

**Gordon Institute
of Business Science**
University of Pretoria

**Applying a positive deviance approach to determine when rationally
bounded borrowers derive benefit from consumer loans**

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A research project submitted to the Gordon Institute of Business Science, University of Pretoria, in partial fulfilment of the requirements for the degree of Master of Business Administration.

9 November 2015

Abstract

The question about how consumer lending benefits or harms society is unresolved. Significant strides have been made in terms of developing a rigorous methodology for assessing the benefits of microcredit using randomised control trials. This approach rules out the shortcomings of selection bias in earlier work. However, studies to date appear prone to anchoring bias associated with the intention of microfinance to eradicate poverty.

In South Africa, the volatile socio-economic conditions (slow economic growth, high unemployment levels, heightened levels of labour unrest and high levels of inequality) emphasise the business need for studying the consumer lending market. Financial inclusion could play the role of aiding or harming South Africa's society.

This research aimed to determine in what conditions rationally bounded borrowers find loans beneficial using an inductive approach. A two-phased research process was followed – firstly, ten semi-structured interviews were conducted with a diverse group of key informants from government, industry, the media and regulators. Secondly, ten borrowers were interviewed and observed drawing on ethnographic research methods. Most of the interviews took place in the home of the respondent and where possible the researcher met the other members of the household. The sample of borrowers were potential positive deviants – individuals that derive more benefit from consumer loans than their peers.

The research uncovered sustained tension and ideological differences between stakeholders that results in incoherent policy and regulation and inadequate financial inclusion. The landscape is characterised by low levels of savings and a heavy reliance on loans. Borrowers in the sample were selected to participate in the research due to repeat borrowing patterns, yet many expressed a desire to stop or reduce borrowing. This 'saying-doing' gap suggests that a structural and coordinated plan is needed if any behaviour change is likely amongst rationally bounded borrowers. A combination of restrictive regulation and positive incentives is proposed to encourage stakeholders to develop mutually beneficial strategies for achieving financial inclusion. The ability of stakeholders to develop coherence in this landscape will determine whether financial inclusion will make a positive contribution to South African society.

Keywords

Bounded rationality; Consumer decision making; Consumer loans; Utility; Revealed preference logic.

Declaration

I declare that this research project is my own work. It is submitted in partial fulfilment of the requirements for the degree of Master of Business Administration at the Gordon Institute of Business Science, University of Pretoria. It has not been submitted before for any degree or examination in any other University. I further declare that I have obtained the necessary authorisation and consent to carry out this research.

Frances Fraser

9 November 2015

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List of acronyms

ADRA	Association of Debt Recovery Agents
ANC	African National Congress
APR	Annual Percentage Rate
ATM	Automated Teller Machine
BankSETA	Banking Sector Education and Training Authority
BASA	Banking Association of South Africa
CEO	Chief Executive Officer
DSR	Debt Service Ratio
DTI	Department of Trade and Industry
DMA	Development Microfinance Association of South Africa
EAO	Emolument Attachment Order
FNB	First National Bank
FSB	Financial Services Board
GDP	Gross Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit
ID	Identity Document
KI	Key informant
MFI	Micro Finance Institution
MFRC	Micro Finance Regulatory Council
MFSA	Micro Finance South Africa
MK	Umkhonto we Sizwe
NCA	National Credit Act no 34 of 2005
NCAA	National Credit Amendment Act no 19 of 2014
NCR	National Credit Regulator
NISC	National Industry Steering Committee
NT	National Treasury
PIN	Personal Identification Number
SA	South Africa
SARB	South African Reserve Bank
SASSA	South African Social Security Agency
SEF	Small Enterprise Foundation
SMS	Short Message Service
StatsSA	Statistics South Africa
TFP	Total Factor Productivity

TV	Television
UNDP	United Nations Development Program
UK	United Kingdom
USA	United States of America
ZCC	Zionist Christian Church

Dedication

“Annual income twenty pounds, annual expenditure nineteen six, result happiness.
Annual income twenty pounds, annual expenditure twenty pound ought and six, result
misery.”

Charles Dickens, David Copperfield

This work is dedicated to my fellow South Africans in the hope that it contributes to the sustainable socio-economic development and happiness of our beautiful nation.

Chapter One: Introduction to the research problem

1.1 Background to the research problem

The benefits and harms associated with microcredit, payday loans and different forms of credit used by households is the subject of ongoing academic discourse (Banerjee, Karlan, & Zinman, 2015; Bhutta, Skiba, & Tobacman, 2015; Skiba & Tobacman, 2015; Banerjee, Duflo, Glennester, & Kinnan, 2013; Dos Santos, 2013; Morse, 2011; Karlan & Zinman, 2010a; Wilson, Findlay, Meehan, Wellford, & Schurter, 2010; Melzer, 2009; Morduch, 1998). The divergent views from the literature are largely explained by the starting point of the researchers and how benefit and harm are defined.

The prevailing arguments related to the benefits suggest that it is: good for some, but bad for others (Banerjee et al., 2015), enables more choice for borrowers (Banerjee et al., 2013) and can be effectively used to absorb shocks and enable economic self-sufficiency (Wilson et al., 2010; Karlan & Zinman, 2010a). The arguments against household debt primarily focus on instances where there are unsustainable levels of debt that do not enable long-term financial well-being (Skiba & Tobacman, 2015; Wilson et al., 2010; Melzer, 2009).

Banerjee et al. (2013, p.2) emphasise that the academic discourse related to the impacts of microcredit is important. “There is so far no consensus among academics on its impact” and “what is striking about this debate is the relative paucity of evidence to inform it.”

Aside from the academic interest in the subject, the business need for this study in South Africa, is grounded in the socio-economic context. The official growth in gross domestic product (GDP) in 2015 slowed to 1.2 per cent with the third quarter showing a 1.3 per cent decline in GDP (Statistics South Africa, 2015a). The official unemployment rate is at 25.5 per cent and the expanded unemployment rate (including those who have given up applying for work) is at 34.4 per cent (Statistics South Africa, 2015b). These unemployment rates have remained unchanged for four years. According to the Department of Labour (2014, p.viii), “in 2014 about 88 strike activities were recorded with more working days lost (10,264,775)” than in 2013 (only 1,847,006 working days were lost from labour unrest). South Africa is also characterised by a highly unequal distribution of income and wealth with an income Gini coefficient of 63.1 (UNDP, 2013). These socio-economic conditions (slow economic growth, high unemployment levels,

heightened levels of labour unrest and high levels of inequality) all create the backdrop for the consumer lending market.

Banerjee et al. (2015) in their six country randomised evaluation of microcredit specifically explore benefits from the perspective of poverty eradication. They found that there is a lack of evidence of a transformative effect of microcredit on the average borrower. However, through limited analysis of heterogeneous treatment effects, they found some evidence to suggest “segmented transformative effects – good for some, bad for others”.

In their earlier work, Karlan & Zinman (2010a) argued that commercial credit is often a key component in financial sector development strategies, but that there is a lack of consensus about whether consumer credit helps borrowers. At a household level, the benefit of access to credit is the subject of ongoing debate. Dos Santos (2013, p.33) states that “household indebtedness appears as a distinctive, concrete feature of ‘neoliberal’ capitalism in many middle-income economies, and as a matter of great significance for social and macroeconomic policy.” He derives this view from the acceptance of a number of market forces – the competitive supply of household credit by different institutions, increasing privatisation of schooling, health and other social services and the role of government in supporting market driven approaches.

In Karlan & Zinman’s (2010a, p.461) study in South Africa, they found that even very expensive consumer credit (up to 200 per cent annual percentage rate (APR)) has a net positive benefit for borrowers in terms of “food consumption, economic self-sufficiency, and some aspects of mental health and outlook.” Morse (2011) also found that payday loans in the American market were beneficial, specifically in emergency situations. Wilson et al. (2010, Conclusion para.) (in a laboratory experiment) found that “payday loans are a means for subjects to absorb expenditure shocks and, therefore, survive financially.”

Wilson et al. (2010), however, identified some risk of harmful outcomes when a certain threshold level of debt-to-income is reached. Bhutta, Skiba & Tobacman (2015) were unable to identify any harmful impact of payday loans on credit scores or financial well-being.

Whilst there are all these arguments suggesting benefits from consumer lending, at the same time expensive, consumer credit is often criticised for being usurious and causing

more harm than good. Skiba & Tobacman (2015) observed negative impacts associated with payday loans and bankruptcy. Melzer (2009) found that loan access leads to increased difficulty in paying mortgage, rent and utilities bills.

In 2012, the harrowing scenes from the Marikana mineworkers' labour strike (Davis, 2012) illustrated how these adverse socio-economic conditions can gather in a perfect storm. The Marikana tragedy was reported globally and it was not long before suggestions were made that the situation was exacerbated by consumer credit and over-indebtedness. The debate about whether consumer credit is helpful or harmful is of utmost relevance in the context of South Africa where credit extension continues to grow and where much of this growth emerges from unsecured personal loans. The current socio-economic climate in South Africa is tenuous with many citizens increasingly dissatisfied with the status quo.

In 2014, African Bank was forced to go under curatorship when its business model, built on unsecured lending, could not be sustained any further. Nearly a third of its loans were in arrears, leading to crippling losses ("Payday mayday", 2014).

According to the National Credit Regulator (NCR) (NCR, 2015a), there are 23.37 million credit active consumers in South Africa and only 54.9 per cent of these are up-to-date on all loan repayments suggesting signs of over-indebtedness. In 2012, a special enquiry into unsecured lending by the NCR (Compliance & Risk Resources, 2012) showed a 49.4 per cent year-on-year increase in unsecured credit extension and, at the time, an unsecured lending book of R120 billion (making up 9 per cent of all household debt including mortgages). This excludes short term credit with a relatively small book of R882 million but also high levels of growth (26.5 per cent). Since the study, the unsecured credit book has continued to grow to R166.64 billion and short term credit to R2.03 billion (NCR, 2015b).

The Department of Trade and Industry (DTI) perspective on consumer loans is evident from Minister Davies' address to Parliament on the National Credit Amendment Act no 19 of 2014 (2014): "we have seen the increase in unsecured loans that are expensive to the poor, reckless credit caused by failure to conduct proper affordability tests, as well as levels of over-indebtedness and impaired consumer records." Following the continued growth in credit supply, the events at Marikana and reported abuse of emolument attachment orders for collecting loans, the government has instituted several actions within the industry to moderate access to credit. These measures

extend beyond those implemented as part of the National Credit Act no 34 of 2005 (2005), for example, introducing the National Credit Amendment Act no 19 of 2014 (2014) that includes much more specific affordability assessment rules.

Another important development in the sector which demonstrates the prevailing sentiment towards consumer credit is the Desai Western Cape High Court judgement. In Desai's ruling he found that "the system for granting emoluments attachment orders (EAO) in South Africa leads to the abuse of human rights by business enterprises and is unconstitutional" (Barry, 2015b, para.1). The case was brought into court by the Legal Aid Clinic from Stellenbosch University and strongly supported by Wendy Appelbaum (a leading South African businesswoman).

In addition to a highly active credit sector, savings levels in South Africa are very low. "At 15.4 per cent of its GDP, South Africa has one of the worst savings rates in the world. And it's getting worse, according to statistics released by the Reserve Bank" (Erasmus, 2015, para.1).

In summary, the impact of microcredit remains a subject of ongoing debate in academic circles. The South African unsecured credit market continues to grow. The market is characterised by increasing compliance requirements and continued pressure from government and civil society for lenders to act responsibly. Some actions by government such as the clampdown on emolument attachment orders and the removal of records from credit bureaus, undermine the functioning of a free credit market. But are these measures necessary to protect borrowers?

The business need for this research concerns the growing socio-economic pressure within low to middle income households and how financial services can either exacerbate the challenges or play a constructive role in enabling positive change. The role of credit within the range of financial services is under severe scrutiny from government, civil society and business.

In essence, and as summarised by Banerjee et al. (2015), credit appears to have benefit for some but not for others depending on how one defines benefit and depending on the context in which lending takes place. This research aims to explore these dimensions to understand the borrower perspective in more detail.

1.2 Research purpose

To date the evidence suggests that there are both benefits and costs in accessing consumer credit, but there is not clarity on when the benefits outweigh the costs or whose perspective is considered when the benefits are explored. In South Africa, consumer credit is readily available to certain market segments and has hence been the subject of considerable scrutiny. But, there are strong arguments in favour of credit being beneficial in the right set of conditions. The purpose of this study is to examine *what rationally bounded borrowers consider as beneficial about consumer loans and what conditions need to exist for these benefits to outweigh the costs.*

1.3 Structure of the research report

Chapter Two of this document includes a comprehensive literature review of topics related to the research objective. Chapter Three provides a clear view of the research questions to be explored in this study. Chapter Four focuses on defining the concept of positive deviance and the research methodology that was employed to achieve the needed sample and data to answer the research questions. Chapter Five describes the analysis of the results for the primary research conducted in this research study. It shows the results in two phases: firstly, the results of key informant interviews with industry stakeholders and, secondly, with the sample of borrowers. Chapter Six is a discussion of the results in terms of how they relate to the theory and what this means in terms of answering the research questions. The final Chapter includes conclusions and recommendations for different stakeholders. A range of appendices are included to provide more detail on the ethics requirements, the research methodology and the research tools.

Chapter Two: Literature review

2.1 Introduction to the literature review

The literature review is documented in four sections. The first section creates context for the reader about the structure, size and historical development of the credit market in South Africa. This background includes a review of the developments in the legal and regulatory framework in South Africa.

The second section explores specific segments of the credit market in more detail to develop a working definition for consumer loans in the context of this research.

The third section investigates the definition of benefit. In this section the literature is interrogated to establish how earlier research into the benefits of credit have been conducted and to establish the gaps in the existing research. This section also includes an exploration of a range of potential benefits (and costs) that can be derived from credit access drawing on different academic disciplines that have explored this, including perspectives related to financial wellness, economic benefits, social identity, human rights and psychology or mental wellness.

The fourth section explores aspects of consumer behaviour, notably around consumer decision making. The section considers factors in borrower decision making, particularly the theory of bounded rationality, different dimensions that influence decision making and behaviour change.

2.2 The evolution of the credit market in South Africa

“Unsecured lending started to grow in South Africa from 1992 when an exemption was granted for small, short-term loans, from the regular pricing limitation on credit imposed by the Usury Act no 73 of 1968 (1968). Loans below or equal to R6,000 (this limitation became R10,000 in 1999) and terms of no longer than 36 months did not have any price limitation. This allowed the microloan industry to develop rapidly in South Africa. In 1999, the total micro lending consolidated assets had reached R15 billion. However, many practices in the industry were deemed abusive: charging high interest rates that did not seem to be in line with the risk level, collecting loans by using debit cards and personal identification numbers (PIN) of the borrowers, lack of transparency and limited rules. Another sensitive issue was the concentration of loans in the civil service. Theobald (2013) identified that ‘a focal point for the industry became the civil service,

from which repayments could be collected through deductions from the central government payroll, which had been allowed from 1993. Some civil servants found themselves with no take-home pay after deductions had been made.’

In 1999, the Micro Finance Regulatory Council (MFRC) was established as a regulatory body. To operate under the exemption to the Usury Act (Usury Act no 73 of 1968 (1968)), all micro lenders had to be registered and supervised by the MFRC and follow the associated market conduct rules.

In 2000, the government decided to follow an additional course of action: stopping access to deductions from civil servants’ salaries for micro lenders and others, such as insurance companies. This led to several small banks either collapsing (Saambou and Unifer) or narrowly avoiding closure (African Bank).

In 2001, the National Treasury imposed strict limitations on payroll deductions from government employee salaries, as well as on the interest that could be charged on such loans. There is a strict vetting and oversight process and only a few institutions are permitted to make payroll deductions by virtue of having a payroll deduction code (National Treasury, 2005).

In 2005, the National Credit Act no 34 of 2005 (2005), which broadly regulated consumer credit, came into force and replaced the previous legal framework. All lending to individuals in South Africa is now governed by the National Credit Act no 34 of 2005 (2005) and all lenders (no matter what institution type) have to be registered with the National Credit Regulator (NCR).

Due to the stricter regulatory framework and to the worldwide financial crisis in 2007 the provision of consumer credit slowed down. Growth began accelerating again in 2010 as consumer confidence returned to the market. In the process the unsecured credit market evolved from the microloan market into a large, middle-class focused credit business. The nature of the typical loan and borrower shifted dramatically over this period. Unsecured loans ranged up to R230,000 in value and 84 months in repayment terms” (adapted from Fraser, Bevacqua, Brouwers, Chongo, & Kalungulungu, 2014, pp.89-91).

Following the rapid growth in the sector, at the end of 2012 the Banking Association of South Africa (BASA) and National Treasury made a joint announcement around their

intention to focus on creating a more responsible credit environment (“Treasury and BASA”, 2012). This announcement led to the formation of the National Industry Steering Committee (NISC) to address credit, including a range of industry-wide working groups focused on addressing specific topics within the credit sector requiring attention for example, consumer education, emolument attachment orders (EAO) and credit life insurance.

With effect from April 2014, the Department of Trade and Industry declared a credit information amnesty. The amnesty required credit bureaus to remove specific records from the bureau in an attempt to provide certain borrowers with a clean credit record. The decision meant the removal of adverse information for approximately 3.1 million credit active borrowers (Pressly, 2014). This decision seemed at odds with the intentions of government to manage credit extension and over-indebtedness.

In May 2014, the National Credit Amendment Act no 19 of 2014 (2014) was enacted in Parliament. One of the most significant changes that have been introduced in the amendments relates to more prescriptive affordability assessments during credit applications in an attempt to curb high levels of over-indebtedness (Barry, 2015a).

Just a few months after the enactment of the National Credit Amendment Act no 19 of 2014 (2014), the Governor of South African Reserve Bank (SARB), announced the Finance Minister’s decision to place African Bank under curatorship following an NCR compliance finding, severe losses and the resignation of the then Chief Executive Officer (CEO), (“Rescue plan”, 2014). This signalled a major downturn in the consumer credit sector in South Africa. African Bank was the largest provider of consumer credit in the market.

2.3 Consumer loans

The South African credit market is characterised by the prominence of salary backed lending models to the low-middle income employed market segment and with much higher formal credit market penetration than in other environments (FinScope, 2014; NCR, 2014). However, various research studies commissioned by FinMark Trust & Gesellschaft für Internationale Zusammenarbeit (GIZ) (Brouwers, Chongo, & Fraser, 2014) as well as Financial Sector Deepening Africa & the Bank of Zambia (Fraser et al., 2014) demonstrate that the composition of credit markets in Southern Africa is also changing and evolving and that commercial consumer credit to salaried individuals is growing in the region as well.

There is a dichotomy in the credit market in South Africa. On the one hand, the unsecured credit market has grown rapidly (49.4 per cent) with a total of 46.64 million individuals having a recorded history of borrowing activity on a credit bureau database (NCR, 2014; Compliance & Risk Resources, 2012). Recent figures show 23.37 million active borrowers and total consumer credit of R1.61 trillion (NCR, 2015b).

On the other hand, according to the Microfinance Review (BankSETA, 2013), there is very limited outreach of classical enterprise focused microfinance in South Africa, such as the group lending model developed by Nobel Peace Prize Laureate Mohammad Yunus (in Bangladesh) or individual lending models more common in Latin America. These unsecured lending models rely on alternative collateral and risk assessment methodologies to lend to low income individuals for use in their small businesses or income generating activities.

The National Credit Act no 34 of 2005 (2005) makes specific provision for registration of 'developmental lenders' with the intention of promoting access to loans for productive purposes which include enterprise, housing and education. The developmental credit portfolio is so inconsequential that it was not listed in the table alongside the other types of credit in the Compliance & Risk Resources (2012) study on personal loans and is commonly referred to as 'a rounding error' in the industry statistics. According to the most recent NCR Annual Report (NCR, 2015b), the developmental credit portfolio is valued at R32.47 billion, just 2 per cent of the entire consumer credit portfolio in South Africa.

This dichotomy in access to credit raises the question as to whether the developmental credit needs (for housing, enterprise and education) are being met through the available supply of credit at a household level, but no comprehensive research has been conducted on the use of credit nor is this tracked by the NCR.

To clearly shape the context for the research and given the evolution of the credit market over the past 20 years in South Africa and the resultant complexity, 'consumer loans' or 'consumer credit' are used as all-encompassing terms to refer broadly to loans taken up by individuals for an undefined purpose. The loan purpose could include anything – such as consumption, housing improvements, education, business or the purchase of small assets – but the loan purpose or usage is not a requirement for accessing the specific product. These loans could be short term (up to six months) or longer term (up to 84 months) and would typically be unsecured. Relating this to the

definitions in the National Credit Act no 34 of 2005 (2005) implies that this study focuses on credit facilities, unsecured credit transactions and short term credit transactions. It does not focus on mortgage agreements, developmental credit agreements or others.

2.4 Benefits of borrowing

2.4.1 Revisiting benefit

To adequately consider when borrowers would derive a net benefit from a consumer loan, a working definition of benefit needs to be considered. Benefit or value was first defined in economic literature by Bernoulli (1738, p.24). He explained that “the determination of the *value* of an item must not be based on its *price*, but rather on the *utility* it yields. The price of the item is dependent only on the thing itself and is equal for everyone; the utility, however, is dependent on the particular circumstances of the person making the estimate.” Therefore the factors which achieve utility in the credit market should vary from one borrower to another depending on their need.

However, much of the research on the benefits or harms of consumer credit does not approach the evaluation through this lens. “Several recent randomized evaluations in different countries and contexts have found that granting communities access to microcredit has positive impacts on investment in self-employed activities, but no significant impact on overall consumption - or on overall income, when that is measured” (Crépon et al., 2015, p.123). Banerjee et al. (2015, p.3), find that “the lack of transformative effects should not obscure other more modest but potentially important effects. If microcredit’s promise was increasing freedom of choice it would be closer to delivering it.” Banerjee et al. (2013) found in a randomised evaluation study of group lending in a slum community in India, that, although loans led to higher investment in existing businesses or a greater likelihood of starting a new business, the average business was still no more profitable and there were no changes in any of the development outcomes that are often believed to be affected by microfinance, including health, education, and women’s empowerment.

These studies all emphasised that much of the impact evaluation of microcredit to date is rooted in the objectives promoted by Mohammad Yunus (Nobel Peace Prize Laureate, 2006) – i.e. that microcredit is a mechanism for eradicating poverty. Therefore the evaluation studies are prone to anchoring bias associated with transformative effects such as increased income or developmental outcomes.

Further research by Karlan & Zinman (2010a), Collins, Morduch, Rutherford & Ruthven (2010) and Kaboski & Townsend (2012), suggested that complexity has developed within the microcredit market globally. Given the emergence of a range of different models as well as a heterogeneous customer base, a broader investigation is required to understand what contribution microcredit makes to low income customers' well-being. This forms the foundation of this research effort.

Collins et al. (2010) described how poor households managed their erratic and low income levels through a sophisticated range of different mechanisms of borrowing, lending, saving and compartmentalising money for different uses. Their research proved that low income customers have well developed mechanisms for coping with their vulnerability and that microcredit will add value only if it contributes to their ability to manage their financial wellbeing more effectively. This proposes a different benefit of microcredit, namely enabling low income consumers with different money management mechanisms (credit being one of them) to manage their flow of income and expenses.

As highlighted earlier, the popular view that persists is that productive loans (e.g. for business) provide more economic benefit for households than consumption credit. This perception ignores the reality that money is fungible and that productive loans can therefore be diverted into consumption and vice versa. Most of the older existing research focused on the social impact of classical microcredit models (e.g. Grameen Bank and BRAC in Bangladesh). Many of these research projects (such as Morduch, 1998) have been critical about the real benefits that microcredit has achieved for individuals and households. However, Gatti & Love (2008), found a strong positive correlation between the ability of a cross-section of Bulgarian firms to access credit with Total Factor Productivity (TFP). Easterly & Levine (2001) found that TFP accounts for most of the variation in the cross-country differences in per capita income.

Aside from TFP, dos Santos (2013) found that governments are increasingly relying on private markets to meet the needs of health, schooling and housing and that access to credit enables this alternative funding mechanism. However, this approach also creates fragility in the financial system.

As previously mentioned, Karlan & Zinman (2010a, p.461) found that even very expensive (200 per cent APR) consumer loans are beneficial with regard to "food consumption, economic self-sufficiency, and some aspects of mental health and

outlook.” Wilson et al. (2010) also found that access to credit allows households to absorb expenditure shocks and are therefore more financially resilient.

Hudon (2009) considered the ethical dilemma about whether access to credit should be considered a human right. The argument stems from the view that access to credit indirectly provides access to economic opportunity. However, providing access to credit as a universal right could also have very negative consequences. Hudon (2009, p.25) hence supported “a goal-right system taking into account the important elements necessary to achieve both the positive impact of credit as well as minimizing its potential harmful consequences.” Bayulgen (2013, p.505) supported this thinking on similar lines, stating that he “believes that a right to credit is a legitimate and appropriate appeal only if we take into account the potential risks to borrowers and qualify this financial service as one that is affordable, non-exploitative, and commensurate with the borrower’s repayment capability.” He went on to propose that a right to access to financial services would be more balanced and holistic than simply the right to credit which may be beneficial but could also be harmful.

Fernald, Hamad, Karlan, Ozer & Zinman (2008, p.1) tested the prominence of stress and depression amongst a sample of borrowers in South Africa. The sample was made up of individuals who had a loan that was initially rejected but through a randomised process was reconsidered. The study generated mixed results. “Receiving a ‘second look’ for access to credit increased perceived stress in the combined sample of women and men; the findings were stronger among men. Credit access was associated with reduced depressive symptoms in men, but not women.” Jenkins et al. (2008) conducted a nationally representative survey in the UK and determined that both low levels of income and debt were associated with mental illness, but that debt had a greater influence on the likelihood of mental disorders. Their initial test was to overcome whether debt would counter the effect of low incomes on mental health – but the results were unable to prove this hypothesis. In another UK study, “those in debt were twice as likely to think about suicide after controlling for socio-demographic, economic, social and lifestyle factors” (Meltzer et al., 2011, Abstract). Therefore there appears to be a correlation between debt and negative psychological outcomes.

McNeill (2014) explored the psychological influence from the perspective of identity and consumption behaviour through a focus on youth in a transitional life phase (i.e. leaving home) and found very strong links. McNeill (2014, p.73) found that the use of credit changed as time passed following their departure from home and that “new home

leavers tended to use more credit resources and have a perception of debt as a tool to achieve the lifestyle they want right now.” A similar perspective could also exist within households that are in transition, such as a change in social status – common in South Africa given the changes since 1994. McNeill (2014, p.73) also determined that “attitudes to debt and the use of credit changed as perceptions of the self and adherence to group norms changed among the early and later home leavers.”

This section of the literature review demonstrates how credit has been found to provide benefits and harms through applying different lenses. The basis of the research conducted herein is to reopen this question from the borrower perspective using a grounded theory approach.

2.5 Borrower decision making and bounded rationality

2.5.1 Introduction to the theory on consumer choice

Considering the borrower as the starting point for benefit suggests that benefit flows from the choice made by the consumer (or in this case, the borrower). Samuelson (1938) proposed that an accurate way of understanding individuals’ choices was to observe their choices in practice, namely, revealed preference logic. Therefore in the case of borrowing, if a borrower takes up a loan (once or particularly repeatedly) they are demonstrating that they are deriving more benefit than cost in accessing the loan.

An alternative to this is rational choice theory, which is based on the premise that “all action is fundamentally 'rational' in character and that people calculate the likely costs and benefits of any action before deciding what to do” (Scott, 2000, Introduction section, para.1). Rational individuals choose the alternative that is likely to give them the greatest satisfaction (Coleman, 1973).

The seminal thinker on bounded rationality, Herbert Simon offered another alternative. Simon (1955, 1956) proposed that human beings are not ‘economic beings,’ i.e. human beings are not perfectly rational and logical as economic theory assumed. He suggested that factors relating to the person making the decision (Simon, 1955) and the environment in which the decision maker makes the decision (Simon, 1956) should be considered if decision making in theory is to mimic more closely what happens in reality. Simon (1955, 1956) anticipated how to bring the fields of psychology and economics closer together through his theory of bounded rationality. He proposed that

individuals use rules of thumb or heuristics in decision making as a short cut to processing vast amounts of information.

Borrowers' efficacy in dealing with vast amounts of information and their confidence in doing so is one of the main tenants of behavioural performance. Drawing from health behaviour change theory (which has strong associations with financial behaviour), Fishbein, Triandis, Kanfer, Becker, & Middlestadt (2001) describe eight variables that account for most variance in deliberate behaviour. At least one of the following should occur for an explicit behaviour to manifest or for behaviour change to occur:

1. The person has a strong positive intention to perform the behaviour;
2. No environmental constraints impede the occurrence of the behaviour;
3. The person has the skills necessary to perform the behaviour;
4. The person believes that the advantages of performing the behaviour outweigh the disadvantages;
5. The person perceives more social pressure to perform the behaviour than not;
6. The behaviour is more consistent with the persons' self-image than not;
7. The person has a positive more than negative emotional reaction to the behaviour, and;
8. The person has the perceived self-efficacy to execute the behaviour.

Mittler, Martsof, Telenko, & Scanlon (2013) posit that behaviour and behaviour change are influenced on a systemic basis through individual, group and environmental factors and that to achieve effectively achieve change these factors need to support the change.

Fishbein et al.'s (2001) framework of behavioural performance is used to assess the ability of borrowers to reduce or stop borrowing in this study.

2.5.2 Considerations in borrower decision making

This section explores the existing research on selected dimensions of borrower decision making including price, borrower perceptions about unsecured loans, the influence of the household on individual decision making and affordability.

2.5.2.1 Borrower sensitivity to changes in price

Karlan & Zinman (2008a) explored the price elasticity of demand for consumer loans in South Africa and found that borrowers are price sensitive. Reducing interest rates led to an increased proportion of women and poorer borrowers. They found that raising the

cost of credit to borrowers would have negative consequences both in the form of reduced demand (less uptake of loans) and moral hazard (attracting higher risk customers) with resultant poor loan repayments. Alan & Loranth (2013, p.2371) explored the price elasticity of demand in another context, amongst a large sample of credit card clients in the subprime credit market in the United Kingdom (UK). The research study found “that borrowers who are labelled as ‘low default risk’ and carry forward large amounts of debt (close to their credit limit) comprise the only group that lowers its credit demand significantly.” Furthermore, they “estimate virtually no sensitivity to a five percentage point increase in the interest rates among borrowers who pose high default risk to the lender.”

Both studies therefore suggested that ‘good borrowers’ are price sensitive, but that ‘bad borrowers’ are less so, emphasising the risk of moral hazard.

2.5.2.2 Borrower perceptions and attitudes to unsecured loans

Karlan & Zinman (2008b) explored the accuracy of self-reported information by borrowers in the instance where the information could be regarded as socially undesirable. The study results confirmed that nearly 50 per cent of the sample did not report their high interest consumer loans, suggesting that loan applicants misrepresent their financial position when applying for credit, particularly women. This is confirmed in the South African context. The NCR conducted an analysis of the data from the nationally representative FinScope survey that focused on credit and borrowing (NCR & FinScope, 2012). In this analysis, only 35 per cent, or 11.8 million, adults in South Africa claim to borrow or have a loan. This is significantly less than the official NCR statistic at the same time (NCR, 2012) of 19.97 million credit active individuals. According to the NCR analysis of the FinScope results (2012, p.27), “26 per cent of adults are formally served, including those who use bank products for borrowing purposes (13 per cent) and those who use other formal non-bank products (20 per cent). 6 per cent of adults use informal mechanisms such as burial societies or money lenders in the community, and 12 per cent borrow from family and friends.” Based on the comparison of FinScope & NCR information, 41 per cent of credit active individuals did not report that they are credit active in the FinScope study.

Not reporting credit activity in both a credit application context or within a research situation suggests a degree of discomfort with borrowing.

2.5.2.3 Consumer and household decision making

Consumer and household decision making are influenced by a myriad of issues from culture, education, cognitive capability, the influence of different household members and entrenched beliefs and values. This section explores these influences on decision making related to credit at a household level.

Campbell, Jackson, Madrian & Tufano (2011) argued that consumers have different cognitive capability and tend to have a short-term orientation with regard to the financial decision making they need to make. Fonseca, Mullen, Zamarro & Zissimopoulos (2012) explored the role of financial literacy and gender and found that men make financial decisions more often and therefore develop more financial acumen by virtue of their active role. They also found that this difference changes in households where men and women have similar educational levels. They concluded that the dominance of men in financial decision making was as a result of education and experience.

Kaynak & Kucukemiroglu (2000) explored how culture influences household decision making in a comparative study between Turkey and the United States of America (USA) with regard to consumption decisions and found that in Turkey the husband has a more dominant role. Dema-Moreno (2009, p.50) studied financial decision-making between dual-income heterosexual Spanish couples. She found that although most couples aimed to take joint decisions equity was seldom achieved. However, even among those who “represented the most modern type of attitude” there were reasons why women found it challenging to portray themselves as equals in the negotiation on joint financial decision making such as “economic dependence of women, the persistence of men in the role of providers, men’s privileged participation in the management of the family money, and the engendered socialization of gender roles of both men and women.”

2.5.2.4 Debt-to-income ratio: How much is too much?

One potential condition for positive deviance that emerged from Wilson et al. (2010) was not exceeding a specific debt threshold (relative to income) – since this is when consumer credit can become potentially harmful rather than helpful. Scott & Pressman (2013, p.329) conclude that “interest on past consumption debt needs to be taken into account when measuring income inequality” given that a debt burden from a past emergency or life cycle event could lead to a lower standard of living in the future.

Johnson & Li (2010) proposed the use of a debt service ratio (DSR) to identify debt constrained households. They identified a significantly higher risk of a loan application being declined in the event that the debt service ratio is approaching 30 per cent i.e. that debt repayments are equivalent to 30 per cent of disposable income. Collins (2008) does not mention a specific benchmark for a healthy debt service ratio, but in one financial diary case study she identifies a spike in the respondent's debt service ratio from 20 per cent to 50 per cent when he falls ill and loses most of his income over a four-month period. Based on these insights, a manageable debt service ratio appears to be in the region of no more than 25 per cent of disposable income depending on the level of income.

These insights into debt thresholds or debt-to-income ratios highlight the importance of the household safety net or its ability to deal with unplanned events or emergencies of any kind. Households with fixed (long-term savings, livestock, property) or liquid assets (short term savings, cash) and/or insurance will have the ability to deal with exogenous shocks of different sorts more than their peers.

2.6 Conclusion of the literature review

In summary, debt can provide households with the opportunity to enhance productivity accumulate assets, smooth cash flow in emergencies/ normal seasonal fluctuations or aid someone in developing their identity and attaining independence. At the same time, debt can be costly and can lead to a dependence on future credit, over-indebtedness, stress and depression. When these benefits and costs are weighed up against one another they can generate either a net positive result or a net negative result.

The literature review provides the context in which this study will be conducted – namely a mature credit market, socio-economic pressure, high levels of indebtedness and a very specific legal and regulatory framework. The literature then focuses on the borrower to understand the influences on borrowers in navigating this environment as an actor and how the borrower perceives benefits and harms. The assumption is that depending on the efficacy of the borrower to navigate this environment, there is a greater or lesser likelihood of the borrower and his/her household attaining a net benefit from accessing consumer credit. These factors will be used as a point of comparison with the information that emerges from the key informant interviews and borrower interviews.

Given the inductive nature of this research, there is a risk of confirmation bias in identifying these potential issues emerging from the literature. Through being aware of this risk and through posing questions as openly as possible during the interviews, an attempt was made to manage this bias.

Chapter Three: Research questions

Based on the literature review, three research questions are put forward. These questions stem from the assumption that certain conditions should exist for borrowers to derive benefit from consumer loans.

The first question is purposefully open-ended. Given that the existing methodologies for measuring the benefits of credit start from the premise that credit should achieve a transformative effect or eradicate poverty, this question re-opens the question of benefit from a borrower perspective.

Research question one: What benefits can borrowers derive from consumer credit?

The second question is the antithesis, to allow for the respondents to consider the elements of credit that could be harmful and to again voice these on an open-ended basis.

Research question two: What costs or harms can borrowers incur due to consumer credit?

The final question considers choice theory and bounded rationality. This question therefore factors in the broader context in which lending takes place.

Research question three: What conditions need to exist for borrowers to derive benefit from consumer credit given bounded rationality?

Chapter Four: Research methodology

4.1 Choice of methodology

In light of the lack of consensus within business and academia about the net benefits of consumer loans to borrowers, the purpose of this research is exploratory. It seeks to gain new insights through using an alternative approach (Saunders & Lewis, 2012) to understanding what benefits consumers derive from borrowing and whether and under what conditions these benefits outweigh the associated costs.

Based on the data gathered in the research process, a theory emerges from the findings to describe the trade-offs between benefits and costs as defined by the borrower using an inductive approach (Saunders & Lewis, 2012). The research therefore followed a grounded theory strategy, namely “the discovery of theory from data” (Glaser & Strauss, 1967, p.1). The researcher drew on ethnographic research methods to provide additional richness and social context to the research topic. “Ethnography starts from the theoretical position of describing social realities and their making. It aims at developing theories. Research questions focus mainly on detailed descriptions of case studies” (Flick, 2009, p.236). Therefore, the researcher documented and shared her observations from the interviews with borrowers as part of the data in this research project. Credit access occurs within a broader socio-economic context that is more easily understood through applying ethnographic approaches.

The research also adopted a positive deviance approach. Positive deviance focuses on “identifying individuals with better outcomes than their peers” (Marsh, Schroeder, Dearden, Sternin & Sternin, 2004, p.1177) faced with a similar set of circumstances. The outliers that are succeeding against the odds due to particular practices are studied in detail for the purposes of understanding what they are doing differently and how these practices, once identified and understood, could be used more broadly.

The power of this approach is that it could point towards factors needed for behaviour change to occur, through other individuals in the population adopting the same practices as the positive deviants. Positive deviance has most commonly been applied within the context of medical studies within developing countries (Walker, Sterling, Hoke, & Dearden, 2007; Bradley et al., 2009), but also to a lesser degree within the context of organisational behaviour (Walls & Hoffman, 2013). The outcomes of the research are therefore potentially useful in defining policies related to consumer credit

to ensure a net benefit across the defined population (not only amongst the positive deviants).

Saunders & Lewis (2012) identified three approaches to conducting exploratory research, all of which will be carried out in the scope of this project, namely:

1. Searching academic literature;
2. Interviewing 'experts' in the subject, and
3. Conducting interviews.

The literature review explored the current understanding of the costs and benefits of consumer loans within society and the different paradigms that have been used to consider these.

The second stage of the research focused on selected interviews with 'experts' or 'key informants' within the credit sector. These individuals were selected using purposive sampling to be able to gather a diversity of views on the consumer credit market in South Africa. The sample included regulators, representatives of industry, the media and policy makers. More detail on the sample of key experts is presented in Chapter Five. The key informant interviews were used to identify areas of in-depth exploration with the research subjects. In addition, during the analysis, the perspectives of the 'experts' were compared with the perspectives of the borrowers.

The final and main data collection activity was to conduct interviews with a carefully selected sample of borrowers that have both accessed credit as well as potentially experienced a net benefit from credit access within a given period. The selection of these borrowers is described in more detail in the sampling section of this Chapter. The information about borrowers gathered during the interview includes the data from the interview as well as photographs, researcher perceptions of the subjects' outlook and impressions about the physical environment where the respondent resides. This data is supplemented with data about their credit history and affordability from their credit bureau report and the partner lending institution's affordability assessment.

Through triangulating the data from the literature review, key informant interviews and borrower interviews with an open, exploratory lens, new insights into the benefits of consumer loans have been generated.

4.2 Population

The borrower population for this research met two criteria. Firstly, the research was limited to the Gauteng province of South Africa given the predominance of credit granting in Gauteng and for convenience. According to the NCR Annual Report (NCR, 2014), 48 per cent of all new credit agreements in the 2013/2014 year were initiated in Gauteng. According to the most recent Credit Bureau Monitor (NCR, 2015a) there are 23.37 million active borrowers in South Africa. The population of active borrowers in Gauteng is not reported and was not available from the NCR.

Secondly, the credit active individual needed to display behaviours that suggested that the respondent was potentially a positive deviant. In this case a positive deviant is defined as someone who, more than their peers, derives benefit from consumer credit in an environment where consumer loans are readily accessible to employed individuals. Using revealed preference logic, the sample focused on repeat borrowers. By virtue of the fact that they are accessing repeat loans and that they have recently accessed a loan, an assumption was made that they are deriving benefit. This proxy for being positive deviants was tested during the research process through posing specific questions to the borrowers about whether the loan makes their life better and whether they would want to borrow again in future. Furthermore, the borrowers should be up-to-date with their payments suggesting that the level of debt that they have access to is manageable. The NCR Credit Bureau Monitor (2015a) also shows that only 54.9 per cent (or 12.84 million credit-active consumers) are fully up-to-date on their loan repayments. These individuals formed part of the population for this research.

Therefore, the population for this sample are credit active borrowers, based in Gauteng that are up-to-date with their loan repayments. Using estimates in the absence of available statistics the population for this research consisted of approximately six million people.

4.3 Unit of analysis

The unit of analysis for this research was critical for the success of the data gathering. Given the legal system and practical reality of entering into contracts or earning an income, most financial transactions occur at an individual level. However, financial well-being is seldom isolated from the household. Income and expenses are often shared between different household members, assets are shared and the consequences of different decisions are borne at household level. The unit of analysis for this study was

at an individual borrower level given that the legal relationship between a borrower and lender is at this level; however, some household level perspectives and data were gathered when these arose in the semi-structured interviews and through observation by the researcher.

4.4 Sampling method and size

4.4.1 Key informant interviews

Purposive sampling was used for the key informant interviews in an attempt to seek views across different stakeholder groups. The sample is described in detail at the beginning of Chapter Five. Table 1 shows a summary of the organisations where individuals who were approached for this research were employed at the time of the research.

Table 1: Summary of stakeholder orientation of key informants

Stakeholder group	Representative
Policy makers	Department of Trade and Industry National Treasury Portfolio Committee on Finance and Economic Affairs
Regulators	South African Reserve Bank (x2) National Credit Regulator Former CEO of the NCR (now independent consultant)
Industry	Banking Association of South Africa Development Microfinance Association of South Africa Micro Finance South Africa
Consumer activists/ media	Summit Financial Partners Black Sash Moneyweb

4.4.2 Borrower interviews

Purposive sampling was also used for this research to identify borrowers who displayed potentially positively deviant behaviour with regard to attaining net gains from consumer loans. During the interviews, respondents were asked whether the loan made their life better and whether they would use a similar loan again in future. This was used as a measure of whether the borrower was deriving benefit.

The sample was identified through working in partnership with one non-bank credit provider (referred to as the 'partner lending institution') – legally registered with the NCR. The borrower selection process was conducted through analysing data available on the lenders' loan administration system and customer files, including data from

customers' credit bureau reports. A range of criteria was used for selecting the sample, namely, that the borrower:

- Should have accessed a short term loan from the lender within two weeks of the researcher calling the borrower to participate in the research;
- Had at least one previous loan with the lending institution – suggesting that they derive benefit from borrowing from the institution due to repetition as per revealed preference logic;
- Had repaid previous loans from the partner lending institution on time, and;
- Is based in Gauteng.

The partner lending institution that supported this research is a private, commercial firm with 38 physical branches and 160 staff. The organisation follows a franchise model where the franchisor owns a 50 per cent stake in each franchise. The firm operates 20 (of the 38) branches as corporate owned and managed branches. The lender has more than 3,000 active borrowers and a loan book of R16.5 million (Company Profile, 2015). The partner lending institution did feature in the interviews with borrowers and is referred to under a pseudonym as XYZ Cash Loans.

The CEO of the partner lending institution assisted the researcher with the filtering of the data for the sampling given the detail of the information required about the applicants and in line with what was agreed in terms of ethical procedure. Based on the above criteria, the sample was identified through a filtering process of successful loan applicants as shown in Table 2.

Table 2: Summary of filtering process for identifying the research sample

Criteria for filtering	Numbers that met criteria
Number of loan applicants (within 2 weeks of sampling)	706
Number of loan applicants in Gauteng	436
Number of successful applicants in Gauteng	144
Number of successful applicants in Gauteng with repeat loans	65
Number of borrowers called by researcher for appointment	54
Number of borrowers who agreed to meet	13
Number of face-to-face interviews conducted	10

The sample of respondents therefore consisted of ten borrowers. Each respondent was prepared to meet face-to-face and spend at least an hour with the researcher to share in-depth insights into their life history, financial position, household and experience of using consumer credit. At the end of the interview, a specific yes/no question was asked: "Did the loan make your life better? And would you take another loan from the

partner lending institution in future?” These questions were intended to establish whether the benefits of the loan are perceived to be greater than the costs and was used to ascertain whether the borrowers consider themselves as positive deviants.

4.5 Measurement instruments

Two research instruments were used, one for each of the research samples, which are described separately in this section.

4.5.1 Key informants

A semi-structured discussion guide was used for key informant interviews which was slightly adapted depending on the background of the expert being interviewed to focus on the most pertinent areas of their expertise and the issues that emerged in the interview. The discussion was developed using the research questions as the main guideline and therefore focused on three core themes, namely, the benefits, the harms and the factors that need to be in place for the benefits to outweigh the harms. Secondly, follow-on questions drew on aspects arising from the literature review and the information provided by the expert. In some of the interviews key informants were asked about:

- Factors that borrowers consider when they take a loan;
- The role of the household with regard to borrowing (if any) and how that influences the likelihood of the loans being beneficial.

The final key informant interview guide is provided in Appendix Four.

4.5.2 Borrowers

The second research instrument was also a semi-structured interview guide that included a few quantitative questions, but mainly focused on qualitative data. This data was supplemented with secondary data in the form of a consumer credit report from a credit bureau and loan data from the partner lending institution.

The interview guide was designed in four sections.

1. Warm-up and background – these questions were intended to build rapport with the respondent and to understand their background and history.
2. Use of financial services – questions were asked about the range of financial services that the respondent has access to and used; namely savings, credit and insurance. The focus was not limited to credit since financial services and the ability to access them is often interrelated. Based on the key informant interviews, the loan purpose was an area that received particular attention in the interviews.

3. Benefits and harms – open ended questions about the benefits and harms of different credit products made up the third section. This section also focused on borrower financial decision making to determine what factors they saw as critical when making the loan decision. This focused on who participated and what factors were considered drawing from the literature review section on borrower choice.
4. Closed questions – at the end of the interview a more pointed, specific question was posed around whether the borrower would access a similar loan again and whether the loans had made their life better or worse. The intention of these closed-ended questions was to have a more specific view on whether the respondents could be classified as positive deviants.

The final borrower interview guide is provided in Appendix Five.

4.6 Data gathering process

4.6.1 Key informants

4.6.1.1 Setting up the interviews

Thirteen key informants were approached for interviews via email. In two cases it was necessary to follow-up with a telephonic request. One key informant did not respond and was therefore not interviewed. Another respondent agreed to be interviewed but scheduling the interview proved impossible and he did not participate. One key informant did not agree to have the meeting recorded and the researcher therefore interviewed an additional respondent. Two of the key informants delegated the request to a colleague who agreed to the interview and the remaining eight respondents all agreed. Therefore a total of eleven respondents were interviewed, and the results of ten of the interviews were included in the research.

4.6.1.2 Data gathering

Two of the key informant interviews took place telephonically due to their location (Mpumalanga and Western Cape). The remaining nine interviews took place in face-to-face meetings. Six of the face-to-face meetings took place in restaurants, creating a more congenial atmosphere for the discussion, and the balance (three) took place at the respondents' place of work. Nine of the key informants provided their written consent to participate in the research and one on voice recording. Ten of the interviews were recorded with the permission of the experts concerned and were transcribed by professional transcribers. All of the transcriptions were thoroughly reviewed and refined by the researcher by listening to the recordings, validating the transcriptions and

making changes where minor errors were identified. The researcher also formatted the transcriptions for capturing in Atlas.ti (qualitative analysis software). All transcriptions were loaded into Atlas.ti for coding and analysis. Most of the interviews lasted at least an hour but a few were slightly longer.

4.6.2 *Borrowers*

4.6.2.1 Setting up the interviews

Sixty-five borrowers were identified who met the sampling criteria. Of these, 54 were called by the researcher to explain the purpose of the research and to establish their willingness to participate in a face-to-face interview. Eleven borrowers were not called due to the intended sample size being attained and the fact that they were based more than 1.5 hours' drive from the researchers' location. Most of the telephone numbers were unanswered, incorrect or went to voicemail. Only one person did not want to participate in the interview for an unknown reason. Thirteen borrowers agreed to meet the researcher, but three of these were later unable to participate for different reasons. The final sample consisted of ten borrowers, as planned during the research design process.

4.6.2.2 Data gathering

The data was gathered through face-to-face interviews with the respondents. Seven of the interviews took place at the respondents' homes to enable the researcher to understand the context and circumstances of the respondent as best as possible within the limited time available as influenced by ethnographic research methodology. The remaining three interviews took place in the researcher's car or a nearby restaurant. In these cases the researcher was still able to see the respondents' residence (two from the outside and one from the inside including meeting the family). Photographs of the respondent, the surrounding environment and/or relatives were taken following the completion of each interview and with the permission of the respondent. All respondents provided their consent to participate in the research as per the required ethical processes and procedures. Nine of the interviews were conducted in English and one in Afrikaans. All interviews were recorded with the respondents consent and were transcribed by professional transcribers. All the transcriptions were thoroughly reviewed and refined by the researcher and formatting prepared for capturing in Atlas.ti. All transcriptions were loaded into Atlas.ti for coding and analysis along with photos and other supplementary data. The researcher also recorded her reactions and emotions following the interviews.

4.6.2.3 Supplementary data

In addition to the interviews with the borrowers and brief immersion into their reality, the researcher requested access to the borrowers' credit bureau report and the affordability assessment of each borrower. This assessment required by law (National Credit Amendment Act no 19 of 2014 (2014)) was conducted by the partner lending institution at the time of the application for the recent loan. The data enabled the researcher to validate the affordability and credit information provided in the interview. This information was not viewed before the interview to enable the researcher to be as objective as possible.

The data from the credit reports and affordability assessments was summarised in Microsoft Excel to enable interpretation and comparison. During this process it became evident that some of the data on the credit bureau was incorrect or inconsistent with what was on the affordability assessment. These inconsistencies related to the partner lending institution (not other credit providers). Due to some challenges with the lender's loan administration system, loans that had been repaid were still displayed on some of the credit bureau reports. The CEO assisted in validating the correct information on the internal loan administration system enabling the researcher to update the loan information in her Excel file. This validated information was used in the analysis to compare the information provided in the interviews with the information on the bureau and the partner lending institution's loan administration system. Aside from being used to validate the information in the interviews, the data from the bureau was more detailed and quantitative than the interviews, providing additional insights into the borrowers' circumstances.

4.7 Analysis approach

4.7.1 Key informants

A brief description of the key informants is provided at the beginning of the results section including the perspective they bring to the research. The transcriptions of interviews with borrowers were uploaded into Atlas.ti for the purposes of analysis. Drawing on the steps proposed by Bryman (2012), the following steps were followed during the next stage of analysis:

1. Read text: This stage enabled the researcher to identify the high level themes and observations by running through the transcripts again and recalling the discussions. The researcher also separated statements made by the interviewer from those made by the respondents.

2. Open-ended coding: The first stage of coding was carried out in Atlas.ti. The researcher coded the transcripts in the order in which the interviews took place. The first interview therefore led to the generation of the majority of the initial codes. Subsequent interviews supplemented this list on a diminishing basis.
3. Refinement of the coding: The researcher went through the coding a second time and reviewed the work previously conducted to ensure consistent application of the codes. Some of the codes were merged. Codes were grouped into families. During this review, specific notes were taken about striking issues, commonalities and contradictions.
4. Relationships and themes: The final stage of the analysis was conducted using one tool in Atlas.ti – co-occurrence tables. Specific quotations were also referred to using Atlas.ti. The code families that were developed were based on how the logical chunks of data fitted together and were used for thematic analysis.

The composition of the code families are shown in Chapter Five.

4.7.2 Borrowers

The analysis started with a comprehensive description of the respondents who formed part of the sample drawing on the researcher's notes about her observations and the interview transcriptions. Photographs were also taken but are not included to protect the confidentiality of the borrowers. This description includes the synopsis of each respondents' life history and the perceptions of the researcher during the interview process. The richness and diversity of the respondents' backgrounds necessitated the sharing of these short (one page) descriptions. Given the influence of the ethnographic research approach and the relevance of the context in which borrowers take borrowing decisions, these descriptions form an important backdrop to the analysis. The descriptions of the borrowers were written in the first person to enable the reader to experience the reality of the borrower as personally as possible. Pseudonyms were used in the write-ups to protect the confidentiality of respondents.

The transcriptions of interviews with borrowers were uploaded into Atlas.ti for the purposes of analysis. The borrower analysis also followed the same steps as the key informant interviews, namely.

1. Read text and reviewed the photos
2. Open-ended coding
3. Refinement of the coding
4. Identifying relationships and themes

The analysis focused on three dimensions of the data. Firstly, a content analysis based on *what* the respondents said in the interviews. Secondly, a discourse analysis based on *how* they articulated their response – which is shown in the quotations. This also draws on the researchers observations about the respondents' body language or general demeanour. Thirdly, an analysis of the relationships between different themes was conducted (University of Southampton, 2012).

In addition to the analysis of the interviews, a comparison of information about the respondents borrowing profile from the interview and the information on the credit bureau was also carried out. The data was captured in the aforementioned Excel sheet for ease of comparison and the results are described in Chapter Five.

4.8 Limitations of the research

The primary limitation of this research is the size and composition of the sample. Although the research provided relatively in-depth insights into each of the borrowers, the sample was very specific and small. The results would therefore not be transferable to other populations. For example, even borrowers accessing short term personal loans from banks would differ from this sample which has taken up a loan from a non-bank credit provider (given the risk profile of these borrowers). Representative quantitative research is required to determine whether the anecdotal findings from this exploratory research method can be extrapolated to the broader population of borrowers.

The focus of the research aimed to identify potential positive deviants and to understand their behavioural attributes. The sampling approach used revealed preference logic as a basis for identifying positive deviants. In other words, if a borrower was accessing a second loan this was used as a proxy for someone deriving benefit by virtue of accessing another loan. The methodology considered that this might be inaccurate since someone might be caught in a debt spiral and therefore continue to access another loan even if they do not want to. Therefore, all respondents were asked whether they would access a loan in future and whether they found it beneficial. Based on the results, many respondents would prefer not to renew their loans. This method was therefore inadequate in terms of identifying positive deviants.

The last limitation of the research relates to the bias of the researcher. Research bias cannot be overcome, although the researcher made a concerted effort to be aware of her bias in the process. One method of data validation that was adopted was to paraphrase the responses that respondents provided in an attempt to improve the

accuracy of the information gathered. The researcher had to consciously avoid providing advice and assistance to the respondents during the research process despite requests for this. There is a likely associated bias, which is that the respondents who agreed to participate in this research did so because they were hoping for some sort of assistance. This motive for participating in the research was directly expressed by one of the respondents.

4.9 Conclusion

The research methodology proved to be very effective in creating an understanding of the background and context of the borrowers in more depth than a quantitative survey would have permitted. The borrowers have maintained contact with the researcher in some instances via phone and text message demonstrating the extent to which the researcher was able to connect with the respondents.

Additional research is needed to enable the transfer these results to the broader population, but this approach has contributed to the academic discourse through revisiting the question of utility amongst consumer loan borrowers.

Chapter Five: Results

5.1 Two-phase research

The research was carried out in a two phased approach focused on both key informants and borrowers. The findings of the research are presented in two separate sections in Chapter Five – firstly for the key informants and secondly for the borrowers. The respective sections start with a description of the sample followed by the presentation of the results.

5.2 Description of the key informants

The key informants that were interviewed are shown in Table 3. The table includes a description of the respondents' background and the perspective that each expert brings to the research, given the purposive sampling approach. The list is provided in the order in which the interviews took place. The quotations that follow in Section 5.3 are anonymous. Respondents are referred to as Key Informant A (KI-A) and so on. The list does not correlate with the order presented in Table 3 to protect anonymity.

Table 3: Key informant interview list and background

Name	Title	Organisation	Background and perspective
Gabriel Davel	Independent consultant	Self	Former CEO: National Credit Regulator now working internationally on policy and regulation on the credit sector. Previous board level experience in pro-poor microfinance institution. Deep insight into the historical development of the credit market in South Africa.
Francois Groepe	Deputy Governor	South African Reserve Bank (SARB)	Focus on the banking sector particularly on Financial Sector Stability. Insights into the African Bank failure. Former private sector experience, market orientated thinker.
Mark Tucker	Board member	Development Microfinance Association of South Africa (DMA)	Former Canadian businessman and self taught microfinance practitioner. Strong focus on the social outcomes of developmental lending in the micro-enterprise lending sector and CEO of a pro-poor microfinance institution. In this field to achieve social impact.
Roelof Goosen	Director: Financial Inclusion	National Treasury: Tax & Financial Sector Policy Unit	Broader financial inclusion perspective (not just credit) with a focus on policy making considerations and a view of the regulatory landscape. Former private sector perspective having worked for commercial banks in South Africa and the region.
Nkosana Mashiya	Registrar of Banks	South African Reserve Bank (SARB)	Focus on the banking sector particularly on Financial Sector Stability. Historical insights into policy issues related to financial inclusion due to previous role in National

Name	Title	Organisation	Background and perspective
			Treasury. Market orientated view of the credit market.
Clark Gardner	Chief Executive Officer	Summit Financial Partners	Over-indebtedness expert focused on representing the interests of borrowers on the request of their employers. A strong critic of certain practices in the credit industry and very knowledgeable about the borrower perspective. Passionate about sustainable change in the credit sector.
Hennie Ferreira	Chief Executive Officer	Micro Finance South Africa (MFSA)	Represents non-bank credit providers with a range of stakeholders but notably regulators. Has been head of the industry representative body for more than a decade. Brings a commercial perspective and strong insights into historical developments in the market.
Hanna Barry	Journalist	Money Web	Independent perspective given her role as a journalist. Good insights into the reality that borrowers face. Broad industry perspective (not just credit).
Zodwa Ntuli	Director General	Department of Trade and Industry: Consumer and Corporate Regulation Division	Policy maker with a history in community development and law. Strong inclination towards consumer protection given her role and interests. Ms. Ntuli's personal life experiences also a significant influence in her views.
Lesiba Mashapa	Company Secretary	National Credit Regulator	Academic and legal background across a range of fields. Now responsible for statistics amongst other responsibilities at the NCR. Insights into credit market trends and developments.
Cas Coovadia	Chief Executive Officer	Banking Association of South Africa (BASA)	Represents the banking sector and has done so for more than a decade. Banks are the largest providers of consumer loans and therefore his views are significant. Also Chairman of the Board for FinMark Trust, an industry think tank with the mission of "making financial markets work for the poor."

5.3 Results from the key informant interviews

5.3.1 Introduction to the themes emerging from key informant interviews

The results from the discussions with key informants are presented according to the key key themes that arose from the research. Following the coding process as described in Chapter Four, the various codes were grouped into seven code families or themes. The code family descriptions and composition is shown in

Table 4. The code families are presented alphabetically.

Table 4: Composition of code families for key informant interviews

Code families	Description	Sub-codes
Benefits & harms	A combination of references related to perspectives from key informants about the benefits and harms of consumer lending	<ul style="list-style-type: none"> • Benefit • Capital constraints • Convenience • Cost of credit • Harms • Pension • Savings
Borrower behaviour	A range of codes that reflect values, attitudes and beliefs of consumers as well as related issues that influence behaviour of the borrowers in the market	<ul style="list-style-type: none"> • Bad faith borrowers • Consumer advocacy • Consumer behaviour • Consumerist culture • Decision making • Financial capability • Values & culture
Lending practices	All references in the interviews related to practices or norms followed by credit providers	<ul style="list-style-type: none"> • Affordability & indebtedness • Bad debts • Debt consolidation • Debt rehabilitation • Disclosure/transparency • Emolument attachment orders • Insurance • General lending practices • Responsible lending/ consumer protection
Loan usage	A combination of references related to the use of loans and type of loan instruments	<ul style="list-style-type: none"> • Consumer loans • Emergency • Loan purpose • Payday loans • Pro-poor financial institutions • Productive lending • Secured loans
Market structure	All topics in the interviews related to the general market context, stakeholders in the market, power and interests of the different stakeholders or the possibility for change within the market	<ul style="list-style-type: none"> • Business motive • Economic inclusion • Fragmented sector • Inequality • Innovation & customer centricity • Market structure & change • Opportunity • Racial issue • Social motive/ objective • Socio-economic context • Sustainability
Policy & regulation	All references in key informant interviews related to the policy & legal framework and the enforcement thereof	<ul style="list-style-type: none"> • Debt counselling • Financial inclusion • Paternalism • Regulation & policy • Regulatory enforcement/ capacity
Service provider	Any references made to the type of service provider whether formal or informal in nature	<ul style="list-style-type: none"> • Banks • Mashonisas • Multiple loans • Non-bank credit providers • Ponzi schemes

Source: Atlas.ti code manager

Table 5 shows the cumulative occurrences of the different sub-codes within each code family for the key informant sample.

Table 5: Number of quotes within code families (key informants)

Code families	Number of quotes
Benefits & harms	241
Borrower behaviour	186
Lending practices	266
Loan usage	146
Market structure	283
Policy & regulation	202
Service provider	87
Total	1,411

Source: Atlas.ti code output tables

The results from the key informant interviews are presented according to themes shown in Table 5. The sequence of the topics is according to themes that relate to the supply of loans, borrowing and, lastly, market related factors.

5.3.2 *Service providers*

5.3.2.1 Lending practices of different service providers

The discussion with key informants, related to service providers, was dominated by topics related to ‘banks’ making up 48 of the 87 quotes. There were divergent views about whether different typologies of service providers (e.g. banks, non-bank credit providers) are more responsible than others in the sector in terms of their lending practices, but the overriding discussion related to banks being more profitable than non-bank credit providers.

KI-H illustrated the view that banks are ‘less guilty’ than non-bank credit providers when it comes to their lending practices: “The banks have got it right, I mean they give debts that are affordable, they don’t ordinarily always use emolument [attachment] orders, they don’t always use reckless tricks and behaviour and they’re not sitting with these big bad debts, so they’ve got it right in their own right, on their own.” He went on to say that “it’s not the norm for banks to lend recklessly but there certainly are outliers, but the ‘big four’ or ‘big five’, if I include Investec not Capitec, they certainly seem to have got the model right.”

KI-D has an entirely opposing view: “Banks are possibly the worst. Every single research... I have seen some heavy research on banks... South African bank profitability [- how it] is a clear oligopoly. The competition is the lowest of pretty much, well not the lowest in the world but it is very low and the profitability is very high and it comes from high fees and charges and interest rates to clients and the loss levels, by the way, is terribly low as well.”

KI-A felt that there are no substantial differences between the practices adopted by banks and non-banks aside from marketing: “Yes, at the microfinance level the only difference is the marketing practices. You see a bank markets itself differently more than a loan bank [non-bank credit provider]. So for instance a micro lender would have other ways of wanting to attract that kind of market. The banks largely they are visible, they are known and they don’t necessarily have to ... but they do try to actually get down to that consumer, that one, the one that the micro lenders are targeting.”

5.3.2.2 Profitability

In terms of profitability, KI-J considered non-bank credit providers to be less profitable than banks: “The other thing is the micro lenders are definitely not making as much money as the banks and Hennie [Ferreira – CEO of MFSA] will always say, ‘our members are going out of business. Our membership numbers have fallen because of that.’” This view was shared by KI-A: “So a micro lender that is only doing that will feel the pinch because that is their only business, you understand what I’m saying, but it doesn’t mean that they [banks] won’t feel it. They [the banks] will feel it in the same way, but then because of their size the impact they will still absorb it, but honestly I don’t think that they are behaving differently.”

KI-D also felt that banks earn additional income on non-credit related transactions further increasing the cost to borrowers and enhancing bank profits. “Unfortunately with our very high interest rates, and by the way, very very high bank fees, every consumer on every one of these are going to get loaded with the bank fee as well. Bank charge for the transfer, bank charge for the deposit, all this is an issue.”

Aside from profitability, KI-J was of the view that banks could be playing a more constructive role in the sector: “I think the bigger banks could probably be doing a lot more. Like, I get so irritated by all the ads for personal loans that the bigger banks put out, like Nedbank and Absa like ‘Prosper with a personal loan from Absa’. How is that helpful? It is not true. I’m not going to prosper with a personal loan at all. Teach them

what... depending on what they are using it for, but that is not what your ad is suggesting. I think the big banks probably do need to take a lot more responsibility because they've got the resources, they've got the teams, and they've got the crystal balls. People are actually banking with them so you can actually do a lot more."

There was also a view in a few interviews that banks are more risk averse than non-bank credit providers as evidenced by KI-B: "You've got different types of credit providers with different risk appetites, a traditional bank might not take on someone who's got a judgement that is one year old but if it's five year old they can give you credit."

5.3.3 Loan usage and benefit

Code co-occurrence analysis is used for the analysis of the relationship between loan usage and the other variables. The most common code co-occurrence related to loan usage is "benefit" – with an overlap of 18 quotations. In other words, there were 18 instances of people considering loans to be beneficial depending on how they are used. Most of the references in this regard concerned the importance of loans being utilised for productive purposes or that loans should at least be used for a specific purpose (even if it didn't generate additional income or wealth).

KI-A mentioned how important credit is in terms of enabling small business: "There are very few people that start a business with their own money. So if you don't have that and you also impact on the participation in the economy and you won't have more people included in the economy. So it does assist with that."

KI-B highlighted other uses that were deemed beneficial: "The loans that are mainly not used for consumption, the benefits are real. You pay your child's outstanding tuition fees at the university for them to graduate, with a loan. You can these days buy a car."

KI-E said that the expensive rates could even be considered acceptable depending on how the loan is used but that if applied to consumption this would not add value. "80-90 per cent. It is always expensive. It's down to what will they do with it, is the use of the loan productive?" KI-J agreed that "the textbook answer would be to say that someone only ever derives benefit if that loan is being put to some sort of productive use."

Along with most of the key informants, KI-I also said that “if you use it smartly, you can actually become productive by doing [building] the balance sheet, I am talking housing, education, if you use it smartly.”

Consumer lenders do argue that many of the loans they provide are diverted into productive or developmental activities, but data about this is hard to come by. KI-I said that “It is somewhere between 50 per cent and 30 per cent, that is the number people are bandying around, that number was higher at one stage. I think as the economy is squeezing, less of it goes into that [developmental lending], it seems to me to be the case.”

KI-C confirmed that: “We don’t have a handle on just what credit is used for, I think that... I think in the unemployment situation that we have my gut tells me that a fair amount of the credit is being used at least for some sort of survivalist enterprise and we need to get a better handle on that.”

KI-B took some reassurance from the loan portfolio statistics: “What is still comforting, if you look at our statistics about 71 per cent of the credit is for mortgages and secured credit, so the majority of the credit is still for asset acquisition and not really consumption.” This figure is based on value terms, as opposed to volume of borrowers and may therefore be deceptive.

KI-F was less prescriptive about the loan being used for productive purposes, but still felt that it needed to be applied to something specific for the benefit to be optimised. “The focus needs to be improvement in the quality of life, not just consumption for the sake of it, the obvious example is the education of not only kids but everyone else if you’re going to use additional resources to improve your capability to contribute to life in general, productive or otherwise... that gives benefits.”

KI-H agreed with KI-F that conscious use of the loan to meet a specific need was important: “The specific purpose debt in the unsecured space makes more sense to me so if it’s an emergency loan, if it’s an overdraft where you just timed the month wrong, if it’s educational, whatever the case may be.”

Despite the prevailing view that loans should be applied productively or at least consciously, consumption loans were regarded as pervasive. For example, KI-C said, “a significant part of the credit is used for consumer expenditure instead of productive

activity. So that has got to be a negative. It wouldn't be a negative if the broader circumstances were such that people could manage it. When you have a situation, and a lot of the banks and micro financiers tell me this, people actually borrow to put food on the table. Then you have a situation where credit is a serious negative factor. It is just a broader socioeconomic situation that creates a situation where people are using credit just to live from hand to mouth and that is a negative.”

One key informant (KI-F) felt that the regulatory framework contributed to the under-supply of bespoke enterprise lending and the relative over-supply of consumer loans. “I think we are still in a situation, that's the unintended consequence of the NCA, the type of credit that is being advanced is to a far greater extent than one would have liked – non-wealth building and non-productive and I am aware of the fact that not all unsecured credit or small credit is necessarily unproductive but that element is just too large compared to the others...”

There was also some contention about whether intangible benefits of using loans for unproductive purposes should be considered negatively. And how would an ‘outsider’ understand the benefits derived from a loan by the borrower. For example, KI-E said “The impact is that they have a nice couch and they feel good about it and it's comfortable and nice. Gives them stature perhaps in their community as it would in ours. We buy something that is nice and pleasant, our clients are getting ahead in life.”

KI-J confirmed this view: “People get into debt for all kinds of things that to them are important. I think that is a very difficult thing to dictate to someone. Every funeral is very important and not having a big funeral is going to haunt you for the rest of your life. Not having a big white wedding you are going to regret for life. So a lot of it is intangible and aspirational and it is very hard to know under what conditions that is or isn't a benefit.”

Another important view on the loan purpose was that consumption loans should ideally not prevent borrowers from accessing productive loans or housing finance as a result of affordability, for example. KI-E said that: “I think another obvious thing would be – if consumer lending stopped them from qualifying for a business loan which they really need, we're back to indebtedness.”

KI-J also raised a risk related to gullible borrowers investing in unsafe savings vehicles: “The scariest thing is that some people have taken personal loans to invest in Ponzi schemes. So this is where this whole responsible lending comes in.”

Payday loans were criticised by a few respondents. “You’ve got this new thing of ‘payday lenders’ taking off which is freaking me out.” And “you have to eliminate the ‘payday lender’. At 200 per cent per annum it makes very little business sense or financial sense for anyone to have a payday loan” (KI-H, 2015). Aside from being expensive, many borrowers rollover the loan and get caught in a cycle of repaying over a long period of time.

The overarching view about loan usage is that it is most beneficial if used for productive purposes or at least something specific. There was a general appreciation for the concept of utility amongst the key informants and not being too paternalistic about how borrowers should use their loans even if the key informants felt that productive lending was more beneficial.

5.3.4 Lending practices

Several lending practices were mentioned during the interviews that are considered as abusive or even illegal. The various practices that were mentioned are listed in Table 6 with at least one illustrative quote (although in most cases there were several).

Table 6: Abusive lending practices and evidence

Lending practice	Supporting quotation
Retention of the borrowers bank card and PIN to collect on monthly loan payment (illegal)	“So that means that we arrest card & pin lenders, we arrested two big ones in Rustenburg last month, one massive.” (Source: KI-H)
Reckless lending i.e. providing loans to a borrower who cannot reasonably afford the repayment	“I think that this whole emolument attachment order issue is a big one because previously people could lend recklessly and get away with it and get their money back by attaching salaries.” (Source: KI-J) “I think it has destroyed families, there is no doubt. I mean even... however biased Daryl Collins and them always interpret their Diaries of the Poor, if you read it through a different lens there are many of these cases where, like a couple that live together, it was the debt that finally destroyed the whole relationship. So I think there are many cases where it has had a negative impact on family structures.” (Source: KI-D)
Questionable use of emolument attachment orders for collection of loans	“We have seen in the mining that when the NCR went into Marikana they found people were going home with R600 after all the garnishees [emolument attachment orders] and all of that.” (Source: KI-A)
Adding unwanted warranty or credit life insurance fees to a loan	“I think some of the costs can be brought down if some of the abuse is brought down and I think there is

Lending practice	Supporting quotation
agreement	<p>abuse. I think the way we, banks and others, the way we implement credit life I think it is abusive and I think the current discussions around that are appropriate. I think some of the upfront costs are abusive. I think the way we are doing... there is a lot of abusive practice which if cut out I think will have an impact on the cost of credit. It will certainly have an impact on the ongoing management of credit.” (Source: KI-C)</p> <p>“I think lately what you see is retrenchment cover [insurance] which is being sold to pensioners...” (Source: KI-B)</p>
Rolling over pay-day loans with associated charges	<p>“Giving you new loans every month so they attract no additional cost to their system but they’re charging you initiation fee which of course then makes it a 10 per cent to 15 per cent per month loan instead of the 5 or 3 per cent in interest fees , so it’s exceptionally expensive.” (Source: KI-H)</p>
High cost of credit	<p>“Now to jump completely to the extreme opposite I am not aware of any country anywhere in the world where the interest rates are as genuinely as high as in South Africa. We are, whatever ... these guys are saying, we are extreme in terms of high interest rates and it has nothing to do with risk it has to do with... how can you put it nice and objectively, with predatory instincts of the lenders. We are profit gorging like ... amazing. We are charging the clients as much as we possibly can so that so we can all have houses and Porsches.” (Source: KI-D)</p> <p>“There is a simple test that I think is right, if you look at the level of pure write offs in any organisation, it can be an indication of a couple of things. It can be an indicator of terrible management. ...but where it’s priced into the price and its ok being at 15-20 per cent or whatever it is. That has got to be an indicator of something, that there are people out there who are poor and are being abused, that is a good indicator, I think” (Source: KI-E).</p>
Extending additional credit without conducting the affordability assessment and potentially over-extending borrowers in the process.	<p>“When I was speaking to the retailers the other day and I was telling them that ... there is this thing that they call ‘cushion credit’, it is like they extend additional credit to you. The retailers with their clothing and stuff, you extended some additional credit, let’s say your credit is R3,000 then in this particular month they give you R5,000, but they call it cushion credit like you can use it and when you use it that additional R2,000 that was given to you as cushion is the first one that you need to repay...” (Source: KI-A)</p>
Lack of transparency / disclosure	<p>“In African Bank it is similar to those credit providers that we are not supervising, it’s just a method, we will give you the loan if you sign this paper, there will be terms and conditions in that paper but we don’t have time for that [to explain that].” (Source: KI-G)</p>

5.3.5 Borrower behaviour

The most common sub-themes relating to borrower behaviour included 'financial capability' (69 quotes), 'consumer behaviour' (45 quotes), 'decision making' (30 quotes) and 'consumerist culture' (17 quotes). The balance of comments related to values and culture in general, bad faith borrowers and consumer advocacy. A few key highlights are drawn from these sub-themes.

5.3.5.1 Financial capability

Financial capability was seen as important, but there is much scepticism about how to effectively implement financial education programmes that would achieve meaningful behaviour change. Some views recognised the role that personal borrowing experience could play in terms of people learning about how to manage debt.

KI-I likened credit to a carving knife. "A carving knife can be used to create a beautiful sculpture, in the hands of a responsible artist, wood carving and it can be great, even if the kid has artistic talent, you see this kid has got artistic talent, draws nice pictures and colours it nicely, you are not going to give the kid a 15 inch carving knife and say now tackle all that tree, and make a mask, you could test that kid over time with a smaller knife, bigger knife, supervision and eventually he becomes an instructor. It's exactly the same with credit."

KI-C confirmed that without suitable financial capability credit can be harmful: "I think that why people sort of have found themselves in debt I think to a certain extent it is an education issue. People at the time they enter into these contracts they have sufficient cash flow to manage them but then they don't factor in the effects of rises in administrative prices, fuel, etc. which then suddenly creates a problem for them and they can't manage the debt. That is when they get into trouble."

KI-H also spoke about the success rate of financial literacy programmes: "Look financial literacy has got an extremely low success rate just to start off with. We do it, but if it's done in isolation of solution driven programmes you will get very little, poor results, the reason is financial literacy's primary concept is, is that you must spend less than you earn. Most people understand that. The bigger problem lies around managing the impulse control, the financial discipline and the financial abuse."

KI-G confirmed that changing behaviour is a significant feat: "You know you have achieved financial education or financial literacy if you can change behaviour of the

people, so if I am the consumer, you know that you have achieved or succeeded by teaching me to know the difference, what I can use my credit for, if it is consumption whether it is beneficial or if it is not it's just putting me into a debt trap. That is the only test of you succeeding. In South Africa we haven't really gotten that right."

KI-D also showed mixed views about how effective disclosure of information would be for similar reasons and highlighted that the marginal utility of borrowing is different for every borrower: "If consumers were more aware of the cost, they understood the cost better so that they can make a better judgement, but I think it is a bit of a pie in the sky. By the way, consumers in the US don't understand the cost of credit so why the flip do we think we are going to get consumers with 50 per cent or 60 per cent worse education. Even if we did understand the cost of credit would we really want to borrow? It is how do you... what percentage... how does the percentage equate to the benefit of buying a pair of school shoes for your children? It's very difficult. The awareness of the cost is I think very difficult to argue."

When it came to responsibility for the provision of financial education to enhance financial capability there were divergent views. KI-A said: "Financial education as well is something that will help, but I think it will help more on the part of the credit provider at that point when a person is actually asking for the loan."

KI-J agreed: "I think micro lenders can't take for granted anything. It is tough" ... "It is a tough place to do business because for the most part in other sectors the consumer is required to take some responsibility for their purchase or for their taking out of a contract."

Even beyond that, KI-I was of the view that the borrower also has responsibility: "The other side of this is consumer awareness and consumer education, that is everybody's responsibility, and I think everybody is shirking it. I am sorry to say, I mean it is also the consumer's responsibility to educate himself, if I buy a new bicycle, I read the instructions, I need to set this thing up, before I go out on the road, when I test the brakes there is nothing and now I land on another car, is that the car's fault, maybe I have an issue, at the moment with how we are almost creating a nanny state with regards to credit, a person decides to go on to walk into the shop, he decides I need this money and the money is really needed, and he decides to lie about his salary and he decides to lie about his expenses."

By and large, the key informants saw financial capability as a condition for borrowers to derive benefit from consumer loans. KI-G: “The biggest one [condition] is financial literacy, I think it’s for people to understand what you take the credit for, you don’t take credit to go and settle your debts, it is not an income problem solver, and it’s not about improving cash flow or it’s about managing the cash flow that you currently have.”

5.3.5.2 Consumer behaviour and decision making

Consumer behaviour and behaviour change was an important theme in the research, given the context and challenges raised in the interviews related to financial capability. KI-B raised the issue of people living within their means: “The money that you earn actually doesn’t matter, it’s how you spend it that matters.” KI-C felt similarly about how households dealt with savings: “So there are some families who would see saving as a part of their monthly budget and others who won’t. That has an impact on the way you are managing your money.”

KI-A considers the borrowers’ context as key in how rational and informed they are about their borrowing decision: “I think in the majority of circumstances when people go and look for a loan it is not when they have a choice. So you can forget that they are going to make an informed choice”... “They are driven by the need at the moment and often it is a need that is urgent. So there is no time to shop around and in fact even if you give it to them at the highest highest interest rate they will take it” ... “The price doesn’t come in. So that is why I am saying that you find that in the lower level, people are always charged at the highest of the rate because these are people when they come they really, really want that money and they are not even thinking about how they are going to pay it next month actually. They want it now.”

KI-B agreed: “Borrowers get into the bank and ask for a loan, any bank that will come first and provide it, if the borrower walks into Capitec and Capitec says I am happy to help you, that is the first decision factor.”

KI-G also agreed: “They don’t shop around and they don’t say let me look at the conditions, let me look at the terms, let me look at the price, the first decision is ‘are you happy to help me?’”... “If the bank says yes then the next decision is how much will I pay every month, it’s about affordability, from a cash flow point of view from month on month, it’s never about how long am I going to pay this, it’s never about what is the interest rate that I am going to pay for this thing, it’s about whether I’m going to pay month-on-month. So from that point of view it’s not a rational decision, because if you

were to go to five lenders and see that they can give you the affordability that you want on this loan for a lower amount of time or for a lower level of interest or whatever, the conditions are better, that is never a rational decision, that is based on the fact that I went into this and this is what they provided.”

When it came to considering the cost of credit, KI-C suggested that “I think they [borrowers] consider the monthly repayments rather than the cost of credit. The ability to repay now... Rather than the cost.”

KI-I shared his view that consumers are focused on meeting a specific need in the immediate future: “They want it, and if that credit gets approved, he will take it. He or she will take it. So that is a fact so in terms of the first choice, is a choice, will I take credit yes or no, who am I going to approach, will I approach several providers and when he offers it, will I take it or not, the moment it’s being offered, it’s only in exceptional circumstances, that people go and look at what are the product choices, especially in the current climate where eight out of ten people get turned around, we are not talking middle market here, we are talking lower market, if we go middle market, I anecdotally, if you go for a car, the dealer nowadays places the guy on the website, it works like a brokerage, he has got my ID number, what car I am trading, what do I want, nine out of ten times, the banks that responds first gets the deal, it is absolutely about the speed of service, that is why the Wongas and these guys are doing so well, because we are in a world of instant gratification, and consumerism.”

KI-G felt that consumers are rational and price sensitive when it comes to other products but not for financial products: “Price is a big factor in alcohol sales in the townships, someone is not going to walk into this pub or shebeen [tavern] and say – just give me the beer, I’ll take it, they will shop around for that, they will shop around for cigarettes, they will shop around for better service at the petrol stations and so on, but when it comes to loans that ability to shop just goes away, out of the window. So there is rational buying in the low income market in other segments of the population, when it comes to shopping for financial products that just does not exist. I don’t think it is just for micro loans, I think it’s just for all financial products, including insurance, people just take what they can until they are in trouble and when they are in trouble then they want to change their things.”

KI-J used a different example in her argument for rationality amongst borrowers: “People are making irrational choices all the time, these are very big philosophical

points, but what is reasonable? It is like people that say it is unreasonable for people to vote for the ANC. Actually if I am on a social grant and I am getting my social grant every month from the ANC government it is a perfectly rational decision to vote them back into power.”

KI-I didn't agree that consumers are rational. He said that: “the person who is totally rational does not exist, in everything there is an emotion, intelligence and a soft side and you sometimes do take irrational decisions but you are still responsible for that decision” ... “I question this thing about rationality, the thing is that you want rationality but the world is not clinical, the world is the real world, I mean the guy he knows he is going to feel good when he pitches up at that meeting with a pair of new shoes and an example a guy finishes at university, money left in his bursary or his loan, buys new clothes for his first job, I mean he could probably go in his varsity clothes but it's an emotional thing I want to look good, I want to buy five shirts and seven ties so I think that is the reality we are in and we are dealing with people, we are not dealing with objects.”

Therefore the overriding view from the key informants is that borrowers are irrational or at a minimum have bounded rationality and that learning from credit experience would improve their level of rationality in future credit agreements. The most important factor in the loan decision from the key informants' perspective was access to the needed loan amount and the loan instalment value.

5.3.5.3 Consumerist culture

Specific references were made to a consumerist culture or the need to build status or a social image through material items. KI-B articulated this clearly when he said that: “You are recognised probably if you wear expensive clothes, jewellery and drive an expensive car in an exclusive suburb. You know things like that, I think that's what's probably driving it for middle and high income consumers. It's consumer behaviour.”

KI-E agreed – making a very specific link to a man's self-image and worldly goods: “I think symbols of prosperity are very prominent and very important and I think that goes right back to my earliest times in Zimbabwe when we used to listen to a bicycle, transistor radio or a particular pair of shoes? It said something about a man. I think it is important.” He also shared how he has observed this in the South African context more recently: “If I go into a rural home and have a conversation with a rural client she will almost make sure that that TV is on and loud enough. There is no sense that that

might be rude or that she is trying to be rude because why would she do that, there is every part – ‘Did you see my TV, do you hear my TV and my satellite dish?’”

KI-B further confirmed this: “My personal view is about the social standing of consumers, I think our attachment to material things even if you cannot afford an X5 BMW you want to drive it.”

KI-A was of the view that consumerism is exacerbated by marketing: “So I think what it is, but the marketing behaviour as well in South Africa is the one that drives people more to credit and consumerism and living for today, wanting to maintain a lifestyle that you can’t afford and so forth.”

KI-C simply summarised it as: “Well, I think it is just a sort of consumerist culture that we have. So a significant part of the credit is used for consumer expenditure instead of productive activity.”

5.3.6 Market structure

The sub-themes in this theme emphasise the fragmentation within the credit market in South Africa and the need for a shared vision for financial inclusion. Most of the discussions included references to commercial interests and profit levels of commercial entities (business motive 57 quotes). Many other comments focused on social objectives of other stakeholders and the long run sustainability of the sector (35 quotes together). Underlying much of this discussion were issues that highlighted the socio-economic context and the bearing it has on this market including racial dynamics. The discussions related to the socio-economic issues form the first part of this section.

5.3.6.1 Socio-economic context

The key informants confirmed that the broader socio-economic context is important in considering the borrowers’ perspective. This section highlights how credit has perhaps partially filled the gaps created by strained government service delivery, mentions the issue of unemployment and also explores the racial dynamics within the consumer lending sector.

KI-C felt that the level of indebtedness needs to be seen in perspective: “I think this also needs to be seen within the context of the broader socio-economy in our country. The fact that we have serious unemployment; the fact that we have an economy that is

stagnant; the fact that we have rising prices, particularly food prices and other common goods.”

KI-D took this line of thinking further: “A very big number of South Africans the only way that they actually could see the tangible benefits of the new South Africa was by taking credit and being able to buy nicer clothing, buy things, put their children in better schools, get their children transported to places, buy a fancy school dress for the kid for the matric dance.”

KI-A felt that “a bigger solution is required in terms of just the economy ... how the economy is like, the kind of inclusivity that you need in this economy because of the lack of transformation or at least the slow pace of it the gap continues to be that wide. So you are not able to deal with the problem that leads to people abusing credit, you see. So I think if we look at all of the sectors and we create more jobs, make the sectors to create more jobs, make people get employed and get decent salaries then you will come to a point to where at least people are able to live.”

There were also three key informants who raised race as an issue in the sector. KI-D describes the situation: “The extent to which the credit providers are white and the borrowers are black I think has got a huge impact. One of the people that I really hate is a guy called, ... [former CEO of a large lender], a complete idiot. They always came with this argument to say don’t worry about the high percentage of repayment to income these are extended families, people will always be able to help each other. If it was his mother taking this loan at 80 per cent interest I suspect he would have argued it differently, but it was very easy for them to say but these black people they... you know there is some African magic there that we just don’t understand. It’s just pure racism. I think fundamentally pure racist attitudes have made people willing to justify actions that in a more civilised society would have not been tolerable. Or it would not have been self justified. People would simply have said I can’t do this. It is immoral. One can very easily argue, oh but the loan officers are all black. If you incentivise the people highly and you train them then they will do what you tell them to do. That is how the capitalist system works.” ... “I suspect it has a much bigger role to play than what we think.”

5.3.6.2 Business motives

In analysing business motives a code co-occurrence output was generated showing a total of 40 code co-occurrences amongst 57 quotes. The top four code co-occurrences

with business motives included the cost of credit, regulation & policy, banks and harms. Table 7 provides a summary of the issues that arose around these co-occurrences.

Table 7: Summary of co-occurrences with ‘business motive’

Code co-occurrence	Main issues arising from the interviews
Cost of capital/ profit (17)	<ul style="list-style-type: none"> • Oligopolistic structure of the banking sector • Good borrowers effectively subsidising bad borrowers • Unfair profits/ profit gorging • Bank fees in addition to credit related charges and fees • Long term sustainability • Role of government
Regulation & policy (16)	<ul style="list-style-type: none"> • Limits of regulation and misalignment with business profit motive • Regulation needs to enable business (fair profits) • Need to temper business interests with regulation • Balancing the interests of consumers and business • Business ethics • Interest rate ceilings • Information on the use of loans needed
Banks (11)	<ul style="list-style-type: none"> • Lack of competition • Cost of term loans to borrowers (longer terms and larger amounts) • Different marketing practices between banks and non-banks • Staff incentives influence lending practices • Consumers trust banks
Harms (9)	<ul style="list-style-type: none"> • Unfair, exploitative profits • Cost of term loans to borrowers (longer terms and larger amounts) • Lack of transparency about additional costs (e.g. warranties) • Regulation needs to enable business (fair profits)

5.3.6.3 Social motives and sustainability

The analysis of social motives and sustainability follows the same approach as business motives, namely the use of code co-occurrence analysis to highlight important relationships within the data. The most important code co-occurrences in the data include responsible lending & consumer protection, business motives, values & culture and productive lending. Table 11 shows a summary of the key issues that were discussed in the interviews related to social motives and sustainability.

Table 8: Summary of co-occurrences with ‘social motive’ & ‘sustainability’

Code co-occurrence	Main issues arising from the interviews
Responsible lending & consumer protection (8)	<ul style="list-style-type: none"> • Staff incentive schemes encourage abusive practices • Measuring social impact difficult for commercial lenders • Affordability should be considered in the context of customer lifetime value • More realistic profits should be earned • Self-interests of companies and staff at odds with borrower interests

Code co-occurrence	Main issues arising from the interviews
	<ul style="list-style-type: none"> Regulatory aim is balancing the interests of lenders and borrowers
Business motive (7)	<ul style="list-style-type: none"> Un/sustainable profits Transparent, honest business motives (e.g. if the motive is to make money to cloak it in the white robe of financial inclusion) Realistic profits – that balance responsible financial inclusion with sustainability Risky business that deserves reward
Values & culture (6)	<ul style="list-style-type: none"> Social mission to alleviate poverty “In our case I really believed that God put this on our hearts and he wouldn’t let it go...that is the spiritual side of it for us, we had peace, we had to do this [serve survivalist enterprises].” (Source: KI-E). Need for great introspection from business/ integrity of business Authentically treating customers fairly
Productive lending (4)	<ul style="list-style-type: none"> Create opportunities for economic inclusion Conscious social impact objective and strategy

This section highlighted the strong interests of different stakeholders in the market and the importance of closer alignment of these to enable sustainability. The tension between high profits, strong power bases held by lenders and the social objectives of pro-poor lenders was marked.

5.3.7 Policy & regulation

Policy & regulation (110) formed a very prominent part of the key informant interviews. Code co-occurrences were used to analyse the data related to policy & regulation. Table 9 shows the code co-occurrences that were the most significant in the data.

Table 9: Code co-occurrences for policy & regulation

Code co-occurrence	Main issues arising from the interviews & illustrative quote/s
Regulatory enforcement (18)	<p>There were several key informants who were critical of the lack of coherence within legislation and regulation as well as more specifically regulatory enforcement and capacity within the NCR.</p> <p>“I think regulation of credit is terrible and it is a disincentive to actually become responsibly active in the market. I mean it is easier for me see [President] Zuma than Nomsa [CEO of the NCR]. Not that I want anymore but it is just stupid. I don’t think it should be regulated by DTI in the first place.” (Source: KI-C).</p> <p>“People [micro-lenders] went crazy and the Act [NCA] was very ambiguous and grey for instance in credit life and in affordability, Section 86 of Debt Counselling was pathetic, so it’s really, it opened up a whole boundary-less environment that wasn’t enforced yet, a very poor regulator and as a result there was a you know, you started a cowboy industry and everyone just tried, went for market share regardless of what they can collect and what they can’t. Lot of it was also impractical and it wasn’t easy to, you know, sort of enforce.” (Source: KI-H).</p> <p>“We made the first proposal on changing garnishee orders [emolument attachment orders] in 2002. That is 13 years ago... they have not</p>

Code co-occurrence	Main issues arising from the interviews & illustrative quote/s
	<p>changed one single thing. We could have fixed it in 2003.” (Source: KI-D).</p> <p>“There is a very strong political side...that complicates it even further. And I think what we have added to that complexity is a market conduct regulator (NCR) that is not always rational.” (Source: KI-F).</p> <p>“No proper harmonisation, in first of all government departments, enforcement agencies, and the next layer as I said just now between businesses, communities, the community being made up of consumers and activists organisations. I am afraid to say that the quality of inputs we are getting from specifically the NCR but to some extent from the DTI as well is not up to standard to what is demanded by the market, there are capacity issues there, and that must not be interpreted as being anti-regulation, these are serious stuff and if you get it wrong, you don't fix it by issuing another regulation or another directive, if it is wrong, it is wrong, it takes a very long time to fix it.” (Source: KI-I)</p> <p>“Who is going to protect the poor, do they need protection? Who's job is it to protect the poor? I think that has got to be taken out of the industry, it has got to be taken away from us, there needs to be a body that says – we are here to protect the poor and what does that mean? Is that just caps related to the NCR, is that it? Is that just definitions of what over indebtedness means, is that it? I think it's a very tough question.” (Source: KI-E)</p>
Business motive (16)	<p>“So that is basically where I come from in a way from a regulatory perspective to look at these things, but I think one thing that I have been emphasising all along is that if you are trying to regulate something like this for the interest of the public you need everybody on board to be able to do it because if you have it and the industry doesn't buy into it and they bypass it all the time and then you can pick it up through monitoring, but you can never pick everything up. So it means that a lot is still going to fall through the cracks and you are still going to have a lot of people that get credit that they cannot afford it and they get more and more into debt.” (Source: KI-A)</p> <p>“So now what we look at now when we reviewed the National Credit Act in 2012 the things that came up is that it does look like the industry as much as it understands the need to not be reckless they tend to forget it in the interest of profit. You know, the more clients they have the more volumes they can get more profits and so forth. So that disconnect is what is really a challenge.” (Source: KI-A)</p> <p>“In terms of what we see in the market, we believe in the free market, but unfortunately because there is such a strong supply side, you need to temper the free market, in a way, therefore the process of drawing policy statutes and regulation in a way, does come into play, and you probably need to say capitalism with a conscience.” (Source: KI-I)</p> <p>“The balance of power is not with the consumers, it is through the consumer regulation which is not a powerful enforcement tool, it doesn't change the behaviour, voluntarily of the supplier.” (Source: KI-I)</p> <p>“Where do we start, we don't legislate how much the business person can make in a sector. That is controlled by people getting into the industry and if it is particularly good, competition comes in, markets shrink, everything gets back to normal, if it stays true amongst the</p>

Code co-occurrence	Main issues arising from the interviews & illustrative quote/s
	<p>consumer, if consumers are so unaware of prices and just totally focused on what they can get their hands on (a couch or a TV), and they even make the adjustments that would regulate the sector and drive prices down, I don't think so. So how do you interfere, do you say – look its only right that you make a profit margin of 17 per cent or a GP [gross profit] of 25 per cent or whatever it is. How do you interfere with that in a free market system? Without competition.” (Source: KI-E)</p> <p>“Back to the point, who regulates that (fair profit)? Is that what those caps are meant to do? Is that the only way we look at it? Can they then have as many write offs as they like? How much protection do we offer people who don't have the same background to be able to compare prices to be able to choose? What do we do? What should we do?” (Source: KI-E)</p> <p>“I don't know why that is as well. I don't know if it is just that there aren't that many banks and not actually enough competition although they always talk about the competitive environment. Or because it is more expensive to do business here because of Government inefficiencies in certain areas they have to push the price up. It is probably a mixture of everything. Plus just salaries paid to banking executives are ridiculous and the share options.” (Source: KI-J)</p> <p>“Those conditions can only be set up by the lenders, they can't be set up by the regulators, and maybe the policy makers can set it by making it as a requirement for data collection so to speak. So that can probably happen in that sense.” (Source: KI-G)</p>
Market structure & change (15)	<p>“They [NGO microfinance institutions providing loans to survivalist micro-enterprises] just cannot get ahead with exceedingly terrible policies from DTI in particular who has obviously caused havoc as well because they pretty much killed every attempt at creating good MFIs. I don't know how well you know John De Wit [Founder and CEO of Small Enterprise Foundation (SEF)] but various times in the last ten/fifteen years that SEF could have been closed down through DTI's idiocy. He is the one that survived. Many other entities have simply closed down. Very very bad government policies on supporting the microcredit market has forced more and more people to get out.” (Source: KI-D)</p> <p>“The other one, just from a policy perspective is that unlike other developing countries we have not really created a sufficient diversity of credit providers; and therefore you are kind of stuck with larger institutions – not only banks but bank like credit providers – and the small ones – the microcredit, if you will and that did not allow the growth of specific niche providers, particularly in the small enterprise space...where they still need – I don't know have to become a big commercial bank, but still need reasonable volumes for the business case to work and we didn't allow that to happen with a lot of restrictions in our regulatory environment it must be a long and painful process to address.” (Source: KI-F)</p> <p>“I think two things, the one is that is and South Africa is not alone in this... post 2008 the focus was extremely on stability that any attempt to introduce a different class of service providers was resisted or questioned more severely prior to 2007. It's just regrettable. I think the other one the policy maker and the banking region the push back on dealing with additional complexity...which is regrettable.” (Source: KI-F)</p>

Code co-occurrence	Main issues arising from the interviews & illustrative quote/s
	<p>“Now once you do that, and you start working on the policy side and on the legislation side, it becomes very complex, because you need to find the elements of both worlds to create a new society and you need to accept that things evolve all the time and it is not a static playground, and that consumers evolve and they all evolve in different ways, so that is the start of what we are saying. Now the process by which you achieve that, goes back to that there needs to be a shared vision for financial services and specifically then for credit supply into the South African market.” Source: KI-I)</p> <p>“You have vulnerable consumers, you can be exploited, then you have greedy consumers, you can also be exploited because you need to say to your guy, your living standard and your salary don’t balance, people don’t easily do that, and then the other side are also consumers who are malicious and can actually do things in such a way that they bedevil the supply of credit, to those who are high integrity and want to commit and really need. Then the whole negative spiral explodes, that leads to the prices even becoming higher, if you are functioning in an environment where the control price fixing, it spills down to the underground market, so if the guy is in this market and he manage it wrong, let us say the stakeholders manages it wrong, credit providers as well as the consumer, the guy’s alternative is the underground market, if you manage it properly, it becomes a blend of the second tier products and the first tier products. If you manage it wrong, it becomes a blend of the underground market and the second tier and it could ultimately end up all underground.” (Source: KI-I)</p> <p>“You asked specifically about the consumer credit, microfinance is not purely about microcredit, as you know, it is also about enterprises of women who need to be developed so I think it needs to be done. My personal view though is that the policy makers have got to channel this growth from consumption to enterprise, I think that there is a huge policy gap in that front, everybody is complaining about how enterprise finance is lacking in South Africa, I say it is not the supply of money that is lacking, I think it’s the supply of leaderships from the policy makers and regulators to enable that market to grow.” (Source: KI-G).</p>
<p>Affordability & indebtedness (14)</p>	<p>“Ten million South Africans out of 20 million are over-indebted, over-indebted by definition means unless there was a change in circumstance there was a reckless loan.” (Source: KI-H)</p> <p>“All of that leads to situations where people just can’t make ends meet and so those who can access formal credit are doing so, but obviously there are a lot who are going to the informal market and the lack of consistency in government policy and government approach actually just pushes more and more people into the informal market.” (Source: KI-C)</p> <p>“When they do their affordability they are going to give you less expenses than they actually have because they want the money at that time. So their responsibility is more on the person that is sober to actually say you can’t, I see you want R5,000, but actually you can only afford R1,000.” (Source: KI-A)</p> <p>It really comes down to the level of over-indebtedness that we may get a household get into, and the responsibility that we have for them. The NCR says we have a big responsibility to make sure that doesn’t happen. How does that happen? What are the guidelines? What does over-indebtedness mean? Does it mean we leave someone with</p>

Code co-occurrence	Main issues arising from the interviews & illustrative quote/s
	<p>enough cash? What does it mean?” (Source: KI-E)</p> <p>“Generally it [the changes to the NCA] is because people are so over-indebted and when they get into debt counselling then you find that there is a situation around during the period of debt counselling and debt review they can’t take any credit.” ... “They are also tightening up the affordability assessment test because they were so inconsistent and that still led to a lot of people being over-indebted. So just tightening them up to make them consistent, to make sure there are no gaps, we figure that it will help and also dealing with the issue of where people are lying in terms of their expenses and all of that introducing that part of the requirement that they need to bring the proof of income as opposed to previously, they just ask you how much you earn and they say R20,000 and okay. So there is no verification and now it is mandated that they must at least verify it.” (Source: KI-A)</p> <p>“Once we implement the regulations hopefully we should lower the cost of credit for consumers and improve affordability, because if you take out a loan of a R50,000 earning R5,000 the term is obviously very high, sorry the size of the loan and the term, it’s very high but if the cost of credit is lower it improves your chances of affordability.” (Source: KI-B)</p>

5.3.8 Benefits & harms

The main benefits and harms from the key informants’ perspective are summarised in Table 10 with illustrative quotes. The range of abusive lending practices with the resultant harmful impacts on borrowers has already been addressed and is therefore not included here.

Table 10: Benefits and harms from the perspective of key informants

Benefits or conditions for benefits (including illustrative quotes)	Harms or conditions for harms (including illustrative quotes)
<p><u>Asset back loans</u> “I think the asset backed credit ... is healthy for society and it’s good for the consumer. So that would be housing, or vehicles or business or whatever, asset backed business is good at the right price and I think the pricing is right on how its limited in our current Act.” (Source: KI-H)</p>	<p><u>Cost of credit</u> “The very high cost through interest rates and fees more significantly undermines the potential positive benefit that the availability of credit could otherwise have had.” ... “We could say there is possibly a high percentage of consumers where the cost of credit exceeds the debt utility derived from the application.” (Source: KI-D)</p>
<p><u>Use credit for a productive purpose (e.g. something that will generate income or return on investment)</u> “It goes back to the objective of what you want to access credit for. If it is for that and there is a demonstrable ability to use it productively then it makes a hell of a lot of sense.” (Source: KI-F)</p> <p>“If you don’t have credit for instance if you</p>	<p><u>Psychological effects</u> “I get to see, borrowers committing suicide as a result of having six or seven Capitec loans that they can’t afford, so how would we correct the situation?” (Source: KI-H)</p> <p><u>Insufficient savings</u> “I think one of the problems is that we have given a hell of a lot of focus on credit without a concomitant focus on saving and the importance of savings.” (Source: KI-C)</p>

Benefits or conditions for benefits (including illustrative quotes)	Harms or conditions for harms (including illustrative quotes)
<p>want to start a business. There are very few people that start a business with their own money. So if you don't have that and you also impact on the participation in the economy and you won't have more people included in the economy. So it does assist with that." (Source: KI-A)</p>	<p><u>Gambling or loan sharks</u> "People that have got a financial crisis they will go to a loan shark, but those are people that are also more likely to be stressed and they will get into maybe alcohol abuse or they could even try their luck at a gambling outlet because they are thinking they could get a chance and be able to get out of their financial situation." (Source: KI-A)</p>
<p><u>Consumer credit could be good within limits</u> "My view is it does become, it is healthy I think if we limit it to three times salary." (Source: KI-H)</p>	<p><u>Good borrowers subsidising bad borrowers</u> "The cross subsidisation must be limited to, you know there should be 75 per cent good borrowers to total market." (Source: KI-H)</p>
<p><u>Specific purpose</u> "and it must have a specific purpose" (Source: KI-H)</p> <p>"Now there is obviously some people who take this loan to put the kid in school or do this or do that and that benefit is clearly there." (Source: KI-D)</p>	<p><u>Debt counselling</u> "I mean something like a more effective debt counselling would increase the benefit but only for the reason that consumers that are really heavily negatively affected have a way to get out of that cycle rather than having to long term suffer the negative consequences." (Source: KI-D)</p>
<p><u>Increases the ability of people to take-up opportunities</u> "It creates much more mobility than otherwise there would have been. People can take credit to go to a job that otherwise they couldn't. If you have a job opportunity in Cape Town even if you are a low income person you could somehow borrow the money to get there. You could exploit opportunities that you could otherwise not exploit. This is even excluding things like education." (Source: KI-D)</p>	<p><u>Reckless lending/ over-indebtedness</u> "You look at the overall credit health of consumers, it's worrisome, you have more than ten million consumers with a bad credit record. What it means is that you have more and more consumers that are struggling to pay the debt they have now, and the question is are they still getting more debt being in that situation, the answer is definitely yes." (Source: KI-B).</p>
<p><u>Affordability</u> "The main thing for me is that because you want inclusivity it is important that credit is also made affordable. So affordability is important." (Source: KI-A)</p>	<p><u>Increased consumptive instead of productive expenditure</u> "Consumer expenditure instead of productive activity. So that has got to be a negative." (Source: KI-C)</p>
<p><u>Ability to purchase durable and luxury good that contribute to well-being and status</u> "How do you value the impact of the fact that you can buy a pair of shoes for your child to go to school?" (Source: KI-D)</p>	<p><u>Cost related to longer term, larger loans</u> "African Bank or any of these that they have huge volumes and fairly large loans and fairly long term loans charge such exceptionally high interest rates. Banks in particular..."</p>
<p><u>The individual and household context</u> "I do believe that you need to look at the circumstances and they will determine whether its – not determine – but have a huge influence over whether it is negative or positive but the variations within that framework are enormous; for some it will be a combination of household and society, a combination of an individual sense of responsibility and household." (Source: KI-F)</p>	<p><u>Opportunity cost of the cost of credit</u> "The way to make that point much more bluntly and simply is to say the high cost of credit to the extent that people very generally use credit very widely clearly has a net deduction on disposable income because they are cutting income out of your net disposable income which is not an economic benefit to the consumer." (Source: KI-D)</p>
<p><u>Bridge the gap between the rich and the poor</u> "The benefits most of us will probably not even have had our first suit to go to work if you didn't have credit because you definitely didn't even have that much money to start buying yourself a dress to go to work, a decent dress</p>	<p><u>Relationships/ households</u> "I think it has destroyed families, there is no doubt. I mean even... however biased Daryl Collins and them always interpret their Diaries of the Poor if you read it through a different lens there are many of these cases where, like</p>

Benefits or conditions for benefits (including illustrative quotes)	Harms or conditions for harms (including illustrative quotes)
to start working. So access to credit also helps to also just bridge the gap between the poor and the rich.” (Source: KI-A)	a couple that live together, it was the debt that finally destroyed the whole relationship. So I think there are many cases where it has had a negative impact on family structures.” (Source: KI-D)
<p><u>Cash flow smoothing or for emergencies</u> “The generic benefit, is that it smoothes your cash flow, that’s the generic benefit and it can’t be taken away, it is probably even more a benefit in a country where you are in a country with low savings...” (Source: KI-I)</p> <p>“I think I can go into their stories of how it assisted people with a personal crisis.” (Source; KI-I)</p>	<p><u>Broader economic impact</u> “The negative impact of credit on our municipal finances is completely disregarded. Most of our municipalities are bankrupt because particularly the middle-low income communities... I mean it is pretty logical – the consumers are all paying off African Bank loans. Where are they going to get the money to pay their municipal fees? There is a very clear hierarchy.” (Source: KI-D)</p>

5.3.9 Conclusion on key informant results

The ten key informants provided rich data on the subject of the benefits and costs of credit to borrowers. The feedback focused on the conditions for benefit, the context in which credit is extended and, importantly, the role that government and regulators can play in shaping a healthy credit market.

5.4 Description of the sample of borrowers

5.4.1 Introduction to the sample description

The sample consisted of ten individuals who shared their life stories and credit experiences with the researcher. Table 11 shows factual highlights about each respondent. Pseudonyms are used to protect the borrowers’ confidentiality. The day and month that the interviews took place is provided (all interviews took place in 2015). The average net income provided in the table is taken from the partner lending institution’s records at the time of the assessment of affordability for the loan. The number of lines of credit gives an indication of credit exposure and is derived from a combination of triangulated data including the credit bureau, the partner lending institution’s records and the interviews. The information about the respondents’ credit exposure is expanded on later in analysis. The figure presented in the table excludes the loan which they received from the partner lending institution that was a qualifying criterion for being part of the sample.

The researcher’s personal impressions of the respondents were recorded during the research process. These impressions are included in the description of and include a description of the homes or environment of the respondent as well as the general

outlook or mindset that the respondent displayed during the interview. Each respondent who formed part of this research came from a very particular background and their experience of consumer lending was informed by their past and current context. The description of the sample of borrowers adopts an unconventional style for academic writing with the objective of sharing the reality and humanity of each participant in the research process. Through understanding each respondent's context their feedback on their participation in the credit market does not occur in isolation of their life and humanity.

Table 11: Summary of borrowers' key features

#	Respondent pseudonym	Interview date	Interview location	Gender	Age	Ethnicity	Residence	Education	Work	Income type	Average net income	Number of lines of credit
1	Ofentse	29 Aug	Restaurant	Male	37	Mother Setswana, father Coloured	Pretorius Park	N3 certificate	Artisan engineer at Consol	Salary + variable income (overtime)	R18,163	7
2	Janet	29 Aug	Home	Female	77	Black	Mamelodi	Not discussed	Retired	Gov't pension + widow's pension (Alexander Forbes)	R3,477	3
3	Wilfred	31 Aug	Home	Male	52	Coloured, Afrikaans	Silverton	Standard 7 (now Grade 9)	Security guard at G4S	Salary + variable income	R3,896	8
4	Sibusiso	31 Aug	Home	Male	49	Black, Zulu	Mamelodi	Matric	General worker at Dept of Education	Salary + variable income (bonus)	R6,511	4
5	Vulani	31 Aug	Home	Male	42	Black, Zulu	Eersterust	Matric	Mechanic in the Defence Force	Fixed salary	R16,782	16
6	Charlotte	1 Sept	Home	Female	59	White, Afrikaans	Jan Niemand Park	Not discussed	Retired & car guard at Spar	Gov't pension + private widow's pension + car guard tips	R1,792	4

#	Respondent pseudonym	Interview date	Interview location	Gender	Age	Ethnicity	Residence	Education	Work	Income type	Average net income	Number of lines of credit
7	Albert	1 Sept	Car	Male	37	Black	Soshanguve	Matric	General worker at Trentyre	Variable salary (hours worked)	R4,702	1
8	Moses	2 Sept	Home	Male	23	Black, Zulu	Moreleta Park	Matric	Irrigation maintenance at Kimiad golf course	Fixed salary	R2,020	0
9	Phuti	3 Sept	Home	Male	46	Black, Shona	Hillbrow	Matric + one subject sort of a diploma	Clerk at the Department of Justice	Fixed salary	R8,196	4
10	Elton	6 Sept	Car	Male	35	Black	Mamelodi	N2 certificate	Salesman at Naskar	Salary + variable income (commission)	R13,726	4

5.4.2 *Immersion into the lives of the borrowers*

5.4.2.1 Ofentse – The aspirational mechanical engineer and young father

My first interview was with Ofentse on a Saturday morning. What immediately struck me was that I had anticipated conducting all the research interviews in low to middle income areas. Instead Ofentse lives in an upmarket townhouse in the east of Pretoria and drives a brand new Ford Ranger. He is my age - 37 - and I found it easy to relate to him. Whilst we initially agreed to meet at his home, when I met him outside his rented townhouse he proposed meeting at a nearby McDonalds Café. I suspect that he was uncertain about having me in his home as a stranger. I therefore never had the opportunity to see inside his home.

Ofentse is one of the more educated respondents in the sample having pursued certification in the field of mechanical engineering which enables him to work as a trained artisan in different factories – most recently at Consol. He lives alone, although he has a girlfriend who is based in Rustenburg from where he hails. They have a daughter of 19 years of age who lives with his girlfriend's parents (implying he had his daughter at age 16). Ofentse was raised by his aunt (due to his parents being separated), spent some time in boarding school and received some financial support from an older brother enabling his initial studies.

I got the impression that he is just managing his current debt commitments but cannot comfortably afford any additional debt. He doesn't own a home, but is renovating the family home in Rustenburg where his mother lives. He is not saving any money on a regular basis.

Ofentse struck me as someone who is ambitious and dynamic and who projected a positive outlook. I left Ofentse feeling as though this proud, young man carries the world on his shoulders and that he is vulnerable and somewhat alone in his ambition. He takes all financial decisions alone, has considerable financial responsibility for his family, has significant debt and no savings. He appears to be living just within in his means for now.

5.4.2.2 Janet – The retired widow who wants a tombstone for her husband

Having conducted a lot of work in township areas in South Africa, I wasn't prepared for how vulnerable I felt meeting Janet in Mamelodi – a large established township to the east of Pretoria. In my previous work, I most often knew where I was going or was

accompanied by someone who did. This was not the case with these interviews. As a result Janet advised me to go to the local police station for directions upon my arrival in Mamelodi. The police kindly escorted me to Janet's home. Once I was there I felt immediately comfortable and at home – familiar with similar surroundings.

Janet moved to Pretoria from Polokwane in 1962 when her husband was employed by Standard Bank. They had one child who passed away leaving four grandchildren in Janet's care (all now adults). Janet was widowed in 1974 (41 years ago). She still supports three of her four adult grandchildren financially through her government pension and an Alexander Forbes policy that has been paying out since her husband's passing. Prior to her early retirement, Janet worked as a domestic helper for 30 years for a family that emigrated to New Zealand in 2000.

Janet's home is a 4-room brick structure (2 bedrooms, a lounge and a kitchen). The property includes a few backyard rooms that are inhabited by three of her four grandchildren. The house was clean and tidy but in some need of maintenance, evidenced by the plastic sheeting on the roof to prevent leaks. Relative to the other houses on the street, no additions or renovations had been made to the original structure (i.e. no paving outside, no rooms added, no recent coat of paint).

Janet is a devout member of the Zionist Christian Church (ZCC) church where she also subscribes to a funeral policy. She repeatedly indicated that she is suffering and that she is aggrieved at not having a lump sum payout from the Alexander Forbes policy to enable her to purchase a tombstone for her husband's grave.

I left Janet feeling conflicted. On one hand it was evident that she has experienced a challenging life as a widow raising four grandchildren. On the other hand she owns a home, earns a social grant and is the beneficiary of policy that has been paying out for 41 years. I left feeling strangely irritated with her sense of expectation and entitlement.

5.4.2.3 Wilfred – The stable, sad security guard from the Northern Cape

My third interview brought me face-to-face with the reality that this research project was not only an academic exercise. I met with Wilfred on a Monday morning at his family home in Silverton, Pretoria – a rundown block of flats where he has lived for 15 years. Wilfred and his wife moved to Pretoria from a small town in the Northern Cape 27 years

ago, during which time he has worked for the same security company for the entire 27 year tenure (Grey Security, now G4S).

Wilfred has four children, three of whom live with him (two of school-going age). His wife and eldest child both work, the former as a machinist at a pharmaceutical manufacturer.

Wilfred has not been able to build up any meaningful assets, aside from a pension fund (which he has been contributing to for 24 years). The family rent the apartment, they do not own a car (Wilfred cycles to work and his wife uses public transport) and they have no savings.

Wilfred and his wife both appear to face significant challenges with managing credit and being prey to unscrupulous providers. Both make use of mashonisas (loan sharks) at work for purchasing food towards the end of the month, both have multiple clothing or furniture accounts and Wilfred has access to a range of short term loans (eight formal lines of credit on his credit bureau report) with a combined liability of just less than R30,000 and loan instalments that exceed his gross monthly income (some of the information on the bureau may be erroneous).

Towards the end of our interview, Wilfred started crying as he shared the sad story of his brother's suicide in 2003. His brother jumped to his death from a nearby building in Pretoria. Since then Wilfred has not returned home to the Northern Cape for fear of facing his extended family.

I managed to hold back my tears in the interview, until I reached my car. I was deeply saddened by Wilfred's story. He seems to be a committed employee, husband and father but unclear on how to change his financial situation and deeply burdened with the loss of his brother.

5.4.2.4 Sibusiso – The happy, romantic, aspiring business man and true Mamelodian

During my second trip to Mamelodi I felt confident about my general orientation and more relaxed about my meeting with Sibusiso. When I was in the general vicinity of his home he was able to provide me with directions. We met on the cool veranda of his home and sipped on an ice-cold Coca-Cola while he shared the story of his love and life. Sibusiso appeared relaxed and contented.

Sibusiso was born and raised in Mamelodi – in fact he lives in the house he was born in. He fell in love with his high school sweetheart; they were married and have seven children ranging in age from 15 to 28 years of age. Sibusiso and his wife recently separated after being married for 30 years, but he is hopeful that they will be reunited. He is currently renting a room from his cousin, whilst his family live in the home that he owns not far from where he lives. His wife works as a domestic helper in nearby Silver Lakes and stays on the premises of her employer. The older children therefore care for the younger ones. The three older children have part time employment and the four younger children are all still in school. Sibusiso has invested in the development of backyard rooms at the family home for the older children. He works at a local school handling administration, security and maintenance activities and has previously worked in the taxi industry. He has strong aspirations of starting his own business to supplement his income and has researched different business ideas, including a small chicken broiler and a function hire business.

Sibusiso owns a home and a car and has a pension fund, medical aid and funeral insurance policy all deducted from his salary. He also saves money in a bank account every month but is unaware of his savings balance. Sibusiso participates in a stokvel (savings club) and uses his stokvel proceeds for fun (beer, petrol, etc).

I left the interview with Sibusiso feeling that this was a man of great patience, positivity, calm and wisdom. He is ready to let time unfold as he and his wife resolve their differences and as he contemplates how to enhance his economic situation.

5.4.2.5 Vulani – The gambling, army mechanic from Eersterust

I visited Vulani twice during the period of my research in Eersterust on the north eastern side of Pretoria. The first visit was to conduct the interview and the second to take photos. This gave me further insight into Vulani and his interests. On my first visit, Vulani proposed the community police station as a good meeting point given my lack of knowledge of the local area. As a child I had attended church services in Eersterust with my family and so I had fond memories of being there every week. The community appeared peaceful and friendly as I drove through the streets to meet Vulani on a Monday evening after he finished work.

My first impression of Vulani was influenced by the fact that he was wearing his army uniform – and that despite this he seemed approachable, amicable and kind. We drove to his house from the police station in my car and spoke in his lounge. Vulani grew up

in Mpumalanga until Standard 7 (1988) when he moved to Eersterust (when his brother bought a house for his mother). He finished school and participated in temporary work until he joined the defence force in 1997 as a veteran of Umkhonto we Sizwe (MK) (the military wing of the African National Congress). He was trained and works as a mechanic. He accompanies troops both to local military bases and abroad and therefore travels for extensive periods of time. Vulani was married, but his wife passed away leaving their son of 12 and her older daughter from another marriage. Both children are being cared for by extended family and require some financial support.

Vulani owns the home he lives in, in Eersterust (which he financed with an FNB bond). He also owns a car (paid off) and has a state pension, medical aid and life insurance policies. He saves unconventionally through the purchase and storage of gold Mandela coins since his experience of bank savings accounts has not been satisfactory. He has substantial short term debt.

I left with the impression that he was in good control of his financial position. Vulani also indicated an interest in betting on soccer. He seemed to indicate that he played modest amounts but that he had won R10,000 on occasion, raising suspicions that he does in fact gamble more significantly.

5.4.2.6 Charlotte – The retired, Spar car guard with 65 grandchildren

I met with Charlotte mid-morning on a Tuesday in her backyard room in Jan Niemand Park in the north east of Pretoria. The interview was conducted in Afrikaans. I found it difficult to decipher my emotions during and following the interview. The squalor of her living conditions and the way her teenage children devoured me with their eyes when I arrived and departed left me feeling exposed. I questioned whether my reaction was race related, or whether it was simply called for, given the conditions. The yard was unkempt, the room was dirty and odorous and her grandchild's teeth were visibly rotting. We conducted the interview in her bedroom seated on a tangibly dusty bed. The environment did not deter me from being friendly and natural.

Charlotte is married to her second husband, following the death of her first husband. Both Charlotte and her husband have children from their first marriages (three and six respectively). She has 65 grandchildren and four great-grandchildren.

She earns a government pension and is the beneficiary on a policy as a widow with a small payout. To supplement this income Charlotte, her husband and one daughter

share a 14-hour daily car guard shift at the local Spar. She earns less than R2,000 a month and pays rent to her daughter for the backyard room.

Charlotte has two cash loans – one from Pep and one from an unknown cash loan store. These funds have primarily been used for purchasing food, although in the past they were used for clothes as well. They also have an account at the local butchery which they settle every month and which seems to cost an inordinate amount (R2,200) relative to the household income. She mentioned that she has only R400 left in her bank account each month after the inflows from SASSA and her policy and the deductions for her loans.

I left Charlotte worried about why her situation had left me feeling so dismayed. I had another interview in Pretoria later that afternoon and so I spent a few hours waiting at a restaurant in an upmarket shopping mall. I found myself struggling with the opulence of my surroundings (which I had previously taken for granted) and the cost of my meal. It was the first time I had spent time with a poor white person and I realised that I was disappointed by the dirt and lack of respect from her children. But was I judging her too harshly for some reason?

5.4.2.7 Albert – The touching, family-man commuter from Mabopane

My seventh interview was emotionally demanding and a precious privilege. It took place in my car close to Albert's place of work near the Denneboom train station in Mamelodi (the train station where he commutes to and from work). Albert grew up with his grandparents in Mabopane because of his parents' separation and his mother's work in Johannesburg. His grandparents died in 2005 and 2010. He now resides in their former home (although it has not been legally transferred to him). He lives with his wife and three children aged 6, 12 and 15.

Albert wakes up at 3am each morning to reach his place of work in time for his 7am shift. This gruelling schedule is more economical than renting a nearby room. Albert appears exhausted and his slow speech only emphasises his fatigue. He works at Trentyre factory as a machinist where he was employed when his father passed away. He was offered his father's post instead of a payout on his life policy and has worked there for nearly four years. Prior to working at Trentyre, he did security work and casual work in retail stores. Several years ago, his temporary contract at Spitz was terminated suddenly, leading to his being unable to settle two bank loans which still cause him severe angst. He has only one current loan with XYZ Cash Loans that he pays on a

weekly basis in line with his salary frequency. He is unable to afford his current financial obligations and has explored the option of a longer term loan to reduce his monthly instalment without any success. Albert's wife works at a crèche close to their home and earns R1,000 per month. She also has store accounts in her attempts to provide suitable clothing for the children. Albert is doing a short course (one-year) at the University of Pretoria with support from his employers, but is finding the content very challenging and is of the view that the course was not the correct choice.

Following the interview with Albert, I drove him home to Mabopane and met briefly with his family who were enjoying a meal of pap and "walkie talkies" (maize meal, chicken feet and chicken heads). Albert was apologetic about the simplicity of the meal. He had warned me that they would be surprised to see him come home with a white woman – which they were. I left Albert feeling as though the system had failed this warm, open man and his family. I cried myself to sleep for not being more grateful for all the opportunity and luxury that I take for granted every day.

5.4.2.8 Moses – The disciplined, tenacious young patriarch from Paulpietersburg

Prior to meeting Moses I was filled with a sense of mystery. The meeting was scheduled to take place at an exclusive golf course in Moreleta Park in Pretoria. While setting up the interview, Moses had asked me to call him later as he was playing golf. My preconceived ideas about this sample of borrowers were put into question again. Moses's bored and slightly cheeky tone left me feeling anxious about meeting this potentially contemptuous millennial.

It didn't take me long to realise that this young man is exceptional. He grew up in the small rural town of Paulpietersburg in Kwa-Zulu Natal with his mother. At the tender of age of 13 he was orphaned. Although he had three siblings they did not feature in his life at this time. He put himself through high school whilst living alone in his 'family home' and surviving on the generosity of a neighbour who would occasionally feed him. Through pure grit and persistence Moses managed to finish high school. His one companion through this period was his girlfriend, who faced similar trials of her own. After finishing matric their daughter was born.

Moses actively looked for work to support his new young family. He managed to secure a one-month contract with Transnet cleaning the railway line that passed by Paulpietersburg to the land of opportunity. This income enabled him to print and fax his CV to a number of prospective employers in Johannesburg and set the wheels in

motion for a new phase in his life. Moses took on a series of temporary contracts before he started working in irrigation maintenance at the golf course where he has been for the last three years. He stays on the premises in simple staff accommodation, whilst his girlfriend and daughter are based in Johannesburg. He earns a modest income which is a big frustration for him given his desire to support his young daughter as well as to study further. He started a course with a private college but was unable to sustain the fee payments.

He has also taken on the responsibility of supporting his orphaned nieces and nephews who live in his home in Paulpietersburg. When the children started a fire accidentally, the contents of his home were ruined and parts of the house damaged. His sole purpose in borrowing has been to repair the dwelling to enable these children to have a safe home. As I drove back to Johannesburg, I wondered what I might do in similar circumstances. I felt deep respect for this disciplined, committed young man and awe for his capacity for forgiveness.

5.4.2.9 Phuti – The ever-cheerful, determined, single dad from Tzaneen

For the third time in this research journey I started my meeting at the community police station, this time in Hillbrow. When I set up the interview with Phuti he laughed in disbelief at the idea that I would meet him at his flat. From the moment we met his smiles and laughter were ever present. I had the pleasure of accompanying Phuti to fetch his young son Thabiso from a well-run crèche around the corner from his home.

Phuti grew up in a rural village outside Tzaneen. When he was in Standard 7 (1988) his father lost his employment. This signalled the beginning of years of abject poverty – not knowing where or when the next meal would come from. Phuti managed to complete his matric but without exemption. He moved to Johannesburg after school to seek work, but was unable to secure a job for three years.

In 1996 he returned home and started attending a ‘finishing school’ to improve his mathematics marks in an effort to gain access to university. Through some good luck amidst immense misfortune and the good will of strangers and distant family Phuti managed to gain access to Wits Technikon, scrape enough money together to find a accommodation and pay for his fees. Throughout this period he often went hungry.

One stable aspect of the support he received was the R100 per month from his father who was now on a state pension. In his final year, Phuti’s father decided he was no

longer going to support him. This was the straw that broke the camel's back. Shy of only one subject to complete his diploma, Phuti dropped out of Technikon never to complete his studies. After a few months, he started applying for work and at the age of 33 Phuti succeeded in securing his first job. The position, with the Department of Justice, is where he has been working for the past thirteen years. His estranged wife passed away just a few weeks before our interview leaving him as the sole carer for Thabiso.

As Phuti walked me to my car he paid me the compliment of saying "Eish, you are not white, you are fine here... [in Hillbrow]." As I drove home in my BMW, I was reminded that Phuti and I live less than ten minutes away from each other, but that the leafy suburb of Parkview is worlds apart from his harsh Hillbrow reality. The cruel truth of inequality in South Africa was as vivid as crimson blood on white sheets. The fragility of South Africa's socio-economy weighed on me as I yet again cried myself to sleep. How had Phuti remained so positive in the face of such adversity?

5.4.2.10 Elton – The softly spoken, sombre salesman from Polokwane

Elton was my last interview. He was at church when I arrived in Mamelodi early on Sunday afternoon. We met at the Total garage in the eastern part of Mamelodi and conducted the interview in my car since he said he did not have a key to his home. Elton clutched his well paged Bible throughout the discussion despite my best efforts to make him feel at ease.

Elton was born in Mamelodi but moved to Tzaneen as an infant. He was raised in a small village by his grandmother until he had completed Standard 8, since his mother was a single working mom. In Standard 9, he moved back to Mamelodi, based on his mom's intention to form a stronger parental bond with him. He completed his schooling in Mamelodi and then started a diploma in civil engineering. He was unable to complete the diploma due to his mother losing her job and the necessity for him to start work.

Elton started off with temporary work and worked his way up to salesman in Woolworths, but was fired. He developed a bad credit history because of his inability to pay a clothing account, a cash loan and a loan related to a cell phone after he was out of work. He was eventually able to pay off these debts and clear his record with the assistance of a paid for service. Following his departure from Woolworths, he fulfilled sales positions in Midas and Naskar (spares sales) drawing on his civil engineering

knowledge, which is where he currently works. He earns a fixed salary as well as commission.

Elton is married and has two young children, a boy and a girl. His wife is unemployed. He lives (with two siblings and his family) in his mother's house in Mamelodi (she lives in Tzaneen) and pays her rent as a means of financial support. Elton appears to be struggling to manage his financial commitments, his overdraft in particular. He wants to buy a house of his own in Mamelodi but knows he will not be able to afford this on top of the loans he already has.

After the interview was complete I gave him a lift home (a few blocks away) and was able to take some photos of his home and the backyard dwellings (where he lives) from the outside. I left feeling flat and sad. I couldn't help but feel that he was being preyed on by different providers with their own commercial interests and little consideration for his financial well-being.

5.4.2.11 Conclusion to the sample description

The description of each of the borrowers is an important component of the research results since they describe the reality of borrowers that is otherwise easy to intellectualise. The most striking aspect of meeting this group of people was that despite a very specific sampling approach, the attributes of the people in the sample were much more diverse than anticipated. The richness of the diversity in terms of age (ranging between 23 and 77), education, race, income levels (less than R2,000 to more than R30,000 (gross)), source of income and personality was an important outcome of this process. There also did not appear to be a correlation between the level of income and the perceived peace of mind of the borrower.

5.5 Results from the borrower interviews

Due to the inductive nature of the research, the results of the borrower interviews are presented based on the key themes that arose from the research. Following the coding process as described in Chapter Four, the various codes were grouped into nine code families or themes. The code family descriptions and composition are shown in **Error! Not a valid bookmark self-reference..** The code families are presented alphabetically.

Table 12: Composition of borrower code families

Code families	Description	Sub-codes
Benefits & harms	A combination of data about aspects of borrowing that borrowers find beneficial or harmful or both	<ul style="list-style-type: none"> • Benefits • Harms
Credit history & affordability	A range of data related to the income and expenditure of households, affordability of loans and historical credit performance	<ul style="list-style-type: none"> • Credit history • Income & affordability • Loan repayment • Financial responsibilities
Credit products	Made up of codes that relate to different types of credit products that the borrowers in the sample utilise or have had exposure to (either in the past or through marketing efforts of suppliers)	<ul style="list-style-type: none"> • Bank loan • Non-bank loan • Credit facility (overdraft, revolving loan or credit card) • Store account • Consolidation loan • Cell phone contract • Buying food on credit • Loan from family or friends • Mashonisa (loan shark)
Financial behaviour	Made up of codes that have a bearing on the behaviour of the respondent and the decisions they take related to borrowing	<ul style="list-style-type: none"> • Participation in financial decisions • Considerations in financial decisions • Money management • Roll over loans • Gambling • Pyramid schemes
Future orientation	Perspectives about the future in terms of appetite for borrowing going forward, levels of optimism and general outlook about the situation and what it means for the way forward	<ul style="list-style-type: none"> • Aspirations or goals • Fatalistic statements • Future borrowing • General outlook • Small business
Housing & transport	A range of data that collects feedback related to housing and transportation arrangements within the sample including ownership, financing and satisfaction.	<ul style="list-style-type: none"> • Housing • Transport
Loan features	Information about specific credit features that the members of the sample have had exposure to	<ul style="list-style-type: none"> • Loan size/ amount • Loan purpose/ usage • Cost of the loan

Code families	Description	Sub-codes
	either through borrowing or marketing	
Respondent Description	Codes that provide information about the background to the respondent and their current context	<ul style="list-style-type: none"> • General background • Origin • Ethnicity • Childhood • Education • Employment history and status
Savings, Investment & Insurance	Codes that relate to information about non-credit products that the sample have had some experience with	<ul style="list-style-type: none"> • Savings • Stokvels (savings clubs) • Insurance • Pension funds • Pyramid schemes

Source: Atlas.ti code manager

Table 13 shows the cumulative occurrences of the different sub-codes within each code family amongst the sample of borrowers. For example, in the benefits & harms code family there are 76 ‘benefit’ or ‘harm’ codes mentioned across the ten interviews. The occurrence of interviewer and respondent codes are not reported here although these were coded as well.

Table 13: Number of quotes within code families (borrowers)

Code families	Number of quotes
Benefits & harms	76
Credit history & affordability	189
Credit products	166
Financial behaviour	111
Future orientation	120
Housing & transport	67
Loan features	101
Respondent description	204
Savings, investment & insurance	72
Total	1,106

Source: Atlas.ti code output tables

The code families represent the main themes emerging from the borrower interviews and the sub-codes the sub-themes.

5.5.1 *Savings, Investment and Insurance*

Table 14 shows the word count related to words that could be associated with this theme.

Table 14: Word count savings, investment & insurance

Words related to savings	Count
Save	42
Pension	31
Savings	22
Insurance	13
Stokvel	7
Retirement	5
SASSA	4
Gold coins	4
Total	128

Source: Atlas.ti wordcruncher output file

In general savings was highlighted as challenge for the sample of borrowers. Table 15 shows a summary of the saving, investment and insurance products that each of the respondents utilise.

Table 15: Summary of access to savings, investment & insurance

Respondent	Savings	Investment	Insurance
Ofentse	Not able to save due to debts.	Pension fund at work that started in November (no accumulated retirement funds).	No insurance.
Janet	No savings	Pensioner (withdrawing from SASSA and widow policy).	Funeral insurance policy through Zionist Christian Church.
Wilfred	No savings.	Pension fund at work which he has contributed to for 24 years. Current contribution R200.	Not discussed.
Sibusiso	Saves R300/ month in a Nedbank account & R500/ month in stokvel.	Government employee pension fund.	Two life insurance policies.
Vulani	Part of a Christmas stokvel at work. Used to save at a bank. Now saves in gold Mandela coins.	Not discussed but appears on affordability assessment.	Two life policies that cover himself and 3 family members.
Charlotte	No savings.	Pensioner (withdrawing from SASSA and widow policy).	Not discussed.
Albert	No saving but plans to save in what sounds like a Ponzi scheme.	Not discussed.	Not discussed, but not listed as expense when his monthly expenses discussed.
Moses	Saves more than 20 per cent of his income.	No pension.	Not discussed, but house burnt down and he lost all contents.
Phuti	No – too much informal debt.	Government employee pension fund.	No insurance.

Respondent	Savings	Investment	Insurance
Elton	No savings.	Started a retirement policy last month.	Pension fund at work.

Source: Atlas.ti code search

Savings levels are low amongst the sample of borrowers in part due to levels of indebtedness as evidenced by Ofentse's feedback: "I'm being honest. I have been working at Consol for seven months and I have never even saved a cent. I can't save. I've got debts." His view about savings in a bank is that it does not make sense from a savings perspective given the return: "Saving... I mean how much do you get a year or a month? One point something [per cent]. For me it is not working honestly. I will have my money in my safe or invest it in property."

Ofentse went on to emphasise that he is living beyond his means and this influences his ability to save: "For now I can't save. The mere fact that I can't save I don't have life insurance policies. That I must do. These kind of things... savings is very important. But my expenses are more than my salary." Ofentse even went to the extent of borrowing and setting the capital aside in lieu of savings.

Phuti's experience confirmed Ofentse's views and additionally highlighted the plight of people affected by loan sharks: "No I don't [save money], too much money has been finished informally with the mashonisas because they take a big amount, big amount, big amount do you understand that is the kind of life. Maybe I am not alone, there are many of us who live that kind of life."

Elton agreed that loans fulfil part of the role that savings would otherwise: "No [I didn't manage to save], since I started working ... but that's when I realised that I was working and got a payslip and could get loans, so I started getting accounts and loans."

These sentiments were further confirmed by Wilfred who said that: "To save is a problem. I have tried to save but I cannot. I have two [bank] accounts now but if I have some money then I just put it in the other one, but if the problems come then I take it back. It is a little bit difficult."

One member of the sample (Albert) also seemed to be considering participating in an 'organised' stokvel scheme called Uplifting SA (that sounded suspiciously like a Ponzi scheme) and which he wants to start next year: "Then when I get that I am going to settle everything in my life, I don't want this, my kids are growing up difficult, hard."

Very few respondents manage to save each month. Sibusiso is one of the exceptions. He said that his savings “is running now for three years. It started with R50 [opening balance] but I started with R100 [monthly contribution] and then I saw that R100 is nothing, let me pick it up. Then the following year I said we can start deducting R200 and then last year I said, now make it R300. Now I am planning next year that I must, say, make it R500 every month.” Moses also saves more than 20 per cent of his income: “R200 for Old Mutual for education for my child and R300 is for my savings.”

5.5.2 *Credit products*

Table 16 shows data about the different type of credit products that are currently in use by the respondents. It does not include historical information. The information is based on data from three sources, namely the interviews, credit bureau data and the partner lending institutions’ loan information system. Where mention is made of a spouse having access to a specific credit product that has influenced the respondents’ financial position, this is also included.

The table shows that there is an extensive and diverse credit offering available to the sample – particularly from formal sources. Two respondents make use of mashonisas. Bank loan accounts include mortgages, personal loans, overdrafts and credit cards. Borrowing from family and friends is not popular as illustrated by Ofentse: “Only if I’m really tight. Family is one thing, they talk a lot. I decided I am going to keep my private life as it is. People they talk. ‘He is driving a Ford Ranger and he comes to borrow money from us. What is in this money?’”

5.5.3 *Loan features*

This section of the analysis focuses on sharing the experience of borrowers with regard to the loan amounts, the loan purpose and the cost of loans.

5.5.3.1 Loan amounts

There were 25 references to loan amounts in the ten interviews without any specific questions on the loan amount in the interview guide. The data gathered from the interviews on loan amounts is illustrated in the form of three case examples. The information has also been validated in the respondents’ credit bureau reports. Each case shows the income level so that the loan amount can be viewed in relative terms. The type and use of loan is also provided to create some context about the loan value.

Box 1: Moses loan amount

Moses has a loan of R500. It is a cash loan that he can pay off over two months at R350 per month, but he has opted to settle it in one month. The loan was for the purpose of repairing his home after a fire. He earns a net income of R2,400. This is the only loan that Moses has.

Table 16: Utilisation of loans

Type of loan	Bank loan		Non-bank loan		Credit facility***		Store accounts		Cell contract		Consolidation loan		Family & friends		Mashonisa		Food credit	
	I*	C**	I	C	I	C	I	C	I	C	I	C	I	C	I	C	I	C
Ofentse	◆	◆	◆	◆	◆	◆	◆	◆				◆?	◆					
Janet			◆	◆			◆	◆									◆	
Wilfred			◆	◆			◆	◆	◆						◆			
Sibusiso	◆	◆	◆	◆	◆	◆							◆					
Vulani	◆	◆	◆	◆	◆	◆	◆	◆										
Charlotte			◆	◆			◆										◆	
Albert	◆		◆	◆														
Moses			◆	◆														
Phuti			◆	◆				◆				◆?			◆			
Elton	◆	◆	◆	◆	◆	◆	◆	◆	◆									

Sources: Atlas.ti data on loan types; respondent credit bureau reports; partner lending institution loan administration system

Notes to the table:

* I = Interview is the source of data

** C = Confirmed with credit bureau and/or partner lending institution data

*** Credit facility = overdraft, credit card or revolving loan

◆? Old Mutual personal loan (may not be consolidation)

Box 2: Vulani loan amount

Vulani has the largest loan in the sample of borrowers – a mortgage loan. The loan has an outstanding balance of just less than R390,000. Before the deduction for his home loan (R5,000), Vulani earns a net income of just less than R22,000. Vulani has an additional 15 credit commitments according to his credit bureau report.

Box 3: Wilfred loan amount

Wilfred had the smallest loan in the sample amounting to R150 which was a cash loan for the purposes of repairing his bicycle (means of transport to work). He earns a net income of R3,900 per month on average. Wilfred has an additional seven credit commitments according to his credit report as well as regularly accessing small loans from a mashonisa.

There is significant diversity amongst the borrowers with regard to the value of loans they access. When commenting on loan amounts received (or offered) some respondents indicated that they were offered more than they wanted or would be offered an additional amount soon afterwards, like Elton who said: “They are too clever, so during the month they will send you a SMS saying that you qualify for this amount and then they will deduct what you owe and give you so much.”

Over a series of loans Albert’s loan size gradually increased from R500 to R6,500 leaving him feeling overexposed: “My current loan is too high, high, high, high. It’s too high!”

Some institutions go so far as to communicate the value that customers qualify for as ‘trust levels’. For example Elton said that: “At first they give you R800, that is with your first loan, then after some time they increase the limit to a point where you can even get R20,000. My ‘trust level’ is around R8,000.”

There was a tendency amongst the sample for loan sizes to increase over time as illustrated by Sibusiso when he said that: “I didn’t take much. I used to take R1,000 and come again and take R2,000.”

Wilfred indicated that he had been taking a series of loans over an extensive period of time but that the loan amount had not escalated in this case. “It is a long time now. It is years. It is plus minus... say I am working now for the company for 27 years, that one [that loan] is 15/16 years. Every time R10,000. It goes for one year. Then you go again and borrow R10,000 again.”

5.5.3.2. Loan purpose

The use of loans was very varied across the different borrowers. Loan usage was discussed on 58 occasions across the range of interviews. The usage of loans mentioned is shown in Box 4.

Box 4: Borrowers' loan usage

- Acquiring or improving assets:
 - Home improvement and home repairs;
 - Buying a house;
 - Buying a second hand car (although the loan was initially intended for business);
 - Furniture or other moveable assets.
- Consumption expenditure:
 - Clothing;
 - Food.
- Life events:
 - Rental deposit on a flat;
 - Paying lobola (dowry);
 - Birthday celebration;
 - Funeral expenses.
- Education (indirect expenses for students not fees or tuition):
 - Books;
 - Living expenses;
 - Clothes.
- Cash smoothing:
 - Irregular expenses;
 - To compensate for variable income.
- In case of an emergency.
- To pay for someone else's debt.

A combination of different suppliers (banks, non-bank credit providers, retail stores), products and channels (internet, SMS, ATM, branch, workplace) were used to provide these services.

When assessing the co-occurrence of codes related to the loan purpose, 'non-bank loans' had 18 co-occurrences and 'loan repayments' nine co-occurrences. This result is unsurprising since non-bank loans were the most commonly used type of credit in the sample and seldom intended for a specific purpose. The fungibility of money and the variety of borrower needs that are being met is evident from this analysis.

5.5.3.3 Cost of credit

There were 24 mentions that related to the cost of loans across the ten interviews. The cost of credit was seldom directly referred to by borrowers except in terms of the capital amount received versus the gross absolute amount payable, or indirectly in reference to the instalment amount. This was more common with short term loans. For example,

Albert said his “loan for now is R6,500 and it goes for R8,000 and something, [with] the interest.”

Some costs appeared to be above the limits prescribed in the National Credit Act no 34 of 2005 (2005). For example, Charlotte said that she got a loan for R600 and had to repay R1,000 at the end of the same month.

Some more disturbing results showed exorbitant real costs to the borrower such as the furniture purchased by Wilfred. The interview discussion is shown in Box 5.

Box 5: Wilfred’s example of costs to borrowers

Wilfred: “From Lewis I bought these couches and the cupboards. It was in 2003. They are nearly finished now.

Interviewer: So do you know how much these couches and cupboards cost when you bought them?

Wilfred: It was about R13,000/R14,000.

Interviewer: What is your monthly instalment with Lewis?

Wilfred: R700.”

According to his credit bureau report, the R13,000 is accurate and the actual instalment is R669. For the sake of these calculations the figures confirmed on the bureau have been used. However, the bureau suggests that the loan started in 2011 not 2003. Assuming that he did purchase these couches at the end of 2003 he would have been paying them off for 12 years (or 144 months) at R669 per month or a total of R96,336. This equates to a total cost of credit over the period of the loan of R83,336. If one assumes the accuracy of the credit bureau report instead, he would have paid for the couches for just over four years (50 months) at R669 per month or R33,450 or a total cost of credit of R20,450. This equates to a loss in disposable income to fees and interest of R409 per month. A second example is that of Sibusiso. The interview discussion is show in Box 6.

Box 6: Sibusiso’s example of costs to borrowers

Interviewer: So you borrowed R25,000 and you are paying R1,900 a month?

Sibusiso: Yes.

Interviewer: How long is the loan for or when did you take it?

Sibusiso: That is why I say it is three years back.

Interviewer: And when will you be finished paying it?

Sibusiso: Next year.

Interviewer: So is that five years all together?

Sibusiso: Yes.”

The capital amount or opening balance is not shown in Sibusiso's credit bureau report but the actual instalment for the loan is shown as R2,941. A current outstanding balance of R60,877 is shown (but this includes fees and charges that have been capitalised). The duration of the loan is also unclear since in the bureau report it shows 102 months, not 60 months as per the interview. For the sake of these calculations the researcher doubled the capital amount that was mentioned in the interview to R50,000 in line with a later comment where Sibusiso proposed getting another loan from African Bank for R50,000. The researcher used the instalment as per the bureau of R2,941 and the term as per the bureau of 102 months. Assuming a loan of R50,000 over 102 months at R2,941 per month, Sibusiso would pay a total of R299,982. This equates to a total cost of credit over the period of the loan of R249,982 or R2,450 per month in fees and interest (excluding capital).

5.5.4 Housing & transport

There were 58 mentions in the interviews related to housing and nine related to cars.

5.5.4.1 Housing

The living arrangements and housing ownership data were coded together, the results of which are shown in Table 17.

Table 17: Summary of housing ownership and living arrangements

Respondent	Type of living arrangements	Status of finance related to housing
Ofentse	Renting in Pretoria; renovating family home in Rustenburg.	Borrowed a cash loan for building supplies.
Janet	Owns a house (process of acquisition unknown).	No cost.
Wilfred	Renting the same flat for 15 years.	R500 rental per month (Source: affordability assessment).
Sibusiso	Owns a house (process of acquisition unknown) where his family stay; he rents a room from his cousin.	R300 rental per month (Source: affordability assessment).
Vulani	Owns house.	Financed through FNB – 20 year mortgage, 14 years remaining.
Charlotte	Renting a backyard room from her daughter.	R400 rental per month (Source: interview).
Albert	Living in his deceased grandparents' home, but no legal transfer of ownership.	No cost.
Moses	Renting a room at work premises. Borrowed money to repair the family home in rural Kwa-Zulu Natal following a fire.	R400 rental per month (Source: interview).
Phuti	Renting a flat which he shares with two other tenants (and his son).	His share of the rent: R1,000 per month (Source: interview).
Elton	Lives in the backyard of his mother's house and pays rent as support to her. Would like to buy a house.	R2,000 rental per month (Source: interview) and loans to improve the backyard room that he rents.

Source: Atlas.ti quotations; partner lending institution affordability assessments.

A number of respondents utilise loans to repair, renovate or enlarge the family property. This is illustrated by Elton: “I took it [the loan] because we have a four room house, I am living in the back room and my sister is in the house with the kids. I took the loan because I want to build at the back because there isn’t really space in the house. I buy materials every month. I wanted some other materials, so I had to get the loan.”

Ofentse is supporting his mother through renovating the family home in Rustenburg: “I am doing renovations at home. Sometimes... I started last month. I’m doing a phased approach. I started with the roofing. Okay, now I am done with the roofing. Then I said, you know I might do some paint for painting the house.”

Moses also borrowed to repair his house after a fire broke out: “I borrowed from XYZ Cash Loans, R500 just for the paint to paint the wall so it won’t be dark all the time. Then I used my own money for the other stuff like furniture, beds, and everything like furniture. Then I borrowed this R500 again. So I took that R500 and saved it so that this month when I get paid together with my own salary I will go to Eskom and beg them to put back the electricity box.”

In Phuti’s case, he first started accessing credit when he needed to pay a rental deposit on a flat: “They need a deposit, do you understand. They need something like R3,000 and it is more than my salary, but I didn’t have any place to stay. Then I went from that time, 2003, I went to the cash loan like the one of XYZ Cash Loans and borrow money.”

Loans have played an important role in people’s living arrangements and particularly in terms of home improvements in the broader family context.

5.5.4.2 Transport

Three of the ten respondents own vehicles of different sorts; the others make use of public transport.

Table 18 shows a summary of the vehicle ownership and related loans.

Table 18: Summary of car ownership

Respondent	Type of car	Status of payment
Ofentse	New Ford Ranger bakkie.	Financed through Ford.
Sibusiso	Second-hand Toyota Cressida.	Financed through African Bank personal loan.
Vulani	Second-hand VW Polo.	Paid off.

5.5.5 *Credit history & affordability*

This section focuses on references that were made to the topic of past credit history, income, affordability and the ability of respondents to manage their debt commitments.

5.5.5.1 Credit history

There were 18 references to the topic of credit history during the interviews. Seven of these related to one respondent who had been through a tiresome experience relating to settling his historical debts. The balance of the references was split across four other respondents. The discussion on credit history centred on two themes. Firstly, how bad credit histories developed due to being suddenly unemployed and, secondly, the impact of this on retirement savings.

There were four co-occurrences of people losing their employment and as a result developing a bad credit history. Albert mentioned that “I got a very bad credit records and it wasn’t good and they couldn’t find me, but I was not having a choice because I was not working.” Similarly, Elton indicated that “I was managing it [Jet store card] well until sometime when things didn’t go well, at the time I got fired from Woolworths because I was at home for eight or nine months. So I wasn’t able to pay them.”

Ofentse’s story reiterates that his credit record was impaired due to not working and introduced the fact that he then started accessing cash loans since these were still available to him despite the bad record: “Mind you, I wasn’t working for close to a year so everything... that is why it is my first time going to those small lending... like cash loans, it is my first time. What happened is my credit is bad. I did my arrangements and I am paying everything.” Phuti also said that “I failed a long time ago, they blacklisted me ten years ago, I forgot like now I don’t need to go to Edgars and say I need an instalment, I don’t need debt again, it’s enough.”

There were also respondents who utilised their provident funds to settle loans, such as Albert: “The contract gets finished and I was having credit, I was having couch credit and I was having bank credit, a loan. That loan was not a lot so I can pay it. I focused on that one for a lot of money so that I can settle it with my money for provident fund that I was taking. It was a contract that they were deducting money for provident fund. So I took all of the money to pay for the couch.”

Elton had a similar experience: “I wish I had a financial adviser, I want to know how you go about getting one. I think if I had a financial adviser... for example, last time I

resigned and went to another company, my retirement fund was around R30,000, then I paid off the accounts and started over, that's how I got a good name. It was a good thing, but at the same time it was a waste of money, I wasn't even supposed to touch that money, but I was forced to use it to pay accounts."

5.5.5.2 Affordability

There were 132 codes related to loan repayment and income & affordability. There were a number of cases of borrowers who faced affordability challenges with regard to their loans. One of the more severe cases is that of Albert who earns a net weekly salary of R950 and has loan instalments of R550 and transport costs of about R200. This leaves R200 per week for all his other expenses. He indicated that he wants to pay the loan off over a longer period so that he can reduce his weekly loan instalment. "Because I went to Old Mutual they said they do consolidation, they do everything. Then I went to them and said fine I want them to consolidate these accounts and give me a long term loan and give me a smaller amount that I can pay. I don't mind if you say maybe you want to take R250 in my salary, from R950 I will be left with R700, that R700 for a week is worth it at least I can do something, but if then you say you take R500 or something that R400 I can't live because I have to pay for transport. To go to work I am paying R200 something."

Another example is that of Charlotte who said that "I mean by the 15th of the month the cash loans [lenders] withdraw their money and so when I go to draw money there's only R300/R400 left." In her case she has the ability to earn additional money through her car guard work at Spar.

Elton also expressed some strain related to affordability: "When someone sees me from the outside, I can afford all, it looks like life is good, the money on my pay slip says how much I will get on paper it looks good, but when it goes into the bank it is a mess because the actual money that is yours is R2,000 or R3,000."

Sibusiso echoed the same challenge: "I get paid on the 15th but on the 20th within five days, I have nothing. Within five days that money is finished."

Wilfred indicated that he would need to supplement his income through private work on weekends to be able to afford his current commitments. "You see, say the money that we pay is more than the money that we get from work and all this. The thing is, say if I

am off on weekends and so on then I go and do special events, the work outside. I go and do those ones.”

5.5.5.3 Variable income

As shown in Table 3, many of the respondents earn a variable component to their salaries. Variable income was a significant sub-theme in the research both in terms of placing pressure on respondents to manage volatility as well as a mechanism for increasing income when needed.

Wilfred mentioned that: “This month was really bad because I was sick one day. We get paid but not the same.” Elton raised the same issue in terms of relying on the variable component of income. “Yes. At the end of the day... normally when I take leave, there was never a point where I take the whole 30 days, I have to take a week or less because otherwise I don’t earn enough without the commission I would have earned.”

Ofentse highlighted the reliance on his variable income in being able to afford additional loans: “Can I pay? I pay this and that. I have to pay them R1,700 every month for six months and I said, no. I can work over-time.”

5.5.5.4 Living within your means

There were two examples of respondents who illustrate that debt stress happens at different income levels. Vulani earns the largest income in the sample but feels it is hard to live on this: “At the moment the situation of the money if you are getting a pay which is less than R30,000 nowadays it is not easy to survive.”

Moses, on the other hand, earns R2,400. When asked how much income would be enough he only indicated a modest increase and said that: “You know, if you grew up knowing that I *may* eat once a day you don’t ask for a lot, you just ask for what can satisfy, just a little.”

These examples illustrate that income levels do not necessarily positively correlate with the respondents’ ability to cope with debt levels.

5.5.6 *Benefits & harms*

There were 58 codes related to ‘harms’ and only 21 related to ‘benefits’ amongst the sample of ten borrowers. The borrowers expressed different reasons for why the loans were beneficial as well as highlighting conditions for the benefits to be attained.

The analysis of benefits started with considering the co-occurrences of codes. Table 19 shows the summary of the most important code co-occurrences with the 'benefit' code.

Table 19: Co-occurrences of codes with 'benefit'

Incidence of co-occurrence	Comment & illustrative supporting quotation
Cost of loans (7)	<p>Most of these co-occurrences related to a borrower who was exposed to loan shark debt and therefore found formal, non-bank credit far more beneficial.</p> <p>Phuti: "If I have money I go XYZ Cash Loans, the interest is reasonable, R400 and something [R1500] unlike the money which you were giving those mashonisas."</p>
Loan purpose (7)	<p>This co-occurrence shows that the benefit of the loan is linked to the loan purpose or usage, i.e. for something specific, planned or that will generate additional income.</p> <p>Moses: "Loans are good for something that you know at the end you are going to get more money out of it."</p>
Money management (6)	<p>This co-occurrence highlights the link between benefit and conscious decision making about the loan and the borrower's ability to repay.</p> <p>Sibusiso: "My main aim is to start the business so that I can be able to pay back the money. I mustn't have a problem paying back that money."</p>

In addition to the analysis of the co-occurring codes, key themes related to benefits were also identified. Charlotte was conflicted in her response, but eventually said that "I would say it helps a bit, because then I can for example buy some clothes from Pep Stores that we need." Moses was more definitive about the benefits saying that "They have helped me. I can say they helped me. I only took a loan when it was most needed for something that was urgent like the paint was urgent, we had to do that. We had to fix the doors and the windows. I needed that extra money. I can say the first loan and the second loan they have helped me a lot."

Ofentse also indicated that the loans were beneficial because of his inability to save. "Like I am saying it helped me. I am not saving. Something comes up the loan will help me." Phuti found them beneficial – particularly in comparison to the costs and conditions he was facing with loan sharks at work. "Yes, I believe so [makes life better], I see it like that, but this is my credit card, I won't get a credit card from anywhere because of those old blacklisting, but I am starting a new life, this is my last hope, this is my lifeline. You see this XYZ Cash Loans is my lifeline, I won't leave it, seriously I won't leave it, I won't disappoint XYZ Cash Loans like next when I get paid I make sure they get their money. Then I go and check my things, maybe R500 or R1,000 and pay

a small amount. I don't mind, unlike those people [mashonisas] who are taking big amounts, big amounts, big amounts without earning this.”

Vulani agreed that his loans have helped him with managing expenses related to education. “They have helped me. They have helped me a lot. Some of the people if they can say they will take the money because they want to enrol. If that child of mine was having a bursary... she is trying now to have a bursary. If she can have a bursary... because there she is paying R21,000 per year and remember she must have money for food and clothing.”

5.5.6.1 Conditions for benefits to exist

Some of the responses were less definitive, indicating that loans were helpful but only in certain conditions. These conditions focused on two main areas, namely having a clear loan purpose linked to being able to generate additional income and, secondly, the ability to repay the loan.

Moses, for example, said that “On the one hand I am saying that loans are good if you are going to take a loan to make a business. That loan is fine. A loan is bad if you are going to take a loan just to buy paint. That is the thing you are supposed to be doing yourself. That is supposed to come from your finances. Loans are good for something that you know at the end you are going to get more money out of it. That is what I am saying. So when you say, in the future will I take a loan, no, I don't think so. If I was caused to go back there, I will go.”

Ofentse's view also emphasised that a loan should be taken for a specific purpose. “When I am going to take a loan I don't just take a loan for fun. I take it for something. Before I had this loan, because I am doing renovations I asked them, I see you guys can borrow money for renovations and they said yes, we are looking for quotations.” Sibusiso was of the view that he would want to use the loan to enhance his ability to generate his income and in these conditions it would be helpful to borrow. “Yes, that is why I have planned it somehow this time that I must borrow and make sure I make a business.”

Janet found the loans helpful on condition that she is able to make the loan repayments. “Ai, listen, I just better, because I am paying. I get it from R3,000 and I am paying.” Ofentse agreed that being able to repay the loan was an important condition for the loan to be beneficial. “For me, credit is not bad. It is going to be bad

when if you can't reimburse, then it is bad. If it is helping for me it is convenient. They borrow me money and I give them money back. I think that's my requirement for it to be good. It is business."

5.5.6.2 Harms

The same approach is followed for analysing the harms namely co-occurrence of codes with 'harm' and a discussion of the key themes. Table 20 shows the most important co-occurrence of codes related to the harmful results of credit amongst this sample of borrowers. The respondents that featured in this analysis generally had higher debt levels relative to income.

Table 20: Co-occurrences of codes with 'harms'

Incidence of co-occurrence	Comment & illustrative supporting quotation
Future borrowing (17)	<p>There was an even split between borrowers who would like to take up future loans and those who would prefer not to. Those who prefer not to highlight that they feel stressed and pressured or that they cannot afford the loan. Some of the respondents who said that they would take a loan in future indicated that they would only do so if they earned more.</p> <p>Albert: "I want to eliminate, but this it is peer pressure, serious pressure because the money also is not enough. I should have said okay fine because I am not earning a lot I have to eliminate to not doing more you see so that I can cope, but now you see I started there by R500, now it's too much."</p>
Money management (17)	<p>The main theme of the codes that related to the co-occurrence of money management and harms was around decisions that borrowers had taken and regretted later.</p> <p>Elton: "Unfortunately when I took loans I didn't even check the interest, every finance department has its own interest, they don't charge the same interest."</p>
Outlook (16)	<p>There were instances amongst the borrower sample where borrowers appeared to be experiencing significant distress as a result of their financial situation. Also, there was a theme around wishing, hoping or praying for the circumstances to change.</p> <p>Albert: "I was so much depressed, I decided to leave the job also last week, it was too bad." ... "Yes too much, too stressed, too stressed. I went on my knees yesterday just praying God could help me, I don't know how, but when will this be finished in my life?"</p> <p>Janet: "It is terrible, I am suffering a lot."</p> <p>Sibusiso: "It is too painful..."</p> <p>Elton: "Yes that one is also finished. I hope not to go in there again. I hope the Lord will help me to get something out of this."</p>

Incidence of co-occurrence	Comment & illustrative supporting quotation
Non-bank loans (12)	<p>The marketing practices of non-bank institutions were mentioned in several interviews in terms of making loans tempting or easy. The two respondents who make use of loan sharks saw non-bank financial institutions as an important more cost effective way of avoiding loan shark debt in future.</p> <p>Phuti: "I am starting a new life, this is my last hope this is my lifeline. You see this XYZ Cash Loans is my lifeline, I won't leave it, seriously I won't leave it, I won't disappoint XYZ Cash Loans like next when I get paid I make sure they get their money."</p>
Income & affordability (10)	<p>The themes arising within this co-occurrence confirmed that variable income has a strong bearing on both making affordability harder to manage but also more flexible to earn more income when required. There were a few individuals in the sample who specifically expressed that they could not easily live on their disposable income after loans deductions.</p> <p>Albert: "Because you see here I get R707, they took R507.74, I am left with only R150 for that week and I have got kids, it was too hard."</p>
Roll-over (9)	<p>Rolling over of loans was common amongst the respondents. This took different forms - renewing a monthly payday loan, to an annual roll-over of a loan, to some examples in between. This also often took the form of refinancing an existing capital balance in part or in full.</p> <p>Phuti: "From that time 2003 you go there and you borrow money and you pay, you pay, you pay maybe six months or twelve months then when you are done they give you another loan. All the time because of your background, because you just don't have money you are forced to go to the cash loan and get another one. Then from that time until now I live a life of loans."</p> <p>Wilfred: "So from there we never came out of that one. So we just go and if it is never finished then it becomes a problem. We go and do a new loan and then they deduct the old one from that one and they take that monies. It is loan on loan."</p>
Cost of loans (9)	<p>The cost of loans is most often described in Rand value terms – either as a monthly instalment amount or as a lump sum amount that needs to be repaid relative to a capital amount that was borrowed. Respondents expressed that loan repayments cause hardship.</p> <p>Interviewer "So you take R1000 and you pay R1300?"</p> <p>Janet: "Mmm. I am suffering."</p>

5.5.7 Financial behaviour

The financial behaviour theme was made up of several sub-themes including money management and financial decision making. Money management was used as a general code for discussions with the borrowers that related to the borrowers' financial capability, discipline and behaviour. It was a prominent theme of discussion making up

50 mentions. Decision making was also an important part of the research making up 49 mentions in the ten borrower interviews.

5.5.7.1 Money management

Money management focused on the borrowers' ability to manage debt repayments as well as variable income (which has already been shared in Section 5.5.5). The focus of this section is therefore related to handling debt commitments. There are four key examples of money management challenges faced within the sample:

- The difficulty of managing an overdraft facility (Box 7);
- Relying on loans to manage emergencies (Box 8);
- The discipline required for avoiding rolling over loans (Box 9), and;
- Using pension funds for short term expenditure (Box 10).

Each of these examples is shown in a Box below. There are many others that relate to each of these themes and others.

Box 7: Elton's overdraft management

Elton spent a lot of the interview discussing his overdraft facility. From the discussion it was evident that this is difficult for him to manage and was the cause of some distress. "The thing that kills me is my Standard Bank overdraft. When I first got it I used it, every month when I get paid it is in the minus, even if I get R17,000, it will be R7,000 for the overdraft, I have only got R3,000 in actual money. The overdraft limit is R7,000." ... "Now I was thinking of cancelling the overdraft... it is not a bad thing, but it's the way I am using it... it was intended to help me in my time of need, it is like a pre-approved loan, but in my case it has been... if my overdraft was in proper order I wouldn't even take other loans because I would have the overdraft to help, but I ended up using it and taking other loans. Once you take one loan the roof is caving in, you take another and another and another..." ... "I once decided not to touch my overdraft one month, I had R4,000 and my commission was R8,000, plus R12,000, it was a lot of money... so I thought I wouldn't touch the overdraft. I forgot about one instalment from GetBucks, it was one point something, and automatically I had to go back to the overdraft."

Box 8: Phuti's reliance on cash loans for emergencies

Phuti: What I just need is when I am stuck I can go to XYZ Cash Loans and say please give me R2,000, they give me R2,000 then one month I pay and it's done and then when it is done I need my account to always be active, I can take that R1,000 even if I don't need it. That account must always be there do you understand like a credit card.

Interviewer: Why do you say that, did they tell you that?

Phuti: No, they didn't tell, if in a company if you are a good client like even in the bank if you pay them nice, pay them nice, then one day you are stranded, you don't have a good score, but good points then you are able to do whatever you want to do.

Box 9: Wilfred's perpetual loan

There are also examples of borrowers in the sample who have started a loan given a specific emergency (such as a funeral) but then land up with the loan for an extended period of time. Wilfred's example of this was cited earlier – 15/16 years with Eminent Financial Services. He says: "If you go there... you see it becomes like... what do you say? Like it is a thing that if you need something then you are on a... say you are nearly finished with that one then you start becoming... now say that you have a need of money now so that is the first place you go. That one is a serious serious problem."

Box 10: Albert's use of pension funds for short term needs

Then they just take all the stock room controllers that the contract gets finished and I was having credit, I was having couch credit and I was having bank credit, a loan. That loan was not a lot so I can pay it, I focused on that one for a lot of money so that I can settle it with my money for provident fund that I was taking. It was a contract that they were deducting money for provident fund. So I took all of the money to pay for the couch.

Moses was one of the respondents in the sample who managed his money in a very disciplined manner. He was of the view that "Loans are good for something that you know at the end you are going to get more money out of it." He saves every month and doesn't believe that it is healthy to use loans for anything (unless they generate additional revenue).

5.5.7.2 Decision making

The two key components of financial decision making that were explored with respondents were:

- Who participates in the financial decision making within the household, and;
- What factors are considered in the financial decision making process.

Most of the respondents make decisions about their finances on their own aside from Wilfred, Charlotte, Albert and Moses. However, in instances where decisions were made together there were still cases of one party acting outside of what was agreed.

For example, Wilfred and his wife agreed that she would stop using the mashonisa at her work and that she would reduce her store accounts. "The problem now is I am telling my wife to minimise... to come down with the accounts and all this so that we can get extra money to do our other things now." But as soon as the budget is tight these agreements are not honoured, despite the good intentions. Albert experienced a similar challenge with his wife who used their store account for clothes for the children after they had agreed not to use it.

The main factors that were considered in financial decision making arising from the research are summarised in

Table 21.

Table 21: Factors in borrowing decisions from the borrower perspective

Consideration	Illustrative quote
Convenience	Wilfred: "Unfortunately when I took loans I didn't even check the interest, every finance department has its own interest, they don't charge the same interest. The reason I took GetBucks was convenience, you don't have to do a lot of paperwork, you can take it out on the internet, it is just like Wonga."
Own perception of ability to repay	Janet: "You know you are getting paid so then you are comfortable to get a loan."
	Ofentse: "I checked my budget last month. I checked and I will be able to pay 1, 2, 3 and then after that I will be left with nothing, actually a little money. Pay all my debts, put aside money for diesel, pay my rent, put money for groceries, airtime and then I check and I am left with nothing. And then due to, like I said I am doing renovations there. I had some savings that I did a long time ago. Because last time I got R15,000 which went straight to the renovations as well so I didn't pull anything from the investment, Old Mutual. Then I said I will be left with nothing and I don't want to borrow from them, hey guys can you give me money? I said let me have money aside so if something comes... it is the beginning of the month. I still have 25 days to go before I get my pay."
Association with the brand or advertising	Sibusiso: "I was passing and I saw this African name Thuthukani. I had never seen it. I went in there and asked them. They helped me. Then from there I said as long as I am working with them nicely I will always have them. As long as I am paying and I am a good client to them and not giving them hassles."
	Wilfred: "I have seen it from the TV advert. I saw it from the TV advert and then I went there."
Based on satisfying a specific need/ want	Sibusiso: "What I consider is I have to look what I am short of, what I don't have in the house, what I need. If I see that I need such and such a thing then that needs some cash so I have to go there."
Value added services (e.g. insurance)	Vulani: "I leave it because I have got insurance policies there [at Edgars] for if something can happen. They are not going to pay out if you are on arrears. That is why that one I am making sure I kept it."
Ability of the lender to meet the loan requirement/ need	Wilfred: "You see the decision making is the immediate need for what the need is for that money. So if we see that it is really a need then I go, but the first thing is I go to XYZ Cash Loans because XYZ Cash Loans is nearby, if the money is too much that I need then I go to Eminent. XYZ Cash Loans don't give as much money as Eminent so that is the other thing now. We have to see how much money you need and where to go."
Ease of access	Wilfred: "My friend [the mashonisa] is the other one because I can just call her now and she will say come."

5.5.8 Future orientation

There were several mentions of hopes, dreams and prayers for a better future, but very few of conscious planning for the future. For example, Phuti said: "Honestly speaking, I

just have a dream that one day if I can be able to control my finance, just to be manageable, do you understand.”

Moses said: “The only person who cares is God so I speak to him most of the time and then in the real world I speak to my girlfriend. There is nothing she can do because she is just a girlfriend. She is struggling as well to fix her life too.” Wilfred shared similar sentiments: “Yes, that one [the cash loan to repair his bicycle] is also finished. I hope not to go in there again. I hope the Lord will help me to get something out of this.”

The samples’ intentions related to borrowing in future are shown in Table 22. The table shows unprompted statements about not wanting to borrow in future as well as responses to a more direct question.

Table 22: Intended future borrowing

Stated intention related to taking on future loans	Number of borrowers - direct question	Number of borrowers-unprompted
Yes, would take a loan again	Janet, Ofentse, Vulani, Wilfred	Phuti
Yes, would but only if desperate or for something specific	Sibusiso	Moses
No, I would avoid it	Albert, Charlotte, Elton, Moses	Albert, Elton, Charlotte, Phuti, Wilfred

The information is interesting as there are often conflicts between someone saying they want to stop borrowing, but later make a contradictory comment suggesting habitual behaviour. For example Wilfred volunteered that: “We will try but we have tried to get out of all this.” But later when asked if he’d take another loan said: “Yes. If we need some then we can maybe go to XYZ Cash Loans for that R200 or R300 or go to my friend. If there is an urgent need now.”

5.5.9 Conclusion on borrower findings

The analysis of the interviews with borrowers shows a rich set of results. Borrowers in the sample demonstrated low savings and investment levels and access to a diverse range of different credit products and services. These credit offerings are used for an extensive range of needs from asset acquisition to purchasing food. Borrowers appear to struggle with making rational money management decisions in the face of many challenges, including variable incomes and high costs of credit.

5.6 Conclusion on the analysis of the results

Chapter Five describes an analysis of the data from the key informant interviews, interviews and visits with the sample of borrowers and secondary data about the borrowers' credit history and affordability. It is presented in two phases with the key informants described briefly and the results from these interviews presented first. The second half of the chapter focuses on the borrower and includes a brief description of the borrowers, a more personal description of the borrowers with the researcher's impressions and observations and an in-depth analysis of the data gathered during the interviews and from secondary sources. This rich data and the literature review (Chapter Two) will form the basis of the discussion in Chapter Six.

Chapter Six: Discussion of results

6.1 Purpose and framework for the discussion

Chapter Six integrates what was learnt in the literature review with the results from the discussions with key informants and borrowers. It aims to distil the relevance of the rich findings through highlighting the most important outcomes and exploring what they mean. The study set out to explore the benefits that can be gained from consumer credit from a borrower perspective and to understand what conditions need to exist for these benefits to materialise. The study therefore places the borrower at the centre of this enquiry.

Given the inductive nature of this research and based on what has emerged from the findings three important topics are discussed here:

1. *Pronounced stakeholder ideologies prevent coordination:* From the key informant and borrower interviews it is evident that the borrower operates in a very complex environment. The environment is characterised by different stakeholder groups that have strong ideologies. These values and mindsets influence relationships both within stakeholder groups as well as between stakeholder groups. Stakeholder theory is applied as a framework for the discussion of the results related to the role players in the sector and how they influence the benefits of consumer lending to the borrower.
2. *Consumer loans influence savings and investment behaviour:* The fact that consumers borrow to the limit of their affordability means that they are unable to save. Saving is also less necessary when there is ready access to credit. Borrowers are sufficiently experienced and savvy to know how to manage their credit commitments to ensure future access (even if they find their debt burden onerous). The use of retirement savings to settle short term debt (particularly in the event of unemployment or retrenchment) requires further research, but was evident in this sample and suggests that stronger measures are needed to protect these long term investments.
3. *Consumers trade economic resilience for self-sufficiency:* Consumerism at the expense of productive or functional investment means that borrowers pay a very high opportunity cost for being able to handle important unplanned events or meet short term goals. The variability of income and the relative uncertainty of employment contracts in the South African business environment also makes it harder for consumers to manage their financial position.

6.2 Pronounced stakeholder ideologies prevent coordination

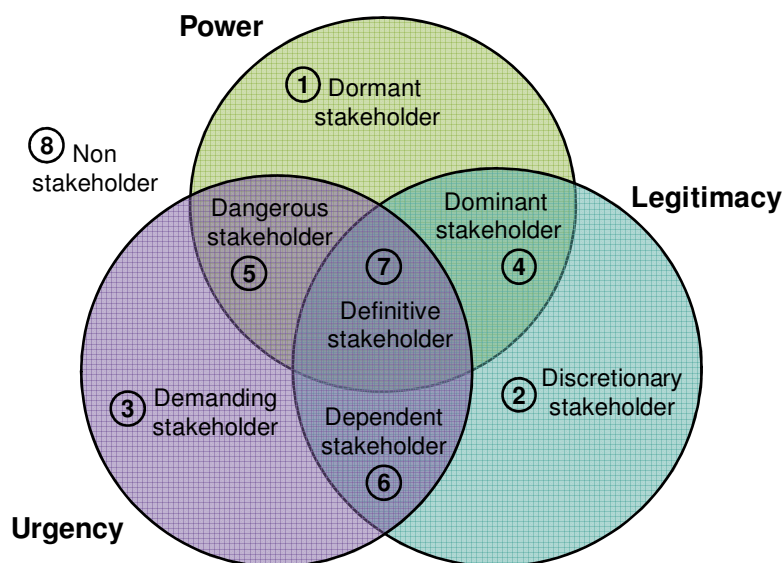
The orientation of this study was focused on the borrower. The stakeholder perspective was not anticipated prior to this theme emerging from the findings of the research. Therefore, the first part of this section provides a brief insight into stakeholder theory and then a description of the stakeholder environment.

6.2.1 Stakeholder theory

Buchholtz & Carroll (2012) explain that “stakeholders have a stake in the ‘value’ they expect to receive from firms with which they interact.” Not unlike shareholders, stakeholders expect to derive utility from their engagement with the firm. Harrison & Wicks (2013) expand on stakeholders’ idea of ‘value’ suggesting that it is composed of the value derived from four sources: i) the goods and services themselves, ii) organisational justice (fair treatment), iii) affiliating with companies that exhibit practices consistent with the things they value, iv) getting a good deal from the company based on the opportunity costs they spend compared with the value received from dealing with another firm.

In considering the different stakeholders in the consumer lending environment, it is useful to consider the framework put forward by The Academy of Management in Buchholtz & Carroll (2012). Stakeholders are considered through three dimensions, namely legitimacy, power and urgency as shown in Figure 1. They also propose that proximity between stakeholders influences the priority for stakeholder engagement.

Figure 1: Stakeholder typologies



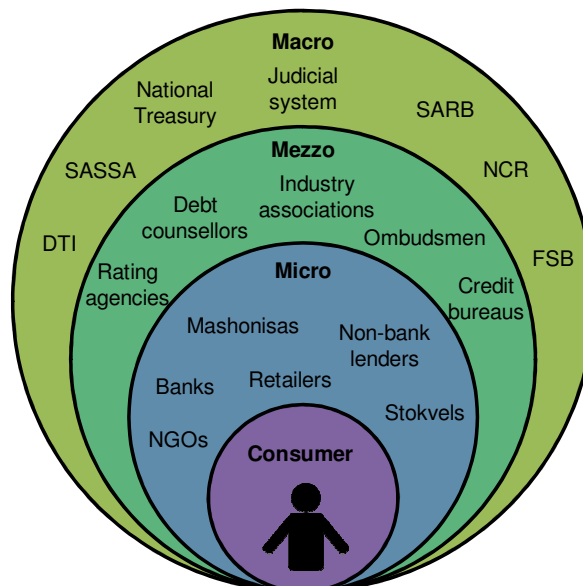
Source: Buchholtz and Carroll (2012)

The framework proposed will be used to discuss the dynamics in the consumer lending environment. To provide the context for this discussion Section 6.2.2 provides an overview of the primary stakeholders.

6.2.2 Stakeholders in the consumer lending market

The main stakeholder groups in the consumer lending environment are shown in Figure 2. The macro-level stakeholders refer to actors in the enabling environment. The key stakeholder groups at the macro level that feature in this study are policymakers (National Treasury and the Department of Trade and Industry) and regulators (National Credit Regulator and South African Reserve Bank).

Figure 2: Consumer lending stakeholder map



Source: Adapted from Development Alternatives, Inc (2006)

The mezzo level stakeholders create the ‘infrastructure’ for the financial services sector to operate. There are many not mentioned in the figure as they did not feature prominently in this research, such as the payments system, debt collection agencies and market research firms or data. The industry associations of relevance to this research are the Banking Association of South Africa, Micro Finance South Africa and Development Microfinance Association of South Africa.

The micro level refers to the institutions that provide formal or informal financial services to the consumer. The formal institutions are represented by industry associations as above. The consumer is shown at the centre – reflecting an orientation towards the customer.

6.2.3 Imbalance of power between consumers and business

Applying the typologies in Figure 1 and due to borrowers having low power and high legitimacy relative to lenders, borrowers are deemed to be discretionary stakeholders. The key informants frequently mentioned an imbalance of power between borrowers and lenders. The fact that borrowers are often from low to middle income groups with very challenging economic circumstances increases their legitimacy as stakeholders in this relationship. A good example of this legitimacy is Albert who travels for six to eight hours a day to and from work. The fact that lenders have more financial acumen and in many instances have a strong profit motive illustrates the power they hold in this relationship.

The findings also raised a racial dynamic in this stakeholder relationship, namely black borrowers being exploited by white lenders. This perception further exacerbates the sensitivity of this stakeholder relationship in the context of South Africa.

Given the imbalance of power between borrowers and lenders, the role of consumer protection through regulation becomes important. The DTI has the responsibility of defining policy and regulation related to consumer protection. The National Credit Act no 34 of 2005 (2005) forms the basis of consumer protection in the credit industry and the National Credit Regulator is the market conduct regulator responsible for enforcing the rules as defined in the NCA (no 34 of 2005). The efficacy of the enforcement of this Act and the coordination with other regulators and policy makers in the financial sector is discussed in the following section.

There is considerable apprehension related to how interventionist government should be with respect to this consumer protection role. There is a trade-off between protecting vulnerable consumers from unscrupulous lenders and being too paternalistic. This balancing act was raised by many key informants. Given the observations in this research process related to affordability and reckless lending, the use of mashonisas, the cost of credit, abusive marketing practices and the lack of transparency in the relationship between the borrower and the lender, the evidence suggests that this balance is still not fair.

Aside from government's role in this landscape, the power imbalance in the relationship between the borrower and lender suggests a role for stronger and more coordinated consumer activism. The absence of this stakeholder group from the key informant interviews, despite efforts on the part of the researcher, only serves to confirm this gap.

The utility expected from the relationship between the borrower and the lender goes beyond the utility of the loan itself. Part of the utility that borrowers should derive from the relationship with lenders is fair treatment as per Harrison & Wicks (2013). This sentiment is supported by the work carried out by the Smart Campaign – a global body that promotes client protection through the adoption of seven universal principles. The Smart Campaign works in partnership with independent rating agencies like Moody's or Microfinanza Rating to certify microfinance institutions and banks related to their observance of an extensive set of well-defined underlying standards.

Box 11: Smart Campaign client protection principles

1. Appropriate product design and delivery
2. Prevention of over-indebtedness
3. Transparency
4. Responsible pricing
5. Fairness and respectful treatment of clients
6. Privacy of client data
7. Mechanisms for complaint resolution

Source: Smart Campaign (2015)

In addition to the interplay between power and legitimacy in the stakeholder typology model, urgency of engagement can also play a role in the dynamic between borrowers and lenders. At times borrowers might be considered as dependent stakeholders, when there is higher urgency for lenders to engage proactively with borrowers (for example, following the Marikana incident or the African Bank curatorship). These engagements are unlikely to be sustained and are insufficient substitute for regulatory intervention or more extensive market incentives.

6.2.4 Policy and regulatory incoherence

The feedback from key informants during the interview process suggests that the National Credit Regulator has been ineffective in terms of fulfilling its mandate. One measure of the failure of the regulator is the breakdown of stakeholder engagement most aptly summarised in the response from one of her primary stakeholders who said "I mean it is easier for me see [President] Zuma than Nomsa [CEO of the NCR]." This view is supported when considering the anecdotal evidence from the borrowers in the sample related to abusive lending practices, the prevalence of informal lenders and affordability issues.

Furthermore, the fact that there are three financial sector regulators (SARB, NCR and FSB) is symptomatic of incoherence in the policy environment in South Africa. This

incoherence is rooted in ideological divides between different schools of economic thought within government. It also separates two regulatory responsibilities, i.e. market conduct and prudential regulation.

There is acknowledgement of this incoherence but it has taken a long time for this to be addressed. The Twin Peaks policy framework has been under development and consultation since before 2011 and “places equal focus on prudential and market conduct supervision by creating dedicated authorities responsible for each of these objectives. It also places a separate focus on financial stability. A Twin Peaks system also represents a decisive shift away from a fragmented regulatory approach, minimising regulatory arbitrage or forum shopping. It focuses on implementing a more streamlined system of licensing, supervision, enforcement, customer complaints (including ombudsmen), appeal mechanism (tribunal) and customer advice and education across the financial sector” (National Treasury, 2014).

The Financial Sector Regulation Bill no 749 of 2015 (2015), which defines the Twin Peaks framework in law, has been through two revisions and wide industry consultation in an effort to adopt a more coordinated approach. This has been pending for years, confirming how challenging it is to adopt a consistent approach to regulating this sector. In the meantime, consumer protection is inadequate.

6.2.5 Financial service provider fragmentation

In addition to the tension between borrowers and lenders and between industry and the regulator, there are strong schisms between the different parts of the lending community. There are more than six different industry representative bodies that support membership from different parts of the lending community including banks, non-bank lenders, car financiers, large non-bank lenders, developmental lenders (non-profit sector) and retailers. The level of cooperation between these different associations varies.

The fact that the industry is not able to coordinate more effectively through identifying issues of common interest means that they are less effective in their negotiations with government and in their advocacy efforts. Addressing this fragmentation is very challenging since the fundamental motives and objectives of the different stakeholders vary from carrying out a God-given mission (following a business model that struggles to achieve financial self-sufficiency) to making as much profit as possible (or ‘profit gorging’ as per KI-D) with resultant harm to borrowers. Neither of these extremes

appears to be ideal and suggests that a model that embodies philosophies of capitalism with a conscience or social enterprise principles would be more sustainable.

6.2.6 Conclusion on lack of stakeholder coordination

The industry is characterised by stakeholders with strong ideological standpoints. The level of intolerance between these different stakeholder groups has been such that a coherent approach to responsible financial inclusion remains elusive. In the interim, one of the fallouts of these ideological divides is that borrowers are more vulnerable rather than enhancing their economic safety net or their economic resilience through healthy financial inclusion. One specific symptom of this is the low levels of savings amongst the sample which forms the basis for the next section of this discussion.

6.3 Consumer loans influence savings and investment behaviour

6.3.1 Reasons for low levels of savings

Savings and functional investment are one of six critical factors needed to achieve transformative economic growth at country level (Saville, 2015). Despite this importance, South Africa has one of the lowest levels of savings in the world (Erasmus, 2015). The fact that only two of the borrowers in this sample save in bank accounts and one in gold coins, confirms that savings is a challenge.

One reason for low savings levels that stems from these research findings is that borrowers have relatively easy access to credit for dealing with emergencies – a mechanism or instrument which they have used and understand. A second reason is that savings instruments do not provide any incentives or offer any strong utility to consumers. The fact that Vulani saves in gold coins due to not wanting his savings eroded in his bank account is evidence that savings products in the market do not adequately respond to the needs of consumers. The third reason, which featured prominently in the discussions, is more entrenched, namely culture and behaviour. There was no evidence of individuals being taught to save from a young age or the inculcation of savings habits. The underlying factors that influence low savings levels include the regulatory environment and the resultant market structure.

6.3.2 Regulatory considerations related to savings

One of the key factors related to the under-development of savings in South Africa is a structural issue related to the regulatory framework. The Dedicated Banks Bill (National Treasury, 2004) was developed with the objective of enabling a second tier of banks to develop – that would have limited capabilities but also lower capital requirements.

According to Hawkins (2005) “the Bill should have a positive impact on competition in the sector as even the threat of new entrants is likely to encourage innovation from incumbents”. The Bill was drafted more than a decade ago and has still not been tabled in Parliament.

The result is an oligopolistic bank market structure which was raised as an issue in several key informant interviews. This highly concentrated market structure manifests in low levels of competition, high prices and products and services that fail to adequately meet the needs of consumers.

The incentives for banks to provide savings products are low relative to the profits which can be earned through the provision of credit – particularly in terms of small or low savings balances. Innovation from retailers and mobile network operators tends to focus on transactional products given the regulatory requirements associated with savings.

6.3.3 Erosion of retirement savings

In addition to low savings levels, feedback both in key informant interviews as well as from borrowers in the sample confirmed that retirement savings are used to settle debt commitments, particularly when people are retrenched or their contract ends suddenly. In some cases cashing in retirements savings was mentioned as a reason for people resigning.

6.3.4 Conclusion on savings and investment

This research provides anecdotal evidence in support of the fact that the high and easy levels of credit access, inappropriate or unattractive savings offerings from banks and a poor savings culture are some of the main reasons for low savings levels. Further research is needed to understand low levels of household savings in more detail. What is evident is that changing the current behaviour amongst households will need a focused, coordinated and sustained intervention if any change is anticipated. The enabling requirements for behaviour change form part of the following section of this discussion.

6.4 Consumers trade economic resilience for self-sufficiency

6.4.1 Revisiting choice theory in light of the findings

One of the fundamentals in the research approach adopted for this study has been placing the borrower at the centre of the enquiry and thereby contributing to the

academic discourse on the potential benefits derived from credit. This necessitates adopting an open mind to the perspectives raised by the borrower. This approach is grounded in several theories.

Firstly, this notion is well aligned with utility theory (Bernoulli, 1738) since utility theory assumes that the borrower has a particular need to be met that varies from one borrower to another. This suggests that the borrower knows what will satisfy his needs best. The challenge for policymakers, regulators and consumer activists is to be open to this view since it is at odds with a more paternalist instinct to protect potentially vulnerable citizens. In adopting this mindset, the most beneficial aspects of access to consumer loans for borrowers observed in this research relates to the ability of consumer loans to offer borrowers freedom of choice in terms of loan usage. This is evident from the array of loan utilisation articulated during the interviews as shown in Box 4. Borrowers also place a lot of value on not borrowing from family and friends to preserve their privacy and to reduce the burden on family. This makes them more self-sufficient.

However, the challenge confronted in this research is whether the borrowers' choice in practice truly reveals utility. Samuelson (1938) proposed that an accurate way of understanding individuals' choices was to observe their choices in practice, namely, the theory of revealed preference logic. In other words, if a borrower keeps taking a loan it should demonstrate that he derives benefit repeatedly. The results in this research do not support the concept of revealed preference logic given that several of the borrowers in this sample (all repeat cash loan borrowers) expressed that they would prefer not to take up a loan again in response to being asked directly as well as without being prompted.

The fact that several borrowers indicated that they would prefer not to take up a loan in future suggests that the anticipated utility did not materialise or that their judgement about the utility of the loan was incomplete i.e. that the borrower was rationally bounded (Simon, 1955, 1956).

Bounded rationality therefore impacts on whether borrowers ultimately derive the utility they anticipated. Since it is not the first time the borrowers are taking up a loan, it is difficult to say that they were unaware of the costs or consequences of their choice. In fact in some cases the borrowers have been making use of the same loan product from

the same institution for more than ten years. Given this, applying the theory of behavioural performance and change provides some insights.

6.4.2 *Behavioural performance and change*

Applying the eight variables underlying behavioural performance from Fishbein et al. (2001) helps to reach some conclusions about why borrowers repeatedly borrow in spite of expressing the desire not to.

1. *Strong positive intention to change:* The majority of respondents did not express a strong conviction to change. They did express a more passive desire for the situation to be different.
2. *No environmental constraints:* Given the affordability of some of the borrowers and the demands on the borrowers' finances from other household members, their environment does offer some constraints to reducing borrowing.
3. *Skills needed for the behaviour:* Respondents have more experience in borrowing than saving. Some mentioned cutting out specific loans as a starting point – mostly the more expensive short term debts. Therefore, they may have limited knowledge of what to do, but not a lot of experience or skill in executing the necessary changes.
4. *Positive attitude towards the behaviour:* The fact that borrowers expressed that they prayed and hoped for change suggests that they may not be intentional enough about the needed change.
5. *More social pressure towards change than not:* There are 23.37 million active borrowers suggesting that borrowing is commonplace and accepted. The social pressure to change is considered to be low even if people do not always disclose their loans when asked (Karlan & Zinman, 2008b).
6. *Behaviour more or less consistent with self image:* The fact that there were strong sentiments around individuals using loans to purchase luxury items to improve their standing or status suggests that stopping borrowing would be at odds with this.
7. *Emotional reaction to change is more positive than negative:* A negative sentiment towards the situation was evident from statements about struggling or being in pain.
8. *Perceived self-efficacy to execute the behaviour change:* No strong evidence related to self-efficacy.

In light of assessing borrowers' behaviour in terms of these eight variables it comes as no surprise that there is a 'saying-doing' gap or a failure to act on the intention to

reduce loans. The fact that behaviour change seems difficult for this audience implies that the borrowing decisions that they make are not in line with their utility over time.

With some hesitation, given the desire to approach this enquiry from the point of view of what borrowers consider beneficial, the more rational economic assessment of consumer lending suggests that there are significant trade-offs for borrowers based on what they said in the interviews. The trade-offs are more or less evident depending on a range of considerations or factors. These factors include the:

- Type of loan product – pay day loan, credit facility, term loan, short term credit agreement, given the different costs associated with these products and the difficulty of exerting discipline related to future borrowing after the first loan;
- Type of credit provider – mashonisas or formal credit provider, given the costs;
- Sustained period of engagement – roll over of loans or credit facilities like overdrafts appear to be particularly difficult to manage and lead to long term use of credit for no specific purpose;
- Affordability of the borrower – staying within a manageable debt service ratio as well as the ability of borrowers to manage the variable income component of their salaries. In an extreme case the variable income should not be considered at all in the debt service ratio to ensure that the borrower can manage their debt commitments.

These factors reduce the benefit of consumer loans to the borrower. The fact that many of the factors that reduce the benefits are commonplace or pervasive suggests that anecdotally the benefits of consumer loans are diminished as a result of the long-term burden of the costs and the difficulty of changing behaviour (stopping borrowing) once the initial need for the loan has been satisfied.

Through examining the costs that accumulate over extended periods of time on unproductive loans, it is evident that borrowers spend significant proportions of disposable income on interest charges and fees. Aside from the real cost associated with these fees and interest, there is an opportunity cost. This can be justified in the short term for emergencies or specific needs – but when this cost occurs over extended periods of time it appears to prevent consumers from accumulating assets. The fact that only three of the respondents manage to make meagre savings is an example of how these costs could erode their balance sheet. On the positive side, seven of the ten respondents contribute towards the payment, repair or renovation of a

home owned by the immediate family (if not their own). Loans have played some role in their ability to achieve this.

6.4.3 Conclusion on resilience for self-sufficiency

Borrowers in the sample display varying levels of dependency on consumer loans for managing the financial demands they face. Some utility is gained through having access to funds for a wide range of needs but borrowers are not well placed to achieve behaviour change if this utility does not materialise. The environment they operate in makes behaviour change seem nearly impossible.

The fact that achieving meaningful behaviour change through financial education was viewed as challenging amongst the key informants reiterates this challenge. Policy considerations related to positive change within indebted households will need to consider very holistic solutions that address environmental factors. Strong incentives will also be needed for the different stakeholders in this environment to ensure a coherent approach.

6.5 Conclusion

Three key findings emerge from the research which influence the benefits and costs to borrowers. Firstly, the pronounced fragmentation between different stakeholders in the sector undermines responsible financial inclusion. Vulnerable consumers, profit driven credit providers and uncoordinated policy and regulation mean that solutions to the challenges in the market are not addressed, or when attempts are made to address the issue, progress is extremely slow.

The second example is a case in point in this regard – where savings and investment levels are negatively affected by the regulatory framework. The solutions to savings in the market fail to meet the needs of consumers and so already vulnerable consumers use credit instead of savings to meet their cash flow smoothing and emergency needs.

The last key finding confirms that the borrowers in this sample are rationally bounded as evidenced by the fact that despite expressing a desire to stop borrowing or to reduce borrowing, they continue to access loans. The two primary influences on bounded rationality – i.e. individual factors and environmental factors (Simon, 1955, 1956) - also form key influences in the consumers' ability to adopt behaviour change (Mittler et al. (2013). Therefore, some of the conditions that exist for borrowers to derive benefit given that they are rationally bounded relate to restricting debt levels and

long term costs of credit. Whilst the current regulatory framework has been recently adjusted to strengthen these provisions, it will be important to strengthen the capacity of the regulator to ensure effective enforcement.

Chapter Seven: Conclusion

7.1 Principal findings

7.1.1 Introduction

The research questions posed in this project aimed to reconsider the benefits and costs that borrowers derive from consumer loans and the conditions that need to exist for these benefits to outweigh the costs, given rationally bounded consumers. An inductive approach was adopted in the hope that this research will contribute to the academic discourse through providing fresh perspectives on the benefits of consumer credit to borrowers. Grounded theory was deemed necessary since the current impact studies on microcredit are prone to anchoring bias associated with the developmental goals of eradicating poverty in line with the objectives of classical microfinance models such as Grameen Bank.

Drawing on ethnographic research methods the researcher conducted face-to-face interviews with ten borrowers at their homes. This approach enabled the researcher to immerse herself into the borrowers' context as deeply as possible within the short time available for the research. The intention of this approach was partly to build rapport with borrowers and to build trust because of the personal nature of the data. More importantly, the researcher wanted to ensure that the research was grounded within the borrowers' context, due to the importance of the environment in bounded rationality theory and to avoid a purely intellectual enquiry. The researcher also interviewed ten senior stakeholders within industry across different stakeholder groups to garner a wide variety of perspectives on the conditions for borrower benefits from consumer credit.

The inductive nature of the research revealed three key findings that ultimately confirm that borrowers are rationally bounded and therefore can derive benefit from consumer loans only within specific conditions.

7.1.2 Stakeholder relationships

Firstly, the relationships between different stakeholders in the environment are hostile, or at a minimum uncoordinated. The nature of these stakeholder relationships results in a sector characterised by discord rather than harmony, mutual benefit, sustainability and inclusion. The first problematic relationship is between lenders and borrowers – notably for-profit lenders. The research raised many questions about what denotes fair profit and what sort of lending practices are deemed responsible. The power imbalance

between borrowers and lenders has led to government implementing regulation that aims to protect consumers in this relationship. Unfortunately, the regulatory capacity to enforce this has been limited and ineffective. The research finds that consumers are ill equipped to deal with the aggressive and ready supply of credit. The question is whether this is true for the 23.37 million credit active consumers in South Africa?

The second set of stakeholder relationships that pose a challenge are within government and regulators. The lack of coherence between the different policy makers and regulators creates a lot of uncertainty in the industry and fails to achieve clarity with regard to financial inclusion policy.

The last set of stakeholder relationships that is uncoordinated are the credit providers. Credit providers in the sector do work together (such as the National Industry Steering Committee) on occasion, but there are deeply rooted ideological differences between for-profit and the not-for-profit players that has prevented cross-pollination of ideas and practices and joint lobbying with government for a more enabling environment.

Through coordinated stakeholder engagement, a well-informed, clear strategy for financial inclusion is more likely.

7.1.3 Savings and investment

The second key finding relates to savings and investment and demonstrates that the incentives for household saving are very low. Consumers have the option to access loans quickly and easily to meet emergency needs, savings products do not offer the utility that consumers want and the culture of savings appears to be absent or low in the presence of strong consumerism.

The use of retirement savings to settle outstanding debt commitments is a subject for further study. Anecdotally, this seems to be a challenge with two borrowers in the sample mentioning that they had spent their retirement savings to settle debt commitments when they left their employment. This issue also emerged with key informants.

Therefore, this research finds low levels of short term savings due to easy access to credit and affordability as well as the erosion of retirement savings as downsides to the ease of credit access.

7.1.4 Borrower behaviour and utility

The final key finding focuses on borrower behaviour. The research finds that the borrowers derive some benefits from accessing credit, most notably freedom of choice and the ability to be self-sufficient.

However, more than half of the respondents in the sample indicated that they would prefer to reduce or stop borrowing in future, suggesting that the utility they derive from their loans does not outweigh the costs. However, they continued to borrow, confirmed by their participation in this sample (in light of the sampling criteria). Based on this behaviour, the variables necessary for effective behaviour change defined by Fishbein et al. (2001) were used as a framework to analyse the borrowers' 'saying-doing' gap. Seven of the eight requirements for change were not met (with no evidence on the eighth variable from this research), confirming that behaviour change in this audience would be very difficult or impossible. Meaningful behaviour change amongst borrowers would require a very carefully designed, coordinated and long-term effort to stand a chance of being effective.

Given the challenges with achieving behaviour change, government's recent changes to regulation in the National Credit Amendment Act no 19 of 2014 (2014) aimed at tempering the supply side appear to be necessary. The two key areas of intervention are targeted and relevant i.e. more rigorous affordability rules and very modest changes to pricing despite industry pressure for more leeway. Complementing these regulatory measures with positive incentives for change could strengthen the efficacy of what government is trying to achieve.

7.1.5 Conclusion

This research provides new insights into borrowers and the challenges they face given their personal background and environment. Through understanding their context in more personal terms one can appreciate the magnitude of the behaviour change required for pervasive financial wellness. With this awareness, the role of government in terms of consumer protection is reinforced.

However, regulating for change is necessary but insufficient. One suggestion on introducing a more constructive approach to encouraging change is to provide incentives to the industry for achieving desired outcomes. In considering this, nudge theory is of interest. "A nudge, as we will use the term, is any aspect of the choice architecture that alters people's behavior in a predictable way without forbidding any

options or significantly changing their economic incentives. To count as a mere nudge, the intervention must be easy and cheap to avoid. Nudges are not mandates. Putting fruit at eye level counts as a nudge. Banning junk food does not” (Thaler & Sunstein, 2008).

Drawing on nudge theory, government could design a series of incentives for credit providers to adopt desired behaviours related to responsible lending. For example, the government could offer tax incentives to credit providers for demonstrating that they are funding developmental lending, or for banks on the growth in savings balances in personal bank accounts (within particular target markets). Encouraging or requiring savings as part of the social grants system could also start reinforcing a culture of savings at scale.

7.2 Stakeholder recommendations

7.2.1 Recommendations for government

The government efforts to develop a more coherent policy and legal framework in the form of Twin Peaks are notable. The success of this framework will only be achieved if the vision of coherence is attained in the form of fewer more proficient regulators. It is recommended that these efforts continue to ensure a coherent strategy for the financial sector that balances stability with inclusion.

One contrary view from a key informant related to a solution for addressing the high levels of consumer credit in the market was to offset borrowers’ debt with retirement savings. The key informant proposed that, in light of the cost of credit, the low returns on retirement savings and the magnitude of savings versus debt, this could make sense if conducted within specific boundaries. For example, not using more than 25 per cent of retirement savings to repay debt, allowing this to occur only once, preserving the balance of the retirement savings and not permitting access to credit for six months following the pay-off in an effort to influence behaviour change. Adding savings and financial advice would strengthen this further.

The lack of savings requires a clever and coordinated strategy from government. It is recommended that a multi-disciplinary team be established to develop solutions to this. The need for different disciplines to participate cannot be understated since it will be necessary to understand the target market, the technology that can aid solutions, to be

highly creative and to consider government's role in terms of creating the right environment and incentives to enable what is envisaged.

In addition to promoting savings, government has a central role to play in building financial capability at different stages in the consumers' life cycle. At school level, work is already under way to introduce consumer financial education into school curriculums (KI-F, 2015). For this to be successful, teachers and parents may need capacity building. Private sector could play a role in developing materials for educating parents and teachers to enable them to inculcate foundational money management discipline in children from a young age. Again, government could incentivise private sector to play this role. Building financial capability amongst adults is important as well. Creating incentives for change or nudging will be an important element of the success of these interventions.

7.2.2 Recommendations for industry

Industry associations are encouraged to drive responsibility and sustainability amongst their membership. One mechanism for promoting responsible business models and particularly with regard to customer protection is through the promotion of the adoption of client protection certification with international, independent rating agencies. The certification would enable government and industry to have an independent third party provide a view on client protection standards within individual institutions based on global standards related to the pricing, lending practices and other norms (Smart Campaign, 2015). Certified institutions would be able to market themselves for being certified as customer friendly or responsible.

Innovative approaches to meeting customer needs in low and middle income groups are needed to grow the economy in the long term. Short term profit motives that are unsustainable will not lead to innovations that will secure customer lifetime value or contribute to sustainable economic development. Industry is encouraged to continue dialogue with the relevant government ministries and regulators to enable an environment which allows for more innovation along these lines.

7.3 Limitations of the research

The primary limitation of this research is the size and composition of the sample. Although the research provided relatively in-depth insights into each of the borrowers, the sample was very specific and small. The results would therefore not be transferable to other populations. For example, even borrowers accessing short term personal loans

from banks would differ from this sample which has taken up a loan from a non-bank credit provider (given the risk profile of these borrowers). Representative quantitative research is required to determine whether the anecdotal findings from this exploratory research method can be extrapolated to the broader population of borrowers.

The focus of the research aimed to identify potential positive deviants and to understand their behavioural attributes. The sampling approach used revealed preference logic as a basis for identifying positive deviants. In other words, if a borrower was accessing a second loan this was used as a proxy for someone deriving benefit by virtue of accessing another loan. The methodology considered that this might be inaccurate since someone might be caught in a debt spiral and therefore continue to access another loan even if they do not want to. Therefore, all respondents were asked whether they would access a loan in future and whether they found it beneficial. Based on the results, many respondents would prefer not to renew their loans. This method was therefore inadequate in terms of identifying positive deviants.

The last limitation of the research relates to the bias of the researcher. Research bias cannot be overcome, although the researcher made a concerted effort to be aware of her bias in the process. One method of data validation that was adopted was to paraphrase the responses that respondents provided in an attempt to improve the accuracy of the information gathered. The researcher had to consciously avoid providing advice and assistance to the respondents during the research process despite requests for this. There is a likely associated bias, which is that the respondents who agreed to participate in this research did so because they were hoping for some sort of assistance. This motive for participating in the research was directly expressed by one of the respondents.

7.4 Suggestions for future research

There are several ideas for future studies stemming from this research. The first suggestion is to take the existing results and conduct representative studies to determine whether the results can be expanded more broadly.

7.4.1 The influence of domestic migrancy and urbanisation on financial well-being

An underlying social dynamic that emerged in the research is high levels of domestic migration. Many of the respondents in this research indicated growing up outside of the immediate family unit due to parents being separated, or more commonly, due to seeking employment in urban areas. This phenomenon could be due to apartheid

spatial planning, the forced removal of black populations to Bantustans and general urbanisation. The impact of this social dynamic on financial well-being requires further exploration. This includes exploring how extended households manage their funds and understanding to what extent urban based, employed family members support extended families through domestic remittance transfers. This research could also explore how collectivist versus individualistic culture influences building wealth.

7.4.2 Reasons for low savings levels

This research provides several hypotheses on why savings levels are low in South Africa. These include the influence of easy credit access, business viability for promoting savings services and low levels of competition in the banking sector resulting in savings products that do not offer sufficient utility or incentives to savers. Further research is needed into understanding how and why households in South Africa save (or not) as they do. Long term/ retirement savings would form an important part of this perspective given the findings from this project.

7.4.3 Understanding the drivers of indebtedness

A representative study on indebtedness levels in South Africa is needed to complement the available data from credit bureaus and the NCR. This study should aim to understand the underlying factors that lead to indebtedness and to explore what circumstantial issues drive indebtedness levels. Through understanding these root causes, more effective change management can be designed in response to indebtedness.

7.4.4 Loan usage

The use of loans was the single most commonly cited condition for loans to provide benefit to borrowers – yet very little evidence exists on how loans are used. Loan use monitoring is a subject of contention due to the challenges of monitoring loan use in practice given the fungibility of money. However, a study every two to three years on how different loan products are used would be highly beneficial for policy decision making and could form part of the NCR mandate.

7.5 Conclusion

A healthy financial system is not only stable but also inclusive. In South Africa the supply of consumer credit has dominated the financial inclusion landscape. The pervasive access to credit and signs of over-indebtedness has led to scrutiny and criticism of the sector. This study established that credit access generated some benefits within the sample of borrowers, notably in terms of offering a mechanism for

dealing with emergencies as well as freedom of choice in terms of loan use. However, the benefits offered through credit access will materialise only if specific conditions exist.

The research uncovers sustained tension and ideological differences between stakeholders that results in incoherent policy and regulation and inadequate financial inclusion. The landscape is characterised by low levels of savings and a heavy reliance on loans. Borrowers in the sample were selected to participate in the research due to repeat borrowing patterns, yet many expressed a desire to stop or reduce borrowing. This 'saying-doing' gap suggests that a structural and coordinated plan is needed if any behaviour change is likely amongst rationally bounded borrowers. A combination of restrictive regulation and positive incentives is proposed to encourage stakeholders to develop mutually beneficial strategies for achieving financial inclusion. The ability of stakeholders to develop coherence in this landscape will determine whether financial inclusion will make a positive contribution to South African society.

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Appendix One: Ethics Committee approval letter

**Gordon Institute
of Business Science**
University of Pretoria

Dear Frances Fraser

Protocol Number: Temp2016-01000

Title: Understanding when consumer loans have benefit for households through applying a positive deviance approach

Please be advised that your application for Ethical Clearance has been APPROVED.

You are therefore allowed to continue collecting your data.

We wish you everything of the best for the rest of the project.

Kind Regards,

Adele Bekker

Appendix Two: Key informant consent letter

I am a student at the Gordon Institute of Business Science, University of Pretoria. As part of my studies, I am conducting research about the conditions under which personal consumer loans are beneficial to borrowers, their households and the community. I would like to know your opinion on when loans can be harmful, when they can be beneficial and areas for exploration that you think are important prior to my research with a small sample of households that are accessing significant amounts of credit. Your participation is voluntary and you can withdraw at any time without penalty. All data will be kept anonymous. (i.e. your name will be listed in the report, no direct quotations will be associated with you although they will be used in the report). If you have any concerns, please contact my supervisor or me.

Our details are provided below.

Signature of participant: _____

Signature of researcher: _____

Date: _____

Frances Fraser

Researcher

Email: 458654@mygibs.co.za

Phone: 083 454 8424

Anthony Wilson-Prangle

Research Supervisor

Phone: +27 11 771 4325

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Appendix Three: Borrower consent letter

I am a student at the University of Pretoria. As part of my studies, I am conducting research about borrowing money and managing money. I am trying to find out more about when loans make life better and when they make life worse. I will ask you questions about your family, your money management habits and decisions and the loans that you have taken recently. Our interview is expected to last about an hour today. The discussion will help me to understand when you benefit from borrowing money. Your participation is voluntary and you can withdraw at any time without penalty. All data will be kept confidential (i.e. all quotations will be anonymous). If you have any concerns, please contact my supervisor or me.

Our details are provided below.

Signature of participant: _____

Signature of researcher: _____

Date: _____

Frances Fraser

Researcher

Email: 458654@mygibs.co.za

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Anthony Wilson-Prangle

Research Supervisor

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Appendix Four: Key informant interview guide

Introduction

Thanks for the opportunity to meet. I am conducting this research as part of the fulfilment of the requirements for my Masters in Business Administration at the Gordon Institute of Business Science (University of Pretoria). My research relates to the costs and benefits of consumer credit and explores when it could add value and when it causes harm. The purpose of this interview is hence to explore your personal views on consumer credit in South Africa.

Questions	Probes
In what way has work brought you into contact with consumer credit to date?	Have you had any more personal experiences? Someone you know?
What are your thoughts about the consumer credit market in South Africa?	Why? What needs to change? How? Are there any risks or concerns that you see?
In your view, what are the benefits of consumer credit to individuals, households and communities?	What conditions needs to exist for these benefits to materialise?
What are the costs or negative impacts are there for individuals, households and communities?	Why? In what circumstances are these negative/under what conditions are these bad?
Are there any circumstances in which you think borrowers and their households could have more gains than losses from consumer credit access?	

Appendix Five: Borrower interview guide

Introduction on the purpose of the research

Thank you for having me in your home. My name is Frances Fraser and I am a student at the University of Pretoria. I am here today to learn from you as part of my studies. I would like to know more about your family and your life. Do you mind if I ask you some questions about your work, your family and your money?

Please can you sign this letter saying that you are in agreement with answering these questions? If you do not want to answer any questions, please let me know. Your information is safe with me.

I will be writing down the answers to your questions so that I remember everything you tell me. In case I cannot capture everything do you mind if I record this conversation?

Ok thanks.

Do you have any questions before we start?

Sampling questions

Date (capture/don't ask)	
Address (capture/don't ask)	
Do you borrow money?	
Do you borrow from xxx?	
If no, have you borrowed from xxx in the last three months?	
If no, does someone in your household borrow from xxx?	
If no, END.	

Introductory questions

To start off, I'd like to know more about you.

What is your name?	
Where did you grow up?	
When were you born? (Age)	
Are you working? What kind of work do you do? Do you have other sources of income? What kind? (social grant, piece work, money from	

family/friends?)			
What level of education have you attained?			
What is your marital status?			
What is your home language?			
How many people live in this home?			
Relation, age, employment status of each household member? Name ↓	Relationship: e.g. husband/ child/parent	Age	Income source/s:
How long have you lived in this house?			
If spouses/partners not mentioned as household members but marital status indicated as 'married'; where does your spouse live?			
Why do you not live together?			
How often do you see one another?			
Where is he/she from?			

Access to financial services

<u>Saving</u>	
Do you put money aside for the future?	
What kind of events do you put money aside for? (explore unplanned and planned events)	

<p>How/where do you keep money for the future? (explore formal and informal savings mechanisms – bank account, small liquid assets, stokvels, money at home)</p>	
<p>How much money have you managed to save? How many cows/sheep do you have? (Try to ascertain the level of savings)</p>	
<u>Protection</u>	
<p>Do you belong to a burial society? Or other group?</p>	
<p>Do you have any insurance? What for? What does it cover?</p>	
<p>If employed, what kind of employee benefits do you have? Medical aid? Pension? Other?</p>	
<u>Borrowing</u>	
<p>Do you borrow money from the bank? What for? How much?</p>	
<p>Do you borrow money from a cash loans shop? What for? How much?</p>	
<p>Do you have store credit? What for? How much?</p>	
<p>Do you borrow money from family or friends? What for? How much?</p>	
<p>Do you borrow money from the local spaza for groceries or for</p>	

cash? What for? How much?	
<u>Decision making</u>	
If you have to make a decision about money, do you speak to anyone first?	
If yes, whom?	
Does this help? Why?	
Have you ever taken a loan without telling your husband/wife/partner? Why?	
<u>Credit decision-making</u>	
When you take a loan how do you feel?	
Why do you borrow?	
Do you think the loan/s is good for you and your family? (If multiple understand which are good and which are bad). Why?	
Would you borrow from xxx again? Why?	