The applicability of the Grameen Bank model in South Africa

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ABSTRACT

South Africa is characterised as having high unemployment rates, low GDP forecast growth rates and a high percentage of the population living in rural areas. Therefore, the research explored the ability of microfinance, using the Grameen Bank model, to increase economic development in the rural areas of South Africa.

Grameen Bank is considered to be the mother of conscience driven microfinance. The Bank's approach to poverty alleviation provides the poor with direct access to micro loans in order to increase their earnings from productive self-employment activities. Among other things, the loans are characterised as being advanced to small groups without the requirement of collateral. These loans are considered to have helped to alleviate poverty and increase physical and human resources, and confirm that poverty alleviation and human resource development is possible with targeted credit (Khandker, 1996). The model has been successful in improving the livelihoods of the borrowers using various measures such as providing the ability to afford three meals a day, electricity in their homes and to educate their children. In addition, borrowers are able to grow business and create employment in their communities.

Although the Grameen Bank model has been successfully applied throughout the world, it has attainted limited success in South Africa. The business model has not been able to achieve operational or financial sustainability due to high staff and regulatory costs in relation to other emerging markets compounded by the inability to utilise borrower savings. In addition, borrowers are unable to create microenterprises that effectively compete with the formal economy.

Microfinance institutions could address operational inefficiency by making use of the community based lending structures already operating under the Grameen philosophy, known as stokvels, and by embracing cell phone technology. In addition, institutions that provide social upliftment should focus on the skills training required by entrepreneurs to operate more successfully and for the employee to be more employable.

The Grameen Bank model is not a panacea for South African growth based poverty alleviation. However, when combined with wide reaching economic and social policies, microfinance may assist in the creation of long term economic growth and social upliftment while improving the current lives of the poor.

1. CHAPTER ONE: INTRODUCTION TO RESEARCH PROBLEM

1.1. INTRODUCTION

High unemployment rates cause serious concern due to the "effects on economic welfare, production, erosion of human capital, social exclusion, crime, and social instability" (Knight, 2001). Unemployment is one of the major macro-economic difficulties in South Africa, with an official unemployment rate of 25.7% in the second quarter of 2011 (StatsOnline, 2011). Under the expanded definition of unemployment, the rate is closer to 36% (Mail & Guardian, 2011). Since the beginning of the global economic crisis and the domestic recession in 2008, 900 000 jobs have been lost (IOL Business Report, 2011). According to government statistics, almost 70% of the 4-million population of South Africans between the ages of 18 and 24 are either unemployed, not being trained or not studying during 2008 (Blaine, 2011).

South Africa's National Treasury cut its GDP forecast to 3.1% for 2011, increasing to 4.3% by 2014 (Reuters Africa, 2011). This growth rate is low in comparison to the growth forecast expected in general in the African continent of 7% (Economist, 2011) and is far below the 7% required to meet the government's poverty and unemployment reduction goal.

The South African government has followed the traditional, growth-oriented approach to poverty alleviation and development, assuming that economic growth will best help the poor. This approach depends on creating a sufficiently large number of wage labour opportunities to productively employ the large poor population in developing countries. In most poor countries this approach has not met with much success (Bernasek, 2003).

There is a need for programmes that can target unemployment in the rural areas to stimulate economic growth using a bottom up approach by promoting the growth of micro-entrepreneurs. These microenterprises create value at the micro economic level by creating jobs, enhancing income, strengthening purchasing power, reducing costs and providing business convenience (Munoz, 2010)

According to the Global Entrepreneurship Monitor 2001 report[1], countries that support the development of entrepreneurs have grown and prospered by assisting in curbing unemployment, reducing crime and uplifting the general standard of living (Driver, Herrington, Segal, & Wood, 2001).

[1] According to its website, the Global Entrepreneurship Monitor ("GEM") is a non-profit academic research consortium that provides high quality information on global entrepreneurial activity. GEM is the largest single study of entrepreneurial activity in the world. See www.gemconsortium.org

However, the three main obstacles to growth which are faced by the micro-entrepreneur are (i) lack of access to funding, (ii) lack of basic business skills and (iii) lack of access to adequate information (Chandy & Narasimhan, 2011).

This paper will focus on the lack of access to funding, most notably in rural areas, as this is considered to be a key barrier to a country's poverty reduction and economic growth strategies (Moliea, 2007). This is embodied in the Financial Services Charter which acknowledges that access to "first-order retail investment services is fundamental to...the development of the economy as a whole" (Banking Council of South Africa, 2003).

Charity is not considered to be an effective method of providing the funding required. Many aid organisations have attempted to alleviate poverty through the advancement of subsidies and grants to charities and NGO's. However, charity merely continues the cycle of dependence and removes the incentive for the poor in developing countries to become self reliant. High levels of corruption in Africa diminish the ability of these charities to achieve the targeted impact. Grants are not typically successful as it is widely believed that borrowers do not value the funds and have no incentive to ensure that their businesses thrive unless there is an obligation to repay the funding. The "imposed discipline of loan repayment" enables the borrower to establish a strong credit history and payment profile and thereby access traditional capital markets (Pretes, 2002).

Poor households are unable to access formal credit due to a lack of collateral, the high risk of borrower default and the higher cost of short-term micro loans, including loan monitoring, and the costs of creating and maintaining financial facilities in poor rural areas. Banks are better able to achieve profits and reduce risks by providing fewer long terms loans of a higher value than many small short term loans. (Mashigo & Schoeman, 2010).

Modern economic theory suggests that economic upliftment of a community is best achieved through the use of social-conscience driven microfinance. Microfinance, when social-conscience driven, provides an ability to advance loans to people in rural areas who do not have access to capital and are unable to obtain formal employment. Recipients can use these loans to create microenterprises, which will add capital to their micro economy and help stimulate the growth and job creation in that area.

Grameen Bank is considered to be the mother of microfinance. It was established in Bangladesh in 1976 as a micro-lender of social-conscience driven loans with its main goal of social upliftment through the creation of microenterprises in the rural areas.

Grameen Bank's approach to poverty alleviation provides the poor with direct micro loans in order to increase their earnings from productive self-employment activities. The slow, but sustainable, reduction in poverty resulting from Grameen Bank's lending compares favourably with the rising poverty resulting from the traditional approach to development (World Bank, 1990).

Grameen Bank maintains that in excess of 50 per cent of its Bangladesh borrowers (approximately 50 million) have used their loans to rise out of acute poverty. This is measured as a households having access to a sanitary toilet, a rainproof house and clean drinking water, all members eating three meals a day and all member's children in school (Fraser, 2007).

Surveys performed of household data in Bangladesh clearly showed that Grameen Bank is able to decrease poverty and increase physical and human resources, and economically empower women. Thereby confirming that "poverty alleviation and human resource development is possible with targeted credit" (Khandker, 1996).

Since its inception, the model has been replicated throughout the world. Therefore, this paper will review the applicability of using a Grameen Bank model in South Africa to promote micro-economic development through the use of microfinance in rural areas to support entrepreneurial growth.

1.2. RESEARCH OBJECTIVES

This research aims to:

(i) critically analyse the Grameen Bank model by firstly focusing on the key attributes of the model that distinguishes it from other models and secondly, to critically review the successes and criticisms of the bank

(ii) compare the model to the banking environment in South Africa in order to establish whether such a model could be applied in South Africa as a means to stimulate micro-enterprise development and encourage economic growth, which will ultimately alleviate poverty

(iii) understand the factors that would contribute to the success or failure of the Grameen Bank model in South Africa

(iv) consider alternative solutions applicable to the South African market.

1.3. METHODOLOGY

The paper will review the Grameen Bank micro-finance methodology as an available means to provide liquidity into rural areas in order to stimulate economic growth and alleviate poverty.

Following a thorough analysis of the model, the South African micro-finance sector will be analysed using Porter's Diamond model to assess the relative competitiveness of the industry. Porter's diamond model is based on the premise that there are intrinsic reasons why, on a global basis, some country's industries are more or less competitive than those in other countries. The belief is that there are specific factors in the countries of those industries that enable or inhibit competitive advantages on a global scale. The diamond model defines four interrelated determinants of regional advantage: (1) demand conditions; (2) factor conditions; (3) related and supporting industries; and (4) firm strategy, structure and rivalry. Two final factors, being "Chance" and the "Government" are factors that influence the four determinants, but are not in themselves determinants. Together the six factors form a system that differs between locations and industries and explains why industries succeed or fail in particular locations.

The paper will conclude with a discussion of potential methods which are available to increase the competitiveness of the South African micro-finance industry.

The research undertaken to achieve the aim of this paper will be in the form of a literature review of all available documentation on the topic of micro-finance, the Grameen Bank and the South Africa micro-finance industry.

1.4. OUTLINE OF THE RESEARCH REPORT

Chapter Two provides a review of conscience driven microfinance in general and of the Grameen Bank model in particular. Chapter Three reviews the South African microfinance industry and studies the applicability of a Grameen type model in South Africa. Chapter Four concludes the research report with a discussion of the alternative solutions available in South Africa.

2. CHAPTER TWO: MICROFINANCE REVIEW

2.1. MICROFINANCE

Borrowers are often “marginalised from the mainstream economy” due in part to inadequate education and a lack of exposure to the market but mainly due to an inability to access finance (Zingoni, 2010). These borrowers do not meet the minimum qualifications to be granted loans due to a combination of unstable employment, lack of collateral and an indemonstrable credit profile.

Unaffordable products that place the emphasis on collateral and asset-based lending instead of projected cash flows ensure that the poor, who do not have an asset base, are continually denied finance. In addition to the lack of collateral, others factors limiting access to financing by the poor include a lack of awareness of development finance, the lack of financial literacy and lack of appropriate products available in the rural areas.

Further, banks are hestitant to operate in rural areas due to the high risk caused by environmental factors, pronounced seasonality and underdeveloped infrastructure (Khandker, 1996).

In contrast Microfinance provides the prospect for a poor entrepreneur to access capital and the ability to pursue opportunities that would not otherwise be available to them. Globally, the microfinance industry has become a “major stimulus for economic development of these marginalised people” (Zingoni, 2010).

Microcredit is defined as the extension of very small loans to borrowers in poverty in order to promote the establishment of micro enterprises. The terms microcredit and microfinance are often used interchangeably (Moliea, 2007), however, microfinance is more specifically defined as small-scale financial service, being primarily credit and savings provided to individuals and groups at the local levels of developing countries. The provisions of credit services enable the use of anticipated income for current investment or consumption while the ability to generate savings provide a store of excess liquidity for future use and generate a return on investments (Robinson, 2001). The role of savings is considered to be critical to the long-term sustainability of micro-finance institutions (“MFI’s”), as it reduces the dependence on donor funding by the bank and on credit by the borrower.

Overall, MFI’s can support sustainable job creation, income generation, and social empowerment by assisting low-income borrowers to minimise risk, to increase investments returns through improved productivity and to improve their lives and the lives of their dependents through the resulting increased income (Robinson, 2001).

2.2. GRAMEEN BANK AND THEIR BUSINESS MODEL

Grameen Bank is considered to be the original micro-finance pioneer. It was established in the belief that if appropriate financial services can be provided to the poor, "*these millions of small people with their millions of small pursuits can add up to create the biggest development wonder*" (Unesco , 2001). Grameen believes that the traditional banking model is unable to provide these financial resources to the poor and that a new model is required to meet the needs of the unbankable.

Grameen defines their form of micro-credit as GrameenCredit, which essentially provides small loans to poor borrowers to encourage self-employment opportunities. The distinguishing features of GrameenCredit are summarised below:

Focus on Women

The majority of loans are given to women. Women are considered to be highly disenfranchised in society and to have the added burdon of needing to support their families. Therefore, lending to women is believed to have a far reaching benefit. This is based on the premis that when women prosper economically, their families and communites will also prosper. Studies indicate that women use the businesses profits to improve living conditions and nutrition, to educate children and for businesses growth (WDB, n.d.). Women are considered to be better borrowers and more astute entrepreneurs. Therefore, lending to women lowers the credit risk of the bank.

Loans can only be advanced to the poor

Loans will only be granted to prosective borrowers "with less than an acre of land (or assets worth less than an acre)" (Schreiner, 2003). Proposective borrowers who have greater asset values are able to obtain colleralised loans from commercial banks and are therefore not the target market of the Grameen Bank.

Group Lending

The bank uses a process known as solidarity or group lending. Borrowers are required to join self-selected groups of four to five people. Borrowers would be advanced individual loans and are not required to provide guarantees for other members of the group. However, if one person falls behind in their repayments, no further loans are advanced to the entire group. This form of peer-pressure improves the repayment of the loans and essentially replaces traditional collateral with social collateral. (Satgar, 2003). In addition to minimising the loan default rate, group lending offers "a

cheaper vehicle for social intermediation, which is an integral part of financial intermediation" (Khandker, 1996). No other collateral is required from the borrowers.

Weekly meetings

The groups are combined into centres. The centres meet compulsorly on a weekly basis and the meetings are overseen by a field worker, who is an employee of the Bank. The purpose of the meetings is twofold. Firstly, the loan repayments are made at the weekly meetings. Combining of groups into centres reduces the collection costs of the banks and assists in improving the collection rates on the the loans. Secondly, the weekly meetings promote a value system designed to encourage social improvement in the borrowers. This is achieved by all borrowers being required to recite the "Sixteen Decisions", which is a set of principles which the borrowers are encouraged to live their life by.

Enterprise development loans

The loans are required to be used to fund micro-enterprises and cannot be used to fund living expenses. This is closely supervised by the field workers. This enables borrowers to generate assets and income and thereby enhance the quality of their lives.

Structure of loans

The loans are initially granted in low denominations and repayable in 50 weekly installements throughout the year. The loans can be restructured depending on the needs of the borrower. Once the borrower has developed a successful repayment history, higher loans amounts may be granted.

Compulsory savings

All borrowers are required to use a portion of their borrowings to make savings with the Grameen Bank. Under the scheme, 5% of the loan is credited to a group fund and 25% of the interest payment is contributed towards the group's emergency fund, which provides insurance coverage in the event of default (Satgar, 2003). The savings have the benefit of generating independence of the borrower from the continual debt trap and of reducing the banks dependence on external funding. The savings also assist in improving borrower accountability and financial discipline, while absorbing any unanticipated agro-climatic shocks (Khandker, 1996).

Bank ownership

Grameen Bank is a not-for-profit bank with the majority of the bank being owned by the borrowers of the bank. In June 2011, the 95% of the bank was owned by borrowers and the remaining 5% by the Bangledish Government (Grameen Bank, 2011).

2.2.1. Benefit of the Grameen Bank model

The benefits of the Grameen Bank model can be analysed according to the business benefits and the social benefits, as follows in the section below:

Business Benefits

Cost effectiveness

Micro lending typically results in the banks incurring high transactions costs per loan. Assessing potential borrower riskiness and monitoring client progress is particularly difficult when assessing poor borrowers situated in rural areas and operating in the informal sector. Therefore, the use of field marshals and the allocation of borrowers into groups reduces the operating costs per loan, which improves the long term sustainability of the bank.

The Grameen model is a highly cost-effective manner of accessing a group of self selected poor entrepreneurs who are unable to obtain formal financial access due to a lack of collateral. While financially supporting the poor is only one of numerous poverty alleviation approaches, the "self-selection procedure" of the Grameen Bank's solidarity lending model of ensures that the approach is also cost effective (Khandker, 1996).

Improved collection rates

Apart from cost effectiveness in advancing loans, a group lending system can significantly improve the collection rates on the loans as the peer pressure from the group members enforces disciplined repayment.

Social Benefits

Reduction in Poverty

On its website, the Grameen Bank indicates more than 50% of its Bangladesh borrowers (approx 50m) have overcome acute poverty due to their loans. This is measured by: all children being

schooled, access to a sanitary toilet, all household members eating three meals a day, access to clean drinking water and waterproof housing (Fraser, 2007).

A survey performed in 1996 of household data in Bangladesh showed that Grameen Bank assisted in lessening poverty and increasing physical and human resources and economically empowering women. Therefore, "poverty alleviation and human resource development is possible with targeted credit" (Khandker, 1996).

A further study performed in 2003 which assessed the impact that the Grameen Bank has had on the welfare of its female borrowers found that the bank had clearly achieved success in improving the lives of both its women borrowers and their families. This was indicated by reduced poverty levels, higher incomes, improved home standards, access to clean drinking water and better sanitation, enhanced nutrition and maternal care and access to child education and an stronger ownership and control of wealth and income (most notably land) (Bernasek, 2003).

Enhanced training ability

A key failure in micro enterprises is the lack of training and education. The regular group meetings provide a chance for the field officers to interact with the borrowers. This is an ideal opportunity for the officers to provide training and guidance to the borrowers on how to best promote the success of their microenterprise. Further, as the field officers are meeting regularly, they would hopefully be able to detect problems early and potentially act earlier to avoid significant losses. Therefore, this ability to provide a cost effective and direct method of training not only enhances the skills of the borrower to develop more micro-successful enterprises, but the improved health of the underlying business will improve the overall sustainability of the lending programme.

2.2.2. **Criticisms of the Grameen Bank model**

There have been several criticisms of microfinance in general and of the Grameen Bank in particular. The main criticisms are discussed below.

Reliance on subsidies

A critical measure of a microfinance institution's success is the attainment of sustainability. The two aspects of sustainability are (i) operational self-sufficiency, which is defined as the ratio between programme income and costs, including salaries, office costs and consumables and (ii) financial self-sufficiency, which is defined as the ratio between total income and total costs, including operating costs, financial costs and loan loss provisions (Baumann, 2001).

A Grameen Bank model requires the use of subsidised funds in its early stages to develop the institution while the savings from customers are expected to eventually diminish the necessity for subsidies. However, Grameen Bank remains heavily subsidised by both donor and government funds and with its ability to perform dependent on these funds, critics question whether the bank could survive without subsidy (Bouman, 1994). However, according to its website, Grameen Bank has been operationally self-sufficient for the period 2002 – 2010 and has achieved financial self-sufficiency of between 99.2% and 110.4% over the same period, with the exception of 2007 where it achieved a 94% financial self sufficiency ratio (Grameen Bank, 2011). These represent very healthy sufficiency ratios, particularly if one considers the impact of the global credit crisis since 2007. Given the numerous other social benefits that the Bank creates, these levels of self-sufficiency would not be considered a significant weakness in the model.

Limited growth ability

The poor have a limited capacity in terms of their ability to "absorb larger amount of loans", which is instrumental in ensuring the Bank becomes self sufficient. Their demand for credit is not only influenced by investment profitability but also by micro and macro economic growth and the borrower's entrepreneurial development. Thus, the long-term feasibility of the Grameen Bank and its borrowers depend on borrower "economic graduation, in terms of both income and occupational mobility" (Khandker, 1996).

Poorest of the poor

The Grameen Bank has been criticised for not actually assisting the poorest of the poor, even though they are meant to be the target market of the bank. As the bank needs to maintain financial sustainability through cost recover, these loans often do not get advanced to the very poor (White & Killick, 2001). In addition, the high interest rates charged on unsecured loans means that the loans are often not affordable to the poorest borrowers.

Lack of skills

Microfinance is presumed to assist the poorest of the poor through the advancement of loans to create micro-enterprises, which will in turn grow thriving businesses and enhance economic growth. There are many critics who doubt that microfinance can make any impact on the fight against poverty as many micro-enterprises fail as the aspirant entrepreneurs as they lack the vision, skills, persistence and creativity needed to succeed. This is true in countries that have adequate access to

capital and high education levels as only 10% of the labour force would be successful entrepreneurs (Karnani, 2007).

Further, high unemployment rates means that many entrepreneurs create businesses out of necessity rather than choice. Therefore, if formal employment becomes available, many would prefer to switch to formal employment. This creates adverse selection in borrowers as they largely represent those that lack employable skills (Skowronski, n.d.).

However, a counter to that argument is that the development of micro-enterprises by entrepreneurs will generate job creation in communities for prospective employees.

Inadequate use of funds

GrameenCredit is only meant to be advanced to borrowers for use in the development and growth of micro enterprises. Some critics argue that the funds are being used to meet basic needs including food and shelter, rather than for pursing income generating activities (Hartungi, 2007).

As many of the businesses are home based, it is difficult to differentiate between spending that maintains lifestyles and spending that develops the home based enterprise.

Burden of indebtedness

The South African Micro Finance Regulatory Council provides, from a variety of sources, data on levels of indebtedness and has defined borrowers as over-indebted "if they are using loans to pay off other loans or allocating more than 25 per cent of gross monthly income or 50 per cent of net monthly income or to loan repayments" (MFRC, 2001).

While access to credit allows borrowers to pursue opportunities that would otherwise not be available to them, too much credit creates a cycle of indebtedness, which is highly detrimental to the financial wellbeing of the borrowers. Borrowers who create a positive credit rating through good credit discipline are able to obtain further loans. Therefore, borrowers are able to take out new loans to repay the old loans, knowing that they can settle the new debt with another loan. The credit thereby creates a cycle of indebtedness and dependency (Simanowitz, 1999). This is particularly relevant if the loans are used to fund lifestyles instead of creating businesses. Further, interest rates on unsecured micro-loans are typically much higher than the formal commercial lending rates.

However, this can be overcome by maintaining responsible lending practises including affordability checks being performed on potential borrowers to ensure that they are not already overly indebted and through the regular monitoring by the field officer to ensure the loan facilities are not used to fund borrower lifestyles but rather to create business that hopefully increase the household income and decrease the risk of over indebtedness. Requiring borrowers to use part of their borrowings to contribute towards savings, which can be used as insurance, further diminishes the reliance on debt.

Financial reporting concerns

Grameen Bank claims that they have a 97% recovery rate (Grameen Bank, 2011). However, an analysis performed in 2001 found that 19% of loans were overdue by one year. Grameen Bank defines delinquent loans as loans that have not been repaid two years after its due date, which is a considerably loose write-off policy. Using that definition, 10% of all the bank's loans were overdue (Phillips, 2011).

Further, Grameen Bank was criticised for its financial reporting procedures as non-standard accounting practices were considered to disguise loan repayment problems. For example, the Bank's "flexible loan program" accounted for refinanced delinquent loans as current if some regular payment was being made on the loan. Critics believed that by Grameen Bank not disclosing the refinanced loans as loans at risk they were concealing problem loans that would inevitably default. Since the Bank was not required to comply with any formal regulatory policies, it was difficult to accurately determine the extent of risky loans included in the Bank's current loan portfolio (Phillips, 2011).

Grameen Bank has consistently been able to maintain a breakeven position. However, speculation exists as to how much smoothing, including adjusting the provision for bad debts, has been used to achieve these results.

These are fairly common practise in the micro-finance industry and can readily be identified through the review key financial ratios of the bank. Grameen's website now contains a link to the financial ratios and key performance indicators, suggesting that the Bank has taken active steps to increase the transparency in its accounting procedures.

3. CHAPTER THREE: SOUTH AFRICAN FINANCIAL SECTOR

Overall, the success of the Grameen Bank model is considered to improve the economic conditions of poor borrowers in a sustainable manner. Therefore, the applicability of the model in South Africa will be analysed in the remaining chapters to determine if similar success can be achieved in South Africa. This chapter analyses the applicability of the Grameen Bank model in the South African micro-finance industry using Porter's Diamond analysis of industry competitiveness.

3.1. DETERMINANT: FACTOR CONDITIONS

South Africa is characterised by its duel economy, having a highly sophisticated first world financial markets and third world social infrastructure (Porteus & Hazelhurst, 2004). This has been described by Thabo Mbeki as the divide between the First and Second Economy in South Africa and has resulted in South Africa having a Gini co-efficient of 57.8%, one of the highest in the world.

South Africa was ranked 50th out of 142 countries in the 2011/2012 World Competitiveness Report; however South Africa's extreme economies are better illustrated by reviewing its rankings within the report. The strength of the South African financial markets is highlighted by South Africa being a top performer in the financial markets and banking categories, as illustrated in the Table One below.

TABLE ONE: SOUTH AFRICAN RANKINGS IN FINANCIAL MARKETS & BANKING CATEGORIES

Category	Ranking
Regulation of securities exchanges	1st
Strength of auditing and reporting standards	1st
Soundness of banks	2nd
Availability of financial services	3rd
Protection of minority shareholders' interests	3rd
Financing through local equity market	4th

Further, South Africa, unlike many other developing nations, has a sizeable manufacturing sector (14% of GDP), of which 97% of value added comes from formal businesses (Bisseker, 2011).

The strength of the formal economy is coupled with the weakness in many key developmental areas, including employment and education, which is evidenced by South Africa featuring at the bottom of the world scale in the key categories detailed in Table Two.

TABLE TWO: LOW RANKINGS SOUTH AFRICAN SCORES

Category	Ranking
Burden of government regulation	112th
Favouritism in decisions of government officials	114th
Quality of primary education	127th
Pay and productivity	130th
Quality of the educational system	133rd
Quality of math and science education	138th
Cooperation in labour-employer relations	138th
Flexibility of wage determination	138th
Hiring and firing practices	139th

In this respect, South Africa economy is not typical of a developing country and is more closely aligned to the social structures in Latin America than the rest of Africa or Asia.

The microfinance sector has flourished in countries that typically have under developed financial, manufacturing and distribution sectors. The inadequate economic development creates opportunities for entrepreneurs aiming at filling the gaps in the economic needs of the country. Therefore, South Africa's strong formal economy should have inhibited the development of a microfinance sector (Porteus & Hazelhurst, 2004) (Zingoni, 2010).

Contrary to expectations, South Africa has a booming microfinance industry, being approximately an R50bn industry. (Sharife, 2011). The South African microfinance revolution was influenced by the economy's historical structure of apartheid. Once apartheid ended, financial institutions rushed to formally penetrate this previously inaccessible market.

While the micro lending sector has seen rapid growth, the majority of loans are advanced for consumer spending rather than for the development of microenterprises (Porteus & Hazelhurst, 2004).

Although there is a fairly well developed microfinance sector in South Africa, the country's duel economies has created several challenges for the success of these companies. The most significant challenges are the high cost of skilled labour and the competition from the formal sector. The challenges as discussed in detail hereunder.

High cost of skilled labour

The Grameen model relies heavily on its employees including fieldworkers and loan officers to carry out the operations of the bank. These employees are typically sourced from the skilled or semi-skilled members of the target communities. South Africa's world class first world economy has very high consumption standards, which is reflected by high formal sector income levels. Due to the highly skewed income distribution in South Africa, the worker income requirements reflect the income requirements of the "economically advanced minority" (Baumann, 2001).

Further, the historically weak South African education system (see below) has resulted in a shortage of the necessary technical and development skills. The lack of supply of skilled labour further increases the salaries of skilled workers to levels significantly higher than those in many African and Asian countries (Baumann, 2001).

Affirmative action further increases the cost of operations due to the "political emphasis on racial equalisation of economic and professional opportunities" rather than by market forces. The impact is that cost of skilled black workers is further increased as companies compete with the state and private sectors, both of which are under intense pressure to meet affirmative action requirements (Baumann, 2001).

In addition, as the microfinance institutions are typically located in rural areas, higher salaries are required to be paid to skilled workers in order to attract them away from the formal employment sector in the cities and towns.

Therefore, the competitive salaries that are paid to skilled employees are covered by small loans sizes and results in an employment cost to loan size disparity (Skowronski, n.d.).

In a study performed by the Community Microfinance Network, a sample of some of South Africa's larger pro-poor group lending microfinance institutions was compared to similar institutions across

Africa and other parts of the world, as defined in the Micro-banking Bulletin (Baumann, 2004). Some of the key findings are detailed in the Table Three below.

TABLE THREE: COSTS EFFECTIVENESS OF SOUTH AFRICAN MFI'S

Category	SA	Africa All	Africa – Small/Low	World All	World – Solidarity	World – Low End[2]
Total expense / total assets	101.1%	39.6%	50.4%	30.4%	30.6%	39.4%
Operating expense / total assets	84.6%	31.0%	37.7%	18.8%	22.4%	28.2%
Financial expense / total assets	11.7%	2.6%	2.5%	4.5%	3.0%	4.9%
Personnel expense / total assets	52.3%	15.2%	18.8%	10.5%	13.0%	14.5%
Non-staff admin expense / total assets	32.3%	15.6%	18.8%	8.9%	9.4%	13.6%

The study confirms South Africa's high operating costs relative to international benchmarks.

While the operating costs are in line with first world economies, the real incomes of the poorest of the poor are comparable to those in the rest of the developing world, being "comparable to those in the poorest 20% of countries" (Baumann, 2001).

Skills shortages

The poor standard of education available to young black South Africans during apartheid and the focus on job creation for the mining sector has resulted in "millions of South Africans are only suited for unskilled jobs, or for jobs in declining sectors like agriculture and mining". South Africa's first world economy does not generate a demand for unskilled labour. As a result, even though there are skill shortages in the first economy, "millions of people are economically 'useless'" (Baumann, 2004).

This applies to both the potential borrowers and the staff requirements of the programme and increases the burden of training and supervision of both staff and borrowers.

[2] The study defines the categories as follows:
Africa All: All African MFIs regardless of size, target market, methodology, region, etc.
Africa – Small/Low: African MFIs, loan portfolio less than $800 000, average loan balance less than $150.
World All: All MFIs regardless of size, target market, methodology, region, etc.
World – Solidarity: All MFIs using solidarity group lending methodologies.
World – Low End: All MFIs with an average loan balance of US $150 per client.

Further, apartheid prohibited small businesses in order to maintain a large, cheap labour force. This has resulted in a lack of role models in older generations that emerging entrepreneurs can learn business skills from. This is further compounded by the poor standard of education in South Africa (Skowronski, n.d.).

Competition with the formal economy

On a global standard, South Africa has a proportionately smaller informal sector coupled with high unemployment rates. According to StatsSA, there are 2.3m people employed in the informal sector, contributing 5.6% to the GDP, although several critics have commented that StatsSA understate the size of the informal economy. University of Linz economics professor Friedrich Schneider estimated in 2000 that SA's informal sector contributed 28,4% of GDP. Whichever method is correct; these measures are all significantly lower when compared with average for the continent as a whole, being 42% (Bisseker, 2011).

Generally, most second economy traders are unable to compete with the large, efficient first economy businesses. Kate Philip, an adviser to the presidency on public employment and head of inequality & economic marginalisation at Trade & Industrial Policy Strategies, confirmed that "you won't find a single processed agricultural product or basic consumer item that isn't already mass-produced in the formal, core economy and available in the most remote spaza shop. The formal retailers have already got their brands there...you can be as entrepreneurial as you like but a small, informal business can't compete on price, quality, packaging and brand recognition with Iwisa, Albany or Clover. The market space is taken" (Bisseker, 2011). At most, the traders may be able to offer convenience, but not better value.

This is compounded by the efficiency in the formal economy as it is able to produce everything it needs from within the first economy or from overseas, which means that is creates no demand for the second economy. The result is that the second economy cannot successfully compete with the first economy and the first economy does not need the second economy (Baumann, 2004). This has resulted in South Africa having an undersized small-scale manufacturing sector where informal traders are able to compete.

Further, unlike in many developing countries including India, China and Tanzania, the South African small-farming sector provides limited employment opportunities, due in part to the countries apartheid legacy which destroyed the small-scale farming in the former homeland areas. Most households engaged in any kind of agricultural production are doing so for their own consumption and only a small percentage produce surpluses for sale (Bisseker, 2011).

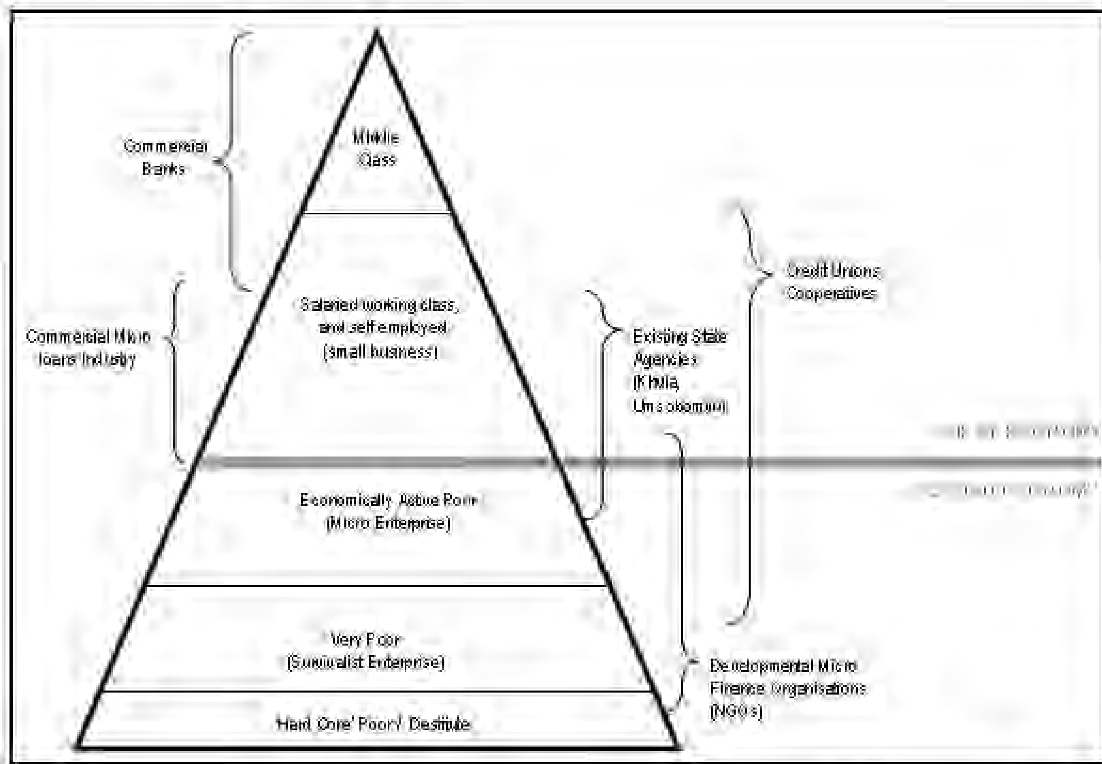
3.2. DETERMINANT: DEMAND CONDITIONS

South Africa' financial sector, which includes banking, securities and insurance industries, is sophisticated and well-regulated. The banking sector, which has been historically biased towards formal sector, has created inappropriate and inadequate credit instruments for the poor (Daniels, 2004).

Despite 43% of the South African population which is estimated to live in rural areas (Master, 2003), formal financial institutions are not available to these communities as the high cost of providing limited services in the remote rural areas is not compensated for by the income derived from these services (Nigrini, 2002).

The access to finance services is depicted in Figure One below and is analysed using a financial institutions pyramid. At the top, the middle class is fully serviced by the commercial banks. The salaried workers and regular-income earners (e.g. self-employment and small business) can access financial services through both the commercial micro lending industry and the commercial banks. However, the majority of the population, being unemployed and without a steady income (other than social grants and family remittances), are at the bottom of the pyramid. These millions do not own income-generating asset and are therefore unable to access financial services from any of the finance institutions (Southern Africa Regional Poverty Network, 2005).

FIGURE ONE –FINANCIAL INSTITUTION PYRAMID



SOURCE: Adapted from Rau, 2004

According to the 2010 Finscope study, 23.5% of the population is considered to be financially excluded and makes use of neither formal nor informal financial services (CAHF, 2011). This is particularly relevant to female borrowers. A survey commissioned by the IFC, along with SA's Trade & Industry Department and the Finmark Trust to look specifically at the issue of access to finance for female entrepreneurs revealed that only two of SA's main commercial banks had clear strategies to target female entrepreneurs, being First National Bank and Absa. One of the resulting implications is that female access to credit has remained very limited as only 1% of black women have a formal personal loan. This is despite the fact that South African women have been shown to be far more creditworthy than their male counterparts (Jekwa, 2011).

Where microloans are advanced, only 6% of the loans advanced are invested in micro-enterprises, with the remainder being advanced as small loans to consumers in need of cash flow to sustain their living expenses (Sharife, 2011).

Despite the lack of services in rural areas, the factor determinants described above have lead to very low penetration rates of the microfinance institutions. Research performed by SEF (see 3.4.1), widely regarded as the leader in group lending in South Africa, indicates that it cannot sustainably reach more than one in five very poor households. This is due to high levels of competition between

microenterprises in rural areas as the income generating activities tend to be very similar and are typically home based and therefore targeted to the same areas (CMF, 2003).

The Community Microfinance Network study also reviewed the penetration levels of the South African micro-lenders and found it to be performing significantly behind the rest of the indicators, as detailed in the Table Four below.

TABLE FOUR: PENETRATION LEVELS

Description	SA	Africa All	Africa – Small/Low	World All	World - Solidarity	World - Low End
Borrowers per staff member	101	198	247	128	155	227
Borrowers per loan officer	150	413	462	308	356	682
Loan officers as a % of personnel	69%	42%	41%	45%	49%	49%

The table confirms that South African micro-lenders are not able to increase their borrower numbers to levels in line with standards in other areas in the world.

3.3. DETERMINANT: RELATED AND SUPPORTING INDUSTRIES

There are no industries that support the growth and competitiveness of MFI's in South Africa. However, as the South African formal banking sector is highly developed and efficient, there is considerable competition for borrowers with good credit ratings from the formal financial institutions who offer more financial products in more locations. According to the Banking Association of South Africa, 12 billion rand is estimated to be stored under mattresses by the unbanked (Times Live, 2010). Therefore, there is a high level of competition in this market as banks compete to access the billions of Rands not included in the formal banking sector. As detailed in Figure 1 above, the main competitors are the commercial banks and the commercial microlenders, which are described in detail hereunder.

3.3.1. Commercial Banks

South Africa's sophisticated banking system provides excellent services to the first economy in the country. Although there are 36 registered banks (17 of which are foreign), the main commercial banks are known as the Big Four and comprise Standard Bank, Absa, FNB and Nedbank (CAHF, 2011). The focus of the banks is in the urban areas and there is little emphasis on the informal or rural areas. The high overhead costs at the commercial banks mean that it is not commercially viable to provide low denomination loans to low income customers. From the potential borrower perspective,

the transaction costs are typically excessively high and branches are generally located in inconvenient locations for enterprises based in rural areas and townships. Commercial banks are increasingly dependent on electronic services technology, with high investments in technology and increases in automated activities including services performed via automated teller machines and through the use of smart cards. However, these improvements are mainly targeted in the urban areas as only the more conventional deposit and savings technology prevail in deep rural areas. The banks believe that the transaction costs required to operate in rural areas far outweighs the available income that may be earned. Further, it is not considered that there is a minimal level of business available in the rural areas required for branches to reach a viable scale (Coetzee, 1998).

Although the commercial banks, particularity Nedbank and FNB, are starting to adapt their policies to cater for non-collateralised loans, the banks prefer to advance loans to borrowers who have existing relationships with them and a developed credit history.

According to a study by the Finmark Trust in 2009 (Consultant & Kunene, 2009), commercial banks typically only advance enterprise loans to registered business entities that have maintained a current account for at least six months and require the overdrafts to be secured by personal sureties from the business owners. As the cost of serving this market is high, commercial banks prioritise loans in excess of R100 000.

3.3.2. Commercial Micro-lenders ("CML's")

Due to the lack of interest and viable market for the commercial banks in rural areas, many CML's emerged to cover the gap left in the market. The main CML's in the South African market are Capitec Bank, African Bank and Real People. CML's have a better understanding of the lower income and previously disadvantaged markets (Zingoni, 2010). Microloans are mainly advanced to borrowers who would have been rejected by the formal banks; there is little competition between these entities.

Although the micro lending industry fills a key gap in the market, it is not a suitable alternative for most survivalist, marginalised households. Micro lenders focus on borrowers with regular income and require relevant supporting documentation, including payslips and ID documents. Unfortunately, a large number of poor South African households, particularly in rural areas, do not possess these documents.

CML's offer micro-loans to potential borrowers without the requirement of collateral, however they do not apply the other significant Grameen Bank philosophies in the following ways:

3.3.2.1. Loans can be advanced for any reason and the funds are often used to fund a lifestyle beyond the means of the borrower. Therefore borrowers easily get trapped in the cycle of debt.

3.3.2.2. Loans are advanced to individuals and not groups. Therefore, the benefit of community peer pressure to repay loans and the costs savings associated with group lending are lost.

3.3.2.3. Borrowers are not encouraged to use part of their funds to save, which again diminishes the chances of the borrower being able to break free from the dependence on credit. Further, no training or supervision provided by the banks to assist the borrower to assist them to become more financially independent and less reliant on debt.

However, there is intense rivalry in the microfinance industry, and if the Grameen Bank model is shown to work in the South African market, the other players in the industry would be quick to follow. Therefore, it is unlikely that the Grameen model would be able to grow in the formal market and its success is likely to be limited to the rural, low income areas

3.4. DETERMINANT: FIRM STRATEGY, STRUCTURE, AND RIVALRY

Several Grameen Bank replicas currently operate in South Africa. MFIs operate mainly in the townships and rural areas and women typically constitute the majority of the clientele (Zingoni, 2010).

A brief summary of the significant enterprises is detailed in the section below.

3.4.1. Small Enterprise Foundation ("SEF")

SEF was established in Tzaneen, Limpopo in 1992 and operates using the principles of Grameen Bank. The organisation operates out of 41 branches and is located in four South African provinces, being located in the Limpopo, the Mpumalanga, Eastern Cape Province and the North West. The highest proportion of poor in the country reside in the Eastern Cape and Limpopo provinces where 72% and 77% respectively of their populations are living below the poverty income line. Mpumalanga and North West Province are characterised by similar poverty levels (SEF, 2011).

According to its website, the goal of the SEF is to "eliminate poverty and unemployment in a sustainable manner by providing credit for self-employment, combined with savings mobilisation

and a methodology that substantially increases the poor's chances of successful self-employment" (SEF, 2007).

SEF operates through two programmes, being the Micro Credit Programme (MCP) and Tšhomišano Credit Programme [3](TCP). MCP, the original programme, provides loans to individuals who have been operating existing enterprises for at least six months. However, as SEF was not able to target the very poor through this model, they developed the TCP programme, which uses a "Participatory Wealth Ranking" to identify the poorest people in the target communities[4]. Once the potential borrowers have been identified, field officers will approach the potential borrowers to educate them about microloans and encourage the use of micro-loans to develop micro-enterprises. Although both projects have a similar basic structure and philosophy, aspects of the projects, including loan utilisation checks, motivational tools and regular follow-ups have been modified to address the poorer population's needs (SEF, 2007).

SEF's clients are almost all females, who are provided loans using the solidarity method of lending Typical enterprises include fruit and vegetable hawkers, small convenience shops, new or used clothing suppliers and dressmakers. In addition, each business employs, on a part or full time basis, 1.4 people (including the owner) (SEF, 2007).

At the end of June 2011, the programme served 74,345 clients with a principal outstanding of R123 million. Bad debts as percentage of annual disbursements amounted to 0.3% while bad debts as percentage of average principal outstanding amounted to 0.8%. The portfolio at risk over 30 days was 0.2% (SEF, 2011). For comparison purposes, the value of loans advanced by Capitec Bank for the year ended February 2011 amounted to R8.6bn while the net impairment expense to gross loans and advances ratio amounted to 9.8% (Capitec Bank, 2011). The comparison indicates that while SEF manages a very healthy book, it is a fraction of the size of a commercial micro-lender book.

In line with the Grameen philosophy, SEF encourages the poor to save. Due to regulatory constraints, SEF is unable to take borrowers savings, therefore they encourage borrowers to save with the Post Office. According to its website, SEF client savings deposited in the Post Office savings accounts at the end of June 2011 amounted to R23.3 million (SEF, 2011).

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[3] Tšhomišano is a Northern Sotho word meaning "Working Together" (SEF, 2007)

[4] The Microcredit Summit Campaign officially recognises and promotes SEF's Participatory Wealth Ranking.

A key cornerstone of the Grameen model is the utilisation of borrower savings to achieve operational and financial self sufficiency. The inability to utilise borrower savings has contributed to SEF's inability to attain financial and operations self sufficiency, which amounted to 94% in June 2011 (SEF, 2011).

To review the programme's developmental microfinance success, SEF uses a participatory impact monitoring system. The system confirms that "even from the first loan, people's lives change radically". Improvements include the ability to afford three meals a day and to educate their children. After subsequent loans, many families expand their business and electrify their houses. SEF believe that the increased income results in a sense of self reliance and independence and significantly empowerments its clients, especially its women clients (SEF, 2007).

In conclusion, SEF has achieved its social upliftment goals but has only been able to reach a limited amount of potential borrowers and has been unable to operate self sufficiently.

3.4.2. **Women's Development Businesses Group ("WDB")**

WDB was established in 1991, is structured as Micro Finance, Investment Holdings and a Trust and operates from 27 branches located in KwaZulu Natal, Eastern Cape, Mpumalanga and Limpopo. (WDB, n.d.). The goal of the groups is to "work together to help South African women build a sustainable way out of poverty".

WDB Micro Finance, the core business of the group, focuses on the provision of microcredit to rural South Africa women using the Grameen Bank model. As at the 2009 year-end, WDB Micro Finance had provided over 45,000 loans to borrowers through its two microloan programs (WDB, n.d.).

WDB Investment Holdings manages an investment portfolio in order to distribute the profits to the WDB Trust. The company also promotes female economic empowerment in its underlying investments through job placements, skills training and inclusion in supply chain opportunities.

The WDB Trust uses the funds received from WDB Investment Holdings and from fund raising to achieve the Group's social development programs and improve the lives of poor rural women. (WDB, n.d.).

WDB offers a "Poverty Alleviation" and an "Enterprise Development" program. The Poverty Alleviation program targets the "poorest of the poor" through the promotion of income generating activities that enable the poor to combat poverty. The "poorest of the poor" are defined as households that earn less than half the South African poverty standard (i.e. R132 per capita per

month). The program provides credit management training and basic financial skills and grants loans of between R300 to R4000. The Enterprise Development program aims at women who have achieved income generation and wish to graduate to business operation. This is achieved through the provision of business mentors and business skills training. The program grants loans of between R5 000 to R10 000 (WDB, n.d.).

WDB does not publish reports on the financial or social status of its lending operations.

3.4.3. Marang Financial Services ("Marang")

Marang[5], established in 2000, is a micro finance institution offering credit to micro entrepreneurs, which acquired to the failed micro credit operations of Rural Finance Facility and Get Ahead Financial Services. Although initially established as a Section 32 Company (Limited by Guarantee), it converted to a Section 21 Company (Not for Profit) in July 2001.

Marang provides loans to approximately 24,000 mostly female clients across 23 branches and 19 satellite offices in KwaZulu Natal, Eastern Cape, Gauteng, Mpumalanga, and Limpopo.

According to its 2009 annual report, Marang disbursed R115m in loans to 64,000 clients and loans at the end of the year amounted to R29m of which only 0.7% were considered to be nonperforming. However, Marang has yet to achieve operational or financial self-sustainability.

3.5. EXTERNAL FORCES: CHANCE

3.5.1. Global recession

Due to South Africa's robust financial regulations, the banking sector has been relatively unscathed by the financial crisis. However, the global recession, credit constraints in the US and the instability in Europe has had severe impacts on the economy. The reduced demand from Europe, being South Africa's biggest trading partner, has resulted in increased job losses and reduced consumer demand. Further, the lack of foreign funds means that it is increasingly difficult to access foreign loans and grants. As the Grameen model has been unable to maintain sustainability in South Africa, a reduction in the capital significantly reduces the ability to provide loans into the rural areas.

3.5.2. Competition from foreign nationals

The large influx of foreign nationals into South Africa places local informal traders under further competition from foreign-owned stores, which offer significantly lower prices than the local traders

[5] www.marang.co.za

through the use of bulk-buying strategies. As South African's tend to view other owners as competition, they are often reluctant to use the bulk-buying techniques to compete (Xulu, 2011).

3.5.3. **Urbanization and Immigration**

Many cities experience highly transient populations created by large influxes of South African's migrating from rural to urban areas and by foreigners from neighbouring countries creates. People living in these cities are often unable to secure solidarity based loans as they are not able to develop the bonds of trust created by long-term relationships (Skowronski, n.d.).

3.6. **EXTERNAL FORCES: GOVERNMENT**

3.6.1. **Regulation**

The microfinance sector was formally established in 1992 when a Usury Act amendment removed interest rate ceilings on small loans (defined as loans under R6 000 and less than a three years term). The rapid growth of the industry resulted in a second amendment in 1999, where the value of small loans was increased to R10,000 (Daniels, 2004).

In June 2007, the National Credit Act ("NCA") was implemented, which governs the advancement and collection of credit in South Africa. The NCA established the National Credit Regulator (NCR) to regulate the South African credit industry. The NCR's roles include policy development, research, borrower education, industry participant registration, complaints investigation and ensuring the enforcement of the NCA. In addition, the Regulator is required to promote an accessible credit market development, particularly for the historically disadvantaged, low income earners, and isolated or low density communities (National Credit Regulator, 2011).

South Africa's micro finance sector and its governing legislation it has become a "touch stone for countries from Africa and around the world". Further, there has been wide interest in the credit bureaus and the technology that makes them "function as efficient cogs in the micro finance machine" (Finance 24, 2005).

Although South Africa has a world class banking system, the compliance costs associated with the first-world regulatory environment are substantially higher than other, less developed countries.

3.6.2. **Legislative constraints**

One of the key aspects of the Grameen model is the use of borrower savings to attain sustainability. This was achieved by the Bangladesh Government approving a special law that allowed Grameen to

take deposits without the high capital investments costs required in terms of the formal banking legislation. This is not the case in South Africa as Microfinance institutions are not able to access client deposit savings, which limits their ability to achieve sustainability. In order to take deposits, the institution is required to be registered as a bank. The initial capital requirement is too onerous for a MFI to meet when the clients are borrowing microloans. Further, the costs of complying with the regulations further adds to the high cost burden. This makes this model unsustainable.

4. CHAPTER FOUR: DISCUSSION OF THE ALTERNATIVE SOLUTIONS FOR SOUTH AFRICA

Many replicas of the Grameen Bank model are already operational in South Africa and have achieved limited social upliftment. However, due to the structural constraints in South Africa's duel economy, the replicas have been unable to achieve operational or financial sustainability, which has resulted in the model being underutilised by both NGO's and commercial microfinance institutions.

Phillips summarises the impact of the South African duel economy as "the combined effect of SA's spatial inequality and the structure of its economy have produced a negative double whammy in development terms. The former has constrained the scope for land-based livelihoods to provide a safety net for poor people in rural areas, while the structure of the economy limits the potential for self-employment or informal-sector activity" (Bisseker, 2011).

Baumann defines the Grameen lending as 'developmental' microfinance, rather than entrepreneurial microfinance. Developmental microfinance services are not based on the assumption that the borrowers will create formal businesses; rather they support borrower "livelihood strategies". Baumann defined "livelihood strategies" as a set of assets, activities and entitlements that facilitates household survival and typically relate to a combination of informal business activities, small-scale farming, transfers from employed relatives and other "odds and ends". These strategies ensure survival and reduce household vulnerability but do not necessarily grow businesses or create jobs (Baumann, 2004).

Due to the inherent limitations from South Africa's duel economy described above, most notably being the high operating costs and the competition from the formal sector, it is unlikely that the Grameen model of group lending will be able to achieve much more than developmental microfinance. Further, due to the regulatory constraints coupled with high operating costs, the model is unlikely to achieve sustainability and will remain dependent on donor funding to operate.

However, the Grameen lending principles remain sound and alternative strategies remain possible. The following section describes the alternative available for Microfinance institutions to (i) improve operational efficiency and enhance sustainability and (ii) meets the goals of economic upliftment.

4.1. IMPROVE OPERATIONAL EFFECIENCY

One of the avenues to improve operational efficiency is to utilise an existing group based infrastructure, already present in the informal sector, known as stokvels. Alternatively, more

extensive use could be made of technology to reduce the operating costs of the banks. These options are discussed in further detail below.

Stokvels

Stokvels are a traditional community based lending scheme in South Africa, which is used extensively in the informal economy and was developed during Apartheid as the only means for black South Africans to access financial services. Since the end of apartheid, it is estimated that about R12bn now being collected by these savings societies annually, by an estimated 8 million members (Reuters, 2011).

The stokvel lending principles are aligned with the Grameen Bank's philosophies and the key similarities are discussed hereunder.

A stokvel is a communal buying group, whereby a group of people agree to regularly contribute a fixed sum of money into a common pool of funds. These funds can be drawn by the members in rotation according to the rules of the particular stokvel. (Lukhele, 1990). Members who do not pay the subscription for a period may be expelled from the stokvel and only re-admitted when the arrears are repaid to the stokvel (Mashigo & Schoeman, 2010).

Stokvels provide informal credit and saving financial services to poor households. The credit is used by the members for both daily living and to fund predictable events, such as marriage and education, and unpredictable events, such as illness and funerals. (Mashigo & Schoeman, 2010).

Each stokvel determines their own constitution, which governs how their stokvels will operate. Involving stokvel members in the formulation of their constitution encourages strong member control and mutual monitoring of the activities. Although stokvel has a chairperson and a treasurer, who are responsible for investments administration, all decisions are made collectively. (Mashingo, 2007).

The constitution of the stokvels typically allow for the savings to be allocated in one of the following ways:

- Shared buying arrangements where a large group combines their savings to buy in bulk and divide up the purchases amongst the members;
- Revolving savings programmes where twelve members save and each month one member is allocated the total funds to spend on themselves;

- Loan schemes providing for the investment in members in the group; and
- Home loan schemes where a group will assist each member save up for a home (WhytHawk, n.d.).

Stokvels membership is voluntary. However, the constitution often stipulates that a prospective new member's reliability, trust and loyalty must be established prior to formal acceptance to the stokvel. Poor candidates would be rejected as this would jeopardise the group's ability to maintain contributions and to abide by the constitution (Mashingo, 2007).

Although members can easily leave a stokvel it comes with the loss of the "implied privileges" in terms of reputation, personal relationships, loyalty and member trust. Therefore, rule violation is uncommon (Mashigo & Schoeman, 2010).

This central feature of reputation, trust, norms and interpersonal networks means that stokvels do not need to rely on collateral to guarantee loans as social pressure is used as a substitute for collateral. The peer pressure ensures financial discipline, commitment and responsibility amongst members (Mashigo & Schoeman, 2010).

The stokvels also promotes the "social empowerment" of its members by encouraging income-generating activity, economic independence and responsible behaviour, by punishing irresponsible behaviour and by encouraging the economising of scarce resources (Mashigo & Schoeman, 2010). Thereby, group members learn to manage finances in a disciplined manner (Mashingo, 2007).

Stokvels have a successful history of providing credit access to even the poorest of the poor. However, their capacity to improve the living standards of the "economically marginalised majority" has not been adequately recognised or supported (Mashigo & Schoeman, 2010). As stokvels cost effectively mobilise savings for the creation of small loans to poor borrowers, the Grameen Bank model is perfectly suited to the stokvel market, as enterprise development loans can be advanced directly to the well-established stokvels at a lower operating cost.

Stokvels are thereby a unique social vehicle for South African financial development and social upliftment at relatively low cost (Mashigo & Schoeman, 2010).

Use of technology

The reach of this model could be increased through the use of cellphones. As early as 2009, South Africa reached 100% cellphone penetration (UNCTAD, 2009), meaning that even potential borrowers

in the rural areas would be able to access the mobile services. This would increase the potential reach of clients, while dramatically reducing the costs to service them.

M-Pesa, a Kenyan cellphone based money service, provides the platform for almost 50% of the economically active population to save, send and spend money using mobile phones. Very few of these individuals have access to formal bank accounts. M-Pesa operates as a peer-to-peer platform, which promotes borrowing, lending, saving, spending and investing through existing social and commercial networks. Similar products have become available in other developing markets including India, Afghanistan, Tanzania and Haiti and M-Pesa entered the South African market in September 2010. Initial results of the impact of M-Pesa in Kenya indicate that micro-entrepreneurs overwhelmingly prefer M-Pesa to traditional micro-finance due to the convenience of receiving money over the phone and from the ability to also borrow funds from friends, family and acquaintances.

4.2. ECONOMIC UPLIFTMENT

The Grameen Banks operating in South Africa have shown that social upliftment is possible through the advancement of micro-loans, however the structure of the South African economy is such that the growth in this sector will always be limited. As discussed in section 1.1, the main obstacles to the growth faced by micro-entrepreneurs are (i) lack of access to funding, (ii) lack of basic business skills and (iii) lack of access to adequate information (Chandy & Narasimhan, 2011). This research paper has focused on addressing the lack of funding constraint. However, given the implications of South Africa's duel economy and the shortage of skills in the country, perhaps a better means of achieving bottom up economic upliftment is to focus on promoting skills development including sewing, farming, building, etc so that these individuals become either more employable or are able to establish more competitive enterprises. Therefore, arming the poor with skills may be more beneficial in the long run.

In addition, higher economic growth is required for borrower "economic graduation". Sound macroeconomic policies coupled with good policy governance are critical to the promotion of this economic growth. The government therefore has a vital role in promoting and developing economic growth to sustainably reduce poverty (Khandker, 1996).

5. CHAPTER FIVE: CONCLUSION

The Grameen Bank model addresses poverty alleviation through the provision of enterprise development micro loans to the poor, who use the funds to increase their earnings from productive self-employment activities. The loans have helped improve the lives of borrowers and confirm that targeted credit can be applied to address poverty alleviation and human resource development.

This model has been successfully applied throughout the world but has not met with widespread success in South Africa. Therefore, this research explored the ability of the model to be replicated in South Africa and used to effectively stimulate rural economic development.

Several Grameen Bank replicas operate in South Africa and have achieved social successes, such as improved living conditions and an enhanced ability to educate children, and are able to maintain healthy loan books with remarkably low levels of bad debts. However, they have only been able to reach a limited amount of potential borrowers and have been unable to operate self sufficiently.

The limited growth ability of the model can be attributed to South Africa's duel economy. For the institutions this means high operating costs in relation to other emerging countries coupled with an inability to access borrower savings, while for the micro-enterprises this means limited growth opportunities due to the high level of competition from the formal economy and foreign traders.

The growth of the model could be enhanced through the provision of enterprise development loans directly to the stokvels, which already operate using many of the Grameen Bank philosophies, and through the utilisation of cellular technology. However, the measures are unable to change the fundamental underlying structure of the South African economy and more sustainable rural economic development may be achieved by focusing on rural skills development to better enable the poor to find employment.

The Grameen Bank model is not a panacea for South African growth based poverty alleviation. However, when combined with a broad set of progressive social and economic policies, microfinance can improve the lives of the poor in the short run and can contribute to more significant social upliftment and economic growth in the long run (Bernasek, 2003).

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