Group approaches to financial service provision in rural South Africa

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Foreword

The German Co-operative Federation (DGRV) requested the authors to execute a study on rural finance in South Africa, as well as to research the activities of informal financial groups, or stokvels as we know them in South Africa. The DGRV emphasises appropriate information on which to base their support programme in South Africa. Their experience indicated that group approaches are common to many countries, however very specific local differences exist between groups. This is true not only between countries, but also between different settings in the same country.

Gerhard Coetzee was responsible for the sections on microfinance and small farmer finance. With respect to the rural sociology aspects and specifically the research on informal financial groups the publication is based on the work of Catherine Cross and her team in KwaZulu Natal supported by the work done in the other provinces by Mildred Pheeha, Joseph Kau and Happy Mohane (all from the University of Pretoria). The interview work in the Mpumalanga group study was under the supervision of At Fischer (rural sociologist / anthropologist). The Eastern Cape interviews were under the supervision of Paul de Villiers (former MD of the Ciskeian Agricultural Bank and initiator of the group approach financial product of the bank).

The richness of the results of the research and the fact that this is one of the first comparative studies of informal financial group behaviour in South Africa, combined with the updated overview of rural finance make this a well timed contribution to the rural finance research agenda in South Africa. It is published in the form of a Working Paper. The DGRV's objective with working papers is to disseminate research results and discussions as quickly as possible. This helps to reach another objective, the furthering of the discussion of member-based financial organisations in South Africa.

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Summary

Background and introduction

Several studies on access to rural finance and specifically agricultural finance were executed in the 1990 to 1994 period in South Africa. However, these were always institution or government department specific and it was argued in 1994 that a comprehensive study should be launched to ensure a balanced view on access to financial services in rural areas. This culminated in the Strauss Commission reports in 1996. The Strauss Commission comprehensively studied access to financial services by rural people and found supply to be both inadequate and costly. They made several proposals and some of these are being implemented. They also envisaged a monitoring and evaluation system to ensure that measurement of implementation of proposals is possible. Benchmark surveys in KwaZulu-Natal and Northern province were executed. A range of reports was tabled in 1997. Since 1996, no comprehensive effort has been made to assess the rural finance situation. It is estimated that the majority of the rural population still has no access to formal financial services. Recent consumer surveys indicated a major contraction of commercial bank branches in rural areas. It is estimated whereas more than 50 per cent of South Africans were in close proximity of a commercial bank branch in 1995, this percentage has declined to 30 per cent (1998). Parastatal institutions are decreasing their services and past agricultural banks are transforming and in the process diversifying their portfolios. Thus, barring the efforts of institutions like the Land Bank and others (Finasol, FSA), the perception is strengthened that formal provision of financial services through a retail infrastructure is declining in rural areas. The specific circumstances of small farmers with respect to access to support services and specific financial support services are also believed to be deteriorating.

The Strauss Commission (1996) and Coetzee (1997, 1998, 1999) argued that self-reliance is one of the only answers where supply of formal financial services decrease. As the frontier of formal finance pulls back towards the urban areas very few answers exist for rural dwellers. The advent of the Village Banks of NorthWest province thus pointed to one answer in improving financial services. Albeit not the only answer it does seem to be a viable strategy. This is emphasised by the work of the FSA and Finasol in different parts of the country. Surveys also indicate a rich fabric of home grown informal financial institutions.

The question then is what is the potential of financial co-operative endeavours at the local level? Is it a viable strategy towards improving financial services for rural people and small farmers in South Africa? This study addresses these questions after describing the current situation with respect to supply and use of financial services in rural areas. This entails the assessment of use of formal and informal sources in rural areas (including family and friends, neighbours, moneylenders, microlending institutions, burial societies, stokvels and variants, commercial banks and more). In addition to the studying of existing formal and informal financial institutions opportunities for the provision of decentralised services in the form of financial co-operatives are identified. This entailed studying existing institutions, especially the informal institutions and ascertaining whether opportunities exist for co-operative approaches.

The last aspect of the study entails the identification of elements of the social and institutional fabric of rural areas and rural people that can be mustered to enhance the success of rural financial service co-operatives. These are specific to the structure and operation but also to the rules of co-operatives. This study is indeed needed in the current time frame and

contributes an interesting perspective, as it is sensitive to the customs, social structures and experience of rural people.

Supply of microfinance and its presence in rural areas – unmet demand

The present usage of banking and financial services by micro and small entrepreneurs (including small farmers) is very small, with a minute section of the market presently being reached, estimated at less than one percent. This is the most unbanked area of microfinance, and an area that is still in the introductory phase in the microlending industry. No study exists which provides a comprehensive overview and analysis of overall supply to the lower income and micro and small entrepreneurial market. Existing studies provide an overview of the institutions active in this market, but do not quantify supply in terms of clients reached. This study necessitates an overview of outreach, and therefore an indicative (rather than exhaustive) summary is provided based on an analysis of institutions active in the microfinance market.

South Africa has a vibrant microfinance sector that reflected immense growth over the last decade. It is however focusing on the wage and salary earners and comes mostly targeted as consumer credit. The sector's growth was phenomenal and the current size of the sector on the basis of current portfolio is estimated as R13 billion and the value of loans written per year is estimated at R25.8 billion. The majority of financial transactions however take place in urban areas.

Rural finance in South Africa received comprehensive attention at the policy level through the activities and reports of the Strauss Commission. Many of the recommendations have been implemented, but as we face reality, implementation is slow. The perception exists that, barring the activities of the Land Bank and the village banks, rural financial service offerings are decreasing. This is especially true of formal private sector services to rural people. Rural people make the most use of savings facilities and they save mostly at commercial banks. Even their informal savings activities eventually lands at commercial bank deposit accounts. Commercial bank branches are getting scarcer in rural areas. This increase the transaction costs of rural depositors and indeed contributes to a less efficient rural financial market.

If we judge access to financial services on the basis of the presence of outlets of financial institutions in rural areas it is approximately 35 per cent of total outlets. This is much less than the total proportion of people living in rural areas in South Africa, however it is a fair reflection (even an over statement) of the proportional distribution of economic activity. Further, the outlets estimated in rural areas are skewly distributed, as most of the private sector outlets would be focused on larger towns and smaller cities in rural areas where a higher incidence of wage and salary earners prevail. This leaves a limited supply of financial services (judged on presence of outlets) in the rest of the rural areas.

With the withdrawal of the conventional formal private sector institutions from rural areas on the one hand, and an emphasis on wage and salary earners by the "new" formal private sector financiers it is not expected that financial service provision to rural people will improve. This is especially true for the self-employed rural entrepreneur and the unemployed in rural areas. The fact remains, if rural people do not turn to self-help organisations, no real volume of financial services will be forthcoming in rural areas. This emphasis (and proven reliance) on self-help schemes is evident from the rich fabric of informal financial groups in rural areas.

These groups or collective action endeavours come in many guises and take place in many different locations. It ranges from the joint financial endeavours of the employed, to the joint efforts of the unemployed and destitute.

Informal financial groups to co-operative financial ventures – two sides of the same coin?

This section reflects on the results of the interviews in the six provinces. These interviews were semi-structured and entrance was gain through kinship or friendship ties. The results from the case material suggest that rural savings and credit associations face a number of characteristic problems, but are remarkably robust in spite of their risks. Several groups faced with disappearance of funds have managed to force their management or the guilty party to pay back the missing money, and are either still operating, or expect to resume shortly. The groups, which collapsed entirely, faced an unrestorable loss due the misappropriation, lost their organiser, or suffered from multiple difficulties of an organisational nature. At the same time, it appears to be the groups, which do not have a strong webbing of overlapping social capital connections that are most vulnerable to the other risk factors.

The groups themselves seem to be in the process of evolving from simpler savings mobilisation structures to more complex types, which are oriented toward income generation and are taking up some of the functions of formal banks. Interest ratesseem to have stayed steady or fallen in some of the localities, but at an average 20-30 percent are prevailing for a loan period of five or six months. Interest appears to run higher in areas with less competition in the informal finance market. The overall development of these groups into a more commercial form and toward share schemes may be held back by the prevailing ideology of mutual help and equality, which has resisted the principle of differential division of group assets. It seems as if the members decide on manageable group size and manageable financial products and contain the groups' growth in this regard.

Apart from weak social bases of cohesion, the single most serious risk factor affecting the savings and credit groups contacted is probably financial mismanagement and lack of transparency and prompt reporting on financial issues. Opportunities for mismanagement have proliferated as more complex forms of savings and credit operation requiring a high level of literacy and numeracy have taken over from the earlier types. However, some groups collapsed immediately after formation due to the embezzlement of the first take, indicating extremely weak social capital linkages and a lack of information on which to base member recruitment (linking here with information economics and the dangers of asymmetric information leading to adverse selection and moral hazard).

The risk to group survival from accumulating defaults appears to be less immediate than might be anticipated. Fireproofing rules being adopted by many groups seem to have reduced the risk to the group very significantly.

Instead, the risk to group cohesion and survival often comes more directly from the procedural and leadership demands of running these relatively complex groups, which create serious internal stresses. These stresses are then absorbed or attenuated by the shock absorbing webbing of social capital connections, which wire the better-organised groups together. However, there are in addition demographic and economic red flag factors, which can increase the standing tension within groups. Many of these emerge from the basic conditions of poverty, where people who do not fit the ideal profile for savings and credit activity still need to form such groups. Key constituencies here that are also risk groups may be people of pension age who are still raising young children, and unemployed single mothers without reliable incomes. On the other hand, as the interviews in the Free State showed, some groups were formed based on the rule that any prospective member must be unemployed. Here the cohesion was based on locality and social objectives to accumulate for specific needs, rather than to use the group capital to expand revenue streams.

How well these additional problems are offset by effective and wise management has a great deal to do with group survival. Some considerations include:

- An important factor in stabilising group management may be the availability of outside help or facilitation services, which may be enough to tip the balance toward maintaining operating transparency and good membership relations, and can also provide light for the group management on successful record keeping.

- Another possible dynamic here would be a role for savings and credit groups of the poor formed on a co-operative basis with relatively lower interest rates, and aiming at a wider clientele and relatively high turnover. On the example of village banking, groups of this kind might provide some of the same kind of lower-priced competition for the present groups centring on well-educated people and charging relatively high interest rates.

- Training needs probably centre on wider dissemination of bookkeeping skills to enable memberships as well as leaderships to manage the complexities of contemporary loan books, and to deal successfully with tracking and managing interest accumulation. The lack of financial skills and systems may also provide the opportunity for the provision of very basic standardised financial systems, especially for groups starting out to expand revenue streams from the provision of basic financial services.

Results also suggest a clear need for capacity building work with group organisers as the main leaders looked to by group members. These visionary individuals are not usually superseded as key leaders by formal office-bearers, and may often lack education and technical skills needed to oversee and run successful income-generating groups.

The detail reports on the provincial group interviews provide the context and flavour of each province and the situation each group finds itself. This should be noted in province specific initiatives in the future. The terminology and cultural fit of endeavours should receive serious attention. Göler van Ravensburg (1999) noted that the co-operative concept is not highly regarded in some circles in South Africa. This is mainly due to the inappropriate way in which the co-operative approach was enforced in the past homelands. This was as expected with disastrous results. However, the co-operative concept is being applied in a wide variety of settings, without it being sold as co-operatives. The formalisation of group approaches in the Eastern Cape, the more organised stokvels and burial societies, and especially those that generate increased returns for its members, resemble co-operative approaches. The purist may argue that resemblance is vague, however, the base approach of collective action, of the whole is greater than the sum of the individual components, do apply.

How could we approach the strengthening of current financial groups? This study highlighted several strengthening factors. Many more issues can be synthesised from this initial work. More detailed studies would lead to more variables that can be of assistance in the strengthening of the groups. The *first phase of support* would be to enhance capacity of groups, which are already strong and may wish to work in a more formalised guise, towards better economic returns for members. Information centres and awareness programmes may serve to alert these groups to possible points of support, which they can then access on demand.

A *second phase* would be to evaluate groups that came forward and identify those elements that need strengthening in the specific group in a specific context. This is more like a focused technical assistance for groups then generalised training programmes.

A *third phase* would be to bring groups in areas in contact with one another, to further build on the strength of collective action, now between groups and not between individuals. Obviously this would be a slow process, however, it would be more focused than a general training effort not targeted at any specific point of existing capacity and potential.

To summarise, the following initiatives could contribute positively to formalisation of current group's activities and deepening of financial services in rural areas.

- The promotion of the self-help co-operative through structures already active in rural areas, for example, community services, welfare officers, extension officers to embody the concept of the co-operative promoter. This is important to establish concepts of collective action which may evolve in a local version of a co-operative (for example a stokvel or a burial society)
- The contextualisation of the concept in the area applied by using the traits of successful groups area specific. The same applies for local terminology and cultural fit.
- The development of the ability to identify groups who would thrive in a more formalised format – that is those that want to apply the collective action concept to the generation of economic revenue. We propose the phased approach in this regard.
- The provision of training facilities and systems to support those groups that wants to evolve into more complex financial service formats.

We all grew up together, we are from the same place, many of us are related and we all understand each other's weaknesses
(Stokvel member, KwaZulu Natal)

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1. Introduction

Rural finance in South Africa received a lot of attention during the period in which the Strauss Commission was active, viz. 1995 and 1996. From 1997 the Land Bank and the National Department of Agriculture were implementing some of the Strauss Commission proposals. Over this period a major growth in the overall microfinance sector in South Africa was experienced.

However, hidden in this growth pattern are several problems around the access of rural people and small farmers to financial services. Institutions previously financing small farmers in the past homeland areas are closing down or downsizing under pressure of government cost savings. The supply of financial services to small farmers is seemingly not receiving adequate attention, or very little information is readily available on activities around small farmer finance. Few institutions still concentrate solely on small farmer finance and portfolios are being diversified. This leads to the first purpose of this study that of ascertaining what is the current situation with respect to access and use of financial services in rural areas and specifically for small farmers.

When policy on small farmer and rural finance is studied no new policy statements are evident after the 1995 Agricultural White Paper and the Strauss Commission final report in September 1996. Leading from this situation it is not clear whether any concerted strategy and implementation efforts are being made in this regard. However, there is a range of activities being implemented around decentralised financial systems in rural areas. This started slowly in the 1993/94 period and is now culminating in the structuring and formalisation of local level financial institutions. Some of these are in the form of co-operative type institutions. This interest in co-operative approaches to financial service provision raises the question as to what exactly is the potential for co-operative based approaches. This is a specific emphasis of this study.

The report is divided into eight key sections. Following this introduction, a brief overview of the understanding of the terms of reference is provided. The next section describes the approach and the techniques that are used to carry out the terms of reference and the progress with executing the study. The fourth section describes the supply of financial services to lower income groups in South Africa. The fifth section explains the supply of financial services to rural dwellers and small farmers. It provides a historic overview and the trends, as well as a description of the situation as we find it today. The sixth section turns to the analysis of group based financial activity in rural areas. The qualitative interview results are summarised for the different provinces and the main points of interest in terms of the terms of reference are highlighted. The seventh section elaborates on opportunities for the promotion of co-operative approaches to increase access to rural financial services in rural areas. The last section summarises the findings of the small farmer finance overview, the group based financial activities analysis, the opportunities for co-operative approaches in the provision of rural and agricultural financial services and list a range of recommendations towards the furthering of co-operative approaches.

2. Background and proposed study

Several studies on access to rural finance and specifically agricultural finance were executed in the 1990 to 1994 period in South Africa. However, these were also institution or government department specific and it was argued in 1994 that a comprehensive study should be launched to ensure a balanced view on access to financial services in rural areas. This culminated in the Strauss Commission reports in 1996. The Strauss Commission comprehensively studied access to financial services by rural people and found supply to be both inadequate and costly. They made several proposals and some of these are being implemented. They also envisaged a monitoring and evaluation system to ensure that measurement of implementation of proposals is possible. Benchmark surveys in KwaZulu-Natal and Northern province were executed under the research management of the Development Bank of Southern Africa. A range of reports was tabled in 1997. Since 1996, no comprehensive effort has been made to assess the rural finance situation. It is estimated that the majority of the rural population still has no access to formal financial services. Recent consumer surveys indicated a major contraction of commercial bank branches in rural areas. It is estimated whereas more than 50 per cent of South Africans were in close proximity of a commercial bank branch in 1995; this percentage has now declined to 30 per cent (already in 1998). Parastatal institutions are decreasing their services and past agricultural banks are transforming and in the process diversifying their portfolios. Thus, barring the efforts of institutions like the Land Bank and others (Finasol, the FSA's), the perception is strengthened that formal provision of financial services through a retail infrastructure is declining in rural areas. The specific circumstances of small farmers with respect to access to support services and specific financial support services are also believed to be deteriorating.

The Strauss Commission (1996) and Coetzee (1997, 1998, 1999) argued that self-reliance is one of the only answers where supply of formal financial services decrease. As the frontier of formal finance pulls back towards the urban areas very few answers exist for rural dwellers. The advent of the Village Banks of NorthWest province thus pointed to one answer in improving financial services. Albeit not the only answer it does seem to be a viable strategy. This is emphasised by the work of the FSA and Finasol in different parts of the country. Surveys also indicate a rich fabric of home grown informal financial institutions.

The question then is what is the potential of financial co-operative endeavours at the local level? Is it a viable strategy towards improving financial services for rural people and small farmers in South Africa? This study addresses these questions after describing the current situation with respect to supply and use of financial services in rural areas. This entails the assessment of use of formal and informal sources in rural areas (including family and friends, neighbours, moneylenders, microlending institutions, burial societies, stokvels and variants, commercial banks and more).

These institutions are studied in terms of products, processes, governance and management. This will entail a detailed analysis and description of products and processes around these products, an analysis of the internal functioning and allocation of responsibilities, an analysis of the policies, rules and application of such rules and all facets of functioning of these institutions.

In addition to the studying of existing formal and informal financial institutions opportunities for the provision of decentralised services in the form of financial co-operatives are identified. This entailed studying existing institutions, especially the informal institutions and ascertaining whether opportunities exist for co-operative approaches.

The last aspect of the study entails the identification of elements of the social and institutional fabric of rural areas and rural people that can be mustered to enhance the success of rural financial service co-operatives. These are specific to the structure and operation but also to the rules of co-operatives. This study is indeed needed in the current time frame and contributes an interesting perspective, as it is sensitive to the customs, social structures and experience of rural people.

2.1 Objectives

The specific objectives of the study are:
- To assess and analyse the current situation in South Africa with respect to access to financial services in rural areas
- To emphasise specifically the access of small farmers to rural financial services;
- To identify aspects of the social and institutional fabric in rural areas that can be included in the structuring and rules of financial service co-operatives that will improve success and strengthen these institutions and
- To make proposals on the possible role of financial service co-operatives and specifically where these co-operatives can be formed to replace or formalise informal arrangements.

2.2 The Tasks

The study will be divided into the following tasks:
1. Analysis and description of the current supply of financial services to rural people. This entails an institutional analysis covering the following topics per institution
   - Type of institution, origin, history
   - Financial products provided and systems and processes related to these products (product description in terms of product attributes)
   - Structure of the organisation in terms of governance, management and operations – delineation of responsibilities, rules, role and responsibility of members (in member based institutions), choice and selection of office bearers, organisation of activities like meetings, attendance, exit rules and strategies.
   - Describe the context within which these institutions operate
2. Identify informal group based institutions that may serve as a basis to develop financial service co-operative institutions, make specific proposals in terms of characteristics of current institutions that can be utilised in this regard.
3. Identify elements that should be included in the structuring and setting of rules in local financial service co-operatives.

The different angle in this study is that it has to include more than a mere institutional overview of rural finance in South Africa. It should emphasise and identify traits that can be applied to further co-operative financial approaches and to ensure success when structuring co-operative financial services.

3. Methodology and progress

The broad nature and restricted time frame of this investigation necessitated a specific approach to ensure that eventual strategies to further co-operative financial services are sound and based in the reality of local context. The study is structured along the tasks outlined above.

The first step is to set a working definition to restrict the study to rural areas. This will be important in order to retain the rural focus. We therefore defined rural areas as all areas outside the large metropolitan areas. We take this approach due to the integrated nature of South African rural and peri-urban areas and the fact that that there are many similarities between the livelihood strategies in these areas. However, we provide an overview of the complete microfinance market in South Africa and then break it down in available services for small farmers and other rural entrepreneurs.

The study follows an institutional approach. We structured our report on an institutional basis covering the six identified provinces identified. The initial phases of the study emphasise data gathering and ordering. Several sources of data have already been identified. Although information is available to cover some of the information needs many supplementary interviews will be executed to ensure that the correct procedures and functioning are described per institution analysed, especially for the informal group based institutions. The kind of information needed to assess the behaviour of members in the institutions will necessitate the gathering of primary data through interviews with group members. The emphasis on behaviour, rules and sanctions in member-based institutions emphasise the studying of more informal group based institutions. This is a field that has not received comprehensive attention in South Africa before.

3.1 Data Collection

The study will rely on both secondary and primary information. Secondary information will include:

- Surveys executed in 1997 to serve as benchmark for the monitoring and implementation of the Strauss Commission proposals
- Surveys by the agricultural and rural finance programme at the University of Pretoria
- An assessment of group behaviour of credit groups in the Eastern Cape province in a pilot scheme run by an Eastern Cape Agricultural Bank.
- Information obtained from countrywide consumer and market surveys
- Information gathered by the DGRV
- Information from recent research work by the researchers on this study

Primary information will consist of case studies that will be executed in the six provinces on different member based institutions and more specific survey work on member behaviour, roles and responsibility in selected areas. This will provide the base information for the analysis on aspects that can be applied in co-operative financial approaches.

4. Supply of financial services to lower income groups[1]

4.1 Introduction and structure of section

The terms of references requests an analysis of how the rural population as a target group presently satisfies its financial needs. The terms of reference further request an emphasis on small emerging farmers and female rural inhabitants. In this section of the report these questions will be answered. We will make use of several data sources. First, we will provide an overview of the microfinance market in general. Then we will highlight those services supplied to rural people and specifically to small farmers. However, it is clearly impossible to ascertain the exact use in terms of location and target group of loans disbursed. This will represent a general view and will also represent the supply side of the market overview. Second, we will describe the situation from the demand side. This will be based on the results of recent small farmer and rural surveys, specifically a survey executed in 1997 and 2000 survey on informal credit.

[1] This section is based on secondary information. We build on information as new sources are identified. Most of the information has been generated by surveys executed by the University of Pretoria or work undertaken individually or jointly by the authors.

4.2 Overview of the supply of financial services

4.2.1 Introduction

The demand for banking services by the lower income strata of the population is growing rapidly, due to a variety of factors. These include current low frequency of use of formal banking services by the poor and MSE[2] market; increased income of the lower income strata; income redistribution in favour of lower income people; urbanisation; rising consumer aspirations; the rapid growth of the informal business sector and, perhaps the most important incentive the last eight years, the relaxation of the Usury Act on loans below R6000 in 1992 and recently to loans below R10000. In reaction, there has been considerable growth in the microfinance sector, and the biggest source of growth is from the microlending sector. The conventional formal banking sector seems inappropriately structured to satisfy this rapid growth in demand and choose not to engage directly. The "new" commercial banks, those that were formed recently through acquiring shells of banks with licences or by other methods are emphasising the microfinance market, and are posting quite remarkable results in the process.

How big is the microfinance sector in aggregate economic terms? The microfinance sector is still quite small in comparison with the formal banking sector, but growing much more rapidly. Its contribution to the national economy is probably not accurately reflected in the national data, because of the informal sector nature of many of the industry members, resulting in an under-estimate of size and contribution to GDP. The finance, insurance, real estate and business services sector is a significant contributor to the South African economy, providing approximately 15% of total GDP in real terms in 1998. The total assets of the banking sector at the end of 1998 were R654 billion, with advances totalling R545 billion. In 1999 the size of the microfinance industry was estimated at R10 to R15 billion with advances at R10 billion (Econometrix, 1999). Recently, a comprehensive analysis of the sector estimated the size of the sector on the basis of current portfolio as R13 billion and the value of loans written per year at R25.8 billion. This analysis divided the sector correctly according to loan term and other characteristics, and then compiled an exposure on the basis of annualised figures.

However, any estimate of the size of the microfinance market should also consider the definition of the micro finance market. For the purposes of this study the microfinance market is defined as the market reflecting transactions on loans below R10 000 of poorer people in South Africa. Poorer people are considered as

[2] Micro and Small Enterprise (may include small farmers)

those described in marketing studies as people in and below Living Standard Measurement (LSM) Class Five. In the following table the 1998 results of an LSM classification is presented.

Table 1: Living standard measurement categories

LSM	Number (16+)	%	Female (%)	Unemployed (%)	Monthly income (R)	Savings (%)	Biggest problem	People in household
1	3,738,000	15	59	80	659	4	Unemployment	3.2
2	3,560,000	15	52	74	776	7	Unemployment	3.0
3	4,294,000	18	54	72	929	7	Unemployment	2.9
4	3,314,000	14	51	65	1,244	8	Unemployment	2.9
5	2,041,000	8	52	62	1,664	8	Crime	2.9
6	1,888,000	8	58	61	2,264	6	Crime	3.2
7	2,534,000	10	50	49	5,675	5	Crime	2.5
8	3,246,000	13	49	37	9,752	5	Crime	2.4

Source: Eskom Consumer Surveys, 1998.

Microfinance also refers to the savings transactions of the poorer portion of the population. It is important to consider both savings and credit as this provide a far more comprehensive picture of the financial market within which poor people operate. Of course there are more financial products pertinent in this strata of the financial market. Most important after savings and loans would be the transmission facilities that are an integral part of the lives of poor people, where support systems and sources quite often do not resort within the same location as households. In addition, insurance products in many guises are also considered to be an important financial product that will be demanded by the poor.

The present usage of banking and financial services by MSEs is very small, with a minute section of the market presently being reached, estimated at less than 1 %. This is the most unbanked area of microfinance, and an area that is still in the introductory phase in the microlending industry. No study exists which provides a comprehensive overview and analysis of overall supply to the lower income and MSE market. Existing studies provide an overview of the institutions active in this market, but do not quantify supply in terms of clients reached. This study necessitates an overview of outreach, and therefore an indicative (rather than exhaustive) summary is provided in Table 2. In the next section each institutional form noted in the table is then discussed in more detail, focussing on the future role of the institution in the lower income and MSE market. The purpose of this overview is to gauge future formal support to this stratum of the full financial sector. After this section an attempt is made to estimate the rural portion of clients served by each institutional format.

4.2.2 Aggregate supply

In the following table the present supply of microfinance services in South Africa is described and presented. The assumptions and sources underlying the table are presented in the institution by institution discussion following the table.

Table 2: Retail outreach in the microfinance market in South Africa (1999/2000)

Retail institutions	Note	Source	Loans Rm	Savings	Outlets	Estimated	Loan	Savings

		date		Rm		% Rural	accounts	accounts
Public sector	4.2.3		330	1,646	2,440	36	78,000	2,840,000
Land Bank	i	Mar-00	30		25	80	43,000	
Provincial parastatals	ii	Jun-99	300	600	50	80	35,000	840,000
Post Office Outlets	iii	Jun-99		1,046	2,365	35		2,000,000
Private sector	4.2.4		12,599	4,661	17,132	38	7,951,580	4,740,100
NGOs	i	Dec-99	108	5	30	35	66,000	
Village banks	ii	May-00		1	10	100		1,100
Credit Unions	iii	Apr-00	9	10				6,000
Co-operatives	iv	Dec-99			1,200	80		
Commercial Banks	v	Dec-99	12	4,000	4,000	33		4,000,000
Retail stores	vi	Apr-00	5,000		1,000	35	2,173,913	
TEBA Cash	vii	Apr-00	130	600	172	40	86,667	700,000
Private sector	viii	Dec-99	40	45	20	100	25,000	33,000
Registered small loans industry	ix	Apr-00	7,000		5,700	35	5,600,000	
Pawn Brokers	x	Apr-00	300		5,000	35		
Informal sector	4.2.5		400	1,760	1,150,000	35	0	14,750,000
Mashonisas	i	Apr-00	150		25,000	35		
Burial Societies	ii	Feb-99		1,560	325,000	35		6,500,000
Stokvels	ii	Apr-00	250	200	800,000	35		8,250,000
Total			13,329	8,067	1,169,572	35	8,029,580	22,330,100

4.2.3 Public sector

i. Land Bank

The Land Bank has largely reformed itself in terms of its political positioning. However, the Bank's systems and products, as well as clarity on mandate, have not materialised as clearly. In the microfinance arena the Bank managed to launch their Step-up product successfully in April 1998. At the moment they are approaching 43,000 clients and the repayment level is around 80%. The product is being handled by the Start-Up group in Cape Town and the payments and accounts system is handled by First National Bank and the Postbank. The intention is to expand this product. It starts at R250 loans and the ceiling of the last repeat level has recently been increased to R20,000. The mere fact that the Land Bank is entrusting this product to an agent indicates its approach to co-operation and its use of third parties. They lack a service structure, since they have only 25 branches. These branches service their biggest income sources, namely individual farmers and co-operatives. The Land Bank does extend loans to emerging commercial farmers in their bronze range of products (maximum R50 000).

ii. Provincial parastatals

A wide array of failures and limited success is a good summary of the state of the provincial parastatal financial institutions (previously homeland institutions). We only concentrate on those providing financial services. The majority of the retail development finance institutions at provincial level are in severe financial problems, based on a combination of inefficiency, bad policy and strategy, and a severe decrease in government transfers.

The only successful institution is the Ithala Development Finance Corporation in KwaZulu Natal. This institution is the second biggest public sector mobiliser of savings (after the Postbank). Except for Ithala, the rest of the parastatals are in demise. This will leave a tremendous vacuum, and already now we can see the large number of clients with no access to services. In the Eastern Cape a small rural bank has been formed from the ashes of two conventional homeland agricultural banks that were closed recently. The problem with most of these institutions is a lack of physical premises and outreach (i.e. they have no branch network).

The reformed parastatal banks are increasingly similar in their approaches to the enterprise lenders, except that they have a far greater existing investment and base to build from. Some have savings as a resource (like Ithala with approximately 800 000 clients) and others have institutional investors, which provides them with cheaper access to capital. Some of the largest lenders include Land Bank (which now has a microlending portfolio of 43,000 clients, but an outstanding book of only about R30 million) and Ithala.

iii. Post Office Savings Bank

The Post Bank has the second largest reach to commercial banks on a national scale. However, not all branches of the Post Office provides saving services. Table 3 provides a summary of type and volume of savings held with the Post Bank.

Table 3: Summary of type, number and volume of accounts (Aug. 98)

Products	Number of accounts	Share (%)	Balance (Rm)	Share (%)	Distribution Mostly
Savings Bank	1,755,880	85.9	699.6	73.5	Rural
Telebank	224,173	11.0	43.6	4.6	Urban
Savings Certificates	63,507	3.1	208.7	21.9	Urban
Total	2,043,560	100.00	951.9	100.0	

The Post Bank has recently completed an investigation into the feasibility of providing loans to existing savings customers. This report has not been implemented yet. The majority of the Savings Bank account of the Post Office is held by rural people.

4.2.4 Private sector

i. NGOs

NGOs form an important part of the financial market fabric in rural areas around the world. The problems of conventional development finance policy have made NGOs appear to be a promising option in the field of financing small and micro enterprises. This view was based on a belief in the ability of the NGO to reach the target clients and their ability to capitalise on the vacuum left by the closure of many specialised credit institutions in developing countries. The NGO lobby became quite strong and has been elevated to the status of saviours of the poor. What has happened to NGOs providing financial services? Mostly, they needed continued subsidisation and this in essence is part of their inability to provide answers to the retail financial services problem. This does not necessarily imply that NGOs are bad institutions. They simply are not the right instruments to be applied in expanding retail financial services on a substantial scale. This view is echoed in the Strauss Commission's Final Report (Strauss Commission, 1996).

Although the coverage of NGOs by the Commission was not exhaustive, they concluded that NGOs have very limited coverage in rural areas. The Strauss Commission also calculated that these institutions run at very high costs, which impacts negatively on their sustainability. When comparing local financial services NGOs with international surveys, as seen in Table 4, indications of higher efficiency of the international institutions are visible.

Table 4: Profitability of NGOs in South Africa compared with a Latin American Survey

	Small Enterprise Foundation	Get Ahead Foundation	Rural Finance Facility	Latin American Comparison*
Loan volume per staff member (R)	26,807	26,138	96,145	54,000
Interest earned/average portfolio	46	42	34	45
Interest paid/average portfolio	14	47	15	29
Gross financial margin	32	-5	19	16
Non-interest exp./average portfolio	134	153	120	72

* Adapted from Schmidt and Zeitinger (1995) and Strauss Commission (1995). An exchange rate of R3.00 = $1 was used for the 1992 figures. The interest earned/average portfolio percentage is based on an assessment of interest in real terms. The use of the Latin American Comparison is indicative, and are averages based on a study of 15 NGOs in the region.

Microenterprise lenders are a special group in the micro credit industry. Around the world, microfinance is associated with enterprise development finance, though in South Africa, microenterprise finance accounts for a very small portion of the microcredit market. Though some "consumption" lending may go towards financing productive activities, Microenterprise finance comes largely from NGOs and Trusts. There is very little overt microenterprise finance from the commercial banking sector in South Africa, which has put a floor of R50,000 on enterprise lending. Khula is the major financier of enterprise finance and reports that there was R108 million outstanding among about 26 lenders, accounting for loans to 66,000 microenterprises. This is a tiny portion of the entire industry. Average loan sizes among the microenterprise lenders are generally in the R3-6,000 range.

ii. Village banks

In 1994 the first Village Bank in South Africa was established in the North West Province. This was the initiative of the International Fund for Agricultural Development (IFAD) and the African Rural and Agricultural Credit Association (AFRACA). A village bank is in essence a savings and credit co-operative. Two more Village Banks were formed until 1996 and thereafter the growth in number was dormant until 1999/2000 when two institutions started a concerted effort to increase the numbers of these village banks.

These two institutions, Finasol and the Financial Services Association (FSA) work independently with different sponsors and support groups to increase the number of Village Banks. FSA, is the original institution that was involved in the formation of the North West Province village banks (albeit in a much less formalised format). FSA is being financed by the Department of Welfare to establish the infrastructure to support Village Banks and to ensure more Village Banks are formed. The United States Aid Agency (USAID) is financing Finasol to do in effect the same thing. Finasol had its origin in an endeavour of the South African Sugar Association to reform or restructure its Financial Aid Fund.

It seems as if there is a considerable demand for collective action formats at the grass roots level in South Africa. This is indeed the premise on which most of the activities of FSA and Finasol is based, and their recent success with the formation of more groups are evident of this local demand for financial services.

iii. Credit Unions

Credit unions have along history in South Africa. After a restructuring of the movement the Savings and Credit Cooperative League of South Africa (Ltd) has now been active in Financial Cooperative Development in SA for the past three years. Currently SACCOL has 21 Savings and Credit Cooperatives (SACCOs) registered with it. Our SACCOs have a combined membership of over 6,000 members with member's savings of just over R10 million mobilised. The loan book has a balance of R9 million. All loans are issued to members who are also saving. The development of the movement has happened with minimal donor or Government support. For the past three years SACCOL has received no donor support, which, while admirable, has constrained their ability and capacity to serve the "poorest of the poor", due to the high start-up and servicing costs involved in rural development. While SACCOL has not actively sort out rural area development, it continues to happen as requests for SACCOL's assistance in the development of Financial cooperatives keeps coming in.

iv. Co-operatives

The dominant form of co-operatives in South Africa is agricultural producer co-operatives. Most of these provide financial services to members, mostly commercial farmers and not entirely the focus clientele of this study. However, some 40 of these producer co-operatives initiated project-based endeavours to assist small farmer development. Some of these services encompass financial services in the form of production loans to small farmers.

The extensive infrastructure and existing member base of these co-operatives provide opportunities in the provision of financial services to members. One opportunity exists where commercial banks do not acknowledge the asset value of milk producer's quotas provided by a sizeable local dairy co-operative. It makes sense that the dairy co-operative attaches value to milk quotas and therefore this presents an opportunity for linking this asset value with other financial services. The interest in financial co-operatives goes wider as farmers in the Eastern Cape/Karoo area already expressed interest in the joining of nearly 1000 farmers in a financial co-operative with the objective to negotiate more favourable priced funds for production than is possible by individual farmers.

Due to the over emphasis of producer co-operatives and the retail financial services offered by commercial banks in the past very little attention has been given to financial co-operatives and its potential in commercial agriculture, and extending these services to developing agriculture. The declining importance of agriculture in the portfolios of commercial banks and the costs associated with the provision of retail financial services in rural areas may provide opportunities for collective action in the form of financial co-operatives in rural areas. In effect, the withdrawal of commercial banks in Canada from some farming areas gave rise to the formation of the strong Canadian Credit Union movement. This is something that may hold true for South Africa in the near future.

v. Commercial Banks

In the drive to high profits and growth many of the commercial banks entered into mergers and acquisitions with other institutions in order to grow market share. The five largest banks in South Africa (Standard Bank, ABSA, First National Bank, Nedbank, and BOE) presently hold over 80% of the market share. Although the mergers and acquisition approach is in line with international banking trends, closer analysis shows that for South Africa the bigger banks exhibit diseconomies of scale. The banking environment itself has changed significantly during the last few years, with a clear move towards ATM and internet banking, away from the brick and mortar approach of the past. Old delivery channels of service are on the decline. In the market for deposits the banks are losing ground to smaller niche banks, which are more flexible and which can target specific segments more efficiently than the larger banks.

Commercial banks only provide a limited range of services in rural areas, although they have the highest incidence of branches in the rural areas, together with the Post Office (Strauss Commission, 1996). South Africa also has a higher ratio of branches per population than elsewhere in Africa. However, this higher incidence of branches is skewed, with rural areas having approximately double the number of people per branch than urban areas. A sharp decline in rural branches is also evident. It is estimated that whereas in 1995 approximately 50 per cent of the South African population had easy access to commercial bank facilities, this number has declined recently to approximately 30 per cent.

South African commercial banks are comparable in terms of development and technology to the commercial banks of Europe and the US. Although there may be efficiency differences, South African banks are quite advanced in most aspects. It would therefore be possible to assess international trends in retail banking and expect similar trends from South African banks. Studies show that retail banking would change considerably in the future. Several issues have an impact on commercial banks. Little evidence exists to substantiate scale economies at a "macro" level for consumer banks and financial institutions. This explains the fragmented condition of the sector at present. The shape of retail banking at this stage seems to confirm that those forces pulling banks into smaller, more fragmented units appear to be relatively balanced with those that would naturally lead to consolidation. Consolidation is therefore slow, due to the fact that limited exploitation of scale economies is taking place. The number of products offered by banks is increasing, which drives up the total management cost. It seems that retail banking is inefficient in its current form.

Technology is providing a counter to this trend of inefficiency. Technology revolutionises the moving and storing of money and bank product distribution. In addition to decreasing the costs of current bank practices, new technologies are also creating alternative distribution channels for retail banking products. This result in far cheaper ways to reach customers than by retail branches (in the United States telephone banking is more than 50 per cent cheaper than branch banking), and these non-traditional channels are gaining market share. It is especially the younger customers that are abandoning conventional branches for the alternative technology driven outlets.

The question of the impact of these trends on rural finance also arises. The process and speed of adjustment and transformation of commercial banks will differ among countries. With increased globalisation, the main constraints on change will be country specific regulations and the ability to take up and apply technology. The banks that change the quickest will be recognisable in that they will sharply diminish their branch network, keeping only those branches with upscale or high net worth demographics. They will segment their client base and cross-sell only to those that clearly offer profit potential. They will increasingly interact with clients through electronic devices (the personal computer, the telephone, the Internet), and will clearly diminish the focus on rural areas, and especially remote rural areas. Areas without high net worth demographics, electricity and communication channels will not be part of the new way of banking. To all intents and purposes no major expansion of commercial bank activities should be expected in rural areas. One would only expect banks to show more interest in rural communities, once technology has been made accessible to rural people.

Small farmers and rural people in general will still save with commercial banks, however it will become increasingly costlier to do this as bank branches decrease in number in rural areas. Commercial banks do invest in the microfinance market, however indirectly through purchasing shares in banks with microfinance portfolios (the case of ABSA and Unibank) or by striking strategic alliances with commercial banks with microfinance portfolios (the case of Standard Bank and African Bank).

To summarise –

- Conventional commercial bank presence in rural areas will decline at an increasing rate,
- the farming portion of the commercial bank portfolio will further decline over time,
- emphasis will be on the agribusiness sector and larger producers,
- financial services to farmers will be provided by the broad retail sections of banks and farm specific portfolios will decline. This will be based on the diverse income sources of future commercial farmers.

vi. Retail stores

The furniture and retail store lenders are the latest entrants to the microfinance market, primarily arriving since the creation of the MFRC. The furniture industry is already a R15 billion industry per year in South Africa, with about R10 billion of that being sold on credit. Historically, furniture sales have been made under the Credit Agreements Act, which restricted interest rates to the ceiling of the Usury Act, while allowing the seller to retain ownership of the goods sold as collateral. However with the advent of the MFRC and a clearer more transparent regulatory environment for micro lending, many of the furniture lenders, as well as other retail stores such as Woolworth's, have also entered the market. They have registered branches as micro lenders and are actively promoting micro loans to their regular, well-known clients. These lenders have a solid credit history on their clients and rely on a credit scoring methodology to assess risk and do not require debit orders or other deductions at the source. Most of their clients are salaried employees, however.

vii. TEBA Cash

Teba Cash is the institution responsible for handling the payments system of mineworkers in South Africa. They have 172 offices over Southern Africa. As they have a large compliment of savings accounts and an immediate market (the mineworkers), they recently applied for a banking licence, which has been granted recently by the Registrar. They provide over the counter loan products (very similar as envisaged for the Postbank) and have a loan book of around R130 million at this stage.

viii. Private sector agricultural firms

Started by the Financial Aid Fund of the South African Sugar Association 20 years ago, the trend for the private sector processors has recently been boosted by the cotton ginners and vegetable processors and agents. Farmers are provided with crop establishment capital and in some instances production credit. Some institutions also provide extension services. This method of finance is quite common in non-farm MSEs and in contract farming. It has potential for development on a vast scale in the agricultural sector, especially if commercial farmers can be convinced to contract small farmers to ensure throughput and turnover.

ix. Registered small loans industry[3]

The quick growth of the micro loans industry is a product of a gap in the market for small loans. It is active in making short to medium term loans available to individual borrowers that normally fall outside the formal banking network, due to the inability of the loan applicants to provide conventional collateral. This gap has been filled by institutions that combined easy access arrangements to home-grown collateral models.

[3] This section of the report is drawn from the DTI report on Interest rates and Costs in the micro lending industry, published in 2000.

These operators provide credit services to clients who can provide them with proof of employment and a bank account. The small loans firm withdraws the payments according to the loan contract after each wage or salary deposit made by the employer into the borrower's bank account. This is an urban-based product that does not fit the profile of rural people, who often have inconsistent income patterns. It is not seen as a major growth industry in rural areas, except in larger rural towns.

There are major drives to organise this industry. Several associations have been formed and registration with the newly established Micro Finance Regulatory Council (MFRC) is compulsory, if operators decide ton conduct business within the exemption to the Usury Act[4]. It is expected that some of the larger more formalised operators (some of which already listed on the stock exchange) will investigate the formation of banks soon.

The available information in South Africa fails to differentiate accurately between rural and urban microfinance. There are several different segments in the industry:

- Formal registered firms, which include commercial banks, financial institutions, section 21 (not for profit) enterprise lenders, developmental lenders, and the larger short term money lenders;
- Semi-formal money lenders, which include small unregistered money lenders who are doing it as their main livelihood and the pawnbrokers, who are not formally included in the money lending statistics (yet); and
- Purely informal moneylenders such as the township moneylenders (mashonisas) and stokvels, burial societies, and ROSCAs.

These different lenders can be regrouped into different categories based on the type of lending that they are involved in. The first four are focused on "consumption" lending and lend only to customers with bank accounts and regular salaries (thus urban orientated). The other lenders, either developmental or enterprise lenders, generally base their repayments on cash flow from the productive activity. The source of repayment is the main differentiating factor between the two groups of lenders.

Short Term Cash Lender

The short-term cash lender focuses on loans up to 32 days, or the next pay period. On average, these lenders charge an interest rate of 30 percent per month, all fees included. They are the largest number of individual institutions, but each branch tends to be relatively small in size, with loan book of between R50,000 and R500,000. Their target market is clients with a net income of up to R2,000 per month. The average loan for these firms is about R500, as it takes into very strict consideration the capacity of the borrower to repay at the end of the month. Capital resources come mainly from their own sources, and occasionally from illegal loans from friends (illegal because this is not allowed under South African law).

It is important to note that the rate charged by 30-day cash lenders applies to all loans less than that period or which are repaid on a weekly basis. This raises the effective

[4] Government Gazette of Pretoria, 1 June 1999 (Vol. 408), Department of Trade and Industry, Notice in terms of Section 15A of the Usury Act, 1968 (Act No. 73 of 1968), No. 713.

interest rate of the loan. Very important to note that even with the bankcards and pin numbers, the default rate on loans was in the neighbourhood of 2.5 - 5 percent. Now that the uses of bankcards and pin numbers have been eliminated, this rate has tended to double among the lenders.

Medium Term Cash Lenders

There is often a fair amount of overlap between firms that are lending between one and six months and the term lenders. They have a mix of products that are in majority 30-day loans, but also a range of slightly longer-term loans reserved for their better clients. Average loans in the 1-6 month category can increase to a multiple of the person's actual net take home pay, as they have more time to pay it off. Historically, these lenders have also used the bankcard with pin number as the repayment mechanism. With the restriction of the use of the bankcard, many of these lenders are experimenting with other forms of collection.

Interest rates will vary by the term of the loan, but are usually discussed as a flat rate on a declining balance, which effectively increases the effective rate. The nominal interest rate may be between 30 percent (for 30 days) and 12.5 percent (per month for the period), but the effective interest rate is always greater than 20 percent per month. Because these loans are made to better-known clients, the default rate is generally lower, about 2.5 percent, without the bankcard.

Since the short-term cash lenders and the medium term cash lenders are often lumped together into the same category, since branches often do both, it is difficult to differentiate between them. Overall, the estimates from the credit bureaux specialising in cash borrowers are that there are now roughly 3,500 – 4,000 storefronts in the country. This figure is down from an estimated 6,000 storefronts two years ago, and is expected to continue decreasing this year to a ceiling of 2,500 storefronts by the end of the year.[5]

[5] Conversations with Compuscan and MicroLenders Credit Bureau (MLCB) as quoted in the DTI report, 2000.

Term Lenders

The term lenders make loans for periods between six months and 36 months. The industry started through the use of Persal, the government's central payroll system, using debit orders to get repayment at the source, before the borrower actually had a chance to see the money. Now that these lenders are saturating the market, they are branching out to the larger private companies to establish credit service relationships with them. This is the most rapidly growing segment of the industry, but which has often been restricted by cash to lend. The commercial banks are becoming increasingly involved in this segment of the market, buying up the large term microlenders to develop their access to the market, while reducing the financial constraints on their lending partners.

Housing Lenders

Housing lenders are closely associated with the term lenders. Most long-term mortgage loans are greater than the ceiling set for microloans and fall outside of the exemption. But there are a lot of microloans made in the name of housing, as it is the basis of access to a Persal code, which greatly facilitates repayment. Housing loans can also be secured by provident funds, effectively bringing the risk to near zero. Large banks are involved in housing finance, as well as small specialised lending boutiques. The National Housing Finance Corporation (NHFC) has a number of programmes to assist retail lenders to access finance to on-lend to borrowers for housing improvement.

The NHFC promotes both urban housing as well as rural housing. Lenders in the housing industry include micro lenders, small banks, social housing programmes, and non-bank financial institutions (NBFI) such as NGOs. Methods of securitisation include: none (unsecured), provident fund, payroll, and mortgages. The Rural Housing Loan Fund (RHLF) programme works with micro lenders doing housing in the rural areas with unsecured loans, for which interest rates of 40 percent (on a declining balance) are common. For provident backed loans, margins above the cost of money are typically between four and five percent.

x. Pawn Brokers

Pawnbrokers comprise one of the oldest industries in South Africa. Pawnbrokers use durable and semi durable goods as collateral against money that they advance to individuals in need of short-term (generally less than 30 days) funds. These are often used to finance emergencies, or short term cashflow deficiencies in their daily lives and businesses. The advances are made against the pledged item(s) at a rate of 25-30 percent per month, and the borrower has up to three months to reclaim his items by paying off the advance, or else he forfeits the items that he has pledged. Between the time the pawnbroker has made the advance until the time the client comes to reclaim the item, the pawnbroker must store and maintain the item in original condition. If the client forfeits the item, the item then belongs to the pawnbroker and he is free to sell it as a second hand good. Roughly 35 percent of all pawned items are not paid off and collected.

While there are many debates about the value that is applied to the items that are pawned compared to their real value, the pawnbroker must incur many costs. The pawnbroker must appraise the item, transport it to his shop, store it for up to three months (with the opportunity cost of capital), and, if the item is not collected proceed with the sale, which could take several months depending on the demand for the item.

There are roughly 5000 pawnbrokers in South Africa, according to the Association of Pawnbrokers, which officially represents 1500 of them. Pawnbrokers are registered under the Second Hand Goods Act, so are already regulated and pay VAT on all transactions. The cost structure for pawnbrokers differs radically from the cost structure for micro lenders, due to their primary operation of storing and selling the second hand goods. Most loans are for one month or less. Estimating that the average portfolio outstanding is about R 60,000 per pawnbroker, there is an outstanding monthly balance of about R300 million. Taking an average term of one month (which may be too long), there is an annual turnover of R3.6 billion.

4.2.5 Informal sector

i. Mashonisas

The mashonisas are the informal sector lenders who operate completely outside of the formal sector. When there was no other alternative for borrowers, the mashonisas were their solution. The mashonisas specialise in short term loans, generally for 30 days. Interest rates run in the range of 50 percent per month, though no additional interest is charged if the borrower is late, effectively reducing the cost of lending. Mashonisas are often women with no other means of support who try to earn a living wage out of this job. They will often have 15-20 clients, borrowing an average of R150 –250 at a time, so individually, they are extremely small players. However, there are many of them, estimated at between 25,000 and 30,000 around the country. Monthly earnings by a mashonisa are often quite small, in absolute terms, in the range of R2-3,000 per month. Interestingly enough, it appears that most mashonisas are very close to their clients and the clients are loyal to them. The borrowers' survey, referenced below, demonstrates that most clients of mashonisas look to make sure that they can afford the repayment stream before starting their payments.

The best estimates on the number of township moneylenders are approximately 30,000. This is the figure that has been developed by Du Plessis and is most commonly referred to by researchers. The research by Jimmy Roth on Township moneylenders in the Grahamstown area can be taken as a proxy for the average lender. This was confirmed by a recent survey in the North[6], which found similar statistics. The typical lender has about 15-20 clients with a total outstanding book of about R5,000. Therefore, using this as a proxy, the township lenders account for about 600,000 clients on a monthly basis, equal to the number from the formal moneylenders, but their outstanding book is significantly smaller, about R150 million. On an annual basis this comes out to R1.8 billion.

[6] By Matome Kgowedi from the University of Pretoria.

iii. Stokvels and Burial Societies

In this instance, we use Stokvels to refer to the various informal financial institutions that capture member savings and then either save them or on-lend them to some of the members of the groups on a rotating basis. These include the Stokvels, properly stated, burial societies, and rotating savings and credit associations (ROSCAs). According to the National Association of South Africa of Stokvel Associations (NASASA) there are an estimated 800,000 such institutions comprising about 8.25 million adults accounting for about R200 million a month in savings. They are governed under the Banks Act under the Stokvel exemption. This allows for stokvels, as member based organisations providing services just to their members that are members of the NASASA to be regulated by NASASA. Only 15,000 groups are officially registered with NASASA, but in actuality, as all Stokvels are only providing services to their own members, this is considered to be safe.

In terms of calculating costs associated with lending, there are very few. Management of the associations is voluntary, and most of the funds are normally distributed to members at the time of the group meeting and deposit of funds. Since all repayments, with whatever interest, if any, go back into the group fund for redistribution to the members, the interest rates serve more as mechanisms for forced savings for the members. Interest rates may or may not be charged depending on the group and its operating procedures.

The amount of savings and loans regarding stokvels reflected in Table 2 are merely estimates. Table 2 represents current portfolio. Stokvels, in the form of ROSCAs rotate pay-outs, and thus mostly has no funds in savings accounts and very little in loans outstanding. The estimates are considered to be conservative.

The ESKOM consumer survey of 1998 confirms the existence of numerous burial societies. The surveys estimate 6,5 million South Africans are members of burial societies. We have estimated on a conservative basis that if each one of the members contributed R20 per month for a year the accumulated total will be R1.56 billion. This is a severe under-estimate as many of these societies have monthly contributions per member far in excess of R20 (see survey results in section 7). However, we also consider the reality that much of these savings would be deposited with commercial banks, the Post Office Bank or other formal savings facilities. Thus, double counting may be possible and the total savings figure should be treated with caution.

4.2.6 Discussion

It is clear that the small loans industry (consumer lending) dominates the microfinance loan market, while the commercial banks dominate the microfinance savings market. This is not an exhaustive overview but rather an indicative overview. It relates coverage (outreach) with the high cost of intermediation as found by the Strauss Commission (1996). Table 2 indicates a substantial outreach at first glance. However, if these institutions and their clients are studied more carefully, the following observations can be made:

- More clients have access to savings and transmission facilities than to credit facilities.

- Micro and small entrepreneurs have only limited access to loan facilities.
- Consumer lenders provide the majority of loans.
- The majority of savings instruments are still informal.
- In general, there exists a dichotomy between providers of savings and credit services.
- The majority of the services, indicated by the lack of presence of providers in rural areas, are offered in the larger towns.

5. Rural and small farmer finance

5.1 Recent history of rural and small farmer finance in South Africa

Recent history can best be summarised by the work of the Commission of Inquiry into Rural Financial Services, better known as the Strauss Commission. The Commission was active in 1995 an 1996 and made a range of recommendations of which the most essential are highlighted here.

The Commission considered the major policy objectives of government and its brief, to contribute towards increasing access to financial services for rural people. These services were identified as transmission services, savings products and loan products for consumption smoothing and productive loans (for farm and off-farm activities). The Commission also identified that state grants would be necessary under certain circumstances. The Commission called for a detailed set of guidelines on the management of subsidies and grants, including their phasing out.

A role was identified for the state to facilitate as well as co-ordinate the provision of financial services, with special attention to the needs of women. In this regard the Commission proposed that the Land Bank be tasked to fulfil this role. The way in which the Land Bank, the state and other institutions act must be in support of the market. At the same time the inherent weaknesses in the existing institutional fabric must be acknowledged, as these institutions are not able to contribute to the aims of rural reconstruction on a national basis without appropriate and active support.

A review of the policies and activities of different state institutions, such as government departments and parastatals pointed to the dangers of lost development potential unless co-ordination takes place. The Commission therefore argued that the state must ensure that the improved availability of rural financial services is provided as part of an integrated rural development strategy. This programme must include the land reform and housing programmes, the upgrading of infrastructure such as the provision of water, electricity and roads and capacity building, especially at the level of rural local government.

The Commission also argued that the state must acknowledge the current gap in rural finance delivery, and an overlap in the prospective policy briefs of the state funded development finance institutions. International experience points to the success of multi-sector financial institutions at a retail level and a rich discussion exists on apex institutions internationally. However, there is very little experience, and little mention is made, of the advantages and disadvantages of multi-sector *versus* single sector wholesale institutions. The Commission accepted that all national development finance institutions have mandates to either continue or commence the extension of wholesale lending in rural areas: The National Housing Finance Corporation (NHFC) has earmarked dedicated funds; The Development Bank of Southern Africa (DBSA) will fund rural infrastructure projects; Khula Enterprise Finance (KHULA) intends to finance Small, Medium and Micro Enterprises (SMMEs) in rural areas. The Industrial Development Corporation's portfolio already includes large-scale agro-industrial investments. The Commission supported the need for a financial institution at national level, such as the Land Bank, with both wholesale and retail activities and the responsibility to dedicate special attention to the needs of land reform programme beneficiaries. The Final Report (Strauss Commission, 1996) of the Commission emphasised that the Land Bank should focus on only agriculture as a sector, while the Interim Report (Strauss Commission, 1996) looked at agriculture as the primary focus, but did not exclude a multi-sectoral approach. A focus on a single sector can contribute to increase risk exposure for the institution. Especially in the South African agricultural setting it may imply increased covariant risk.

The Commission recommended that the future role of each of the provincial development corporations should be the result of specific consideration and consultation. This should be a joint approach of the national Ministry of Finance, the national development finance institutions, the provincial departments and the provincial development corporations. The proposed development council should provide guidelines for this purpose, without attempting to design detailed blueprints for implementation at the provincial and retail level. This approach ensures that within a flexible framework, specific implementation strategies that reflect the reality of a specific setting or province could be worked out at provincial level, rather than being prescribed from the national level. Overall the same rules should apply; implementation should however be realistic and pragmatic.

At the retail interface with rural clientele, the Commission recognised the important role of the Post Office in satisfying the most basic financial service needs, especially of the poorest, less mobile segments of the rural population. Commercial banks have, however, increased their outreach, and are well-placed to offer savings facilities in the larger rural towns and respond to loan requests from small business entrepreneurs. The NGOs have shown themselves able to reach a micro-enterprise level that the formal banking institutions do not yet serve. The Commission proposed a multi-pronged strategy at retail level rather than a single institutional strategy. The purpose was to accommodate flexible approaches and reflects the reality that the diverse circumstances in the country require diverse institutional approaches. Furthermore, the analysis done by the Commission showed that none of the current institutional structures proved to be highly successful in reaching rural clients, especially deep rural clients, and therefore it will be short-sighted to choose a single institutional strategy in this regard.

In order to foster an integrated approach to both urban and rural development the Commission considered it essential to create an entity to co-ordinate and guide the activities of development finance institutions. This entity, referred to as the Development Council by the Commission, would be supported by a secretariat that could also play a part in structuring the reporting requirements for entities that make use of state support. All development finance institutions and other recipients of state financing would be obliged to conform to appropriate reporting and accounting standards, as the introduction of minimum disclosure requirements would enhance transparency and accountability. This function should be monitored and implemented by the Development Council's Secretariat.

The Commission also recommended that legislation governing agriculture, banking and land, presently in force in different areas of South Africa, should be harmonised as soon as possible. The Commission gave attention to legislation of the hitherto un-legislated sections of the financial market (for example, NGO financial service organisations, village banks type organisations, savings and credit co-operative type institutions) and proposed that specialists in the field should attend to these complex issues.

The Commission argued that a process actively guided by the state, should be launched as soon as possible to transform the rural financial services sector. This process should build on the strength of existing local level institutions in the private, public and voluntary sectors. The need for a wide range of service providers delivering different products and catering for the diverse rural financial needs was accepted. The Commission favoured fostering a much wider retail financial services network. However, the Commission was concerned about longer term sustainability as well as outreach.

The Land Bank's wholesale function will be geared to fostering, nurturing, supporting and co-ordinating local and provincial level rural financial institutions, be they NGOs, development finance institutions, co-operatives, commercial bank branches, local authorities, or any other kind of institution seeking to render agricultural and agriculturally-related financial services. Essentially the Land Bank's "wholesale" function should reach those "retailers" who seek to serve the individual and small group agrarian needs of people in the "deep rural" areas, e.g. small scale individual farmers, groups of female vegetable gardeners and small scale poultry producers who are far away from the relatively limited retail branch network.

The responsibility of the Department of Agriculture to promote agricultural development is acknowledged. The Commission, however, recommended that the Department terminate the ACB and suspend current policy initiatives, which would lead it to the role of a direct (central) wholesaler.

The Commission identified female farm workers; male farm workers; landless, unemployed rural poor; pensioners; small-holders; contract farmers; rural businesswomen; rural businessmen and small scale employers and large scale rural employers, including commercial farmers as requiring special support measures to gain access to financial services. The Commission also drafted guidelines on the application of subsidies and institutional transformation.

These recommendations of the Commission were put forward against the background of a set of guidelines, based largely on comparative international experience. The set of guidelines is important for this study and includes:

- views on the access to financial services;
- the application of commercial principles;

- diversification in terms of different financial services and sectors;
- ensuring that existing capacity is not eroded and refraining from the formation of new structures (rural areas in South Africa are characterised by a plethora of institutions with overlapping competencies and a lack of co-ordination - existing structures should be adapted, rationalised and co-ordinated to serve the needs of reconstruction);
- flexibility where locational differences are acknowledged and incorporated in policy and strategy;
- incentive based approaches;
- improving information flows to ensure better decisions;
- the management of risk and the structuring of the rural finance system in order to minimise the impact of covariant risk; and
- the detrimental effect of direct intervention by the state in retail financial markets.

Discussion of the Strauss Commission reports

The Commission Reports emphasised a paradigm shift and a movement away from the supply-led approach, rather than a detailed programme for implementation in order to increase access to financial services in rural areas. This shift is indeed necessary as most of the South African parastatal institutions follow a supply-led approach, as proved by the Commission. Although the Land Bank has been tasked to fulfil certain functions, no point exists where these functions can be co-ordinated with activities in the provinces. As the provinces have constitutional responsibilities, and the provincial governments are the only shareholders of the respective provincial development finance institutions, they should change their approach and transform these supply-led-type institutions. At this level a number of different activities are underway. It is not clear, though, whether these activities will get adequate political support, neither is it evident that they are co-ordinated, and no overall actions are taken to solve the core problem – namely, access to retail financial services.

The Cabinet of the Republic of South Africa accepted the Strauss Commission proposals in August 1997 (Agricultural News, 1997). The Land Bank, which previously reported to Cabinet through the Ministry of Finance, now reports through the Ministry of Agriculture (Agricultural News, 1997). This continues the distinct agricultural emphasis of the Land Bank. The shift in thinking on the role of the Land Bank in the development finance system, but more specifically, as rural financier, also changed between the publication of the Interim Report of the Strauss Commission and the Final Report (Strauss Commission, 1996). In the Interim Report of the Commission it was emphasised that the Land Bank should provide wholesale financial services to retail institutions in rural areas across the whole spectrum of sectors, not only for agriculture. In the Final Report (Strauss Commission, 1996) this recommendation was narrowed to include financing of agricultural activities only. This, of course, increases the exposure of the Land Bank to covariant risk, and is a contravention of the Commission's own guidelines, specifically the guidelines regarding the minimisation of risk.

The lack of clarity in the Final Report (Strauss Commission, 1996) on co-ordination of rural financial issues aggravates the overall lack of clarity in the field of rural development co-ordination in the country. Between the Interim and the Final Reports the Commission changed its views on the responsibility to co-ordinate rural finance issues, which contributed to this lack of clarity.

Lastly, the Commission gave a clear proposal on how the overall development finance system should be co-ordinated. It did not provide any indication of the relevancy of the structure of the development finance system in South Africa. Although this was not included in the brief of the Commission, it did define a role for the Land Bank within this system, without questioning the system itself.

Conclusion

The Strauss Commission considered the reality of the rural areas of South Africa, the demand for financial services and the current institutional structure and, against a set of guidelines, made a number of recommendations directed at different problems. Some proposals attended to the access problem and the expansion of retail financial services in the provinces. Another set of proposals addressed national level responsibility for providing capital and support to provincial level institutions. Legal issues were also addressed, especially the legal status of women. A further set of recommendations aimed to structure a national level support system for rural finance retail institutions in the form of the Land Bank. The Commission also proposed a structure to achieve co-ordination between national level institutions.

The most important paradigm shift brought about by the Commission was the rejection of a supply-led system of rural credit. Thus subsidised interest rates and credit programmes in which government decides what is best for the client were rejected. The Commission emphasised that a broad range of services should be accessible, namely saving and transmission facilities and credit products within a demand driven system. It further emphasised the importance of the retail network in rural areas to achieve access to these services. In this regard special mention was made of a role for the Post Office with respect to the provision of savings products, transmission services and other agency services. The Commission also stated that although subsidies are necessary, they should be implemented within strict rules and be finite in nature. The Commission supports an integrated approach, in which it is clearly stated that financial services on their own will be inadequate.

The Strauss Commission recommendations pose several challenges. The most important is not the structuring of the national level financier - the real challenge lies at the retail level. Many countries have failed dismally in this regard and few successes can be noted. The challenge is essentially to achieve success within a specific set of guidelines, the most challenging being to achieve sustainable institutions that impact positively on development by ensuring wide access to financial services. The second challenge lies in achieving co-ordination between government departments and a host of institutions to achieve a positive development impact. Co-ordination between land reform programmes, agricultural development initiatives, provision of infrastructure and basic services and the provision of communication and energy services is an essential requirement of successful rural development. To this should be added the challenge to make local government work.

Another prominent challenge is political commitment to meeting these challenges, one of which is to refrain from interfering in the rural financial markets. Past approaches saw the state using financial markets as a vehicle to distribute subsidies. The challenge is to leave financial markets to their real role, that of allocating financial resources to viable investments.

5.2 The current supply of rural and small farmer finance

Table 2 provides adequate information on which to assess the scope of rural and small farmer finance. As stated, it would be virtually impossible to do a clear delineation between rural and urban microfinance. In Table 2 a column was added that estimated the number of outlets in microfinance institutions that one would find in rural areas. It is estimated that approximately 37 per cent of 19500 formal retail outlets are in rural areas where a client could enter into either a loan or a savings transaction. It is also estimated that approximately 35 per cent of the 1,150,000 informal "outlets" in South Africa can be find in the rural areas.

If we turn to financial services for small farmer agriculture it is even more difficult as it is expected that many diversions of loan funds do occur due to the general unavailability of sources of small farmer agricultural credit. Much of small farmer agricultural activity is also cyclical in nature and many "small farmers" will leave farming if economic conditions improve and wage income opportunities are more available. On the other hand, one can also assume that a sizeable proportion of small farmer credit also gets diverted, due to the simple fact that many "small farmers" are forced to obtain the credit for small farmer purposes, albeit that they have other needs than for agricultural production. We have to ask ourselves the question, what is a small farmer. Without entering the minefield of definitions Table 5 serves as an indication of the confusion around the concept of small farmers.

Table 5: Selected results from farm household and small business surveys in two provinces (1997)				
Item (in %)	Small Farmers surveys		Small business surveys	
	NP (n=150)	KZ (n=152)	NP (n=270)	KN (n=225)
Agricultural income as % of gross income	3.4	2.8	1.0	8.5
Percentage who used loan finance to finance:				
• Durables/assets	4.0	9.9	14.0	16.0
• Farm inputs/other inputs	7.3	9.0	7.0	11.0
Savings at (in % of respondents):				
• Formal institution (average distance km)[a]	29.0 (60.7)	29.7 (45)	92.0	77.0
• Informal institution (average distance km)[b]	80.7 (0.0)	29.6 (19)	64.0	76.0
Sources of finance for establishment of business:				
• Personal savings			93	73
• Retrenchment package			30	12
• Pension			17	1
• Loan from family or friends			10	5
• Loan from development corporation			6	6
• Income from other business			4	13
a. The institutions with highest use. b. Information not available for small business surveys				

The table confirms the fact that rural people have diverse income streams that may include farming as a source. This is not entirely surprising as it represents one of the numerous ways in which poor people manage risk, i.e., by diversification of income sources. When we interview on the basis of stereotyped notions of small farmers, we may find that a "small businessman" has a higher income from farming activities than a "small farmer". We may also find that the majority of small farmers may be female.

However, it is assumed that since agriculture plays such a small part in the household income streams of most small farmers that loans for agriculture are quite scarce and targeted towards those that are fulltime farmers (ironically the higher risk farmers). To refer to small farmer finance may therefore be somewhat incorrect, whereas the concept of rural finance is non-sector specific and emphasises rural areas as the locality of financial transactions.

It is estimated that less than 1% of the portfolio of the Land Bank is for small farmer financing (loans below R10000 to keep with our definition of microfinance). Approximately 30% of the outstanding small business finance book of provincial parastatals will be for small farmer finance. This will decline and should not rise above 25% as most of these banks cap their exposure to agriculture after the restructuring of these institutions.

It is expected that there exist a leakage to farming activities in the portfolios of some institutions without specific farming loan products. These institutions include NGOs, Village Banks, agricultural co-operatives, TEBA Cash, stokvels and even the microlending sector. It is however very difficult to assess the magnitude of this leakage.

5.3 Access to financial services for rural households and small farmers

In the final analysis we are focusing on the access to financial services by rural people. In this section we reflect the expressed demand of rural people for financial services. Note that demand is equated to expressed demand since no comprehensive demand study with respect to rural finance have yet been executed in South Africa, barring the analysis of the Strauss Commission that qualitatively derived demand from a description of economic activities in rural areas. In Table 6 and 7 some results of a survey executed in 1997 are reflected to serve as an indication of the characteristics of rural households and their use of financial services.

It is clear from the tables that farming plays a small role in terms of income, although a major proportion of small farming and small business households (thus rural households) cultivates the land and produce crops. Very small proportions of crops or livestock are sold and the majority of the households are deficit producers (Van Zyl & Coetzee, 1990). The majority of households in all the surveys do not access credit (or are unable to access credit services) while most households are engaged in savings activities.

A rich fabric of informal financial arrangements was identified, although not at a comparable frequency with urban areas. Under the conventional approach clients would have been bombarded with credit, while in the circumstances outlined in the surveys they do not demand a high level of credit. The clients in these surveys accessed loans from the development corporations (or provincial parastatal financial institutions) and the informal markets. This may indicate an inadequate supply of formal credit either in the form of no access or inappropriate financial products on offer. Most people who save money have commercial bank accounts. This indicates an effort to deposit savings since the majority of rural branches of commercial banks are in medium to larger towns, which are normally far away from these clients. The PostBank and NGOs did not feature in the survey results. In the case of the Post Bank it may be due to the fact that not all rural Post Office branches offer savings facilities. It may also indicate the inefficient services provided based on outdated savings product technology (this has recently been addressed by computerising the manual centralised processing system of the Post Bank). Very few financial NGOs are active in rural areas in South Africa and the penetration of the rural finance market by NGOs is therefore negligible.

Table 6 Illustrative profile of farming households based on recent surveys in two provinces

		Northern Province (N=150)		KwaZulu/Natal (N=152)	
Household characteristics					
• Male household head (%)		68.0		72.4	
• De facto female household head (%)		99.3		66.4	
• Household size		-		8.8	
Land tenure					
• Cultivate all land (%)		79.3		58.6	
• Leased land out (%)		8.0		9.9	
• Borrowed farm land (%)		9.3		13.8	
Services and energy use (% of households)					
• Use grid electricity		7.3		61.8	
• Use flush toilet		1.3		1.3	
• Cook with fire wood		95.0		78.9	
• Water source unprotected		83.3		66.4	
• Public standpipe		44.0		19.1	
Gross annual income (R)					
• From farming		394		637	
• From wages		9308		14157	
• From micro enterprises		149		1294	
• From remittances		974		4251	
• From pensions		1489		2667	
Farm assets - % of households with:					
• Car/Bakkie		5.3		22.0	
• Tractor		5.3		2.0	
• Trailer		2.0		1.3	
• Plough		4.8		6.0	
Credit used to purchase durables (% of households)	Main source of credit Commercial bank - CB Private supplier - PS				
• Car/Bakkie		3.3	CB	9.9	PS
• Generator		1.3	-	2.6	-
• Refrigerator		4.0	CB	32.9	PS
• Television		2.0	-	19.7	-
Savings facilities used (% of households)	Distance to institution (km)				
• Banks		30.0	60.7	48.7	45.0
• Money keeper		0.0	0.0	3.9	21.0
• Informal		80.7	0.0	29.6	19.0
Farm inputs financed on credit (% of households)					
• Fertilisers		7.3		9.0	
• Seed		6.0		5.0	
• Farm equipment hired		2.7		0.0	
• Chemicals		0.7		6.0	
• Veterinary medicines		0.7		0.0	
• Livestock feed		0.0		0.0	
• Ploughing services		0.0		9.0	
• Transportation services		8.0		10.0	
Credit source used to finance farm inputs and implements (% of h/h)					
• Local money lender		0.7		0.7	
• Friend or relative		4.7		3.3	
• Development corporation		10.0		0.0	
• Miller		0.0		0.0	
• Stokvel		0.0		0.0	
• Savings club		0.0		0.0	
• Input supplier		0.0		2.6	
• Commercial bank		0.0		0.0	

Source: Adapted from Ouattara and Graham, 1997

Table 7: Illustrative profile of small business households based on recent surveys in two provinces	Northern Province (N=270)	KwaZulu-Natal Province (N=225)
Average age	26	46
Female (%)	21.6	22.9
Women who can sign contract without husband's permission (%)	33.0	70.7
Number of years in operation	8.3	10.0
Number of workers at start	3.2	4.5
Average value of business at start (R)	5 612	4 509
Number of current employees	3.5	4.6
Sector of operation (%)		
• Construction	37.8	35.5
• Manufacturing	26.3	26.7
• Services	35.6	37.8
Multiple sources of financing business at start (%)		
• Personal savings	93.3	73.3
• Retrenchment package	29.6	12.0
• Pension	17.4	0.9
• Loan from family or friends	10.0	4.9
• Loan from development corporation	5.9	6.2
• Income from other business	4.1	13.3
Sole ownership (%)	87.4	93.8
Registered business (%)	33.0	22.7
Place of work (%)		
• Home	37.0	34.7
• Adjacent to home	7.4	5.3
• Market	50.4	33.3
• Place of delivery of service	5.2	26.7
Selected income, input and output indicators (R)		
• Average wages received per month	1326	1 102
• Average remittances received per month	739	1 360
• Average pensions per month	414	438
• Average business income for business 1 per month	3 601	2057
• Average business income for business 2 per month	3 796	1 979
• Average business income for business 3 per month	7 721	2 800
• Average annual agricultural income	1 250	10 886
• Average value of physical assets on hand	17 913	12 995
• Average value of inputs per annum	1 067	12 703
• Average value of output per annum	92 031	58 044
• Average labour expenditure per annum	25 360	41 380
Use of loans (%)		
• Asset finance: Cash loans	10.0	10.0
• Asset finance: Hire Purchase	14.0	16.0
• Supplier credit	7.0	11.0
• Customer advance	16.0	29.0
• Customer loans	18.0	16.0
• Shopkeeper loans	56.0	-
Savings (%)		
• Formal : Mostly commercial banks	92.0	77.0
• Informal: Stokvel	26.0	76.0
• Informal: Burial society	64.0	22.0
Electronic banking	35.0	18.0
Handling of shocks or misfortunes (%)	21.0	52.0
• Main principle cause: Stolen equipment (% of shocks)	52.0	31.0
• Main fallback mechanism: Personal savings (% of shocks)	67.0	24.0

5.4 Conclusion

The present usage of banking and financial services by MSEs (including small farmers) is very small, with a minute section of the market presently being reached, estimated at less than 1 %. This is the most unbanked area of microfinance, and an area that is still in the introductory phase in the microlending industry. No study exists which provides a comprehensive overview and analysis of overall supply to the lower income and MSE market. Existing studies provide an overview of the institutions active in this market, but do not quantify supply in terms of clients reached. This study necessitates an overview of outreach, and therefore an indicative (rather than exhaustive) summary is provided based on an analysis of institutions active n the microfinance market.

South Africa has a vibrant microfinance sector that reflected immense growth over the last decade. It is however focusing on the wage and salary earners and comes mostly targeted as consumer credit. The sector's growth was phenomenal and the current size of the sector on the basis of current portfolio is estimated as R13 billion and the value of loans written per year is estimated at R25.8 billion. The majority of financial transactions however take place in urban areas.

Rural finance in South Africa received comprehensive attention at the policy level through the activities and reports of the Strauss Commission. Many of the recommendations have been implemented, but as we face reality, implementation is slow. The perception exists that, barring the activities of the Land Bank and the village banks, rural financial service offerings are decreasing. This is especially true of formal private sector services to rural people. Rural people make the most use of savings facilities and they save mostly at commercial banks. Even their informal savings activities eventually lands at commercial bank deposit accounts. Commercial bank branches are getting scarcer in rural areas. This increase the transaction costs of rural depositors and indeed contributes to less a less efficient financial market.

If we judge access to financial services on the basis of the presence of outlets of financial institutions in rural areas it is approximately 35 per cent of total outlets. This is much less than the total proportion of people living in rural areas in South Africa, however it is a fair reflection (even an over statement) of the proportional distribution of economic activity. Further, the outlets estimated in rural areas are skewly distributed, as most of the private sector outlets would be focused on larger towns and smaller cities in rural areas where a higher incidence of wage or salary earners prevail. This leaves a limited supply of financial services (judged on presence of outlets) in the rest of the rural areas.

With the withdrawal of the conventional formal private sector institutions from rural areas on the one hand, and an emphasis on wage and salary earners by the "new" formal private sector financiers it is not expected that financial service provision to rural people will improve. This is especially true for the self-employed rural entrepreneur and the unemployed in rural areas. The fact remains, if rural people do not turn to self-help organisations, no real volume of financial services will be forthcoming in rural areas. This emphasis on self-help schemes is evident from the rich fabric of informal financial groups in rural areas. These groups or collective action endeavours come in many guises and take place in many different locations. It ranges from the joint financial endeavours of the employed, to the joint efforts of the unemployed and destitute.

6. Group based financial activity in six provinces

6.1 Introduction

This section reflects the initial of findings of detailed case study work in six provinces. The approach was to execute the interviews in one province (KwaZulu-Natal) and then to follow with the rest of the selected provinces based on the experience in KwaZulu-Natal. This also put us in a position to use a tested interview guide in each province and to use less experienced researchers (at a lower cost) to execute the interviews in the other provinces.

The interviews in KwaZulu-Natal were followed by the interviews in North West Province, Northern Province and Free State. Thereafter the interviews in the Eastern Cape were conducted. The Eastern Cape interviews were targeted to more organised, semi-formalised groups formed as part of pilot testing of group based financial products by the now defunct Ciskeian Agricultural Bank. These groups are now the clients of the newly formed Uvimba Rural Finance in the Eastern Cape. Since the purpose of the interviews were to learn lessons, rather than get sample survey information to infer from, the collection of interviews present results due to a difference in context and poverty levels of the interviewed. The selection was based on the point of departure that interviews should provide a spread of experiences.

The methodology is explained in the next section while the interview results for each province is summarised in the following sections. Lastly a discussion synthesises some observations from the collection of interviews. The summaries provided in the next sections have not been edited (other than for grammar) and has been left in the narrative of the interviewers to reflect the knowledge and context of the areas they know well (except in the case of KwaZulu-Natal and the Eastern Cape the reports were written by the interviewers).

6.2 Methods: Approaching grass-roots credit delivery

Addressing small-scale finance in rural communities is a task with technical difficulties. There are no official statistics, national or provincial studies able to give an accurate representation of the universe of community savings and credit groups, making it impossible to structure a formal random sample. Limits on the time and resources available at this preliminary phase for the primary data collection make it difficult to develop breadth of coverage on any other basis, and constrain how much depth can be developed in case studies.

In addition, it is an established axiom of the sociology of rural village economies that household finance in general and household small business operations in particular are protected by elaborate privacy conventions in most parts of the developing world. These are very sensitive areas for interviewing unless research relations have been developed with great care over an extended period of time (cf Hill l970, Connell & Lipton 1977). Survey work in particular around the private economy of the household is not likely to meet a favourable response without preliminary preparation in some depth.

In the light of these factors, the methodology developed for the primary data collection exercise focussed on qualitative work, and did not attempt survey techniques, which could be perceived as intrusive and unwelcome, and would be likely to yield unreliable data. Instead, the study adopted the fastest reliable method available for use in rural communities, in the form of *key informant interviews*. This technique yields relatively reliable data quickly on sensitive matters if the interviewer is skilled and is working as much as possible within the framework of existing relationships, so that trust and rapport in respect of privacy can be developed rapidly.

Depth and accuracy of coverage were entrenched by requesting at least two interviews from each group in the sample, with one interview to be carried out with a member of the group's management and the other with an ordinary group member. This approach was adopted in order to confirm replies and shed slightly differing lights on the operations of the groups depending on the standpoint of the person interviewed. However, in view of the tight time frame, in KwaZulu Natal for some of the groups' only one interview was obtained while two interviews per group was the norm in all the other provinces. Interviews were conducted in the relevant language per province but written up in English, and were submitted hand-written.

These interviews were informal and open-ended, carried out in terms of the semi-structured questionnaire and interview guide developed for the study by the principal researcher and adjusted by the rest of the team. Interviewing therefore involved considerable discretion on the part of the interviewers in following up promising lines of inquiry, and also in allowing respondents to develop an argument and a point of view as they told their stories in their own way. Throughout, the research task was explained to the interviewers in terms of understanding the dynamics of group process in these self-organised groups. It was important that interviewers speak the local language, know local customs and culture and knew when to probe and when to change over to other questions.

Based on the written interview texts, a comparative analysis was developed focussing on the themes of social capital and recruitment processes, perceived objectives of group participation, group rules and procedures, contextual differences, and factors associated with success or failure.

Overall, this methodology appears to have yielded good results on a cost-effective basis and within a short deadline. Both qualitative information in some depth and quantitative information suitable for coding and tabulation have been delivered. Results have given relatively reliable qualitative accounts of a highly sensitive area in enough depth to allow for a tentative preliminary assessment of trends and dynamics, while giving some insight into the financial functioning of the groups interviewed.

6.3 KwaZulu-Natal

6.3.1 Introduction

The KwaZulu-Natal interviews were the first executed and served as learning area for the more focused execution of the interviews in the other provinces.

6.3.2 Salient points

The KwaZulu-Natal case material suggests that successful groups can work in one of two ways, depending on the background of the area and the characteristics and goals of the participants:

Groups based on social capital: In a stable community or a stable institutional context, groups can often hold together by accumulating several layers of social capital linkages, which hold group members in a tight web of relations that is not easily broken even by severe stresses. The most effective connections appear to be extended kinship combined with close, long-term identification with the larger neighbourhood. These bases of association often seem to come together with co-membership in other groups that imply relations of mutualism and respect: either church groups or business associations appear in the data in this connection. In this kind of context groups may feel unable to drop misperforming members, and instead work to exert pressure on the members suspected of malpractices to change their behaviour and meet expectations.

Groups based on performance and leadership: In areas with an unstable and mobile population, where social capital linkages may be relatively shallow, groups appear to depend closely on their leaderships and particularly on the role of the group organiser, whether or not the organiser holds an office. These groups appear to mobilise around specific individuals, drawing in a relatively indirect way on the social capital resources as well as on the personal qualities of the key leaders. More stress then comes onto the leadership's executive responsibility to maintain the group in working order and ensure that potentially disruptive misunderstandings and failures to meet obligations do not develop into internal splits. Other linkages between group members then help to maintain group coherence but may not be the central mechanism for group continuation. Characteristically, these groups appear to be more willing to expel members who do not conform to rules and expectations, and seem to view membership in a more conditional, performance-related light. Their expectations around goals and objectives are also likely to be more individualistic and less closely tied to mutual aid and a contribution to the community, though these motivations seem to present in nearly all groups at a higher or lower level.

Default risk

Although failure to repay loans is a serious problem and is mentioned in many of the case histories, it appears as a major threat to the group only in a small number of cases. None of the failed groups contacted fell apart because of loan defaults resulting in insolvency. Likewise, few of the existing groups seemed to be in danger from this side.

Nearly all groups now appear to require outside borrowers to receive loans only through group members, who serve as the borrowers of record and have to pay back the amount, if the outside borrower fails to pay it. Many groups also limit loans to amounts smaller than the member's saved assets already invested with the group. These mechanisms appear to be fairly effective, especially in the case of groups that hold themselves to relatively smaller loans, of R 500 or less.

Interest revenue and record keeping

Very few groups seem to have worked past the problem of making a transparent and mutually acceptable split of interest revenue. Most groups still adhere to the principle of an annual equal division, which works well in so far as groups maintain a set of rules that provide for equal amounts paid in and also borrowed out for on-lending. However, a number of groups are now yielding to the pressure from members to accept different amounts paid in, and also carry on their books a number of loans of different sizes and duration, and in a few cases even with different interest rates. That is, they are taking on a complicated caseload resembling that of a formal bank, which in itself creates a serious challenge to the group's and the members' bookkeeping capability, and builds in space for corrupt practice by group administration. The problem with interest division follows. Once differential pay-ins are established, pressure mounts for a proportional shareout, with individuals who have paid in more claiming a greater share of the payout.

In two cases, groups have adopted the principle of membership through shares as a way of managing the problem. In a share system, individual members pay in and receive payouts in terms of the number of shares they have taken, allowing record keeping to work in terms of standard amounts. This fairly effective solution is not necessarily gaining ground, perhaps because - except for elite groups and groups aimed at commercial lending only - it conflicts with the principles of mutualism and equality which remain very central to how rural savings and credit groups think of their identity.

That is, groups may look for ways to generate income, but do not want to be seen privileging the better off members or adopting an entirely profit-directed ethic. Conflicting expectations are created when groups try to simultaneously generate maximum income and also benefit all members equally. In order to compete for savings and lending business, groups are under pressure to depart from their mutualism ethic and customise their services.

At present, most groups appear to be holding to the line of equal shareouts regardless of amount paid in. However, group members who pay in more are sometimes insisting on natural justice grounds that they should receive a larger share regardless of the rules. This conflict appears to have had a serious effect on the coherence of one group, and also figures in several other accounts.

Motivation to save

Several accounts draw attention to the importance of recruiting a group membership that is strongly motivated as well as strongly connected and well led. Another account draws attention to the link between the need to provide for the welfare and education of young children as the prime motivating factor for determined saving, and this factor appears to be confirmed by the age distribution of group members, which closely coincides with the child-rearing years for both men and women. In this regard, age factors and the absence of children from the households of members may represent risk factors for savings and credit groups.

It would appear that people approaching retirement, when they experience the shock of sharply reduced income while perhaps no longer having to channel a large part of their resources to their own children, may be likely to drop out of the category of highly motivated savers. People on pension face a more advanced stage of the same process, in which they may often need money for their own support, but do not need to accumulate resources for the major enterprise of child-raising and education unless they have responsibility for unsupported grandchildren, as many do. It appears to be the concentration of child-raising financial needs in the December and January seasons that has energised the emergence of the accumulating savings and lending groups with annual payouts which now dominate the savings picture in both interview localities. The general relation between group savings activities and parental commitment to the needs of a multi-generation household underlines the role of the household unit, and particularly its relative needs at different points in time, in sustaining or undermining savings behaviour, and also helps to forecast savings commitment within groups.

Cases of group failure

The case histories throw more light on how collapse comes about, and particularly highlight the issues of leadership and record keeping. Underlying how the groups' problems impact on their survival is the factor of how effectively the group is internally connected through social capital, and also the question of motivation and commitment to save. This section focuses on the groups that failed, and tries to identify some of the factors and processes, which raise a red flag and put groups at risk.

Two groups stopped operating due to suspected or demonstrated misappropriation of funds by the people in the chair. That is, they collapsed due to the kinds of problems, which are widely believed to undermine credit groups and co-operatives in the developing world.

The other two groups stopped their operations mainly due to internal procedural reasons, and seem to have been run very honestly and fairly transparently. Their difficulties point in different directions altogether, and relate closely to concerns about social capital and what needs to be considered by organisers in setting up groups.

In addition to these groups, two other groups reported having gone through difficult patches due to suspected misappropriation of funds. However, these groups weathered their problems when the leaders made good on the missing money, and are still operating.

6.3.3 Conclusions

> *What I have got to say about how to make sure of a transparent and efficient group is this, and I am going to take the example of the group of which I was a member: The weakest thing to do is to think that the people entrusted with the responsibility of running the club are doing their job properly . You trust them to the point of stupidity and then you become complacent; so the thing is not to act as if they have to be honest.*
>
> *I have to say, the existence of a group depends on honesty and trust and the conscience of the committee. Because if they are not honest they can do anything with the money, in particular with the interest, because that comes in dribs and drabs but it amounts to hundreds. And no one else knows about it. Most of the general membership is not able to calculate how much is due to them in terms of accumulated interest. I think there should be greater transparency - for instance, the members should be able to demand access to the books of the club and even make copies of the transactions. Our committee did not allow this. I also think that in most cases, in particular in the rural areas, there is a problem because most of the members are illiterate and they depend on the ones who are literate…*
>
> Beauty G

> *Really, our group has never had a problem. We all grew up together, we are from the same place, many of us are related and we all understand each other's weaknesses. No one has left our group since we started. We have never had anything happen that would lead us to expel anyone, and we would just be unable to do that.*

The results from the case material suggest that rural savings and credit associations face a number of characteristic problems, but are remarkably robust in spite of their risks. Several groups faced with disappearance of funds have managed to force their management to pay back the missing money, and are either still operating, or expect to resume shortly. The groups, which collapsed entirely, faced an unrestoreable loss due the misappropriation, lost their organiser, or suffered from multiple difficulties of an organisational nature. At the same time, it appears to be the groups, which do not have strong webbing of overlapping social capital connections that are most vulnerable to the other risk factors. The groups, which fell apart, recorded an average of 1.8 forms of internal interconnection, against an average of 2.6 for the 19 groups that survived.

The groups themselves seem to be in the process of evolving from simpler savings mobilisation structures to more complex types, which are oriented toward income generation and are taking up some of the functions of formal banks. Interest rates seem to have stayed steady or fallen in some of the localities, but at an average 25-30 percent are still extremely high for a loan period of five or six months. Interest appears to run higher in areas with less competition in the informal finance market. The overall development of these groups into a more commercial form and toward share schemes may be held back by the prevailing ideology of mutual help and equality, which has resisted the principle of differential division of group assets.

Apart from weak social bases of cohesion, the single most serious risk factor affecting the savings and credit groups contacted is probably financial mismanagement. Opportunities for mismanagement have proliferated as more complex forms of savings and credit operation requiring a high level of literacy and numeracy have taken over from the earlier types.

The risk to group survival from accumulating defaults appears to be less immediate than might be anticipated. Only some of the more commercial, lending-directed groups handling larger loans reported serious threat from defaults. Fireproofing rules being adopted by many groups seem to have reduced the risk to the group very significantly from what they faced in the 1980s, when most groups lent directly to the public.

Instead, the risk to group cohesion and survival often comes more directly from the procedural and leadership demands of running these relatively complex groups, which create serious internal stresses. These stresses are then absorbed or attenuated by the shock-absorbing webbing of social capital connections, which wire the better-organised groups together. However, there are in addition demographic and economic red flag factors, which can increase the standing tension within groups. Many of these emerge from the basic conditions of poverty, where people who do not fit the ideal profile for savings and credit activity still need to form such groups. Key constituencies here that are also risk groups may be people of pension age who are still raising young children, and unemployed single mothers without reliable incomes.

How well these additional problems are offset by effective and wise management has a great deal to do with group survival. Some considerations include:

- An important factor in stabilising group management may be the availability of outside help or facilitation services, which may be enough to tip the balance toward maintaining operating transparency and good membership relations, and can also provide light for the group management on successful record keeping.

- Another possible dynamic here would be a role for savings and credit groups of the poor formed on a co-operative basis with relatively lower interest rates, and aiming at a wider clientele and relatively high turnover. On the example of village banking, groups of this kind might provide some of the same kind of lower-priced competition for the present groups centring on well-educated people and charging relatively high interest rates.

- Training needs probably centre on wider dissemination of bookkeeping skills to enable memberships as well as leaderships to manage the complexities of contemporary loan books, and to deal successfully with tracking and managing interest accumulation.

- Results also suggest a clear need for capacity building work with group organisers as the main leaders looked to by group members. These visionary individuals are not usually superseded as key leaders by formal office-bearers, and may often lack education and technical skills needed to oversee and run successful income-generating groups.

Further work needing to be done in relation to informal savings and credit groups in rural KwaZulu Natal would include wider investigation of reasons for failure, the balance between investment and consumption in how members use their benefits, close consideration of how groups compete and how competition is related to distance on the ground between competing groups, the relation between interest charged and the volume of loans being processed by a group, gender relations as they affect the relation between management and the general members, and cost-effective training options.

6.4 Free State

6.4.1 Introduction

The interviews were conducted in an area called Freedom Square, which is 15 km outside the city of Bloemfontein. The inhabitants of that area are a mixture of the Xhosas and Basothos. Most of the Xhosas hail from the Eastern Cape Province and migrated to these areas in search of work. The unemployment rate in this community is very high with most women not working and the level of education is low. Six groups were interviewed and within these groups three are still operating and the remainder has failed. One important feature among the groups is the dominance of women. All the groups were formed by women and men only joined while the group was already in operation. Reasons raised, which led to the formation of these groups, are unemployment and poverty. Therefore these saving groups were seen as a mechanism of alleviating poverty. Most groups shares money and groceries at the end of the year and money shared is used to buy school clothes for their kids as most of these women are single.

6.4.2 Salient points

An important feature of these groups is the way they divide the money at the end of the year. It is not shared equally, some receive more money compared to others. It depends on how many times you borrow and how you repay your loans as a member of a group. The only part of the money, which is shared equally, is the interest from the deposits held in a commercial bank and the monthly contribution paid in which is the same for each member. Lending is to members of the group and other people from the community as long as non-members are known by the group or at least by one member.

The groups interviewed can also be divided into two categories, firstly, those who contribute on a monthly basis for groceries and money to be extended as credit. The monthly payments for groceries are not used for credit extension, even if the members experience a short supply of money to extend as credit, the money is kept at the Bank until Christmas when all the money is used to by groceries and shared equally amongst members. The other monthly payments is used to lend out to members and other members of the community, which must be repaid back with interest, and the remaining money is deposited at the bank by the treasurer. Each group has two accounts, one account is for the grocery payments and the other for money used to give loans.

The second category is the burial society, which saves money for funeral purposes only. These types of group contribute monthly payments, which are saved at a commercial bank, and withdraw only when there is a funeral.

Types and Characters of Saving and Credit Groups interviewed in the Free State

Name of society	Type	No. women + men	Total	Status
Mayibuye society	Saving and lending, shares money and grocery at end of the year.	29 + 1	30	Functioning
Freedom square burial society	Savings only withdrawal during funerals	11 + 2	13	Functioning
Itekeng society	Savings and loans rotate amongst members	11 + 2	13	Functioning
Katlego society	Savings and loan to members only they rotate	10 + 0	10	Collapsed
Leratong society	Saving and lending shares money and grocery	9 + 1	10	Collapsed
Tshwaraganang society	Formed by section of community help each other during funerals	?	?	Collapsed

6.4.3 Conclusions

The type of groups, group formation and activities are largely a function or derived from the reality of the specific setting in which the groups find themselves. Freedom Square is an area of severe poverty and the majority of the people in the area are unemployed. However, in these circumstances of abject poverty collective action in the format of savings and credit groups have been mustered to assist the members of the community to face poverty on the basis of solidarity. This is an extreme example of self-help groups in the face of economic adversity. The mere fact that these groups are surviving is ample evidence of the resilience of this institutional format.

6.5 Northern Province

6.5.1 Introduction

In the Northern Province six different groups (3 successful and 3 unsuccessful) were consulted and at least 3 individuals from each group were interviewed following the interview-guide compiled for KwaZulu-Natal. The interviews were conducted in the Botlokwa/Dwarsrivier settlements in the Northern Province. The area is 50km north of Pietersburg, 50km south of Louis Trichardt and 35km west of Soekmekaar. The area is also part of Sekgosese district in the former Lebowa homeland.

6.5.2 Salient points

During the interviews rotating savings and credit associations (ROSCAs), savings clubs, self-help groups, and accumulating lending groups were identified.

In the ROSCAs individuals form a self-selected group and all members agree to contribute a regular fixed amount every week or month. Members then take turns receiving the full amount collected in the period until all members have had a turn to receive funds. Lottery, mutual agreement, need or personal emergencies of the group members determine the order in which members receive funds. Often the person who initiated the formation of the association receives the funds first.

A survey by ESKOM in 1998 found that six million South Africans belong to burial societies. "In most remote areas of SA a funeral does not cost less than R5000. If the beast was not slaughtered, comments would be that it was a bad funeral. As a result the bereaved have to buy food that they themselves have never eaten in their lives" (Mabunda, 1996). " Funerals are also very expensive in many rural communities. In many communities people are buried 7 days after death, which has an impact on mortuary costs, costs of food and other things. After the funeral it might take a month or two before people stop visiting the bereaved family for condolences, thus costs on catering for these people keep on sky-rocketing" (Mphahlele, 1996).

The principle is that a group is formed with a common objective. Funds are deposited on either a regular or irregular base with a group leader. The group leader usually deposits the funds in a commercial bank or the Post Office Bank. Most of these groups are organised by women and most members are female. Most of the burial societies in the survey area are successful and it is very difficult to find collapsed groups. For example, a number of the groups are derived from very successful well-known groups. The sub-groups use the same name and the same processes, procedures and rules. A good example is Ntometsebe 1 and Ntometsebe 2; Sheleche 1, 2, 3 and 4. They also expand to other parts of the Northern Province rather than Botlokwa, for example, there is another 'Ntometsebe' at ga Sekgopo, which falls under another district.

The groups interviewed in the Northern Province include:	
Successful groups	Unsuccessful groups
Ntometsebe stokvel (Rotating savings and credit group)	Fanang diatla burial society (Savings group)
Meet-meet stokvel (Rotating savings and group)	Ipopeng savings club (Savings group)
Wheel (Self help group)	BHC lending group (Accumulating and Lending group)

This ability of groups to change and adjust over time and once a solid basis have been established the ability to derive clones are two of the most striking characteristics of the groups studied in the Northern Province. The groups interviewed have long histories, some being in operation for 12 years.

An example of flexibility built into the group structure is specific version of a burial society that functions on the basis of sub-groups, where each member can move and alternate between membership of sub-groups.

Membership is mostly based on kinship, long business association or friendship over long periods. It is evident that the cohesive factor in most of these groups is the information about the characteristics of each member. Several examples exist where groups took years to establish the appropriate number of members, mostly because the members did not want to wait too long in a rotation to receive the pot. Success of groups also draw more members and it makes it easier then to choose the most trustworthy and well known members.

Social aspects were evident and members also benefited by being provided opportunities to host meetings and sell food. Successful groups indicated that members understand the rules very well and adhere strictly to them.

No groups were found during the interviews that only had male members. In the mixed gender group's women mostly started the groups and were mostly in the majority. Ages of group members were mostly between 25 and 55. Most group members interviewed were well educated with at least a matric as highest standard passed. Most members were married and nearly half of the people interviewed were self-employed. The most prominent basis of membership recruitment was on a personal friendship basis. At least 14 of the 18 people interviewed were of the opinion that recruitment was based on personal friendship and not on family or job situations. The recruitment and cohesion variables were echoed in the collapsed groups. When probed for connections it was clear that the members of the collapsed groups were not socially connected.

Members are recruited in a number of ways. It is interesting to note that close proximity of residence is not a major factor in the groups surveyed in the Northern Province. Nor is close proximity of place of work a strong factor.

Groups collapsed mostly due to financial mismanagement and lack of connections (social, business or other) between them. Rules were also not strictly adhered to in some cases. Functions were not clearly allocated and it was not clear for example who would make the deposits and withdrawals. One interesting case of collapse was where the founder of the group moved away from the area

6.5.3 Conclusions

The findings from this shows that the discussed types of informal finance do very well in rural areas, however there are some aspects which needs to be attended. To support the statement for example, two out of three unsuccessful groups studied separated not because they couldn't continue operating, but for some reasons that can be dealt with when structuring the group. Both of them collapsed because they lost the group founder or leader who served as a substitute for connections between members as closer investigation shows that no strong ties existed between members.

On the issue of how does these groups maintain their coherence, it shows very well that is not merely a matter of common workplace, common residence and kinship connections. Two of the collapsed groups recruited members according to common workplace connections, while the third one collapsed because they didn't clarify their recruitment requirements from the beginning, which ended up in misunderstandings among the members. The issue of social connections seems so important since for an example 'Fanang diatla burial society' members realised after the group has collapsed that some of the members were not socially connected. Of essence in the Northern Province interviews are the emphasis on social connections and the ability of groups to adjust, and to split based on success.

6.6 North West

6.6.1 Introduction

The interviews for the North West Province case studies took place in the Hammanskraal area, approximately 50 kilometres to the north of Pretoria. Most of the survey has been conducted in two villages, Mathibestad and Dertig, and some interviews also took place in Marokolong village. Marokolong has a peri-urban character while Mathibestad and Dertig are typically rural and are under the control of tribal authorities and civic associations.

The communities are settled with regard to their tribal relations. For instance in Dertig you find the Bakgatla of Chief Maubane, in Mathibestad you find the Bahwaduba of Chief Mathibe, while in Marokolong you find Ndebeles of chief Kekana. Although there has been an increase in different ethnicities recently every village has a dominant language group. People are poorly educated and the educated are mostly teachers, nurses or police officials. The area suffers from severe poverty and jobs for the unskilled are only to be find in Babelegi (a nearby industrial area) or those with at least standard 10 could. The reason could be because of poverty, or the fact that the surrounding Babelegi industry use to offer jobs at low levels of education, while Carousel (a gambling resort) lately hired most of the matriculants and therefore, there was no pressure for youth to further their studies on tertiary levels. Pretoria City, which is not far from these villages, also gave a diverse of job opportunities to the vast majority of the people.

While Agriculture is known to be the most important economic activity of most rural areas, most of it has been abandoned with subsequent years of droughts, especially in the late eighties and early nineties. Those who cultivate crops do only on summer, and it is mainly for subsistence. Livestock farming is relatively an important activity in these villages, because abandoning of cultivating fields increased to grazing lands.

In the era of the new democratic government, some women have started vegetable gardens, with the funding got from the RDP program, and one of them has been established in Mathibestad and the other in Dertig village. The high degree of tribalism and kinship behaviour, in these villages has given rise to a move towards grouping together, by some individuals, as a way of tightening and unifying certain relations. Most of these groups are called clans. The members of these groups support each other during ceremonies and funerals, either by lending-out hands or donating condolences during funerals and gifts during ceremonies.

The last information is vital in explaining the evolution of some of the rural financial organizations, and it is against this background that I will like to evaluate, analyse and asses the operations of rural- stokvels, societies, women clubs, youth clubs, jazz clubs and even credit clubs.

6.6.2 Salient points

Two societies are explained here as example of what proves to be a good basis for success and what was surely a recipe for disaster. In the process an example of a typical constitution is presented.

Bakgoko Hash Club

Bakgoko Hash Club, is a society and a youth club found in Mathibestad village that started in 1993 on Mother's day. There was a funeral of one of the relatives. During the funeral, Elizabeth, the lady whom, most of the relatives regard as their sister, raised a concern about the high rate at which, the relative size is expanding, and that some do not even know each other. Elizabeth explained that, with the advent of the high cost of transport, and also that most of the relatives are staying far apart from each other, newborn kids are rarely introduced among fellow relatives. The only time they meet is when there is a funeral. Even though, at funerals most of the relatives meet, these sorrowful, unplanned and unexpected occasions are not good places for making friendship or even introducing unknown members.

Elizabeth circulated her speech among elderly people, and she suggested for an opening of a society. She claims, that will be a good way of bringing family members together and in an economic viable manner as well, as savings will be used to cover members during difficult moments (funerals). The elderly supported her suggestions, and they took home her ideas to indoctrinate them to their children and other relative members. Indeed one person can make a difference, in 1993, on Mothers day a first meeting was held. After some lengthy discussion a list of about ten people was compiled, these are the people who got excited and they gave a start to bakgoko Hash club. Even though, it is a society, it was decided to call it a club since it has another objective of promoting social among the youth. For instance, every time they meet a party will be held, and their meetings are rotated to different members.

Another meeting was organized, on the following month, and that is where a committee was chosen and a constitution made, and Elizabeth was elected as a chair-lady, as an honour for her effort in organizing the club.

Structure of Bakgoko Hash Club

The society started with ten people, however, they are sixteen now. They have a committee of six people namely:

- Chair-lady and vise Chair-lady.
- Secretary and vise Secretary.
- Treasure and vise treasure.

Except for Elizabeth, other committee members have been chosen with respect to their level of education, responsibility and trustworthiness. For instance the secretary is said to have completed standard ten, she is married and a regular churchgoer, while their treasure is a clerk in a clothing factory and a very respected fellow for her compassion and enthusiasm on matters relating to family issues.

Constitution of the club

All members contributed in the making of the constitution, and the system was a very democratic one. However, the constitution was not finalized on one day only, the current constitution is a reflection of a series of omissions, refinement and additions to the initial made constitution. The constitution is written in Tswana language, all members understand the constitution and members who requested for copies were given them, however, the original one is with the committee.

The constitution is as follows:

- The club admits ladies only.
- Only relatives can be members.
- Age restriction is below 45 years.
- Contributions are R 25 per month per member, R 20 for burial cover, R 5 for food, with additional contributions during ceremonies- R30 per member for buying a gift, another R 20 for personal use and lastly a pack of liquor cans per member.
- Benefits are fixed and are R 1000 for burial cover, R 80 for gifts and personal use as well as sixteen packs of liquor, whenever a member has a party or a wedding.
- R 10 fine for non-attendance on monthly meetings, R 2 for late coming, and R 20 fine for non-attendance on ceremonies of the members.
- Only three registered people have the authority to make deposit or withdrawals at the bank.
- All books should be brought along to meetings.
- Members, who quit the club, get no refund.
- People who cannot attend the meeting should send a proxy, or otherwise pay the fine.
- The society covers the member, her family and two parents or any other two registered people in case parents have passed away.

- All funds raised from fines are part of the club's budget and they will be deposited together with other monthly contributions into a bank account.
- All members should have access to books, and upon dissatisfaction a complained can be raised at a meeting, and be addressed accordingly.

Achievements and Highlights

The club bought a uniform in 1994; plates, cutlery and a gas stove in 1997. The club started with a number of ten people, and right now they are sixteen and they had a promise of other new entrants. In ten years of their operation the club managed to cover fourteen people and the bank balance is still in a satisfactory state.

Problems

- Some people who had benefits for burial cover or ceremonies quit the club, and we don't have powers to penalize them.
- Since they are relatives it is not easy for them to discipline members who violates the constitution.
- Fines are rarely paid, and enforcement of the law is not easy.
- Most of the members are not married, and they often absent themselves for nice time.
- Some Parents interfere in our operations and they have a very negative influence on their children, who may even quit, the club has lost four people under the very same problem.
- Some years are bad, as we had to cover three to four people in a year, this cause a decline in our budget.

Expectations and future plans.

There is an expectation on an increase in the membership size. The club plan to join a metropolitan funeral policy in other to increase on their interest earnings. There is also a suggestion for purchasing tents and stools so that they can expand their catering services to other non-members at a certain price.

The second example is of a club that was based on social objectives and not very strong ties between members. This club failed.

Tlhogo ya kolobe stokvel

The stokvel started in 1993. It started with 4 people, but grew to a total number of 12 people before it collapsed. Lolo a guy, who is very socialising and well known for his activities in the organisation of music performance and parties, organised the stokvel. Lolo pointed out that the money you get in bulk at a time is better budgeted for, than small amounts. "The stokvel is also a good place for social and extra-income from the proceeds of liquor sales.

I organised my close friends, who recruited other people, but weddings and parties has been a site of our catch. We targeted people, whom we know better, and tried to select on the basis of trust and honesty, but as you know when it comes to money issues, trust and honesty disappears," he said.

The operation of the stokvel

It is a group of people who rotate savings among individuals on monthly basis. There are ten men and two women. They use to meet every month and the second week of a month, in which case each person will pay R 160,for saving; R 60 for food and liquor; and another R 30 in the following week for Mampara support. Mampara support is a second gathering that is held in the first week of the month, whereby, another R 30, will be pooled out to support the beneficiary, who will then organise a Gig and sell some liquor. The income earned thereof, belongs to the beneficiary, i.e. all in all, the beneficiary gets some payment for savings, some money for organising a gig in the first gathering which usually in the month end, plus another money in the second week for organising the so called Mampara Gig. New members were introduced at their monthly meetings. The stokvel gave no loans nor any form of credit, as they were not experienced in that field and therefore fearing the possible collapse due to loan defaults.

Policy making process

"We gathered and decided on some laws. All people decided on the policies, but I made a greatest input as I was more experienced along this field," Lolo explained. He said they wrote the constitution and since they didn't have a formal committee but just a secretary, she kept the copy of the constitution too.

Constitution

- All people should pay in time.
- People, who don't make payments in time, will have their asset of the same value as contributions confiscated.
- No member should come to the meetings drunk.
- Members who come late to the meeting will be charged an R 10 fine.
- Benefits are R 160 for savings, R 60 for food and liquor, and another R 30 for Mampara support per person.
- All members should attend meetings and give support during gigs.

Achievements

The stokvel gained fame in its area and in the neighbouring villages, they had great support and they could make big sales during gigs and parties. However, substantial achievements need be questioned to individuals in terms of what they bought and how much they saved in the bank. Lolo claims that he bought some sofas, hi-fi system, and a fridge in cash, Pontsho a room divider in cash, while David argued that the stokvel didn't help him at all. The stokvel was called Spekkop (Afrikaans word that means head of the pig), because they use to buy it in every meeting and also when they had parties. This portion of meat is enjoyed and liked by most African men, so it served as a marketing tool for their stokvel. Most of the members were married and old enough to be responsible, and they stayed in the same village with only two staying in the neighbouring village in a radius of 100m to 3km. People who wanted to quit the stokvel were asked to complete the cycle of payments, yet most did not, and this is believed to have had a greater impact towards the collapse of the stokvel.

Why did the stokvel collapse (Problems)?

Some people made late and irregular payments, and yet wouldn't like to have some of their asset confiscated. "There was one person who usually gave us a problem, but the major event was when one guy consumed the payments of his friend after his friends asked him to receive them on his behalf, as he was working on that particular day" I was informed. The beneficiary became angry after learning that his friend misappropriated the money and not even willing to repay him, so he resigned. The remaining group was disappointed so they also expelled the culprit. Most unfortunately, that move worsened the whole situations, because the next person to get payments was going to get for ten people only, while he has completed a cycle of 12 turns of payments. The remaining group was not prepared to compensate him, and there was an atmosphere of unjust and dissatisfaction, and people started resigning one after the other until eventually the whole stokvel collapsed.

6.6.3 Conclusions

The successful groups interviewed reflect a strong demand from families to use their kinship ties in even further strengthening the family unity. In addition, their original objective was expanded to ensure increased economic return on activities. They have a strong constitution that clearly spells out rules for financial transparency and how penalties will be invoked. A strong leader that ensured expertise in financial matters on her committee further ensured success. This is a good example of the successful groups in the interview area.

The second society was loosely tied together mainly on the basis of the demand for parties and music. A constitution did exist, but it was mainly the effort of one person. It was vague and not specific in terms of penalties and rules on financial management and responsibilities. It had no strong layers of social ties like the first group discussed. It was doomed to fail eventually.

6.7 Mpumalanga

6.7.1 Introduction

Eastern Mpumalanga is a relatively poor area on the borders of Swaziland and Mozambique, with dense populations and few economic resources. Families in these areas and particularly women with responsibility for children have limited access to wage work, and need to make ends meet with little in the way of formal financial services. Most of the financial infrastructure in the Mpumalanga Lowveld is indigenous and locally organised, without the assistance of the financial institutions of the developed economy of South Africa.

Issues which are highlighted by the Mpumalanga results include the question of how the transition takes place from closed and inward-turned groups which serve only their own members to more sophisticated groups offering a wider service, and what the role of management and of management compensation needs to be to maximise the chances that either indigenous or outside-catalysed groups will survive and continue to provide services. Where Mpumalanga differs from KwaZulu Natal and the Eastern Cape is where new pitfalls for savings and credit delivery emerge in connection with the institutionalisation of management.

6.7.2 Salient aspects

The groups, which were contacted for the DGRV/ UP study in Mpumalanga, are for the most part self-organized savings and credit groups. As in the KwaZulu Natal study, the groups encountered fall into two main categories, *rotating savings groups* which do not accumulate funds and which pay out after a few months, and *accumulating savings and lending groups*, which pay off yearly. No rotating groups were encountered which also made loans, but all the reported accumulating savings and credit groups did give loans and also charged interest. In all the recorded cases the interest rate was 20 percent per month, and many groups allowed loans to run over extended periods of up to one year. Most of this credit went to members of the groups themselves, but some appeared to go through relay on-lending to non-members, and in some cases non-members were able to access loan credit directly. When this happened, it often appeared to take place in contravention of the group's accepted rules.

However, in addition to the self-organised groups, one of the groups that collapsed was contacted was catalysed and organised by a representative of the Kangwane Economic Development Corporation. Although there were few details on this initiative known to the respondent, this group seems to have been part of a larger savings mobilisation programme aimed at assisting household small farming in the former homeland.

It appear that the Mpumalanga self organising savings and credit groups in some ways differ significantly from the self organising groups found in KwaZulu Natal. In particular, there is less emphasis in member accounts on the stake of group members in the interest from loans, and perhaps greater concern for savings accumulation and access to loans in emergencies. This difference in emphasis may have wide-ranging consequences for how the groups work, and for the role of group management.

Respondents interviewed reported that they were strongly involved in different kinds of stokvel savings and credit activities, with accumulating savings and lending groups outnumbering the rotating savings groups. However, the trend for this small non-random sample does not appear to be as strongly biased toward savings and lending groups as the KwaNyuswa and KwaDumisa samples, where only 17 percent of the 23 groups contacted were rotating savings associations, and one of these used another mechanism to enable them to accumulate cash and give out loans. Five of the 13 Mpumalanga groups for which interview data was recorded were rotating savings-only groups, with the remaining eight representing accumulating savings and credit associations. At the same time, ten out of 13 respondents belonged to some kind of savings group at the time of the interview, regardless of whether the particular group they reported on was continuing or not. From this kind of indication, it would appear that these levels of group membership might be higher than what is reflected in the interviews from Eastern Cape: however, the nature of the two quota samples makes this uncertain.

Other characteristics of the Mpumalanga savings and credit groups which may have significance for the way they operate are the large number of un-named groups, and the tendency of savings and lending groups to keep substantial amounts of cash outside of bank accounts, in members' homes or at tribal offices. Only two groups out of the total kept their cash at a bank, and one of these used a member's personal account rather than a group or club account. In the *Sukumani* or *Stand Up* group, which was organised by a representative of KEDC, the account was kept at a bank but only the KEDC organiser seems to have had any contact with the account.

The reason most often given by respondents for not dealing with banks was a fear that the banks would retain a significant share of the group's capital as a holding fee for the account: it is not possible to be sure on the evidence available whether or not there is a real problem with banks in the area carrying out exploitative practices or disliking to deal with stokvels, or whether this objection is a smokescreen for group management preferring to keep their cash liquid and under their own direct control. In any case, the prevalence of ad hoc arrangements for keeping cash in management members' homes argues for a low crime risk in the area, and may reflect relative isolation in these Nkomazi villages.

At the same time, eight out of the 13 Mpumalanga groups had no formal names of their own, and seem to have been known informally in their areas by relational terms, and by the identity of the organisers and of the neighbourhoods where they mainly operated. However, all the groups that dealt with outside institutions had taken on names.

It appears that the level of management and of member participation in managing the finances of savings and credit groups is variable in Mpumalanga, and there appears to be no clear consensus on what role members should play in the running of groups. Many groups either had little institutionalised management of any kind, or otherwise left nearly all responsibility with the organisers or management committee and seemed to expect little input from members outside of their contributions and payments. This kind of structure appears relatively uncertain in relation to the groups contacted in KwaZulu Natal and Eastern Cape, where members appeared to accept the principle that they should be in touch with the business affairs of their groups and should be in a position to question their group leaderships if necessary.

No groups reported supplying individual members with copies of the constitution, but most insisted that their rules were clear and were understood by all members. Whether or not the group had a constitution, some groups had a very full slate of officers, including chair, secretary, treasurer, and either deputy chair or vice chair as well as deputy or vice officers for the treasurer and secretary as well. These offices seem normally to have included the founder or organisers, but these people did not always hold the formal top positions.

6.7.3 Conclusions

Overall, the Mpumalanga groups in the rural villages seem to be grappling with the difficulties of ensuring effective management of groups which are embedded in a highly mutualist framework but are also under stress from poverty. In many cases they may also be sustaining a considerable degree of unsanctioned off-take from management committee members – a possibility that also holds for groups in other provinces though perhaps to a lesser extent. Participation in group affairs usually seems to be low even in the accumulating savings and lending groups where the need for clear management and rules is well accepted, and frequently does not rise to the level of management care even in the rotating groups, where members seem to expect to manage their groups through mutual understanding without defined authority relations.

The combination of serious poverty on the ground with weak administration and diligence procedures appears to put groups under considerable stress, and may often result in collapse. More than half the groups contacted in the Mpumalanga sample had collapsed, but accumulating savings and lending groups appeared to be more robust and longer-lasting than the rotating groups, and in some cases the accumulating groups show signs of very resolute management. Demand appears to be high for savings and credit services, and there seems to be no clear consensus on whether or not group members are entitled to a division of the interest on loans when payouts are made at the end of the year. While some groups do make a point of dividing interest, it appears that more groups do not. When interest is not divided, the low levels of member participation appear to create conditions for interest to be diverted by group management to private use, perhaps under the category of management fees.

In this light it appears that rotating groups fail often due to weak structure and diffused control, possibly relating to high levels of social capital which can make questioning of managers or fellow members difficult. By contrast, the accumulating groups may fail more often because of weak enforcement of rules or poor quality of management, though some groups appear to have worked past these problems. In particular, the lack of focus on division of interest earned through lending appears to permit managers to manipulate interest to their own advantage. Bases of cohesion are normally strong because of the tight social interconnectivity of the rural village communities. It is possible that cohesion at this level combined with poverty and less experience of the cash economy can contribute to conditions where groups are reluctant to take action against defaults or rule violations. The full role of social capital in relation to performance standards and due management compensation remains to be fully explored for the Mpumalanga rural context

6.8 Eastern Cape

6.8.1 Introduction

The Eastern Cape is widely agreed to be one of the two poorest regions in South Africa, and very little formal employment is available outside the civil service. Both industry and farming continue to weaken in the province in spite of government efforts to kick-start economic development and provide industrial employment. For families at the low end of the income distribution, who have not been able to mount the educational qualifications needed to access civil service work, lack of formal jobs has often meant being condemned to an inter-generational cycle of poverty and immiseration.

In this context, with more than four workforce participants in every ten formally recorded as unemployed (DBSA, 1997), many people are never able to find jobs and remain unemployed for their entire lives. Across the Eastern Cape, in both rural and urban areas, the unemployed have turned to the informal economy to bring in income they cannot find in any other sector outside of crime. Given their family role as providers of last resort, women have been the leaders in the movement into informal work. However, in this cold economic climate, small business activity tends to be seriously undercapitalised. It remains caught in a cycle of cash flow crises, which periodically lead to the collapse of family enterprises, and women are the section of the population least able to access capital and credit. There is a clear need for credit delivery programmes in Eastern Cape that can work effectively to capitalise small business. However, any such programme needs to be able to address women, and needs at the same time to be so structured that it does not require unsustainable levels of subsidy.

Very few such programmes are currently in operation, and accounts from ground level speak of fruitless searches for small business loans accessible and affordable to the poor. The evident shortfall directs attention to cases in which existing programmes show success.

The credit and saving mobilisation programme currently being run in Eastern Cape by Uvimba, formed to replace the closed former Ciskei and Transkei Agricultural Banks, is successfully maintaining a significant number of women-oriented small credit groups in both rural and urban communities, and has been delivering credit and promoting savings since 1998. Though data collection is in a very preliminary state, the track record being developed by this programme is worth analysing in relation to the mechanics of rural and urban credit delivery, and points to some of the factors which affect structured vehicles for provision of business credit to the poor under conditions of severe scarcity.

This section is presented in more detail since this is the first formal description of the Uvimba pilot project. This is as argued an indication of a standardisation of rules across groups and thus an initial formalisation of informal groups.

6.8.2 Discussion of salient points

The groups being considered under the Uvimba credit programme participate in a tightly structured credit delivery system which has specific rules and procedures, and which provides a staff complement of facilitators and trainers to help groups to put themselves on a sound footing and pass through the stages of accessing and repaying credit while maintaining simultaneous savings mobilisation. In this context, the groups being supported by the Uvimba programme is not fully self-organising and do not represent indigenous credit delivery, but rather are catalysed and supported from the outside. They operate in a mutualist relation with the Uvimba structures and come into being in terms of the invitations issues by the Uvimba delivery system. However, these formalised groups are not the only form of credit activity taking place at the grass roots, and the Uvimba credit groups operate in balance with indigenous credit organisations.

The wider context for the Uvimba groups includes a range of indigenous credit groups working on stokvel principles, which are accessed by the same people who participate in the Uvimba programme. These groups include both rotating savings groups which pay out on a relatively short cycle and seem to address consumption needs as a main priority, and accumulating savings and lending groups which work on a yearly cycle and aim at income generation as well as savings mobilisation. Results for the current small sample of ten cases show three out of ten Uvimba participants reporting independent stokvel involvement in addition to their borrowing and saving activity through Uvimba.

Of these three cases, there were two female and one male group members. Four rotating stokvels were involved, and one accumulating saving and lending group. One woman belonged to three stokvel groups, but the others belonged to one only. On this evidence, and on the remarks of participants, it may appear that the level of stokvel involvement for these respondents in the Eastern Cape could be lower than that found in the inner and outer peri-urban communities where research was carried out in KwaZulu Natal. Likewise, the balance appears to tip in favour of the rotating stokvels aimed at consumption needs, which give little support to small business. As reported, these rotating groups did not maintain bank accounts or make loans, and therefore did not appear to be closely involved in capitalising business activity. Another conclusion may be that the stokvel activity is lower since the Uvimba groups replaced some of the demand for stokvel activity.

In the available cases there were no reports of small businesses making use of stokvel loans either as start-up credit or to backstop needs for working capital. While self-organised stokvels may partly fill the need for small business capital in some parts of South Africa, there is no clear indication at this stage that the commoner kinds of stokvel in the former Ciskei areas of Eastern Cape have a large role in this niche.

However, in three cases Uvimba credit groups reported what appeared to be use of dedicated supplementary stokvel operations to help group members maintain their household consumption needs in a viable state and to better ensure that cash would be available for making the required Uvimba payments. It is not clear whether this use of a linked rotating stokvel as insurance is part of the Uvimba recommended procedures, or whether these groups had taken it up on their own initiative.

The Uvimba credit and savings operation began establishing groups in 1998, and currently counts 210 active groups in the African communities of Eastern Cape. In addition to these, eight groups have collapsed and stopped operating, and five of the total is thought to be shaky. On these figures, less than four percent of the groups, which have entered the credit programme, have fallen apart and dropped out short of their goals. This can be seen as a remarkable rate of survival in view of the general fragility of co-operative group credit programmes, which are sometimes known to lose a third or more of their member groups due to the difficulty of maintaining mutual responsibility for repayments in the face of individual member defaults. In considering the results given below from groups, which did collapse, it needs to be borne in mind that groups, which fall apart, have been relatively rare. It is not clear how many groups may be in arrears on their payment, or whether Uvimba has reached a breakeven point on their credit delivery. Complete case studies are given in Appendix One for Vincent P, whose group collapsed, and for Hannah K, whose group is seen by its members as doing extremely well.

Structure of programme

The Uvimba credit and savings programme offers immediate collective credit to newly formed groups, which allows for R 500 per participant, followed by an initial repayment period of several months before another, larger loan can be accessed. These loans are strictly intended for business use, and repayments are expected to be made out of business earnings. The loans are used individually, by the individual businesses, but are allocated collectively, to the groups, which are afterwards are collectively responsible for repayment.

After completion of five cycles in which increasing amounts are borrowed and repaid, group participants reach the level where they have the option of borrowing individual loans of R5000, on presentation of a suitable business plan to the Bank. However, they may also remain with the programme in their groups, and continue to save and borrow.

Compulsory savings accompany the credit programme, so that participants build up an individual stake although they do not lend any of their funds to outsiders for interest earnings. However, this savings component remains with the Bank until the group reaches completion of the fifth cycle, which releases the money to the individual members, or until the group dissolves and members leave the programme. There was considerable uncertainty about the interest rate paid on the savings component, though all respondents agreed that their facilitator had explained it to them. Uncertainty here may suggest that group participants may not be sure of how much money they will have saved by the time the savings component is released to them. Discussions with Uvimba management suggest that the accumulated savings element at the end of the fifth phase would come to about R 800 per group member.

Group formation

Uvimba groups are catalysed by the group facilitators, who are each responsible for as many as 70 groups in relation to local centres which are maintained by Uvimba as bi-weekly or monthly meeting places for their credit groups. Facilitators receive R15 monthly commission for each group whose payments are up to date, but lose 20 percent of their commission for each group that is late in paying. Facilitators also check group record keeping and act as arbitrators in cases where arrangements are threatened. Groups are also provided with trainers, who try to teach them the procedures required by the programme and in particular, how to keep effective records.

The Uvimba groups are organised around the need to form a group and comply with a given set of procedures in order to obtain access to business credit. Each group comprises five members, and is oriented toward women's participation in that women are required to outnumber men in order to minimise male domination of women members. The programme also targets small business and the poor in that only small business operators who are unemployed qualify for membership. Participants were initially required to have been in business for six months before they could enter the programme, but this qualification has now been raised to two years, in order for informal enterprise operators to have shaken out their business operations and gained a thorough understanding of their own business environment. Groups are required to deliver payments on schedule regardless of whether any individual group members default or not, and groups are collectively responsible for guaranteeing payment from all members. As reflected in the interview sample, the eight groups contacted resemble each other closely in sticking to the recruitment standards laid down by the Uvimba programme.

Meetings and payments

Group members pay in their savings contributions at the same meetings in which they pay their loan contributions. These meetings are held at the local Uvimba centre, and 50 groups meet at any given time. Contributions are paid publicly, in order to put as much social weight as possible on the savings transaction, and to ensure that members who are in full compliance greatly outnumber those who may be thinking of default. Groups also hold separate meetings for their own members only, but these meetings sometimes appear to be rushed due to the demand for informal traders to remain at their business operations at all times. Most groups reported that they met quickly on matters of concern and did not serve refreshments, which was not found with the self-organised credit groups in KwaZulu Natal.

Reasons cited for joining the Uvimba savings and credit groups related mainly to the declared objective of the programme as emphasised in training, in relation to access credit for small business. The Uvimba management notes that many people who belong to groups participating in the credit programme might be better pleased if they could access business credit individually and directly from the bank, without having to go through the process of savings mobilisation and credit repayment. The role of the credit and savings programme in this regard appears to be the classic one of developing a repayment track record for small informal traders whom otherwise would be unknown to the banking sector and too unproductive as clients to obtain access to formal loans.

However, in addition there may be some question as to whether the undoubtedly very strong desire for business capital was the only active reason why group members were interested in joining the programme. One group interviewed came together partly in response to the idea of obtaining credit to relieve the periodic domestic support crises which she and her associates had been experiencing, and which they had previously handled through stokvel or group assistance mechanisms.

Characteristics of members

Little can be said about the profile of group members for the Uvimba programme due to the small size of the sample, the absence of randomisation and to the fact that groups which had collapsed represented a much higher share of the quota sample than failed groups represent in relation to the universe of 210 active Uvimba savings & credit groups. However, it would appear that the ten respondents fall approximately into line with the characteristics wanted by the programme.

Respondents included two men out of ten interviewees, or one in five group participants. These male respondents were relatively young at 36 and 38, while the average age for the women participants was in the same range, at 38. Only one respondent was clearly above the age when she would have been raising her own children.

All participants were unemployed and active as informal traders in different lines of enterprise. Only one woman group member described herself as actively looking for work, while two stated specifically that they had become discouraged and were no longer looking. Group members interviewed were also relatively well educated, with a median education level of Std 7. Only one member reported that she had had no education at all, while one other had only a Std 3 qualification, below functional literacy. All others would have been well able to read and write an important factor in relation to record keeping requirements.

One man of 39 and one woman of 33 said they were unmarried, with all the rest giving their marital status as married rather than single, widowed, divorced or abandoned. In the light of the

KwaZulu Natal results, which appeared to suggest that savings motivation and group participation were linked to the need to mobilize extra income in a married household context to support and educate dependent children, the strong prevalence of married people and adults of active working age among the Eastern Cape respondents may be significant. Only the one elderly woman respondent and one newly married younger woman said they had no children at home with them requiring to be supported. For the other respondents, the average number of non-working children at home was 3.7, a potentially significant burden for unemployed parents.

For this small sample, participation in the Uvimba credit programme does appear to have brought a significant level of access to credit. Only two respondents reported that they had never borrowed an interest-bearing loan of more than R 1500, and the median loan value recorded was R 2000. Nearly all these loans had been obtained through the Uvimba programme.

Bases of recruitment and cohesion

The accounts collected suggest that the Uvimba groups at least have been constituted in terms of the requirements laid down by the programme. Because of the reporting groups' apparent close compliance with the detailed Uvimba requirements as taught by trainers and facilitators, the groups appear in the small sample of respondents' accounts as resembling each other very closely, and showing little variation in the way they are recruited and structured.

On the actual recruitment process, accounts suggest little variation, and groups often seem to form at the actual introductory meetings, among people who have shared interests and often live in the same area. In this sense group recruitment may be difficult to forecast, as some of the actual process involved appears to be ad hoc rather than based on social capital or other contacts in the first instance.

6.8.3 Conclusion

The dangers threatening co-operative group credit programmes are usually seen as default and mismanagement leading to the risk of groups collapsing. To a considerable extent, the success of the Uvimba programme in avoiding group collapse, while still maintaining the requirement that group members guarantee each others' payments in the event of a member defaulting, has been perhaps unanticipated (by the author of this section). Part of this success may be due to Uvimba's success in mobilising groups that make use of effective bases of compliance rooted in social capital. However, the ways in which Uvimba structures handle leadership roles is also likely to be important. The key questions may be how the Uvimba group structures appear to cohere even when, as if often the case, they are formed suddenly and artificially from a pool of possible participants, in response to an unexpected outside opportunity.

The Uvimba credit and savings groups are highly structured, and seem to have met striking success in an impoverished region. Savings in this formal finance exercise are not used directly to fund borrowing, and instead group participants pay off collective loans using their income, over a varying period that amounts to months. Group facilitators are encouraged to be strict in enforcing the rules and procedures of the Uvimba programme, ensuring that groups have to be able to contain and harness considerable interpersonal tension to ensure that all repayments take place on schedule. Savings and credit groups need a significant level of cohesion to stay the course for this kind of repayment regime, and more than 95 percent of the Uvimba groups, which entered the programme since 1998, appear to be still operating successfully.

This survival rate appears to trace partly to the programme's effective identification of strong bases for group cohesion to reinforce groups, which do not as a rule form spontaneously. The Uvimba groups are based mainly on co-residence in the home neighbourhood narrowly defined, exploiting locality and co-residence as one of the most effective bases of cohesion identified in the previous KwaZulu Natal study. Results from the interviews suggest that in many cases in the Eastern Cape selling locality is also determined by neighbourhood co-residence, so that many groups may benefit from members' overlapping identification with both the residential neighbourhood and the place of business. In addition, in some cases other locality-related institutional affiliations such as church membership are also involved in contributing to the mutual identification of group members. In terms of the required Uvimba criteria for group membership, group members also know each other personally so that they can maintain trust relations, and also share much of the same background.

With the exception of extended kinship connections, where the status of group members is not known, the Uvimba programme appears to be tapping the cohesion potential of locality affiliation, workplace, institutional co-membership, personal connections and shared background with remarkable effectiveness. That is, these outside-catalysed groups make use of the same bases of group cohesion identified among self-organised groups in the KwaZulu Natal samples, but may do so more purposively and comprehensively. The presence of these various bases of cohesion can then serve to absorb and dissipate some of the tension involved in the savings and repayment requirements, and may help to account for the strong survival rate of Uvimba savings and credit groups.

The role of group leadership in ensuring that groups maintain compliance with their internal rules is supported in the Uvimba undertaking by the comprehensive rules for repayment and the public context of centre meetings in which repayment takes place, which give extra weight and status to the transaction. At the same time, much of the active role of the group leadership in teaching and supervising diligence procedures is taken over by the role of the group facilitators, who give advice, monitor records and ensure the correct banking of contributions. It is exactly these aspects that sometimes exert pressure on group cohesion where inability to accurately calculate interest rates and distributions led to groups eventually collapsing (as in the case of KwaZulu-Natal).

However, the cases recounted in the interviews also reflect the importance of the role of group organisers in holding together groups, which often have a considerable ad hoc element in their recruitment. It appears to be the case that organisers' personal connections also have an important function in mediating internal tension. This is true especially in the important early stage of group development and bonding, while groups are settling into their procedures, and are coming to terms with the strict requirements of credit group participation. In this light it would appear that a strong group leadership might be important particularly where social capital is less strong than it might be, and that in conflict situations the personal connections of the group organiser to the members may make a decisive difference.

6.9 Salient aspects from all provinces

The KwaZulu-Natal group interviews were executed and interpreted under direct supervision and by the senior researcher contracted to attend to the rural sociology aspects around group formation and performance. Several traits of successful and unsuccessful groups were identified by the in-depth analysis of the KwaZulu-Natal material. We take our cue from the KwaZulu Natal discussion and measure in a qualitative way the differences between the findings in KwaZulu-Natal and the other provinces.

Two essential aspects have been identified in KwaZulu-Natal regarding the adhesive variables in group formation, viz. Layers of social capital linkages and Strong Leadership. We have built on these two considerations based on the results of interviews in other provinces. In the next section we start with the more detailed consideration of KwaZulu Natal and expand based on the findings in other provinces.

Recruitment characteristics of effective groups

Case data suggests some of the factors concerning group membership and cohesion that go along with group success. In this light, an ideal savings and credit group might be likely to have the following attributes underpinning its cohesion:

- Group size 10-30
- Younger to middle aged married members with children
- Locally born members in the majority
- Extended family and marriage connections

- Employed members in the majority and reliable income sources for others
- Economic homogeneity

- Membership contained within one locality
- Overlapping co-membership in church, business or other active local institutions

- Motivation to engage in additional lines of economic activity
- Consensus on goals involving household investment as well as consumption
- Shared ideology of mutual assistance
- Group formation start with burial society or stokvel motivations and expand to lending activities to non-members to increase revenue streams from group activity

- Access to outside facilitation for technical and procedural assistance

That is, savings and credit groups appear likely to have increased chances of success if they combine strong local roots with strong inter-household connectivity, have effective access to the money needed for contributions, believe in mutual support, and are actively engaged in advancing their economic standing: personal connections and ritual bonds may also contribute to success. Not all these characteristics necessarily apply to groups comprising the rural poor, as opposed to the better off people in any rural community. Many of the successful groups had a core elite membership, though others were comprised of the working poor. To the extent that the poor meet the social and spatial conditions for forming successful savings and credit groups but fall short on the economic criteria, their groups can be expected to face increased risk and strain and may be in need of greater help.

Performance characteristics of effective groups

Effective groups also show a number of characteristics related to how they manage their operations that can be seen in the case data. In addition to maintaining effective bases for group coherence, the most effective groups seem to provide:

- Clear rules covering participation conditions and interest on loans
- Full access by members to the rules
- Penalties that are invoked immediately when rules are broken
- Full access by members to the records

- Commitment by management to transparency and accountability and clear and open communication on all group issues
- Membership commitment to maintaining group rules for members
- Membership commitment to requiring accountability from management
- Adjusting group size to the circumstances and demands of the group

- Attainable levels of contributions
- Competitive interest rates

- Literacy and numeracy skills adequate for record keeping
- Workable procedures for dealing with accumulated interest

- Workable and acceptable sanctions procedures
- Good internal mediation and control of disputes
- Sense of forward movement and shared purpose

Aside from the content of the group's formal procedures, perhaps the key concern here is the balance of responsibility between management and members. Depending on how homogeneous the group is and what its bases for cohesion are, more or less responsibility for ensuring clarity and compliance in relation to rules and procedures comes onto the leadership or onto the members.

Leadership dynamics

In addition to membership commitment to whichever model of group cohesion applies, effective institutional leadership appears as a key factor. It needs to be noted that in spite of the literature on how groups should choose leaders for greatest representation and effectiveness (cf Uphoff 1992, 1994), the kind of leadership characteristically found in these groups is emergent. That is, groups do not usually choose leaders at all. Instead, leadership roles are attributed more or less automatically to the group's founding members, who usually act on their own initiative and are therefore designated, before the group takes shape. This holds true even in situations where the group organiser declines to take on any formal office.

Groups continued to look to organisers to keep the groups they recruited operating smoothly, and responsibility defaults to the understood role of the organiser when the formal office bearers may not be performing effectively. Organisers in many cases appear to be less educated people with vision and strong motivation rather than educated and technically qualified people. Organisers appear from the case data to be well aware of this problem, and went out of their way to bring educated people into their groups. This was evident in the discussion in all the provinces.

The dynamics of failure: what are the risk factors?

Case data suggests that rotating savings groups are likely to be easier to manage and control than accumulating savings and lending groups, assuming that the bases of cohesion are roughly equivalent. A central reason is the difficulties involved with bookkeeping for accumulating savings and lending groups, which are multiplied when the group begins to accept variable contributions as well as interest on continuing loans of different sizes. Results suggest that the problems with transparent administration of complicated interest transactions for savings and lending groups – which see interest as the key reason for their existence - is probably the central problem creating tensions within the newer kinds of income-generating lending groups. At the same time, these groups are now much more popular than the older rotating savings associations, and the case data shows a considerable amount of pressure for rotating savings-only groups to convert into income-generating savings and lending associations.

Most failures can be ascribed to inefficient financial management, lack of transparency in the financial matters of groups and these led to mismanagement and corruption in groups. It was clear that these circumstances prevailed in groups with weaker leadership and where information asymmetry existed between members due to lack of social capital linkages. Although the main problems for informal finance groups are often thought to be embezzlement and loan defaults, the results suggest that these may not be the only or even the most important issues. Taking both recruitment and performance factors together, risk factors identified include:

- Weak group structure, with few internal connections between members
- High reliance on friendship connections alone in recruiting the group
- Becoming overextended through expanding group membership to unmanageable size
- Weak or ineffective leadership, leading to unresolved grievances and disputes

- High proportion of members without young children
- High proportion of members approaching retirement age
- High proportion of members on pension
- High proportion of illiterate members

- Unrealistically high contribution requirements against members' income levels
- Requirement for unequal pay-ins and equal payouts, OR
- Absence of mechanisms for equitable division of interest revenue

- Absence of written constitution
- Lack of access to group rules and/or constitutions

- Lack of access to records
- Complacency and trusting management to control funds on members' behalf
- Technical failures of record keeping, especially in relation to interest revenue
- Lack of transparency and resistance to questions on the part of management
- Culture of impunity, in accepting that leaders and managers have some right to enrich themselves
- Lack of participation and indifference on the part of members

6.10 Conclusion

The results from the case material suggest that rural savings and credit associations face a number of characteristic problems, but are remarkably robust in spite of their risks. Several groups faced with disappearance of funds have managed to force their management or the guilty party to pay back the missing money, and are either still operating, or expect to resume shortly. The groups, which collapsed entirely, faced an unrestoreable loss due the misappropriation, lost their organiser, or suffered from multiple difficulties of an organisational nature. At the same time, it appears to be the groups, which do not have strong webbing of overlapping social capital connections that are most vulnerable to the other risk factors. The groups, which fell apart, recorded an average of 1.8 forms of internal interconnection, against an average of 2.6 for the 19 groups that survived (as measured in KwaZulu-Natal).

The groups themselves seem to be in the process of evolving from simpler savings mobilisation structures to more complex types, which are oriented toward income generation and are taking up some of the functions of formal banks. Interest rates seem to have stayed steady or fallen in some of the localities, but at an average 20-30 percent are prevailing for a loan period of five or six months. Interest appears to run higher in areas with less competition in the informal finance market. The overall development of these groups into a more commercial form and toward share schemes may be held back by the prevailing ideology of mutual help and equality, which has resisted the principle of differential division of group assets. It seems as if the members decide on manageable group size and manageable financial products and contain the group's growth in this regard.

Apart from weak social bases of cohesion, the single most serious risk factor affecting the savings and credit groups contacted is probably financial mismanagement and lack of transparency and prompt reporting on financial issues. Opportunities for mismanagement have proliferated as more complex forms of savings and credit operation requiring a high level of literacy and numeracy have taken over from the earlier types. However, some groups collapsed immediately after formation due to the embezzlement of the first take, indicating extremely week social capital linkages and a lack of information on which to base member recruitment.

The risk to group survival from accumulating defaults appears to be less immediate than might be anticipated. Fireproofing rules being adopted by many groups seem to have reduced the risk to the group very significantly.

Instead, the risk to group cohesion and survival often comes more directly from the procedural and leadership demands of running these relatively complex groups, which create serious internal stresses. These stresses are then absorbed or attenuated by the shock-absorbing webbing of social capital connections, which wire the better-organised groups together. However, there are in addition demographic and economic red flag factors, which can increase the standing tension within groups. Many of these emerge from the basic conditions of poverty, where people who do not fit the ideal profile for savings and credit activity still need to form such groups. Key constituencies here that are also risk groups may be people of pension age who are still raising young children, and unemployed single mothers without reliable incomes. On the other hand, as the interviews in the Free State showed, some groups were formed based on the rule that any prospective member must be unemployed. Here the cohesion was based on locality and social objectives to accumulate for specific needs, rather than to use the group capital to expand revenue streams.

How well these additional problems are offset by effective and wise management has a great deal to do with group survival. Some considerations include:

- An important factor in stabilising group management may be the availability of outside help or facilitation services, which may be enough to tip the balance toward maintaining operating transparency and good membership relations, and can also provide light for the group management on successful record keeping.

- Another possible dynamic here would be a role for savings and credit groups of the poor formed on a co-operative basis with relatively lower interest rates, and aiming at a wider clientele and relatively high turnover. On the example of village banking, groups of this kind might provide some of the same kind of lower-priced competition for the present groups centring on well-educated people and charging relatively high interest rates.

- Training needs probably centre on wider dissemination of bookkeeping skills to enable memberships as well as leaderships to manage the complexities of contemporary loan books, and to deal successfully with tracking and managing interest accumulation. The lack of financial skills and systems may also provide the opportunity for the provision of very basic standardised financial systems, especially for groups starting out to expand revenue streams from the provision of basic financial services.

- Results also suggest a clear need for capacity building work with group organisers as the main leaders looked to by group members. These visionary individuals are not usually superseded as key leaders by formal office-bearers, and may often lack education and technical skills needed to oversee and run successful income-generating groups.

Further work needing to be done in relation to informal savings and credit groups in rural South Africa would include wider investigation of reasons for failure, the balance between investment and consumption in how members use their benefits, close consideration of how groups compete and how competition is related to distance on the ground between competing groups, the relation between interest charged and the volume of loans being processed by a group, gender relations as they affect the relation between management and the general members, and cost-effective training options.

7. Opportunities for co-operative approaches[7]

7.1 Introduction

In our analysis of the opportunities for co-operative approaches to financial services provision (or financial intermediation) in rural South Africa we will be led by existing financial co-operative experience in South Africa, and the potential based on our group based research. However, mere supply of a concept will be meaningless without a proven demand for financial services in rural areas. In this section we will first establish some ideas regarding demand, then turn to existing co-operative endeavours and lastly translate our findings of the groups studied into opportunities.

7.2 Demand for financial services in rural areas

The Strauss Commission (1996) made the first attempt to gauge demand for financial services in rural areas. They concluded that an inadequate database on rural people and rural economic activity exist to calculate demand in quantitative terms. They followed an approach where they described current (in 1995) and potential economic activity in rural areas and then translated that into demand for financial services. They confirmed that a demand for financial services does exist and that the offering at the time was inadequate and extremely inefficient in terms of cost considerations.

In the period since the Strauss Commission Reports (1996) it was noted that formal private sector provision of financial services decreased in that commercial bank presence decreased in rural areas. One measure of this is the observation based on consumer survey results by Eskom (1998) that indicated a decrease from 55 per cent of the people in rural areas in 1995 that were in close proximity from commercial bank branches to nearly 30 per cent in 1998. If we accept that this is a trend it is clear that this is still on the decrease.

Closure of some provincial parastatal financiers and the near dormancy of other also indicate a decrease in the provision of financial services by state supported entities. However, one institution, the Land Bank increased its outreach to rural people and small farmers from nothing to nearly 43000 people over the last three years. This is a formidable increase, but as shown, still reflects a very low penetration of the market.

Most recent rural small farmer and small enterprise surveys all emphasise a lack of access to financial services.

[7] This sections draws from the work of Nicole Göler van Ravensburg on *Modern Approaches to the promotion of co-operative self-help in rural development: Implications for South Africa*, Occasional Paper of the Konrad Adenauer Stiftung, October 1999.

In summary, we translate the activities outlined and the trends identified into a sizeable demand for financial services in rural areas.

7.3 Current collective action financial endeavours in rural areas

Some initiatives (combined private sector, donor and government) are concentrating on the furthering of collective action self-help organisations. We have discussed the activities of Finasol and FSA in an earlier section. In addition the Savings and Credit Co-operative League (SACCOL), traditionally the credit union movement in South Africa is also emphasising co-operative approaches. The most successful rural NGO, Small Enterprise Foundation in Tzaneen is emphasising group approaches. The Uvimba groups have emulated their activities. At larger scale for more affluent clients commercial farmer groups consider collective action approaches to the provision of financial services.

The evidence is that the co-operative concept in the provisioning of financial services in rural areas is alive and being implemented.

7.4 Analogy between the group study results and co-operative ventures

In order to provide a summary of requirements for successful co-operative self-help ventures we turn to the comprehensive work of Goler van Ravensburg (1999). This is to help build a framework with which we can draw parallels (if it exists) between co-operative endeavours and what we observed in the provincial interviews. First, we look at the requirements for co-operative self-help organisations and secondly, we look at internal and external success factors of the development of successful self help co-operative.

Goler van Ravensburg (1999) notes that, "based on international literature, we can say that for any organisation to be co-operative means that it is a self help organisation that:

- Is designed to be permanent, that is it can survive independently from members joining and leaving and is economically efficient,
- Is based on open, non-discriminating and voluntary membership of natural persons who can make use of its services whereby the general meeting of members decide on membership applications,
- Has as its primary aim the economic promotion of its members by means of business relations with them, which can either mean their (self- employment or the provision of appropriate services to them at near cost prices,
- Installs a permanent core enterprise for this purpose which is owned, patronaged, directed and controlled by the members,
- Promotes their members by improving: their productivity of their subsistence activities or in their own enterprises, their market position as producers, consumers or employees, their access to material and non-material resources, their know-how, formal or informal knowledge, standards of information or education and training,

- Pays a limited interest, if any, on equity,
- Primarily makes use of its members own resources for their promotion, the acquisition of external resources forming only a secondary aim,
- Distributes the economic surplus achieved justly and equally among the members by rewarding them according to their turnover with it and/or by setting up (divisible) reserve funds and/or by financing promotional activities, such as training and education,
- Has a prime interest in member education and training.

When considering the characteristics of co-operative self-help endeavours it is clear that the changes being experienced in informal financial groups in South Africa are in the direction of the above-mentioned traits. The research showed that groups are expanding traditional stokvel and burial society activities to lending activities to non-members in order to increase group revenue streams. In addition the formation of co-operative ventures could also be studied to see if it resembles the formation of informal financial groups. Göler van Ravensburg (1999) argues that two sets of factors are important here, internal and external factors. She defines critical internal factors as the desire to improve one's own economic situation, the involvement of a promoter of the co-operative concept (very often outside of the potential member group) (or a "co-operative entrepreneur" according to Göler van Ravensburg (1999) quoting Röpke. In the informal groups this is normally the founding member(s), and in the case of some of them, an outside facilitator in the form of a community worker. Another important concept is the retention of member loyalty, participation and monitoring and decision-making. Once these activities are solely the responsibility of a few (or an appointed manager) many co-operatives move away from the wishes and aspirations of its members. Similarly, clear communication and member involvement in all activities of informal financial groups are some of the traits, which showed successful groups.

7.5 Potential summarised

A demand exists for financial services in rural areas. A lack of supply of financial services by financial institutions exists. Formal finance, especially private sector initiatives, is scarce and decreasing in rural areas. Current approaches emphasise self-help, savings first, co-operative based initiatives.

Our research shows that informal financial groups in rural areas are thriving and are well supported. These groups come in different guises. It is clear that a trend exist in turning the traditional stokvel and burial society into more efficient revenue generating entities. More efficient and revenue generating entities brings more sophistication and requires more informed management and governance. Thus, formalising these groups in a phased approach makes sense. It makes further sense to formalise those, that answer to the traits outlined, in a manner that emulates their social origins, thus on a collective action basis.

8. Summary, conclusions and recommendations

In this report we have first described the state of rural finance in South Africa. We have found that microfinance in general is a growing and blossoming sector, however, that is mainly true for wage earners and mostly in urban areas and larger rural towns. When we turn to the finance of MSEs and especially small farmers in rural areas we found the provision of financial services for this segment inadequate. However, collective action approaches and an individual based loan programme of the Land Bank are making inroads into this void.

We have studied informal financial groups in six provinces. These included successful (existing) groups and groups that have failed. An innovative semi-structured interview process was applied by making use of existing points of access to informal financial groups. The analysis of the interview results showed that the groups themselves seem to be in the process of evolving from simpler savings mobilisation structures to more complex types, which are oriented toward income generation and are taking up some of the functions of formal banks. The overall development of these groups into a more commercial form and toward share schemes may be held back by the prevailing ideology of mutual help and equality, which has resisted the principle of differential division of group assets. It seems as if the members decide on manageable group size and manageable financial products and contain the group's growth in this regard. This may be due to a lack of expertise and systems to expand.

Apart from weak social bases of cohesion, the single most serious risk factor affecting the savings and credit groups contacted is probably financial mismanagement and lack of transparency and prompt reporting on financial issues. Opportunities for mismanagement have proliferated as more complex forms of savings and credit operation requiring a high level of literacy and numeracy have taken over from the earlier types. However, some groups collapsed immediately after formation due to the embezzlement of the first take, indicating extremely week social capital linkages and a lack of information on which to base member recruitment.

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How well these additional problems are offset by effective and wise management has a great deal to do with group survival. Some considerations include:

- An important factor in stabilising group management may be the availability of outside help or facilitation services, which may be enough to tip the balance toward maintaining operating transparency and good membership relations, and can also provide light for the group management on successful record keeping.

- Another possible dynamic here would be a role for savings and credit groups of the poor formed on a co-operative basis with relatively lower interest rates, and aiming at a wider clientele and relatively high turnover. On the example of village banking, groups of this kind might provide some of the same kind of lower-priced competition for the present groups centring on well-educated people and charging relatively high interest rates.

- Training needs probably centre on wider dissemination of bookkeeping skills to enable memberships as well as leaderships to manage the complexities of contemporary loan books, and to deal successfully with tracking and managing interest accumulation. The lack of financial skills and systems may also provide the opportunity for the provision of very basic standardised financial systems, especially for groups starting out to expand revenue streams from the provision of basic financial services.

- Results also suggest a clear need for capacity building work with group organisers as the main leaders looked to by group members. These visionary individuals are not usually superseded as key leaders by formal office-bearers, and may often lack education and technical skills needed to oversee and run successful income-generating groups.

The detail reports[8] on the provincial group interviews provide the context and flavour of each province and the situation each group finds itself. This should be noted in province specific initiatives in the future. The terminology and cultural fit of endeavours should receive serious attention. Göler van Ravensburg (1999) noted that the co-operative concept is not highly regarded in some circles in South Africa. This is mainly due to the inappropriate way in which the co-operative approach was enforced in the past homelands. This was as expected with disastrous results. However, the co-operative concept is being applied in a wide variety of settings, without it being sold as co-operatives. The formalisation of group approaches in the Eastern Cape, the more organised stokvels and burial societies, and especially those that generate increased returns for its members, resemble co-operative approaches. The purist may argue that resemblance is vague, however, the base approach of collective action, of the whole is greater than the sum of the individual components, do apply.

How could we approach the strengthening of current financial groups? This study highlighted several strengthening factors. Many more issues can be synthesised from this initial work. More detailed studies would lead to more variables that can be of assistance in the strengthening of the groups. The first phase of support would be to enhance capacity of groups, which are already strong and may wish to work in a more formalised guise, towards better economic returns for members. Information centres and awareness programmes may serve to alert these groups to possible points of support, which they can then access on demand.

[8] Detail reports on the provincial studies are available from the DGRV, see back page for contact details.

A second phase would be to evaluate groups that came forward and identify those elements that need strengthening in the specific group in a specific context. This is more like a focused technical assistance for groups then generalised training programmes.

A third phase would be to bring groups in areas in contact with one another, to further build on the strength of collective action, now between groups and not between individuals. Obviously this would be a slow process, however, it would be more focused than a general training effort not targeted at any specific point of existing capacity and potential.

To summarise, the following initiatives could contribute positively to formalisation of current group's activities and deepening of financial services in rural areas.

- The promotion of the self-help co-operative through structures already active in rural areas, for example, community services, welfare officers, extension officers to embody the concept of the co-operative promoter. This is important to establish concepts of collective action which may evolve in a local version of a co-operative (for example a stokvel or a burial society)
- The contextualisation of the concept in the area applied by using the traits of successful groups area specific. The same applies for local terminology and cultural fit.
- The development of the ability to identify groups who would thrive in a more formalised format – that is those that want to apply the collective action concept to the generation of economic revenue. We propose the phased approach in this regard.
- The provision of training facilities and systems to support those groups that wants to evolve into more complex financial service formats.

Further work on informal savings and credit groups in rural South Africa should include wider investigation of reasons for failure, the balance between investment and consumption in how members use their benefits, close consideration of how groups compete and how competition is related proximity of competing groups, the relation between interest charged and the volume of loans being processed by a group, gender relations as they affect the relation between management and the general members, and cost-effective training options.

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