

Assessing the impact of micro-lending programmes in the informal sector in Cape Town. A case study, The Nations Trust Organization

by

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Thesis submitted in partial fulfilment of the requirements for the degree of Masters of Arts in the Institute of Social Development, at the University of the Western Cape.



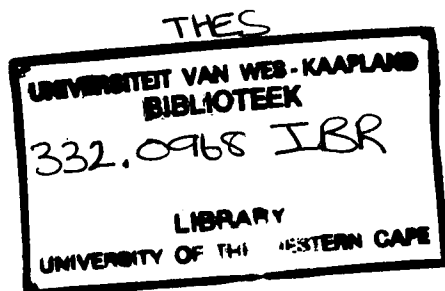
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September 2003



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Key words:

- Microfinance
- Enterprise
- Micro-credit
- Informal
- Sector
- Impact
- Assessment
- Employment
- NGOs



Abstract

“There is enough for everyone’s need, but not for everyone’s greed”.

Mahatma Ghandi

The promotion of widespread entrepreneurship through the setting up of small and medium sized enterprises (SMMEs) is crucial for the transformation to a market economy and the democratisation of society in the new South Africa. SMMEs are recognized as an engine of economic growth and a source of sustainable development. Within this sector micro and small enterprises are of special importance because they are considered as the cradle of entrepreneurship, particularly in environments facing high unemployment and poverty, as is the case in South Africa. Thus, micro-finance programmes are one of the most important interventions in developing countries. Understanding and improving their impact is central to successful poverty reduction. Historically, micro-finance impact assessments have tended to focus on providing information for donor needs. They have not been linked to existing work patterns, have not learnt from or built on existing knowledge and experience, nor produced results that could be easily used by management. Their emphasis has been on the justification of funding, rather than helping management learn, and improve their work.

The challenge remains, however, to integrate impact assessment into organizational learning and development, so that the understanding of clients and their wider situation becomes central to the work of micro-finance organizations, and also in to empower organizations to be more proactive in

developing their own learning systems both to inform internal decision making and to satisfy the requirement of external stakeholders.

The financial services to micro-enterprises have received increasing attention and achieved significant success since the early 1980s, yet remarkably few rigorous and systematic studies have been undertaken to determine the impact of micro-enterprise services. The fact that there are surprisingly few impact studies of micro-enterprise projects is due, in part to the inherent difficulties of conceptualising and measuring impact. There is little consensus on whether or how to measure such basic quantitative indicators as income, expenditure or assets, and even less on whether or how to measure such qualitative indicators such as control, bargaining power, and self-esteem. Another problem, which arises because the micro-finance service may be used for any purpose is that the impact may not occur where it is expected and may occur where it is least expected. This study offers a solution to measure impacts at different levels within the household, enterprise and individual skills.

Declaration

I declare that “*Assessing the impact of micro-lending programmes in the informal*

Sector. A case study, The Nations Trust Organization Cape Town” is my own original

work, that all Sources have been accurately reported and acknowledged, it has not

been submitted before for any degree or examination in any other University, in

order to obtain an academic qualification.



Sabir. M .Ibrahim Abu Saadia

September 2003

Signed: _____

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Table of Contents

Key words	ii
Abstract	iii-iv
Declaration	v
Acknowledgments	vi
Table of Contents	vii-x
List of Abbreviations	xi-xii
List of Tables'	xiii-xiv
List of Figures	xv
List of Appendices	xvi



Chapter One

Introduction & Background

	Page
1.1 Introduction.....	1
1.2 Structure of the study.....	4
1.3 Background to the study area.....	5
1.4 The Nations Trust profile.....	5
1.5 The objective of the organization	6
1.6 Programme profile.....	7
1.6.1 Target group.....	7
1.6.2 Market approach.....	8
1.6.3 Loan product.....	8
1.6.4 Loan repayment period.....	9
1.6.5 Cost of loan	9
1.6.6 Sustainability of the programme.....	11
1.6.7 Mentorship.....	12
1.7 The importance of the study.....	13
1.8 Problem statement.....	17
1.9 Aims and objectives.....	18
1.10 Research hypothesis.....	19
1.11. Methods.....	19
1.11.1 Design.....	20
1.11.2 Study population and sampling	21
1.11.3 Data analysis.....	21
1.12 Pilot studies.....	22

1.14 Definitions of the terms used in the study.....	22
1.14.1 Micro-lending.....	22
1.14.2 Impact assessment.....	23
1.14.3 Informal sector.....	23
1.14.4 Household.....	23
1.14.5 Enterprise.....	24
1.14.6 Entrepreneurship.....	24
1.15 Ethical and legal considerations.....	24
1.15 Summary	24



Chapter Two

Literature Reviews

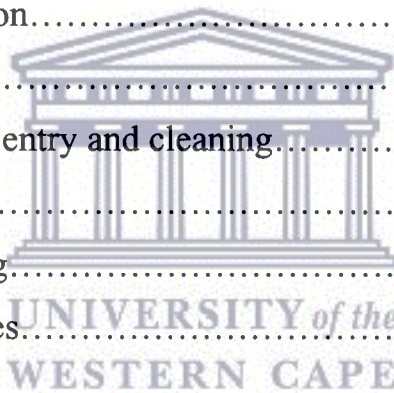
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2.1 Introduction.....	26
2.2 Historical backgrounds.....	26
2.3 Micro enterprise and economic growth.....	27
2.4 South Africa experience.....	30
2.5 The informal sector in South Africa	33
2.6 Schools of thoughts.....	34
2.7 International experiences.....	36
2.8 Enterprise level impacts.....	40
2.9 Summary.....	43

Chapter Three

Research Design & Methodology

3.1 Introduction.....	44
3.2.1 Sampling size.....	45
3.2.2 Sampling structure.....	45
3.2.3 Sampling plan.....	47
3.3 Questionnaire design.....	47
3.4.1 Data collection.....	48
3.4.2 Data analysis.....	49
3.4.3 Data coding, entry and cleaning.....	49
3.4.4 Data entry.....	50
3.4.5 Data cleaning.....	50
3.5 Statistical packages.....	51
3.6 Limitation.....	51



Chapter four

Results of the Empirical Research

4.1 Introduction.....	52
4.2 Basic characteristics of respondents and their households.....	52
4.2.1 Marital and educational status.....	54
4.2.2 Socio-economic status.....	55
4.2.3 Employment generation.....	56
4.2.4 Loan size.....	59
4.3. Findings related to the hypotheses.....	60
4.3.1 Impact at the household level.....	61
4.3.2 Household assets.....	64
4.3.3 The impact on income and health.....	68
4.4. Impact at the enterprise level.....	69
4.4.1 Personnel saving.....	71
4.4.2 Personnel income.....	72
4.4.3 Employment.....	74
4.5 Impact at the individual level.....	75
4.5.1 Case study 1.....	78
4.5.2 Case study 2.....	79
4.6.1 The interviews with the stakeholder.....	81
4.6.2 Results of the interviews.....	81
4.7 Limitations.....	83
4.8 Summary	84

Chapter five

Conclusions and Recommendations

5.1 Introduction.....85
5.2 Clients recommendations for the programme.....87
5.3 Lessons learned and future action plan.....88
5.4 Conclusion.....89

List of Bibliography.....90
Appendices.....99



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List of abbreviations

- AIMS : Assessing the Impact of Micro-enterprise Services**
- TNT : The Nations Trust**
- LDCs : Less Development Countries**
- MFI : Micro-Finance Institutions**
- MSE : Micro and Small Enterprise**
- MFS : Micro Finance Services**
- NGOs : Non –Governmental Organization**
- SMME : Small Medium and Micro Enterprises**
- USAID : United States Agency for International Development**
- GDP : Gross Domestic Product**
- TCP : Tshomisana Credit Programme**
- SEWA : Self-Employed Women’s Association**
- ROSCAS: Rotating Savings and Credit Associations**
- SEF : Small Enterprise Foundation**
- GAFs : Get Ahead Foundation**
- ACP : Accion Comunitaria del Peru**
- FSAS : Financial Services Associations**
- UNDP : United Nations Development Programme**

PULSE : Peri- Urban Lusaka Small Enterprise project

RFF : Rural Financial Facility

ANC : African National Congress

OHS : October Household Survey

FOCCA: Foundation for Credit and Community Assistance

MFRC : Micro Financial Regulation Council

WEDP : Women's Enterprise Development Project

ODEF : Organization de Desarrollo Empresarial Femenion

FINCA : Foundation for International Community Assistance

PRIDE : Promotion of Rural Initiatives and Development Enterprises



List of Tables

Table: 1 Distribution of poor individuals by rural/ urban classification.....	3
Table: 2 Loans disbursed between 1995—2002.....	6
Table: 3 Loan repayment period.....	9
Table: 4 Risk index determining the interest rates to be charged on loans..	10
Table: 5 Age of the clients.....	53
Table: 6 Individual demographic information.....	54
Table: 7 Client years in school	55
Table: 8 The unemployment Adults in the household.....	56
Table: 9 Proportion of unemployment Adults in the household.....	58
Table: 10 Descriptive statistic of disbursement of loans by (TNT)	60
Table: 11 Major factors contributing to increase household income.....	61
Table: 12 Major events contributed to decrease household income.....	62
Table: 13 Household assets of the person who has taken up the loan.....	64
Table: 14 The status of the clients after obtained the assets.....	65
Table: 15 The location of enterprise, and personnel income of the clients..	67

Table: 16	Positive consequences upon the general life of the clients.....	68
Table: 17	Clients personal saving within the last year.....	71
Table: 18	Clients personal income last year compare with year before...	72
Table: 19	Major events contribute to increase income over last 12 months.	73
Table: 20	Paid and unpaid employees in the enterprise.....	75
Table: 21	Household decision (more influence).....	77
Table: 22	Ownership of the enterprises.....	80



List of Figures

Figure 1: Impact of loan on business income.....	56
Figure 2: Proportion unemployed Adults Vs household size.....	59
Figure 3: The source of household income with respect to Dec 2002.....	63
Figure 4: The accumulation of household asset after obtaining the loan...	66
Figure 5: Changes in life in general of clients during last year.....	69
Figure 6: Changes in client's enterprise income within last 12 months.....	70
Figure 7: Clients personnel saving during the last year.....	71
Figure 8: Personnel income last year compare with year before.....	73
Figure 9: Influence with respect to respondent's environment.....	76

List of Appendix

Appendix 1: Questionnaires.....	99
Appendix 2: Average of the loans between Male & Female in different .	106
Appendix 3: Cover letter for questionnaires.....	107
Appendix 4: Mentorship (TNT) assessment form.....	108



Chapter One

Introduction and Background

1.1 Introduction:

As far as the history of financial services in South Africa is concerned, the apartheid spatial divisions have left a costly legacy. Many communities are isolated geographically, socially and economically. Most black citizens ended up in economically marginalized areas. Analysis suggests that who you are, where you live and where you work have an important effect on access to credit (*Strauss Commission 1996:5*).

In the past several years, there has been increasing interest in the use of micro-credit as a tool for improving the lives of the poor. The idea is simple: support the business enterprises of the world's small-scale, low-income entrepreneurs by providing them with access to reliable credit on reasonable terms. The appeal of micro-credit cuts across the political spectrum, since it combines the values of hard work, self-help, free markets and improving the economic conditions of the poor. There are now thousands of programmes offering micro-finance services to entrepreneurs in both developing and developed countries. The growth of the micro-finance industry has been accompanied by questions about the impacts of micro-finance.

- Do MFIs make a difference in the lives of the clients?
- Do MFIs reach the poor?

- Is donor money for MF well spent?

Evidence gathered from case studies in different parts of the country show that credit is obtained from a variety of formal, semi-formal and informal sources such as Stokvel burial societies, family and friends. Thus people borrow, save and repay their loans. However, the biggest problem is access to appropriate savings and borrowing institutions and instruments tailored to their liquidity needs (*Strauss Commission 1996:55*).

Improving the ways in which marginalized individuals, households and social groups gain access to credit and use their resources has become the focus of recent efforts of practitioners. Indeed, definitions of development now emphasize the importance of widening people's choices which credit can enhance. In addition, it is an essential ingredient of a pro-'poor' growth strategy to enhance their access to economic assets such as land, credit and housing.

One of the most disturbing characteristics of the South African economy is the presence of untapped human, natural and physical resources in the face of abject poverty. This contradiction is most visible in South Africa's rural areas.

Table 1: Distribution of poor individuals by rural/ urban classification.

	Population share (%)	Poverty share (%)	Poverty rate (%)
Rural	50.4	71.6	70.90
Urban	49.6	28.4	28.5
All	100	100	49.9

Source: 1995 income and expenditure Survey, CSS, Page 7.

In 1995, about 53% of the population lived in the poorest 40% of households and can thus be classified as poor. Similarly, 27% of the population lived in the poorest 20% of households and were thus classified as ultra-poor. For international comparison, a 'rule-of-thumb' poverty line measure of US\$1 per day shows that 21% of South Africans can be categorised as poor (Klasen, 1996:6). The poverty rate amongst female-headed households was 60%, considerably higher than the rate of 31% in two-parent households.

As can be seen from Table 1 most of the poor live in rural areas of South Africa. The poverty share of urban areas (i.e. the percentage of poor individuals that live in urban areas) is about 30%, compared with 70% in rural areas.

Although South Africa is an upper-middle income country with a per capita income similar to that of Venezuela, Brazil or Malaysia, the majority of South Africans remain poor or continue to be vulnerable to poverty. To this

end, micro-finance represents an important vehicle to address the challenges of job creation, economic growth and equity in South Africa.

Given the goal of poverty reduction through income and employment generation, it is surprising that only a few studies have systematically evaluated the impact of targeted credit schemes on productivity, income or living standards of borrowers (*Hossain 1988; Rashid and Townsend 1994; Pitt and Khandker 1996; McKernan 1996*).

1.2 Structure of the study:

This study will comprise five chapters as outlined below:

Chapter one, (*Introduction*), provides a background to the investigation of micro-lending in the informal sector by assessing the historical background of micro-enterprise in South Africa and its effect on the economy. Moreover this chapter provides an outline of the rest of the chapters of the thesis.

Chapter two, (*Literature review*), gives a review of the literature; this will entail a critical analysis of the relevant literature, major findings and their strengths and limitations.

Chapter three, (*Research design and methodology*), describes the methods and techniques that will be used to gather data, which include a random sampling method from participants and a questionnaire that will test all research questions.

Chapter four, (*Results of the empirical research*), provides an analysis of the data and the summary of the results.

Chapter five, (*Conclusions and recommendations*), draws together the thesis and examines the implications of the research findings. It will report both the importance and the limitations of the research and also will make recommendations.

1.3 Background to the study area:

This study investigates the impact of micro-lending on the well-being of young entrepreneurs of The Nations Trust (TNT) in Cape Town. This organization offers small loans to young entrepreneurs, bridging the gap of unemployment among the youth. In other words, the mission of The Nations Trust is to empower disadvantaged young people between the ages of 18 and 35 through micro-enterprise business activities to realize their full potential in the socio-economic development of South Africa. This programme has clients all over Cape Town.

1.4 The Nations Trust Profile:

This organization was formed on the collapse of the National Youth Development Forum in March 1995. It was set up with the intention of making a substantial contribution to alleviating the dire youth unemployment situation in the country. The fundamental barriers to the stimulation of youth enterprise have been identified as follows:

- Lack of access to finance.
- Lack of business management skills and experience.
- Lack of information. (www.thenationstrust.org).

The Nations Trust had set out to contribute to the dissolution of the above barriers by providing small loans and business management support service to prospective entrepreneurs. The organization plans to provide loans to 3000 youth businesses between April 2001 and March 2006 in a professional and efficient manner, and support these businesses with a meaningful mentorship strategy. (*BASS Programme, February 2001: 2*)



1.5 The Objective of the Organization:

In its first objective of providing small loans, the organization achieved the following results:

Table2: Loans disbursed between 1995—2002

1995—1999	317 loans	R1.2 million on lending grant capital
1999—2000	310 loans	R2 million on lending loan capital
2001—2002	217 loans	R 1.5 million on lending loan capital

Source: TNT report 2002 (www.thenationstrust.org.)

Moreover, an internal survey conducted during August 2000, indicates that 1216 jobs have been created by the trust since its inception.

The Nations Trust model primarily advocates that new youth enterprises should be supported through an active and meaningful mentoring programme. The mentors produce monitoring and evaluation reports about the clients' progress in business on a monthly basis.

1.6 Programme profile:

The programme has been in operation for six years now and serves 1,263 clients of whom 560 are women. The program has disbursed 690 loans worth R 3,500,000. Carpenters, radio repairmen, tailors/ dressmakers, welders, and hairdressers are some of the entrepreneurs assisted by The Nations Trust. The current loan repayment rate is 75%.

1.6.1 Target group:

The Nations Trust provides enterprise loans to the following target group:

- Un/underemployed youth
- Between 18—35 years of age
- South Africa citizens, preferably from the historically disadvantaged communities
- Requires business start-up loans between R500 and R10,000
- Unable to secure loans from the bank or other sources

Further criteria are applied in the actual business plan assessment made by the loan officer.

1.6.2 Marketing approach:

The Nations Trust realizes that it is lending to a very high-risk target group. In order to minimize The Nations Trust risks, the organization has decided to recruit lower risk segments of the unemployed youth, who has a good business idea or skills to run a business.

1.6.3 Loan product:

Loans of between R500 and R10,000 (Average loan size is R 6.912) are given exclusively to finance enterprises. Exceptions in loan size are presented, deliberated and decided on in weekly management meetings. It should be noted, however, that exceptions are not common.

1.6.4 Loan repayment period:

Loan terms are set as follows:

Table 3: Loan repayment period

Loan amount	Period	Early settlement concessions
R500-R1,500	6 months	Capital plus 3 months interest
R1,501- R5000	12 months	Capital plus 6 months interest
R5,001- R10,000	12- 24 months	Capital plus 1 month's interest for ¼- term or part thereof conceded against the original agreement.

Source: TNT report- 2001:7



1.6.5 Cost of loan – interest rates:

Interest of between 30% and 40% is charged on loans. The Nations Trust works off a 30% base and uses the following risk index to determine the interest rate to be charged:

Table 4: Risk index determining the interest rates to be charged on loans

Index	Interest			Objective
Business type	0%	1%	2%	Based on TNT experience and structure analysis
Period of loan	0%	1%	2%	If term required is beyond the standard period /size
Asset list/own contribution	0%	1%	2%	Depending on degree of surety obtained
Credit history	0%	1%	2%	Depending on credit history declared and verified
Loan size	0%	1%	2%	Over R5000 = 1% and Over R7,500 = 2%

Source: TNT report- 2001:7

Clients must be informed that the organization will charge them an administration fee of R15 per month for every month of the loan term. They also have to pay a non-negotiable and non-refundable 6% service fee when the loan agreement and acknowledgement of debt contract is signed. The service fee provides a small contribution towards the organization's costs in providing disproportionate resources to processing a high volume of small high-risk loans.

1.6.6 Sustainability of the programme

Financial self-sufficiency is the essential pre-requisite for making financial services widely available to micro-enterprises, yet debate remains on whether it is feasible for most institutions.

Most current micro-credit organisations are supported by subsidies from governments or NGOs. For example, *Morduch (1997)* shows that even for the Grameen Bank, which is the model for a large number of micro-credits, interest rates would need to double for the bank to break even, after accounting for subsidies received.

What is the prognosis for such institutions if and when the subsidy is withdrawn?

There remains substantial disagreement on this issue. *Johnson and Rogaly (1997: 64)* argue that it is still an open question even whether “financial sustainability is an achievable objective” and *Buckely (1997)* notes that evidence of sustainability in modern micro-credit organizations is rare. In contrast, the United Nations Development Programme’s (1997: A5) *MicroStart* guide states that “International experience shows that successful intermediaries have achieved operational efficiency in three to seven years, and full self-sufficiency rates within five to ten years”. However, the UNDP does not provide any concrete evidence for this conclusion.

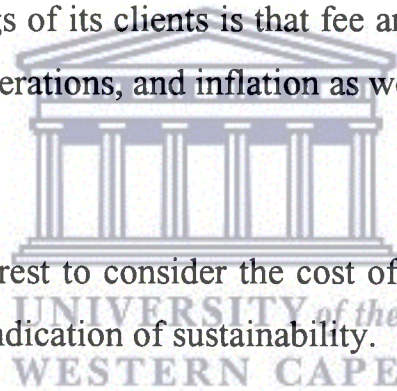
Another view was put forward by the 1997 Micro-credit Summit in a declaration that states “interest rates adequate to cover the cost of operations” and not necessarily that of capital.

An emerging consensus according to some micro-credit proponents, is that even where subsidies are provided, they should be directed at operational costs, rather than taking the form of low interest rates.

In this study, it is shown by analysing the TNT financial statement for year 2001/ 2002, that the organization is still far from covering its operation costs, (grants or soft loans are still required to cover operational expenses). Revenue falls short of operating expenses, resulting in continuing needs for grants.

What the organization would like to see when the programme is fully financed from the savings of its clients is that fee and interest income cover the real cost of funds, operations, and inflation as well. For example, (Credit Union Movement).

It would also be of interest to consider the cost of lending per participant, which is R5.885, as an indication of sustainability.



1.6.7 Mentorship:

One of the main principles of The Nations Trust is providing a mentorship support system in order to provide meaningful advice and support services to young entrepreneurs on a sustained and regular basis (*See Appendix 4*) to ensure the sustainability of the businesses.

1.7 The importance of the study:

It has been established throughout the Third World that informal enterprises play a decisive role in the creation of job opportunities and the generation of income for poor communities, and particularly for disadvantaged communities. According to Statistics South Africa (2000), informal sector activities, which incorporate micro and small enterprises, absorbed 2.7 million persons or 26 percent of the employed labour force in 1999. However, in the next survey this figure has dropped to 1.7 million people in the informal sector (*October Household Survey, 2000*). These changes in all probability have more to do with problems with the 1999 Household survey which seems to have overestimated informal sector employment rather than with any real drop in the number of people in the informal sector. Torres et al calculate that 45% of the informal workers are poor, of which 60% are women, and Africans comprise 72% of those categorised as poor (*Torres et al, 2000: 81*).

The breakthrough came when efforts to fight poverty and unemployment started to develop from within civil society and NGOs; and when empowering people and allowing them to create their own jobs and revenues were recognized as ways through which poverty and exclusion could be alleviated more effectively. This new bottom-up approach gave a special role to credit in the overall poverty eradication process.

It is estimated that Spaza retailers last year captured approximately 2.7% of South Africa's retailer trade, amounting to R7.4 billion in 2000. The importance of this market segment is highlighted by the fact that turnover of Spaza retailers is larger than the combined turnover of the branded

Superettes that include chains such as Seven Eleven, Rite Value and Sentra. This is a finding of a national survey completed by Prof Andre Ligthelm of the Bureau of Market Research (BMR) of Unisa (University of South Africa). Moreover, approximately 70% of micro businesses are concentrated in the commerce and trade sector. Of particular importance in this regard are Spaza shops, defined as small retail enterprises operating from a residential stand or home and engaged in the trading of consumer goods (*Micro Finance Regulatory Council 2002*).

There is a growing awareness of the importance of the Spaza retailer as a marketing channel among manufacturing and producers. More than one fifth of Spazas confirmed that products such as soft drinks and bakery are delivered to their shops.

Although Spaza retailers are often depicted in literature as survivalist enterprises, this report gives clear evidence of Spazas becoming not only a permanent phenomenon on the South African economic scene, but also more sophisticated and closely linked to the rest of the economy.

This research project seeks to gain a better understanding of the processes by which micro-enterprise programme strengthens businesses and improves the welfare of micro-entrepreneurs and their households. It also aims to strengthen the ability of TNT and its partners to assess the results of their micro-enterprise programmes. Thus, the project's core agenda is to assess the direct impact of loans on borrowers, their businesses and their household welfare.

Experience in many developing countries such as South Korea, Malaysia and Bangladesh has shown that the promotion of entrepreneurship and particularly of small enterprise has been successful not only in stimulating industrial and economic growth, but also in the redistribution of income, alleviating poverty and generating employment opportunities (*Hatch, J.K& L. Fredrick 1998*).

Assessing the impact of micro-lending served by The Nations Trust to the youth is rather difficult. There are many challenges facing TNT in the process of transformation; the most fundamental is what Otero (*1994, 102-3*) refers to as the “social development versus profit dilemma”. For example, NGOs want to provide stable access to financial services to the poor, but in order to be successful, they need to realize profits, which is often considered irreconcilable with the goal they have at heart, i.e., the social development of the poor. On the other hand, the government and donor support to the micro-lending financial systems are demonstrated, by the attendance of the micro-credit summit in February 1997, where a global campaign was launched to ensure that 100 million of the world’s poorest families receive credit for self-employment by the year 2005 (*Micro-credit Summit, 1997*).

Moreover, donor agencies have acknowledged that information on micro-enterprise profits and networks is essential because it can help to assess the contribution of micro-enterprises to the national economy. For example, recent studies in Kenya showed that the micro-enterprise sector contributed 12-14 per cent to GDP (*Daniels, L. and Mead D 1998; Minot 1996:45*). This information led to increased attention on the sector as a means of poverty alleviation and as a dynamic force in the economy.

Both donors and policy makers want proof of the effectiveness of financial services in relation to their developmental objectives. In addition to the measures of program sustainability, outreach and deepening financial markets, they want to know whether these services are reaching the poor, helping to alleviate poverty and putting the clients and their households on the road to self-sufficiency.

The initial task to develop a successful assessment programme is to decide on the rationale for conducting impact measurement. Here, the objective of the impact assessment is to:

- Determine if TNT is having a positive impact on clients.
- Improve TNT management and products to better reach their clients.

For what?

- To justify the donor investments
- To get to know if MFIs really fulfil their missions.

How

- Identify a limited number of variables that reflect improvement in the eye of the clients.
- Address some basic questions of whom the programme is reaching, how clients are using their loans and how these needs could be met more effectively.

1.8 Problem statement:

This research is concerned with the questions: does the support from the NGO being researched (The Nations Trust) have a positive impact on micro-enterprises, given the funding invested? Have the clients benefited from these services? Furthermore, what can be done to enhance the impact of this NGO? These are the questions at the heart of this investigation. In this project one of the first challenges is to answer the basic question: why impact evaluation? This question is not a simple one and its answer has not always been obvious.

On the other hand, the success of any programme is best measured by its continued growth, its ability to keep clients, and by the clients' ability to repay their loans. If clients keep coming back, they value the programme, and if it continues to serve clients efficiently and profitably, it is obviously doing a good job. Therefore, we need to know what difference the programme is making and for whom.

- Who are the programme's clients?
- Are clients benefiting from participation in the programme?
- What improvement would the programme bring to the poor?

Many studies have shown that most MFIs do not measure the impact of their work, nor do they learn about whether there are ways in which they can improve the impact they have on the poor clients they seek to serve. Some MFIs in fact suggest that financial performance indicators are enough to tell them if they are doing a good job or not, arguing that if clients are willing to pay for a service, i.e., client retention and repayment rates are good, then it

can be assumed that they are happy to pay for this service because it is doing them good. The market for MFIs provides an indicator of impact, but financial performance does not measure change in people's lives.

Thus, we are interested in any feedback mechanism that gives practitioners information that is useful for decision-making about tough issues such as where to invest, and how this investment affects the clients.

1.9 Aims and objectives:

The primary aim of this project is to understand and measure change in the lives of target individual entrepreneurs, who have been served by The Nations Trust. This should be accomplished by impact assessment, which is expected to reveal more about the clients benefiting from micro- and small lending financial institutions. As a result, a number of objectives have been set for this assessment:

- To identify characteristics of loan recipients, such as gender, relative poverty and age of business.
- To identify direct impacts of loans on borrowers, their businesses and household incomes.
- To assess whether participation in micro-lending programmes leads to improvements in the economic welfare of the participants, enterprise growth, stability and empowerment.
- To understand how micro-credit contributes to the growth and promotion of job opportunities and consequently stimulates prospects for self-employment.

- To determine a method by which sponsors can gather more information about the programme's effectiveness.
- To improve the effectiveness and efficiency of activities.
- To make a database available for further studies on the impact of micro-lending in South Africa.

1.10 The research hypothesis:

This research is based on the assumption that controlling for generally poor microeconomic situations, the loan characteristics, the personal factors of the loan applicant, and the business environment in which the loan applicant operates loans contribute significantly to the welfare of the clients, economically and socially. Accordingly, it is hypothesized that:

- Participation in micro-lending programmes leads to increases in the income and economic welfare of the clients.
- Participation in micro-lending programmes leads to increase enterprise stability and growth.
- Participation in micro-lending programmes leads to increase individual empowerment and employment.

1.11 Methods:

The nature of this study is to investigate and assess the impact of micro-credit on borrowers. From this perspective both qualitative and quantitative

approaches are regarded as appropriate (*Schmitt and Klimoski, 1991:17*). Consequently, we employ a mix of research methods as mentioned above.

1. The secondary data sources (client track information from the client records) in order to establish the validity of the data and the reliability of the measures of change.
2. The primary data sources would be obtained through questionnaires.
3. Selected case studies of clients both past and present.

1.11.1 Design:

In this project, the assessment design will be based on mixed methods deemed necessary to engage the stakeholders (loan officers-mentorship-clients) from the beginning of this project. This is because many project staff and managers feel threatened by the impact assessment, believing their work is being judged in a critical manner and seeing it as a personal performance review. As a result, the study is drawn on:

- Current clients who are at least six months in the programme a quantitative approach should be used in this case.
- Qualitative interviews with the director, and mentors as well as loan officers.
- Case studies of some long-term clients who would be selected randomly from the list.
- Resource data from programme records.

1.11.2 Study population and sampling:

In this project, our clients are the youth aging between 18 and 35 years old, and who are economically active, and participate in the micro-lending programmes sponsored by The Nations Trust, as well as who own businesses that are at least six months old. It is not necessary to have collateral in order to obtain a loan. The clients are heterogeneous, i.e., they are doing different businesses in different places around Cape Town. Their businesses encompass Welding, Hairdressing, Contract building, Cloth sales, Small shop operations, Juice-making, Sewing, Candle making, Woodwork, Cosmetic sales, Brick making and Shoe repair.

Samples would be drawn randomly from the programme list to enhance the equal probability of selecting any participating entrepreneur from Khayelitsha, Gugulethu, Wynberg, Mitchells Plain, Stellenbosch, Phillipi, Muizenberg, Nyanga and Athlone, which define the geographical scope of the participants in the programme. Quantitative, as well as, qualitative information would be obtained from this client pool through in-depth interviews.

1.11.3 Data analysis:

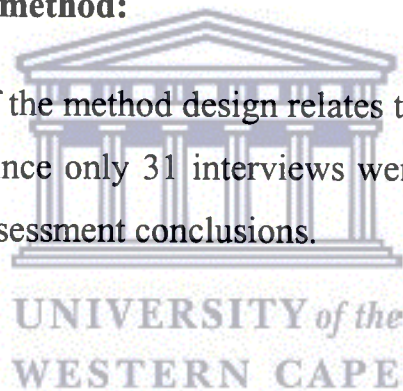
The data will be analysed using Frequency Tables and/or charts. Frequency tables will be produced and where required, tests will be conducted to establish the findings of the research.

1.12 Pilot studies:

In developing the questionnaire, a series of small pilot studies were performed to refine the instrument, only a few respondents were chosen per pilot study. For example, 4—5 clients of the micro-lending financial institutions were interviewed. The motive for this was to assess the wording and the clarity of the questionnaire. Thus, the questionnaire was revised accordingly in the light of the responses obtained.

1.13 Limitations of the method:

The greatest limitation of the method design relates to the size of the sample for the impact survey. Since only 31 interviews were completed this small sample size affects the assessment conclusions.



1.14 Definitions of the terms used in the study:

1.14.1 Micro-lending



A micro-loan is a small amount of money loaned to a high risk borrower at a reasonable interest rate for a short amount of time, usually with the purpose of funding a business venture, or in other words a small business loan made to an entrepreneurial person not served by banks because of his/ her poverty and lack of collateral. Furthermore, the terms micro-lending, micro-finance, micro-credit are used in this project interchangeably, meaning that they have the same meaning.

1.14.2 Impact assessment

An impact assessment is a study to identify changes that result from a programme by employing methods to establish plausible associations between changes experienced and participation in the programme. It is necessary to pay attention to the level and nature of the programme and why the changes occur; what is working well and what can be improved. This means that the changes are more likely to occur with programme participation than without programme participation. It does not imply that the changes always occur from programme participation. Rather, it increases the probability that the changes will occur (*Rossi & Freeman 1989*).

1.14.3 Informal sector

For the purpose of this study the informal sector is defined as follows: it is that sector of the economy that includes all economic activities which are unlicensed, they are self-employed with virtually no external assistance, and the enterprise is often based on some skill. The informal sector is also known as the shadow economy because no income tax or license fees are paid due to the unregistered nature of these enterprises.

1.14.4 Household

The definition of household in this project is defined as a single person or group of persons who usually live and eat together, whether or not they are related by blood, marriage or adoption.

1.14.5 Enterprise

A micro-enterprise will be defined as an income generating activity by one or more household members who are self-employed. The activity is owned or controlled by one or more members of the household.

1.14.6 Entrepreneurship

Entrepreneurship is a term borrowed from the French 'entreprendre' combining two words which are common in economic parlance since the Renaissance; the word 'entre' can be interpreted as the verb 'to entre' or as the adverb 'between' while 'prendre' is the verb 'to take' (Vosloo 1994:148). In essence, an entrepreneur is a person who undertakes the task of searching for a business opportunity.

1.15 Ethical and legal considerations

In order to capture a true life history of the client activities, clients were assured of the confidentiality of personal responses (*Appendix-3*). A letter from the Institute of Social Development, UWC shows the purpose of the study and confidentiality of the information.

1.16 Summary:

It has been recognized throughout the world that micro-finance has been successful, particularly in developing countries. It has also been claimed that micro-finance is a means of poverty alleviation and economic empowerment. However, it is not a simple task to support these claims,

given the small number of the impact studies of micro-enterprises on the livelihood of the clients that show how micro-lending affects their household welfare, enterprise skills and personal empowerment, particularly for women. It is clear that there is a need to conduct this study. Thus, the next chapter will review existing literature on the subject matter. This will entail a critical analysis of the relevant literature, major findings and their strengths and limitations, around the world as well as in South Africa.



Chapter Two

Literature Review

2.1 Introduction:

Micro-lending services have captured the attention of development practitioners around the world, from Bangladesh to Bolivia, from Kenya to the United States of America. Credit and savings programmes have blossomed, all with the vision of reaching the poorest of the economically active with finances that can lift people out of poverty by building businesses, generating assets, and strengthening skills.

2.2 Historical background:

Moneylenders have operated from time immemorial in almost all societies across the world. As Stix (1997) points out: "... people's banking is not a new concept." In 19th century Germany, small credit unions formed as an alternative to charity.

More recently, Dr. Yunus founded Grameen Bank in the 1970s to enable poor women to start, or expand their own enterprises. It was an experimental response to a situation in which loanable funds were absent or too difficult to obtain, where traditional sources of loans included family members or moneylenders charging up to 10 percent interest daily. (Stix, 1997:276).

Large commercial lenders tended to avoid the small loans, because of combination of high risks, high costs and low returns.

The global micro-credit movement that has emerged in the last decade contrasts with earlier credit programmes in being more demand-driven, charging higher interest rates, controlling costs, and emphasizing savings mobilization as a prerequisite for sustainable credit provision (*Otero and Rhyne, 1994:11, Morduch, 1999:1569*). Its rapid growth can be explained in part by its strong affinity to the wider 'Washington Consensus' on development policy (*Copestake, 1996:21*). For example, many potential providers had been held back by government controls on interest rates. Micro-credit is also consistent with a shift in thinking towards promotion of self-help and against welfare dependency.

At the same time, micro-credit programmes provided an ideologically acceptable growth area for donor agencies at a time when many of their traditional activities were being challenged (*Adams and Von-Pischke, 1992:70*). Bold aspirations about the potential of micro-credit raise the question of its actual impact.

2.3 Micro-enterprises and economic growth:

Micro-enterprises have been recognized in recent years for their significant role in the overall economy. This recognition, which has been long coming has occurred with the rapid expansion of the sector in many countries and its growing importance as the source of income and employment. For those concerned with both poverty alleviation and economic growth a key

question is to what extent are micro-enterprises a source of economic growth. This question is important in studying impacts because a goal of many micro-enterprise programmes is to increase incomes and employment for the poor and economic growth has a direct bearing on opportunities to do so. At both the enterprise and individual levels, the potential for increasing incomes and employment depends on whether or not there is expansion in the overall economy and the extent to which micro-enterprises are linked to the growth process. In reality, improvements at the enterprise level are likely to result in the redistribution of existing resources. In some cases, this can lead to a more equitable distribution of resources, but in others, it can exacerbate inequities, if improvements are at the expense of other poor people.

Some literature argues that micro-enterprises and the informal sector in general can become increasingly involved in wider markets. This involvement increases the overall level of economic activity, and can lead to more efficient allocation of resources and to increased income and welfare for the owners of micro-enterprises. In this “demand pull” scenario, micro-enterprises are part of a dynamic economic growth process. Others argue that micro-enterprises and the informal sector are merely the result of malfunctioning economies. While they may generate economic benefits in the short-run, they exist because there is a surplus supply of labour. Moreover, people have to do something to survive. In this “supply push” scenario, micro-enterprises are a source of income and employment for excess labour, but are not linked to dynamic growth sectors of the economy.

While these two extreme debates are important, it is likely that the answer depends on the situation. Micro-enterprises can be more or less linked to the

process of economic growth, depending on different economic, political, and social circumstances and the specific sub-sector of activity. Across sectors, growth opportunities emerge from increases in income that shift the pattern of demand. Changes in factor prices of capital and labour, new opportunities for international trade, and government policy changes within sectors emerge from growth in market size (*Biggs, 1986*). These scenarios have implications for micro-enterprises. New opportunities can emerge in all of these areas in the context of macroeconomic reforms and private sector development.

To consider the extent to which micro-enterprises contribute to economic growth, it is important to define the concept, noting that interpretations of economic growth vary widely. Traditional interpretations measure economic growth in terms of income, capital accumulation, and factor productivity. Others consider growth in terms of employment.

A broader interpretation links economic growth with economic security, reduction in poverty and equity (*Chen, 1993*).

- At the enterprise level, growth is represented by increases in income, assets and the volume of production. These forms of growth are evident to varying degrees in enterprises at various levels of development from low growth subsistence enterprises to higher growth enterprises linked to dynamic sectors of the economy
- At the household level, micro-enterprises contribute to growth by leading to net increases in household income, asset accumulation and economic security.

- At the individual level, micro-enterprises expand economic participation by improving an individual's control over resources and leverage in household decision-making processes. For example, women's involvement in lower risk, lower productivity activities can subsidize the growth process by insuring the welfare of their household.

While growth comes in many shapes and forms, it originates at the enterprise level and is conditioned by factors both internal and external to the enterprise. However, not all micro-enterprises are linked to dynamic growth sectors of the economy; many grow to certain limit but not beyond. In addition, to fully understand the contributions of micro-enterprises to the growth process, it is important to include those that show small rates of growth. This is because small amounts of growth in a large number of micro-enterprises can add up in terms of overall growth. In a review of micro-enterprise employment data from five African countries, Holm and Mead (1994) found that three quarters of all new jobs resulting from the expansion of micro-enterprises have come from businesses that started with one to four workers and that added one to four workers to their labour force. Moreover, a small amount of growth can make a big difference in terms of security and well being at the household, enterprise, and individual level.

2.4 South African experience — *(Historical background):*

Until the transition to democratic governance and the end of apartheid, small and micro-enterprise activities in the former homelands were supported by

the NGOs. Some of the early NGOs were the Rural Finance Facility (RFF), The Get Ahead Foundation (GAF), and the Small Enterprise Foundation (SEF). Many of these institutions had an activity base and incorporated credit into their profile of activities. The National Small Business Act of 1995 was one of the earliest pieces of legislation to emerge, highlighting the priority both donors and the ANC accorded to the SMME sector. The main focus of the law was to establish the two wholesale service providers:

- Ntsika enterprise services, catering for non-financial support services.
- Khula financial corporation providing wholesale financing to the micro-finance sector.

The UNDP introduced the micro-start scheme that Khula remodeled to suit group lending in rural conditions. At the outset Khula supported 38 established micro-finance institutions and 22 Khula start organizations (Roussos and Ferrand, 1999).

During 1995 and 1996 important research was undertaken by the Strauss Commission to document the scale of rural financial services (Coetzee and Cross, 2001a). One of its recommendations was for the Land Bank to play a leading role in micro-finance provision. In 1997, the Land Bank set up a lending scheme that today has over 40 000 clients with a repayment rate of 80% (Coetzee and Cross, 2001b). Another innovation was the introduction of village banks supported by the Department of Welfare in 1998, namely the Financial Services Associations (FSAs) and the Finasol, funded by USAID.

In late 1999, the micro-credit schemes supported by Khula began to unravel, several large and established institutions, including the RFF and start up fund collapsed. The GAF also experienced a financial crisis, and was salvaged by Khula. GAF was liquidated in 2001 and became Marang. At present, there are 19 remaining MFIs. Khula believes that these collapses were a result of the MFIs inexperience, inefficient management and poor governance within MFIs, which in some cases led to fraud (Khula, 2000). However, practitioners argue that Khula set unrealistic targets for institutional sustainability, which forced the MFIs to expand beyond their capacity.

As far as the impact assessment is concerned, from 1998 to 2000, The Small Enterprise Foundation (SEF) conducted a professional, longitudinal, impact assessment on a group of clients over a period of two years. The results of this were compared against outputs from TCP's (Tshomisano Credit Programme) impact monitoring system. Analysis of this database demonstrated an overwhelming positive impact for TCP members with four impact indicators being quality and quantity of food consumed, quality of housing, contributions to (Rotating Savings and Credit Associations) ROSCAS and value of the clients' business. All of these showed average increases over time. Contrary to the arguments of many academics (for example Hulme and Mosley) quantitative data suggested that TCP's poorest members performed at least as well as the average performance for the programme. This conclusion was also borne out by the qualitative analysis, what is also very clear from the impact assessment case studies was the high value of small initial livelihood changes for the very poor. For example the security of the business leads to regular and reliable income. Small income

changes for the very poor have proportionately much greater impacts on livelihood, than those for the better off. For example, the rapid and significant changes in impact score related to food consumption provide evidence that small income changes are having great impacts.

2.5 The informal sector in South Africa:

South Africa is a middle-income country, with a well developed industrial and manufacturing base and physical and social support services. There is a dichotomy between the formal and informal economy, where the concentration of the manufacturing base lies in the formal economy and has all but excluded small-scale enterprise.

In the informal economy, the dominant activities are retail and services. At the lower end of the scale, survivalist and micro-enterprises struggle in a highly concentrated sector, where there is limited differentiation of products and services and low levels of profitability. There is also little accuracy in measuring the size and scale of the informal economy. Current data estimations are that there are 1.7 million people working in the informal economy in South Africa, (*October Household Survey OHS*) 1995, quoted in *May et al, 2000*). Torres et al. (2000) using the OHS 1995 data, calculate that 45% of informal workers are poor, with women making up 60% of poorer informal workers. Africans comprise 72% of those categorized as poor (*Torres et al, 2000:81*).

On the other hand, informal finance in South Africa is a R13 billion industry (MFRC, 2000). The commercial cash lending industry is responsible for the sector, most of which is consumption and loans. Credit for enterprise development provided by NGOs, makes up 4% of this total (MFRC, 2000). The informal sector is regarded as a means of survival for the poor and as the alternative path to development outside the mainstream economy (Elson & Pearson, 1997). In fact, the World Bank (1990:164) believes that the informal sector would be the dominant source of growth in the manufacturing industry in Africa.

2.6 Schools of thought:

As micro-finance began to be overtly championed for its anti-poverty properties and as donor and government interest grew rapidly, some skeptics refused to view micro-finance as being all that different from the older ideas of finance (Adams and Von Pischke 1992).

It was argued that micro-finance should be brought under the same principles applied to the development of other segments of financial sectors. Moreover, in the current debate the pro-market viewpoint has a marked influence on thinking regarding finance for the poor. This means that financial liberalization remains the only game in town (Mc Kinnon, cited in Gibson and Tsakalotos 1994:578). According to this perspective, the determination of the rate of interest and the allocation of credit between sectors and groups of people should be left to market forces. Government should withdraw from direct involvement in financial institutions. It is

assumed that the poor will be able to obtain the services they require within a market driven, enabling environment “competition forces” (*Vogel and Adams 1997:375-76*). These neo-classical views, with faith in the efficiency of markets that are allowed to function without government intervention, are not shared by all economists (*Schoombee, 1998:383a*). There are two groups of economists who have been prominent in their rejection of the view that government has no role in the financial system.

The first group is the neo-Keynesian, who argues that the market often fails in reaching the optimal result assumed by neo-classicists (*cf Stiglitz, 1994*). The neo-keynesians believe market failure occurs because of imperfect information and that government has to intervene to correct these failures. Another group of economists who accept that government has a role in financial system is the post-keynesians. They reject the arguments favouring financial liberalization and accept the neo-keynesian argument that the onus is on government to correct market failures. Moreover, post-keynesians argue that saving is not a precondition for investment. Rather, the crucial factor is the willingness of banks to supply the finance to back the investment decision of entrepreneurs (*Schoombee, 1998:384b*).

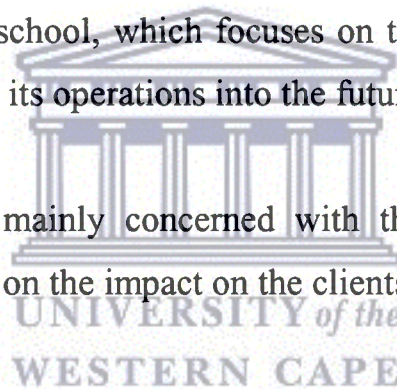
In practice, according to these schools of thought, government will always have a role to play in the financial system. Hence the primary concern of this literature is the cost efficiency of micro-finance institutions. It addresses issues such as the amount it costs to deliver these services and whether the programmes providing them are cost-effective.

Many studies have attempted to measure the impact of micro-credit on income, employment and other socio-economic outcomes (*Hossain 1988; Hulme and Mosely 1996; Pitt and Khandker 1996*). The major problem with this large body of literature is programme participation. Little attention has been given to the effectiveness of the programmes in South Africa.

The current literature of impact assessment in micro-finance involves two main schools of thought:

- The intended beneficiary school, which focuses on impact on users,
- The intermediary school, which focuses on the ability of the service provider to sustain its operations into the future (*Johnson, 1998:23*).

In this project we are mainly concerned with the intended beneficiary approach, which focuses on the impact on the clients of micro-lending.



2.7 International experiences:

Impact assessment has been conducted all over the world, most notably in Bangladesh by the Grameen Bank. Assessing the Impacts of Micro-enterprise Services (AIMS) conducted an assessment for USAID/Bangladesh to determine the impact on borrowers of the Women's Enterprise Development Project (WEDP). The assessment, which included individual and focus group interviews in four selected (WEDP) field sites, has had a positive impact on both women's enterprise and household incomes, about 20% of the borrowers interviewed said that their earnings

now make a major contribution to household income, many reported that there is less tension in their households because there is less financial strife, better food, and a greater ability to meet their children's educational expenses.

Moreover several women said that they no longer need to borrow from neighbours or moneylenders to finance their businesses or to meet household expenses. A few have been able to increase their personal savings. In fact, WEDP created a significant impact in terms of employment; 25 percent of borrowers used their loans to create new employment for themselves, while 64% reported expanding their businesses. Sixty percent of borrowers work full-time in their business, thirty-one percent work part time. Only 9% directed their loans to a husband or a son's business in which the client takes no part. On the other hand, employment creation for family members has been modest, but a few women get help from their husbands or children. The project also has had a major positive impact on women's entrepreneurship and decision-making abilities. Well over a third of WEDP borrowers manage their businesses entirely on their own and another 22% manage their businesses jointly with their husbands. Furthermore, the study found that some 20% per cent of the borrowers, all of whom were classified as extremely poor, are now making a major contribution to their households' incomes. Moderately poor women also reported significant improvements in their abilities to educate their children and feed them more nutritious food as major benefits of their (WEDP) loans (Koopman, 1996).

In Zimbabwe, the Zambuko micro-enterprise programme, presented the baseline findings of a two-stage assessment of the impact of micro-

enterprise services on clients, their households and enterprise. The findings of this project highlight similarities and differences between new clients of the Zambuko programme, its repeat clients and non-client micro-entrepreneurs. Moreover, repeat clients tend to be significantly different from new clients and non-clients. They are economically better off than the new clients and non-clients. Furthermore, loan funds permit the majority of clients to make purchases that they otherwise would not have made. Overall results establish that participation in micro-enterprise programmes leads to improvements in the economic welfare of households, enterprise growth or stability, enhanced empowerment of women and strengthened social networks (*Barnes and Keogh, 1999*).

In Honduras, a team of NGO practitioners from two organizations Katalysis North/South and Organization de Desarrollo Empresarial Femenion (ODEF) implemented over a three-week period an impact assessment on micro-enterprise programmes. The findings demonstrated some significant outcomes experienced by (ODEF) clients, especially at the enterprise level. Client enterprises were found to be significantly larger and to generate greater profits than non-client enterprises. In addition, at the household level, more clients than non-clients reported that their savings had increased. At the level of individual impacts, there was qualitative evidence that women acquire greater self-esteem and confidence through programme participation. The great majority reported income increases as the result of their loans (*Edgcomb, et al.1998*).

Three micro-finance organizations have been selected for assessment study in Uganda Foundation for Credit and Community Assistance (FOCCAS),

Foundation for International Community Assistance (FINCA), and Promotion of Rural Initiatives and Development Enterprises (PRIDE). The common attributes between these organizations include: lending to individuals who are members of the credit group, FOCCAS and FINCA provide services to women, and PRIDE reaches men and women. Interviews were conducted with a sample of clients from these programmes in three districts of Uganda (Mbala, Masaka, and Kampala) and a sample of non-clients from the same areas.

The baseline findings showed that clients tended to spend more on household assets than non-clients, and the majority of clients (83%) are the sole decision-makers concerning the use of recent loan funds. Moreover, for the client and non-client respondents in all three districts, at least 85% of girls aged 6—16 in the household are enrolled in school. Most clients also report using the loan funds on their enterprise, usually as operating capital to expand or diversify their businesses. They indicate that they would not have made these expenditures without the loan from their respective micro-finance programme.

On the other hand, in Lima, Peru micro-finance is regarded as important means to create jobs. More than 70% of Peru's employment estimated to generate about 40% of Peru's GDP is micro-finance based according to a baseline survey in the Lima Metropolitan. The baseline results reveal many characteristics of Lima's micro-entrepreneurs.

- Client households have an average over 50% per cent income higher than non-client households.

- High levels of self-esteem and respect were reported by the survey respondents.

The vast majority reported that they always feel that their contribution to the household is important. The picture that emerges from the baseline study is that micro enterprises play a critical role in household livelihood. The information on ACP clients and non-clients comparison group provides insights into the household economies. In many ways, the clients and non-clients share similar characteristics, but in other ways they are significantly different. Where differences exist, they almost uniformly point to the advantageous position held by the clients.

There were similar assessments projects all over the developing world: in Mali, Kafo-Jiginiew and in Zambia, Peri-Urban Lusaka Small Enterprise Project (PULSE).

The AIMS project has conducted research programmes in 41 Countries in Asia, Africa, and Latin America, all of the programmes had credit as a primary input, many with additional services,

2.8 Enterprise level impacts:

Around 26 of the 32 studies included data on enterprise level impacts and generally found positive effects in output, with average increases in sales and in some cases diversification of goods or services produced, especially among women.

Increased output is not spread evenly across enterprises; however, while a majority of enterprises studied experienced increases, many stayed the same, or even decreased their outputs. For example, of the 10 studies that looked at the impacts of credit on micro-enterprise assets, seven found a positive change in the value of fixed assets among borrower enterprises (Jamaica, Honduras, Dominican Republic, South Africa, Kenya, Bangladesh, and Indonesia). Two found no change (Guinea and Sri Lanka) and one found a mixed effect (Malawi).

On the other hand, twenty studies looked at the impact of credit on employment. Most found positive, but small impacts on the number of paid employees in enterprises. Increases were generally concentrated among a small proportion of borrowers; most enterprises experienced no change in paid employment. One study from rural Malawi found that the impact on employment was primarily due to the start up of new enterprises. But this was a typical, since most programmes tend to support ongoing rather than new enterprises (*Buckley 1996:349*).

The findings generally indicate that the most significant employment impacts are related to increased use of family labour, or increased duration of work by owners. Most of the studies also found the impacts on enterprises income, measured as either gross profits or net profits were generally positive. A few studies looked at changes in profit margins, reflecting more structural change in enterprise operations. Evidence from Kenya shows a downward trend in profit margins for poor borrowers due to partially to rising inflation and price decontrols (*Buckley 1996*). These findings further suggest that credit contributes to sustained growth among only a small

proportion of enterprises; while the large majority grow only up to a point, then level out.

As far as the household is concerned, more than half of the studies found increases in income, assets and consumption. Six studies from Asia and three from Africa examined changes in household income, considering both enterprise and non-enterprise sources of income. The findings indicate that credit has a positive impact on household income. A study from Sri Lanka shows large differences in the amount of change between communities, indicating the importance of local economic conditions (*Hulme et al 1995*). The findings from Africa were more mixed than from Asia. Clients from one programme in Kenya had lower household incomes than the control group, while clients from another programme had higher household incomes (*Buckley 1996*). A study from Guinea shows little impact on assets except for running water in homes. In comparison, a study from Senegal shows modest impact on asset ownership, with more impact for women than for men (*Creevey, et al 1995; Vengroff and Creevey 1994*). Churchill's study from South Africa found that loans had more impact on the accumulation of household assets such as electricity, indoor plumbing, telephones, and vehicles, than on food expenditures suggesting a shift from immediate survival to longer term household security (*Churchill 1995:39*).

In addition, several studies looked at the impacts of credit on women's empowerment, using different context specific measures. The findings from Asia are generally positive. Schular and Hashemi's, (1996) study from Bangladesh shows improvements in women's physical mobility, economic security, ability to make own purchases, freedom from family domination

and violence, political and legal awareness, and public participation. Chen's study of Grameen Bank suggest women participants in credit programmes are more conscious of their rights, better able to resolve conflicts, and have more control over decision making. A study in Sri Lanka found that loans contributed to women's independent income which gave them more bargaining power in their relations with male family members (*Hulme et al 1996*). Women's empowerment and control have important socio-cultural dimensions, and there remain considerable debate about how to define these issues and study them across different types of households and different cultural settings and contexts. Thus, the literature suggests that we should expect successful micro-finance programmes when both bottom-up approaches are in the hands of the poor, and top-down, macroeconomic approaches mandating stable interest rates and low level of inflation.

2.9 Summary:

There are indeed significant economic gains that have been achieved in some cases, according to the above studies. The implications of making self-employment and enterprise promotion the centrepiece of development strategies in improving the living standards and power base of the poor youth is examined in the following chapter

Chapter Three

Research Design & Methodology

3.1 Introduction:

The purpose of this study was to investigate and develop a simple and cost-effective tool for measuring the impact of starting a micro-enterprise with a micro-loan on clients of the Nations Trust organization.

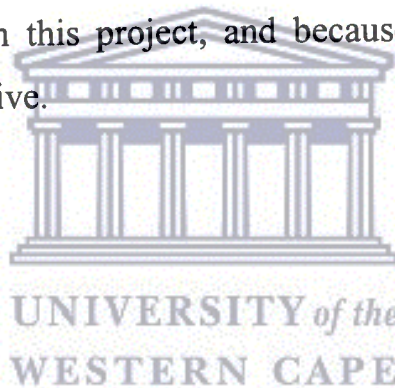
In order to gather information for the research the author had to develop an appropriate methodology for gathering the data.

To collect the data for this study the author first did some exploratory work to gain insight in to topic. The research was carried out in three stages:

- The first stage was an exploratory study of available literature in this field in order to establish the key variables on the impact of micro-finance.
- The second stage involved informal interviews with stakeholders of the organization (Regional Manager, Development officer, Loan officer and mentors as well of the Cape Town branch. The information gathered from the above two stages was used to develop the items for the questionnaire.

- The third stage involved personal interviews with clients who were randomly selected from the organization list around Cape Town. The questions were both close-ended and open-ended, in order to collect quantitative and qualitative data.

Our sampling methodology in this project included clients from different parts of Cape Town. We used a mixed method for collecting data, quantitative and qualitative tools, in order to capture the whole picture of the impact of micro-lending in this project, and because a mixed method is manageable and cost-effective.



3.2.1 Sampling size:

The intended number of respondents was +/- 35 active clients to be selected from the list of the organization.

3.3.2 Sampling structure:

In this project I employed a random sample for selecting the clients from the client lists, because all clients provided business addresses, and home addresses they were easy to reach. The clients were located almost all over Cape Town (Guguletu, Bellville, Cape Town Centre, Mitchells Plain, Khayelitsha, Phillippi, Stellenbosch, Langa, Elsies River).

As the word random refers to a process that generates a random result, so our selection process was operating in a truly traditional simple random method.

In this method, each client has an equal probability of being selected, and then the researcher follows up a process of selecting the sample:

- Identify the pool of the sample (lists of active clients around Cape Town).
- The second stage was numbering all active clients in a sampling frame, then I used a list of random numbers in order to mark all clients and put their numbers on a slip of paper, these must match the names on the list (For example, Mr X match A1), then I put all slip in box, mixing the slips with eyes closed, so that any slip has an equal probability been picked out from the box, then I start picking slips from the box randomly.
- By the last stage the researcher has managed to select 31 clients, with their addresses, and then he contacted them for the interview.
- And also I had selected 6 randomly out of these 31 clients for a qualitative interview, in order to sustain the quantitative findings in this project.

The researcher failed to meet all selected clients due to sickness or address changes, and then he reselected four clients from the box randomly (replacement). In the end he managed to interview 31 clients from different areas around Cape Town.

3.2.3 Sampling plan:

The researcher personally visited the business locations of the clients with interpreter (in some cases) and interviewed the clients individually on the spot. Clients could either complete the questionnaire themselves, or in cases where clients did not wish to fill in the questionnaire by him/herself, the questionnaire was read to them and completed by the interviewer. Further explanations of the questionnaire were allowed (to avoid misinterpretation and to ensure clarity).



3.3 Questionnaire design:

The design of the questionnaire involved a series of steps:

- An initial set of hypotheses and variables was drawn up based on the results of previous assessments of the impacts of micro-finance programmes around the world, for example lessons from AIMS impact assessment in Zimbabwe, Uganda, and Mali.
- Exploratory interviews were conducted with loan officers and directors of TNT. In addition information was gathered on the strategies of the micro-finance programmes from key documents and reports.
- A pilot test of the instrument was carried out by the researcher that included a number of interviews with clients. During this phase,

attention was given to including only questions that yielded the most reliable responses, and this led to eliminating several questions related to the amount of money spent or earned. Because of a reluctance to respond it was decided to avoid unwanted intrusions into private matters such as asking the types of questions: How much profit you make last month? How much money did you save so far? Did you payback your debt? When are you paying back?

3.4.1 Data collection:

Due to the sensitivity that financial institutions attach to their information and the privacy of the information on their clients, raw data about the activities of the client's day to day activities were difficult to access. However, the researcher managed with the cooperation of the organization (TNT) to get access to some information about the activities of their clients and their addresses around Cape Town.

A variety of methods were used to collect the data. The questionnaire surveys used to collect quantitative data, which helps to answer key research questions and also addresses the objectives of the impact assessment, comprised about thirty-one questions that test all the hypotheses. These questions are divided into three sections individual, household, and enterprise level, in order to capture the clients' activities. Also the mentors served as enumerators helping to collect data, because they have more skill and experience about the clients' histories.

On the other hand, the researcher used a qualitative method doing case studies of individuals and conducting in-depth interviews to identify how clients felt and whether they were empowered as the result of their participation in the programme. They drew self-portraits of the past and the present as a way to initiate the discussion about changes she/he has experienced over time. I selected cases by purposive sampling, which helped to strengthen the validity of the data. Moreover the aim for using a qualitative method is to understand the impact processes, client perspectives and also their ability to capture reasons for change.

3.4.2 Data analysis:

Systematic data analysis was done with the aid of the computer package Excel[®] –Pivot report /chart, the researcher has learned from previous assessment studies, in terms of types of questions that generate the information needed for analysis.

3.4.3 Data coding, entry and cleaning:

The first part of the questionnaire used mostly close-ended questions,(structured, fixed response) because these are quicker and easier for both respondents and researcher, whereas the last part of the questionnaire we used open-ended questions (free response) which gives more time and space to the respondents to express him/her self and also the

richness of details. For many of the question the coding process was thus fairly easy and straightforward.

3.4.4 Data entry:

The researcher was trained to carry out the data entry by using Excel. After data entry, the data were exported to Pivot table reports for cleaning and eventual analysis.

3.4.5 Data cleaning:

Survey research can be complex and expensive and it can involve coordinating many steps. The administration of survey research requires organization and accurate record keeping. The researcher kept track of each respondent. For example we gave each sample respondent an identification number (Code: A1, A2, B1) which also appears on the questionnaire.

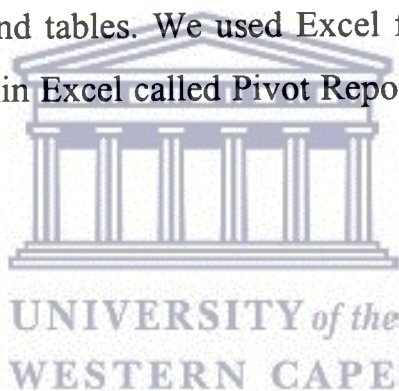
In the next step the researcher reviewed responses on individual questionnaires, stored the original questionnaires, and codified the information in questionnaires to Excel for statistical analysis.

With the help of the Department of Statistics at UWC, the researcher managed to check and cross check the data. The major effort consisted in checking the printed data base against the original questionnaires. Working in pairs, we compared the actual questionnaire entries (question by question).

A good questionnaire forms an integrated whole. The researcher attempted to weave questions together so that they flowed smoothly from Section A (Personal information), to Section B (Household details), and to Section C (Enterprise details) See Appendix-1.

3.5 Statistical package:

Frequency distribution analysis was utilized extensively; the analysis was also supported by graphs and tables. We used Excel for entering the data. The statistical package within Excel called Pivot Report Table was used for statistical analysis.



3.6 Limitation:

The limitation of the research was the high cost of face-to-face interviews. One had to travel long distances and you might then not find the client, and then have to contact him/her for another day. Moreover, some clients did not fully cooperate in terms of answering all the questions.

However, the researcher gained a lot, observed the surroundings, and created friendship with some clients for future studies.

Chapter Four

Results of the Empirical Research

4.1 Introduction:

Impact assessment is viewed as a dynamic process of constant review and learning, designed to detect the smallest problem and to make adjustments to operations to improve impact and also to examine and understand at each level the linkages between inputs and activities and outcomes.

In this chapter, the researcher will provide a clear analysis of the data, which has been collected through random sampling from the clients of The Nations Trust in Cape Town (between November 2002 and March 2003), by using mixed methods of analysis. For the Quantitative statistical analysis, I used Excel 2000 (Pivot table reports), as was mentioned above. For the Qualitative analysis, I examined in-depth interviews with some clients who have been in this programme for more than a year or so, in order to capture the full picture of their activities before joining the programme and after benefiting from the programme services.

4.2 Basic characteristics of respondents and their households:

Interviewees were asked a variety of questions about the state of their life generally, age, education level, marital status, and gender, in order to gauge the impact of TNT loans, on the household well-being and business status.

In particular, survey respondents were asked to report on activities in the previous 12 months, and to estimate positive and negative changes in specific aspects of their households and businesses over the same time period. The data gathered were then analysed

Table 5: Age of the clients

Mean	30.8
Median	31
Standard deviation	4.01
Sample variance	16.11
Range	16
Minimum	19
Maximum	35
Count	31
Largest (8)	34
Smallest (8)	29

Source: field survey 2002


Table 5 shows the mean and range age of the clients in the sample, with a minimum 19 years old, maximum 35 years old, yielding a range of 16, and a mean of 30.8. This indicates that this sample contains many observations at the high end of our target group young people 18- 35 years old.

4.2.1 Marital and educational status:

The majority of clients in this project, 58% were never-married, 35% are married, and only 6% of clients were separated. In terms of literacy, 98% of the total samples have attended school. We found, 34% of the clients have attended 2-10 years school. (Table7).

Table 6 below shows the mean years in school to be 10.6.

Table 6: Individual demographic information



% Married	35%
% Separated	6%
% Never married	58%
Mean age in years	30.8
Mean years in school	10.6

Source; field survey 2002

Table 7: Client years in school

Years in School	Count	Percentages%	Cumulative%
2	1	3%	100
5	1	3%	97
6	2	6%	94
9	2	6%	87
10	5	16%	81
12	19	63%	65
13	1	3%	3
Total	31	100%	

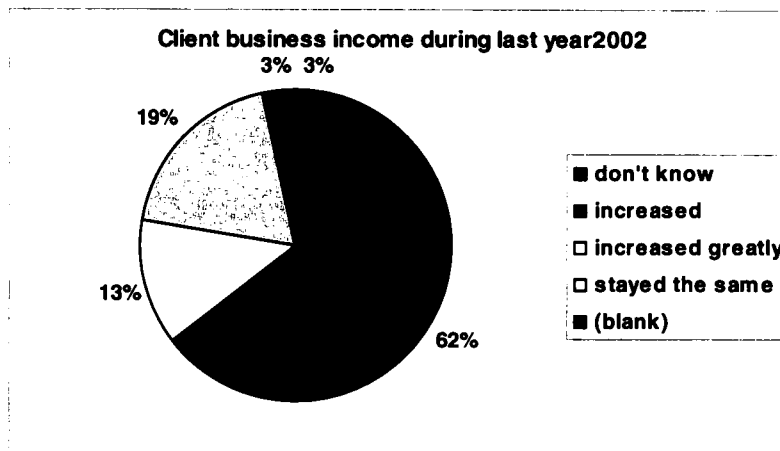
Source; field survey 2002

Table 7 shows that 81% of the clients had at least 10 years of school. And 65% had completed 12 years of school. Only 3% of the clients had a post-graduate diploma.

4.2.2 Socio-economic status:

In this project the researcher could not get the full picture of poverty position of the borrowers, but through observations when conducting the interviews the researcher would estimate that nearly three quarters of our sample were moderately poor, and the bottom quarter was really poor. The majority of the clients said that the income from their businesses was the major source of household income.

Figure 1: Impact of loan on business income.



Source: field survey 2002

The above figure 1 revealed that 62% of our sample said that their income increased because of the direct impact of the loan, and 13% said their income increased greatly. This means 75% of our clients reported that their income increased, whereas the income of 19% stayed the same.

4.2.3 Employment generation:

The primary employment goal of TNT loans is to create or expand part-time and full-time employment for the borrowers as well as family members. Almost 98% of the borrowers have created jobs for themselves, some of them managing to move from impoverished positions as day labourers to

stable self-employment. And also some clients managed to expand their existing businesses.

Overall we found 94% of borrowers are sole owners and working in their businesses. A few borrowers have adult family members who help out occasionally. Table 8 & 9 illustrate the status of unemployment within the household.

Table 8 The Unemployment of Adults in the Household

	Unemployed Adults >18Yr					
Number of Adults >18Yr	0	1	2	3	4	Grand Total
Size >18 = 2	4		1			5
3	2	5	1	1		9
4	2	5				7
5		3	1	1		5
6			1	1	1	3
7					1	1
8					1	1
Grand Total	8	13	4	3	3	31
		Frequencies of households where every adult was unemployment and describe the diagonal of the table.				
		Impossible frequencies or Structural Zeroes.				

Source: field survey 2002

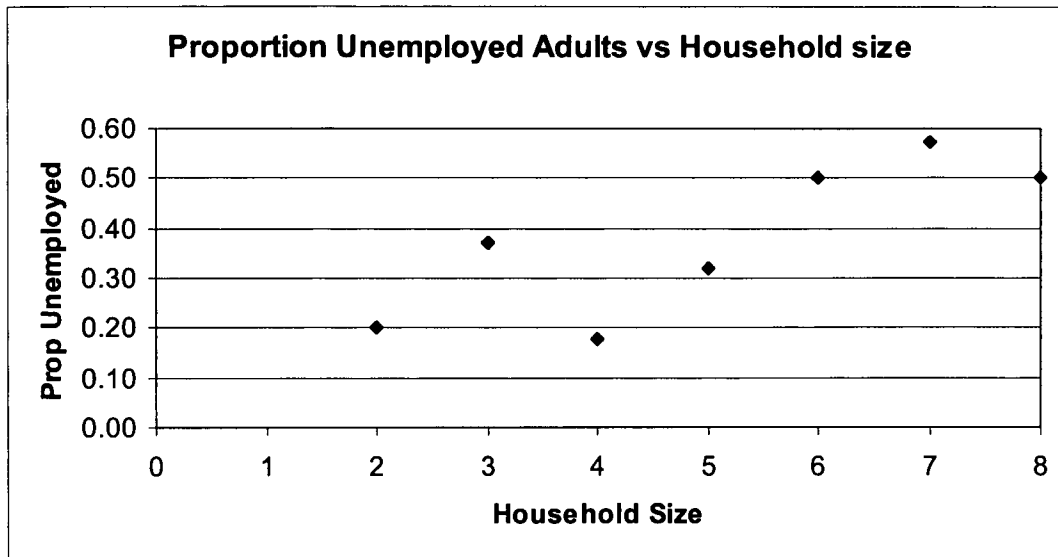
Table 9 : Proportion of Unemployed Adults in the Household.

HH size sample	Percentages of HH-size	Cum %of HH size	Number of Adults in HH	Number of Adults(Unemployed)	Proportion Unemployed
2	16%	16	10	2	0.20
3	29%	45	27	10	0.37
4	23%	68	28	5	0.18
5	16%	84	25	8	0.32
6	10%	94	18	9	0.50
7	3%	97	7	4	0.57
8	3%	100	8	4	0.50
Total	100		123	42	0.34

Source; survey field 2002

From Table 9 above, the total number of Adults in the sample was 123, while the total number of unemployed persons in all households sampled was 42, meaning the proportion of unemployed in the 31 households was thus 34.1%.

Figure 2 Proportion unemployed Adults Vs Household size



Source; survey field 2002

Figure 2 above illustrates the information contained in (Tables 8 & 9), which reveals the proportions of unemployment compared to the household size, the bigger household shows the top proportion of unemployment (*See table above*).

4.2.4 Loan size:

Although any one above 18 years of age can apply for a loan, if they are a previously disenfranchised South African, unemployed or underemployed, have sufficient business skills, have an operational postal or physical address, and reside in the Western Cape, TNT does not demand any collateral to guarantee the loan. After establishing eligibility and being recommended to the loan office, the loan applicant completes a loan application form, the loan application is reviewed by the loan committee,

and each applicant is notified of his/ her loan status. Then the successful applications a loan of a maximum amount of R 1.000—R15.000 may be granted, upon full repayment of a loan. (www.thenationtrust.org).

Table 10 gives a statistical description of the disbursement of the loans by TNT in 2002.

Table 10: Descriptive statistic of disbursement of loans by (TNT) year 2002.

	Approved total(in R)	Disbursed amount(R)	Proportion Disbursed
Mean	4600	4076	92.8%
Median	5000	3500	100.0%
Standard Deviation	2897	2371	17.7%
Range	14000	9293	66.7%
Minimum	1000	1000	33.3%
Maximum	15000	10293	100.0%
Count	31	31	3100.0%
Largest(8*)	5000	5000	100.0%
Smallest(8*)	2500	2000	100.0%

*Approximately equal to the quartiles

4.3 Findings related to the hypotheses:

This study was designed to test the impact of micro-lending services on three levels: the household, the enterprise, and the individual. Selected

results from both the quantitative and qualitative observations are presented and organized according to these three levels.

4.3.1 Impact at the household level:

Hypothesis: “Participation in the micro-finance programme leads to increased household income”.

Survey questions No. 8, 13, 15, 16, (See Appendix 1)

Clients who had participated in TNT’s programme for at least a year were more likely to report that their household income had increased.

On the household level one can hypothesise that participation in micro-enterprise services should lead to improvements in personal and household income indirectly through the investment made into the business.

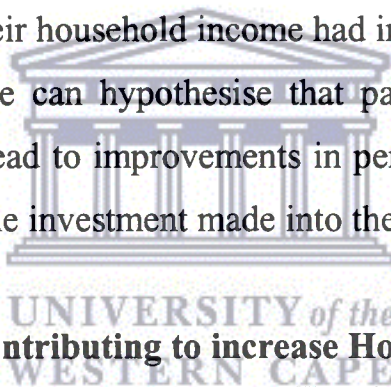


Table 11: Major factors contributing to increase Household income

Income with respect to the year preceding Dec-2002	Event Increasing income — Frequencies in cells					Total
	Business	Extra-job	Festive season	Savings	The loan itself	
Higher	2	3	1		11	17
Lower	2	2	1	1	4	10
No change		1			3	4
Total	4	6	2	1	18	31

Source: field survey 2002

Table 11 indicates the major factors which contributed to increased household income within 12 months after obtaining the loan. The data revealed that 58% of the clients said the loan which had been taken from TNT played a big role in their income increase.

Also some clients said they found extra employment to sustain their businesses as well as household expenses. In other words, some clients have other sources of income.

Table 12: Major events which contributed to decreased Household income in last 12 months

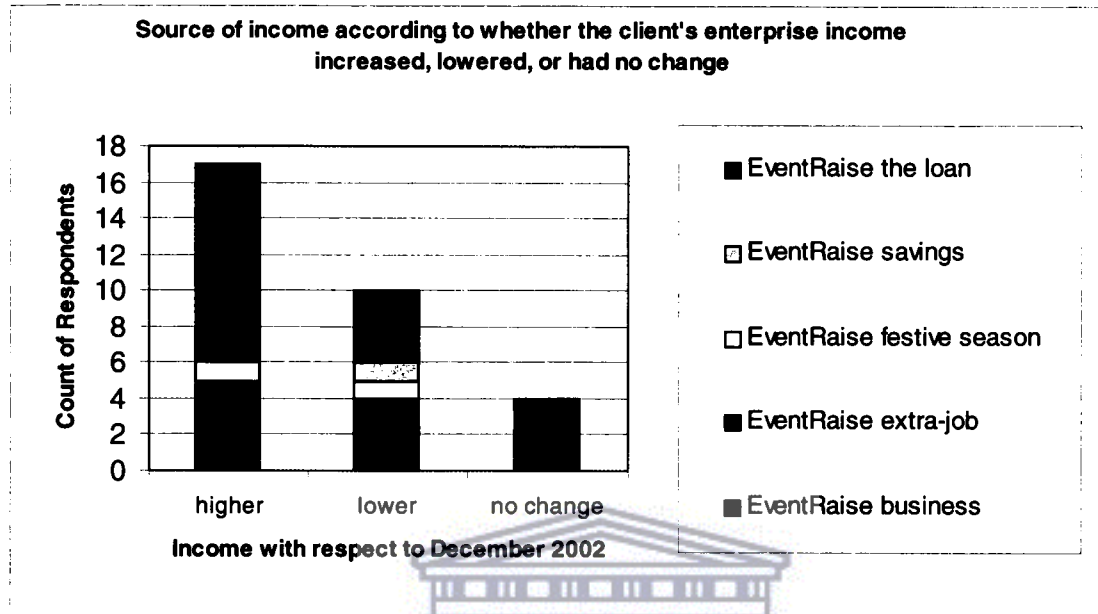
Gender	Crime	Don't know	Family problem	Poor plan	Poor sales	Sickness	Transport	Total
Female	4	1	6	1	4	2		18
Male	1	2	5		2	1	2	13
Total	5	3	11	1	6	3	2	31

Source: field survey 2002

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Table 12 revealed that about 42% said their income was lower or had not change since December 2002, as the results of family problems, poor sales, crime or sickness.

Figure 3: Source of change in household income with respect to December 2002



Source: Field survey 2002

From Figure 3 it is clear clients reporting a higher level of household income over last 12 months mainly depended on the TNT loans and extra employment.

More clients reported that their household income had increased rather than decreased over the last year; they also reported having more household assets, although it not clear to what extent this is related to programme participation.

4.3.2 Household assets:

The survey queried respondents about their savings and household assets. Like income, saving is a sensitive subject. Therefore rather than attempting to capture amounts, the focus was on capturing respondents' perceptions of the trend over the last year. In this respect the answers were quite interesting. Clients were more likely to respond that their income had increased over the last year. And if he/she bought some assets in their house like TVs, radios, video, sewing machines, or refrigerators, that asset had been bought after obtaining the loan (with respect to the household asset and saving, see Questions 14 and 20, Appendix 1).

Table 13: Household assets of the person who has taken up the loan.

	Gender		Total	Percentage%
	Female	Male		
None	12	5	17	55%
Radio	1	3	4	13%
Radio+tv	2	2	4	13%
Refrigerator	1		1	3%
Sewing mac	1		1	3%
Tvs	1	1	2	6%
Tvs refriger		1	1	3%
Tvs+Video		1	1	3%
Total	18	13	31	100%

(Source: Field survey 2002)

Table 13 shows that 55% of respondents reported that, they bought no assets since they had taken up the loan. 45% of clients (Male & Female) reported that they bought some assets to their household (Radio, Tvs, Video, etc.) (See question 14). About 6% of the households bought assets (a refrigerator and a sewing machine) which can also be used for generating income (business).

Table 14, The status of the clients after obtaining the assets.

The status of Household income during Last 12 months	None	Radio	R+tvs	Refrig	sewing	Tvs	Tvs +Refrig	Tvs+V	Tota
Decreased	2								2
Don't know	2								2
Increased	8	2	3		1	2	1		17
Increased greatly	2			1				1	4
Stayed the same	3	2	1						6
Total	17	4	4	1	1	2	1	1	31

Source; field survey 2002

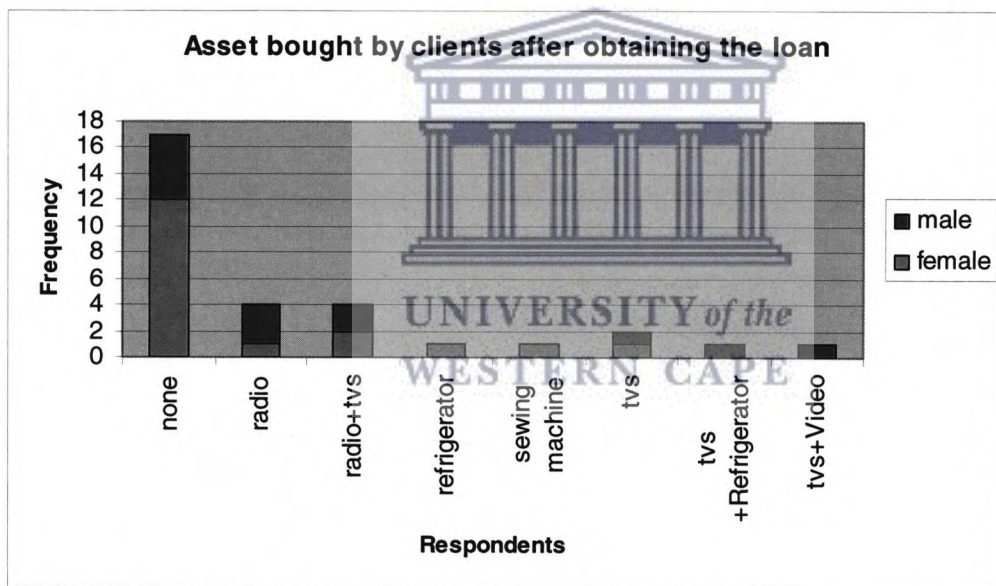
According to table 14 it is clear that 11 clients out of 31 reported that their household income increased or increased greatly, only 3 clients stayed the same (of those who bought assets). And also the data revealed that 17 out of 31 respondents bought no assets. However, 13 clients reported that their income increased; increased greatly or stayed the same. Only 4 clients said “do not know” or “decreased”.

Then from (Table 14) we could observe that the link between who bought assets after obtained the loan and who bought no asset, we found no significant different as far as the household income is concern.

Figure 4 below illustrates graphically the number of assets bought.

On the other hand, figure 4, indicated that the loan contributed to the an increase of the assets of some clients, (See *Appendix 2*)

Figure 4: The accumulation of household assets after obtaining the loan.



Source; field survey 2002

In addition, asset accumulation may increase the incomes of the household (sewing machine & Refrigerator).

Table 15: The location of enterprise, and personnel income of the clients

Business Location	Better	No change	Total	Percentage%
Household plot	18	3	21	68%
Roadside	1	2	3	10%
Separate plot	7		7	23%
Market	-	-	0	
Total	26	5	31	100%

Source: field survey 2002

Table 15 cross tabulates the location of the enterprise with changes in the enterprise's income during the last 12 months.

The data reveal that 68% of the clients were operating their business from the house. One tenth (10%) were using roadside, one quarter (23%) of the clients using a separate plot. Five sixths or 84% of the respondents said that their enterprise income has increased, and no one had any decrease, in the past year.

From table 15 it is clear that all but 5 of the 31 respondents reported they were doing better. And also we could observe those who operating their businesses from separate plots all of them were doing better .Two of the three operating on the roadside reported no change, which may indicate that those who have operated from the road side do not do as well as the other. However, a sub sample of 3 is too small to give any statistical significant result. Not a single person in the sample reported to have a site at one of the markets.

4.3.3 The impact on income and health:

Respondents were asked: overall, “taking in to account income, free-time, and health” has your life been better or worse during the last year than it was during the last year before. (See *question 16*).

Approximately 88% of respondents mentioned that their lives were better during the last year than during the year before, while 6% reported no change. Only 6% claimed to be worse off. (See *Table 16 and Figure 5*).

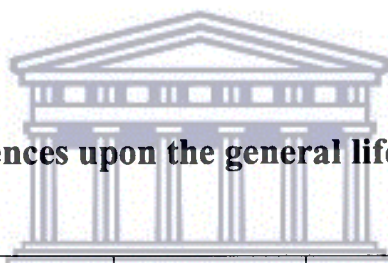
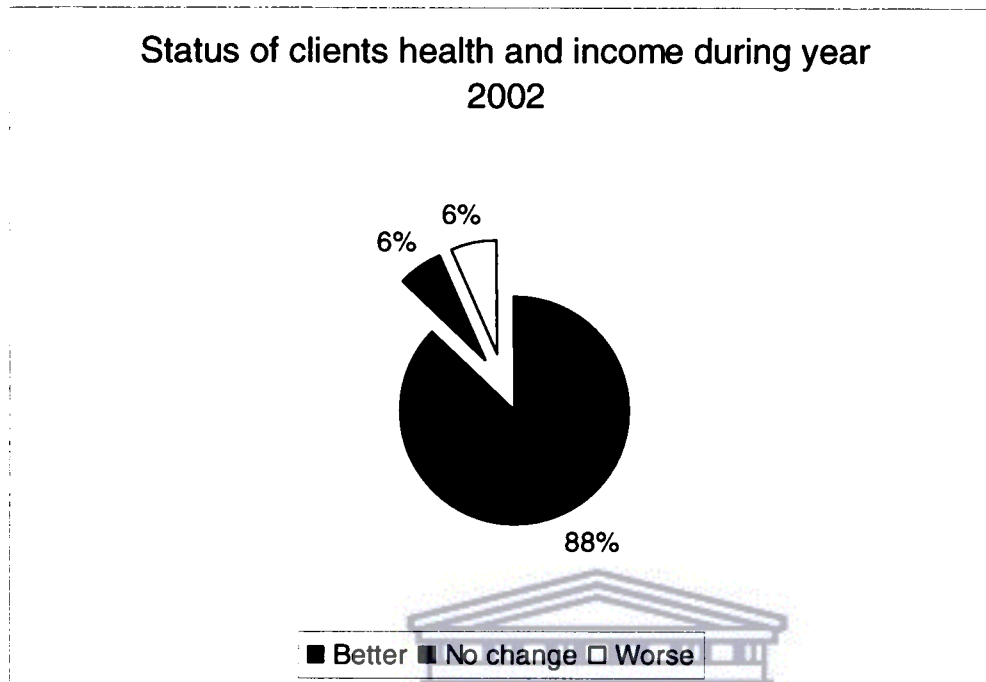


Table 16: Positive consequences upon the general life of the clients.

Household Health Better Last 12 months	Female	Male	Total	Percentage %
Better	16	11	27	88%
No change		2	2	6%
Worse	2		2	6%
Total	18	13	31	100%

Source; field survey 2002

Figure 5: Changes in life in general of clients during last year.



Source: field survey 2002

4.4 Impact at the enterprise level:

Hypothesis:

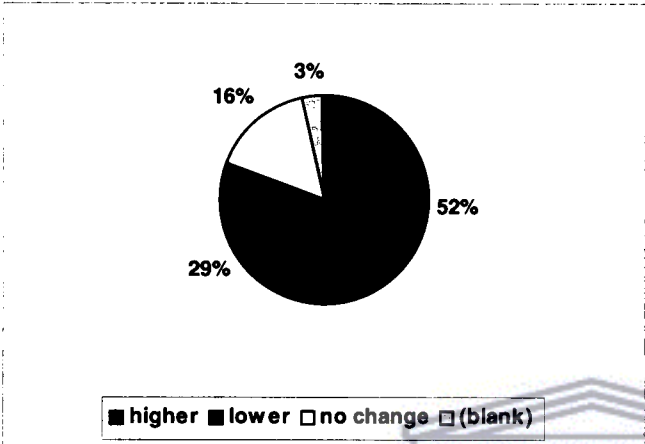
“Participation in the micro-finance programme leads to increased enterprise net worth as well as an increase in employment generated by the enterprise.”

Survey questions No: 17, 18, 21, 22, 23, 24, 26, 27, 28 and 29.

The enterprise level hypotheses assert that participation in the micro-enterprise programme will lead to increased enterprise stability and growth, and ultimately to greater differentiation between the enterprise and the household. As the business matures, it is hypothesised; loans are used to inject working capital into the business to increase the capacity of the

business. In this way an immediate, positive result of program participation is experienced.

Figure 6: Changes in Client’s enterprise income within last 12 months.



Source; field survey 2002

Figure 6, shows that 52% of the clients increased their enterprise income within last 12 months, 29% recorded a lower income, and 16% reported no change.

Respondents were asked whether, they invested any of the last loans they received into an income generating activity. (See question 11). The vast majority 83.9% answered yes and 16.1% answered no. Those who answered yes predominantly used the loan as operating capital to expand or diversify their businesses.

4.4.1 Personal saving:

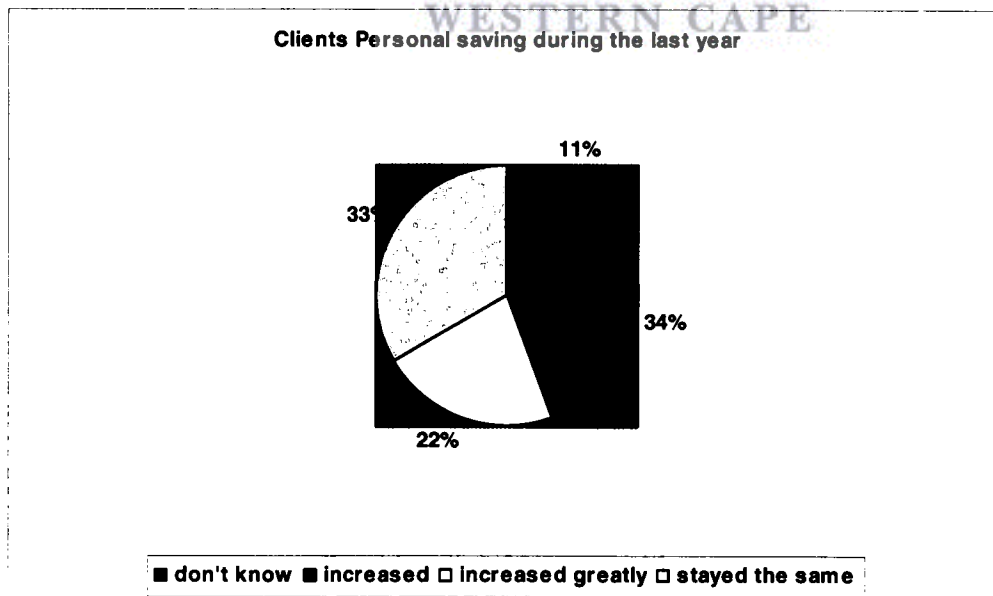
The majority of the sample reported that they had personal savings, as is shown in Table 17, (See Question 20). Of the 31 respondents, 56% revealed that their saving increased or increased greatly, 33% said their situation stayed the same, and 11% reported that they didn't know whether their saving increased or not. (See Table 17 & Figure 7)

Table 17: Clients personal saving within the last year.

Gender	Don't know	Increased	Increased greatly	Stayed the same	Total
Female	2	6	4	6	18
Male		9	3	1	13
Total	2	15	7	7	31

Source: field survey 2002

Figure 7: Clients personal saving during the last year 2002.



On the other hand, the vast majority 83.9% of the respondents reported that they keep a separate record of their businesses from other household income (See Question 21).

4.4.2 Personal income:

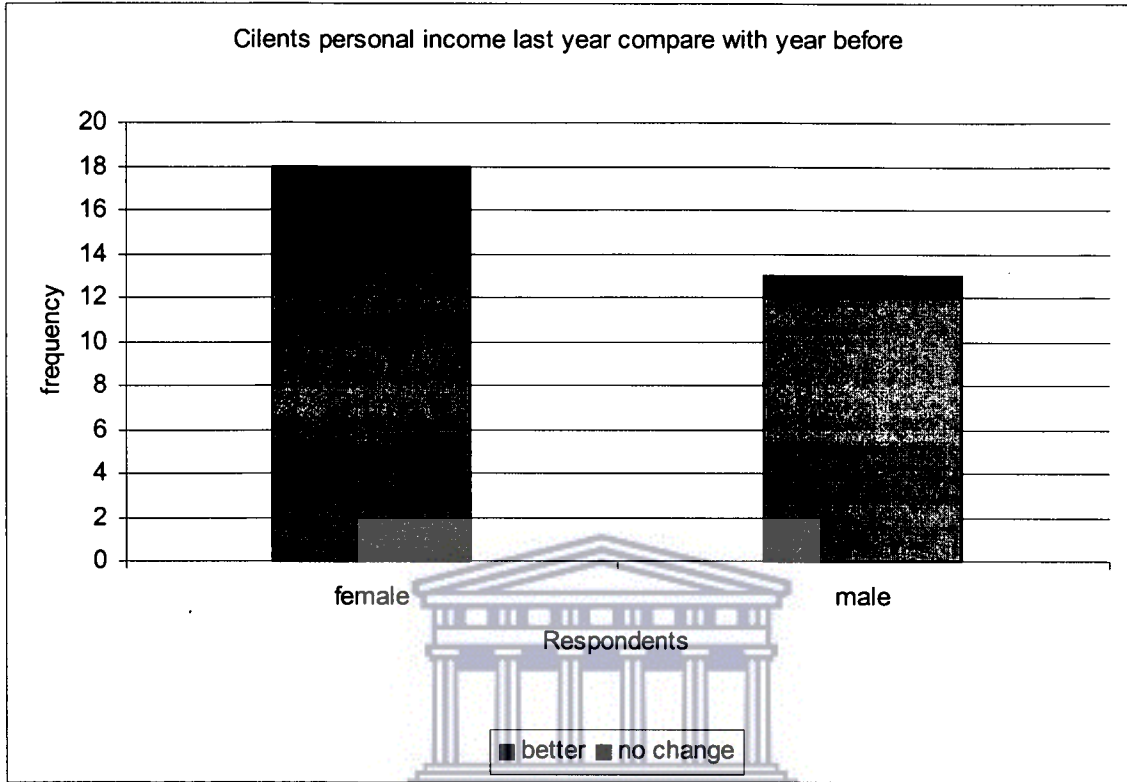
When considering personal income, Table 18 shows that 84% of respondents said they were better off, 16% claimed there was no change, and no clients said that they were worse off. (See Question 22)

Table 18: Clients personal income last year compared with year before.

Gender	Better	No change	Total	Percentage%
Female	14	4	18	58%
Male	12	1	13	42%
Total	26	5	31	100%

Source: field survey 2002

Figure 8: Personal income last year compare with year before



Source, field survey 2002

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Table 19: Major events contribute in increase enterprise income over last 12 months

	Don't know	Expanded business	Extra job	Loan input	Able to buy	Total	%
Increased		10	1	8	1	20	65%
Increased greatly		3	1		1	5	16%
Stayed the same	1		1	4		6	19%
Total	1	13	3	12	2	31	100%

Source; field survey 2002

Around 81% of the members reported that their enterprise income had increased while only 19% of members reported that their income stayed the same.

Table 19 shows that many factors contributed directly and indirectly to increases in the income of the enterprise. The most important benefit has been that people expanded their business because of the loan (42% of the respondents). However, as many as 39% seem to have simply regarded the loan as main income, while 10% extra-employment as an additional income.

4.4.3 Employment:

The survey asked borrowers about the total number of paid and unpaid employees who worked in the enterprise in the last 12 months, of which some were members of the household. Overall most of the enterprises operated by either clients or members of their households have quite low levels of employment.

Table 20 indicates that 61% of the sample did not specify any unpaid or paid employees. They run one person shows. On the basis of this data one cannot say that participation in the micro-finance programme provided by TNT has created much employment for the family member or others.

Table 20: Paid and unpaid employees in the enterprise:

Paid Employee's	1	2	(blank)	Total	Percentage %
1	1	2	5	8	26%
2	2		1	3	10%
4	1			1	3%
(blank)		1	18	19	61%
Total	4	3	24	31	100%

Source; field survey 2002

4.5. Impact at the individual level:

Hypothesis:

“Participation in a micro-lending programme leads to increased control of resources and individual empowerment on the part of the clients”.

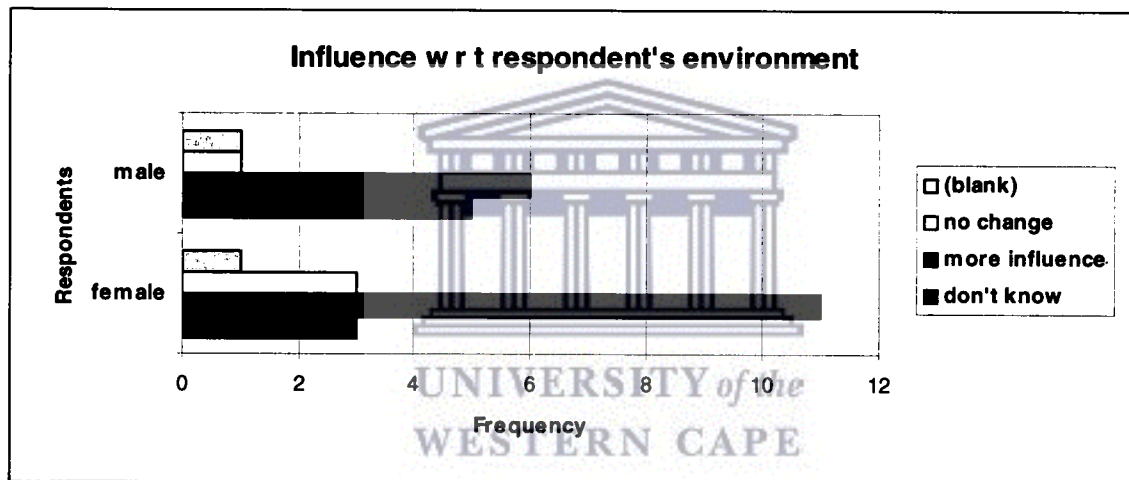


Survey questions: 13, 15,

The individual level hypothesis in this study looks for change in client’s decision making and control with respect to economic resources, for improvements in their self-esteem, and for improved productivity of their economic activities. Data from this assessment suggest that for some participants in the programme, their self-esteem and confidence do increase with programme participation.

On the other hand, the quantitative survey questions do not provide a good format for clients to describe in what real ways their lives have changed. In the in-depth interviews, clients expressed pride in the decisions they had made about their businesses and the control that they exercised over their operations. More importantly, they were able to describe a change in self-worth that appears reflected in both behaviour and in aspirations for themselves and their families.

Figure 9: Influence with respect to respondent's environment.



Source; field survey 2002

The above figure 9 reveals how female respondents gained more influence increased their sense of worth and pride inside and outside of the household and this tend to be linked to being a micro-entrepreneur. 58% female compare to 42% male. (See above)

Table 21: Household decision (more influence)

Gender	Don't know	More influence	No change	(Blank)	Total	percentage %
Female	3	11	3	1	18	58%
Male	5	6	1	1	13	42%
Total	8	17	4	2	31	100%

Source: field survey 2002

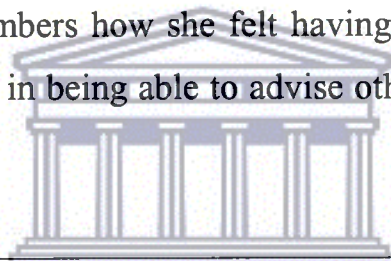
Table 21 supports figure 9 in the position of women and men in business after the loan; they gain more influence in day to day life. Not statistically significant difference between men and women.

Self-esteem is a concept not easily amenable to quantitative instruments. It was examined through an in-depth interview instrument that asked clients to reflect on themselves prior to joining the programme and now. The participants were asked to consider how they saw themselves in the context of their households and businesses.

Six such interviews, all with TNT long-term clients (randomly selected), were completed during this project. Two of the six respondents characterized themselves in terms such as timid, isolated, and with limited economic options prior to their participation in the TNT programme, whereas, four characterized themselves in more positive terms.

4.5.1 Case study 1:

For Miss Z1 (27 years old), in the process of obtaining a TNT loan claimed that she increased her self-esteem. She had to think through a business plan to decide how she would spend the funds and whether she would be able to repay the loan. Then she had to consult her boy friend and seek his idea and consent to get the loan since such debt would place the household at risk. Thereafter she approached a TNT office and convinced them of her commitment and the viability of her plan. A sense of achievement and pride arises every time she remembers how she felt having the TNT loan in her hands. And, she takes pride in being able to advise others about the process of obtaining a TNT loan.



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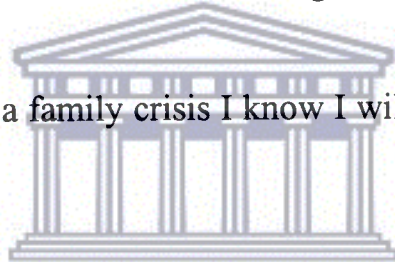
Self-esteem is a concept that centres on the perception of one's worth or value; it has many dimensions, and may increase gradually. It may be a result of an increase in one's worth due to a material change or a change in relationships. M.A Chen (1997) points out that material change includes: an increase in income, increased control over income, or an increased ability to provide for one's household.

4.5.2 Case study 2:

Mrs X1 (31year old), from a poor family, said of her experience with micro-credit: “I didn’t know what to do before; I came to TNT office in Cape Town. Then they lent me some money, and I started my business. It was difficult for me, for the first time to do business. Really, I was afraid of failing, but now I am much better than before. I’m more independent and I feel like I can solve any problem that presents itself. I have no more fear. ”

Some other client’s comments were also revealing:

“I feel that if there is a family crisis I know I will be able to deal with it”.



This increased self-esteem was also associated with improved status in the family and the community.

One client said;

“Now that I earn money, I am much more respected by other members of the household”

It is also interesting to note that in each of these cases, the women had no or very limited business experience prior to joining the programme. Therefore, the changes in the perceptions of themselves appear strongly related to their growing abilities in managing a business and developing a credit history. Their perceptions of themselves change from timidity to greater confidence.

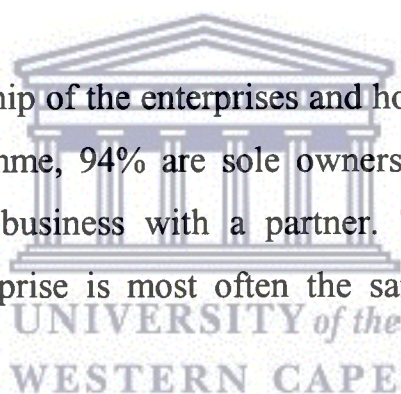
And also their perceptions of household position change from dependency to greater independence.

Table 22: Ownership of the enterprises.

Sole Owner	Female	Male	Total	Percentage%
Partner	1	2	3	6%
Yes	17	11	28	94%
Total	18	13	31	100%

Source: field survey 2002

Table 22 shows the ownership of the enterprises and how women have been empowered by the programme, 94% are sole owners of their businesses, whereas only 6% own a business with a partner. The location of the respondents' primary enterprise is most often the same location as their residence.



Some clients said that they had received important business advice from family or friends. This included advice on how to secure inputs, how to market their product, and how to figure out how much the client is actually earning for the amount of time she /he is putting in. Participants in family businesses have become aware of how much everyone in the business is earning for the household. These are all important elements in an emerging sense of entrepreneurship.

4.6.1 The interview with the stakeholders

Impact assessment has opened up to the needs of a mix of stakeholder ideas in order to capture the whole picture of micro finance system. In that sense, the researcher has conducted interviews with the Regional director, Regional development officer, loan officer and mentors as well. An open-ended questionnaire that would allow spontaneous answers was used. It was attempted to obtain a qualitative picture of the stakeholders' views and relevant information as well. The following questions were asked:

- Is TNT reaching the intended people? What are the characteristics of the people the project is serving?
- What are the goals of the organization?
- What are the challenges facing the programme? This is in response to growing competition in the micro finance market.

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4.6.2 Results of the interviews:

As the micro finance industry matures, service providers increasingly are concerned with developing new and better products. This is in response to growing competition in the micro finance market. The researcher asked all stakeholders the same questions at different times, in order to understand the system of the organization and to develop the core of the research questionnaires.

TNT Regional Development Officer for the Western Cape, Stephen Curry said that their clients are heterogeneous in terms of poverty level,

demographic characteristics, enterprise types, and household economic resources. He indicated that the organisation focuses on the youth in the age group 18—35. The organisation considers savings to be the most important challenge for clients. Savings are needed to provide safety nets to borrowers, particularly during emergencies. Savings help borrowers to meet their needs during difficult times (or deficit months) and save them from exploitative moneylenders. However, he concludes that government regulation of financial markets through the central bank or South African Reserve Bank prevents NGO- based MFIs from legally mobilising deposits, even from their clients.

TNT Director for the Western Cape, Maxwell Malan stated that the youth has been the target of the TNT ever since it was launched in 1995. This is to create an entrepreneurship culture among the youth, and help them to secure their future through involvement in small businesses. Again, he stressed mobilisation of savings to be the major challenge facing the organisation. He expressed the need to attract capital in the open market, and indicated savings to be one of the most important sources of capital mobilisation, considering the extent of the demand for saving facilities. He maintains that savings have the potential to become the main source of capital for the organisation, and provide the surest way for bearing full responsibility for the sustainability of the programme in future.

The mentors are a critical first point of reference for entrepreneurs when they seek advice and business support. The support that the borrowers receive is regularly structured according to their expertise and the need of these young entrepreneurs. It is worth noting that mentorship or support

accorded to borrowers lasts for the duration of the loan. Borrowers or emerging entrepreneurs should submit monthly reports or business activities to the organisation (*See appendix 3*). Finally, when the TNT officials were asked about the factors that would play a crucial role in ensuring the successful establishment of their clients, they replied that the success of clients depends on their focus, willingness and determination to make a difference. Entrepreneur clients with these attributes are on the right business track and they have been successful. Laziness, crime, sickness and sometimes family problems are identified to be the leading factors in hampering client progress. Nevertheless, there was unanimous agreement that most clients are much better today than before when the organisation was launched.

Therefore, it can be summed from the above responses from the TNT management that to be cost-effective, TNT should generate both financial and operational information, which in turn, should facilitate the analysis of financial sustainability and efficiency of the performance of the organisation.

4.7 Limitation:

Unfortunately the survey did not ask whether the clients were taking loans from other resources and whether such loans were used for business, household or other purposes. As a result it was impossible to conclude what that other source of income might be.

4.8 Summary:

Addressing the types of hypotheses considered here, with a moderate amount of expenditure and time investment, is always a challenge. How best to gather accurate income data has been the subject of much debate. Should income be measured directly and in detail? Should proxies be used, if respondents are reluctant to provide accurate figures? Should the questioning focus on trends? A less complicated approach was taken in the survey, and questions were designed to capture respondent perceptions of changes (trends) in income over the last year. These trend questions were asked in terms of both household income and the respondent's own income.

Clients reported that their household income, as well as personal income, increased.

Overall, the impact survey concluded that TNT is meeting its programme goals. The programme is contributing to income generation and is targeting economically active, disadvantaged people. While not all improvements are significant, the micro-enterprise programme can claim that it is contributing to the well-being of its clients.

Chapter Five

Conclusions and Recommendations

5.1 Introduction:

As Adam Smith (1776; reprinted 1983, P. 195) observes in the *Wealth of Nations*, “Money, says the proverb, makes money. When you have got a little, it is often easy to get more. The great difficulty is to get that little.” This difficulty was apparently well noticed by the researcher, since many young were struggling to get a financial support to start their businesses. Some have failed, but many more are getting through successfully.

In other words, an entrepreneurial culture could contribute to alleviating unemployment and creating jobs in South Africa, so as to equalise the society. There needs to be a change in the attitude towards entrepreneurship among the youth.

The impact survey revealed several issues that TNT should investigate more thoroughly. There is a problem with some clients not abiding by the programme’s rules, particularly with regard to use of the loan and to taking a loan from another source concurrently with TNT’s loan.

If TNT wants to build on its strengths and to build up its market niche in assisting youth to develop entrepreneurship skills and to start and expand youth controlled businesses, the researcher feels that the following steps will be necessary:

- Increase the loan size. Considering inflation, crime, as well as family problems, more than half of the clients expressed their demand to increase loan size (*question 30, 31*)
- Extend the great majority of larger loans to current youth clients who are poor, but have proven entrepreneurial capacities, credit worthiness and an interest in expanding their businesses or creating new businesses.
- Extend the loan period. Data revealed that short-term loans would not reflect on client's empowerment in business.
- Provide additional practical training to all mentors, including loan officers, on how to help borrowers develop business management and accounting skills.
- Provide a regular meeting with clients and mentors at regional workshops for the informal discussion of problems, in assisting clients with business management and entrepreneurship skills.
- Safeguard the TNT loans and ensure that it is used for the purpose for which it was intended, (for example, one client who have fallen into arrear, because he use his loan to buy a radio hi-fi).
- Advise clients thoroughly about the risks involved in burdening themselves with numerous credit obligations. Some of them take whatever credit they can get without thinking about how it will be repaid. Others simply have no intention of repaying.
- Provide appropriate orientation on the use of savings as collateral. This would maintain a balance between the objective of empowering youth, and the need to ensure that the funds can be recuperated.

- Establish better methods of selecting areas of operation, taking into account the objectives of sustainability and the organizational mandate.
- Address the worsening trend in arrears. This is due to the fact that borrowers do not have a business or, if they do, the business has very low profits.
- Promote the entrepreneurial spirit among clients. Because many clients were found lacking in this, they should be provided with entrepreneurship training, prior to receiving loans.

5.2 Client recommendations for the programme. *(See Question 31)*

Finding:

The most common suggestions for improving the programme were the same aspects with which clients indicated some dissatisfaction and pertained to the credit component.

So the common suggestions from the impact survey for specific changes clients would like to see in the programme;

- Longer loan cycle
- Increased loan size

Reflecting their longer experience with the programme and possibly their increased empowerment and articulation, long-term clients were more likely than new clients to offer specific recommendations, approximately 85% of the clients suggested extending the loan cycle and increasing the loan size.

In general, the TNT clients were very satisfied with the programme.

5.3 Lessons learned and future action plan:

The diversity of micro-enterprise programme objectives and strategies makes it difficult to establish a standard set of impact indicators, we have some kinds of questions that can be addressed in a comprehensive impact assessment system in future, because most NGOs monitoring systems often suffer from insufficient baseline data to allow before-and after comparisons of programme clients. Although evaluations or special studies can generate findings that are reliable enough to withstand statistical testing, relatively little statistical analysis has been done by NGOs on micro-enterprise programme impact

Examples of questions that can be addressed:

- What is the adverse impact of micro-enterprise services on the environment and natural resources, on gender equity, children, and labour?
- How does length of participation in the programme affect impact?
- What is the impact on institutional development and policies?
- How does economic and social impact vary by ethnic group, gender, and age?

5.4 Conclusions:

First of all taking a look at the individual units of impact analysis, most clients observed increases in household income as a result of the TNT programme, followed by some positive impacts on assets and savings at the household level. This indicates that micro-finance can significantly contribute to improved household well-being and improved standards of living of the clients.

Moreover, the most positive impacts of micro-enterprise were observed at the enterprise level, in achieving the primary objective of enhancing enterprise growth and job creation, in particular, micro-enterprise employment, increase income, health, and some assets.

The final question to be answered from the impact survey is: Does the micro-credit programme (TNT) satisfy its goals? If the main goals of the programme are taken as assisting in income generation, targeting economically active disadvantage young clients and creating more employment for those youth, the answer is clearly YES.

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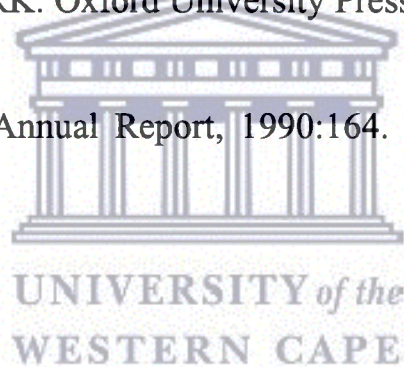
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5- How many years of school have you completed? _____ (*Specify number of years*)

6-How many years of education have you done after school? _____
 _____ (*Specify number of years*). What did you study? _____

Group (B) Household level:

7-How many persons are in your household (those who live together and share the same food)?

N O	Ag e	Sex	Educatio n	Employment	Unemploye nt	Estimate contribution to the household
1						
2						
3						
4						
5						
6						
7						

8-Overall, how was the income of the household in December 2002 compared to the same month a year earlier?

1= Higher

2= Lower

3= No change

9-What major events (if any) helped to raise the household's income? ___

10-What major event (if any) helped to lower the household's income? ___

11-Did you invest any of the last loan you took from the (TNT program) into an income generating activity?

1= Yes

0 = No

11a-If yes, how did you invest the last loan you took from the (program)?

12-Did you use any portion of your last loan to----

[a]-Buy food for your household

1= Yes

0 = No

99= Don't know

[b]-Buy clothes or other household items

1= Yes

0 = No

99= Don't know

[c]-Keep money on hand in case of an emergency or to repay the loan.

1 =Yes

0 = No

99 = Don't know.

[d]-Pay for children school fees

1= Yes 0= No 99= Don't know

13-Over the last 12 months, has your household's overall income...?

1= Decreased greatly 2= Decreased 3= Stayed the same

4=Increased 5= Increased greatly. 6=Don't know.

14-After obtaining the loan what assets have you bought for the house?

1= TVs 2=Videos 3=Radio 4=Sewing machines

5=Car/Taxi 6= Refrigerators 7= Other (*Specify*)

15-Did your influence over important household decisions change in this year compared to the last year?

1=More influence 2= Less influence 3= No change

4= Don't know

16- Overall, " taking in to account income, free-time, health" has your life been better or worse during the last year than it was during the last year before?

1= Better 2=Worse 3=No change 4= Don't know

22- Overall, how did your own personal income last year compare with the year before?

1= Better

2=Worse

3= No change

4= Don't know

23- Are you the sole owner of your business?

1= Yes

0 =No (If no Specify) _____

24- Did you receive help from a relative or close friend as preparation for running your business?

1= Yes

2=No

25- Have you worked as an employee or apprentice for someone else as preparation for running your business?

1= Yes

2=No

26- Have you received formal training as preparation for running your business?

1=Yes

2=No

27- What is the main physical location for your business?

1= Household plot 2= Separate private plot 3=Market

4=Roadside 5=Other, (Specify) _____

28-Do you have any employees?

1= Yes

2=No

29-If yes, how many paid and how many unpaid?

30-Any comments on major changes in the range of the household's own business activities?

31- what do you think should be done to improve the programme of The Nations Trust?



Again, thank you for taking the time to answer these questions. Please feel free to add any additional comments you would like to make.

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Appendix 2

The average of the loans between male and female in different stages

Loan number	Data	Gender			
		Female	Male	Total	
1	Count of IdNo	11	5	16	
	Count of Loan#Tot	11	5	16	
	Average of Loan#Tot	1.0	1.0	1.0	FIRST LOAN
	Min of Loan#Tot	1	1	1	
	Max of Loan#Tot2	1	1	1	
2	Count of IdNo	4	6	10	
	Count of Loan#Tot	4	6	10	
	Average of Loan#Tot	2.0	2.0	2.0	SECOND LOAN
	Min of Loan#Tot	2	2	2	
	Max of Loan#Tot2	2	2	2	
3	Count of IdNo	3	2	5	
	Count of Loan#Tot	3	2	5	
	Average of Loan#Tot	3.0	3.0	3.0	THIRD LOAN
	Min of Loan#Tot	3	3	3	
	Max of Loan#Tot2	3	3	3	
Total Count of IdNo		18	13	31	
Total Count of Loan#Tot		18	13	31	
Total Average of Loan#Tot		1.6	1.8	1.6	ALL
Total Min of Loan#Tot		1	1	1	
Total Max of Loan#Tot		3	3	3	

Source; field survey 2002:



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Institute for Social Development

14 February 2003

TO WHOM IT MAY CONCERN

Mr Sabir.M .Ibrahim, is doing research for the M.A. degree on the following topic:

“A study of the impacts of the micro-lending in informal sector in Cape Town”

He will conduct this research with The Nations Trust by means of interviews and questionnaires.

All information obtained for this study will be treated in strict confidence. No person or agency will be identified and this questionnaire does not include any person's name.

Assistance with this research by the agency staff and clients, as well as mentorship in completion of questionnaires and with interview is indispensable for the research project.

Your kind co-operation is most appreciated.

Thank you

PROF P LE ROUX
DIRECTOR

INSTITUTE FOR SOCIAL DEVELOPMENT
UNIVERSITY OF THE WESTERN CAPE

14 FEB 2003

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A Place of Quality, A Place to Grow

**THE NATIONS TRUST
BUSINESS ADVICE AND SUPPORT SERVICES PROGRAMME
(BASS)**

Monthly Business Progress Report

Date of visit: _____

Account #:

--	--	--	--	--	--

Owner's Name: _____ Surname: _____

Address: _____

Ph: _____

Company Name / type of business: _____

STATUS OF THE BUSINESS

Is the business operating?

Yes	No
-----	----

When did it stop operating? Date: _____

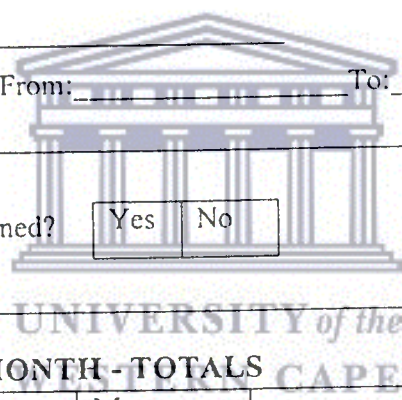
Suspension of operations: Date: _____ From: _____ To: _____

Why did it stop operating? _____

Was last months recommendations actioned?

Yes	No
-----	----

If no why not? _____



SALES TURNOVER FOR THE MONTH - TOTALS

Month	March	April	May			
Sales	R	R	R			
GP	R	R	R			
Owners Drawings	R	R	R			
Total business expenses excl. owners drawings	R	R	R			
Total cash sales	R	R	R			

PREMISES

Are they adequate

Yes	No
-----	----

 Any changes since last visit

Yes	No
-----	----

List changes: _____