

The Grameen model of microcredit and rural South Africa: Critical evaluation and adaptation

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Outline

- Grameen replication
- Specific needs to rural South Africa
- Use Grameen to fulfil the specific rural needs in two ways:
 - 1) Retaining the salient features
 - 2) Adapting the limitations
- Conclusion
- Future research areas

Grameen: valuing the first model of microcredit and microsavings

- Grameen: valued contributions to date
 - Global success in the reduction of poverty and the improvement of other socioeconomic conditions (Grameen Foundation (2008), Bernasek (2003), Sarker (2001) and Crone (1994)).
 - Encouragement of corporate social responsibility and environmental protection (Grameen Foundation (2008), Hart, Milstein & Caggiano (2003), Pretty (2003) and Hainard & Verschuur (2001)).
- Why is Grameen used in this study?
 - Wide replication (3 133 microcredit and savings replicas globally - (Daley-Harris, 2006:3)) and popularity among development finance theorists.
 - Comprehensive literature available.

Problem statement

- Establishing the needs of rural South Africa
 - Rural South Africa is populated mainly by women (Kongolo:2002).
 - Financial resource restriction in the formal credit and savings markets (Kongolo:2002).
 - Financial resources obtained through informal credit(Collins et al. (2009:234)).
 - 4 problems were identified with the informal market
 - 1) hindrance of individual economic progress through secured group credit amount (Aghion & Morduch (2000:405))
 - 2) hindrance of individual economic progress through embezzlement by some group members (Coetzee & Cross (2002:78)).
 - 3) informal sources of credit are uncertain.
 - 4) rural microenterprises experience business loss due to underdevelopment. (Baumann (2001:102).
 - Therefore, rural women require a reliable microcredit and microsavings channel.

Salient features of the Grameen microcredit and microsavings model

- Grameen proposes a more regular and reliable source of credit and storage of savings for the rural poor.
- **Features to retain**
 - No financial collateral (Tipton (2005:179))
 - Support structure mechanism (Pronyk *et al.* (2006:1975))
 - Compulsory and voluntary savings channels (Jewkes *et al.* (1999:13) and (Shreiner, 2002:63))
 - Flexibility of Grameen II (Jewkes *et al.* (1999:19))

Limitations of the Grameen model

- To be adapted:
 - Grameen is not financially sustainable (Yaron:1994).
 - The affordability and sustainability trade-off [(derived from Yaron (1994:50) and Grameen foundation (2008:34)]
 - Employment equity (Mallick (2003:154), Jewkes *et al.* (1999) and Outwater *et al.* (2005))
 - Employment of male bank workers prevents rural women from accessing financial resources (Jewkes *et al.* (1999:13))

Are these limitations adaptable to the needs of rural South Africa?

- Possible to adapt some limitations reflecting on the JAK case study:
 - The JAK members' Bank of Sweden: interest-free and subscription fee orientated (Anielski (2004:11)) – adapt the financial sustainability and affordability trade-off
 - JAK's ideology has survived 45 years.
- Possible to adapt some limitations using the SFL case study:
 - The increased employment of female bank workers - adapt employment equity and lead to greater access to credit.

Conclusion

- A formal financial solution is needed for rural women in South Africa.
- Salient features of Grameen to retain in this formal microfinance solution: joint liability societal collateral mechanism, group support networks, obligatory and voluntary savings and financing flexibility like Grameen II.
- Limitations identified: Grameen was not financially self-sustainable, affordability and sustainability trade-off, male bank worker employment in a society where female deprivations are common.
- Adaptations: The JAK case study could be used to adapt the financial sustainability and financial sustainability and accountability trade-off and the SFL case study could be used to adapt the exclusive employment of male bank workers and initiate other similar female support initiatives.

Future research areas

- A qualitative comparison between the Swedish cooperative - JAK members' bank of Sweden and a South African cooperative to establish legislative and operational differences.
- A survey determining an appropriate subscription fee value for rural communities in South Africa based on household income.
- An inquiry into the provision of government regulated and enforced support networks for female borrowers in rural South African communities.

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