

**PARTICIPATORY MONITORING FOR
POVERTY REDUCTION AND WOMEN'S
EMPOWERMENT: SMALL ENTERPRISE
FOUNDATION, SOUTH AFRICA**

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The Small Enterprise Foundation (SEF) was set up in 1992 as a micro-finance programme in the impoverished former homeland areas of the Northern Province, South Africa. It uses a group-based methodology, modelled on the Grameen Bank in Bangladesh. It's official goal is:

'to work towards the alleviation of poverty and unemployment among the black population in rural areas of South Africa by providing sustainable financial services' (SEF 1997)

In 1996 in response to evidence that its Micro-credit Programme (MCP) was not reaching the poorest it set up the Tshomisano² Credit Project (TCP) explicitly targeting the poorest in the communities where it was working. In 1999, there were five MCP branches employing 39 field workers and TCP had 4 branches employing 19 field workers. The programme is also assisted by trainees from their training programme.

SEF, and particularly the TCP project is attempting to combine a commitment to targeting the poorest, poverty alleviation and financial sustainability. TCP has always been a women-only program. Over time MCP has also increasingly targeted women both because this is seen as fulfilling the aims of poverty targeting

and poverty alleviation and because of better repayment rates. MCP allows only one man per group of five and now has very few men. By 1999 SEF had over 9,500 clients of whom 97% were women (Simanowitz 1999). The programme also has a commitment to client participation to increase programme cost-effectiveness and increase programme contribution to empowerment. A particularly innovative methodology for integrating impact monitoring into programme learning was started in 1997 supported by USAID and Ford Foundation. The programme is seen by many donor agencies as a model case of good practice in combining financial sustainability, poverty alleviation and female-targeting.³

**SECTION 1: THE SOUTH AFRICAN
CONTEXT**

The post-apartheid policy context presents both opportunities and constraints for micro-finance programmes and their contribution to poverty alleviation. High hopes of equality and prosperity for all following the ending of apartheid have not, unsurprisingly, been realised. Macro-economic austerity and low levels of economic growth following Structural Adjustment policies have led to very high levels of unemployment, particularly for women⁴. There is also some political instability in certain areas and levels of crime have increased.

At the same time, the policy framework is much more favourable to grassroots democracy, women's empowerment and micro-enterprise development. There have also been significant changes to increase democracy and women's participation in government at national and

¹ This paper was compiled by L. Mayoux for UNIFEM in 1999. It is based on publications and information provided by Anton Simanowitz and references as cited. Responsibility for overall conclusions and interpretation rests with L. Mayoux. Updates on the SEF programme can be found on the SEF website: www.sef.co.za

² Tshomisano is the Northern Sotho word for "working together".

³ As early as the mid-1990s SEF won USAID's APPLE award and SEF has received continual donor support from many different sources.

⁴ According to the national-level 1995 October Household Survey 45.7% of all Black women were unemployed compared with 28.6% of men (Klasen and Woollard 1999 p35 quoted Skinner 1999 p9). Unemployment amongst rural women was particularly high and the situation in the area where SEF works is much worse than this national average.

local levels (Skinner 1998)⁵. The new Constitution has an explicit commitment to gender equality. South Africa ratified CEDAW in 1995 and a Commission for Gender Equality and other structures within and outside government were set up in 1996 to act as watchdogs to ensure women's rights are not violated⁶. These changes have provided the basis for a commitment to gender equity in areas like land reform. However the commitment has only been translated into policy in a limited way and there is continuing resistance from many traditional leaders and insufficient resources for monitoring or implementing gender equality measures (Walker 1998, Skinner 1998). There have been some positive developments for development of informal survival-oriented enterprises. The 1995 Businesses Act represented a new departure from previous practice of restriction and harassment and allows traders and businesses freedom to operate and decreased local authority powers to restrict their activities. These new measures are however being resisted by many local authorities (Skinner 1998).

The wider context of unemployment, globalisation and rising crime have created serious problems for women, particularly poor women. Historically under apartheid there was a high rate of male labour migration due to the Bantustan policies and pass laws, although increasing numbers of men may now be staying in the rural areas due to retrenchment and lack of job opportunities. A large number of households are still however *de facto* women headed and these households are often very poor. Many of these women have neither existing businesses or any business experience. Many men return only once or twice per year, and remittances are often unreliable. At the same time, women face constraints in setting up businesses due to a continuing ambivalence towards the informal

⁵ At national level a quota system was implemented for the 1994 elections and South Africa now has the highest proportion of women parliamentarians in the world.

⁶ 24 government departments have made a commitment to integrate gender concerns into every aspect of their work.

sector at local level. The *de jure* presence of men also places serious constraints on women's rights and autonomy. Levels of sexual violence are high both within the household and the community in general. Levels of women's participation in community organisations, including ROSCAs, has increased in many urban and rural areas and these are often used by women to become to some extent economically independent and develop social status and support networks. However these organisations generally exclude very poor women and the very poorest needing credit generally have to resort to loan sharks and money-lenders - a small proportion of whom are women who on-lend loans from micro-finance institutions (Burman and Lembete 1995; Roth unpublished doctoral research.)

Much of the task of translating the favourable policy framework into concrete steps forward, particularly for very poor women, is seen as lying with NGOs and the degree to which they are able to organise women and lobby local authorities to implement the changes introduced by the new legislation.

SECTION 2: SEF'S MICRO-CREDIT PROGRAMME (MCP) AND TSOMISHANO CREDIT PROJECT (TCP)

SEF was explicitly set up as a poverty-alleviation Programme. Its Head Office is in the town of Tzaneen in Northern Province and works with, with a target population of about 65,000 rural villagers in villages around the town⁷. These former home-land areas were created under the apartheid regime primarily as labour reserves for the industrial areas around Johannesburg and Pretoria and are some of the poorest in South Africa. Population densities are high and land quality poor with little opportunity for agriculture beyond a small plot around the home. There are few local income opportunities and unemployment levels may be as high as 80 per cent. The majority of the poorest are female-headed households, some of whom are

⁷ Of a potential target population of about 2 million SEF reaches about 60,000 as direct or indirect beneficiaries.

widowed or separated and others dependent on unreliable remittances from men. As elsewhere in South Africa violence is also a serious problem.

The Programme Model

Details of the SEF Micro-credit Programme (MCP) and the Tshomisano Credit Programme (TCP) are given in Box 1. The main activities of SEF are:

- the provision of credit,
- promotion of savings with other institutions and
- support for groups to provide a supportive environment for small enterprise and livelihood development.

The credit programme is based on the Grameen Bank solidarity-group methodology. Prospective borrowers must attend group training consisting of one hour sessions over a seven day period. This is followed by group testing by the Branch Manager and then the Zonal meeting. Members must then organise themselves into groups of five. Although these groups are not explicitly related to *stokvels* (ROSCAs), members are already familiar with ROSCA principles. Many individuals and groups also participate in ROSCAs independently of the program. 8 or 9 of these groups form a 'centre' which conducts fortnightly meetings attended by the SEF field worker. Any one member may only have one business loan outstanding at any one time, but may have a simultaneous education loan.

SEF does not keep savings itself but facilitates both individual and communal savings deposited with Post Offices. Before the disbursement of the first loan, the group has to open a group savings account and demonstrate their ability to save. The savings still belong to individuals but creation of group accounts are seen as creating closer ties between group members before they are entrusted with loans. The only communal savings are Centre Special Savings Funds which are now becoming an emergency/disaster fund at Centre level.

In addition to provision of credit itself, the emphasis on participation and mutual learning is seen as contributing to a wider process of increased confidence and increasing skills for wider engagement with other institutions. SEF also claims to 'ensure that all participants have a strong influence over the Foundation's policies' that development goals are aided by 'centres which function as community structures' and by 'participation in giving direction to the Foundation' (SEF 1994a:2 q Reinke 1998). Particularly important are the workshops which SEF holds with representatives of borrower groups. These workshops comment on and influence SEF's policies.

Poverty targeting: the TCP programme

SEF initially assumed that the Grameen-based methodology offering small loans through group-based lending with high transaction costs (mostly time) to access the loans, would deter all but the poorest from joining. However an evaluation in 1995 concluded that only 30-40% of people reached by SEF were

BOX 1: THE SEF LOAN PROGRAMME**SEF'S GOAL:**

'to work towards the alleviation of poverty and unemployment among the black population in rural areas of South Africa by providing sustainable financial services' (SEF 1997)

TCP's aims:

Overall aim: "*to help the very poor*".

Within this are five 'sub-aims':

- 1) *Socially empower the poor*
 - 2) *Economically empower the poor*
 - 3) *Raise the living standards of the poor*
 - 4) *Expose the poor to business, and assist them in gaining business skills*
 - 5) *Demonstrate to other financial institutions (eg. banks) that the poor are bankable*
- (Report of Impact Monitoring Workshop December 1997.

MICRO-CREDIT PROGRAMME (MCP) started 1992

Eligibility: existing micro-entrepreneurs with 6 months experience. Men limited to maximum of 1 man per group of 5 and women are 95% of borrowers.

Loan size and conditions: R100 - 800 first loan with average loan size R1,213 (US\$200). Interest rates vary between an effective rate of 48% to 65% depending on length of loan repayment schedule which may consist of 10 fortnightly, 15 fortnightly, 6 monthly, 10 monthly or 14 monthly instalments and conducted at fortnightly centre meetings. Loans must be used for the member's business plan, but education loans are also available. The group chair does a thorough loan utilisation check.

Group structure: Credit is given to individuals as part of a group of five women who collectively guarantee each others' loan. Each member is only allowed one outstanding loan at any one time. A Centre is composed of a maximum of 8 groups, and takes collective responsibility for the repayment of the group loans.

Savings: R5 per fortnight minimum, compulsory but deposited in members' own post Office savings accounts with easy access

Training: business skills development and support facilitated informally through the group and centre structures

TSHOMISANO CREDIT PROGRAMME (TCP) started 1996

Eligibility: women only. The poorest identified by participatory wealth ranking, members are living

below half the poverty line or with household income of R400 or less per month for average of 6 people. No collateral is required. Members develop business plans with field worker facilitation and receive loans on the basis of these

Loan size and conditions: R100-500 first loan, average loan size R834 (US\$140). Interest rate varies as in MCP. Repeat loans linked to credit discipline and savings. Repayment is made at fortnightly centre meetings, in 10 or 15 fortnightly or 6 or 10 monthly instalments. Loan must be used for member's business plan. Group chair does loan utilisation check.

Group structure: Credit is given to individuals as part of a group of five women who collectively guarantee each others' loan. A Centre is composed of a maximum of 8 groups, and takes collective responsibility for the repayment of the group loans. Each group is only allowed one outstanding loan at any one time.

Savings: R2 per fortnight minimum compulsory but deposited in members' own post Office savings accounts with easy access.

Training: facilitation of skills development and provision of supportive environment by staff

OTHER ACTIVITIES

Lobbying and advocacy: Some local level advocacy and lobbying on an ad hoc basis in response to issues like regulations on informal sector, police action on beer sellers, council hawking regulations affecting the interests of members.

below the poverty line (SEF 1997). This was a result of both discrimination by the better-off who needed access to credit and joined the small-loan programme anticipating larger future loans. These people either actively pushed out people who had different priorities or created an environment where the poor left. There was also a process of self-selection whereby membership of better off members served as an active deterrent for the very poor as the poorest perceived the programme to be for 'some-one' else. Women were also reluctant to talk in groups with men. The experience of the MCP therefore indicated that reliance on self-targeting through the design of loan products was not an effective way of reaching the poorest.

Rather than change the structure of the existing programme, the Tshomisano Project (TCP) was set up within the existing SEF structure with the mandate to develop a system to identify and target the poorest people. The basic loan delivery mechanisms are the same, continuing to be based on the Grameen model. However loans are smaller and clients are given more support by SEF staff in the form of facilitation of group-based or individual problem-analysis and business planning. SEF staff explicitly avoid giving top-down business advice as this is seen as potentially disempowering and does not increase members' own skills in solving their problems. There is also explicit poverty targeting using participatory wealth ranking (See below) to ensure that in TCP the first groups in any village are formed with only the poorest. This is intended to fulfil a demonstration function to encourage other very poor people to join the programme through seeing from the same background and with the same problems succeed.

Poverty alleviation and women's empowerment

SEF, and particularly TCP, is explicitly committed not only to targeting the poorest but also to maximising its contribution to poverty alleviation and employment creation. As indicated in Box 1 the definition of poverty has a broad focus including social empowerment, economic empowerment, raising living standards and enterprise development.

Conversations with clients, formal participatory wealth ranking exercises, and in-depth impact case-study research have also led to a concern with wider issues like self-confidence, control of resources and decisions within the household, social skills to negotiate in shops, markets and public institutions and involvement in community structures. Members themselves have also expressed concern to challenge poverty-based discrimination whereby the poor are stigmatised as dirty or lazy, which in turn lead to further disadvantage, for example preference shown to buying goods from better off people's businesses. However definitions of social empowerment are not however explicitly in terms of addressing gender inequality, despite the fact that the program targets women as can be seen in the sub-aims and indicators given in the Appendix.

Following this broader definition of poverty, SEF aims to deliver savings and credit in ways which also contribute to increased confidence, negotiating skills and control over their lives. For example the 1994 Programme profile emphasises that:

the programme structure enables the communities which the Small Enterprise Foundation serves to increase their sense of security and self-esteem not only through the loans provided [...] Participants are thus given control over their own lives in many ways that stretch beyond simply providing finance for business growth' (Small Enterprise Foundation, 1994a:2 q Reinke 1998).

SEF fieldworkers aim to facilitate a learning process within the groups and Centres whereby members share their experiences and learn from these, jointly deal with problems and support members who are having problems. In TCP this process is more staff-intensive than in MCP where the sharing of experience is largely left to the initiative of individual groups. The learning process facilitated by SEF is seen as entailing three stages:

- *Motivation:* staff spend time talking to the potential members, explaining the programme and encouraging them to start thinking about starting a business or developing an existing business.
- *Business planning:* members are assisted to develop individual business plans following detailed discussions in the presence of the rest of their group. In TCP the field worker is expected to play a crucial facilitatory role, structuring the discussion so as to examine all aspects of the proposed business, but allow the member to come up with their own plan. These business plans also form the framework for evaluation of business success when assessments are made for repeat loans.
- *On-going support:* SEF has rejected the idea of formal business skills training for members partly because of doubts about its usefulness since “outsiders” are unlikely to be able to provide the type of “on-the-ground” skills which are needed. Instead SEF support is based on the principles of experiential learning and facilitation. Group chairs are given the responsibility of checking on the progress of the members in their group. If a member has problems, the group can try to solve it using their collective skills and experience. If a problem cannot be solved by the group, it can be taken to the Centre meeting.

SEF also engages in some advocacy and lobbying to support member interest.

Campaigns have included:

- Raising the issue of the freezing of Northern Province pensions through publishing an article in the media, and working and talking to other organisations and Government.
- Giving input into national debates and fora on the issues of rural poverty in South Africa eg. a written submission to the NGO Coalition Poverty Hearings.
- Assisting the organisation of Tzaneen Hawkers to challenge the local council on new hawking regulations.
- Participation in discussions around new regulatory framework for micro-lenders
- Lobbying the Post Office at a branch, regional and national level to ensure high quality of service for SEF members.

There is however no written gender policy, beyond female targeting. Empowerment is based on ideals of client self-help and solidarity. It is assumed that any empowerment questions will be addressed through the process of participation and organisational learning (see below). There is no formal equal opportunities policy for staff. However women are actively sought for more senior positions and training/support is given to help achieve this. In 1997 SEF had a staff of 58 persons of whom 26 were women (SEF 1997). Women in senior management in 1999 were: One branch manager (out of 8), 5 senior field workers (out of 9), one woman on senior management team (out of 6). SEF is very conscious of the continuing imbalance in staffing, but attributes this to the very real problem in South Africa of skilled black women being in very high demand. Skilled female staff frequently leave the program and they have difficulty attracting skilled black women to replace them at existing salary levels. Solutions are therefore seen as requiring action at national level.

Participation and organizational learning

A central feature of the SEF programme is its emphasis on participation and organisational learning.

Details of SEF’s impact monitoring system are given in Box 2. This is distinct from most donor-commissioned impact assessment in that it emphasises ‘improving’ policy rather than ‘proving’ impact. It combines more conventional impact assessment and detailed case-study research with continual impact monitoring by staff as part of their routine duties. In order to obtain reliable information, there is a further emphasis on ensuring that the findings of the monitoring and assessment are immediately accessible to staff and clients, and

also are fed into programme policy⁸. This impact monitoring system continues and builds on earlier studies and emphasis on participatory methods and organizational learning. Initially TCP had used a Visual Indicator of Poverty test based on external housing conditions for poverty targeting. However complaints by potential members and staff about unsatisfactory targeting by this one-dimensional tool led to a re-thinking and the development of a new system based on participatory wealth ranking in 1997. This uses communities' own definitions of poverty and groups of volunteers to rank people in their own community according to their own definitions. The system has proved to be very reliable and has widespread acceptance by both community members and staff. In addition the information gathered during the process has greatly increased SEF's understanding of how its members live (Simanowitz 1998). SEF has commissioned a number of other specific studies in its attempt to increase its contribution to poverty alleviation. In view of weaknesses in the ability of field staff to fully examine a business, research is currently developing profiles of the different business types to draw up guidelines for field staff to facilitate business proposal discussions. There has also been a series of studies of the reasons for drop-out and monitoring of drop-outs is now part of the impact monitoring system.

Financial sustainability

⁸ SEF views impact assessment as a dynamic process of constant review and learning, designed to detect the smallest problem and to make adjustments to operations to improve impact. It also looks at the bigger picture and summarises how we are doing and how this can be improved. A fundamental goal of the impact measurement is to examine and understand at each level the linkages between inputs and activities and outcomes...Measurement of impact by itself is not enough - it must form part of a process whereby successes and problems are highlighted and lessons learned so that the effectiveness of the clients and programme can be improved. Impact assessment therefore needs to be a learning process by all people involved in running and supporting a member's business i.e. from the members, to the field staff, to management (Simanowitz 1999).

This reliance on mutual learning and group self-help is also driven by financial sustainability concerns. In 1995 SEF was aiming for financial sustainability by 2001 through a combination of:

- ***high repayment rates*** through strict credit discipline enforced by group and Centre mutual guarantees.
- ***graduating members to larger loans*** and moving out of the TCP programme into MCP
- ***actively seeking productivity targets*** and looking for ways of improving efficiency and products

SEF is now dispersing R2 million per month, and has over a 100 staff. Financial sustainability is calculated by SEF to be about 64%. SEF repayment rates have been consistently very high and in 1999 was 99.6% repayment (Simanowitz 1999). This is achieved through a combination of group guarantee and promise of larger loans over time. This creates a combination of individual and group incentives. Initially SEF had a high drop out rate in both MCP and TCP.⁹ Drop out rates by 1999 had decreased to about 13% in TCP and 20% in MCP, partly as a result of the alterations to the programme following the organizational learning process discussed above. Nevertheless drop-out before members graduate to larger loans inevitably creates a drain on resources as the programme incurs all the costs of training and disbursement of small loans without managing to reap the eventual anticipated advantage of economies of scale.

BOX 2: SEF'S IMPACT MONITORING SYSTEM

⁹ A study in 1994 found that 20% of clients leaving the programme after a first loan, 38% after a second loan and 27% after a third loan (SEF 1994b). In 1998 Tshomisano had a drop-out rate of over 30 per cent, defining a drop-out as a member who does not take a repeat loan within three months of her last installment (Simanowitz 1998).

GOALS:

Goal 1: To supplement the occasional nature of impact assessment with continuous data, thus strengthening the impact assessment

Goal 2: To provide immediate operational benefit through indicators of problems which may lead to reduced impact, or of success. These can be built into the MIS at the level of client, group, centre, loan officer, branch or zonal manager

- specific problems with a member, group, centre, field worker, or branch can be identified
- a general problem of lack of progress can be identified long before traditional indicators such as default or drop-out are identified, and staff can concentrate their support on problem areas
- success can be judged in a wider and more meaningful sense. The understanding of success and problems is motivating both for clients and staff
- discussions generated through impact monitoring are valuable for improving understanding and institutional learning.

METHODOLOGY:

- ***The data is used at the point of collection (as well as by other people):*** This ensures that staff are not just collecting information because it is their job, but see the value in the information, and collect it because they want to see the results.
- ***No additional tasks are created for the field staff*** - all monitoring data are collected as part of existing procedures and built onto the existing Management Information System. The value placed on the information by staff combined with the ease of its collection as part of normal work, improves the likelihood that it is collected with care and is reliable.
- ***Information collected by the system is stored in a place which is accessible to staff and members:*** member information is kept by Group Chairs; summary of member information and Centre information is kept in the Branch Offices and on Head Office database. The system not only demonstrates the success (or failure) of the programme as a whole, but must be easily disaggregated at the level of individual member, group, centre, field worker, or branch. The data are therefore processed and useful at the level at which information is gathered. Summary information is passed on to the next level.

· ***Participatory methods in data collection and analysis.*** The information is collected in a visual form, largely using voting and ranking forms. The scales use pictures so that illiterate people easily manage to participate. Since the results are visual, and scores from previous monitoring are on the same form, there is a good basis for discussion about the reasons for changes in a member's situation or opinion.

IMPACT MONITORING INDICATORS

Indicators were developed in part by communities with which TCP works, using participatory wealth ranking, and in part by staff. All of the indicators are potentially very difficult or time-consuming to measure. The use of voting forms and relative values solves this problem, and members are quickly able to score their current status and to compare it with previous monitoring scores.

1) Poverty Indicators - income, expenditure, housing, food, and education

2) Business Success Indicators - performance in the Programme: drop-out rates, attendance, repayment, savings, employee numbers, business diversification

3) Social Indicators - problem-solving, confidence, responsibility for activities, control of business decisions, participation in village structures.

Source: edited from Simanowitz 1998, 1999

Individual lending Grameen-based modes like SEF are relatively staff-intensive compared with self-managed programmes or non-poverty targeted programmes. In 1999 TCP some field workers were reaching 300 members, and a few up to 325 (where they were dealing with existing clients only rather than expansion). MCP fieldworkers where there is less supervision generally reach a maximum at about 350-375 members, although a few have reached 400.

SEF is undoubtedly financially secure. Grants from both foreign and national sources have built up a sizeable stock of capital which is invested to generate income for the programme¹⁰. Moreover SEF continues to

¹⁰ At the beginning of 1995, SEF had reserves of R5.2 million and these were projected to cover administrative costs for several years (SEF 1995a:30).

receive large grants from a variety of sources¹¹. In 1999, however, the time scale for achieving financial sustainability for the MCP programme was further extended to allow for continuing subsidised expansion in addition to that already planned in earlier financial sustainability projections.¹² SEF could reach sustainability according to the original projections by 2002 (maybe even 2001). This would entail sticking to the lower projections for staff and operational growth made a few years ago. However as donors have been ready to provide funding the choice has been for expansion including training new staff, who are initially unproductive, opening new offices etc, which is costly and will therefore delay financial self-sustainability.

SECTION 3: PROGRAMME CONTRIBUTION TO POVERTY ALLEVIATION

As for most micro-finance programmes, SEF promotional literature has often made quite ambitious claims about the impact of its programme:

‘Even from the first loan people’s lives change radically. Very poor families are able to afford three meals a day rather than one. Other

¹¹ In 1999 SEF received a grant of US \$100,000 from Ford Foundation for action research aimed at improving the impact of TCP and determining what strategies are needed to ensure that it will attain self-sustainability (SEF website).

¹² SEF started to make financial sustainability projections in 1996-7, and funding was granted from USAID to cover the operating losses up to a projected date of June (2002). The original date was 2001, but this was changed in consultation with USAID in the funding application. This set out a growth path to fill the MCP zone to 56 field workers and to freeze TCP (then a pilot programme) on 11 field workers. In 1999 USAID awarded Calmeadow, a Canadian-based technical assistance and micro-finance support agency, an amount of US \$1, 258,000 to be used directly as operational grants to cover losses anticipated with expansion of MCP into 2002 (SEF website). TCP is to be expanded to a full zone (56 field workers), and this will push back sustainability a further two years.

families pay school fees and buy uniforms to send their children to school - even to college or University. After a few loans many families electrify their houses or expand their business to hire employees. In addition, increase in income, sense of independence and self-reliance enables abused women to change their circumstances.

The programme structure enables the communities, which SEF serves, to increase their sense of security and self esteem not only through the loans provided, but also, through the regular savings, through Centres which function as community structures and through participation in giving the foundation direction.’ (Cole-Hamilton nd and repeated SEF 1997)

SEF also claims to have indirect benefits for a wider population than only its members. For example early literature claimed to make a substantial contribution to local employment creation¹³. The main programme focus is however not on job creation, but the creation of sustainable livelihoods for its members and their families.

The findings of the recent SEF impact assessment indicate that program contribution to member livelihoods has been overwhelmingly positive. For some women rapid increases in income can be achieved in a short period, as in the case of Elsa Mongadi in Box 3. She has managed to re-invest and grow her business,

¹³ In the mid-1990s, based on a report finding that on average borrower-owned enterprises employed an average of 2.4 people including owners and part-timers SEF claimed to have supported 12,754 job positions (SEF 1994a, 1995a q Reinke 1998). It is however unclear how far these were sustainable jobs, rather than unstable businesses where other group or family members, rather than paid employees, occasionally give a helping hand (Reinke 1998 and supported by Simanowitz).

despite having no other resources, and living in a state of severe poverty. Her business is profitable, and she has no local competition. Other success stories are reported in SEF promotional literature (Cole-Hamilton nd). Many members succeed to some degree and are able to join stokvels and build up some resources which would cushion them against crisis in the future. The personal impact of success is also very significant, and the interaction developed with other members, staff, customers, the post office and other people is empowering (Simanowitz 1998). Some women have achieved higher levels of self-confidence and self-respect through small changes as can be seen from Case 2.). Significantly, increased levels of success are evident as members progress to a fourth or fifth loan.

However, given the combination of gender and poverty constraints and consequent lack of skills, confidence and resources of many of the women joining the SEF programme, it would be naive to believe that the provision of financial services alone could lead to overnight to poverty alleviation. In order to achieve substantial increases in incomes, many members go through a difficult learning process and may experience considerable problems and maybe decreases in incomes for at least the first two years¹⁴. In the initial stages for many clients income impacts are small and clients remain very vulnerable. Typical businesses operated by SEF members are in already saturated markets: mainly petty trade including operators of small and basic convenience type shops, hawkers of fruit and vegetables and new or used clothing. Other members are involved in tailoring, brewing beer, brick-making and other small manufacturing. For Case 2, Ndayeni, the loan had an initial positive impact due to the cash injection it gave to the household economy. This was not sustained, and the regular income is now much lower. Since the family was not extremely poor when she joined TCP (they had a pension income) the impact has not been as dramatic as for Elsa, although things are now generally more secure. the economic impact of the loan has been

¹⁴ Detailed analysis of the findings of the impact study will be available in late 2000.

slight since commitments made the business income difficult to manage. In addition, it is a common problem for sales on credit to affect cash flow and undermine the business. However, the fact that Ndayeni has an alternative, secure income source means that she has benefited from the small increase in income without the risk of stress being created by the lack of profitability. On a personal level the interaction with other members and staff has been a positive experience, and she feels she has gained skills and has been supported.

In a few cases SEF credit may further increase rather than decrease vulnerability through increasing market competition. If businesses fail, borrowers are in debt and can be in a worse position than before, as in the case of Nyatela Baloyi in Box 3. There are similarities with Ndayeni in circumstances forcing the re-direction money intended for the business. However, for Nyatela there are less resources to fall back on and greater family demands. The fact that she was doing well before the crisis was a positive experience, and she has gained some skills. But the confidence gained has been lost, and she is in a worse situation now than prior to the loan. In this case TCP support could not have prevented the failure of the business. In some cases members may also take loans from another MFI in the area or from the informal sector, and thus overburden themselves with multiple debts. Staff and impact research give reports of members continuing to pay their loans whilst their business have failed.

BOX 3: SOME CASE STUDIES

CASE 1: ELSA MONGADI: REALATIVE 'SUCCESS' FOR THE POOREST

When Elsa Mongadi's husband passed away two years ago she found herself with no income to support herself and her seven children. She survived from the generosity of friends and relatives, and after some time started a small business selling fried fish and tomatoes. The income from this business was not enough to survive on and the family often went hungry, the children dropped out of school, and she frequently had to beg food from friends or relatives, or buy on credit from a local shop.

In April 1998 Elsa joined Tshomisano and received a

R400 (US\$80) loan. She started a business selling watches and wall clocks, travelling to Durban - an 18 hour trip costing R150. The business has done very well as there is no competition and the watches are in demand. In the four months since she received the loan she has restocked twice - the first time for R450 and the second for R550. The business and her income are growing. Elsa and her family no longer have to beg for food, and although they don't eat well they do not go to bed hungry. In addition the debt with the local shop has now been cleared. Elsa is now able to send her children to school. She is planning to use some of her additional income to join a *stokvel* (a rotating savings club). She will pay in R50 or R100 each month along with five other women, and after 6 months it will be her turn to receive that month's contribution. When she receives her contribution, she will divide it between her children's education, things for her house, and some will be invested in the business.

On a personal level Elsa talked about how her feelings about herself have changed. In the past she felt like "nothing" when she walked around the village: now she feels proud of what she has achieved and the fact that her children go to school. Although travelling to Durban once per month is strenuous, according to Elsa, it is less so than searching for food.

CASE 2: IMPACT OF CREDIT ON SELF-WORTH

In a workshop to develop an impact monitoring system, a field worker gave as an indicator "having a lock on the door". She explained that the member had bought a lock for her house as a result of the loan. Before the loan she had felt "less than human" - she was not a person that anyone would think of robbing. Now, although still not having anything worth stealing she felt a part of the community and could assert her identity and sense of worth by locking her house.

CASE 3: NDAYENI TSHABALALA: PRECARIOUS BALANCE OF DIFFERENT SOURCES OF INCOME

Ndayeni Tshabalala first had a clothes business in 1985, but this stopped in 1989 when her husband retired and they moved to the rural area. Her husband received a pension, but the income from this was not enough for them to live on. Occasionally she would get a temporary job on a local farm, but the wages were very low (R300/ month) and the job was unreliable. In 1994 Ndayeni took a loan from a government microfinance agency and restarted her business. However, she did not make much money

and the business soon folded. Today Ndayeni lives with her husband. Her two children live away - both are working but neither send money. Last year (1997) her house was struck by lightning and completely burnt down. She bought building materials on credit to rebuild the house, and is still paying monthly installments of R160.

Shortly after her house was destroyed Ndayeni joined TCP and took a loan of R500 to buy 24 pillows. Six months later she is still in business, but the business is not thriving. She has only bought stock three times and the stock bought has decreased to R250, and consequently the income has also decreased. The reason for this decline is partly her need to pay the installments on the building materials, which take priority over re-investment in the business, and partly the fact that she sells a lot of her stock on credit, and many people take several months to repay the credit. Although she realises that the business is declining, Ndayeni feels she has no choice but to pay the installments, and she does not know how to ensure that people repay the credit promptly. She hopes to use her husband's pension to restock the business and is not worried that it will collapse. Her husband has a regular and reliable income through his pension and this money is given to her to control and is used to pay for the basic household necessities.

Ndayeni reported positive experiences in her interactions with the other group members and in the centre. She values the support she gains from these - her group meets to advise each other and to sort out problems. She has gained skills and confidence as secretary of her group and has even been asked to assist the centre leadership when others have been absent.

CASE 4: A CASE OF BUSINESS FAILURE THROUGH SEF INEFFICIENCY

Mrs A had applied for a large monthly loan (her 5th loan), in order to travel to Durban (a 1600km round trip) to buy second hand clothes. The loan was dispersed in the middle of the month, however a fortnight later she was required to make her first repayment. This did not leave her enough time to travel to Durban, and then sell enough to generate enough money for the loan instalment. In the period between approval of her loan and disbursement, she made a number of purchases using money from her business. She was therefore faced with a situation of a weak business and insufficient time to carry out her business plan, and raise the large amount of money needed for repayment. At the next centre meeting she paid her first instalment using the loan money. Now when she looked at the money available and the

transport costs to travel to Durban she decided that it would not be worth her while buying second hand clothes. Instead she decided to buy fruit and vegetables - a business that she was not experienced in. Over the next few months the business gradually declined, and she reinvested less and less as she tried to maintain her previous standard of living. For the last three months of the loan she struggled to meet her household needs and find the money to repay her loan.

**CASE 5: NYATELA BALOYI:
VULNERABILITY AND FAILURE BECAUSE
OF EXTERNAL FACTORS** Nyatela Baloyi lives in two mud brick rondavels together with five children. Her husband died some time ago, and she supports her family with her small business. She sells malt to traditional beer brewers and brews herself once per month. For some years after the death of her husband she received a small widows pension, which provided some fall back, but was insufficient for even basic survival and has gradually decreased to almost nothing. Her business was locked in a cycle of low incomes and low investment and was therefore very fragile. Lacking capital, she was seldom able to raise enough money to buy stock - usually she relied on borrowing money from friends and relatives or money lenders. Often she was not able to raise enough money to buy a full sack of malt, or to buy the ingredients to brew. She sells to poor people, and often she is forced to sell on credit, collecting money at month end. She is wary about selling on credit, but relies on her knowledge of people she sells to - pensioners with their regular income are amongst the most reliable. When she does make a profit she has to repay her own debts, and survive with the little left. She cannot make enough profit to provide capital for restocking, and the poverty cycle seemed unbreakable.

In July 1997 Nyatela joined TCP and received a R500 loan which she used to strengthen her business. She bought malt and was able to establish herself as a reliable supplier to the other brewers in the village. She also managed to brew herself regularly. The repayments on the loan were manageable and Nyatela found that even after spending money on her family she had enough left to restock each month. Her business became much stronger and provided a small but reliable income. With her profits she was also able to ensure that the family had food to eat every day and that her children could attend school. She also bought buy wire to fence her house. It was a small start in the right direction. But Nyatela was still very vulnerable, she had no savings and was dependent on each month's income to buy her

household basics and stock for the business to provide the next months income. The people to whom she sold still bought on credit and repaid at month-end.

In March this year disaster struck. A temporary freeze on pensions meant that most her creditors, who were pensioners failed to repay. She was left with almost no income, and certainly no money to buy stock. Her business totally failed, and she now has no means of providing herself with an income. Nyatela had no savings other than R40 saved with TCP, and has nothing to fall back on to restart her business. Worse still is the fact that she has borrowed from friends and a local shop and is now in debt. Her installments to TCP are almost finished and she continues to repay even though she has almost no means to do so. For Nyatela the hope is that if she can repay this loan she will get another larger one. She would then pay off her debts and to restart her business.

Most members will inevitably remain vulnerable to economic and social changes and crisis. Even Elsa at the time of interviewing in 1998 had no savings other than her R10 saved fortnightly with TCP. She was therefore very vulnerable to crises which could wipe out her business, particularly since she needed at least R400 to make the trip to Durban profitable. In the earlier stages of the programme (till 1997-8) the emphasis in groups and Centres has been on ensuring good credit discipline, and these structures have not been fully utilised for supporting members development. Research found that these structures developed strong support and sanction mechanisms between members, with other members often supporting a member whose business fails because of a family problem, or taking action against a member who causes problems within the centre or group. However although informal discussion and support took place, but attempts to structure discussion around business development have largely not succeeded (Simanowitz 1998). Dropout levels were high, particularly for poor women in groups of mixed income level, indicating that the programme had been unsuccessful in generating sufficiently high levels of income or overcoming prejudice. There are also anecdotal reports of husbands causing women to leave the programme and increased household conflict. Initial findings of the impact monitoring found that at least some members felt the staff were unsupportive and insufficiently understanding in cases of genuine family problems or disasters.

SEF is however very aware of these problems and the participatory organisational learning process has led to changes in the programme to improve the contribution to member incomes. Changes have included allowing members to take different loan terms in one group, reducing transport costs by giving cheque disbursements, reviewing loan terms (for example monthly rather than fortnightly loan terms) and reviewing loan sizes and increments. These changes would combine increased impact with continuing high repayment. The learning process for staff now enables them to take a sympathetic and realistic approach to genuine repayment problems without jeopardising loan discipline. Some

problems are avoided by linking loan size to business income and savings provide an important resource. The systems of support at group and centre level are also now more effective in supporting members in difficulty, including the development of the disasters fund described above. For example in some cases where members business fail leading to repayment difficulties and they have borrowed from a money lender, and fled the area, the centre has mediated the problem, assist the member in restarting her business, and negotiate with the money lender on her behalf.

SECTION 5: REMAINING CHALLENGES

SEF undoubtedly represents an important model of micro-finance delivery reaching very poor women and demonstrates the feasibility of a woman-focused programme combining poverty targeting, contribution to member livelihoods with financial sustainability over a period of time. However SEF's experience also highlights some inherent tensions between financial sustainability and poverty alleviation aims which need to be acknowledged and addressed by both programmes themselves (See Box 4) and by donors. Although SEF could achieve financial sustainability by 2001, this would be at the expense of continued expansion and particularly if this is to continue to be poverty-targeted¹⁵. Although high interest rates can be justified if returns to loan investment are high, there is an inevitable trade-off for members between interest repayment and investment in businesses. The requirements to cut costs places considerable pressures to cut down the length of time spent with each client and to increase the numbers of clients covered by each field worker in order to increase financial sustainability. This means that there is a very fine line between staff spending the time needed to facilitate a learning process and shifting the

¹⁵ The questions raised about SEF's ability to achieve financial sustainability in Reinke 1998 were based on inaccurate calculations and misreading of SEF literature and he has apologised to SEF for his errors. See Simanowitz 1998b for full details of the errors.

BO X 4: THE POSITIVE CHALLENGE OF SUSTAINABILITY: A PERSONAL VIEW FROM ANTON SIMANOWITZ, SEF

My personal view is that it may never make sense to reach full sustainability, so long as the work is having the positive impact on the poorest, and donor money is available to fund continued expansion. What would not be acceptable is to maintain the operations in such a way that they depend on the long term on donor subsidy - subsidy for growth, even if it puts back the date makes most sense if your mission is poverty and not banking!

THE POINT IS [ALSO] NOT ABOUT HOW MANY PEOPLE YOU CAN REACH WITH CREDIT - set up a stall in the street and you could reach thousands - We are talking about the most effective and efficient method for POVERTY alleviation. So compare group based credit with other poverty programmes, and you will find incredible efficiency, incredible numbers of people being reached and a chance of financial sustainability that no other programme achieve! The big question for me is in terms of impact. In my (limited to SEF) experinenc group based lending, with a good support environment has impact way beyond my expectations. It is precisely because we do not have resources to give intensive support that the approach is empowering. Programmes that put in hours of staff time to a few committees, rarely create real empowerment in my experience, rather they create dependency. SEF has come from the starting point of a belief in people's own abilities. This belief, plus the sustainability presssure mean that members really do run their own meetings, solve their own problems, make decisions on loan approval, teach each other business skills etc

The results are total transformation of people as people. So many of the women I have interviewed, two years ago were begging for food, could not say more than a few words in response to questions, lived in run down shacks.... Now when I go back to them it is hard to believe they are they same people. They have an air of confidence, do most of the talking in interviews, raise concerns and questions, contradict my ideas, raise questions in meetings, give food to other people coming to beg at their houses, and feel respected in the community. Obviously this is in part a result of the economic changes in their lives, but the group-based structure gives a lot of support in this.

I know that the rates sound shocking, and it is very easy to "bash" MFIs on perceptions of high interest rates. But, if you really analyse what is going on in the members livelihoods, and the context of a

responsible lending programme it really is not a big issue. For our members, the main "burden" is the loan instalment - on a typical first loan the instalment is R50 - R80. Interest on this will be R5 - R8. Adding or taking away one or two rand from this will have a huge impact on the effective interest rates (because of the way that the declining balance rate is calculated), but it will make no impact on the borrower. Our members typically will turn over their loan on a weekly or fortnightly basis, with a profit margin of at least 50 per cent. Ie. on a hundred rand they will be making at least R20, sometimes up to R100 in a month - R1 interest does not make much of a dent on this. Of course the main worry is with the most vulnerable, and the people who run into problems. Here a few rand can make a difference. However, again the biggest burden is the instalment. I am much more comfortable with an organisation that charges "high" interest rates, but is careful about how the money is used, and ensures that larger loans are not given to people without the means to support the repayment, than an organisation that charges "low" rates, but burdens the poor with loans that they cannot repay! There is a big debate on fungibility, the need to accept that people make good decisions about where to put household resources. My experience, is that people often do not make "good" decisions, and the poorest have the most pressure on them to divert loans into consumption. Supporting the use of loans for productive uses ensures that over the long term a base is built up that can support increasing loan repayment. This is the crux of the issue, not whether people pay back R4 or R5 in interest!

The important thing is to provide a supportive environment, to monitor the business in relation to the loans given, and to give the support to make sure that the mistakes are not too big or damaging, to discourage the member from learning and building on their mistakes. So many members I talk to, discuss their lack of skills in the beginning and how they have learnt from their mistakes. Holding people's hands too much is disempowering rather than empowering!

The sustainability pressure can be negative if it forces a move away from the poverty mission, and encourages staff practices that are not in the best intersts of the poorest, but where it encourages innovation and efficiency, and forces real handing over of control to members, it can have a positive influence. On top of this sustainability is important in terms of permanence of the MFI and ability to reach large numbers of people.

costs of the programme onto clients in the interests of low cost minimalist credit delivery

¹⁶There are opportunities for linking with other development initiatives and using the centre structures as a point of contact, should this be prioritised by SEF's members. This has happened occasionally on an informal basis, but it is an opportunity which is largely cannot be built upon due to the pressure to devote all resources to the core Micro-credit Programme (Simanowitz 1998).

In SEF's case it is the focus on participation and mutual learning as a cost-effective means of increasing contribution to client incomes and also to social empowerment which enable it to manage these tensions and ensure that the benefits to members outweigh any costs. The innovative approach to impact monitoring has led to changes in the programme to increase the benefits to members. This impact monitoring system has considerable potential for replication elsewhere in suitable institutional environments where there are good relations between staff and clients, a sincere organisational commitment to programme learning and sufficient funds for training of staff to initiate it. Initiatives to facilitate discussions and exchange between members within centres and between centres, and to use members as experts are now an integral part of program methodology. Reducing the pressure for financial sustainability in SEF's case would enable SEF to further develop cost-effective methodologies for mutual learning between members and for organization to link these very poor women to the wider institutions working for economic and social change in South Africa.

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¹⁶ This is one point stressed by Reinke 1998 and which remains true in general terms, despite his errors of calculation in relation to SEF.