A Proposed model for Micro-Credit:

The Individual Loans Programme -

The Foundation for International Community

Assistance, Durban.

Submitted in partial fulfilment of the requirements for the degree of

Master of Business Administration.

The Graduate School of Business – University of Natal

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Declaration

This work has not previously been accepted in substance for any degree and is not concurrently submitted in candidature for any degree.

Signed: ....

Date: 22 : 12 : 03 ....

STATEMENT 1

This dissertation is being submitted in partial fulfilment of the requirements for the degree of Masters in Business Administration.

Signed: ....

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STATEMENT 2

This dissertation is the result of my own independent work/investigation, except where otherwise stated. Other sources are acknowledged within the text and explicit references are included in the bibliography appended at the end of this study.

Signed: ....

Date: 22 : 12 : 03 ....

To my son

"To have the aim in the conscious mind is to experience constant progress"

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ABSTRACT

" Give poor communities the opportunity, and then get out of the way"

Philosophy of FINCA

Research has shown that in the provision of financial services to the poor there are two highly distinct approaches. The one considered the 'formal institutional approach', which attempts to provide these services but are motivated by the need to maintain financial sustainability and therefore generally operate on a wide scale, with large clientele that would not be served by the formal banking sector. The second encompasses those providers who are purely motivated by the need for the social upliftment of poor communities. Their aim is to effect change in the living standards of the poor via financial assistance and the encouragement of economic empowerment and independence.

The Foundation for International Community Assistance (FINCA), whose aims and objectives, whilst falling into the latter category of providers still needs to address the question of sustainability, as it is solely dependent on donor funding. Most donors usually demand clear and sustainable results. This places an onerous task on the managers and providers of credit for social development to design sustainable and practical models for disbursement and payback.

The financial services industry is still grossly underdeveloped in its ability to cater to the socio-economic needs of people and communities around the world. While there have been enormous innovations in the for-profit financial services industry, there have been few breakthroughs in the ways social sector activities

are funded. As a result social entrepreneurs are attempting to create alternate financial services and models of funding for social ventures.

Dr. Younus, of The Grameen Bank, has given birth to dozens of new enterprises using what he calls 'social venture capital'. Many initiatives are under way to explore a better way of financing social ventures. However, the question still remains, Can and do these Programmes extend the Philosophy of Pro-Poor Up-liftment yet Maintain Financial Sustainability?

Against this backdrop, the Individual Loans Programme was designed and piloted by FINCA – Durban. The Individual Loans Programme claims to economically empower poor communities yet be financially sustainable for FINCA. Its pilot phase analysis reveals many merits in its approach and financial sustainability if evaluated solely against the criteria mandated by FINCA. Utilising the Consultative Group to Assist the Poorest (CGAP) guidelines in setting interest rates and assuming costing values, an appropriate interest rate falls between 41% and 44% for the Individual Loans Programme. The fact that it charges an interest rate of 84% per annum more than meets the requirements of financial sustainability. However, if it aims to reach the truly poor, then not only are its charges exorbitant but its strategy contains many requirements contrary to pro poor practices and therefore revisions in its dispensation are needed as it fails in terms of a pro poor model of micro finance practice.

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LIST OF ACRONYMS / DEFINITIONS

CGAP: Consultative Group to Assist the Poorest

DTI: Department of Trade and Industry

FINCA: The Foundation for International Community Assistance

ITC: Information Trust Corporation

IL: Individual loans Programme

MFI: Micro-finance institutions

MFRC: Micro finance Regulatory council

NGO: Non-Governmental Organization

PAR: Portfolio at risk

Micro loans: A loan between R5000 – R10 000

ROE: Return on Equity

SA: South Africa

SEP: Self- Employed Partnerships

Loan/ Credit Officer – person responsible for recruiting a client eligible for an Individual Loan

Micro-credit: Refers to credit extended by formal institutions to individuals or informal groups. Refers to credit for self-employment and other financial and business services. Deals with small loan amounts, tiny but frequent repayments, and rapid loan rollover, therefore, cost -efficient delivery systems assume great importance.

Micro lending: Providing access to credit to individuals who need relatively small amounts of money of credit at a time. By definition, these individuals represent the poorest elements in society who do not have access to formal bank loans, credit cards or other automatic debit facilities.

1 INTRODUCTION

1.1 Introduction

This introductory chapter provides a description of the research to be conducted. It begins by providing a background to the research topic followed by the associated problem statement, objectives, methodology and limitations. It concludes by describing the structure of the dissertation.

1.2 Nature And Subject Of The Research

"Micro-credit" is the name given to small loans to poor borrowers. To understand micro-credit and the demand for it, one needs to look at poverty in the world. It is believed that one out of four persons approximately 1,3 billion people struggle to live on less than $1 a day. (FINCA-International). Poor people are defined to be those people who live below a country's nationally defined poverty line and the poorest are considered those in the bottom 50% of the defined poor. To many South Africans, to be poor in South Africa (SA) is to be without the means of achieving consumption. This leaves the poor with few options and the need to access cash to survive, by whatever means possible. Micro-finance has proven to be an effective and efficient mechanism in poverty reduction the world over. The 1997 Micro-credit Summit declared its goal of reaching "100 million of the world's poorest families, especially the women of those families, with credit for self-employment and other financial and business services by 2005." (Simanowitz et -al: 2000).

South Africa's highly skewed income distribution and economic structure contains a large number of poor people and so-called 'unbankable' homes. According to Baumann (2002), South Africa has, an economically 'advanced' and globally integrated minority- both black and white, which co-exist with a dependent and marginalized majority. The poor majority lack access to basic means of survivalist production and the poorest of the poor are thus dependent for their survival on the formal economy without the necessary cash incomes to participate. Thus the poorest of the poor are structurally precluded from access to the exchange value - cash - necessary to obtain commodities, as well as opportunities to produce them themselves. Practitioners need to take cognisance of this dualistic economic structure, which defines SA poverty and poverty alleviation strategies have to address this. This gives rise to important implications for micro finance practise in SA.

Over the last five years, taking cognisance of the need for micro-finance, a number of private mainstream commercial banks, finance companies, and insurance firms have entered micro-finance, as retailers or wholesalers in South Africa. Many of these institutions see micro-finance as a large potential market and have top managers who are motivated by both community concerns and profits. These financial institutions have learned from micro-finance institutions (M F I 's) and pioneer banks how to reduce the high transaction costs in micro lending. One such mechanism is the combination of labour-intensive lending methodologies and distribution systems with the use of technology.

In addition to private financial institutions, a few government banks have established large, efficient and profitable micro-finance operations—breaking from the tradition of low efficiency, low profitability, low repayment and subsidy approaches to lending to the poor. By and large, most public and private mainstream financial institutions are not resource constrained as they have established broad-based savings mobilization, they are fully integrated into domestic financial markets, and major coverage in micro-finance can be achieved with a small percentage of a bank's assets. While the long-term commitment to micro-finance is questionable with some mainstream financial institutions, those that do commit can invest in building micro-finance capabilities and products, while using a small portion of their financial resources, their branch infrastructure, and their internal systems to achieve significant outreach.

There is consensus that micro-finance needs to work for the poor as well as be financially sustainable for the provider. The current practices have not been in a position to marry the two. Models from other micro finance practitioners' worldwide have been utilised and implemented in Southern Africa but these systems have not been tested for efficiency and sustainability. Whilst many practitioners' have been successful in the industry, failure stories abound and there has been limited success in most endeavours.

The retail commercial banking sector has claimed that it cannot profitably serve these households. Political attempts to exhort South African banks to serve such people on social grounds are pointless, and contradict the government's emphasis on creating a globally competitive economy. The onus seems to lie on the emergent commercial micro-credit industry or the non-governmental organisations to fulfil this onerous task. However, very often these are not developmentally oriented themselves.

It is important to note that long-term survival and sustainability is critical for any MFI in being able to reach its clientele and cover administrative and other costs. Whilst the social goals of reaching the poorest of the poor, and poverty alleviation are valid, financial sustainability for the institution is equally important. Internally, the MFI has to contend with amongst other aspects, savings and deposit mobilization, financial performance, staff motivation, administration costs whilst externally, it contends with availability of funds for loan disbursements amongst other things.

Traditional micro finance services to economically marginalized households are destined to fail – in the sense of reaching the poorest of the poor effectively without any element of subsidisation. (Bauman: 2001). The gap between the earning and borrowing power of the poorest of the poor and cost structures conventionally conceived is vast. The problem needs to be addressed by looking at 'success' both from the perspective of the institution and the borrowers. Hence micro finance models need to be carefully re-looked at if they are intended to meet the needs of the economically marginalized in South Africa.

One such institution, which claims to successfully reach out to the poor in South Africa with micro finance, is the Foundation for Community Assistance (FINCA). FINCA South Africa opened in August 2000 in the city of Durban, disbursing its first loans to fruit and vegetable vendors in the area. FINCA faced with economic instability, a monetary devaluation, inflation increases and high rates of crime met with many challenges in SA. However, this did not stop it from expanding along the South and North coast of Kwa -Zulu Natal province. In 2002 it saw its

Village Banking client rosters increase by nearly 25%, underscoring the increasing need and demand for banking products. (FINCA - South Africa). The challenges led to FINCA refining and testing new products such as the Individual Loans Programme, which it piloted in late November 2002. This presents a new model in micro-finance practise, which warrants evaluation for sustainability if it is to be rolled out in the future by FINCA and possibly replicated by other providers.

1.3 Purpose of Study

The purpose of this study is to examine and investigate whether the Individual Loans Programme of FINCA – Durban in micro-credit possesses factors, which lead to financial success and sustainability. To also investigate whether its application can be considered to be pro-poor.

1.4 The Specific Objectives of the Study

1.4.1 Objective 1

To explore the criteria for sustainable micro-credit practice by researching existing models in practice and available literature.

1.4.2 Objective 2

To determine the extent to which these criteria are met by FINCA's Individual Loans Programme model. This will be undertaken by specifically examining:

- The Financial conditions
- The Operating results

- The Development impact, if any, and
- The Required subsidy, as outlined in the model for Micro-credit Performance Measures, and
- Other relevant criteria

1.4.3 Objective 3

To conclude if the Individual Loans Programme presents a sustainable model in micro finance based on the criteria uncovered in objectives 1 and 2.

1.4.4 Objective 4

To identify possible criteria which could improve the Individual Loans Programme model and make recommendations.

1.4.5 Objective 5

To investigate and conclude if The Individual Loans Programme model can be considered a pro-poor model.

1.5 Reasons for undertaking the Research

The NGO sector has an integral role to play in poverty alleviation via appropriate micro-credit and micro-savings practices. Any institution that claims to work with the poor and poorest must include activities that are designed for these target groups. There is also evidence from literature that targeting whilst increasing costs leads towards Institutional Financial Self-Sufficiency (IFS) the ultimate goal of all providers.

The management of transformational change demands a more "holistic approach" in micro-credit practise. The motivation behind the aim of this dissertation is to investigate the key features that will be needed to help ensure sound, responsive micro-finance operations to the poor even if they form a small part of a companies or organisations loan portfolio.

This research will also encourage management to build more flexibility into their structures and contractual arrangements. Proponents of micro-finance will need to undertake a rethink of their role, both within their organisations and in a broader context, if they are to succeed. At the end of the day, Micro-finance involves financial services to poor people, provided in an efficient, responsive and financially sustainable manner.

1.6 Significance of the Study

There are, a range of approaches for the delivery of financial services to the poor. Arguments abound that micro finance can reach millions of the poorest people, and eventually pay for itself. However, there is no blueprint to the profitable delivery of micro finance and whether well-managed micro finance can be profitable for both its customers and its providers. This dissertation is significant in that it aims to contribute towards an understanding of micro-credit practices by investigating FINCA's Individual loans Programme and its mechanisms and determine whether it is a profitable model of delivering credit to the poor and whether it can be considered a viable alternative to those currently in practice.

Further, it provides a review of related models, and associated strategies in micro-credit practice thereby providing insight for micro-credit practitioners.

1.7 The Research Design and Methodology

The objectives of this research dissertation will be achieved by employing the following methodology:

1. A review and evaluation of pertinent literature in the subject areas of micro-credit and financial sustainability in order to establish a firm basis for research. The sources will include books, journals and Internet websites.
2. FINCA South Africa, an NGO operating in micro credit, will be used as a case study, specifically FINCA Durban's pilot project, the Individual Loans Programme, will be used as the new model to be evaluated.
3. The effect of the Individual Loans Programme for FINCA-Durban will be evaluated from the perspective of financial sustainability as outlined by the management of FINCA-Durban. This will entail interviews with FINCA personnel in Durban in order to provide a practical research emphasis as a well as serve as the source of data in the form of monthly reports, and statements, which will be quantitatively, analysed to assess the new model. While there are some quantitative assessments, the study will also be qualitative in nature, as it will be based on an intensive literature review and perceptions and experiences of the FINCA personnel in Durban.

1.8 Literature Review

The literature review focuses on three subject areas of this dissertation

- Micro-credit models currently in practice
- Criteria proposed for Financial Sustainability, and
- Pro-poor strategies in micro-credit

A thorough understanding of all three is required in order to apply the knowledge to the case study, and to evaluate the consequences of adopting the suggested model. Micro-credit is dynamic and each models financing technique and structure is unique. While this is true, lessons can be learnt and models built based on literature reviews, primary data and practitioners experiences.

Instead of formal texts, the writer found conference and journal articles with a practical approach to the subject matter more useful. These were used to obtain an understanding of the subject matter. Papers presented and draft papers of the Micro-credit Summit, World Bank initiatives and research papers on micro – credit practice from the Micro-finance Gateway have played a major role in structuring and directing this dissertation.

Two providers of micro-credit referenced in this dissertation are the Grameen Bank and FINCA International. The Grameen Bank is an internationally recognised provider of micro-credit, which presents highly valued information on the structure and implementation of micro-credit in Bangladesh, a model that has been replicated worldwide. The opinions of its founder Mohammed Younus are valuable in understanding the dispensation of micro-credit to the poorest, especially via the group- lending model, which Grameen has thus far used successfully. This will be expounded on in chapter 2.

FINCA International, founded in 1984 by John Hatch is also considered one of the leaders in micro-credit dispensation with its "Village banking" model, which has been replicated by 80 organisations worldwide. These providers are used extensively in this report as they have experience in dealing with micro-credit to the poor and contain many practical realities that are not considered in the Individual Loan model reviewed.

A practical approach is added by dedicating the summarising chapter to recommendations for improvement of the pilot model.

1.9 Assumptions

This research will assume that all data and information supplied by FINCA will follow the highest data integrity and will therefore be accurate. It will also be assumed that FINCA-SA has employed valid and accurate Measuring instruments. Further, the researcher will assume that the informal interviews conducted yielded truthful and accurate information. As Micro-credit is a relatively new subject in South Africa, the literature available within this context is limited, however a vast amount from International vendors is available. It is therefore not possible to review all literature available and hence the model is appraised against commonly developed criteria from around the world.

1.10 Delimitations

- Study was undertaken by quantitatively analysing Individual loans only at FINCA-Durban
- The study is delimited to the Kwa- Zulu Natal province of South Africa, as the clients for the pilot were only recruited from here. There are a variety of different models operational, however only the individual loans programme model will be analysed.
- Records from inception of pilot in November 2003 to the end of April 2003 were analysed
- Missing information will be treated by assuming values
- Time and financial constraints are the primary reasons for limiting the personal interviews to FINCA personnel.
- All Financial data with respect to the Individual Loans was not made available for the purpose of this research and assumptions had to be made in some instances.

1.11 Ethics guiding the research

Data mining from FINCA was undertaken; hence confidentiality of information with respect to borrowers and lender needs to be maintained. A disclaimer placing an embargo on the results of the study will guide this research.

1.12 Structure of the Research

The dissertation is presented in a number of chapters, which logically develop the issues being addressed in relation to the study. The study will be presented in the following chapters:

- **Chapter Two – Review of the Related Literature**

  This chapter encompasses a review of micro-credit practices by examining

  - Micro-credit models currently in practice
  - Criteria proposed for Financial Sustainability, and
  - Pro-poor strategies in micro-credit

It specifically references the Grameen Banks group lending scheme and FINCA's 'village banking ' model as these are considered leaders in micro-credit practice with considerable replication the world over. It aims at analysing, discussing and describing the theory of micro-credit practice and the importance of sustainability.

- **Chapter Three – The Individual Loans Programme**

This chapter sets out the principles and procedures of the case study. It outlines how the Individual Loans Programme operates and the mechanisms used to measure and appraise its functionality by its practitioners/ designers (FINCA-Durban). Further, this chapter outlines the conditions as set out by FINCA-Durban. The researcher will evaluate this model against these pre-requisites as well as comment from the perspective of pro-poor policies.

- **Chapter Four – The Research Design and Methodology**

The system of rules and procedures used in this research are set out from both a theoretical and practical perspective. This study encompasses both a quantitative and qualitative approach to research and this is explained.

- **Chapter Five - Research Findings and interpretation**

The raw data obtained from month-end reports and schedules was transformed into tables and graphical displays lending itself to ease of interpretation. The data and statistical tools applied to interpret the data and make the necessary inferences are presented in this chapter. The Chapter assesses the financial sustainability of the new model. To this end, an analysis is carried out which compares the performance results against expected performance outcomes as well as against industry expectations. The consequences of applying such a model in micro-credit practice to the poor will be evaluated in terms of the benefits offered and the shortcomings that must be addressed.

- **Chapter Six - Recommendations and Conclusion.**

The culmination of the research lies in determining whether the Individual Loans programme has the makings of a successful model or not. Sustainability was determined for FINCA from their pre-requisite requirements and also commented on from a pro-poor perspective. This is highlighted in the final chapter and recommendations to improve the model are presented.

This is followed by:

A Bibliography which presents a list of publications both cited in the dissertation and not, but which have been consulted during the research. Even those that are not cited directly have helped to shape the researcher's ideas and views on the subject.

1.13 Dissemination of the Results

Due to the competitiveness in the micro-credit industry only FINCA will be made privy to the results. This is apart from the supervisor, researcher and external examiner of the project. Should the confidentiality requirement be waived by FINCA results may be made available to those institutions interested in micro-credit practises.

1.14 Summary

FINCA finds itself in a challenging marketplace (SA), with a large demand for its services. Management wishes to explore opportunities by refining and testing new models and new approaches in micro-credit that will allow it to serve the poor yet simultaneously maintain sustainability hence, the piloting of the Individual Loans programme.

The purpose of this study is to evaluate FINCA's Individual Loans Programme and assess whether it possesses the mechanisms for sustainability for FINCA-Durban as well as service the poor, which it claims to do.

2 MICRO FINANCE LITERATURE IN CONTEXT

2.1 Introduction

According to Baumann (2001), Income in South Africa is closely linked to economic status. SA has the highest Gini coefficient (Baumann: 2001) in the world, the disparity of which has led to the poorest being dependent on the broader South African economy whether it be for jobs, self-sustainable entrepreneurial capital or basic necessities. Unfortunately, South African banks evolved to serve the needs of the white population. Being rooted in the British high street tradition, their overheads are high and their approach is unviable for commercial retail banking to the lower end of the market i.e. low- income customers.

Since 1990, with banks being more dependent on overseas credit and foreign investment, the sector has become highly competitive. The pressure is on to produce globally competitive returns on shareholder equity. This has led many retail banks to convert their clients to electronic banking, meeting mixed success. South African banks like BOE /NBS and ABSA have done reasonably well whilst Standard and FNB have struggled. The reserve banks tightening of the regulatory environment to attract foreign investment has involved increased reserve requirements to indicate banking stability. This has further pressurised banks to generate higher uniform interest rates of return across all operations in order to meet increased operating margins resulting in substantial rollback of retail banking services. The result: low-income households from the informal sector are now even further away from accessing commercial banking facilities than ever before.

Paradoxically, the banks have come under pressure to extend their services to the poor. Housing minister Sankie -Mthembi-Mahanyele (Baumann: 2001) echoes the populist demand that banks 'do the right thing' by extending their services, particularly credit, to the poor. Blade Nzimande, the general secretary of the SA Communist Party, has also indicated that the party does not believe that the banks are doing enough to meet the needs of the poor. (Daily News: November 2003). This has resulted in banks creating separate 'off-book' institutions to service the low-income sector thereby allowing them to maintain Return on equity (ROE) of their core operations but still extending services to the previously un-bankable sector of society.

This has resulted in mixed results largely due to inexperience and the fact that this stance was purely a response to political pressure rather than commercial motivation. It is interesting to note that most of these structures are not based on branch operations in the lower –income sector, but on card-based electronic services that presupposes a client visit to an urban-centre, which automatically increases the cost and adds to the security risk for the client. The trend appears to be a re-creation of a 'stripped down' version of the same banking practices existing in the commercial retail sector.

Unfortunately, this is not the route to success in the micro-lending sphere. It is the intention of this dissertation to look at factors, which can work towards building financial systems that work for the poor majority whilst simultaneously being beneficial to the lending sector. It is intended to reflect experience and lessons from around the world on how policies, regulations and systems can be shaped to promote the development of a sound and responsive micro-finance industry. It begins from the global consensus that micro-finance should both work for the poor and be financially sustainable to the lending sector.

Micro-finance needs to be treated as a vital part of the financial system, with the special needs and features of micro-finance operations and institutions recognized in financial sector policies and regulations. There is a need to highlight the important role that a broad range of regulated and unregulated financial institutions can play in the provision of micro-finance services, and the importance of building policies and support systems that encourages a range of institutional types to enter and expand micro-finance services.

2.2 Background to the Micro Finance Industry

The field of micro-credit and the literature relating to it is large, fast growing and very diverse. According to The Women's World Banking draft paper *(2002),* on policies, regulations and systems that promote sustainable financial services to the poor and poorest, in the last twenty years, the "micro-finance industry" has emerged.

During the 1980s and 1990s, particularly in Asia, Africa, and Latin America, thousands of micro-finance NGOs was established to provide micro-loans, using individual and group lending methodologies. In the 1990s, while many of these NGOs failed to reach scale or financial sustainability, others led the way in demonstrating that:

- Poor people, particularly poor women, are excellent borrowers, when provided with efficient, responsive loan services at commercial rates.
- Micro-finance institutions can provide micro-loans to poor people in an efficient and financially sustainable way, once the number of clients reaches reasonable scale - 10,000 to 20,000 (Women's World Banking: 2002) borrowers in most settings.
- Micro-finance lending, savings, and other financial services to poor people is an effective way to help poor people help themselves build income and assets, manage risk, and work their way out of poverty.
- Most of the growth in the micro-finance industry over the last ten years has taken place in the absence of specific financial sector policies for micro-finance. In Bangladesh, where about one third of the world's estimated 30 million active micro-borrowers reside (Women's World Banking: 2002), the growth has come from specialized micro-finance NGOs and The Grameen Bank.

The Grameen Bank has its own special legal structure, and does not fall under regulatory oversight of the central bank. In Bolivia, which has been a leader in building micro-finance policies and regulations, most of the growth in outreach came before the regulations. Since the regulations have been put in place, growth has been more rapid between unregulated Micro-finance institutions, with the rapid growth in portfolios of regulated Micro-finance institutions coming mainly from growth in average loan size. In Indonesia, Bank Rakyat Indonesia, a state-owned commercial bank, succeeded in building the world's largest commercial micro-finance savings and lending services for millions of poor people in an otherwise ineffective bank, using existing banking regulations (Women's World Banking: 2002).

Beginning in the mid-1990s, leading micro-finance institutions have worked together to build performance indicators and standards for the micro-finance industry. These initiatives have been motivated by recognition among practitioners that:

- Micro-finance must demonstrate very high performance on portfolio quality, efficiency and financial sustainability if micro-finance institutions are to be recognized as integral members of the financial system, able to mobilize commercial borrowings.
- Effective ways of looking at efficiency, risk and profitability need to differ for micro-finance portfolios relative to traditional banking activities, with micro-finance practitioners well placed to determine the appropriate performance indicators and standards for the industry.
- Micro-finance institutions that do not mobilize savings from the public are not likely to warrant regulation by traditional bank supervisors; other means need to be found to build transparency, accountability, and pressure to perform for non-regulated MFI's.

Many global, regional and country level networks have adopted or are adopting similar performance indicators, standards and institutional evaluation methods which reflect key success factors in micro-finance. These performance indicators, standards and approaches to evaluating MFI's have been adopted by International Donors. However, implementation has been uneven. Similar evaluation methods and performance indicators have been adopted by the new set of "rating agencies" that have emerged in the micro-finance industry. This dissertation will attempt to apply some of these indicators in assessing FINCA's Individual Loans Programme.

During the 1990s, a phenomenon emerged in parts of the donor and micro-finance community that focused on the felt need to "transform" or convert micro-finance NGOs into regulated, for-profit structures, owned and governed by shareholders. The rationale in promoting this "commercialisation" model was that:

- Micro-finance institutions should rely on savings and commercial borrowings rather than donor grants.
- Institutions that mobilize savings from the public should be subject to prudential regulation.
- Regulated structures would provide more assurances to commercial lenders and investors.
- Micro-finance NGOs have no owners, and NGO boards can be dominated by social objectives, resulting in structures that have limited accountability or focus on efficiency and profitability.

To date, this "transformation" model has had limited success and several unintended consequences (Women's World Banking: 2002)

2.3 Variables in Micro finance Design

It is evident from the above excerpt and examination of other relevant sources that a need exists to re-examine the modus operandi of micro-finance and attempt to develop workable and bankable models of operations. Micro finance needs to service the poor yet maintain sustainability for the provider.

Furthermore, Micro-lenders, according to, Reinke (undated), are not established merely through the need of poor people, but by the decision of donors who generally identify a social or developmental objective.

Many practitioners target women, who are seen as economically less independent than men in the same social group, and benefits of their economic empowerment are considered to be directly extended to their children. Hence, from a social perspective women are often seen as more desirable borrowers and a large number of lenders bias their disbursements to women. However, according to Gibbons-Et-al, cost-effective identification of the poor and the poorest women is essential to maximising the effectiveness and efficiency of providing micro finance services to them. If the service is not exclusively for the poor and the poorest, it should be operated separately for them to minimise leakage to the non-poor. This serves as an important point in assessing the Individual Loans Programme which whilst being biased towards women has not used an identification mechanism of the poor and poorest.

Alternative targets are rural people. Targeting specific sectors has not only social but economic implications. First, different sectors may be variably efficient in utilising micro loans in creating viable enterprise, and second, different groups typically have different repayment patterns, thus impacting on the sustainability of micro lenders. Therefore, the social desirability of lending to a specific group of people does not imply financial sustainability of lending to them. The crucial considerations are: What are the social and economic effects of targeting a specific sector? Does it impact on the sustainability of the lending programme? This factor appears to be contrary to that which has guided the designers of the Individual Loans Programme to pilot the project in urban and peri-urban areas only.

Furthermore, micro-credit is often associated with small business development many of which, are part of private households. This may result in the money being utilised for other projects rather than business development. The question that then arises is whether specific sectors are more promising for the establishment of small enterprise, or whether the loan availability should be conditional on the sector presented in the business proposal. The logical consideration should be whether this is feasible as it is difficult to vet business proposals and to follow up on loan usage. Very often targeting becomes inefficient in the face of compliance.

A third consideration in micro-credit practice is the location and branch network of the lender. This problem however, only becomes relevant if contact with clients is part of the strategy and in most instance good practice models indicates the need to maintain contact. If contact is not necessary, then location is a pure cost efficient decision.

A fourth consideration is the payment mechanism. Reinke (undated), states that " credit extension, is from one angle, the service of getting money out to people and getting repayments back from people; lending is the business of moving money." Several institutions use electronic methods, but such facilities are generally not available in developing countries. In South Africa, they have been used with some degree of success. The important point to note is that a well-designed system would not only transfer money but information to update client records.

Loan size, another consideration, tends to be a weapon in fighting opportunism. It has to be manipulated in order to promote repayments. Many use staging techniques. Subsequent loans would be a higher in value but only provided if good repayment records on earlier loans are maintained. Reinke (undated), states that " Lenders should not assess the debt i.e. repayment capacity of their clients through analysis of their loan application or their business; rather, debt should be made available according to repayment capacity based on current income." This in the author's view defeats the purpose of entrepreneurial and social development loans as in most instances these are embarked upon due to a paucity of funds. It also serves as the author's criticism against the Individual Loans Programme of FINCA-Durban (refer chapter 3). Capital is required for entrepreneurial activities and for some e.g. Grameen Bank clients current income is below the poverty line. Micro-credit being the answer in the provision of capital, in most instances sans collateral, cannot then expect current income to be the determining factor, as this would by and large exclude most micro loan borrowers and preclude the provision of micro-credit being a poverty reduction tool. This is one of the criticisms leveled at the Individual Loans Programme in chapter 3, which precludes it from being considered a model conducive to the poor and poorest.

Another variable in micro lending are the charges and interest rates operational.

Lenders will end up in the red if charges do not incorporate the lending costs. To be financially sustainable, lending programmes should build in the cost of services. According to Gibbons –Et-al , the poorest women in Asia, Africa and Latin America are proving that they can and will pay the required cost of the opportunity to reduce their poverty and to provide a better future for their children. However, it is the author's opinion, that if the service is to be pro-poor then interest rates should be the bare minimum and not exorbitant, thereby excluding the really poor. This point is further elaborated upon in chapter 3.

Linked to charges is the issue of savings. Many lenders require their clientele to accumulate savings in order to create more reliable borrowers. Savings can then be used as 'collateral' or even to determine the size of future loans. In the opinion of the author, this would once again defeat the purpose of micro-credit, as it would exclude potentially poor borrowers who do not have the capacity to save. If there is no money to cover the bare essentials, how then can there be surplus to save?

There also appears to be a vital link between micro-credit programmes and training. Capacity building is the logical goal of credit programmes. Many entrepreneurs are unaware of their deficiencies, and lack of necessary skills to succeed. The value of training is appreciated when business results are tangibly better. It is the author's opinion that in order to promote financial independence and micro-entrepreneurship amongst the really poor a hurdle to overcome is the lack of knowledge and deficiency in skills. Hence, successful programmes in poverty alleviation should incorporate skills development with the provision of funds.

It is important in any micro-credit assessment to reference those criteria, which are salient to economic viability and sustainability as well as socially motivated goals. Gibbons –Et-al states, " MFI's wanting to reach and benefit truly large numbers should be consciously working towards Institutional Financial Self-Sufficiency (IFS). This does not mean that IFS should be attained at the cost of the overriding goal of poverty-reduction. That would defeat the purpose for which we are working-which is not profit as an end in itself, but poverty reduction. Attainment of both goals must be monitored so as to ensure that IFS does not displace the more important goal of poverty-reduction." These factors coupled with a review of current practices in the micro-lending industry will serve to direct this evaluation of the pilot project launched by FINCA- 'The Individual Loans programme'.

2.4 Innovative Models in Micro-Finance

Ever since the Grameen Bank in Bangladesh achieved recognition, 'micro finance' has become a popular buzzword. It has attracted large sums in donor funding and has been perceived prominently in poverty alleviation schemes worldwide. The Grameen success has shown the world that the poor are bankable. Numerous studies on micro finance practices have been conducted world over and there have been a vast number of innovations documented in the field.

The aim here is to examine some of these models that have attained the status of 'successful' and determine their usefulness in current micro finance practice;

and utilize these as a backdrop for evaluation of the pilot model by FINCA-Durban viz. The Individual loans Programme. There are three star micro-credit programmes in the developing world, Rural Bank Rakyat Indonesia (BRI), urban programmes in Bolivia, where the BancoSul has been the leader and the Grameen Bank in rural Bangladesh. The focus here will be to highlight the processes of the Grameen Bank because it has been the dominant model that others have tried to replicate, especially in their poverty alleviation micro-credit practices to the rural poor. The Consultative Group Against Poverty (CGAP) is also actively promoting this model. Many donors and funding organisations have also indicated only willingness to support those programmes modelled along Grameen.

What makes this model so important? According to Jain (2003), it is a matter of timing as it was the first to become large and famous. Secondly, its leadership efforts in actively publicising its virtues and generating appeal amongst donors propelled it into the realm of a sound model. Thirdly, the other two star performers were not considered so suitable for replication due to Rural Bank Rakyat Indonesia being considered effective as it is an official programme organised by the Central Bank of Indonesia and utilises village level authorities123` to monitor households while, BancoSul differs as it is considered an extension of commercial urban banking to poorer clients.

Further, it is important to note that in general poverty –oriented micro-lending programmes are usually based on social intermediation methodologies and the Grameen is heavily reliant on this approach. Hence, it is useful in studies in micro-credit. Social intermediation strategies aim to identify, assist and develop poor communities by extension of micro financial services. Very often these are classed as 'group ' lending schemes. However 'groups' are not the foundation of social intermediation but the use of existing social bonds between beneficiaries to mitigate risk and manage operational systems. This is in contrast with the requirements of the Individual Loans Programme elaborated on in chapter 3, which fails to utilise social intermediation strategies and social bonds to mitigate risks in its model. There are many categories of pro-poor micro finance services operational. Each varies according to the type of service offered and the level of social intermediation employed. The following table lists the basic features of each broad category of Social Intermediation Methodology operational (Adapted and sourced from: Baumann: 2003).

Feature	Solidarity Group	Financial Services Co-operatives/Credit Unions	Village Banks	Savings and Credit Networks
Structure	Small groups Between 4 – 8 persons	Large groups 50-200+ persons May be regulated/ unregulated	Medium sized groups Average 20-50 persons	From 10 to several 100 persons Optimum size of 50
Membership	Varies: in the Grameen style programs, with the poor being at or below the poverty line, relatively homogenous	Open bond membership covers geographic area rather than poverty level. Other observers indicate that whilst not always the poorest, they are similar in assets, business size, and income to micro and small scale business as clients of ACCION –affiliated programmes	Largely targeted to the poor at or below the poverty line e.g. FINCA	Target the poor to very poor, but self-selection at group level can lead to wide variation unless support institution provides incentives/ constraints to favour the poorest.
Lending Process	Program makes one loan to solidarity group on behalf of individual members Initial loan is usually same size Group representative is responsible for disbursing the individual loans and for collecting repayment.	Groups are savings led; members expected to buy initial shares and/or save a set amount before borrowing is allowed; loans made to individuals within the group based on their meeting these requirements and offering some form of collateral. The Individual Loans programme appears to fall in this category.	Support institution makes one loan to village bank, which the bank management on-lends to members; subsequent loans depend on repayment, and size linked to the amount of savings generated by borrowers during previous loan cycle.	Support institution establishes revolving fund that makes group loans to collectives ('cold money'; collectives blend this cold money with own savings ('hot money') to fund loans to individual members.

Feature	Solidarity Group	Financial Services Co-operatives/Credit Unions	Village Banks	Savings and Credit Networks
What groups do?	Solidarity groups recruit and select their own members, guarantee each other's loans; disburse and collect payments; collect group savings and fees if there are any.	Self-help groups and cooperatives elect their own management; set interest rates and savings policies; manage lending activities.	Village banks recruit and select their own members; establish by-laws and operating procedures in consonance with support institution or regulatory guidelines; disburse and collect loan repayments; also collect required savings and manage them as an internal account fund deposited in a bank; or re-lent to members and outsiders; some of these finds may also be used for community purposes.	Savings and credit collectives recruit and select members; select internal management, establish operating procedures and internal rules; collect and mange internal savings; receive and manage external loans; collectively guarantee eternal 'cold' loans to the collective; make and collect internal loan repayments.
Guarantee Mechanisms	Peer guarantee; some models require groups to collect group deposit funds which can also serve to underwrite delinquencies and defaults (patching).	Use savings on deposit as guarantee, as well as two or more co-signatories (other group members) to support loan applications; may also accept physical guarantees, although most loans are character based.	Peer guarantee, internal account funds also serve as collateral against the full loan provided by the implementing agency.	Peer guarantee, with collateral rules decided at collective level.

Feature	Solidarity Group	Financial Services Co-operatives/Credit Unions	Village Banks	Savings and Credit Networks
Transaction Costs for Borrowers	High for models expecting weekly participation in centre meetings, moderate for those models that do not require meetings, and expect member representative to collect and deliver repayments to the organisation.	Moderate, depending on the meeting requirements.	High as weekly or bi-weekly meetings required for loan and savings payments.	High as weekly or bi-weekly meetings required and loan and savings payments usually made daily; also participation in network activities.
Savings Policies	Solidarity group programs are credit-led; may include forced savings requirements in the form of group funds and other insurance schemes. Most also require clients to open savings accounts and strongly encourage savings.	These models are savings-led; credit follows a period of savings and certain amount achieved; intention is to build full service financial member organisation; initially most only forced savings; now many innovated to offer voluntary savings options as well as credit.	Credit-led but introduce forced savings as a means to build a group based financial asset that can be used for investment or as a guarantee of repayment of outstanding loans; an individual's access to these savings is usually curtailed until end of cycle or departure from the bank.	Require daily savings but set no fixed amounts, since regularity of saving is regarded as more important and fixed amounts exclude the poorest; sometimes require deposits when accessing external 'cold money' loans. Sometimes require proportion of savings to be deposited in regional apex.

Feature	Solidarity Group	Financial Services Co-operatives/Credit Unions	Village Banks	Savings and Credit Networks
Group Ownership and Control	Solidarity groups are generally borrowing groups; decision-making mostly refers to membership selection and willingness to support loan applications.	May be organised as independent institutions or affiliate as apex structures to provide greater liquidity management/management support. . Local group manages own savings/loans, assumes strong fiduciary responsibility for safeguarding member's savings.	Groups recruit select members; review and approve loans external and internal loans, build internal capital, make investment decisions it those funds; originally expected to graduate, become independent, now usually expected to remain affiliated to the support institution with greater ownership because of the capital build up.	Groups recruit select members; review and approve both 'cold' external and 'hot' internally-funded loans, build internal capital; expected to remain affiliated to the network.

Table 1 Social Intermediation Methodologies

2.4.1 The Grameen Bank Model

Known as the flagship programme of the world's micro finance movement. The Grameen Bank's accomplishments are well known with its outreach to more than 2,4 million borrowers (95% women), from 40 000 villages. Rubenstein (undated). Professor Mohammed Younus, in Bangladesh, launched Grameen Bank in 1976. By 1983 it was an established specialised institution under government statute. According to Wahid et al, The Grameen Bank model is an attempt to turn conventional banking right side up. Although it is not the first poverty –alleviation project in the world, interestingly it is the first successful programme of its kind that is still alive. It has been suggested that its success to a large extent depends on the fact that "it can work within limited objectives almost independent of political economy and culture."

Grameen's success lies in its operational methodology. Grameen has reversed conventional banking practice by removing collateral and creating a system based on trust, accountability, participation and creativity. It chose to utilise 'group influence' and monitoring techniques to enhance loan repayments and thereby reduce delinquency.

Grameen provides credit to the poorest of the poor in rural Bangladesh, without any collateral. This is totally contradictory to the methodology of the Individual Loans Programme, which requires a collateral. With the Grameen Bank credit is seen as a weapon to fight poverty and develop the socio economic conditions of those who have thus far been considered un-bankable on the grounds of their poverty ridden status. Grameen was the first organisation to operate a very large -scale micro-credit programme and demonstrate its success both in outreach to the poor and high loan recovery rate. It is widely believed that the success of micro-credit in Bangladesh is due principally to the adoption of the Grameen organisational and policy blueprint, and as stated above, is a prime candidate for replication. What does the "Grameen Model" comprise?

- Social Collateral – lending decisions are based on group credit worthiness and the relationships between beneficiaries.
- Borrower Participation–a system of self-monitoring, and
- Absence of Subsidy- these are loans not handouts.

The following elucidates the process under which Grameen operates.

2.4.1.1 The Traditional Approach

- A Grameen Bank representative visits a village and announces that they are looking for poor women to lend to.
- Many women come forward. Bank workers politely listen, but take no action.
- After a few weeks, a bank worker starts looking for the first borrowers. They look for the woman who is too timid to come forward.
- The women often say they do not need or want the money. Coming from a desperately poor woman this is generally the sign that this is a potential borrower.

- The worker then explains that many others have taken loans, started small businesses and have generated enough income to repay as well sustain themselves.
- The woman is encouraged to seek four others like her.
- The women subsequently decide what to do with the money and the rules of the bank.
- Grameen Bank thereafter approves the loan.
- The two poorest and neediest receive their loans first.
- Each week borrowers make their repayments.
- After five weeks, if the first two have kept on schedule, the next two receive their loans.
- After a further five weeks, the last person receives her loan.

Borrowers support each other, because the bank will not make subsequent disbursements if anyone is delinquent. First loans average $30 and subsequent loans about $100. According to Rubenstein (undated), 98% of Grameen's loans are repaid on schedule. The programme has had an explosive growth, roughly doubling the number of borrowers every two years. Currently, 34 000 Bangladesh villages have Grameen Bank branches.

Generally, banks do not lend to people without collateral, education or business experience. Grameen Bank has learned that almost anybody can succeed given half a chance and some encouragement.

A study conducted by a Malaysian professor of economics on the Grameen Bank has revealed that of long-term borrowers, 48% had crossed the poverty line; 27% more had moved close to the poverty line, and the balance 25% had made little progress, usually due to long-term illness in the family eating into their savings (Rubenstein: undated). These statistics clearly indicate that Grameen has been and still is, successful in increasing the incomes of some of the world's poorest women.

It has however been debated and argued that the Grameen Bank's use of social accountability has contributed to its success, by keeping the banks transaction costs low and its repayment rates high. This has encouraged its replication in other countries. However, it has met with different levels of success as very different social and economic factors come into play and no model can perform exactly the same way in two different environments unless all their contextual conditions are exactly the same. Adaptations very often need to be made.

According to Jain (1996), research has also shown that whilst the Grameen model emphasises joint responsibility, group members were not penalised when one member defaulted. This goes contrary to the ethos on which Grameen was postulated. Further, the model is considered flawed, with respect to reaching out to the poorest of the poor. It was found that group members select each other on the basis of who would be able to keep up to the repayments. This eliminates the role of the bank in client selection and hence improves the repayment rates Based on this Jain (1996), postulates that it is not the absence of collateral and peer pressure, which led to success of this model but rather its operational and administrative factors. However, despite this drawback it still reaches out to the poorest. A secondary success factor was considered to be the environment, in which Grameen operates, a high-density population, easy to access, thereby reducing costs further.

On the downside, it was noted that the disbursal of funds is primarily to promote micro-entrepreneurship. Emergency and welfare funds are generally set up but for the benefit of members only. Members based on past borrowing, become eligible for other loan products like housing, technology etc. This alienates some of the poorest of the poor who simply need funds for consumption and are not included in the group scheme. However, in the grand scheme of things, Grameen's initiatives have led to improvements in the standard of living of its borrowers.

2.4.1.2 Grameen Banks Recent Innovations

According to Hatch et al (2002), New on the block for Grameen Bank is its **housing loan programmes** that has benefited more than 546 000 families since its inception. The target is the most destitute families whose dilapidated shelters border on the homeless. The average loan is for $350 at 8% interest per annum, Hatch et al (2002). This is sufficient to cover the basic materials required to put up a standard one room home that is flood and water-resistant. Construction is left to self-help labour. The only requirement being that the clients must hold the title deed to the land. Loan repayment is reported to be 98%.

The other success of Grameen Bank has been the **Village Cell Phone Programme.** A micro-entrepreneur uses her loan to buy a cell phone and run a business by selling its usage at a per minute rate. It has seen a reported average net income of $70 for the entrepreneur. The spin off has also been access to a means of communication for many citizens. Grameen Bank plans to replicate its village phone programme success in other developing countries.

2.4.1.3 Summary of Grameen

The Grameen Bank , is still by far the world's most successful micro-enterprise lending institution, but is certainly not the only one. Similar banks operate in the Philippines, Indonesia, El-Salvador, Mexico, Bolivia and other countries and each methodology has its own merits and de-merits. The important component in its dispensation is its pro-poor approach. This model is vastly different in its operational methodology and disbursement requirements from that designed by FINCA-Durban for the Individual Loans Programme (refer chapter3).

2.4.2 FINCA [Foundation for International Community Assistance]

2.4.2.1 Background

FINCA developed on the philosophy of its founder, John Hatch, " *Give poor communities the opportunity, and then get out of the way". (FINCA* International: 2001). The aim of FINCA is

- To create employment, raise family incomes and reduce poverty
- To provide financial services to low income households

- To offer loans not grants and utilise sound business principles

In 1984, John Hatch developed a new approach for delivering assistance to the poor. He felt that most credit programmes, failed to use borrowers knowledge of their neighbours and local economy, as outsiders administered them and this removed a critical incentive for repayment, resulting in poor repayment rates and low borrower morale. This new approach became recognised as the 'Village Banking' method/model.

2.4.2.2 'The Village Banking' Model

According to FINCA (2001), a Village Banking group is a support group of 10-50 members- usually mothers- who meet weekly or biweekly to support themselves with three essential services:

- Small self-employment loans to start or expand their own businesses
- An incentive to save, and a means of accumulating savings, and
- A community based system that provides mutual support and encourages personal empowerment.

Members of the group guarantee each other's loans and run a democratic organisation. Groups represent grassroots democracy in action: members elect their own leaders, design their own bylaws, keep books, manage the funds, and are fully responsible for loan supervision, including enforcing penalties for non-compliance. The group guarantee is important, since borrowers do not have the kind of collateral a commercial bank would be seeking to lend them money. Most FINCA International programmes charge 3-4% interest a month. According to FINCA international (2001), this level helps meet local operating costs and supports the technical assistance provided to the Village Banking groups. This is considerably lower than the exorbitant rate (84% per annum) charged by FINCA-Durban on its Individual Loans Programme. (Refer chapter3).

This approach provided opportunities to the poor to gain access to funds without a collateral. Collateral has for far too long been the main obstacle to credit access. This contrasts with the requirement of a collateral on the Individual Loans Programme of FINCA-Durban (Refer chapter3). Furthermore, it did not exact high rates of interest and the board of directors mandates that administrative costs, including fundraising, never exceed 25% of total expenses.

The level of autonomy to the poor entrepreneurs was never matched prior to the launch of this method, not even by the leader in the field, "Grameen Bank'. The results among FINCA's earliest borrowers showed increased earnings, better family nutrition, high repayment rates, and increased empowerment. The method is participatory in nature. Members do not just receive loans, they form cohesive groups who manage and collect repayments on those loans, save and decide on ways to invest the savings together. This approach afforded the borrowers a level of power and control in terms of disbursement, investment and collection of loan capital as they deemed fit.

FINCA lends to groups of neighbours who come together to guarantee one another's loans and work together to ensure that the bank runs smoothly. The group is critical. Cooperation takes precedence to competition. Micro entrepreneurs know that if one members business attracts customers all are likely to benefit. Loans rotate among members of the community and the working capital seldom stops working.

These results according to FINCA have been duplicated the world over in the poorest areas of the developing world. This method is currently being practiced by FINCA and over 80 non-profit agencies in more than 32 countries worldwide. (FINCA International: 2001). It possesses the characteristics of a successful anti-poverty tool, yet being cost effective by providing not grants but credit that returns to the village bank to be used by other members of the community. The Village Banking method's most valuable feature is that it has the potential to offer long-term solution to hunger and poverty by helping to sustain their own employment.

An important aspect of its programme as an anti poverty tool has been FINCA's focus on improving the earnings of women. This was a result of a conviction that 'the fastest way to affect the welfare of children was through aid to their mothers'. Research has repeatedly shown that increasing the income of poor mothers results in improvement in their children.

According to FINCA International (2001), in a survey in EL Salvador 57% of participants spent less than $12,50 per week on food for their families. Once they joined a group, 90% spent more than $12,50 a week and 43% spent more than $25,00 thereby effectively doubling what they were able to spend on their families. Whilst FINCA's aim is not to discriminate, it targets women clients because they are least able to access credit, and typically represent the poorest segment of the poor. (Source: FINCA International: 2001).

2.4.2.3 FINCA- South Africa

FINCA has expanded to Africa since 1992 and is operational in Durban, South Africa since 2000. According to Baumann (2003), FINCA initially hoped to lend to street traders, but found that most were employees of third parties rather than micro entrepreneurs in their own right. FINCA accordingly expanded into peri-urban areas outside of Durban in search of Household based micro enterprise, and currently has clients from Port Shepstone to Matubatuba.

African challenges like, the Aids pandemic, political instability and lack of familiarity with credit and savings practices has presented obstacles. Their methodology is somewhat different from the Grameen approach in that loan groups typically borrow similar amounts at the same time and play an active role in vetting each other's business plans. (Baumann: 2003). According to data as at July 2003 (FINCA – South Africa), there are 324 Village Banking groups operational, servicing 1 367 clients, of which 87% are women.

Further, according to Baumann (2003), FINCA claims to be satisfied that that it is reaching very poor clients, but does not collect or analyse income data. Furthermore, FINCA-SA puts less emphasis on social intermediation methodologies than in other countries where FINCA operates due to the countries high crime levels and distrust in communities. This has led to a greater role for fieldworkers and more reliance on 'hard' forms of collateral such as deposits. This contradicts the approach of other models. FINCA also feels that the cost of doing micro finance business is higher in South Africa than in other countries of its operation. Currently it claims a 79% on time repayment rate, which is not considered good in micro-finance practice. FINCA hopes to achieve better integration with formal banks, particularly electronic link to client accounts, which would reduce transaction costs and data capture effort. It hopes to reach 22 000 clients by the year 2007. (Baumann: 2003). What it fails to take cognisance of is that the majority of South Africa's adults do not have a bank account making it impossible for them to participate meaningfully in any programme that includes banking. This will automatically bias FINCA's offerings to the 'better off'.

By refining and testing new products, such as smaller group sizes and individual loans, FINCA hopes to provide its South African clients with greater flexibility in timing of loans and its staff the ability for more accurate tracking. With this in mind, FINCA- Durban, designed and piloted a new approach to micro-credit 'The Individual Loans Programme' in November 2002 (Refer chapter 3 for methodology and discussion).

2.5 Determinants of Micro-credit Success

There are a variety of approaches and models that have been postulated to measure performance of micro-credit programmes. Some appropriate and innovative approaches will be outlined. This dissertation has chosen a combination of these approaches to assess the level/degree of financial success of FINCA's Individual Loans Programme.

2.5.1 AIMS/SEEP Evaluation Manual

According to Hatch (2002:21), The earliest MFI programme evaluation is the AIMS/SEEP evaluation manual entitled *"Learning from Clients: Assessment Tools for Micro finance Practitioners (2001)".* This manual covers five areas: viz. The Impact Survey, Client Exit Survey, Loan Use Strategies Over Time, Client Empowerment, and Client Satisfaction.

Each component is comprehensively presented in this manual and provides for a programme impact evaluation. However, this will not be utilized in assessing the Individual Loans Programme, but FINCA will be advised to reference this with respect to the Impact survey – which outlines a tracking study aimed at uncovering the effect of the assistance provided especially in the long term. FINCA needs to assess the impact of its outreach in South Africa if it is to maintain its international claim of reaching the poor.

2.5.2 Micro Finance Performance Measures

Referring to the table that follows, it can be seen that Performance assessment broad categories are provided together with specific measurable variables. This appears to be a simple and valuable tool to assess impact, success and sustainability of a MFI. This study will utilize this model in the performance evaluation and assessment of FINCA's Individual Loans Programme. However it will be limited in terms of the availability of the data. The assessment model will be applied in chapter 5.

PERFORMANCE CRITERIA	QUANTITATIVE MEASURES	PERFORMANCE EVALUATION
Degree of Market formulation	• Active borrowers • Conversion ratio (loans lent as a % of applications or outreach contacts) • % Of staff time spent on outreach	Number of contacts needed to find, screen, and yield clients, or efficiency of staff outreach and marketing
Development impact	• Number of clients served • % Increase in customer incomes • Number of businesses created, maintained or grown • Jobs created-including self employment • Qualitative gains/personal development	Whether the intended results are being achieved and whether they remain appropriate
Operating results	• Total cost per average loan • Revenues per average loan • Clients per loan officer • Staff expense as a % of average assets • Net interest margin • Unit cost ratio • Cost per currency unit lent	Whether volume of clients is increasing and whether costs are decreasing per loan
Financial condition	• Average portfolio outstanding • Liquidity ratio • Delinquency and loan ageing reports • Ratio of losses to average portfolio outstanding	Portfolio credit risk and financial health of the organization
Required subsidy	• Self-sufficiency ratio	The % of total operating costs that are met from internal revenue sources (interest on loans, interest on investments, and fee income)

Table 2: Micro-credit performance measures (Source: originated by ACCION International, and quoted in OECD (1996))

2.5.3 IMP-ACT – Impact Assessment Framework Guide

According to Hatch et al (2002:22), this provides a program designed to improve the quality of micro finance services and their impact on poverty. A 'how to' framework to guide practitioners in designing an impact assessment system comprising the following generic steps:

- Understanding the context in which an organization works, its institutional profile, and its needs.
- Choices about assessment objectives and whose requirements will be met.
- Approach to impact assessment-how rigorous does it need to be, who will participate, will it be a one-off study or a routine activity?
- Decide on the tools suitable to the objectives and approach.
- Look at application of findings – to feedback information into organizational systems.

Impact is useful in understanding the contextual processes of operation of MFI's. These guidelines will be of assistance in appraising the Individual Loans Programme.

2.5.4 Consultative Group to Assist the Poorest (CGAP)- Poverty Assessment Tool

Micro finance is considered to be a poverty reduction tool, yet most practitioners do not possess or employ techniques in appropriate 'poor' targeting and classifying. There are many 'poor' targeting tools available like 'Participatory

Wealth Ranking", " The Housing Index" and " means testing", which have been utilized by "Grameen Bank' amongst others. However, these MFI's employ methodologies where client selection is controlled by the MFI. Group methodologies on the other hand rely on loan size, geography, and client self selection, to determine who should be serviced.

CGAP Poverty assessment tool has stepped in to provide both donors and practitioners with a method to assess whether they are reaching the poorest or not. For each MFI programme the study comes up with a Poverty Index score, which can be used to assess, entering client households. (*Source: Hatch et al: 2002).* The Individual Loans Programme whilst claiming to reach the poor has not applied any poverty-targeting tool as a strategy for improved disbursements and social upliftment of the poor.

2.5.5 FINCA –Poverty Targeting Tool

FINCA has designed a method not to target the poorest but the **most vulnerable**. The following descriptors are used to assess vulnerability:

- Single mother –sole source of support for at least 3 children
- Family that has recently suffered a severe loss (natural disaster, fire, robbery, death, etc.)
- Family with school age children not in school
- Family with children who are under-nourished
- Family with a member who is chronically ill.
- Self –employed seniors who are raising grandchildren
- Other vulnerability as determined by participants.

The intention is to create a Vulnerability Index, used to correlate with10 poverty-surrogate indicators from loan application interviews thereby assessing the vulnerability status of borrowers. It allows the users to identify those individuals who are most in need of financial assistance and for whom the small loans will make a difference in their lifestyles. It is a tool, which they hope can direct the service providers to the neediest individuals, thereby eradicating poverty of these persons and those they impact on. FINCA International utilises this tool in targeting poor clients in other countries where it is operational but not in South Africa. It is ironic that the Individual Loans Programme of FINCA-Durban whilst operational in a country where 53% live below the poverty line, 45% of whom are children under the age of 16years (Ekuseni Trust), it has failed in its poverty alleviation strategy of employing a poverty-targeting tool. This is strange; especially considering it possesses an in-house approach!

2.5.6 The Small Enterprise Foundation/ South Africa-Participatory Wealth Ranking

According to Hatch et al (2002:24), "The Small Enterprise Foundation (SEF) has developed Participatory Wealth Ranking (PWR) as a tool to assist the institution in poverty targeting". SEF management argues that unless active poverty targeting is used an institution cannot build micro finance services for the poorest. Their experience suggests that when better off people are included; this discourages the poorest from joining. Hence, even if an institution's aim is not to *exclusively* reach the poorest, unless active targeting is used it is possible the MFI's may inadvertently miss the poorest altogether.

PWR is a cost-effective process in which, with the help of a facilitator, members of a village map out the houses in their village. Then, in three or four separate meetings, villagers sort out each house into groups according to its poverty level. . If all groups give consistent answers, their ranking is considered accurate, and programs that wish to serve the poorest clients begin to motivate the villagers from the bottom income groups.

The PWR methodology appears best adapted for micro finance programs where staff selects the clients who will participate, but less useful for other programs (Village Banking) where the organization of peer-lending groups is based on community self-selection and a mix of poor and non-poor is considered desirable. It would be an ideal programme for FINCA-Durban to use in its Individual Loans Programme, also considering that it is indigenously created.

There is great merit in using key informants to identify the poorest homes, especially if the aim is to reach the poorest, then these have to be accurately identified and targeted. If FINCA's social upliftment aim targets the poorest then the Individual Loans Programme should be utilizing a tool or scale of poverty measurement to be successful.

2.5.7 Principles for Sustainable Micro Finance Lending

This programme offers the following guidelines rather than assessment techniques (Source: AMIR Programme: undated):

1. Offer services befitting the preferences of low income entrepreneurs
    a. Give short-term loans
    b. Give small loans

c. Give repeat loans

d. Allow relatively unrestricted use

e. Be customer friendly

2. Streamline Operations to reduce costs

a. Highly streamline operations

b. Standardize the lending process

c. Decentralize loan approval

d. Maintain inexpensive offices

e. Select staff from local communities

3. Motivate clients to repay loans

a. Do not require formal collateral

b. Use character references or group lending with joint liability to motivate repayments

c. Use incentives for prompt payments

d. Develop a public image that signals seriousness about loan.

4. Charge full-cost interest rates and fees

a. Recover the costs of the loan. Small loan sizes and personalized services result in costs per loan that require interest rates significantly higher than commercial banks (although significantly lower than informal sector rates).

b. Expect repayment. Low-income entrepreneurs have shown a willingness and ability to pay interest rates higher than commercial banks for services that fit their needs.

The above guidelines will be employed in assessing whether the Individual Loans Programme of FINCA presents a sustainable model or not (refer chapter 5).

2.6 SUMMARY

According to Reinke (undated), "micro-credit describes seemingly very different forms of financial services offered by equally dissimilar organizations. However, micro-credit always refers to credit extended by formal institutions to individuals or informal groups. The formal institution has been set up or is currently financed or supported by donor aid, or constitutes the social responsibility department of a commercial bank. Very few micro-credit institutions have been transformed into for-profit organizations, and none have been successfully set up as for-profit. Although business development is often a major rationale behind micro-credit programmes, micro-credit is also used for construction, emergency consumption, education and social expenditure.

As an inter-temporal financial transaction, micro-credit is subject to the problems of asymmetric information, bounded rationality and opportunism. However, micro-credit also faces the problem of delivery costs, which are usually neglected in models of financial intermediation in established financial markets. Micro-credit deals with small loan amounts, tiny but frequent repayments, and rapid loan roll-over, therefore, cost efficient delivery systems assume great importance."

Hence, whilst there are hundreds of different models in operation worldwide, this dissertation aims specifically at viewing the existing models of the Grameen

Bank, FINCA's 'Village Banking' model and the pilot " Individual Loans Programme." It further, seeks to highlight different measurement tools of micro-finance success measurement. Against this backdrop it seeks to identify if the Individual loans programme presents a viable model in micro finance practice and to stimulate debate on alternative micro finance designs and structures. It will therefore attempt to discuss the various implications of the pilot project whilst taking cognizance of the intention of the lender, the institutional and social circumstances in the area of operation, the efficiency of the model and attempt to conclude on its degree of success as well as whether it's a suitable model for poverty eradictation.

3 THE INDIVIDUAL LOANS PROGRAMME –FINCA DURBAN

3.1 Introduction

This chapter presents the guideline principles under which the Individual Loans Programme needs to operate. It is from the perspective of FINCA management, Durban. Hence, the methodology, pre-requisites, testing mechanisms and conditions have been designed by FINCA. This is how FINCA expects the model to be implemented. The author comments on the various requirements considering the criteria for sustainable micro-credit practice, a pro-poor perspective and the other models discussed in chapter 2 .

3.2 The Programme

According to information supplied by the Supervisor of FINCA – Durban and FINCA literature (author unknown, undated), The FINCA SA Individual Loans program was launched with the intention of creating a credit facility accessible to micro entrepreneurs who are legally operating within the borders of South Africa. Whilst, the program will be open to both men and women, FINCA aims, where possible, to bias the sample of clients towards women.

3.2.1 The clients

It intends to serve both new and existing clients of FINCA within the following parameters:

3.2.1.1 New Clients

New clients are defined as any prospective client who has never had business dealings with FINCA before. For these clients, the minimum first time loan will be R5 000.00 with a maximum of R10 000.00.

3.2.1.2 Existing Clients

Clients recruited within the Self Employed Partnerships (SEP) group- lending program. Existing clients who have already established a successful credit record with FINCA will be eligible for loans, subject to the criteria, which apply in terms of repayment capacity and collateral.

According to, Makelo (personal communication), loan officers will actively recruit clients by selecting areas and identifying those clients whose businesses they perceive will benefit in terms of growth for which FINCA can then provide the funds. These loans are specifically for the development of small/micro enterprises e.g. Spaza shops, home industries; home based catering, small vendors etc. The limitation is that it will not be disbursed for start-ups but for established operations due to the aim being growth of micro enterprise. There is also no active targeting of the poor in place by these loan officers except on the basis of their own evaluations during their area walkabouts when identifying potential clients.

The flaw here in the opinion of the researcher is that in order for a model to be a pro-poor strategy it needs to target the poor and very poor and this more often than not means loans are required for start-up businesses not necessarily only for growth. FINCA's methodology is also contrary to the identification mechanism employed by the Grameen Bank in chapter 2, which actively targets the poorest persons in a community to include in the loan programme. Further, it is also contrary to the "village banking ' model as implemented by FINCA-International which disburses loans to start small-self-employment businesses. Both the Grameen Bank and 'Village banking' models are aimed towards servicing the poor and poorest in the communities wherein they operate, refer chapter 2. The implication of the recruitment strategy of these clients for the Individual Loans Programme is that it is not operating at the same level as other models in targeting the poor and poorest in these communities. In fact from personal communication, it was gleaned that no poverty-targeting index has been utilised despite FINCA-International having designed its own poverty assessment tool, 'Vulnerability Index Measure'. Furthermore, being operational in South Africa they could have utilised an indigenous SA tool, 'The Small Enterprise Foundation/ South Africa – Participatory Wealth Ranking (PWR).

According to Simanowitz: 2000, it was found from the experience of the Small Enterprise Foundation (SEF) in South Africa that a lack of targeting had pushed the program towards serving better –off clients and similar experiences have been reported from Asian integrated rural development programs. It thus becomes an imperative that if a model is to reach out to the poor and poorest there needs to be some poverty targeting criteria in place. The absence of this in the Individual Loans programme puts it at risk of benefiting better off clients who would join with the expectation of larger future loans and preclude it from reaching the very -poor and poorest. Simanowitz: 2000, further adds that Poverty targeting is the first step in creating a program designed to meet the needs of the poorest. He states that the marginalisation and social exclusion faced by the poor mean that a "poverty culture" must be created. By choosing the characteristics of the people we wish to target we are also targeting the program's benefits. This further implies that the Individual Loans programme is falling short in its design of reaching the very- poor and poorest. Makelo of FINCA (personal communication), however remains adamant that this programme despite the lack of a poverty-targeting tool reaches the very poor and the poorest.

Furthermore, from personal communication with the loans supervisor it was gleaned that there is no active training programme in place for the loan/credit officers in terms of recruitment techniques. Hence, subjective methods could be employed to determine poverty levels and thereby eligibility. There is a high possibility of bias creeping in and the service leaning towards the 'better off'.

3.2.2 Repayment Period

Minimum period is four months with the maximum of six months. The repayment period will be based on the client's cash flow, such that the monthly loan instalment (including interest) does not equal more than 1/3 (33,3%) of the client's net monthly income before receiving the loan.

According to Makelo, (personal communication), the cash flow will be determined by the loans officer by examining the business operations of the client over the last 6-12 months. Once again this further entrenches the view that in order to be eligible for a loan there has to be a current income and an established business operation, which shows the capability of repayment. Whilst understandable from an organisational perspective, which seeks financial sustainability, its requirement excludes the very –poor and poorest that need loans for start-up businesses. This requirement is contradictory to the practices employed by the Grameen Bank and the Village Banking models as discussed in chapter2.

3.2.3 Method of Payment

The direct deposit into FINCA's Individual bank account will effect repayments. Generally, repayments will be done on a weekly basis, however the Loan/Credit Officer can recommend bi-weekly repayments based upon the client's cash flow.

In order to effect a direct deposit it pre-supposes that the clients are knowledgeable about banking processes. According to David Porteous of FinMark Trust, at least 9,5 million of the 13,2 million adult South Africans that do not have a bank account, had never banked before. (Daily News: 21st November 2003). Further, in South Africa, we have a large number of people especially the poor and poorest who are illiterate and this system would automatically exclude these people. Furthermore, there is no training afforded to the recipients of these loans from FINCA-Durban. (Makelo: personal communication)

3.2.4 Interest

A flat rate of 7% per month fixed for the duration of the loan will be charged. This translates to 84% per annum and is not compounded. Example, if a person borrows R 5 000 for 6 months, the interest will be R2100 and the repayments will comprise of two portions 1) the loan amount (capital borrowed), and 2) the interest. If the loan term were bi-weekly, the client in this instance would be expected to repay R 175 towards interest and R417 towards the capital i.e. a total of R 592 every 2 weeks.

This rate appears exorbitant in comparison to the rate of borrowing from commercial banks. However, according to Makelo (personal communication), this does not place them in the realm of loan sharking as these rates are way below those charged by loan shark operators and it is necessary for FINCA to charge these rates in order to ensure financial sustainability. Furthermore, conventional bankers, according to her, are not interested in this small loan clientele. Hence, it is social upliftment organisations like FINCA who service these clients and the rates are acceptable to them. It is the firm opinion of Makelo that despite the high rate charged the programme is still reaching out to the poor and poorest, as no one else is interested in small loans, which are necessary for the survival and development of poor communities. This is further corroborated by FINCA International (undated: author unknown), which states that commercial banks whilst, having lower rates, do not lend to poor clients. The only other alternative available to them are moneylenders, who typically charge as much as 10% per day! However, it is important to take cognisance of the fact that FINCA in its other operations worldwide charge between 3-4% interest. This is way lower than what FINCA –Durban is charging for its Individual Loans.

Furthermore, it is the author's opinion that the rate charged is too high if it is to reach the poorest communities. Whilst there is no doubt that the clients should pay for the full cost of their financial services, they should not be burdened with costs arising from incompetent MFI management and inefficient systems. An appropriate interest rate is one that will allow the MFI to cover all of its adjusted operating costs from its adjusted operating income within a reasonable period of time. According to Gibbons –ET –al (2000), setting an appropriate interest rate is a matter of estimating unit costs of administration, loan loss, funds, and capital. A good set of guidelines found in the Consultative Group to Assist the Poorest (CGAP) occasional Paper No.1 (Gibbons: 2000), wherein it is noted that the annualised effective interest rate R charged on loans will be a function of 5 elements, each expressed as a percentage of average outstanding loan portfolio:

- Administrative expenses **(AE)**
- Loan losses **(LL)**
- The cost of funds **(CF)**
- The desired capitalization rate **(K)**
- Investment Income **(II),** with the formula being;

$$\mathbf{R = [(AE + LL + CF + K)/(1 - LL)] - II}$$

Based on the above formula, if for example

AE = 15-25 %; LL=2%; CF= 12-15%; K= 8-10% and II=25

Then R will range between 35 and 51 %. This example was based on setting appropriate interest rates in Asia.

According to FINCA International, the Board of Directors mandates that administrative costs, including fundraising, never exceed 25% of total expenses. Based on this and assuming a loan loss of 2%, an investment income of 2%, a capitalization rate of 15% and a cost of funds of 0% (as all funds are donated), if this model were to be extended to FINCA's operation an R of 40,85% i.e. approximately 41% is arrived at. This rate is less than half of what FINCA is currently charging. Hypothetically, if one has to take a loan loss of 3% and no investment income an R of 44% is arrived at. Either way it can be seen that the 84% charged is way too high, especially considering their administrative expenses to be as high as 25% to disburse the Individual Loans Programme. This cannot be so as the Individual Loans is being piloted from the same premises as the group schemes and at most four fieldworkers are allocated to its activities.

According to Gibbons-et-al (2000), achieving financial self-sufficiency is of critical importance to MFI's if they seek to expand outreach to large numbers of poor households. However, if an organisation claims to be working with the poor and poorest, a balance must be struck when setting an appropriate interest rate, keeping the interest rate charged to clients manageable for them. This means that the interest rate must not be so high as to rule out adequate profitability on the main income-generating activities open to the poor, that is to say, the pace of planned achievement of financial self-sufficiency for an MFI must be consistent with the attainment of the overriding goal of poverty-reduction. Most importantly, an impossible burden must not be placed on the shoulders of the early client.

To this end one can see that the group lending models i.e. the Grameen Bank and FINCA's 'Village Banking' models which claim to reach the poorest set lower rates of interest in comparison. According to FINCA International (undated: author unknown), most FINCA programmes charge 3-4% per month, because it has proven to be a level, which helps meet local operating costs and supports the assistance provided to the Village Banking groups. The Grameen Bank charges 20% per annum, which is also slightly higher than the commercial banks but according o them far more affordable then rates charged by the local money –lenders. In addition Grameen provides an intensive service to borrowers such as investment advice, training in accounting and management, etc. (Wahid Et – al: 2000). This further elucidates that the level at which the poverty eradication strategy of the group lending models is pitched differs from that of the Individual Loans Programme.

3.2.5 Eligibility of Borrowers

All clients, regardless of whether they are new or existing clients, and regardless of the loan size, are expected to meet the following eligibility requirements:

1. Applicant must be a South African citizen.
2. Must be in possession of a South African I.D book.
3. Must be of a contractual age (21 years or older).
4. Must be a sole proprietor or have a registered business with fixed location and active operations for at least two consecutive years
5. Must have at least one employee.
6. Must have an active bank account.
7. Must have financial records.
8. Must have own fixed assets as collateral.

From personal communication it was gleaned that points 4 to 8 above were not strictly adhered to. Furthermore, it is the author's opinion that if a client has a registered business in operation for two years and has an employee this would automatically place the client in the category of 'better off' and not the poorest. This is also contrary to the philosophy of the Grameen Bank, which believes that for credit to reach the poor disbursement should be sans monetary collateral, and based on social collateral i.e. group membership and relationship between beneficiaries. Even FINCA International (undated: author unknown), states that since borrowers do not have the kind of collateral a commercial bank seeks, the village banking system allows access to loans based on group support and guarantee. The requirement of a collateral further pushes the Individual loans programme out of the reach of the poorest.

In South Africa with the high level of unemployment and illiteracy amongst the poorest, the requirement of maintaining financial records would be a difficult one to meet. Further, possessing an active bank account implies a decent size operation, literacy and sufficient funds to run an account. All of these serve to alienate the poorest from accessing these loans and indicate a service to the 'better off'. According to a recent study in the Daily News (November 2003), more than half of South Africa's 26 million adults do not have a bank account. At least 9,5 million of the 13,2 million that do not have a bank account had never banked, while 3,7 million had previously banked but had to surrender their accounts because of unemployment. These statistics clearly elucidate the fact this requirement pushes the Individual Loans Programme out of the reach of the poor South Africans which its designers claim to be reaching.

3.2.6 Credit Assessment Criteria

In determining the value of a loan to be granted, three criteria shall be applied:

- The repayment capacity (cash flow) of the client
- The value of collateral supplied
- The character of the individual and his or her guarantor.

Based on all three tests, the lowest of the three values shall apply. For example, a client whose cash-flow demonstrate repayment capacity for a loan of R10, 000 but whose collateral is only worth R6, 000 shall be eligible only for the R6, 000 loan, subject to the limitations of his or her credit rating. In any event, first time borrowers shall not extend loans larger than R5, 000. The three tests are described below:

3.2.6.1 Repayment Ability

A Loan Officer upon inspection of the client's business shall prepare a cash-flow statement. The client will supply the Loan Officer with the necessary documents to substantiate the cash flow inputs. The monthly loan repayments (plus interest) shall not exceed 33% of the client's net income of each month.

According to the Individual Loans supervisor (personal communication), all the clients completed a business plan with the assistance of the credit/loan officers, but interestingly enough no skills training is provided to these clients in this field of business management unlike the services provided by the Grameen Bank prior to loan disbursements. This indicates that only the more educated and 'better off' are in a position to fulfil this requirement and only those individuals already running a micro-entrepreneurial operation would be eligible for an individual loan i.e. no start activities will be supported. Furthermore, those business plans that were inspected by the researcher all indicated a capacity to repay yet there were delinquent payments. It is difficult to reconcile this. Either there is a flaw in the completion of these business plans, or the clients are providing misinformation.

3.2.6.2 Collateral

The loans to individuals shall be granted against securities from client and/or the guarantor who will be equivalent to at least 125% of the loan requested. Collateral can be in the form of:

- Surrender value of life policies
- Investment account with commercial banks or insurance companies
- Business equipment and stock
- House
- Land
- Personal guarantee of a salaried employee

Following through on the comments in section 3.2.5. , That the requirement of a collateral pushes access to loans to those who are 'better off', these specific types/forms of collateral further show that the poorest cannot meet these criteria. Possession of life policies, investment accounts, ownership of homes, land, etc. are all indicative of persons who have more than the basic requirements for survival and hence cannot be classified as the poorest. The last option of a guarantee of a salaried employer as well is one that precludes access by the poorest. Generally poverty is a vicious cycle and breeds poverty, so it would be rare for a poor person to be in a position to obtain a guarantee from within their own social stratum. It is for this very reason that the Grameen Bank model and FINCA's Village Banking model has been based on systems which do not require collateral.

3.2.6.3 Documentation of Collateral

All clients will be required to sign a pledge of assets which clearly detail the particulars of the collateral supplied, and which cede to FINCA the rights over said property in the event of default. FINCA shall also require clients to sign a Special Power of Attorney, enabling it to register a bond over the pledged collateral, at FINCA's sole discretion.

In the case of a guarantor, the following conditions must be met:

- The guarantor must be a South African citizen
- The guarantor must be of a contractual age
- The guarantor must be full time employed and the Loan Officer must confirm employment
- A copy of I.D and pay slip must be attached to the application.

However, loans strictly against guarantee shall not be extended during the pilot phase of the project.

Following through on the preceding comments, it would be rare for the poor to possess any assets that may serve as collateral or have liaisons with individuals who would be prepared to serve as guarantors. This further places the IL Programme out of reach of the poorest.

3.2.6.4 Character of the individual

The character of the client and/or the guarantor shall be measured in the following aspects:

- His or her credit record with the Information Trust Corporation (ITC) credit bureau (as per a credit check)
- Trade references
- The management of his or her personal and business bank account
- FINCA credit rating, based on previous loan performance with FINCA if applicable.

3.2.6.4.1 Credit Bureau Check

A credit bureau check shall be conducted on each applicant with a view to give FINCA a better understanding of the client's previous record. Clients who are heavily indebted and clients who have been blacklisted will be excluded from the program.

All this presupposes that an individual has borrowed successfully previously and possesses a bank account. This merely reaffirms the aforementioned discussion that the IL Programme has not been designed for the poorest. The Grameen model utilises social collateral and FINCA International group references to dictate disbursements.

3.2.6.4.2 FINCA Rating System

The maximum amount for subsequent loans shall grow in steps depending on the client's credit rating as follows. The chart shows the client's credit rating, the number of missed or late instalments during the loan cycle, and the formula for calculating maximum loan size of the subsequent loan.

Rating	Number Of missed instalments	Maximum Loan Amount
AA	0	Last loan + 50%
A	1	Last loan + 25%
B	2	Last loan
C	3	Last loan – 50%

Table 3 Subsequent Loan Calculation based on missed Instalments and credit rating

Whilst credit checks and FINCA rating system will provide a credit history, it will only be for those who have been past clients. This also sometimes biases the loans in many programmes towards the 'better off' and to those individuals who maintain good repayment records simply to ensure a guarantee of subsequent and higher amount loans.

3.2.7 Loan/ Credit Officer Incentive

The incentive for the pilot test period is available to Loan/Credit Officer's with Portfolio at risk (PAR) over 30 days up to 3%. The incentive is 1% per month over the loan portfolio of the Loan/ credit Officer at the end of the month minus R45, 000 that is the loan portfolio required to cover direct cost associated with salary, benefit and mobilization expenses. This incentive plan will allow the loan portfolio Loan/credit Officer that meets the target of 300 clients and an approximate of R1, 055,000 or more, to triple their monthly salary. (These numbers will be valid on full rollout of the programme)

Very often incentives serve to motivate loan/credit officers to seek clientele regardless of whether they meet the loan disbursement criteria. Furthermore, in order for the loan/credit officers to benefit they may bias the clientele to the 'better off' so that the PAR remains low. In the case of FINCA a loan only becomes a PAR if it is delinquent for more than 30 days. Paying only the interest portion of the loan will then remove it from the delinquent list, (Personal communication). According to Makelo, clients are telephonically called and repeated requests made by loan/credit officers to ensure that their PAR's are low. Hence, incentives preclude proper analysis of PAR from being made. Furthermore, the base amount to cover costs (R45 000) appears to be too high, especially considering that FINCA International directors have mandated that costs cannot exceed 25% of the total disbursed.

3.2.8 Testing of the Individual Loans Programme as set out by FINCA

The programme was launched on a pilot basis. At the end of the pilot phase covering approximately six months an appraisal was to be implemented by the FINCA management. This dissertation serves as part of the appraisal process.

The amount of the loan portfolio by FINCA- Durban for the Individual Loans Programme will not in any case go over US$55,000 independently of the exchange rate (dollars are quoted as FINCA sources its funding internationally). Likewise the number of active Individual Loans borrowers will not go over 275 until an assessment of the program is completed.

An assessment of the project shall be conducted and, based on the results FINCA management will request authorization from FINCA International for gradual rollout of the programme through the rest of South Africa. During the pilot phase, clients were recruited mainly from within Durban, in the following areas:

Durban – South

- Umlazi
- Kwa Makhutha
- Illovu
- Umbumbulu

Durban - North

- Kwa Mashu
- Inanda
- Ntuzuma

- Lindelani

An examination of the operational areas for the pilot rollout is further indicative that it has not reached out to the poorest areas or the rural areas where the need is the greatest. These areas are peri-urban. Most of South Africa's poor reside in the rural areas. As mentioned in section 2.3, an important variable in micro-credit targeting are rural people and targeting specific sectors has not only social but economic implications. Furthermore, breakdown of loan clients in the different areas was unavailable to provide a significant analysis of area differentiations.

3.2.9 Performance

According to the country director, Scott Graham, the performance of the programme should be tracked by the Credit Committee, which comprises of the Country Director, Operations Manager, Micro-Enterprise Manager, and the Credit Supervisor. Weekly repayment reports, which contain the schedules of all loan repayments, should be analysed by the Credit Committee. Once a month the Credit Committee should sit for a review of the program's performance. This should be done via the production of a month end Outstanding Portfolio Report, which should be analysed. This report details for each client:

- The loan/ credit Officer
- Amount of loan
- Balance outstanding
- Due date

- Aged delinquency which reflects if a client was delinquent for:
    - 1-7 days
    - 8-15 days
    - 16-30days
    - 31-60 days
    - 60+days
- Within these categories it reflects both the repayment amount delinquent for that number of days as well as the total amount outstanding if delinquent.
- Percentages per loan officer of arrears totals and delinquency amounts
- The number of clients serviced by a loans officer

These reports were made available to the researcher and the Individual Loans Programme performance will be assessed from the data presented therein in chapter 5.

3.2.10 Portfolio at Risk (PAR)

Portfolio at risk represents those clients who have been delinquent for between 31-60 days and 60+ days. The following red flags and remedial measures are outlined by FINCA management for application in monitoring the programme from their perspective.

If the **PAR >30** days should **exceed 5%,** recruitment of new clients shall be suspended until said correction has been achieved. Pending loan applications shall still be processed. Recruitment of new clients, however, will only commence when the PAR has been corrected to less than 5%.

If the **PAR >30** days should **exceed 8%,** recruitment of new clients shall be suspended, and all pending loan applications shall be suspended, until the PAR has been brought to acceptable levels.

If the **PAR >30** days should **exceed 10%,** the program shall be suspended and all efforts focused on collection of bad debts.

These testing criteria shall be applied both at the level of the individual credit/loan officer and at the level of the program as a whole. The performance of each credit officer needs to be monitored on a weekly basis using the portfolio report, and corrective measures taken in respect of poor performance in loan recovery.

Whilst these performance measures have been clearly presented in the policy document of the IL Programme, they have not been implemented thus far (Makelo). Access to timely, accurate, and detailed information on the overall performance of a micro-finance model is required if efficiency and financial sufficiency are to be achieved. The information from FINCA-Durban represented some flaws in data capture and this detracted from accuracy compromising the analysis somewhat.

3.3 Summary

The aforementioned performance assessment measures were utilized to evaluate the Individual Loans Project in chapter 5, purely from the perspective of FINCA and their requirements of sustainability. This pilot project analysis in chapter 5 yields the extent of its success and the potential for model replication, but from FINCA- Durban's perspective. The programme also warranted an analysis from the perspective of pro-poor policies, which has been commented upon in this chapter and will be further elaborated upon in the subsequent chapters. Thus far the individual loans programme exhibits the potential to be a financially sustainable model,(according to FINCA –Durban's criteria), in micro finance practice, with the specific aim of promoting an entrepreneurial culture but at this stage it fails in proving to be a model directed to the poorest of the poor.

4 RESEARCH METHODOLOGY AND DESIGN

4.1 Introduction

A scientific methodology is a system of explicit rules and procedures upon which research is based and against which claims for knowledge are evaluated. This leads to the research design state which is a program that guides the investigator to collect, analyze and interpret observations. It is a logical model of proof that allows the researcher to draw inferences concerning relations among the variables under investigation (Nacnmias & Nacnmias; 1996:98).

In this study, a qualitative and quantitative approach to the research was undertaken. The aim was to gather data on numerous aspects of the issues under investigation, and to construct as complete a picture as possible on the case study. An important assumption of the qualitative approach was to understand the situation from the perspective of participants.

4.2 Triangulation

Mouton & Marais (1990:91) state that researchers ought to accept as a general principle that the inclusion of multiple sources of data collection in a research project is likely to increase the reliability of the observations. By employing different methods of data collection in a single project, we are able to compensate for the limitations of each.

The triangulation methods employed in this research was a literature review, interviews with the executives of FINCA, a quantitative analysis of the case study results and a qualitative appraisal of the case in comparison to other operational models and criteria uncovered in the current literature on micro-finance. An example of this is micro-credit performance measures discussed in chapter 2, which was utilised to assess the Individual Loans Programme in chapter 5.

In this study the purpose of identifying and utilizing different models was to have a benchmark of criteria against which the Individual Loans Programme could be evaluated. For example the differences in approach between the Individual Loans Programme and the Grameen Bank can be clearly seen and evaluated on the basis of appropriateness to varying circumstances.

4.3 The Research Design

The type of research design is a cross sectional analytical method. This type of research would ideally involve a longitudinal study involving the present survey, a treatment post the survey attempting to improve the model, the application of the improved model and then a follow up survey in possibly eighteen months time to test the effects of the treatment. For the purposes of this thesis, however, it will focus on the information obtained from the pilot phase results, the literature study and methodologies of successful models operational currently.

The dissertation whilst choosing both a quantitative and qualitative approach to analysis has employed as many of the performance measures criteria presented in section 2.5.2. The Micro-credit performance measures to assess the Individual Loans Programme.

4.3.1 Validity and Reliability

Validity is both internal and external. Internal Validity of the data was checked a few ways. Firstly, monthly results presented by FINCA were reviewed against the individual loans schedules. These were then cross -checked for discrepancies against the written information presented on these loans by FINCA. Further, validity of data was checked using the feedback obtained from the interviews with the corporate executives. Discrepancies that arose were investigated via personal communication with the loans supervisor. The entire population was chosen to ensure external validity.

4.3.2 Methodology

The procedure that was utilized in this study:

- A literature study, encompassing as many aspects of the micro finance industry that time and access permitted.
- Global examples of micro-finance institutions were investigated and specific reference was made to the Grameen Bank Model and FINCA's 'Village Banking' model.
- Interviews

Interviews were conducted with the following officials at FINCA: the Director- Scott Graham, Financial manager- Alan Crowder and Individual loans Programme Supervisor – Zenzile Makelo.

The issues to be covered in the interviews were derived from the formulation of the research problem; analysis of observations in the setting and experiences reported by the implementers of the project. In order to ensure reliability within this process, interviews with the executives were well designed, yet unstructured. An informal interview guide was formulated with a list of topics and sub-topics within the area of the research inquiry. Open-ended questions were posed. According to Nacnmias & Nacnmias. (1996: 254), the virtue of the open-ended question is that it does not force the respondent to adapt to preconceived answers. The interviews provided a framework to develop questions, sequence those questions, and make decisions about information to pursue in greater depth from the reports provided by FINCA.

The unstructured interviews allowed the FINCA executives to freely express the following:

- What they perceived the current thinking in micro-credit to be.
- Where FINCA was headed?
- How do they perceive the individual loans programme?
- What they consider success factors to be for the Individual Loans Programme.
- Does the IL Programme contain factors that have the potential to propel this model towards future financial sustainability?

The topics discussed with these interviewees provided the main guide and structure for later analysis and interpretation, refer chapter 5. The research aimed to evaluate how the independent variables .of the model for e.g. gender affect the specific dependent variables, for e.g. delinquency. Particular issues received special attention as they emerged in the course of conducting the research.

4.4 The Data Design

Due to the nature of the study and data mining with the assistance of a computer, samples were not extracted. It was possible to undertake a population study considering the rollout of the pilot was not with a large clientele and over six months only.

4.4.1 Data Source

The source of primary data was direct information gained from interviews, informal discussions with persons in the field of micro-credit and the original loan application documentations in as many cases as was available.

Secondary data was gained from document reviews such as FINCA's monthly report statements on the pilot project and Internet micro-finance sources.

4.4.2 Population under study

The population comprised of all individuals who had taken a micro loan since the inception of the individual loans project in November 2002 until the 30th April 2003. The population of individual loans beneficiaries was identified as 97. This size is both sufficiently large and simultaneously manageable, and as such will improve the accuracy of various parameters that this research may endeavour to estimate.

4.4.3 Methodology

Data extracted with respect to:

- Name of borrower
- Rate of return at which loan was taken
- Gender
- Credit/ Loan Officer
- Delinquency
- Purpose of loan
- Cash flow projections

All data were extracted, tabulated, and coded from the records supplied by FINCA. These records were contained in the original repayment schedules of each client as well as the month end portfolio reports. These were tabulated, computerized and prepared for analytical tools. Conclusions and recommendations were then drawn. The data therefore was a mix of primary and secondary data and the authenticity of such data was assured through using the original documents as far as possible.

Further, qualitative data was obtained by examining the available business proposals as reflected in the loan application form of the clients. However, these were not comprehensively completed and complete data could not always be extracted. Furthermore, verifications were made via personal communication with the loans supervisor.

4.5 Statistical Techniques

This study, being post facto employed a variety of analytical techniques. The statistical techniques used in this analysis included various descriptive processes on demographic data such as frequency tables and also drafted the appropriate graphical illustrations where necessary such as bar and pie charts and line graphs. Bar charts allowed for ease of comparison between the variables while the line graph showed the trend with greater clarity. Each table drawn showed either a relationship between variables or the trend in terms of the growth and costing of the loans to FINCA. Regression and correlation analysis was applied where applicable; especially considering that cause effect type of relationship identification was one of the objectives. Cross tabulation with row and column percentages evaluations was applied to infer relationships between variables. The aim has been to simplify the conditions as much as possible.

4.6 Summary

This research dissertation aimed at identifying the key factors that impact on the success of a model in micro-credit practice. Based on the outcomes and conclusions of this research, recommendations were made for further investigations or research. The next chapter uses the various models presented in chapter 2 together with the analytical tools described in this chapter, to ascertain whether the Individual Loans Programme is sustainable or not from the perspective of FINCA's requirements as well as a pro-poor viewpoint.

5 ANALYSIS OF FINDINGS

5.1 Introduction

After having identified the importance for this research and describing a background in the area of micro-credit, the study was conducted focusing on the identification and evaluation of performance measures considered to render a micro-credit practice successful and sustainable.

An analysis of the Individual Loans programme was undertaken after taking cognisance of the interviews with the individual loans supervisor, the financial manager and the director of FINCA. Further, a quantitative and qualitative study of the pilot results, referencing the monthly portfolio reports and those loan application forms made available of clients was undertaken. This was done in order to evaluate the performance of the pilot phase from the perspective of FINCA- Durban in accordance with the requirements set out by its designers in chapter 3. Comments on the programme from a pro-poor development viewpoint will also be made. These will serve as elaborating on those comments made in chapter 3.

5.2 Findings and Analysis

In this section objectives 1 and 2 will be discussed in detail. Objectives 3,4 and 5 will be covered in chapter 6.

5.2.1 Objective 1

To explore the criteria for sustainable micro-credit practice by researching existing models in practice and available literature

According to Hatch et al (2002), "micro finance impact assessment is moving away from narrow, donor focussed events, towards more practitioner –focussed processes. There are a great variety of organisations with different needs, and using impact assessment in different and innovative ways to fulfil different objectives. It is too easy to follow good practice that has gone before, and to replicate the application of tools without going through the necessary process which leads to the decision of how to approach a particular task, and what tools to select to fulfil our aims. No two impact assessments should be the same unless organisations and the contexts in which they work are exactly the same." Bearing this statement in mind, FINCA's Individual Loans Programme was analysed utilizing the variety of performance assessment techniques outlined in chapter two. The results have led to the recommendation of actions intended to improve the model and levels of delinquency and thereby reducing cost to company. The ultimate aim for any micro-credit practitioner is to derive a model for successful and sustainable micro –credit practice.

Referring to the performance measurement approaches in chapter 2, section 2.5.2. And using them as a benchmark, FINCA's Individual Loans Programme was evaluated with respect to success, from the perspective of the implementers of this pilot programme. Specifically, the following Quantitative performance measures were used to assess the models pilot phase refer chapter 2 section 2.5.2:

- Development impact
- Operating Results
- Financial Condition
- Required Subsidy

Further, in order to better measure performance other indicators/ criteria in micro-credit were used to assess success e.g.

- **Outreach** - the type of clients served and variety of financial services offered determine the level of outreach, including
    - The value and number of loans
    - Growth rate
    - Gender participation
- **Self – sustainability** - a credit programme is self-sustaining when incomes exceed expenditures. Programmes may be receiving subsidy, they may be profitable but unable to sustain this profitability. Subsidies can be in the form of:
    - Below market interest rates
    - Losses absorbed by the state
    - Reimbursements of operating costs
- **The Subsidy Dependence Index (SDI)** – measurement of how much the average lending rate would have to be increased to compensate for subsidy elimination. The lower the SDI the more sustainable the institution.

Performance measurement of credit programmes is not accomplished by the application of narrow criteria. A flexible approach yields best results, but evaluation criteria needs to address core areas of performance, which have been outlined above.

5.2.2 Objective 2

To determine the extent to which FINCA's Individual Loans Programme meets the criteria explored in objective 1.

5.2.2.1 Assessment of Outreach and Development Impact

Development impact is quantitatively measured by the number of clients served, percentage increase in customer incomes, number of entrepreneurial businesses created/maintained/grown and number of jobs created. Qualitatively, it is assessed by what personal gains or development has been achieved with a programme of action. (Refer chapter 2 section 2.5.2.) .

Table 4 tabulates the months over which the pilot programme is being evaluated against the variables of interest viz. the credit/loan officer that disbursed the loan, the number of loans disbursed and the amount of money outstanding at the end of each period. If loans were disbursed to the same client, they were considered as independent loans as in some instances different credit officers disbursed the funds.

	Months					
Credit/Loan officer	**November**	**December**	**January**	**February**	**March**	**April**
A	1	7	17	29	37	44
B	0	4	13	20	24	30
C	0	2	4	4	4	4
D	0	0	0	0	4	11
E	0	0	0	0	0	8
Number of Loans (Total)	1	13	34	53	69	97
Amount of loan disbursement	5000	66 000	187 500	290 000	365 000	542 500
Loan Amount outstanding	4 791,59	63 666,60	174 273,20	262 635,70	315 405,30	436 819,30

Table 4: Number of loans Disbursed, Credit/Loan officers Disbursing, Months, Amount Disbursed in Rands and Loan Amount Outstanding in Rands.

Based on table 4 the following criteria have been assessed:

5.2.2.1.1 Number of Loans:

The following graphical display represents the amount of loans disbursed cumulatively and the number of loans over the pilot phase. Figure 1 shows that as the number of clients increase the amount disbursed also increases. This is in keeping with the roll out of the pilot and indicative of growth in outreach.

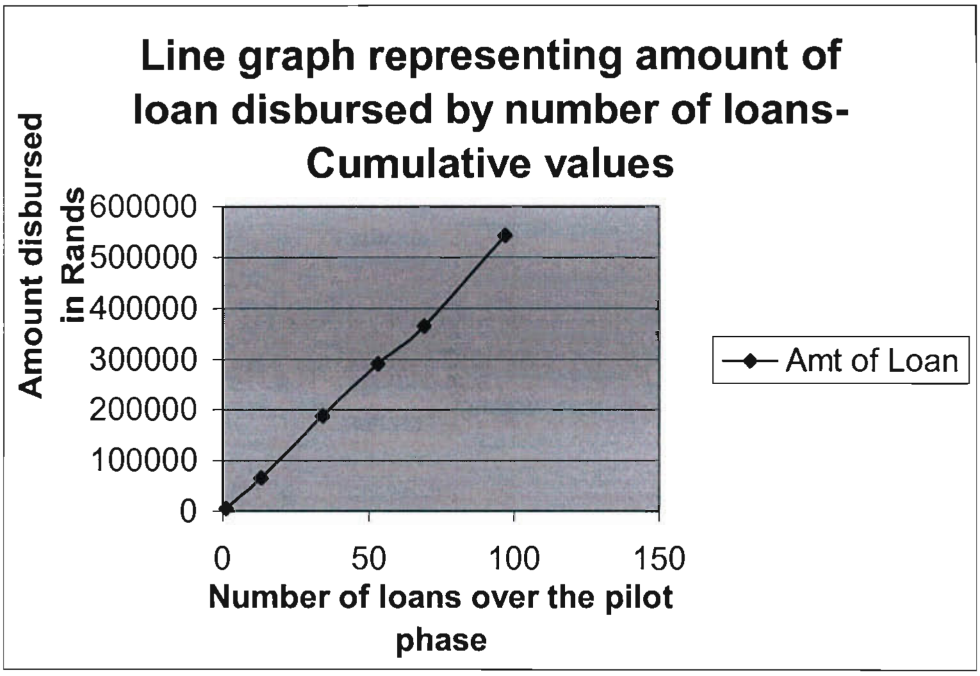


Figure 1: Number of Loans disbursed by Amount of Loans in Rands (Cumulative values)

Statistical tools applied to the data in table 4 yielded the following:

- Regression analysis of the number of loans disbursed against the amount disbursed yields a constant of -R 4 121,80 and a gradient of R 5 545,803
- Pearson's correlation analysis of the number of loans disbursed against the amount disbursed yields an R= 0,99 which indicates a very highly positive correlation between the number of loans disbursed and the amount disbursed.

This indicates that as the number of loans disbursed increased, the amount of funds disbursed increased. This indicates growth of disbursements. Hence, this project shows a developmental impact in terms of the number of clients served. However, referring to section 2.5.2 with respect to the increase in client incomes and number of jobs created this study did not provide evidence of this. It does however show that the number of businesses maintained or grown is increasing over time, but this model does not cater for start-ups, hence this programme did not create any new entrepreneurial activities.

5.2.2.1.2 Growth of Programme

As the programme of Individual Loans progressed through the months November to April, it is evident that there is a growth in the amount disbursed. Refer to figure 2. This in turn impacts on the total amount of Loan that is delinquent, refer figure 7. Hence, the results indicate a growth in the programme over its pilot life as well as implying a greater risk on the part of FINCA in terms of delinquency if higher amounts are disbursed.

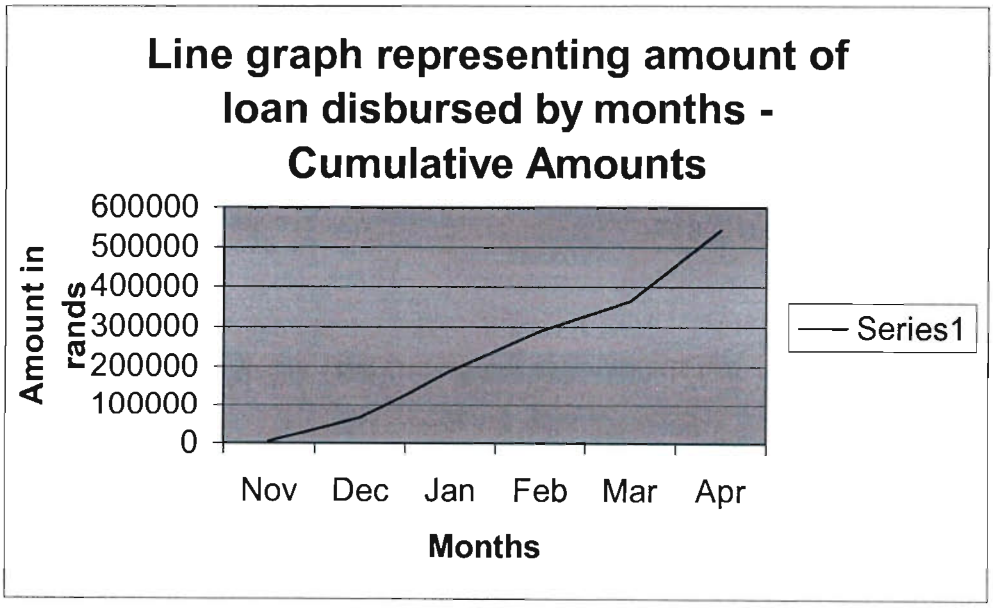


Figure 2: Graph representing Amount of Loan Disbursed by Months (Cumulative Values)

From figure 3, it can be seen that credit officer A disbursed the highest number of loans. Further, growth in the programme can be inferred by viewing the increase in the number of loan officers from inception of the programme in November though to appraisal at the end of April i.e. from one officer in November to five in April dedicated to recruitment of clients and disbursements of Individual loans. Further all officers increased their disbursements, with the exception of officer C. No explanations could be found for this slacking off.

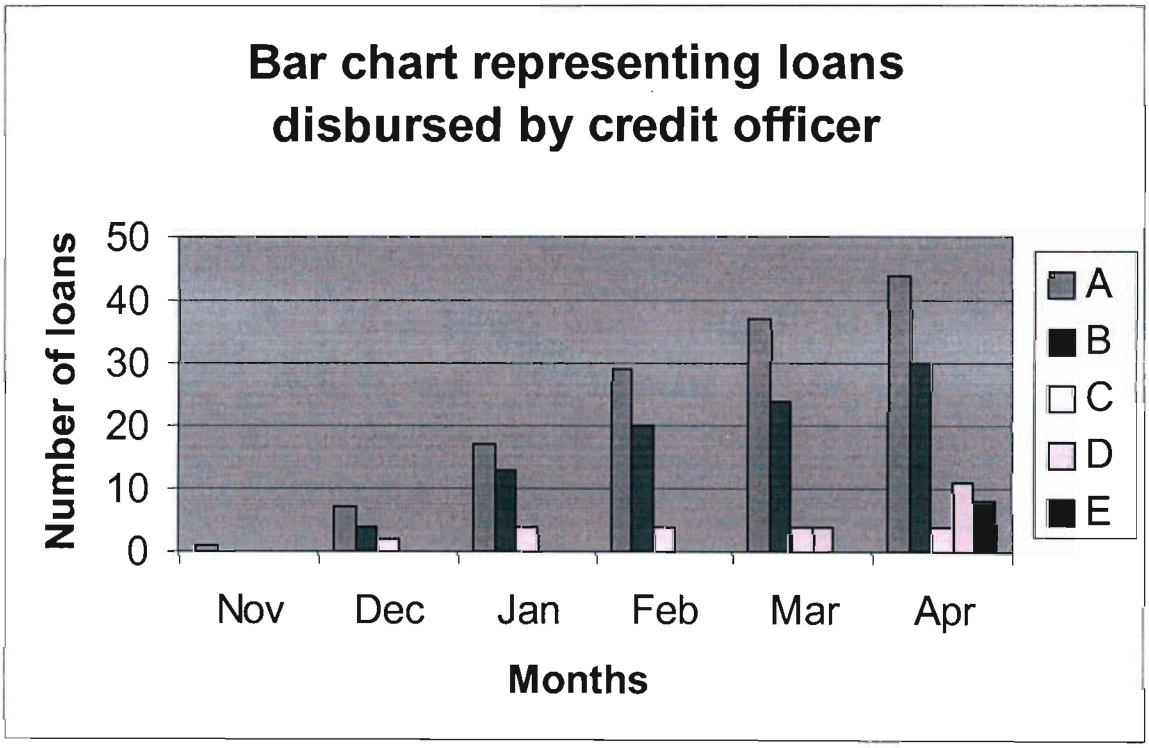


Figure 3: Loans by Credit Officers

5.2.2.1.3 Gender composition

In order to measure outreach, gender participation, the value of loans disbursed and the number of loans disbursed are important variable. As aforementioned, the value and number of loans are on the increase in this pilot hence the outreach is increasing. The breakdown of the number of loans processed in terms of gender revealed that the programme is biased towards females. Refer figure 4. A further breakdown with respect to amount disbursed indicates that females borrowed more. Refer figure 5. This further enforces the theory that FINCA's individual loans are biased towards women in keeping with the theory from section 2.3, that women are the key to social development. This theory has been proposed and practiced by the Grameen Bank and FINCA International in its Village Banking models. This is discussed in detail in chapter 2.

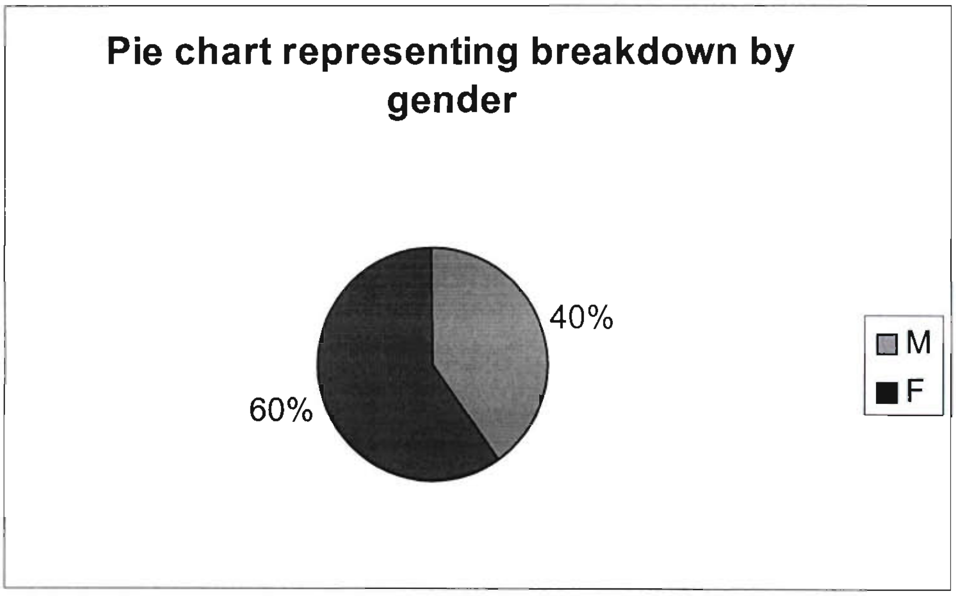


Figure 4: Breakdown of Number of Loans Disbursed By Gender

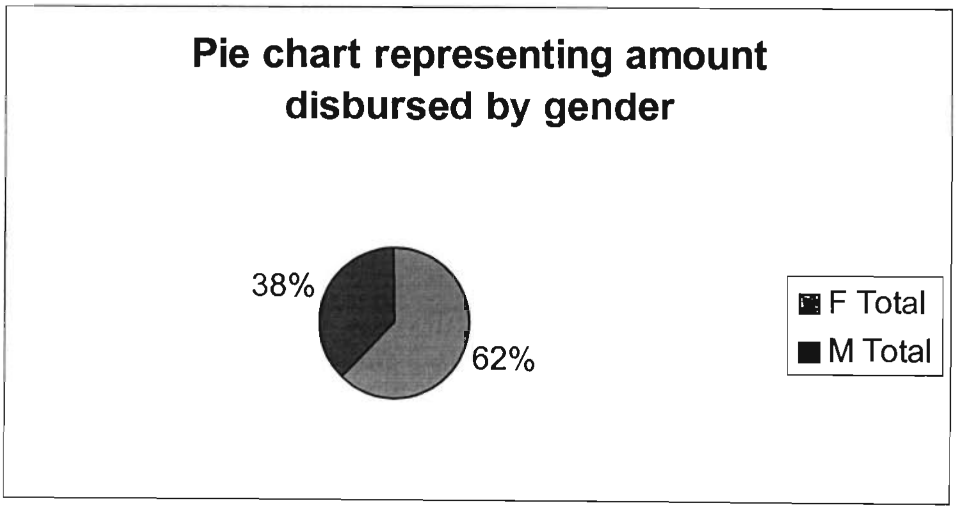


Figure 5: Breakdown of Amount of loans Disbursed by Gender

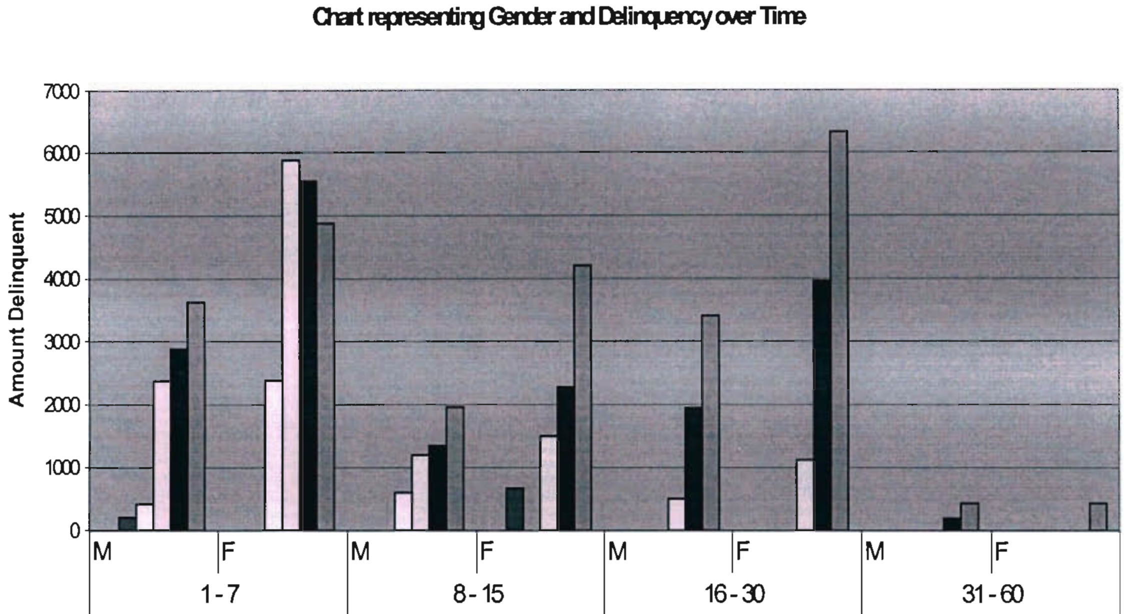
Purely from a measurement perspective of the FINCA pilot project, it can be seen that it follows the current thinking in micro-credit practice that women should be the major recipients of credit from a social development perspective and there is growth in the implementation of this model over the pilot lifetime, hence the potential for growth in rollout remains open.

5.2.2.2 Assessment of Financial Condition and Operational Efficiency

Referring to the performance measures as outlined in the ACCION model (refer chapter 2), the portfolio credit risk is an important variable in determining the financial health and sustainability of a programme. This risk can be determined by investigating the, individual loans portfolios with respect to the average portfolio outstanding, liquidity ratio, delinquency and loan ageing reports as well as ratio of losses to average portfolio outstanding.

5.2.2.2.1 Delinquency and Loan ageing reports

Delinquency is by far the most important variable in determining financial success in any micro-credit practice. The aim is to minimize delinquency as far as possible or make allowances for it in the costing structures. From figure 6, it is evident that as the months progress delinquent amounts increase. Women are more delinquent simply due to the larger amounts and number of loans disbursed. In most frequency of delinquent days the highest amount appears to be in April, perhaps due to the highest amount being disbursed in April. The numbers also highlight the position that it is only in the 5^{th} and 6^{th} month of operation that loans have become portfolio at risk. These are also the months when the number of loans disbursed has increased tremendously.



	1-7 M	1-7 F	8-15 M	8-15 F	16-30 M	16-30 F	31-60 M	31-60 F
Nov	0	0	0	0	0	0	0	0
Dec	208.33	0	0	666.63	0	0	0	0
Jan	416.66	2378	599.39	0	0	0	0	0
Feb	2366.66	5882.22	1199.35	1500	500	1119.97	0	0
Mar	2875	5550.83	1349.98	2271.37	1939.36	3956.71	190	0
Apr	3625	4873.33	1958.33	4204.65	3402.67	6328.53	425	425

Gender

Figure 6: Delinquency Amount in Rands by Gender and Month

5.2.2.2.1.1 Delinquency and Gender

Delinquency frequency when compared to Gender indicates that women are delinquent more times than men with the exception of 31-60 days over due. This is expected linking to the finding that the loans are biased towards women. Refer figure 7.

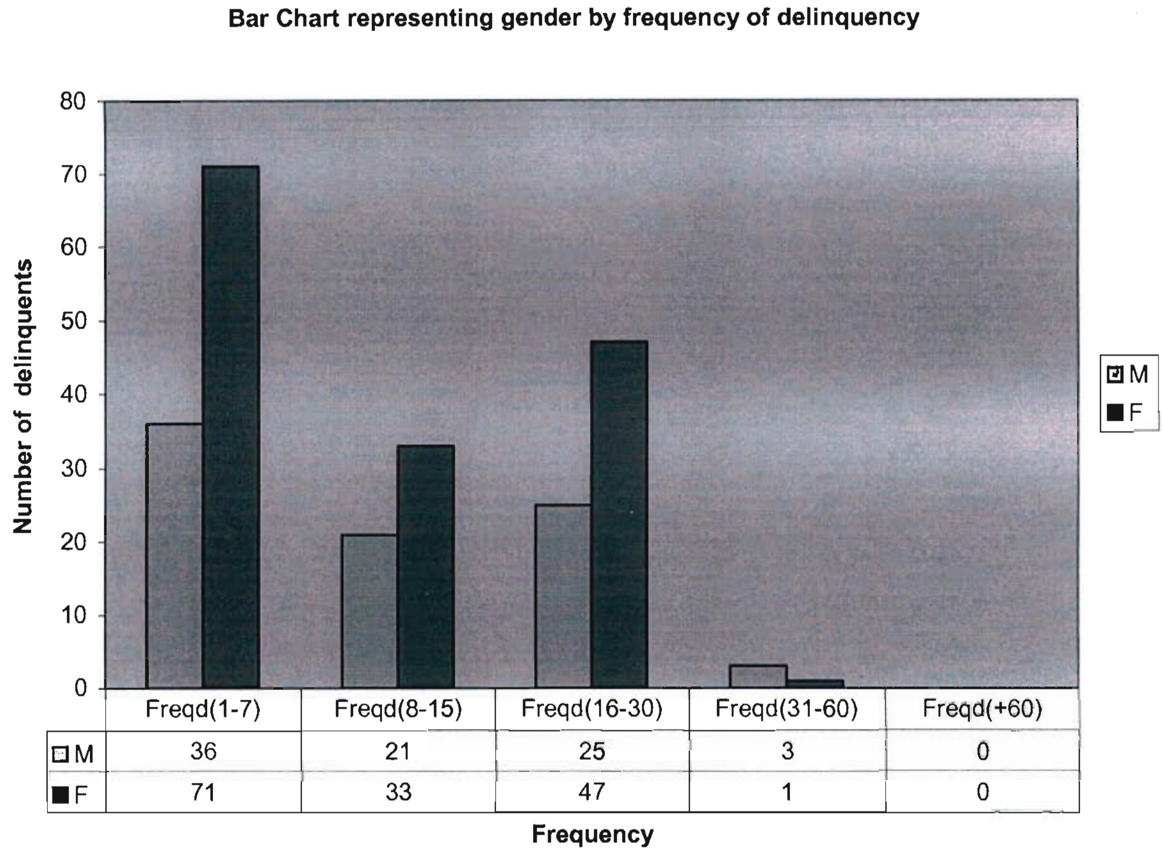


Figure 7: Bar Chart Representing Gender and Frequency of Delinquency.

5.2.2.2.1.2 Portfolio Outstanding and portfolio at risk (PAR)

Figure 8 represents the total loan amount outstanding if clients are delinquent with loan repayments. As time goes by in the implementation of the pilot the portfolio outstanding due to delinquent repayment increases. This has the potential to become problematic for FINCA. If these clients continue with delinquency the portfolio outstanding will impact on the sustainability of the project and the liquidity of FINCA.

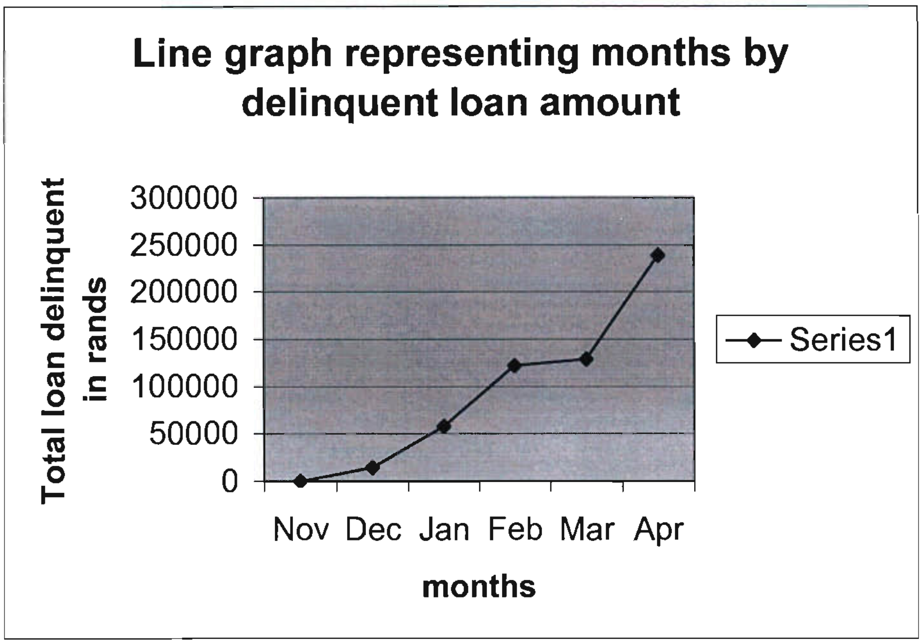


Figure 8 Delinquent Loan Amount in Rands by Months (Cumulative Values)

In recent years on the operational side, portfolio –at risk (PAR) has replaced the repayment rate as the leading measure of loan and model quality. This valuable measure of loan portfolio quality compares the remaining outstanding balances of loans with at least one instalment overdue for a specified period to the total loan portfolio. It is an indication of the proportion of loans outstanding that may not be able to be recovered in the future. For a portfolio to be considered at risk in this programme, the delinquent payment frequency between 31-60 days and 60+ days need to be examined. Table 5 cross tab shows that males (75%) are more at risk then women (25%). Examining the row percentages in table 6, the frequency of 31-60 days delinquent reveals that males (3,5%) show a greater propensity to be delinquent than females (0,65%).

Interpretation of tables 5 and 6 indicate that there is a relationship between delinquency and gender which leads to a portfolio at risk as outlined in the pre-requisites of FINCA in chapter 3.

	Days Delinquent				
Gender	**Freq 1-7**	**Freq 8-15**	**Freq 16-30**	**Freq 31-60**	**Freq 60+**
M	33,6	38,9	31,7	75	0
F	66,4	61,1	65,7	25	0

Table 5 Cross Tabulation of Number of Delinquent Loans by Gender – Column Percentages

	Days Delinquent				
Gender	**Freq 1-7**	**Freq 8-15**	**Freq 16-30**	**Freq 31-60**	**Freq 60+**
M	42	24,7	29	3,5	0
F	46,7	21,7	30,9	0,65	0

Table 6 Cross Tabulation of Number of Delinquent Loans by Gender – Row Percentages

Referring to tables 7 and 8, only credit/loan officers A and B have many delinquent clients and large amounts of delinquency. They are also the only two officers who have clients that are portfolio at risk i.e. either 31-60 or 60+ day's delinquent. These officers have the most number of clients so this is not unexpected and no indicator of poor recruitment practices on the part of the loan officers or an indication of operational inefficiency.

	Months					
Delinquency	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	4166.60	14719.66	28178	38117.50	13505
8-15	0	10 000	3516	29016	4100	15250
16-30	0	0	0	9347.50	43328.50	88404.50
31-60	0	0	0	0	0	9350
60+	0	0	0	0	0	0

Table 7:Amount Delinquent in Rands, by Credit/Loan Officer A

	Months					
Delinquency	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	0	19000	38750	32650	10000
8-15	0	0	0	22475	6625	16000
16-30	0	0	4250	13925	52250	65912.5
31-60	0	0	0	0	9190	0
60+	0	0	0	0	0	0

Table 8: Amount Delinquent in Rands ,by Credit /Loan Officer B

Clients of Credit/loan officer C totalling only 4, over the entire pilot phase of this project, seem to be consistently delinquent. Perhaps, the modus operandi in terms of application of recruitment criteria needs further examining of this loan officer. The supervisor, Makelo was also unable to provide a viable explanation for this. Referring to the comments made in chapter 3, the author is of the opinion that selection and training of staff has not been undertaken prior to rollout of this model and hence presents a flaw in its dispensation by FINCA-

Durban. Credit / loan officers D and E only show marginal delinquency and that too only in March and April.

	Months					
Delinquency	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	0	16500	3287.50	0	0
8-15	0	0	0	0	2813	1963
16-30	0	0	0	19496.70	10767.5	8957.50
31-60	0	0	0	0	0	0
60+	0	0	0	0	0	0

Table 9: Amount Delinquent in Rands, by Credit Officer C

Referring to table 10 it can be clearly seen that for this pilot programme the Portfolio at risk is marginal- 4 clients over the entire pilot period. This translates to 4,08% delinquency in relation to the total number of loans disbursed. This is below the 5% criteria, which FINCA has set, according to chapter 3, to suspend recruitment of more clients.

	Credit Officer				
Days Delinquent	**A**	**B**	**C**	**D**	**E**
31 - 60	2	2	0	0	0
60+	0	0	0	0	0

Table 10:PAR assessment-Credit Officer by number Delinquent

Results presented in table 11 are on the basis that if the repayment is not met the entire loan amount outstanding at that point is considered delinquent. This is according to the month-end portfolio reports of FINCA on the individual loans programme. From table 11 it can be gleaned that the portfolio at risk for March and April is 4,6% and 3,9% of the total loan amount outstanding. This is below the cut off criteria set by FINCA-Durban to indicate a programme in financial trouble. The implication is that this model whilst not pro-poor and charging exorbitant interest rates does however represent financial efficiency for FINCA-Durban.

	Months					
Days Delinquent	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	4 166,6	49 803	70 215,5	70767,55	27765,00
8-15	0	10 000	3516	51 491	13 538	38 213
16-30	0	0	4250	42 769,2	106 346	163 274,50
31-60	0	0	0	0	9 190	9 350
60+	0	0	0	0	0	0
TOTAL	**0**	**14 166,7**	**57 569**	**164 475,7**	**199 841,5**	**238 602,5**

Table 11:Total loan Outstanding in Rands and Number of day's Delinquent over the Months of the pilot.

Furthermore, Referring to table 11, none of the loans are delinquent for more than 60 days. Delinquency between 31-60 days shows R 9 190 for March and R 9 350 for April if total amount is considered delinquent. Taken as a percentage of the total amount disbursed in these months (refer table 4), it translates to 2,52% and 1,72% for March and April respectively. Both these fall way below

FINCA's indicators of a programme in financial trouble and one that requires adjustments.

Hence, from the perspective of FINCA-Durban, the Project does not appear to be risky to the company and therefore feasible and indicates financial success. Therefore it is considered sustainable. However, from a pro-poor perspective it is not a model conducive or accessible to the poor with its exorbitant borrowing rate and pre-conditions for e.g. collateral and active bank account needed.

Further statistical analysis viz. Pearson's Correlation Analysis between months and total amount outstanding for each frequency category applied to these data yielded:

- Delinquency 1-7 days: R = 0,61 indicating a moderately positive correlation between the amounts outstanding and the months.
- Delinquency: 8-15 days: R = 0,69 indicating a moderately strong positive correlation between the amounts outstanding and the months.
- Delinquency: 16-30days: R = 0,92 indicating a very strong positive correlation between the amounts outstanding and the months.
- Delinquency: 31-60 days: R = 0,83 indicating a fairly strong positive correlation between the amounts outstanding and the months.
- Pearson's Correlation Analysis between months and total amount outstanding revealed: R= 0,45 a weak positive correlation.

Summarizing these findings, it can be concluded that as the months go on the amount of loan delinquency increases in each of the frequency categories and there exists a positive relationship between loan amount delinquent and time. This in turn will impact on the turnaround of funds. It is important to note that for 31-60 days delinquency a frequency, which according to FINCA makes a loan a portfolio at risk, there is a very strong relationship between time and loan amount. This implies that the longer the programme is in existence the potential for portfolio at risk increases.

On personal examination of the individual loan repayment schedules against the month –end portfolio reports, there appeared to be problems with data integrity as the repayment dates and receipts did not correspond. This, according to the loans supervisor, was due to payments being captured in batches. This capture was done once a week or once every two weeks in some instances. Hence, date of actual receipt of payment does not coincide with the date on the record schedule. This led to discrepancies in the monthly reports with the following possible effects:

- The Delinquency amount reflected in the month-end report of 1-7 days may not be truly delinquent but a capture problem
- Following through on this problem the effect on Delinquency of 8-15 days is that half the amount may not be truly delinquent but a capture problem.
- Taking this a step further a quarter of the Delinquency amount of 16-30 days may not be truly delinquent but a capture problem.
- The ripple effect of this problem on Delinquency of 31-60 days may be that an eight of the amount may not be truly delinquent but a result of a capture problem.

This problem according to the loans supervisor was resolved since May. Hence, this dissertation whilst mentioning this discrepancy will assume there is no problem with data integrity and will proceed with analysing reports accordingly.

5.2.2.2.1.3 Cost to FINCA-Durban if loans are delinquent

Referring to tables 12 and 13, Loans are disbursed by FINCA at a rate of 84% per annum, therefore this rate is utilized to calculate the cost to FINCA if loans are delinquent. Cost represents what FINCA would lose in interest income per day if clients did not pay as scheduled.

	Months					
Delinquency Frequency	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	9,58	114,64	161,59	162,86	63,90
8-15	0	23	8,09	118,5	31,16	87,94
16-30	0	0	9,78	98,43	244,74	375,75
31-60	0	0	0	0	21,15	21,52
60+	0	0	0	0	0	0

Table 12: Cost to company i.e. FINCA-Durban per day on the Total Amount Delinquent (Rands) if repayments not on schedule.

Statistical analysis by means of the Pearson's correlation Analysis between cost to company and months yielded:

- Delinquency 1-7 days: R = 0,61 indicating a moderately positive correlation.
- Delinquency: 8-15 days: R = 0,65 indicating a moderately strong positive correlation.

- Delinquency: 16-30days: R = 0,92 indicating a very strong positive correlation.
- Delinquency: 31-60 days: R = 0,83 indicating a fairly strong positive correlation.

Time influences the cost to company per day. It increases with delinquency. Hence, the greater the number of days a client is delinquent the more FINCA loses in interest income. Further, this also impacts on rollout, if loans are not paid as scheduled, then more loans cannot be disbursed to other deserving individuals. This then impacts not only on financial sustainability but outreach as well.

Table 13 considers only the amount not paid on schedule as outstanding. Statistical analysis reveals:

- Delinquency 1-7 days: R = 0,94 indicating a very strong positive correlation.
- Delinquency: 8-15 days: R = 0,95 indicating a very strong positive correlation.
- Delinquency: 16-30days: R = 0,90 indicating a very strong positive correlation.
- Delinquency: 31-60 days: R = 0,76 indicating a fairly strong positive correlation.

	Months					
Delinquency	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	208,33	2794,66	8 248,88	8 425,83	8 723,33
8-15	0	66,63	599,39	2 699,35	3621,29	6 162,98
16-30	0	0	83,30	1919,17	5896,07	9 641,20
31-60	0	0	0	0	190	850
60+	0	0	0	0	0	0
TOTAL	0	274,96	3477,35	12 867,40	18 133,19	25 377,51

Table 13 Repayment Amount Delinquent in Rands

As the months progress the number of loans increase and the amount delinquent increases. The statistical results indicate a relationship between time and delinquency. This is related to the aforementioned discussion as it impacts on rollout and thereby sustainability. The greater the number of loans FINCA disburses the greater the allowance needs to be made for delinquent amounts.

Table14 represents data if the cost to Company per Day on Repayment Amount Delinquent was undertaken.

	Months					
Delinquency	**Nov**	**Dec**	**Jan**	**Feb**	**March**	**April**
1-7	0	0,48	6,43	18,98	19,39	20,07
8-15	0	1,534	1,38	6,21	8,33	14,18
16-30	0	0	0,19	4,41	13,57	22,19
31-60	0	0	0	0	0,44	1,96
60+	0	0	0	0	0	0

Table 14:Cost to Company per Day in Rands, on Repayment Amount Delinquent.

Statistical results from table 14 indicate:

- Delinquency 1-7 days: R = 0,94 indicating a very strong positive correlation.
- Delinquency: 8-15 days: R = 0,95 indicating a very strong positive correlation.
- Delinquency: 16-30days: R = 0,90 indicating a very strong positive correlation.
- Delinquency: 31-60 days: R = 0,76 indicating a fairly strong positive correlation.

As the months go by, the cost to company increases per day on the repayment amount only. This further strengthens the results of the aforementioned discussion.

5.2.2.3 Assessment of The Subsidy dependence Index / Required Subsidy / Self Sustainability

An important measure of sustainability is to evaluate the extent of the operating costs, which are met by internal revenue sources like interest on loans, interest on investments and fee income.

The funding of FINCA is solely from donors. From personal communication, it was gleaned that there were no costs incurred for money disbursed as it was totally donated funds for FINCA-Durban. FINCA International does incur expenditures e.g. program services, fund raising, general and administrative expenses as reflected in their financial statements, (FINCA International: 2002). However, FINCA - Durban's administrative department and financial department were unable to provide specific costs in terms of processing the Individual Loans. There are definitely costs for initiating this programme in terms of administration of loans and operational costing. According to FINCA International's directors, the mandate is for all costs including the administration of loans not to exceed 25% of the total loan amount disbursed. This is a flaw in the assessment of this programme as there are no accurate cost structures provided but this ceiling mandate of 25%, will be utilised in this appraisal. This costing is highly important in evaluating the Subsidy Index as this would truly reflect if the 84% charged covered costs and provide continuity in loan disbursements if donors pulled out of providing funding. If the funds had to be borrowed it would have to take cognisance of the borrowing rate, which currently is 12% in the South African market. Thus, taking cognisance of the rate of borrowing and the estimated 25% for costs, the total yields a paltry 37% in comparison to the 84% charged. Referring to chapter 3, and the factoring in of loan losses a maximum charge rate of 44% is arrived at if this model is to achieve financial self-sufficiency. This results in a 40% excess, allowing for operational inefficiencies as well as a substantial profit. Thus the implication is that the 84% more than meets the requirements of self-sufficiency.

Further, the revenue is only from the interest earned on loans. Furthermore, there is no reflection of any investments, which generate income, and there is no fee charged for services provided or any other activities. The interest charged is expected to cover both operational and administrative costs. Higher interest rates tend to reflect the high-risk nature of borrowers. FINCA-South Africa considers South African borrowers to be of a much higher risk than those in other countries. The implication of this is the need to charge exorbitant interest rates, which further burdens, the borrower. The higher the interest rate the greater the potential for default on loan payments. Hence, whilst it might be sustainable for the practitioner it is not a strategy appealing to pro-poor application. This model with its current interest rate charges, certainly is not conducive to pro-poor borrowing but definitely if operational as is will meet the self-sufficiency criteria.

5.2.2.4 Other relevant assessment criteria

5.2.2.4.1 Streamlining of operations

FINCA does not follow all the principles of streamlining operations to reduce costs, refer AMIR Programme (undated) in chapter 2, section 2.5.7. This is deduced from the fact that they did not even concern themselves with calculating the cost of disbursements. It appears that administrative costs are of no consequence to FINCA in the rollout of this programme. However, it has designed a standardized system for lending, decentralized loan approval and selected staff from the local community, therefore it has met some of the streamlining conditions. (Personal communication with the supervisor)

5.2.2.4.2 Motivation to repay

The model does not possess all the characteristics as outlined in the AMIR programme (refer section 2.5.7), to motivate clients to repay loans as it requires formal collateral, does not use joint liability to motivate repayments and has no incentive mechanism to prompt timely payments. According to the supervisor, the clients are reminded of repayments when month-end nears. This is due to the month end reports being printed, which reflect delinquency. Hence, true delinquency rates could be higher if left to self- motivation to ensure timeous payment. A better method would be to provide incentives to the clients. However it has developed a public image that signals seriousness about loans

5.2.2.4.3 Capacity building

There are no capacity building programmes in place for client development. In a country where lack of skills are a major barrier to success, the development of the necessary skills to survive in the micro enterprise realm is of utmost importance. Encouraging small business development by the provision of micro loans is laudable if the enterprise is supposed to be labour intensive. In reality, this is rarely the case. Some basic management skills are a pre requisite for success today. This is considered a flaw in this programme irrespective of which level of entrepreneurship development it wishes to focus on.

5.2.2.4.4 Tracking of clientele

There is no follow up assessment of loans except on the occasion of default bordering on Portfolio at Risk. This also seems to be motivated by loan officers not wanting month end reports indicating poor performance. This leaves no systems in place alerting management at an early stage that some clients are potential portfolio at risk even if they have not reached the 31-60 days delinquency as outlined in chapter 3. According to the supervisor this system is going to be adjusted and follow ups by the loan/credit officers are going to be undertaken at regular intervals in the future. Biasing the loans towards women did not necessarily show any lesser delinquency and without a follow up mechanism in place to establish whether social improvement did in fact occur more so from loans disbursed to females than males definitive conclusions cannot be reached.

5.2.2.5 Operational Flaws

5.2.2.5.1 Recruitment of clients

Credit/ loan officers actively recruit clients but there is no monitoring process in place to ensure that adequate and appropriate screening takes place. Referring to the information required in the FINCA Individual Loans Programme Application form, which should be utilized to screen clients, zero delinquency would be expected in this programme if each application were processed according to the criteria presented in Chapter 3.

Recruitment technique differs from other models where targeting of clientele actively takes place thereby ensuring that the neediest receive the loans e.g. The Grameen Bank and Village Banking methods of recruitment. (Refer chapter2). It is ironic that credit/loan officers actively recruit without employing any poverty assessment criteria, despite FINCA having its own Vulnerability index measure. This certainly removes the model further from being pro-poor. Furthermore, there is no active training programme in place for recruitment techniques. The recruitment thus far is also restricted to urban developed areas and the requirements for eligibility preclude it from being pursued as a pro-poor approach. Most poor in South Africa reside outside of urban areas.

5.2.2.5.2 Business Plan Requirement

According to the Individual Loans supervisor all the clients completed a business plan. Business plans are drawn up with assistance from the credit officers, but no skills training is provided to the clients. On examining some of these, many pieces of critical information were missing precluding concluding remarks from being made on vital relationships. Business plans according to the financial manager have never been revisited. This is a flaw in the system, as the cash flow projections are never compared to actual cash flows. Variance analyses have never been undertaken. Thus the business plans cannot be seen as a reliable indicator of ability to meet repayments. On examination of delinquent business plans it was found that capacity to repay was highly evident, yet payment schedules were not adhered to. Further, some cash flows examined indicated recipients that were relatively well off. This is contradictory to social welfare principles. The better off would crowd out the really needy if this practice continues. These plans have appeared to serve no purpose thus far except record some of the client details.

5.3 Summary of Findings

The information was analysed by searching for possible underlying patterns. Information gathered was compared to theories and comparisons drawn. Mouton & Marais (1990:195) advise that in theoretical as well as empirical research, the report should be concluded with an interpretation of the findings against the background of the original research problem. The criteria of objectivity require that the interpretation should not be selective, but should be reported in full. They add that a valid conclusion is one in which the data (empirical) or reasons/evidence (theoretical) provide both sufficient and relevant grounds for the conclusion. This advice was followed in arriving at the following conclusion. From the literature studied it can be gleaned that FINCA-Durban's Individual Loans Programme offers the services that fit the preference of low-income Entrepreneurs in its loan disbursement requirements. In determining if the Individual Loans Programme presents a sustainable model in terms of:

- Financial conditions
- Operating results
- Development impact, and
- Required subsidy, as outlined in the model for Micro-credit Performance Measures.

It has to be remarked that there are two opposing approaches to this conclusion. From, **a FINCA perspective** i.e. directly from the conditions outlined in chapter 3 for the implementation of the individual loans programme and the analyses conducted in this chapter, these criteria are sufficiently met to lead to the conclusion that the model is financially sustainable and therefore a success.

However, from the opposing **pro-poor perspective** whilst the programme claims to be able to reach the poor, its fundamental requirements preclude it from doing so. Specifically, the following need consideration:

Firstly, the fact that one of the requirements of eligibility is the possession of Collateral – refer chapter 3, wherein FINCA sets clear requirements (125% of loan amount), for collateral before individual loans can be granted. This automatically excludes the very poor. It might draw in the relatively well off whose capital base allows for collateral but the very poor have nothing to offer but their skills and themselves. It contradicts those practices in micro-credit like that of The Grameen Bank and FINCA International Village Banking model which have chosen to provide credit without collateral and been hailed successes in the industry (refer chapter 2). Both these models have been known as poverty alleviation methods to the poorest of the poor. Hence this precludes the IL Programme from being a pro-poor model despite the claims of FINCA personnel in Durban.

Secondly, the requirement of an Active bank Account - another precondition for an individual loan to be granted. According to Stancich: 2002, sixty percent of South Africa's total population of 43 million have no access to a bank account. This precludes access to loans to those that most need them. Hence, the policy of FINCA 's Individual loans programme cannot be considered pro-poor.

Thirdly, other requirements laid out by FINCA e.g. financial records and Ownership of fixed assets are incongruent with pro-poor strategies. The poor do not have the capacity to possess these. If these are eligibility requirements then automatically the very poor are excluded from such a programme.

The Consultative Group to Assist the Poorest (CGAP) and the Micro-credit Summit define the very poor as those living below half the poverty line Baumann (2003). Such households are typically women-headed, in casual informal employment or home based micro entrepreneurs, located in rural areas and urban informal settlements. It would be rare for persons falling into this description to either possess active bank accounts, own assets or have financial records. Further, the very poor would have different micro financial needs to those who are relatively better off and can meet the demands of collateral. Hence, the Individual loans programme cannot be considered appropriate as a social welfare model. FINCA, however believes that the loans are reaching the poor, as they are not attractive enough for the better off but this is simply a myth in their understanding.

FINCA-Durban is either not wanting to target the poorest households with this programme or it is unable to do so and is therefore drifting towards serving the better off clients. The former is highly likely, referring to the discussion of FINCA South Africa's operation in chapter 2 and the fact that it considers doing business in South Africa highly risky. It claims its mission to be encouraging job-creation within entrepreneurial growth and poverty alleviation as a goal but nowhere in its implementation did it employ poverty targeting strategies or assessment techniques. Hence this model is certainly not a pro-poor model in micro-credit practice.

6 CONCLUSION AND RECOMMENDATIONS

6.1 Introduction

A key output from the research was a better understanding of micro-credit practice and how to make the practice more bankable. Being a post facto research it tends to describe the phenomena as they existed and currently exist. However, it needs to identify the causal factors to improve success in the micro finance arena and examine more closely the strategies that could be used for success and sustainable micro finance practices to the poor.

6.2 Conclusions

From the city of Durban to the rural villages in Bangladesh, Micro finance is fast becoming the largest self-help undertaking in history. It brings with it hope and empowerment to millions of the poorest of the poor. Micro-credit practitioners are clambering to design and implement models that are successful and sustainable. The practical conclusion is that there is more than one route to determine objectives that make micro-credit programmes viable and successful. Success does not lie in replicating a policy blueprint but in finding if these policies meet objectives in particular circumstances.

In the evaluation of FINCA's Individual Loans Programme there are two perspectives from which success can be measured:

Firstly, from the perspective of its implementers/designers as described in chapter 3 which outlined the conditions of the programme, and secondly from a pro poor perspective.

Concluding from the perspective of the **lender, FINCA**, the programme measures up to many of the crucial financially motivated evaluative criteria for Micro-credit Performance Measures as outlined in Section 2.4. The operation is experiencing good repayment rates and portfolios at risk are marginal. The accomplishments are in accordance with the expectations of the designers of the programme as outlined in chapter 3 and thus far are not costing FINCA greatly in terms of financial outlay and appears to be able to sustain itself. Hence, the model can be considered successful if its aim is simply to support employment creation and economic growth through the financial support of existent entrepreneurial small enterprises.

This infant programme has achieved a degree of success in these terms and perhaps once institutionalised will iron out the current drawbacks. However, given the current conditions that the formal sector is unable to generate jobs, it is important to note that micro entrepreneurial micro-credit is not the only form of micro financial services that South Africa needs at this stage of its development. FINCA must understand the needs of marginalised households and address micro financial services that can augment the livelihood strategies of this sector living below the poverty line, assisting in reducing their vulnerability to poverty.

The individual Loans Programme if it is prepared to change the conditional requirements and exorbitant interest rate charges in its model possesses the potential to have an impact in relation to poverty alleviation much like the influences of the Grameen Bank and FINCA's Village Banking models. There is an influential explanation of the success of the Grameen Bank. It has been noted in chapter 2 that those models such as the Grameen Bank which utilize social intermediation methodologies, refer table1, are better able to provide micro financial services to alleviate poverty, even if they provide other services to other groups for other reasons. Further, according to Baumann (2003), if institutions are interested in poverty alleviation then they should:

- Seek to provide such services specifically to alleviate poverty on the part of their clients (i.e. directly)
- Try to target the poorest households in communities (like the Grameen model does)
- Be willing to accomplish this, even at the cost of short-medium term operational and financial sustainability, and therefore subsidy dependence.

This then would for FINCA exclude a for-profit orientation over the short term, but in the long run would be more in keeping with FINCA Internationals Aim of reaching low income households, creating employment, raising family incomes, providing financial services to low income households and reducing poverty as outlined in chapter 2. It is simultaneously understood that stakeholders expect micro financial services even to the very poor to be operationally self- sustaining in a short period of time. However, engaging in poverty alleviation strategies and maintenance of sustainability not only requires time but many modifications in the service offerings until such time that a suitably successful model can be employed.

Concluding from the **pro-poor perspective**, if its aims are to provide micro financial services that augment the livelihood strategies of the poorest, it fails the test of success and sustainability. From the Pro –poor perspective, it does not manifest a viable approach. There remains the vital question as to whether the model pursued by FINCA is the best one for South African conditions. It is clearly inappropriate to poor households in the household-based micro enterprise sector in South Africa. If the positioning of the micro-credit practice of FINCA were to be schematically represented using the definition of pro-poor i.e. those living at or below the poverty line, it would most certainly not fall in the realm of servicing the poorest of the poor, which constitute the majority of South Africans. (Refer figure 9).

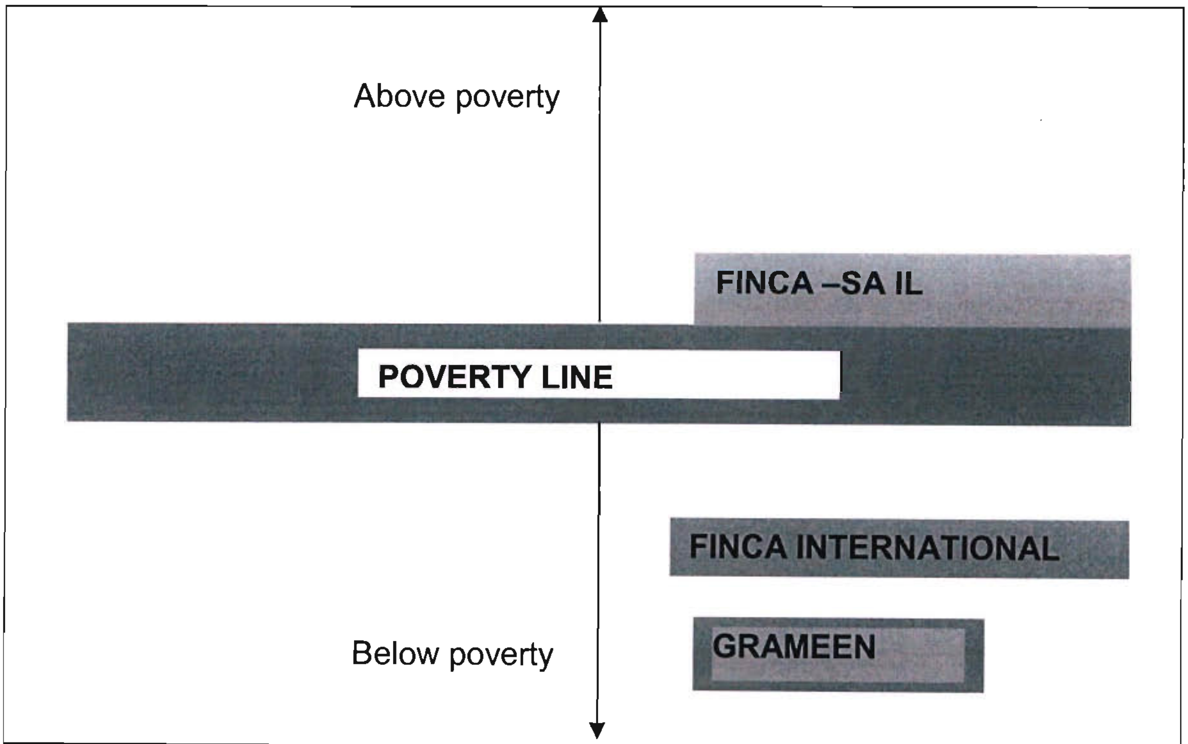


Figure 9: Schematic representation of FINCA's operations in

Relation to the Poverty Line.

6.3 Recommendations

Recommendations based on the research, are postulated with a view to improving the individual loans programme. FINCA needs to re-examine the design with respect to:

- Clearly deciding what the ultimate aim of this programme is - Entrepreneurial promotion or poverty alleviation? If it is poverty alleviation, then the Vulnerability Index should be applied in its recruitment policies and also it needs to re-assess its interest rate charges, which are way too high.
- The Business Plan, which it requires its clientele to draw up, needs to be constantly revisited and quantitatively analysed for sustainability, otherwise its purpose in being drawn up is defeated. This should be conducted irrespective of the end goal of the programme, viz. entrepreneurial promotion or poverty alleviation.
- Credits or loans after being extended needs to be closely monitored. A sound monitoring system should encompass
  - Regular reviews of credits availed and used
  - Regular reports on credit extended, returned and outstanding
  - An analysis of the causes such as borrower background and type of business amongst others, for outstanding amounts delinquent. Remedial actions should be proposed based on the analysis. The flaw in the current model is that

there is no understanding of the underlying reasons and causes of delinquency.

- Clients need to be assessed in terms of success in social and economic development after disbursements of loans i.e. an impact assessment study needs to be conducted.
- A tracking study needs to be implemented for proper evaluation and assessment.
- Screen clients and lend to individuals who have undergone a small business-training programme. The possibility of engaging in enterprise counselling- this may take the form of some initial formal training to clients before a loan application can be accepted or disbursed. It can also be a part of a loan recovery programme especially where problem loan clients can receive business advice or simply an overall business education. This would eliminate major default.
- Ensuring access to credit without collateral for the poorest are essential ingredients to embed entrepreneurship and self-employment through every strata of society. Access to capital is the single most important barrier to self-employment. The collateral requirement needs to be revisited if the poorest of the poor are to be targeted with this programme.
- It needs to look at design features for ensuring a higher repayment rate and enabling truly poor people to access the loans
- Develop incentives to repay timeously
- If FINCA's aim is to primarily maximise client base and create social development then business advisory service to a wide range of clients

not only those currently receiving credit is an imperative as it would not only serve the existing micro-entrepreneurs but also create more of them. Whether this should be provided by MFI's is highly debated with some taking a holistic view that one cannot look at credit alone and others adopting the approach of financial services only. However, in terms of looking at micro-credit as poverty elimination tool a holistic view is needed. The Grameen Bank even includes social services like health, nutrition, education, family planning etc. in its micro finance offerings. The decision as to which approach FINCA utilizes depends on its management objectives. FINCA's funding and target group will determine the degree to which it will provide clients and potential clients with advisory services. Refer to table below.

	Training led	**Credit led**
Goal	Poverty alleviation	Community economic development
Clients	Welfare recipients and others below the poverty line	Low-income persons without access to credit and other business services.

Table 15 Approaches to Micro Enterprise Assistance- Skully (undated)

6.4 Summary

The economics of micro enterprise make it a compelling anti-poverty strategy. With small loans, in poor countries one can start up a small business, repay the loan and own productive assets. Given time and a modicum of encouragement the possibilities abound to earn enough and escape the dreaded poverty-stricken state many nations are currently faced with.

For any practice or model to be considered a success it is not a judgement call of its creators who hail it a success but the replication of its methodology by imitators who push it into the realm of success. John Hatch, considered the 'father of village banking' has stated (Hatch et al: 2002), "There may be merit in being the first to innovate but history clearly shows that the most successful examples of a given innovation will most likely be demonstrated by its replicators, not its creators." It is doubtful that those implementers of pro-poor micro-credit will replicate the Individual Loans Programme in its current format.

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