intended for saving would have to go towards paying transport fees for the delegates. The Village Bank has since brought a change for the better to the community projects and all the organisations that are using money, now they simply bring their money to the Village Bank. **Mathabatha Board Members**

Some respondents reflected on the ability of the bank to be a catalyst for local economic development. This was particularly the case for the board members who expressed a specific vision they had that the bank would bring money back to the community. They also indicated they had used the bank as a means for educating local students on monetary systems and how to manage money. The board members from Sakaletfu also had a vision of community development and empowerment.

> It's very important to have the Village Bank. People have something that they can identify as their own thing. This bank has an intention to develop this community. The other banks, like Standard Bank serves the interest of the White people. The community is empowered and they appreciate that they own the Village Bank. **Sakaletfu Board Members**

> We also realised an improvement among women that walk around selling vegetables, if for instance, at the end of a day, she has made R30.00 ($2.80), and she deposits the amount into her bank account. Once the money has accumulated, she is able to buy stock and basic foodstuffs for the home and leave whatever is left over in the account. This way, they always have money to buy stock. **Mathabatha Board Members**

Although the mainstay of the microfinance industry has been the creation of credit for assisting micro-entrepreneurs, the Village Banks were also noted for coming to their aid. However, in this particular instance, as quoted above, it was for enabling them to grow their business in a non debt-incurring manner.

5.3 Discussion

In the testing, the level of threat of 'weak governance' the four Village Banks each presented different scenarios. Even within the communities, each group articulated

differing understandings of the concept. The board members from Mathabatha were most comprehensive in their understanding of the role of governance and how it related to their responsibilities with regards to the managing of the bank and how it was a crucial cornerstone to the success and growth of their bank. They were very lucid in explaining their responsibilities and strongly believed that the success of the bank would only be possible if they adhered to these principles.

Although Motswedi is one of the oldest banks, with the most impressive savings record, since inception in 1996 there had not been any elections. There is a large discrepancy between the number of shares sold and the number of account holders, and as became apparent during the focus groups, a number of participants did not even know that shares could be purchased. The board that was elected did not seem to comprehend the responsibilities of their position, nor have the skills or understanding to fulfil their obligations. Most of the board members were over the age of 70, and appeared to have a close relationship with the local tribal authority.

Only two of the four banks had held more than one board election (Mathabatha and Sakaletfu), which are supposed to be held annually. Although it would probably not be described as 'inappropriately complex', it is a concern, and indeed a threat to their sustainability, that this relatively simple activity appears beyond the capacity of Motswedi and Bhambanana. Despite this, at least in Bhambanana, there appeared to be no widespread discontent with the functioning of the board and the men's and women's group identified the bank as representing the interests of the community (although the Pensioners group were unaware of how the board or the bank functioned).

Other than the discontent that existed within Motswedi, there appeared to be a general level of satisfaction regarding how the bank operated, the functions of the board and how it interacted with the shareholders. There also did not appear to be any disproportionate influence on how the bank was managed from any one individual, either inside or outside the bank. In all of the banks it was mentioned that the local Inkosi was involved in its inception, but it did not appear that he took an active role in the bank or interfered in its processes. However, very few respondents outside of the board members were aware of the bank's constitution and what rules governed operations.

When it came to the discussion of resolving conflict, all of the participants were able to articulate some procedure that should be followed in such an event. Although the only events reported were of a minor nature, there was a general consensus that issues would be handled efficiently and effectively. The misconduct of the chairman in Sakaletfu, who was eventually asked to leave, was not brought up or explained explicitly during this discussion. It seemed more to be a point of embarrassment which the participants did not wish to discuss with the researcher.

All of the banks appeared to openly welcome any person who wished to join the bank (to open an account only at Motswedi, but to buy shares and open accounts at the other three banks). It did not appear that any one group of people were actively discouraged or excluded from participation. However, what did become apparent was that the people least likely to join the bank were those with more money and who could afford to have an account at a commercial bank. These people felt the bank was beneath them and that the services it offered were not sophisticated enough. It was mentioned on a number of occasions that the lack of computers was a problem and because of this, people did not perceive the bank to be a real bank.. A number of participants reflected that it was 'poor people' who used the bank.

This appears to indicate that the Village Banks have been effective in reaching their target market. Although many see the absence of ATMs and a computer system as a negative thing, it is one of the key reasons that the banks have been able to keep their transaction fees relatively low.

Overall, questions regarding the social and economic benefits that the banks offered by far generated the most contribution from participants. Interestingly almost no complaints arose regarding the lack of credit services offered by the banks. The issue of needing or wanting credit appeared almost irrelevant. Respondents were more concerned about the fact that they had not yet received any dividend payments and were eager to start seeing some form of return on investment in their share purchase.

Overwhelmingly, participants were most grateful for the convenience and safety that the Village Bank offered. Here they were able to deposit money without spending large proportions of it on transport, they were able to access it quickly in the case of an emergency, and they were able to store it safely – away from the danger of theft or

misplacement. Respondents also felt empowered by the fact that they could interact with bank staff in their own language and in a manner that was respectful of their culture.

Although the provision of savings facilities is a basic need, the extent to which it is able to improve the quality of life of poor people should not be underestimated. In the truest sense it appears to offer a real form of economic empowerment which the provision of credit has not appeared to have achieved.

The fact that the Village Bank was owned and managed by the people of the community did not appear to be the most important aspect to them. On a day to day basis, the banks operated effectively and efficiently regardless of where they were placed on this ‘democratic spectrum’. This also explains why few of the participants believed their bank to be an exceptionally unique organisation.

5.4 Conclusion

It must be remembered that providing financial services to the poor is expensive, even more so in rural areas. Member-owned and operated institutions like Village Banks are a low-cost model designed to address this inherent barrier. This qualitative research sought to understand whether or not this is a viable alternative and whether or not these ‘democratic’ philosophies are important. The answer to both of these questions is yes and no.

All the day to day functioning of the banks were working well and each were effective in providing basic financial intermediation for their account holders. In regards to this, little differentiation can be made between the different banks, even though large discrepancies exist between the functioning of their respective boards. The ability of the board to carry out their functions correctly and to the fullest extent is a result of both the level of competence of the individual members on the board, as well as the support and guidance they received from the FSA.

In addition to providing auditing functions, the FSA, as the overseeing body, should also be taking responsibility for individual boards. None of the banks had paid out any dividends and some did not even know if they were operating at a profit or loss. The response to why this was the case was that they simply did not know how to do the

calculations and that no one had showed them. In a country where democracy is a relatively new concept, and in rural areas where non-elected tribal structures head the hierarchy of power and decision making, any institution operating on democratic grounds requires considerable training, support and in some cases enforcement, to ensure that certain practices are adhered to.

The focus groups revealed a number of negative comments towards the FSA and the general feeling that many promises had been unmet. Some even felt they had been abandoned. At the same time, and unknown to the participants, the FSA was facing its own sustainability concerns. Donor funds were running out and they were severely constrained in their ability to carry out their own basic functions.

Two years after the focus groups were completed and two years after the FSA had ceased providing support to the banks, the Bhambanana Village Bank was revisited to carry out the second wave of the quantitative research. The bank's doors were still open and people were still able to deposit and withdraw money. It was unknown what was happening with the other three banks, only the Mathabatha Village Bank appears on the list of regulated banks on the SAMAF website.

One could therefore argue that Village Banks are a viable alternative for offering low cost banking services in rural areas. One could also argue that it is immaterial whether or not this is done in a democratic manner. It could therefore be concluded that the democratic philosophies of Village Banks are secondary to its role as a financial intermediary, but only in the short run. Over the long run, if such institutions are not able to adhere to their member-based member-run nature, their long term sustainability is highly questionable, as this is one of the key inputs to their 'low cost' design.

Chapter 6 Cause and Effect?: Quantitative Findings

This thesis has undergone a continuous process of tapering, from a very broad perspective on global issues pertaining to poverty and microfinance in Chapters One and Two, to a narrowing down of the geographic focus to South Africa in Chapter Three, and then to four specific rural communities in Chapter Five. The scope will narrow even further in this Chapter to focus on just one of these communities, the village of Bhambanana, in the far north of KwaZulu-Natal province.

This chapter will present the findings from the quantitative data collected from the household panel which was conducted in November 2002 and November 2004. It seeks to expose the features of poverty, both relative and absolute, which characterise this community. It will also uncover the role that savings and credit plays in assisting households to acquire assets and cope with negative shocks.

The chapter will commence by providing further information on the community of Bhambanana, carrying on from what was provided in Chapter Four. Data on the household characteristics and livelihood strategies will first be presented to create a sense of how poverty is lived and experienced on a daily basis. This will be followed by a presentation on the household strategies for coping with shocks. Data on the individual banking, savings and credit activities will also be provided.

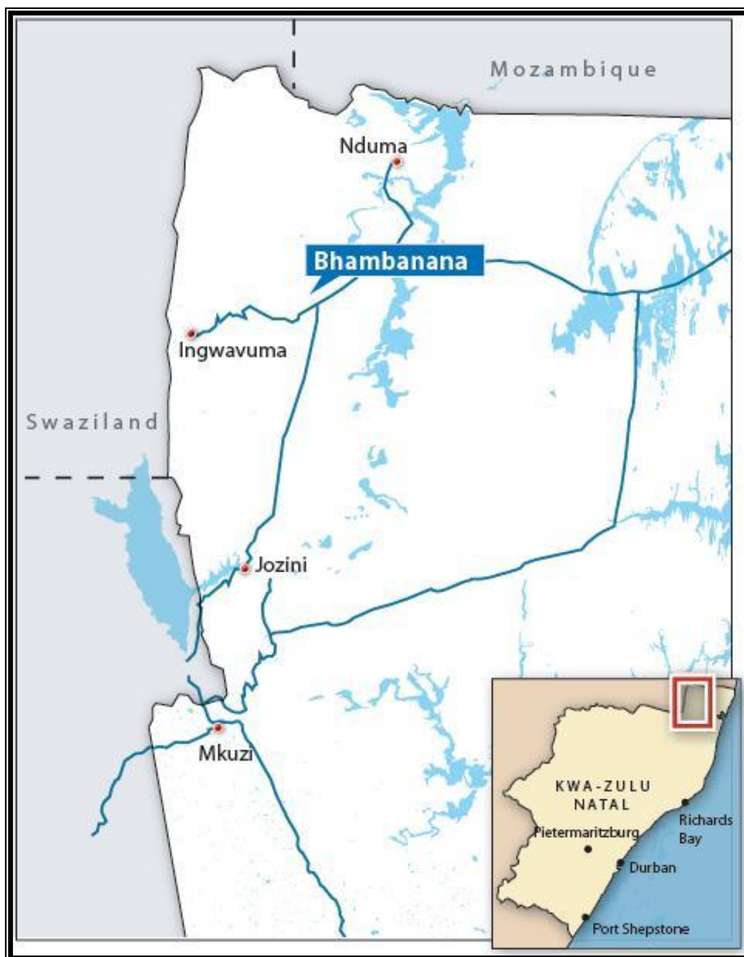
The data will then be interrogated further to see if there is a discernible difference in poverty, according to whether residents in Bhambanana hold accounts with a Commercial Bank, the Village Bank or are Unbanked. This analysis will involve measuring and comparing the poverty levels of the different household types. The expectation is that Village Bank households, because of their access to the bank, and its savings facilities, will have fared better, in terms of poverty, than those households that are Unbanked. The reason for separating the 'Commercial Bank' households from the Village Bank households was explained in Chapter Four; the expectation is that these households will be better off, as they are able to afford this 'higher order' banking facility. The tests undertaken will consider the actual savings volumes of households, as this is a central

variable in our analysis. Levels of household debt will also be examined to test if it too, has any discernible impact on poverty outcomes.[72]

6.1 Bhambanana in Detail

As explained in Chapter Four, the village of Bhambanana was purposively chosen as the site for the quantitative research. Whilst a broad description of the location was provided in this chapter, additional information is given here to afford a greater sense of familiarity with the location. Figure 15 illustrates Bhambanana's location within the province of KwaZulu-Natal.

Figure 15: Location of Bhambanana in KwaZulu-Natal Province



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[72] This is in line with the findings of Ardington, Lam et al. (2003) who find levels of indebtedness to be strongly related to access to savings.

The village falls under the Jozini local municipality, which is part of the Umkhanyakude District Council, one of eleven within the province. The district council is surrounded by Mozambique to the north, the Indian Ocean to the east, the kingdom of Swaziland to the north-west and the district councils of Zululand (west) and uThungulu (south). The neighbouring town of Ingwavuma maintains offices from the government departments of Social Development, Agriculture, Education and Home Affairs. As a result there is a large uptake of social grant recipients in the area. According to the 2001 census, isiZulu is spoken by 98% of residents in the district and 99% of the population are recorded as 'black African' (Statistics SA 2001a). The Inkhata Freedom Party took 70% of the votes in the 2004 general election, representing one of the party's few remaining strongholds.

Although good, all-weather roads into and out of the area exist, the area is still isolated and a reasonable distance from major towns and shopping centers. There are no formal or demarcated residential areas. Houses are built of mud, brick and thatch and very few homes are connected to electricity. The climate is warm sub-tropical with summer temperatures averaging up to 30 degrees, and 20 degrees in winter. Figure 16 depicts typical landscape and homesteads in the area.

Figure 16: Example of the Low-density Landscape

Source: Taken by author

Source: Taken by author

The influence of the traditional authority is especially strong in this area, to the extent that directives from the local chief referred to as the 'Inkosi', or his assistants, known as 'Induna's, have a strong and lasting influence over the day to day activities of the people. Any companies, organisations or institutions wishing to do any form of work or activity in the area, be it for commercial or voluntary reasons, must follow the correct procedures for negotiating access. This is especially the case for undertaking research, with community members refusing to co-operate with any form of research that is not first sanctioned by the appropriate authority. Permission was sought and granted each time the field team entered the area.

6.2 Household Characteristics and Livelihood Strategies

To gain insight into the day to day living experiences of households in Bhambanana data are presented on people's livelihood strategies. The sub-sections present data on the household composition and demographic characteristics, on living standards, food security, the ownership and acquisition of assets, and the various means by which households attempt to make a living and earn income. Where applicable and available, provincial data from the 2001 census are provided. Data from both waves are presented so that changes over time can be highlighted. Tests of statistical significance between the

waves are applied, including Pearson's chi squared test for ordinal and nominal variables, and t-tests for means of continuous variables. The aim is to discover the extent of poverty as it is manifest in Bhambanana, and to understand its main features and characteristics.

6.2.1 Household Composition and Demographic Characteristics

Data collected on household demographics from the 196 households provided information on 1 340 individuals in Wave 1 and 1 332 individuals in Wave 2. Average household size for the sample is 6.84 and 6.80 (the decline is not statistically significant) which, when compared with the provincial average 4.2 and the national average of 3.8, indicates that Bhambanana has larger households (Statistics SA 2003). The size of households ranged from 1 through to 30.

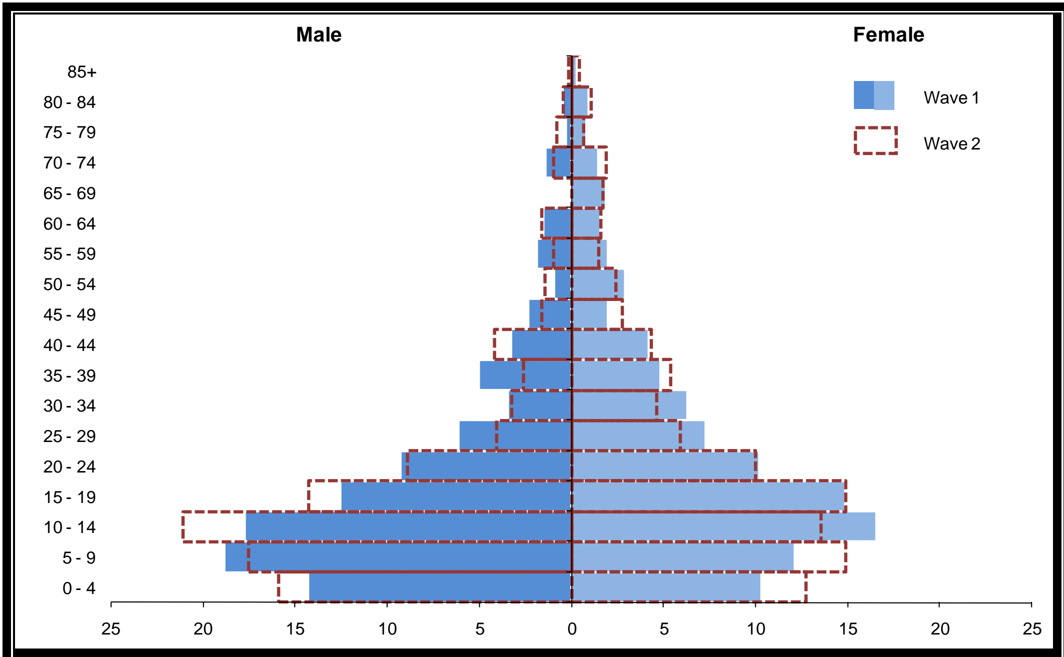
The household roster data also indicate considerable turnover in membership over the two year panel period. In two years, 268 people left and 260 new people joined. A total of 31 deaths (of original Wave 1 household members) took place between 2002 and 2004. Table 16 indicates that more deaths occurred in the 60+ age category with an almost equal split overall between males and females. Given the prevalence of HIV, the figure for deaths is lower than one might expect. It is beyond the scope of this research to speculate on why this might be the case. The small sample size may miss households or locations with higher HIV prevalence, or death rates due to other causes. It may be that people with terminal illness leave the village and/or to die somewhere else but are recorded as having 'left' for other reasons.

Table 16: Age and Sex of Deceased Household Members

Age	*Male*	*Female*
0 – 4 years	0	0
5 – 9 years	0	0
10 – 19 years	2	0
20 – 29 years	1	4
30 – 39 years	2	3
40 – 49 years	3	2
50 – 59 years	1	4
60 + years	7	2
Total	16	15

The gender profile of the sample was 45% male and 55% female, which is only a slight variation on the provincial distribution of 53.2% female (Statistics SA 2003).[73] This profile does indicate a degree of male outmigration, possibly in search of work. Figure 17 shows the population pyramid for both waves. For comparison, the population pyramid for the province is provided in Figure 18. The average age of the population in Bhambanana was 21 in Wave 1 and 22 in Wave 2. The adult to child dependency ratio increased from 1.24 in Wave 1 to 1.41 in Wave 2, reflecting both a shrinking adult population and a growing youth population. Whilst the age pyramid for the province presents a picture of a more even and conventional age structure, the more irregular nature of Bhambanana's age structure is most likely due to the small sample size and the migration movements discussed above.

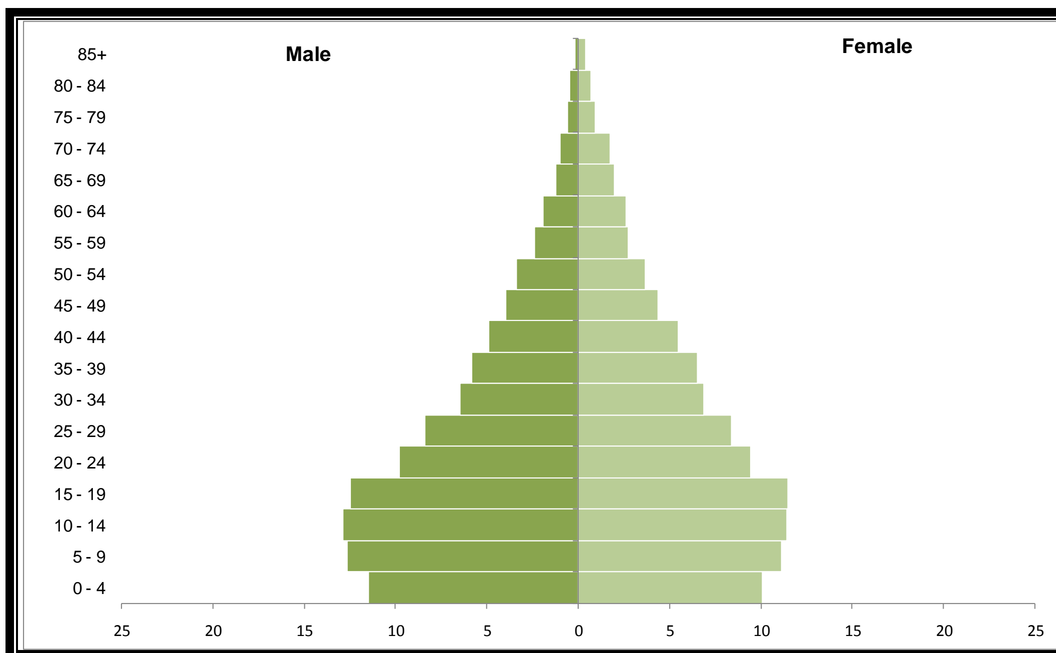
Figure 17: Distribution of Age by Sex and Wave



Source: Statistics SA (2003)

[73] Variations between the two waves were less than 1%.

Figure 18: Distribution of Age by Sex in KwaZulu-Natal



Source: Statistics SA (2003)

Data on the household structure revealed a picture common in rural areas, including a sizable portion of extended family members. The largest share of these, outside the nuclear structure, consisted of grandchildren and 'other' relatives. Noticeable changes occurred in the proportion of son/daughter of the household head, which declined by 3%, and in the number of grandchildren, which increased by 5%.[74]This may indicate the outmigration of adults in the search of employment, whilst their children, grandchildren of the head, are left in their care. Normally this would also indicate the demographic shifts that are associated with the HIV/AIDs crises, although the data on death earlier does not support this. There was no change in the sex of the household head, with 47% of households classified as female-headed in both waves. [75]

The vocational status of household members is presented in Table 17.[76] More than half of household members are either attending school or below school-going age, which is in line with the demographic composition of the population. Of those not economically active, 5% are retired and 7% attend to unpaid domestic work, or were unable to work. Notable

[74] See Table A in Appendix 5. The change in the proportion of grandchildren was significant at the 99% level.

[75] Statistics SA did not publish the proportion of household headed by females from the 2001 census. According to the findings of the SALDRU survey, 35% of households were headed by females (May, Woolard et al. 2000).

[76] The vocational status of residents was recorded as identified by respondents themselves, no specific definition was provided for any of the categories, including employed and unemployed.

changes between the waves were an almost 4% decline in the number of employed people and 4% increase in the number of babies/preschool going age. Both of these changes were found to be statistically significant at the 99% level. The employment dependency ratio – the number individuals supported by an employed person – increased from 6.44 in Wave 1 to 9.17 in Wave 2. The unemployment rate – being the proportion of the economic active that are unemployed was 53% in Wave 1 and 59% in Wave 2.

Table 17:   Vocational Status of Household Members

	Wave 1	*Wave 2*
Baby/preschool going age	205 14.6%	260 18.6%
School going age – attending	609 42.7%	604 43.9%
School going age – not attending	29 2.7%	30 2.5%
Retired	74 5.4%	69 5.2%
Housewife/unpaid work/disabled	108 7.6%	92 6.9%
Unemployed	199 14.1%	191 14.1%
Employed – full/part/self	180 12.9%	131 8.8%
Total	1340 100.0%	1332 100.0%

With regards to the educational status of adults, the data collected revealed that just over one-third of the adult population had no educational attainment (compared with 26% for black Africans in province), although this declined slightly (2.6%) between the waves. The proportion of adults considered functionally literate increased from 21% to 23% between the two waves, although one in five of household heads (19%) were unable to read or write.[77] The provincial average for functional literacy is 54% for black Africans. There was a 5% increase in the number of people who had completed grades 11 or 12, an improvement found to be statistically significant at the 99% level. See Table B in Appendix Five for more details.

[77] Functional literacy is considered to be anyone who has completed primary school; illiteracy is defined as not having completed primary school.

6.2.2 Living Standards

The standard of living of Bhambanana residents was gauged by measures of housing quality, access to water and sanitation, and types of energy utilisation. In traditional Zulu homesteads, known as kraals, a number of dwelling structures are utilised by the household, with each fulfilling a different purpose. Structures may also vary in their level of quality, and for this reason, the measures taken on the materials used for walls, flooring and roofing were observed on the main dwelling unit only. The frequency distributions, which can be seen in Appendix Five: Tables C, D and E, indicate a general overall improvement in housing quality, between the two waves. The majority of structures are made of traditional materials, with rough cement flooring and permanent roofing materials. The total number of rooms occupied ranged from one to 13 in Wave 1 and one to 15 in Wave 2. The average number of rooms per person declined slightly, from 0.75 in Wave 1 to 0.73 in Wave 2.

Access to acceptable standards of water and sanitation can have a significant bearing on quality of life, especially in relation to exposure to disease and illness. It can be seen from Figure 19 that the majority of households – more than eight out of ten - obtained their water from a public tap or water carrier. Around one in ten got their water from a dam, river or stream. Only a small number had piped water. There was a marginal improvement in the quality of drinking water sourced between the two waves, although not enough to be statistically significant. Figure 20 shows that more than six out of ten households had no toilet and one in four had a ventilated-improved pit latrine. Non flush toilets were located outside the dwelling and were not shared with other households. Again, over the study period improvements in the quality of sanitation was evident, but not at a level considered to be statistically significant (see Table G in Appendix Five for more details).

Figure 19:Source of Drinking Water (W1)

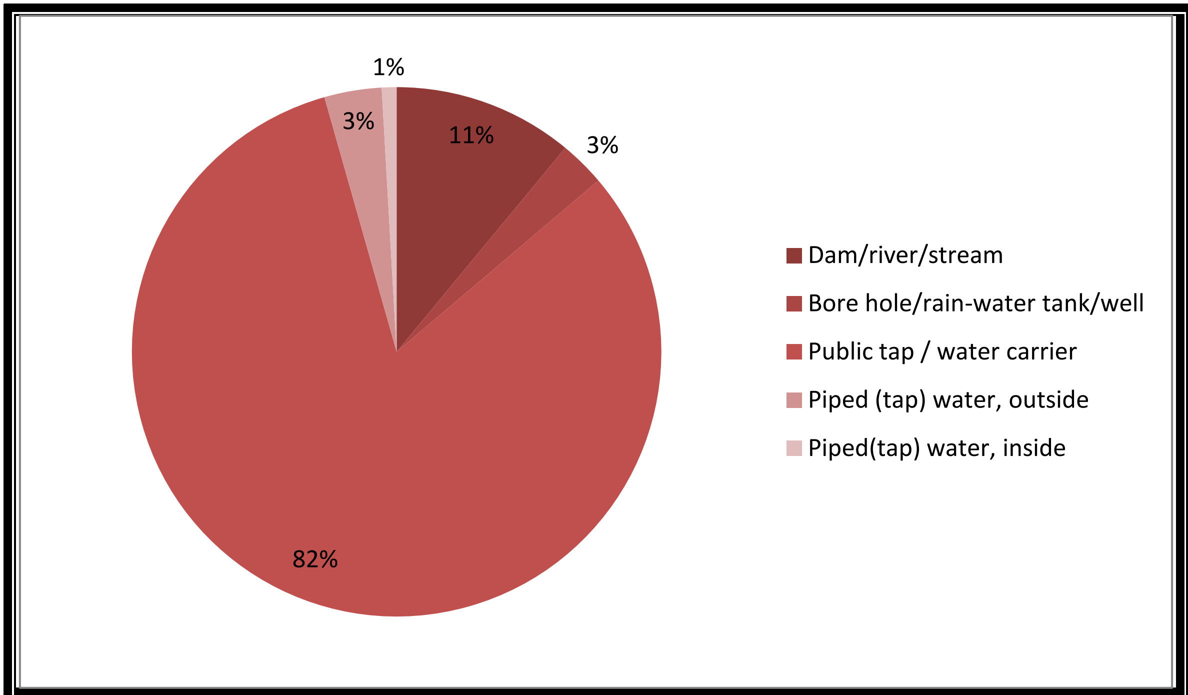
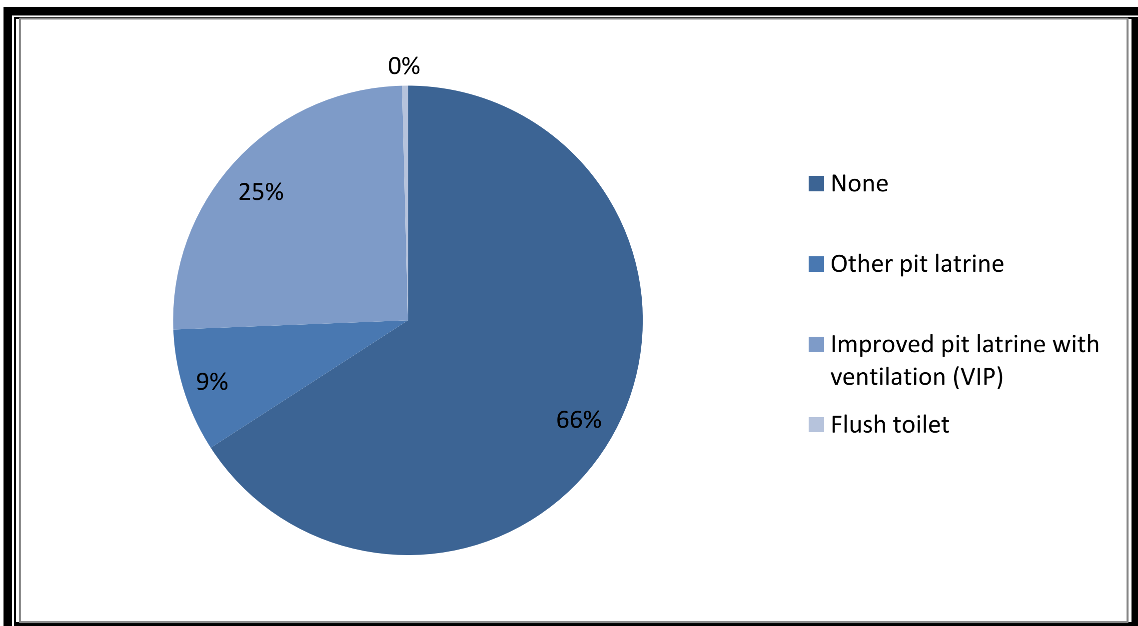


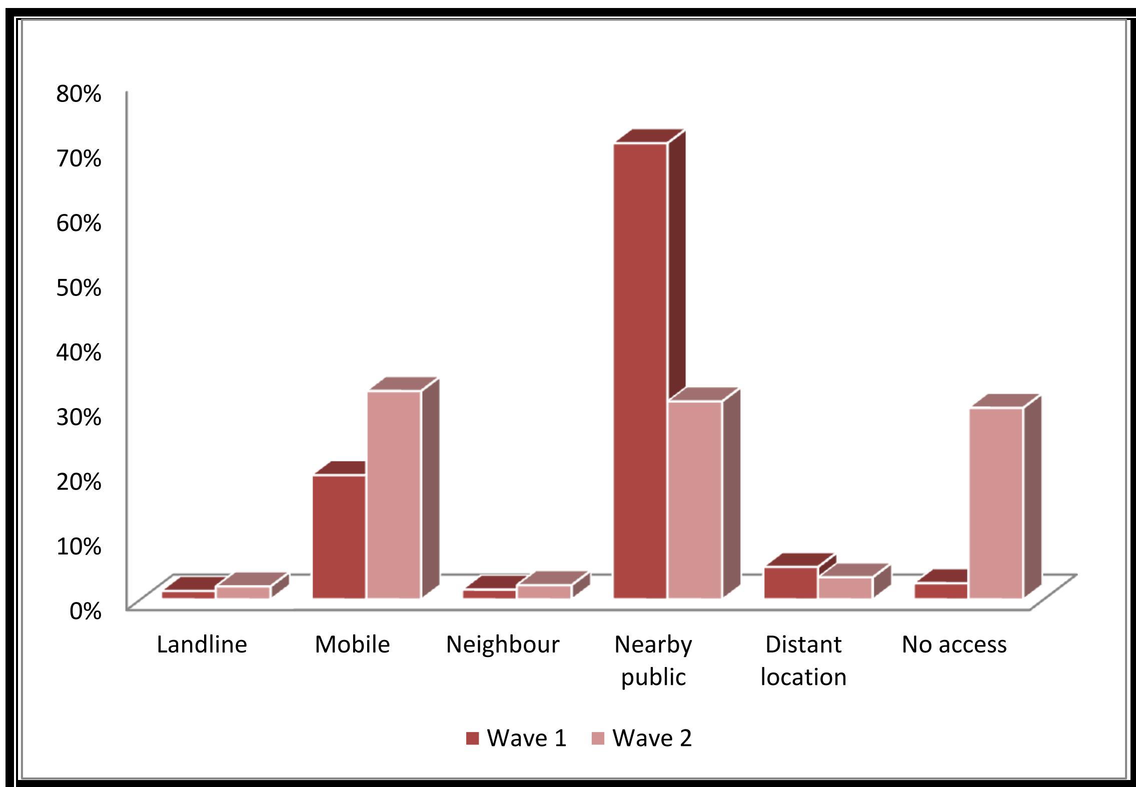
Figure 20:Type of Toilet (W1)



Access to telecommunications can play a role in improving the quality of life for poor people. It makes individuals more accessible as potential job candidates, and may actually

save a life in the case of a medical emergency[78]. As can be seen in Figure 21, the time between data collection saw a significant change in such access. For some, access improved, primarily in the form of mobile phone access, which increased from 19% to 32%. At the same time the number of people who reported using a public phone nearby decreased from 70% to 31%. Whilst some of these people would be those who gained access to mobile phones, the rest were re-categorised as having 'no access', an increase from 3% to 30%. Landline access remained static with no more than three or four households enjoying this service.

Figure 21:Access to Telephony



X^2=82.361 df=5 p=0.000

Available energy sources to complete everyday activities such as cooking, heating and working after dark, can also play its role in contributing to the drudgery of poverty, or lightening its load. Questions on type of energy utilised for cooking and lighting revealed predominately less efficient and undesirable consumption patterns. Without any noticeable changes between the two waves, nine out of ten households used either wood or dung for cooking, whilst the majority of the remainder used either gas or paraffin. Less than 2%

[78] Although not in widespread use at the time, there has been a rapid uptake in phone banking in South Africa, which has been designed with rural clients as targeted beneficiaries.

reported using electricity. This compares with 48% of the province who used electricity as their main source of energy for cooking, and only 28% who used wood or dung (Statistics SA 2003).

Electricity use appeared slightly more common when it came to energy sources for lighting, with the percentage of households using it increasing from 2% to 11% between the two waves. This increase was matched with a corresponding decrease in the number of households using candles, which dropped from 94% to 84%. Provincial comparisons indicate 61% of households using electricity, and 35% using candles for lighting (Ibid). Although there has been an increase in the number of households connected to electricity, it appears these households choose to use it for lighting purposes only. This is more likely due to affordability reasons than a preference to cook with wood or dung. Energy consumption patterns for heating followed a similar distribution to that of cooking. See Tables H, I and J in Appendix 5 for more detail.

6.2.3 Food Security

A household's ability to adequately feed itself, whether through own consumption or purchased with cash, is one of the basic and fundamental facets of survival, and clearly has a strong correlation with poverty. Poorer households tend to consume food on an irregular basis and of a lower quantity, than wealthier households. They are more likely to skip meals, consume more inexpensive foods, whilst wealthier households are more likely to consume food items considered to be a luxury (CGAP 2000).

A series of questions regarding the consumption of certain foods, times at which the household had gone hungry and the frequency of purchase of basic foods were asked in Section 4 of the questionnaire. The level of food security within a household is an important indicator of household wellbeing. Three 'luxury' food items (chicken, beef and rice) were chosen and respondents were asked, "For how many days in the last seven were such items served at the main meal eaten by the household." Following on from this, households were also asked "how many days in the last seven did the main meal consist of plain pap [a staple from ground corn]", "how many days in the last 30 did the household not have enough to eat" and how many months in the last 12 was this the case.

Table 18 lists the average number of days certain foods were consumed along with the number of 'hungry' days and months. Rice was the most frequently consumed 'luxury' food, followed by chicken and then beef. Rice consumption declined, chicken increased and beef stayed approximately the same over the two year period, although these differences were not found to be statistically significant. The average household experienced just less than two days in the last seven, where the main meal consisted of plain pap. In the last 30 days prior to interview, for six of these days, household did not have enough to eat. There was a slight increase from 5.65 to 6.51 days between Wave 1 and Wave 2. Although food consumption appeared to have declined, over the 12 months prior to interview, households in general, were doing better. In Wave 1, the average household experienced 5 months without enough food to eat, where as in Wave 2, this had dropped to 2½ months. This decline was found to be statistically significant.

Table 18: Average number of days certain foods consumed

	Wave 1	*Wave 2*
Number of days in last 7 chicken served	0.84	1.05
Number of days in last 7 beef served	0.65	0.63
Number of days in last 7 rice served	2.39	1.99
Number of days in last 7 main meal consisted of pap	1.79	1.92
Number of days in last 30 did not have enough to eat	5.65	6.51
Number of months in last 12 did not have enough to eat**	5.19	2.53

** = Significant change between the two waves at the 99% level

6.2.4 Asset Ownership and Acquisition

The discussion on poverty in Chapter Two described the relationship between assets and poverty. Assets represent a household's wealth and during the time of a financial shock can create a buffer zone between ones current status and destitution. Additionally, productive assets can form the basis of a household's livelihood strategy. The way in which assets are obtained also provides insight into the role that financial instruments might play in building household wealth.

The section on household assets sought to capture the total value of physical assets owned by the household. Physical assets were clustered under four broad categories: livestock; transportation; appliances and electronics; and furniture and jewellery. From

Table 20 it can be seen that livestock are the most valuable asset held by households, followed by vehicles and then appliances. The total average value of assets owned by households in Wave 1 was R9 573 ($912), which increased by almost R3 000 ($285) to R12 563 ($1 196) in Wave 2. Most of this increase is attributable to a more than doubling of the average value of vehicles. This increase however, was not found to be statistically significant, due to the fact that the increase in the average value of vehicle assets was based on a small number of individuals obtaining motor vehicles of a substantial value. In fact none of the changes in value of assets were found to be significant.

When considering the amount of money spent by households in the last 12 months on asset purchases, there was virtually no change. This apparent inconsistency between overall increase in household wealth and accumulation in 12 months prior to interview is most likely due to reporting errors between the two waves, assets that were inherited and brought in by new family members, and assets that were purchased between 12 and 24 months prior to Wave 2.

Table 19: Total mean value of assets and those purchased in last 12 months

	Mean value in Rands		Difference between Waves
	Wave 1	Wave 2	
Total value of livestock	4 961	5 348	387
Value of livestock purchased in last 12 months	119	79	-40
Total value of vehicles	2 386	5 235	2 849
Value of vehicles purchased in last 12 months	300	738	438
Total value of appliances	1 518	1 374	-144
Value of appliance purchased in last 12 months	365	191	-174
Total value of furniture & jewellery	708	579	-129
Value of furniture & jewellery purchase in 12 month	276	59	217
Total value of all assets	9 573	12 563	2 990
Total value of asset purchased in last 12 months	1 061	1 066	5

For each of the items purchased in the 12 months prior to being interviewed, respondents were asked to indicate how they acquired such assets. Table 20 lists a summary for each of the asset clusters, and provides the first, second and third most common means for acquiring these assets. Cash was by and large the most common means for acquiring all assets, except for furniture and jewellery which was predominately acquired via store

credit[79]. Store credit was the second most common means for acquiring vehicles and appliances, whilst gifts and inheritance were the second and third most common means for acquiring livestock. Cash remained the second most preferred choice for acquiring furniture and jewellery.

This highlights the very important role that the ability to build up cash reserves plays in this community. Almost all livestock, which represents the greatest proportion of household wealth, is acquired this way. It also plays a pivotal role in how households acquire vehicles and appliances. Bank loans, or traditional 'microfinance-type' loans were almost non-existent, although there does appear to be a reasonably high take up of the main form in which microcredit is most commonly delivered in South Africa – that being store credit, which is predominately given for purchasing furniture (see discussion in Chapter Three).

Table 20: Most Common means for Purchasing Assets

	Wave	*1st*	*2nd*	*3rd*
Livestock	1	Cash (93.3%)	Gift (2.1%)	Inheritance (1.9%)
	2	Cash (90.8%)	Inheritance (5%)	Cash/Inheritance (1.8%)
Vehicles	1	Cash (72.2%)	Store credit (19.6%)	Inheritance (4%)
	2	Cash (71.6%)	Store credit (17.9%)	Bank loan (2.6%)
Appliances	1	Cash (80.2%)	Store credit (16.3%)	Gift (1.4%)
	2	Cash (74.0%)	Store credit (18.5%)	Inheritance (4.7%)
Furniture &	1	Store credit (59.4%)	Cash (37.3%)	None
Jewellery	2	Store credit (49.7%)	Cash (45%)	Inheritance (5.3%)

6.2.5 Livelihood Strategies

Livelihood strategies are presented here with respect to how income is generated[80]. Questions sought to identify and measure all the possible means by which households obtained an income, during the 12 months prior to interview. Sources included employment, business, agriculture, government and non-resident cash transfers. Recognising that streams of income are not necessarily consistent throughout the year, all

[79] Whilst furniture and jewellery were collapsed into the same category, the vast majority of the wealth refers to furniture. Only a very small percentage of people claimed to own jewellery, which is not traditionally used in Zulu culture as a means for storing wealth, as it is in other parts of the world.

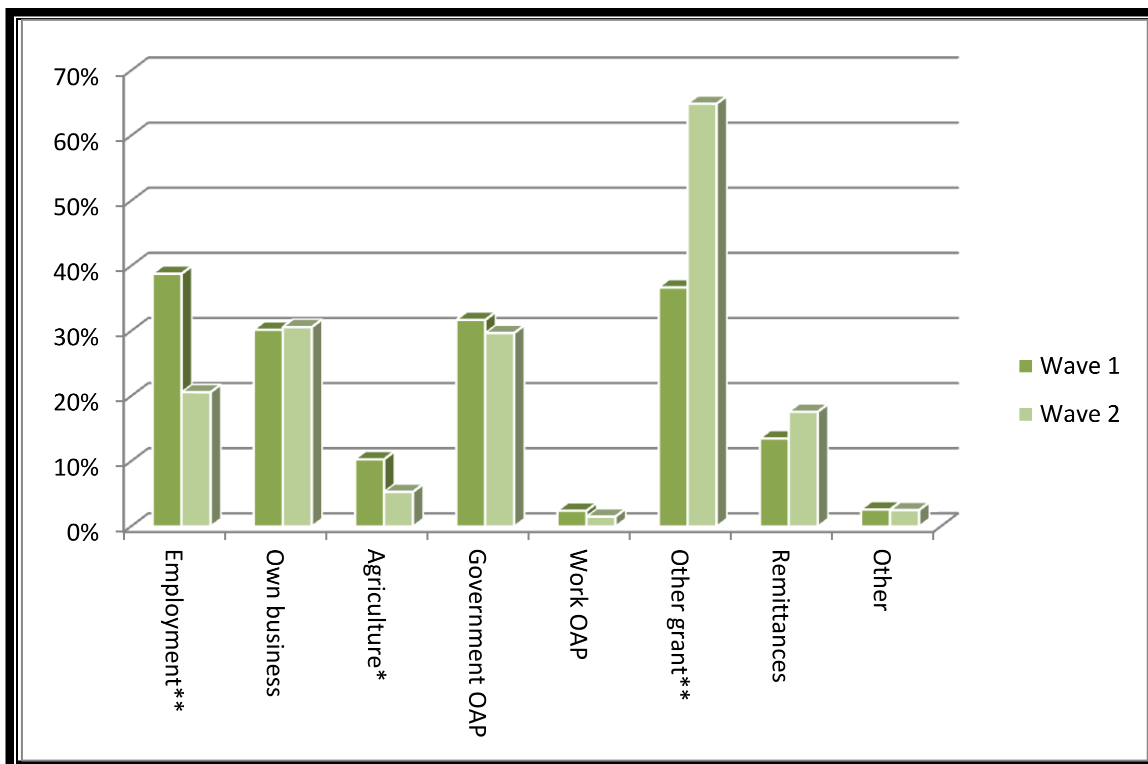
[80] Data on agricultural production for own consumption was not collected as accurate information would have been beyond the scope of the questionnaire design. Given that agricultural production was generally low in the area, it is unlikely this omission will bias the data in any significant way. Any income earned from selling agricultural production or livestock was collected, but this represented less than 10% of all income sources in W1 and less than 5% in Wave 2.

income sources were recorded, even if only received in a single month. In Wave 1, 19 households recorded no source of income, which dropped to 9 households in Wave 2.

Figure 22 plots all source of household income where at least one member was a recipient. The most common sources of income were from government transfers (‘Government Old Age Pension’ and ‘Other grant’). Approximately 30% of all households received a government old age pension, whilst the number of households that received ‘other’ types of grants increased from 37% in Wave 1 to 65% in Wave 2.[81] This increase was statistically significant at the 0.01 level – a statistic also shared by the change in income from employment. However it declined, with the number of households earning an income from employment during the year dropping from 39% to 21%. Income from the sale of agricultural produce also declined, with its contribution dropping from 10% of all households to 5%. The other notable source of income was from operating a business, which was undertaken by three out of every ten households. The most common forms of business involved petty trading such as selling sweets, local treats, clothes, alcohol, wood, cool drinks etc., as well as some tradesmen – builders and electricians and taxi drivers.

[81] The majority were child support grants and the substantial growth is due to improved outreach and access.

Figure 22: Income Source from at Least one Household Member



** = Significant change between the two waves at the 0.01 level
*= Significant change between the two waves at the 0.05 level

The actual amount of income generated by these different sources is presented in Table 21. Livelihood activities that contributed most to total household income in Wave 1 and in descending order, was from employment, the government old age pension (OAP) and from business. However between the two years there was a dramatic decrease in income from employment, which more than halved. The order of sources contributing income in Wave 2 changed to first – 'other grants', second – 'government OAP' and third – 'business'. The overall average per capital annual income was R2 860 ($272) in Wave 1 and R2 629 ($250) in Wave 2. Using the poverty line threshold provided in Table 2 (Chapter Three), of R354 per month, which equals R4 248 per annum, 87% of households in Wave 1 were living below the poverty line. In Wave 2, this dropped marginally to 85%. So whilst average income dropped, the proportion of people living in poverty also dropped, mostly due to a loss of income of a few higher income earners. A greater number of low income earners experienced slight improvements in their income, which tipped them just above the poverty line.

Table 21: Total mean value of income by source

	Mean value in Rands		*Difference between Waves*
	Wave 1	Wave 2	
Total income from employment**	5 347	2 189	-3 158
Total income from business	2 308	2 393	85
Total income from agriculture	646	28	618
Total income from government OAP	2 429	2 648	219
Total income from work OAP	266	170	96
Total income from other type of grant**	1 175	2 759	1 584
Total income from remittances / maintenance	436	620	184
Total income from other sources	210	202	-8
Total household income from all sources	12 816	11 010	-1 806
Total per capita household income	2 860	2 629	-231

** = Significant change between the two waves at the 0.01 level
*= Significant change between the two waves at the 0.05 level

Before we consider how households deal with shocks it is useful to summarise household composition, employment and sources of income in Bhambanana. My data on demographic features and household composition reveal conditions of human development common in impoverished areas; households are large, young, contain many unemployed and often headed by women. The increasing child dependency ratios and dramatic increase in employment dependency, coupled with low educational attainment does not bode well for the current nor future developmental capacity of this community. Despite being a rural area, agriculture made a minimal contribution to household income. Instead, many households are highly dependent upon social transfers, and although only a fraction enjoyed the rewards of employment, when work was available it made a sizable contribution to household incomes. The livelihood strategies identified here align closely with those identified by Carter and May (1999).

It was the basic needs theory that first highlighted the importance of 'non-income' features of poverty in order to understand how poverty is lived on a daily basis. For the people of Bhambanana, their basic needs includes safe but most likely inconvenient access to drinking water (from a public tap), unacceptable forms of sanitation (almost two thirds have no toilet), and a dramatic decline in access to a public telephone. The daily exercise of cooking food requires the laborious task of collecting firewood for almost all households

and only a small proportion appear to enjoy the benefits of electric lighting at night. Despite this, there appears to have been a slight improvement in food security, although on average, households had still experienced six days out of the last 30, without enough to eat.

Households' asset holding is relatively diversified but precarious. Cattle appear to be the preferred means for storing wealth. This is rational in so much as there is a high demand for cattle and they can be sold easily when need arises and reproductions presents the chance for an increase in a household's assets. Cattle are, however, susceptible to illness, death and theft and therefore might be questioned as a means to store or build household capital. Interestingly for the questions posed in this research, households seem to have used savings as the preferred means to acquire assets such as cattle. Given what we have learned about incomes, this finding raises a question about how households acquire these lump sums. Given that households are also actively engaged in transferring savings to cattle and other assets (as savings by a different name), there seems to be an implicit critique of the usefulness of holding large-ish sums in banks accounts.

6.3 Household Strategies for Coping with Shocks

Given the endemic rates of poverty in the area, negative shocks may expose households' vulnerability and serve as a driver toward chronic poverty. In seeking to understand the measures that households take to protect themselves against shocks and how they cope with them when they do arise, I am especially interested in the role financial instruments play. Consequently, an entire section of the questionnaire was dedicated to recording data on this topic. Respondents were asked to indicate to whom they turn to for help during a financial crisis; if the household had been affected by illness in the previous two weeks (for the purposes of trying to understand the possible burden of HIV); what negative shocks the household had endured in the previous 24 months; what strategies they adopted to cope, existing sources of assistance and the magnitude of the financial impact.

Table 22 lists the responses to the hypothetical question: "In this community, when households have a financial crisis, who do they turn to for help? Multiple responses were allowed. The responses provide valuable insight into various community relations. Neighbours and friends were the most common source of assistance, followed by 'money-lending' stokvels. However, reliance on friends and neighbours decreased by almost 9%

from Wave 1 to Wave 2. It would seem that “No-one”, which was the third most common answer given in both waves, absorbed this decrease in reliance on neighbours and friends, as its frequency as a response increased from 15% to 19%. Answers under the “other” category included ‘employer’, ‘church’, ‘inkhosi’, and ‘government’. Despite the high profile afforded to moneylenders in the literature, they seem to perform a minor role in Bhambanana, and despite the hoped-for relations of people with formal financial services in the literature there was almost no role for “Banks”.

Table 22: Who to turn to in a Financial Crisis

	Wave 1	*Wave 2*
Neighbours/Friends*	73 29.6%	44 20.9%
Stokvel – money lending	38 15.3%	41 19.4%
No-one	36 14.5%	39 18.8%
Non-household family member	30 12.0%	25 12.2%
Stokvel – belonging	17 7.0%	17 8.1%
Other	13 5.4%	5 2.1%
Money lender**	7 2.8%	24 11.1%
Bank	6 2.4%	3 1.5%
Total	248 100.0%	211 100.0%

** = Significant change between the two waves at the 0.01 level
*= Significant change between the two waves at the 0.05 level

In order to measure the burden of illness, especially in light of the HIV/AIDS epidemic in the province, households were asked if any resident had been sick or injured during the past two weeks. In Wave 1, 32% answered in the affirmative, whilst Wave 2 witnessed an 11% decline, with only 21% providing the same answer. The mean number of sick days, as a proportion of total household members was 0.57 in Wave 1 and 0.33 in Wave 2. These two declining indicators in household illness were found to be statistically significant at the 0.05 level.

Respondents were presented with a list of 12 major household shocks and asked to comment on whether or not they had occurred in the 24 months prior to interview. For

shocks that had occurred, respondents were asked to mention the strategies that the household adopted to cope with the shock, the source of this strategy and how much money was received/spent. The number and percentage of households that had experienced each of the possible shocks is listed in Table 23, by wave and in rank order of total frequency. Only one shock, 'abandonment or divorce' was not experienced in either wave.

The most common shock was 'death of a household or other family member', which occurred in 40% of all households in Wave 1 and 27% in Wave 2. The second most common shock was 'serious injury/illness', although it too experienced a decline in frequency, from 38% in Wave 1 to 21% in Wave 2. An average of one quarter of households suffered from a loss of crop or livestock. All other shocks occurred in less than 10% of the population. Table 23, however, does not indicate the total burden that these shocks have placed on households, nor how they are distributed. On average, in Wave 1, each household experienced 1.64 shocks, whilst this declined to 1.11 in Wave 2.[82] In terms of the distribution of shocks, on average, two-thirds of all households experienced some form of shock, whilst a small number experienced up to six. Only 28% of households in Wave 1 and 37% of households in Wave 2 experienced no shocks whatsoever, with only 14% of these being the same household. See Table K, Appendix Five for the frequency distribution of shocks.

[82] A statistically significant difference at the 0.05 level.

Table 23: Shocks experienced by households in past 24 months

	Wave 1	*Wave 2*
Death of a household member or other family member**	79 40.3%	53 27.0%
Serious injury/illness hindering normal activities**	75 38.3%	42 21.4%
Loss of crop or livestock	55 28.1%	46 23.5%
Death of 2nd household or other family member**	26 13.3%	7 3.6%
Theft of household property	19 9.7%	15 7.7%
Failure of business or bankruptcy of business	17 8.7%	13 6.6%
Loss of a regular job of a household member	16 8.2%	15 7.7%
Cut-off to government grants	12 6.1%	15 7.7%
Cut-off or decrease of remittance to household	14 7.1%	6 3.1%
Fire or destruction of household property	5 2.6%	4 2.0%
Victim of a violent crime	1 0.5%	2 1.0%
Total	319 100.0%	281 100.0%

** = Significant change between the two waves at the 99% level
*= Significant change between the two waves at the 95% level

Households adopted a wide variety of strategies to cope with these shocks, with the type of strategy adopted often dependant on the nature of the actual shock. For seven of the 11 listed shocks, the most common strategy remained constant across the two waves. Table 24 lists the same shocks again, this time with the corresponding columns indentifying the first, second and third most common strategy. Multiple responses were allowed.

To cope with the effects of the death of a first and subsequent household or family member, respondents were most likely to use their savings. This was also the case for a serious injury or illness, and for a cut off in government grants – but only in the first wave in this instance. For loss of crop or livestock, households were more likely to 'do nothing'. Whilst in Wave 1, the second most common strategy to cope with a death was to receive a gift or money, this changed to 'borrow money' in Wave 2. Borrowing money was also the second most common response to a serious illness or injury in Wave 1, but changed to doing 'nothing' in Wave 2. The response patterns to the death of a second household

member followed very closely with the death of the first household member.

Table 24: Coping strategies for dealing with a negative shock

	Wave	*1st*	*2nd*	*3rd*
Death in household/family	1	Use savings	Receive gift/money	Receive other help
	2	Use savings	Borrow money	Receive gift/money
Serious injury/illness	1	Use savings	Borrow money	Receive other help
	2	Use savings	Nothing	Borrow money
Loss of crop or livestock	1	Nothing	Receive gift/money	Use Savings
	2	Nothing	Tell traditional leader	No response
Death of 2nd household / family member	1	Use savings	Receive gift/donation	Receive other help
	2	Use savings	Borrow money	Receive other help
Theft of household property	1	Nothing	Use savings	Tell traditional leader
	2	Nothing	Tell traditional leader	Reported it to police
Failure of business or bankruptcy of business	1	Nothing	Borrow money	Use savings
	2	Nothing	Borrow money	No response
Loss of a regular job of a household member	1	Looked for work	Sell asset	Receive gift/money
	2	Nothing	Use savings	No response
Cut-off or decrease of remittance to household	1	Nothing	Use savings	Sell assets
	2	Nothing	No response	No response
Cut-off to government grants	1	Use savings	Borrow money	Nothing
	2	Nothing	Use savings	Applied for help
Fire or destruction of household property	1	Reported it	Use savings	Nothing
	2	Nothing	No response	No response
Victim of a violent crime	1	Reported it	No response	No response
	2	Nothing	No response	No response

The total frequency of all strategies, regardless of actual shock, is presented in Table 25. The most common strategy adopted for all possible shocks was for households to do 'nothing', whilst the second most common was to 'use savings'. Although this was the outcome for the sample as a whole, and in Wave 2, it was the reverse for Wave 1. In Wave 1, 'Use savings' was the most frequent response, cited one in four times, whilst to do 'nothing', was only mentioned one in eight times. Coping strategies made a substantial change between waves, with the number of people who cited doing 'nothing' quadrupling and those 'using savings' decreasing by almost a factor of three. The number of households that received gifts or donations of money also declined, as did those who received other help, those that sold or disposed of assets and received insurance payments.

Table 25: Frequency of coping strategy for all shock types

	Wave 1	*Wave 2*
Use savings**	107 25.6%	39 16.3%
Nothing**	53 12.7%	118 49.9%
Borrow money	47 11.3%	26 11.2%
Receive donation of money**	47 11.3%	11 4.7%
Receive gifts in kind**	51 12.1%	11 4.6%
Sell or dispose of assets**	55 13.0%	9 3.6%
Insurance (cash or goods – i.e. coffin)	23 5.4%	11 4.7%
Applied for help/reported it	11 2.6%	3 1.1%
Other**	25 8.8%	9 3.9%
Total	418 100.0%	237 100.0%

** = Significant change between the two waves at the 99% level
*= Significant change between the two waves at the 95% level

After respondents identified their various coping strategies, they were then asked to indicate what, where or from whom this assistance originated. These findings are listed in Table 26. Although the most common source of assistance was from a household member, this source almost halved between the two waves. In line with the increasing frequency of doing nothing as a strategy, the source of assistance described as 'none', correspondingly increased by a factor of seven. Neighbours and friends and other non-household family members were also common sources of assistance. Interestingly, banks and other financial institutions did not feature, with the exception of 'stokvels'.

Table 26: Source of assistance for coping with negative shocks

	Wave 1	*Wave 2*
Household member**	151 41.1%	43 19.0%
None**	27 7.2%	108 47.8%
Neighbours\friends	61 16.7%	24 10.8%
Non-household family member**	49 13.4%	13 5.9%
Government	24 6.4%	14 6.3%
Funeral parlour	10 2.6%	3 1.5%
Church	9 2.5%	2 1.0%
Stokvel-money lending one	7 1.9%	1 0.6%
Stokvel-own	6 1.5%	4 1.7%
Burial society	5 1.3%	5 2.1%
Other	20 5.5%	8 3.4%
Total	217 100.0%	182 100.0%

** = Significant change between the two waves at the 99% level
*= Significant change between the two waves at the 95% level

The final question on shocks asked how much money was spent or received, in relation to the shock. For those households that did incur a financial loss, the average amount was R1 523 ($145) in Wave 1 and R2 416 ($230) in Wave 2 per shock. This average increase of R893 ($85) was found to be statistically significant at the 0.05 level. For households that received donations of money, the average amount received in Wave 1 was R1 493 ($142). This increased by R136 ($13) to an average of R1 629 ($155) in Wave 2 – a difference that was not found to be statistically significant.

However gloomy some of these data may appear at first glance they do contain some good news. The analysis of household shocks indicates an apparent improvement in health between the two waves, a decline in the burden of disease, and a reduction in the number of deaths. Despite this, the data have indicated the widespread occurrence of negative shocks, with very few households unaffected. Death is clearly a very frequent

occurrence which has a major impact on households.[83] How households respond to the shock differs according to the actual shock, which is understandable, as the consequences of the various shocks are also clearly different. Unfortunately, the findings on how households cope with shocks and the resources they can draw upon has indicated a decline in household resilience between the two waves, especially as the response 'to do nothing' increased substantially. A decline in social capital also appears evident, as households become far less likely to receive assistance from others in-kind or in cash. The ability of household members, non-household family members and neighbours to provide assistance declined in each case. This depletion of a household's capacity to support others, means that households can also expect less outside assistance in their own times of need. Households were also less likely to sell assets to cope, although it is uncertain if this is due to there being fewer assets available or a willingness to accept a 'do nothing' response.

There is actually very limited research available that provides insight into how households cope with various shocks, with this research perhaps providing most detailed, quantitative data available. In line with the findings of Roth (2000), death and associated funeral costs are a frequent and expensive shock that households have to deal with. As he noted, and as was found here, households clearly draw upon a variety of coping mechanisms, including own savings, funeral insurance (although limited in this case) and relying on assistance from family, neighbours and friends. It did not appear that taking children out of school was a common coping mechanism, compared with the findings of Rasmussen (2002), although selling an assets was a notable activity (13% in W1, although dropped to 3.6% in W2).

With respect to financial instruments and the role they play, it is apparent that 'using savings' is first and foremost the most preferred response. This option received the greatest number of counts across all response types and across both waves. The willingness and/or ability of households to borrow money also declined across the two waves, and insurance only played a very small role in assisting a handful of households in their time of need. There is no doubt an expectation that at some point in time, a death will occur, and there is a clear knowledge this will be a significant financial event in the

[83] The frequency of deaths between the two waves comes to a count of 60 (first death plus second death in Wave 2). This contradicts the death count of 31 provided in Table 15. There could be two possible explanations for this. Firstly, the questions on shocks also includes 'other family member' not resident in the household. Secondly, the fluid household structure and high migration may also mean that some of the household members that died were never captured on the household roster in W1.

households. It would appear then that households actively prepare for the eventuality by ensuring that they put aside small amounts of money on a regular basis, especially given the actual cost of these shocks, relative to their small household incomes. It is assumed that the limited investment in funeral insurance is a reflection of the lack of access to this service. As well as own personal savings, collective savings in stokvels are clearly the means by which households plan for these events.

These findings have revealed that there is clearly an important and significant role to be played by financial services in assisting households to cope with shocks, and the provision of such services should be seen as a priority developmental option.

6.4 Individual Banking, Savings and Credit Activities

This section of the chapter reports on the findings from Part Two of the questionnaire which asked about individual banking, savings and credit activities. This part of the questionnaire consisted of four parts. The first collected information on respondent's banking activities (for those that were banked); the second collected information on borrowing activities, including borrowing money or goods from other people and purchasing of items on credit or hire purchase. The third recorded any instances of the respondent lending money or goods to other people, whilst the fourth recorded all savings activities.

This section of the questionnaire recorded information from 320 people in Wave 1 and 302 people in Wave 2. The selection criterion for identifying respondents in Wave 1 was described earlier in Chapter Four. In Wave 2, the same individuals were sought out to complete this section. Additional sections were then made available in Wave 2 to include other non-core, household members that may have owned a bank account, saved or borrowed money, but were not interviewed in Wave 1, either because they were not resident in the household, or unavailable during the fieldwork period. In Wave 2, 258 core people were re-interviewed, representing 81% of the original individual sample. Of the remaining 44 respondents, 17 were new household members, who had not been present during Wave 1, whilst the other 27 had been present.

6.4.1 Banking Practices

For those that banked, Figure 23 shows the institutions where accounts were held. The most frequently held account was at the Village Bank, although this declined from 55% in Wave 1 to 43% in Wave 2. The next most popular bank was Ithala bank, which made up one-third of the sample and was subject to only minor changes in ownership between the two waves. Other commercial banks only serviced a fraction of the remaining respondents. More than nine out of every ten account holders had savings accounts, whilst the remaining small number had either a cheque account or a fixed deposit.[84]

Answers to questions on the type of transport used to get to the bank and how long it took to get there was of course dependent on the bank where the account was held. For Village Bank account holders, 60% walked, 32% took a taxi (mini-buses) and the remaining few used a combination of other methods. For other bank account holders, a taxi was the main form of transport used by 80% of respondents, with 'own car' being the next most common response (13%).[85] Account holders from the Village Bank spent an average of 34 minutes getting to the bank, whilst Commercial Bank account holders spent 73 minutes getting to their bank.

In Wave 1, the average number of months a bank account was held by a Village Bank respondent was 23 (just under two years), whilst for Commercial Bank account holders, the average was 72 months (6 years). In Wave 2 this increased to 34 months (2.8 years) for Village Bank account holders, but dropped to 59 months (just under 5 years) for Commercial Bank account holders. This difference was found to be statistically significant at the 0.01 level.

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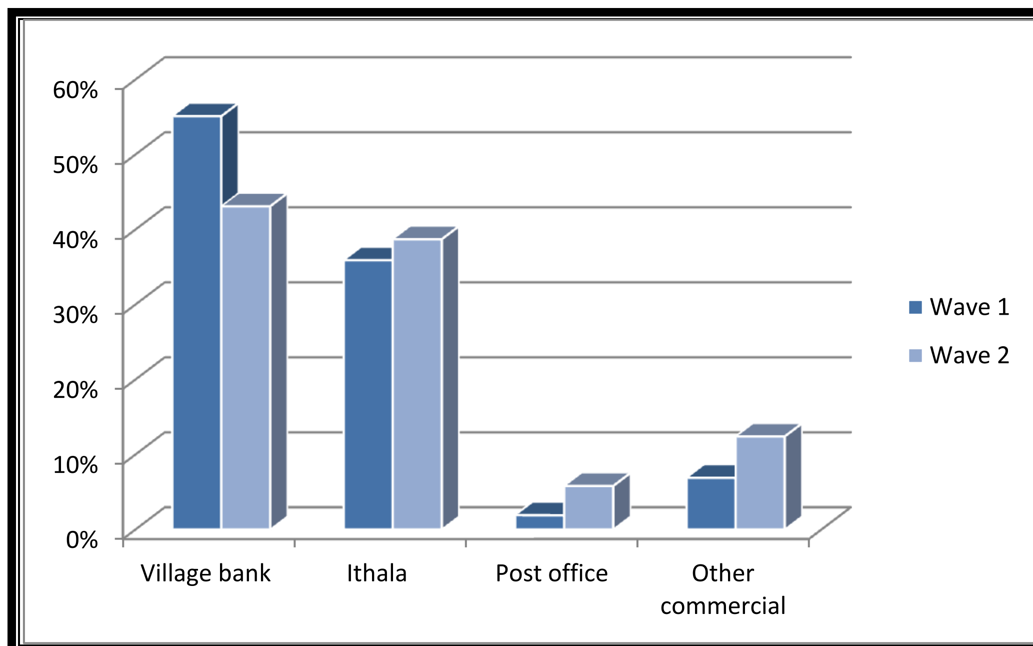
[84] See Table L, Appendix 5.
[85] See Table M, Appendix 5.

Figure 23:Bank where account was held



X^2=7.468 df=3 p=0.058

6.4.2 Borrowing

The remainder of the questions in the individual section was administered to all respondents. The questions focused on borrowing practices and respondents were asked if they had borrowed money, food or other goods, or purchased anything on credit, in the 12 months prior to interview. Information was provided on the type of lender, what the loan was for, how long, how much was borrowed and how much had to be repaid. In Wave 1, 54% of respondents (n=147), stated they had undertaken some form of loan. This dropped to 46% (n=126) in Wave 2. The total number of separate loans was 255 – an average of 1.7 loans per debtor. In Wave 2, the number was 200, representing a small drop to 1.6 loans per debtor.

Table 27 lists the person or institution that provided the loan, by wave. In Wave 1, 'non-household relative' was the most common type of lender, providing just under a third of all loans (29%). This lending source dropped by 9 percentage points in Wave 2. 'Shopkeeper' was the next most frequent loan source, responsible for 22% of all loans (shopkeeper also includes goods obtained on hire-purchase) – with little change between the waves. 'Stokvel – belong to' refers to ROSCAs that the recipient is a member of and is saving with, whilst 'Stokvel – money lending' refers to an external ROSCA that the recipient does not belong to and that is known specifically as a source of credit. These sources

combined, accounted for almost one-fifth of loan sources, with loans accessed from stokvel's that respondents belonged to more than doubling in number from Wave 1 to Wave 2. Interestingly banks accounted for less than one in every twenty-five loans. 'Other' loan sources include employers, government agencies, and school principals. The variation in sources of loans between the waves was found to be statistically significant at the 0.00 level. In Wave 1, 69% of all loans were given as cash, which dropped slightly to 66% in Wave 2. The remaining were non-cash loans, i.e. hire-purchase durables, food, etc.

Table 27: Source of Loan

	Wave 1	Wave 2
Non-household relative	74 29.0%	40 20.0%
Shopkeeper	55 21.6%	44 22.0%
Friend/Neighbour	25 9.8%	4 2.0%
Stokvel-belong to	24 9.4%	43 21.5%
Stokvel-money lending	24 9.4%	21 10.5%
Money lender	16 6.3%	13 6.5%
Household member	14 5.5%	19 9.5%
Other	14 5.5%	7 3.5%
Bank	9 3.5%	9 4.5%
Total	255 100.0%	200 100.0%

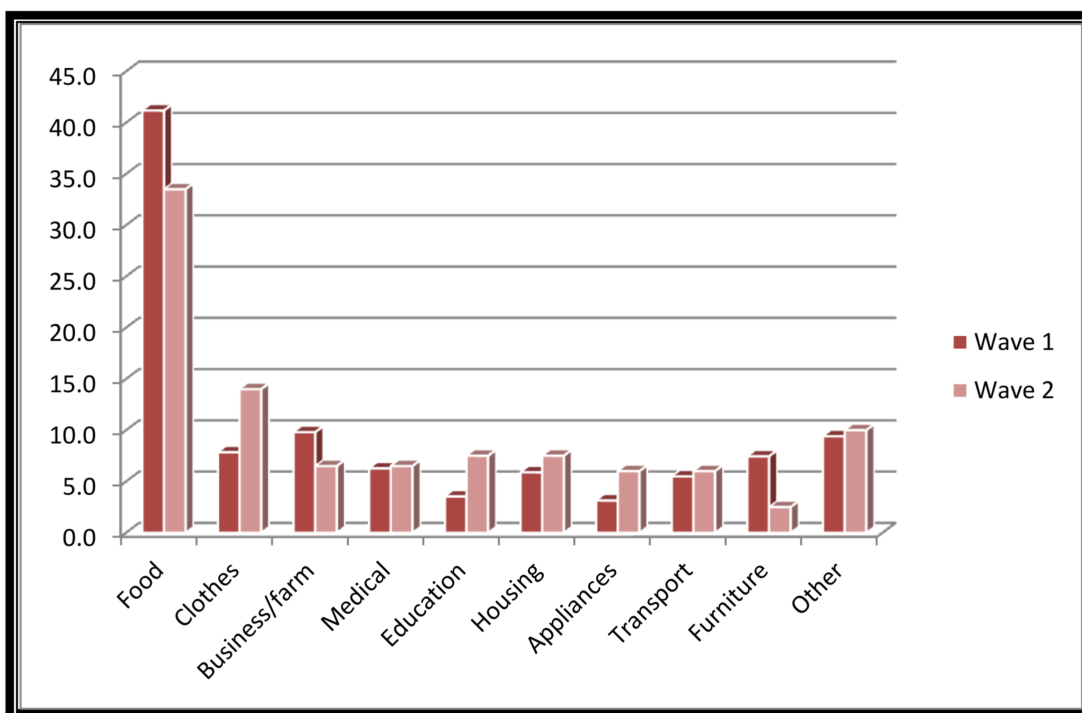
X^2=29.339 df=8 p=0.000

Figure 24 displays frequencies with regards to loan purpose. The single most common reason for the loan, both in Wave 1 and Wave 2 was to obtain food, which was the reason for 41% of all loans in Wave 1, and 33% of all loans in Wave 2. All other loan purposes were distributed widely across 11 other activities. Purchasing clothing, business and

farming expenses, and housing (repairs and building) were some of the more frequent expenditures. 'Other' purposes include items for personal consumption, funeral expenses and repaying debt.

This finding of identifying food as a primary driver for borrowing is noteworthy as this is rarely mentioned in the literature on microfinance. It should be noted that both data collection periods took place a month before Christmas, a time given to substantial feasting and parties and may therefore be more 'top of mind' as a driver for savings, than at other times of the year.

Figure 24:Purpose of the loan



X^2=18.434 df=9 p=0.030

The mean value of loans in Wave 1 was R1 052 ($100), (std. Dev. 2 993) with a median of R200 ($19). The smallest loan was R5 ($0.48), the largest was R30 000 ($2 857) and a sum total of R258 775 ($24 645) in loan principle was disbursed during the 12 months prior to interview. In Wave 2 the mean value of loans increased to R1 774 ($169) (std. Dev. 9 440) and the median to R275 ($26). The smallest amount of money lent was R3 ($0.28), the largest R91 800 ($8 743). In total, R337 130 ($32 107) in loan principle was disbursed. The large variation in loan sizes can be seen in more detail from Table 28.

Table 28: Value of loan in Rands

	Wave 1	*Wave 2*
1 – 50	50 20.3%	21 11.1%
51 – 100	45 18.3%	25 13.2%
101 – 200	46 18.7%	31 16.3%
201 – 500	38 15.4%	49 25.8%
501 – 1000	24 9.8%	26 13.7%
1001 – 2000	20 8.1%	23 12.1%
2001+	23 9.3%	15 7.9%
Total	246 100.0%	190 100.0%

A large variation in the monthly interest rate charged was also observed.[86] Although more than half the loans were not charged interest (60% in Wave 1 and 53% in Wave 2), for those that did, the amount charged was as high as 600% in Wave 1 and 938% in Wave 2. The average monthly interest rate charged was 44% in Wave 1 (std. Dev. 98) and 51% in Wave 2 (std. Dev. 127). More information on this distribution can be seen in Table 29.

[86] Respondents were not actually asked the interest rate charged, but rather provided information on the initial amount of the loan, the amount that had to be repaid and the length of the loan. Monthly interest rate calculations were done under the assumption of a simple, non-compounded interest rate.

Table 29: Monthly interest rate charged (%)

	Wave 1	Wave 2
0	153 60.2%	106 53.0%
1 – 10	8 3.1%	9 4.5%
11 – 25	20 7.9%	23 11.5%
26 – 50	19 7.5%	18 9.0%
51 – 100	23 9.1%	20 10.0%
101 – 200	14 5.5%	9 4.5%
201 +	17 6.7%	15 7.5%
Total	254 100.0%	200 100.0%

X^2=3.877 df=6 p=0.693

Finally, calculations were undertaken on total current debt as a percentage of total annual household income. The mean of this was 13% (std. Dev. 54) in Wave 1 and 12% (std. Dev.) in Wave 2. In Wave 1, six households recorded a negative debt to household income ratio, meaning that they had a positive amount of money owing, but no recorded income for the year. In Wave 2, this number dropped to 5 households. It should be noted though, that more than half of all households had a ratio of 0% - see Table N in Appendix Five for more detail

6.4.3 Lending

Given that a sizable number of loans disbursed are from household members, non-resident family members, friends and neighbours, it is a given that a number of respondents must also be lending to friends, family and neighbours. In response to the question “In the past 12 months have you lent money or other items to friends, family or any other person?” 56 individual respondents had done so in Wave 1, on 77 different occasions. In Wave 2, 41 individuals lent money on 53 different occasions. Nine out of ten of these loans were cash, whilst a few were given as food or ‘other’ items.[87] From Table 30 it can be seen that more than half of all loans were given to neighbours. Non-household

[87] See Table O in Appendix 5.

family members were the next most common recipients of loans, followed by household members. The average size of cash loans given in Wave 1 was R179 ($17) (std. Dev 202), with the smallest loan being R10 ($0.95) and the largest R1 000 ($95). Wave 2 though saw a much greater variation in loan size, from R9 ($0.86) to R8 262 ($787). The average size increased significantly[88] to R555 ($53). Although the vast majority of loans (90%) were given interest free – a small number did charge interest. This ranged from 5% per month up to 1 000%.[89]

Table 30: Who the money/item was lent to

	Wave 1	*Wave2*
Household member	11 14.3%	1 1.9%
Non-household family member	11 14.3%	19 35.8%
Neighbour	43 55.8%	24 45.3%
Friend	4 5.2%	7 13.2%
Other	8 10.4%	2 3.8%
Total	77 100.0%	53 100.0%

X^2=16.401 df=4 p=0.003

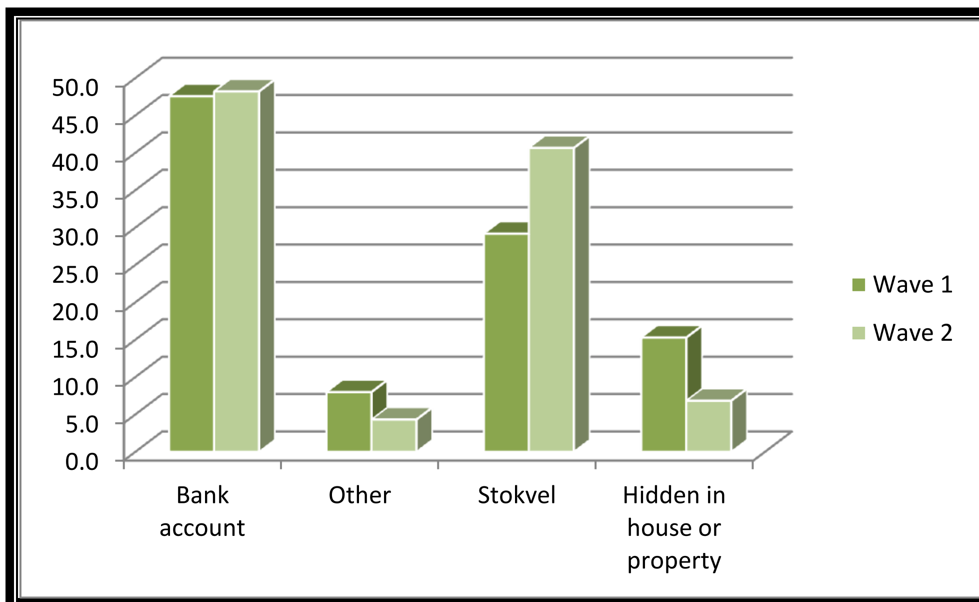
6.4.4 Savings

The final sections of Part 2 asked respondents questions regarding their savings activities during the 12 months prior to interview. In Wave 1, 151 individuals from of the 196 households reported a total of 288 separate savings activities. For 58 households, only one savings activity was recorded. However for another 56 of them, two savings activities were noted, three types in 30 of the households and 7 households recorded up to four different savings activities. In Wave 2 there were 278 savings activities distributed across 139 individuals, leaving an average of two per household. This incorporated 57 households who only had one activity, 51 who had two, 14 who had three, 10 who had four, five who had five and two who had six.

[88] At the 0.05 level.
[89] See Table P in Appendix 5.

According to Figure 25, the most common savings activity was through a bank account, a finding that remained stable between the two periods.[90] Stokvels were the next most popular method, which increased by more than 10% between the waves. In Wave 1, 15% of all savings activities involved hiding money in the house, although this halved to 7% in Wave 2. 'Other' savings activities included piggy banks, giving to someone else to look after and burial societies. On average, individuals saved R200 ($19) per month per savings activities in Wave 1 and R184 ($17) in Wave 2.

Figure 25:Type of savings



X^2=17.509 df=3 p=0.001

Respondents were asked what they were saving for, with multiple responses provided. The drive to save followed a similar pattern to the need to borrow, with food being the single largest item/reason individuals were saving, although this did decrease by 10% between the waves. Other main reasons for saving were for school expenses, emergencies and the future. Table 31 provides a list of all responses.

[90] It must be kept in mind that this section of the data is biased towards bank account holders, so this distribution does not necessarily reflect the savings activities of the entire community

Table 31: Reasons for saving money

	Wave 1	*Wave 2*
Food	104 36.6%	74 26.9%
School expenses	45 15.8%	50 18.2%
Emergencies	41 14.4%	26 9.5%
Build/improve a house	19 6.7%	20 7.3%
Future / Family security	18 6.3%	48 17.5%
Clothes	18 6.3%	6 2.2%
Funeral	15 5.3%	6 2.2%
Possible illness	12 4.2%	5 1.8%
Christmas time	13 4.6%	15 5.5%
Business / Farm	12 4.2%	6 2.2%
Other	12 4.2%	2 .7%
Household expenses	9 3.2%	21 7.6%
Total	318 100.0%	279 100.0%

X^2=53.475 df=12 p=0.000

The total amount of money in savings was aggregated to a household level. The average of this in Wave 1 was R1 609 ($153) (std. Dev. 3831) and R2 732 ($260) (std. Dev. 10 725) in Wave 2. The large increase is driven by one outlier in Wave 2, whose removal reduces the mean by R700 ($67). The median household savings was R600 ($57) and R624 ($59) respectively. This allowed a calculation of total household savings as a percentage of household income (Table 32). Not included in the count were 11 households who recorded some amount of savings but no amount of income. The majority of respondents saved between 1 and 20 percent of their income, but a sizeable amount were found to save more, with a handful claiming to have more in total savings than the amount of income they had earned in the last year.

Table 32: Savings in Rands as a percentage of income

	Wave 1	*Wave 2*
0	58 31.0%	62 32.0%
1 – 5	38 20.3%	22 11.3%
6 – 10	27 14.4%	26 13.4%
11 – 20	21 11.2%	39 20.1%
21 – 50	27 14.4%	27 13.9%
51 – 100	10 5.3%	9 4.6%
101 +	6 3.2%	9 4.6%
Total	187 100.0%	194 100.0%

X^2=10.346 df=6 p=0.111

The purpose of this section was to gain insight into how savings and borrowing takes place within Bhambanaba, and what role, if any, the banks or other financial intermediaries play in this. It must be kept in mind that the data are skewed towards those who are banked, as two-thirds of the sample was chosen for that specific reason. Almost all banked respondents had accounts with either the Village Bank or Ithala Bank.

The proximity of the bank to where poor people reside is an oft mentioned issue of concern and central to discussions regarding access. The central location of the Village Bank is clearly evident by the fact that 60% of those belonging to the bank say their means of transport is ‘walking’, compared with only 2% of the other bank account holders who were in a position to walk to their local branch.

With respect to borrowing, approximately half of the respondents stated having borrowed something in the 12 months prior to interview, with the numbers dropping between the waves. This proportion seems low in comparison to the financial diaries project findings (see Collins (2005c). Most Bhambanana respondents were borrowing from non-household lenders or shopkeepers. Shopkeepers could refer to both the purchasing of food on credit, or the hire-purchase of furniture and other items. But as is noted in both the purposes for borrowing and savings, food appears to be a central motivator. Previous data indicated an

improvement in food security between the waves which may explain the drop in personal borrowing. Additionally, the findings on household coping mechanisms for shocks and the reduced interest in borrowing to cope, may also explain this. Most noteworthy is very few people borrowed money from banks, again confirming the counter-trend of microfinance in South Africa – as discussed in Chapter Three.

Most of the respondents did not pay any interest on their loans, but a small minority were subject to some exorbitant interest rates. It is speculated that this probably refers to the hire-purchase of furniture, an industry which is known for this. Indebtedness, as a proportion of household income, appeared to be under control and of a similar ratio to that which was found in the financial diaries. Despite the high prevalence of borrowing from known family and community members, only 18% of the sample in Wave 1 and 14% of the sample in Wave 2 admitted to lending money. This would seem to indicate that only a small proportion of community members are doing the majority of the lending, or that a number of these people fell outside of the survey catchment.

The picture of savings activities appears to be in contrast to borrowing activities. Savings was more common amongst households and more frequent. Compared with borrowing, the role of banks was far more central. Additionally, stokvels were also very common. The theme of food was also present, being the most common motivator of savings, followed by school expenses and emergencies, although savings for food did decline between the two waves. Most noteworthy is the fact that average household savings was approximately three times that of average household debt.

6.5 Poverty Score and Multivariate Analysis

The CGAP Poverty Assessment Tool was first introduced and Chapter Four, where function in the creation of a relative poverty score, was explained. This section of the chapter will provide further details on how the score was constructed, followed by a series of analysis using the scores. The specific focus is in how the different banking type households varied across the two waves of the panel study with regards to their poverty scores. Household shock data is also presented from the perspective of the different household banking types.

6.5.1 Constructing the Indicator Score

The questionnaire collected information from four main sources: human resources capabilities (i.e. education and occupation of household members); dwelling (i.e. quality of housing, use of energy); food security and vulnerability; and ownership and value of assets. A Principal Component Analysis (PCA) is then used to create the poverty score that ranks individual households, relative to all other households in the sample. This type of analysis separates and measures the poverty component that is embedded in the various poverty indicators and, as a result, only indicators that measure a progressive change in welfare are selected (CGAP 2000). The score is therefore a relative composite measure that uses objective concepts, consisting of both 'means' and 'ends' measures. It is standardised, so that it has a mean of 0 and a standard deviation of 1.

The CGAP manual provides detailed guidelines on how to construct the index, although some modifications were needed, as for the present study there were two waves of data. According to the guidelines, all variables are first correlated with 'per capita expenditure on clothing and footwear' (see footnote 57), to identify specific variables that are strongly related to relative poverty. In this case, correlations were undertaken with the sample as a whole, as per manual instructions and by wave. Some variables were significant in only one wave, whilst others were significant in both. Only variables that were significant at the 0.05 level in both waves were included in the first model of the analysis. Variables that made low contributions to the first component were removed. This was done three times until the final model was produced. A final PCA was then run and the components scores saved, thus creating a poverty index from the first extracted component. The component score represents the correlation coefficient of the attributes and the component (in this case – the component is 'poverty').

According to the CGAP guidelines, the PCA for the present study was done at an eigen value of one. Given that each household had two entries, each year was treated as a separate line. The reason for this approach is to allow for comparisons across waves. Creating a poverty score by wave would not allow comparisons to be undertaken, as the continuums and the weights contributing to them would be different. Using this approach, households whose poverty status remained unchanged between the two waves have identical poverty scores.

The analysis in this chapter is presented in two steps. The first is the interrogation of Wave 1 data only, the second is the analysis of a combined data set of Wave 1 and Wave 2. Because there are a different number of household entries in the two different databases (Wave 1 contains the original 210 households, and the combined data set contains 392 household entries; i.e. 196 households times two), two separate poverty scores were created for each database. The same variables were used in both scores, but the weights are marginally different, as their contributions in each wave are slightly different. The variables that were included in the model, along with the value of the first component are listed below in Table 33.

Table 33: Variables included in final Principle Components Analysis

Indicator	Component 1 Wave 1 only	Component 1 Wave 1 and 2
Per capita expenditure on clothing and footwear	0.677	0.613
% of adults in the household who can write	0.460	0.406
% of adults in the household who have matriculated	0.596	0.573
Ratio of employed to unemployed adults in household	0.445	0.410
# of days chicken served as main meal in last 7 days	0.521	0.505
Main material for roof in main dwelling of household	0.385	0.430
Type of flooring in the dwelling	0.502	0.483
Type of toilet used by household	0.535	0.534
Main source of energy used for cooking	0.683	0.670
Main source of energy used for lighting	0.590	0.548
Total value of appliance assets	0.771	0.720
Total value of transport assets	0.384	0.640
Total value of livestock assets	0.407	0.436
Total value of furniture and jewellery assets	0.730	0.661
Per capita total value of all assets	0.641	0.747

6.5.2 Findings: Wave 1 Only

Whist the findings presented in the earlier sections of this chapter were on the sample as whole, descriptive indicators here are provided according to the various banking types. By way of introduction, Table 34 presents some of these poverty indicators from Wave 1. From these cross-tabulations there appears to be some emerging distinctions between the households according to banking type. The Unbanked households (UB) had the highest proportion of female-headed households, whilst the Commercial Bank households (CB) have the greatest percentage of adults who can write. The UB households are more likely to go hungry and spend less money on clothing and footwear, record a lower total value of assets and the lowest income level. For all indicators except one (the percentage of

household members employed), it appears that the CB households have the most favourable outcomes, the UB households fair the worst, and the Village Bank households (VB) sit in between. The characteristics across the three groups are, to this point, predictable in broad terms and confirm what was hypothesised in the introduction.

Table 34: Selected Poverty Indicators by Banking Type (W1 only)

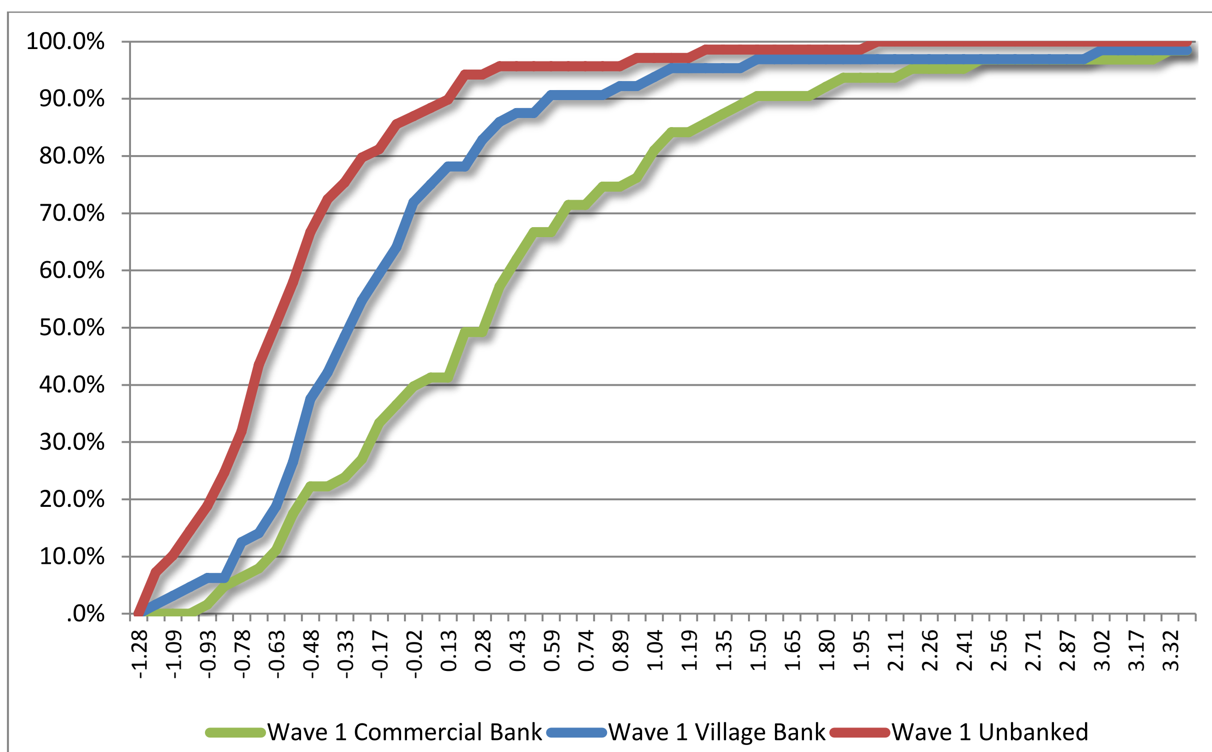
	Commercial Bank	*Village Bank*	*Unbanked*
% of female household heads** (X^2=9.302)	31%	37%	56%
% of adults who can write** (F=6.877)	54%	39%	34%
% of household members employed*	17.6%	9.4%	11.5%
Mean # of days without enough to eat* (F=3.010)	4.2	5.6	7.0
Mean per capita expenditure on clothing & footwear** (F=6.401)	R296 ($28)	R165 ($16)	R134 ($13)
Mean per capita value of total assets** (F=5.832)	R2,521 ($240)	R1,953 ($186)	R978 ($93)
Mean per capita household income** (F=7.243)	R3,666 ($349)	R2,251 ($214)	R1,690 ($161)

** Statistically significant at the 99% level
* Statistically significant at the 95% level

The guidelines of the CGAP manual then suggest plotting the poverty score of the groups being examined, so a visual appreciation of the poverty distribution can be seen across all households, which is provided in Figure 26. The scores in the sample range from -1.20 to 6.25, although 98% of the sample had a score less than 2.88.[91] Using this type of analysis, poverty is identified by lower poverty scores and therefore a steeper curve. The graphic presentation of data indicates clearly a difference in poverty experienced, according to household banking type. The CB households (in green) experience the lower levels of poverty, whist the UB households (in red) are the poorest. The VB households (in blue) sit in between the two, although they appear to sit slightly closer to the red line than to the green.

[91] The value of the four outliers were trimmed to this 98th percentile.

Figure 26:Cumulative Frequency Distribution by Banking Type (W1 only)



This relationship of differing poverty levels is again confirmed below in Table 35, which plots the mean poverty score for each banking type. The CB households have the highest average poverty score, which means that they experience the least poverty (poverty decreases as the score increases). The score of the UB households is almost the inverse whilst the VB mean score lies in between the two, but slightly closer to the UB households.

Table 35: Mean poverty score by Banking Type (W1 only)

	Mean Score
Commercial Bank	0.4144
Village Bank	-0.0850
Unbanked	-0.4282

F= 20.789 Sig=.000

One final presentation of the differences in poverty levels between the household types can be seen in Table 36. Although the CGAP questionnaire avoids capturing household income data, an additional set of questions on income (see section 7 of the questionnaire), was added and data collected. Using the poverty line of R4 248 ($405) per annum per

adult equivalent, an 'ultra-poverty' line was drawn at 50% (i.e. R 2 124 ($202)). Although the clear majority of the sample is considered to be living below the poverty line, CB households are more likely to be 'not poor' and less likely to be 'ultra poor', whilst the inverse is the case for the UB households.

Table 36: Poverty Line according to banking type

	Commercial Bank	*Village Bank*	*Unbanked*	*Total*
Not Poor	18 25.7%	5 7.1%	4 5.7%	27 12.9%
Poor	19 27.1%	21 30.0%	18 25.7%	58 27.6%
Ultra poor	33 47.1%	44 62.9%	48 68.6%	125 59.5%

X^2=16.693 p=0.002

The less-poor nature of the CB households, as illustrated in Figure 26, and in the individual indicators in Table 34, confirm the findings of both Finscope and the focus groups, that access to a commercial bank is for the wealthy and the employed – those that can afford the high transaction costs involved. These results also confirm an appropriate level of 'targeting' by the Village Banks, in reaching those that cannot afford conventional banking services, but are clearly willing and eager to have a place to bank. The bank does not appear to be 'displacing' existing commercial bank customers and is responding to a clear demand for low-cost banking services. It does however raise the question with regards to the UB households and why they are notably poorer than the VB households.

Much of the criticism towards microcredit is that it is 'self-selecting'; that those who are entrepreneurial in nature are more attracted to the opportunity, and are therefore more likely to either be wealthier to start with, or likely to increase their income regardless. This then poses a similar question here. How 'self-selecting' are these Village Bank households, do they attract households with a higher propensity to save? Is the difference in poverty levels between these VB and UB households due to this, and is this in turn a determinant of their poverty outcomes? The calculation of a 'marginal propensity' to 'manage' undertaken by Collins (2005b) revealed a propensity to save within all households. She also found that 'households with a bank account' was not a predictive variable in her model.

The level of savings and debt for each banking type is provided in Table 37, along with savings and debt as a percentage of household income. VB households saved the largest proportion of their incomes, an average of 20%, compared with 17% for CB households and 5% of Unbanked households. As for debt, CB were more likely to be indebted, at 14% of total income, compared with 8% for VB households and 7% for UB households. These data suggest that VB households have a similar debt profile to UB households, but a much greater propensity to save.

This does appear to indicate a distinct group within this community that have a higher willingness to save, and that they are drawn towards the opportunities offered by the Village Bank. This group also appear to be less willing to become indebted. The closer difference in savings and debt as a percentage of income for the CB and UB households align with the findings of Ardington, Lam et al (2003), but the VB households clearly appear to be an anomaly, seemingly confirming a possible 'self-selection' bias.

Table 37: Savings and Debt by Banking Type (W1 only)

	Commercial Bank	*Village Bank*	*Unbanked*
Mean per capita household savings* (F=3.569)	R575 ($55)	R525 ($20)	R78 ($7.40)
Mean per capita household debt* (F=4.266)	R770 ($73)	R298 ($28)	R137 ($13)
Savings as a percent of household income* [1]	17%	20%	5%
Debt as a percent of household income[1,2]	14%	8%	7%

** Statistically significant at the 99% level
* Statistically significant at the 95% level
[1] A number of extreme outliers existed, which were trimmed to the 95th percentile
[2] This variable was significant at the 94% level

The next step was to create a model where the predictive effect of savings on the household poverty score can be measured. This involves undertaking a linear regression, where the poverty score is the dependent variable. As we are interested in whether or not banking status plays any role, this variable is added to the model, as a dummy variable, with 'Unbanked' being omitted, as the reference variable. The various outputs from the regression model are shown in Table 38. The overall model is significant and the adjusted R square is .364, indicating that this model explains 36.4% of the variance in the poverty score.

Table 38 shows that being a member of a Commercial Bank, compared with those who are Unbanked, is the largest predictor of recording a higher poverty score (i.e. less poor). The indication of the importance of banking status is followed by per capita debt and per capita savings, both of which make a similar contribution. Belonging to the Village Bank, compared with being Unbanked, will also drive up the poverty score (i.e. decrease poverty), but to a lesser degree.

The relationship between belonging to a commercial bank, and being less poor has already been established. What is of interest here is the fact that belonging to the Village Bank will still be associated with a decline in poverty by 13.1%. However, even stronger than this is that households with savings, regardless of their banking status, but even slightly more than this, is households that borrow.[92] This appears to indicate that both forms of financial interaction are important and relevant mechanisms for assisting households in reducing their poverty. This may also explain the lower proportions of both debt and savings in the UB households.

Table 38: Linear regression of Poverty Score

	Standardised coefficient (Beta)	*Variable Significance*
Per capita Savings	.263	.000
Per capita Debt	.284	.000
Village Bank = 1	.131	.044
Commercial Bank = 1	.357	.000
Adjusted R Square	.364	
F	30.871	
Model Significance	.000	

6.5.3 Findings: Combined Data Set (Wave 1 and 2)

The next step is to understand whether the relationships described and interpreted for Wave 1 data hold true over the time. Data in this section are taken from the combined data set which includes 196 households that were interviewed in both waves. The cumulative frequency score from the two waves is plotted in Figure 27. From this graph we can see that the households follow a similar distribution of poverty from one wave to the next. However, the Wave 2 line does appear to sit just below Wave 1, indicating that poverty, as a whole, has decreased marginally between the two time periods. This gap is widest at the

[92] Although a household's level of savings and debt hold a strong relationship, a prior test for interaction did not reveal this to be issue with this model.

lower end of the scores, meaning that the improvements in the reduction of poverty occurred at the bottom end – i.e. where people are the most poor.

A paired samples T-test was undertake to compare mean scores, which improved from -.0532 in Wave 1 to .0532, in Wave 2 (which was significant at the .05% level - see Table 39 below). Not surprisingly, a high degree of correlation was found between the two samples. This confirmed that, not only were the two samples related (the point of a 'paired sample) but that for 81% of the sample, the individual household's poverty score moved in the same direction.

Figure 27:Cumulative Frequency of Poverty Scores by Wave

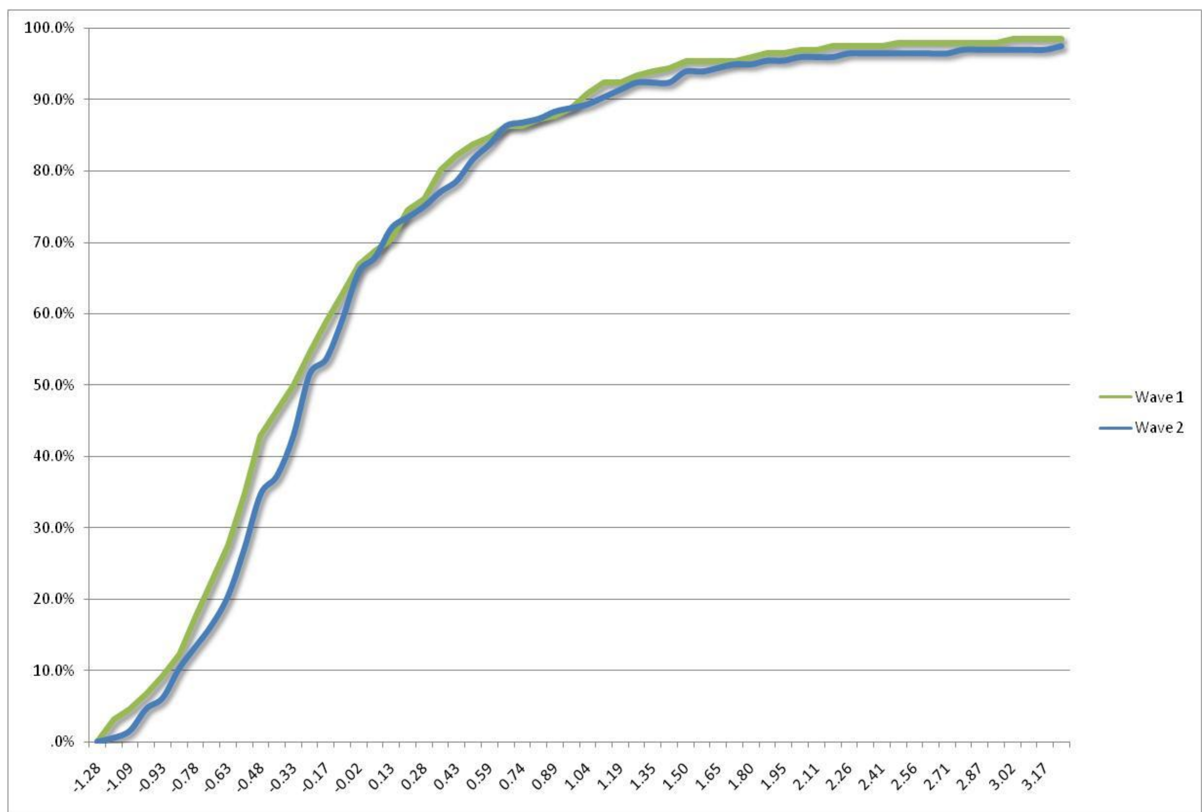


Table 39: Mean Scores & Paired Samples T-Test of Poverty Score by Waves

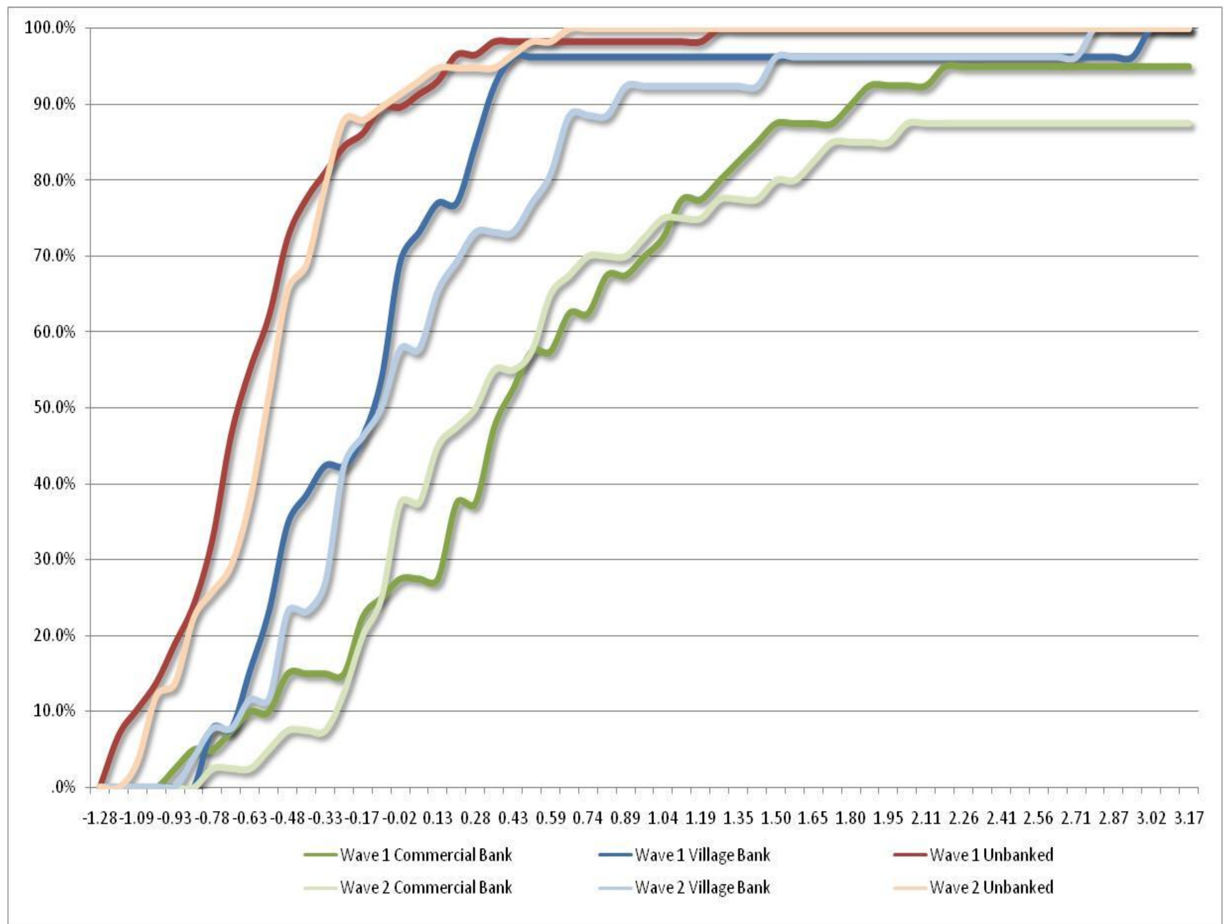
	Wave 1	*Wave 2*	*Total*	*Sig.*
Mean Scores	-.0532	.0532	-.10631	.016
Correlation Coefficient			.813	.000

However, if we are to address the question of whether or not Village Banks are a test case for the promotion of a savings-led model for poverty reduction, then what we are most interested in is how households from the different strata fared over time and in comparison to each other. As a substantial percentage of the households changed their banking status between the two waves i.e. moved from being VB to UB, or CB to UB or CB to UB etc., only households that remained unchanged during this period are included in the analysis. As presented in Table 15 in the Chapter Four, only 37% of VB, 57% of CB and 83% of UB households remained unchanged. The analysis for the remainder of this section is therefore conducted with this sub-sample only.[93]

Figure 28 plots the cumulative frequency scores of this sub-sample of 'unchanged' households, showing their poverty curves for both waves. Commercial bank households have the flattest curve, in both Wave 1 and 2, indicating that they are the least poor of the three groups. The Unbanked households have the steepest curves, again in both waves, indicating that they are the poorest group. The Village Bank households sit clearly in-between, a similar picture to that presented for Wave 1 only data (see Figure 26 above). It is also possible to see from this graph, that some changes have occurred within the groups, across the two waves. The position of a Wave 2 line below a Wave 1 line for example indicates an improvement in the poverty score. This is most evident in the Village Bank households, where a small improvement can be seen just below the mid-point, and a much larger improvement is visible, just above the 50% level. The Commercial Bank households demonstrate shifting positions, with the bottom quarter slightly better off in Wave 2 than they were in Wave 1, the middle component actually worse off, and the top one-quarter better off. The Unbanked group show the least variation, but with the bottom 80% appearing to be slightly better off by the time of Wave 2 than in Wave 1.

[93] Tests were carried out including a category of 'changed status' to see if there was anything particular about this group. However none of the models found any statistically significant relationship, so they were dropped from the analysis.

Figure 28:Cumulative Frequency of Poverty Scores by Wave & Banking Type



For this 'unchanged' sub-sample, the mean score of each group, by wave, is depicted in Table 40. For the UB households, the average poverty score was -.5610 in Wave 1, which improved slightly to -.4999 in Wave 2. The shift, however, is not statistically significant. A similar story is apparent for the CB households, which also improved, from .6944 to .8 240. The greatest advancement in poverty reduction was for the Village Bank households which saw an improvement in the average poverty score from -0.703 to 0.1163. The significance test provided a score of 0.063, falling 1.3 percentage points short of the standard accepted minimum of 95%.

The fact that the only (almost) significant change in poverty scores, being an improvement for the VB households, does appear to indicate that there is some inherent difference with this particular group. As the poverty score incorporates a number of standard poverty indicators, this difference cannot be put down to the standard indicators such as household head, literacy levels, employment levels, household assets etc. The only other

variables presented in this chapter that stand out as different with these households is the fact that they save 2.5 times more than they borrow, compared with 1.7 for CB and 0.7 for UB households.

Table 40: Mean Scores of Poverty Score by Banking Type

	Wave 1	*Wave 2*	*Significance*
Unbanked	-.5610	-.4999	.191
Village Bank	-.0703	.1163	.063
Commercial Bank	.6944	.8240	.416

An alternative way to examine changes in poverty over time with this sub-group is to divide the sample according to changes in their poverty score from Wave 1 to Wave 2. Given the overall small variations of changes in the raw poverty score, this regrouping will help draw out those households that experienced a notable change in their poverty score, both increasing or decreasing. According to a score range, households were classified as either 'Declined' (poverty score declined by more than -0.2), 'Stayed the same' (scores changed between -0.2 and 0.2) and 'Improved' (scores improved by more than 0.2). Table 41 shows the percentage distribution of this according to household type. Commercial bank households that had the largest proportion that experienced a 'decline' in their poverty score, whilst Unbanked households were most likely to have 'Stayed the same', with half of this group being allocated to this group. Village Bank households were more likely to report an improvement in their poverty score with 53.4% of these households being allocated to this category compared with 37.5% of Commercial bank households and 31.0% of Unbanked households. This distribution of scores was found to be significant at the .05%. These findings help add weight to the speculation earlier that the propensity to save, compared with the propensity to borrow, may in fact influence poverty outcomes.

Table 41: Change in Poverty between Waves by Household Type

	Unbanked	*Village Bank*	*Commercial bank*
Declined (<-0.2)	11 19.0%	6 23.1%	18 45.0%
Stayed the same (-0.2 to 0.2)	29 50.0%	6 23.1%	7 17.5%
Improved (>0.2)	18 31.0%	14 53.8%	15 37.5%

X^2=16.975 df=4 p=0.002

6.5.4 Household Vulnerability

Now we will attempt to examine household vulnerability and how households have responded to shocks, according to their banking type. The analysis presented in Section 6.3 of this chapter revealed that almost all households were affected by one or more shocks, with death being a frequent and major incident. It also revealed that households relied on the help of neighbours and family to cope, and that saving was an important coping instrument. The analysis in here will be presented in a similar format as in the previous section of this chapter, with the findings from Wave 1 only presented first, and then analysis of the combined Wave 1 and Wave 2 data with only the sub-set of unchanged households. In line with the thesis research questions, we are most interested in understanding the role that savings has played in assisting households to cope with shocks.

Findings: Wave 1 Only

Table 42 lists the nature and frequency of shocks that households experienced in Wave 1, by banking type. As already described in the previous chapter, death, serious illness and the loss of livestock/crops were the most frequent shocks experienced. The most important insight is the chi-square p statistic at the bottom of the table. This reveals that there is no statistically significant relationship between the type or frequency of shock by household banking type, thus confirming these shocks to be exogenous within the community, both according to banking type and poverty (as poverty is differentiated by banking type). 'Other' in this context includes divorce, violent crime, and fire, being cut-off from government grants or remittances and loss of a regular job.

Table 43 lists the coping strategies adopted by households, according to their banking type. This cross-tabulation only includes households who have received a shock, and allows for multiple responses, meaning that for the same shock a household might respond in up to three separate ways, such as: use savings; borrow money; and receive help. From this table we are interested in whether or not households according to different banking types adopted different coping strategies. The frequencies and percentages reveal a similar response pattern across the rows, which are confirmed by the significance (p value) in the far right column. None of the scores indicate significance at the 95% value,

meaning that all household types are likely to draw upon similar strategies for coping with shocks.

It is difficult to understand why this might be the case, and why using ‘savings’ is not a significantly different coping strategy for those belonging to the Village Bank, who already have a greater propensity to save. These tables do not indicate the actual amount of money utilised from each different strategies, vis-à-vis the amount of money other coping strategies provide, which is beyond the scope of this data. More research would need to be done to understand the more intricate steps involved in how households respond financially to these different results. This would first ideally need to be undertaken on a qualitative basis, and then tested with a larger sample of households. There is clearly still much more to be understood with regards to exactly how financial instruments may or may not reduce household vulnerability.

As this section of the analysis is interested in investigating how the different banking types cope with shocks, given there is no significant difference at the bivariate level, there is unfortunately no value in creating any other models to explore this relationship further.

Table 42: Number and Nature of Shock by Banking Type (W1 Only)

	Commercial Bank	*Village Bank*	*Unbanked*	*Total*
Death	29 23.8%	22 23.4%	28 24.6%	79 23.9%
Second death	10 8.2%	8 8.5%	9 7.9%	27 8.2%
Serious illness	27 22.1%	23 24.5%	27 23.7%	77 23.3%
Loss of livestock/crop	23 18.9%	18 19.1%	19 16.7%	60 18.2%
Failure of business	9 7.4%	6 6.4%	5 4.4%	20 6.1%
Theft of property	7 5.7%	4 4.3%	7 6.1%	18 5.5%
Other	17 13.9%	13 13.8%	19 16.7%	49 14.8%
Total	122 100.0%	94 100.0%	114 100.0%	330 100.0%

X^2=2.056 df=12 p=0.999

Table 43: Use of Selected Coping Strategies by Banking Type (W1 Only)

	Commercial Bank	*Village Bank*	*Unbanked*	*Significance (p)*
Use Savings	35 28.7%	24 25.5%	34 29.8%	0.781
Borrow Money	18 14.8%	19 20.2%	15 13.2%	0.354
Receive gift of money or other asset	22 18.0%	12 12.8%	20 17.5%	0.534
Receive other help	13 10.7%	7 7.1%	14 12.3%	0.515
Sell Assets	5 4.1%	5 5.3%	12 10.5%	0.117
Insurance payment	11 9.0%	2 2.1%	6 5.5%	0.094
Nothing	22 18.0%	18 19.1%	20 17.5%	0.955

Findings: Wave 1 and 2

Analysis of the data that considers changes between the two waves only uses the sub-sample of households that remained unchanged between the two data collection points. Our interest is in understanding whether the coping strategies of the different household types changed from one wave to the next, and whether or not these changes had an impact on the poverty scores in Wave 2, or indeed if any relationship between poverty score, and coping strategy, according to household banking type, could be detected. Unfortunately the low counts in this sub-sample, is exacerbated by the fact that not all households experienced a shock, thus lowering the number of cases eligible for analysis even further. In the case of Village Bank households, for example, only 19 shocks were recorded in Wave 1 and 13 in Wave 2. Any cross tabulation with other variables reduces the counts to the frequencies are too small to enable any analysis.

Analysis can therefore only be done at the meta-level, with all of the 196 households. A test was run to see if any relationship existed in the change in poverty status between the two waves with the coping mechanism used in response to a shock in Wave 2. The question being asked here is: Is there any relationship between those households that used savings, as a response to a major shock and the changes in their poverty status (improved, stayed the same or worsened) and: Is this any different to those households that used debt to cope with a major shock and their change in poverty status?

As the question asked to respondents recorded shocks in the preceding 24 months, this question therefore collects data on all shocks that occurred between the two waves. Table 44 presents the cases of households who adopted the three most common coping strategies (use savings, borrow money, do nothing). Only answers in the affirmative are presented. This is cross-tabulated with the change in poverty status. The findings indicate that the coping strategies occurred in a similar proportion, regardless whether household poverty declined, stayed the same, or improved. This finding is confirmed by the p statistic which indicates no significant differences according to change in poverty status. This finding appears to indicate that the way in which households choose to respond to negative shocks (borrow or save) has no relationship to their changes in poverty status, i.e. one does not appear to influence the other.

Given this outcome, again there is no merit in creating any further models.

Table 44: Strategies Adopted by Change in Poverty Status

	Declined (<-0.2)	*Stayed the same (-0.2 to 0.2)*	*Improved (>0.2)*	*Significance (p)*
Use savings	11 18.0%	11 15.3%	15 16.5%	0.913
Borrow money	5 8.2%	11 15.3%	6 6.6%	0.159
Nothing	34 55.7%	39 54.2%	48 52.7%	0.936

6.6 Conclusion

As described in Chapter Four of this thesis, the fieldwork and data collection processes revealed that what appeared to be a robust design on paper did not unfold as neatly or as easily, in practice. Many unanticipated challenges emerged throughout this two year undertaking which required on-going adjustments and modifications. A panel should produce more robust findings on the dynamic nature of poverty, which cross sectional surveys are unable to reveal. But panels add a layer of complexity to the research design, including the fact that any shortcomings in the first round of fieldwork only become amplified during the second.

As described previously one of the major surprises in field was the presence of such a large proportion of 'Commercial bank' households, which required splitting the sample three ways. The reduction in the sample size of each stratum does reduce the robustness of the design, and this needs to be acknowledged. The other major unexpected outcome was the substantial movement between banking status types from Wave 1 to Wave 2. Having such a substantial reduction in the number of 'unchanged' households affects the strength of the data and the extent to which it can be analysed[94]. This has clearly hampered the extent to which the data set is suitable for multivariate interrogation.

This chapter firstly set out to examine the lived experiences of poverty within Bhambanana. The analysis of this section of the questionnaire clearly revealed that Bhambanana is a desperately poor community in a remote and sparsely populated area. The area is plagued by high unemployment, low agricultural productivity and a heavy reliance of social grants that have otherwise halted the demise into complete destitution for many households. Nine out of ten households in the sample live below the poverty line. Other provincial developmental indicators, where available, confirm this 'below average' status. The availability of two data collection periods enables a more dynamic description of these indicators, which have shown improvements in some, whilst others have deteriorated.

From a demographic perspective, there is a clear shift with a shrinking adult population and an expanding child-to-adult dependency ratio. Although one might initially attribute this to an HIV/AIDS epidemic, data on morbidity and mortality do not confirm this. In fact one of the more unexpected findings has been the improvement in health status, which included a decrease in the average number of sick days, a decrease in the number of deaths and a decrease in the number of serious illness/injury. Another unexpected, but clear and positive trend has been the improvement in food security, which was acknowledged as a major issue for many households. The overall number of months in which households went without enough to eat halved between the two waves. The number of credit activities for the intent of purchasing food declined, as did this being the motivation for savings. However, it must be remembered that food still remained the most frequent reason for saving and borrowing money. Interestingly, these improvements took place in an environment of economic decline, with a significant decrease in income from employment,

[94] This does align somewhat with the Finscope 2003 findings which showed a large percentage of 'previously banked' households, although such findings were not available at the time of the design phase.

a greater reliance on government grants and an overall drop in total household income. Livestock appeared to be the most preferred means for households to store wealth.

The analysis also sought to understand the nature of shocks and how households coped, which speaks to the issue of vulnerability. This showed a community under pressure with declining social capital and a diminishing capacity to assist others and be assisted by them.[95] Despite this, family, neighbours and friends remained an important source of assistance during the time of a financial crisis, as were stokvels. In this regard, banks could clearly not be counted on as a source of help. The analysis also showed that the strategy adopted depended on the nature of the shock, but using savings was the first choice of many. The ability to do so declined between the two waves, whilst the average costs of shocks increased substantially. To 'do nothing,' as a response to a household shock, increased by a factor of four. Of considerable concern is the fact that the average cost of a shock in Wave 2 was R2 416 ($230), which is almost equal to the average, per capita income of R2 629 ($250).

Despite these findings, a considerable portion of the population had access to and made use of formal financial services. Previous chapters of this thesis have highlighted the major barrier that transaction costs can play with regards to access to financial services. The data here revealed the presence of the Village Bank had substantially reduced some of these costs, especially in regards to time and money spent in just getting to the bank. Other analysis revealed the central role that food security played in driving credit and savings behaviour. Most loans given, were by people well known to the recipient, the amounts were small and mostly interest-free. Savings activities by the individual respondents far outnumbered the borrowing activities, and the majority of savings activities took place with a bank or stokvel. Overall, the analysis revealed that savings is the preferred method for building wealth and coping with shocks by the community of Bhambanana.

Only in the final section of this chapter was the data presented according to banking status. The premise for the stratification used in the survey design was the specific nature of the Village Bank. It is a member-owned, savings-led institution and is therefore different

[95] Research undertaken using KIDS data and revisiting some of the households for in-depth qualitative work also revealed a decline in social capital and increasing pressures on rural households in KZN. For more information see
Adato, Carter et al. 2006

from most microfinance institutions. The bank enables local residents to access safe, low-cost savings facilities within walking distance of their home or workplace. The importance of this service cannot be overstated: geographic and financial obstacles are one of the main reasons that inhibit poor people from being able to save money through formal mechanisms, especially in rural areas. Therefore basing our sample and analysis on the banking status of these households provides a close proxy for understanding the relationship between savings and poverty.

In the initial design, the underlying assumptions were that belonging to a Village Bank was an appropriate proxy for increased levels of household savings and that the CGAP designed Poverty Assessment Tool was an appropriate proxy for poverty. Of course hindsight can easily highlight the flaws in these assumptions, and these are discussed in more detail in the final concluding chapter. Even though the analysis presented was undermined by an insufficient number of respondents in the various predictor variables of interest, this chapter has been able to uncover some important relationships which help answer the research questions raised in this thesis. The CGAP Poverty Assessment Tool was introduced and the means by which it calculated the single poverty indicator score for each households was explained. Analysis using only the Wave 1 data demonstrated a clear distinction in the poverty levels of the various banking types. As suspected, Commercial Bank households were found to be the least poor. What was unknown, but the analysis revealed was that Unbanked households were the poorest, and Village Bank households were located somewhere in between.

This ranking was maintained over the two waves, but our confidence in the robustness of the relationship between bank status and poverty score was weakened as the number of cases in each stratum declined. Nonetheless a picture did emerge of an improvement in the poverty status of Village Bank households, vis-à-vis the other two groups. As a proportion of household income, Village Bank members in the survey were found to save 2.5 times more than they managed as debt. This compared with a ratio of only 1.2 for Commercial Banks and 0.7 for Unbanked households. When placed in a regression model to test the extent of this relationship, coefficient scores revealed that in Wave 1, belonging to a Commercial Bank, compared with being Unbanked, was the largest predictor of an increasing poverty score (i.e. being less poor). Belonging to a Village Bank, compared with being Unbanked, also predicted a decline in poverty, but not at the same proportion as

being commercially banked. Savings was also found to be a significant and positive contributor to declining poverty. The same however was true of debt.

When considering the movement in poverty scores from Wave 1 to Wave 2, Village Bank households had the greatest percentage of households that had ‘improved’, Unbanked households had the highest number that had ‘stayed the same’ and Commercial Bank households had the greatest proportion that had ‘declined’. Given the Commercial Bank members were the wealthiest, and belonging to a Commercial Bank is the strongest predictor of not being poor, this was somewhat surprising. The regression model, however, applied to Wave 1 poverty scores only, as there were insufficient cases to recreate this model in Wave 2. A large but slightly smaller proportion of Commercial Bank households also ‘improved’, perhaps indicating that this group experienced large degrees of fluctuations.

The household shocks data was also revisited with the hope of drawing out possible relationships between the different banking types, and how they cope with shocks. The expectation was that Village Bank households would be better equipped at coping with shocks and would use more positive coping mechanisms, such as drawing on a stock of savings. Analysis by banking type revealed that shocks were exogenous and not influenced by banking type (as expected), but also not influenced by poverty (using banking type as a proxy), at least not in the small geographical constraints of Bhambanana. The type of strategy adopted to respond to a shock, namely to use savings, borrow money or ‘do nothing’ (the three most cited answers given), did not differ across banking types. The final analysis, which dropped the banking type and looked at all households according to their change in poverty status between the two waves (improved, declined, stayed the same), revealed no differentiation in strategy adopted.

Chapter 7 Conclusion

In this final chapter I draw together the principal themes of the research and the results from the previous chapters in order to distil the observations made throughout the thesis in regards to the relationship between savings, poverty and access to financial services in rural South Africa. I will start by revisiting the purpose of the research and the main research questions. The key findings from the literature and from the primary research will then be drawn out. This will be followed by a discussion on the limitations of the data and the research design. The unique contributions this thesis has made to the body of knowledge on microfinance and poverty will be highlighted. Finally, the policy implications of the research will be presented.

7.1 Research Questions and Review

This research was undertaken for the purposes of extending our understanding on the relationship between savings and poverty. It sought to understand why credit was and still continues to be the preferred 'one-third' of the microfinance triad, with savings and insurance. The sources that sparked my interest were a pre-existing interest in poverty policy, an introduction to the Village Banks, and the work of Stuart Rutherford, whose insights eclipsed decades of academic ruminations. Given my interest in poverty and poverty theory, I also wanted to understand what the microfinance sector meant when it referred to poverty: how it conceptualised poverty and to what extent this conceptualisation influenced policy choices?

These lines of inquiry were encapsulated in two main research questions, both of which contained an additional two sub questions. As presented in the preface and in Chapter Four, the questions were:

1. To what extent is the Village Bank model of a member-owned financial institution a viable mechanism for addressing the challenges of providing low-cost banking services to the poor? And more specifically:
    a. How does the membership structure assist with this process; and to what extent is Village Bank governance and members' sense of 'ownership' important to sustainability and effectiveness?
    b. What socio-economic benefits arise from participation and what importance do members place on being able to save?

2. What is the relationship between the utilisation of financial instruments (namely savings and borrowing) and the developmental outcomes achieved by households?
    a. What role do savings play in helping households to acquire assets, secure livelihoods and reduce vulnerability?
    b. To what extent have Village Banks contributed to assisting households in these terms?

The approach to the research and its methodological design was influenced by a post positivist philosophy which views the world as something that can be comprehended, although imperfectly. Our quest is for explanation, prediction and control, although it is understood that this is a flawed process and subject to correction. The research questions were considered to be independent, although complementary and were therefore ambitiously addressed using a mixed method approach. Each of the questions were conceptualised to examine different layers within the same system, both making an equal contribution to the thesis. This case study approach, which incorporated a longitudinal design, aimed to use the Village Banks as an 'exemplifying' case to examine how savings-led member-owned institutions may address the challenges of providing low cost banking solutions in remote rural areas.

7.1.1 Key Literature Findings

The journey through the literature that this thesis has traversed included over 60 years of microfinance discourse, numerous decades of poverty theory, a history lesson on the origins of poverty in South Africa, and a review of the South African landscape of financial services. From this plentiful source of research, data, theory and opinion, the following insights were gleaned.

As Chapter One discussed, the key ideas that underpin microfinance did not emerge with the birth of the Grameen Bank, but had been well established centuries earlier in the Irish Loan Funds and in the Raiffeisen movement in Germany. More recently it re-emerged in the 1950s, in the quest to increase agricultural productivity and with the curiosity of anthropologists. It was surprising to find that a number of issues which were identified as contentious and concerning back then, remain unresolved and contentious today. High interest rates, charged by usurious moneylenders were one of the main driving forces

behind government and NGO intervention, and despite explanations of interest rate construction, many observers bemoan high interest rates now charged by MFIs. The cost of credit is closely related to unresolved debates of sustainability versus subsidisation. Whilst the Ohio School in the 1980s were blaming the collapse of rural credit on subsidised interest rates, today we see the public listing of MFIs *'proving'* commercialisation to be the future (whilst the majority of MFIs remain heavily dependent on subsidies). Despite gains in technology and massive injections of donor and private sector capital, it would seem the formal microfinance sector is still no match for the informal sector, whose services continue to maintain the same characteristics today that were described by Wai in 1958: local, quick, flexible, with few rules and no collateral requirements. Also difficult to accept is a description of banks as depersonalised, cold, formal, slow moving and with branches too far apart, again as relevant today as when it was first noted in the 1950s (see Gamba 1958).

The literature review also revealed a number of flawed assumptions of the role of credit and the push for its large-scale, almost universal provision to the poor. The first is that poor people desire credit over other forms of financial intermediation, and that this demand is for investment in productive purposes, and not for meeting existing debts, obligations, emergencies, or simply to keep one's family fed. The second questionable assumption is that the majority of the poor are entrepreneurial in nature and comfortable with the risk-taking nature that comes with starting and growing a business. The third has been that the main obstacle between the risk-taking entrepreneurial poor, and profitable, successful and poverty-reducing businesses, is not existing demand or access to markets, or financial, managerial or marketing capacity, but simply a lack of credit to purchase inputs.

This was juxtaposed against the savings-led model of member-owned institutions which were described as one possible solution to addressing the inherent challenges of providing low cost financial intermediation in rural areas. Such institutions are built upon mobilising local capital and the democratic principles of individual ownership and collective action. The success of MOIs, particularly in relation to their outreach and sustainability, are therefore highly vulnerable to problems relating to governance. MOIs that are too small to afford professional auditors and staff, and too large for peer monitoring to work, are particularly susceptible to mismanagement and fraud. Research in the area also revealed a strong relationship between a sense of ownership, confidence in the MOI and a return on

savings. The influence of local power structures, and the potential for local elites to influence structures and operations, was also noted.

The work of Stuart Rutherford was presented as a ‘paradigm shift’ within the microfinance literature, encouraging a different understanding of the relationship between poor people and their money. The ‘Portfolios of the Poor’ and the accompanying financial diaries methodology has provided insight into the money management capacity of poor people, previously unavailable and outside the conceptual frame of research, up until now. Indeed, it has taken nearly ten years for the ‘saving up/saving down’ and ‘useful lump sums’ terminology to seep into ‘microfinance speak’, although it is slowly beginning to infiltrate into the literature.

It is hard to understand why credit, which is a euphemism for debt, has been upheld as a developmental tool, whilst savings has not. This is despite an emerging consensus that: the mobilisation of savings into the national financial system is desirable for funding domestic investment and economic growth; that the provision of various financial services should be demand-led rather than supply-driven; that savings can be an important proxy for insurance and reduce household vulnerability; that it can assist households to smooth consumption, accumulate assets and participate in important life-cycle events; that savings has traditionally and historically been the mainstay for funding enterprise start-ups; and that although savings and credit are different sides of the same coin, one comes at a higher cost and with increased risk.

The review of the literature on poverty revealed that of the seven theories considered only the Assets and Sustainable livelihoods theory identified an explicit role for microfinance. An implicit role was identified with the Income theory, whilst Chronic Poverty specialists acknowledged a role for savings and insurance – which was a similar role advocated for by those studying vulnerability and poverty. It was clear that microfinance did not play a strategic role in the list of options for fighting poverty. When re-examining the microfinance literature in the context of Chapter Two it become more apparent how little research this field has actually engaged with poverty theory, despite claiming poverty reduction as its ‘raison d’être’.

The uniqueness of the South African microfinance sector was one of the most salient findings of the literature in this field. Service provision has been biased towards high-

income and urban areas and NGOs that provide group-based credit and other variants to poor people are few and far between. The majority of credit provision has been in the form of consumer credit targeted at the permanently employed. As a result, informal services play an important role in assisting the poor in South Africa to cope with variations in demand for cash. The most popular forms are stokvels and burial societies, with death being a significant and common financial shock on the household.

What then are the gaps that still remain wide open? If savings do have a potential role in assisting households to address poverty and cope with risk, and, if access to formal financial services, especially savings, is still difficult to access, especially in rural areas, what role then does a member-owned savings-led institution, such as the Village Banks, play in bridging this gap?

7.1.2 Interpretation of Key Empirical Findings

The empirical findings of this thesis were drawn from two sources – a qualitative undertaking and a quantitative one. The qualitative undertaking – focus groups held in four different Village Banks, sought to understand how these community-owned democratic banks function. The banks were conceptualised for the purpose of addressing the challenges of providing low-cost services in rural areas. Sustainability is highly dependent upon institution building, which the research revealed, requires substantial external support over a continued period of time.[96] As this was not forthcoming, two of the four banks were still struggling with the basic fundamentals of board elections and reporting back to members. Some shareholders, such as the pensioners in Bhambanana, were completely in the dark as to the banks functioning, whilst the board members of Motswedi had actually blocked community members from purchasing shares. Local power structures were clearly seen to be dominating proceedings that should have been controlled by members. In some sense, this finding should not be considered surprising as noted by Lee (2008), strong cultural identities at the local village level will normally overrule corporate governance. In some of the communities it was clear that the members did not have the resources or power to hold their representative decision makers accountable.

[96] An outcome also identified in the research by Hirshland, Choa-Beroff et al. (2008).

Very little of the literature on microfinance actually reports on the thoughts and feelings of the clients themselves. It also rarely describes the way in which the service has affected their lives, and even fewer are described in their own words – which is something this research was able to do. The benefits that were most important to the participants were clearly the convenience of having savings services close by, which reduced money spent on transport. They appreciated the friendly staff that could speak their language and respect their customs, and they were grateful that their money was safe – safe from criminals, family members, personal temptations and safer than the alternatives of hiding it in and around the home. Most interestingly, no one complained about the lack of credit facilities. The banks appeared well targeted, as respondents identified their services as primarily for people who were poor and people who wanted to save.

Given that the FSA closed down during the period of the research and the importance of institutional sustainability, one might question how is it possible to advocate for a financial institution that has 'gone under'. There are many sides to achieving a sustainable, service driven institution. The first of course is a demand for the actual product on offer. This research has clearly shown that the Village Bank had a clear target market that responded well to the product offering. And in the development arena, one also has to be able to make a clear link between the intervention and its impact on poverty. This has also been established. So what then is missing?

Many of the individual Village Banks, although ticking over on a day to day basis, were to an extent, operating in the dark. The banks did not possess individual profit and loss statements. Individual banks collected fees on the transactions they made, but also incurred expenses: office rental; overheads; staff salary. It was not even known if the fee income was covering these expenses, as clearly each community would need to generate a given amount of monthly transactions to obtain a breakeven point. If banks were operating at a loss, then they were essentially eating into depositor savings, an activity which would not bode well for future sustainability. But the banks simply did not know this. Neither did they know how to calculate and disburse dividends, or how to loan out money, in order to create more income. Ideally, if this data had been collected and analysed as part of research design, more conclusive inferences on the financial viability of the Village Bank model could have been drawn.

Additionally the banks were unable to either identify further product needs of clients or set out how to market the bank to bring in more business. Such vision is necessary if the individual banks are to be sustainable and able to grow over time. None of these activities are complicated or overly sophisticated tasks, but something that individual bank committees should have been able to undertake. The research has shown that without the necessary on-going support, guidance, training and supervision from a secondary body, such as the FSA, these sorts of activities are unlikely to happen.[97] One has to question the rationale behind IFAD for starting such a major initiative that was supported for only ten months, and leaving it with no secure, long-term partner in South Africa who was willing to show a commitment for a sustained period, and certainly much longer than the three years offered by the Department of Social Development.

How then did this situation manifest at a household economic level? The findings from the quantitative data – a panel study of households surrounding the Bhambanana Village Bank, also revealed an important role played by savings. It was the primary tool used for accumulating assets, and a very important instrument for assisting households to cope with negative financial shocks. Although the research found the community to be very poor, relative to available provincial and national data, distinctive layers of poverty were identified. Again confirming what the qualitative data identified, households that were better off, preferred to make use of commercial bank services, even though they were located a fair distance from the community. The important finding was that households which belonged to the Village Bank were better off, i.e. less poor, than households that were Unbanked. This relationship did hold over the two periods of data collection, but the strength was weakened by the second wave. The reason for this was the declining number of cases in each stratum that was analysed. The main cause of this was that almost two thirds of the Village Bank account holders had left the Village Bank, most likely due to their disappointment with the FSA.

This outcome again aligns with the finding of Lee who observed a strong relationship between a member's sense of ownership and trust with their savings and returns. Ownership for ownerships sake was not sufficient, the relationship is rather directly

[97] This also aligns with the findings of Chao-Beroff (2008) who identified a common experience of insufficient technical expertise, resources and capacity within the supervising entities.

proportional to the confidence members feel in the institution, if they can readily access their capital and if they can see profitable rates of return and benefits to the community.

A definitive claim cannot be made that households that belonged to the Village Bank were less poor because of this membership. But it is not unreasonable to speculate that had they remained with the bank, and had the bank improved its service delivery, that they would continue to be better off than the category of people defined as ‘Unbanked’. There is a possible link between the relationships and opinions held with an institution and a household’s ability to keep poverty at bay. The research therefore is suggestive of a close relationship between ‘social sustainability’ of the bank and its ‘financial sustainability’. The caveat, of course, is that my research was unable to look at the ledgers of individual banks, notwithstanding the observation that such documents were poorly kept, inaccurate or did not exist. The research design did not propose data collection on the profitability of individual banks and to what extent fees covered operating costs. The inclusion of these data would have strengthened claims about the Banks’ viability. So whilst Village Banks do present a possible alternative for providing low cost banking services in rural areas the importance of their ‘democratic’ nature is still in question. The democratic philosophy of the Village Banks appeared only to be of secondary value compared with its role as a financial intermediary. However, this only appears to hold in the short run. Over the long run, if such institutions are not able to adhere to their member based, member run nature, their long term sustainability is questionable, as is their important ‘low cost’ design.

7.2 Limitations of the Data and Study Design

A perfect research design does not exist, nor does a perfect tool. Although methodologically sound and robust designs may be achievable at a conceptual stage, much can be undone when applied in the field – where reality does not contain itself to the parameters of a researcher’s requirements. Whilst the costs involved in data collection, particularly quantitative fieldwork also creates its own set of parameters, ultimately, it must be accepted that the answers to some research questions remain elusive in nature, caught in a loop of endogeneity where the outcomes and their predictors seem to share a causal relationship. At least, this has been some of the experiences of this particular research endeavour.

Hindsight provides an important opportunity to reflect on what could have or should have been done differently at the start, to avoid less then desirable outcomes at the end. Although this thesis has been dedicated to arguing a particular viewpoint, with empirical data collected to support this, due acknowledgement needs to be given to the shortcomings in this process, both in the qualitative and quantitative data collection process, and in the overall conceptualisation and design, which was held together by assumptions that perhaps should never have been assumed.

In relation to the qualitative process, the events that unfolded after this exercise have indicated that other lines of inquiry ideally should also have been followed. This would include more insight into the relationships that the individual banks held with the FSA, the support they drew from them and were dependent upon, as well as the kind of support they needed, but did not get. Understanding the level of independence, or rather dependence on the FSA, and other key relationships, such as with the link bank, would have enabled a more detailed understanding of the sustainability of the individual banks, and therefore how vulnerable they were to failure. The focus group format could have also been used more extensively to explore the full gambit of financial instruments that members used, and how they applied them to cope with risk and vulnerability.

In relation to the quantitative data, quite a number of shortcomings are immediately obvious. A significant constraint to the analysis has been the overall sample size. In a number of situations there were simply not enough cases in the data base to build models and test relationships beyond the bivariate level. This was created by two unanticipated events that diluted the strength of the design. The first was the unexpected presence of households which had members with a commercial bank account. Given the study location was remote, poor and a fair distance from the closest branch, it was assumed to be the ideal site for a 'Village Bank' versus the 'Unbanked' case study. The adding of another stratum was the correct response, confirmed by the data that these households were indeed different, but the outcome resulted in even fewer cases in each stratum.

Perhaps though even more injurious to the predictive capacity of the data, was the large movement amongst banking types between the two years. Although some movement was expected, it certainly was not of this magnitude. This could be seen as an important finding in and of itself – which it was. But unfortunately, as the magnitude was unanticipated, the opportunity to collect data, in the form of additional questions in the second wave

questionnaire, was lost. As such, only speculation can be given as to why so many people changed their banking status. Anecdotal evidence from discussions fieldworkers had with respondents, were that many people were unhappy with the FSA and that is why they left the Village Bank: a reasonable response considering the FSA collapsed during this time. But it is still unknown what drove the changing banking status of the other household types.

Thus one of the many challenges of a panel design study is that it often raises more questions than it answers. Cross sectional surveys are entrenched in assumptions that such snapshots of a life at a point in time reveals something 'typical', yet we know that life lived is dynamic and constantly changing. This also leads to another shortcoming in the study design, in that a two year interval was probably an insufficient time period to test the relationship between poverty and savings. Earlier discussions on chronic poverty defined households as being chronically poor if they had been so for a period of at least five years. (Hulme and Shepherd 2003). Although this was agreed to be an arbitrary figure, and later, definitions defined chronic poverty as something experienced over a lifetime. At the very least, a greater time between data collection points, and even more than two years, would have been ideal.

The limited geographical scope of households involved in the study also limits the extent to which the findings can be generalised. Although the sampling methodology was more robust than is often applied in studies of this nature, it still essentially remains a case study. The results cannot be attributed beyond the community of Bhambanana.

In relation to the overall design, this undertaking has also revealed the challenges involved in trying to test the relationship between two variables that have a strong, endogenous relationship. The amount that people save is strongly dependent upon the amount of income that they earn, a variable that is highly correlated with almost all measures used to define poverty, including the poverty score generated in this particular study. It would be wrong to assume an exogenous relationship, which makes it even more difficult to determine the ideal way in which to test it.

Also disquieting is the relationship between the household and individual level data. Whilst some variables are easily observable and shared at a household level – such as housing quality, access to water etc, other variables are very much controlled by an individual and

are often unknown by others in the household. Specific examples of this include the management of cash and engagement in borrowing, lending and savings activities. It is for this reason that Part 2 of the questionnaire sought out multiple individuals to provide detail. However, as much of the analysis also draws upon household level variables, the two types of data – household and individual, is combined into the same model, when they are not necessarily compatible.

Although there will no doubt be a strong relationship between the two (i.e. unlikely that a millionaire will be residing in an otherwise poverty stricken household), we cannot assume that the different levels of data are interchangeable. This is a constant dilemma that exists in the analysis of household survey design and one that is yet to be adequately resolved. The (inadequate) assumption that has been applied in this case is that the aggregation of the individual level data collected in Part 2 holds a strong and positive correlation with selected indicator variables in Part 1.

With the benefit of hindsight, what then would have been the ideal study design to answer the research question on the relationship between savings and poverty? Perhaps the large scale national survey data similar to that used by Ardington, Lam et al. (2003), but in a time series nature, would certainly be one option, as they were able to build some insightful models. A panel design, but again on a much bigger scale would be sufficient. The financial diaries format has perhaps gone the furthest to provide the most significant insight into how households rely on different financial instruments and the role they play in coping with shocks and building household assets. The main short coming is that the financial diaries data only covers one year, which this is not long enough to build this model. Therefore a longer version of the financial diaries would be ideal.

One of the still unanswered questions is why the Village Bank households were better off than the Unbanked household and if this was due to them joining the bank, and their situation improving, or if they were systematically different to the Unbanked households to start with. Only a randomised control trail methodology could conclusively answer this question, although this would be logistically challenging.

7.3 Contributions and Policy Implications

As a way of conclusion this section of the final chapter will highlight the unique contributions this thesis has made to the existing body of knowledge on microfinance and its relationship to poverty.

Firstly, the conception of the two different approaches in the literature, which have demonstrated clear differentiated alignments around pertinent themes, has allowed the microfinance literature to be interrogated in a more meaningful way[98]. By describing the varying points of view that these schools have on pertinent issues such as credit, savings, poverty, interest rates, institutional formation, and gender, we are better able to appreciate the motivating forces behind specific policy choices. This enables a more critical review of underlying assumptions, and explains how different theorists believe how the provision of specific inputs determines certain outcomes. Most noteworthy is the different views held by the Credit First approach and the Financial Services approach on the role that savings and credit can play in reducing poverty. It is the opinion of this author that the Financial Services approach and its generalised approach provides a superior point of departure for justifying the relevance of microfinance in the quest for poverty reduction.

The second contribution of this thesis has been the exercise of juxtaposing poverty theories and their views of microfinance, with microfinance theories, and their views on poverty. This exercise has revealed an unsettling chasm between the two disciplines, which should rather be enjoying a comfortable and closely defined union. A first attempt is then made to bring these together to formulate a theory of microfinance and poverty. Possible alliances were noted between some of the poverty theories with various aspects of the microfinance approaches, but also fatal flaws, namely between the real ability of microcredit to reduce income poverty. The best potential for a strong alliance appears to be in the emerging appreciation of the money management views of the Financial Services approach, which argues for services that assist the poor in managing risk, smoothing consumption and making investments in human and productive capital. The contribution is

[98] Two other known publications have attempted to something similar, but not as comprehensive. Rhyne and Otero (1992) make reference to a 'Financial Systems Approach', which has similar alignments to Financial Services School, but act more as a precursor as they do not fully acknowledge the 'money management' concept as developed by Rutherford (2000) and Collins, Mordoch et al. (2009). Donaghue (2004) identifies "Direct Credit Programmes" and "Financial Systems" approach, with the former having strong parallels of the Credit School and the later making reference to by Rhyne and Otero and Rutherford. She does not though identify them as specific schools and the exploration of their core characteristics is limited.

the potential for appropriately designed services to reduce risk and vulnerability to poverty, more than necessarily reducing poverty per se.

The third contribution this thesis has made has been the application of two distinct methodologies in trying to provide insight into the research questions. As stated earlier, only a limited number of publications have reported directly on the opinions and experiences that people have had with their financial service provider, especially one that they actually own, nor have they questioned them on the value they place on savings facilitates. The additional attempt to link this to household level quantitative data is also distinctive. Panel studies are a rarity in social science and even more so within microfinance. It is safely assumed that none previously have been undertaken in respect to ‘third tier banking’, and certainly not in South Africa. The research has identified the genuinely challenging endeavour of trying to empirically measure the nature of the relationship between savings and poverty, with objective quantitative data which defines poverty as a composite index of means and ends indictors. This exercise also provided a more in-depth understanding of the role that savings plays in assisting the day to day survival strategies of very poor people in a much neglected corner of rural South Africa.

What then are the policy implications for this research?

This research has identified that there is much scope for a more in-depth interrogation of poverty literature by the microfinance sector, possibly drawing upon poverty experts themselves to an arena of open debate and engagement. This should also lead to a revalidation process of underlying microfinance theories, and the willingness to dispose of those that no longer ‘hold water’.

The demand for low-cost banking services in rural areas which provide safe and convenient means of financial intermediation remains as strong as ever. More scope exists for retesting the Village Bank model, or similar types, providing a long term commitment can be made to support individual banks until they have achieved sustainability. Greater sensitivity needs to be given to understanding the relationships and expectations people have with their financial service provider, and to what extent it drives or changes their financial management behaviour.

More research is required into understanding how households cope with shocks and what financial resources they call upon to do this. How this then relates to poverty outcomes needs to be better understood and tested with empirical data.

Finally, it is time for the serious commitment to be given to the expansion of savings services within the microfinance sector, and to redress the imbalances of the past biases to credit. Only when similar volumes of capital investment are given to the expansion of savings facilities will we know that we have moved beyond acknowledgement and into delivery.

Appendix One: Focus Group Interview Schedules

Original

Good morning/afternoon. My name is Anthea Dallimore and I am from Development Research Africa in Durban. My two assistants with me today are Mihloti and John. Thank you for giving me your time today. The purpose of this meeting is to learn more about yourselves and the Village Bank. In particular I want to understand more about how the bank operates, how you participate in the operations of the bank, and how that makes you feel.

We are basically going to hold an informal discussion, which will take 1-1/2 hours. At the end of the group I have a small gift for you, as a token of my appreciation for giving me your time. There are no right or wrong answers to what I am going to ask you. Most importantly I just want to understand your point of view and how you feel about certain issues.

Everything you tell me is strictly confidential and although I have taken down some of your details I do not know who you are or where you live. With your permission I would like to tape this conversation, simply because it is not possible for us to write down everything you say fast enough. However, because of this it is very important that you all speak slowly and clearly and one at a time. Because of this I would like you to raise the card you are holding before you speak and Mihloti or John will point to you to indicate when you can speak. They also need to write down your number so they can record the order in which you speak. I know this is a little off-putting, but it will help up a lot. The most important thing is that you have an opportunity to say what you want as we are interested in everything you have to say.

Democracy and Participation

1. What does the term democracy mean to you?
2. What does the term participation mean to you?
3. How does the VB operate, who makes decisions and how are they made?
4. Do some people seem to have more of a say or influence over how the bank is managed than other people?
5. If yes, what type of people are they?
6. Does the VB have a constitution or list of rules? If yes, what are the rules?
7. Are there any other organisations/structures in this community that operate in a similar manner to the VB? If so, please tell me about them.

Resolving Conflict

8. If there is a problem in the VB, how is it resolved?
9. What happens if someone does something wrong or breaks the rules?
10. Has this ever happened in the past?
11. If yes, explain what happened?
12. Were you happy with how this issue/problem was resolved?

Representing Diverse Interests

13. What type of people are the members of the VB?
14. Do you feel that certain types of people do not feel they can join the VB? If so, who are these people?
15. Are you happy that your opinion is heard at the VB, even if people don't agree with you or if you do not get what you wanted?

Influence: To and From

16. How independent is the VB from other structures in the community - does VB influence others or do others influence the VB
17. Does the VB, as an organisation influence other organisations within the community or elsewhere?
18. Do other organisations have an influence over the VB? If so what are they and in which way do they influence the VB?
19. Do you think the VB, as an organisation could influence politicians or the government?

Quality of Life and Economic Democracy

20. What does it mean to you to be a shareholder in the bank? (Does it give you a sense of ownership/power control?)
21. If another bank opened in Motwsedi, such as a Standard Bank or First National. Would you rather open an account there, or stay with the Village Banks? Why?
22. What is the most important aspect of the VB - to you personally - place to save money, an organisation you can participate in? A place to access funds?

<u>Final Version - Non Board Members</u>

Village Bank and You

1. Please tell me a little bit about the history of the VB, how did it come to be in Mathabatha?
2. What was Mathabatha like before the bank opened? Have you noticed any difference?
3. How important is it to have banking services here in Mathabatha?
4. What were the alternatives, people used before the bank arrived?
5. Why do you think some people choose not to use the bank’s services?

Democracy and Participation

6. What does the term democracy mean to you?
7. What does the term participation mean to you?
8. How does the VB operate, who makes decisions and how are they made?
9. Does the VB have a constitution or a list of rules? If yes, what are the rules?
10. Are there any other organisations/structures in this community that operate in a similar manner to the VB? If so, please tell me about them.

Representing Diverse Interests

11. What type of people are members of the VB?
12. Do you feel that certain types of people do not feel they can join the VB? If so, who are these people?
13. Are you happy that your opinion is heard at the VB, even if people don't agree with you or if you do not get what you wanted?

Resolving Conflict

14. If there is a problem in the VB, how is it resolved?
15. What happens if someone does something wrong or breaks the rules?
16. Has this ever happened in the past?
17. If yes, explain what happened?
18. Were you happy with how this issue/problem was resolved?

Influence: To and From

19. How independent is the VB from other structures in the community - does VB influence others or do others influence the VB
20. Does the VB, as an organisation influence other organisations within the community or elsewhere?
21. Do you think the VB, as an organisation could influence politicians or the government?
22. Is the VB similar to other structures within Mathabatha or is it different?

Quality of Life and Economic Democracy

23. What does it mean to you to be a shareholder in the bank? (Does it give you a sense of ownership/power control?)
24. If another bank opened in Mathabatha, such as a Standard Bank or the First National. Would you rather open an account there, or stay with the Village Banks? Why?
25. What is the most important aspect of the VB - to you personally - place to save money, an organisation you can participate in? A place to access funds?

Final Version - Board Members

Village Bank and You

1. Please tell me a little bit about the history of the VB, how did it come to be in Mathabatha?
2. What was Mathabatha like before the bank opened? Have you noticed any difference?
3. How important is it to have banking services here in Mathabatha?
4. What were the alternatives people used before the bank arrived?
5. Why do you think some people choose not to use the banks services?

Democracy and Participation

6. What does the term democracy mean to you?
7. What does the term participation mean to you?
8. How does the VB operate, who makes decisions and how are they made?
9. Does the VB have a constitution or a list of rules? If yes, what are the rules?

10. Are there any other organisations/structures in this community that operate in a similar manner to the VB? If so, please tell me about them.

Representing Diverse Interests

11. What type of people are members of the VB?
12. Do you feel that certain types of people do not feel they can join the VB? If so, who are these people?
13. When were the last board elections?
14. How was the board elected?
15. Has there been any re-elections?
16. Has there been any reports given to the shareholders?
17. Who can buy shares - is it open to anyone?
18. Are shares currently available for purchase?
19. How much are they?
20. Have you had any problems with the FSA?
21. Are you happy that your opinion is heard at the VB, even if people don't agree with you or if you do not get what you wanted?

Resolving Conflict

22. If there is a problem in the VB, how is it resolved?
23. What happens if someone does something wrong or breaks the rules?
24. Has this ever happened in the past?
25. If yes, explain what happened?
26. Were you happy with how this issue/problem was resolved?

Influence: To and From

27. How independent is the VB from other structures in the community - does VB influence others or do others influence the VB
28. Does the VB, as an organisation influence other organisations within the community or elsewhere?
29. Do you think the VB, as an organisation could influence politicians or the government?
30. Is the VB similar to other structures within Mathabatha or is it different?

Quality of Life and Economic Democracy

31. What does it mean for you to be a shareholder in the bank.? (Does it give you a sense of ownership/power control.?)
32. If another bank opened in Mathabatha, such as a Standard Bank of First National. Would you rather open an account there, or stay with the Village Banks? Why?
33. What is the most important aspect of the VB - to you personally - place to save money, an organisation you can participate in? A place to access funds?

Appendix Two: Example of Fieldworker EA Map

Appendix Three: Household Scan Questionnaire

Introduction: Hi, my name is _____________ and I am working in the area undertaking research for DRA - Development Research Africa. The research is interested in trying to understand how people in this area gain access to financial services, such as savings and loans from banks and non-banks. There are a number of stages to this research. The first stage is to visit every single household that lives within 5km of Bambanana T Junction to gather some background information about the people living in this household. This questionnaire will only take about 10 minutes. I am not going to try and sell anything to you or ask to join any group or to give me money. Everything you tell me is strictly confidential.

1. Date of Interview: ____/____/____ 2.EA Number: |___|___|___|___|___|___|

3. Household Number: |___|___|___|4. Household Surname: ____________________

5.1 First Name of Regular Household Members		5.2 Current Age		5.3 Did [name] sleep here last night? 1=Yes 2=No		5.4 Is [name] away from this household for extended periods of time? 1=Yes 2=No		5.5 What is [name]'s highest level of educational attainment? **See codes below**		5.6 What is [name]'s vocational status? **See codes below**	
5.1.1		5.2.1		5.3.1		5.4.1		5.5.1		5.6.1	
5.1.2		5.2.2		5.3.2		5.4.2		5.5.2		5.6.2	
5.1.3		5.2.3		5.3.3		5.4.3		5.5.3		5.6.3	
5.1.4		5.2.4		5.3.4		5.4.4		5.5.4		5.6.4	
5.1.5		5.2.5		5.3.5		5.4.5		5.5.5		5.6.5	
5.1.6		5.2.6		5.3.6		5.4.6		5.5.6		5.6.6	
5.1.7		5.2.7		5.3.7		5.4.7		5.5.7		5.6.7	
5.1.8		5.2.8		5.3.8		5.4.8		5.5.8		5.6.8	
5.1.9		5.2.9		5.3.9		5.4.9		5.5.9		5.6.9	
5.1.10		5.2.10		5.3.10		5.4.10		5.5.10		5.6.10	
5.1.11		5.2.11		5.3.11		5.4.11		5.5.11		5.6.11	
5.1.12		5.2.12		5.3.12		5.4.12		5.5.12		5.6.12	
5.1.13		5.2.13		5.3.13		5.4.13		5.5.13		5.6.13	
5.1.14		5.2.14		5.3.14		5.4.14		5.5.14		5.6.14	
5.1.15		5.2.15		5.3.15		5.4.15		5.5.15		5.6.15	
5.1.16		5.2.16		5.3.16		5.4.16		5.5.16		5.6.16	
5.1.17		5.2.17		5.3.17		5.4.17		5.5.17		5.6.17	
5.1.18		5.2.18		5.3.18		5.4.18		5.5.18		5.6.18	
5.1.19		5.2.19		5.3.19		5.4.19		5.5.19		5.6.19	
5.1.2		5.2.2		5.3.2		5.4.20		5.5.2		5.6.2	

0		0		0				0		0	

Vocational Status

1=Baby/pre-school going age
2=Scholar/ student –attending
3= School going age- not attending
4= Retired
5=Disabled -not seeking work
6=Housewife/unpaid work
7=Unemployed – seeking work
8=Unemployed not seeking work
9=Employed – full time
10=Employed – part time
11=Self employed

Educational Attainment

0 = None
1-12 represents grades 1 to grade 12
13=Matric + diploma
14=Matric + some university
15=Completed university degree
16=Post graduate degree

Household names		5.7 If code 9,10 or 11 in 5.6 what does [name] do? (write job title)		5.8 Does [name] have a savings account at any of the following: 1=Bhambanana Village Bank 2=Ithala Bank 3=Other commercial bank 4=No savings account		5.9 If 1,2 or 3 in 5.8, how long have they held this account? (Years and Months)			5.10 Approximately how often does this person use/visit the bank - to either deposit or withdraw? (Enter number of times and period 1=weekly, 2=monthly, 3=annually)		
							Yrs	Mth		Times	Period
5.1.1		5.7.1		5.8.1		5.9.1			5.10.1		
5.1.2		5.7.2		5.8.2		5.9.2			5.10.2		
5.1.3		5.7.3		5.8.3		5.9.3			5.10.3		
5.1.4		5.7.4		5.8.4		5.9.4			5.10.4		
5.1.5		5.7.5		5.8.5		5.9.5			5.10.5		
5.1.6		5.7.6		5.8.6		5.9.6			5.10.6		
5.1.7		5.7.7		5.8.7		5.9.7			5.10.7		
5.1.8		5.7.8		5.8.8		5.9.8			5.10.8		
5.1.9		5.7.9		5.8.9		5.9.9			5.10.9		
5.1.10		5.7.10		5.8.10		5.9.10			5.10.10		
5.1.11		5.7.11		5.8.11		5.9.11			5.10.11		
5.1.12		5.7.12		5.8.12		5.9.12			5.10.12		
5.1.13		5.7.13		5.8.13		5.9.13			5.10.13		
5.1.14		5.7.14		5.8.14		5.9.14			5.10.14		
5.1.15		5.7.15		5.8.15		5.9.15			5.10.15		
5.1.16		5.7.16		5.8.16		5.9.16			5.10.16		
5.1.17		5.7.17		5.8.17		5.9.17			5.10.17		
5.1.18		5.7.18		5.8.18		5.9.18			5.10.18		

5.1.19		5.7.18		5.8.19		5.9.19			5.10.19		
5.1.20		5.7.20		5.8.20		5.9.20			5.10.20		

Conclusion (MOST IMPORTANT - DON'T FORGET): Thank you for your time. All the information your have given me is helpful. We want to come back and interview households in more detail about this matter. Unfortunately we only have enough funds to come back and visit 200 households. We are going to use the information you gave me help select these households. We plan on putting all the questionnaires into a barrel and pulling out 200 of them - like they do in the lottery. If this household is selected, would you be willing for us to come and speak to you, and other members of this household in more detail?

6. Willing to participate further: YES NO

Appendix Four: Wave 1 Questionnaire

Section 0: ADMINISTRATION

0.1	**EA Number:**									**0.2**	**Household Number:**			
0.3	**Date of Interview 1:**	|_D_|_D_|_M_|_M_|_Y_|_Y_|								**0.4**	**Fieldworker Code:**	|____|____|		
0.5	**Date of Interview 2:**	|_D_|_D_|_M_|_M_|_Y_|_Y_|								**0.6**	**Date of Interview 3:**	|_D_|_D_|_M_|_M_|_Y_|_Y_|		
0.7	**Start Time:**									**0.8**	**Finish Time:**			
0.9	**Quality Control By:**									**0.10**	**Corrections Made:**			

Introduction: Hi, my name is ________________ and I am working in the area undertaking research for Development Research Africa (DRA). Two weeks ago this household was approached by some of our workers and asked to answer a number of questions regarding members of this household and their use of financial services. This household also agreed to participate further in this study if chosen. This has occurred and there are a number of adults within this household that I would like to interview. Once I have finished interviewing the following people I have a gift in the form of a food parcel I would like to give this household in appreciation of their time.
Some of the questions are going to be of a personal nature regarding how this household manages their money. Please be assured that all the answers you provide are strictly confidently and you do not have to answer any question you do not feel comfortable answering. It is most important that you give me the most accurate answer you can.

Section 1:RESPONDENTS

1.1	**Household Surname**	__________________________	
1.2	**Name and person code of Key Informant for Household section?** *Key informant must be the person most knowledgeable about the household's demographics, food consumption, asset ownership and income source. Consult more than one person if necessary.*	________ **Name**	**|____|____| Person Code**
1.3	**Name and person code of Selected Individual 1 for Individual 1 section?** *This person is pre-selected and may also be the same person as the key informant, but not necessarily.*	________ **Name**	**|____|____| Person Code**
1.4	**Did Selected Individual 1 complete interview?**	**YES NO 1 2**	
1.5	**If replaced enter name and person code of replaced Selected Individual 1.**	_______ **Name**	**|____|____| Person Code**
1.6	**Name and person code of Selected Individual 2 for Individual 2 section?** *This person is pre-selected and may also be the same person as the key informant, but not necessarily.*	________ **Name**	**|____|____| Person Code**
1.7	**Did Selected Individual 2 complete interview?**	**YES NO 1 2**	
1.8	**If replaced enter name and person code of replaced Selected Individual 2.**	________ **Name**	**|____|____| Person Code**

Section 2: HOUSEHOLD DEMOGRAPHICS

Most of the information here is preprinted from the household scan. If any data is incorrect please correct the information. *Add additional household members that are not on the list.*

2.1 Name	2.2 Person Code	2.3 Relationship to H/hold Head	2.4 Sex 1=Male 2=Female	2.5 Age	2.6 Highest Educational Attainment	2.7 Vocational Status	2.8 Expditure on Clothes & Footwear in last 12 months*	2.9 Belong to groups … (See code list below)
	1							
	2							
	3							
	4							
	5							
	6							
	7							
	8							
	9							
	10							
	11							
	12							
	13							
	14							
	15							
	16							
	17							
	18							
	19							
	20							

2.3 Relationship to Household Head	2.7 Vocational Status	2.6 Educational Attainment	2.9 Group Membership
1= Head of Household 2= usband/wife/partner 3=Son/daughter 4=Brother/sister 5=Father/Mother of HH Head 6=Grandparent 7=Grandchild 8=Other relative 9=Non-related person Other specify ____________	1=Baby/pre-school going age 2=Scholar/ student –attending 3= School going age- not attending 4= Retired 5=Disabled -not seeking work 6=Housewife/unpaid work 7=Unemployed – seeking work 8=Unemployed not seeking work 9=Employed – full time 10=Employed – part time 11=Self employed Other specify ___________________	0 = None 1-12 for grades 1 to grade 12 13=Matric + diploma 14=Matric + some university 15=Completed university degree 16=Post graduate degree Other specify _______________	1= Stokvel 2=Burial Society 3=Community Garden group 4=Farmer's association 5=Sewing group 6=Sports group 7=Singing or musical group 8=Church group 9=Youth group 10= Men's association 11=Women's association 12=School committee 13=Development committee 14=Tribal Authority Other _________________

* Ask the respondent how much each member of the family spent towards clothing and footwear expenses in the last 12 months. Record the amount next to the person who actually spent the money. If you have to consult other members of the household for this information then this is OK.

Section 3: LIVING STANDARDS

3.1	**What is the main material used for the walls of the main dwelling in this homestead?**	1=Traditional Materials (Mud, Brick, Dugga) 2=Temporary Shack (Plastic, Cardboard, Plywood) 3=Permanent Shack (Corrugated Iron, Mixed Brick) 4=Permanent House (Brick, Block) Other (Specify) _________________	
3.2	**What is the main material used for the roof of the main dwelling in the homestead?**	1=Thatch 2=Plastic sheets, cardboard, or wood 3= Permanent without guttering (corrugated iron, tile) 4=Permanent with guttering (corrugated iron, tile) Other (specify)_________________	
3.3	**What type of flooring does the main dwelling have?**	1= Mud or Dung 2= Rough Cement 3= Wood/Cement With Additional Covering (Carpeting, Linoleum)	
3.4	**Interviewer:** **Rate the condition of the main house on a scale of 1 to 5, where 1 is seriously dilapidated and 5 is very good condition.**	1= Very Dilapidated 2=Somewhat Dilapidated 3=Reasonable Condition 4=Good Condition 5=Very Good Condition	
3.5	**How many rooms does the household occupy in this homestead? Include bedrooms, living rooms, kitchens, lounges, and dining rooms. Exclude bathrooms, toilets, and passages.**		_____ ROOMS
3.6	**What is the most often used source of drinking water in this household?**	1=Piped (tap) water, in dwelling 2=Piped (tap) water, on site or in yard 3=Neighbours tap, in dwelling 4=Neighbours tap, on site or in yard 5=Public tap 6=Water carrier/tanker 7=Bore hole/rain-water tank/well 8=Dam/river/stream Other (specify) _____________	
3.7	**What kind of toilet does the household use?**	1=Flush toilet 2=Improved pit latrine with ventilation (VIP) 3=Other pit latrine 4=Neighbours toilet - flush toilet 5=Neighbours toilet - VIP 6=Neighbours toilet - other pit latrine 7=Bucket toilet 8=Chemical toilet 9=None If none, skip to 3.9	
3.8	**Where is the toilet?**	1= Inside dwelling 2= Outside dwelling, household use only 3=Outside dwelling, shared with other households	
3.9	**Where do members of this household mainly use a telephone?**	1=Telkom line in dwelling 2=Cell phone (owned by household) 3=At a neighbour nearby (including neighbours cell phone) 4=At a public phone nearby 5=At another location, not nearby 6=No access to telephone	
Main energy source used for:			
3.10	**Cooking**	1= Electricity 4=Wood 2=Gas 5=Coal 3=Paraffin 6=Candles 7=Animal dung	
3.11	**Heating**		
3.12	**Lighting**		

Section 4: FOOD SECURITY

4.1	**Were there any special events in the last *seven days* - for exam family events, funeral, wedding, visitor or fasting?** *(If "Yes," the "last seven days" in 4.2 and 4.3 should refer to the w preceding the special event.)*	1= Yes 2= No	
4.2	**During the *last seven days*, for how many *days* were the following foods served in a main meal eaten by the household?**		
	Chicken (enter number of days)	4.2.1	
	Beef (enter number of days)	4.2.2	
	Rice (enter number of days)	4.2.3	
4.3	**During the *last seven days*, for how many *days* did a main meal consist of plain pap only?** (including samp, phutu or umbhubhudlo)?	Enter number of days **CANNOT BE MORE THAN 7**	
4.4	**During the *last 30 days*, for how many days did your household not have enough to eat?**	Enter number of days **CANNOT BE MORE THAN 30**	
4.5	**During the *last 12 Months*, for how many months did your household have at least one day without enough to eat?**	Enter number of month **CANNOT BE MORE THAN 12**	
4.6	**If your household earnings increased by R 50.00 a month, how much of that would you spend on purchasing additional food?** (*Note:* Does not include alcohol and tobacco	R0-R50	
4.7	**How often do you purchase the following?** (answer in weeks)		
4.7.1	**Mielie Meal** *1=Daily 2=Twice a week3=Once a week 4=Fortnightly 5=Monthly Other*___________		
4.7.2	**Brown beans** *1=Daily 2=Twice a week3=Once a week 4=Fortnightly 5=Monthly Other*___________		
4.7.3	**Cooking oil** *1=Daily 2=Twice a week3=Once a week 4=Fortnightly 5=Monthly Other*___________		

Section 5: NEGATIVE SHOCKS

5.1	**In this community, when households have a financial crises, who do they turn to for help?** (multiple responses allowed)	1. Household member 2. Non-household family member 3. Neighbours/friends 4. Work colleagues 5. Stokvel - own 6. Stokvel - money lending one 7. Church 8. Bank 9. Money lender	10. Other lender 11. Employer 12. Insurer 13. Funeral parlour 14. Burial society 15. Shop/shopkeeper 16. No one Other	
5.2	**Think about the last two weeks. Has any resident household member been sick or injured during the past two weeks? This includes people who have some form of permanent injury, disability or illness?** 1=Yes 2=No *(if No then skip to 5.7)*			
If the answer is yes, then enter the person code in the column below and answer the following questions:				
	5.3 Person Code	**5.4 How many of the past 14 days has […] not been able to do what he/she normally does because of illness or injury?**	**5.6 Is he/she still ill?** 1=Yes 2=No	
A				

B			
C			

	5.7 Have any of the following events occurred in this household over the past 24 MONTHS?	5.7.1 1=Yes 2=No	5.7.2 Month & Year of Event	5.7.3 What strategy did the household adopt to cope with this? *Multiple response allowed PROMPT*			5.7.4 What was the source of this assistance?			5.7.5 What was the amount received or the equivalent value?		
A	Death of a household member or other family member		____/____									
B	Death of a second household member or other family member		____/____									
C	Serious injury/ illness keeping h/hold member from normal activities		____/____									
D	Loss of a regular job of a household member		____/____									
E	Cut-off or decrease of remittance to household		____/____									
F	Cut-off or decrease to government grants (not due to death)		____/____									
G	Abandonment or divorce		____/____									
H	Theft of household property		____/____									
I	Victim of a violent crime		____/____									
J	Fire or destruction of household property		____/____									
K	Loss of crops or livestock		____/____									
L	Failure of business or bankruptcy of business		____/____									

5.7.3 Strategy

1. Sell assets
2. Dispose of assets i.e. slaughter own livestock
3. Use savings
4. Take children out of school
5. Borrow money
6. Receive gift/donation of money
7. Receive other help such as time/labour
8. Borrow assets other than money
9. Receive gift/donation of assets other than money
10. Insurance payment (cash)
11. Insurance payment (other goods, e.g. coffin)
12. Disability grant
13. Foster care grant

Other ____ _

5.7.4 Source

1. Household member
2. Non-household family member
3. Neighbours/friends
4. Work colleagues
5. Stokvel - own
6. Stokvel - money lending one
7. Church
8. Bank
9. Money lender
10. Other lender
11. Employer
12. Insurer
13. Funeral parlour
14. Burial society
15. Shop/shopkeeper
16. Government (including UIF, Workman's compensation, Dept of Social Devmt
17. Road accident fund
18. Other

Section 6 : Asset Ownership
Please provide the number of assets this household owns and what you estimate to be the resale value of these assets (if more than one, then add up the values). Also please indicate the number that were acquired in the last 12 months.

	Description	6.1 Number owned *Enter 0 if none*	6.2 Estimated Market Value ***Total Amount***	**6.3 Who in the household owns […]** *Enter person code, if jointly owned enter 99*	**6.4 How was it purchased?** *1=cash 2=store credit(hire purchase) 3=bank loan 4=money lender 5=loan from friend/family*	6.5 **Number acquired in last 12 months** *(0=none acquired)*
Livestock						
A	Cattle					
B	Adult sheep, goats and pigs					
C	Adult poultry					
D	Horses and donkeys					
Transportation						
E	Cars/bakkie					
F	Motorcycles					
G	Bicycles					
H	Other vehicles (taxi, truck)					
I	Carts					
Appliances and electronics						
J	Televisions					
K	Video player					
L	Hi Fi					
M	Refrigerators/Freezer					
N	Electric or gas cookers					
O	Stove					
P	Sewing machine					
Q	Radios, cassette recorder					
R	Cell phone					
Furniture						
S	*Bedroom Suite*					
T	Lounge Suite					
Financial/Insurance						
U	Money in bank savings account					
V	Savings in a stokvel					
W	Savings in a retirement annuity					
X	Unit trusts, stocks and shares					
Y	Burial society					
Z	Life insurance					
AA	Funeral Policy					
Other						
AB	Jewellery					

Section **7: HOUSEHOLD INCOME & LIVELIHOOD STRATEGIES**

7.1 Does any member of the household receive or have they received income or any money from [..] in the last 12 months? PROMPT FOR EACH ITEM; CIRCLE EITHER 1 for YES OR 2 for NO	YES	NO	7.2 Person code of person concerned		7.3 If employed or operating own business: What is it that [..] does?		7.4 On average, how much money do the individual household members receive per month?		7.5 Number of months in the last 12 months this was received?
A Employment (formal or informal)	1	2							
B Operating their own business (formal or informal)	1	2							
C Selling Agricultural Produce/livestock	1	2							
D Growing and Selling Dagga	1	2							
E Government Old Age Pension (Social Pension)	1	2							
F Pension from work	1	2							
G Unemployment Insurance	1	2							
H Workmen's Compensation	1	2							
I Any other type of Grant	1	2							
J Business Investments	1	2							
K Lobola/ Dowry	1	2							
L Financial Investments	1	2							
M Family not resident in the household or maintenance payments	1	2							
N Scholarships and bursaries	1	2							
O Other, Specify: …………………………									

Section 8: INDIVIDUAL COMPONENT - PERSONAL SAVINGS AND CREDIT ACTIVITIES

Selected Individual 1

8.1	**Name of Respondent:**		**8.2**	**Person Code:**	
8.3	**Respondent Category** *This is what the respondent should be, please confirm before proceeding*	1= Village Bank account holder 2= Village Bank household - non account holder - *skip to 8.12* 3=Other bank account holder 4=Other bank - non account holder - *skip to 8.12* 5=Non-banked household member - *skip to 8.12* 6=Non-banked income earner - *skip to 8.12*			
8.4	What type of account/s do you have? (prompt - multiple responses allowed) 1=Savings 2=Cheque 3=Fixed deposit 4=Credit card Other ____				
8.5	What type of transport do you normally use to get to the bank? 1=Walk 2=Own car 3=Taxi 4=bus 5=bicycle 6=neighbour's/friend's car Other______________________________________				
8.6	How long does it take to get there? *Answer in minutes*				
8.7	How long have you held the account there? *(Note: Bhambanana Village Bank has only been open since in June 2000)*				Yrs / Mnths
8.8	Which of the following facilities have you used at your bank in the last 12 months? *(read list - multiple response)* 1= Deposit money into my own account 2=Deposit money into other people's accounts (including payments like school fees) 3=Receive remittance's from family in other parts of the country 4=Receive electronic salary payments 5=Receive government transfers like old age pension, foster care grant etc 6=Pay debit orders 7=Draw cheques 8=Draw money 9=Use group account like stokvel, church, committee				
8.9	How often do you use the bank's facilities? Period codes: 1= Weekly 2=Monthly 3=Yearly				Times / Period
8.10	Do any other members of your household make use of this account? 1=Yes 2=No If no, skip to 8.12				
8.11	If yes, please enter the person codes of the people you share it with?				

I would like to ask you a number of questions about the money you save and the money you borrow. I know these are quite personal and I want to remind you again that the responses you give me are strictly confidential and I will not share them with anyone else. The information you give me will help us to provide better financial services to people like yourself, so please answer as accurately as you can. Remember that you can refuse to answer any question you do not feel comfortable answering. I am going to start by asking about money or items you may have borrowed in the past.							
8.12	**In the past 12 months have you BORROWED money OR food OR other goods (i.e. cattle) either from friends, family or other sources? 1=YES 2= NO** (go to 8.14) (enter from code sheet below - PROMPT for all the different types of lenders)						
8.13.1 Lender	**8.13.2 What was borrowed?** 1=money 2=food 3=clothes specify other	**8.13.3 What was the initial amount borrowed?**	**8.13.4 What was the loan for?** *Write response*	**8.13.5 When was the loan received?** **Month/Year**	**8.13.6 How much have you paid to date?**	**8.13.7 When did you agree to repay the loan? Month/Year**	**8.13.8 How much is to be paid in total (interest and principal)?**
A				/		/	
B				/		/	
C				/		/	
D				/		/	
8.14	**In the past 12 months have you PURCHASED anything on credit or hire purchase ?** 1=YES 2= NO (go to 8.16) (enter from code sheet below - PROMPT for all the different types of lenders)						
8.15.1 Lender	**8.15.2 What was borrowed?** 1=money 2=food 3=clothes other	**8.15.3 What was the initial amount borrowed?**	**8.15.4 What was the loan for?** *Write response*	**8.15.5 When was the loan received?** **Month/Year**	**8.15.6 How much have you paid to date?**	**8.15.7 When did you agree to repay the loan? Month/Year**	**8.15.8 How much is to be paid in total (interest and principal)?**
A				/		/	
B				/		/	
C				/		/	
D				/		/	

Types of Lender

1. Household member
2. Non-household relative
3. Employer
4. Money lender (mashonisa)
5. Stokvel - belong to
6. Stokvel - money lending
7. Landlord
8. Bank
9. Non-government organisation
10. Government agency
11. Shop/shopkeeper

8.16	**In the past 12 months have you LENT either money or other items to friends, family or any other person?** 1= YES 2=NO (go to 8.18) (Please think of all activities, no matter how small)					
	8.17.1 Item Lent 1=Money 2=Food 3=Livestock Specify if anything else	**8.17.2 Who lent to?**	**8.17.3 What was the approximate value of this loan?**	**8.17.4 When was the loan given?** **Month/Year**	**8.17.5 How much do you expect to have repaid?** **	**8.17.6 When do you expect to have the loan repaid?** **Month/Year**
A				**/**		**/**
B				**/**		**/**
C				**/**		**/**
D				**/**		**/**
E				**/**		**/**

Who Lent To
1. Household member
2. Non-household family member
3. Neighbour
4. Church/stokvel or other organisation member
5. Friend
6. work colleague

Other____

**Amount should reflect interest and principle, if no interest charged then should be same as borrowed. If non-money item is lent enter -5 to indicate that just the item is returned. If more or less of the item is returned or some other arrangement is made, then make a note of this below.

Finally, I would like to ask you about all the different ways in which you save money. This might be at a bank, in a piggy bank (isikoqo), stokvel, in the form of cattle or buried in the ground or hidden in the house, or asked someone else to take care of it.

8.18	**In the past 12 months please tell me all the ways in which you have saved money?**				
8.19.1 Type of Savings 1=Bank account 2=Piggy bank (isikoqo) 3=Stokvel 4=Livestock 5=Hidden in house or property 6=Given to someone else to look after Other:		**8.19.2 When did you first start saving this way?** **Month/Year**	**8.19.3 Approximately how much a month do you save this way?**	**8.19.4 What are you saving for?** Enter exactly what the savings is for	**8.19.5 What is the total value of these savings at the moment?**
A		**/**			
B		**/**			
C		**/**			
D		**/**			
E		**/**			

ENUMERATOR DECLARATION

I declare that I have asked this entire questionnaire as it is laid out and as I have been briefed.

I declare that all the responses and answers recorded by me in this questionnaire were given to me by the respondent whose details are listed on Page 1

This questionnaire has been fully checked by myself.

PLEASE PRINT:

First name	
Surname	
Signature	
Date	

QUALITY CONTROL RECORD SHEET

QUALITY CONTROL				CORRECTION	
Date	Initial	Question number	Description of problem	Date	Initial

Appendix Five: Additional Tables

Table A: Relationship to household head

	Wave 1	Wave 2
Head of Household	196 14.6%	176 13.2%
Husband/wife/partner	116 8.7%	91 6.8%
Son/daughter	629 46.9%	588 44.1%
Brother/sister	38 2.8%	33 2.5%
Grandchild	250 18.7%	312 23.4%
Other relative	106 7.9%	122 9.2%
Non-related person	5 .4%	10 .8%
Total	1340 100.0%	1332 100.0%

X^2=15.433 df=6 p=0.017

Table B: Educational attainment of adults

	Wave 1	Wave 2
None	232 36.5%	200 33.9%
Grade 1-2	26 4.1%	20 3.3%
Grade 3-4	45 7.0%	38 6.5%
Grade 5-6	55 8.6%	29 5.0%
Grade 7-8	60 9.5%	61 10.4%
Grade 9-10	109 17.1%	102 17.2%
Grade 11-12	96 15.1%	127 21.5%
Some Tertiary Study	14 2.2%	13 2.2%
Total	637 100.0%	590 100.0%

X^2=14.599 df=7 p=0.041

Table C: Main material used for the walls of the main dwelling

	Wave 1	*Wave 2*
Traditional materials (mud,brick,dagga)	91 46.7%	85 43.2%
Temporary shack (plastic,cardboard,plywood)	30 15.3%	23 11.6%
Permanent shack (corrugated iron ,tile)	17 8.4%	49 25.0%
Permanent house (brick,block)	58 29.6%	39 20.1%
Total	196 100.0%	196 100.0%

X^2=20.366 df=3 p=0.000

Table D: Type of flooring

	Wave 1	*Wave 2*
Mud or dung	52 26.4%	49 25.2%
Rough cement	122 62.0%	98 50.2%
Cement with Additional Covering	23 11.5%	48 24.6%
Total	196 100.0%	196 100.0%

X^2=11.5 df=3 p=0.003

Table E: Main material used for the roof of the main dwelling

	Wave 1	*Wave 2*
Thatch	47 23.8%	49 24.8%
Plastic sheets, cardboard or wood	17 8.8%	10 5.0%
Permanent without guttering	110 56.0%	122 62.4%
Permanent with guttering	23 11.5%	15 7.8%
Total	196 100.0%	196 100.0%

X^2=4.159 df=3 p=0.245

Table F: Source of Drinking Water

	Wave 1	*Wave 2*
Dam/river/stream	22 11.0%	15 7.8%
Bore hole/rain-water tank/well	5 2.8%	1 0.5%
Public tap / water carrier	160 81.8%	165 84.4%
Piped (tap) water, outside	7 3.5%	7 3.7%
Piped(tap) water, inside	2 0.9%	7 3.7%
Total	196 100.0%	196 100.0%

X^2= 6.843 df=4 p=0.144

Table G: Type of toilet

	Wave 1	*Wave 2*
None	129 65.8%	113 57.9%
Other pit latrine	17 8.5%	22 11.4%
Improved pit latrine with ventilation (VIP)	49 25.2%	58 29.4%
Flush toilet	1 0.4%	3 1.3%
Total	196 100.0%	196 100.0%

X^2= 3.456 df=3 p=0.327

Table H: Main source of energy for cooking

	Wave 1	*Wave 2*
Wood & Dung	176 89.6%	179 91.2%
Gas & Paraffin	18 9.3%	13 6.8%
Electricity	2 1.1%	4 2.0%
Total	196 100.0%	196 100.0%

X^2= 1.498 df=2 p=0.473

Table I: Main source of energy for lighting

	Wave 1	*Wave 2*
Wood, Coal & Dung	5 2.4%	5 2.8%
Candles	185 94.3%	166 84.5%
Gas & Paraffin	3 1.3%	4 2.1%
Electricity, Generator or Solar	4 2.0%	21 10.5%
Total	196 100.0%	196 100.0%

X^2=24.740 df=3 p=0.001

Table J: Main source of energy for heating

	Wave 1	*Wave 2*
None	19 9.7%	0 .0%
Electricity	1 .5%	4 2.1%
Gas	11 5.6%	4 2.1%
Paraffin	1 .5%	0 .0%
Wood	158 81.0%	184 94.8%
Coal	5 2.6%	2 1.0%
Total	196 100.0%	196 100.0%

X^2=28.327 df=6 p=0.000

Table K: Frequency of shocks in past 24 months

	Wave 1	*Wave 2*
0	54 27.6%	73 37.1%
1	49 25.0%	66 33.5%
2	42 21.4%	33 16.8%
3	28 14.3%	15 7.6%
4	11 5.6%	5 2.5%
5	9 4.6%	3 1.5%
6	3 1.5%	2 1.0%
Total	196 100.0%	197 100.0%

Table L: Type of account held

	Wave 1	Wave 2
Savings	152 96.2%	128 93.4%
Cheque	3 1.9%	4 2.9%
Fixed deposit	7 4.4%	5 3.6%
Total	158 100.0%	137 100.0%

Table M: Transport to get to bank

	Village Bank	*Commercial Bank*
Walk	83 53.9%	6 2.0%
Own car	10 6.9%	19 12.8%
Taxi	47 32.4%	118 79.7%
Bus	7 4.7%	7 2.4%
Bicycle	0 0.0%	1 0.3%
Neighbour's/friend's car	1 0.7%	1 0.7%
Total	145 100.0%	148 100.0%

Table N: Total current debt as a percentage of total annual household

	Wave 1	*Wave 2*
0	116 61.1%	98 51.0%
1 - 5	33 17.4%	49 25.5%
6 - 10	15 7.9%	16 8.3%
11 – 20	8 4.2%	11 5.7%
21 - 50	9 4.7%	11 5.7%
51 - 100	2 1.1%	4 2.1%
101 +	7 3.7%	3 1.6%
Total	190 100.0%	192 100.0%

Table O: Items that households lent to others

	Wave 1	Wave 2
Money	68 88.3%	49 92.5%
Food	6 7.8%	2 3.8%
Other	3 3.9%	2 3.8%
Total	77 100.0%	53 100.0%

X^2=0.885 df=2 p=0.642

Table P: Interest charged on loans given by respondents

	Wave 2	Wave 1
0	60	45
5	1	0
15	1	0
20	3	0
40	0	1
70	1	0
100	0	1
300	0	1
320	1	0
540	1	0
1000	0	1
Total	68	49

Appendix Six: Indicators in CGAP PAT

Human Resources	*Dwelling*	*Food security & Vulnerability*	*Assets*	*Others*
Age & sex of adult household members	Ownership status	Number of meals served in last two days	Area and value of land owned	Urban/rural indicator
Level of education of adult household members	Number of rooms	Serving frequency of luxury foods	Number and value of selected livestock resources	Nonclient's assessment of poverty outreach of MFI
Occupation of adult household members	Type of exterior walls	Serving frequency of inferior food	Ownership and value of transportation assets	
Number of children under 15	Type of flooring	Hunger episodes in last month	Ownership and value of electric appliances	
Annual expenditure on clothing & footwear	Observed structural condition of dwelling	Hunger episodes in last 12 months		
	Type of electric connection	Frequency of purchase of staple goods		
	Type of cooking fuel used	Size of stock of local staple in dwelling		
	Source of drinking water	Marginal propensity to consume out of additional income		
	Type of latrine			

Source: Table 1.1, Page 8 (CGAP 2000)

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