

ALCHEMY PROJECT

**JOHANNESBURG,
SOUTH AFRICA**

SUMMER 2004 REPORT

**LOCAL ALCHEMY PARTNER:
Jesuit Refugee Services**

Report submitted by
Josephine F. Lukoma
Summer 2004 Alchemy Intern

CONTENTS

	pp #
Introduction	03-04
Methodology	04-05
Micro credit Environment	05-05
Access to Banking Services	05-06
Attitudes or knowledge about Alchemy Program	07-07
Small Business Program in Focus	07-07
Current Loan Portfolio of Small Business Program	08-09
Reccomendations	09-15
Reccomendations related to:	
1) Exit Strategy	09-11
2) The need for Capital	11-12
3) The need for an on-going advertising campaign	12-13
4) Determination of what the right interest rate is	13-14
5) Backing-up of program data and continued in-house tracking of clients	14-15
6) Support from UNHCR as JRS's Implementing Partner	15-15
Appendix	16-22

INTRODUCTION

This report is a compilation of research on the micro credit environment and micro credit services available to urban refugees in Johannesburg, South Africa; field research was conducted between June and August 2004. I conducted this research as an Alchemy Project intern based in the Johannesburg offices of the Jesuit Refugee Services (JRS) which is an implementing partner of the United Nations High Commissioner for Refugees. The Alchemy Project based at the Alan Shawn Feinstein International Famine Centre at Tufts University, situated in Medford, MA, USA, focuses its research on ways of enabling refugees and Internally Displaced Persons (IDPs) to re-establish their livelihoods in African host countries and communities. The Alchemy Project provides capital for loans to local partners who are providing micro credit services to IDPs and refugees. In exchange the local partners participate in the research process of the project through data collection activities and the feedback they give to Alchemy staff on their programs. The research presented here was conducted among urban refugees, refugee service providers and local microfinance institutions (MFIs) in Johannesburg. All data collected is accessible at the Alchemy Project offices. The data gives an idea about the local micro credit environment as well as perceptions of refugees regarding access to credit and the impact of credit schemes on their livelihoods. I would like to acknowledge the staff at Jesuit Refugee Services, particularly Norman Malatjie and José Makufi of the JRS Small Business Program (SBP), for the invaluable assistance provided in tracing of interviewees as well as assistance in the initiation of contacts with members of the refugee community in Johannesburg.

When many refugees arrive in Johannesburg they not only face problems with finding food and shelter, they are also faced with a job market that is very difficult to penetrate. Part of this stems from the fact that the unemployment rate for South Africans is very high at 42%¹ as well as the fact that there is a high level of xenophobia among the populace. With regard to the unemployment rate, this means that foreigners in South Africa are competing for jobs in a very tight labor market. Many of the refugees I interviewed in Johannesburg were professionals in their countries of origin, but in South Africa their qualifications are either not recognized, or they have found it difficult or too expensive to complete the processes that would enable their qualifications to be recognized. (In order to get foreign qualifications recognized in South Africa there exists a procedure for translation and/or certification of documents by the board of education). Access to micro credit has a potentially important role for refugees with entrepreneurial abilities because it enables them to engage in self-employment, and thus, create their own sources of income.

Refugee populations are generally characterized as being of high mobility and this renders them high risk for companies or organizations that may provide them with credit services. JRS, through their SBP, is the only organization currently offering credit services within the refugee community in Johannesburg. This puts the SBP in a position whereby demand is currently far outweighing supply of these services. The program was began in 1999 with UNHCR supplying the initial loan capital. This initial attempt at microcredit provision was not successful and thousands of rand were never repaid to the

¹ “...The expanded unemployment rate (which does not require active job search by the unemployed) [was] 41,2% in March 2003 and 42,0% in September 2003...” <http://www.statssa.gov.za/keyindicators/lfs.asp>

SBP. In recent years the program has undergone certain changes. Since the failure of the initial program the SBP has undergone many changes such as the introduction of an interest rate of 10% as opposed to the 0% interest initially charged. These changes have contributed to the rise in repayment rate from 0% in 1999 to a high of 93%² among some of the most recent borrowing cohorts.

METHODOLOGY

Information gathered during my time in Johannesburg came from three main sources. Formal scheduled interviews were conducted with refugees in the SBP as well as among those who were not participants. Group discussion sessions were held on two different occasions with members of the refugee community to gather more information about the credit situation and other challenges faced by urban refugees. Lastly, key informants were identified in the areas of micro credit service provision, as well as access to banking services. The information gathered from micro credit service providers as well as key informants enabled me to better place the formal interview data within the local context.

For many years refugees running businesses in the city have been targeted by petty thieves and this posed, and continues to pose a major security problem within the refugee community. It was important for me to understand the banking situation for refugees in greater depth because for a long time banks were unwilling to provide services to refugees. Despite the fact that it was clear from the Johannesburg Alchemy Report of 2003 through (CBRC) refugees were able to open bank accounts with First National Bank (FNB); I thought it was important to gain some idea of how the local banking community was lobbied in order to get to the point that at least one bank was willing to provide banking services to the refugee community. This knowledge was very useful for my thinking on ways in which to approach the issue of future funding needs for the SBP. The lobby for access to banking services required local partnerships and I thought this would be useful to understand so as to learn from the process that was undertaken.

Interviews with refugees were all conducted in Johannesburg at the offices of JRS. Formal interviews were conducted from a script that was provided by the Alchemy Project. In all, 24 interviews were completed with refugees, 3 local microfinance institutions were visited (1 providing personal loans and 2 providing loans specifically for business purposes) and two group discussion sessions were held. Though the formal interviews done did not constitute a statistically significant sample size, I think that the information gathered was very helpful in learning about the situation on the ground (so to speak). Quantitative information has its role in research and at the same time there are some more salient details that numbers could never capture. In writing this report I have tried to bring together the common themes that came up among interviewees or respondents. Personal conversations with past loan recipients as well as individuals providing services to refugees in Johannesburg greatly informed this report. In making recommendations to the SBP I have also endeavored to draw upon the comments of not

² Figures received on August 30th and September 14th of 2004, from Jose Makufi, Credit Controller for the SBP at JRS.

only refugees in the SBP, but also refugees and service providers who may not have benefited from or participated in the provision of credit services to refugees.

MICRO CREDIT ENVIRONMENT

There are numerous Microfinance Institutions operating in Johannesburg. Many of these organizations have special groups on which they focus their services. Some are working with women, some with South African Youth and others still with the general population of entrepreneurs. None of the local MFI's in Johannesburg avail their services to refugees. Refugees are generally viewed as a sub-group that would pose very high risk to these types of lenders.

In a conversation with Ashley Du Plooy³ of Nations Trust⁴ it became apparent that the organizations apprehension with lending to refugees stemmed from a pilot program that failed in Cape Town. In this program the local Nations Trust office provided loans to refugees who later disappeared. During this same conversation I inquired whether Nations Trust would consider working with the youth in the refugee community. Mr. Du Ploy said this would only be possible if JRS created a guarantee deposit that Nations Trust would then lend against. He made it clear that an arrangement for lending to refugees between an organization like JRS and Nations Trust could be discussed, but the guarantee deposit would be needed so that lending was done directly against these funds. In short Nations Trust would not be able to lend to refugees out of their regular pool of capital. In the same discussion of the feasibility of collaboration it was mentioned that perhaps the SBP could offer administrative support in the sense that they would screen potential applicants and then also provide after-care during the life of the loan (which is also known as business development training and business counseling). This type of partnership remains to be further discussed as this discussion was informal and no binding agreements were sought or reached.

From the discussion with Ashley Du Ploy it was obvious that there was a measure of willingness to work with the refugee community⁵; the main inhabitant was guarantee capital for such programs. I also learnt from Norman Malatjie (SBP, Johannesburg) that he had once tried to link the SBP with an MFI called Marang, that was based in Pretoria. He said this had later proved difficult as the SBP did not have the funds needed for guarantee capital that would lower the risk that would be associated with Marang lending to the refugee community. The issue of guarantee funds seems to keep coming up and if the SBP is interested in partnering with local MFIs it does appear like they will need to raise a sufficient amount of capital set it aside for this purpose.

ACCESS TO BANKING SERVICES

Refugees have been major targets for tsotsis (the local name for thieves) because they always knew that refugees carried around cash; and even if they did not have cash on their person it was probably stashed somewhere in their dwelling. The lobby for refugees access to banking services was very clear on the fact that lack of access to bank

³ Conversation held on Monday 14th June 2004 with Ashley Du Ploy, who is Director of Nations Trust, an MFI in Johannesburg

⁴ Nations Trust is a nationwide MFI focusing its services on the youth aged between 18 and 35.

⁵ There were no firm commitments made or solicited between SBP and Nations Trust in Johannesburg

services raised the level of insecurity for refugees on a daily basis, as compared with the average person in the country. First National Bank (FNB) was the first bank in Johannesburg to openly begin offering banking services to refugees. This was done through the collaboration of FNB, The Coordinating Body for the Refugee Community (CBRC), Lawyers for Human Rights and other partners. The coalition of groups concerned about the lack of access to bank accounts was successful in lobbying with FNB and by the beginning of July 2004 there were 4751 refugees who had opened savings accounts through FNB.

In an interview conducted with Ndessomin Dosso of CBRC (August 19th, 2004), he relayed to me that after unsuccessfully lobbying the South African Banking Council, the coalition mentioned above had decided to work with FNB which had been the most responsive of the banks. The coalition then decided to use a strategy that relied on supplying the banking community with a concrete example of the ways in which they could benefit from allowing refugees to bank with them. Banks had initially been using the pretext that if asylum seekers opened accounts they may then leave the country if not granted refugee status. And even those with refugee status moved a lot and may just decide to leave the area in which they opened an account. The banking lobby for refugees and asylum seekers then chose to emphasize to FNB that what they sought was access to basic savings accounts. Thus, if someone left an area without closing their account, then all the money would go to the bank. In any case asylum seekers not granted refugee status have fourteen days to leave the country, during which time they could go and close an account with their bank. Dosso explained to me that Since FNB was initially only willing to open saving accounts this was to their benefit as they would be gaining working capital for free. The way Mr. Doss put it, and I paraphrase, 'this was a win-win situation for the banks as they were only willing to offer savings accounts to refugees and asylum seekers, hence, any deposits made were only adding to the capital of a bank.

The lobby for banking access eventually convinced FNB to set up a system whereby the 13 digit refugee and asylum seeker identification numbers could be input into their banking system.⁶ After July 2nd 2004 any person with the proper legal documents⁷ identifying them as an asylum seeker or a recognized refugee is eligible to open a bank account in any branch of FNB and not just the Carlton Centre branch in downtown Johannesburg, as was the case before. It does also appear that the 'example strategy' is working because some refugees have been able to open accounts with ABSA Bank and even People's Bank. The sense I got from Mr. Dosso is that no-one was initially willing to be the first mover. Now that it has been established that banking for refugees is not as high risk as was envisioned or as bankers liked to think it would be – the banks are now beginning to change their positions towards this matter because they see that they are loosing out on valuable capital.

⁶ Asylum seeker and refugee identity documents consist of unique 13-digit numbers beginning in BRA, DBA and CTA. These unique numbers are different from the numbers South Africans have on their ID documents and this was a systemic problem that made it impossible to enter refugee and asylum seeker identification into bank systems. FNB eventually set up a way in which to record these numbers and this then made it possible to enter them directly into their bank systems.

⁷ The Legal documents referred to here are the Section 22 Asylum Seeker Permit, Section 24 document which officially recognizes a person's legal status as a refugee and the maroon refugee identity card which is provided for under section 28 of the laws governing refugee status in South Africa.

ATTITUDES OR KNOWLEDGE ABOUT THE ALCHEMY PROGRAM

There seems to be a considerable amount of knowledge about the Alchemy program, though it was obvious from early on that this was not the name people were familiar with. Most people know the program as the Small Business Program at JRS or JRS' Small Business Program (from here on referred to as the SBP). They are also aware that in Johannesburg this is the only formal micro credit institution that is openly granting credit to refugees. I refer to 'openly granting refugees credit' because it was brought to my attention that some refugees have been able to access loans from banks such as FNB.

In one focus group⁸ it was mentioned to me that many felt the size of loans given by the SBP were inadequate. One focus group member related a story about events that took place about two or three years ago where the initial business plan included a request for R5,000 which was denied for reasons that were not clear to the applicant. The loan applicant later submitted a 35 page business plan requesting funding amounting to R59,200. Instead, SBP administration responded that "the project was okay" but it was still not funded⁹. CITE HERE This situation really upset the respondent as they had invested a lot of time in creating their business plans. This section of the discussion made it apparent that some people have become frustrated because they are aware that the SBP wants them to 'start small and grow their business' gradually, but at the same time they were not clear on what exactly this meant in terms of loan size. It also became apparent to me that there exists a gap between expectations of the program within the refugee community and what the SBP could really deliver.

SMALL BUSINESS PROGRAM IN FOCUS

SBP encourages entrepreneurs to 'start small and grow their business' gradually. This is done as a way of lowering the risk for both SBP and the entrepreneurs. The program is usually unable to fund businesses with larger start-up costs and weak chances of success. The aim is to start off clients with a smaller loan and once trust is built between program administrators and clients, it is then easier to lend larger amounts as step-up loans. This method of micro credit provision has been met with some criticism from some of the refugees and asylum seekers interviewed. This is because they felt that the method impeded the growth of their businesses. Whereas I can see both sides of this situation, one has to try and appreciate the fact that it is not an easy task to balance the disbursement of loans among clients, with the minimization of risk associated with lending. In the current loan portfolio of the SBP, the program administrators' goal was to have 75% existing businesses and 20% as start-up businesses.

⁸ Focus Group held end of June 2004

⁹ Ibid

CURRENT LOAN PORTFOLIO FOR SBP

GENERAL LOAN CONDITIONS

Amounts Disbursed by Johannesburg SBP for 2003 loan cycle (**Figure 1**)

GROUP	TOTAL DISBURSED TO GROUP	AVERAGE LOAN SIZE FOR GROUP	RANGE OF LOAN AMOUNTS IN RAND
Jan. 2003	R54 470	R1000	1,000-6,000
May 2003	R39 160	R500	250-10,000
Oct. 2003	R19 250	R500	500-2,000

Non-Loan expenditures of Johannesburg SBP funded by Alchemy Project (**Figure 2**)

YEAR	2002	2003
Salaries	7,500	18,000

LOAN CYCLE NOTES

Loan Repayment for Johannesburg SBP (**Figure 3**)

LOAN GROUP	LOAN CYCLE (MONTHS)	REPAYMENT FREQUENCY	TOTAL REPAYMENT PERIOD	REPAYMENT RATE (%)
Nov. 2002	24	Monthly	Nov. 2002 - July 2004	31
Jan. 2003	6	Weekly	Jan 2003 - July 2004	93
May 2003	6	Weekly	May 2003 - July 2004	84
Oct.2003	6	Weekly	October 2003 - July 2004	73

n.b. Group loans taken in any of these periods above were/ are still to be repaid on a monthly basis

From January 2003, an interest rate of 10% was charged to each loan recipient. In the past this rate had been 0%. Anyone exceeding the six-month repayment period is subject to a 5% penalty charge on the original amount loaned. Thus, the interest rate effectively becomes 15% instead of the 10%. (In Jan 2003 there was no interest rate on the first set of loans, except the step – up loans).

January 2003: This group has been the best performing so far since the major changes in the structure of the program. Unfortunately, since November or December 2003 the repayment rates have dropped from the 100% repayment they had been maintaining to 93%. The current Credit Controller was asked why he thought this group was performing so well. He believes that the members of this group are “very serious about their businesses... [and have] strong entrepreneurial skills... [which they possessed] even before taking the loans.”

November 2002: The poorest performing group with regards to repayment is the November 2002 group. This group was started when the old program was still in place and will only expire in October of 2004. The contract they signed only requires them to pay monthly installments on their loans over a 24month period. This group had a 10% group repayment rate for a while before the current rate of 31%. This can be considered a notable improvement if you take account of the fact that the group consisted of 10 people originally. To date 8 of the loans are bad debts that have not been fully repaid. Only two members of this group are actively making any payments on the loans they took out.

GROUP LOANS

Group loans are taken out by groups of varying sizes. Each group is jointly liable for the loan, and each group member is also individually liable for the loan until repayment is received in full. The January 2003 group is the only one having group loans at this time; this group has 3 group loans. Each month a member of the group is designated as the person who will come to JRS and pay the amount that is due that particular month. Each group has their own roster for doing this.

BAD DEBTS

Bad debts have been a big impediment to the functioning of the program since its inception. The current program management has taken on the major effort of tracing bad debts dating as far back as 1999 when the initial small business program began. This process has been moved along with the assistance of a volunteer who has been able to trace some of the clients who have outstanding debts to the small loans program.

It was discovered that some of the people on the list of bad debts were still receiving assistance from JRS offices from time to time. Recently, an initial list of names for bad debts was circulated among JRS staff to enable them to identify people with outstanding debts to the SBP. The SBP staff has requested that other JRS staff members withhold their services until any person on the list of bad debts has discussed their outstanding debts with credit program administrators.

The process of recouping outstanding loans remains a big challenge for the SBP. During August 2004 the program sought legal assistance from the Wits Law Clinic (The University of the Witwatersrand, Johannesburg) about the legality of repossessing goods to offset outstanding loans. This is because program administrators were interested in finding ways to recoup as much of the outstanding debt as was feasible. The main aim was to draft a legal document that could be used when approaching refugees who had defaulted on their loans. This document would also be presented with the original loan papers that had been signed. By the time of leaving in late August the final plans for this process had not been agreed upon but the aim was to begin repossessing goods in the near future.

RECOMENDATIONS

They are derived from observations made between June and August of 2004. The following recommendations are made with regards to the current functioning of the SBP at JRS. They are also made realizing that Alchemy funding of the program will be ending in the near future and thus other sources of funding need to be sought out. Finally, they are being made in order to facilitate program development with an eye to creating an Alchemy exit strategy for the program.

(1) THE EXIT STRATEGY

The JRS SBP has reached a critical point in time as program administrators prepare for the end of Alchemy Project funding at the end of the current funding cycle which will end in August 2005. Currently the SBP loans in Johannesburg are fully funded by the Alchemy Project. With the exit of Alchemy it will be very important to have alternative funding sources in order to continue the program.

During my time in Johannesburg, from June to August 2004, the reality of this situation was discussed at length with program administrators. This was also further discussed when the Project Director, Karen Jacobsen, who visited the program site on August 13th, 2004. One of the viable solutions to this issue is seeking out alternative funding sources and then investing some of the funds in order to have revolving capital with which to run the program. Some of the local banks were visited in order to ascertain what methods of investment were available and which were best suited to the needs of the SBP if this

path was eventually chosen. I would suggest that this be followed up in order to get concrete figures from bank representatives and the initial amounts required for investment. It would also be very worthwhile to follow up on the funding lead that a representative at People's Bank mentioned¹⁰. This type of follow up or relationship building will need to be done in order to solicit funds from potential donors in the country and elsewhere.

I think it still remains important to lobby UNHCR about the importance of the SBP for refugee livelihoods in Johannesburg. Despite the limitations of funding the program has the ability to help some refugees help themselves through the small businesses which they run. In a time when UNHCR has become a major proponent of 'durable solutions' it has to be made clear that small business loans are one sort of durable solution for viable businesses. Even if they maintain that they are not able to assist with funding it may be possible to gain stronger support which may aid in advocacy for SBP funding elsewhere.

Another angle which could be investigated is the banking sector. As of July 2004, 4751 refugees have opened savings accounts through FNB Most refugees and asylum seekers are only able to open savings accounts with FNB and do not have access to the credit services of this bank. It may be useful to lobby the bank for funding to support the small business program. This could be done from the viewpoint of corporate social

¹⁰ This came up during an informal information gathering meeting with a People's bank representative on 16th July, 2004 – please see appendix for notes taken at this meeting

responsibility. FNB is holding the savings of one sector of the population but then not investing within this community. The SBP could be one conduit by which the bank could invest in refugee livelihoods without taking on the administrative burden of running a separate loan program for refugees. If they were convinced to donate funding to a refugee credit program they could be acting as responsible corporate citizens because they would be participating in a program that is providing a much needed service within the refugee community.

The SBP is run within a humanitarian organization and it is somewhat easy to think that everyone should be aided with a small loan. But not all refugees who might apply for loans are entrepreneurs. JRS should do their best to identify refugee entrepreneurs and viable businesses. The balance between running a micro credit program and enhancing refugee livelihoods is not an easy one to strike. With this in mind it is then possible to engage in initiatives which seek to discover what changes can benefit the SBP.

While in Johannesburg, I also had an opportunity to sit in on a training session (run by Norman Malatjie on Monday 16th August 2004) where a clear distinction was made between a business run purely with a survivalist mentality as opposed to an entrepreneurial one. This type of activity is representative of the way in which the SBP program administrators are striving to strike a balance between the goals of strict credit management and that of enhancing refugee's livelihoods through the provision of sound business advice.. An entrepreneur has to take stock of the market in which they operate and ensure their product is in demand. Running the SBP on sound business principles is important for JRS in order to reduce the risk associated with the administration of loans among the refugee population.

(2) The need for capital

- **The SBP “needs money to lend money”**
- **Seek sponsorship from First National Bank (CSR)**
- **Follow-up on sponsorship lead from People's Bank**
- **Seek firm agreements from partners (contributing capital) which can be met by the SBP, so as to better serve clients in a timely and efficient manner**
- **Buy-in from South African MFI's may also enable the SBP to learn more about which models of credit provision best serve refugees needs in Johannesburg**

Without a doubt the small business program needs money in order to lend money. This is important to keep in mind as the program prepares for the end of Alchemy funding. It is necessary to begin identifying alternative sources of funding for the program in order for it to continue. One major recommendation¹¹ herein is to begin dialogue with First National Bank of South Africa. This bank already has a growing

¹¹ The main idea embedded in this section of recommendations, especially regarding local partnership, stem from comments made by Karen Jacobsen (Alchemy Project Director) during the discussion held in Johannesburg on August 13th, 2004 as part of the presentation entitled “*Invest What Must be Invested*” by Josephine F. Lukoma (Alchemy Johannesburg Intern when??)

relationship with the refugee community. Thus, it may be possible to convince them through the medium of corporate social responsibility – that it is necessary to invest in the people who are banking with them. At the same time this would provide exposure for FNB as a good corporate citizen in Johannesburg.)this repeats a bit from preceding section)

One strategy that might work is to offer the SBP as a partner who would be able to offer screening services within the refugee community. The second partner would be a reputable MFI such as Nations Trust who would then administer the loans for refugees. Creating local partnerships may be time consuming, but the rewards have the potential to strengthen the case for credit within the refugee community in Johannesburg¹². This is because the SBP already has experience in identifying refugees who are ‘credit-worthy’ (so to speak), and an MFI like Nations Trust is able to effectively administer a credit program. The SBP could then also play the role of business development specialists since they have been exposed to some of the unique situations refugees find themselves in, as well as the unique business concerns that arise. With an eye to further integration of refugees in the local community it is important to seek out methods for collaboration with local organizations.

(3) The need for an on-going ‘advocacy campaign’ ?

- **Can help with casting net wider**
- **Help enhance image of SBP – aka BRANDING which is very useful when seeking sponsorship of the program**
- **Cautious advertising can contribute to realistic expectations of the program within the community – and help to minimize negativity towards the program**

This recommendation made for the SBP because I think it is one that can yield high returns, and thus, should be one of the program priorities. Since my arrival in Johannesburg I heard about the way in which the program has been stigmatized by people who believe they only give loans to refugees from certain countries. Looking at the refugee situation in South Africa it is apparent that many of the refugees in the country originate from countries experiencing major turmoil on the African continent. That said I would still emphasize that perceptions can still have a negative impact on the functioning of, or the image of the SBP. This is a key point in time when the SBP is seeking capital for it to continue administering loans, and thus, it is imperative to maintain a positive image of the program.

Dissemination of information about the program can be as simple as making presentations about the SBP in fora where there are refugees present. This could be in local churches, town halls or even at events organized by the various refugee communities. Advertising can also be done for funding raising purposes. ‘Advertising’ of the SBP may also entail the posting of informative flyers around the city of Johannesburg, as has been done before. This recommendation is made in order to suggest

¹² Similar programs run by ACORD in Zambia are serving refugees through a model which embraces wide community participation in order to increase legitimacy of the program as well as to enhance the way in which the program functions – taken from comments made by Karen Jacobsen (Alchemy Project Director) in Johannesburg on August 13th 2004, after a field visit with an ACORD micro credit program in Zambia.

that the program takes this on as a mode of both fundraising as well as a way in which to educate the local refugee community about the program. This would help in casting the net wider when it came to loan applications and it would also help with accountability within the community being served. Such activities within the local community may also enable the SBP to identify local refugee leaders who are interested in working with or alongside the SBP. Increased community involvement of the refugee community in the program would also aid with accountability of the program to the community it is serving.

Casting the net wider can give rise to instances when demand greatly exceeds the supply of loan funds, thus, this needs to be done in a manner that does not overstate the capabilities of the loan program, and which sets out a clear definition of what a small business is. By so doing it will be more obvious to those who are NOT being targeted that they may need to seek assistance elsewhere. Restricted resources require decisions to be made one way or another. The negative consequences of raising expectations above what the program is able to achieve can impede the functioning of the SBP. One good example of explicit advertising was a brochure by Nicro Enterprise Fund which clearly states in their purpose that “Nicro Enterprise Finance aims to provide financial assistance to emerging and existing small business through the disbursement of micro-loans, to enable them to start or expand their micro-enterprises...”¹³ On the same page it is also written that “NEF Loans are designed to assist owners of very small and small businesses with short-term loans of less than R10,000...” Looking at this brochure an individual can clearly know whether they are even part of the target group of the organization and what it has to offer them.

(4) Determination of what the right interest rate is

- **Should $i < 10\%$?**
- **Should $i = 10\%$?**
- **Should $i > 10\%$?**
- **Should step-up loans have $i > 10\%$?**

The ‘high interest rates’ charged by micro credit institutions are widely criticized, although some believe that interest rates of 10% are better than the 100% that a moneylender may charge. Gathering information from the the refugee community, local banking community and the local MFI community is important in calculating the right interest rate, and ensuring support or acceptance by the refugee community. This approach to micro credit that emphasizes the impact on the community alongside that on individual loan recipients.

In the case of JRS, the SBP began with no interest rate charges in 1999, then evolved to a rate of 10% [is this per annum??] on all loans made since January of 2003. Program management has been discussing the possibility of increasing the interest rates for all step-up loans. The change in the programs interest rate was met with some serious criticism, though it has helped the SBP recoup part of the costs of lending in the refugee community. At the same time with respect to worldwide micro credit institutions, an interest rate of 10% per annum is still considered very low. “Sustainable micro credit operations worldwide operate with [interest rate] spreads between 18% -

¹³ Nicro Enterprise Finance, pp. 2 of brochure entitled *Empowering Small Business*.

30%. Per annum?”¹⁴ This then brings up the question of whether the 10% rate is sustainable for the SBP.

Charging higher interest rates is seen by some to impose undue hardship on loan recipients and this is where I think some difficult decisions need to be made by the program. It is already clear that the administrators are committed to administering the program with sound business principles, and this has proven to their benefit as is evidenced by the increased repayment rates. For the SBP I think the issue of interest rate level needs to be given further attention so as to ascertain what will work best in Johannesburg.

It would be a worthwhile endeavor to look into interest rates charged locally in South Africa and try to ascertain what other organizations are doing. This is because at the time of making loans the program has already incurred a cost and over the life of this loan the return from repayment does not meet the cost of administering the loan for an individual. On the surface this seems like an easy question to deal with but when looking at sustainability of a microfinance institution it has to be clear that this more often than not will result in decisions to charge higher interest rates. The level of this rate is not easy to determine and it may be helpful to engage the assistance of people conversant with this type of determination.

(5) Backing up of program data and continued in-house tracking of clients

●Enhance critical self-evaluation after Alchemy exit

Self-evaluation is key in assessing whether a program has achieved its goals. Tracking of SBP participants can facilitate the processes of critical analysis which can be useful to program administrators in enhancing program design. This is important for the SBP because there are not many models on which to modify and then base credit provision for refugees in their host countries. I would encourage the development of a tracking system for SBP purposes even if it is not based on the one used by Alchemy. This is because without assessing the impact of the program on participants it will remain very difficult to provide this type of service. There are few MFI's worldwide who are focusing on providing micro credit for refugees, the SBP is in a unique position to contribute to the learning about this field which may have the potential to substantially enhance refugee livelihoods in their host countries.

SBP has a lot of vital data that can aid program administrators in tracing the performance of the loan portfolio over time. This information can also give quantifiable information that is useful in analysis of the program. In order to safe guard against break down of computers or even theft of a computer – it may be worthwhile to invest in portable USB accessible drives that can be stored easily. This way if something happens to the main computer in use in the office at least you will still have the backed-up information.

The constraints within which the SBP functions should not be overlooked. Administration of surveys among program participants is definitely time-consuming. But rather than look at such an initiative in this light, I would suggest a more balanced view

¹⁴ http://www.gtz.de/fsd/forum_notes/forumnotes-haberberger3.htm Accessed October 5, 2004

of impact assessment as a tool for better program design, and in effect service provision. The reason for placing emphasis on this issue is because if the program is not of service to refugees then it would not make sense to continue with it. A good way of determining program impact is to gather key information from participants which help in the assessment of program impact.

(6) Support from UNHCR – as JRS’s implementing partner

● Advocacy for financial support or otherwise from UNHCR which is a key JRS Partner

More recently the United Nations High Commission for Refugees (UNHCR) has placed greater emphasis on the idea of durable solutions. This idea of durable solutions involves a more long-term view of assistance to refugees in South Africa and elsewhere. It also involves an integrated approach to provision of services to refugees; this would then include the closer collaboration of refugee service providers in order to minimize the negative impacts of different interventions on one another. This is a major reason why I think it is important to continue lobbying UNHCR to support micro credit for refugees. As I stated before not everyone is suited for this type of credit but in instances where entrepreneurial spirit is strong, micro credit can play an important role in facilitating the processes through which ‘individuals can help themselves’.

Maintaining the dignity of refugees includes the creation of programs which enable refugees to be instrumental in enhancing their own livelihoods. Many refugees interviewed mentioned the importance of self-esteem and when someone is forced into a situation in they are begging to meet basic needs, it can have a major negative impact on their self-esteem. Furthermore, access to capital for refugees in Johannesburg is definitely a durable solution to some of the problems faced, this is because this is a service they may have had access to in their country of origin had they not been forced to leave.

APPENDIX

VARIOUS PROGRAM DETAILS

Received from José Makufi – Credit Controller and Administration

The loan selection Process:

- ❑ **Potential entrepreneurs come for business consultation every Mondays and Thursdays at our offices**
- ❑ **Application forms and Business plan guidelines are then handed out to potential entrepreneurs**
- ❑ **Completed application forms are then handed in at our offices at the pre-set date**
- ❑ **Viable business plans selected what are the criteria for viability? Market assessment?**
- ❑ **an interview conducted by the Selection Panel (consisting of 3-4 people) Who is on this panel?**
- ❑ **Home visits and businesses visits to assess viability? Or what?**
- ❑ **basic business management training**
- ❑ **Signing the contract**

The loan selection criteria:

The Small business Loans department is trying very hard to change the dependency culture amongst the refugee community and instead encourage a culture that promotes, positive self-image, self-confidence and self-discipline. However, for this to succeed, the following criteria had to be put in place.

A feasible and viable business plan has to be submitted for consideration

- **Short-listed loan applicant must attend interviews conducted by the Selection Panel**
- **Successful Loan Applicants must attend a basic business training**
- **Successful Loan Applicants must have a fixed residential address**
- **75% of our clients needs to have existing businesses**
- **20% should be business start ups**
- **5% are grants, made available to clients who are showing entrepreneurial abilities but are not be ready to start businesses yet.**
- **Should have the ability to grow their businesses**
- **Should be able to repay the loan as per the loan agreement and contractual obligations What if they don't? Repo procedures?**

- Loan applicants should be able to produce documents confirming their refugee status in South Africa. Or asylum seekers status? Which permits are required? What if applicants don't have them?

Training and Development

Who does the training? What are the requirements for training? Has an assessment of training needs been done?

Training objectives:

- ❑ To provide needs based business management training(marketing, financial, organizational skills)
- ❑ To build the capacity of participants in areas of self-esteem, self-image and self-confidence.
- ❑ To guide in an orderly, participative way through progression from survivalist towards growth and job creation.

Different training methods:

- Lecturing-
- Brainstorming sessions
- Individual exercises
- Group work/discussions
- Daily evaluations/reactions
- Summative assessment

The modules presented:

- Personal development
- Business planning
- Financial Management
- Record-keeping.
- Costing
- Marketing communication

The loan repayment Criteria:

**A loan agreement/contract detailing the obligations of both the Small Business Loans and the loan recipient has been prepared. The loan agreement/contract is binding to both parties
(Small Business Programs&Loan Recipient)**

- Must be able to honor the loan contract and obligations thereof
- Must be able to repay the loan on weekly basis without fail or as per arrangement.
- Loan recipients must not change business focus without notifying the SPB department
- The Loan Recipient must agree to terms and conditions as outlined in the contract

KEY POINTS FROM MEETING WITH NEDBANK REPRESENTATIVES

ACTION NEEDED:

Investigate the options offered by other banks as what was offered here did not seem as favorable as the information given at People’s Bank. Since they were not as responsive to questions it may have influenced the information gathered. May be worth it to visit again and speak with another bank representative.

Date: 16TH July, 2004

Branch: Nedbank Branch, Johannesburg CBD near Gandhi Sq.

Representative: Nabila Lunat

The representative explained that the option she would suggest for the SBP was a Money Market Account. Usually these accounts had an ATM card associated with them but in the case of JRS it would probably function with a withdrawal slip to ensure account signatories permission for withdrawal.

NED Term (Similar to a 32-Day Notice) was presented to us a short term investment option. After money had been in the account at least 30 days – there was a waiting period of at least 24 hours for withdrawals.

R20,000 invested would give a return of 5% and above
 This type of account would require that a minimum balance was maintained.

There is a fee for transferring money

A lot of charges can be accrued on this type of account, similar to a checking account, but at the same time it can come out cheaper if you have a clever strategy
 To open this type of account a statement of agreement must be signed and South African Residents with Green ID’s are required as signatories to the account.

Kathy Du Bois is the Business Manager we spoke with to get more details for an organization such as JRS.

PAYOUT SCHEDULE

She stated that with an investment of R10,000 or more this was the payout schedule

3 Months	6 Months	12 Months
6.3%	7.01%	8.08%
88 days	Can withdraw up to 30%	Can withdraw up to 30%

PRIME SELECT Account type – with R10,000 or more
 88 days up to 3years for maturity of this investment
 Up to five additional deposits can be made to add on to the original capital though there is a certain maximum % of original capital that can not be surpassed.

Date: 16TH July, 2004

Branch: Nedbank Branch, Johannesburg CBD near Ghandi Sq.

Representative: Walter Malapane – works more with institutional investors or wealth management?

UNIT TRUST – was the plan presented to us. This plan is considered quite flexible.

A Fixed account, in which initial loan capital also known as the endowment is deposited.

He gave an example of investment over 5 years

GROWTH PLAN provided through:

*Old Mutual

*Momentum

These plans rates can be compared, once one has decided on the one they would like to know more information about.

FOUR PLUS Plan provided through:

Old Mutual

Unit Trusts

South African Law and Investing as per Representative:

Need to double check this with JRS Lawyers if you choose to move ahead with making investments

There are no restrictions relating to Ngo investment as long as proceeds from the investment are used for the same Non-Profit purposes the organization is engaged in.

KEY POINTS FROM MEETING WITH People's Bank REPRESENTATIVE

Date: 16TH July, 2004

Branch: People's Bank Branch, Johannesburg CBD near Ghandi Sq.

Representative: Jayendrie Govender – very helpful lady who was willing to explain clearly what the bank had to offer. More responsive to questions posed than the Nedbank Representatives.

ACTION NEEDED:

Follow up on the bank contact Ms. Govender mentioned for possibility of program capital donations by the bank. Details were not given but it is important to follow up on this as it may prove to be a useful contact point in the search for program funding.

FLEXI DEPOSIT [32 DAYS AND LONGER]:

Ability to withdraw and Add to the initial capital deposited – which is good if using a recycling model of funding (i.e. repayments of loans re-loaned) for the SBP.

This option works like the 32-day notice BUT only needs 1 day notice before withdrawl

The higher the capital invested, the higher the interest

NOTE – 32 days required before the investment begins to sustain interest

R3,000 required to open the account

- Can add R100 and upwards for additional capital on the account

FIXED DEPOSITS [1 MONTH TO 5 YEARS]:

Rep advises to invest now before the end of the year when the rates will go up.

ACCESS to what is deposited

- Up to 30% of capital can be withdrawn
- Up to 30% of capital can be added

2 of the 3 signatories to the account are needed for any withdrawl to be made

TO OPEN THE ACCOUNT: Proof of Residencies of signatories are required, Green Sotuh African IDs also required

BANKS that remain to be visited at end of August 2004:

- 1) **ABSA Bank**
- 2) **FNB (First National Bank)**