THE JOBS FUND

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Impact of Microfinance on Rural Communities:

Phakamani Foundation and the Small Enterprise Foundation

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The Jobs Fund is a R9 billion fund established by the South African Government in 2011. It was established to encourage innovation and give greater impetus to initiatives with potential to generate sustainable employment. The Fund aims to catalyze innovation in job creation through structured partnerships with the private and public sectors as well as NPOs by awarding once-off grants to organisations through a competitive process. The Jobs Fund operates on challenge fund principles and aims to incentivise innovation and investment in new business approaches that directly contribute to long term sustainable employment creation.

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This paper presents the outcomes of the implementation of two microfinance projects supported by the Jobs Fund: Phakamani Foundation (Phakamani) and Small Enterprise Foundation (SEF). The SEF project established new microfinance branches in Tzaneen, Limpopo province while Phakamani concentrated their microfinance activities in the rural areas of Durban. A document review was done using project Self Evaluation, Close-Out and Summative Evaluation reports. The review shows that both projects produced significant social outcomes at individual, household and enterprise level. Jobs at micro enterprise level were also created in the process. Due to the difficulty associated with counting jobs at the micro enterprise level, a proxy indicator based on loan repayment rates was used to determine the number of jobs. The review recommends that such projects be supported to create economic opportunities and alleviate poverty in rural areas.

1. Introduction

This paper presents an analysis of two microfinance projects: Phakamani Foundation (Phakamani) in Durban and the Small Enterprise Foundation (SEF) in Tzaneen (Limpopo Province). The objective is to see how these projects fared and to discuss whether group microfinance can help create micro enterprises at grassroots level and increase household incomes in rural areas through better use of the limited available resources.

The review assesses and summarizes key indicators and characteristics of the two projects while seeking to understand what the challenges have been in the setup of micro enterprises and what social impact outcomes have been achieved.

The microfinance model that was employed on the two projects is a variation of the Grameen Bank model, where a departure is made from formal collateral-based lending practices to collective group accountability of loans received (the use of "social" rather than "physical" collateral). The nature of the model is that people are financially assisted in groups and encouraged to save towards repayment of the group loan. The accountability for the loan is transferred to a collective group conscious, where members of the group both help and hold each other accountable for the loan.

The major problem on micro lending projects for the JF in particular has been the difficulty associated with determining how many jobs are created because of the informal nature of the businesses supported. The temptation is to try to formalize these operations after funding them, but this takes away the very nature of what they do and ends up disadvantaging them because they are not formal businesses. The ventures supported are survivalist in nature and the idea of using public funds to support them is to encourage a different kind of entrepreneurship that directly supports livelihoods at the grassroots level. They also lack a formal work arrangement (i.e. a contract), which means that they are not recognized, regulated or protected by national labour legislation (Martins and Takeuchi, 2013).

A proxy indicator therefore becomes necessary to approximate the number of jobs that come about as a result of the microfinace. This is critical as the key indicators of progress on JF funded projects are the number of jobs created (indicator 1 in our Results Matrix) and the number of people capacitated to either run their own business or find employment (indicator 6, Number of beneficiaries Trained).

Microfinance is concerned directly with the alleviation of poverty by providing small loans and business training to informal sector actors at grassroots level. Globally, the literature on Microfinance models is divided on the poverty alleviation effectiveness of these programmes.

Some scholars conclude that microfinance does not achieve much in terms of poverty alleviation in poor communities (Fazalath, and Kumar, 2018, Mudra 2018), while others find microfinance to have a significant effect on the ground in terms of poverty reduction (Dadhich 2001, Tazul 2016). They claim that internationally, this is the key deliverable of microfinance.

The Jobs Fund experience with SEF and Phakamani discussed here provides useful case material for serious consideration towards a determination of the poverty alleviation impact of microfinance programs.

2. Method and Approach

A desktop review was done using key project implementation documents of SEF and Phakamani. Specific project information was sourced from Summative Evaluation Reports (SERs) and Project Close Out Reports (PCRs). Some Project statistics were sourced from the Grant Management System (GMS). Both projects conducted Focus Group Discussions (FGDs) with project participants at the end of the implementation period. The FGD outcomes were documented in the SERs.

Social impact was evaluated using the Progress out of Poverty Index (PPI) on both projects.

2.1 The Progress out of Poverty Index(PPI)

The PPI is a poverty measurement tool for organizations and businesses with a mission to serve the poor. It aggregates responses to ten questions based on the following indicators:

a. ownership of certain household appliances (washing machines, DVD player, refrigerator/freezer, microwave),

b. the number of rooms in a dwelling,

c. the number of household members,

d. the number of income earners,

e. the type of toilet facility,

f. the main material used for the dwelling roof, and

g. the type of energy/fuel used for cooking.

While the PPI is a simple poverty measure, it is essential that data is collected accurately at the source. Efficient data collection procedures should be in place so that the data collected can be used to create reliable datasets to follow progress out of poverty due to project implementation. SEF reported some challenges with the data collection used for their PPI calculations. However, the problems were adequately addressed to preserve the validity of the data. More information on the PPI is available on the VisionFunds website[1].

2.2 Theory of Change

The value proposition of both projects was that there would be a reduction in poverty in the communities where the projects were implemented through increased economic participation of households as a result of the provision of microfinance. People engage in informal household or owner based economic transactions to survive. Some of these initiatives have the potential to grow into micro or small businesses (with the right kind of support e.g. small loans and/or skills transfers). This growth translates into increased economic participation in these communities raising and/or sustaining household incomes, which leads to a reduction in poverty levels in the community.

Microfinancing in small groups of people in poor areas achieves this by engaging household members who, without the microfinance, would not be economically active.

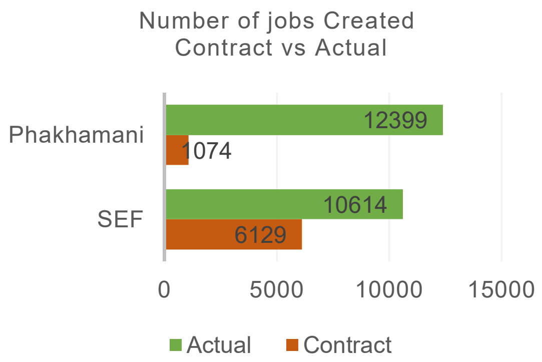
[1] https://www.povertyindex.org/blog/progress-out-poverty-index-ppi-drawing-value-data (accessed on 5/08/2019)

3. Results and Findings

3.1 Contract Performance

Contract Performance is a comparison between the contracted target indicators at the beginning of the project and the value of the same indicators documented at the end of the implementation. In terms of job creation, both projects used the number of loan repayments over a period of twelve months as a proxy for jobs created on the project. This is a useful proxy because it shows that the people are using the loans over this period, acquiring households assets or engaging in income generating activities, which enable them to pay back the loans that they accessed. If a group as a collective paid off the loan over a period of 12 months, all the group members were counted as jobs. The groups normally constituted five members for both SEF and Phakamani. Using this proxy indicator, both Phakamani and SEF far outperformed their target job creation targets. But the more important point to be made is that this impact was achieved with a relatively low level of public funding.

Figure 1 Number of Jobs Created



3.1.1 Loan Repayments

Repayment rates on Grameen type group lending projects are generally high even among the poorest clients, often exceeding ninety-five percent (Pronyk et al, 2007). Global experience has demonstrated that microfinance institutions can recover all or most of their administrative costs through interest rates and user fees (Sharma et al 2017). A possible explanation for this is that group lending hinges its lending activities on “social” rather than “physical” collateral. In rural communities such as the ones where Phakamani and SEF operated, the fear of exclusion from future loans (coupled with the need to keep the trust, solidarity and cohesion of the group) plays a big part in group members honouring their obligations and repaying their part of the loans on time. This ensures their “social collateral” remains intact. A group member who defaults creates a bad name for himself and will find it difficult to join other groups for further finance as his reputation will most probably precede him and be refused entry into other groups for further loans. This also makes things difficult for other group members as they now have to pay the loan on his/her behalf.

Two indicators primarily show the repayment effectiveness of micro loans: the bad-debt rate and the repayment rate. These are inversely proportional to one another. A low bad debt rate signals a high repayment rate and vice versa.

SEF: The SEF branches that were opened with JF funds had a bad-debt rate of 0.3 percent, compared to 0.7 percent for the other SEF branches that were already operating without JF funding. This shows a very high repayment rate for SEF loans in JF-created branches. The reasons for this difference were not directly investigated but it can be inferred that training and support given by the SEF to its clients has a lot to do with it.

Seven percent of the SEF clients indicated a wish not to continue with the SEF loans as their businesses were doing well without the loans. Among the reasons mentioned in FGDs for not wanting to continue with SEF loans was the burden of the financial responsibility for non-paying group members or members that leave the group. Group conflicts, constantly needing to help the same members, paying for other groups in the centre and having to work harder than usual to be able to repay loans were also cited as reasons for not wanting to participate further in the group lending scheme.

Phakamani: Phakamani saw a repayment rate of 98.3 percent with a very low bad-debt rate of about 0.19 percent. The repayment rate compares very well to the repayment rate on SEF. Most of the beneficiaries were of the view that the Phakamani loans were manageable. The difficulties experienced within the groups with respect to group members dropping out and the financial burden that this creates are similar to those experienced on SEF.

3.2 Job Evidence and Challenges

3.2.1 Repayment Receipts

As pointed out on page four, the projects did not provide contracts as evidence for the jobs they created because of the difficulty associated with formal contracting in the informal sector. On both projects, the number of repayments made by the group members were used as a proxy measure to represent a job. If the group members repaid the loan over a 12-month period, all members of the group were counted as jobs. The volume of paper evidence (repayment receipts) increases exponentially with time as these become the basis of the job count. This increases the administrative task associated with counting jobs on these projects.

3.3 Social Impact Evaluation

3.3.1 Small Enterprise Foundation (SEF)

The evaluation of the SEF project concluded that the SEF had brought positive changes at enterprise, household, individual and community levels.

At enterprise level, 90 percent of the clients indicated a strong desire to continue with SEF loans because they were satisfied with the service they got.

Among the positive effects reported at enterprise level were the improvements in savings and access to good advice and business assistance.

At household level, it was determined that the SEF/JF intervention had led to a change in the physical and living conditions of the loan participants in terms of the number of rooms per household, the main energy source used for cooking, main sanitation facility and main material used for roofing of the household.

Increases in household income were noted for loan participants. The proportion of SEF clients living below the poverty line changed from above 80 percent before the project to below 70 percent after the project implementation.

There were also changes reported regarding women empowerment in terms of household decision making on financial matters. Other reported changes included increases in sources of income and positive changes in perception of women, who are traditionally seen as a burden on the household. Increases in levels of self-worth and changes in ability to achieve personal goals were also reported by clients.

The PPI revealed that SEF activities were responsible for a reduction in poverty indicators for at least two thirds of the SEF beneficiaries.

3.3.2 Phakamani Foundation

The Phakamani Summative Evaluation revealed that the group lending approach was problematic when a member of the group was not able to pay and left the group. Phakamani was requested by clients to consider moving to individual loans on terms similar to group loans to solve this problem.

At the business unit level, the evaluation showed an overall average increase in business value of about 10 to 20 percent directly linked to the number of loans the client had taken out.

At household level, the PPI revealed that more than 75 percent of Phakamani clients had increased their household incomes since taking out the first loan.

Client savings were reported to have increased as the loan amounts increased, chiefly because savings is a requirement for future loans with Phakamani.

A general improvement in Phakamani's female clients' ability to influence family decisions was observed as the number of loans increased. This improvement was directly linked to the female clients' increased earning ability.

On the negative side client retention was a challenge as 29 percent of the groups lost a member along the way and dropped to four members instead of the original five per group. This was a problem for the groups as they had to find a replacement in order to graduate to the next loan with Phakamani. Fifty percent of the clients who took out only one loan cited this as the main reason for not continuing with Phakamani.

4. Conclusions and Recommendations

It is evident from the project evaluation results that the SEF and Phakamani microfinance projects had a significant impact on the poverty status of their beneficiaries. The evidence also shows that the projects had widespread effects at enterprise, community and household levels.

Both SEF and Phakamani clients show a high repayment rate in spite of groups recording drop outs. There is considerable cause to consider a flexible group microfinance approach that takes into account the difficulties experienced in keeping groups of people together considering different circumstances and geographical spread of members.

Support for microfinance sector projects has the capacity to reach people directly and affect them in ways that make their lives better. Future support for such programs is encouraged on condition that a clear and acceptable methodology of measuring the social impact is embedded in the project design as this has been shown to be the principal value proposition of microfinance projects. This was very well done on both SEF and Phakamani using the PPI methodology.

A further requirement would be that the projects continue to lend and show progress on the social impact indicators during the monitoring period[2] with the JF. This is a reasonable requirement as the community pays back the loans which then become a revolving fund for further loans to the community.

The difficulties associated with job evidence on the microfinance projects should not hinder further funding of these projects as long as efficient monitoring mechanisms are put in place throughout the implementation phase.

Some of the questions that arise for further research include a deeper look at the group dynamics as well as a study of the factors that influence loan repayment performance among group borrowers on the JF supported microfinance projects. In spite of the fact that high repayment rates were recorded, the reasons for this were not investigated especially that the repayments were higher on the JF supported microfinance projects than on other microfinance project in the same areas. SEF and Phakamani demonstrate that group microfinance at grassroots level is an efficient way of "Catalysing Inclusive Economic Growth".

[2] This is the two-year period after the initial three-year implementation period barring any extensions.

5. References

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