THE DEBT TRAP: THE INDEBTEDNESS OF THE POOR IN SOUTH AFRICA

QUREISHA NAGDEE

Key Words:

debt

indebtedness

over-indebted

debt-trap

micro-finance

credit

loans

money-lending

money-lenders

borrowing

savings

exploitation

poverty

DECLARATION

I declare that The Debt Trap: The Indebtedness Of The Poor In South Africa is my own work, that it has not been submitted before for any degree or examination in any other university, and that all the sources I have used or quoted have been indicated and acknowledged as complete references.

Qureisha Nagdee

November 2004

Signed:

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ACKNOWLEDGEMENTS

I begin in the name of God, the Most Gracious and the Most Merciful. All thanks and praises are for the Almighty God. In keeping with such works and without detracting from academic tradition, I express my gratitude to Sharon Penderis for her keen attention to detail and for motivating me when things got tough but especially for encouraging me to have the “strength and courage of my convictions”. Most of all I would like to thank the respondents and clients of You & Your Money for their participation in the research and You & Your Money for their support and assistance throughout the preparation, the research, the analysis and interpretation, without all of whom the research would not have been possible. I am thankful to Fastenopfer for their support. Fastenopfer’s commitment and active involvement in the arena of debt bondage and informal savings as an empowerment tool of the poorest in India and Madagascar raised my awareness to the situation indebtedness in South Africa. I am appreciative to Linda Kellett for all her moral support especially reading, correcting and helping me to find the rights words. Last and certainly not least, an extra special thanks to my “first five children” for their prayers and understanding about ‘hiking sacrifices’ during the period of writing this thesis. Table Mountain beckons …

ABSTRACT

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Providing international loans to governments in developing countries is seen as contributing to the upliftment and development of the Third World, according to a set of pre-determined criteria. From the neo-liberal capitalist perspective, this loan provision is widely conceived as one of the answers to poverty alleviation. Despite this, many Third World countries continue to be steeped in debt through these loans and stringent conditions. On a local level, micro-finance for small business development is seen as a tool for development and alleviating poverty. Millions of Rands have been made available in South Africa for micro-finance by government and backed by international financial institutions. As with international debt, already we are seeing a similar situation at the grassroots level of the poor and low income groups being indebted through micro-loans. They are in arrears with debt repayments, are over-indebted and their personal poverty is deepening as a result.

In this thesis, I explore the different aspects impinging on low-income groups that are contributing to their indebted and poor situation. I explore the neo-liberal perspective, namely the GEAR strategy, as well as the micro-finance initiative against the backdrop of international and national debt tied to the IMF and World Bank. The glaring similarities between national and personal indebtedness are then examined.

The focus then shifts to a micro-level case study of a group of low-income indebted people living in the Cape Metropolitan area. A range of elements from positivist, structuralist and humanist perspectives is employed to evaluate the circumstances of this sample. Both quantitative and qualitative research tools are used to construct a socio-

economic profile of the indebted person. Qualitative methodologies, such as in-depth personal interviews and focus group discussions, are used to elicit information from the sample and respondents were selected through purposive sampling methods for this reason. Qualitative methodologies are employed in order to yield a deeper and more insightful understanding of the intricate web of personal indebtedness of the case study group. Quantitative methodologies included a questionnaire survey that was administered to the case study group and a stratified random sample was used to select participants.

The summary profiling indicates that it is mainly single Xhosa-speaking women who are indebted and that all respondents are grant recipients. Further findings show that not only are respondents indebted to money-lenders and/or credit stores, but also to the local "spaza shop" and to the municipality in terms of their inability to pay for services as well. Serious concerns regarding lending practices, interest rates and absence of contracts were highlighted. Most disturbing is that it appears that a pattern of indebtedness is being established between generations.

I argue that current legislation is inadequate and that the proposed new Consumer Credit legislation be translated into action otherwise the pattern of indebtedness will continue to persist. Further arguments are made for access to appropriate banking facilities and the importance of personal and national savings is stressed, if debt freedom and genuine development is to take place.

I advocate for a re-thinking of the GEAR strategy, for a Basic Income Grant and for the building of popular movements to lobby and demand these changes and initiatives. The rationale put forward is that indebtedness is a symptom of the larger problem of poverty and unemployment; this therefore necessitates meaningful structural changes to address these overarching problems.

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ACRONYMS

ANC	African National Congress
AIDC	Alternative Information and Development Centre
ATM	Automated Teller Machine
CGAP	Consultative Group to Assist the Poorest
CI	Caritas International
DTI	Department of Trade and Industry
DPRU	Development Policy Research Unit
ESSET	Ecumenical Service for Socio Economic Transformation
ECI	Ebony Consulting International
G 7/8	Group of Seven or Eight Rich Countries
GEAR	Growth, Employment and Redistribution Strategy
HIPC	Highly Indebted Poor Countries
HSRC	Human Sciences Research Council
CI	Caritas International
CIDSE	International Co-operation for Development and Solidarity
IMF	International Monetary Fund
MFRC	Micro-Finance and Regulatory Council
NGO	Non-governmental Organisation
PACSA	Pietermaritzburg Agency for Christian Social Awareness
PIN	Personal Identification Number
PRSP	Poverty Reduction Strategy Papers

SACCOL	Savings and Credit Co-operatives League of South Africa
SABC	South African Broadcasting Cooperation
UNICEF	United Nations International Children's Fund
UCT	University of Cape Town
Y&YM	"You and Your Money"

CHAPTER 1

OVERVIEW OF INDEBTEDNESS

1.1 Introduction

With the end of colonialism in Africa and the birth of the International Monetary Fund (IMF) and the World Bank at Bretton Woods, African countries sought loans from these establishments in the hope of solving their economic ills. The interest charged and conditionality in the form of structural adjustment have, as some believe, resulted in considerable human suffering and poverty. Today, Third World countries have joined together in an international campaign for debt relief and cancellation and to squarely place indebtedness on the international agenda (Foyer, 2000).

The African National Congress (ANC) led government is following the World Bank's prescription for economic development to the letter. The South African government and the World Bank are pumping millions of Rands into the micro-finance sector to fill the gap left by the globally competitive formal banking system, as well as to offset the negative effect of the Growth, Employment and Redistribution Strategy (GEAR). Micro-finance is seen as a means of stimulating the informal economy by developing small business initiatives and in this way create jobs and reduce poverty. Just as the international debt relief campaign is escalating internationally, so too must an awareness of the growing national debt trap of the poor in South Africa, before this trap expands its net further.

1.2 Background to the Study

With the growth of the micro-finance sector and legislative changes in this sector, an enormous money-lending industry has developed within a short span of time. No distinction is made between consumptive and productive credit for types of loans and interest charged. The idea and rationale behind micro-finance for the creation of small, medium and micro enterprises has not had the desired outcome. Money-lenders are giving loans at ridiculously high interest rates to low-income earners who are using these loans for consumptive purposes, mainly to supplement low wages. This situation leads to an inability to repay loans and provide sustenance to the household and leads to more borrowing, creating a downward spiral from which the borrower is unable to exit.

According to Ecumenical Service for Socio Economic Transformation (ESSET, 2000:11), a larger proportion of borrowers throughout South Africa are turning to money-lenders as their monthly wages are too low to provide for basic living expenses. ESSET draws attention to the fact that working people use credit to pay for basic needs like food, electricity and education. This consumptive use of borrowing is unsustainable: if a person is unable to afford basic living expenses, they will not be in a position to repay a money-lender. This leads to a debt trap where the borrower is unable to repay a loan, and then borrows again to repay the initial loan. This creates a cycle of debt and further impoverishes the person, which results in the borrower becoming enslaved to money lending (ESSET, 2000). It seems that this situation is growing uncontrollably in South Africa and is being exacerbated by the poor economic climate in the country and growing numbers of people living below the poverty line. Before more poor households fall into this debt trap, worsening their already vulnerable situation, an awareness of the extent of this predicament needs to be created in order to find ways of stemming this tide.

Saving initiatives of the poor have been slow in taking off. The culture of saving in South Africa is weak and is not being encouraged as rigorously as is credit (Baumann, 2001). As a result, the value and contribution of savings towards the overall economic health of the country is under-estimated. The power of collective savings is often underrated and ignored in terms of its contribution to the overall economy of the country. Both individual and collective savings can be considered a valuable tool that will allow for greater leverages with which to bargain for socio-economic and developmental needs of individuals and communities.

A handful of non-governmental organisations have noted the problems of indebtedness in their work with poor and disadvantaged communities and these organisations have begun to highlight the situation (Black Sash, 2000; ESSET, 2000). However, there is an apparent lack of information and research on indebtedness of low-income groups. This thesis attempts to contribute to this need. This research intends to shed some light – if only in a small way - on indebtedness by looking at the purposes for which loans are made (mainly for consumptive or consumer purposes) and at people's ability to repay their loans without being permanently indebted. The motivation for this research is to provide useful and meaningful information to government (policy makers), non-governmental organisations, civil society and other interested parties in order create an awareness, to place indebtedness on their agenda and to find solutions to this rapidly growing debt trap of the poor. This research seeks to investigate the extent of the problem and to contribute to current research efforts.

1.3 Statement of the Problem

Indebtedness amongst low-income groups is growing both in urban and rural areas. The growing debt trap amongst the poor is a major concern as these vulnerable households are continuing on a downward spiral of debt and poverty.

Since the change-over to the ANC led government after the 1994 elections, the government has been attempting to provide easier access for low-income groups to financial services and credit and loan facilities by introducing reforms and legislation to enable accessible and inclusive financial services to all South Africans. However, attempts in the banking system have largely ignored low-income earners as they are deemed a high risk. The poor are therefore still not recognised by banks and therefore excluded from formal banking institutions. Since the late 1990s, the South African government has injected huge sums of money into the micro-finance sector to boost access to credit and loan facilities for the informal sector (Fair Share, 2001). The South African micro-finance sector, encouraged by the South African government, has consequently seen unprecedented growth, unlike in other countries in Africa, Asia and Latin America (Baumann, 2001). The growth of micro-finance institutions was meant to facilitate access to credit for small, medium and micro enterprises to create jobs and local economic development in the informal sector.

A booming micro-lending industry for consumptive credit is the unintended off-shoot of this intervention. Although micro-lending is not new in South Africa, the relaxation of legislation on interest - that is, the exemption from the Usury Act for loans of R10 000 and less - has led to the mushrooming of micro-lenders (Black Sash, 2000). It is estimated that there are 30 000 micro-lenders with an annual turnover of approximately R15 billion in South Africa. Between 1995 and 1997, there was a turnover increase of 280%, and a few money-lenders have been listed on the Johannesburg Stock Exchange. Micro-lenders have actively pursued and encouraged low-income groups to take out loans. The exploitative interest rates charged by micro-lenders have been as high as 300% (Marsh and Saran, 2000.) Their predatory lending practices have resulted in many poor people often taking out loans for survival needs (e.g. food, illness, and education.)

To many, the excitement and jubilation that followed national elections in 1994 meant finally being able to obtain the 'out of reach' consumer goods (e.g. appliances, television set etc.) which white people were 'seen to have'. People clamoured for cash loans now readily available and were taken in by the effective advertising and marketing of hire purchasing. An additional problem is a lack of awareness and education about financial transactions and their legal implications. Unfortunately, many people are uninformed, unaware and uneducated with regards to their rights and their responsibilities to contractual agreements in a money-lending transaction. Often, many people do not understand what interest is and how it is calculated (ESSET, 2000). Contracts are not usually written in a client's first language/mother tongue, making these difficult to understand. Despite regulation on debt collection, illegal practices are still rampant, these include surrendering one's identity document (in the case of recipients of government grants) or bank cards and personal identification numbers (PIN) to the money-lender and intimidation as well as illegal salary deductions (Mail & Guardian, 2000). In addition to these strong-arm tactics, 'legal' methods of salary deductions and garnishee orders seem to favour money-lenders. Exploitative conditions and ineffective consumer protection, together with borrowing for survival, make it impossible for the poor to repay their debts; instead, these lead the poor deeper into poverty (Foyer, 2000).

Low-income groups use loan sharks to meet their survival needs at exorbitant and exploitative interest rates that they cannot repay. This situation results in over-indebtedness as they borrow from one micro-lender to pay off another. The euphoria of newly experienced freedom has translated into what appears to be enslavement to debt for the poor. The growing cycle of debt of low-income groups is not just a money-lending problem of high interest and effective consumer protection, but rather a problem about poverty with far more serious implications.

Unfortunately, there is no distinction made for different types of credit, whether they are productive loans (which will benefit from the Usury Act exemptions) or for consumptive purposes. These consumptive loans for school fees, food, clothing, electricity, illness, funeral costs and so on, are viewed as a reflection of a population in crisis, as the loans are used to supplement income. This results in unsustainable loans (i.e. a loan that cannot be repaid), thereby causing over-indebtedness and the continuation of the cycle of poverty (Black Sash, 2000).
Micro-lending is now seen as an added crisis for the poor - rather than a solution to poverty - and adding to the vulnerability of low-income groups. This investigation recognises that indebtedness is not only about money-lending and consumer protection, it is also about poverty and deeper socio-economic factors facing South Africa. These socio-economic factors are manifested in indebtedness. The debt trap amongst the poor is growing as more poor people succumb to the fast expanding money-lending industry for credit to meet basic needs that cannot be met by their low-income. As more people become over-indebted and caught in this vicious cycle, poverty becomes entrenched.

It is this backdrop that begs further investigation into the personal indebtedness amongst the poor. This research therefore proposes to develop a profile of the low-income borrower, their background and their socio-economic circumstances. This investigation focuses on why the poor are in debt, what they are indebted for, when debt was incurred, why a loan was incurred, and from whom it was acquired and for what purpose. In addition, this research investigates the reasons for indebtedness, as well as the possibilities of how this situation may be addressed and the indebtedness reduced.

1.4 Objectives of the Study

Against this backdrop then, the broad research objectives of this study are to:

- Provide a theoretical framework and conceptual base from which to launch the study;
- Investigate the current debt situation amongst low-income groups in South Africa;
- Gain an in-depth understanding of the nature of indebtedness of the poor and the extent of the problem in a case study in the Cape Metropolitan Area;
- Present general conclusions emerging from the theoretical and empirical analyses and make recommendations for reducing and preventing indebtedness to policy makers, government departments, non-governmental organisations and other interested parties.

1.5 Literature Review

There is a fair amount of literature on micro-finance for small, medium and micro enterprises. This investigation draws on papers of the World Bank (www.worldbank.org) and research of the Consultative Group to Assist the Poorest (CGAP; www.cgap.org). A regular and informative publication called Alternatives, produced by Alternative Information and Development Centre

(AIDC), a non-governmental organisation that researches and disseminates information on economic literacy, policy issues and mobilises popular movements, is a valuable resource for this research on the World Bank, privatisation and the debt issue (www.aidc.org.za). An enlightening reading is the book of Jacques Gelinas (1998) on foreign debt, development aid and meaningful development through domestic savings. Authors such as Baumann (2001), Schoombee (2000), Zeller (1994) and Morduch & Sharma (2001) are useful in terms of their micro-credit experiences in South Africa. Furthermore, various studies on rotating credit and savings associations by Ardener (1964), Burman & Lembete (1997) and Luklele (1991) provide valuable insight into credit and savings associations. However, on the key issues of poor people's indebtedness and informal schemes such as daily savings (e.g. saving in street blocks), the paucity of information in the literature is glaring. There is little or no information on indebtedness, whereas a wealth of information on micro-finance exists.

Since this issue only began surfacing over the last few years, it is understandable that there is little research, making this particular research effort a significant one. The main sources of information are non-governmental organisations such as the Black Sash, Fair Share and the Ecumenical Service for Socio Economic Transformation (ESSET), all of which are involved in highlighting the plight of the over-indebted poor. Indebtedness is only now being given attention. The issue of indebtedness is now being researched by the regulatory body for micro-finance, the Department of Trade and Industry (DTI), as well as certain NGOs, and a few papers are in progress or have recently been completed. Other sources of research in this area have been done by the Policy Research Unit (2001) at the University of Cape Town (UCT), the Micro Finance and Regulatory Council (MFRC) and the Department of Trade and Industry (2001).

Fair Share (2001) takes a historical look at South African banking systems and how they evolved from serving settlers in colonialist times, the accessibility of banks mainly to whites under apartheid and to the post-apartheid situation. Schoombee (2000) highlights the failure of banks to service the poor and government's inability to address this market failure effectively.

The South African government has rigorously and vigorously embarked on and sponsored micro-finance initiatives. Baumann (2001) discusses the shortcomings and challenges of these micro-finance initiatives in depth. The World Bank based initiative CGAP (www.cgap.org) sees micro-credit as existing to assist the budding entrepreneur to take advantage of an economic idea and implement this by receiving a cash loan. Micro-finance is seen as part of poverty alleviation and job creation strategy.

The Department of Trade and Industry set up the MFRC in order to register money-lenders, educate the public, resolve conflict, ensure compliance to regulations and to protect the consumers (www.mfrc.co.za). Black Sash (2000) has been highly critical of the MFRC's role and ability to protect the public and recommends a number of changes, including the need for the board of MFRC to include other stakeholders and not only money-lenders.

The Usury Act comes under the scrutiny of Black Sash (2000), Schoombee (2000) and Marsh and Saran (2000), mostly notably for not fixing a ceiling on interest charged on loans of R10 000 or less (initially R6 000). Black Sash (2000) enlightens the public about actual cases of unsustainable debt of the poor who borrow for consumption purposes and not for production. This investigation further scrutinises the DTI's credit policy framework (2004) and the proposed new legislation (Government Gazette, 2004). Surveys carried out by Black Sash (2000) and

ESSET (2000) highlight predatory money-lending practices, dubious debt collection methods and heavy debt burdens of the poor who are over-indebted mainly through consumptive loans.

Van Der Walt & Prinsloo (1995) address household debt and consumer debt issues. Ebony Consulting International (ECI) and Development Policy Research Unit (DPRU; 2001) illustrate that low-income households are the most vulnerable and susceptible to permanent debt or over-indebtedness. Despite these surveys, there is still a huge gap in research and in the literature on the indebtedness of the poor in South Africa.

CGAP (www.cgap.org) recognises that saving forms part of poverty alleviation. Baumann (2001) supports this by highlighting not only the importance of credit facilities for the poor, but also the importance of savings, particularly collective and informal saving by the poor. Morduch and Sharma (2001) point out that rotating credit and saving associations reduce vulnerability and provides a form of safety net for poor households. Ardener (1964) is internationally the main author and researcher on rotating credit and savings associations and gives the background, characteristics and functioning of rotating credit and savings. Luklele (1991) focuses on South African savings schemes such as 'stokvels', among other. People's Dialogue (1996) discusses the failure of the formal financial system to provide credit to the poor. The response to this failure was the initiation of collective savings to meet the economic and development needs of the poor. Maisel (2000) looks at the importance of the system of daily saving schemes and links this to the building of a social movement for the social and economic development of the poor. The Swiss Catholic Lenten Fund (1996/1997) supports this view, but looks at building social movements and daily savings as a way of reducing indebtedness.

In addition, various newspaper articles (Cape Argus, 2004; Business Report, 2004; Daily Dispatch 2001) draw attention to the plight and experiences of those in debt, and those who have lost homes and been exploited, as well as report on the proposed recent changes in legislation. Furthermore, newspapers are an essential resource for information on the current situation on the ground and at government level, including new proposed legislation. The Department of Trade and Industry has a wealth of information on small businesses and consumer issues, including the welcomed new proposed Consumer Credit Bill and their Policy Framework for Consumer Credit, which can be accessed on the website (www.thedti.gov.za; and creditlaw@thedti.gov.za).

1.6 Research Design

The growing indebtedness of low-income groups in South Africa is seen as a socio-economic problem in that it leads to the entrenchment of poverty, causing misery and distress to the already poor. The overriding motivation for the proposed research methodology is to provide meaningful information to policy makers and other interested parties for use towards alleviating human suffering and poverty.

1.6.1 Research Methodology

An eclectic approach to this research has been used to include elements of the positivist, humanist and structuralist perspectives. The humanistic methods are used mainly to understand, explain and interpret data gathered on indebtedness. A mixture of quantitative (using questionnaire and secondary analysis strategies) and qualitative methods were used. The main strategies used in the qualitative method were the focus group and semi-structured interviews.

1.6.1.1 Secondary Analysis

Secondary analysis refers to re-analysing documents or data obtained by others. For this study it included an analysis of reports, journals, policy documents, statistics and legislation, providing a better understanding of the current situation of indebtedness. This was particularly useful in examining research commissioned by the MFRC and other government departments.

1.6.1.2 The Case Study Approach

This research used a combination of qualitative and quantitative methods in order to facilitate the gathering of data to produce maximum results. The case study approach is an appropriate procedure to focus on the particular attributes of a specific group of people (Selltiz, Wrightsman & Cook, 1976:98) and this method of empirical enquiry is distinguished by using a full range of evidence from the particular case. Methods are selected in order to seek deeper insight and understanding, as well as to examine the socio-economic situation of the selected individual, group or community scientifically. For the purposes of this research, the case study focussed on a group of people who are in a situation of indebtedness in order to gather information and provide insight into their indebted situation. The case study used a variety of tools and multiple sources to obtain information as this convergence of methods further legitimises the research (www.unc.edu/~steckler/hbhe253/casestud.html).

An organisation called "You and Your Money" (Y&YM) is a non-profit organisation that offers debt advice to individuals and groups. This organisation was used as the platform of the case study in this research because they have a client-base of people who are indebted and who are seeking assistance for their problem. Y&YM have established a trusting relationship with their clients who may feel comfortable talking to people they know. It was assumed that this group would, to a large extent, share similar circumstances and characteristics of other indebted groups in the country. Research tools to facilitate deeper understanding and insight into their particular circumstances were employed and these included in-depth interviews and focus group discussions. Y&YM assisted the researcher in developing and administering the questionnaires and the researcher facilitated the focus group discussions. This case study research will be of benefit to Y&YM in creating a better understanding of their clients' situation and may provide ideas on improved service provision. In this way the research undertaken is not only an academic exercise to be shelved later, but also of practical use such that theory and practice may be linked.

The case study included a group of 30 low-income earners (i.e. R15000 and below per annum) who are indebted and who have sought debt advice to address their problem. This group was drawn from the Cape Town Metropolitan area. The purpose of the case study was to investigate and understand how, why and when people first become indebted. The rationale was to provide answers to some questions - such as for what purpose the first debt was incurred and how this problem could be overcome? A general profile of the debtor has been generated and pertinent information about creditors and how repayments are solicited are illustrated. This study is not comprehensive; rather an attempt to provide deeper insight and better understanding of a group of poor people who are caught up in a debt trap. This group of people gives us a mirrored reflection into their socio-economic situation; a glimpse of the experiences and struggle of low-income groups who are over-indebted as well as an understanding of their indebted situation.

1.6.1.3 Quantitative Research Methods

For the purposes of this research, the following quantitative methods were used to generate socio-economic and demographic data.

1.6.1.3.1 Questionnaire Construction

Questionnaires are best used to obtain factual information, normally using closed-ended questions. A structured questionnaire survey was administered to 30 respondents in order to obtain a profile of socio-economic and demographic data (such as age, gender, and income), as well as information on the respondents' indebted situation.

1.6.1.3.2 Sampling Methods

The client base of Y&YM was used to identify the sample group of 30 people. The group of 30 was randomly selected from their client base and represented a 20% sample. The sample was randomly drawn from those who received an income of R15 000 and below per annum. This group resides within the Cape Town Metropolitan area, is indebted and is seeking assistance to overcome their situation. The questionnaire was administered to the entire sample.

1.6.1.4 Qualitative Research

Qualitative research methods were used in order to obtain in-depth information in order to answer the 'what', 'who', 'when', 'why' and 'how' questions about personal indebtedness. The purpose of the qualitative research was to contextualise, interpret and understand the perspectives of those in the cycle of debt. Qualitative research may provide insight into the underlying issues facing those who are indebted. This mode involves a variety of fieldwork tools (Bilton et al, 1987; www.qrca.org/faq.htm).

1.6.1.4.1 Interviewing

In-depth interviews were conducted face-to-face with respondents. A minimum of 25% of the respondents to the questionnaire were selected according to their known Y&YM case histories as these were considered most useful to inform the research of their indebted situation. The interviews were semi-structured and conversational and sought to obtain perceptions and understanding of respondents' situation of indebtedness. Interviews were used to obtain additional information and to clarify issues raised in the questionnaire. The interviews also shed more light on the personal intricacies of respondents' indebted situation.

1.6.1.4.2 Focus Group Discussions

This data gathering method is one of the most commonly used tools of qualitative research. Usually, this is done with people from the target market or group and/or with people sharing common traits or experiences (www.unc.edu/~steckler/hbhe253/focgrp_hints.html).

For this study the common traits or characteristics of the selected focus group is that they all earn R15 000 or less per annum, they are all indebted, they recognise that they have a problem and they are seeking assistance in dealing with their debts. A purposive sampling method was used to select eight people from the 30 respondents and they were selected according to their personal histories and experiences. This method was used to ensure that the most revealing information was provided and because this group was considered as representative of the wider sample. The focus group was valuable in enabling the respondents to discuss, explain, and express further views and perceptions of indebtedness in order to allow the researcher to identify trends and assist in deepening the understanding of personal debt (www.qrca.org/faq.htm). The main purpose of the focus group was to provide insight into the reasons for their situation and explore ways of reducing and preventing indebtedness.

1.6.2 Research Procedure

The research process evolved from the research problem. The research procedure, reflecting the method employed, built appropriate ways of measuring and analysing the data obtained. The first step was to construct the questionnaire, select the sample of 30 respondents and then administer the questionnaire to them. Once this information had been analysed, a semi-structured interview was developed to determine what aspects would be raised with the interviewees selected for the face-to-face interviews. Once the in-depth interviews had been conducted and analysed, the focus group discussions took place.

1.6.2.1 Data Collection

The literature review built a logical framework for the research, while secondary data analysis, such as research reports, developed an understanding of the topic of investigation and was valuable in aiding comparative analyses. Additional data was gathered using a questionnaire survey, personal interviews and focus group discussions. All data gathered was recorded, coded, categorised and sorted on an ongoing basis during each step of the research.

1.6.2.2 Data Processing, Analysis and Presentation

Data processing involved bringing together the mass of data gathered in an ordered and structured manner. Once all the data was edited, sorted, categorised in relevant contexts and ordered in a logical way, the interpretation, analysis and re-analysis followed. Quantitative data - i.e. the demographic profile of respondents - was organised and presented in the form of tables, graphs and histograms, whereas the qualitative data was presented in the form of quotes, life histories, textual analysis and graphical representations. The findings and conclusions were presented in a simple and easily intelligible way, yet effectively and appropriately in order to facilitate future use by Y&YM and, especially, by government, policy makers, civil society organisations and other interested parties.

1.7 Research Limitations

As personal finance is a private issue and a very sensitive one, it was understandable that certain people did not wish to be interviewed. Some people felt intimidated and were concerned that the money-lender would find out that they were talking about them and that the debtor would then be unable to receive additional loans. As a result, less people than originally intended were interviewed. A further limitation was the use of an interpreter in some cases and it is accepted that certain nuances are lost during translations.

1.8 Research Agenda

Chapter 1 presented a background to the study and outlined the research problem, as well as provided the thrust to formulate the research design, aims and methodology to be used in the study. The chapter sequence for the remainder of this study is outlined below:

Chapter 2 (entitled ***Contextualising International Debt, National Debt and Personal Indebtedness***) provides the study with a historical and theoretical base by drawing on comparisons of Third World national debt within the global hold of international financial assistance to that of personal indebtedness.

Chapter 3 (entitled ***The Case of a Group of Indebted People in the City of Cape Town*)** focuses on and provides valuable insight into the depth and scope of debt and indebtedness amongst the poor in the Cape Metropolitan area.

Chapter 4 (entitled ***Research Findings, Recommendations and Conclusions***) provides general conclusions arising from the empirical research and analysis within the current economic context of the causes of poverty and unemployment. Finally, this chapter provides guidelines for the prevention of permanent indebtedness in an attempt to contribute towards debt liberation.

CHAPTER 2

CONTEXTUALISING INTERNATIONAL DEBT, NATIONAL DEBT AND PERSONAL INDEBTEDNESS

2.1 The Beginning of Third World Loans and Debt

In pre-capitalist societies, people living cooperatively provided mutual aid to each other. This was done without gain or expected repayment and certainly without charging interest. With the emergence of capitalism, production and trade, credit was given for business purposes and interest was charged accordingly (ESSET, 2000). In the 1930s, the international capital market collapsed. The search for a new international financial system, at an historic conference held at Bretton Woods, New Hampshire in July 1944, resulted in the creation of the International Monetary Fund (IMF) and the World Bank (Bade, 1998). The IMF was mainly meant to provide short term balance of payment assistance, while the World Bank was to provide longer term multilateral developmental aid for particular projects on a commercial basis (Padayachee, 1994). This new system was dominated by the United States because it was the major source of credit and could cut credit to the Allies. This powerful position led to the acceptance of the United State's insistence that the lending be conditional (Bade, 1998).

After the World Bank's early focus on reconstruction in Europe after the Second World War, the attention shifted to the development of the Third World. With the end of colonialism, many Third World countries, with encouragement from the Bretton Woods twins, took loans to improve their economic conditions (ESSET, 2000). The 1970s saw the Third World entering into borrowing patterns that they were unable to pay back. The 1980s saw the emergence of the controversial structural adjustment programme with its privatisation, liberalisation, reduction in social spending and inflation control mechanisms, the whole package included in the conditions of lending (Bade, 1998). The dishing out of loans, in keeping with the Reagan-Thatcher neo-liberal ideas, was based on the assumption that this implementation would lead Third World economies to recovery and growth (Alternatives, 2003). The borrowers would then be able to repay their debt. However, this did not materialise and instead left the poor countries unable to pay their debts, resulting in them becoming permanently indebted.

2.2 Structural Adjustment and Third World Debt

With the fall of prices in raw materials and the Third World in a debt crisis, these countries were forced to accept the conditions of the structural adjustment programme (Gelinas, 1998). The World Bank and the IMF have been heavily criticised for this conditionality and the prescriptive structural adjustment programme approach, among other issues. The disastrous impact of these on the Third World, particularly on the poor and vulnerable women and children, caused widespread uproars (Webster, 1994). The implementation of structural adjustment resulted in a dependence on world markets for the export of raw material, Third World countries thereby becoming vulnerable to global economic fluctuations (Alternatives, 2003). The ability to earn foreign exchange, to buy what is needed or to repay debts is totally dependent on the global economic situation. Local businesses find themselves unable to compete with foreign businesses and the cost of repaying loans is increased as a result of de-valuation (Webster, 1994). Instead of poor countries repaying their debts, they found themselves in the position of owing more on capital and interest than they made from exports (ibid). Third World countries took out more loans that eventually left these countries entrapped in myriad debt. In 1991, Jolly highlighted, to the United Nations International Children's Fund (UNICEF), the IMF and World Bank, that this over-indebtedness, together with structural adjustments, disastrously affected the poor and other vulnerable groups, resulting in hunger, sickness and poverty, and often leading to political instability (ibid).

Gelinsas (1998:34) shows how Third World debt grew from "$9 billion in 1955, to $572 billion in 1980, and $217 billion in 1996". Today, Alternatives (2004) places Third World debt, including capital and interest, at over $300 billion, a figure that is still increasing. The African debt trap continues with no action towards debt relief or debt cancellation from the G7/8, despite promises of some relief. Some have accused the main international financial institutions of using debt as a tool to dominate and control the Third World to do their bidding, implement structural adjustment programmes and enforce neo-liberal economics practices (Jubilee, 2004; Alternatives 2004). Giyose, the Chairperson of Jubilee South Africa, asserts that the current debt crisis has been manufactured and sustained by the creditors and the governments that serve the interests of international banks and multinational co-operations. He reckons that these leaders and creditors responsible for suffering, humiliation and deaths of millions of people should be brought before international courts for criminal charges. The origin of Third World debt lies in reckless lending, whereby surplus capital was provided in the form of loans (Alternatives, 2003).

The major portion of debt in Asia, Africa and Latin America is considered illegitimate and odious, e.g. in the Democratic Republic of the Congo, Kenya, Rwanda, Argentina, Brazil, Philippines and other countries suffering similar fates (Gelinas, 1998). The poor in these ravaged and often war-torn countries are bearing the burden of the national debt and the brunt of structural adjustment as a result of governments, undemocratically chosen, siphoning funds into their private bank accounts (Gelinas, 1998 & Alternatives 2003).

Finally, the debt crisis could no longer be ignored; in 1996, creditors had to re-evaluate this situation because countries were taking out loans to repay other loans as they were unable to meet loan repayments (Jolly, 1991). It was this inability to repay loans that caused the international money-lenders to re-examine the situation; it was certainly not any moral reflection. This process resulted in the Highly Indebted Poor Countries (HIPC) initiative and Poverty Reduction Strategy Papers (PRSP), which laid down strict economic criteria to be followed in order to qualify for partial debt 'forgiveness' (Alternatives, 2003:11). The International Co-operation for Development and Solidarity (CIDSE) and Caritas International (CI) (1998), a Catholic network of development organisations, criticised the HIPC and PRSP for the 'debt forgiveness' being too little relief, its narrow definition of debt sustainability, the long wait of a minimum of three years to qualify, the cut-off dates and the structural adjustment conditions to qualify for debt relief. Jubilee South has rejected both the HIPC initiative and the PRSP as a perpetuation of indebtedness and structural adjustment and yet another tool of control in that debt relief depends on agreement to certain conditions (Alternatives, 2003). This has yet to result in actual debt reduction. Some of the reasons given by the World Bank and IMF for not writing off debts are that they are powerless to do so given the current economic conditions, circumstances that are beyond their control (Alternatives, 2003). Perhaps put more simply, it appears that there is neither the desire nor will to do so. The squashing of Chancellor Gordon Brown's proposal to write off debt is indicative of this. Just recently, Britain attempted to gain support to write off the poorest countries' debt by providing £100 million a year to pay off 10% of debt. Brown proposed to use IMF gold reserves to write off multilateral debt. However, the Group of Seven rich nations squashed this attempt (The Observer, 2004).

2.3 The Call for Debt Cancellation

As a result of the suffering of poor countries, many civil organisations in the South and North are calling for either debt cancellation or debt repudiation. The removal of interest alone would mitigate the burden carried by the vulnerable poor, women and children on the ground. Furthermore, I believe I would fail dismally should I not mention the moral, ethical and faith-based concepts that should guide us in dealing fairly and justly with humanity; this leads me, firstly, to review the concept of Jubilee and, secondly, to discuss briefly the issue of interest/usury.

2.3.1 Jubilee for the Year 2000

Many mass-based movements around the world have mobilised and many are a part of the Jubilee network that calls for debt cancellation, including Jubilee South Africa. The term 'Jubilee' is a biblical concept based on justice mentioned in Leviticus 25 and Luke (4:16). The CIDSE network (1998) calls for debt cancellation and quotes Pope John Paul II:

> Thus, in the spirit of the Book of Leviticus (25:8-12), Christians will have to raise their voice on behalf of all the poor of the world, proposing the Jubilee as an appropriate time to give thought ... to reducing substantially, if not cancelling outright, the international debt which seriously threatens the future of many nations (Tertio Millennio Adveniente no.51).

According to Bishop Bernadino Mandlate (Jubilee, 1999), in this concept of economic justice, debt forgiveness is ordered every fifty years. He explains that in Nehemiah (5:11) it is further expounded how to deal with debt taking the form of debt cancellation, reinstatement of status and reparation to end debt bondage. Bishop Bernadino (Jubilee, 1999) declares that in Jubilee there is nothing like 'un-payable', that all debt must be cancelled for the poor take precedence. He further emphasises that this is an order from God so that the poor are not kept in poverty intentionally (www.jubileesouth.org.za.)

2.3.2 Usury or Interest

Usury/Interest is considered by religions of the world to be abhorrent because of its inherent exploitative nature and its oppression of especially the poor; it is discouraged and also forbidden by some religions. Examples of this can be seen in the texts of the Holy Books:

> Do not exact interest from your countryman either in money or in kind, but out of fear of God … (Leviticus, 25:36);

> One who "lends no money at interest" will abide in the Lord's tent (Psalms 15:5);

> And for their taking interest – though indeed they were forbidden it – and their devouring the property of people falsely. And we have prepared for the disbelievers from among them a painful chastisement (Quraan, 4:161);

> O you who believe, devour not interest doubling and redoubling, and keep your duty to God; that you may be successful (Quraan, 3:129);

Lending on usury or increase is classed by Ezekiel (xviii. 13, 17) amongst the worst of sins;

and

He has lent on usury; he has taken interest; he shall surely not live, having done all these abominations … He shall surely suffer death; his blood is upon him
(The Talmud, B.M. 61b: www.jewishencyclopedia.com)

Surely it is the poor who have to forgive their governments' creditors who are insistent on using a set of economic criteria indiscriminately in the guise of development and upliftment, criteria that have contributed to the impoverishment of the poorest. These fifty years have proved that the main beneficiaries are the bankers, making gains on this usurious interest while exploiting and controlling the weak and the poor. As Nyerere asked:

Must we starve our children to pay our debts? (Jolly, 1991)

The tremendous human costs of servicing these debts are akin to acts of terror and war upon humanity. Africa has paid its debt repeatedly, over and over again. In fact, Africa has paid its debts three times over in the last decade (Alternatives, 2004). Perhaps we can find the common humanity in our faiths that will unite and help us to overcome the misery of the poor. If not debt cancellation, then perhaps, and at the very least, the removal of interest would give indebted countries a chance to break out of the sustained dependency on debt.

2.4 The South African Debt Situation and the GEAR Strategy

Jubilee South (and its network of coalition partners within and outside South Africa) is calling for debt cancellation and reparations for South African debt. This apartheid debt, of which $25,6 billion is owed to foreign banks, is considered to be illegal by Jubilee South Africa, based on the Doctrine of Odious Debt - the debt is illegal because loans were made by an illegitimate state despite sanctions (Jubilee SA, 2003.) The call for foreign debt cancellation includes loans from the IMF in 2003 as well as domestic loans. This domestic loan was allocated from the Government Employees Pension Fund managed by Public Investment Commission, which in a nutshell is a loan to government from government during the apartheid era. According to economist, Gavan Duffy (1997), in 1980 South Africa's debt stood at R20 billion; by 1990 it had increased to R90 billion. But it was during the period of the un-banning of political parties and negotiations, between 1990 and 1996, that the apartheid government caused the debt to skyrocket to R300 billion! The burden of this gigantic debt fell squarely on the shoulders of the newly democratically elected government to re-pay, at the expense of the poor. According to former President Mandela (This Day, 2003), the ANC's greatest obstacle in implementing their original plans after the 1994 elections was the R254 billion apartheid debt that had to be serviced. Servicing this debt meant that between R20-R25 billion was lost annually to poor South Africans almost every year since.

Unfortunately, South Africa ignored the experiences and lessons of other African countries regarding debt and structural adjustment when in 1996 the South African government embraced and implemented structural adjustment programmes in the form of the Growth, Employment and Redistribution strategy (GEAR). Like elsewhere in Africa and the Third World, the national budget claimed a huge slice to service the debt at the expense of social spending, while privatisation, liberalisation and the rest of neo-liberal macro-economic strategies are the order of the day.

Since the introduction of GEAR, according to the Pietermaritzburg Agency for Christian Social Awareness (PACSA, 2004), there are less permanent jobs, wages have been reduced and one million jobs have been lost. In addition, levels of inequality increased and 60% have less income than they had in 1995. Household income of the poor fell by 19% to R26000 a year since 1995 while the richer group's income rose by 16% to R158000 a year between 1995 and 2000 (Statistics South Africa; PACSA, 2004). The gap between rich and poor is increasing as it did in other African countries, allowing private companies to profit while an increasing number of poor suffer. Examples of this can be seen in the privatisation of water and electricity provision.

As privatisation and neo-liberalism gained ground, new social movements such as the Anti-Privatisation Forum grew in response to the effects people were experiencing. Although more people have access to services than before, this needs to consider those whose services were cut-off because they could not afford to pay for these services. Furthermore, when water and electricity were privatised, meters were installed in certain homes. This meant that for many of the poor, with no money to buy even food, let alone water or electricity, they had to do without these essential services as they could simply not afford it. In the case of the Umgeni Water Board in KwaZulu Natal, people were forced to drink from polluted streams and over 200 people died of cholera (Alternatives, 2003). The privatisation of electricity in Soweto led to the formation of the Soweto Electricity Crisis Committee as electricity prices rose by 47% in Soweto. There were boycotts and protests, as well as destruction of meters and ‘illegal’ reconnections (Alternatives, 2004).

In 2001, the Western Cape Anti-Eviction Campaign was formed as a result of the increase in evictions in Delft and Tafelsig; so too was formed the Mandela Park anti-eviction campaign (ibid). The New Women’s Movement is a Western Cape grassroots movement that recently emerged to campaign against the increase in bread prices, mainly because brown bread increased from R3,15 to R4,55 per loaf. According to PACSA (2004), food prices increased by 19% between 2001 and 2002. The price of maize meal increased by 110%, potatoes by 82% and cabbage 60%. There has been an increase in new social movements recently as a response to the negative consequences of GEAR. Such growing protests and unrest cause political instability in a country, as it did in other African countries, even in those that had popular governments. This has been a negative effect of structural adjustment, or, in the case of South Africa, GEAR. It is not that people do not want to pay for services, but rather that 70% of people live in poverty and are unable to pay their bills. Millions of people are then cut-off from services or evicted from their homes (Alternatives, 2004).

Fakir (2001) stresses that the more the rich engage in the global economy, the less likely they are to address the needs and welfare of the poor. He further notes that those who can afford it will compete for control and access to government’s national resources, in order to extort a profit; and they will continue to do so (Fakir, 2001). The GEAR strategy aggravates this situation and causes the poverty gap between those who have and those who do not to widen and deepen, while private businesses extract huge profits (Alternatives, 2003). Like elsewhere in the Third World, these policies affect the poor greatly and the social, economic and political costs are very high.

The Department of Finance notes that GEAR failed to create jobs (IOD 2000:5; quoted in Von Broembsen, 2001). According to Fakir (2001) and Ashley (2003), this huge South African debt burden, together with the implementation of neo-liberal policies of privatisation, has led to job losses, all of which are negatively affecting the poor and have led to increased personal indebtedness. Ashley (2003) also mentions that research in other Third World countries has shown that as the national debt burden increases, so does the personal debt of the poor.

Can South Africa really be blind to these lessons in the Third World to the extent that we would willingly embrace these macro-economic policies and practices? It seems that President Mbeki might be making some minor shifts in terms of the GEAR strategy. In his address after the 2004 national elections he admitted that the free market alone cannot address socio-economic problems and alluded to more state involvement. In recent times, there seems to be an increase in social spending, as well as public work programmes, and there appears to be a slow down in privatisation (Alternatives, 2004).

2.5 The Emergence of Micro-Finance Initiatives in South Africa

In the late 19th century, the South African banking system provided financial services to the colonialists and excluded the local population. These banks continued to provide these services to their 'European' clients after independence and few blacks were included in the financial system (Fair Share, 2001). Under the apartheid regime, banking had a white focus with the majority of blacks denied access to credit, banking services and finance for housing – in short, doors to accumulate wealth were closed to this group (Foyer, 2000).

The South African economy and banking systems reflect those of the First World, as seen in the formal economy and in consumption patterns. The financial institutions are well developed, sophisticated and globally competitive. The Gini co-efficient shows that South Africa has the fourth widest gap in the world between the rich and poor, a situation that can be compared to the poorest 20% of countries (Baumann, 2001). Despite boasting an advanced formal financial sector, 60% of the South African population is unbanked (Wiese, 1996 quoted in Schoombee, 2000).

Today, banking facilities are geared towards the formally employed and middle-income earners. The poor and technologically less advanced are kept out of financial services with the promotion of internet banking services and the like. The South African government's attempts to pressure and regulate banking services, as well as banks' search for legitimacy in the new South Africa, have led to banks extending their services to the black poor by providing small loans to low-income earners and small and medium enterprises (Fair Share, 2001). Despite these attempts, banks continue to see the poor as high risk (without collateral) and costly because of transaction size and operational costs. This situation is not unique to South Africa, but can be seen in Latin America and other countries in Africa. Unless there is profit to be made from the poor, they will not be served (Schoombee, 2000). To date, formal financial and banking institutions and government have been unable to serve the poor with loans and credit facilities and have therefore not been able to address this market failure.

The World Bank and the IMF expect that structural adjustment will result in growth and that short-term poverty alleviation strategies are needed to offset the effects of structural adjustment until growth kicks in. This growth has not taken place and the trickle down effect does not include the poorest sector of our society. The tremendous negative social and political effects of structural adjustment were highlighted by research studies conducted by UNICEF and other organisations in different countries and brought to the attention of the IMF and World Bank as a major concern (Jolly, 1991). The IMF and World Bank response was to incorporate poverty alleviation/reduction objectives *within* adjustment to relieve the effects of adjustment in the short term through tacked-on programmes such as nutrition, public works and small business development through micro-finance schemes and income generating opportunities for women (Van Der Hoeven, 1991). According to Stewart (1991), these approaches to address the social effects of structural adjustment have failed in actually reducing poverty. Padayachee (1994) supports this, saying that there has been little difference made to vulnerable groups by these strategies.

Nevertheless, as a means of addressing the effects of structural adjustment programmes, the World Bank and International Monetary Fund had to look at various strategies in order to deal with poverty. Micro-finance is, in part, one such strategy. In order to increase the poverty outreach of micro-finance initiatives, the Consultative Group to Assist the Poorest (CGAP) was formed in 1995 by the World Bank and other donor institutions. Successes in micro-finance were noted, particularly the example of Bangladesh's Grameen Bank in creating financial access to the poor (CGAP, 1998; Holcombe, 1995; Fair Share, 2001). CGAP was formed to support the development of micro-finance institutions, improve the regulatory framework, as well as the commercialisation, of this industry (www.cgap.org/html/about_cgap.html). Micro-finance programmes are set up to provide financial services, especially making small loans available to the poor who cannot access formal credit for the development of small businesses and the upliftment of the poor. Micro-finance is used to foster the growth of informal and survivalist enterprises, with the aim of creating jobs for the poor and unemployed.

At the heart of the concept of credit access for the poor is the belief that it is the solution to poverty and unemployment in developing countries and that basic banking facilities are essential for development (Marsh & Saran, 2000). The World Bank promoted access to credit and loans for informal sector business initiatives by providing millions of US dollars to set up banks to accommodate the informal sector (Fair Share, 2001). CGAP acts as a compassionate arm that will rescue the poor through providing credit for small businesses on the one side, while draining the poor through structural adjustment with the other arm (Gelinas, 1998). Bruno Stockli of the Swiss Coalition News (2000) warns that many micro-finance initiatives may need external kick-start funds. Experience has shown that these subventions weakens rather than strengthens the determination of members to repay loans, thereby causing instability to the initiative right from the start.

2.6 Personal Indebtedness amongst the South African Poor

According to Marsh and Saran (2000), in 1996 the South African government, supporting and implementing structural adjustment programmes in the form of GEAR, vigorously promoted access to micro-finance by changing legislation (notably the Exemption to the Usury Act) and state sponsorship of services and agencies to fund micro-finance (such as the Khula Enterprise Finance and Ntsiki Trust, a fund established by DTI to provide credit to small businesses and including others related-arms for outreach, training and so on). These micro-finance programmes were set up in order to assist small businesses for the purpose of encouraging growth, employment and job creation. For Morduch and Sharma (2001), micro-finance is meant to provide micro-loans to households for initiating small businesses while not having access to formal credit. However, strapping households to repayments schedules may cause micro-finance to increase the vulnerability of and add to household insecurity.

The desired outcome of micro-finance for emerging small businesses and job creation in South Africa was not achieved (Baumann, 2001). According to Von Broembson (2001), small enterprises enter the same market and compete with similar businesses, resulting in overtrading, often in markets that already have limited purchasing power; this, naturally, further contributes to insecurity. The Department of Trade and Industry disclosed that government lost R68 million between 1998 and 2001 on small, medium and micro enterprises that had failed (Baumann, 2001). The easy access to cash loans was facilitated in the hope that small businesses will thrive, create employment and reduce poverty and contribute to economic growth. This did not happen in the Third World and is not happening amongst the indebted poor in SA.

The end result is that micro-finance has boomed into a micro-lending industry which largely provides short-term consumptive credit to low-income groups (Black Sash, 2000). Loans have not been used for small businesses, nor luxury items, but instead for everyday survival needs (to buy food, clothing, electricity) and for crisis situations (such as illness and death.). With households' income reducing and increased prices on consumer goods, loans are being used to supplement income, resulting in debt traps and a spiral of poverty.

The Micro Finance Regulatory Council report (ECI and DPRU, 2001) shows that the income group of R15 000 and below per annum are the most vulnerable group to becoming permanently indebted or over-indebted. The report further notes that the next vulnerable group consists of those earning between R15 000 and R75 000 per annum. This group is targeted for hire purchase and is vulnerable, by just being eligible for loans and being in the position to incur debt. This, together with the volatile interest rates and increase in the repossession rate, may cause this group also to be drawn into the debt trap.

Black Sash (2000) research in the Southern Cape shows that 95% of loans are being used for food, electricity, clothes and rent. ESSET (2000) established that 98% of loans in Pietersburg (now Polokwane) were used for basic needs. Another example of the extent of the problem of over-indebtedness among public sector employees is “that nearly 7000 employees take home less than R100 a month as a result of micro-loan deductions” (Fair Share, 2001:7). Loans are not being used to start businesses, but rather for consumptive purposes, thus making the poor vulnerable. Further, Von Broembson (2001) adds that the dismal repayment rates noted by Khula Enterprise Finance suggest that the loans were being used for subsistence and food and not because of business opportunities.

Informal money-lenders, frequently referred to as ‘loan sharks’, generally have no fixed offices and lend money to people who have little security and credit worthiness (Marsh & Saran, 2000). The debt collection methods of these money-lenders are usually unorthodox and dubious (Foyer, 2000). The Micro Finance Regulatory Council (MFRC) is attempting to regulate and protect consumers. The MFRC has come under heavy attack for failing to register all money-lenders, for not having the capacity to address consumer complaints and, most importantly, for appearing to represent the interest of micro-lenders (Black Sash, 2000; Fair Share, 2000). Furthermore, the MFRC has been unable to educate consumers as intended (Cape Argus, 2004). The informal money-lenders charge higher interest rates, particularly with the cap on interest rates for loans below R10000 being lifted in the Usury Act. Often these informal money-lenders are the only possibility of credit to satisfy the basic needs of the poor (Black Sash, 2000), whereas other credit is gained through hire purchase and store cards (Cape Argus, 2004).

Recent newspaper reports reveal that South African laws favour the lenders and creditors. One example is the case of two women in Prince Albert who lost their government subsidised homes because one was unable to pay R200 for the vegetables she purchased and the other for defaulting on a R250 cash loan (Cape Times, 2004). Foyer (2000), argues that the implementation of the law for even the most minor infringement is heavily in the creditor's favour. According to the MFRC (2003), change in legislation is needed to deal with creditors' access to court orders to avoid reckless creditors misusing the courts for collection of debt that should not have been made in the first place. A study by the University of KwaZulu Natal's Industrial and Organisational and Labour Studies Unit (Cape Argus, 2004), found that in the last five years throughout South Africa, debt judgements increased by 43%. There have been more than 100 000 summonses per month nationally. Power relations between consumer and credit providers would in all likelihood tip in favour of the credit providers in a multi-billion Rand industry (Weekend Argus, 2004) when compared to the R16000 per annum individual low-income wage earner. Even a minor violation will bring down the heavy hand of the law on the borrower, but money-lenders and credit stores indulge in unscrupulous practices which go unchecked, especially misleading advertising, targeted marketing and reckless lending. The MFRC (2003) notes that reckless lending contributes to over-indebtedness.

According to the MFRC's (2003) submission to the Portfolio Committee on Finance on indebtedness, over-indebtedness has increased since 1995. The submission further notes that the level of indebtedness and over-indebtedness has increased especially amongst the poorest income groups earning below R20 000 per annum (ibid). The poorest households incurred mainly consumption debt. Their inability to manage their debt worsened since 1995 (ibid). MFRC (2003:7) research clearly shows that "micro-loans play a role in cases of over-indebtedness". The MFRC recommends that the systemic weaknesses be addressed, otherwise over-indebtedness may worsen (ibid). The MFRC, together with the Department of Trade and Industry, initiated a pilot Debt Relief Programme in the Western Cape and Gauteng in December 2003 to assist consumers to reduce over-indebtedness, to improve financial awareness and prevent future over-indebtedness. They have linked up with organisations such as Black Sash and legal aid clinics in providing debt counselling, advice and rehabilitation services (Mail & Guardian, 2004).

However, the issue is not about consumer protection and protecting the individual poor person only. It is about micro-finance as the strategy for poverty alleviation, unjust and exploitative interest that leads to debt entrapment, the pursuit of profit or rather profiteering, and the rich prospering even more; and, essentially, it is about poverty and unemployment. The personal indebtedness of an individual is no different from the national and international debt that stifle the life of a nation and a people. Mandla Maleka (Business Report, 2004) compares national debt to that of personal indebtedness. He says that after Africa trades with the North, they lend this surplus capital in the form of credit; this creates the interest rate environment and the more credit agreements are made, the more indebted the country becomes, to the extent that it is indirectly controlled by the creditors. This credit is used for the same recurring expenses, which does not help to settle the debt. Africa is locked into such a system, as are many South Africans. George Dor (Alternatives, 2003:10) takes this further:

> Debt repayments and the implementation of conditionalities attached to loans have a severe impact on the provision of government services so desperately needed by women and their households. Women suffer not only from national debt but also from individual and household debt. Micro-credit models imposed by financial and other institutions from the North have significant impacts on women in the South. They have contributed to the collapse of traditional forms of credit, have entailed the handing over of personal possessions as collateral for credit and resulted in women and their households becoming increasingly trapped in debt.

According to Gelinas (1998), financial relationships that are based on debt, are one way relationships in which the powerlessness of groups of poor people, the individual and the nation are entrenched. Just as the South African government is caught up in a debt trap not of its own making, so too are individual households caught up in debilitating debt. Ashley (2003) goes a step further to call on Jubilee South Africa and other organisations to campaign on national debt and personal indebtedness jointly.

2.7 Government and Civil Society Responses

The biggest problem affecting the poor are the GEAR strategy (ESSET, 2000) and funds spent servicing the apartheid debt, and not micro-finance or consumer credit issues. The latter are immediate and short term foci for intervention, but the bottom line is that poverty and unemployment need to be addressed through a host of multi-level and multi-pronged strategies.

It seems that President Mbeki might be making some minor shifts in terms of GEAR. This became clear in his address to the nation after the 2004 national elections, when he said that the free market alone cannot address socio-economic problems and alluded to the importance of state involvement in addressing these issues. Perhaps there is hope that this state of affairs can be resolved. There is the new consumer legislation aimed at better regulation of the credit industry. In addition, there are discussions on the new banking legislation that government is proposing and which seeks to reach the poor. There is the move to encourage savings, which may also boost the national savings rate. All of these aim to benefit and bring relief to the poor and indebted. One area lacking, in terms of government's response, is that of extending the social safety net to provide a basic income grant, which, it is widely believed, will alleviate the misery of the poor and unemployed. These interventions mentioned above, together with others, may help to address the problem of indebtedness of the poor, but will not provide relief in terms of the overall poverty facing the country. Neither will this alone lead to the upliftment and development of the poor and marginalised. These issues will be briefly reflected on below.

2.7.1 New Legislation: the Consumer Credit Bill

Organisations such as the Black Sash, ESSET, the South African Communist Party and others have highlighted the growing situation of indebtedness and over-indebtedness of the poor and low-income groups, as well as the exploitative credit practices of credit stores and money-lenders. Debt plight and consumer exploitation have been exposed in newspapers throughout the country. As a result, the Department of Trade and Industry (DTI) and the MFRC have come under tremendous pressure to investigate and research these allegations and to take action to address the problem.

Research conducted by ESSET (2000) and Black Sash (2000) highlight concerns about consumer protection and education. Both recommend that, in the short term, advice and education regarding their rights be provided to consumers. They have urged government to change and implement legislation that will provide better protection for consumers and that will take credit providers to task for misleading and exploiting consumers. The Weekend Argus (2004) notes that consumers are inadequately educated and uninformed about their rights and are therefore powerless to insist on the protection of these rights. Often, consumers are not aware that they may lodge complaints with the MFRC (Cape Argus, 2004). The DTI further adds that consumers lack awareness on the fee structure and insurances that may make up 50% of the cost of the credit (Weekend Argus, 2004). In yet another article in the Cape Argus (2004), it is stressed that the actual cost of credit is higher than disclosed and that people are misled by advertisements. Lyse Comins of the Cape Argus (2004) reports on a study by the University of KwaZulu Natal's Industrial and Organisational and Labour Studies Unit. In this report it is noted that Cape Town leads the personal debt crisis with 20 000 judgements per month against debtors and 100 000 summonses per month countrywide. The study further found that the MFRC was unable to educate borrowers. The DTI's Policy Framework for Consumer Credit (2004) expresses concern about the heavy debt burden and over-indebtedness by the poorer segments of the population.

The DTI policy framework (2004) acknowledges that the current regulatory framework is outdated, fragmented and ineffective, and seeks to draw up a single set of legislation to deal with all consumer credit transactions to ensure a consistent approach. The DTI is proposing the new Consumer Credit Bill to cover all aspects of consumer credit that is presently open for submissions. This Bill, outlined in the DTI's Government Gazette, (2004) covers consumer rights, full disclosure of costs, advertising and marketing practices, standardising of interest and fees as a percentage per annum with maximum limits set by the Minister.

Comins (2004) notes that the new Bill will help protect consumers from unscrupulous money-lenders and prevent consumers from becoming trapped in debt. Furthermore, the legislation requires that credit providers be registered and strongly promotes consumer education. The Consumer Credit Bill has been welcomed by many who view this piece of legislation as balancing the powers between the multi-million Rand credit industry and the individual consumer.

This Bill also regulates insurance sold by credit providers, sets out mechanisms to deal with debt, including debt counselling for over-indebtedness. According to the submission of Black Sash (2004), and in response to the Bill, more clarity is needed on the criteria or guidelines for debt counsellors, whose interest should be focussed on the indebted person. The financing of the debt counsellors, among other issues in the legislation, has not been mentioned. Furthermore, the Bill proposes setting up a National Credit Regulator, which the MFRC will now fall under, and a Consumer Tribunal to judge, informally, breaching of the law (DTI, 2004 & Weekend Argus 2004). Black Sash (2004) highlights the need for these bodies to have equal representatives from consumers, credit providers and government.

According to the new Bill, when the interest reaches the capital amount, interest is stopped, but charges continue (Government Gazette, 2004). When further payment is made to reduce the debt, interest is then reinstated. Black Sash raises an important concern: this is a disincentive to repay the debt incurred (Black Sash). Further concerns submitted regarding the Bill, and which might contribute to over-indebtedness, are the need for guidelines regarding reckless lending, full disclosure of costs (including administration), stopping the charging of fees despite interest being halted when it reaches the capital amount borrowed, and cost implications that will ensure implementation of the legislation (ibid).

Despite these concerns and absence of consumer voices regarding the proposed Bill, Black Sash (2004) and 'You and Your Money' (2004), among other organisations dealing with personal indebtedness, have welcomed the new Bill. After noting, researching and considering a range of concerns of civil society, the DTI has produced a fine piece of legislation to address concerns of over-indebtedness, consumer protection and education. South Africa has yet another important piece of legislation to protect the rights of its citizens. The question again is: will this be implemented effectively and efficiently once legislated?

2.7.2 Financial Services for the Poor

In the Swiss Coalition News (2000), Stockli notes that most people in the Third World do not have access to international and national financial markets. This is no different for the poor in South Africa. According to Fair Share (2001), the banking sector ownership by four banks continues its monopoly of ownership of 80% of the market. They see their growth in their global operations and global banking. The South African Broadcasting Cooperation news (SABC, 2004) reported that South African Reserve Bank and National Treasury Report shows that South African banks are the most profitable compared to banks in developed countries.

These major banks are under pressure from government to provide loans for small and medium enterprises, which they now are beginning to provide (Fair Share, 2001). Retail stores (Edgars, Pep, Jet, among others) have also begun providing individual loan products that are well-marketed. The problem is that this rigorous marketing lands people in debt and these stores are gaining huge profits. The poor still do not have access to basic facilities, despite attempts to re-dress this. These initiatives mainly focus on loans and not savings; in fact, most do not offer a savings service (Fair Share, 2001).

The Financial Sector Campaign Coalition established that eight out of ten workers received less than 40% of their wages after deductions by micro-lenders (Cape Argus, 2004). Blade Nzimande, general secretary of the South African Communist Party, warned government to crack down on the money-lending industry to stop this massive indebtedness which has reached crisis point and called for effective legislation to deal with the banking needs of the poor (ibid).

The government is trying to address this through new banking legislation that will provide companies with banking licences with restricted banking operations to focus on targeting the 60% 'unbanked' population (Wiese, 1996 quoted in Schoombee, 2000). The government's initiatives are welcomed as a way to redress the market failures in supplying simple financial facilities to the unbanked majority (Business Day, 2004). Second tier banks which will be able to serve the excluded population are to be set up by the introduction of the "Dedicated Banks Bill" and the "Co-operative Banks Bill", which are to be released soon for discussion (Business Day, 2004). Women are the pariahs of the banking system and this can be seen at all levels, including the IMF and World Bank, which are male dominated. However, women are taking control at grassroots level, as well as in the informal savings arena, and these new proposed bills will do well to take into consideration and address this gender 'skewedness' when drafting the new, second and third tier banking legislation. This bill should also be cognisant of the shift away from providing loans for income generation towards providing an array of financial services, including flexible saving facilities. These should take into account the special needs of people such as the young employed, the grandmother taking care of young children, the single women, the newly married couple and so on, as each have their own special needs that blanket legislation might not meet. Most important is an understanding of poverty that goes beyond income to vulnerability and powerlessness (Oxfam, 1997).

In South Africa, the post office is seen as one of the more accessible services where it is possible in many regions for even rural people to gain access to banking services. There is no reason why the post office services cannot expand, extend and improve its banking services to the poor, especially for savings of smaller amounts. Often the poor need a place to store their funds; this includes informal savings schemes (ActionAid). The DTI (2004) mentions that even though savings is important in the prevention of extreme debt, there are many deterrents to formal saving, especially amongst the low-income groups and in rural areas, and cited a survey which showed a -20% negative return to this group. On the 25th October 2004, Mzansi, a low cost national bank for low-income earners was launched (www.southafrica.info). Mzansi pledges to be located within a 15km radius, at the most, from homes of all South Africans. Although any automated teller machine (ATM) may be used, with the same transaction cost, additional mini-ATMs will be set up, as well as “container branches”. These accounts can be opened at any of the major banks and at the Postbank. Mzansi will keep costs and charges low and not charge a management fee. Services offered will be limited to withdrawals, debit card payments and deposits – with one free cash deposit per month (ibid).

During personal research (Report, 2002) in the Northern Cape and West Coast with informal savings groups, informants reported multiple problems with banks – access to banks only in the towns nearest to them; appropriate banking facilities and friendly services. Sometimes after travelling a long distance at great expense, when the saving scheme collectors eventually reached the banks, they experienced poor and racist treatment by bank staff. In some cases, coin deposits were even refused by the banking staff. Some informal savings schemes negotiated with the post offices and moved their accounts to their local post offices with far better results and lower charges and fees (NAMKO, 2002). Tito Mboweni, the Reserve Bank governor (Business Report, 2004), expressed concerns about "spiralling household debt" and investigated dealing with high bank charges. The South African Reserve Bank and National Treasury Report show that South African banks charges are higher than the top 100 banks in the world, which further marginalises the poor from its services (SABC, 2004).

2.7.3 The Savings Option for the Poor

Gelinas (1998) considers domestic savings to be crucial in a country's development and criticises international institutions and government for downplaying the importance of savings in economic upliftment. Oxfam (1997) agrees, noting that saving services have been ignored in the micro-finance initiatives. The same applies to the South African government and micro-finance initiatives that focus on credit and loans, often without paying attention to and at the exclusion of savings. The culture of credit and debt is often encouraged without encouraging savings as an option for the poor. Saving needs to be seen from a different angle, as being the flipside of credit in the micro-finance coin. In micro-finance there needs to be a balance between savings and credit. The emphasis on credit has been promoted as the cure for the economic and social ills of individuals and Third World countries (Gelinas, 1998). It is the debt bondage facing Third World countries and the poor that is forcing the issue of domestic and individual saving into the forefront. Just recently, Trevor Manuel addressed the South African Savings Institute (Sunday Times, 2004; Manuel, 2004), stressing the importance of savings and noting that increased savings improve the national savings rate and reflect positively on South Africa's economic well-being. He admitted that national savings have fallen from 20% of gross domestic product to 14, 5% (ibid).

Ardener (1964) noted that throughout most of the world, communities have embarked on their own forms of savings. Civil society and non-governmental organisations have tackled and promoted rotating credit and savings associations, savings and credit co-operatives and informal daily saving schemes. The lack of effective and consistent encouragement and promotion of savings has led to this being overlooked as a source of capitalisation (Gelinas, 1998). The World Bank acknowledges that savings are vital in poverty alleviation (www.cgap.org) and the South African government is beginning to recognise and encourage savings as important for low-income households. Deputy Finance Minister, Jabu Moleketi, stated that savings play an important role in raising investment, and in increasing economic growth and job creation (Business Day, 2004).

Who says that the poor cannot save? The Minister of Finance (Manuel, 2004:6) says: "[W]e have seen a proliferation of micro-loans to this segment. Repaying debt implies potential ability to save!" To answer this differently, Burman and Lembete (1997) estimate that there are approximately 800 000 rotating and credit associations in South Africa with a turnover of R200 million per month! The poor can save. It is therefore not surprising that the government is now beginning to recognise and encourage saving as important to the national economy. In addition, without savings, low-income groups are economically more exposed to outside factors such as illness, death, price increases and the like. Savings schemes and access to savings and credit may provide some form of buffer and may reduce the vulnerability of low-income households to these unforeseen external pressures. The informal savings collectives assist in softening these blows (Burman & Lembete, 1997). There appears to be a growth in collective or community savings and credit movements and schemes. The most commonly found saving scheme in South Africa is the "stokvel" or "gooi-gooi", based on the same principles as that of the rotating credit savings schemes, which according to Ardener (1964:201) is "an association formed upon a core of partners who agree to make regular contributions to a fund which is given, in whole or in part, to each contributor in rotation".

In South Africa, there are savings co-operatives which are membership based and governed by members who vote on the rules and regulations of these co-operatives. The member is also the owner or shareholder and receives profits or dividends on shares. The largest is the Savings and Credit Co-operatives League of South Africa (SACCOL), which pools the money of savers and also allows access to loans. These co-operatives are more professional and sophisticated than informal groups, with permanent structures, either in their community or more often in the workplace of members. Loan repayments are mostly made through wage deductions. These co-operatives promote savings and self-reliance (Fair Share, 2001).

In addition to the rotating credit and savings schemes ("stokvels"') and credit co-operatives, there are savings groups or schemes in South Africa that are informal and are regular savings groups that are *not* rotational, i.e. savings are not given to each member in turn. These often take the form of daily savings that begin with saving small change that is collected everyday by visits from an elected member of the group of savers. These are usually accompanied by non-profit organisations that provide support, advice and other services.

According to Oxfam (1997), the main purposes of savings are to 'safeguard' cash money, for 'consumptive smoothing' which safeguards income until scarce periods due to temporary employment, for the 'accumulation' of savings for a future large purchase or expense, or for 'insurance' in the event of emergencies such as a funeral or illness.

Besides the financial benefit and encouraging the culture of savings, regular or daily savings has an additional social benefit for the poor who come together and discuss their common situations. The daily savings groups are seen as the beginning of social movements of the poor (Maisel, 2000). Workers, even though they may have low incomes, have the might of the trade unions and a strong voice. The regular or daily savings scheme is seen as an empowerment tool, an entry point for the poor (and unemployed) to mobilise and organise around issues that affect them and to find strength and a platform from which to project their voice.

Lothar Seethaler, of the Swiss Catholic Lenten Fund, a development aid agency (1996), promotes the subsistence approach in which society and the economy is oriented towards life supporting needs of the people and not towards profit as its main aim. In this approach, the economy supports the needs of the people based on the right to subsistence. This approach is seen as co-existing with capitalism and serves the needs of the poor family. The poorer the person the more important is the value of subsistence in their daily life. The main concerns for the poorest are what basic needs are necessary to survive, what to avoid and so on. Seethaler (ibid) argues that development aid should reinforce these activities orientated to meeting basic concrete needs of the poor. He sees indebtedness and poor wages as the worst type of exploitation. Elisabeth Von Capeller (1996) supports this approach and agrees that this exploitation and indebtedness can be partially overcome by savings and loans for the necessities of survival. The savings initiatives are seen as an empowerment tool.

These informal collective savings and/or grain banks allow the indebted poor to be able to build up a nest-egg, albeit a small security, for the external shocks and ensure that basic needs are met through constantly rotating credit from their own joint savings. The members thereby protect themselves against further indebtedness and dependency, as well as ensure their subsistence (Seethaler, 1998). Lothar Seethaler (1998) stresses that it is the poorest groups who should be the targets of savings interventions, as they are often overlooked or sidelined. Oxfam (1997) supports the view that very poor people are excluded from credit schemes by existing members, who may have information that a particular person may be unable to repay their loan out of their current income. Seethaler (1998/9) illustrates how this savings group operates. The poorest and most marginalised in the urban slum or rural village come together in their village and save jointly during the periods when they have work and an amount of their income is saved regularly, albeit a small amount. The contributions in the savings pool is based on the smallest amount that the poorest person can afford to save, thus everyone in the group has an equal say. Precise rules are drawn up for granting loans, e.g. the survival/subsistence of members. The group decides who should receive loans and they prioritise emergency needs of members, and not on rotation or drawing lots. Even in the first year of savings, it is possible for members to get loans without having to approach a money-lender. The members of the group do not have to pay interest on these loans.

The savings give the group a certain degree of security, which increases year after year, and the group gains greater freedom, confidence and ability to get involved in other activities. Oxfam (1997) says this form of savings can effectively reduce poverty by enabling the poor to protect their incomes, while saving regular small amounts create a discipline of saving though the sense of obligation. The members manage these regular savings schemes themselves, with almost 100% self-financing and with some support and training from organisations (Von Capeller, 1996/7). Repayment rates for small subsistence loans are excellent. Using Gelinas's analogy (1998), R1 raised by a tax collector and R1 voluntarily deposited into a savings scheme is quantitatively the same, but poles apart in their meaning and effect. The first one is passive and powerless whereas the voluntary saving in a group has various meanings and feelings of forward planning, empowerment, motivation, personal choice. It also has an effect on the whole community. This self-education, action, mobilisation and management open a path for entrepreneurs and national leaders (Gelinas, 1998). The Chairperson of Metropolitan, Abel Sithole (Sunday Times, 2004), views savings as being "not only about delayed consumption but also managing financial income". Furthermore, not only does saving protect the group from exploitation by money-lenders, it also gives them courage, hope and confidence that they themselves are able to improve their situation. It furthermore allows for capital accumulation, although the poorest may need to build up a degree of security before investment and growth becomes possible (Oxfam, 1997). The advantages of this type of informal savings are numerous. Savings owned by people are less likely to have exploitative dimensions. Savings restore their human dignity and convey feelings of solidarity, security and belonging (ibid). It is this solidarity and mobilisation that promotes advocacy and lobbying around issues of common interest such as wage negotiations, negotiations with local government structures for better services, education, and medical treatment and so forth (Seethaler, 1998/9). According to Gelinas (1998), savings create a desire for investors to better themselves and their situation through self-financed and self-managed development.

Oxfam (1997), Elisabeth Von Capeller (1996/7), Lothar Seethaler, (1998/9) and Jacques Gelinas (1998) all agree savings tied to income-generating activities are seldom successful. Furthermore, all these writers agree, from experience, that external funding has a negative effect on savings groups and should be discouraged. Gelinas (1998:117-118) states that funds from foreign sources undermine members of savings and credit co-operatives. Often these funds are considered to be surplus from countries that have too much and this is why borrowers do not feel an obligation towards repayment and the good management of such funds. Money raised from sweat and hard work by the saver demand strict management, transparency and full control of the process from saving through to borrowing.

There are various methods, models and approaches of saving schemes and each has its strengths and weaknesses. For Stockli (2000), there is no international best approach since this has to be suited to the context of the group. Seethaler (1996) and Von Capeller (1996) concur. Fair Share (2001) too agrees but qualifies this by adding that the approach should not compromise savers' subsistence or place their autonomy at risk nor perpetuate dependency. Oxfam (1997) adds that non-profit organisations need to provide support, training and advice to savings schemes in terms of literacy, numeracy, internal controls and the like. But most importantly, it is necessary to organise and mobilise people to make a collective analysis their own situation, to facilitate this analysis of poverty and their understanding of powerlessness in order to bring about change.

Just as personal indebtedness can be likened to the national debt, so can personal savings be likened to national savings. Jacques Gelinas (1998) draws our attention to the fact that national savings can do for the Third World nation what individual savings can do for an individual in a group savings initiative. National savings play an essential role in development. Solid national capital can protect a country from international market fluctuations, exchange rate and interest fluctuations. Domestic savings promote steady and self-sustained growth which is self-financed and self-managed. This national self-development through domestic savings allows for less foreign borrowing with its stifling conditions that choke the poorest. To paraphrase Moleketi, just as higher savings would give South Africa both a cushion from financial shocks and the visible gains of increased investment, economic growth and job creation, so too with personal savings, where the poorest can be cushioned from external shock, asset accumulation can be increased and local economic development can take place (Business Day, 2004). As Gelinas (1998:87) argues: "savings is the price of autonomy, freedom and thriving development".

2.7.4 The Basic Incomes Grant Lobby

There are three government grants, namely the old age pension, the disability grant and the child support grant. Government grants are a crucial tool that contributes directly to alleviating poverty (Hologram, 2003). A number of non-government organisations, including faith-based organisations, have taken up the Congress of South African Trade Union's call of 1998 for a basic income grant for all South Africans (GAP, 2001). The Department of Social Development set up the Taylor Committee to investigate the national social security system in 2000. This committee found that the current social security system does not sufficiently tackle the problem of poverty. Among other recommendations, a restructuring of the social security system was recommended, as well as the introduction of a basic income grant (BIG) of R100 per month for all (Taylor, 2002). This report sees the BIG as a having the ability to reduce poverty, encourage economic growth and development and promote sustainable livelihood.

In 2001, the BIG Coalition was formed in support of and to campaign for the basic income grant of a minimum of R100, to be increased according to inflation (GAP, 2001). The BIG is seen as benefiting the poor, especially women and children, by providing a small but regular cash income, doubling the income of the poorest as found in household surveys (Le Roux, 2004). It is believed that this BIG will improve nutrition, encourage consumer spending, facilitate job creation and contribute to economic growth (ibid). In addition, the grant can prevent further indebtedness and, to some extent, assist in overcoming indebtedness. With the encouragement and appropriate banking facilities, individual savings may increase and contribute to national savings.

The basic grants are of particular importance in the context of the high unemployment rate and poverty figures mentioned earlier. The current economic situation belies the argument that unemployment is a temporary condition. Given the present labour market, the impact of privatisation and globalisation, it will remain a big problem even if the economy should grow much faster. In view of this, the BIG is all the more relevant and imperative for the poorest segments of our society such as the long term unemployed and working poor earning below the poverty line (Fair Share, 2003).

According to Von Broembson (2001:98), neither the public works programme nor the small business strategy is able to have the "geographical and numeric impact that a BIG would have". Le Roux (2004) views the BIG as complimenting public works, skills training, micro-finance self help and local economic development, which would make the BIG a strong development tool. Le Roux (2004) argues that the BIG will instantaneously move the poorest out of impoverishment and considerably reduce the poverty gap. In addition, with a regular and steady income, households will be able to take more risks in terms of investments such as education and also be able to engage in forward planning activities. Furthermore, BIG would allow AIDS orphans to be seen as contributing to rather than as a drain on households, thereby positively increasing their status in the home, as well as improving the nutritional needs of children and those suffering from chronic illnesses (Von Broembson, 2001; Fair Share, 2003).

The BIG Coalition instigated discussion and research on financing the BIG as practicable and affordable, as well as a means to meeting the basic needs of the poor and promoting local economic development (BIG Financing Reference Group, 2004). Four well-known economists involved in social security issues came together and concluded that the BIG is affordable and a viable option. The financing of the BIG is possible through a combination of tax sources. Furthermore, the Reference Group concluded that the BIG would be developmental and would extensively reduce poverty (ibid). The BIG of R100 plus inflation is viewed as adequate in order to eradicate extreme misery, but small enough for the national budget to sustain and small enough not to discourage recipients from seeking work or other forms of income (BIG Financing Reference Group, 2004). The civil society coalition and the Department of Social Development's Taylor Committee state that the basic income grant for all is possible through taxation, while some organisations (such as Alternative Information Development Centre) say that financing the BIG is also possible through apartheid debt cancellation, which would free up a large slice of the fiscal cake. Le Roux (2004), a proponent of a universal basic income grant for all, argues that without the bureaucratic hassle and costly means test, it will be possible to recover the cost of a

BIG through our increasingly effective and efficient tax system. Already government is developing an electronic identity system with individual 'smart' cards through which grant payments can be made, making this an ideal method of delivery for the BIG (Le Roux, 2004). The Basic Income Grant is possible if government has the political will to implement it, as well as the moral and ethical concern for the poor who are excluded from opportunities, benefits and owning assets that are available to the wealthy (Fair Share, 2003).

2.8 Concluding Comments

The Basic Income Grant, savings, access to appropriate banking, new legislation and an alternate macro-economic policy are the changes that are needed in order to address the problems of personal indebtedness. These would not only promote debt liberation, it would most importantly, deal with poverty and unemployment that would set us on a path towards self-reliance, nationally and personally. Against this background we now turn in the following chapter to the local situation of personally indebted individuals within the South African context.

CHAPTER 3

A CASE STUDY OF A GROUP OF INDEBTED PEOPLE IN THE CITY OF CAPE TOWN

This research intends to shed light, in a small way, on indebtedness by looking at the purpose for which loans have been made and people's ability to repay their loans without being permanently indebted. This research further seeks to investigate the extent of the problem and to contribute to current research efforts. The motivation for this investigation is to provide useful and meaningful information to government (policy makers), non-governmental organisations, civil society and other interested parties so as to create an awareness, to place indebtedness on their agenda and to find solutions to this rapidly growing debt trap of the poor.

This chapter explores and provides an analysis of the nature and extent of the indebtedness of the poor. The following research results reveal the outcomes of the case study of thirty consumers within the Cape Metropolitan area who are in debt to credit providers. The targeted group recognised that they had a problem with managing their debt(s) and requested help from the organisation "You and Your Money" (Y&YM).

The research outcomes provide personal profile of the indebted group, their employment and income status, as well as their respective household expenditure. More detailed information on the extent of indebtedness is given and startling findings regarding the reliance of the sample group on money-lenders are presented. The use of interviews and the focus group sessions provided vital information in terms of the impact of debts on the individual and the family, information either overlooked or not disclosed in the questionnaires.

3.1 The Non-Profit Organisation: You and Your Money

Y&YM was established in 2001 as a non-profit organisation by a group of concerned community development workers, mainly women, who noticed the new, growing phenomenon of indebtedness among the poor communities they worked in (Y&YM, 2001). Y&YM was initiated to break the cycle of crippling debt by providing a free debt advice centre for those individuals already in debt and to prevent others from falling under the yoke of debt oppression. Some of the services offered by the advice centre included providing financial life skills and awareness programmes to community groups and low-income employees at the work-place, as well as in the large business centres of the country, namely Pretoria, Johannesburg, East London, Durban, Port Elizabeth and Cape Town (Y&YM, 2003).

The organisation's reach has spread into the rural areas of the Eastern Cape and Northern Cape through building alliances with local community based initiatives through their debt activist programme (Y&YM, 2003). Y&YM have successfully taken their 'Debt Sucks' slogan to communities and businesses alike. They have also approached government and Minister Trevor Manual (Finance24, 2004), in his 2004 pre-budget speech, used the 'debt sucks' slogan and came out strongly in support of the work of Y&YM (Manuel, 2004)

Y&YM are supporting and assisting in this research as they are continuously striving to understand the problem of indebtedness and its extent. There is very little comprehensive research done on the extent of over-indebtedness in South Africa, especially among low-income households. They see a great need for a deeper understanding of the reasons as to why this sector of the population falls into debt and are also interested in finding out what different kinds of credit agreements they enter into. With more information and analysis and joint efforts between business, government and civil society, we would possibly be able to achieve Y&YM's vision of financial dignity for all (Y&YM, 2003).

3.2 Personal Profile of the Case Study Group

The questionnaire was completed by 30 indebted adults drawn from the client base of Y&YM. The majority of respondents come from Khayelitsha (43%), followed by Langa (16%), Mfuleni (13%), Phillipi (6%) and Samora, while Mitchells Plain and Guguletu are represented with 3% each. The majority of the sample group (70%) are Xhosa speaking and between the ages of 26 and 40 years.

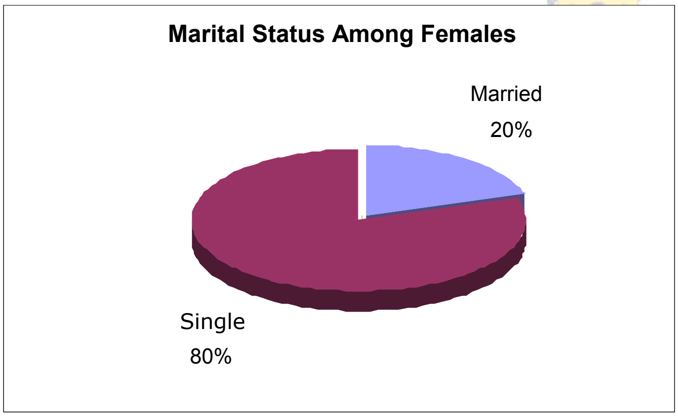

Figure 3.1: Marital Status Among Females

From the 30 interviewed, 76% are single. Referring to Figure 3.1, amongst the women 80% are single. Respondents in the sample group have an average of three dependents whose average age is under fifteen years, making a family size of four per household. The majority in the sample group are single women heading households. This is much higher than the figure quoted in the Township Residential Property Market Study (2004) that found women in

Cape Town headed 29% of households in 2002. As the respondents are drawn from the client base of a debt advice centre, and not from the broader society, it can be inferred that women are more likely to seek help, as the majority of these women are caregivers supporting dependants and shouldering the burden of family survival. Single mothers appear to be under tremendous financial pressure to provide for their families and may be more likely to resort to credit in order to supplement their household income and may thus be more predisposed to debt. However, research by Marsh and Saran (2000) recognise that borrowers are mainly women making consumptive loans and conclude that it is because women generally provide for their families regardless of the income of their husband. ESSET (2000) too found that the majority of borrowers were women. ESSET's research (2000) and this projects' research show that poor households mainly headed by single women are vulnerable and at risk. The United Nations research supports this in their report that notes that in South Africa, 60% of households are headed by women living below the poverty line (UNDP/SEPED, 1999).

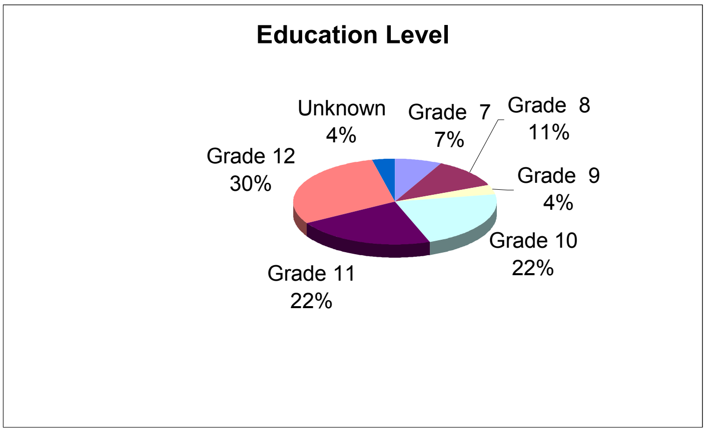

Figure 3.2: Education Level

The education level of the respondents, depicted in Figure 3.2, defies the myth that, among the poor, it is mostly the illiterate and lowly educated who are tied to informal money-lending. The sampled group was far better educated than expected. This research shows that

67% of the informants have secondary schooling and have reached grade twelve. The lowest level of school education is grade seven and only 7% made up this group. This suggests that education and youth are not a protection against impoverishing debt in the context of high unemployment and low household income. It is worth mentioning that all respondents would have received "apartheid education", which did not promote life skills such as critical thinking, analysis and forward planning. These skills would have assisted in helping people to make good financial and budgeting decisions, but would not be a protection in the face of rampant unemployment and poverty.

3.3 Income and Expenditure

Figure 3.3 shows that only 8% of the group earned within the highest income bracket for the group, which is between R1201 and R1500. This bracket of the sample group, however, still falls below the Household Subsistence Level of R1600 per month (Cape Town Integrated Development Plan, 2004.) The wages received is indicative of the type of work of the employed group. This ranges from office assistant, to salesperson, to cleaners and 'volunteers' at a non-profit organisation receiving a stipend. Figure 3.3 indicates that although the sample group's average monthly income from employed sources is R450, the income distribution is uneven since 59% are unemployed and earn far less than R450. In Cape Town, 33% of households are estimated to be living below the Household Subsistence Level of R1600 per month (Cape Town Integrated Development Plan, 2004.) All in this sample group earn below this level and are living below the Household Subsistence Level. Figure 3.4 shows that the majority of those employed rely on grants as well as their employed earnings. Only 10% rely solely on their employed income and do not receive any grants.

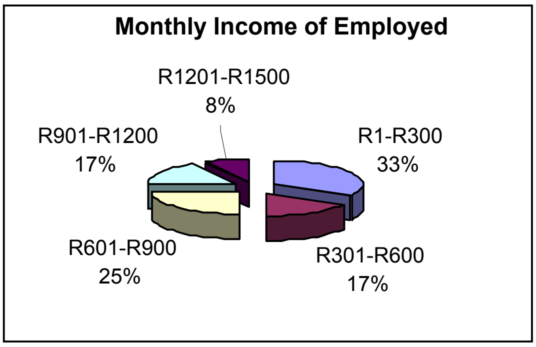

Figure 3.3: Monthly Income of Employed

Census data (2001) shows unemployment amongst economically active people to be 42% in South Africa and 26% in the Western Cape. However, this sample shows that unemployment levels amongst respondents (59%) is higher than the Census unemployment data for the Western Cape and South Africa. Just over half of the unemployed respondents (53%) rely solely on grants as the main source of income as shown in Figure 3.4. All of the unemployed are grant recipients. Thirty seven percent of all respondents rely on both their own earnings and grants. Most of the employed also receive grants. In other words, 90% of people interviewed are grant recipients irrespective of employment status.

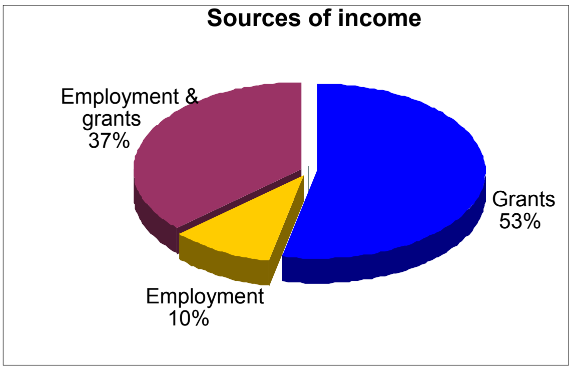

Figure 3.4: Sources of Income

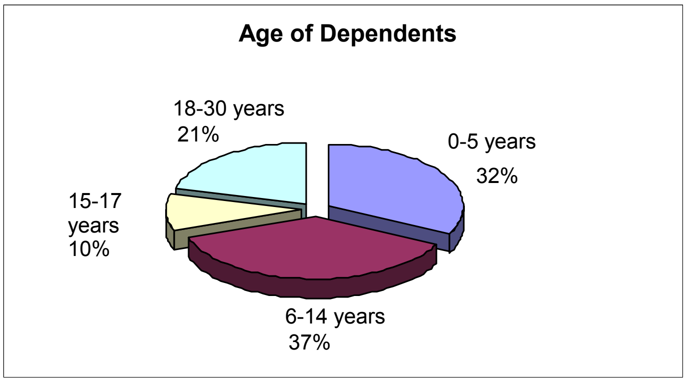

Figure 3.5: Age of Dependents

The majority of the respondents' dependents (69%), shown in Figure 3.5, fall within the age range of 0-14 years. This age group qualifies for a child care grant. Dependents in the age range of 15 to 17 years (10%) fall out of the child care grant net. The responsibility of a significant percentage (21%) of stated dependents are adults and extended family relatives, between the ages of 18 and 30 years old, who are supported by the sample group. These adult dependents are being supported by the sample group and this is typical of local traditions and culture where the extended family is a support network. The HSRC (1996) found that, among black families in South Africa, the family group sometimes depended on one person's income that was spread among many dependents. The White Paper on Social Welfare (1997) mentions that black people living in poverty usually have three generations in a household and grant income is used for the entire family. This supports claims that the grants are used for and is a help to the household and not for the individual receiving the grant as intended. An interviewee reveals the extent of this situation:

> After the funeral I have to act as a mother to my little disabled sister… I have two kids and I'm also taking care of my disabled sister and little brother. I went to a money-lender to pay for the funeral.

Respondents were asked to give a breakdown of their monthly budget and expenses. As Figure 3.6 illustrates, the main expenses given are food and groceries, electricity, transport, water, school fees and clothing, in other words items that are considered essential.

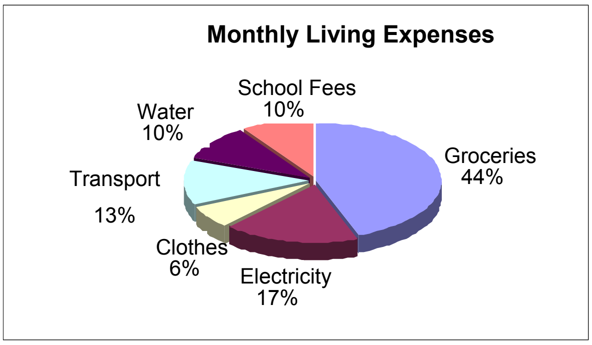

Figure 3.6: Monthly Living Expenses

The largest chunk (44%) of the income is spent on food and groceries, followed by electricity (17%) and transport (13%). Interviews and focus group discussions showed that transport was for school purposes and, to a lesser extent, travel to work. This was followed by school fees and water, both at 10%, while the least spending was on clothes (6%). The monthly budgets and expenses, however, did not tally with their income. The sample group did not mention debt repayments to creditors as part of their monthly expenses. It is interesting that they saw this as separate from their monthly expenses and only mentioned this when asked more specific questions later on. People are typically reticent to disclose their debt, but as this was a questionnaire specifically about debt, it seems less likely that reticence was the reason in this particular case. Perhaps just making it through the month is the priority and overrides thoughts of debt repayment. This is indicative of people perhaps simply not being capable of honouring their debts or of an absence of adequate budgeting and financial planning commonly found in the debt advice centres (Y&YM, 2003). Despite the relatively 'high' levels of education, budgeting and forward planning are extremely difficult to practice when living on low wages and grants, and when expenses are greater than income.

3.4 Credit Providers

The credit providers discussed below include mainly the credit stores that provide installment sales, as well as money-lenders (both formal and informal) who provide cash loans to the sample group. The area of cash loans is explored further in terms of reasons for loans, interest and methods of collection. Another important source of credit for the sample group includes the local "spaza" shops.

3.4.1 Credit Stores

Of the items that were purchased on credit (see Figure 3.7), clothing constitutes the highest percentage: 0%. Some participants of the focus group and interviewees said that the clothing they purchased was school uniforms and Christmas clothing for their children. Fridges, stoves and clothing make up a total of 54% of items bought on credit and may be considered essential household items. The balance is made up of furniture and other electronic equipment (such as hi-fi systems and video machines), often considered to be luxury items. Telephones make up 5% of items bought on credit. It could be argued that phones are necessary for the sample in order to be in touch with family in rural areas or in terms of being contactable when seeking employment.

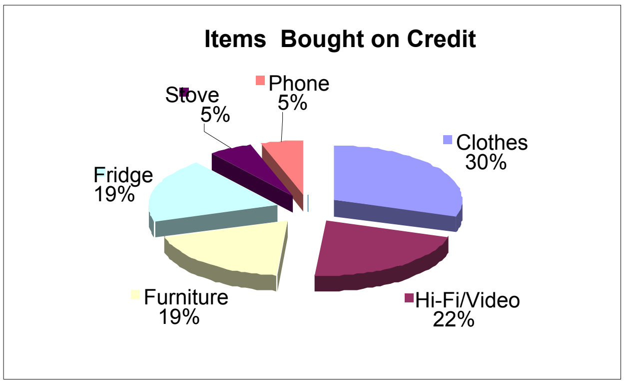

Figure 3.7: Items bought on credit

The majority of informants (74%) are in arrears with repayment on their credit accounts. Of these respondents, 38% had their goods repossessed as a result of non-payment. Letters of demand have been received by 49% of the sample, suggesting that they too may soon fall into the category of having goods repossessed. The arrears, repossessions and letters of demand clearly show an inability to meet payments. This supports other research (Black Sash, 2000) that suggests that creditors lend recklessly as they do not scrutinize people's ability to make repayments. In addition, credit is given despite low job stability and people are able to open accounts as soon as they have employment, even if it is not long-term employment. Many of the indebted group are often employed on a contract basis for a short period of time. Stores should examine the length of employment and contracts before granting credit that may extend beyond the length of the employment period. Interviews showed that the main reason for people falling behind with their repayments is the loss of employment, often through ill health.

On the other hand, consumers could be said to borrow recklessly. During some of the interviews and focus group discussions, respondents spoke of purchasing on credit using someone else's name, as they themselves would not have qualified for credit. The MFRC's submission on indebtedness to the Portfolio Committee on Finance (2003) proposes introducing penalties on consumers providing false information to creditors, as this over-extends the consumer. This highlights the fact that for the poor, certain purchases or acquisitions could not be made without some sort of credit facility and prior saving. Unfortunately, currently available credit facilities for the poor are extremely expensive and frequently trap users in a cycle of over-indebtedness. Although the saving option is not the first option for swift satisfaction, and is not as rigorously marketed, it is probably the wisest solution. Perhaps this is a practice that the Department of Trade and Industry could adopt and promote more widely. The daily savings plan outlined by Maisel (2000) and People's Dialogue (1996) show that it is possible for the poor to save even small amounts. Lukele (1991) highlights the importance of local "stokvels" (rotating credit associations) that help the poor.

The interviews and focus group results show that some of these credit purchases were made to purchase school clothes. This is common and can also be attributed to the very high cost of school uniforms. From the interviews and focus group outcomes, it appears that credit purchases were made as soon as the respondents were employed. Purchasing on credit seems to have become accepted as the chief means of purchasing. For many lower income consumers, this leads to over-indebtedness, a condition that ultimately traps them in debt which is very expensive to service and which lowers their standard of living. From the sample group, 74% were in arrears with their payments to credit stores, as shown in Figure 3.8. Job stability appears to be non-existent for the respondents. When they lost their jobs (for various reasons, ill-health being most common), they were the unable to meet their repayments and were thus in arrears and on the brink of repossession. The main reasons given for defaulting on payments are "no money" (59%) or retrenchment (8%). Since with the loss of jobs there was “no money”, the implication is that 67% of those who made credit purchases were unable to meet their financial obligations because they had insufficient funds to do so.

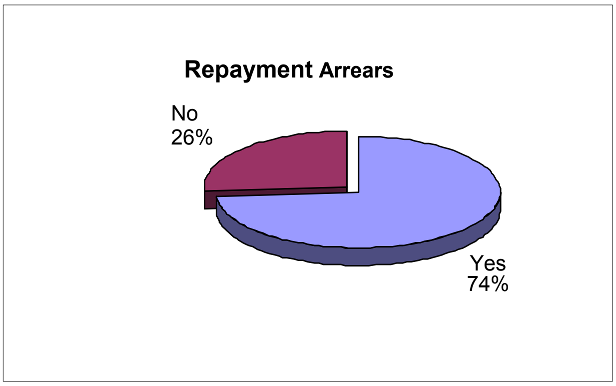

Figure 3.8: Repayment Arrears

This brings into question the practices of credit stores and the individual’s financial acumen and budgeting skills; and it raises the issue of people desiring more than they are able to afford. Can one really blame the poor who have been bombarded and singled out by profit seeking businesses? Unsolicited credit offers are a great enticement for the poor to live as the rich do. These predatory practices, and vigorous and enticing advertising campaigns are meant to hook and ensnare the low-income group into becoming consumers. In far too many cases creditors are lending beyond the borrowers ability to repay their debt. This is supported by research done by the Department of Trade and Industry (Weekend Argus, 2004), which notes that there is mounting evidence that creditors are lending recklessly. An article in the Sunday Independent (2000) mentions that many creditors do not expect to receive all installments as they are able to make a profit before the client has repaid the total outstanding amount. Perhaps the MFRC’s responsible lending ethos by money-lenders should be adapted to enforce the installment sales stores to adopt a “responsible credit approval ethos”. South Africa’s credit environment is a dangerous mix of poverty, low levels of savings, uncapped interest rates, predatory marketing and uninformed consumers. In addition to this, the large, prominent gap between the rich and the poor fuels a natural desire for a higher standard of living amongst the poor and is natural in a country where the Gini Coefficient shows the fourth widest gap between rich and poor in the world (World Bank Poverty Report, 2002).

3.4.2 Cash Loans

Research findings indicate that 40% of the respondents have taken cash loans from money-lenders. Figure 3.9 illustrates that 47% of those borrowing cash are unemployed, while Figure 3.10 shows that only 31% of the employed are borrowing money. Since 90% of the sample are grant recipients and 59% are unemployed, it can be deduced from these findings that a higher percentage of the unemployed who rely on grants as income are making cash loans than those who are employed.

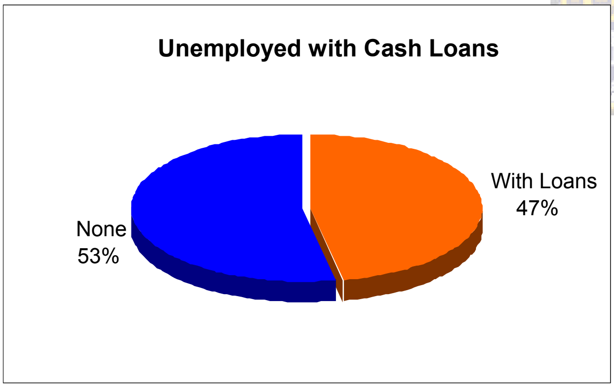

Figure 3.9: Unemployed with Cash Loans

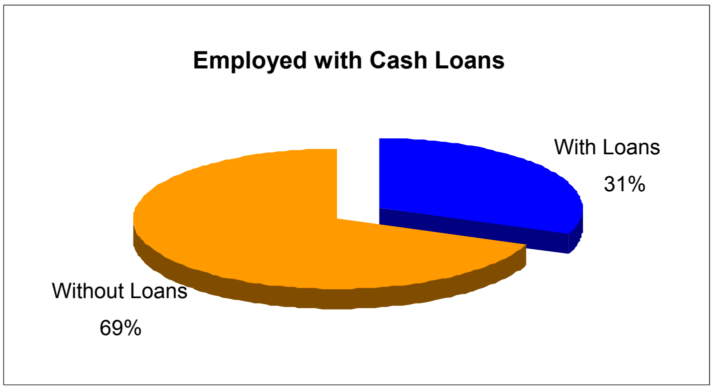

Figure 3.10: Employed with Cash Loans

Since all the unemployed respondents receive a grant, they are easy prey for money-lenders as they have a regular and routine source of income and are often targeted by money-lenders (Y&YM, 2004). It seems that the unemployed grant receivers have a higher chance of obtaining a loan with a money-lender than the employed. This suggests that people are borrowing against their state grants. This is supported by other research done by the Black Sash (2000) around state grant recipients and by reports from Y&YM debt activists (Y&YM, 2004) in the Northern and Eastern Cape where it is confirmed that grant recipients are being targeted by money-lenders.

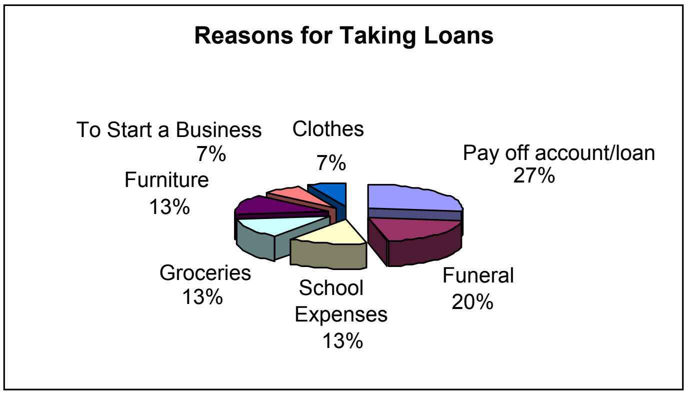

Figure 3.11: Reasons for Taking Loans

Figure 3.11 illustrates the reasons respondents made loans. Cash loans were mainly used for funeral costs (22%), groceries (14%), school expenses (14%), furniture (14%) and clothing (7%). This supports research by ESSET (2000) and Black Sash (2000) that cash loans are mainly used for consumptive purposes by low-income groups. A further major cause for concern, as illustrated in Figure 3.11, is the 27% of people who are over-indebted, i.e. they are borrowing to pay off another loan or an account. According to the MFRC report (ECI and DPRU, 2001), income groups of R15 000 and below per annum are the most vulnerable group to becoming permanently indebted or over-indebted. This appears to be a growing trend. The MFRC's (2004) research shows that over-indebtedness for consumptive goods among the poorest income groups (below R20 000 per annum) has increased since 1995. Over-indebtedness is a poverty trap from which low-income groups seldom emerge. This situation is similar to the debt crisis in Third World countries, which cannot be ignored any longer. In 1996, creditors had to re-evaluate this international situation and are still reviewing this because countries were taking out loans to repay other loans because they were unable to meet loan repayments (Jolly, 1991). Personal over-indebtedness is on a smaller and more individual scale, though no less significant; this is similar to what happened with people in the sample group in this research and also noted in the research of ESSET (2000).

High school fees and associated costs are often the lament of the poor. School expenses constitute a high portion of the household budget and includes school fees, school uniforms, transport costs, books and stationery. For this group, education is considered to be an essential need and is on the priority list of many interviewed. The interviews showed that people would pay for transport from their already over-extended income to send their children to schools slightly further away if the schools were perceived as being better schools. Education of their children is seen by the sample as a way out of a dire situation and the only investment option available to low-income groups. This can be found in the advice given by an indebted parent to their child:

> I advised my son to go to school, finish his studies maybe he can find a better job and be something, not like me.

Within the sample, there is an increase in the number of deaths attributed to HIV/AIDS amongst relatives. This is in line with findings on a national level. By the end of 2002, according to Gennrich (2004), 5,3 million South Africans were infected with HIV/AIDS. The number of deaths expected as a result of AIDS will increase from 174 000 in the year 2000 to 433 000 in 2005. These funeral costs have to be borne by families and relatives and are clearly on the increase both in terms of number and cost. According to some interviewees, people have to make loans to pay for funerals or for the transport to attend funerals that are often held in distant areas such as the former Transkei and Ciskei in the Eastern Cape Province. Only one loan (7%), shown in Figure 4.7, was made to start a small business. This shows that loans were not taken for small businesses, as part of micro-finance initiatives to make micro loans available to the poor to start up small businesses (Baumann, 2001), but rather for consumptive and consumer items. Marsh and Saran (2000) support this assertion, as does the Wild Coast Spatial Development Initiative (Daily Dispatch: 2001) survey that found that 85% of household loans were for food and that six percent of adults owned a business and less than one-third considered owning their own business. Clearly micro-finance for small business development is not working; instead, it is deepening the problem of poverty.

ESSET (2000) found that most clients of money-lenders made repeat visits for cash loans and this was the case for the sample group in this research as well. There also seems to be a tendency (70% of respondents) for people to go back to the same money-lender, perhaps as a result of a relationship being built between them. The loan supplements household income, which further aggravates their situation as people become caught in this debt trap that entrenches poverty. The repeat visits to money-lenders almost become normal survival practice, as one interviewee claims:

> I went to the first one many times, I can not remember how many times.

The repeat borrowing seems to imply a dependency on money lenders to supplement an already overextended purse, which suggests desperation. Another interviewee shows how money-lenders are also seen as a 'real help' with meeting needs:

> Since I had nothing I had to go to money-lenders. I go to him each time I have a problem. They help me. I needed money to pay for my water account, school fees, buy groceries, taxi fare for my son to go to school and for me to go to hospital. I have two children for who I also opened an account with Jet to buy their school uniform and I still owe the school R90 for stationery.

Loan repayments typically constitute a significant portion of an already inadequate income, leaving the household more likely to need to borrow money in order to meet their monthly basic needs.

Referring to Figure 3.12, despite their relatively 'high' level of education, many informants (45%) did not sign contracts. Most people (58%) did not even receive a copy of their contract. Only one person (14%) received a loan statement, while 80% did not receive receipts for payments made.

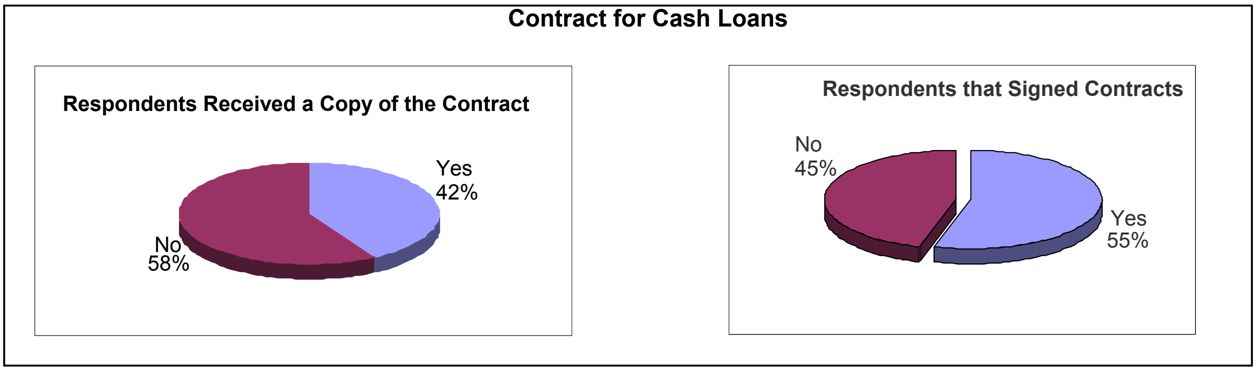

Figure 3.12: Contract for Cash Loans

This leaves borrowers in a very vulnerable position as they do not have a strong basis by which to prove that they have repaid their loan. They are completely reliant on the integrity of the creditor. Charlene Layton of the Weekend Argus (2004) supports this assertion when she quotes in a DTI report that the power relations favour the multi-billion Rand credit industry over the poorly informed consumers who are unable to enforce their rights. Very few borrowers (64%) had heard of the MFRC. Given that some of the respondents would have been told about the MFRC by Y&YM, this figure is probably higher than it would be amongst other borrowers from a similar group. This highlights the fact that borrowers are extremely ill informed about their rights when borrowing money, as mentioned in the Weekend Argus article (2000.)

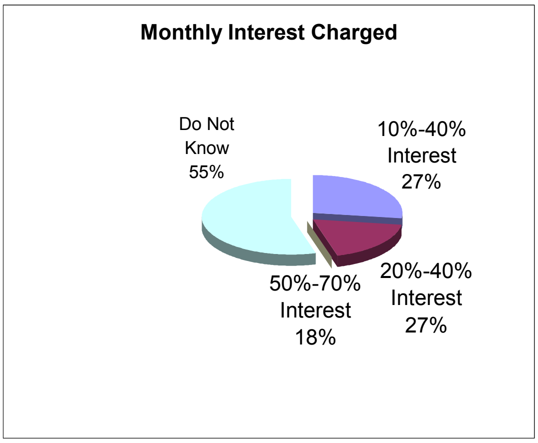

Figure 3.13: Monthly Interest Charged

Many respondents had difficulty answering the question on how much interest they were charged for the loan. Borrowers usually visit money-lenders when they are in a very needy position and seldom have the courage to discuss interest rates. Figure 3.13 shows that of the 40% who took out cash loans, the majority (55%) did not know how much interest they were charged. The interest rates paid by 45% of borrowers ranged from 10% to 70%. They were charged either weekly or monthly. Considering the huge, unknown interest amounts and in view of interest being charged weekly and monthly, the research could not determine a more accurate percentage of interest charged. Weekly and monthly interest rates translate in many cases to well over 1000% per annum – this for the poor. A member of the case-study who pays weekly interest for subsistence loans illustrated this exploitation aptly:

> If I borrow R50 from the money lender I have to pay R20 more which means interest is 40%. If I do not pay the money lender, the interest doubles, if I don't pay again then he will give 21 days to pay or if I do not pay again he will either take my TV or whatever he likes and if I refuse he will beat me up.

This further highlights the exploitation of the poor, thus raising ethical and moral questions about charging interest to low-income groups on consumptive debts by a R362 billion-a-year industry (The Weekend Argus, 2004.) Black Sash (2000) envisions finance schemes that allow borrowing for consumptive purposes to be at reasonable interest rates that do not further "prejudice their financial vulnerability any further". Most people (46%) did not even know what their repayment amounts were, what outstanding amounts were owed to the money-lender (36% of respondents), or even how much they have repaid. The many "don't know" responses are indicative of the vast extent of the problem and the deeper exploitation that goes unnoticed. As one participant said:

> I feel sick because I am paying but my debt is not reducing.

A huge percentage of informants (70%) found the money lenders to be "friendly", while 30% found them to be "violent" and "threatening". This may be a small percentage and may not seem very serious. Nevertheless, the focus group revealed a very scary side to some money-lenders, who were reported to be intimidating, making violent and death threats.

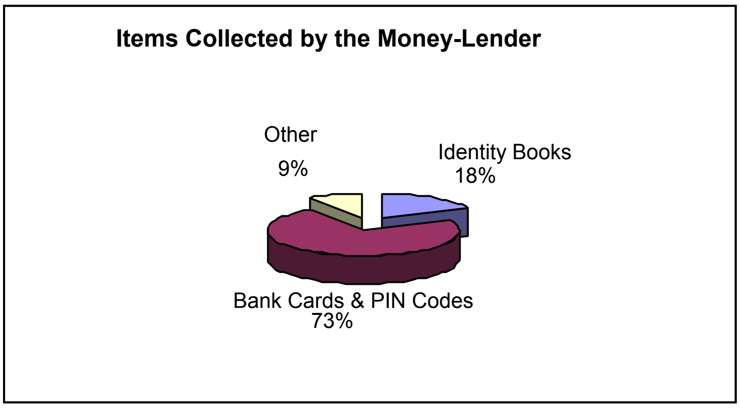

Figure 3.14: Items Collected by the Money Lenders

Some methods of payment collection (see Figure 3.14) included money-lenders keeping bank cards and “PIN” codes (73%), as well as identity documents (18%). Black Sash (2000) supports the claim that this odious practice continues. This is a major area of money collection practice that regulation and legislation have not been able to curb. At the heart of the indebtedness situation in South Africa lies the Exemption Notice to the Usury Act, which allows micro-lenders to charge unlimited interest for micro-loans that are under R10 000. A classic example of this is illustrated by this participant’s story:

I borrowed R1000 for the funeral. I didn’t sign any agreement with them (money-lenders) and the weekly interest was not explained to me. I thought the R500 was the monthly payment but it was only for weekly interest. The third week after the funeral, I paid R1500 towards the interest and was told it should be more. They are still demanding payment. They’ve threatened to take away my television. Now I am running away from them when I see them, or lock myself up in the house.

The Department of Trade and Industry is coming under heavy attack from non-governmental organisations to change this legislation and to provide protection for the borrowers and consumers. The Department of Trade and Industry has recently outlined the new policy framework for consumer credit (www.creditlaw@thedti.gov.za) and proposed new legislation that is the “Consumer Credit Bill”, which is now under discussion (www.thedti@gov.za).

3.4.3 “Spaza” shop credit

The local house-shop or container shop in residential areas, which provides locals with everyday essential items such as bread, milk, vegetables, flour, soap, etc. (and sometimes even small cash loans), are known as “spaza” shops. Their major draw-card is their proximity, their provision of credit and the fact that their customers are personally known to them. “spaza” shop owners are either repaid weekly or monthly. In addition to respondents buying at the major food chains upon receiving their regular income, 10% made credit purchases at the “spaza” shop as soon as cash ran out.

Although this was not captured fully in the questionnaire survey, interviews and focus group discussions yielded the importance of “spaza” shops to interviewees’ survival. The focus group revealed that everyone present bought goods on credit at the “spaza”. An interviewee said that he sometimes went to money-lenders in order to pay off their debts at the “spaza” shop so that he was able to receive more credit. Another interviewee said: “When I get my money, I first pay the “spaza” shop before anything else; to get more credit otherwise my family won’t be able to eat”. Everyone in the focus group bought on credit at their local “spaza”, even though they paid double the price and/or interest on goods purchased. “spaza” shops supplement household food supplies during dry patches of the month. “spaza”s are a source of credit that are not cut off by being in arrears. These are viewed as an essential helpline. The poor have limited options when it comes to making purchases, even for food. They pay more for items of food and are charged a higher interest rate for loans, which all contributes to the strength and depth of the poverty trap. One interviewee explained his situation of buying on credit at a “spaza” shop:

> I buy groceries on credit from a local “spaza” shop. Interest is added on each item I buy on credit. For a grocery costing R62, I pay R10 more and 20c is added to each loaf of bread I buy on credit. If I’m unable to pay the debt with the “spaza” shop, I borrow from the money-lender to pay the “spaza” shop.

3.5 Other Sources of Debt

During the research, respondents highlighted other significant areas of debt. These included services arrears owed to the local municipality, as well as debt for medical treatment.

3.5.1 Municipality Debt

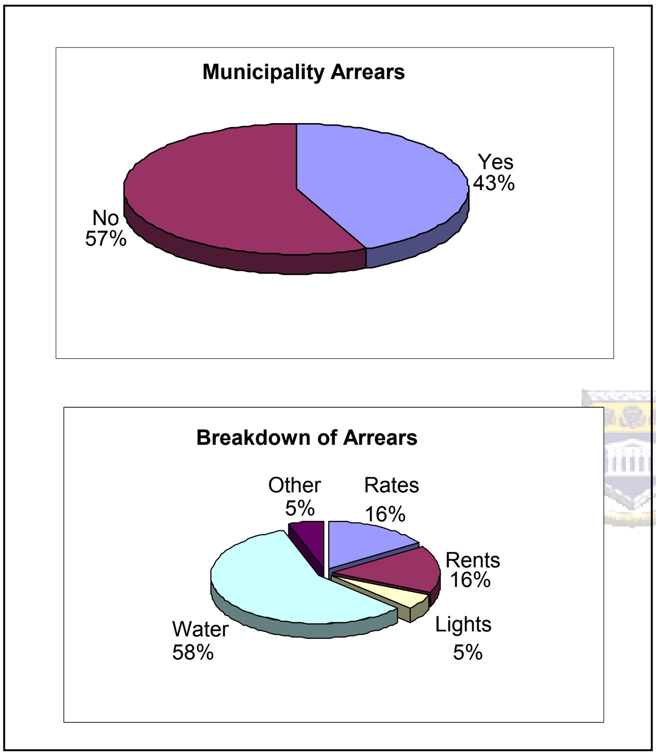

Figure 3.15: Municipality Arrears

The breakdown of arrears is given in Figure 3.15. In addition to not being able to meet credit payments, 43% of the sample group is in arrears to the Municipality. The main categories of arrears are for water (58%), rent (15%), rates (15%) and electricity (5%). These arrears further emphasize the inability of low-income groups to meet their basic needs and daily survival expenses. In 2002, government announced that each household will receive 6000 litres of free water per month. According to the Department of Finance (Alternatives, 2004), the next consumption tiers are heavily priced, which impact directly on poor households' consumption exceeding 6000 litres. This leads to the poorest households falling into arrears (ibid). According to Greg Ruiters (Alternatives, 2004), of the astronomical R24 billion arrears in services to municipalities, 77% is owed to the largest municipalities, in which the Cape Town Metropole is included. One way of preventing the huge debt to municipalities has been the installation of compulsory pre-paid water and electricity meters in low-income, state-subsidised and indebted households (ibid). This move further tightens the stranglehold of permanent indebtedness amongst the poor.

3.5.2 Other Debt

The focus group revealed other debts not captured in the questionnaires and interviews; for example, one person owed the doctor money for medicine. The medication was for the respondent's sister, who was HIV positive and the debt is still being paid off. Most people did not mention health expenses in the questionnaire, despite a few people suffering from ill health. An interviewee raised his concern that he was unable to afford the diet prescribed to him by the hospital for his heart condition; items included olive oil, essential to his good health but very expensive. Another interviewee is in arrears with school fees that have not been paid for two years.

Outstanding loans to money-lenders, together with installment sales arrears, municipality arrears and credit accounts at "spaza"s paint a bleak picture of low-income groups. Far too many people (22%) are borrowing money for food, a dire form of consumptive debt. This figure does not take into consideration the credit purchases for food and groceries at "spaza" shops. Clearly, this group's monthly income is not sufficient to sustain themselves and their families and they have to supplement their income by borrowing and living on credit, thereby continuing the cycle of debt and entrenching poverty.

3.6 Savings and Funeral Plans

From the sample group, a mere 20% saved money. The amount saved was less than R100 per month. Saving is often seen as impossible by grant recipients and low-income groups. However, daily saving groups and their organisations in Cape Town (Maisel, 2000), the West Coast (PPM, 2002) and Northern Cape (NAMKO, 2000) say this is possible. The community-based Namakwaland Catholic Development Organisation (NAMKO, 2002) promotes and encourages especially the poor to save even one cent per day. Considering that the majority of the sample group is unemployed and the average income for this group is R450 per month amongst the employed, 20% being regular savers seems exceptional. Further, and even more surprising, is that 40% of the sample group has funeral plans with the majority contributing between R50 and R99 per month (see Figure 3.16). Burial society and funeral plan contributions and membership appear to be on the increase, possibly as a result of many in the sample group who took out loans for funeral costs due to an increased number of deaths from HIV/AIDS in their families. However, these funeral plans attached to credit purchase agreements is questionable as most people do not understand what they are signing and are therefore further exploited (Cape Argus, 2004). Some credit providers also provide insurance and may over-sell or over-insure the consumer who may have limited knowledge and information on insurance products (Weekend Argus, 2004.)

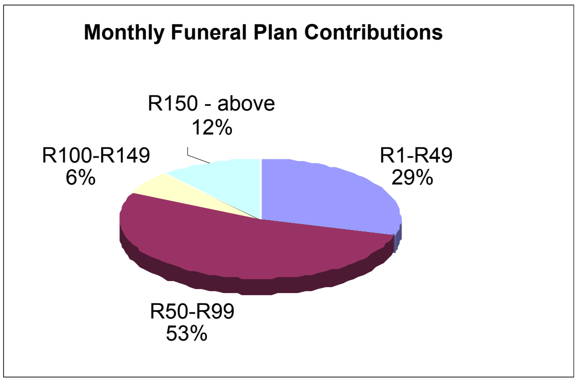

Figure 3.16: Monthly Funeral Plan Contributions

3.7 Summary of Findings of the Interviews and the Focus Group Session

The interviews and focus group discussion allowed the researcher to probe issues that were unclear and allowed space for participants to share their experiences and their views. This section highlights the sharing of feelings that took place and also report on observations of their physical reactions when talking about their predicament. Unemployment was a big issue raised by all and put forward as the main reason why they approached money-lenders and why they were not able to settle their debts. For them, the most frightening trend was the likelihood that the debt trap would be perpetuated within families. Despite all the negativity around the discussions, the group were able to identify reasons why they were in this situation and also to make suggestions to one another on how to overcome this. The focus group was in a sense a support group. It was through this process that certain trends were emphasised and new ideas and issues emerged from the interviews and focus group. Some of these were new and others further emphasized.

3.7.1 Physical and Emotional Reactions to Indebtedness

This case study's findings concur with Foyer (2000) who points out that being in debt is extremely stressful and depressing. Needless to say, the indebted situation manifested itself in psycho-somatic symptoms such as headaches, sweating, diarrhoea and so on among the sample group. The interviews and focus group sessions were able to yield deeper insight into the effects of debt and being in arrears on the case group. The stressful situation facing members of the case study has affected the health of some of the people and worsened the health conditions of some already suffering from ill health. The interviewer noted an interviewee sweating when talking about her debts:

> I feel sorry for myself. I'm stressed, it makes me feel more sick.

Another informant who is HIV positive said that her doctor told her that she has to deal with her stressful situation which he said was contributing to her deteriorating condition:

> I first borrowed money for school uniform for my sister who stays in Worcester. I then borrowed R150, R100 for shoes and R50 for transport again. I got sick and couldn't go to work regularly, and was paid less. I had to pay R225 back. I explained my situation to the money-lender, who pretended to understand. The money-lender visited my house and threatened to take my furniture. The street committee stopped them charging me interest, which had grown to R500. I had to pay the full amount of R225 back the end of month, but couldn't. I moved to Mfuleni, but now the money-lender goes to the people who stay at the old house. The money-lender threatens them and says if he meets me he will harm her. This is stressing me and I get sick with a loose stomach when I think about him.

The majority said that they became ill when thinking and talking about their situation. In some instances, people's health conditions worsened as a result. The interviews and focus group discussions allowed participants to share some of their fears of having to go to court, being blacklisted and humiliated, and losing their homes, their furniture and their lives because of being in debt:

> I can't sleep, I am afraid of going to court and I also think I can be blacklisted.

There was a sense of loss of simple, yet life affirming things such as the annual outing to the beach on Christmas or Christmas clothes for the children. Some of the negative adjectives that people used to describe their feelings and situations are sick, stress, panic, angry, powerless, suffocating, small, useless, scared, imprisoned, trapped (boxed in), tired and can't sleep. There were some minimal positive adjectives used by participants (partly as a result of receiving some advice and support from Y&YM) such as hopeful, coping, relieved, happy, trusting and supported.

When one is suffering from stress, the whole body and immune system is adversely affected, thereby making the body vulnerable to physical ailments and disease. Women, the unemployed and those with low levels of education are more susceptible to stress (Well-connected, 2001) and this profile matches the sample group exactly. Almost everyone showed physical symptoms when discussing their situation, such as sweating and shortness of breath. These symptoms are typical of people suffering from acute or chronic stress, which is a response of the body to perceived danger or fear (Well-connected, 2001.) The negative effects of stress are that it can produce physical and psychological damage over time (ibid.)

3.7.2 Unemployment and Debt

Although there was the isolated case where someone purchased furniture on credit, the majority of those interviewed and in the focus group talked about borrowing money for funerals, their children's education and for emergencies that arose. This research, together with research conducted by ESSET (2000) and Black Sash (2000), find that loans are incurred for day-to-day survival and subsistence needs, and therefore for consumptive reasons. It is mostly lack of income, loss of employment, funeral and illness that are cited as the main reasons for being in arrears with credit accounts and cash loans. During the focus group session and in many interviews, it was mentioned that if they had a job they would be able to repay their debts. There is a wish on the part of borrowers to be able to repay debts and credit accounts. Informants indicated that they would be able to cope if they were employed. As one informant said:

> If I can find a job as I'm still looking for, I will first pay the loan and the furniture shop.

The problem is not being in arrears, reckless purchasing or over-indebtedness, but poverty as a result of unemployment. As noted earlier, the official national unemployment rate in South Africa is at a staggering 42%; it is 26% for the Western Cape (Census, 2001), while 33% of households in Cape Town are estimated to be living below the Household Subsistence Level of R1600 per month (Cape Town IDP, 2004) and 48,5% in South Africa live below the poverty line of R354 per month. It seems that the biggest factor contributing to indebtedness and over-indebtedness is unemployment and poverty, as people increasingly turn to money-lenders for loans just to survive.

3.7.3 **The Beginning of Perpetuation of Debt through the Generations?**

The focus group highlighted that debt does not stop with the individual, but rather continues through the generations within families. Debt seems to repeat itself. According to Pacione (2001), structural poverty indicates that poverty is perpetuated from one generation to another. Indebtedness is not un-similar to structural poverty as the majority of participants of the focus group mentioned that their parents, children or siblings are also indebted:

> My other children will never go to money-lenders but my big son has already done it.

Indebtedness appears to be a newly growing, perpetuated cycle. The cycle does not currently appear to go back further than the parents of the indebted to the grandparents. Would this be a new phenomenon? Consumptive debt in South Africa is fairly new and seems to be traceable to poverty alleviation strategies and the beginning of micro-finance initiatives (with the removal of the cap on interest on micro-loans), both coincidental with a new era in South African history.

3.7.4 The Focus Group's Solutions on How to Change their Situation

The focus group participants shared their experiences with each other. They discussed the situation and their feelings and then their ideas and thoughts on dealing with their common problems and overcoming their indebted situation. Many of these solutions and insights were based on their own experiences and those of their family members. The group agreed to and outlined the following:

- If they were employed (all at present are unemployed), they would be able to escape from their situation. They are all prepared to even take on casual jobs.
- If banks gave them loans, then the money-lenders would not exploit them and interest would be lower and they would be more protected.
- They would try to curb buying unnecessary luxury items.
- They would try to save whatever they could from grants or casual jobs. They saw how this helped some people even if they saved together in a "gooi-gooi" or "stokvel" (local informal saving scheme).
- They would keep their own records of purchases at the "spaza" shop.
- They would approach people and organisations such as Legal Aid, Social Services, Y&YM and others to help them with their debts.
- They did not wish for anyone to collect payments at their house because they are charged extra for this.
- They needed more information and knowledge. They expressed a need to know their rights about their money and understand documents before signing it. Documents should be presented in their own language and they should be able take contracts home and let someone help them.

The poignant ideas and suggestions made by the group is a starting point in addressing the tapestry of problems associated with the indebtedness of the poor. In these are lessons to be heeded not only by the individual and this group, but by government, financial institutions, consumer credit organisations, non-profit organisations and community-based organisations as well.

With this in mind and based on a sound understanding of the extent of both the indebtedness and poverty of the sample group, attention now shifts to the final chapter. The following chapter draws on the aggregate findings of the investigation to arrive at general conclusions and to identify guidelines and recommendations that could inform policy in the context of indebtedness and micro-finance.

CHAPTER 4

RESEARCH FINDINGS, RECOMMENDATIONS AND CONCLUSIONS

In many respects, personal indebtedness and over-indebtedness share numerous similarities with the national debt of Third World countries and which are tied to money-lending and debt bondage. Both macro- and micro-financing are seen as strategies to alleviate poverty and to promote development nationally and locally. Unfortunately, this does not always produce the expected or desired results.

The findings of this investigation demonstrate that low-income groups are indebted, especially households headed by single African women. A further cause for concern is that this problem seems to persist through generations, with indebtedness running through families and thereby creating a new cycle of indebtedness for each subsequent generation. Although downplaying indebtedness and over-indebtedness, government is clearly aware of this growing problem. Depending on where government perceives the problem to be located, this will determine what action is initiated in order to remedy this very serious predicament. Currently, government has set in motion certain proposals for legislative changes. The question is: are these enough? These initiatives will provide relief to some extent, if implemented as intended. However, the root causes of poverty and unemployment need rigorous attention as present poverty alleviation strategies have not had the desired outcome.

In the context of the findings and analysis of preceding chapters, this final chapter focuses on general observations of the investigation and presents broad recommendations and considerations relating to strategy and policy options.

4.1 A Synopsis of the Summary Findings

The findings based on the sample group of thirty indebted clients of Y&YM from the Cape Metropolitan area, allowed the researcher to construct a profile or snapshot of the indebted group, which is illustrated in Table 4.1. The majority of indebted interviewed are single Xhosa speaking women (91%), mostly between the ages of 26 and 40, and who are heading households with an average of four people per household. Differing somewhat from other research findings, this investigation indicates that the lowest educational level among those indebted is Grade seven, with the majority (67%) having attained a secondary school qualification. Education levels for this group are therefore much higher than expected. The unemployment rate among the case study participants is 59%, whilst the average income of the employed is R450 per month. Informants revealed that 90% are recipients of government grants and this includes the employed of the sample.

Table: 4.1 Snapshot of Indebted Sample in Cape Metropolitan Area

<u>Snapshot of Indebted Sample in Cape Metropolitan Area:</u>

- Majority Black African (91%)
- Mostly Single Women between the ages of 26 and 40 years
- Average household size is four
- Lowest Education Level is Grade 7
- Majority (59%) unemployed
- Majority (90%) recipients of government grants
- Average Income of Employed: R450
- Credit Accounts in Arrears (74%)
- Municipality Arrears (43%)
- A large number (27%) took out cash loans to pay off account or loan
- More Cash Loans were made by the Unemployed (47%) than the Employed (31%)
- Majority did not sign contracts, receive loan statements or receipts
- Majority did not know what interest rate they were charged

Items purchased on credit ranged from clothes, music systems/videos, fridges, furniture, to stoves and mobile phones. Arguably, some of these can be considered luxury items, while others may be considered essential. It can therefore be deduced that, in the face of the opulence of a few and given the vigorous targeted marketing of the poor, previously discriminated groups are also aspiring to realise the promises of a better life in the new, free South Africa. The MFRC (2003) and Black Sash (2000) have noted that credit purchases have been granted without adequate investigation into the consumer's ability to meet the instalments; thus, credit stores, with the backing of current legislation, contribute to the over-indebtedness of the consumer. This is certainly true for the sample group, as both survey results and discussions with respondents indicate that the majority should not have qualified for credit, either because they are unemployed, had only recently been employed, or were often in temporary positions when credit was granted. This credit was granted without tracking the ability of these clients to repay the credit or without assessing whether their employment was secure. Some informants are now jobless and trapped with credit arrears that they are unable to repay.

Research findings indicate that the unemployed obtained more loans than the employed. All the unemployed are recipients of grants. It appears that money-lenders specifically target grant recipients as they have a steady, regular and reliable source of income. On the other hand, money-lenders are used repeatedly by the unemployed as a means to supplement income to meet the daily survival needs of the family as shown by the survey results and personal interviews. A total of 27% of respondents who borrowed cash, did so to pay an instalment on a loan or an account, This is a clear indicator, even if a narrow one, of over-indebtedness. However, this figure does not take into account those with outstanding debts to the municipality or local "spaza" shops; nor does it take into account those in arrears with credit instalments. This may well yield a much higher figure. According to the MFRC (2004), debt repayments should not exceed 25% of gross income.

Cash loans were utilised for funeral costs, groceries, school expenses, furniture and clothing. Only 7% took out a loan for a small business. These reflect similar findings to research done by Black Sash (2000) and ESSET (2000), as well as research commissioned by the MFRC; that is, low-income groups incur most of their debt for consumption purposes. Empty purses necessitate borrowing cash for food or buying food on credit at a higher cost, just to ensure food on the table and the survival of the family. This type of consumptive debt is unsustainable and results in low-income groups being permanently indebted or over-indebted, because they continue to borrow cash for the same items that do not have a productive value and are not assets. Thus the borrower continues to borrow more of the same, under the same conditions, and this progressively worsens their situation. This is certainly true for the respondents of this research. They are not only unable to meet their monthly payments, but are unable to even meet the basic needs of their family. Under such circumstances, the debt burden that they carry cannot be alleviated and they are trapped in a vicious spiral of crippling debt that is just about impossible to escape from. Their only hope at present is to seek assistance from Y&YM in reducing their debts and to find ways to be able to support their families.

Further cause for concern is the lack of information and lack of knowledge of credit transactions. The majority of respondents did not receive a copy of the contract and were unaware of how much interest was charged on outstanding debt. They did not receive monthly statements, nor were they in a position to calculate how much was still outstanding on their debt or how much of the debt had been repaid. Most disturbing is the fact that 73% of the sample group had their bank cards and personal identification numbers taken by the money-lender.

This desperate situation results in the case study group manifesting symptoms of physical and psychological ill-health. In this regard, Pacione (2001) notes indisputable evidence that shows a strong relationship between low-income and poor health status. Family health is affected physiologically, psychologically and behaviourally in terms of the affordability of adequate health care. The lack of sufficient resources produces stress and contributes to the individual's inability to cope (ibid).

The most distressing finding of the research, which did not seem to surface in other research on indebtedness, is not only the presence of a cycle of debilitating debt, but a hint of the emergence of a perpetuating cycle of indebtedness across generations in the sample group. Just as the poverty cycle is perpetuated within family generations, it appears that indebtedness too will be perpetuated amongst low-income groups. Surely debt and credit are not the only avenues available as survival options for the poor?

4.2 Theoretical and Structural Considerations

According to Pacione (2001), the problems of poverty and deprivation in capitalist societies have increased since the 1970s and are most prevalent in family structures that are headed by women in Britain and the United States. This is also true for South Africa. The following section discusses models of poverty and deprivation in order to draw on the theory and reflect on the situation of the indebted sample group. This then allows us to look further into the very core of the structural and systemic issues affecting the poor and indebted (as outlined in Chapter Two) that requires urgent government attention.

4.2.1 Models of Poverty and Deprivation

Pacione (2001: 290) discusses five models of poverty and deprivation. Illustrated in Table 4.2, the concept of a 'culture of poverty' locates deprivation as an internal deficiency of the poor and their responses or reactions due to their marginal position in society. The thesis of the second model is a transmitted cycle of deprivation whereby problems or individual inadequacies are transmitted from generation to generation. Thirdly, 'institutional malfunctioning' relates to the ineffective and uncoordinated failure of management and ineffective administrative structures in addressing problems of deprivation. The fourth theory, of 'maldistribution of resources and opportunities', view deprivation as a result of the inability of particular groups to influence political processes and decisions. The fifth approach sees deprivation as the structural outcome of class struggles that is based on the economic system of private profit and the capitalist economic order.

This table of the models of poverty and deprivation has been adapted for this particular project and used to reflect on the deeper structural problems of the sample group. The sample group can be located within all five theoretical categories. They can be said to fall within the narrowest theory of a 'culture of poverty', as shown in the example and being unable to budget and in need of education and training to improve their situation.

Table 4.2: Adapted from: Community Development Project (1975) Final Report Part 1: Coventry and Hillfields CDP Information and Intelligence Unit London: HMSO

Theoretical Model	Description	Problem Site	Policy Responses Example of Indebtedness
1. 'Culture of poverty'	An internal deficiency of the poor and their responses or reactions due to their marginal position in society.	Internal 'non-conformist' or delinquent behaviour	Problem: Indebted because of inability to budget Response: Budgeting and financial life-skills education
2. Transmitted cycle of deprivation	Problems or individual inadequacies are transmitted from generation to generation.	Internal relationship of individual, family and community group	Problem: Parent survives on debt and pattern continued by child Response: Awareness programmes on effects of debt and debt education
3. 'Institutional malfunctioning'	Ineffective and uncoordinated failure of management and ineffective administrative structures in addressing problems of deprivation	Relationship between marginalised & bureaucratic structures	Problem: Uninformed of consumer rights Response: Need to restructure and co-ordinate services of MFRC and DTI
4. 'Maldistribution of resources and opportunities'	Inability of particular groups to influence political processes and decisions.	Relations between marginalised & political processes	Problem: Marginalised voices lacking in legislative processes Response: Provision of platform and structures to ensure local participation in democratic processes
5. Structural outcome of class struggle	Structural outcome of class struggle that is based on the economic system of private profit and the capitalist economic order	Relations between proletariat and capitalist economic-political structure	Problem: Poverty and over-indebtedness Response: Structural change in relations between money-lenders and indebted and in capitalistic economic system

A further example of a transmitted cycle of deprivation is the view that debt is being perpetuated from generation to generation. Debt is present in three generations amongst the focus group, pointing to a generational debt trap. Even social welfare assistance – child grants and old age pensions – does little to improve the situation of continued deprivation. The sample group also fits well into the institutional malfunctioning category as they find themselves not knowing their consumer rights. A solution to this situation begs for awareness and better co-ordination within and amongst departments, especially since many of the sample group were unaware of the MFRC. The strategy necessary to remedy this situation is more aggressive marketing of MFRC services, which to date has been attempted, although not too successfully. The 'maldistribution' model draws attention to people being marginalised from political processes, and this category fits in with the lack of participatory democracy and input in the amended Usury Act which re-moved the cap on loans under R10 000. The policy direction here would be reconsidering the legislation and encouraging participation of those affected in these processes. This is currently being implemented with the Consumer Credit Bill. However, marginalised consumer representation is still inadequate. As noted previously, this sample falls into the lowest income group, with an average of R450 per month for the employed. Their low income, lack of status and their indebted situation, together with the physical and psychological factors associated with poverty and deprivation, render the poor powerless to influence decision-making relating to interest rates, political participation and issues affecting them. This then slots the sample group into the category of the Marxist structural class struggle against private capital and the political economy of monopoly capitalism, thus requiring a structural and economic system change (Castells, 1977; Harvey, 1989.) The problem of permanent indebtedness and over-indebtedness cannot be resolved by adopting only one model of problem analysis and response. It requires analyses and responses at all levels, forcing multiple intervention strategies at various levels.

However, a perspective that goes beyond the individual, inequitable distribution of resources and systemic weaknesses, is a broader and wider perspective that sees poverty as being a central factor in multiple deprivations (Malan, 1999). This neatly locates deprivation as being purely economic, resulting from low wages, unemployment and reduction in social spending, these in turn reflecting the present South African conditions. Within Pacione's (2001:291) 'multiple deprivation' model, poverty is at the centre of a multi-faceted deprivation problem. The myriad problems of poverty include low pay, homelessness, poor schooling, powerlessness, ill-health, poor housing, unemployment, poor services, crime and so on. Other characteristics of multiple deprivation include one-parent families, powerlessness and stigmatisation. Research results indicate that the case-study group experiences the majority of these problems. Some characteristics that the sample group exhibits are unemployment, low pay, single-parent families and ill-health. Furthermore, poor consumer services, punitive legislation, the lack of financial skills, money-lending, over-indebtedness and lack of access to banking facilities displayed in this research can be included in this 'anatomy'. The study also expounded upon the inadequate access to banking facilities and services for this underclass and this increasingly translated into a reliance on money-lenders. One of the dimensions of poverty is financial exclusion, which forces people to turn to loan sharks. Pacione (2001) suggests the development of alternate financial co-operatives that provide access to savings and credit to the poor as a viable solution, as does this thesis.

Myrdal (1962) used the term underclass to portray the marginalised poor who have been forced out of the labour market and who are unemployed, unemployable and under-employed, and who are separated from the rest of society and face all sorts of injustices, inequities and disadvantages. Field (1989) discusses the 'underclass' as being the long term unemployed, pensioners and single parents surviving on grants. Yet again, this reflects the profile of the sample group in this research and again there are pointers directing us to the necessity of structural and systemic changes to address not merely the symptoms, but the real culprits, namely poverty and unemployment.

4.2.2 Structural and Systemic Weaknesses

The dominant world order, in the aftermath of the collapse of the unsuccessful communist bloc, has not been effective in reducing poverty. The IMF and World Bank have propagated neo-liberal macro-economic policies and structural adjustment programmes, but despite some gains, these initiatives have largely resulted in increasing poverty and unemployment. This has adversely affected the majority of the world's population, especially those in the Third World. The often-mentioned gap between the prosperous and the deprived continues to expand, with structural adjustment conditions benefiting the wealthy countries and further weakening the Third World and its poorest citizens. Calls of debt cancellation go unheeded by the IMF and World Bank who continue to profit from the debt slavery of the Third World. If they would merely forgo their claims of interest, it would result in debt liberation and allow for some breathing space for the poor countries. Just as the debt stranglehold is choking the indebted countries, so too are the poor being squeezed into unsustainable borrowing patterns to survive. Although South Africa is in a better debt position than other Third World countries, apartheid debt servicing withholds vital financial resources from the very populace who catapulted the ANC-led government into the position as vanguard of the poor and oppressed. Not only does this vanguard refuse to support calls for the debt cancellation, it embraces a self-styled structural adjustment programme in the form of GEAR, further dimming the lights of hope for the poorest. This strategy has led to job losses and price hikes, which further increases poverty. With the IMF and World Bank sanctioning poverty alleviation strategies in the form of micro-finance for small businesses, there has been a phenomenal growth in the profitable micro-lending industry, with the unintended off-shoot of the proliferation of low-income groups becoming permanently indebted and over-indebted, as with the profitable macro-lending between Bretton Woods giants and debt-ridden poor countries. It is these very strategies, policies, and structures, nationally and internationally, that are real weaknesses and problems that inhibit freedom from debt and meaningful socio-economic development.

4.3 Recommendations for Real Development and Debt Liberation

The growing, perpetuated cycle of indebtedness and over-indebtedness are serious problems facing the poor throughout the world. Research shows that these problems are all intertwined and almost impossible to escape from (Black Sash, 2000; ESSET, 2000). For this group, a specific type of intervention and policy response – education and awareness programmes, improved consumer protection, appropriate legislation and associated structures – is needed. Pacione (2001) clearly notes that, depending on the theory being ascribed to, interventions point to the necessity of certain policy responses and such policies adopted by government may be located locally, structurally or/and systemically. The following outline of long term, medium term, short term and immediate recommendations, in similar categories as provided by ESSET (2000), identifies the necessary interventions at all levels for real and meaningful development and debt freedom:

4.3.1 Macro Economic Changes in the Long Term

The problem of indebtedness and over-indebtedness are symptoms of a larger problem of poverty and unemployment that needs to be addressed. ESSET (2000:32) states this clearly:

> The money lending industry merely reflects deeper underlying problems which make borrowers vulnerable. The money lending is therefore based on the vulnerability of the working poor. The main causes for the increasing reliance on money lenders, and the high turnover in the industry, is the government's current macro economic strategy.

In order to address these issues there is a dire need to tackle the problems in a multi-pronged manner, at multiple levels and with multiple strategies. However, first and foremost, the most pressing area that needs to be changed in the South African context is the government's neo-liberal macro-economic strategy, GEAR. This is the strategy that allows for investments in the form of loans and for the privatisation of human needs such as water, low wages, instead of productive investment, thereby assuring these companies of substantial profits at the expense of the poor. This macro-economic system needs an overhaul in order to benefit the poor and stem the profiteering among the elite few.

4.3.2 Social Action, Social Movements and Campaigns in the Medium Term

The poor, consumers and communities need to guide and direct civil society organisations and religious groups towards building strong social movements to campaign for economic justice in order to promote fundamental human and socio-economic rights. Social movements need to grow and gather in strength in order to advocate for meaningful change and to find alternatives to the current unjust and inequitable strategy. The effective campaigns of the Treatment Action Campaign has shown that a strong voice and a stronger movement, with tough protests and strong alliances and networks, can change the course of government and transform GEAR in order to address the inherent and real problems of poverty and joblessness. Furthermore, these movements should have a global reach in order to affect these policies in a wider sphere. Strong alliances and networking are necessary amongst civil society organisations within South Africa, in the South amongst Third World countries and partnering *with* those in the North (including faith-based organisations such as CIDSE and others) to pressure for global transformation. This must be done in order to realise economic justice and equity through various means such as debt cancellation, reparations, fair trade, ethical investment, as well as changed terms of trade among others, as these are vital areas of concern.

In the medium term, tied to the social movement's agenda, has to be the campaign for a Basic Income Grant, which is unlike any other welfare grant. Whatever the criticism levelled against it, growing research efforts (BIG Financing Reference Group, 2004; Le Roux, 2002; Taylor, 2002), have proved that the universal BIG is the fastest and 'biggest' way of addressing the problems of the poor. There should no longer be any doubt that it is affordable through taxation and, most importantly, that the poorest will benefit. All that now remains is willingness on the part of government to implement the BIG and engage in consultations on how best to translate this into action.

4.3.3 Short Term Strategies to Ease the Debt Burden on the Poor

One of the short term recommendations is that community based, non-profit and faith based organisations encourage and promote the building of local daily/regular savings groups, which will help poor people avoid using money-lenders for basic everyday needs and which will protect the poorest from those unforeseen shocks, such as funerals, and help them prepare for planned events and expenses, such as Christmas and school fees. This will break the dependency on money-lending and enable the poor to make informed decisions about their money and to form a platform from which to engage in issues of common interest and thus take control over their lives. These locally based social movements will not only be important as an empowerment tool, but will also form a critical base for local, provincial and national lobbying and advocacy on pertinent issues directly impacting on the poor. In the long term, such a movement can be an effective instrument of the poor for international advocacy.

The new proposed legislation on consumer credit as an immediate relief is welcomed, though bearing in mind that the new legislation addresses the symptoms of the problem of poverty and unemployment. There has to be careful monitoring and vigilance on businesses submissions on the Consumer Credit Bill and any new banking legislation so that the public's interest is not thwarted in favour of big business. Furthermore, consumer voices are crucial in these proceedings and need to be encouraged and sought out. Most important is that government has the human and financial resources to ensure that the different bodies it proposes are initiated effectively and are efficiently run. Should the legislation not be implemented and be actionable, the new bill will constitute a useless piece of paper. It is the role of civil society to play the role of watchdog in the implementation of this bill.

The single most important issue that needs regulating is the lowering of the interest rate limit that is charged by money-lenders, especially for micro-loans which directly affect low-income groups and the poor. Here again enforcement is vital. The same concerns that apply to the consumer credit bill apply to access to banking facilities legislation for the poor. The implementation of these laws needs to be monitored carefully to ensure that the new legislation does indeed provide access to banking services and facilities and that it is the poorest who are reaping the benefits and not only the major banking monopolies. Both the credit bill and banking legislation must be implemented and enforced if they are to make any just and equitable difference to the financial situation and conditions of those it is targeting.

4.3.4. Immediate Concerns and Responses

Undoubtedly, the most pressing issue in need of attention is that of identity book and bank card/PIN code appropriation by money-lenders. This practice must be halted and strong measures need to be taken by authorities to deal with persistent offenders. At the very least, this will restore the usurped dignity and self-esteem of those tied to debt slavery. Another aspect, as pointed out by ESSET (2000), requiring attention is education, awareness and capacity building of the poor and indebted, as well as information and research of the money-lending industry in order to deepen our understanding of how this industry operates. This may well provide vital clues for the targeting of lobbying and advocacy issues.

Government, civil society organisations and business organisations need to redouble efforts on consumer rights education for all, which is of paramount importance (as specified by the sample group) to a solution to indebtedness. Education and awareness programmes need a specific focus on low-income groups, especially those targeted by money-lenders and credit stores. Included in the education package should be financial forward planning and budgeting skills as well as stressing the importance of saving. This education and awareness training should also include debt advice, counselling and debt management, and needs to be more accessible to the urban and rural poor. It will be necessary to inform consumers about the new credit bill once it is enacted, so that consumers are educated and informed in order to exercise their new rights. This will bring poor consumers a step further in the process of empowerment. At the grassroots level, street committees can be specifically targeted for such awareness building, education and, especially, mediation training since street committees may be a useful source to mediate with informal money-lenders. Armed with information and understanding of the fine print in contracts, consumers can make informed decisions on credit purchases and loans that will not prejudice them.

However, these consumer service providers need to be cognisant and cautious in this approach as it presupposes that poor people cannot budget and/or it is because people are unaware and uneducated that they are indebted. The reality is that they have insufficient income and it is *because* they are poor that they are indebted. Education is not the only approach, but merely one prong of an overall strategy to addressing the problem of indebtedness. It is the far-reaching issues that need to be tackled if any meaningful change is to take place.

4.4 Conclusion: Reflections and Idealistic Alternatives

The prosperous will continue to prosper without contributing fundamentally and meaningfully to the advancement and betterment of the poorest sector of our society. Taking from the rich and giving to the poor will remain a Robin Hood legend. Besides, would it not be better for the rich to give freely of what they have in excess, rather than have it extracted from them and redistributed? The Pope, John Paul II (1991), considered it incumbent on government to intervene when its populace are defenceless against poverty, as they need more care and concern. It is the role of the state to provide education, water and basic needs to its citizens (ESSET, 2000). Will government emulate the Robin Hood legend and fulfil its duty to the poor and are they not supposed to fulfil the role of representing and being there for the people? Should the 'have's' not subsidise the 'have nots', particularly within the South African context?

Too often do we speak of gaps between the rich and poor, the 'have's' and 'have nots'? Is it at all possible to create a different world, a global humanity? Is there a spark of hope in the belief that the world can be a fair and just place, without exploitation or oppression, where economic gains are not exploitative, not used for control and domination and where no child needs to go hungry? Is this at all possible?

Today, vital water sources can be siphoned away from the poor subsistence farmers and at the same time destroy the environment in Kerala, India, just for the production of Coca-Cola. This takes place with seeming impunity (Alternatives, 2004). What is this all about? Profit and more profit. Making profit is certainly not a problem, but profiteering, exploitation and destroying lives and environment are entirely different. To paraphrase the convictions of the Alternate Information Development Centre (Alternatives, 2004), the cause of the problem lies in placing profit before people. When will it end? Profit without restrictions? Surely, for justice to take place, this situation should be reversed, people come first and foremost. There is a desperate need for a new global financial system that is beneficial to all, including the environment, our very earth. This will mean:

> Making alternatives possible, and it requires a movement that seeks to change the political culture – the assumptions we have as to how society should work (Alternatives, 2004:2).

The operative word in this statement is "alternatives". This necessitates the restructuring and changing of the global financial system that we are governed by, which is producing these inequalities and injustices. We need other possibilities and options to be researched and investigated and these should be driven by mass based movements and campaigns.

4.4.1 An Idealistic or Unrealistic Alternative?

According to the Pietermaritzburg Agency for Christian Social Awareness (PACSA, 2002:4), trade is not only an economic issue but a moral imperative as well. Moral and spiritual principles should not be separated from economic issues, but should rather provide an integral value base for all trade and business transactions. It is for this reason that I suggest Islamic economic principles as an alternative. It may seem simple-minded, idealistic thinking and may even seem unrealistic. Nonetheless, I believe that it warrants mentioning as an alternate financial and economic system. The following are some Islamic economic principles:

- **Abolishment of Interest/Usury**

The most significant and fundamental Islamic principle is that the giving and receiving of interest is forbidden (Quraan). There should be no place in society for this exploitative practice. ESSET (2000) notes that in the past, people operated in a co-operative and mutually beneficial society without interest, including the highly civilised ancient Greeks. Is it not possible today to operate in a similar fashion and to fundamentally change this international financial practice?

From my exposure to the indebted poor in Madagascar and experiences of indebtedness in South Africa, this seemingly endless debt spiral has made the concept of interest or usurious credit repulsive and abhorrent to me as I have seen how it entrenches debt slavery. This interest-based financial system has become our entire way of life today, and it is almost impossible to imagine a life without it. This is how normal this exploitative practice has become. If only the financial giants would break this thinking mould and begin, if not by cancelling Third world debt (already doubly repaid but for the interest), then cancelling the interest. By doing so it might set a totally new and innovative trend.

- **Money as a Commodity**

A further Islamic principle is that money cannot be traded as a commodity, but is rather a means of exchange used in trade. How sustainable is the present financial system that views paper money as a commodity to be bought and sold? What is the intrinsic value of this exchange? We no longer produce but play a paper-chasing game, in which money is invested in unproductive ways in the current monetary system, thereby making capital for productive purposes scarce (Ali, 1999). Furthermore, in this suggested system, anyone in need of capital for investment in trade and industry should not be charged for it and those who have surpluses are obliged to lend this for productive purposes and in this way circulate wealth (Ali, 1999). Islamically, wealth can only be generated through legitimate trade and ethical investments in assets (www.islamic-bank.com and www.news.bbc.co.uk). Money can be used to buy goods and services, which can be sold at a reasonable profit, although profiteering in the Islamic system is forbidden (Ariff, 1998).

- **Profit and Loss - Mutual Risk Sharing**

The basic principle of all financial transactions used in this model is that there is a mutual risk and profit-sharing. The profit (and loss) ratio is predetermined whereby the owner of capital invests in the entrepreneur to use capital for productive purposes and they share profits and losses. In the case of financing the purchase of goods or an asset, a mark-up/profit is added to the cost of the item. However, unlike interest, the financier acquires this first and in the process assumes the risk between purchase and resale (ibid). Islamic banks use deposits for equity in projects and trade finance and the actual results determine what profits are made and how they are shared amongst the depositor, the entrepreneur and the bank. In this system, banks thus operate on an equity participation and profit sharing basis, whereby providers of capital can have a share in the profit only by having a share in its risks as well (Ali, 1999).

An IMF commissioned study found Islamic banking to be a viable option that can lead to the efficient allocation of resources (Ariff, 1998). However, it is far above and beyond the scope of this thesis to tackle the vast field of Islamic financial and economic principles; indeed, it needs lengthy study. In the search for alternatives and solutions, let us not just dismiss this as an unrealistic ideal but consider a range of scenarios to deal with this problem. If we are serious about a just and equitable system and a different financial and economic order, then this needs to be flagged as a possible option for further investigation.

We have stopped worshipping God and replaced this with the arrogant worshipping of the material world, money, profit, power, control, our intelligence and our own perceived might and infallibility. We have lost our sense of responsibility and compassion for mankind. We need to revisit our faith, to become God conscious, so that we can progress and move forward to the point where we can regain our humanity.

In the words of the Prophet Muhammad (Hadith, Bukhari), we need to learn how to love for our brethren that which we love for ourselves, to desire for the next person that which we desire for ourselves. If we can achieve this, we will make good progress towards alleviating poverty, preventing exploitation and bringing about economic justice. And in so doing, bring about peace. Finally, we too will profit and our inner-selves will profit, as we move along the route to finding our common humanity.

Let us not be of those "who barter away their Hereafter

for a miserable profit in this world"

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