

WITS BUSINESS SCHOOL

Master of Management in Finance & Investments (MMFI)

THESIS

ON

**MICROFINANCE INSTITUTIONS (MFIs) AND POVERTY REDUCTION IN
SOUTH AFRICA: A case study of Ethekewini Metropolitan Municipality.**

BY

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ABSTRACT

Microfinance Institutions (MFIs) are proving to be a pivotal asset in providing essential access to financial services to the urban and rural poor who are traditionally shunned by the mainstream blue-chip financial service providers in developing countries. However, in the literature, MFIs providing entrepreneurial assistance have been lumped together with MFIs providing a more exploitative and consumption loan offering. This then masks the value or the poverty reducing effect of MFIs that have financial products geared to assist the creation of small businesses for the poor. The aim of this study is to examine South Africa's microfinance institutions and their impact on poverty reduction in urban and rural areas. To this end the research question is as follows: what is the impact of the MFI on poverty reduction around eThekweni region?

This study was conducted among microfinance institutions and the beneficiaries of MFIs in eThekweni region. In order to gain better insights and in order to better understand the real depth and knowledge of this topic, the researcher needed a view of both the service provider and their customers. A structured close ended survey questionnaire was designed for MFI managers and borrowers. The responses received show that Microfinance institutions are a useful means to reduce poverty among the poor. On this basis, it is recommended that the government must play an active role to regulate MFIs but more importantly to find innovative ways to help fund or subsidize their activities among the poor.

CHAPTER ONE

1 INTRODUCTION AND GENERAL PROBLEM SETTING

1.1 INTRODUCTION

Across the world, 20% of the total population (1.4 billion people) live in poverty (Malunga, 2010). Even though there has been a positive economic change in some parts of the developed world, the African economic situation has worsened (Biekpe, 2007). The poor, that is, the majority of the African population, largely earn their livelihoods in the informal sector. Biekpe (2007) assumes that microfinance is an effective financing vehicle for African entrepreneurs who mainly ply their trade in the informal sector.

The worsening African commodity based economies have meant that the majority of the African people have dwindling purchasing power and standards of living. African governments and academics alike have begun to explore microfinance as a means to uplift the economic situation of their populace. The new African developmental approach is the investigation of microfinance in order to better understand it as a poverty mitigation tool by critically assessing its objectives, successes and to try and counter its failures (UNOSAA, 2013). According to the Gauteng Rural Development Strategy document (2009-2014), in some of the more developed African economies, notably South Africa, microfinance is proving to be a pivotal asset in providing essential access to financial services to the urban and rural poor who are traditionally shunned by the mainstream blue-chip financial service providers (Ojo, 2009; Adjasi & Coleman, 2006; UNOSAA, 2013).

The definition of microfinance institutions lends itself to confusion among academics and practitioners as one finds that most academics and practitioners refer to moneylenders and pawn brokers as microfinance institutions. While this definition is not incorrect in the strict sense of the word, it does lend itself to negative connotations considering the thrust

of this study. The United Nations (UNOSAA, 2013) defines microfinance institutions on the basis of the services they provide, namely over-the-counter small deposits, micro-loans, electronic cell phone-based money transfers and latent shrewd marketing of insurance products (normally the insurer markets another essential service with insurance attached to it like low prepaid vouchers or inexpensive but benefits loaded funeral cover) to the low-income households in poor infrastructure environments, and their related microenterprises. From a South African perspective, this definition does not apply to the majority of the previously disadvantaged black people who do not have access to development or non-governmental subsidised deposits, loans, payment services, money transfers and insurance charges. In other rural and low income urban areas, one may find rural banks, cooperatives, non-governmental organisations (NGOs) providing financial packages to the economically active poorest of the poor in order to improve their social conditions (Goodspeed et al., 2009).

Two known microfinance institutions that are considered to have an operational definition of microfinance institutions are, nobel laureate Muhammad Yunus' Grameen Bank of Bangladesh and the Raden Bei Aria Wirjaatmadja founded, but now majority owned by the Indonesian government, Bank Rakyat of Indonesia (People's Bank of Indonesia). The Grameen Bank offers micro-loans to communal entrepreneurs while the Bank Rakyat has a socialist flair intermingled with very good social people-based risk management practices underpinned by a supportive government strategy (Yaron, Benjamin & Piprek, 1997). However, recently, there has been the emergence of other vibrant MFIs around the world, such as the Americans for Community Cooperation in Other Nations (ACCION), which built 62 MFIs in 31 countries and is lending to 44000 clients in the US (ACCION, 2012). In Latin America, some of the few vibrant microfinance organisations include BancoSol, Caja Los Andes, PRODEM, FIE, Sartawiin Bolivia; and Caja Social in Colombia. In South Africa, the notable strong microfinance Institutions include the African Bank, Post Bank, Capitec Bank, Meeg Bank, Land Bank, TEBA-Bank, Ithala Ltd, SAMAF and Khula Enterprises providing these essential services to the poor (Van Zyl et al. 2009). The South African MFIs are a mix of moneylenders, who charge high interest rates and

government subsidised MFIs that offer finance developmental programmes with government subsidies. The aim of this study is not to investigate MFIs that charge high interest rates on mainly consumption loans and financial services, but rather MFIs that actually extend community based developmental and entrepreneurial development finance.

1.2 BACKGROUND TO THE STUDY

Sub-Saharan Africa has a higher proportion of low-income people living in the rural areas as compared to Latin American and the Caribbean, a 70% to 21% on a population comparative difference. This compounds the need for academic studies that try to understand the levers that can be utilised to reduce the income disparity levels of Africans relative to their urban counterparts and their Latin American and Caribbean cohorts (World Bank, 2012). The Human Development Index (2010) approximates that 39.9% live below the South African poverty line of R354 (Trading Economics, 2012), while both the HSRC (2004) and World Bank (2012) put it that the levels of poverty have deepened since 1996. What is more disturbing is that inadequate access to basic services is a feature of the marginalised, previously disadvantaged communities, that were discriminated against by previous governments on the basis of race which was used to confine them to their own areas (Mbuli, 2008).

In addition, the South African rural poor tend to lack the financial and the physical assets to improve their poverty situation. These 'unbankables' do not own any tangible assets that can be used as collateral security in order to get loans from banks. The economically active poor have the zeal to engage in entrepreneurial business, yet they lack the financial resources to do so, partly because they are credit and equity rationed by formal financial institutions (Mbuli, 2008).

In the period between 2009 and 2013, this asset deficient and poor sector of the South African society accessed unsecured loans to such an extent that the microfinance sector experienced major growth on the back of a period of high commodity prices, high economic growth and high consumer confidence and purchasing power. The net result was an unprecedented growth in unsecured assets by microfinance institutions or more specifically, unsecured moneylenders (African Bank unsecured assets grew 268% from R17.3 billion to R63.7 billion, while Capitec Bank unsecured assets grew more than 600%, from R5.0 billion to R38.3 billion), but this also created a precipitous credit bubble as these loans which were unsecured assets to a poor financial vulnerable sector of the population, caved in under the high loan instalment pressure brought about by the deteriorating economic situation with its concomitant reduced consumer buying power. The result was that African Bank was placed under curatorship because of its high risk, high interest rate unsecured assets (the Post Bank had to be bailed out by the government) and Capitec made a strategic diversification into commercial banking as a low cost bank, subsidising itself with non-interest income. This argues the fact that a low cost microfinance institution can subsidise itself in the South African market by smart diversification of its product offerings to the poor. And that a microfinance institution with unsecured loans charged at unaffordable rates cannot compensate for economic conditions and high risk clients with high charges. Despite compelling evidence of the previous argument, this study seeks to scrutinise the inconsistency that is noted between the relationship of microfinance institutions and the poor sector of the South African market, namely, that increased provision of microfinance offerings has not deterred rising poverty, as noted by the World Bank, poverty levels in South Africa.

1.3 STATEMENT RESEARCH PROBLEM

There is strong evidence in the current literature that microfinance when correctly applied, helps to reduce poverty levels in African communities (Biekpe, 2007). In South African rural areas, there has been an increase in access to electricity and the related access to banking products via microfinance institutions and more importantly, through cell phone

based channels, like Mpesa from Vodacom. The Microfinance Review 2013 argues that microfinance institutions are getting stronger over time, both in scale and profitability with total loans growing at a compound annual rate of 16% and loan portfolio quality relatively sound (this author treats such reports with caution as they were issued in a period of economic boom and unprecedented consumer buying power); however, what cannot be contradicted is that rural poverty has increased in tandem with improved access to all types of microfinance. This raises the question, why has microfinance failed to reduce poverty in rural areas? Could it be that the nature of the structures and policies of microfinance institutions hinders the rural poor from utilising microfinance for productive, income generating activities? Is microfinance in rural South Africa mainly allocated for consumption?

The case stated above of, consumptive spend, of loans accessed by the urban and rural poor requires rigorous academic investigation, but due to time and resource constraints, this study only examines South Africa's microfinance institutions and their impact on poverty reduction in urban and rural areas, in relation to the use of policies and lending patterns, being managed by a microfinance structure, comparable to international best practices in developmental microfinance institution management.

1.4 OBJECTIVES OF THE STUDY

Since independence in 1994 and increased access to infrastructure, South Africa's microfinance institutions have increased their interaction with the urban and rural poor. This increased interaction needs to be objectively explored under the following specific themes:

1. To investigate how MFI's impact poverty reduction in eThekweni.

1.5 MAIN RESEARCH QUESTION

The author's argument has been that in the literature, microfinance institutions providing entrepreneurial assistance have been lumped together with microfinance institutions with a more exploitative consumption bias. This then masks the value or the poverty reducing effect of microfinance institutions that have financial products geared to assist the creation of small businesses. The following research question and the resultant microfinance institution chosen, Opportunity Finance, is intended to make this distinction in the investigation. The high-level research question of this study is:

1. What is the impact of the MFI on poverty reduction around eThekweni region?

1.6 RESEARCH HYPOTHESES

1. **H₀:** That there is no significant relationship between the provision of MFI's financial services to the beneficiaries and poverty reduction around eThekweni region.

H₁: That there is a significant relationship between the provision of MFI's financial services to the beneficiaries and poverty reduction around eThekweni region.

In order to show that there is a significant relationship between the financial services provided by the MFI to the beneficiaries and poverty reduction; the data gathered from the respondents on the strength of the key variables in the questionnaire were tested to ascertain if the financial and living standards of the beneficiaries have improved. Then we can conclude that the MFI has a positive impact on poverty reduction.

1.7 SIGNIFICANCE OF THE STUDY

This study represents a shift from the existing literature with respect to the theme 'microfinance institutions and poverty reduction in South Africa using eThekweni as our source of inference'. Our argument is that erroneous definitions and dynamics of microfinance institutions have been collectively presented by researchers on the topic with resulting poor linking to the poverty reduction and social development among the poor (cf. Adjasi, 2006; Biekpe, 2007; Du Toit, et al., 2007; Konga, 2012). Little research has focused on a clear distinction between consumption microfinance services and entrepreneurial microfinance services to the urban and rural poor of a municipal area like eThekweni. This study seeks to make that distinction through the use of closed ended questions that try to extract this information from the respondents.

Millennium Development Goals were meant to have been achieved by 2015. World leaders at the World Summit (September 2005) recognised the importance of giving access to financial services to the poor through microfinance and unfortunately, as has been consistently argued in this document, through microcredit. This also means that the agreement to prepare a roadmap and plan of action to advance microfinance on the continent by African leaders in 2009, had the structural fault of mixing consumption and entrepreneurial microcredit. It is not surprising that the incidence of poverty remains high in most African countries because of strategies and policies aligned to a disastrous definition of microfinance (UNOSAA, 2013). Urgent action to address this scourge is needed.

The outcomes of the research work will help to provide a framework for the MFI industry in South Africa that was not there before and may be used for future comparisons. In addition to this, the study provides conclusions and suggests some recommendations that will provide useful information to all parties concerned in differentiating consumption and entrepreneurial microfinance services.

1.8 LIMITATIONS OF THE STUDY

The study is limited to the SA microfinance institutions sector, notwithstanding that the information can be used in other countries. The questionnaire is also limited to MFI's around the eThekweni region, and their benefactors; focusing on the growth, structure, policies and lending patterns and impacts of MFI's in the areas only.

1.9 CONTRIBUTION TO KNOWLEDGE

This research aims to establish how MFI's impact poverty reduction in eThekweni; to examine the structure, policies, lending patterns and how these dynamically interact with poverty reduction in eThekweni; it contributes not just knowledge for knowledge's sake, but also contributes to the application of the knowledge in question, by putting knowledge into action. It also reviews the current successes and failures of established MFIs in order to determine the effectiveness of their lending patterns. This will assist future scholars, academics, policy makers, role players of the better use of effective structure, and policy measures to reduce poverty in the country. This expected contribution will lead to further research of establishing new policy measures and better implementation of the initiatives.

1.10 CHAPTER ORGANISATION

For the purpose of clarity and understanding, the study is divided into five chapters.

Chapter one – provides the basic introduction and the scope of the study as discussed in the proposal.

Chapter two – discusses the theoretical framework and literature review.

Chapter three – focuses on the research design and research methodology.

Chapter four – presents the data analysis and summarises the findings.

Chapter five – summarises the research findings, suggests recommendations and conclusion are made.

1.11 SUMMARY

The literature reveals that many scholarly works have been carried out to conceptualise microfinance institutions in several countries in Africa and, indeed, in the world. This provides us with an abundance of scholarly contributions on the broad theme 'Microfinance institutions and poverty reduction in South Africa: A case study of eThekweni Metropolitan Municipality'. Our observation of these studies shows that more poverty related studies have been carried out in the rural areas of Africa as compared to the urban municipalities as in our study. Our review focuses on the keywords of the research topic, microfinance, microfinance institutions, poverty, poverty reduction, and South Africa. In this research work, poverty reduction and poverty alleviation are used interchangeably to connote the same meaning.

CHAPTER TWO

2 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter is divided into three major sections. The first section reiterates the broad objective of the study to examine the MFIs poverty reduction strategies, that is, to investigate how MFI's impact poverty reduction, vis-a-vis their structure, policies and lending patterns and how these dynamically interact with poverty reduction in South Africa. The second section provides the theoretical review of the meaning and definition of the key variables in the research study namely; poverty, micro finance and micro finance institutions in South Africa. The final section of the review focuses on the empirical and regulatory framework of MFIs in South Africa. Furthermore, the review presents the successes or failures of the MFI policy strategies at clearing poverty in South Africa and in eThekweni.

2.2 THEORETICAL AND EMPIRICAL LITERATURE

2.2.1 Microfinance Institutions (MFIs)

This study disputes, from an operational perspective, the definition by Ledgerwood (2000) that asserts that micro finance institutions as non-governmental organisations (NGOs), saving and loan cooperatives, credit unions, government banks, commercial banks, or non-bank financial institutions are institutions that beneficially service the active poor. Already by lumping commercial banks together with non-governmental organisations, Ledgerwood (2000) has made the classic error of not looking at operational and objective intent relative to the poor. Brennan (2008) continues with this erroneous lumping via services offered (savings accounts, insurance, health care and personal development). This study seeks to differentiate between microfinance institutions operationally, and by

broad objective intent, as well as by outcome of services offered. A consumption loan does not provide the borrower with a capacity to repay it while an entrepreneurial loan may produce a disciplined focused entrepreneur with the capacity to repay it.

The existing literature identifies different types of MFI's ranging from informal to formal. The informal MFIs include the semi-formal MFIs such as non-governmental organisations (NGOs), non-bank financial institutions and member owned institutions. The informal MFI sectors have been around for a long time and have stood the test of time, most poor people get loans from these informal moneylenders (Mamutze, 2012). Zeller and Sharma (1996) posed the question as to why these informal finance institutions have succeeded in offering credit to the poor, yet the formal institutions have failed to do so. The answers to this question can assist in giving direction to the public policy on financing the poor. In some countries like Pakistan, microfinance is regarded as a social service and the organisations providing microfinance services are referred as microfinance NGOs (Galema *et al*, 2012). The microfinance NGOs often strive to achieve two conflicting objectives, financial self-sufficiency and poverty reduction (Galema *et al.*, 2012).

On performance, Volschenk (2002), Wright (1999a), Robinson (2001), Rutherford (1999b) and Mutesasira (2001) touched on the issue of proximity to financial institutions particularly, geographic distance from financial institutions, limited trading hours and other operational issues related to accessing these financial services by the poor. Ledgerwood's (2000) study revealed the following as constraints facing microfinance institutions – counterproductive credit, non-supportive policy framework, liquidity problems and replication. Also, well informed, innovative, productive and efficient staff are important aspects in microfinance service delivery. Ledgerwood (1999) quite rightly brings out the implementation challenges of trying to replicate models in different geographies and cultures. However, it is the argument of this author that it is not really the difference in geographies and culture which lead to the failure to replicate models but the difference in consumption and entrepreneurial focus of microfinance services offered. Poor assessment of the social disposition of the poor and the effect of their economic

circumstances on their repayment capacity can result in unsuccessful implementation of microfinance programmes.

A classic example of the rich failing to fully comprehend the dire lack of repayment capacity of the poor is the argument, by the Consultative Group to Assist the Poorest (CGAP), that for an MFI to be financially sustainable, it has to regard itself as a business venture. This then creates microfinance institutions that seek profit from the poor, rather than capacitating the poor, by the subsidisation of interest through offering low cost products as seen with Capitec Bank in South Africa, Bank Rakyat of Indonesia and Grameen Bank of Bangladesh. As a consequence of this poor definition of microfinance and especially in the rural areas, very few people qualify for a business loan (Okibo & Makanga, 2014).

2.2.2 Poverty

The erroneous application of the term microfinance institution stems from the erroneous definition of poverty. Academics do not have a universal definition of the concept of 'poverty'. Klugman (2002) put it correctly when he said that there should be some sort of minimum that is universally accepted in all societies as the reflection of individuals in poverty. This minimum standard, 'poverty line', should be based on a 'barely able to survive' definition. Haralambos et al. (1991) came close when they argued that people are in poverty if they do not have the material resources to physically maintain human life but the use of the word 'material' erroneously points to a greater capacity than being barely able to survive. The whole argument is further thrown into confusion by 'rich' academics who tow the relativist line which asserts that poverty should be relative to one's society (Botchway 2013, Lauer 1998).

People who have never been poor, struggle with a definition of poverty as they try to define something they have never experienced. A lot of academics give unreasonable definitions of poverty as they apply their fertile imaginations around a concept that is alien to most rich people of this world. This study prefers to define poverty on the basis of

survival, that is, the line between life and death. All other forms of poverty are a constant struggle to escape death by starvation.

May, Carter and Posel (1995) then try to quantify the poverty line (survival line) for South Africa using clever mathematical ratios. Nothing new is deduced from their faulty but practically applicable mathematical models for comparative basis as they show that larger households tend to be poorer, women are poorer than men and blacks are poorer than whites (May et al. 1995).

From the discussion above, we could see that poverty is based on survival and poverty reduction should focus on reducing the struggle for survival. People who can afford high interest rate loans cannot be defined as poor, but may be lacking in capacity to get cheaper loans from mainstream banks. Correctly defined, microfinance institutions aimed at the poor should look at entrepreneurial financing of ventures to uplift people from a survival existence.

2.3 MICROFINANCE INSTITUTIONS (MFIS)

Ayayi and Yusupov (2008) noted that micro credit can be beneficially applied to poor people with at least some minimum level of entrepreneurial skill and desire. In agreement with our argument, they agree that loans need to be repaid with an affordable premium and that these loans should be accessible to those who can engage in income generating activities so as to ensure high repayment rates and consequent increased levels of MFI efficiency. According to Ledgerwood (2000), microfinance institutions (MFIs) can be non-governmental organisations (NGOs), saving and loan cooperatives, credit unions, government banks, commercial banks, or non-bank financial institutions, but, in order to better serve the poor, it is necessary to differentiate them on the basis of their ability and willingness to alleviate poverty instead of behaving as an indistinguishable, homogeneous group of lenders. This segregation will ease the burden of the poor in terms of repayment as the poor can approach the right type of lender for their circumstances especially

because most MFIs require sustained, regular repayments which can prove to be challenging to households with seasonal or variable income, which is normally the case with the poor (Davis 2005).

Although, according to Ledgerwood (1999), since the 1980s, donors are now more supportive of MFIs that are pushing for financial sustainable extensive outreach community based programmes geared towards poverty reduction. However, financial markets and their open nature of demand and supply cannot be gamed; neither can the time value or riskiness of the cost of credit of an organisation be wished away by philanthropic intent. This reality has meant that the good-hearted drive for the achievement of financial sustainability has led to the current "financial systems" where subsidised credit undermines development as it fails the hurdles of cost of debt; poor high risk people are required to pay high interest rates required to cover transaction and risk costs due to the consequences of the imperfect information markets in which lenders operate; the attainment of sustainability linked to the cost of debt is the key to institutional survival and efficiency of the microfinance institutions; the loan sizes to poor people are small; for that reason, MFIs must achieve gigantic scale if they are to become economically sustainable.

This situation has led to different types of MFIs' ranging from informal to formal. The informal MFIs include the semi-formal MFIs which include Non-Governmental Organisations (NGOs), non-bank financial institutions and member owned institutions. The formal MFIs are the registered financial institutions that are bound by the laws and regulations of the country.

i). Informal MFIs - Informal MFIs provide financial services to poor communities. They have been in existence for a long time and have stood the test of time. Most of the poor get loans from these informal moneylenders. Zeller and Sharma (1996) posed the question as to why these informal finance institutions have succeeded in offering credit to the poor yet the formal institutions have failed to do so. The answers to this question

can assist in giving direction to the public policy on financing the poor. The nature of processes involved in the different types of informal finance providers has the potential of shedding light on the reasons that has made the poor prefer them as opposed to the formal institutions.

ii). Moneylenders - offer valued financial service in many communities by lending out small amounts of cash to the poor. However, their exorbitant interest charges have always been reviled for exploiting poor people (Helms 2006). Their interest rates are normally above 7% per month (Adams & Fitchett 1992). In the case of defaulting in repayment, some moneylenders may use force in getting any asset from the borrower in order to recover the cash loan (Zeller & Sharma 1996). Reports from the *India Times* (January 2012) revealed that there were many suicide cases among borrowers who had defaulted to repay loans in the state of Andhrapradesh in India. This implies that, when moneylenders pose life-threatening risks to the borrowers, then their goal of helping out the poor becomes obscured.

ii). Pawn brokering - is the worst form of informal lending, targeting the poor and the collateral deficient strata of society; in many countries it has become more formal and regulated (Tsai 2004). Pawn brokers lend on the basis of collateral but they apply haircuts to the collateral that can be as low as 20% of market value or 30% of replacement value. They tend to issue high volumes of small expensive loans for relatively short periods of time where the aim is for the client to rather abandon their collateral as they fail to service the high instalment amounts (Helms 2006).

iii). Contract farming – In another form of exploitative financing whereby input suppliers and contract farming merchants provide loans for working capital to poor farmers. The suppliers eventually charge more for their inputs as they usually levy high interest charges while the merchants offer low prices for the agricultural produce and so keep the poor farmer in a cycle of debt (Robinson 2001). This practice is prevalent in the Zimbabwean tobacco farming space where the farmers have disputed land that they cannot use as collateral to access capital expenditure to increase the scale of their enterprises and so are caught up in a quagmire of perpetual working capital debt.

iv). Stokvels – These are a common feature of the South African society and there are different types of stokvels. There is the savings based stokvel where members exchange the beneficiary of the common pot so as to buy high value items, and then there is the savings stokvel that engage in business enterprises like re-lending the money at a high interest rate and then eventually sharing the profit plus initial communal seed capital at the end of the year. Every individual then has a right to re-join the stokvel after disbursement of capital and profit at the end of the year. Then there are grocery based stokvels where money is used to buy Christmas cheer groceries at the end of the year in December or the school fees stokvel where money is used to pay school fees. This culture of stokvels has attracted unscrupulous individuals who offer the poor pyramid schemes in various guises that offer unsustainable monthly interest income or income attached to a benefit like a funeral policy or a life insurance product. Unfortunately, this space is unregulated and has seen blue chip JSE registered entities finance schemes in this space where they advertise extensively on national television of the entrepreneurial value of their pyramid scheme like selling gimmicks and as usual, the loser is the illiterate consumer.

v). Financial cooperatives - also fall under member-based organisations, and they do not operate for profit. These institutions provide financial services such as savings, checking accounts, loans, insurance and fund transfer services (Lukhele 1990). Some examples of the member-based financial institutions range from informal *stokvels*, to more formal financial institutions like the savings and credit cooperatives. *Stokvels* are groups or associations of individuals who make regular contributions to a pool of savings or common fund and more than 60% of the members are women (Lukhele 1990). The word *stokvel* originates from the English term 'stock affairs' which was a common rotating auction practice for cattle sales within the Eastern Cape Province by the white settlers. However, the practice spilt over to the blacks who replaced the cattle sales for cash rotations.

vi). Non-governmental Organisations (NGOs) - Non-governmental organisations emerged to fill the vacuum left by the banks in serving the poor (Galema et al. 2012). The microfinance NGOs strive to achieve two conflicting objectives, financial self-sufficiency and poverty reduction (Galema et al. 2012). To be effective and efficient in this task, at reaching out to the poor as well as remaining financially viable in the long run by engaging into profit making operations, the government of South Africa must reduce its involvement in the affairs of the NGOs dealing with microfinance (Tsai 2004).

Furthermore, with progression of the microfinance institutions, findings revealed that in several situations, poor people need a variety of financial services, such as secure savings facilities and insurance and not just loans. In this regard, MFIs in South Africa have embarked upon availing savings services and other types of loans through the envisaged establishment of the microfinance banking.

2.4 THE STRUCTURE, POLICIES, AND LENDING PATTERNS OF MFIS IN SOUTH AFRICA

2.4.1 The structure of the MF industry

At present in South Africa, the structure of the MF industry is in this form: *micro-enterprise lenders; salary-based micro-lenders; co-operative financial institutions, primary banks; alternative banks; affordable housing finance suppliers; and retailers*. National Youth Development agency (NYDA), Land Bank, and Ithala have largely eliminated direct government subsidised microcredit and only development finance institutions remain with a few remaining institutions that have very small microcredit volumes (See the Microfinance Review 2013).

2.4.2 Policy re-framework in the South African micro-finance industry

A regulated microfinance sector provides an enabling environment that enhances financial outreach and growth of MFIs which in turn, support a broader social protection agenda (Arun & Murinde, 2010). The policy re-frameworks of the microfinance industry in South Africa have mostly been influenced by the Strauss Commission. The main objective of making policies and regulation within the microfinance sector in South Africa is to disseminate best practices and lay out guidelines that allow MFIs to operate in reaching out to a large numbers of clients. The South African regulatory framework for microfinance institutions is fragmented, mainly due to a legacy of poor definition as has been argued in this study and also due to the legacy of perpetuating white dominance of institutions of higher learning and concomitantly big business. According to the Microfinance Review report (2013), there is a need to put in place procedures and sanctions to regulate micro-financial institutions. The formal MFIs with a banking status as per the registration status are regulated by the Banking Supervision Department (BSD) of the SARB, for example, the Land bank. The non-banking financial institutions are collectively regulated by the Financial Service Board (FSB). Even though the FSB is independent of the BSD, it is legally and operationally answerable to the BSD and SARB (Van Zyl *et al.* 2009).

2.4.3 Lending Patterns of MFIs in South Africa

Lending formed the basis for which microfinance was established. Therefore, the poverty lending approach is a viewpoint that forms the basis of reducing poverty through microfinance institutions that receive funding from donor organisations or governments (Elahi & Rahman 2006). The premise of this approach is that the poor people must be treated as beneficiaries rather than be treated as clients. The provision of the microcredit is accompanied with complementary services such as skills training and teaching of literacy and numeracy, health, nutrition, and family planning. Under this approach, donor and government funded credit is provided to poor borrowers, typically below market interest rates. The aim is to reach the poor, especially the extremely poor, with credit to help overcome poverty and to gain empowerment (Robinson 2001).

In South Africa, the microenterprise lending sector is grossly under-developed (The Microfinance Review 2013) as it has been hijacked by a definitional handicap as poor people are now exploited as high risk clients by micro-lenders and the regulating authorities have turned a blind eye to this definitional crisis. Fourteen incorrectly defined MFIs employing approximately 700 staff and servicing just over 111,500 active loans is the disappointing picture after 30 years of activity. The economic boom of the commodity based economies like South Africa, sounded a death knell for outreach developmental microfinancing projects as micro-lenders targeted the low and middle income strata of the South African society with loans that appeared affordable due to the low interest rates prevailing at that time, and the high purchasing power and disposable incomes of borrowers, especially in the middle income sector. South African society has a structural definitional fault in that the lines are blurred between low income and middle income groups as these tend to interact at various touch points so that big business designs products that target both middle and low income sectors without discrimination or economic apartheid. The end result is that since 2009, active developmental loans have dropped from 120,000 and only two institutions with group lending methodology, have about 2,000 active group loans, with the Small Enterprise Foundation (SEF) at 96,000 people represented and Phakamani Foundation at 8,000 people. 90% of these clients are female albeit with low average annual loan loss rate of below 5% (Microfinance Review 2013).

To survive in the South African financial market, MFIs carrying on group lending and rely on paying lower than market salaries, assistance from volunteers, and negligible investments in information technology and this is assisted to an extent by scale leading to some form of self-sufficiency. The Small Enterprise Foundation is now operationally sustainable; several smaller group lenders with less than 2,000 active loans also generate sufficient revenues to cover their operating expenses with only two of these institutions offering individual wage-based micro-loans; the rest of their business goes to self-employed individuals. Sadly, if these microfinance institutions choose to grow, they will need to access grants to support an increased level of investment in resources.

Table 1: Micro-lenders in South Africa (with more than 100 loans)

No	Province	Organization	Methodology	Active Loans
1	Limpopo	Small Enterprise Foundation	Group Lending	95,825
2	Limpopo	Akanani Financial Services	Group Lending	1,100
3	Limpopo	Get Ready Finance	Group Lending	1,530
4	Limpopo	Tiisha Finance Enterprise	Group Lending	1,536
5	Limpopo	G50 Women	Contract Financing	Less than 300
6	Mpumalanga	Phakamani Financial Services	Group Lending	8,000
7	North West	Ikusassa	Individual Lending	Less than 300
8	Gauteng	Aloga	Individual Lending	Less than 300
9	Gauteng	Mazwe	Salary-based guarantees	1,900
10	Gauteng	Ndiza Finance	Contract Financing	307
11	KZN	Opportunity Finance	Individual Lending	210
12	KZN	Sakthi	Individual Lending	Less than 300
13	Eastern Cape	Extra Credit Trading	Group Lending	Less than 2,000
14	Western Cape	Tetla Financial Services	Group Lending	2,000 to 3,000

Source: The Microfinance Review 2013

The methodologies adopted by micro-lenders in South Africa suffer from one ideological difference from the Grameen Bank of Bangladesh. They offer consumption micro loans aimed at smoothing or easing economic hardships rather than entrepreneurial group loans aimed at capacitating the lenders. Notably, group lenders are the Small Enterprise Foundation (SEF) based in Tzaneen, Limpopo, and the Phakamani Foundation in Mpumalanga and Limpopo, with both following the methodology of the Grameen bank but with the structural fault as mentioned above.

Table 2: Key Indicators for Microenterprises Lenders using Group-based Lending Methodology

SEF		Phakamani	Tiisha	Get Ready	Akanani	Total
Total Assets (R000)	216 407	15 413	4 087	2 799	2 062	240 768

Gross Portfolio (R000)	191 674	6 256	2 397	1 143	1 300	203 245
Active Loans	95 825	8 000	1 536	1 530	1 100	108 673
% Female	99%	100%	99%	98%	94%	
Impairment for Losses (R000)	2 366 1.2%	312 5.0%	48 2.0%	17 1.5%	34 2.3%	
Portfolio at Risk > 30 days	0.9%	N/A	9.3%	1%	15%	
Arrears Rate > 30 days	0.4%	4.7%	7%	1%	8%	
Operational Self-sufficiency	100%	58%	116%	100%	105%	
No. Offices	53	11	2	1	1	68
No. Staff	479	77	12	9	7	584
Total loan officers	334	61	7	6	5	413
Debtor Management System	SEG workflow and in-house	Smartfin Enterprise	Pastel and Excel	MLAS	Pastel Partner	

Source: The Microfinance Review 2013

Tiisha and Akanani were both launched as Khula Start Partners in 1998, targeting entrepreneurs with at least six months operating experience in a group lending methodology. Tiisha, Get Ready, and Akanani all operate in Limpopo which province is perceived to have a culture of high repayment of loans.

Table 3: Key Indicators for Microenterprise Lenders using an Individual Lending Methodology

	Mazwe	Opportunity Finance	Ndiza	Total
Total Assets (000)	146 942	55 226	8 619	213 014
Gross Portfolio (000)	15 673	3 200	4 892	31 319

Total Active Loans	7,400	3,200	307	
Micro and Small Enterprise Loans	1 900	210	307	2 647
Average Outstanding Loan	8 250	15 238	15 935	
% Female	41%	44%	54%	
Impairment for Losses (000)	1 665 10.6%	4 900 14.0%	483 9.9%	
Portfolio at Risk > 30 days	2%	12%	10%	
Arrears Rate > 30 days	1%	5%	6%	
Operational Self-sufficiency	156%	52%	59%	
No. Offices	4	5	2	12
No. Staff	36	52	7	101
Total loan officers / agents	12	23	3	41
Debtor Management System	Xirius	African Cash	Reward and Acquire	

Source: The Microfinance Review 2013

Three of the individual lending micro-enterprise lenders, Mazwe, Ndiza and Opportunity Finance offer developmental salary-based lending, with micro-enterprise lending co-existing as one product or division. Loan terms tend to be longer than for group loans, with Mazwe offering terms of up to 60 months and Opportunity Finance up to 36 months. Given the high cost ratios for individual microenterprise lending, this strategy of sharing the overhead costs may be a key success factor for serving this market. Mazwe does not lend to a microenterprise directly, but rather lends to an individual with a salary who then invests the funds into a business.

2.5 SUMMARY

Academics and practitioners generally do not define microfinance as the provision of small value services to the poor strata of society but that the definition is usually

intermingled with that of the provision of small value services to middle income earners at high interest rate charges. This confusion is very common among academics and practitioners alike, giving the wrong impression that there are mixed views as to the value of microfinance in poverty alleviation. Microfinance institutions should aim to fund entrepreneurial ventures of the poor as this is the only way that this sector can acquire the capacity and assets required to actively participate in an economy that requires that an organisation operate at margins higher than its cost of debt. Unfortunately, this sector of the community also suffers from a lack of access to income generating ventures. To this end, it is imperative that the government should educate as well as give preference to this sector when it comes to government procurement schemes. The accuracy in measuring enterprise growth, as well as impacts on poverty, cannot be demonstrated easily, therefore outreach and repayment rates can be proxies for impact.

The MFIs also need to be imaginative and innovative and try to market their low cost products to the middle and higher income earners so that they subsidise the poor customers who are on social welfare. Finally, it is the role of the government to create a microfinance regulatory framework that prevents exploitation of the poor and educates the poor on the various schemes available. The Governments that understand the socio-economic benefits of a sustainable microfinance sector are able to guide the political processes required for its implementation and prevent adverse political upheavals as a result of a ballooning poor populace.

CHAPTER THREE

3 RESEARCH DESIGN AND METHODOLOGY

3.1 INTRODUCTION

This section of the research study houses the research design and methodology. In order to remain focused, therefore, the point of departure here is to reiterate the purpose of the study. As stated in chapter one, the broad objective of this research study is to examine South Africa's microfinance institutions' poverty reduction strategies in the urban and rural areas, with a view to reviewing consistency in terms of salient international best practices and compare this to the on-going practices in the core rural areas. Specifically, to investigate how MFI's impact poverty reduction in eThekweni; to examine the structure, policies, and lending patterns of MFI's in eThekweni and how do these dynamically interact with poverty reduction.

In light of the above, this chapter focuses on the research design, research method, collection instrument developed, its limitations, ethical considerations and lastly, how data collection was done and analysed. To this end, the research study is quantitative and makes use of closed-questions based on the use of an excel-based survey questionnaire to attain the research objective.

The advantages of a survey questionnaire are amongst others; they are cheaper to administer, convenient responses and good for automatic data capture and analysis (Wiid & Diggins, 2009). Some of the weaknesses are lack of confidentiality, and no guarantee of anonymity.

3.2 RESEARCH METHODS

Mouton (2001) describes research methodology as an operational research framework within which facts are placed for their meaning to be clearly understood by the researcher. A structured questionnaire was used in this study to gather primary information. The

instrument used was an MS Excel-based closed end survey questionnaire administered to gather relevant data from the targeted population that is “the MFI’s leadership and staff and their beneficiaries”. The questionnaire was designed immediately after the literature review. By implication, therefore, the questions were informed by the outcomes of the review.

3.2.1 Research instruments

A research instrument is the measure used to get information or data that the research is going to analyse. The instrument used was an MS Excel-based survey questionnaire administered to gather relevant data from the sampled population, “the MFI’s leadership and staff and their beneficiaries” being the research source of inference. It is a “two-in-one” questionnaire. The first part of the questionnaire was designed for the MFI’s leadership and staff and the second part was designed for the benefactors, the clients. This instrument was expected to deliver specific, logical and formal responses without prejudice, and to be more original as it is respondents’ own opinions based on their experience of the subject matter. This is the reason why the questionnaire was structured with closed-ended questions so that there would be no room for any personal prejudice. Why this instrument? This is because information needed here is just to support the theoretical position of the research question addressed and investigated through the literature review. Therefore, closed-ended questions are believed to provide the researcher with the required reliable data.

3.2.2 The questionnaire design

The questionnaire started with a covering letter seeking the assistance of the respondents in completing the questionnaire and at the same time, introducing the researcher as a Master’s research student, in Management in Finance and Investments (MMFI), of the

Wits University, the topic of the research study and its aim and objective are also stated clearly. In addition to this, a covering letter from the researcher as a student as well as a letter from the ethics committee were also attached to encourage participation and to boost confidentiality.

The work adopted a structured questionnaire with closed-ended questions reflecting on the conclusion drawn from the literature review to give pre-determined answers. To ensure its reliability, the study made use of some existing studies' questionnaire samples and guides from reputable researchers and organisations such as the United Nations Organisation (UNO), as well as some research work done locally in South Africa, among others, to act as a benchmark for the construction of data collection tools used in the study.

The research used multiple questions; response categories that required a response from Strongly Agree to Strongly Disagree on a 5-point scale was used, ranking questions which explore the importance of or preferences for certain issues were also used. All the questions in the questionnaire from section A and section B were posed in English with the assumption that all concerned, as well as the researcher, were able to interact effectively and efficiently in English. By implication, this enhanced easy communication between the researcher and the respondents.

3.3 RESEARCH DESIGN

Research design is simply the road map or a strategic blueprint for data collection, data measurement and analysis (Sekaran & Bougie, 2010). The research work adopted a quantitative survey method to execute this study. This approach allows for larger and more representative respondent samples and involves the numerical calculation of results (Creswell, 2003; Wiid & Diggines, 2009). A structured questionnaire was used as the study instrument. A survey study is a systematic way of data collection that enables the

researcher to obtain selected respondents' opinions, attitudes, behaviours, beliefs or answers to understand the group or population represented (Grinnell, 1997; Fowler, 2009).

The strength of this technique is that it is formal, logical and specific based in its procedure. It enabled the researcher to select a sample population without prejudice with representative units of the investigation and the population in which the investigation is going to take place (Wiid & Diggines, 2009). In addition, its data were original, obtained from a sample of the population and the content of the survey data was primarily the respondent's own opinion on the subject matter. Most importantly, it allowed for quick data collection as the survey was done in a short time.

3.4 THE PURPOSE OF THE QUESTIONNAIRE

The reason for the adoption of the questionnaire was informed by the research design adopted, namely quantitative survey technique. With a quantitative technique, the researcher focused on facts, looked for causality, reduced phenomena to the simplest elements, formulated hypotheses and then tested them to take large samples. It is also important to say that most people are familiar with the use of a questionnaire as a measuring instrument.

3.5 TARGET POPULATION

Target population is defined as the complete group of individuals or elements that the researcher wishes to include in the sampling method and these determine sample size (Hair, *et al.*, 2007; Sekaran & Bougie, 2010). It is defined in terms of availability of elements, time frame, geographical habitats and topic of interest. Therefore, the target population for the study comprised men and women beneficiaries of the microfinance

institutions, leadership and staff members of the microfinance institution operating in eThekweni and surrounding areas. The target population was presumed to have an in-depth knowledge and information about the topic under investigation and general information about the operation of the MFI.

- **Sampling**

Sampling was used to select the respondents from each branch of the microfinance institution. Sampling is the selection of a small set from a chosen population to give a generalised result representative of that of the population (Wiid & Diggines, 2009). Sampling is encouraged because of the inability of a researcher to cover the whole population. The advantage of using a sample is that a representative sample allowed the researcher to take the information obtained from the small sample and reapply it to the total population (Ruane, 2005). In this study, the sample comprised women and men beneficiaries of the microfinance institution. A representative sample can also be seen as one that will, in all aspects, provide a true reflection of the population. It allows the researcher to gather information quickly and inexpensively.

- **Sampling frame**

A sample frame can be defined as a list of all the sample units available for selection at a stage of the sampling process. Therefore, the actual sample is then drawn from within the sample frame (Wiid & Diggines, 2009). According to Webb (2002), in a reliable sample frame all the elements and strata of the population are represented, including gender, age, and geography, among others. It must be up to date and there must be no duplication of entries. Its shortcomings are missing sample units, duplicate entries and foreign elements (Webb, 2002). The researcher had a variety of sampling frames that included the list of loan officers at the microfinance institutions and the list of beneficiaries from the microfinance institutions.

The limitations were taken care of as the research study made sure that all the sample units comprising the population were listed in the sample frame. In addition, duplicate

entries were prevented as the research made use of only one sample to eliminate foreign elements.

- **Sampling frame compilation**

The microfinance institutions, on the other hand, were also able to list the leadership and staff members/loan officers who work with the clients directly. After the lists were compiled, the researcher was able to identify the respondents using purposive/judgement sampling method.

- **Purposive/judgement sampling**

This is a deliberately non-random method of sampling, whose aim is to sample a group of people or settings, with a particular characteristic, usually in qualitative research designs. The purposive sampling is also sometimes referred to as judgement sampling where respondents are selected because they have knowledge that is valuable to the research process, for instance, the MFI's leadership (Bowling 2002). This is to ensure that the respondents who were or had participated in the microfinance institution were selected and not those who did not know anything about the topic. The researcher utilised men and women who gave informed consent and satisfied the other inclusion criteria and were then entered into the study. Since the beneficiaries had the right and opportunity to benefit from all the MFIs, the researcher took care to limit the beneficiary appearing twice as a respondent. The researcher also sought the assistance of selected staff of MFI's in the area who had direct contact with the microfinance institutions and were knowledgeable about their operations in the area.

3.6 SAMPLE SIZE

The sample size is a specific or fixed proportion of the population (Hague, 2002). Therefore, the sample size used in this study was 100 representatives from the MFI's and the beneficiaries. The respondents' representation was based on an equal representative sample to include MFI's leadership and staff members and 100 beneficiaries, both men

and women. Therefore, the researcher selected a sample that is big enough to yield a relatively accurate estimate of the population values, but at the same time can be executed economically and practically.

To be part of the sample, the respondent had to be either a woman or man benefitting from microfinance institutions, or a credit/loan officer in the microfinance institutions operating in eThekweni and surrounding area. The respondent also had to give informed consent and ought to have participated in microfinance institutions during the period at least once. All the respondents complied with the inclusion criteria, especially the informed consent which had to be given, and those that did not consent were not forced to participate.

3.7 DATA COLLECTION METHODS

There are two types of data collection methods that could be used by researchers; these are primary and secondary data. For the purpose of this study, the researcher used only a primary source of data gathering.

- **Primary data collection**

Primary data refers to the field data collection done directly or indirectly by the researcher on a phenomenon or subject (Ryerson, 2010). It is data that has not been collected before (Wiid & Diggins, 2009). The researcher preferred the primary data over the secondary data source because it is best suited for the quantitative survey technique adopted for the study. Therefore, the primary data in this study comprised mainly data collected using an MS Excel-based survey questionnaire administered to the research stakeholders in eThekweni around areas.

The strengths of this method are that a wider range of data can be obtained through surveys than through observation or experimentation; quantitative data research is a lot more objective and reliable as opposed to a qualitative data approach. Most importantly,

this method is quicker and cheaper than observation and experimentation. Its weaknesses are that validity possibility is very low and also requires special skills. Based on the strengths of the approach mentioned above, the data is good enough for the research purpose.

3.8 DATA ANALYSIS

According to Ghauri, *et al.* (2005) analytical procedures involve techniques to conceptualise and analyse data that result in theories and findings. Sekaran and Bougie (2010) supported this position and added that three phases are involved in data analysis, namely data reduction, data display and drawing and verification.

3.8.1 Descriptive statistics

According to Argyrous (2011), descriptive statistics are described as the numerical, graphical and tabular techniques for organising, analysing and presenting data. Therefore, the technique was used to present the summary of the findings in the form of pie charts, graphs, tables and numerical measures to simplify the raw data for easier and proper understanding of the results.

Since the data collected was quantitative on a 5 point Likert scale, the outcomes were used for descriptive statistics analysis. Tests for normality of the data were done through the critical review of the skewness and kurtosis.

3.8.2 Inferential statistics

Descriptive statistics describe the sample data relative to the population data but in order to use the sample data to infer information about the population one has to utilise inferential statistics. The key logic behind inferential statistics is that the sample data only gives you the probability of obtaining the same population metric from assessing the sample data.

3.8.2.1 *Suitability of use of Likert scale*

Likert-type scales are derived from combined responses to a Likert questionnaire item. Respondents specify their level of agreement or disagreement on a symmetric agree-disagree scale for a number of assertions. The range of the Likert scale captures the intensity of their feelings for a given item usually in single steps on the scale. Likert scaling assumes distances between each item are equal. An individual item is itself sometimes erroneously referred to as a scale, with this error creating widespread confusion in the literature of the field (Rietveld & Van Hout 1993). A Likert item is an assertion that the respondent evaluates by giving a quantitative value on any kind of subjective or objective dimension, with the level of agreement/disagreement related to a point on a scale. Correctly designed Likert items contain equal numbers of positive and negative locations whose one-to-one distances apart are jointly symmetric about the neutral with the distance between each entry value being the same, allowing for quantitative comparisons such as averaging being valid across items containing more than two entry values (Burns & Burns, 2008). The format of a typical Seven-level Likert item could be: Strongly disagree; Fairly disagree; Disagree; Agree; Fairly agree; Strongly agree; Neither agree nor disagree/Don't Know.

Likert scales may be subject to distortion from several causes. Respondents may avoid using extreme response options (**central tendency bias**), as one does not want to be seen as holding extremist views; respondents may reserve stronger views for later in the questionnaire; agree with statements as presented (**acquiescence bias**), in a bid to please or accommodate the researcher; disagree with sentences as presented out of a defensive desire due to fear that answers may be used against a respondent, especially if misinterpreted and/or taken out of context; provide answers that they believe will be evaluated as indicating strength or lack of weakness/dysfunction (**faking good**); provide answers that they believe will be evaluated as indicating weakness or presence of impairment/pathology (**faking bad**); try to portray themselves or their organisation in a light that they believe the examiner or society consider more favourable than their true

beliefs (**social desirability bias**); try to portray themselves or their organisation in a light that they believe the examiner or society will consider less favourable / more unfavourable than their true beliefs (**norm defiance**).

The scales used in this study had an equal number of positive and negative assertions regarding each position or issue in question which averted the problem of acquiescence bias, since acquiescence on positively keyed items will balance acquiescence on negatively keyed items. Defensive, central tendency, and social desirability biases may have remained but the researcher relied on the fact that the sample chosen was made up of rational, knowledgeable adults with a certain level of education. The value assigned to a Likert item in this study had no objective numerical basis and a distance metric could then be determined. The value assigned to each Likert item was defined by the researcher who denoted increasing positive integer values ranging from 1 to 5. This increasing structure of the scale was such that each successive Likert item were treated as denoting a 'better' response than the previous value. This inferred that the 'distance' between categories removed bias in the analysis. The symmetry of the categories about a midpoint with clearly defined semantic qualifiers will behave more like an interval-level measurement. So while a Likert scale is indeed ordinal, if well presented, it may nevertheless approximate an interval-level measurement. Notions of central tendency are often applicable at the item level. Responses to several Likert questions may be summed providing that all questions use the same Likert scale and that the scale is a justifiable estimation to an interval scale, in which case the Central Limit Theorem allows treatment of the data as interval data measuring a latent factor. If the summed responses fulfil these assumptions, parametric statistical tests such as the analysis of variance can be applied. Typical cut-offs for thinking that this approximation will be acceptable are a minimum of 4 and preferably 8 items in the sum (Norman, 2010; Carifio, & Perla, 2007). The factor indicators in this study are ordered categorical (ordinal).

3.9 LIMITATIONS OF THE TECHNIQUE USED

As we understand that there is nothing without comparison, and in as much as human beings are involved, surely limitations are inevitable. The limitations of survey questionnaires were understood to be confidentiality concerns, non-guarantee of anonymity, among others, but this fear has been addressed by the professional nature and the careful selection of the MFI's client's representatives of the research sample population.

In a structured questionnaire with closed-ended questions, there is a loss of rapport and respondents get frustrated because they may feel that the given response options do not represent their opinions. Nevertheless, these limitations were overlooked because the researcher wanted the results to be meaningful and presented as objectively as possible.

3.10 ETHICAL CONSIDERATIONS

The confidentiality of the identities of all respondents and information supplied by them was guaranteed. Permission to conduct this study was sought from the appropriate authorities, including the sample population. In the same vein, respondents were free to terminate their participation in the study whenever they deemed it fit.

3.11 CONCLUSION

This chapter explained the research design and research methodology that was used in this study to address the subject matter. A quantitative survey technique was adopted through the use of a survey questionnaire administered to gather primary data. The data collected was purely primary through the use of questionnaires and was analysed using descriptive statistics, correlation analysis and multiple regression technique was used to test the research hypotheses and to prove the significance of a relationship between the variables used in the study.

CHAPTER FOUR

4 DATA PRESENTATION, ANALYSIS AND DISCUSSION OF FINDINGS

4.1 INTRODUCTION

This chapter presents the data and discusses the research findings gathered through the administration of an MS Excel-based questionnaire amongst the research sample population, that is the MFIs leadership/staff and the beneficiaries/clients. This study endeavoured to gain insight into and an understanding of the South African microfinance institution's poverty reduction strategies in the urban and rural areas, with a view to reviewing consistency in terms of salient international best practices and compare these results to the on-going research in the core rural areas. In this regard, the findings are presented in tables, bar charts, pyramid charts, pie charts and histograms with the use of quantitative information and a discussion follows immediately after the presentation of the results.

4.2 QUANTITATIVE DATA ANALYSIS

It was clearly stated in the previous chapter that an MS Excel-based questionnaire was used to gather information from the respondents in the SA microfinance sector. The study recorded 100% responses from the respondents; this is due to the easy, quick and convenient nature of the technique adopted as well as the structured nature of the questionnaire that does not ask for their own inputs. In addition, the technique is based on a specific, logical and formal procedure, which allows for the selection of units of the population without personal preference or prejudice and contains units that are representative of the investigation itself. Most importantly, it allows for quick data collection, as the survey is done through the utilisation of the MFI's own administrative structures and reached into the community via its Loan Officers.

4.3 RESPONSES

A total of 100 MS Excel-based questionnaires were administered to elicit relevant information from the sampled population, namely “the MFIs leadership/staff and their beneficiaries/clients” requesting from Opportunity Finance. Data availability of MFIs in EThekweni municipality proved to be a challenge. Initially, Finscope was approached who confirmed similar studies have only been performed for the Sub-Saharan region. The researcher was directed to Positive Planet, an NGO that has performed extensive research in a similar field. This guided the researcher to identify the institutions that provide microfinance services in eThekweni around areas. The microfinance institution, on the other hand, was also able to list the leadership and staff members/loan officers who work with the clients directly. They were all directed to work with beneficiaries to complete the questionnaire. Stratified sampling was carried out where it was ensured that responses were spread across the branches of the MFI, namely, Pietermaritzburg, Pinetown, Durban Central, Empangeni and Richards Bay ensuring that there is a spread between urban and rural responses.

100% responses from the respondents to the MS Excel questionnaire administered. This is due to the organised nature and the willingness of the sampled population to participate in the survey. The reason for their total cooperation is due to the fact that they are MFIs practitioners/experts and officers who possess an in-depth knowledge and information about the topic under investigation and had general information about their benefactors. Most importantly, they were experienced and understood the significant importance of microfinance measures in reducing poverty in the society.

4.4 DEMOGRAPHIC DATA

The demographic subsection A: presents all the targeted population samples’ personality data. Therefore, demographic details on the respondents’ stakeholder group, age, level of education and years of experience in the microfinance sector activities. This data was

used to correlate the specific responses on the efficacy of microfinance measures as a form of poverty reduction strategy in the community.

The data revealed an enlightened and professional stakeholder group with the majority of the respondents representing the MFIs leadership and staff members being MFI loan officers (40%), followed by MFI administrative staff (23)%, MFI management staff 27%.

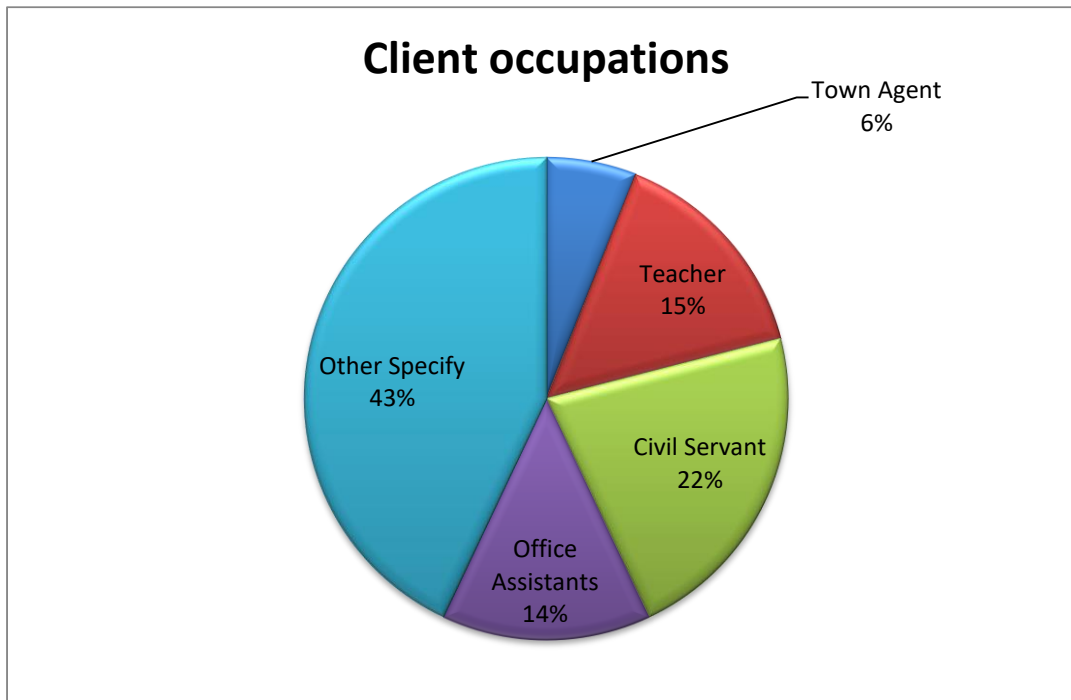


Figure 1: Clients by occupation

The professionals such as Teachers were 15%, and Town Agent 6%, Civil Servant 22% and 14% Office Assistant were part of the respondents residing within the jurisdictional areas covered by the study. However, microfinance contributes largely to their sources of income. These people use the services of the microfinance on a regular basis because since they own no collateral, they find it difficult to access funds from the mainstream financial service providers, also at times, the amounts they need are very small and the MFI is in their vicinity. This is also affirmed by Meade (2001), who points out that such

loans are more accessible for the landless or asset-less borrowers, and the moderately to extremely poor sectors of society.

Table 4: The Gender and Age Group information for the 100 Clients

Gender and Age Group information for 40 Clients	
Male 41%	<25 3%
	25-35 37%
	36-45 37%
Female 59%	46-55 18%
	56-60 4%
	>60 1%

Table 5: Lifestyle Loan

Personal Loan	1 Month	4 Months	6 Months
Loan Amount	R500.00	R2,000.00	R8,000.00
Monthly Repayment	R671.78	R701.40	R1913.73
Initiation Fee	R85.50	R285.00	R969.00
Monthly Fee	R57.00	R57.00	R57.00
Credit Life Insurance	Not available	Not available	Not available
Interest Rate per annum	60%	60%	60%
Total Repayment	R671.78	R2,805.59	R11,482.39

Source: Opportunity Finance Report 2015

Table 6: Home Loan

Home Improvement Loan	6 Months	12 Months	18 Months
Loan Amount	R4,000.00	R6,000.00	R8,000.00
Monthly Repayment	R946.14	R714.16	R677.39
Initiation Fee*	R513.00	R741.00	R969.00
Monthly Fee*	R57.00	R57.00	R57.00
Credit Life Insurance	Not available	Not available	Not available
Interest Rate per annum	60%	30%	29%
Total Repayment	R5,676.84	R8,569.93	R12,193.02

Source: Opportunity Finance Report 2015

Opportunity Finance's level of outreach was operationalized in terms of the radius of the furthest clients to the MFI. The greater the distance between the MFI and the poor clients, the more the breadth the MFI is covering. Opportunity Finance used to send loan officers to go into the rural communities to try and bridge the gap between the institution and the clients.

4.5 DESCRIPTIVE STATISTICS

4.5.1 Quality of staff

Table 7: Statistical summary of MFI staff questionnaire

	Years of Experience in MFIs	Operations Training	IT Training	Soft Skills Training	Level of Education
Mean	2,525	1,95	1,925	2,425	3,5
Std dev	1,432005945	0,55238411	0,858964791	0,675106829	0,987096234
Skewness	0,47106603	-0,033628504	0,915266098	0,286512588	-1,19862E-17
Kurtosis	-1,168030408	0,53858578	0,626550978	0,048711966	-0,961388273

The mean of 3,5 for Level of education on a 5 point scale: Grade 11 or less = 1; Grade 12 or equivalent = 2; National certificate or diploma = 3; Bachelor's degree = 4; Postgraduate degree(Honours/Masters/MBA)= 5 means that the MFI can be considered to be staffed with whose collective level of knowledge and professionalism is midway between that of a person with a diploma and a bachelor's degree. The negative skewness and the low kurtosis (<3) means that the distribution is platykurtic and so the mass of the distribution is concentrated towards the individuals with degrees.

The mean of 2,5 for Years of experience in MFIs on a 5-point scale: 1-5 years = 1; 5-10 years = 2; 10-15 = 3 years; 15-20 = 4; Over 20 years = 5, means that the MFI is staffed with staff that has a collective average of about 11 years of experience. The positive skewness and the low kurtosis (<3) means that the distribution is platykurtic and so the mass of the distribution is concentrated towards the middle of the distribution.

The MFI invests more money into soft skills training (mean 2,4) as compared to operations and IT systems training (mean = 1,9). These means on a 5-point scale: 0 times/year = 1; 1-2 times/ year = 2; 3 – 4 times/year = 3; > 4 times/ year = 4, mean that the MFI staff go

for operations related training on average 3 times a year while for the other two types of training an average of 2 times a year. The shapes of the distribution are nearly normal. Based on summary statistics, the MFI has highly knowledgeable, well trained professional personnel.

4.6 CORRELATION ANALYSIS

Table 8: Correlations Matrix: MFIs impact on Poverty Reduction (100 clients)

CORRELATION MATRIX							
	Creating Employment	Help small businesses	Supply of loans & savings	Help social development	Develop new business	I've benefited largely	Timely financial service
Creating Employment	1						
Help small businesses	0.91	1					
Supply of loans & savings	0.73	0.80	1				
Help social development	0.56	0.61	0.58	1			
Develop new business	0.76	0.87	0.70	0.67	1		
I've benefited largely	0.72	0.75	0.52	0.56	0.62	1	
Timely financial service	-0.59	-0.51	-0.36	-0.22	-0.37	-0.27	1

The correlation analyses in the correlations table above showed the strength and direction of the linear relationship between MFIs growth and dynamic interaction with the clients' improvements in their finances and living standards. The clients' improvement in their finances and living standards was determined by data from the questionnaire in the Appendix: V). IMPACT OF MFIs ON POVERTY REDUCTION (CLIENTS) where it is seen that there was positive correlation between all the variables except the "Timely financial

service” variable. However, this variable has an inverse relation with the other variables since if the MFI takes longer to issue loans this may be a good sign that it is doing a good risk analysis of each client so, in reality, there is a positive correlation with the other variables. This then means that there is a linear relationship between the MFI’s growth and dynamic interaction with the clients’ improvement in their finances and living standards.

Results presentation: The results in the figure above indicate that microfinance is impacting socio-economic activities of the poor people in and around the eThekweni area. Opportunity Finance has been impacting well on the well-being and living standards of their people. Microfinance is very important for poor people in the area as well as for businesses and it is the technique of poverty reduction, and provides diversified, dependable and timely financial services to the poor people and existing businesses, creates employment, encourages new business development, and empowers men and women in the area.

4.7 EFFECT OF MICROFINANCE ON POVERTY REDUCTION

4.7.1 Introduction

The key constructs to be used in operationalising an effective impact on poverty reduction in this study are good lending patterns and structural policy initiatives. The strength of these variables was measured from responses provided by the population elements in the research instrument.

4.7.2 Hypothesis

The research objective, questions and hypothesis has been defined in chapter 1. The results are indicated in table 9.

Table 9: Regression Results for Poverty Reduction (standard deviations from the mean)

Constant	1.46 (0.93)
Creating employment	0.04 (0.33)
Help small business	-2.18* (0.52)
Supply of loans, savings	1.35* (0.25)
Help social development	0.06 (0.25)
Develop new business	0.34 (0.29)
I've benefited largely	1.06* (0.26)
Timely financial service	-0.12 (0.17)
R-Squared	0.33
Number of observations	100

Standard errors are reported in parentheses. *indicates significance at the 95% level.

Since the column labelled significance F has an associated P-value = $0.00 < \alpha @ 0.05$, we reject the null hypothesis (H_0) at significance level 0.05. We then conclude that there

is a significant relationship between the financial services offered by the MFI and poverty reduction.

Next we assess the regression of the coefficient tables using the t-test statistic. According to Appendix II, section IV, Question 5 of the questionnaire the dependent variable is “Microfinance has contributed to socio-economic developments and played a vital role in reducing poverty in my area.” Shortened to “Socio-economic development and poverty reduction” in our Excel dataset.

Thus the expected results that the research method was designed to provide are a positive correlation between these variables – financial services provided by MFI’s to their beneficiaries and poverty reduction. Poverty reduction is the dependent variable, and the financial services provided by the MFI are independent variables. This stems from the fact that if the micro financial services are efficient and effective in bringing a positive impact to the MFI beneficiaries then we expect a reduction in poverty while the opposite results in an increase in poverty reduction. Therefore, the strength of these variables shall be measured from responses provided by the sample population constituents in the research questionnaire. Hence, the data gathered from the respondents on the strength of the key variables in the questionnaire are tested against each other and then if the data in the questionnaire is correlated, this concept means that the MFI is efficient and there is poverty reduction.

Table 9 gives the regression line as:

$$y = 1.46 + 0.04x_1 - 2.18x_2 + 1.35x_3 + 0.06x_4 + 0.34x_5 + 1.06x_6 - 0.12x_7$$

The variables that came out as significant (P-value = 0.00 < 0.05 @ α) were “MFIs help small businesses (x_2)”, “microfinance is the supply of loans and savings to the poor in my household (x_3)” and “I’ve benefited largely from the MFI(x_6)”. In regression analysis, an

ideal situation is when the regression model has significant variables and has a high R-squared value. The combination of a low P-value and high R-squared value indicates that changes in the predictor variables are related to changes in the response variable and that the model explains a lot of the response variability. The R-squared in our Excel tool, as we have mathematically demonstrated above, is a variation of the sum of the standard deviation of error terms to that of the standard deviation of another error term this means that as we have multiple variables that are not correlated to each other, our variables have removed the error in our responses giving low R-squared value. Actually we would be suspicious if our R-squared was high. (Freund and Littell, 2000), In research studies that have a social science bias like our research, the aim is to test hypotheses about certain variables while adjusting for the effects of the other variables. What is important is the significance levels of key variables (Neter et. al.,1996). Our model is able to determine that we are able to reject the H_0 of interest; the amount of variance explained by our total model becomes more or less irrelevant. Many psychology studies have R-squared values less than 50% because people are fairly unpredictable (Bedeian and Mossholder, 1994). The good news is that even when the R-squared value is low and the P-value is low, the model still indicates a real relationship between the significant predictors and the response variable because people are fairly unpredictable.

Table 10: Correlation matrix (for Age, Gender and Education level)

CORRELATION MATRIX

	<25	<25-35>	<36-45>	<46-55>	<56-60>	Female	Grade 11 or less	Grade 12 or equivalent	National certificate or Diploma	Bachelor's degree
<25	1.00									
<25-35>	-0.13	1.00								
<36-45>	-0.13	-0.59	1.00							
<46-55>	-0.08	-0.36	-0.36	1.00						
<56-60>	-0.04	-0.16	-0.16	-0.10	1.00					
Female	0.15	-0.03	-0.08	0.07	0.07	1.00				
Grade 11 or less	-0.06	-0.26	0.09	0.28	-0.07	-0.06	1.00			
Grade 12 or equivalent	0.15	-0.03	0.01	0.04	-0.13	-0.14	-0.21	1.00		
National certificate or Diploma	-0.03	0.20	-0.09	-0.07	-0.07	0.16	-0.28	-0.53	1.00	
Bachelor's degree	-0.08	0.00	0.06	-0.13	0.19	0.03	-0.15	-0.28	-0.36	1.00

Table 10 exhibits very low correlation between age, gender and education level. There is a higher relative correlation between the 25-35 and 46 – 55 age groups with the Grade 11 or less education level but the correlation is still low enough to allow the use of these variables in the same regression analysis against the dependent variable “Poverty Reduction”. All the correlations are low enough to allow regression analysis of the age, gender and educational level variables against the dependent variable with the null hypothesis at significance level 0.05.

CHAPTER FIVE

5 SUMMARY OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 SUMMARY OF FINDINGS

The research findings present poverty to be a threat to the poor, because he/she cannot meet up his/her primary or basic needs of life, that of his/her family or his/her dependents. Microfinance institutions have been recognised in the literature to be a tool useful to reduce poverty among the poor. This study's findings confirmed this position and must be regarded as essential given the universal perceptions of the research study's respondents on the dynamic interaction of microfinance institutions and poverty reduction in their areas in and around eThekweni.

The key findings from the research study are based on the respondents' perceptions that emerged during the questionnaire responses, and can be summarised as follows:

- The study revealed informed, experienced, energetic, and highly involved participants in the microfinance activities in eThekweni areas. They are all enlightened and professional stakeholder groups (such as Teachers, Civil servant, self-employed, Town Agent) in their various fields and registered members of their various professional bodies.
- The study found the general perceptions of microfinance as a useful tool to reduce poverty. The findings generally support those of earlier researchers (Ojo, 2009; Adjasi & Coleman, 2006; UNOSAA, 2013) and reasons for widespread of poverty were blamed on the lack of effective microfinance institutions' initiatives and the challenges the sector is facing. The study found as did Goodspeed et al. (2009) that one possible remedy would be to increase the accuracy, stability, visibility and

adoption of microfinance institutions' activities in the area and South Africa as a whole.

- The study also revealed that most clients utilise the loan funds for consumption purposes. Hence, the reason “Opportunity Finance” embraced individual loan capital as opposed to group loans becoming a good source of start-up capital for the small business initiatives. The majority of the respondents who are benefactors, used their loans to establish entrepreneurial activities. This also asserts the earlier argument the real issue is the difference in consumption and entrepreneurial focus of microfinance services offered to the poor.
- The work revealed that most of the branches of the microfinance institutions are situated in the urban areas. Only a few of the microfinance institutions are located in the rural areas in the eThekweni municipality. This is in line with the findings from other researchers who investigated proximity of MFIs and type of services in rural areas like Volschenk (2002), Wright (1999a), Robinson (2001), Rutherford (1999b) and Mutesasira (2001). If the government of South Africa wishes to reduce poverty in the country, there must be a policy position that emphasises and encourages decentralisation of the MFIs into the rural areas. It is however, important to understand thoroughly the needs of the poor so that the design of the microfinance products is made to help the poor with their daily consumption needs and income generating funds.
- Regarding the impact of microfinance institutions in reducing poverty, the findings showed that the poorest of the poor seem not to be benefitting as much as those who are not so poor. A greater percentage of the MFIs benefactors were urban dwellers. This study showed that MFIs which are private owned prefer urban clients than rural clients because of the relatively lower risks associated with the urban clients. The major setback of the rural poor is their geographical location in relation to the location of the MFIs. This finding aligns with that of Ledgerwood (1999) where

he clearly delineated the implementation challenges of trying to replicate models in different geographies and cultures.

- The research findings revealed respondents' awareness, understanding and support for microfinance initiatives as an antidote to reduce poverty in the South Africa society. This shows total support for the position of the research study that effective microfinance initiatives will reduce poverty in the South Africa.

5.2 RECOMMENDATIONS

Based on the conclusions of the study, the researcher hereby suggests the following recommendations:

- The study suggests that microfinance institutions' initiatives should be seen, encouraged and adopted by society as it could help tackle poverty and improve the living standard of the poor people in the society. However, this will need government working in partnership with the private sector and civil society if they are to succeed.
- That government must give consideration to the microfinance sector, allocate a substantial budget and donate to these microfinance institutions in order to boost the living standard of people and ultimately, contribute towards the economic development and prosperity of the country.
- That government should provide the basic infrastructural support, such as good roads, schools, hospitals, constant power supply, etc. in the country to enable individuals achieve the benefits of microfinance. Government must also encourage other development partners to aid these institutions financially, and come up with rules and regulations to prevent default risk.

- The interest rate for microfinance funds should be kept at an acceptable rate to enable people to pay the principal and interest as and when due. The government should put in place proper supervision and regulation of the microfinance institutions in the country, as well as the microfinance institutions should put in place proper training and monitoring of the beneficiaries to prevent the collapse of such institutions, as witnessed in this sector in 2013 when some private micro credit institutions collapsed.

5.3 CONCLUSION

The purpose of this research study was to gain insight into an understanding of the South Africa's microfinance institutions' poverty reduction strategies in the urban and rural areas, by reviewing consistency in terms of salient international best practices and compare these to the on-going practices in the core rural areas. Specifically, the study investigated the dynamic interaction between MFI's activities and poverty reduction in eThekweni; and examined the structures, policies, and lending patterns of MFI in South Africa, and how these dynamics interacted with poverty reduction. As a result, the study will be an enabler in creating an indication of the effectiveness of microfinance institutions in reducing poverty in the study areas and South Africa as a whole. The research question was: *What is the impact of MFI's on poverty reduction in areas around eThekweni region?*

To address the research question, a quantitative survey technique through the use of an MS Excel-based questionnaire was administered to elicit relevant information from the targeted population, namely "the microfinance institution leadership/staff members and their clients". The data collected was purely primary and was analysed using descriptive statistics and multiple regressions to test the research hypotheses and to prove the significance of a relationship between the variables used in the study.

With this, the chapter has been able to achieve, to a reasonable extent, the objectives set out in the introductory chapter of this study. The hypotheses drawn were tested and

verified to identify the different dimensions among the variables analysed. The chapter therefore concluded that micro-finance is a strategy of poverty reduction and the way credit can improve the poor living standards and well-being. If properly positioned, microfinance institutions can be useful tools for poverty reduction.

5.4 SUGGESTIONS FOR FURTHER RESEARCH

Based on the findings from the conclusions and the recommendations above, further research should explore the following aspects:

- In-depth analysis and research on the microfinance institutions' initiatives implementation models which can help reduce experimentation approaches used by both public and private microfinance institutions and encourage the microfinance sector to take full advantage of these measures.
- Due to limited time constraints and unavailability of data, the study only focused on one MFI, Opportunity Finance and looked at the different regions of Ethekewini municipality. An increase to at least three different MFIs would be more insightful in terms of their impact on poverty reduction.
- A comparative study of the impact and effectiveness of microfinance measures used in different countries in order to fully explore microfinance initiatives in an effective way.

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APPENDIX I: COVERING LETTER

Hello, I'm ZONKE MKHIZE, a Master's research student, Wits Business School, South Africa. I am conducting a survey questionnaire for: **MICROFINANCE INSTITUTIONS (MFIs) AND POVERTY REDUCTION IN SOUTH AFRICA: A CASE STUDY OF ETHEKWINI METROPOLITAN MUNICIPALITY.**

TO WHOM IT MAY CONCERN

Dear Madam/Sir,

MICROFINANCE INSTITUTIONS (MFIs) AND POVERTY REDUCTION IN SOUTH AFRICA: A CASE STUDY OF ETHEKWINI METROPOLITAN MUNICIPALITY

I write to seek your assistance in completing the attached questionnaire for my final-year Thesis on the abovementioned topic. The research is in partial fulfilment of the requirements for the Masters degree in Management in Finance and Investments at the Wits Business School, South Africa.

The main objectives of this research study is to examine South Africa's Microfinance Institutions' poverty reduction in the urban rural areas, with a view to reviewing consistency in terms of salient international best practices and compare this to the on-going poverty in the core rural areas.

Everyone stands to benefit from the study as the outcomes of the research work will help to provide baseline information for the South Africa microfinance industry and can be used in future to draw comparisons over time. Therefore, it is crucial that you respond to this survey.

Your views will be treated as strictly confidential and your response to the questionnaire should takes about ten to twenty minutes of your valuable time.

Your cooperation will be highly appreciated.

Thanking you in advance.

Yours sincerely,

Zonke Mkhize

APPENDIX II: QUESTIONNAIRE

RESEARCH QUESTIONNAIRE ON MICROFINANCE INSTITUTIONS (MFIs) AND POVERTY REDUCTION IN SOUTH AFRICA: A CASE STUDY OF ETHEKWINI METROPOLITAN MUNICIPALITY

Part 1: Questionnaire for MFI's Leadership and Staff respondents

SECTION A

I). RESPONDENT PROFILE

QUESTIONNAIRE NO...

Please indicate your response by ticking the appropriate number.

1. What are your names _____

2. Position held in the organisation _____

3. Location of your organisation _____

4. What stakeholder group do you belong to?

1	MFIs Management Staff	
2	MFIs Loan Officer	
3	MFIs Administrative Staff	
4	MFIs Training Officer	
5	Self-Employed	
6	Teacher	
7	Civil Servant	
8	Town Agent	
9	Office Assistant	
10	Others specify	

5. What age band do you fall into?

1	Less than to 25 years	
2	25 – 35years	
3	36– 45 years	
4	46 – 55 years	
5	56 - 60 years	

6. What is your gender?

1	Male	
2	Female	

7. What is your Educational level?

1	Grade 11 or less	
2	Grade 12 or equivalent	
3	National certificate or Diploma	
4	Bachelors degree	
5	Postgraduate degree (Honours / Masters / MBA)	

8. Indicate number of years involved in microfinance process

1	1- 5 years	
2	5-10 years	
3	10 -15 years	
4	15-20 years	
5	Over 20 years	

II). BACKGROUND INFORMATION**1. What is your branch?**

1	Durban Central	
2	Empangeni	
3	Pietermaritzburg	

4	Pinetown	
5	Richards Bay	

2. How long have you been serving your clients in this area?

1	1- 5 years	
2	5-10 years	
3	10 -15 years	
4	15-20 years	
5	Over 20 years	

IV). STAFF, STRUCTURE, POLICY & LENDING PATTERNS OF THE ORGANISATION

1. How many people are working for this organisation presently? _____

2. How will you describe the structure of your organisation?

1	Very Complex	
2	Fairly Complex	
3	Very Flexible	
4	Fairly Flexible	
5	Neither Complex nor Flexible	
6	Don't Know	

3. How does your description above affect its operations in terms of accessibility?

1	Very Positive	
2	Fairly Positive	
3	Very Negative	
4	Fairly Negative	
5	Neither Positive nor Negative	
6	Don't Know	

4. How would you rate the remuneration in your organisation?

1	Very Satisfied	
2	Fairly Satisfied	
3	Satisfied	
4	Dissatisfied	
5	Fairly Dissatisfied	
6	Very Dissatisfied	
7	Don't Know	

5. Do the staff of your organisation undergo operations based training?

1	0 times/yr	
2	1-2 times/yr	
3	3-4 times/yr	
4	>4 times/yr	

6. Do the staff of your organisation undergo IT/Systems based training?

1	0 times/yr	
2	1-2 times/yr	
3	3-4 times/yr	
4	>4 times/yr	

7. Do the staff of your organisation undergo Soft Skills based training?

1	0 times/yr	
2	1-2 times/yr	
3	3-4 times/yr	

4	>4 times/yr	
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8. In your opinion, does the training help the organisation to do its work better?

1	Yes	
2	No	
3	Don't know	

9. How long it takes for one to get a loan after applying for it?

1	Less than a Week	
2	Within a Week	
3	Within a Month	
4	More than a Month	
5	Within three Months	
6	Other specify	

10. What type of training do you offer to clients?

1	Management and other business skills.	
2	Vocational training and promote entrepreneurship.	
3	Basic education and literacy programs	
4	Leadership programs	
5	Other, specify.	

11. Do you consider your company to have internal policies that are in line with international best practise in micro-lending?

1	Yes	
2	No	
3	Don't know	

12. In your opinion does your company's internal structure allow it to efficiently change to take advantage of internal and external opportunities especially in relation to its clients?

1	Yes	
2	No	
3	Don't know	

13. Do you consider your company to have internal lending patterns that are in line with international best practise in micro-lending ?

1	Yes	
2	No	
3	Don't know	

V). IMPACT OF MFIs ON POVERTY REDUCTION (CLIENTS)

1. What stakeholder group do you belong to?

1	MFIs Management Staff	
2	MFIs Loan Officer	
3	MFIs Administrative Staff	
4	MFIs Training Officer	
5	Self-Employed	
6	Teacher	
7	Civil Servant	
8	Town Agent	
9	Office Assistant	
10	Others specify	

2. What age band do you fall into?

1	Less than to 25 years	
2	25 – 35years	
3	36– 45 years	
4	46 – 55 years	
5	56 - 60 years	

3. What is your gender?

1	Male	
2	Female	

4. What is your Educational level?

1	Grade 11 or less	
2	Grade 12 or equivalent	
3	National certificate or Diploma	
4	Bachelors degree	
5	Postgraduate degree (Honours / Masters / MBA)	

5. Do you agree that microfinance institutions have impacted positive on these poverty reduction issues in your areas?

		1 Strongly agreed	2 Fairly Agreed	3 Agreed	4 Dis – Agreed	5 Strongly disagreed
1	Microfinance has contributed to socio-economic developments and played a vital role in reducing poverty in my area.					
2	Microfinance is the supply of loans, savings and other basic financial services to the poor and my household.					
3	Microfinance is provision of micro-loans and saving to low-income groups, small businesses and poor people in eThekweni around areas.					
4	Micro finance banks are institutions that are established to provide financial services to the active poor in my community.					
5	Microfinance institutions have been providing diversified, dependable and timely financial services to the economically active poor in community.					
6	Microfinance institutions are creating employment opportunities in my area.					
7	Microfinance institutions is providing benefits to the poorest people both an economic and socio well-being point-of-view.					
8	Microfinance institutions are helping existing business to grow or diversify their activities in my area.					
9	Microfinance institutions are encouraging the development of a new business.					
10	My family has benefited largely from microfinance institutions operations in my community.					

APPENDIX III: QUESTIONNAIRE DESCRIPTION

Part: 1: Questionnaire for MFI's Leadership and Staff respondents

The questionnaire was divided into three sections. The following structure shows the sections covered in the questionnaire.

Section A: Demographic data

This section aimed at getting personal information data on the respondents, the stakeholder to whom they belong, educational level, and years of experience, to determine their level of involvement in the disbursement process. Knowing the years of experience and designation was used to qualify respondents.

Section B: Focused on the structure, policies, and lending patterns of MFI's in eThekwini.

The main aim of this section was to establish the structural policy and lending patterns of MFI's in eThekwini. This was established through investigating MFI's structure, policies and lending patterns in eThekwini. Due to the lack of data from other MFIs, this section was not included for analysis purposes.

Section C: Focused on MFI's impact or dynamic interaction with poverty reduction.

This section of the questionnaire was designed to prove the dynamic interaction between MFI's and poverty reduction. How effective are their operations. This was a way to check on the importance of information dissemination and its capacity to ensure openness and fairness among the clients.

Part: 2: Questionnaire for MFI's clients' respondents

The questionnaire was divided into three sections. The following structure shows the sections covered in the questionnaire.

Section A: Demographic data

This section aimed at getting personal information data on the respondents, the stakeholder to whom they belong, educational level, and years of experience to determine their level of involvement in the disbursement process.

Section B: Focused on challenges and opportunities posed by the mode of MFI's structural policy and lending patterns

The main aim of this section was to establish the challenges and opportunities the structural policy and lending patterns of MFI's on their clients in eThekwin.

Section C: Focused on MFI's impact or dynamically interact with poverty reduction.

This section of the questionnaire was designed to prove the dynamic interaction between MFI's and poverty reduction. How effective are their operations. This was a way to check on the importance of information dissemination and its capacity to ensure openness and fairness among the clients.