

# ERSA Research Brief

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## Access to micro and informal loans: evaluating the impact on the quality of life of poor females in South Africa

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### Background:

Since the early 1980s, many governments have investigated the possibility of utilising access to microloans, as a pathway to grow economies out of unemployment and thereby improve people's quality of life. Studies that have previously investigated the impact of microloans, found a positive relationship to quality of life. Unfortunately, these studies mainly measure quality of life using monetary (*income*) measures rather than assessing the entire multidimensionality of quality of life.

### Aim:

The main aim of the study is to investigate the relationship between objective multidimensional *income-independent quality of life* (IIQoL) and having access to micro – and informal loans (M&ILs). Specifically, we focus on South Africa's most marginalized, i.e. 'poor females' and 'poor females residing in rural areas', as their empowerment is a critical social objective, aligned to that of international agencies.

### Methods:

We use a panel dataset spanning four waves from 2008 to 2015 of the National Income Dynamics Study (NIDS). Principal component analysis is used to construct the IIQoL index and various panel – and survey estimation techniques are applied in the regression analyses.

### Results:

M&ILs are significant and *negatively* related to IIQoL for both 'poor females' and 'poor females residing in rural areas'. This implies that those '*with*' loans failed to translate those monetary gains into higher levels of IIQoL over time.

### Conclusions:

Access to M&ILs does not increase the quality of life of South Africa's most marginalized groups. Without government interventions and education programmes, related to microloans, the marginalized will not experience an increase in their non-income quality of life.

### Policy recommendations:

Policymakers, who strive to increase the quality of life of the marginalized through allowing micro – and informal lenders to operate within specific targeted areas, should also provide training, workshops to create awareness to the pros and cons of microloans, support programmes, and proper debt counselling. Furthermore, government policy should be developed to enhance the empowerment of women and give them the ability to make more informed decisions.

Finally, another area that deserves greater consideration from the South African government is regulation. In the absence of a well-functioning regulatory framework, within which micro – and informal lenders can operate, M&IL's will most likely rather affect quality of life negatively than positively.