

Beyond Consumption Smoothing: Investment-Focused Microfinance and Household Economic Progression in Rural South Africa

COLLINS AKIY WUNG, LUCIUS BOTES

Abstract: While extensive research exists on microfinance as a tool for smoothing consumption at the household level in poor communities, studies on the progression beyond consumption to household economic development are just beginning to emerge. This paper addresses the limited knowledge by examining how investment-focused microfinance loans enable poor households to transition from consumption smoothing to household economic development within rural communities. The study was conducted in the rural areas of O. R. Tambo Coastal District, South Africa. The study used a qualitative research approach, collecting data through semi-structured interviews with microfinance beneficiaries. The interview data underwent thematic analysis employing Braun and Clarke's six-step methodology, guaranteeing that codes and themes arose inductively from the narratives of the participants.

The results indicated that investment-focused microfinance loans support enterprise development and income generation, increase income and enable consumption smoothing, enhance savings and asset accumulation, and enable reinvestment, business expansion and employment creation. The study suggests that investment-focused microfinance can facilitate different stages of household economic progression and wider economic participation. The study contributes to the body of knowledge by establishing context-specific empirical insights into how investment-focused microfinance loans may facilitate a progression from consumption smoothing to household economic development. The study advocates for policy initiatives that move beyond expanding credit access towards productive investment and business-development support for disadvantaged rural communities and posits that these insights will be of interest to policymakers to move beyond expanding credit access to productive investment and business-development support.

Keywords: Consumption Smoothing; Economic Development; Investment-Focused Microloans; Poverty Alleviation; Rural Development; Financial Inclusion.

JEL: I32, G21, O15, R20

Collins Akiy Wung (50248723@mylife.unisa.ac.za) College of Human Sciences, Department of Development Studies, University of South Africa, Pretoria, South Africa.

Lucius Botes (luciusbotes@gmail.com) Faculty of Economic and management Sciences, North-West University, Potchefstroom, South Africa, Orchid: <https://orcid.org/0000-0002-5552-8342>

Introduction

Microfinance projects have been praised by many developing countries for the role they play in empowering and promoting economic activities in many disadvantaged communities (Robert, 2024). Microfinance is defined as the provision of financial services to low-income earners, poor communities, and small businesses who are unable to access formal banking services and whose living conditions fall below the poverty line, with the goal of breaking the cycle of poverty (Uusiku, 2018). However, the primary goal for which microfinance institutions are created has yet to manifest, mainly in developing economies (Chikwira et al., 2022). This situation is because the level of poverty keeps rising around the world. Globally, poverty stands at 10 per cent, representing 826 million people living in extreme poverty, below the international poverty line of \$3.00 a day. In Sub-Saharan Africa, 464 million people live in extreme poverty driven by bad governance, climate change and slow economic growth (World Bank Group, 2026). In South Africa roughly 10.8 million people live on less than R855 per person per month (Statistics South Africa, 2026). Poverty persists in many rural households in South Africa due to unemployment, income insecurity, and limited access to formal financial services (Baloyi & Geyer. S, 2019). As a result, the evidence regarding microfinance's contribution to long-term poverty reduction remains mixed. While (Chikwira et al., 2022) study in Zimbabwe revealed that microfinance supported SMEs and agricultural development and reduced the level of poverty in the long run, (Appiah-Kubi et al., 2026) study in Ghana revealed that microfinance institutions do not effectively alleviate poverty in the long term (Appiah-Kubi et al., 2026).

Nevertheless, microfinance is still considered a poverty alleviation tool that is widely used to financially support livelihood activities among underserved communities and those excluded from formal banking systems (Makara et al., 2024). Although microfinance projects may have the capacity to facilitate different stages of household economic progression, existing studies have largely focused on repayment rates, household income, or consumption smoothing. A (Maïtrot & Niño-Zarazúa, 2017) study of microfinance in Bangladesh revealed significant increases among the beneficiaries' household income, consumption, and purchasing power. A microfinance programme in Limpopo Province, South Africa, recorded a significant reduction in household poverty as the beneficiaries were able to increase their household consumption and improve their family's nutritional status (Mkhize, 2017).

While extensive research exists on microfinance projects, many have focused on examining income generation, consumption and assets accumulation as isolated outcomes of microfinance (Author, 2025; Gavaza et al., 2025; Kumari, 2020). There are few empirical studies on the progression of poor households beyond consumption smoothing to household economic development through microfinance project. This study aimed at filling that research gap by drawing evidence from the O.R. Tambo Coastal District in South Africa. The study used the following research questions: RQ1. How do investment-focused microfinance loans facilitate income generation and micro-enterprise development among beneficiary households in the O. R. Tambo Coastal District? RQ2. How do investment-focused microfinance loans influence household consumption and sustainable livelihoods among beneficiary households in the O. R. Tambo Coastal District? RQ3. How do investment-focused microfinance loans contribute to

household economic progression beyond consumption smoothing in the O. R. Tambo Coastal District?

The paper is structured as follows: Section 2 reviews the literature on microfinance projects; Section 3 presents the research methodology; Section 4 presents the research findings and discussions; and Section 5 provides the conclusions and practical recommendations.

Literature Review

2.1 Theoretical Framework: Sustainable Livelihoods Framework

The conceptual framework for this study is based on the Sustainable Livelihoods Framework (SLF) and a literature review and denotes the key variables in relation to each other. The Sustainable Livelihoods Framework is a way of thinking about the goals, scope, and priorities of development projects (van Rijn et al., 2012). It captures the context of rural South Africa, particularly the O.R. Tambo Coastal District of the Eastern Cape, where many who faced racial discrimination, marginalisation, and limited access to economic resources and opportunities continue to pursue productive livelihood strategies (Kirsten, 2011).

The framework conceptualises the transition of poor households from the stage of consumption smoothing (survivalist) to the stage of household economic progression as an integrated outcome of livelihood assets (human, social, physical, and financial capital) among these households. It illustrates how these livelihoods assets can enable poor households to use their skills and knowledge to pursue productive livelihood strategies (Habib et al., 2023). In the context of this study, microfinance investment-focused loans represent a vital source of financial capital for small business investment. The framework assumed that successful investments could improve business performance and strengthen business development, thus increasing household income and consumption smoothing among disadvantaged communities. Sustainable and increased household income enables households to acquire productive and financial assets which can facilitate household economic progression (Habib et al., 2023).

Based on the framework, it is assumed that the outcome of sustainable livelihoods contributes to household economic progression towards a potential pathway to inclusive economic development. Such progression aligns with the broader Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduce Inequalities) (Carlsen & Bruggemann, 2022).

2.2 Microfinance and Household Economic Development

Microfinance institutions have been praised by many developing countries for the role they play in empowering and promoting economic activities in many disadvantaged communities (Robert, 2024). Microfinance is defined as the delivery of financial services to low-income earners, poor communities, and small businesses who are unable to access formal banking services (Uusiku, 2018). Microfinance is a predominant poverty alleviation tool that has been widely used to financially support livelihood activities among financially underserved communities and those excluded from formal banking systems (Makara et al., 2024). The institutions provide small loans to poor individuals or groups of individuals, usually without collateral (Motileng & Wagner, 2019).

Several pieces of empirical evidence support the claims that microfinance plays a significant role in household economic development. In Malaysia, microfinance enabled women to participate in economic activities in which the participants were able to expand their small businesses, create employment for other poor families, increase their household income, and increase their household savings (Samer et al., 2015). Similarly, studies from Bangladesh show that beneficiaries who invested their loans into business recorded significant increases in household income, employment, consumption, and purchasing power (Maître & Niño-Zarazúa, 2017). Evidence from India further indicates that microfinance programs helped poor households diversify and increase income sources and expand businesses (Mohapatra & Sahoo, 2009). In Ghana, microfinance loans led to increased business income and positive changes in livelihoods (Afrane, 2002). In Cameroon, the provision of microfinance loans motivated young men to engage in tomato farming and improved household finances in Santa village (Tambi, 2018). Studies in Tanzania show that microfinance loans assisted women entrepreneurs in diversifying their business portfolios (Ndilito, 2025).

Microfinance has also played a significant role in South Africa by providing financial services such as savings facilities, access to loans, and basic banking services to poor households (Mashingo & Kabir, 2016). In Ba-Phalaborwa Municipality, beneficiaries recorded improvements in household income and asset accumulation, including the acquisition of productive equipment and housing construction (Baloyi & Geyer, S, 2019).

2.3 Investment-Focused Microfinance and Livelihood Progression

Microfinance loans are still considered as a critical poverty alleviation tool that is widely used to support livelihood activities among underserved communities and those excluded from formal banking systems (Makara et al., 2024). However, existing studies have shown that most of the loans are used primarily for short term consumption (Maître & Niño-Zarazúa, 2017; Makara et al., 2024). Understanding how the alleviation of poverty at the household level is underpinned by the provision of microfinance investment-focused loans in poor communities is therefore vital for ensuring long-term access to credit expansion and promoting local entrepreneurship. Investment-focused finance is the money disbursed by microfinance institutions in the category of enterprise development programmes. This money is given to clients for the purpose of operating or expanding a business; they are given a business mentor and receive more business skills training (Kumari, 2020). Investment-focused microfinance brings in significant changes as it moves households through successful stages of development. The loans are largely focused on productive activities that strengthen enterprises, generate income, accumulate assets, and improve livelihood sustainability (Makara et al., 2024).

Empirical evidence supports the claims that investment-focused microfinance loans enable livelihood progression among microfinance beneficiaries. In Malaysia, microfinance enabled women to participate in economic activities that allowed them to develop their small enterprises and enhanced their income (Samer et al., 2015). A microfinance project in Bangladesh recorded a significant increase in the participants' income, which enabled them to enhance their children's education (human capital asset) (Maître & Niño-Zarazúa, 2017). Asset accumulation was also found to be fundamental in household progression into inclusive economic development. In a study conducted by (Uusiku, 2018) in Namibia, the participants,

after recording a significant increase in their incomes and savings, were able to buy new equipment, increase their production, and create extra employment through their businesses. Similarly, in Ba-Phalaborwa Municipality in South Africa, beneficiaries in a microfinance project recorded significant improvements in asset accumulation, including the acquisition of brick-making machines, bread and bun-making machines, roof and tile equipment, sewing machines and built houses for rental purposes (Baloyi & Geyer. S, 2019). These recorded business improvements and asset acquisitions are what (Umeaduma, 2023) highlighted as factors that enable the beneficiaries to improve their income and savings, as well as reduce household vulnerability and promote livelihood resilience. These findings therefore show that household development is a progression rather than a single outcome.

2.4 From Consumption Smoothing to Household Economic Progression

Several studies on microfinance projects have shown significant improvements in household consumption smoothing through active participation in economic development activities. Consumption smoothing is the process by which households use economic and financial strategies to balance their savings and spending to maintain consumption and meet immediate needs during income fluctuations (Tremblay, 2025). Household economic progression is the gradual improvement in a family's financial stability, income, asset accumulation and overall standard of living, and sustained economic security over time (Fomum & Jesse, 2017; Pawasutipaisit & Townsend, 2011; Tremblay, 2025).

Microfinance has played a significant role in South Africa by providing financial services such as savings facilities, access to loans, and basic banking services to poor households (Mashingo & Kabir, 2016). In Limpopo Province, the microfinance project significantly changed the lives of beneficiaries who invested their loans into small businesses. Participants experienced a reduction in household poverty through increased household consumption, the acquisition of household items, and improved nutritional status (Kirsten, 2011). Similarly, increased household expenditure, food security, provision of basic needs, and reduced vulnerability were recorded among microfinance beneficiaries in Ethekwini (Mkhize, 2017).

Similar findings have been reported in other parts of the world. In Bangladesh, beneficiaries recorded significant increases in purchasing power and household consumption (Maître & Niño-Zarazúa, 2017). In India, microfinance programmes helped poor households reduce hunger (Fonseca et al., 2024). These findings demonstrate the contribution of microfinance to household consumption smoothing through improved household welfare and the ability to meet immediate needs during periods of income fluctuation. Improved household welfare strengthens the foundational aspects of sustainable livelihoods through which households can accumulate skills, tools and savings (Fonseca et al., 2024). These core assets enable disadvantaged households or individuals to engage in beneficial economic activities. As households build assets such as savings, they can buy proper business assets and remove basic obstacles to productive business development. Furthermore, investing in technology to improve network and internet reception in rural areas once people achieved some level of welfare to enable them to engage in mobile banking and foster their economic activities was suggested by (Simatele & Maciko, 2022).

Therefore, the provision of investment-focused microfinance loans is essential in facilitating the transition process beyond consumption smoothing. As microfinance provides clients with training, it builds their human capital and readiness needed to leverage another set of factors to enable them to start and grow their businesses and boost their profitability (Fonseca et al., 2024). According to Chikwira et al (2022), when credit is directed towards productive economic activities, it can enable enterprise development, income generation, asset accumulation, facilitate sustainable livelihoods and enable long-term economic participation. Therefore, household productive and improved economic activities provide a pathway towards inclusive economic development (Chikwira et al., 2022).

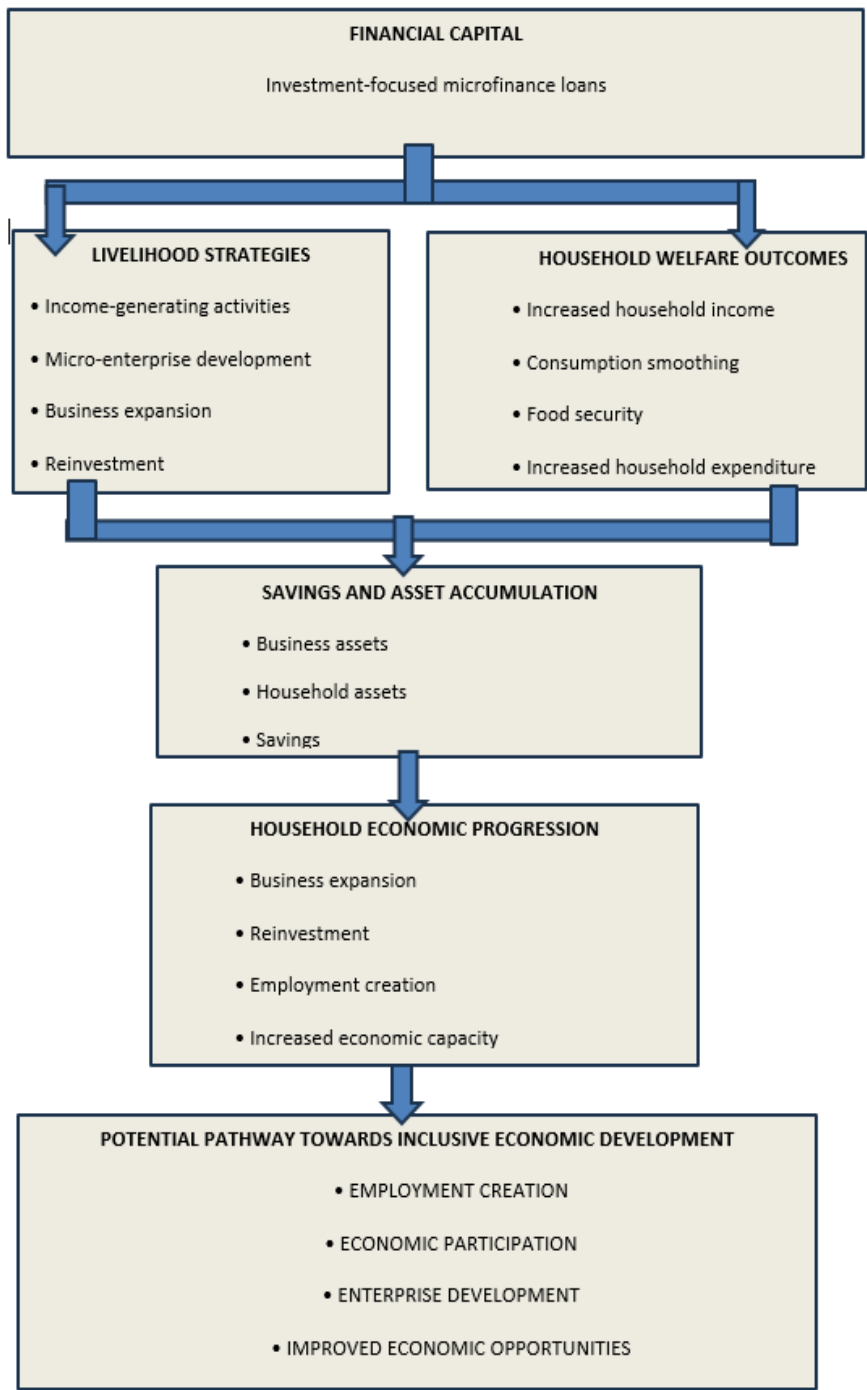
While extensive research exists on microfinance projects, many have focused on examining income generation, consumption and assets accumulation as isolated outcomes of microfinance (Author, 2025; Gavaza et al., 2025; Kumari, 2020). Studies on livelihood progression of microfinance beneficiaries from survivalist consumption to inclusive economic development are only beginning to emerge. This paper addresses the limited knowledge of how investment-focused microfinance loans enable the progression of microfinance beneficiaries from consumption smoothing to inclusive economic development within disadvantaged households, using evidence from the O. R. Tambo Coastal District, South Africa.

2.5 Conceptual Framework: Investment-Focused Microfinance loans and Inclusive Economic Development

The conceptual framework for this study is established based on the literature review and key concepts of the sustainable livelihood framework. The framework conceptualises the pathway for consumption smoothing towards household economic progression to inclusive economic development as an integrated outcome of livelihood strategies, household welfare outcomes, savings and asset accumulation through investment-focused microfinance loans. It describes how successful and sustainable investment-focused microloans can be translated into stabilised income and improve savings, thereby enabling business expansion, reinvestment and employment creation which enable household economic progression and improved economic participation among disadvantaged rural communities.

Based on the framework, it is assumed that the outcome denotes changes that occur because of the implementation of microfinance investment-focused microloans. Such progression aligns with the broader Sustainable Development Goals (SDGs), particularly SDG 1 (No Poverty), SDG 8 (Decent Work and Economic Growth), and SDG 10 (Reduce Inequalities) (Carlsen & Bruggemann, 2022). The framework illustrates how the interconnectedness of livelihood strategies and household welfare outcomes promote household economic progression and enable the pathway towards inclusive economic development. Figure 1 illustrates the conceptual framework for the study.

Figure 1. Conceptual framework: Investment-focused microfinance and household economic progression



Research Methodology

3.1. Research Design

The study adopted a qualitative research design to explore how investment-focused microfinance loans enable poor households to transition from consumption smoothing to household economic development within rural communities in O.R. Tambo Coastal District of the Eastern Cape, South Africa. The rationale for selecting a qualitative design was to capture the lived experiences and subjective perceptions of microfinance clients, which are often under-represented in quantitative models. Although a mixed-methods design could enhance generalisability, this qualitative approach focused on depth, interpretation, and meaning-making rather than numerical measurement.

3.2 Research Sampling

A purposive, non-probability sampling strategy was employed to identify microfinance clients who could provide firsthand information on the services received from microfinance institutions. Marang Financial Services, Finbond Microfinance Institution, and the Department of Agriculture and Agrarian Reform assisted in identifying potential participants, as these institutions were well positioned to identify group leaders or members directly involved in microfinance projects. The following inclusion criteria were applied: (a) beneficiaries of microfinance investment-focused microloans, (b) owner-managers of micro-businesses classified as SMEs in South Africa, and (c) businesses operating within the O.R. Tambo Coastal District for at least one year. The definition of an SME was operationalised according to the amended Schedule 1 of the National Small Enterprise Act of 2004 (Act No. 29 of 2004), where a micro-enterprise is defined as “a separate and distinct business entity with fewer than five employees with an annual turnover of $\leq$ R150 000 managed by one owner or more and predominantly carried on in any sector or subsector of the economy” (Department of Small Business Development, 2020).

The use of purposive, non-probability sampling may have introduced selection bias because participants were drawn from microfinance institutions that did not represent all microfinance clients in the O.R. Tambo Coastal District. However, this was mitigated by recruiting participants from multiple institutions, including Financial Service Cooperatives (FSCs), the Small Enterprise Foundation (SEF), Marang Financial Services, and the Department of Agriculture, representing both small business owners and farmers. Although these institutions may have favoured active or performing clients over dropouts or defaulters, the approach provided valuable insights into the experiences and repayment behaviour of active participants. A total of 19 participants, all of whom had received investment loans from microfinance institutions, were interviewed. The sample size was determined by data saturation, which occurred when no new information emerged during data collection (Guest et al., 2020). Although the sample was not statistically representative, participants were selected to capture variation in gender, age, and business sector, providing rich and sufficient information through in-depth interviews.

3.3 Data Collection

Prior to data collection, ethical clearance was obtained from the University of South Africa. Appointments were arranged with participants before the interviews, and written informed consent was obtained from each participant. To ensure participant anonymity, names were replaced with codes during transcription and analysis.

Data were collected through face-to-face semi-structured interviews with microfinance beneficiaries over a period of five weeks in the rural areas of O.R. Tambo Coastal District. Semi-structured interviews allowed the researcher to probe participants' individual experiences while maintaining consistency in the core interview questions. The interviews were conducted in participants' natural settings and conducive environments (Rutberg & Bouikidis, 2018). Each interview lasted between 30 and 45 minutes and was audio-recorded with participants' consent. The recorded interviews were subsequently transcribed verbatim for analysis. The use of semi-structured interviews generated rich, descriptive data, allowing an in-depth understanding of how investment-focused microloans influence disadvantaged rural communities in the O.R. Tambo Coastal District, Eastern Cape.

3.4 Data Analysis

The study used Braun and Clarke's six-phase framework to find, classify, explain, and report themes observed in the dataset (Braun & Clarke, 2006). The process started by reading through the dataset to familiarise the researcher with the collected data and transcribed verbal data (Nowell et al., 2017). This was followed by generating initial codes (words or short sentences) that captured important features of the data appropriate to answering the research question (Nowell et al., 2017). ATLAS.ti 9 software was used to code all participants' responses, and the codes were divided into appropriate code categories for further analysis.

The codes were then carefully reviewed to search for themes, and ATLAS.ti 9 was used to organise and arrange the different code groups into themes. The themes were subsequently reviewed against the dataset to verify that they conveyed a substantial story, and codes that did not properly address the research question were discarded. In the following phase of defining and naming the themes, the researcher focused on producing a detailed examination of each theme by defining its breadth and focus, as well as the story behind it (Nowell et al., 2017). The coded themes were tabulated, and the findings were reported in writing.

Results

4.1. Demographic Presentations

A total of 19 microfinance beneficiaries participated in the study. The demographic descriptive analysis data for these beneficiaries are presented in Table 1 below.

Table 1. Demographic descriptive analysis

Gender	Male:7 Female:12
Age	26–35years:5 36–45years:12

	46–55years:2
Education	Primary:4 Secondary:10 Tertiary:5

Table 1 depict the demographic representation of the research participants. According to the results from the field survey, most of the participants were female; twelve out of nineteen and seven out of nineteen were male. This information indicates that most microfinance beneficiaries in the ORTCD are women. Five out of nineteen participants were between the ages of twenty-six and thirty-five. Twelve respondents were between the ages of thirty-six and forty-five years old. Two of the participants were between the ages of forty-six and fifty-five. This demonstrates that most microfinance loan recipients were over the age of twenty-five years. Based on the participant educational background, four of the nineteen participants had primary education, ten out of nineteen had secondary education, and five participants had university education. This suggests that all the participants had some level of schooling. The participants were all involved in small-scale business operations including clothing, vegetable gardening, poultry farming, retail and house leasing.

4.2 Analysis of the Emerging Themes and Discussion

Initial codes that capture the participants' own words were generated and these codes were consolidated and organised into clusters. The clusters were categorised based on recurring meanings, resulting in the final themes. To assure credibility, the supervisor evaluated the codes for coding consistency and compared emergent themes to raw data to determine their empirical basis, rather than preconceived conceptions.

Table 2. An overview of the themes

Research question	Final theme
RQ1. How do investment-focused microfinance loans facilitate income generation and micro-enterprise development among beneficiary households in the O. R. Tambo Coastal District?	Theme 1: Access to Investment-Focused Finance
	Theme 2: Enterprise Development and Income Enhancement
RQ2. How do investment-focused microfinance loans influence household consumption and sustainable livelihoods among beneficiary households in the O. R. Tambo Coastal District?	Theme 3: Consumption Smoothing and Household Welfare
	Theme 4: Asset Accumulation and Sustainable Livelihoods
RQ3. How do investment-focused microfinance loans contribute to household economic progression beyond consumption smoothing in the O. R. Tambo Coastal District?	Theme 5: Household Economic Progression towards Inclusive Development

Table 2 captures the generated themes from the analysis of data and shows how they are related to each research question. The data generated themes linked to the various research questions. Research Question 1 produced themes including access to investment-focused finance, enterprise development and income enhancement. Research Question 2 generated themes including consumption smoothing and household welfare; asset accumulation and sustainable

livelihoods. Research Question 3 produced the theme of household economic progression toward inclusive development. The emerging themes include access to investment-focused finance, enterprise development and income enhancement; consumption smoothing and household welfare; asset accumulation and sustainable livelihoods; and household economic progression toward inclusive development.

Access to Investment-Focused Finance

Access to investment-focused finance appeared as one of the data's themes. The factors culminating in the emergence of this theme were centred around access to loans, reasons for borrowing, loan adequacy and the use of finance for productive investment. The findings revealed that participants perceived different reasons as influential in shaping their experiences in accessing microloans for business operation. Participant 3 said, "I was busy looking for a job for a long time, and I could not find one, so I decided to apply for a loan to create a job for myself." Participant 8 added: "My husband was giving money, so when he died, I struggled with the family. This made me apply for a loan to start something for myself." These findings capture microfinance loans as productive and a pathway into economic activity. Other views emerged relating the purpose of investment-focused finance to productive investment. For instance, participant 1 said, "When I took the loan, my business grew, and I was able to pay back the loan. So, I went for more loans to expand my business."

Furthermore, the findings capture some level of information barrier, although expansion of financial access was affirmed by many of the participants. The participants elucidate: "It is my first time. I had no idea that I could get a small loan. I thought it was only those who have good jobs that can get a loan." (participant 18), participant 10 added: "This is my first time; I did not know I could apply for a loan. I thought it was only for big workers." A few participants, such as participant 11, indicated that "The loan is small, but I think because it is my first time. These people cannot give me a big amount. I think that I must build a good relationship first." This view demonstrates perceived borrowing constraints and gradual access to larger loans. However, the majority reported that they were motivated by enterprise expansion to borrow more loans; for example, participant 6 said: "The growth of my business motivated me to apply for another loan." The participant explanations illustrate how access to investment-focused loans was shaped by business growth, household financial vulnerability and limited awareness of microfinance opportunities.

Enterprise Development and Income Enhancement

Another key theme emerging from the data was enterprise development and income enhancement. This theme gave a more profound understanding of how business expansion, profitability, increased stock, income growth and employment creation were influenced by investment-focused loans. Participants emphasised that the loans were widely regarded as crucial to business expansion and profitability, as the income they raised from their business activities enabled them to expand their businesses. Participant 6 said, "I invest the money into my business and grow the business to a higher level." Participant 11 added that, "The loan helped me to buy new utensils for my business. In short, it helps to give my business a new look." and participant 17 said "There has been good improvement, the number of sales has increased, and we bought more inputs and also added another section of the poultry farm." The

participants' explanation demonstrates very strong evidence of business growth. Furthermore, the finding captures the aspect of employment creation from some of the participant's explanations. For instance, participant 6 said, "I managed to create employment in my own little way." And participant 11 added that, "I employed two girls to help me in the preparation and selling of food and cleaning." These responses demonstrate that investment-focused microfinance loans enable the beneficiaries to move beyond household-level benefits toward local employment generation. The participants' explanations in this theme have demonstrated that investment-focused finance supported household enterprise expansion, increased productive capacity and, in some cases, generated employment.

Consumption Smoothing and Household Welfare

Consumption smoothing and household welfare were other themes that emerged from the data demonstrating changes in household income, food security, expenditure and the ability to meet basic household needs. To have a deeper understanding of the expenditure component, participants were asked about changes reported in their households after investing their loans in business activities. The participant elucidated as follows: Participant 18: "When I took over the responsibilities of my family, it was very difficult for us to eat three square meals a day. I was struggling to balance spending between business and family." Participant 10: "We could not afford food for days. We just ate only bread, and sometimes we went to friends and asked for food." Participant 7 said, "There are days we get food once because there was no money to buy." The findings showed that, pre-loan, households encountered some level of vulnerability and food insecurity due to limited financial resources and unstable income sources.

However, the finding also revealed strong evidence of improved household consumption and welfare, as the participants indicated that the income generated after the loan investment assisted in acquiring not only business goods but also increased food consumption in the household. The participant elucidated as follows: Participant 2 said, "I have really spent more than before on household items. I do buy more food, new clothes and school needs for my children." Participant 10 said, "If compared to the past two years, I can say that my household expenditures have increased. I buy more food items, clothes and school needs for my family." In addition, participant 16 said, "I have been able to spend more on my family. I buy more food items, school needs for my kids, toys for the kids, and clothes, as well as pay for scholar transport for the kids." However, participant 7 pointed out that "Even now we still get less food in the house because I want to grow the business, make more profits and pay back the loan." This participant explanation demonstrates the loan invested does not necessarily produce immediate improvements in household consumption.

Nevertheless, these findings have demonstrated how improvement in business and household incomes was translated into some level of improvements in household consumption and welfare. The beneficiaries were able to make positive adjustments in their household expenditures, spending more on children's education, buying more food items, and spending more on household goods and other essential needs. This demonstrates a transition from consumption smoothing to investment and development.

Asset Accumulation and Sustainable Livelihoods

Asset accumulation and sustainable livelihoods emerged as another major theme in the study data, reflecting the accumulation of physical and financial assets and strategies for maintaining business without continuous borrowing. Participants were asked to share their thoughts on what had changed in the items of value acquired as a household after investing the loan in business. Many participants reported buying items such as television sets, sewing machines, new beds and building materials, while others were able to construct new homes or renovate their homes. The participants indicated as follows: Participant 17: "The business has helped me to renovate my house and add some more rooms and buy chairs and a new bed for my family." Participant 4 said, "I have started constructing my house. I bought a new flat-screen television, a new cupboard and a second-hand car."

The finding also revealed that some of the participants' explanations demonstrate strong evidence of movement toward financial and business sustainability. The participant elucidated as follows: Participant 10: "I can say that I have increased my savings to a certain degree." participant 1, "My plan is to use my savings and reinvest it and forget about taking another loan." Participant 17 added that, "I have also saved some money to start a new type of business." Furthermore, participants' explanation demonstrates strategies used for maintaining business without continuous borrowing. Participant 7 said, "By saving I think I will make money available for my business in future without taking more loans." Participant 8 added, "My savings and profits will be able to support the business." And participant 11 said, "My plans now is to save more money so that the moment I finish to repay the loan, I will have my own money to continue my business." These findings demonstrate the emergence of a saving culture and the accumulation of finance towards reinvestment and reduced reliance on external financial support.

Household Economic Progression towards Inclusive Development

Household economic progression towards inclusive development surfaced as one of the themes and captured key features in the data set that demonstrate a significant move beyond household welfare. The participants' explanations demonstrate some level of social contribution and economic spillovers beyond household and community-level economics. The participant emphasises that their successful business performance not only allowed them to support their own households but also enabled them to assist their communities, especially by providing food items to vulnerable households. One participant said, "The community appreciates me, saying that I am a hard-working woman. They called me a role model because I use local materials to build rental houses. Now others are doing the same." (participant 6). In addition, participant 1 said, "People come to us and borrow money or food items, but before, we were nobody."

The finding also revealed progression towards inclusive development, as participants' explanations show how household business is linked to local economic opportunities and inclusive economic participation through employment. The participants explained as such: Participant 11 said, "I employed two girls to help me in the preparation and selling of food and cleaning." Participant 6 added, "I managed to create employment in my own little way." And participant 16 said, "I employed two girls who are working with me." The participant explanation further demonstrates evidence of inclusive economic participation. One participant

said, “My investment in the village has brought many people closer to me. Many young women want to follow my example.” The participant explanation further show progression towards financial independence as one of the participants said, “By saving I think I will make money available for my business in future without taking more loans.” These findings demonstrate how investment-focused microfinance can enable household progression beyond consumption smoothing to greater economic inclusion.

Discussions

The study adopted a qualitative research design and captured how investment-focused microfinance loans enable poor households to transition from consumption smoothing to household economic development within rural communities in O.R. Tambo Coastal District of the Eastern Cape, South Africa. Using Braun and Clarke’s six-phase framework in combination with ATLAS.ti9, the data were analysed thematically. The findings indicated that investment-focused microfinance loans support enterprise development and income generation, increase income and enable consumption smoothing, enhance savings and asset accumulation, and enable reinvestment, business expansion and employment creation. The study suggests that investment-focused microfinance can facilitate different stages of household economic progression and wider economic participation.

In addressing the first research question, two themes, i.e., access to investment-focused finance and enterprise development and income enhancement, emerged as critical factors. According to the participants’ explanation, access to investment-focused finance enables them to participate in economic activities. In addition, access to microfinance loans created opportunities for the beneficiaries to start up and expand their businesses. Although the findings demonstrate perceived borrowing constraints and gradual access to larger loans, many of the beneficiaries were motivated by enterprise expansion to borrow more. These not only support earlier research on access and success of microfinance loans (Makara et al., 2024; Samer et al., 2015), but they also provide greater comprehension of why investment-focused microfinance loans are important in underserved communities. These results build on earlier research by showing that access to investment-focused finance can help the beneficiaries boost enterprise growth, reduce household financial vulnerability and raise awareness of microfinance opportunities in disadvantaged communities.

In the second theme that addresses the first research question, the participants’ explanations demonstrate a more profound understanding of how enterprise development and income enhancement, facilitate business expansion and enhanced profitability. Participants emphasised that the loans were crucial to business expansion and profitability, as the income they raised from their business activities enabled them to grow and expand their businesses. The findings also capture employment creation, demonstrating that investment-focused microfinance loans enabled beneficiaries to move beyond household-level benefits toward local employment generation. These findings aligned with previous studies such as (Baloyi & Geyer. S, 2019; Uusiku, 2018) who acknowledges the contribution of microfinance loans in enabling poor households to participate in economic development within the community. Overall, the

participants' explanations demonstrate that investment-focused finance supported household enterprise expansion, increased productive capacity and, in some cases, generated employment. In addressing the second research question, two themes, namely consumption smoothing and household welfare, and asset accumulation and sustainable livelihoods, emerged as critical factors broadening the socioeconomic impacts of investment-focused microfinance loans beyond household consumption to household economic progression. These findings not only support earlier studies on microfinance loans and household welfare (Fonseca et al., 2024; Simatele & Maciko, 2022) but also demonstrate that households that encountered some level of vulnerability and food insecurity due to limited financial resources and unstable income sources later improved consumption and welfare through income generated after the loan was successfully invested.

Furthermore, asset accumulation and sustainable livelihoods emerged as another major theme addressing research question two. The theme captures the beneficiaries' perspectives on how investment-focused loans facilitated the accumulation of physical and financial assets and improved business sustainability. The participants' explanations demonstrate that assets enhance productivity and contribute to increased sales and profit, enabling many of them to buy items such as television sets, sewing machines, new beds and building materials, while others were able to construct new homes or renovate their homes. Many participants' explanations also demonstrate the accumulation of finance towards reinvestment while reducing their reliance on external financial support. Previous studies, such as (Umeaduma, 2023; Uusiku, 2018), recognised the importance of microfinance loans in facilitating asset accumulation while improving sustainable livelihoods among disadvantaged communities.

Therefore, this theme demonstrates the path through which improved business and income were translated into asset acquisition and improved living conditions among microfinance beneficiaries in O. R. Tambo Coastal District in the Eastern Cape, South Africa. The findings also demonstrate how investment-focused microfinance loans facilitate the accumulation of assets, improve household welfare, reduce reliance on external financial support and strengthen long-term economic activities.

In addressing the third research question, the participant's explanation gave rise to the theme of household economic progression towards inclusive development. The theme captures evidence demonstrating a significant move beyond household welfare. The participants emphasise that successful businesses allow them to support their households and enable them to assist their communities, especially by providing food items to vulnerable households and creating job opportunities. These findings not only support earlier studies on microfinance loans and household welfare (Chikwira et al., 2022; Simatele & Maciko, 2022) but further demonstrate that improved household welfare can enable social contribution and economic spillovers beyond household and community-level economics. When household business is successful, it does not only expand and grow, but it also enables the progression of household enterprise to the creation of local economic opportunities. These findings have demonstrated that household enterprise can therefore contribute to broader economic opportunities. It demonstrates evidence of economic progression and community participation in economic activities that strengthen the movement toward greater economic inclusion through employment.

Conclusions

This paper has examined how investment-focused microfinance loans enable poor households to transition from consumption smoothing to household economic development within rural communities. The study was conducted in the rural areas of O. R. Tambo Coastal District, South Africa. The study has established the mechanisms through which investment-focused microfinance can facilitate different stages of household economic progression and wider economic participation within a rural context. Therefore, the study concludes that investment-focused microfinance loans support enterprise development and income generation, increase income and enable consumption smoothing, enhance savings and asset accumulation, and enable reinvestment, business expansion and employment creation.

The study contributes to the body of knowledge by establishing context-specific empirical insights into how investment-focused microfinance loans may facilitate a progression from consumption smoothing to household economic development. The study's findings led to the following recommendations: Firstly, policy initiatives should move beyond expanding credit access towards productive investment. Secondly, the government and NGOs should prioritise the provision of business-development support in the form of training in financial literacy and client relationship management for disadvantaged rural communities.

This study was limited in that it covered only the O.R. Tambo Coastal District with a sample size of 19 participants; therefore, the findings cannot be generalised beyond the study population. Nevertheless, the findings provided detailed insight into microfinance clients' experiences and how investment-focused finance shapes the progression of households from consumption smoothing towards household economic development within rural communities. A qualitative approach was used in the study; therefore, the same study can be conducted using quantitative or mixed-method research on the subject.

Acknowledgements.

We would like to thank all the participants for their support in participating in the study.

Conflict of interest statement.

The authors declare no conflict of interest.

List of References

Afrane, S. (2002). Impact Assessment of Microfinance Interventions in Ghana and South Africa: A Synthesis of Major Impacts and Lessons. *Journal of Microfinance/ ESR Review*, 4(1), 38–58.

Appiah-Kubi, G., Tucker, J. J., Asongu, S. A., GOH, G. G. G., & Gyamfi, B. A. (2026). Exploring the role of microfinance institutions in promoting financial sustainability and alleviating poverty in Ghana. *Financial Innovation*, 12(1). <https://doi.org/10.1186/s40854-025-00801-z>

Author. (2025). Sustainability of Microfinance Programmes: The Case of O. R Tambo Coastal District, Eastern Cape, South Africa. *Sustainability (Switzerland)*, 17(23). <https://doi.org/10.3390/su172310706>

Baloyi, T. V, & Geyer. S. (2019). Perceptions and experiences of participant's regulations regarding the effectiveness of income-generating projects in alleviating poverty in the rural community, South Africa. *Gender and Behaviour*, 17(4), 13970–13981. <https://doi.org/https://hdl.handle.net/10520/EJC-1b166fbf11>

Braun, V., & Clarke, V. (2006). *Using thematic analysis in psychology*.

Carlsen, L., & Bruggemann, R. (2022). The 17 United Nations' sustainable development goals: a status by 2020. *International Journal of Sustainable Development and World Ecology*, 29(3), 219–229. <https://doi.org/10.1080/13504509.2021.1948456>

Chikwira, C., Vengesai, E., & Mandude, P. (2022). The Impact of Microfinance Institutions on Poverty Alleviation. *Journal of Risk and Financial Management*, 15(9), 1–13. <https://doi.org/10.3390/jrfm15090393>

Department of Small Business Development. (2020). *Annual-report 2019-20*.

Fomum, T. A., & Jesse, A. M. (2017). Exploring the relationship between financial inclusion and assets accumulation in South Africa. *International Journal of Social Economics*, 44(12), 2157–2172. <https://doi.org/10.1108/IJSE-10-2016-0294>

Fonseca, S., Moreira, A., & Mota, J. (2024). Factors Influencing Sustainable Poverty Reduction: A Systematic Review of the Literature with a Microfinance Perspective. In *Journal of Risk and Financial Management* (Vol. 17, Number 7). Multidisciplinary Digital Publishing Institute (MDPI). <https://doi.org/10.3390/jrfm17070309>

Gavaza, B. K., Donga, G., & Muchineripi, J. N. (2025). Microfinance and women's entrepreneurship In South African townships. *International Journal of Business Ecosystem & Strategy* (2687-2293), 7(4), 12–22. <https://doi.org/10.36096/ijbes.v7i4.872>

Guest, G., Namey, E., & Chen, M. (2020). A simple method to assess and report thematic saturation in qualitative research. *PLoS ONE*, 15(5). <https://doi.org/10.1371/journal.pone.0232076>

Habib, N., Ariyawardana, A., & Aziz, A. A. (2023). The influence and impact of livelihood capitals on livelihood diversification strategies in developing countries: a systematic literature review. In *Environmental Science and Pollution Research* (Vol. 30, Number 27, pp. 69882–69898). Springer Science and Business Media Deutschland GmbH. <https://doi.org/10.1007/s11356-023-27638-2>

Kirsten, M. A. (2011). *Improving the well-being of the poor through microfinance: Evidence from the Small Enterprise Foundation in South Africa* [PhD Dissertation]. <http://scholar.sun.ac.za>

Kumari, P. J. A. (2020). The role of products of Microfinance for reducing the Poverty of the Borrowers: Exploratory Factor Analysis. *International Journal of Management Excellence*, 15(3).

Maître, M., & Niño-Zarazúa, M. (2017). *WIDER Working Paper 2017/190 - Poverty and wellbeing impacts of microfinance: What do we know?* <https://ssrn.com/abstract=3076781><https://ssrn.com/abstract=3076781>

Makara, M., Faimau, G., & Maphosa, F. (2024). Microfinance and Poverty Alleviation: The Socio-Economic Contribution of SILC, a Savings-Led Microfinance Programme in Semonkong, Lesotho. *Journal of Asian and African Studies*. <https://doi.org/10.1177/00219096241300433>

Mashingo, P., & Kabir, H. (2016). Village banks: a financial strategy for developing the South African poor households. *Banks and Bank Systems*, 11(2), 7–13. <http://www.businessperspectives.org>

Mkhize, Z. (2017). *Microfinance Institutions (MFIs) and Poverty Reduction in South Africa: A Case Study of Ethekwini Metropolitan Municipality*. [Master Thesis]. WITS BUSINESS SCHOOL.

Mohapatra, S., & Sahoo, B. K. (2009). IMPACT OF MICROFINANCE ON RURAL POOR: AN EMPIRICAL INVESTIGATION FROM INDIA. In D. Lazar & M. Deo (Eds.), *Microfinance: performance Evaluation and Enterprise Development* (pp. 1–20). Chennai: Allied Publishers Pvt. Ltd.

Motileng, B. B., & Wagner, C. (2019). A psychological study of the effect of microfinance on the self-esteem and self-efficacy of the poor in South Africa A psychological study of the effect of microfinance on the self-esteem and self-efficacy of the poor in South Africa. *African Review of Economics and Finance*, 11(1), 2019.

Ndilito, N. (2025). Contribution of microfinance loans to women entrepreneurs in Tanzania: Reflections from the case of the National Microfinance Bank (NMB) in Arusha City. *African Scientific Annual Review*, 2(1), 132–146. <https://doi.org/10.51867/asarev.2.1.9>

Nowell, L. S., Norris, J. M., White, D. E., & Moules, N. J. (2017). Thematic Analysis: Striving to Meet the Trustworthiness Criteria. *International Journal of Qualitative Methods*, 16(1). <https://doi.org/10.1177/1609406917733847>

Pawasutipaisit, A., & Townsend, R. M. (2011). Wealth accumulation and factors accounting for success. *Journal of Econometrics*, 161(1), 56–81. <https://doi.org/10.1016/j.jeconom.2010.09.007>

Robert, A. (2024). Microfinance and Entrepreneurial Empowerment of Women: The Case of Women's Microfinance Initiative in Uganda. *International Journal of Entrepreneurship*, 7(2), 18–33. <https://doi.org/10.47672/ije.2072>

Rutberg, S., & Bouikidis, C. D. (2018). Exploring the Evidence Quantitative and Qualitative Research Focusing on the Fundamentals: A Simplistic Differentiation Between Qualitative and Quantitative Research. *Nephrology Nursing Journal*, 45(2).

Samer, S., Majid, I., Rizal, S., Muhamad, M. R., Sarah-Halim, & Rashid, N. (2015). The Impact of Microfinance on Poverty Reduction: Empirical Evidence from Malaysian Perspective. *Procedia - Social and Behavioral Sciences*, 195, 721–728. <https://doi.org/10.1016/j.sbspro.2015.06.343>

Simatele, M., & Maciko, L. (2022). Financial Inclusion in Rural South Africa: A Qualitative Approach. *Journal of Risk and Financial Management*, 15(9). <https://doi.org/10.3390/jrfm15090376>

Statistics South Africa. (2026). *STATISTICAL RELEASE*. www.statssa.gov.za, info@statssa.gov.za, Tel+27123108911

Tambi, M. D. (2018). Relevance of micro financial institution credit in tomato production and livelihood in Santa, Cameroon. *Journal of Business Management & Accounts Studies*, 1(2), 15–23.

Tremblay, N. (2025). The Impact of Inflation on Household Consumption: An Econometric Analysis from Emerging Markets. *OTS Canadian Journal*, 4(5), 20. <https://doi.org/10.58840/jfcapb20>

Umeaduma, C. M.-G. (2023). Financial inclusion strategies for poverty reduction and economic empowerment in underbanked rural populations globally. *World Journal of Advanced Research and Reviews*, 18(1), 1263–1280. <https://doi.org/10.30574/wjarr.2023.18.1.0709>

Uusiku, E. P. (2018). *The impact of Microfinance on the growth of Micro, Small and Medium Enterprises in Namibia*.

van Rijn, F., Burger, K., & den Belder, E. (2012). Évaluation de l'impact dans le cadre des moyens de subsistance durables. *Development in Practice*, 22(7), 1019–1035. <https://doi.org/10.1080/09614524.2012.696586>

World Bank Group, T. (2026). *A World Bank Group Flagship Report the Promise of Artificial Intelligence*. <https://hdl.handle.net/10986/45296>.