

The Impact of Saving in Reducing Risks:

A Case Study of Mathabatha Village Bank,

Limpopo Province, South Africa

By Ruth Woldu Teweldeberhan



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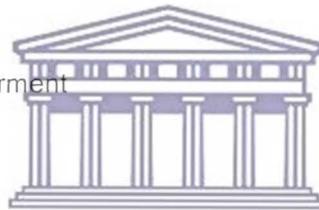
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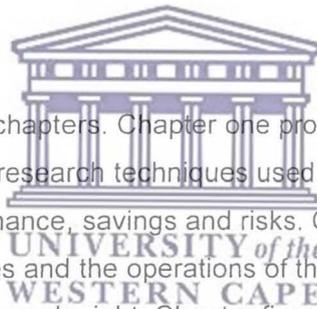


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Abstract

The minithesis argues that microfinance institutions help their clients by offering saving services, through which the clients will be able to get 'chunks of money' on a regular basis. These 'chunks of money' enable them to protect against emergency risks for it acts as a crisis-coping mechanism by building up the asset base in its physical, financial, human, and social sense. The accumulation of an asset base is not only critical in fighting risks ahead of time, but also enables poor clients to protect against losses afterwards. Thus the saving services provided by these institutions are essential in improving their clients' capacity to build up and manage their assets.



The paper is divided into four chapters. Chapter one provides an introduction, aims and rationale of the research as well as the research techniques used in the research. Chapter two provides the literature review of microfinance, savings and risks. Chapter three describes the research site of the Mathabatha villages and the operations of the village bank. Chapter four analyses the data gathered from the research site. Chapter five concludes with recommendations followed by appropriate references and bibliography.

Declaration

I declare that *Impact of Saving in Reducing Risks: A case study of Mathabatha Village Bank in the Limpopo Province* is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

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Table of Contents

Chapter One	2
1.1 Introduction.....	2
1.2 Aims of the Research.....	2
1.3 Rationale	3
1.4 Research Question	3
1.5 Research Design.....	3
1.6 Limitation of the Study	4
1.7 Chapter Outline	4
 Chapter Two.....	 5
Literature Review.....	5
2.1 Risk	5
2.2 Risk Coping Strategies.....	6
2.3 Saving Mechanisms	10
2.3.1 Informal Saving Mechanism.....	10
2.4 Measuring Saving	13
 Chapter Three.....	 15
The Villages of Ga Mathabatha	15
3.1 Community Profile.....	15
3.2 Mathabatha Village Bank	19
 Chapter Four	 25
Data Analysis and Discussion.....	25
4.1 The Nature of risks confronting clients of the Village Bank	25
4.2 Ways clients confront these risks.....	28
4.3 Informal and formal saving mechanisms.....	29
4.4 Measuring Saving	32
 Chapter Five.....	 39
5. Conclusion and Recommendations.....	39
5.1 Recommendations.....	41
 6 References.....	 43
 APPENDIX.....	 48
QUESTIONNAIRE	48



Chapter One

1.1 Introduction

Poor people live in a precarious existence where they suffer from persistently low income with consequent poor standards of living. But more than that, they are exposed to different risks in their everyday life. These risks could be structural, seasonal or lifecycle in nature, ranging from the death of a member of its household, increasing medical expenses, wedding, funerals and crop failure, loss of asset to other macroeconomic costs like increase in prices and decrease in demand. These risks can be classified according to their rate of occurrence and costliness.



Emergency risks such as losses of asset or other crisis are especially threatening because they are unexpected and sudden, leading to severe consequences. The inability of poor people to join in the usually expensive insurance schemes have rendered them vulnerable to such risks. Although they have different traditional ways of confronting these risks, (usually by relying on members of household, relatives and groups in the community), it is not enough. Microfinance institutions, which are closely involved with poor people, are in a unique position to help in mitigate risks and reduce vulnerabilities.

1.2 Aims of the Research

The aims of the research are as follows: First to find out whether poor people save and if they do in what manner. Second to describe the kinds of risks they are confronted with. Third to measure and evaluate the saving services provided by the Mathabatha Village Bank and to assess the impact of these savings on building and accelerating the asset base of its poor clients. This

research will also analyze how they are using these assets to protect themselves against risks ahead of time and cope with losses afterwards.

1.3 Rationale

The provision of saving services is very important to poor people in that it can help mitigate the sudden and unexpected risks they face in their everyday life. Saving helps them build, manage, and protect their assets. These assets could be financial, physical, human and social assets. In order to fully understand the impact saving services have on asset building and accumulation, it is essential to find out the informal saving mechanisms they utilize. Understanding these informal mechanisms will contribute a great deal to the kinds of financial products that should be provided, which are particular to the specified area.

1.4 Research Question

The research will address the following issues generally confronting microfinance institutions and their clients:

- 
- What are the natures of risks faced by the clients?
 - What kinds of emergency risks do they face?
 - How do clients confront these risks?
 - What kinds of informal and formal saving mechanisms are to be found in the area?
 - How do clients build up their asset base?
 - How do clients cope with sudden losses?

1.5 Research Design

The research site is the Mathabatha Village Bank in the Limpopo Province (South Africa), which is situated under the Mathabatha District serving eight small villages. The Village Bank is the product of the Fanang Diatla Community Development program. It is the only village bank in that area and currently has 508 clients. The research is mainly of qualitative nature based on focus group and individual discussions. The qualitative research method was used in preference over the quantitative method in order to gain insight to explain the dynamics and complexities of

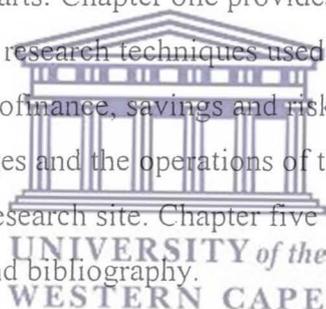
saving systems existing in rural traditional villages where family and social structures are tightly intertwined. A structured questionnaire were used for data capturing, a copy of which is attached as an Appendix.

1.6 Limitation of the Study

This mini thesis tries to understand two important things: the risks faced by clients of the village bank and the use of their bank savings to confront these risks. As such, most of the information is gained through private interviews and focus group discussions. The memory of the clients over events happening over the past four years are not that sharp. Coupled with the language barrier some minor errors are to be expected.

1.7 Chapter Outline

The thesis will be divided into four parts. Chapter one provides an introduction, aims and rational of the research as well as the research techniques used in the research. Chapter two provides the literature review of microfinance, savings and risks. Chapter three describes the research site of the Mathabatha villages and the operations of the village bank. Chapter four analyzes the data gathered from the research site. Chapter five concludes with recommendations followed by appropriate references and bibliography.



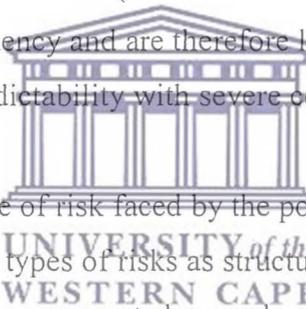
Chapter Two

Literature Review

Poverty has become a paramount crisis faced by developing nations for many decades. It is estimated that as much as 50% of Africa's population currently lives in absolute poverty (Getu, 1996). People are living in a precarious existence where they suffer from persistently low income and poor standards of living. Everyday, they face risks that are forever threatening to swallow them deeper into the swamp of poverty.

2.1 Risk

Risk can be defined as the probability of a negative outcome or loss of occurring. Risks can be divided into *recurrent* risks and *periodic* risks (Chen & Dunn, 1996). Recurrent risks refer to the risks that occur with predictable frequency and are therefore less severe. Periodic risks, in contrast, are characterized by less predictability with severe consequences.



In order to better understand the nature of risk faced by the poor, Rahman and Hossain (1995) conveniently categorized the different types of risks as structural, emergency and lifecycle risks. Structural risks are often long-term or permanent changes brought by government policies of macroeconomic proportion, which can directly impact those at the lower levels of the income chain. Life cycle risks are more predictable and are usually correlated to a person's age and their socio cultural environment. These kinds of risks can be anticipated and makes planning for and managing them more feasible (Wright et al. 1999).

The third type is classified as emergency or crisis risks, which are sudden and unexpected shocks or events. These risks disrupt the normal household routine, resulting in households reallocating a certain amount of income, which was to have been used for other purposes. Crisis risks can be sudden death or illness of a family member, accidents, sudden loss of property due to fire, flood, drought, frosts, storms, pest etc. Such risks leave households with the need for large amount of

cash in a very short time. In the absence of any insurance schemes, they must rely on their savings or family and friends to acquire the needed amount of cash.

The poor are vulnerable to the above-mentioned risks and may be too weak to confront them. In this context, the definitions of vulnerability arises from two dimensions: its *sensitivity* which is “the magnitude of a system response to an external event” and its *resilience* i.e. “the ease and rapidity of a system recovery from stress” (Blaikie and Brookfield, 1987: 19). Vulnerability, as defined by Cohen (1996: 4), is “the ability to deal with risks” or “the ability to cope with the consequences of risk”. In explaining the relationship of vulnerability with poverty, Moser (1998: 26) states that, “Because poverty measures are generally fixed in time, poverty is essentially a static concept. By contrast vulnerability is more dynamic and better captures changes and processes as people move in and out of poverty”¹

These vulnerabilities can be physical/material, social/organizational and motivational / attitudinal in nature. “The lower the level of household income and asset, and the fewer the mechanisms a household has for coping with risks; the greater the vulnerability of the households” (Dunn et al: 1996:6).



In this mini-thesis, the term vulnerability will be used to adequately describe the predicaments and uncertainties that poor people face and their attitude and feelings towards these risks.

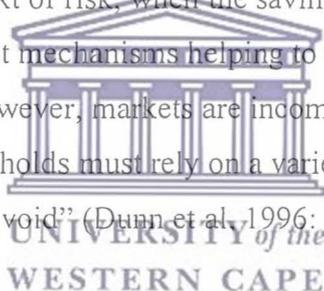
2.2 Risk Coping Strategies

Poor people have, to a certain level, ways to protect themselves from risks and reduce their vulnerabilities. The Household Economic Portfolio model developed by Chen and Dunn in 1996 better explains the complexity and dynamism of a household entity. This model comprises three interrelated activities. Firstly, it is a set of human, physical and financial resources available for use by households in a given period of time. Secondly, it refers to household activities that are a set of consumption production and investment activities that the members of a household

¹ It is important to point out that although poor are among the most vulnerable, not all vulnerable people are poor.

undertake in a given period of time. These activities are interlinked resulting in a chain reaction if one of these factors is affected for any reason whatsoever. The portfolio system, therefore, is “the process which households rearrange overtime their mix of resources labor and activities to cope with changing economic and social objectives or contingencies” (Chen & Dunn, 1996:26). It is a system whereby different strategies are used in adjusting to changing requirements in production, income, securing power or status. This leads to the third activity of Household Economic Portfolio, which is the circular flow of interaction between household resources and household activities.

These household decisions are shaped by risk attitudes of members of household and by risky environment. In each period, a household make decisions on the activities it is going to participate based on the available household resources. This will result in an inflow of income, increased asset or human capital. But the risky environment in which households operate, ranging from the natural disaster to the imperfect and incomplete market, affects this circular mechanism. For example in the context of risk, when the saving and insurance market function perfectly, households will have market mechanisms helping to ensure that shocks to income do not create shocks to consumption. However, markets are incomplete, production and consumption is interlinked, and households must rely on a variety of “non-market relations and risk management strategies to fill this void” (Dunn et al, 1996: 5).



This will force a household to take the riskiness of an outcome into account when making its household decisions. According to the model this depends, among several factors, on “the risk attitudes of the household and the availability of alternative management strategies and the degree to which the household would choose a smaller but sure outcome over a larger but uncertain outcome reflects the household level of risk aversion” (Chen & Dunn, 1996:19).

The Household Economic Portfolio model, therefore, is an appropriate unit of analysis because it takes a holistic approach to the problem and addresses the issue of fungibility. Fungibility, of course, is the use of resources on non-enterprise, non-profitable expenditures (AIMS, 2001). Although these resources are used for non-productive and consumption purposes, they inherently contribute to the increased welfare of households, leading to better productivity. Therefore, the

existence of fungibility is taken as given and instead, the focus is made on the holistic approach to assess the effect of savings on households.

There are basically two strategies used to cope with risks: *Precautionary/ risk reduction strategies* and *response /loss management strategies*, referring to the *ex-ante* and *ex-post* decisions taken by households respectively.

2.2.1 Precautionary/ risk reduction strategies

These strategies are also known as income-smoothing strategies because they are helping smooth the flow of income to a household (Dunn et al, 1996). According to Sebstad and Cohen (2000) and Chen & et al (1991), the precautionary strategies used by households help to increase their income and broaden their asset base, to diversify their sources of income and establish insurance mechanisms (which can be as basic as obligation among family members to other social networks such as self help fund. E.g. Munno Mukabi self help fund in Uganda).

2.2.2 Response /loss management strategies

The loss management strategies, also called consumption strategies may constitute three stages (Dunn et al, 1996: ix):



Stage one strategies use insurance and reversible mechanisms such as increased labor sales, sale of jewelry, temporary migration for employment, reduced consumption and liquidation of asset to deal with income loss. *Stage two* strategies involve the disposal of productive assets like houses and farming equipment, which could threaten the survival of households reducing them to the lower level of poverty, which can be even harder to get out from. *Stage three* signals the complete destitution of households resulting in desperate measures such as reliance on charity; break up of the households and distress migration.

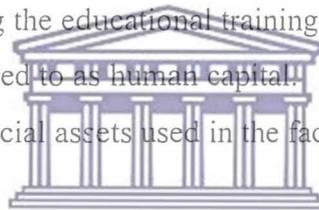
In using these different risk-coping strategies, households increase their assets or resources base and thereby reduce their vulnerability. Moser (1998:9) shows how asset ownership is closely

linked to vulnerability by explaining that “the means of resistance are the assets and entitlements that households or communities can mobilize and manage in the face of hardship”.

Assets can serve as stores of wealth for future periods, improve quality of life or raise enterprise productivity (AIMS, 2001). Moreover assets are better indicators of economic welfare because they are stable overtime when compared with income or expenditure (Barnes, 1996).

Poor people can accumulate asset overtime in the form of (Wright et al, 1999):

- **Financial** assets: - this could be done not only through diversification of income but also through loans and saving ranging from the traditional informal saving associations to the formal service offered by Microfinance institutions.
- **Physical** assets: - refers to the use of credits or loans and other sources of income to increase the physical component of their asset like house or land.
- **Human** asset: - is augmenting the educational training, skills, health and many other human qualities that are referred to as human capital.
- **Social** assets: - the two key social assets used in the face of crisis are friends and relatives.



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These assets are used to protect against risk and vulnerability.

Alderman (1996:344) noted that the variability and uncertainties of an income would influence household's propensity to save. It is clearly evident, therefore, the important role that microfinance institutions play by providing saving services to the poor. These institutions can augment the asset base of poor people by insuring a safe heaven for their savings, to be used not only for emergency purposes but also to build their asset base for the future. Savings could provide a lasting solution to future sudden and unexpected emergencies and crisis.

2.3 Saving Mechanisms

The next two sections will review the literature behind the formal and informal saving schemes employed by poor people all over the world.

2.3.1 Informal Saving Mechanism

In spite of popular thinking, empirical researches have shown that poor people can save, albeit in small amount (Rutherford, 1999). The traditional kinship network and revolving and credit associations witnessed in many African traditional societies are proof that poor people are indeed bankable and reflect the risk coping behavior of households.

There are myriad of informal saving mechanisms used by poor people: Rotating saving and credit associations, door-to-door deposit collectors, annual saving clubs are but a few examples (Zeller and Sharma, 2000). These kinds of risk pooling activities could be formed within communities or ethnic groups or could be organized along gender lines. In addition, formation of groups could attract people within the same income group.



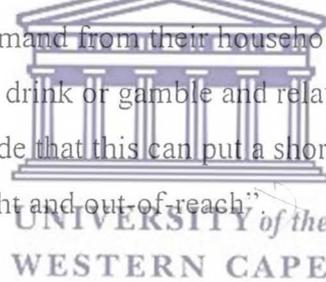
The common informal saving schemes are briefly explained below²: -

- a. **Rotating saving and credit associations:** (ROSCA's hereafter) are very popular forms of saving found everywhere in rural as well as urban areas. Members, usually reaching up to 100 people, contribute a certain amount of money to a common pool, which is then redistributed back to members. Transaction costs are low because these associations are formed among people who know and trust each other and who already meet regularly or live or work close to each other. There is a pressure to save because failure to do so would reduce the pool for others. Above all, these ROSCA's operate as an important risk management tool because they can offer insurance mechanism against uncertainties and shocks (Bastelr 2000:7). On the downside, the pooled saving are exposed to robbery or might tempt a treasurer to embezzle (Vondelack and Scheiner 2001:7).

² For detailed and in depth discussion on informal saving mechanisms popular in South Africa, refer to Bähre (1999)

b. **Door-to-door collectors:** are people who make a living by collecting small amount savings from poor people and store them for safekeeping. Rutherford (1999), in his informative essay “The poor and Their Money”, discloses how poor people are so desperate to find a safe place to store their hard earned money that they actually pay these deposit collectors to do that task. These collectors are generally considered to have good reputations as ‘safe hands’ and known to be trustworthy. But this kind of saving is risky because the collectors could run away with the savings or could be exposed to robberies or accidents.

c. **Cash at Home:** This is the classic ‘saving under the mattress’ case. The cash is readily available and can be easily withdrawn in cases of emergency. Unfortunately, it has obvious disadvantages. It is not safe. It can be stolen very easily and because it is not insured, recovery is very unlikely. Vonderlack and Schreiner (2001:6), on explaining the predicament that women savers in particular face at home, point out that “to maintain saving they must resist the demand from their households, from children who need cloths, husbands who want to drink or gamble and relatives and neighbors who want loans or gift” and they conclude that this can put a short term pressure which can be lessened if “cash is out-of-sight and out-of-reach.”



d. **In kind storage:** this involves saving in the form of physical asset, be it animals, household utensils or jewelry. In case of contingencies, these physical assets can be transformed into cash relatively easy. On the other hand, physical assets are notoriously unsafe, open to robbery, fire or simple depreciation decreasing their value.

As seen from above, informal saving mechanisms have some huge drawbacks. This is where microfinance comes into the picture. Microfinance institutions through the saving service they offer can help the poor to top up their savings and accelerate their asset accumulation. The focus of this research is on the saving schemes these institutions offer and how this can help the poor in their risk-coping strategies.

2.3.2 Formal Saving Mechanism

Microfinance, by definition, is directed at those who have no access to financial services through the formal market due to their poor socio-economic status and it comprises mainly micro credit, micro saving and in some case micro insurance. Some institutions offer one or two of the services at the same time. The latter two have been described as the forgotten parts of microfinance because so much emphasis was made on offering micro credit in order to insure profitability of the institutions. Microfinance and micro credit are sometimes wrongly used as synonymous. Micro credit is very important but by itself is not adequate enough to really make a difference. Zeller and Sharma (2000:1) note that the recent shift from micro credit to micro finance “ reflects the acknowledgment that saving services and not just loans may help to improve the well being of the poor”.

Reviewing the vast literature on microfinance discloses the different theories that have emerged and the huge debate on ‘credit first versus saving first’ microfinance strategies (Dr. Bont-Ankomol, 2000). Graham (1995:23) has argued that even though microfinance facilities using the saving first approach grow so much slower than those using credit first approach, “the former ensures that lending depend on saving and lending begins with savings”.



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Dr. Bont-Ankomol (2000) believes that the saving first approach can be costly and the need to manage several small deposit accounts can lead to slower institutional growth. Quattara et al (1993), however, argue that in areas where formal financial saving services were largely absent, as in the case of many rural areas, saving first strategies are more likely to prevail because of the strong demand for saving. Buckley (1997:1085) warns those microfinance programs that stress on the credit first only approach are “ likely to be missing opportunities to assist the many poor people who may wish to save but do not necessarily wish to borrow”. Both approaches have their own advantages and disadvantages and should be chosen according to the particular environment in which microfinance institutions operate. Seibel (2001:3) advises that microfinance institutions should use the rate of return as a basic criterion. According to him, ‘saving first’ approach is more appropriate in low return activities while a credit first approach is for high return activities.

At this point one might ask why there is high demand for saving and what the advantages formal saving mechanisms have to informal ones. Below are but a few advantages:

- a. Formal saving mechanisms can offer higher interest rates compared to all other informal forms of saving, providing savers with high rates of return. Except for some big annual saving clubs, most of the informal saving schemes do not pay out interests. In some cases, members even earn a negative return, as seen in the case of deposit collectors. In contrast, in many formal saving schemes clients are awarded for saving by earning a positive interest rate.
- b. Formal saving mechanisms can provide greater safety to savings not only because they have better security but also because the savings are insured against losses.
- c. It provides greater accessibility to funds compared to the informal saving mechanisms.
- d. Greater anonymity means that clients could use their savings as they see fit, without anyone influencing their decisions on how to spend their money.

2.4 Measuring Saving



The previous sections highlighted the importance of saving as one of the risk coping strategies employed by poor people all over the world. This section will deal with the theoretical framework in order to prove the hypothesis which is “microfinance institutions, through their saving services, could help poor people in their risk coping strategy by accelerating their asset accumulation”. This would be accomplished by measuring saving. But it is important to define saving in the context of this mini- thesis.

Sherraden et al (2000) defined saving as follows: “According to conventional definition, saving occurs when an individual forgoes current consumption in order to have greater consumption in the future. This saving refers to a flow of economic resources”. Thus saving means the movement of resources over time while dissaving is the consumption of these resources. If, in a long time frame, saving exceeds dissaving then the result is asset accumulation. This is the correlation between saving and asset accumulation. It emphasizes that saving is important because it indicates that individuals are able and willing to postpone consumption, even if assets

are quickly depleted. Similarly, asset accumulations are important because stocks of economic resources enable individuals to cope with emergencies (Sherredan et al, 2000:35).

2.4.1 Stages of Financial Savings

Measuring saving involves more than just adding the total amount of savings in the accounts. It is much broader. Schreiner (2001) divides financial saving into three stages. Those are:

- a. "Putting in" which refers to the depositing of cash into saving account.
- b. "Keeping in" refers to maintaining balance. Schreiner (2000:4) explains that this is not always recognized as saving but in fact maintaining balance (failure to consume asset) does move resources over time.
- c. "Taking out," means dissaving or making withdrawals³.

To measure the savings in the Mathabatha village bank for the purpose of this research, the following variables were used.

- Gross Deposit: the total deposit
- Withdrawals: total withdrawals
- Participant accumulation: is defined as all deposits minus withdrawal
- Rand –Month Saved
- Deposit frequency



Schreiner (2001) and Sherredan et al (2000) used the above variables to try to measure the savings in the Individual Development Accounts among the poorest people in the United States. They found a positive saving income signaling that these saving schemes have indeed helped.

All calculations and results will be explained in chapter four.

³ A withdrawal does not necessarily mean dissaving because money may be saved in another form.

Chapter Three

The Villages of Ga Mathabatha

3.1 Community Profile⁴

3.1.1 Geographical Location

The villages of Ga Mathabatha are located among the Strydpoort Mountains, approximately 100km outside Polokwani, in the Limpopo Province of South Africa. Spectacular mountains and numerous rivers characterize the region. The Olifants River, found only 5km from the villages, provides valuable source of fresh water and fish to the people of Ga Mathabatha.

In addition, the area is rich in natural resources and in particular minerals such as platinum and chromium. The region falls within a summer rainfall area, experiencing high summer temperatures, which together with the local rivers make the area highly suitable for crops such as sugarcane, citrus fruit and certain vegetables. However, the low amount of rainfall in the past years has drastically drained these essential resources.



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3.1.2 People and Politics

There are eight sub villages under the Mathabatha village district with a total population of 17,000. The people of Mathabatha are mainly Bapedi and the main language spoken is Spedi. The cultural traditions of the Bapedi people are still very much the norm and form an essential part of their beliefs and daily social practices.

The eight villages are named Ga-Makgoba, Gigi, Lekgwareng, Madikelng, Mphaaneng, Shushumela, Bodutlolo and Success. All these villages fall under one traditional leader, Chief

⁴ Due to the lack of any official documents on the villages, references couldn't be presented. All the information in this chapter was gained through interviews done to the prominent people in the Mathabatha Villages.

Mathabatha, who is also recognized by the Provincial Government as the highest district officer in the Mathabatha community. Representatives from each sub villages called 'Indunas' comprise the Tribal Council. The Council is responsible for making community decisions in consultation with the Chief. The government is also represented through the local Provincial Representative (PR) who is responsible for implementing government decisions and works in consultation with the traditional Chief and Tribal Council.

3.1.3 Economy

The Mathabatha community is situated in the poorest province of South Africa, with approximately 70% of its population being unemployed. Poverty is very evident and visible in the community. The primary source of income for the inhabitants of the area is from the commercial mines where 30% of the men are employed. The mines, which are rich in platinum and chromium, have for years created employment. But finding employment there is becoming increasingly difficult, as the mining authorities have started retrenching employees. About 20% of the mineworkers have been retrenched so far.



The other sources of employment found in the area are professionals such as teachers and nurses, and non-professionals like manual laborers and self-employed people who own small micro businesses. In addition, small-scale farmers practice subsistence farming by growing maize, millet and beans. There is also small-scale livestock farming with poultry, cattle, goats and donkeys. In addition, 40% of the private sector is unemployed due to the closing down of many private businesses for lack of economic incentives. As a result, people continuously migrate to other provinces, namely Gauteng, to look for work.

3.1.4 Infrastructure

There is a road running through the villages of Ga Mathabatha, halfway to Mafefe, tarred through to ease access to the local Andalusite mines. The road and the bridge that goes with it were finished in 1993. Electricity is brought and supplied by Eskom since 1994 and works on a prepaid basis. Water is also available through the Mvula Trust where pipes are built and tap

water is easily accessible. In the absence of Telecom landlines, cell phones are widely used by the community. There is one post office serving all villages under Mathabatha.

3.1.5 Educational Status

In total, there are eight primary schools, five higher schools, five preschools and crèches in the whole villages of Mathabatha. One of the primary schools and one crèche are English-medium schools. Although the schools are easily accessible, the extreme poverty witnessed in the area means that many families can't afford to pay schools fees, uniforms and books. This is contributing to the highest illiteracy rate found in the region. Almost 60% of the population is believed to be illiterate.

3.1.6 Health Facilities

There is only one clinic in Mathabatha, which is not even fully equipped. Five professional nurses, who look after patients and issue basic medicines, run the clinic. The clinic does not possess any overnight sleep accommodation for patients nor provides ambulance services. Any emergency has to be taken to the nearest hospital at Lebowakgomo, situated 70 Km away. However, there is also a mobile clinic that comes to the villages of Mathabatha once a week to see to the needs of the community. HIV/AIDS is spreading very rapidly in the villages although a systematic survey has not yet been conducted to ascertain the exact number of people who are infected. It is still a taboo to talk about the disease in the villages and people who die of AIDS are referred as 'bewitched' people.

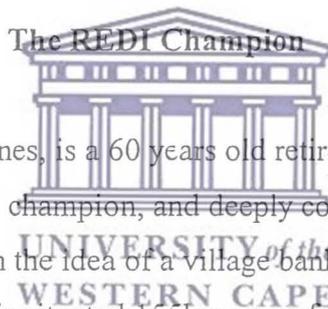
3.1.7 Social Services

Formal social services are not available in the villages. There is only one social worker for the whole of the eight villages and she comes only once in a fortnight. The community has to fend for itself in the absence of such services, which is how the Fanang Diatla Project came to be. The name, which literally means "Let Us Join Hands", is a self-help organization formed by a group of local women to address the issue of illiteracy, unemployment, HIV/AIDS and poverty. Since its foundation 14 years ago, the project has been doing exceptional work in developing local

social services. These women have initiated many sub projects such as home based care to the bed ridden, disabled and home bound patients, offering physical and emotional support. The project supports small businesses and entrepreneurship, and has opened income generating projects such as shoe making, baking and juice making, just to name a few. All the women have been working on voluntary basis since 1985.

3.1.8 Financial Institution

Besides the Mathabatha Village bank (the focus of this research), there are no other banking facilities available in the community. The nearest bank and the post office, situated in the town Lebowakgomo, are 70km and 40km away respectively. Mathabatha village bank was established to answer the need for a financial service. In order to fully understand how the Village Bank came into being, it is important to emphasize the driving force behind this bank: the Fanang Diatla Project. It's the women in this project who started the village bank.



The founder of this project, Miss Agnes, is a 60 years old retired midwife. She is the leader of the Fanang Diatla Project and REDI⁵ champion, and deeply concerned about rural development. She explained that they came up with the idea of a village bank when visiting a very successful village bank of Kgautswane, which is situated 155km away from Mathabatha village. She realized how important a village bank could be to her community and on coming back from her visit, mobilized the women in her project. Together they contacted Chief Mathabatha and the Tribal Council. On receiving permission, the women went all over Mathabatha community to convince the skeptical villagers to try to save in the bank. "It was a long process," Agnes remembers, "but a worthy one!"

⁵ REDI, which stands for Rural Economic Development Initiative, is a program supported by Old Mutual Foundation to encourage community developers in their community endeavors.

And finally in June 2000 the village bank was officially opened and was given the name of **Mathabatha Village Financial Service Co-operative**. The Financial Services Association (FSA) helps communities all over South Africa to set up their own village banks. The FSA assisted the establishment of the Village Bank. The FSA provided initial training on basic management and business administrations to members of the communities chosen to work in the Bank. It also donated some stationery and salary of the administrator for the first year. In addition, FSA monitors the Bank by reviewing the monthly reports and by performing an on – site visit every two months.

3.2 Mathabatha Village Bank

The Mathabatha village bank was opened in May 2000 with the mission of providing a financial service center to the local community. According to the Business Plan of the Village Bank (2000: 3), “ the mission of this financial service center is to create a financial institution that is responsive to the special needs of the village residents.... to empower the local community by facilitating job creation and career opportunities, and to encourage local entrepreneurship”.

The bank has seven board members: the chairperson, vice chairperson, secretary and four other members that deal with internal audit, credit and investment, marketing and security. In addition, there is one administrator who runs the bank on a daily basis. The members are all volunteers from the local community.



The village bank offers two financial products, which are the Savings and Funeral Benefit Schemes.

3.2.1 Saving Service

Saving is the main service offered by the village bank. Potential savers have to buy shares on becoming new members of the bank. Keeping the level of poverty in mind, the shares are available for as little as R10. These shares will be distributed as a dividend once the bank starts to show a profit. The dividends are to be calculated on a 12 months basis. According to the Bank rules “ a share gives a member [joint] ownership rights in the bank. Ownership entitles the

member to vote and receive dividends. Members use their votes to elect board members, change by-laws, set board meeting dates and determine policy” (Mathabatha Village Bank, 2000: 4).

Currently, clients do not receive any interests on their savings. The village bank at this moment is not in a position to calculate interests because it offers open accounts only. An Open account system is a short-term service account. The savings in this type of accounts are easily accessible and can be withdrawn at clients’ convenience. Three days notice is given to the bank if the amount to be drawn is more than R1000. There is R3 charge for any withdrawal up to R500. For larger amount of cash, there is a R6 service charge.

Despite of the absence of interest rates, people come to save in the bank because of its close proximity and the guaranteed safety of their hard earned cash. Table 1 indicates that 507 people comprising various categories saved in the bank by May 2002.

Table 1: Client statistics of the Village Bank, May 2002

Pensioners	30
School children	27
Fanang Diatla projects	8
Social clubs	28
Small businesses	9
Employed & unemployed individuals	405
Total	507

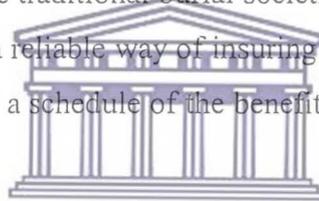
According to the administrator of the bank, almost 70 % of the clients are women. Women, the main targets of the village Bank, are encouraged to save in the Bank. The reason for this preference may stem from the fact that women, out of necessity, are the driving force of the Mathabatha community. With most of the village men away looking for work, it is up to the women to feed their families and insure the survival of their households. In addition, it is the women who are participating in the various community development programs, as amply demonstrated through the work being done by the Fanang Diatla Project. However, all members

of the community are eligible to save, no matter how old or young they are. Under aged children are required to provide birth certificate on becoming a member of the village bank.

The total amount of money saved at the village bank was R22, 799 by May 2002. The money is deposited in the name of the Mathabatha Village Bank in ABSA, which is one of the biggest commercial banks of South Africa. When the savings of the clients reach more than R5000.00, it is taken to the nearest ABSA branch in the town of Lebowakgomo, where it is deposited under the village bank's name in an interest earning account. The town of Lebowakgomo is situated 50Km away from the Mathabatha village.

3.2.2 Funeral Benefit Schemes

This is the latest product offered by the village bank. Its importance lies in the fact that funerals are very expensive and socially unavoidable rituals. Thus, villagers borrow money from friends or families or become members of the traditional burial societies. The funeral benefit scheme that is offered by the village bank is a reliable way of insuring against unexpected death in clients' households. Table 2 provides a schedule of the benefits payable under the Funeral Benefit Scheme.



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Table 2: Benefits payable under the Funeral Benefit Scheme

The following benefits are payable upon death	
Members and spouse	R5000
Children between 14-21	R3000
Children between 7-14	R2500
Children between 1-6	R1000
Children between 0-1	R500
Adults included in cover	R3000

The Funeral Benefit scheme is open to all members of the community. An initial membership fee of R20 is payable by all new members and an additional R25 is paid as premium every month.

The maximum entry age of principle member is 80 years. Membership covers a household totaling 9 members. Opening a saving account in the village bank is a prerequisite for becoming a member in the scheme. Hundred people have joined the funeral scheme by October 2002.

3.2.3 Funding

The village bank, as a community driven project, is owned and run by the community. However, it is still a long way from being financially sustainable and needs outside funding. Besides the initial funding provided by the Financial Services Associations, the Mathabatha Village Bank does not receive any funding. Currently, the village bank is negotiating with the Old Mutual Foundation to grant loans so that it can start providing credit service to the small businesses and emerging farmers in the community. The exact amount of money needed for this new venture is yet to be decided.

Plans to provide fixed deposits are also underway. A fixed deposit refers to a long –term investment whereby money is committed to an investment for a given period of time, (example 3 months, 6 months or 12 months), earning the clients interest rate.

3.2.4 Networking



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The Mathabatha Village Bank has a strong relationship with the Kgautswanie Village Bank, which is situated 155km away from Mathabatha villages. Members of the two village banks visit each other on a regular basis, sharing advises and valuable information. Furthermore, they train each other on different aspects of village banking management. In addition, the members of the Mathabatha village bank are also helping communities in the nearby villages to set up their own village bank. They are involved in marketing the idea of village banking by going out to those communities and teaching them the advantages of community driven financial service center.

The bank is also formulating close relationship with ABSA and Old Mutual Insurance Company for further cooperation, not only in monetary terms but also in training and other supportive endeavors. In addition, members of the Village Bank have approached traditional informal financial institutions too. The different Rotating Saving and Credit Associations (ROSCA's) found in the villages have started to save in the Village Bank. The ROSCA's, which are called

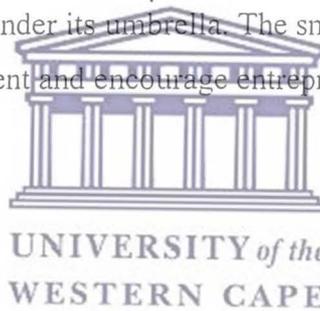
Mogodishano, in the local language, is a traditional saving scheme followed by groups ranging between 5-10. The amount of money they contribute differs from group to group. This kind of saving, which is especially popular amongst women, is the simplest form of ROSCA's in the villages.

There are also more complex ROSCA's like the different social clubs, which have bigger number of members (50 and above). A total of 28 social clubs have opened an account in the village bank. Burial societies like the 'Sehlabeneng Burial Society'; social clubs like the 'Ekanganang Social Club' and the Football Club Association have started to save in the Bank. Even though the purpose of these societies differ, all of them operate in the same fashion, through members contributing some amount of money to be used according to the agreement made when these groups were first established.

The strongest relationship the bank has is with the Fanang Diatla project. The project runs several income-generating projects, under its umbrella. The small businesses are established to generate income, reduce unemployment and encourage entrepreneurs.

The projects are as follows:

- Shoe - making and repairs
- Baking and Catering
- Juice making Business
- Welding Business



The profits earned from the above projects are saved in the village bank. Each project has an account under its own name. The project receives funding from the Nelson Mandela Children's Fund. The Fund recently donated almost half a million Rand to the Fanang Diatla Project. The money is going to be deposited in the Village Bank so that the projects can all have easy access to the money and at the same time boosting the local district economy.

3.2.5 Village Bank and the Community

The Mathabatha Village Bank is a community driven project, owned and run by the community of Mathabatha. As such, it is closely linked to the activities of the local people and it mobilizes

local knowledge and resources. All recourses, though meager, are used to support this village bank making it a very successful pilot program.

The Fanang Diatla project is one of the main stay of the Village Bank. In addition to mobilizing and advising the villagers to support and save in the Village Bank, the project through the various sub projects uses the bank as a safe deposit of income generated by the projects and any other donation that might be received. The main principle of the Village Bank is for money earned by the community to stay within the community. Similarly outside donations and investments are for the benefit of the community as a whole and therefore must be saved in the village bank. In addition, income earned through the development program in the Mathabatha community is going to be deposited in the Bank.

Mathabatha Village Bank does not offer any credit facilities because it has not reached the position to finance these loans. In order to meet the demand for loans in the area, the village bank is negotiating with Old Mutual Insurance Company for a loan to start a credit program to encourage local businessmen and entrepreneurs. This program will also benefit the Village Bank because 5% of the interest charged by Old Mutual will go to the Village Bank. In the words of Agnes Qwabe, one of the founders of the village bank, "People don't want to go to the loan sharks [to get a loan]... So we want to do this in a dignified and commercial way".



Chapter Four

Data Analysis and Discussion

This chapter focuses on the results accrued through the field study done in the Mathabatha Village in the Limpopo province. The research was divided into two different and yet interlinked issues relevant to this mini-thesis. The first issue focuses on the people of Mathabatha, their social structure and the intricate yet simple forms of saving used by the community. It explores the risks they face and investigates the traditional insurance mechanism they use to avoid those risks. The second issue focuses on finding out how the saving service offered by the Mathabatha Village bank has an impact in mitigating the risks they face. This is done by measuring the savings accumulated by members of the Village Bank and tries to establish the saving pattern to determine to what extent their saving is contributing to their asset accumulation.

A total of twenty-three people were interviewed. Twenty are clients in the Mathabatha Village Bank and three are non-clients. This is done in order to compare and contrast the impact the saving service had on their risk-coping mechanism. Individual interviews were conducted using questionnaires. In addition, focus group discussions were used with a randomly selected group of twenty. The following sections present the results from those interviews and discussions.

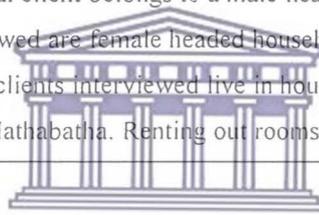


4.1 The Nature of risks confronting clients of the Village Bank

Structural risks are long term or permanent changes in the national or international economy and policies and as such, citizens are affected by all structural changes witnessed in the past decades. Being situated in rural areas means that Mathabatha village had not received that much attention from the provincial government of the Limpopo province. Possibly the biggest structural risk that the communities have faced so far is the retrenchment of workers from the nearest mines. This has resulted in the loss of a stable income source forcing the women to look for incoming earning opportunities.

Table 3: Profile of Mathabatha Village Bank Clients

Characteristics	Description
Gender	Although there are no gender restrictions, almost 70-80% of the clients are women
Marital status	A typical client is married. 15 out of the 20 interviewed were married, 2 were widowed and one was divorced and 2 were single.
Age Distribution	There is no age restriction. But a typical client is between the age of 25 to 50
Educational level	The bank encompasses people from all levels of education, the highest being the teachers & the nurses. The rest have the basic skills of reading and writing
Average size of households	The average size of the clients is 7, which usually includes the children as well as extended dependent family members.
School Attendance	All clients have manage to educate their children up to high school
Household economic headship	A typical client belongs to a male-headed household. Only 2 from the interviewed are female headed households (and these are widows)
Types of Dwelling	All the clients interviewed live in houses built on lands granted to them by Chief Mathabatha. Renting out rooms is not common among the community.



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When it comes to crisis or emergency risks, the responses were long and varied. School fees are one of the main risks the community faces. Although there are enough junior and high schools in the area, it can sometimes be difficult for parents to pay school fees. During the interview, 10 of the respondents explained that at one time or another they had trouble paying school fees. One respondent in particular explained how she went and begged the school principle to allow her children to stay on until she can raise enough money to pay him. School fees are expensive. According to one mother, it costs about R700 per child to enroll. This includes school fees, uniforms and other miscellaneous expenses.

Tertiary education is not an easily achievable goal to the communities of Mathabatha. The colleges are situated in the big towns such as Polokwani, which is about 100 km away from the village. College fees topped up with high living expenses cost a lot of money, which is

unaffordable to parents. From the focus group discussion and observation one can easily discern that even for the matriculants with high points, information concerning tertiary education and available grants are not easily accessible.

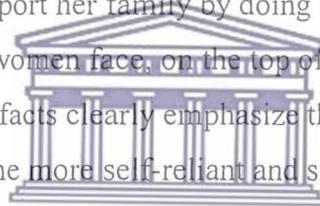
When it comes to the health care system, it is by far very inadequate. There is only one clinic available for the whole Mathabatha villages manned by five nurses and no doctors at all. The nurses can only attend to minor cases. Patients with serious cases are referred to the nearest big hospital, which is found 50km away in Lebōwagomo. For emergencies, the respondent explained, there are two choices: either to call for ambulance from the nearest town, which could take a while or go to the hospital by themselves. Most of the population of Mathabatha cannot afford to own a car. Therefore, in cases of emergency they have to ask a favor or pay those few who do own vehicles to take them to the hospital.

Medical insurance is almost unknown in the villages. Only two of the interviewed have medical aid. But these two are professional teachers and take advantage of the medical aid offered by the educational authorities. For the rest of the non-professional population, it is simply expensive. One respondent admits that Old Mutual Insurance Company came to offer insurance but the package was still very expensive for them. The premium they have to pay was unaffordable. Thus many people did not sign in. During the individual interview and focus group discussion, interviewees were surprised at the mere idea of having medical insurance. In this modern South Africa where medical insurance is seen as a basic necessity for survival, here in the villages of Mathabatha it is simply a luxury.

According to Rahman and Hossain (1995) crisis are sudden unexpected shocks to a household that disrupts its ability to generate income and forces it to allow a certain portion of that income to an area not included in its established economic portfolio. The focus group discussions reveal a long list of crisis and emergencies. Death and illness were frequently mentioned. The death of an income earner in particular can have a drastic impact on the welfare of a whole household. Three of the women interviewed explained how hard life has become after the sudden death of their husbands. They had no medical or life insurance to fall back to. With children to feed and support, they had to resort to selling fruits and vegetables just to earn some money.

As mentioned in the previous chapter, the HIV/AIDS endemic is leaving behind many victims and thereby causing devastation in many households. Because it still is a taboo subject in the villages, many of the respondents predictably were not willing to talk about it. But after enlisting the help of Mrs. Qwabe (an ex mid wife, now a community developer), it became clear how wide spread the disease has become. Although there hasn't been any official statistics on the exact number of people who are infected by HIV, she told stories of many households consisting of single parents whose spouses have passed away from AIDS and in some cases child headed households whose parents fell victims to the epidemic. Such cases render enormous economic and social costs leaving the people helpless and vulnerable.

In addition, the women respondents listed domestic violence as one of the biggest risks they face daily. Domestic violence is usually related to alcoholism. One of the respondents, for example, explained that her husband is a chronic alcoholic who spends all his meager earnings on alcoholic drinks. The lady had to support her family by doing minor patchwork for the village people. These additional risks these women face, on the top of other risks they share with the men, render them vulnerable. These facts clearly emphasize the importance of financial services targeting women, to help them become more self-reliant and strong nurturer of their households.



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4.2 Ways clients confront these risks

Poor people, through different precautionary and risk reduction strategies, struggle to protect themselves against such risks. Structural risks are hard to confront and beyond their control. In contrast, emergency and life cycle risks are prominent to the people and to some extent, could be avoided. In the absence of any kind of insurance, they have to rely on themselves to protect against risks.

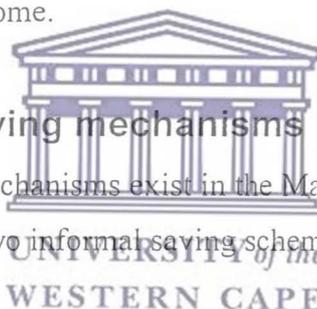
One obvious precautionary strategy is trying to increase in a sustainable manner the source of income earned and thus contributing to asset accumulation. In the villages, it is common to participate in different income earning opportunities even if the pay is small. The women

interviewed for example have dipped their hands into different activities such as selling fruits like tomatoes and oranges or chickens feet (apparently a delicacy) and try their hands in stitching. Almost all the women raise chickens in their houses, not for commercial purposes but to feed their family. One woman explained that for her chickens are her insurance in that she could sell them if some emergency arises for which fast cash is needed. Meanwhile, she takes care of them really good, making sure they are healthy and properly fed. Almost all clients have also small gardens in their houses where they grow vegetables for family consumption.

A few women actually own businesses in Mathabatha. One interviewee who is a tailor decided to open up a business after her husband was retrenched from the mines. Another opened a small retail shop. Similarly the men also try to get involved in different income earning opportunities. Although they are not as versatile as the women, all the men interviewed were concentrating full time on the small businesses they are operating. One has small hair salon and the rest have small general shops usually called 'Spaza'. In addition, they perform mundane jobs such as fixing fences to supplement their income.

4.3 Informal and formal saving mechanisms

A wide variety of informal saving mechanisms exist in the Mathabatha villages. All clients interviewed are members of one or two informal saving schemes.



4.3.1. Burial societies

The burial societies consist of a large number of people reaching more than 100; members usually belonging to a same church. These societies are set up for the sole purpose of insuring against sudden death of their members or their families. Interviews and discussions with the community reveal that funerals are very expensive. It can cost a family up to R5000 to pay caretakers and the funeral service, which is usually beyond the capacity of the poor villagers. But this does not stop them from holding big funerals, simply because it is a matter of great traditional pride to bury the beloved in the greatest honor possible.

The amount of money the members contribute varies among the different burial societies but mostly it ranges from R5 to R20 per month and in some cases another R5 for each person in members' households. Therefore, when a member or someone from a member's family dies the society buys a coffin and pays for funeral parlor and in some cases they even provide a small amount of money to the family of the deceased. Although this is a very important way of saving for unexpected crisis, it has a huge drawback: the money saved can be used for one purpose and one purpose only, in death cases. Members can't use the money for any other risks they face nor can they borrow the money.

4.3.2 Wedding Societies

Although wedding societies are not as huge and popular as the burial societies, they are still considered amongst the Mathabatha community. Weddings like funerals are expensive affairs involving lots of people and complex logistics. Wedding societies have members ranging from 20 up to 100. The amounts of money members contribute ranges between 5 and 100. Similar to the burial societies, members can use the accumulated money for wedding purpose only.



4.3.3 Rotating saving and credit associations

Besides the above two there are a lot of small ROSCA's called Mogadishanos. These Mogadishanos are mostly popular among women and consist of small groups with 3 to 15 members. It is the simplest way of saving money. The groups consist of women who know and trust each other. They contribute a certain amount of money to a common pool, the amount of which is decided when groups are first formulated. The main advantage of being a member of these Mogadishnos is that members can use the money for any purpose they want to. They can borrow money for emergencies or as many interviewees pointed out, they arrange it in a way that they would take the money in time to pay school fees for their children.

Thus in the absence of any formal institution, it is a safe way of saving money. Instead of spending their meager income on various miscellaneous expenditures, they could save it to accumulate enough money to invest in something worthwhile.

Below, one Mogadishano was taken as an example to illustrate how such ROSCA's operate.

Hold One Another

Swaranang is one of the many Mogodishanos (ROSCA's) in the cluster villages. The name, which is given for a group of five, quite simply means 'hold one another'. Before the village bank was established, the women used to save their own share of the money by buying household utensils, mostly plates and cups. One of the members of the group, Portia, explained that 'you could never have too much plates or cups because it comes very handy in funerals and weddings'. They still do that but they have started to save money regularly in the village bank in the name of 'Swaranang'. They are going to share the money in December so that they can pay their children's school fees.

Until the establishment of the Village Bank, there was not any kind of formal financial institution in the area. People had to travel long distances to the bigger cities at the risk of being mugged and robbed in order to deposit their money. Pensioners are the common victims.

Mathabatha Village Bank does not offer any credit facilities because it has not reached the position to finance these loans. The main sources of credit for most people of Mathabatha are mainly friends and families. The family structure follows the traditional African extended family system and thus reliance on family members for any predicament is common.

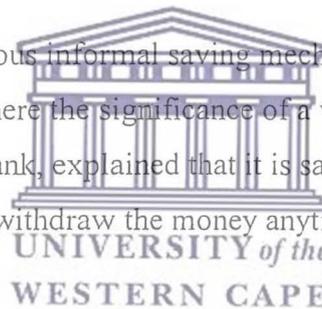
Surprisingly, money lending is an embarrassing subject to many of the local people and it is a practice that is frowned upon. Only one of the interviewed clients admitted he went to a moneylender, or 'Loan Sharks' as they are called. There are no moneylenders that are operating openly in the village. One of the interviewees logically explained the absence of moneylenders due to the poverty of the locals and the inability to pay the enormous interest rate that they charge. Moneylenders are especially prominent and active around the mining area where most of the men from the villages work.

Finally one must not forget the classic and most common way of saving. It involves hoarding cash at home or “Under the mattress”. For all the interviewed people, this is the first response they provided when the subject of saving came up. Here is one example.

Cash Under My Stone

The common and traditional way of saving in the Mathabatha village is to put a roll of cash in a plastic bag, stuff it into a tin can and then bury it deep in the ground. Usually a big stone is put upon it just to remind the owner where the cash is buried. One of the interviewees laughingly told the story of an old woman who forgot about the cash she buried under ground a long time ago. The cash was found accidentally during repairs done to her house. The roll of cash the old lady worked so hard to save was totally spoiled and out of use.

In spite of the existence of these various informal saving mechanisms, there is only so much the poor can borrow and save. This is where the significance of a village bank lies. The respondents, in describing the need for a village bank, explained that it is safe, simple to use, very close and most importantly, insured. They can withdraw the money anytime they want and they own part of the bank by buying shares.



4.4 Measuring Saving

This section will discuss the results achieved from measuring the financial savings of the clients in the Mathabatha Village Bank. Measuring saving involves three stages Scheiner (2001):

- a. ‘Putting in’: - refers to depositing of cash into a saving account
- b. ‘Keeping in’: - refers to maintaining balance. Schreiner (2000:4) explains that this is not always recognized as saving but in fact failure to consume asset, ‘keeping in’ savings, does move resources over time.
- c. ‘Taking out’: - means dissaving or making withdrawals.

In order to measure saving it is important to take into consideration the above three stages because each stage refers to a certain aspect of financial saving i.e. saving might be low in one stage and high on another. For example, savers with large deposits may have high savings in terms of “putting in”, but, if they make quick withdrawals, they may have low savings in the terms of “keeping in”. Likewise, savers with low deposits might nonetheless maintain balances for a long time. Finally, savers with high saving in terms of “putting in” and/ or “keeping in” might, if withdrawals are consumed rather than converted to other assets, have low saving in terms of “taking out” (Scheiner, 2001:5).

The following sections will take us through the calculation step by step. Please note that since the Village Bank does not yet offer interest on savings, none of the following calculations include it.

- a. **Gross Deposit:** refers to the “keeping in “ stage and account by saver i in month t and denoted as g_{it} . (From now on, the subscript i will be suppressed).

$$G_t = \sum_{j=1}^t g_j$$



G_t refers to cumulative deposit. UNIVERSITY of the WESTERN CAPE

- b. **Gross Withdrawals:** refers to “taking out stage” and are withdrawals by saver i in month t and denoted as W_{it} . (From now on, the subscript i will be suppressed).

$$W_t = \sum_{j=1}^t w_j$$

W_t indicated cumulative withdrawals.

- c. **Participant Accumulation:** Participation Accumulation p_t is gross deposit minus gross withdrawals:

$$p_t = G_t - W_t = \sum_{j=1}^t g_j - w_j$$

Accumulation depends on the length of participation. To control this, divide P_t by months to get participation accumulation per month.

$$P_t = p_t / t$$

The higher participation accumulation means the greater the accumulated asset.

Participation accumulation per month is the best summary measure of participant saving in the stages of “putting in” deposits and “taking out” withdrawal and show how fast resources accumulate (Schreiner 2001:11).

d. Rand-Months-Saved

Participation accumulation still ignores the keeping in stage and thus does not take into account the saving patten of the saver. Measuring the movement of resources through time requires a “flowified stock” such as the sum of Participant Accumulation P_t in all months, Rand- month-saved r_t :

$$r_t = \sum_{j=1}^t P_t,$$

$$= \sum_{j=1}^t \sum_{k=1}^j g_k - w_k$$



For example, let's suppose that two people join in at the village bank on January first. The first deposits R10 on the first day of each month for a year, and the second makes a single deposit of R120 on December 1. Neither makes any withdrawals. If participation accumulation is used to determine who saved more, then it means they both have p_t of R120 ($G_t - W_t$) and P_t per month will be R10. This is the same for both savers and does not tell who is saving more. But if Rand-month saved is used: the first person saved R780 Rand-months: 10 Rand months in the first month, R20 Rand-month in the second month, and so on. The second person saved 120 Rand-months, all in December. Thus Rand-month reveals that the first person saved more.

Schreiner (2001:11) explains, “Rand Months Saved distinguishes between the two save because it looks at both size and timing of deposits and withdrawals and thus accounts for ‘keeping in’”. The importance of this measurement, therefore, lies in the fact that it measures the amount of assets kept in by savers which is clearly have direct impact on

their ability to accelerate the asset accumulation process. Higher asset accumulation means better risk-coping ability, which eventually leads to, reduced economic vulnerability.

To take length of time of participation into account:

$$R_t = r_t/t$$

- e. **Deposit frequency (F_t):** refers to deposit consistency, which is considered very important on the assumption that consistent savers both become better savers and accumulate more. The function of $I(g_t)$ is unity if a gross deposit g_t is positive and zero if g_t zero.

$$F_t = \sum_{j=1}^t I(g_j) / t$$

Higher frequencies indicate greater consistency. This simple formula is useful if the aim is to find out if there is presence of deposit every month, not the size of the deposit.

Discussion of the results



Although the Village Bank has almost 500 clients, only 235 clients' saving accounts were looked at this research. This is done in order to exclude the accounts of different projects, social clubs and societies. Since it started operating in May 2000, about nine people on average open new saving accounts every month. The highest number of clients to join within one month is thirty, the lowest one being four.

Table 4 below, presents some of the simple and common statistical measures taken to find out some of the basic characteristics in the saving process. Participation accumulation P_t and deposit frequency F_t are calculated using the simple formulas stated above.

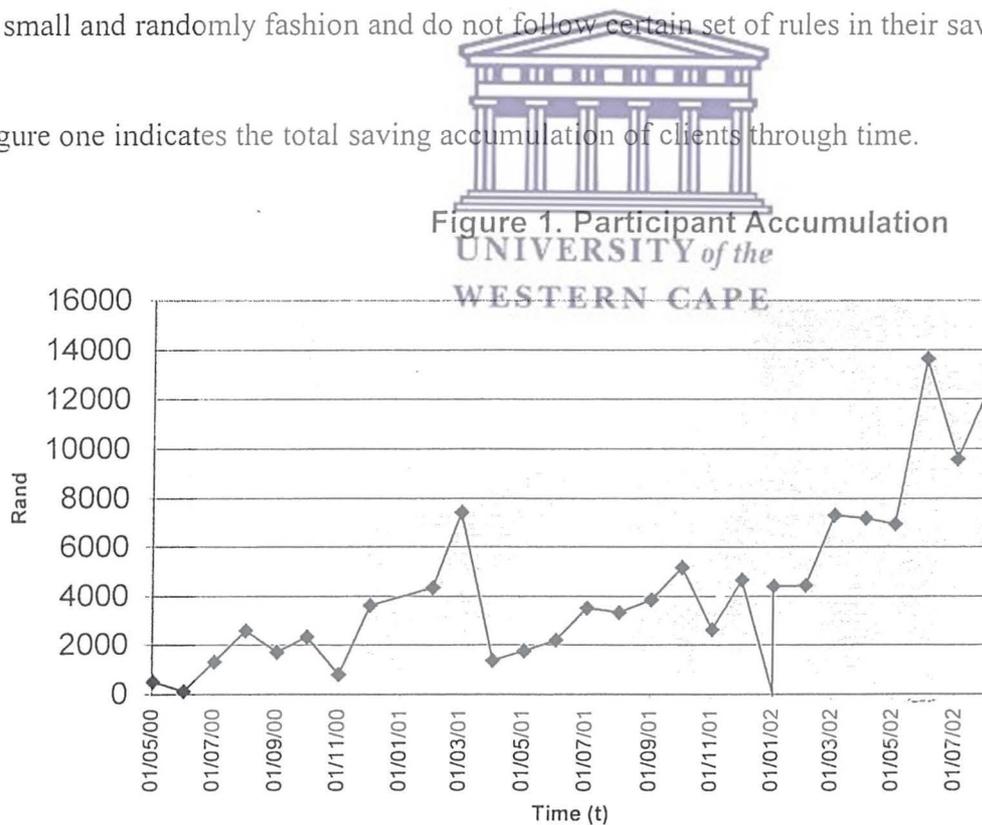
Table 4 : Some common statistical measures

Variable	Max	Min	Mean	Median	Std
Pt	4738	3	558.6373	335	694.47
Pt/t	1579.333	0.11	40.10	19.91071	109.9369
Ft/t	0.923077	0.0333	0.28575	0.25463	0.210718

In the above table, Pt/t is preferable as a measurement because it takes into account the length of participation, which Pt does not. This is why the values in Pt tend to be much higher and exaggerated. But still after taking the Pt/t, the standard deviation is 109.93 suggesting that savings can vary across participants, albeit in smaller amount compared to Pt.

As for the deposit frequency (F_t), it has a median of 0.25463 indicating that a typical participant makes a deposit 2.5 times every 12-month. This is considerably low and may show the lack of uniformity in saving behavior among clients. This can emphasize the fact that poor people save in small and randomly fashion and do not follow certain set of rules in their saving pattern.

Figure one indicates the total saving accumulation of clients through time.



As clearly marked, the line shows that total saving has been rising, if not steadily.

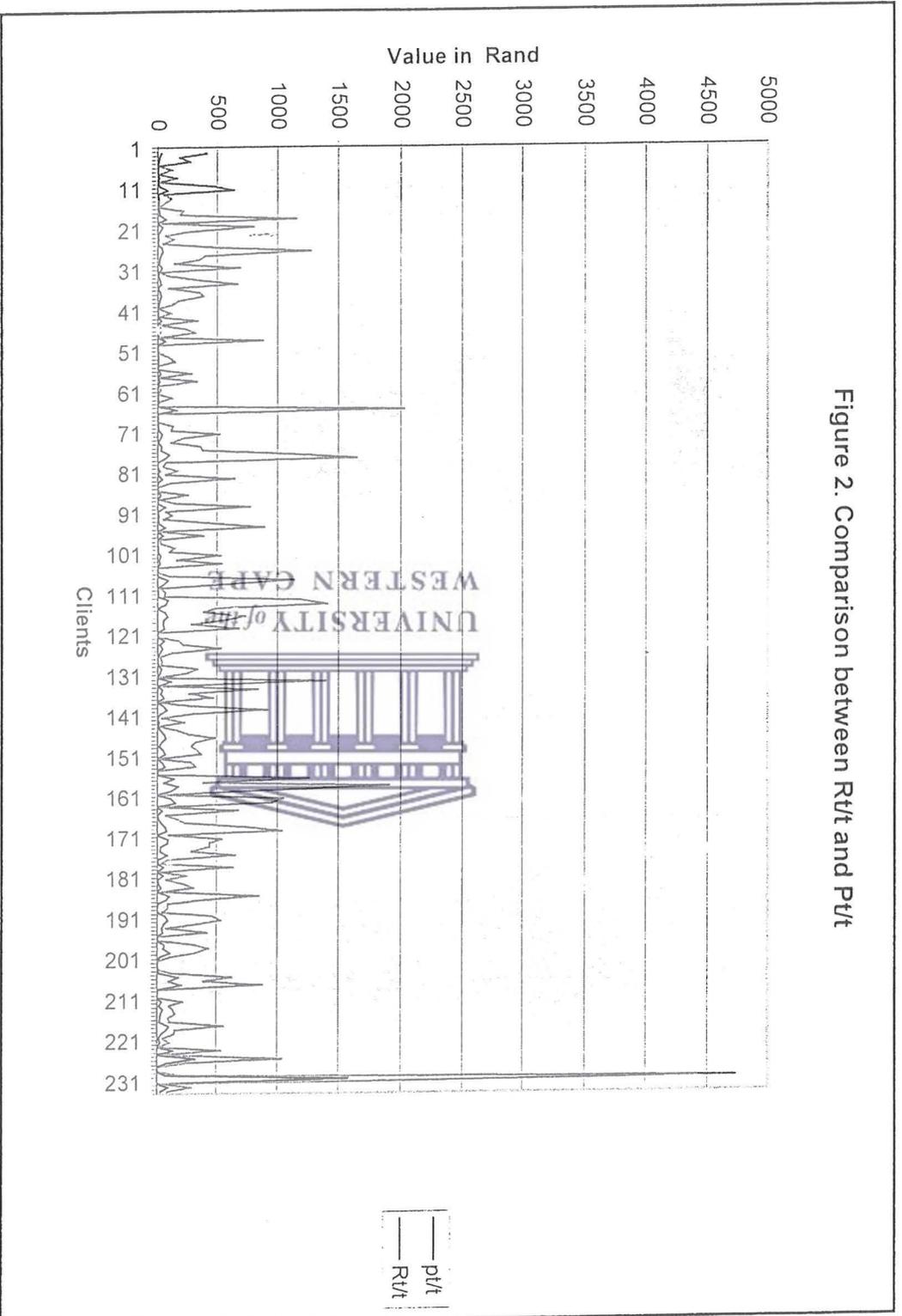
The fall in saving could be attributed to the seasonal obligations such as payment of school fees and uniforms in the beginning of the year. By October 2002, total participant accumulation has reached R19339.15. Every time the amount of savings reaches R5000, it is taken to the nearest ABSA branch situated 70km away from the village.

In order to fully understand the importance of the three stages of saving, it is useful to compare the Participant Accumulation and Rand-Month saved. Although both of them have the advantage of taking into consideration the length of participation, P_t , unlike R_t , ignores the 'keep in' stage. As explained in chapter one, the keeping in stage along the 'putting in' and the 'taking out' stage is important because 'failure to consume assets [keep in stage] does move resources through time' (Scheiner: 2001:4).

Figure 2, compares the value between Participant accumulation P_t/t and Rand Month saved R_t . It shows how the R_t line is above P_t/t line indicating that the increased values of R_t is due to the keep in stage. Rand-Months Saved is an important measurement because it can be used to explain the concept of asset ownership. This is what Sherraden (1990) calls the "asset effect" and depends on moving resources overtime. According to Scheiner (2001:15), " a measure of asset ownership is months in participation t , and a measure of the amount of asset " kept in" is Rand-Months Saved.



Figure 2. Comparison between R/t and P/t



Chapter Five

5. Conclusion and Recommendations

This section of the research basically interprets and summarizes the findings of from the field research. The findings in the previous chapter have given an insight to the kind of risks poor people face every day. All kinds of risks are present, be it structural, emergency or lifecycle. These risks are so interlinked it is sometimes hard to distinguish between them. For poor people every day is an emergency because it is a matter of survival. Death, illness, loss of income is frequently happening.

So how do they use assets to protect themselves against risk and vulnerability?

Amazingly, poor people are very resilient, perhaps due to the need to survive. They have household economic portfolios, albeit in its simplest form. They use these assets to protect themselves. Financial assets through saving are just but one way of protecting themselves. Clients have different ways of saving in order to accumulate assets and use it as a risk coping strategy. In the interviews and focus group discussions, savings were highlighted as a basic indicator of household security because they provide the cushion against which income shocks to the household may be absorbed.



Informal and formal saving mechanisms are used. The various informal saving mechanisms include saving money in the house, saving in kind and becoming a member of the various social clubs and saving societies. The existence of such informal saving mechanisms emphasizes two important concepts: First, it confirms yet again that poor people indeed save. Understandably the savings are done in very small amounts, which lead us to the second important point, that the presence of the informal saving societies indicates a brilliant way pooling resources together and helping each other in the presence of any crisis. One must not underestimate how imperative it is to develop social asset in this kind of environment. This survey shows that there are initiatives at the local level to pool local financial resources for the common goods. As witnessed among the Mogadishanos, members pool together money as well as other household items. There

are other variants of saving societies. The money that is saved is later used to invest in business or used for consumption purposes. These saving clubs not only save in cash but also pool goods and build up their asset bases.

The pooling of material resources is mostly practiced in the informal stockpiles or ROSCAs. In the example of a ROSCA (Swaranang) used as a case study, members pool kitchenware that is mostly used for social functions. They also pool groceries in order to help ease the pressure on limited household resources. These demonstrate the ability of community members to mobilize material resources for economic and other purposes and cope with risks and crisis that may arise.

Still it is not enough. As explained in the previous chapters, such kinds of informal savings are not sustainable because it could be (depending on the kind of saving) damaged, depreciate or stolen, leaving the savers vulnerable. This is the niche where a village bank plays an important role. The clients are using the saving service to provide safe storage for money that is used for asset building or as an asset in itself, resulting in reduced risk and vulnerability. Although the bank does not yet offer any interests on saving, villagers are still using the services of the bank. Why? Simply because their savings are safe, insured, easily accessible and in walking distance. In the opinion of the interviewed clients, this is enough reason to start saving in their own tiny village bank.

The savings in the village bank was measured in this research in order to understand the saving pattern of clients and its contribution to the asset ownership. Although the result shows that the saving of the clients is not uniform and at best sporadic, the total accumulation in the past 24 months saving has began to slowly rise as well as the number of clients who are opening saving accounts every day. This indicates the increase in asset ownership and also implies that the habit of saving in formal institutions is being firmly established.

In conclusion one must not forget to mention the importance of women empowerment. As shown in the Village bank statistics almost 80% of the clients are women. It is

common knowledge that usually it is the women who are the main stay of a household, not only as a mother and nurturer of the house but also as income earner. The village bank seeks to empower women upon whom a lot of family responsibilities rest. These women are using the village bank as a safe heaven to stash away their savings, to be used in times of needs and crisis in their family. As such, the village banks encourage even the poorest members of the community to save. It is anticipated that with increased savings, the village bank will accumulate capital, which in the end will enable them to be self-sustaining.

5.1 Recommendations

The Mathabatha village bank, being just three years old, is still a long way from developing into a successful financial institution. But it couldn't have started on a more solid base. The 'saving first' approach it had embarked is not only sustainable in the long term; it is also successful in gently introducing the previously disadvantaged population of Mathabatha on the merits of saving in a financial institution.



The following are some points brought forward as recommendations.

- Although saving is important to fight against risk, it is less effective in coping with repeated risks or losses. In such cases micro insurance can be very valuable if it is implemented in conjunction with increased saving and building asset.
- The importance of starting a credit service could not be stressed enough. Not only it would provide profit and sustainability to the village bank, it will also have a paramount effect on reviving the entrepreneurship and business spirit the community of Mathabatha. Attainable small loans on a regular bases would attract poor people, especially if coupled with advices and crash courses on business skills and management. Group loans in particular are a viable option not only because groups would be able to base on people who know each other very well, but it would also provide peer pressure that would help in decreasing the default rate.

- In relation to the previous point, there is a need to prioritize a number of aspects of operational efficiency. For example the village banks at the moment do not charge interest rates to cover costs. Informal group based arrangements also charge minimum interest, if any at all. It is imperative for the village bank, as a microfinance institution, to encourage the incorporation of interest rates in order to accelerate self-sustainability. There is an urgent need to raise or generate funds locally or outside through the implementation of sound and fair business principles. This will make the village bank significantly more self reliant and sustainable over the medium- and long term.
- Voluntary saving must be continuously encouraged even when the credit service begins operating. Many micro finance institutions insist on compulsory saving in order to be used as a form of collateral in cases of default. This not the right way of inculcating the habit of saving. It should not even be called savings rather a down payment on a loan and a screening device.

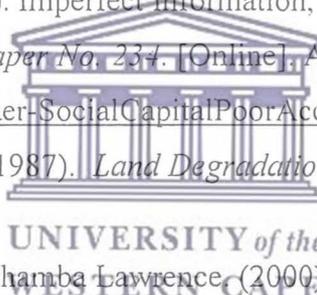


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In the end, the communities in the villages of Mathabatha must be commended for initiating the establishment of the very first village bank in the area. As such, let's hope that they will use its services appropriately with the same spirit and determination in order to increase the welfare of their households in particular and the whole community in general.

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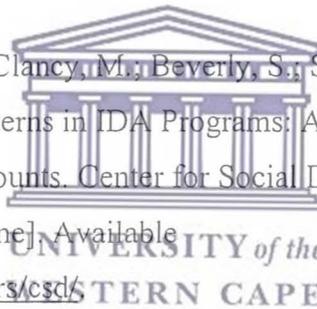
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APPENDIX

QUESTIONNAIRE

1. Name of the organization:
2. Names of the interviewee:
3. Position of the interviewee in the organization:
4. Location of the organization:
5. Date of interview:
6. Name of the researcher:

A. BACKGROUND INFORMATION

1. What type of institution is your organization?
 - a. Microfinance business
 - b. Credit Union
 - c. Community based organization
 - d. Village Bank
 - e. Commercial Bank
 - f. Other. Please specify
2. What kind of services do you offer? *(Mark all that apply)*
 a. Credit b. Savings c. Training/counseling
 d. Insurance. Specify type
 e. Other. Specify type
3. For what reasons did you start this organization?
4. How long has the organization been operating?
5. What is the mission statement of your organization?
Have no mission statement.
6. What are the goals of your organization?
7. Do you work in
 - a. Urban areas
 - b. Rural areas
 - c. Rural and urban areas
8. Who started this organization?



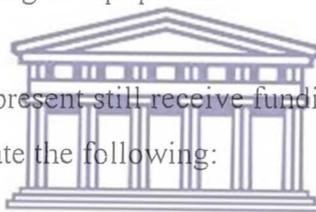
- a. Government
- b. Private Non- governmental organizations
- c. Individuals

Please specify.

B. FUNDING

(If your organization does not receive outside funding, proceed to the next section)

1. Did your organization receive any outside funding when it started?
2. If yes to the above question, from whom?
3. What type of funds are these?
 - a. Grants b. Share capital c. Other, specify.
 - b. What are these funds used for in the organization?
 - c. Grant loan capital
 - d. Grants for operating expenses
 - e. Donation of building or equipment
 - f. Other, specify.



4. Does the organization at present still receive funding from an outside donor?
5. If yes to Q5, please indicate the following:
 - 6.1 Name of the funder:
 - 6.2 The size of the donation:
 - 6.3 How the funding is used in the organization:

6. How important is outside funding to the working of this organization?
 - a. Very important
 - b. Important
 - c. Of very little importance
 - d. No importance

Please explain your answer.

7. What are you doing to decrease the level of dependency on donors (e.g. charging for training and administration costs)?
8. Do your donors set conditions for funding?
9. If yes to Q9, what are these conditions?

- a. Geographical location of clients
- b. Level of poverty of clients
- c. Economic activity of clients
- d. Other, specify

11. Do the donors monitor your organization through: *(mark all that apply)*

- a. Financial reports
- b. On site visits
- c. Performance appraisal
- d. Other. Please specify

12. In your opinion, will this organization be able to function well without any outside funding in future? a. Yes b. No c. Uncertain

13. Additional comments regarding funding.

C. STAFF AND STRUCTURE OF THE ORGANIZATION

1. How many people are working for this organization at the moment?
2. How many are from the local community?
3. Briefly explain the structure of your organization? (Decentralized; centralized management).
4. Explain the decision making process.
5. What percentage of your staff are women?
6. What percentage of the management of the organization are women?
7. Do the staff of this organization
 - a. Receive salary/wage
 - b. Are all volunteers
 - c. Combination of the above two
8. Where do staff reside? (Voluntary; non-voluntary)
9. How often does the staff undergo training?
 - a. Very often (+/- once a month)
 - b. Often (+/- every two months)
 - c. Seldom (3 - 4 months)
 - d. Very seldom (+/- once a year)



- e. Never
10. Describe type of training programs that the staff received.
11. Who conducts the training courses?
- Trainers from local area who do it free of charge
 - Trainers from local area who charge a fee
 - Experts from outside who do it free of charge
 - Experts from outside who charge a fee
12. In your opinion, does the training help the organization to do its work better?
- Yes
 - No
 - Uncertain

Please motivate/explain.

D. THE CLIENTS

- What is your target market? (*Mark all that apply*)
 - No client specific targeting.
 - Poverty targeting.
 - Gender Targeting.
- Why are these people targeted?
- How many participants does your organization have at the moment?
- How many active clients (not more than 3 month in arrears) do you have?
- What percentage of your clients are women?
- Does your organization lend money for business purposes?
- For business lending activities, which types of clients does the organization lend to? (*Mark all that apply*)
 - Informal sector / unregistered businesses
 - Registered businesses with less than 5 employees.
 - Registered businesses with more than 5 employees.
 - Other. Specify
- What percentages of your clients have registered businesses?
- Do you screen/evaluate prospective clients/participant that want to join your organization?

If yes, please explain the criteria's you use.



10. Do you recommend your clients for higher loans to formal financial institutions?

- a. Yes b. No

Explain your answer.

E. GROUP COMPOSITION

1. Do you provide: a. group loan b. individual loans

(If the answer to Q1 is b, please proceed to the 2nd part of this section directly)

GROUP LOAN

2. What is the average size of a group?
3. How many groups do you currently have?
4. Are the groups registered?
5. Are you aware of informal or traditional groups already existing in local area?
E.g. Stokvels. a. Yes b. No

If yes, name them

6. Do you work with already existing groups? a. Yes b. No

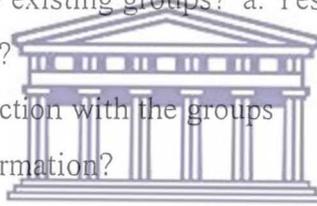
If yes, how many are they?

Please explain your interaction with the groups

7. Do you facilitate group formation?

- a. Yes b. No

Please explain your answer



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8. How many new groups are established in your organization?

9. Do you get your groups to register after they are formed? a. Yes b. No

INDIVIDUAL LOAN

10. What kind of collateral do you demand from your individual clients?

F. SERVICES

CREDIT SERVICE

1. Do you provide loans for: *(mark all that apply)*

a. Start ups

b. Working capital

c. Consumption

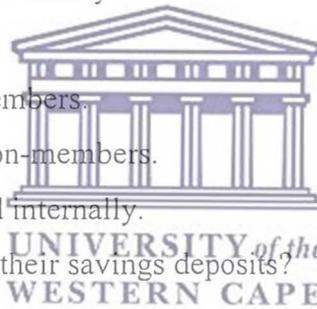
- d. Other specify
2. What is the loan size? Minimum Maximum
 3. What is your rate of interest?
 4. What costs does your interest rate cover? *(Mark all that apply)*
 - a. Operational costs b. Inflation
 - Other. Specify
 5. Are there any competitors (other similar institutions) in the area?
 6. If yes, do they have an influence on the interest rate charged?
 7. What systems do you use to track your loans?
 - a. Manual b. Computerized
 8. If computerized is it
 - a. Package developed for your organization
 - b. Ready made package used by other organizations as well
 9. Can your MIS produce loan data at any given time (e.g. loan repayment rate, arrears, and bad loans)?
 - a. Yes b. No
 10. Any other monitoring and assessment tools? E.g. Effective budgeting; physical visits to borrowers; reporting on daily activities; daily financial recording; audits; governance system; staff monitoring, system monitoring.
 
 11. Do monitoring and assessment tools of the management information system help identify problems in their infancy? a. Yes b. No

Please explain your answer.
 12. Did you conduct any market research before you started your lending activities?
 - a. Yes b. No
 13. If Yes to Q12, What type?
 - a. Used questionnaire or interview schedule
 - b. Used participatory method
 - c. Both a. and b.
 - d. Other, specify
 14. How is the institution promoted/advertised?
 15. What kind of market research is undertaken?

16. Do you feel that marketing the institution is beneficial in terms of outreach?
17. Do you offer any kind of incentive to insure repayment of loans?
- a. Yes b. No
- If yes, Specify.
18. What is your default rate?
19. In your opinion, what are the most common causes of default?
20. Does your organization monitor the loan it issued through: *(mark all that apply)*
- a. Financial report
- b. Physical visits
- c. Performance evaluation
- d. Advice on the business plans

SAVING SERVICE

21. In your organization, is saving
- a. Compulsory b. Voluntary
22. Are savings generated
- a. Internally, from members.
- b. Externally, from non-members.
- c. Both externally and internally.
23. Do clients earn interest on their savings deposits?
- a. Yes b. No
- If yes, how much?
24. What does your organization do with the accumulated savings of clients?
- a. Use for on lending
- b. Deposit them in interest earning accounts
- c. Invest in local community development programs
- d. Invest in outside communities
- e. Other specify
25. Are the savings easily accessible to clients on demand?
- a. Yes b. No
- If not, explain why



26. Do you have any knowledge of traditional informal or other formal of ways of saving used by your clients? a. Yes b. No

If yes, please list them down:

TRAINING

27. What type of training do you offer to clients? (Mark all that apply)

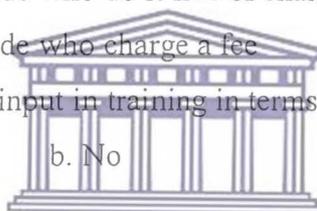
- a. Management and other business skills.
 b. Vocational training and promote entrepreneurship.
 c. Basic education and literacy programs
 d. Leadership programs
 f. Other, specify.

28. Who conducts the training courses?

- a. Trainers from local area who do it free of charge
b. Trainers from local area who charge a fee
c. Experts from outside who do it free of charge
d. Experts from outside who charge a fee

29. Do the groups provide an input in training in terms of traditional know-how and expertise? a. Yes b. No

If yes, Please explain.



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G. LINKAGES WITH OTHER INSTITUTIONS INFORMAL INSTITUTIONS

1. Do you have any linkages with other informal financial-related institutions (e.g. ROSCAs)?

Please list down their names

2. If Yes to Q1, where are they situated?
3. What kinds of services do they offer
4. Do you have any linkages with other informal non financial-related institutions? a. Yes b. No

If yes, Please explain who they are

5. In what way do you collaborate with these organizations? (*Mark all that apply*)
- a. Human resources
 - b. Sharing technologies expertise
 - c. Sharing information
 - d. Others. Please specify.
6. How often do you meet with these institutions?
- a. Very often (+/- once a month)
 - b. Often (+/- every two months)
 - c. Seldom (3 - 4 months)
 - d. Very seldom (+/- once a year)
7. Do you participate in any of the local community development programs?

FORMAL INSTITUTIONS

8. Do you have any linkages with other formal financial institutions (e.g. banks)?

9. If no, can you explain why not?

(*If yes answer questions from 11 to 21*)

10. If yes to Q9, Please list down their names

11. Where are they situated?

12. What kinds of support services do they offer your organization?

13. In what way do you collaborate with these organizations? (*Mark all that apply*)

- a. Funding
- b. Human resources
- b. Sharing technologies expertise
- c. Sharing information
- d. Others. Please specify.

14. Do you have any linkages with other formal non-financial? a. Yes b. No

If yes, Please explain who they are

15. In what way do you collaborate with these organizations? (*Mark all that apply*)

- a. Human resources

- b. Sharing technologies expertise
- c. Sharing information
- d. others. Please specify.

16. Is your institution supervised by central bank or any other supervision agency?
(Questions 19-21 are applicable to money lending institutions only)

17. Is your organization a member to Microfinance regulatory council (MFRC)?

18. If yes, how has the MFRC regulations benefited your current operations?

19. Are there any regulations that posed constraints to your organization?

20. If your organization is not affiliated to the MFRC, why not?

H. CONSTRAINTS OF THE INSTITUTION

1. What would you say are the major constraints to reaching financial sustainability?
2. What assistance does your organization require at the moment?

(Mark all that apply)

- a. Financial
- b. Management
- c. Marketing
- d. Training
- e. Bookkeeping
- d. Other. Specify



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3. What would you say are the major constraints to increasing your ability to reach the poor
4. What would you say are the major constraints to increasing your ability to reach women?
5. Are there any legal/regulatory barriers hampering the organization?