











































































































































































































































































































































































































































property. On the balance, it seems the constitutional court seems more powerful than the parliament that is supposed to be the representative of the people. South Africa is a constitutional democracy. Resistance to socio-economic transformation, I will argue, seeks refuge in the constitution. The constitutional court has become the final recourse on every issue, even when clear political decisions are needed. While legal structures are imperative, it must be achieving the objective of poverty alleviation and the socio-economic transformation of the country as hoped for in the NDR, if it is to remain relevant. Socio-economic and political choices in the country continues to be a ground for power struggles and should be viewed in structural terms.

The National Development Plan (NDP) document is viewed as part of the political decisions that were made by the government; hence, it is a socio-economic policy projection for the country for the next two decades. What we can briefly say is that it has not been accepted by all sections of the society. While it might have been accepted by political and economic establishments, the organised workers' union, among other social actors, have rejected it substantially. National Union of Mine Workers of South Africa (NUMSA) has been most vocal in their critique and rejection of the NDP. They are of the view that the NDP is an extension of GEAR, albeit in a disguised form. The underlying assumption is neoliberal, and it deviate substantially from the Freedom Charter and the labour movements' (Cosatu) views on path to development for South Africa. For them, it is detached from the colonial history of South Africa, hence, it is not designed to destroy what they called "Colonialism of a Special Type" (CST), which characterised post-apartheid South Africa. ([http://www.numsa.org.za/admin/assets/articles/attachments/00119\\_the\\_ndp\\_mixed\\_bag\\_or\\_downright\\_neoliberal\\_proposals\\_for\\_south\\_africa1.pdf](http://www.numsa.org.za/admin/assets/articles/attachments/00119_the_ndp_mixed_bag_or_downright_neoliberal_proposals_for_south_africa1.pdf)).

The proposition of the NDP to reduce inequality from Gini Coefficient of approximately 0.7 to 0.6 in 2030 (NDP, 2011:3) is not encouraging with regard to set goals of reducing the level of inequality in the country. It represents a particular structure of political economy with regards to how the country should progress. It may be viewed as a victory for a particular power structure within the society. While it emphasise many aspects of market-oriented transactional logic of neoliberalism, it also differs in substantive ways, with emphasis on government programmes, such as BEE and Affirmative Action among others. Perhaps the government keep pursuing similar policy agenda and hoping that it will yield alternative outcomes as noted by NUMSA in its critique of the NDP policy prescription.



























































NCA. The DTI is the responsible government department for consumer credit industry and the custodian of consumer credit policy (DTI, 2003).

Four institutions are imperative to the facilitation of the relationship between the suppliers (credit providers) and the consumers (demands) of formal credit in South Africa. All these institutions have one or other forms of relationship with the NCA. These institutions are; the National Credit Regulator (NCR), National Consumer Tribunal (NCT), Debt Counselling Service, and the Credit Bureau system. We can add credit providers to this four, to make up what can be referred to, as the credit system that credit consumer must interact with. The NCR and the NCT are created by direct provisions of the NCA. The other three institutions, the credit providers, the debt counselling services and the credit bureau system, must be registered with the NCR before they can legally operate on the South African credit industry's landscape. NCR must also ensure that they comply with the provisions of the NCA. According to the NCR (2013c) 5, 450 credit providers, 1,994 debt counsellors and 12 credit bureaus are registered as at the end of first quarter in 2013.

#### *National Credit Regulator (NCR)*

The creation of the NCR is enacted in chapter 2, part A of the NCA, as the custodian of the Act. It is saddled with the responsibility of enforcing the provisions of the NCA by registering credit providers, credit bureau and debt counsellors among other functions; facilitate knowledge on consumer credit in the country through research publications and statistics; increase consumer and public awareness of the NCA through education and advice the Minister of Trade and Industry on consumer credit policy (NCR, 2013c).

The broad functions of the NCR set out in the NCA, include making the credit market accessible to everybody, including the previously disadvantaged population; registration of the institutions of the credit industry; enforcement of the provisions of the NCA; commissioning research and generating statistical information on the consumer credit industry; report to the minister on trends in the credit market and advice on policy needs; and work in collaboration with other regulatory institutions when the need arises (NCA, 2006).

NCR is by implication saddled with three broad responsibilities, in which its functions and activities revolve around; the facilitation of access to credit, the prevention of reckless lending, and over-indebtedness. The achievement of these three broad objectives will ensure

that, the consumer credit industry runs smoothly and have positive implications for the economy at large. In view of this, the NCR is positioned to commission research to determine the trends and practices in the consumer credit industry in order to monitor compliance and enforce the prescriptions of the NCA. The experiences of taking and repaying credit by consumers from advertisement through the life cycle to the termination of the credit agreement are imperative (Feasibility, 2011).

The continuous review of the consumer credit industry is designed to reveal trends and practices that are in line with the NCA, those that contravene the NCA for necessary enforcement action, and inform policy advice to the responsible line ministry, DTI. The conditions of registration of credit providers, debt counsellors and credit bureaux are set by the NCR, as well as monitor adherence to the NCA via the treatment of lodgement and resolution of complaints, investigation of allegations and on and off-site reviews (NCR, 2013c).

Credit agreement related complaints, and debt counselling related complaints are prominent. Instances of investigations have revealed reckless lending, possession of bankcard and identity documents by credit providers, excessive fees and interest charges and charging of illegal fees among others. Contravention of the NCA can be referred, by the NCR to the National Consumer Tribunal, consumer court of applicable province or to the National Prosecuting Authority (NCR, 2013c).

Trends in the consumers' credit industry are captured by two quarterly reports by the NCR. The Consumer Credit Market Report (CCMR) and Credit Bureaux Monitor (CBM). CCMR is compiled from the required submission of returns of credit disbursement by credit providers, while CBM is extracted from credit bureaux returns. While the former captures the value of credit disbursed under the different credit categories, the latter capture the status of credit consumers and credit accounts to determine their good standing or impairment (NCR, 2013c).

#### *National Consumer Tribunal (NCT)*

The National Consumer Tribunal (NCT) is the second institution that was created through the enactment of the NCA. It is an adjudicative independent institution prescribed in chapter 2, part B of the NCA. It is saddled with the function of adjudicating on matters that are referred

(or application) to it in respect of the contravention of the NCA. Its mandate was broadened to include issue emanating from the CPA in 2008. It can issue an order in respect of the applications made to it. It can also make a ruling on, whether an act prohibited by the NCA has occurred and interpret the prescription of the legislation in that regard. It can award cost as set out in section 147 (2) of the NCA to the deserving party, after hearing a referral or an application to it (NCA, 2006).

A decision made by the NCT has equal status to High Court decision in South Africa. All the institutions identified as making up the South African consumer credit system, NCC and service providers, can file an application to the NCT. Individual consumers, credit providers, service providers, NCR, credit bureau and debt counsellors can file application to the Tribunal or matter brought to it through High Court order. The NCT also perform a review function in respect of NCR decisions. With regard to the NCA, the NCT adjudicates on 35 categories of referrals and applications that can be brought to it. It adjudicates on 13 categories of referrals and applications that can be brought to it with regard to the CPA. Self-acclaimed challenges of the NCT are inadequate financial and human resources capacities to carry out its adjudicating function and lack of full ICT capacity (NCT, 2013).

#### *Credit Bureau*

Credit Bureaus are institutions of the credit market that are positioned to serve as credit consumer data or information repository, to facilitate the building of credit profiles for consumers. Information on credit consumers are supplied by credit providers on their customers to the bureaus. Service providers, as well as courts also supply information to the credit bureaus. NCR is responsible for the registration of credit bureaus and it performs monitoring function to ensure that good quality of information is maintained (NCR, 2013b). The registration of credit bureau is sanctioned by section 43 of the NCA. Any person not registered by the NCR cannot operate as a credit bureau. The NCR stated that they have registered 12 credit bureaus as at the end of first quarter of 2013 (NCR, 2013c; NCA, 2006).

Credit bureaus capture records of credit active consumers and credit accounts. The credit profile of a consumer or an account can be captured under four categories; current, good standing, impaired record and adverse listing (NCR, 2013b). The information captured by the credit bureau is stated in section 70(1) of the NCA. It includes credit history, education and employment profile, net worth in terms of assets and income and identification details among

others. All information filled with a credit bureau includes the historical trend and the present position (NCA, 2006). The essence of the credit bureau information is to enable a potential credit provider to make informed judgment, on the character and capacity (affordability) of consumers' application without incurring huge processing cost. Negative listing decreases or removes prospective access to credit to serve as a driver to prompt loan repayment (Calvin & Coetzee, 2010).

The four primary credit bureaus in the South African consumer credit industry are Experian, TransUnion, Xpert Decision System and CompuScan. Data from these primary bureaus are accessible to secondary bureaus sequel to an agreement with them. Foundational sources of information in the primary credit bureaus are National Loan Register (NLR) and Credit Providers Association (CPA). Credit providers that belong to the NLR and CPA are mandated to remit credit information to all the primary bureaus (Calvin & Coetzee, 2010).

The CPA is a non-profit association of credit providers formed in 1989, initially as Consumer Credit Association (CCA), to facilitate the sharing of consumer credit information for informed credit decision. It assumed its present name in 2007, when it also expanded its membership beyond consumer credit providing organizations alone. The NLR was launched in 2000 under the control of the MFRC, to prevent reckless lending and over-indebtedness in respect of the Usury Act Exemption Notice of 1999. A reciprocal data access agreement was reached between the CPA and NLR (represented by the MFRC) in 2003 to broaden and improve the quality of information available to credit providers to make credit decision. This agreement enables members of both CPA and NLR to have access to both sets of data (Calvin & Coetzee, 2010; Credit Providers Association).

At the creation of the NCR, it took over the monitoring of the NLR in terms of submission and the quality of data. It constitutes the National Loan Register Management Committee (NLRMC) to oversee the daily management, sustainability and data quality maintenance of the NLR. Micro-credit providers are not obligated by the NCA, as it was with the Usury Act Exemption Notice of 1999 and the MFRC, to remit their data to the NLR. It is now voluntary, which affects the quality of the NLR data for credit assessment. However, the joining of CPA by Micro Finance South Africa (MFSA) means all their members will remit their data to the CPA. Another limitation of the credit bureau system is the fact that NLR and CPA data do not specify credit categories (Calvin & Coetzee, 2010; Credit Providers Association).

The activities of the credit bureaus are monitored and regulated by the NCR from the report they are mandated to submit to it. The Credit Bureau Monitor (CBM) is a quarterly publication of the NCR on the credit profiles of consumers and accounts (NCR, 2013b; 2013c).

### *Debt Counselling*

Debt counselling services form part of the fundamental objective of the NCA to prevent over-indebtedness. The registration of debt counsellors is prescribed in sections 44 and 45 of the NCA. It is one of the prescriptions of the NCA to register debt counsellors in accordance with the requirements set by the NCR and not in contravention of the section 46 of the NCA (NCA, 2006). As indicated earlier the NCR stated that 1,994 debt counsellors are registered with it as at the end of first quarter in 2013. The NCR monitors and provides guidance to facilitate the compliance of debt counsellors to the provisions of the NCA (NCR, 2013c).

The three top provinces in terms of credit consumption are Gauteng, Western Cape and Kwazulu-Natal. In 2012, 45.74% of total credit granted was consumed in Gauteng, followed by Western Cape and Kwazulu-Natal with 13.4% and 12.4% respectively (NCR, 2013c). The distribution of the registered debt counsellors reflects this character of credit consumption in the country. Out of the 1,994 registered debt counsellors with the NCR, 998 (50%), 357 (18%) and 222 (11%) are registered in Gauteng, Western Cape and Kwazulu-Natal provinces, respectively (NCR, 2013c).

Feasibility (2011) reported that the debt counselling system shows little impact on the improvement of credit consumers' knowledge of the current credit legislation, leaving room for how a consumer should deal with credit and consumers' obligations and rights on credit agreements. The advice to prioritize expensive credit could have negative consequences for cheaper credits such as mortgage. The NCR (2013c) also identify about nine major complaints that concern debt counselling. Prime among the complaints includes overcharging and breakdown of communication or synchronisation between credit providers and the debt counselling process, often reflected when decisions taken by credit providers do not take into consideration that a consumer is under debt review. Also important is disagreement on debt review proposal between the debt counsellor and credit providers.

For me the proliferation of the debt counselling services could be a pointer to two possible characteristics of the South African credit market. It either improves consumers' credit education to forestall reckless lending and over-indebtedness or they are mushrooming because of the prevalence of over-indebtedness and impaired accounts as defining characteristics of the credit market. The latter seems to be the case with high prevalence of over-indebtedness and impaired credit consumers and accounts. This thinking is however, limited by the assumption that a healthy credit industry is a singular function of consumer knowledge. The imperative of the need to sustain social reproduction to the consumption of credit speaks to the objective of this study. In a context, where credit consumption is primarily to smoothen private consumption, argument for developmental imperative of credit is difficult to evolve. It seems, understanding the drivers of credit consumption behaviour is more potent than the knowledge of credit.

### *Credit providers*

As indicated above, the providers of micro-credit are of interest to this study. However, the NCA has blurred the divide between all credit advancing institutions as umbrella legislation. The distinction we can conveniently make is the types of credit that credit providing institutions offer. As earlier indicated, salary-based credit providers (often locally designated as 'cash loans'), alternative banks (featuring African Bank and Capitec Bank) and commercial banks (advances micro-credit in the form of personal loans) at a glance could be viewed as providers of micro-credit. Importantly however, this study is aligned to include cash loans (often give micro-credit against income, which includes wages, salary and social grants such as old-age pension and disability grants), retail goods credit (mainly clothing and household goods stores that issue store cards and hire-purchase) and 'mashonisa' (the informal money lenders).

Salary-based microlenders do not capture the fact that these organisations give micro-credit against social grants (such as pension and disability grant), as suggested by Calvin and Coetzee (2010). 'Cash loan', which indicates that they give micro-credit against regular sources of income whether wages, salary or social transfer, capture the defining feature of this kind of credit advance. Note that they do not make out loans in respect of micro-enterprise. The classification of alternative bank is also problematic. While Capitec Bank accepts savings deposit, African Bank does not. Two things that distinguish African Bank from other 'cash loans', are size and disbursement of credit, through cash and credit card. For

the purpose of this study, African Bank is treated as cash loan. The category, retail goods credit is used in this study as a distinct category because it speaks to non-cash credit disbursement, but for clothes and household goods. However, as we will see later, there was a merger between African Bank and a household goods retail group. In essence the divide is also becoming blurred.

The definition of micro-credit does not imply that the institutions that make such credit disbursement are micro-enterprises. It means the credit disbursement is to micro-credit consumers. The notion of ‘consumer micro-credit’ may further distinguish this type of micro-credit advancement. Such is the case of African Bank, which arguably defines the South African ‘consumer micro-credit’ advancement as cash loan and retail goods credit as used in this study. The only aspect of ‘consumer micro-credit’ that African Bank does not speak to is the ‘mashonisa’ (informal money lenders). In view of the centrality of African Bank to the provision of ‘consumer micro-credit’ in South Africa, a brief profile of its structure and activities is important to our discussion here. That is what we looked into in the next section.

### *African Bank*

This discussion relates to the status of African Bank Investment Limited (ABIL) as at the time of the field work of this study. ABIL group structure was composed of African Bank and Ellerine Holdings Limited (EHL). EHL was composed of Ellerines, Furniture City, Weatherly, Beares, Dial-a-Bed and Green & Richards. The banking unit of the group was composed of African Bank and its subsidiary, Standard General Insurance Company Ltd. The non-banking unit was EHL and its subsidiaries (excluding its foreign operations): Ellerine Furnishers Proprietary Ltd, Relyant Insurance Company Ltd, and Relyant Life Assurance Company Ltd (ABIL, 2013). ABIL was a public company and it was quoted on the Johannesburg Stock Exchange (JSE). Its line of business includes unsecured credit and retail household goods. African Bank had 514 branches across South Africa, serviced by 5,230 employees. EHL had 1,040 stores across the country serviced by 7,844 employees (ABIL, 2013).

The book balance of credit advance as at September 30, 2013 was R59 billion, spread over 2.7 million credit consumers. EHL book balance of furniture sales was R4 billion. Due to some once-off restructuring of business strategy and processes the 2013 financial figures does not reflect the true long-term financial status of ABIL. The headline earnings grew from R1.6



billion in 2010 to R1.7 billion in 2011. There was further and significant growth to R3 billion in 2012, but it dropped to R365 million in 2013. Returns on equity follows the same trend, it grew from 14.2% to 15.0% from 2010 to 2011. There was further and significant growth to 24.3% in 2012 before dropping to 2.9% in 2013. The economic profit dropped from R1.2 billion profit in 2012 to R1.5 billion loss in 2013 (ABIL, 2013).

ABIL was focused on the unsecured credit market segment of the South African credit market industry. This segment of the industry is composed of personal loans and credit cards, of which ABIL controlled 70% and 9.3% respectively. They remain a prominent player in the unsecured credit market and one of the pacesetters. As at September 30, 2013, the total assets (or balance sheet size) of ABIL was R67.5 billion, financed by R57.7 billion liabilities and R9.8 billion equity. The total borrowing portion of the liabilities stands at R54.5 billion (R8 billion short term and R46.5 long term). Bonds and other sources of long term financing are the dominant. They issued corporate bond, the Domestic Medium Term Note (DMTN) and European Medium Term Note (EMTN) to raise substantial part of the funding. These bonds represented 33% and 19% of their total funding respectively. They are listed on London and Swiss Stock Exchanges because they issued EMTN on both (ABIL, 2013).

ABIL was 60% South African owned, with Government Employee Pension Funds having the highest shareholding of 11.94%. The pension fund was followed by JP Morgan and Stanlib Asset Management with 7.45% and 7.42% of the total shareholding respectively. 40% of the company's shares were foreign owned with investors from the United Kingdom, United States, and Canada and the rest of the world owning 17%, 14% and 9% respectively. A right issue of R5.5 billion was announced in 2013, in order to improve the capital base of the company (ABIL, 2013). A company that almost doubled its total assets in five years was an industry leader in the cash loan advances against regular income from third party verifiable sources. Substantive 'cash loans' activities are the same with what the African Bank of ABIL does. The EHL segment activities also coincide with what 'retail consumer credit' providers do. Therefore, ABIL bridged the divide between these two categories.

Though ABIL has started savings and investment, vehicle financing, funeral plan and insurance, personal loan, credit cards and furniture credit remained their core business. Personal loan and furniture credit are imperative for the objective of this study because of the coincidence with 'cash loan' and 'retail goods credit'. The provision of cash loan (and/or



personal loan) and the retail goods credit, and their implications for the social reproduction of South African household are of utmost concern to this study. It speaks to the drivers of credit consumption behaviour of this nature in the concerned households.

African Bank represents, in a sense, “the good, the bad and the ugly” of the micro-credit industry in South Africa. They are big but they target the lower end of the credit market dominated by unsecured credit, the most lucrative in terms of the NCA interest rates and other charges cap on lending. They are aggressive in their profit drive. They were referred to the National Consumer Tribunal by the NCR in early 2013, on the charges of reckless lending, with a demand penalty of R300 million. They settled with NCR at a penalty of R20 million (Mail & Guardian, October 4, 2013; NCR, 2013c).

African Bank was placed under curatorship in August 2014 by the South African Reserve Bank (SARB), pending the outcome of its investigation into its activities, to determine whether it has engaged in reckless lending, has been negligent in its business dealings and whether fraud was intended. This is sequel to its estimated operating loss of R6.5 billion and the need to raise additional capital of R8.5 billion in order to keep afloat. This cause SARB to arrange a R10 billion bailout package and bought its bad loan book valued at R17 billion for R7 billion to avoid liquidation (Mail & Guardian, September 5, 2014; Business Day, August 11, 2014). In this case the creditors and depositors are at risk of losing their investment and savings respectively.

What the profile of African Bank suggests is the need to distinguish between seeing micro-credit as development intervention and micro-credit for profit from the supply side. Micro-credit providers that are in business like any other business venture within a capitalist system. Our concern in this study is micro-credit for profit on the supply side and micro-credit for individual (non-productive) consumption on the demand side.

#### *Micro-credit Providers (formal and informal)*

The welfare implication of micro-credit consumption cannot be ascertained, because it is a double edge sword, it could be positive and it could be negative (Daniels, 2004). To take this thinking further, it seems the likely social implications of the consumption of credit will, to a large extent, be informed by the driver and the purpose for which micro-credit is required. A clear distinction should be made between the consumption of micro-credit stimulated by

micro-enterprise development and strictly for production consumption and demand for micro-credit, driven by private consumption need, such as paying monthly bills in order to bridge the gap between monthly income and monthly consumption needs. The focus of this study speaks to the latter. I contend that strains on private consumption (and invariably on the quality of social reproduction) in the absence of a comprehensive social policy regime created a space for micro-credit institutions to thrive, which in turn have consequences for the 'quality of social reproduction'.

Contextual realities and experiences are imperative to the determination of the outcome of the consumption of credit. Where micro-credit is credited with alleviating poverty, it was only in the short-run. The viability of micro-credit to alleviate poverty in the long-run remains questionable. The long term positive effect of micro-credit can only be envisaged, if it is considered with other enabling socio-structural conditions or interventions or combined with other poverty reduction programmes (Khandker, Samad & Khan, 1998; Chowdhury, Ghosh & Wright, 2005). Karim (2008) unapologetically, viewed the claim of poverty alleviation through micro-credit as 'development rhetoric' using the case of Bangladesh.

The peculiarity of the South African context is that micro-credit is predominantly for individual non-productive consumption (Siyongwana, 2004). Therefore, the treatment of the impact of micro-credit institution should be viewed, from its deployment for non-productive consumption purposes. The providers of micro-credit therefore, are in business to make profit and the consumption of micro-credit is to smoothening individual consumption. So we can talk of the impact of micro-credit on giving business enterprises and its implication for consuming households. The case of informal moneylenders are a bit different from this conceptual view of micro-credit, in the sense that the effects of lending money as a means of survival, must be viewed from the perspective of the moneylenders' households. Therefore, the way we view cash loan and retail goods credit provider, must be varied from the way we view informal moneylenders.

The providers are, cash loans, which Calvin and Coetzee (2010) categorised as salary-based micro-lenders, the retail goods credit providers, which are captured as store cards and the informal moneylenders. It is imperative to note that some commercial banks have started foraying into what might be viewed as micro-credit, depending on the level of income of the qualifying consumers, which is also essentially salary-based. The product 'personal loan' is

deployed to target the lower end of the market (consumer with low income). They have taken it further by opening outlets that don't render full banking business, but offers small loans and funeral plans. A good example is First National Bank EasyPlan Outlets. To reiterate, these are micro-credit provider for profit for the owners or initiators, the consequences of the consumption of the products they offer to consumers is not paramount to them. They see a market need or gap and they are taking advantage of it for profit. I contend that the so-called gap is sustained by the dearth of comprehensive social policy or collective consumption.

The foundation to the provision of micro-credit is the informal moneylenders. They continue to exist simultaneously with those that were able to meet the requirement to be formally registered, after formal legislation in the 1990s. The proliferation of formal micro-credit institutions in view of the emerging legal regime does not mean the extinction of the informal micro-credit institutions (Siyongwana, 2004). The uniqueness of the South African micro-credit market is that, micro-credit is mainly for consumption purposes, contrary to the financing of micro-enterprise in other developing countries contexts, means that consumers are more prone to 'debt trap' or 'debt circle'. This situation may be stimulated by high cost of micro-credit, which remains relatively high even with NCA capping of interest and other charges. The Annual Percentage Rate (APR) must be considered, because the pricing or cost of micro-credit includes initiation fees, monthly service fees, interest rates and credit life insurance (where applicable). Low income and lack of productive investment of borrowed money also put strain on the consumers, when repayment is due (Collins, 2008; Daniels, 2004; Hietalahti & Linden, 2006; Bauman, 2004; Siyongwana, 2004).

From the discussion above the informal moneylenders precede the formal cash loan micro-credit institutions facilitated by changes in the legislative context. Cash loans are the most prominent in terms of numbers post-1992 phase of the micro-credit industry. They garnish the face of the cities, predominantly in the city centres and around taxi ranks and metro rail stations (my observation at Bellville in Cape Town). Micro Finance South Africa (MFSA), an organisation that represents formal micro-credit institutions, claimed to have about 1700 members that are registered with the NCR (MFSA, 2014).

Calvin and Coetzee (2010) identified 15 cash loan institutions (salary-based microlenders for them) through MFSA, using the threshold of minimum of 1000 active credit accounts. Their outlets in the form of offices, branches or stores are either owned or operated by the parent

company, through a third party or agents/brokers. Call centres and payroll lending via employer or union are also used. The age of their loans can be grouped into three categories, 30-day loan, 2 to 12 month loan and 12 to 60 month loan (Calvin & Coetzee, 2010).

Increasing competition continues to be one of the dominant challenges to this category of credit providers. I have earlier alluded to the fact that commercial banks are foraying into this sector of the credit market. The alternative banks (such as African Bank and Capitec Bank) are more sophisticated cash loan institutions, by virtue of their activities. The NCA is at times viewed as challenging because of its cap on interest rate charges, compared to lack of interest rate cap they enjoyed under the Usury Act Exemption Notices of 1992 and 1999. Other challenges are the dwindling quality of data on the NLR, the gaps in the activities of debt counsellors and banks reluctance to lend them money directly, because they are seen as competition, when they are not big enough to approach the capital market (Calvin & Coetzee, 2010).

#### *Retail Goods Credit Providers*

This category of micro-credit providers is almost a permanent feature in every household in South Africa. According to NCR Consumer Credit Market Report (CCMR), approximately 38 billion of the book balance of consumer credit was granted by retailers as at the end of the third quarter in 2013 (NCR, 2013a). All major clothing and household goods retail outlets issue store cards to facilitate the consumption of retail goods on credit. It is the most popular type of micro-credit consumption among South African households that cut across all the LSM groups, though at different rate of consumption (Feasibility 2011).

Buying clothes and household goods “on account” (the way credit from retailers is locally referred to) is common in South African households. While most households take clothes, furniture, appliances and electronics on accounts, the reason for such consumption varies among households. For instance, an interviewee, who told me that she buys her children school uniforms on account because she cannot afford it in cash, cannot be compared to a person that bought a smart cell phone on account. It is (most likely clothing account) often the first type of formal credit that consumers are exposed to, before venturing into other forms of formal credit consumption. In fact, the credit history built from this type of credit consumption is imperative to accessing other forms of credit. An estimated 11 million (22.0%

of the population) South Africans use store cards as at June 30, 2010 with an average of 38% in arrears between 2008 and 2010 (Feasibility, 2011).

Store cards are branded, according to the respective store that offers the card such as Edgars, Woolworth and Jet among others. The tenure of the cards is open-ended but subject to regular use and servicing. It is also given on the condition of regular income, and credit life insurance is often taken on the extended facility, which means the APR will increase. The other variant of retail goods credit is furniture loan, which are taken in respect of the purchase of furniture and other home appliances on credit (also called “on account” locally). The book balance of furniture loan as at December 31, 2010 stood at 14.1 billion dispensed through 2.8 million active furniture accounts. 24% of these loan advances are in arrears (Feasibility, 2011). Credit life insurance is compulsory for most furniture loan, except the consumer have an existing verifiable insurance cover that will cover the purchased item.

As indicated under the discussion of the African Bank profile, the acquisition of the Ellerrine Holdings Limited means that they are indirectly involved in the granting of loans for furniture and other home appliances. A store card obtained in one retail store is often honoured in several other retail stores, depending on the arrangements the stores have with each other. This is an indication that there is no simplistic categorisation of micro-credit providers. The nuance in the treatment of credit providers and the types of credit they offer or provide must be cautiously engaged. Therefore, it is important that we explain the type of micro-credit provision we speak of, beyond name calling of the providers of credit. For example, Marston and Shevellar (2014) use the term “payday lending” in the Australian context, what Calvin and Coetzee (2010) called salary-based microlenders in the South African context. The same thing I call ‘cash loans’ for the purpose of this study.

## Chapter 6

### Micro-Credit in Social Reproduction - Analysis and Synthesis of Data 1

#### 6.0 Introduction

The empirical data analysis and synthesis is executed with critical realism meta-theoretical assumptions adaptation of grounded theory method, in view of the research questions, problem and the nature of the phenomenon of study. Central to the data analysis are the inferences that can be drawn, from the empirical data. Inference is a thought process fundamental to developing an argument and reaching conclusion. It is about moving from an initial known position, to a new position that is logically connected to the initial position. For research purpose, inference is a reasoning process that speaks to what a researcher can say about what he/she observes with regards to meaning, implications and causes and/or antecedents (Danermark et al, 2002).

Scientific inference from critical realism perspective transcends formal logical (deduction and induction) reasoning to include ‘thought operations’ that suggests multiple reasoning process using abstraction, imagination and creativity. ‘Thought operations’ approach includes deduction, induction, abduction and retrodution as complementary tools for drawing inference in research (Danermark et al, 2002). What one of the ‘thought operations’ lacks is complemented for by others. Therefore formal logic, deduction and induction, is limiting.

Deductive reasoning is limited by its premises on what can be said about reality. It uses logical rules to deduce conclusions from its premises, without acknowledging the nature of reality. It is less potent as an ‘analytic inference’ to uncover underlying abstract structure or mechanism, accountable for what we observe, because its conclusion must be implicit in its premise. More potent in this regard are ‘synthetic inferences’, induction, abduction and retrodution, which conclusions are capable of saying something new about reality that is not inherent in its propositions. Their validity is not only inferred from their premises, but also on the nature of reality (Habermas 1972, cited in Danermark et al, 2002).

The advantage of inductive logic to deductive logic is that it allows for conclusion that transcends the limitation of its premise. It adds new knowledge, but it is not as certain as deductive logic. However, it provides observable empirical generalization, without excavating the underlying structures or mechanisms. In effect, it has been criticized for over

dependence on observable social regularities, because substantial parts of social realities are hidden structures and mechanism. The response of critical realism to this limitation, is seen in the use of abduction and retroduction modes of inferences (thought processes), not as an alternative, as complements (Danermark et al, 2002).

Abduction is viewed as wider mode of reasoning for arguing to redescribe or recontextualise the phenomenon under focus. The conclusion doesn't have to be logically derived, but it must be plausible and in tune with underlying rules. There is always room for alternative interpretations and conclusions. The conclusions are often probable as it involve reinterpreting initial conception of a phenomenon in view of alternative ideas to derive new meanings. This is reminiscent of social science, as "social scientists do not discover new events that nobody knows about before. What is discovered is connections and relations, not directly observable, by which we can understand and explain already known occurrences in a novel way" (Danermark et al, 2002:90-91).

Abduction provides the opportunity for knowledge to explain a phenomenon in connection to underlying structures, mechanisms and rules, which are not amenable to direct observation, a demonstration of the imperative of context. This thought process is compatible with Grounded Theory data analysis and synthesis method of constant comparison (Charmaz, 2006). Danermark et al (2002:95) state that "in a research practice guided by abduction, the interplay (dialectic) between theoretical redescrptions of cases and case-study-based theory development is absolutely central".

The thought process is completed with retroduction, which speaks to the connection or movement from empirically observable events or social processes, to the conceptually abstract that is transfactual. It speaks to the limitation of depending on only direct observation and the imperative of complementing it with transcendental engagement, to uncover the necessary unobservable conditions for observable events (Danermark et al, 2002; Lawson, 1998; Bhaskar, 1998a).

Retroduction is one of the key benefits of social science research methodology from critical realism. Fundamental to retroduction as a thought process is the connection of observable social events with transcendental or hidden unobservable base mechanism, which is the foundational prerequisite for what we see. Therefore, the peculiarity of the context under



focus is significant to retrodution. The execution of retrodution, in view of the imperative of context, takes the form of metaphorical postulation or analogy articulated by the researcher's experience and point of view. The metaphorical postulation or analogy must be verified with empirical study, because there are usually several explanations for the phenomenon under study. Therefore, the uncovering of underlying generative mechanism of a social event, process or phenomenon is achieved, through the identification of phenomenon, postulating explanation of the phenomenon and empirical verification of the explanation. The scientific cycle continues with the need to explain the discovered generative mechanism (Danermark et al, 2002; Lawson, 1998; Bhaskar, 1998a).

For critical realism all the four thought processes are imperative to uncover the generative mechanisms of observed or experienced social events or processes. The explanation process includes description, retrodution, elimination (of possible alternative explanation) and identification of generative structure. The cycle starts over again from the discovered generative mechanism (Bhaskar, 1998b). Grounded theory uses inductive and abductive thought process extensively to navigate through the coding process (open, axial and selective coding), with constant comparative method to analyze and synthesize emerging theory, by developing conceptual categories and sub-categories and uncovering their characteristics, dimensions and relationships (Dey, 1999; Glaser & Strauss, 1967; Bryant & Charmaz, 2007a).

Grounded theory is useful in the discovery of emerging substantive concepts from empirical data, and detailing the relationships between concepts in building emerging theory. The use of abductive thought process facilitates the connection between empirical data and abstract creative interpretation (Bryant & Charmaz, 2007b). This process is enriched with retrodution to unveil the generative mechanism of the emerging theoretical explanation.

## **6.1 Discussion of Empirical Data**

The discussion of empirical data is intended to provide a background to data analysis and synthesis as indicated above. This research is approached from three points of views, seen as complementary rather than alternatives. The interviews with households on background, experiences of growing up and present characteristics of daily-lived existential experiences form the core of this study. It was thought imperative that the discussion of social reproduction and the consumption of micro-credit could better be understood within these



broad conversations with the households, rather than narrowly framed questions that simply ask about the income and expenditures of the households. In line with the argument of this thesis that the consideration of poverty should transcend the discussions of income and expenditure, to interrogate other institutions that might be imperative in this regard, conversations are framed to unearth the nature of social reproduction of households. The interaction with micro-credit institutions was interrogated in this regard.

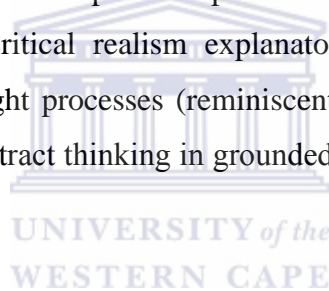
The other two tranches of interviews, which were targeted at micro-credit institutions and what I called cultural interviews are framed for two purposes; to serve as corroboration or repudiation of the core household interviews on the one hand, and to capture the workings and or activities of the micro-credit institutions and socio-cultural practices of a relevant section of the South African society on the other. This approach is informed by imperatives of multiple approaches to lay bare the phenomena of interest to this study.

As indicated in Chapter 3, in-depth interviews were conducted to extract information from the research subjects on the study objectives. The interviews were dispensed as a conversation without following rigid interview schedules (semi-structured), the interviewees were allowed to lead the discussion. The experiences of conducting the interviews were incremental with regard to information gathering and probing further for clarity. That is apart from probing further on statements made in the course of an interview conversation with an interviewee. More clarity is achieved by using the obtained information in subsequent interviews. The provided responses are used as a point of query in subsequent interviews.

This incremental method was informed by my adaptation of the grounded theory method to build clear and rich data around emerging categories (themes). Further questions are asked not only from the interviewee that first raised the issue, but from subsequent interviewees in order to understand the characteristics and dimensions of the category (see Chapter 3). The critical realism adaptation of grounded theory means the thought processes of abduction and retrodution were used in the analysis process, to uncover the underlying structures of the emerging categories. For me, the identification of the underlying structures, through the thought processes of abduction and retrodution is what grounded theory refers to as conceptual or theoretical abstraction, taking data analysis and synthesis beyond description.

What grounded theory refers to as building a connection between the core categories and their sub-categories with their different characteristics and dimensions speaks to the building of explanatory model in critical realism, building a connection between observed social processes or events and the possible underlying causal mechanisms. This process in a sense, suggests the connection of the particular to broader structural underpinnings using induction, abduction and retroduction thought processes as the linchpins; in essence, moving from description to abstraction in order to build theoretical explanation. The flip side to this is reducing social science research to what the interviewees said. The raw data is refined or rearranged through the thought processes in order to construct an explanatory model or abstract theoretical explanation.

To reemphasise, using the constant comparative method of grounded theory, categories and sub-categories were identified and developed conceptually to identify their characteristic and dimensions to lay bare their relationships. This process is facilitated by inductive thought process. From this point, the critical realism explanatory model was constructed using abduction and retroduction thought processes (reminiscent of memo writing for connecting empirical data to researcher's abstract thinking in grounded theory) to abstract the underlying structural mechanisms.



The discussion of data will be executed by first describing the data, identifying core categories for conceptual explanation, and building the explanatory model to uncover the underlying structural mechanisms. The description of data will be done in three tranches: the nature and activities of micro-credit institutions, important or relevant social practices, and the experiences of social reproduction. This description will be followed by the connection of the three tranches, before dealing with emerging categories conceptually by identifying their characteristics and dimension, to establish connection, then abstraction for underlying mechanisms.

### ***6.1.1 Nature and Activities of Micro-credit Institutions in South Africa***

The gathering of data on the nature and activities of micro-credit institution was commenced by a conversation interview with a lawyer that handles the recovery of defaulted credit account for credit providing organisations. That is, the accounts that are 'handed over' to attorneys or debt collectors for collection. This kind of account already has an adverse listing in the credit bureau. The lawyer contacts the consumer to facilitate payment or otherwise sue,

to recover the outstanding amount on the account. The conversation reveals that number of default in the repayment of credit is on the rise. Affordability is now central to the granting of credit as a legal requirement, especially for micro-credit providers. However, his view of the different accounts he was handling was that reckless lending is one of the conditions for high default rate in the repayment of credit.

### *Affordability – Reckless Lending*

Reckless lending is when a credit provider grants a loan to a consumer, whose disposable income, after the deduction of other monthly living expenses and commitments, cannot afford to pay the monthly instalments required for the repayment of the loan. By law, each credit provider that gives unsecured loan or lend against regular monthly income must conduct an affordability test to determine, whether the prospective loan applicant can afford the loan. The applicant's income must have an allowance to fund monthly repayment amount after the deduction of all other monthly expenses plus the repayment instalment of any other existing loan that the consumer may have.

In some cases getting judgement against the debtor (consumer) does not guaranty the recovery of the outstanding debt. This is because there are no assets to attach and that most of the assets in the debtors' home are also bought on accounts from other credit providers or retail stores and the payments are still outstanding. Therefore, the debtors' assets cannot be attached, even though the debtors do not have the resources to challenge the creditors' litigation drive. Getting default judgement therefore, does not ensure debt recovery. This is how the interviewee puts it:

In the first place, the reason he went to get loan is because he was in financial crisis or he had a problem. So you can't expect the very same person to now get a Lawyer to defend, when you are suing. And you sue successfully, get a default judgment, you must now execute on this person. And then this person emm... they don't have anything, you know. When I said... when I said... when I said they don't have anything, you go into their house and there is TV... TV... a TV set, and you are thinking okay now there is something, but only to find out that it's also hire-purchase. Some... another furniture shop has... has got a emm... is got a right on that because that... that person is still paying that very same TV set. You go... you go... you look at the fridge, it's... its... it's also... and there are things you cannot take like blankets and then beds, things like that which you can't take and... you know, in the end you get... you get the situations where you say it yourself, what is the point of even... you know. The only thing that

you can do for the micro... for the micro-lenders is to basically report that person to the credit bureau (John: LAW, P2 -17/06/2011).

What can be taken from this interviewee's view is that there is carelessness on the part of the consumer and greed on the part of the credit provider. What was not clear to him was what could have driven a consumer to keep taking credit from different credit providers, until it gets to a point where he or she cannot afford to meet-up with repayment obligations. Credit providers have to balance adhering to the NCA and drive for profit, which only come from extending more credit. It is interesting that one of the most popular credit products, loan consolidation, is thought not to be in the interest of consumers, but of credit providers extending the loan. The consumer will still have to repay the loan plus the charges due (owed) to the new credit providers selling the loan consolidation product. It is only a transfer of debt from one credit provider's book to another for the income of interest and other charges; nothing changes for credit consumers.

### *Credit History*

My take on the loan consolidation product is that debt stressed consumers can only be relieved if their income increases, or their monthly repayment instalment is reduced (which will mean debt rescheduling with negative implication for the consumer's credit history). Credit history is fundamental to the evaluation, access and pricing of credit. I think it is second to affordability in determining, whether a consumer applicant will be granted credit or not. The discussion shifted to why people seek credit and the interviewee's view was as such:

Is because there is pressure on the people, the poor people, a lot of them come knocking on the doors wanting to be emm... emm.... Emm... to be given loan (okay). And the only explanation you can come up with is that the thing... you know the prices... food prices are going up, electricity prices are going up... going up, petrol is going up and the salaries are not going up as high as the inflation (okay). You know, I may be wrong on that one, but my... that is my... that is a feeling I have. Also that emm... I mean there is also a kind of economic liberation, people make financial decision, there is pressure, there is advertisement on TV, advertisement on radio, you walk around town there is advertisement (John: LAW, P3 - 17/06/2011).

His comment was quite instructive: issues of poverty and rising prices (inflation) without commensurate increase in income was suggested as probable causes for the consumption of credit. It was not limited to this; the possible effect of advertisement through different media

was also highlighted. There is a thin line between consumption driven by subsistence needs, and taste developed from compelling advertisement. However, the consumption of credit driven by the former must be taken seriously. It speaks to the concern and objective of this study. There is a possibility that advertisements might create a desire when there is no need. A clear distinction must be made between need driven credit consumption and the one driven by consumer desires, informed by exposure to compelling advertisements.

### *Affordability Test*

The way the affordability test is applied, leaves room for the prospective credit applicant to be dishonest about the information supplied to the credit provider. Apart from the information that is reflected on the consumers' bank statement and his/her income reflected by his/her pay slip, the credit providers have to trust the information supplied by the applicants about other monthly expenses such as rent, electricity, food, transportation and health among others. This is an important flash point for me, which I continue to raise through the course of the empirical work.

A desperate consumer has enough motivation to look for ways to reduce the expenses that are not verifiable in order to ensure that the affordability test returns with positive result. On the other side, credit providers want to grant credit to grow their asset (and profit). The law requires that it is done reasonably, and not recklessly. Consultants that work for credit providers also have targets that they have to meet-up with for their job security. These are intricate issues that the credit granting and taking relationship must balance.

Bank statement is the major source of identifying consumer expenditure behaviour and commitments that credit providers depends on to a large extent. However, the information offered by bank statement is limited by consumers' spending or payment attitude; whether payments are made electronically or by cash. Bank statement offers little to the credit providers, where a consumer makes cash withdrawals to fulfil his or her payment obligations. This is a limitation to expenditure assessment by the credit provider in the process of ascertaining the affordability of the consumer.

The interviewee maintained that there is a deviation of the practices of the credit industry from the intentions of the NCA. Of note in his comment, is that care must be taken not to conflate expanding access to credit, especially by the previously disadvantaged population in

South Africa, with recklessness in the credit extension process. The historically excluded population from access to credit could also mean lack of controllable appetite for credit consumption without detail appreciation of the workings of credit relationship. Moreover, in really desperate need situation a consumer might throw caution to the wind.

The consequence of reckless lending and consumer dishonesty is over-indebtedness. The breakdown of credit agreement means that, a quantum of money goes to lawyers and debt collectors. However, the high cost of employing the services of lawyers to recover small amounts does not make economic sense because legal cost will outstrip outstanding debt. Debt collectors have become a viable option for micro-credit providers, because they can enter an arrangement for debt collectors to get a percentage of the recovered amount apart from their regulated fee, which is passed into the debtors account.

There are gaps in the affordability test in terms of the questions asked. For example, it does not include questions on the health of the consumer's household, which have the capacity to derail the ability to meet-up with monthly repayment obligation. If a child falls sick in the family, the economic implications might prompt default in debt repayment. The questionnaire also does not reflect other social practices such as the imperative of extended family in the African context, which has regular cost implications. The obvious case is in Cape Town, where black African people that are originally from the Eastern Cape have two households; one in Cape Town and the other back in the Eastern Cape. Often times, they have financial commitments to both households.

Another gap in the affordability test is that it does not take into consideration the social practices of different communities that credit consumers come from, and the consumers are not obliged to divulge such practices, because they are desperate to get the credit approved. Risk assessment should not be rigid. It should be responsive to the context or community, in which consumers live. For example, the social practices of rituals at different stages of life and as healing process among the Xhosa people, as it is with most black African cultures in South Africa has financial implications for concerned household, which are not captured by the affordability test. In essence, risk assessment that speaks to the social realities of a particular community is used as blanket measure for other communities with different social practices.

... But you calculate your risk based on a system for a different sector of community. And then you apply that to a sector of a community that I believe doesn't need emm... to be assessed at that level. And I am not saying that sector should not get credit, but maybe you could alter your system to look deeper into this... They are not 'gonna' tell you that in the Eastern Cape where that person was born there is a... there is a... there is a '**Umgidi**', you know, there is a ritual there that is been performed emm... for the... for the elder brother. And there is a... there is an expectation that they...they... they contribute with a sheep (okay). He's not 'gonna' tell you that because he thinks it's a once-off thing, so it doesn't fall part of his monthly budget. But when it happens it... it takes out from the little that is left as a result comes the fifteen, if that person get paid end of the month, that person doesn't have money. So there is another need again to go and... and borrow, you know. And then he goes back again, he doesn't mention these other things that fall outside the... the... the creditor's emm... questionnaire (questionnaire) about the monthly spending of the individual. You get what I'm saying (oh... okay), so even though they may defend themselves and say we've got a policy, but it... that policy is fixed, you know, it... it... it's not flexible enough to take into account those things. And maybe it's difficult for anybody to design one policy that would be fit all. (John: LAW, P7 – 17/06/2011).

The credit providers tend to develop credit consumption appetite in the consumer, because of their marketing and credit relationship management activities. When a customer is up to date with their repayment obligation, they are seen as good for creating credit asset by the credit providers. Hence, when his or her current credit agreement is winding up, they will quickly give him or her new offer. This how he puts it:

And again, once you borrow from them they keep contact with you because, yeah, as you said they are in business. Because you managed to pay for the first six months and there was no problem, so what they do in the fifth month, because you now 'gonna' end your relationship with them, they then come back offering you more and more and more (John: LAW, P7 – 17/06/2011).

### *Debt Trap*

It seems therefore, that debt trap could be viewed from two perspectives, from the points of views of the credit provider and the consumer. Credit providers prefer to keep the good paying customer in perpetual debt as they are good credit asset. On the other hand defaulting debtors are pursued to pay what they owe. They are trapped in debt because they cannot afford to regularise their debt obligation. From the point of view of the credit consumers, debt trap informed by over-indebtedness and lack of capacity to settle debt is seen as a problem, a rude awakening of what credit consumption can cause. On the other hand, consumers that can afford to meet their debt repayment obligation are trapped because of their distorted consciousness of credit consumption.



Third party employment is a prime condition for access to credit. Repayment is expected from the consumer's income; hence, over-indebtedness cannot be reduced to poverty. Over-consumption of credit driven by desires and not needs cannot be associated with over-indebtedness. Jacobs and Smit (2010) find no association between materialism (consumerism) and indebtedness in the South African context. Low-income earners have more tendencies to be indebted. Lack of proper financial education can also drive over-indebtedness and so also is economic shock. Judging from our conversation, I think the interviewee is not conversant with the notion of working poor to suggest that a working person cannot be poor. What this suggests is that employment could provide a form of adverse inclusion, which may manifest in credit problem or over-indebtedness and debt trap.

The interviewee seems to suggest the imperative of social policy when he said:

There is the responsibility on government to ensure emm... that those people that are working but not earning enough (okay) emm... To live a decent life emm... there is a way to ensure that there are services, and those services are accessible. Services that will not require them to pay more than they are already paying, transportation for example and the issue of food prices is... is... is entirely emm... controlled by the market in the country, but the Doctors... people must access public hospitals, public schools as well where the payment is not going to be high (John: LAW, P12 – 17/06/2011).

A suggestion that social policy could fill the gap between income and consumption, needs to prevent people from accessing micro-credit out of desperation to meet-up with shortfall in their social reproduction needs. However, we cannot reduce indebtedness to poverty.

### ***6.1.2 Understanding Micro-credit Relationship Process***

The narration of the micro-credit process in South Africa, as reviewed from empirical work, could be viewed from two perspectives: formal and informal micro-credit processes. These processes can be divided into four key stages; application, evaluation and approval, disbursement and repayment. The motivation and conception of the consumption of credit reside with households and it precedes these stages. The consequences and/or the effects of the consumption of micro-credit also reside with households, concurrent and sequel to these stages, it starts from the disbursement stage. By implication, the conception, consumption and the repayment of credit are driven by the concerned households. The micro-credit institutions (at least the ones considered in this study) take advantage of business opportunities to



facilitate these processes for households for a reward of profit. Therefore, this study is concerned with “micro-credit for profit providers”.

While I acknowledge that there are micro-credit institutions that are set up to foster development, they are not the focus of this study. This study focused on micro-credit institutions that emerge organically within a society, in response to historical and prevailing events, processes and structures. Formal micro-credit institutions are, to a large extent, response to profit opportunity, due to gaps in the architecture of social reproduction (informed by the prevailing characteristics of the political economy) or credit appetite developed by taste, which can also be connected to prevailing social structures. Informal micro-credit, moneylenders, however can be viewed from two organic perspectives; they are either driven by profit motive or by survival motive. Therefore, the discussion here will focus on the processes and activities of ‘micro-credit for profit’ and ‘micro-credit for survival’.

The way the interview conversation was structured was to open the discussion by introducing the study. This is followed by questions to probe work experiences and profiles of interviewees as a background to our conversation. Apart from revealing the interviewees’ work experience, it also highlights their location within the particular micro-credit organisation. The question that gives direction to the course of the interview is framed and posed to the interviewee to explain their work process, when a potential customer walks into their office through enquiry to the purchase of credit product, to when the customer finished repaying the credit advanced and the credit agreement terminated.

The application, evaluation, approval and disbursement stages can be collapsed, but there is non-collapsible divide in the nature of relationship between these stages and the repayment stage. The disbursement of the loan effectively seals a credit agreement legally, hence the nature of the relationship changes at that point. Metaphorically we can talk of the giver and the receiver of micro-credit on the one hand, and giver and the receiver of repayment of micro-credit plus its cost on the other hand. This may sound simplistic, but importantly, the social location of the parties to the micro-credit relationship is inverted in the two instances, with implications for how the relationship is carried forward. As there are important issues for consideration before the credit provider disbursed the loan to the consumer, so also are important considerations for the consumer to meet-up with repayment obligation.

The understanding of the nature and characteristics of the relationship between credit providers and consumers transcend the immediate credit relation itself. It includes the parameters for taking a decision to give or not to give credit by the credit providers, which may include the bank statement, confirmation of employment or social grant/pension income and credit history for example on the one hand. On the other hand, there are considerations that also inform the behaviour of the consumers, whether they meet their repayment obligation or not. Sustained income and the nature and changes in household disposable income, which may be affected by plethora of factors, could be important.

#### *Formal Micro-credit Process – Cash Loan*

When a potential or existing credit consumer walks into any micro-credit institution's office, branch or store, the first point of contact are the consultants. Consultants are the interface between a micro-credit institutions and credit consumers. Their responsibility is to interact with consumers about their needs and interests and to communicate the policies of the institution with regard to the consumers' needs and interests. They are to inform the consumers about the products (with terms and conditions) on offer that could be of interest to the consumer so that the consumer can make an informed decision and probably a request. The consultants will inform the consumer about the list of requirements to process a credit application.

To take the process further if a consumer decides to apply for credit, the consultant will ask him/her to complete an affordability questionnaire. This is captured into the credit provider's system to determine, whether the potential applicant can afford the repayment instalments of the amount of credit he/she hopes to apply for. The application process is discontinued if a consumer fails affordability test or he/she may be advised to apply for a lower amount. The application process is carried forward, if the affordability test returned positive. If a consumer provides all the requirements for credit application in addition to passing the affordability test, the application will be captured on the system by a consultant.

After fully capturing the application on the system with all the requirements, the consultant will submit the application. At this point the application is endorsed by the supervisor or branch manager (depending on the size of the branch) and forwarded to the Query Line Manager that is not housed in the branches, but at the head office. Problem customers at the application stage are referred to the supervisor or the branch manager for review, especially

when customers feel they have not been well serviced by the consultants. Consultants have no direct relationship with the Query Line Managers, who work behind the scene. They are only involved again, when they have to communicate approved or declined applications to customers. If the evaluation comes back with approval, consultants will communicate the approval to customers with relevant contract to be executed by customers. After proper execution of the contract by a customer, the loan is disbursed into his/her bank account.

Important required documents for credit application are national identity document, pay-slips and bank statements of applicants. The submission of these documents with the application form and completed affordability report will enable consultants to capture the application on the system. Identity document is required to establish the true identity of the applicant. Three most recent pay slips are required as a confirmation that the applicant is employed and earning income. Bank statements are required to confirm applicants' income and expenses. It is also to determine their spending behaviour.

It is important to note at this point that, there are some very small Cash Loans that operate a single person branch that collapsed together several functions performed by different persons in more established and bigger ones. Application, evaluation and approval processes are handled by this one person. This person also handles repayment, except in cases, where debit order is returned unpaid. A case in point is a Cash Loan owned by a legal firm I came across at Bellville, Cape Town. The lawyers only get involved to effect payment, when a debit order is returned unpaid and the customer is not paying in cash.

Query Line Managers are the ones saddled with the responsibility of evaluating credit applications. They take decision as to whether to approve or decline a credit application. When they receive an application from a branch, they will evaluate it to determine the viability of the risk, and approve or decline as they deem fit. As indicated above, national identity document is imperative to ascertain the identity of the person the institution is entering into a credit agreement with. Pay slips are followed up with telephonic confirmation of employment of applicants from their employer to remove the possibility of forgery. The sector, in which the applicant is employed is also taken into consideration in this regard. Public sector employees are viewed positively because of the stability of their employer and employment. Contract workers like people working for private security or cleaning companies are viewed with caution because of the instability of the nature of their

employment. All these feed into different risk profile of applicants with implication for applicable charges.

Bank statements provide a Query Line Manager with the spending behaviour of the applicant in addition to income and expenditure on monthly basis. More than that, bank statements are important to verify income claim on the pay-slip and completed affordability report. The residential address (living habitat) of an applicant is also important for the evaluation of applications. An easily locatable address is valued over an address that is not easily traceable. For instance, it is quite difficult to locate an address in Townships or an applicant that lives in an informal settlement. To cap the credit application evaluation process is the checking of the credit history, outstanding commitments and account status of an applicant on the credit bureau information system. Credit history and status are the backbone of unsecured credit, which is growing in the micro-credit sector in South Africa. The listing of accounts on the credit bureau (current, impaired or adverse listing) is important to evaluate the risk and final decision of a Query Line Manager on credit applications.

#### *Formal Micro-Credit Process – Retail Goods Credit*

There is a slight difference in the retail goods credit process. The sales personnel are the first point of contact, when a customer walks into the store with an intention to purchase an item on credit (on account). By the nature of their work, they always try to convince the customer to buy either in cash or on account depending on the customers' interest. Although they prioritise buying on account because of the added credit interest and other charges that such transaction will yield (Feasibility, 2011). A sales lady that has previously worked as a training and branch manager of a retail store in Parow, Cape Town, was very succinct about their preference for customers to buy on account:

To buy on credit is better because it's emm... its more profit for the shop on credit. If it is cash it is less profit for the shop... for the company actually. So credit is better... even it's better for the company, it is better for the sales lady on credit (Mary: MC 12, P13 – 22/04/2012).

When the consumer has decided to buy an item on credit, a sales person will refer him/her to an administrative staff that will take the consumer through the retail goods credit application process. As it is with Cash Loans affordability test is the first stage of the credit application process to determine whether the consumer can afford the repayment of the monthly

instalments. After passing the affordability test the proper application processing continues. They also require identity document, pay slip and bank statements like Cash Loans. In addition to these, they might require two referees and proof of address. The verification of address is very important for retail goods finance because the goods are often delivered to the consumers' address. Also because repossession of the goods has to be made in case there is a default in repayment.

Credit life insurance is an important requirement for retail goods credit. It is an insurance taken to cover the consumer credit obligation in case of death, disability and retrenchment. It doesn't cover dismissal. There is also option insurance, which is not compulsory. It is taken to cover the purchased items against theft or damage due to fire and/or flood. Credit life insurance is compulsory, consumers' existing life assurance policy may be acceptable in lieu, if it is verifiable and the surrender value is adequate. Feasibility (2011) noted that credit life insurance is a liquid security, hence the conversion of unsecured to secured credit. This means that credit providers may be taking undue advantage of higher interest rate cap for unsecured credit, whilst they are granting secured loan with credit life insurance as security.

It is important to note that the divide between cash loan and retail goods credit is blurred in the case of ABIL and EHL, where consumers that walk into any of the retail store under the group can be offered a product called 'top up', which is essentially a cash loan as embellishment to retail goods credit. Apart from taking possession of the financed retail goods, the consumer can opt to take out additional cash loan as a 'top up' if their affordability test can accommodate it. In the case of one of the retail stores under the group, where I spoke to an administrative staff in charge of processing furniture finance application, it was made clear that African Bank takes over the repayment process after the customer has paid his/her first instalment. Our discussion revealed that they don't accept the repossession of goods anymore since ABIL acquired EHL. Consumers of retail goods credit are obliged to pay what they owe because returning the goods is no longer acceptable.

Yes, you know what happens, after the customer has paid the first instalment we as Furniture City has got our money, like African Bank pays our account (oh... okay), the account that the customer... and then after that African Bank is liable on the customer owing that is why it would be African Bank that would be taking the customer through administration (oh... okay), it would not be Furniture City (okay), it will be African Bank. Because after that first month of the instalment Furniture City steps back (and

African Bank...), but then still we are partner in that, but then African Bank are the main ones who deals with the customers (Sithle: MC 7, P6 – 31/08/2011).

In fact, they now have personal loan as a product in this retail store. The situation is different in one of the retail stores that belong to the JD Group and another store that belong to one of the large supermarket groups in South Africa, where repossession of goods from defaulting customers is still the practice. It shows that the fault line between the two types of credit products is fast disappearing. One of the options that customers also have is getting an extended warranty on the financed product by paying additional amount. Products come with one-year warranty and customer can buy additional one or two years warranty. It enables the consumers to claim repair or replacement to purchased goods, if there is a damage that is not caused by their negligence.

In the same manner as cash loan, retail goods credit application is captured on the system and sent for query and approval usually at the head office. If the evaluation of the application returned with approval, the applicant customer is contacted to come into the office of the cash loan provider or the retail store to come and execute the necessary agreement papers. At this stage all the terms and conditions of the loan are communicated to the customer to make-up his/her mind on taking the credit offer. After signing the contract, the loan will be disbursed into the account of the customer, in the case of cash loan or the appliance delivered to the house of the customer in the case of retail goods credit.

#### *Formal Micro-Credit Process – Loan Repayment*

After cash disbursement or the delivery of retail goods, the nature of the relationship changes. Like a manager of a Cash Loan in Bellville said that they are in the business of collecting money to emphasise that any loan advanced must be recovered with the added cost.

... we are in a collecting business, not the giving out money business (okay). So it's a collecting business, so, should you default on anything, emm... we would try and contact you for number one, okay (okay) to make an arrangement. Not double the amount, we would try and get our instalment that we agreed on plus a little bit extra (okay), so that your credit name don't get affected by it (okay). So we try and get the minimum out of you should you default, okay (okay) (Henry: MC 3, P2 – 07/06/2011).

This is an indication that the giver of credit turns to the receiver of repayment after the disbursement of the credit amount; a significant shift in the mode of relationship. From all



indications, employment, affordability, credit history and status of potential credit consumers are important criteria for a successful access to micro-credit (or unsecured credit) in the South African context. These are important factors in the application, evaluation and approval and the disbursement of cash loan and retail goods credit. It is imperative to highlight that small scale self-employed persons are not considered for cash loan. It seems to me that the JD Group retail store is flexible on that. The interviewee stated that they also sell to pensioners, disability grant holders and self-employed in what seems to be an aggressive marketing style.

We are going with a car by the people's house... knock on the door, good morning mummy I'm Thembi I'm from XYZ in Parow, Voortrekker road. I'm here, I just want to hear what you want to open an account. We are taking pension people, disability, self employed, weekly, monthly. Are you interested to buy something, here is our catalogue. Yes I want a washing machine. What size are you looking for, a 13kg because I want to wash a blanket. Here is the catalogue, and then the customer look 'mos'. Yeah I want my child by one. Give me your ID mummy and your pension card and the slip. Then I write the details there in the customer's house, then I make a please call to work and they phone me. I give their detail I wrote there... I give to them, and then they'll capture it, and they'll say customer is approved. Ok then, we are 'gonna' come fetch you like Thursday... we've got customers day on Thursdays. So then I'll tell mama, mama you are approved for six thousand rand, you 'wanna' take 'mos' the washing machine 'ne', the customer says yes. I will come and fetch you on Thursday mama, yes. So Thursday morning I'm phoning 8 o'clock 'ne', me I'm 'gonna' come fetch you 10 o'clock, is 10 o'clock alright for you, yes I'm alright. Then we go and we will go and fetch all the customers that we have worked maybe for today, we'll go and fetch then on Thursday, come in, put the deal on... finish, take them home (Mary: MC 12, P9 – 22/04/2012).

While it may seem that some retail stores are flexible with self employed people if their bank statement shows reasonable levels of activities, Cash Loans are strict on third party employment as a condition from granting credit. The people on any form of social grant (especially old age pension and disability grants) are targeted as viable prospect for credit consumption because of the stability of their income (social transfer). Both formal and informal micro-credit providers are involved in this practice.

#### *Formal Micro-Credit Process – Cost of Credit and Repayment*

The cost of micro-credit includes the interest rate, initiation fees, monthly service fees and credit insurance (where applicable). Retail goods credit may include delivery fees, extended warranty, installation fees, connection fees, fuelling, tax and licence. While interest rate is

central, these other charges are allowed by section 102 of the NCA and the credit provider can capitalise it with the principal amount (Feasibility, 2011).

Therefore, the calculation of the cost of credit is more complex than interest rate alone. The capitalisation and compounding of other standard and allowable charges could increase the cost significantly. The present interest rate cap for unsecured credit and short term credit that speak to the objective of this study are  $(\text{Repurchase Rate} \times 2.2) + 20\%$  and 5% flat per month respectively with the same initiation fee of R150 in addition to 10% of the amount that is above R1,000. A maximum of R1,000 can be charged. In view of the limitation of interest rate in the conception of the cost of credit, Annual Percentage Rate (APR) is used in the calculation of the cost of credit because it factors in the interest rate and other capitalised charges compounded monthly to determine the real cost of credit (Feasibility, 2011).

None of the interviewees was able to give me specific response about interest rate and the cost of credit. They mentioned the respective charges but were not able to say the specific amount charged. The calculation of the cost of credit is automated and is not determined at the branch level. So they were only able to say interest is calculated by the system depending on the risk profile of the consumer applicant, which is determined behind the scene, when the application is evaluated. What is obvious to the consultants is to communicate the monthly instalment to the customer if the application is returned approved as indicated on the system after the evaluation process. Therefore, the monthly instalment is emphasised above the cost of credit, perhaps due to the complexity or the hidden nature of the APR calculation. It seems to me that monthly instalment is a fundamental principle behind affordability rather than the cost of credit. Affordability therefore, hides the high cost of credit when the APR is considered.

Few questions are asked about the cost of credit by the consumers as the amount of monthly instalment form the core of the communication from credit providers, through the consultants or administrative staff once the application has been approved. Repayment of credit through monthly instalments commences in the following month depending on when the cash loan or the retail store closes his book for the month. At times, payment breaks are offered as incentive to attract customers. Customers may be given one to three months payment break before the commencement of the monthly instalment to repay the loan.



Repayment of credit is often through debit order, executed on the customers' transaction bank account and cash in some instances with retail store credit. When a debit order is returned unpaid the customers can also regularise their account by paying cash. Debit order is executed by the customer as part of the contract agreement with permission for the credit provider to be able to track customers' account, if the debit order is returned unpaid. Cash Loans are always keen to know the customers pay day so that they can strike the account before the customer withdraws the money for other uses or commitments. In order to effect once-off repayment (in the case of short-term credit usually 30 days) or monthly instalment, debit order are processed through intermediary Payment Clearing house System Operator (PSO) and payment and collection organisations.

My fieldwork reveals that BankserveAfrica and Mercantile Bank are the intermediating organisations that some cash loan operators use for the processing of debit order for repayment of credit by customers. These organisations offer services for debit order collection, Non-Authenticated Early Debit Order (NAEDO), Authenticated Early Debit Order (AEDO) and Point-of-sale, to facilitate the tracking of customer account and to ensure that the debit order hits the account immediately, when there is money in the account (BankserveAfrica, 2014; Mercantile Bank, 2014). The small Cash Loans have point-of-sale (POS) machine in their offices. The customers are made to swipe their debit card and input their pins to activate the debit order so that they are the first to hit the account once money is available.

The life cycle of a credit transaction is complete, only when the credit consumers have fully repaid the advanced loan with the attending interest and other charges. That is why a branch manager of a Cash Loan said, they are in the business of collection of advanced money. Credit asset remains a receivable until customers have paid their account in full. The nature of the credit relationship at the repayment stage is not always smooth. While credit providers put every system in place to ensure repayment, credit consumers at times default in meeting up with their repayment schedule. The nature of the credit relationship is crucial for how we view the micro-credit industry. Over-indebtedness and reckless lending were given as some of the reasons why credit consumers will default in the repayment of their debt.

The questions that are mooted, however, are: What are the driving mechanisms behind over-indebtedness? Why would credit providers lend recklessly? The NCA with its relevant

institutions are set up to prevent these consequences without taking time to address the underlying causal mechanism in the first place. Consultant and sales persons are given monthly sales target, which they have to meet for their job security. One of the interviewee that work as a sales person for one of the retail stores in the JD Group reveals that her monthly income is composed of two elements; basic salary and commission tied to meeting her sales target for the month. In other instance with one of the big player in the industry, staff confirmation of employment is subject to meeting individual set monthly targets.

This may put pressure on workers to be reckless even when their employer is advocating for reasonableness. Credit providers are in business to make profit, and care less about the predicament of the credit consumers. It is normal for them to push for their profit within the boundary of the law, even though that boundary is pushed to the limit. The elevation of 'affordability of repayment instalment' as central to accessing credit is problematic. Monthly consumption expenditure is a variable (not a constant) that can change within a short period of time. Being able to afford repayment instalment today is not a guaranty that a credit consumer will be able to meet-up repayment, when the next instalment is due. This position can shift drastically within a short period of time due to array of factors. As indicated in this study, affordability questionnaire leaves out important social practices that have financial implications for households.

I do not think consumers enter into credit agreement with intention not to meet their repayment obligation. Either the affordability test fails to capture the realities of the social reproduction of concerned consumers, or their level of social reproduction changed drastically to deal a blow on their capacity to meet their repayment obligation. This precludes, whether the credit consumption was driven by need or taste in the first instance. Credit relationship at the repayment stage, is therefore defined, by the ability of the credit consumer to meet up with or not to meet up with repayment obligation. A good paying customer is the bride of credit providers and they are offered more credit at will on the one hand. On the other hand steps are taken to ensure that defaulting customers pay-up their outstanding instalment up to date.

When a debit order is returned unpaid, the credit provider will track the credit consumers' account, while they also contact them telephonically to demand payment. The cost of telephone calls is charged to the customers' account. If the customer did not pay after several

telephone demand calls, a double amount debit order is processed for the customers' account, when the next instalment is due if account tracking did not yield positive result. Ordinarily, the credit providers expect the credit consumer to inform them, if they have any challenge to meet-up with their repayment obligation and provide the necessary documentations to back-up their claims. For example, if a credit consumer is retrenched, the credit provider will expect to see the retrenchment papers, so that they might suspend the monthly instalment payment until he/she secures another job. There is usually a limited time span to this, after which they will expect the credit consumer to be making payments, even if it is not up to the normal instalment amount.

This implies that the credit providers expect credit consumers to make an 'arrangement' with them, if there is a genuine difficulty to meet-up with monthly instalment. Arrangement might involve reducing the monthly instalment amount and extending the term of the credit. If the credit consumer did not make arrangement and the account is not being paid they are referred to debt counselling. Debt counselling may lead to debt rescheduling, which means the credit consumer is under debt administration and cannot access further credit, until all outstanding debts are paid up. Any credit consumer under debt administration is listed as such on the credit bureau, hence, no credit provider will grant further loan. When possibility of an arrangement between a credit provider and credit consumer fails, the customer is referred to debt counselling, which is a process that precedes the handing over of the account to attorneys or debt collectors for collection.

Section 86 of the NCA also allows a credit consumer to approach a debt counsellor to apply for debt review, in order to be declared as over-indebted, if he/she is struggling with meeting up with his/her debt repayment schedule. This will enable the debt counsellor to review the credit consumer's level of indebtedness, to inform debt re-arrangement. Also, debt review application may seek to establish, whether there has been reckless lending. The understanding and the use of debt counselling in this regard, seems to suggest a channel for debt rescheduling to forestall handing over credit accounts for collection. My take on this is that, an effective institutionalisation of debt counselling should transcend mere debt re-arrangement to include consumer credit education pre and post debt commitment.

Debt counsellors are allowed to charge credit consumers (not credit providers) for their fees as prescribed by the NCA. My sense is that they are in business to profit from the opportunity

provided by the state of credit relationships in South Africa. More debt counsellors are motivated to register, to practice and to take advantage of the need in the credit market. As earlier indicated, NCR reported that 1,994 debt counsellors are registered as at the end of first quarter in 2013. Approximately, 83,000 applications for debt counselling were received between 2012 and 2013 with R2.96 billion distributed to credit providers (NCR, 2013). From all indications, debt-counselling services are set up as institutions of the NCA to facilitate the rehabilitation of over-indebted credit consumers and not to prevent over-indebtedness.

However, people hardly seek financial advice, unless they are in a credit problem. When there is dispute about any aspect of the credit agreement or its implementation, the credit consumer is at liberty to approach the National Consumer Tribunal, for adjudication to review compliance with the NCA. If everything else, to make the credit relationship work at the repayment stage fails, the credit providers are obliged to hand over the account for debt recovery to an attorney or a debt collector. The activities of debt collectors are regulated by the Debt Collectors Act (DCA) No. 114 of 1998 and affected by the Council for Debt Collectors (CDC). The fees that are chargeable to the debtors' account by debt collectors are regulated by the Act through the CDC. The CDC is also responsible for the registration of debt collectors and establishing the code of conduct in line with the provisions of the DCA (DCA, 1998).

Handing over an account to an attorney to enforce repayment is more expensive, because attorney fees are not regulated like debt collectors fees. In fact, the outstanding amount in the case of micro-credit, may not warrant handing the account over to a lawyer for collection because of their high fees. Getting judgement against a credit consumer might lead to getting an emolument attachment order (garnishee order), where the employer (garnishee) of the credit consumer (debtor) is obligated (garnisheed) to deduct part of the salary of the credit consumer (debtor) to pay the credit provider (creditor), until the debt is paid up. The prevalence of garnishee order is an indication of an unhealthy credit market (UP Law Clinic, 2008). The status (current, impaired or adverse listing) of an account is captured in the credit bureau. Adverse listing is when an account has been handed over for collection. Negative listing will prevent further access to credit. It is often used by credit providers to threaten consumers to motivate prompt payment.

However, the different actions of the credit providers to enforce payment are at times met with some form of resistance from the credit consumers. For example, a credit consumer might withdraw his/her money before the debit order strikes his/her account. At extreme cases, a credit consumer might change his bank account to avoid debit order hitting his/her account. At times, credit consumers also change their address to avoid retail goods credit providers from repossessing household goods purchased on account, if they are not meeting up with their repayment schedule. In other instances, credit consumers are not afraid of adverse listing on the credit bureau, because they know that it will be lifted after 5 years or so. They will say they don't mind to wait until their names are cleared to be able to access credit again. This is how Mr. Zulu, who is a general worker at Delft Clinic, described his experience of adverse listing on the Credit Bureau:

I don't care about that. They told me that they've put me on credit bureau long time ago. When was that, almost maybe seven or eight years? But my name was in the credit bureau, at the same time they are writing letters, why? My name is already there and they are still writing letters, you must come and pay. Which one must I pay, I must go to credit bureau and pay there or I must pay them. Why are they after me, why did they take my case further, whereas they are still looking for money from me, you see... You pay credit bureau, or else you don't get anything on credit from shops for five years. I'm over five years now, all what I need now is the clearance, like I can go and clear that. If that's 'gonna' be a problem, then I have to do the arrangement. But then it will be my terms (Zulu: SR 24, P11-12 – 25/07/2011).

He was able to secure loans from Capitec and African Banks subsequently. He believed it was possible because it was over five years since he was adversely listed on the Credit Bureau. So, a form of resistant is to wait-out the years, after which the adverse listing is removed. This was how he responded when I asked him how he managed to secure a loan from Capitec and African Banks in view of his adverse listing on the Credit Bureau:

They gave me, it's because I believe it was after that five years I was in credit bureau so they cleared my name (Zulu: SR 24, P12 – 25/07/2011).

Two interviewees, Henry, a manager at a Cash Loan and Mary, a sales woman at a retail goods credit provider, account for how they might, at times, have to track customers' accounts, in order to get their debit order paid. This is because the customer might withdraw their money before the credit provider effects the debit order payment. In other cases, the customer might change their account details to ensure that debit orders do not go through. This is how they put it:

Debit order is better, but in the meantime the customers can also change their bank details... but not all of them, few... Maybe they've got problems or what? Sometimes they... they don't change their bank details; they will give the date we should deduct the money. For example, on the 30<sup>th</sup>, and then the customer will go and withdraw all the money on the 28<sup>th</sup>. So when we go there is no money every time. If after 3 months and we don't get hold of you, we might just change the debit order to an earlier date, say 25<sup>th</sup>. We might just try it and it works. So I might put the 25<sup>th</sup> and it sometimes work. And then, when the customer goes he or she will see that we have deducted the instalment (Mary: MC 12, P12 – 22/04/2012).

... We normally take every day at about 2 o'clock in the morning. That is our time to strike any account. 2AM is our time to strike an account, okay. So we can strike from 2 o'clock in the morning on pay day that is when we strike your account. We also have a system, we call it NAEDO... it's called the NAEDO tracking system. So we track your account before the time, okay, there we go, you know. So we track the account, as soon as your pay comes in, we will hit your account, okay. So, there is also other system, we normally use that tracking system, especially on default clients, you know. So we track the system, we track your account for at least about 14 days after you defaulted (Henry: MC 3, P8 – 07/06/2011).

The underlying cause of resistant behaviour towards the payment of credit account by credit consumers is beyond the immediate credit relationship. It is rooted in the feasibility of social reproduction. While credit consumer seeks credit at times to cover gaps in the maintenance of social reproduction, the burden of repayment could in turn be an assault on social reproduction, when credit is not invested in productive venture. Therefore, credit obtained to bridge the gap between consumption needs and income, without any form of increase in household income, leave concerned households worse off logically speaking. The household will pay interest and other charges/fees associated with credit consumption more than what was taken, hence, the income is depleted by that magnitude. Credit in this regard, is therefore an advanced gratification, which could have negative implication for subsequent quality of social reproduction of credit consumers' households.

### *Informal Micro-credit Process*

As indicated above, the major difference between informal micro-credit providers' activities and formal micro-credit providers, apart from registering with the NCR as required by the NCA in order to operate, is the driving forces behind them. While formal micro-credit providers are driven by profit motive, informal micro-credit providers could be driven by profit and/or survival motives. Micro-credit provision was previously dominated by the



informal moneylenders, as the informal sector, often housing poor households were deemed too risky by formal credit providers. The promulgation of the Exemption Notice to Usury Act of 1992 changed the micro-credit landscape in South Africa. It heralded micro-credit provision as a formal institution and segment of the credit market. It means previously informal operators avail the opportunity to be formalised through registration (Daniels, 2004).

Despite the tremendous formalisation of the micro-credit industry in the 1990s to 2000s, fostered by the Exemption to Usury Acts of 1992 and 1999, the practices of the informal micro-credit providers subsists simultaneously with the banks and formal micro-credit providers (Siyongwana, 2004). Siyongwana identified the survival imperative of informal micro-credit activities among black Africans in South Africa. Perhaps, the subsistence of the practice hinges on its survival imperative, regardless of the highly regulated micro-credit industry for the past two decades. Therefore, the treatment of informal micro-credit moneylenders should be viewed from these two perspectives (profit and survival). It is a better organic manifestation, I will argue, of the true nature of social reproduction in a context under consideration.

Unregistered (informal) micro-credit providers, *Mashonisas* are often referred to with derogatory terms such as ‘loan sharks’. Nothing seems to suggest or support this definition from the empirical work of this study. Perhaps, the high interest rate charged by *Mashonisas* could have informed such characterisation. It is argue here that such characterisation failed to take a holistic look at the activities of informal moneylenders. Their imperatives for social reproduction among black African communities are overlooked and the employed tactics of ensuring repayment of their advanced credit is elevated as their dominant characterisation.

The story of one of the informal moneylenders that was interviewed in the course of this study was revealing. It shows that in the treatment of informal moneylenders, issues of profit and survival (social reproduction) cannot be separated and treated simplistically. Therefore, they should be viewed holistically as people making a living within the context of their immediate community in particular and the society at large. If this point of view is adopted, the characteristics of the social reproduction of their households, with regard to income generation and the relationship to their immediate community and the broader society become imperative. In other words, what are the implications of the activities of *Mashonisas*

























































































































































































































































































